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 Batseta | Council of Retirement Funds for South Africa



Global Emerging Markets

A differentiated and attractive opportunity for SA investors

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25 August 2020
prepared for Batseta



Different to SA? How?

Common preconceived ideas



Already have 70%
of my portfolio in
an “emerging
market”

Returns are
highly
correlated

South Africa is
an emerging
market

Don't waste
scarce
offshore
capacity

Won't get “hard
currency”
exposure in GEM

GEM is not a “monolith” or uniform category

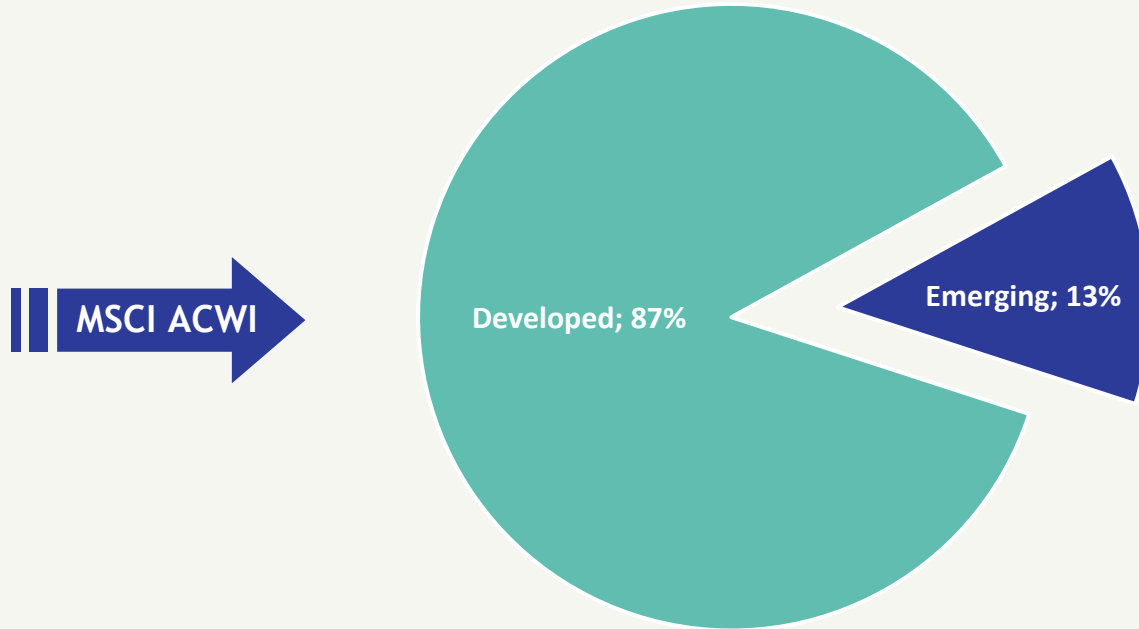


- An investable universe that is vastly broader and deeper than the SA universe
 - Opportunity for exposure to sectors not well represented in SA
- SA is different to your ‘typical’ emerging market
 - More developed market characteristics (consolidated industries)
 - Lower growth expectations
 - More commodity-rich and dependent
- EMs no longer a play on commodities or manufacturing output
 - Big changes in country and sector exposures
- Better mix between stable and volatile currencies
 - Less exposure to commodity dependent countries

Country	June 2008	Today
Argentina	0.70	0.13
Brazil	17.58	5.14
Chile	1.11	0.58
China	14.06	40.95
India	5.69	8.02
Indonesia	1.61	1.47
South Korea	12.65	11.61
Mexico	5.18	1.79
Russia	11.00	3.23
South Africa	6.63	3.76
Taiwan	10.50	12.28
Thailand	1.34	2.27

Sector	June 2008	Today
Consumer Discretionary	3.71	17.43
Consumer Staples	4.14	6.48
Energy	20.08	6.02
Financials	18.98	19.17
Health Care	1.58	4.20
Industrials	7.27	4.69
Information Technology	9.98	16.88
Materials	18.00	6.86
Communication Services	11.93	13.51
Utilities	3.08	2.19
Real Estate	1.26	2.58

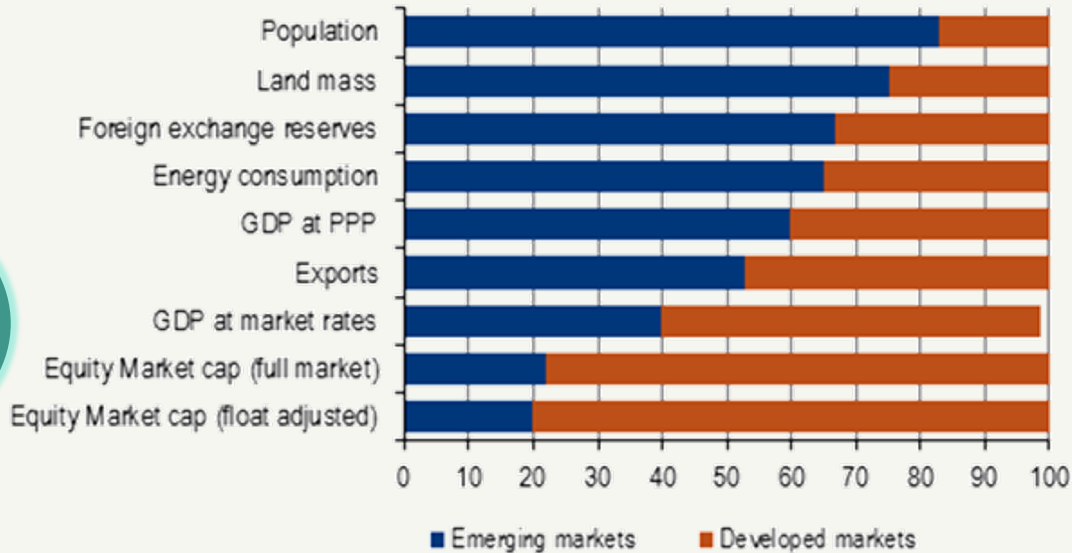
Does a Global benchmark cover EM?



