Please note that the commentary is for the retail class of the Fund. All Fund and share price returns are quoted in ZAR.

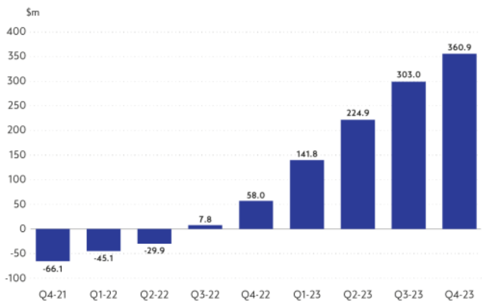
The Fund returned 8.0% in the first quarter of 2024, 3.6% ahead of the 4.4% return for the index (MSCI Emerging Markets (Net) Total Return Index). Over one year, the Fund outperformed the index by 3.9%, and over the past two years, the Fund has now outperformed the index by 6.4.% p.a. We are encouraged by this significant improvement in relative performance, but there is still more to be done in getting the longer-term numbers up, and we are working hard to achieve this. In this regard and given how cheap so many emerging markets stocks are in our view, we continue to find numerous attractive new ideas. Since inception more than 16 years ago, the Fund performance is marginally ahead of the benchmark. Our objective is and always has been, to generate 3%+ p.a. outperformance (gross of fees) over all meaningful periods, and we continue to believe that this is very achievable. At the time of writing, despite the recent outperformance, the shares within the Fund still offer an aggregate weighted average upside of 65% in the currency of listing, which is well above the long-term average of around 40%.

The biggest contributor to outperformance (alpha) in the period was Latin American digital bank Nu Holdings (Nu), which returned 47% in the quarter and provided 1.1% alpha. We have held Nu in the Fund for almost two years, having purchased it during the big sell-off in its share price that occurred in Q2 of 2022 (at an average price of around $5 a share), about six months after its much-hyped initial public offering (IPO) when it peaked at $12 a share.

There were multiple reasons behind the sell-off that created the buying opportunity at the time. Interest rates were rising around the world in response to inflation spiking, Brazil was hiking rates aggressively, and, most significantly, Nu was still losing money, having yet to turn a quarterly profit. When the company expressed doubts about their ability to manage credit losses in a higher rate environment, it was unsurprising that the share sold off so heavily. We were (and still are) big believers in the long-term opportunity for Nu while also holding other names in the digital banking/payments industry in the country (we featured Stone, another performance contributor, in our prior quarterly commentary). We bought a modest position (1.5%) into the Fund in the initial weeks, and as our conviction increased in subsequent months we bought more.

Having managed the worst of the cycle fairly well, Nu now seems to be firing on all cylinders and, as a result, the share price is back to testing the highs that it reached in the immediate aftermath of its IPO. The simplest explanation for this turnaround is the sustained profitability of Nu. The graph below shows its profit evolution since going public, with the company making a profit of $360m in the last quarter of 2023 and over $1bn for the year as a whole. This was scarcely conceivable at the time of our initial investment.

NU HOLDINGS: PROFIT EVOLUTION SINCE IPO



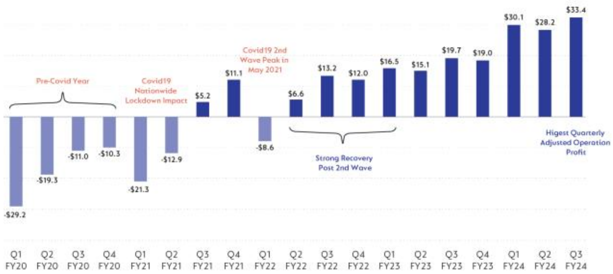
Source: Nu Holdings Investor Relations Presentation

The key drivers of this evolution in profitability are quite simple – Nu have kept costs per customer flat while revenues per customer have steadily increased. With Nu having doubled the number of customers it serves since it went public (to close to 100m customers at the end of 2023), absolute profits have come through strongly. Revenues have evolved at a far quicker rate than costs and, hence, efficiencies (the cost-to-income ratio) have improved to best-in-class levels.

These are still the early days of Nu's journey. The business believes it can increase its average revenue per customer from around $11 currently to $15 within the next few years. They are also very early in their journey in Mexico and Colombia, the former offering a similar market opportunity to Brazil, where they already bank half the adult population.

