Please note that the commentary is for the US dollar retail class of the fund. The feeder fund is 100% invested in the underlying US dollar fund. However, given small valuation, trading and translation differences for the two funds, investors should expect differences in returns in the short term. Over the long term, we aim to achieve the same outcome in US dollar terms for both funds.

2019 was a strong year for equity markets, with the MSCI All Country World Index up 26.6%. Performance was driven by the technology sector (+47%) with energy the notable laggard (+13%). The decade-long dominance of US markets over the rest continued, with the S&P outperforming the world index by c.4%, EAFE (representing the rest of the developed world) underperforming by c.4.6% and emerging markets underperforming by nearly 8.1%.

After a sustained period of strong equity returns, declining interest rates, reduced tax rates, expanding profit margins, and rising valuation multiples, investors should, in our view, recalibrate return expectations lower. The conditions in place today are quite different to those in place a decade ago. While we have no insight into short-term market moves, absolute returns could very well be lower over the next 10 years compared to the last 10. That being said, we do also feel that meaningful valuation dispersion and the growth of passive and factor-based investment strategies, which have contributed to froth in some segments of the market, have created an attractive environment for relative value creation.

The fund performed well over the period, returning 12.7% in the fourth quarter (versus the benchmark return of 9%), bringing the full year return to 37.5% (vs the benchmark of 26.6%). Over three years, the fund's performance is 11.1% (behind the benchmark return of 12.4%).

Of course we will be held to our benchmark over time, but it is important to note that in aiming to achieve the goal of outperformance, the fund's portfolio will tend to look quite different from the index and therefore performance will at times diverge (as it has in the past). Quantitatively, this difference is perhaps best summarised by an active share of 85% (active share measures the percent of a portfolio that differs from the benchmark index. Only c.15% of the portfolio looks the same as the index). Historically the portfolio's active share has ranged from 85-95%.

If we step back from our bottom-up research process and aggregate individual exposures, we often find clusters of value with similar characteristics. Qualitatively, the areas where we are seeing opportunity span different regions, sectors, business-types and even "factors" (note we don't subscribe to a factor-based investment approach, and continue to uncover opportunities across a range of different factor types, from value, to growth, to quality):

- Global consumer franchises (including the world's largest premium brewer Heineken; the world's leading snack and confectionery business Mondelez; the second largest footwear and sports apparel business Adidas; and the leading luxury goods conglomerate LVMH)
- Leading internet platforms in the US and China (covering search, ecommerce, gaming, social, travel and classifieds)
- Tobacco, including Philip Morris which owns iQos, the leading smoke-free alternative
- US and European financials: a range of well-capitalised, strong banking franchises, trading on single digit PEs – firmly in "value-stock" territory
- US health insurers: high quality compounders in our view, which have been discounted due to political noise
- Cable businesses which are driven by the explosive growth of broadband demand
- EM consumer-driven businesses, including two Asian insurers (Ping An and AIA), an Indian financial, and two Latin American consumer-focused operators
- Music streaming, including the world's largest platform (Spotify) with over 110 million paying subscribers
- Aerospace, including Airbus: a duopolist in the structurally (although cyclical) growing aerospace sector
- Railways, which own irreplaceable transport infrastructure across the US
- Owners of unique content assets
- Software businesses, including a recent purchase of Salesforce.com, the world's leading CRM provider
- Domestic UK businesses which are heavily discounted following years of Brexit-driven uncertainty
- Alternative asset managers, including the world's leading alternatives franchise, Blackstone
- Payments, including payment processors, credit card networks and online payment systems
- Japanese drugstores

These 16 buckets (for want of a better word) account for the bulk of the portfolio. Some we feel are quite significantly discounted, others more fairly priced for the quality of the business. Taken together, they aggregate to an undervalued portfolio that is fundamentally diversified.

WWE, one of the fund's owners of unique content, was a new purchase in the quarter. WWE owns the eponymous entertainment-focused wrestling franchise. As television viewing continues to shift on-demand, the ability of content owners to aggregate large, live audiences becomes increasingly valuable. This is exactly what WWE delivers, and the company has benefited from the increasing prices of both live sport and entertainment, although its content is still priced at a 40-50% discount to comparable sports franchises. A lull in storyline has provided us with an opportunity to buy a business, which is experiencing what we view as a cyclical issue, at a reasonable price (it is down 35% from its peak). The stock trades on ~17x EV to normalised 2020 EBIT with the potential for a material increase in revenue due to the renewal of US broadcast rights in 2024, along with better monetisation of markets outside the US providing meaningful optionality (~70% of current revenue comes from the US with only ~30% of viewership share). Incremental revenue comes at very high incremental margins owing to the largely fixed cost structure of the business. We expect this to drive healthy margin expansion, leading to strong earnings and cash flow growth.

Thank you for your continued support and interest in the fund.

Portfolio manager change

With effect from 1 December 2019, Humaira Survé was appointed as a co-manager of the fund. She holds an MBA from INSEAD and is a CFA charterholder. Humaira joined Coronation in 2012 as a global developed markets analyst and has made a significant contribution to the fund over this period. We look forward to her future contributions.

Portfolio managers
Louis Stassen, Neil Padoa and Humaira Survé
as at 31 December 2019