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

The Fund returned -4.5% in the quarter ended 30 June 2022 (Q2-22), 3.2% behind the benchmark MSCI Emerging Markets Index (both returns in ZAR). This continuation of recent underperformance leaves the Fund 22.7% behind its benchmark over the last year, and 0.9% p.a. behind since inception in December 2007. This is well below what we believe the Fund should be returning, and we are mindful that it is materially below investor expectations too. It is important to note, however, that this underperformance has all been concentrated in the last 15 months (since March 2021) and that before this 15-month period of underperformance, the Fund had materially outperformed the benchmark by more than 1.9% p.a. over the almost 15 years since inception up until that point. We believe the drivers of this underperformance are largely short term in nature, and many of the stocks owned in the Fund are materially undervalued. In this regard, the weighted average upside to fair value in the Fund is currently over 100% (i.e. on average the shares in the Fund are worth double their current share price) and the five-year IRR (five-year earnings growth + annual dividend yield + derating/rerating) is 23% p.a..

The biggest positive contributor to performance in the period was the Fund's largest holding, Naspers and Prosus (which we treat largely as a single exposure from a risk perspective). The position returned 37.5% in the quarter, contributing 2.4% positive outperformance. In previous quarters, Naspers/Prosus had detracted materially as they underperformed relative to Tencent, the asset that makes up three quarters of our NAV for Naspers/Prosus. At one point, the discount at which Naspers and Prosus traded just to the value of the 29% stake in Tencent had reached over 50% on an aggregate basis. This discount became the source of much frustration (both amongst management and shareholders), and our engagement with management and the board was accelerated in order to elicit some form of value unlock for investors. Previous attempts (such as the unbundling of MultiChoice in South Africa and the creation of Prosus in the Netherlands), whilst being steps in the right direction in our view, had largely been unsuccessful in stemming the tide of the widening discount.

In late June, Prosus announced measures to deal with the discount. Most significantly, they announced an "open-ended multi-year share repurchase programme of Prosus and Naspers shares". This is expected to enhance the NAV over time given the huge discount at which the two shares trade to their intrinsic value. Furthermore, the lockups on holding Tencent shares have been removed, with the consent of Tencent. This allows them to sell Tencent shares over time and use the proceeds to do Naspers and Prosus share repurchases. They have committed to do so in a rational and responsible manner such that sales are a small percentage of the daily Tencent trade volume. The immediate reaction of the market to these announcements was very positive and we expect that we are still in the early stages of value unlock, with more to come. For this reason, the position size has seen only small sales to offset the share price move and is now the largest position in the Fund.

The Fund's second largest holding JD.com returned 26.4%, contributing 1.7% of positive relative performance. JD.com remains materially undervalued and, in our view, is a long-term winner in the Chinese ecommerce space with the leading business model (complete fulfilment through their own warehouses and drivers, thus controlling the customer experience) and with margins well below normal and significant market share gain opportunities from Alibaba and other players. Wuliangye Yibin, China's second largest baijiu (spirits) producer, returned 40.2% and contributed 0.6% of positive relative performance. The Fund's (relative) underweight position in TSMC, the largest stock in the benchmark, added 0.3% after it returned -14% in the quarter, while NetEase's 15% return added 0.2% relative return.

Offsetting the above were a number of detractors, mainly within commodities and technology. The largest of these was Mercado Libre (2.6% of Fund), Latin America's largest ecommerce operator, which almost halved and cost the Fund just over 1% of relative performance. AngloGold (a 2.7% position), which returned -29.8% in the period, cost just shy of 1% of relative performance. South Korea's Naver returned -26.1% and cost 0.8%, while Brazilian fintech group PagSeguro and Anglo American each cost the Fund 0.7% of relative performance. We have retained the positions in all of the aforementioned stocks with upside to fair value being around 100% in most cases.

The sell-off presented us with the opportunity to increase the Fund's exposure to those businesses that we believe will likely be long-term winners and whose share prices could potentially be multiples of current levels if they are successful. These loss-making long duration stocks now make up approximately 10% of the Fund and the larger holdings include Mercado Libre (Latin American ecommerce & fintech), Delivery Hero (largely Asia and Middle East food delivery), Coupang (Korean ecommerce) and SEA (SE Asia ecommerce and gaming). One year ago (at substantially higher prices and valuations), the Fund had only 3.5% collectively invested in these stocks (compared with 10% of the Fund today) and didn't own Coupang or SEA at all due to valuation.

We remain committed to our investment philosophy and resolute in the application of our investment process during this time of opportunity, to restore the long-term alpha of the Fund for our valued investors.

Portfolio managers
Gavin Joubert, Suhail Suleman, Lisa Haakman and Iakovos Mekios
as at 30 June 2022