Chronic under-representation



EMs comprise
>80% of
global
population



And >50%
of global
GDP

...but only
represent
20% of
market cap



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Source: BofA Securities

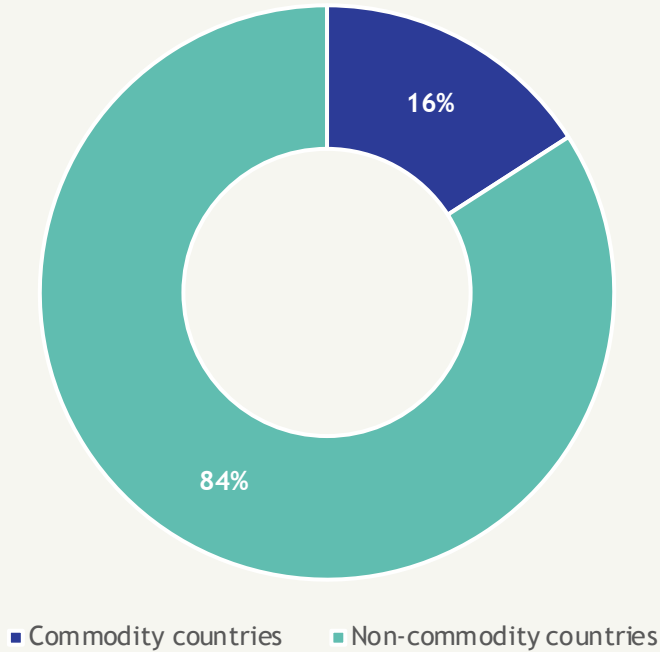
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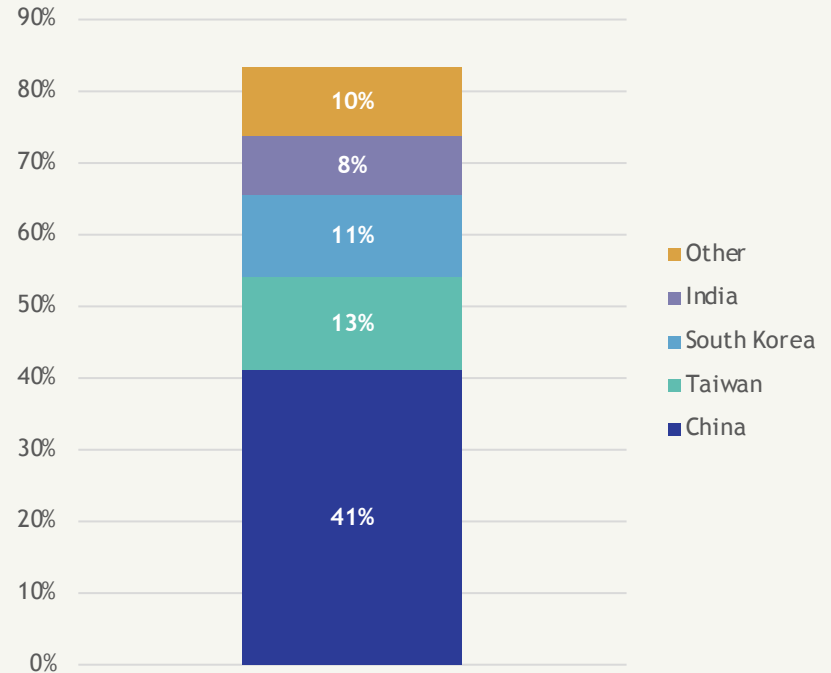
Currency weakness less of an issue



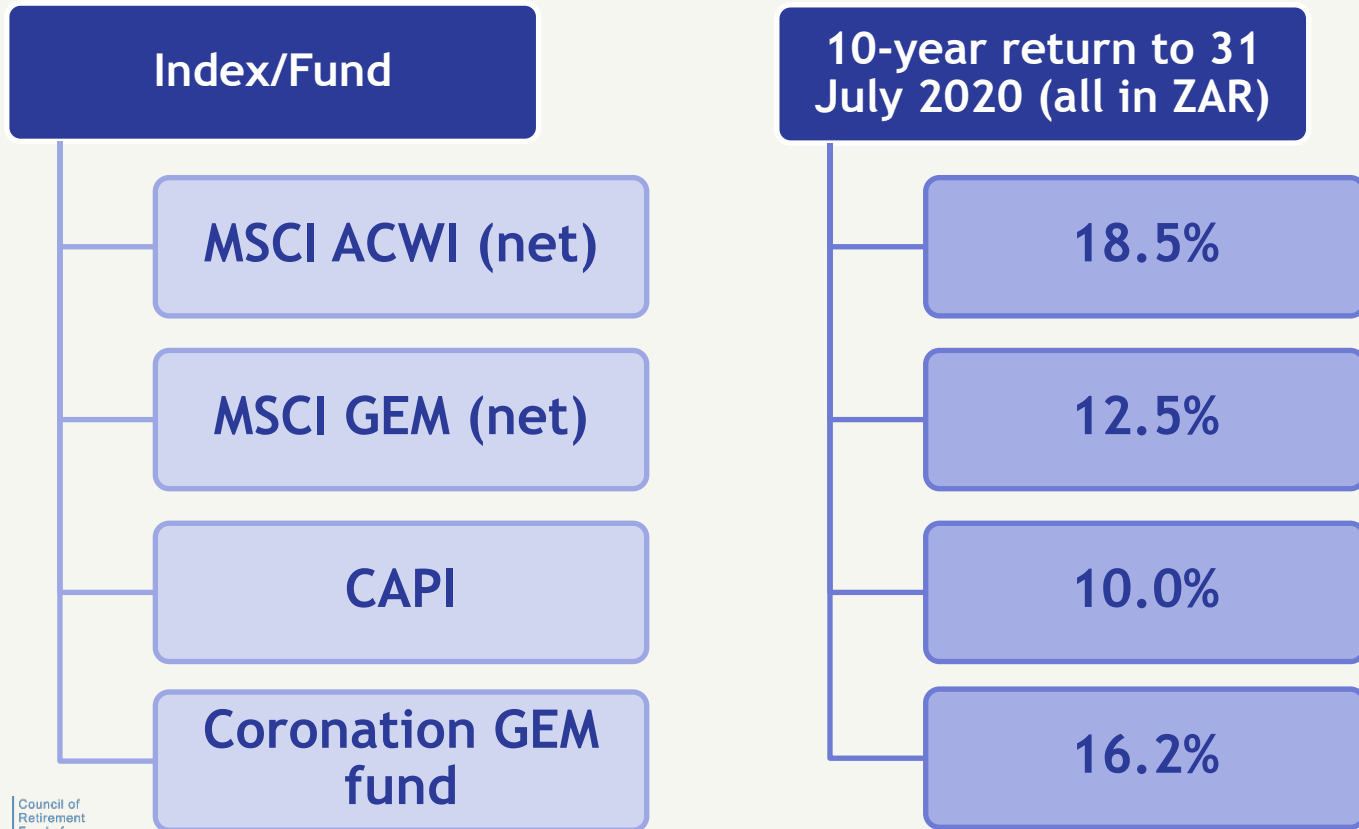
MSCI EM countries (combined weights)



