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

The Coronation Global Emerging Markets Fund returned 2. 4% during the first quarter of 2021, 0.1% ahead of the 2.3% return of the benchmark MSCI Emerging Markets (Net) Total Return Index. Over the last 12 months, the Fund has returned 64.1%, 5.8% ahead of the benchmark's return. The very high absolute returns from both the Fund and benchmark should be seen in the context of the market selloff during March 2020, the early stages of the Covid-19 panic, and from which the markets subsequently recovered very strongly. Over two years, the Fund has outperformed the benchmark by 4.8% p.a., over five years by 1.7% p.a. and over 10 years by 1.6% p.a. Finally, since inception, the Fund has returned 6.9% p.a., which is 2.4% p.a. ahead of its benchmark. We are pleased by this level of outperformance and continue to believe that focusing on higher-quality undervalued assets, and being disciplined in buying them at an attractive margin of safety (and selling them when they are expensive), will generate outperformance for our investors over meaningful long-term periods of time.

The biggest contributor to outperformance (alpha) in the quarter was the Naspers and Prosus combined position, which returned an effective 13% in the period. Naspers and Prosus are owned in preference to owning Tencent outright due to the discount at which Naspers trades to the look-through value of its stake in Prosus and the onward discount at which Prosus trades to the value of its stake in Tencent. At the beginning of the year, these discounts effectively allowed a Naspers shareholder to own Tencent at an approximate 40% discount to the value of its Tencent stake alone, with all other assets valued at zero. During the quarter, the discount narrowed a few percentage points (Naspers outperformed Tencent by about 8%) and this, coupled with the overweight position, contributed close to 1% of alpha alone. Not holding Tencent directly cost 0.3% of alpha, resulting in a net alpha contribution of 0.7% overall. Management of Naspers and Prosus have undertaken to unlock this discount over time and are heavily incentivised to do so.

The next largest contributor was a member of the Tencent family – Tencent Music Entertainment (TME, 57% held by Tencent). TME rose by 65% from the start of the quarter to 23 March, but then declined precipitously over the next three days and did little thereafter so as to end only 6.5% higher. The proximate cause for this decline was the massive unwind in many stocks caught up in the much-publicised Archegos fiasco. TME was a 2.4% position at the start of the quarter, and we sold regularly as the share price increased until at one point in March the position size was down to 1.3% of the Fund as a result of the sales. In our view, there was no significant change in the underlying value of the business after the share price sold off, so we bought back sufficient stock during the tumult to leave the position size at quarter-end almost unchanged at 2.3% of Fund. The realised return from TME for the Fund was almost double the reported 6.5% price appreciation, and the overall alpha contribution amounted to 0.7%.

The third-largest contributor was the Brazilian retailer CBD, a positive example of value unlock by management. At the turn of the year, the Fund held a 2.0% position in CBD, whose ADRs were priced at \$14.30. This was down by over a third from the share price at the start of 2020. Although part of this was driven by the decline in the currency, this was one of the few food retailers under our coverage to see such marked share price weakness, particularly when one considers that food retailers faced amongst the least business disruption worldwide as "essential service providers", and much of the spending that would otherwise have taken place in restaurants and bars migrated toward them. CBD's management team, with whom we have engaged extensively over the years, announced and carried out a plan to separate the business into its two constituent parts in order to realise better value for the underlying parts of the business. This separation was announced last year but only came to fruition in early March after getting all the requisite regulatory and shareholder approvals. At this point, CBD spun out its lucrative Cash and Carry business, Assai, to shareholders, with the core supermarket and hypermarket business remaining in the original CBD. The spin-off was possible since the businesses had very separate management and supply chain structures, and their underlying drivers differ significantly. The original CBD remains have rallied significantly off the post-spin-off ADR price, and this, coupled with appreciation in the Assai ADR price, has seen the combined value increase by 31.5% to \$18.83. The combined alpha from CBD/Assai during the quarter came to 0.8%. We have retained both constituent stocks in the Fund, although the CBD position was trimmed in response to the share price moves.

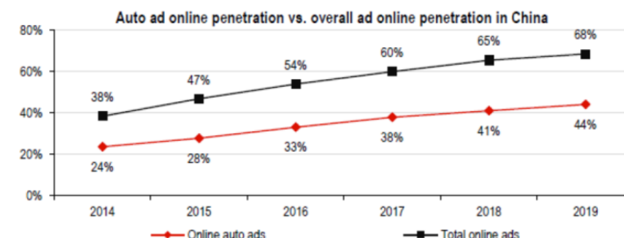
The last two significant contributors to alpha were Naver and China Literature. Naver returned close to 24% in the quarter, while China Literature returned 26%. They each contributed around 0.4% to alpha. In the case of Naver, our conviction levels have increased significantly due to market developments. Naver is the number two player in the ecommerce space in Korea. The number one player, Coupang, came to market in an IPO that was heavily oversubscribed and beyond valuation metrics that made sense to own in the Fund after it jumped 40% on its first day of trading. The additional information gleaned during the IPO process on the market opportunity, coupled with better disclosure by Naver on the size of the ecommerce opportunity, resulted in us increasing both our estimate of fair value and the overall conviction in the investment case. As an example, Naver disclosed that their ecommerce GMV already amounted to \$25 billion in 2020, and they have targeted a 30% market share by 2025, which would comfortably establish them as a strong number two player, if achieved, in what will likely be a 2-3 player market. South Korea has the highest ecommerce penetration in the world (30-32% estimate), a function of its high degree of urbanisation and technologically savvy population. As a result, its ecommerce market is already the fifth largest, despite the country being the twelfth largest economy overall.

