

Equity closure

Demonstrating our commitment to put clients first

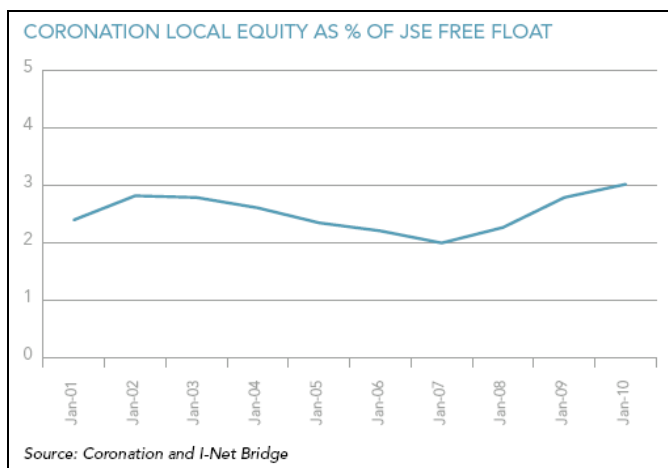
By Karl Leinberger, Chief Investment Officer
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In May we announced that we are closing our Institutional SA Equity product to new clients from 31 March 2012. Our equity unit trusts, such as the Coronation Top 20 Fund, will however remain open to new investors. This is the second time in Coronation's history that we have closed a major product to new clients (the Institutional Absolute Return funds were closed in 2005 for a period of four years). Since genuine asset closes are quite rare in our industry, we have fielded numerous questions from clients in the last few weeks. The challenges and mechanics associated with closing a major product are significant and we have therefore attempted to encapsulate our thinking in question and answer format:

What made Coronation believe it had reached the point at which it should close?

Interestingly enough, our JSE-listed assets under management only represent 3% of the free float of the JSE. This has not grown materially over the last five years. The adjacent graph and table show that the vast majority of our asset growth in recent years has in fact come from the performance of our funds, as opposed to inflows. Notwithstanding, we have decided to close for the following reasons:

- It is a powerful demonstration of our commitment to put clients first. As an independent asset manager, we will amount to nothing if we cannot outperform markets. We are therefore unwilling to risk even getting close to the point at which size impairs our ability to outperform.
- We have always believed that we should close before (as opposed to once) we reach capacity. This allows us to close in a manner that will create the least amount of disruption to our existing clients. We have attempted to get this right by giving nine months warning of the close and by remaining open to cashflows from existing clients.



FIVE-YEAR ANALYSIS OF CORONATION ASSET BASE (Rbn)				
	Opening balance	Net flows	Performance	Closing balance
2010	154.7	11.1	32.1	198.0
		7.2%	20.8%	
2009	125.0	8.1	21.6	154.7
		6.5%	17.3%	
2008	133.7	(4.5)	(4.3)	125.0
		(3.4%)	(3.2%)	
2007	101.4	0.7	31.6	133.7
		0.7%	31.2%	
2006	82.0	1.3	18.2	101.4
		1.6%	22.2%	
Simple average		2.5%	17.7%	

Source: Coronation

Will this close have any impact on existing Institutional clients?

Absolutely not. Existing clients will be able to invest and disinvest as they have in the past.

Why are you closing to new institutional clients but not retail (unit trust) clients?

Institutional clients represent the vast majority of our asset base (approximately 75%). Consequently, it is the area where we feel capacity pressures most acutely. It is also the most efficient area in which to achieve a practical close (i.e. we simply stop pitching to new clients). In the retail market it is difficult to close to new clients, given that we do not have a tied distribution network and that most of our flows (approximately 80%) come from investment platforms and other aggregators that do not give us perfect information on the identity of clients behind those flows.

Will this have any impact on retail clients?

An emphatic, no. For the reasons given above we do not believe it is possible to close our retail business to new clients.

Why did you close SA Equity mandates but stay open to asset allocation mandates?

Capacity pressures are most acute in JSE equities. We believe that we have significant capacity in global equities, emerging market equities, African equities and the interest-bearing asset classes. Closing the asset allocation mandates would therefore deny clients access to asset classes where we currently have no capacity constraints.

We also believe that asset allocation mandates are the most efficient use of our remaining JSE equity capacity. Our performance track record demonstrates our ability to add value through asset allocation and it therefore makes sense to us to use our remaining equity capacity in this manner - adding value to clients at both the stock selection and asset allocation level.

How long do you expect to stay closed for?

We do not believe that we have any ability to forecast the future. The most important considerations in the capacity debate are JSE liquidity and client cashflows. We estimate that the institutional savings pool is shrinking by 10% per annum (excluding market performance). For this reason a fund manager has to run hard to stand still. We therefore expect natural client withdrawals to free up some capacity in the years ahead.