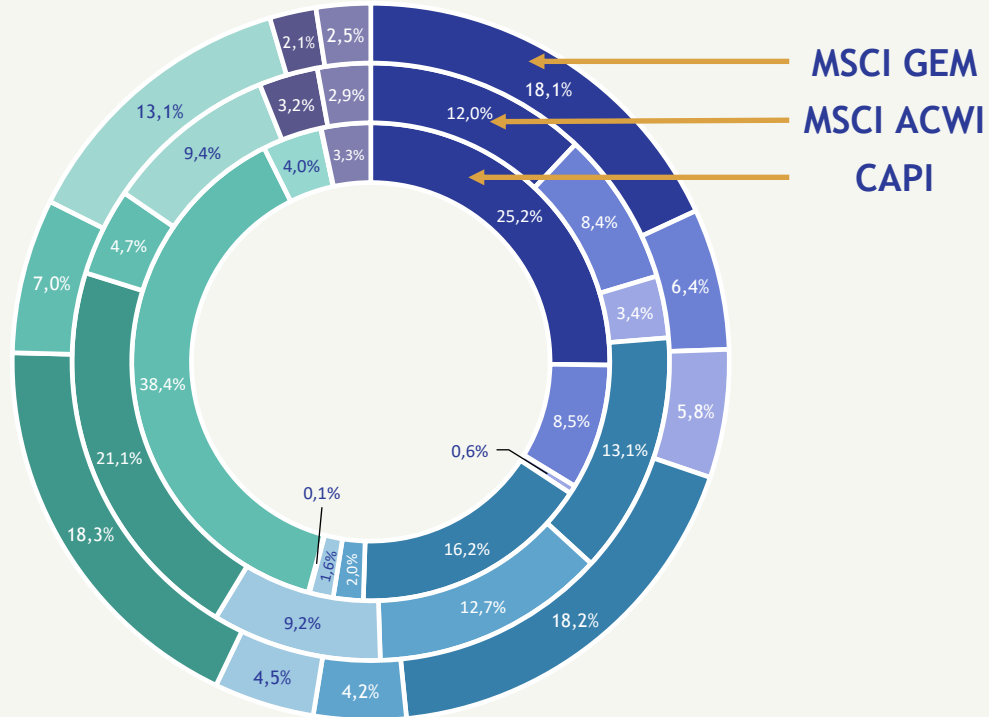
Breakdown of "non-commodity" countries



How have returns compared?



How different is the opportunity set?



- Consumer Discretionary
- Health Care
- Communication Services

- Consumer Staples
- Industrials
- Utilities

- Energy
- Information Technology
- Real Estate

- Financials
- Materials



Maximise opportunity through active management?

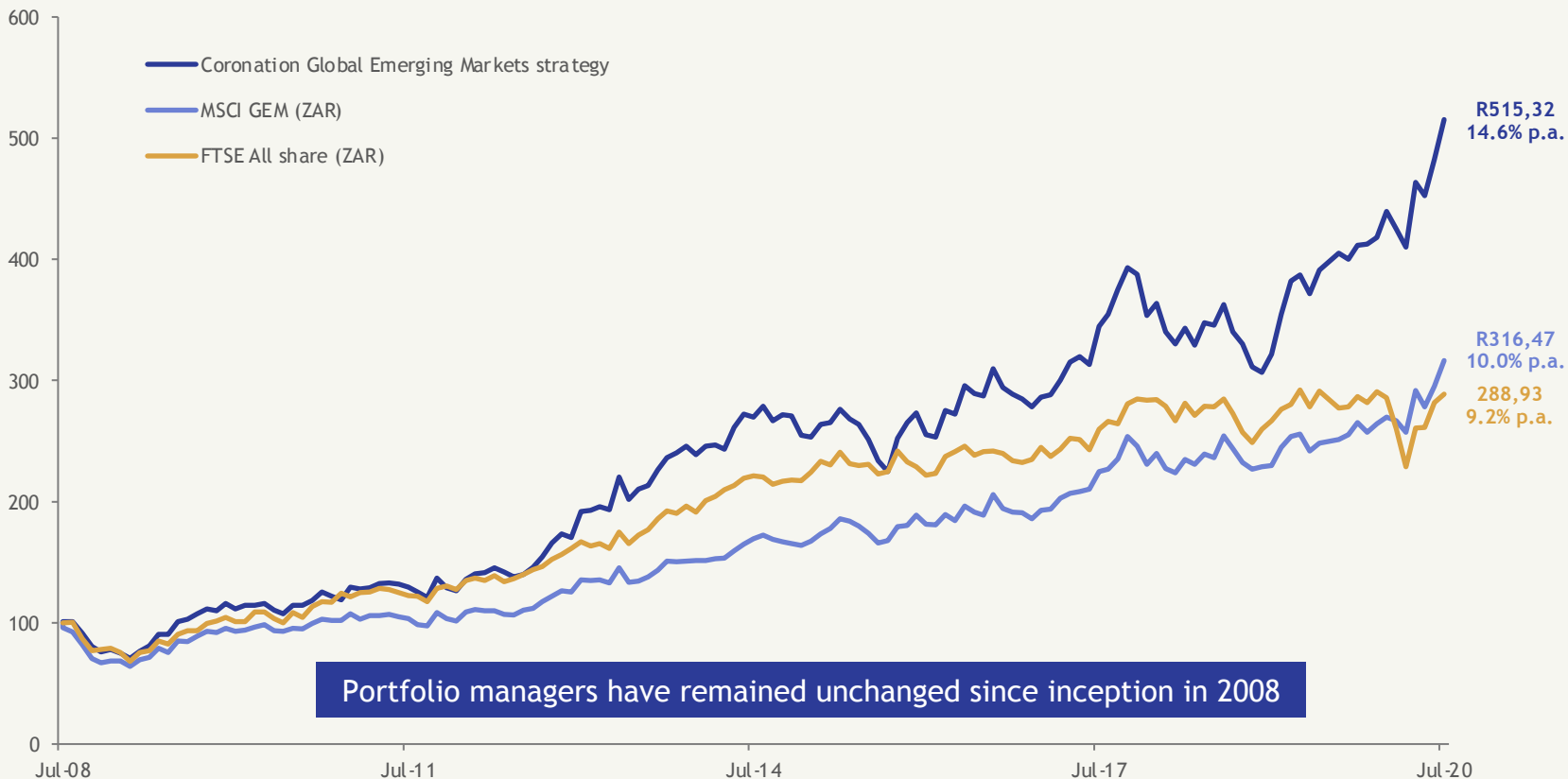
Active management case



- Index has become more concentrated at the top
 - Tech dominates the top 10
- But very dilute thereafter
 - Loads of mediocre businesses
- GEM has underperformed Global materially
 - Alpha will help offset this if underperformance continues

Top 6 MSCI GEM	Weight
Alibaba	7.5%
Tencent	6.3%
TSMC	5.7%
Samsung Electronics	3.7%
Meituan Dianping	1.4%
Naspers	1.3%

Case study showing value enhancement through active management





Access unique opportunities not present in SA or DM?

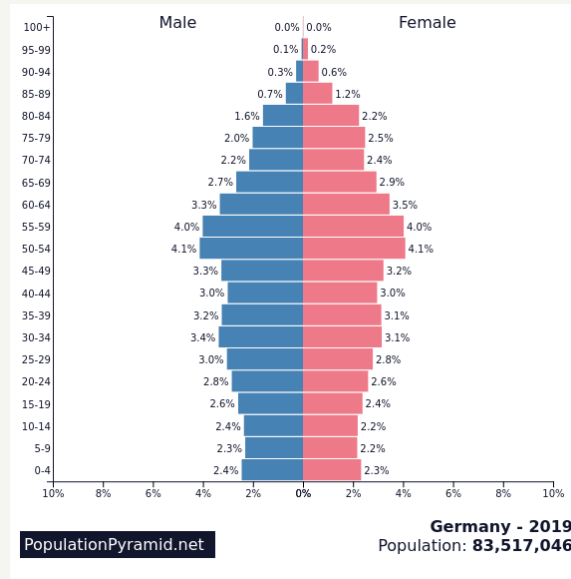
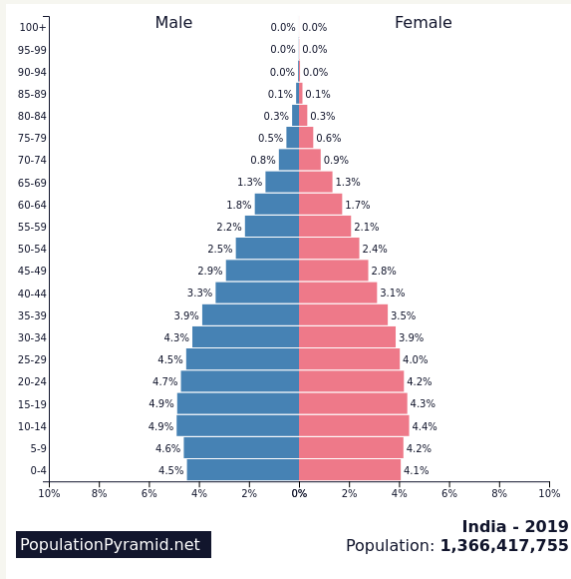
EM demographics support economic growth



