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

The Fund returned -0.2% for the quarter (Q4-21), 4.6% behind the benchmark MSCI Emerging Markets Net Total Return Index, which returned +4.41% for the period. For the year as a whole, the Fund returned -7.5%, 13.3% behind the benchmark return of 5.7%. This has been the worst (relative) performance year for the Fund since its 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 12.5% behind the market (this was followed by 15.82% outperformance of the market in 2019). In turn, calendar year 2015's 11.5% relative underperformance, was followed by two successive years of outperformance (2.8% p.a. and 2.1% p.a., respectively). Over three years, the Fund has now outperformed the market by 0.8% p.a., over five years it is 2.2% p.a. behind and outperformance since inception stands at 0.8% p.a.

The reasons behind the Fund's sometimes uncomfortable swings in relative performance are multi-fold, with the biggest factors being the high active share, high off-benchmark exposure, a concentrated portfolio (rarely in excess of 100 stocks compared to a 1 600 stock benchmark), and 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. Of the 20 largest stock detractors for 2021, two were stocks we don't own that did well (Gazprom and Al Rajhi Bank) and a further two were stocks where our positions were smaller than the benchmark and the stocks did very well, costing us relative performance (Infosys and Taiwan Semiconductor Manufacturing Company. Of the remaining 16 stocks making up the largest 20 detractors, only two have been sold to zero (New Oriental Education and Turkish food retailer BIM). This further illustrates our belief that the long-term outlook for the stocks owned is very attractive.

For Q4-21, the biggest positive contributor to alpha was AngloGold, up 39% for a +55 basis points (bps) contribution to relative performance (stock returns in ZAR throughout unless otherwise specified). Naspers & Prosus contributed +51bps, whilst NetEase (Chinese gaming) contributed +43bps. The final two material positive contributors were Alibaba (Chinese e-commerce and an underweight of a stock that did poorly that is big in the benchmark) and LVMH (global luxury). These contributed a combined +62bps, split fairly evenly.

As one would expect in a very negative quarter, there were several material detractors.

Four of the top detractors were Brazilian stocks. PagSeguro (card acquisition and digital banking), the top detractor, returned -45% in the period and cost 74bps. Sendas, a Brazilian cash and carry retailer and overall the second largest food retailer in the country, was the second largest detractor. The stock returned -28% and cost 70bps of relative performance. XP Inc. (securities broking and wealth management) was the third largest detractor and fell 25% and cost 51bps. Stone (card payment acquisitions) was the next largest detractor, falling 49% and costing 49bps in relative performance. Finally, Yandex (Russian search, ride hailing and general tech) returned -18% and cost 43bps.

Ordinarily we would spend much more of this piece dissecting the drivers of the performance listed above; 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 -3.2% 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** This sector cost the Fund around -1.0% 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.
3. **Country weights** The Fund has nothing in Saudi Arabia, a market that was up 36% (in dollars). 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 Saudi Arabia, India and Taiwan on the Fund was -5%.
4. **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 over 3%. This is an abnormally large amount and proved a difficult headwind to overcome.
5. **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 exposure to 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 (1.5% of Fund at year end), the Brazilian oil and gas group that trades on 4x free cash flow and offers an extremely attractive 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 Fund also purchased a 0.9% 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 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.

Sales to zero included Barrick Gold, Prudential PLC and Turkish food retailer BIM. In the case of BIM, we took the view that the combination of unpredictable policymaking, a free-falling currency and potential food price caps undermined the conviction in the long-term earnings power of the business to a degree that could not support the continued investment in the company.

Portfolio managers
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