The next largest contributor to relative performance was Make My Trip (MMYT), an Indian Online Travel Agency (OTA). MMYT returned 54% in the quarter, contributing 0.6% to alpha. Over the last year, MMYT has returned over 200%. Having lagged the broader Indian market, the share has finally taken flight. MMYT has benefited from the quick normalisation of travel within India post-pandemic. Furthermore, as the middle class grows, the proportion of the population that can afford to travel increases significantly. Their first-mover advantage and detailed local knowledge mean the international OTAs (Expedia, Booking.com) are largely irrelevant in India. MMYT has multiple brands to cover all potential travel situations, from air ticketing and hotels (the traditional travel case) to foreign exchange services and rail travel. During the pandemic, the company was forced to take a knife to costs and, as a result, has become sustainably profitable ahead of schedule.

MAKE MY TRIP: THE ROAD TO PROFITABILITY



Source: MMYT Investor Relations Presentation

We have been reducing the share price methodically over this period as it approaches our fair value. Besides valuation, we are also mindful that customers are very focused on price, and therefore, the first-mover advantage may not be as enduring as that of other internet businesses. The steady downward pressure on "take rates" (commission) for flights is a good indicator that pricing power is hard to maintain and may eventually feed through into hotel bookings.

Other material contributors to alpha were Airbus (0.6%), Bank Mandiri (0.5%), and ASML Holdings (0.5%). In the case of Airbus, the company now has a close to 60% share of new orders for narrowbody planes, well ahead of its only real competitor, Boeing. Airbus also benefited from the safety scares that engulfed Boeing since a maintenance-related issue in January.

The biggest detractor in the quarter was PEPCO, which returned -30% for a -0.9% alpha impact. Other material detractors for the quarter were Indian bank HDFC Bank (-0.8% alpha impact) and pan-Asian insurer AIA (-0.5% alpha impact).

PEPCO is particularly disappointing as it has given back all the gains it made in the fourth quarter. We continue to engage with management and undertake independent analysis with a view to establishing whether the operational issues are temporary in nature or more indicative of long-term underlying problems with the business model. PEPCO now trades on 11 times our 2025 earnings forecasts.

There were a number of new buys in the quarter. In China we bought Anta Sports (1.3% position) after it declined substantially over the past year to trade on around 15 times 2024 earnings, as well as local Chinese car brand BYD (0.9%). The Fund also bought a 2.2% position in SK Hynix, a strong number two in the semiconductor memory industry (DRAM and NAND). After a cyclically weak period for memory prices, the cycle seems to have turned strongly in their favour, with capacity shortages and rising selling prices. There is also potential for significant capacity shortages as manufacturers scramble to meet demand from NVIDIA and other AI players for high bandwidth memory, which uses much more of their scarce manufacturing capacity and therefore supports higher prices into the future. In spite of the very positive medium outlook for SK Hynix and the memory industry in general, it trades on only 11 times forward earnings.

We also doubled the Fund's holding in Kazakhstan's Kaspi to 1.7%. We are very familiar with the company but the secondary listing in New York greatly improved investability for us, with low liquidity previously being a hurdle. Kaspi has established itself firmly as the leading in-store and ecommerce payment provider in the country, with a hard-to-fathom 90% share of the adult population as customers. Fully 60% of retail payments (by volume) go through its system. It offers everything for both consumers and merchants, including inter-party payments, bill payments, "Buy Now Pay Later (BNPL)", ecommerce, and regular online consumer banking. Despite offering reasonably predictable earnings growth of above 20% p.a. over the next five years (the market is very underpenetrated), it trades at only 10 times earnings and offers a 7% dividend yield.

We sold out of two of the Fund's Indian holdings (Apollo Hospitals and TVS Motors), both on valuation grounds in what appears to us to be a very expensive Indian market. We also sold out of Adidas, bearing in mind that we did buy a new position in Anta and, from an overall portfolio risk point of view, wanted to keep a limit on the Fund's overall Chinese sportswear exposure – China is a key driver for Adidas. After the controversy surrounding the aborted arrangement with Kanye West and a change in CEO, Adidas performed very strongly in 2023 with a 40% return. This provided us with a funding source for other more attractive risk-adjusted expected return ideas.

Portfolio managers

Gavin Joubert, Suhail Suleman and Iakovos Mekios

as at 31 March 2024