Younger populations in emerging markets

Urbanisation, rising workforce participation and lower economic dependency ratios

Enables rising income, consumption and investment = faster economic growth



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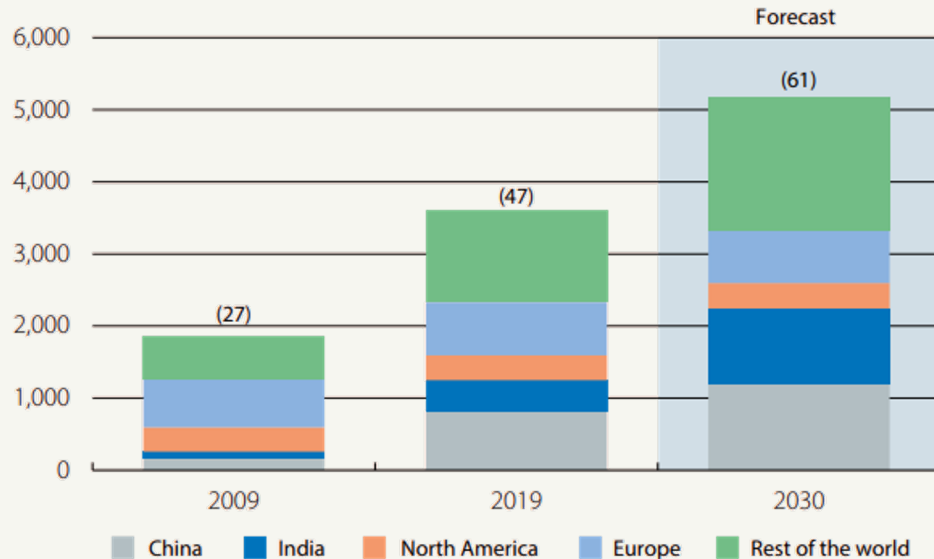
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Consumption driven by growing middle class



Global middle class

Millions of people (in brackets, % of the total population)



China's middle-class consumption expected to dwarf USA and Japan's



Numerous other EMs expected to be among top consuming countries globally



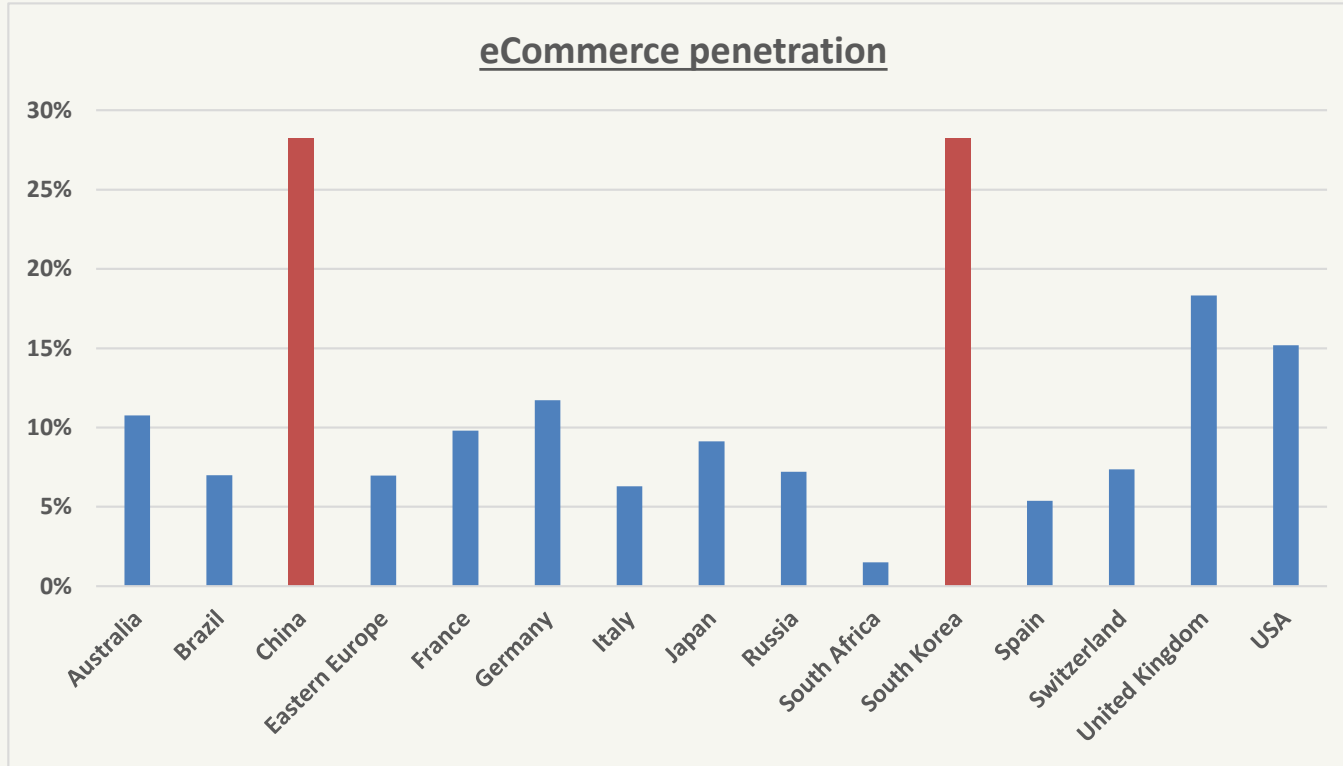
Source: CaixaBank Research

Note: A household forms part of the middle class when its spending capacity per day and per person lies between 11 and 110 US Dollars a day (measured in purchasing power parity terms)

