Please note that the commentary is for the retail class of the Fund.

The Fund returned -5.8% during the quarter ended December 2021, 4.48% behind the benchmark MSCI Emerging Markets Net Total Return Index, which returned -1.3% for the period. For the year as a whole, the Fund returned -14.8%, 12.2% behind the benchmark return of -2.5%. This has been the worst (relative) performance year for the Fund since inception, and we apologise to investors for this underperformance. Whilst a year like this is both unpleasant and uncomfortable, it is also not totally out of line with the Fund's history: in 2018, the Fund was 11.7% behind the market (this was followed by 19.8% outperformance of the market in 2019); and in 2015, whilst the Fund ended the year 6.7% behind the market, there was a point during the year when it was 12% behind on a rolling 1-year basis. Calendar year 2015, in turn, was followed by two successive years of 1.0-2.5% p.a. outperformance. Over three years, the Fund has now outperformed the market by 2.2% p.a., over five years it is 1.7% p.a. behind and over 10 years the Fund has matched the benchmark, in spite of the recent tough period. Outperformance since inception stands at 1.2% p.a. over 13.5 years.

The reasons behind the Fund's sometimes uncomfortable swings in relative performance are multi-fold, with the biggest factors being the high active share (over 80%), off-benchmark exposure typically around 40% since inception, a concentrated portfolio (50-60 stocks), and lastly the fact that, given our long-term (five year+ time horizon) valuation-driven approach, we are often invested in a number of companies that are disliked or out of favour. Examples of this today would include JD.com (and China internet more broadly), Magnit and AngloGold (all top 10 positions) as well as several others. We also still own 15 of the 20 largest individual stock detractors of 2021 - in other words, over the long term, we believe a large part of 2021's underperformance will be recovered. The weighted average upside of the Fund today is around 70% (well north of the historical 45%) and the Fund's weighted five-year IRR is 20% p.a. (also much higher than where it has been historically).

For the quarter under review, the biggest positive contributor to alpha was AngloGold, up 31% for a +67 basis points (bps) contribution to relative performance. Naspers and Prosus contributed +46bps, whilst NetEase (Chinese gaming) contributed +34bps. The final two material positive contributors were LVMH (global luxury) and Anglo American (diversified mining). These contributed a combined +61bps, split fairly evenly.

As one would expect in a very negative quarter, there were several material detractors. The biggest among these was Sendas, a Brazilian cash and carry retailer and overall the second largest food retailer in the country, which returned -32% and cost 82bps of relative performance. Aside from general weakness in the Brazilian market, Sendas' share price reacted poorly to the group's plan to buy 71 underperforming hypermarket stores from CBD, its former holding company, with a view to turning them around. In addition to the high price tag of R$5.2bn (~$1bn), the lack of shareholder vote when the parties are related (French group Casino is the largest shareholder in both Sendas and Assai) was not well received by investors. We lobbied the board to put this to a vote but were unsuccessful as the group argued the valuation and due diligence was done by independent parties that ruled the transaction was priced fairly and in the interests of all parties. Despite our unhappiness with certain aspects of this transaction, we understand and agree with the strategic rationale (a significant immediate addition to the store base with generally attractive sites that otherwise would take many years to achieve) and we have retained the position in Sendas. In our view, it remains a very attractive asset (very well run, with a resultant ROIC of over 25% and in a category that is gaining market share) on a very attractive valuation (around 12x 2023 earnings).

Two other Brazilian stocks made up the next biggest detractors. PagSeguro (card acquisition and digital banking) halved in the period and cost 74bps, whilst XP Inc. (securities broking and wealth management) fell 29% and cost 48bps. Rounding up the top five detractors were Yandex (Russian search, ride hailing and general tech), which cost 44bps and Trip.com (Chinese online travel agency), which cost 37bps.

Ordinarily we would spend much of this piece discussing what went right and wrong in the quarter, however it is more useful to rather look at the year as a whole to understand why the Fund underperformed by such a significant margin. Whilst in summary it was simply a year of poor stock selection, one can break down the drivers of underperformance in 2021 into five categories that all played a role.

