FUND UPDATE

Coronation Global Emerging Markets Fund

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THE FUND RETURNED -14.6% in the quarter ended 30 June 2022 (Q2-22), 3.2% behind the benchmark MSCI Emerging Markets Index. This continuation of recent underperformance leaves the Fund 19.2% behind its benchmark over the last year, and marginally behind its benchmark since inception in July 2008. 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 2% p.a. over the almost 13 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 23% in the quarter, contributing 2.2% 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.

The Fund's second largest holding JD.com returned 14%, contributing 1.6% 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 25% and contributed 0.5% of positive relative performance.

The Fund is underweight Taiwan Semiconductor Manufacturing Company (TSMC) - we like the business, but on a clean-slate basis it is not attractive enough to be a 5%+ position as it is in the benchmark - and this added 0.2% to performance after TSMC returned -23%. Finally, two other Chinese holdings - Li Ning (athletic clothing and footwear) and China Literature (online literature publishing and intellectual property licensing) - each contributed 0.2% to relative performance.

Offsetting the above were a number of detractors, mainly within commodities and technology. The largest of these was AngloGold (a 3.0% position at end June), which returned -38% in the period and cost 1% of relative performance. Another of the Fund's mining holdings, Anglo American (a 2.5% position at quarter end) returned -33% and cost 0.7% of relative performance. Most of the other big detractors were technology related. Mercado Libre, Latin America's largest ecommerce operator, almost halved and cost the Fund 1% of relative performance. South Korea's Naver returned -34% and cost 0.8%. The two Brazilian stocks PagSeguro (fintech) and XP Inc. (brokerage) cost a further combined 1.1% of relative underperformance. 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 in these stocks was driven by the broader sell-off in technology-related stocks as a result of an overall increase in risk aversion and rising inflation and interest rates. The large sell-off in lossmaking technology-related stocks has been indiscriminate.

This has 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 lossmaking long duration stocks now make up approximately 10% of the Fund and the larger holdings include Mercado Libre (Latin American ecommerce and fintech), Delivery Hero (largely Asia and Middle East food delivery), Coupang (Korean e-commerce) 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.

There were several new buys (more than usual) in the quarter, due to elevated volatility and resultant opportunities opening up. 3R Petroleum in Brazil was the largest new buy (1.5% of Fund). The company focuses on redeveloping existing oil and gas fields to increase their longevity. Most of these fields are mature and were not worth spending additional capital expenditure by their previous owners (largely Petrobras), who therefore put them up for sale. 3R purchases these assets fairly cheaply (most purchases happened before the significant increase in the oil price), either outright or in partnership, and then invests to prolong the life of the asset. There is a mixture of onshore and offshore assets that make up the portfolio. The majority of 3R's fields are still in the investment phase, but it still trades at 5x forward earnings, with 30% of market capitalisation in net cash to fund further investments. We expect the cash flow profile (and hence dividends) to ramp up significantly in the quarters ahead. 3R was funded partly by the sale of Petrobras in order to keep the overall Brazilian oil exposure at manageable levels (4.5% of Fund as at end June).

The next biggest new buy was that of ASML (1% position). We did the initial detailed work on ASML four years ago but have never owned it in the Fund due to valuation. ASML was founded over 35 years ago and is based in the Netherlands. 88% of its revenue, however, comes from emerging markets, primarily Taiwan (39% of revenue) and South Korea (33% of revenue) as a result of their largest customers being the Asian semiconductor companies including TSMC and Samsung. ASML operates a de facto monopoly in the supply of lithography machines to the semiconductor industry. These machines are used in a key part of the semiconductor manufacturing process - the part where, in effect, the chips receive their intelligence. Without ASML, the semiconductor

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manufacturing process could not happen. ASML is fixated on innovation and has spent decades investing to put them in the strong position they are in today.

Due to the high barriers to entry that ASML enjoy, combined with the key role they play in the manufacturing process, the company is able to provide guidance going out 10 years - something which few companies in the world can do. In our view, ASML is one of the best businesses in the world and today one can buy it on just over 20x next year's earnings, which we believe is attractive for this very high-quality asset that has operating margins in the high 20% level and generates a ROIC of around 25%.

There were a number of new smaller buys (0.5% positions) during the quarter including Ambev (the LatAm beer subsidiary of the global brewing giant Anheuser Busch InBev, which we have never owned, but whose share price has now halved in USD over the past five years and which now trades on around 16x next year's earnings and a 4.5% dividend yield with an improving earnings outlook and a culture change under way); Pepkor (a South African clothing and general merchandise retailer, with over 5 000 stores and in our view one of the best businesses in the country [significant share gainer, defensive, high returns], which one can buy today on 13x next year's earnings and a 3% dividend yield); and Longi Green Energy Technology (a Chinese A-share company that is one of the leaders in the solar PV market, is a beneficiary of China's policy to increase the share of green energy sources in the energy mix and which is increasing capacity and taking market share, resulting in 20%+ earnings growth over the next five years and trading on an attractive low 20's multiple on next year's earnings).

The most notable sales were FEMSA, a Mexican holding company with the country's largest network of convenience stores, a controlling stake in Latin America's largest Coca Cola bottler and a 15% shareholding in Heineken. We had been gradually reducing the position size as a source for funding for what we considered to be more attractive risk-adjusted expected return opportunities and sold the remaining 0.5% to fund other purchases during the quarter. We also sold the position we held in VW/Porsche as a result of a deterioration in the risk profile of the investment case as a result of their two main markets (China and Europe) entering a period of significant uncertainty. Lastly, we sold out of the South Korean cosmetics company, LG Household & Healthcare, on concerns over the strength of the brand of their main product.

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. +

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