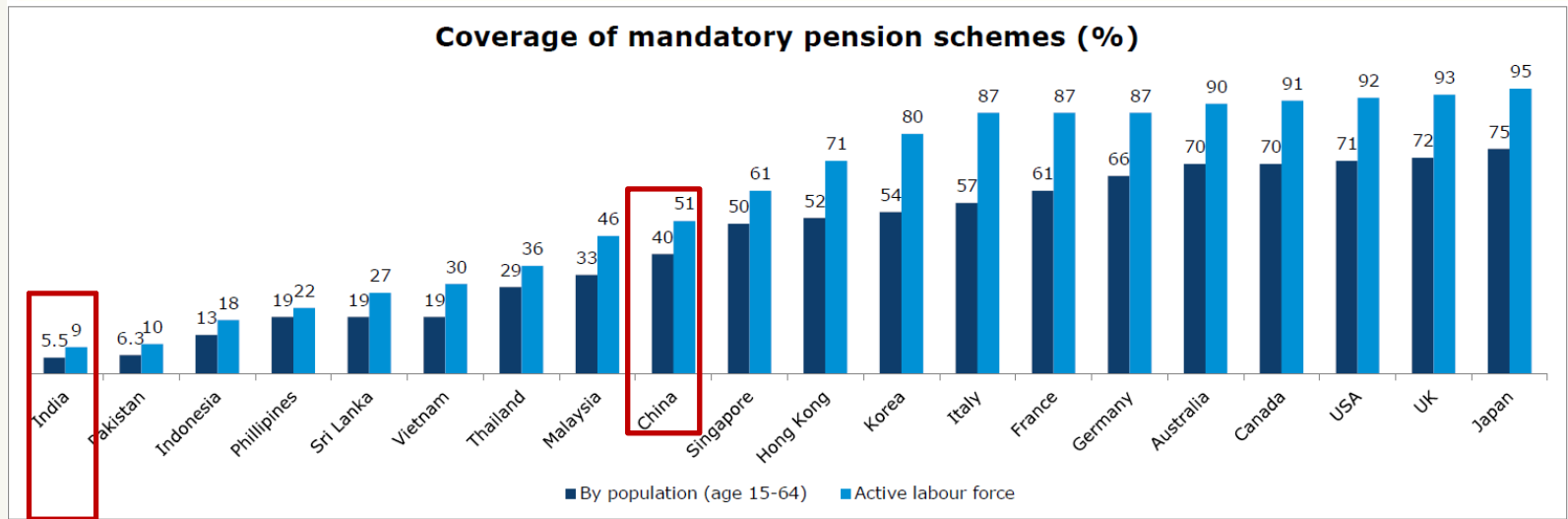
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Large variation in eCommerce opportunity



Financial services markets still nascent



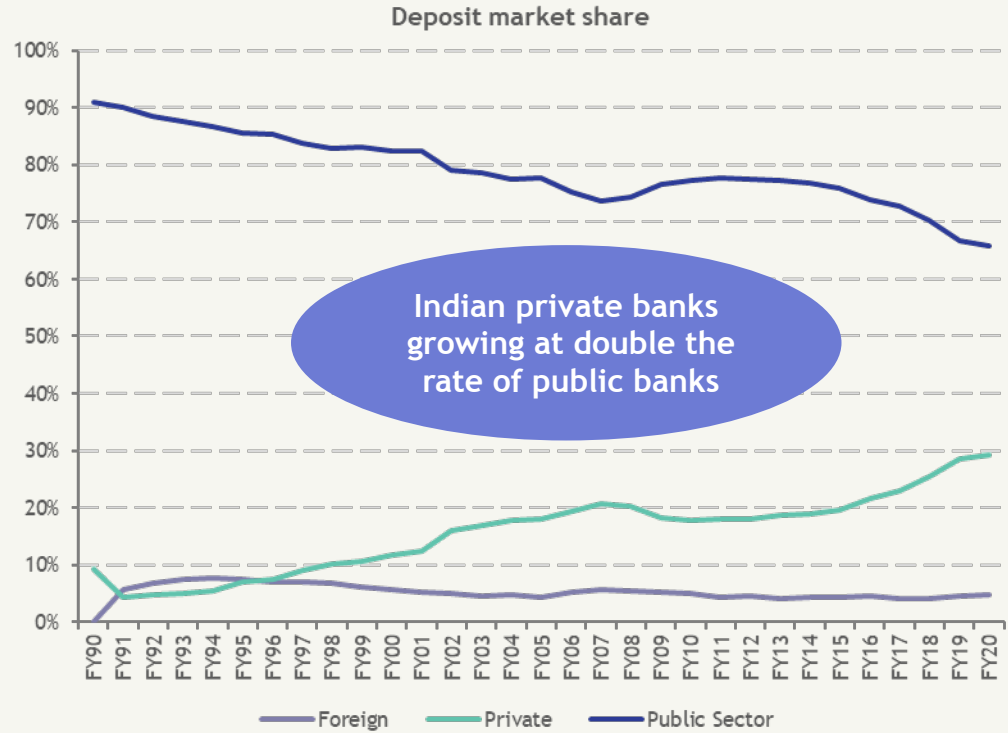
Liberalisation and the growth of private enterprise



As markets liberalise, SOEs tend to struggle against nimble private competition

Indian private banks have been growing market share for 30 years

Yet still command only around 30% of the overall market



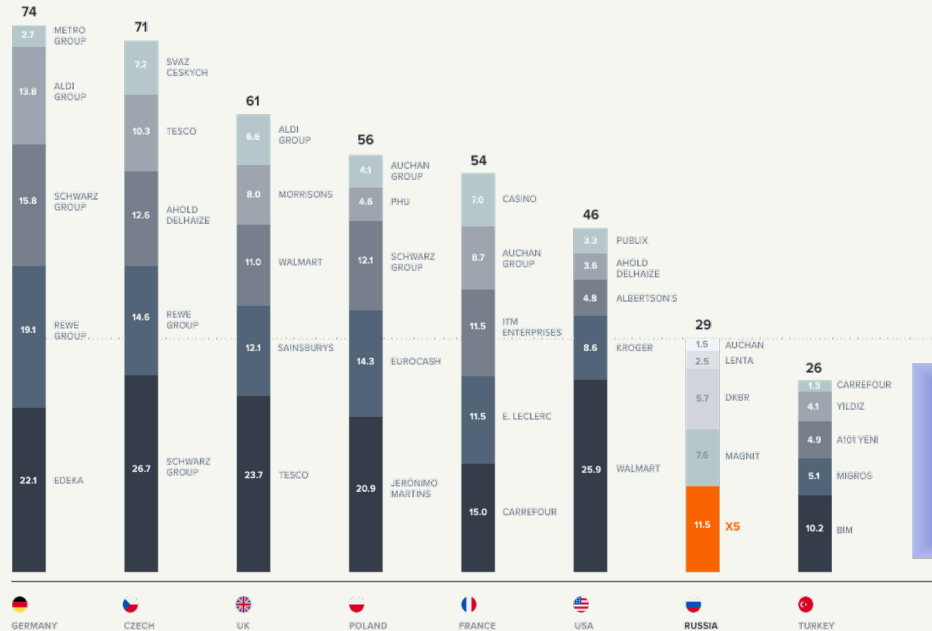
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Consolidation drives earnings growth