1. **China education** The single biggest impact on relative performance came from the Chinese tutoring/education stocks. These cost the Fund around -3% of relative performance, mostly concentrated in New Oriental Education (EDU). The key driver here was the government effectively converting the industry into 'not for profit'. This massive regulatory change was unprecedented and more far reaching than we had anticipated.
2. **China Internet** Despite Tencent Music Entertainment (TME) being the second largest detractor for the year (-1.5% impact) and both JD.com (-70bp impact) and Autohome (-51bp impact) also being top ten detractors, the impact of the China internet sector as a whole was not as material as one would intuitively expect. This sector cost the fund around -1% of performance taking into account the performance of the stocks held in this sector (which mostly did poorly) and the stocks not held or underweight (which boosted performance). The Fund has around 24% exposure either directly or indirectly (via a fair share of Naspers & Prosus) to China Internet, reflecting our conviction on the potential opportunity in several names in this sector, particularly JD.com.
3.
4. **Country weights** The Fund has no exposure to Saudi Arabia, a market that was up 36% (in dollars). This cost 1% of relative performance. The Fund also has less in India and Taiwan relative to their benchmark weights as we saw better opportunities elsewhere from a bottom-up perspective. Unfortunately, these markets did very well (up +/- 25% in dollars in 2021) and this cost the Fund relative performance. Some of the stocks we held in India also did not perform as well as the Indian market as a whole, which further exacerbated the underweight. The combined impact of India and Taiwan on the Fund was -4%. Whilst the fund is comprised of bottom-up stock picks, on occasion the country dynamics can work against it, as was clearly the case in 2021.
5. **Stocks not owned** The Fund, holds less stocks through the cycle compared to a benchmark of over 1,550 stocks. This concentration vs the dilute benchmark is a deliberate part of our process of selecting the best investment opportunities on a risk-adjusted basis within our investment universe. Generally, the stocks we don't own have no material negative impact on performance; often the impact is positive as the bulk of the benchmark does poorly. In 2021, however, these zero weights cost the Fund just over 3% relative performance. This is an abnormally large amount and proved a difficult headwind to overcome.
6. **Low cyclical sector exposure** Cyclical industries like energy, basic materials, industrials and banks did relatively well in 2021. We typically do not have as much in these stocks relative to their weight in the investment universe as we have a preference for less cyclical assets /"better" businesses. The overall impact on relative performance from having a lot less cyclical exposure was an additional -2% (approximately).

Portfolio activity

There were several new buys in the quarter, with the largest new buy being Petrobras (1.7% of Fund at year end), the Brazilian oil and gas group that trades on 4x free cash flow and offers a compelling 20%+ dividend yield. This very attractive valuation provides some comfort in the event the left-wing former president Lula da Silva returns to power in elections later this year.

The second new buy of note (1% position) was Porsche, the holding company with its stake in Volkswagen (VW) being its main asset. VW's emerging market exposure is over 50%, with China being the biggest part of this through both direct sales and joint ventures (accounted for as associates). The "Dieselgate" scandal of 2015 is largely behind VW and the firm has made great strides in developing its electric vehicle range, which is arguably among the most impressive of the legacy car manufacturers. Of great attraction to us is the high premium share of profits, with the Audi and Porsche brands making up half of operating profit. VW, with a large part of its earnings coming from premium brands, trades on a lowly 6x 2022 earnings, with an attractive 4.5% dividend yield, and Porsche, in turn, trades at a discount to this, given the discount to the value of its stake in VW. Although not strictly comparable, a pure luxury car player like Ferrari trades on more than 40x forward earnings.

The Fund also purchased a 1% position in Taiwan-based MediaTek, a well-diversified fabless (design chips but outsource production) semiconductor company. Revenue at MediaTek has grown 19% p.a. cumulatively over the last 10 years, in the process making it the fourth largest in the world and largest mobile chip system vendor by volume, overtaking Qualcomm. MediaTek has navigated the evolution of demand for its products very well, with management having steered the company through multiple product transitions from optical disk drivers to TVs, feature phones, smartphones, and others. MediaTek trades on 15x forward earnings and generates ROEs of 25%. With FCF conversion of over 100%, it also offers an attractive 6% dividend yield.

Other new buys worth noting, but all smaller so far (60-90bps), are Southeast Asian gaming and e-commerce operator SEA Ltd, Chinese sportswear retailer Anta, Eastern European low-cost airline Wizz Air and Russian lender TCS Group. In the case of all four of these stocks, we already covered them but didn't own them largely due to valuation and it was sharp price declines that brought them into buying range: SEA from a $365 share price peak to the current $195 price, Anta from a HK$190 peak to HK$107, Wizz Air from £55 to £40 and TCS from $120 to $79.

To Fund the above purchases, a variety of positions were sold. Most notably, we took the decision to divest entirely from tobacco, which was around 3.5% of the Fund in total in four holdings at the beginning of the quarter. Three other small positions were also sold entirely, namely the insurer Prudential PLC (consolidating the pan-Asian insurance exposure in AIA), Turkish hard discount retailer BIM (Turkey uninvestable for now, in our view, given unconventional monetary policy) and the Chinese online vehicle portal Autohome (to add more to higher-conviction China internet stocks without increasing overall China internet exposure).

Portfolio managers
Gavin Joubert and Suhail Suleman
as at 31 December 2021