On the negative side, the biggest detractor was Magnit, down 12% for a -0.4% contribution to alpha. This was in spite of decent 2020 results for both them and X5, their main competitor and larger player in Russian food retail (also held in the Fund). As expected, traffic declined significantly in stores during the year, but a 15% like-for-like increase in average basket size allowed like-for-like sales to increase by 8% in their mature stores, far in excess of inflation. Great cash generation allowed Magnit to reduce its debt burden in absolute terms, and the improvement in profitability saw leverage decline to 1.1x Net Debt to EBITDA. Magnit trades on 13.5x forward earnings and offers an 8.5% dividend yield, which in both absolute and relative terms is very attractive.

The other material detractor (-0.4%) was New Oriental Education (EDU), which declined 25% in the quarter. In an almost carbon reaction to previous regulatory intervention in 2018 (which allowed us to buy New Oriental after a 40% share price decline), various levels of the Chinese government (both national and regional level) enacted rules aimed at curbing abuse by smaller tuition providers. The trigger for the intervention was the news that many small providers, having taken tuition payments upfront, then went out of business, leaving the parents with no recourse to the funds paid in advance. The regulatory authorities now require money to be suitably deposited at a bank, with parents ranking as secured creditors. Additional changes include restrictions on sales and marketing as well as tighter approval processes for awarding business licenses. These changes should all benefit the established credible players, such as New Oriental, as they raise barriers to entry and make it more difficult for smaller subscale players to use temporary cash flows to stay afloat. We added to New Oriental on the price decline and also bought TAL education into the Fund. TAL is another leading tuition provider that we owned many years ago but sold out as it reached fair value. We have long wanted to own it again as the business has executed incredibly well in the intervening years, but it had always been too expensive. The share price declined from \$90 to \$50 between mid-February and late March, which provided a good buying opportunity. TAL differs from EDU because it focuses on small class offerings or one-on-one tuition and predominantly covers maths and science. This compares to EDU, which offers larger classes and a wider variety of subjects, particularly English.

Additionally, TAL has expanded more aggressively into the online space than peers and have achieved a double-digit market share. The promotional spend to get there has affected their profitability, a situation we expect to reverse over time. The different operating models of the two businesses allows them both to take market share without necessarily coming into direct competition with each other.

Other than TAL, there were four small new buys. The first of these, Autohome (0.9% position), is the leading online destination for automotive information in China. The site is a "one stop shop" that helps users research, buy and sell cars. Users can also access finance and insurance through the site, thereby covering the full value chain. Purchasing an automobile is an infrequent event for most users, and it typically requires significant groundwork in order to navigate through the multitude of options available. A specialist auto site with independent reviews offers greater value to consumers than general sites and/or those with predominantly sponsored content. Like most internet portals, the feedback loop between a large amount of users or traffic creates an ecosystem of greater value than what the competition offers and raises barriers to entry for competing sites. With 62 million monthly active users, Autohome is larger than the next three largest apps combined. The site makes money through advertising, generating leads for dealers, providing demand data (colours, models, etc.) to manufacturers and matching buyers and sellers of used cars. Additional commission is also earned by facilitating financing and insurance for vehicle purchases. The tailwinds for growth for Autohome are very strong. In addition to rising income levels, there are twin benefits of low vehicle penetration and low online advertising penetration in automobiles relative to other sectors. The used car market is also relatively new (the existing vehicle fleet in the country is not particularly old), which will change over time. Autohome is capital-light and generates returns on invested capital (ROIC) above 35%. Due to the very high cash conversion (>100% of earnings converted to cash), Autohome has almost a third of its market cap in cash and trades at 16x forward earnings, excluding this cash. The company also benefits from having Ping An as an anchor shareholder (45%), as Ping An brings strong strategic skills and significant network benefits from their large customer base.



Source: iResearch, eMarketer, HSBC estimates

The second new buy, AngloGold Ashanti (0.5% position), is the first gold miner we have owned in the Fund. This is the most attractive of the major emerging market gold miners in our view (if one excludes the marginal ones) and trades on 8x forward earnings and a spot FCF yield of almost 5%. Aside from the standalone attractiveness of the stock from a valuation perspective, we believe it brings something different to the portfolio due to the role of gold as a hedge against elevated valuations, something we had become concerned about early in the quarter, but which is less of an issue now in the subsequent market pullback. We also bought small positions in XP Inc. (0.4%), a highly innovative Brazilian wealth manager and investment bank, and Xiabuxiabu Catering (0.3%), which operate Hot Pot restaurants across China.

Finally, due to continued share price strength and reaching of our estimate of fair value, we sold the small remaining positions in Hong Kong Exchanges and Midea Group (Chinese appliance maker). Each was a 0.4% position at the beginning of the year.

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