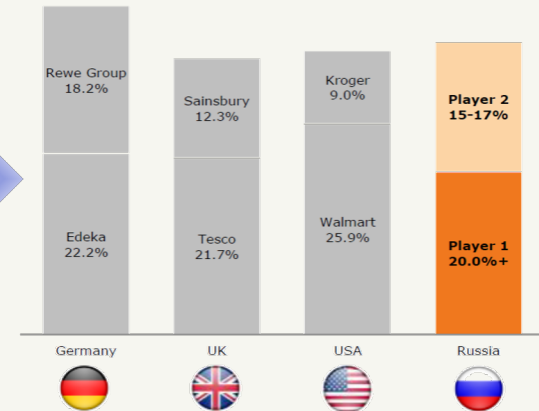
Share of top-5 grocery retailers globally in 2019, %



Basic services like grocery retail remain highly fragmented in some EMs

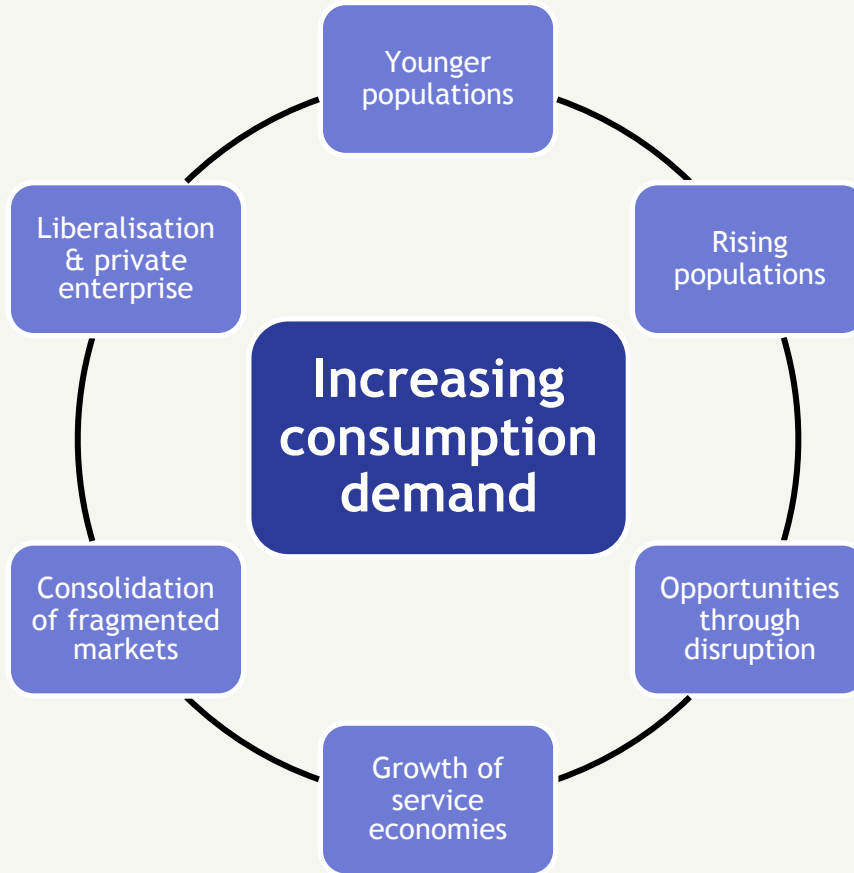
Example: Russia's top 5 grocery retailers represent less than 30% of total market share

Potential long-term market structure in Russia compared to developed markets



Source: X5 Annual Report (derived from Euromonitor, Infoline and company reports)

Summary of key growth drivers





Appendix

Coronation Fund Managers



- *Enduring Culture of client centricity, performance-driven and owner-managed*
- *Consistent*, long-term valuation driven philosophy applied in excess of 26 years
- *Founded* on unique proprietary research establishing long term Fair Value in companies
- *Driven* by bottom up, benchmark agnostic stock selection
- *Implemented* through stable, fully integrated, meritocratic investment teams
- *Delivering* a consistent track record of out-performance

A proudly South African Business

Our company



343 Employees

Home base: Cape Town



Board of directors



Invula Trust

In 2005 launched the **FIRST EMPLOYEE-ONLY BEE** deal, which directly benefits 187 people

Level 2

B-BBEE CONTRIBUTOR
(as measured by the FSC)

Coronation GEM - strategy summary



- Aims to out-perform MSCI GEM index by 3%+ p.a. over long time periods
 - Achieved +4.3% annualised alpha since inception
- Bottom-up & fundamental, based on proprietary long-term valuations
- Focused coverage list of companies
 - Includes off-benchmark opportunities & qualifying DM companies (max 25% of portfolio)
 - Excludes many mediocre businesses in EM
- Concentrated, clean-slate portfolio with high active share (approx. 90%)
 - 50 to 60 holdings, top 10 = approx. 40%, top 20 = approx. 60%+
- Dynamic portfolio, no overvalued assets

Strategy has generated 82% cumulative alpha over 11 years

A more focused approach



We like above average businesses with:

- Sustainable competitive advantage / moat
- Sustainable / structural industry tailwinds
- Strong financial metrics (e.g. high ROE / FCF)
- Other selected key characteristics

We generally avoid:

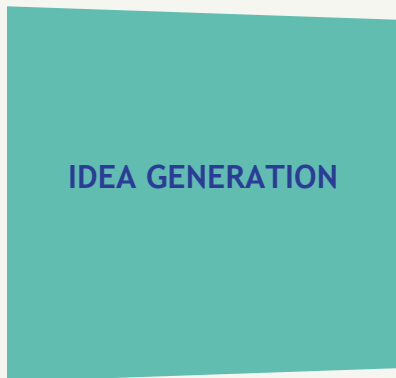
- State ownership
- Heavy regulation
- High capital intensity
- Thin margins, highly cyclical earnings
- With a few exceptions: *some* banks & resources

INVESTMENT UNIVERSE (313 companies)

GEM - Investment Process



313 stocks
In the filtered
investment universe



GEM, Global, SA &
Frontiers analysts

191 stocks
With full reports and
valuation models



Full team debate (incl.
Senior PMs, CIO, Senior
Analysts)

50 - 60 stocks
included in the
portfolio



Portfolio managers

20 stocks
Make up $\pm 60\%$ of the
portfolio



Portfolio managers

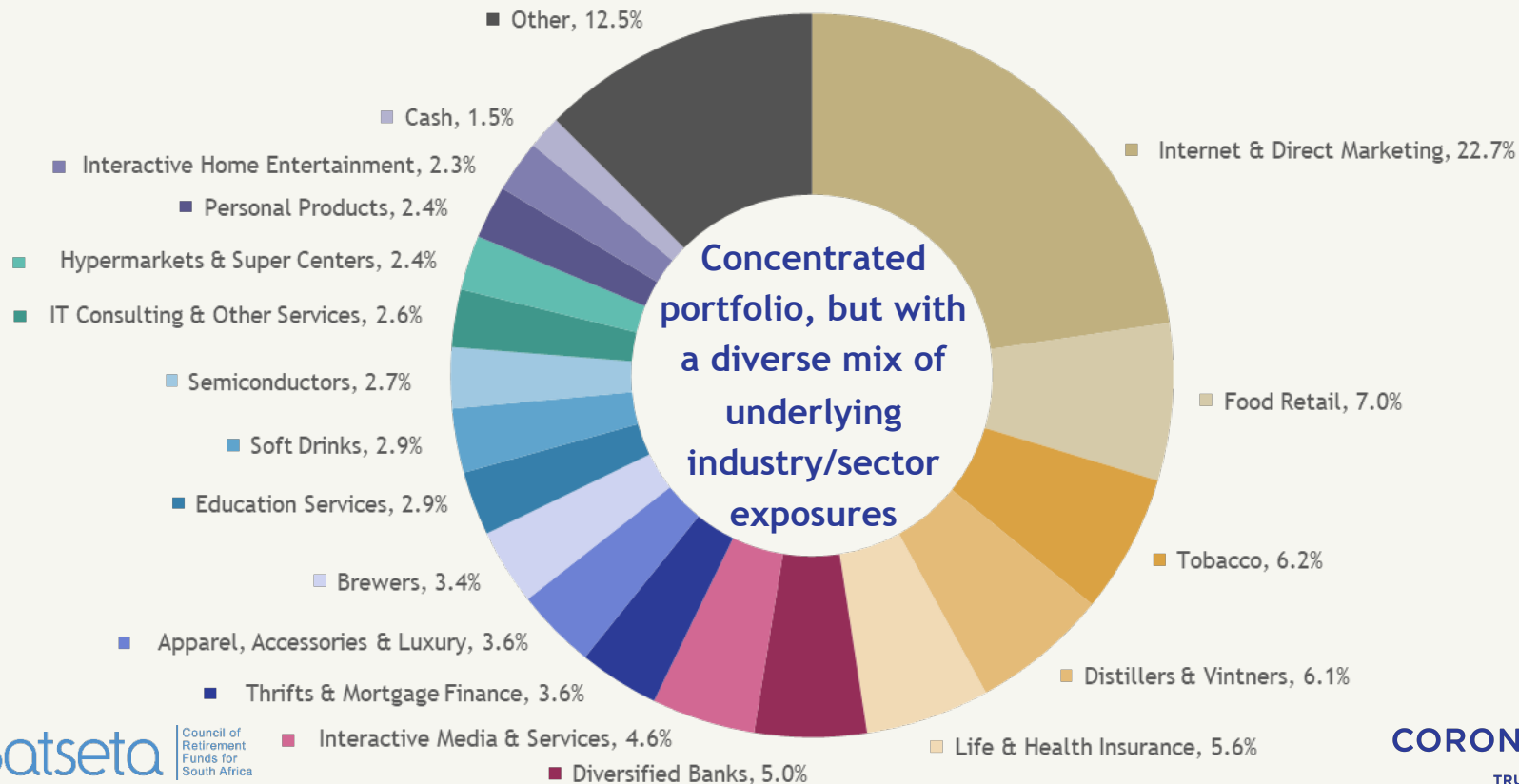
Warrants full
coverage

Risk adjusted
upside

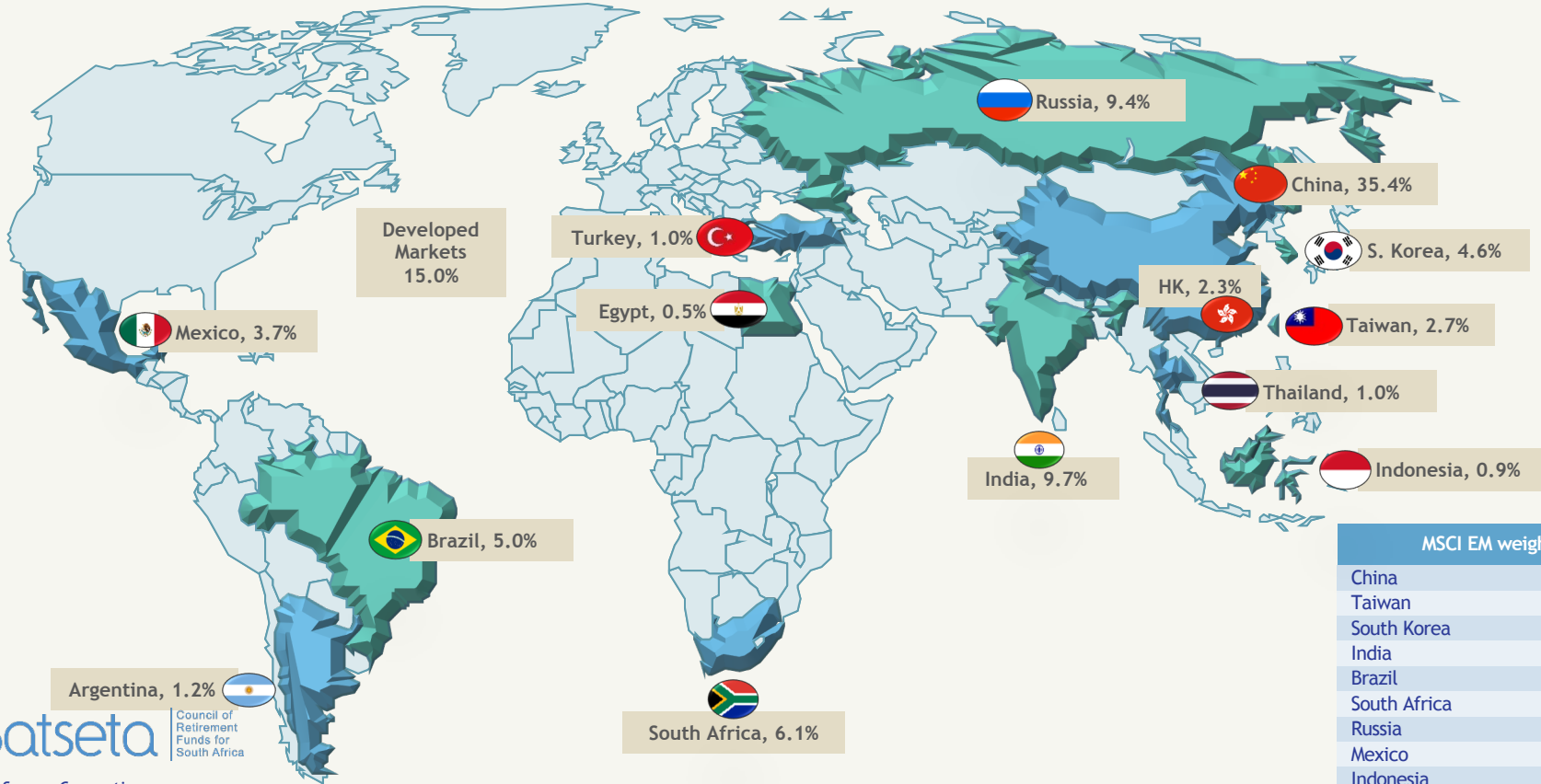
High
conviction



A concentrated yet diversified portfolio



Broad geographic exposure



Coronation Global Emerging Markets Strategy

Performance in USD

Periods ending 31 July 2020



Long-term alpha objective: 3%+ p.a.	Coronation GEM (\$)	MSCI - EM \$ **	Out performance
Since inception (unannualised) *	131.2%	41.9%	89.2%
Since Inception (annualised) *	7.2%	2.9%	4.3%
10 years (p.a.)	6.8%	3.5%	3.2%
7 years (p.a.)	5.1%	4.5%	0.6%
5 years (p.a.)	8.7%	6.2%	2.6%
3 years (p.a.)	4.9%	2.8%	2.1%
2 years (p.a.)	7.7%	2.1%	5.6%
1 Year	8.9%	6.5%	2.3%
YTD	1.1%	-1.7%	2.9%

* 14 July 2008

** MSCI Emerging Markets TR net USD index (NDUEEGF)

Note: Composite returns - gross of fees in USD

Disclosure that the investment advisory fees are described in part 2a of the investment adviser's form ADV; and a representative example (in the form of a table, chart, graph, or narrative) which shows the effect that the investment advisory fee, compounded over a period of years, could have on the total value of a client's portfolio

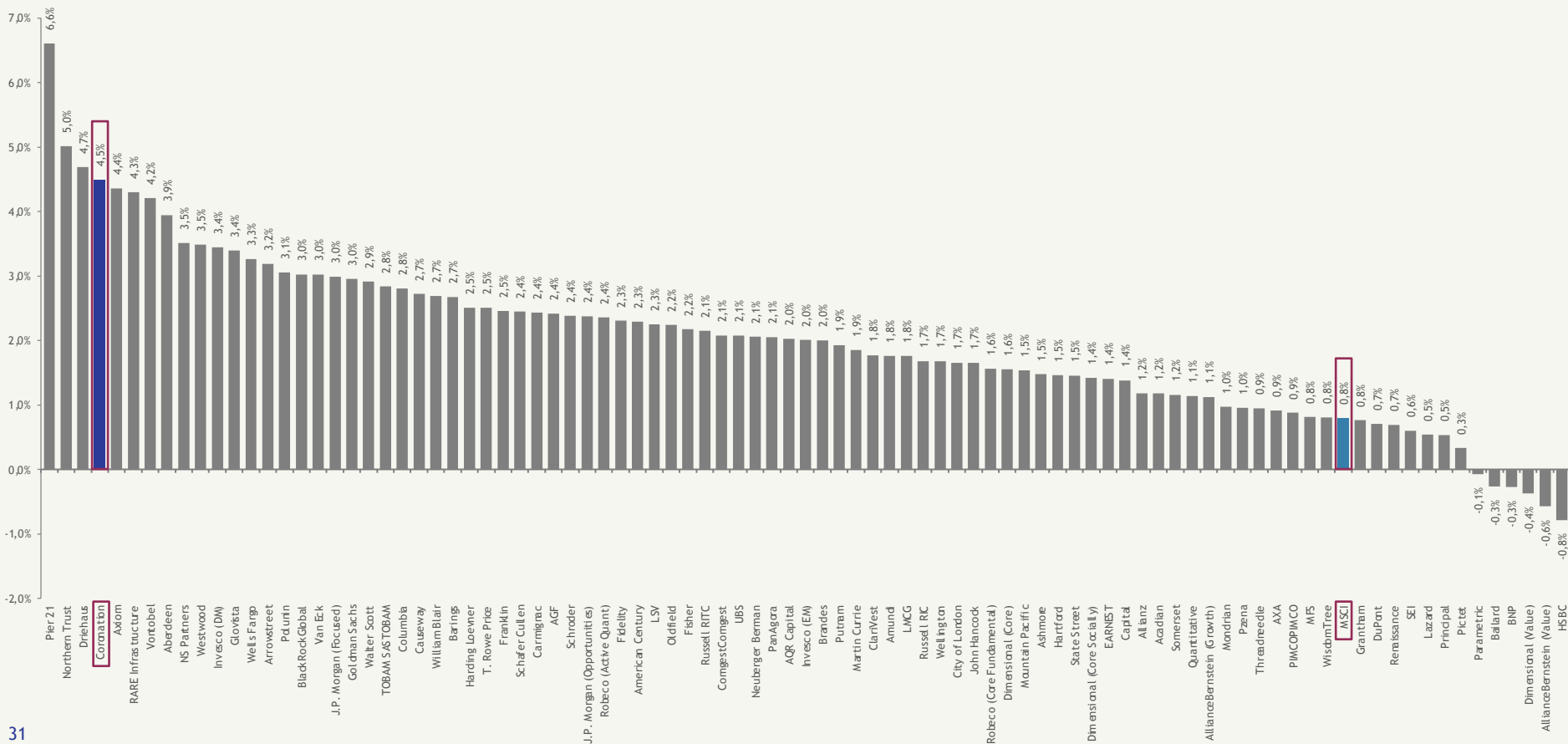
Performance is reflected gross of an annual management fee and an annual performance allocation of the fund's profits (an annual performance allocation will not be applicable to all accounts). Performance is reflected net of actual operating expenses of the fund during the periods presented. The returns presented assume the reinvestment of dividends and other earnings. Differences in the timing of transactions and market conditions prevailing at the time of investment may lead to different results. Differences in the methodology used to calculate performance may also lead to different performance results than those shown.

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Global Emerging Markets Equity Peer Group Comparison (91 funds)

Based on eVestment, gross USD annualised returns, since inception of Coronation GEM strategy - July 2008)



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Authorised representatives

Adrian van Pallander; Hendrik Groenewald; Alistair Lea; Karl Leinberger; Anton de Goede; Kirshni Totaram; Pranay Chagan; Quinton Ivan; Charles de Kock; Sarah-Jane Morley (married Alexander); Dirk Kotzé; Sean Morris; Louis Stassen; Neill Young; Siphamanda Shoji; Gavin Joubert; Neville Chester; Stephen Peirce; Pallavi Ambekar; Suhail Suleman; Peter Leger; Tracy Burton; Nishan Maharaj; Nicholas Hops; Steve Janson; Mauro Longano; Henry Moolman; Gus Robertson; Sinovuyo Ndaleni, Greg Longe; Adrian Zetler; Neil Padoa; Nicholas Stein; Anthony Gibson, Seamus Vasey (supervised), Liest Abrahams (supervised); Steven Barber (supervised); Humaira Surve (supervised); Godwill Chahwahwa; Danie Pretorius; Lisa Haakman; Marc Talpert (supervised); Iakovos Mekios (supervised); Kganya Kgare (supervised); Azola Lowan (supervised); Tumisho Motlanthe (supervised); Paul Neethling (supervised); Floris Steenkamp (supervised); Sibongiseni Khumalo (supervised); Chris Cheetham (supervised); John Parathyras (supervised), Siviwe Mazwana

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Fax: 021 680 2859	021 680 7753
Cell: 082 434 4622	082 351 2401
E-mail: jrowland@coronation.com	skemp@coronation.com

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Louis Stassen; Kirshni Totaram

Authorised representatives

Louis Stassen; Gus Robertson; Gavin Joubert; Karl Leinberger; Kirshni Totaram; Peter Leger; Stephen Peirce; Suhail Suleman; Greg Longe; Neil Padoa; Anthony Gibson, Liesl Abrahams (supervised); Steven Barber (supervised) ; Humaira Surve (supervised); Danie Pretorius; Lisa Haakman; Marc Talpert (supervised); Iakovos Mekios (supervised); Paul Neethling (supervised); Floris Steenkamp (supervised); Chris Cheetham (supervised); John Parathyras (supervised)

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