

Asset management – 2010 and beyond

by PIETER KOEKEMOER

The world has changed - of that there is no doubt - and our everyday vocabulary has adjusted to the new paradigm. Bubbles, formerly associated with fun at kids' parties, are now synonymous with booms and busts in financial markets; apple is no longer just a fruit and nor is a blackberry. The ups and downs of the past decade have been profound, starting with the hype around Y2K (remember that?) and ending with one of the worst crises in financial market history. No-one could have foreseen such a dramatic series of events. During this time the asset management industry, which had grown in size and complexity, was humbled. While no-one escaped the effects of the crisis, some businesses fared considerably better than others. The clear winners are those that remained true to the key characteristics that have shaped successful asset management firms for decades.

The extreme volatility of markets in the recent past has most certainly 'turned up the heat' on asset managers, with divergences in long-term sustainable performance widening every day. In a world where investors are increasingly forced to take responsibility for their own financial wellbeing in retirement, this divergence now represents simply too much opportunity cost that can no longer be ignored or considered immaterial. Looking at performance of the 36 balanced funds in South Africa over the past five years alone, the divergence between the best and worst performing manager is 13.6% p.a. This represents a difference of more than R1 000 additional return per R1 000 invested over this period.

Regulatory complexities, the cost of compliance and clients' demands for timely and relevant information about how their capital is deployed have also all increased dramatically. So, today we face a different and much tougher operating environment to that of the '90s or the past decade.

Investment gurus and business leaders agree - the key to success is focus. Needless to say, at Coronation we concur. It has always been our belief that it will be the independent asset management houses that present the strongest value proposition to clients. The South African asset management industry has been a model example of what can go wrong without the key element of focus: A large number of firms, in an attempt to keep pace with global trends and quick revenue earning strategies for shareholders, spent much of the past five years changing investment structures (from consolidated teams to boutiques and back again); investment philosophies (value, growth, contrarian, momentum), and even their senior staff. This also extended to investment products, with the launch of iteration upon iteration in an attempt to capture the newest and latest unique trend or market buzz. Ultimately, many of these fad products failed to deliver and a great many asset management companies found themselves so caught up in all the restructuring that investment performance (and as a result client returns) suffered enormously.

So what are the key ingredients for success?

There are five broad yet distinct areas that contribute to the success of an asset management business:

- Independent, focused and simple in structure. This involves the establishment of superior products, sustainable processes, flat structures and the outsourcing of all non-core functions to ensure focus on the key objective of asset management.
 - Robust investment philosophy and process with a strong internal culture. Develop the right investment philosophy and stick to it. Hire and retain the best people, avoid bureaucracy and establish the right tools and framework to motivate employees to strive for excellence.
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- Align interests of clients, staff and shareholders through shared incentives and ownership.
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- Create a client-centric company where meeting the needs of clients is central to the business.
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- Manage growth and align objectives with capabilities and investment opportunity set. Understand the capacity constraints of different asset classes and know in advance when to close to new business.

It is the application of these values and principles that have led many of the greatest global investment firms to become enduring long-term businesses. At Coronation it is how we ensure the long-term success of our business and our clients.

The Coronation DNA

Independence, focus and staff ownership

This is a characteristic that we hold dearly at Coronation. We are an organisation solely focused on asset management, with no other 'group company' pressures influencing the way in which we manage clients' assets or how we run the business. This affords us the opportunity to continuously act in the best interests of all our clients, with no preference to any individual grouping.

We have a unique business structure where staff own 30% of the business. This fundamentally changes the commitment our people make within the business and reaffirms the strong alignment of interests with clients and the management of their portfolios.

Single investment philosophy

The ongoing focus on delivering strong long-term returns is illustrated across all our client contracts. We have one investment philosophy across the house - there are no silos or boutiques with different offerings. This approach has ensured that our business has improved its asset allocation skills - something which has proven vital given the market changes experienced over the past five years. We believe our investment philosophy to be our competitive advantage (this is explored further by CIO, Karl Leinberger on page 6).

Exceptional people

Over the years we have developed and nurtured a culture of teamwork and excellence, and the entrepreneurial flair that was so evident in the early days remains a vital ingredient of our DNA today.

Our culture of ownership and unique performance driven environment both encourages and rewards people to work hard, grow continually and contribute to the direction and success of the business. Our investment team is a unique blend of skill and experience and we are one of the only investment teams in the world with three ex-CIOs still actively managing money within the team.

At Coronation, we aspire to be experts in our chosen fields of investments, client service, operations and finance, yet we all share the common drive and passion for excellence.

Client-centric culture of excellence

The nature of our business requires clients to entrust their hard-earned capital to us, often for periods of 20 years or more. This compels us to be uncompromising about ethics - we know that trust is earned over time yet lost in an instant. Our focus is on providing a range of funds that are easy to understand, have clearly defined return objectives, risk budgets and competitive long-term performance. We also provide a wide variety of access points to our funds to accommodate the needs of different investors as efficiently as possible. We do not own any distribution channels and rely solely on investors and their independent financial advisors electing to invest with us based on their assessment of our ability to deliver.

We strongly believe in the equitable treatment of all clients, and disapprove of those houses where a variety of funds with similar objectives, but vastly different management styles and portfolios, are offered to clients. All our funds reflect the same 'DNA' in their composition, rather than leaving clients with the task of selecting from a variety of different approaches all aimed at achieving similar objectives.

Manage growth and align objectives with capabilities and investment opportunity set

At Coronation sustainable performance over the long term is vital to both our clients and our business. We know the level at which our ability to generate returns for existing clients would be impeded for each of our product lines - particularly those which operate in less liquid areas of the market. An excellent example of this is the capping of our institutional absolute product range in 2005 when we believed market liquidity levels dictated closure. In 2009 this product stream was re-opened as market conditions changed and the accumulation of additional assets would not affect our ability to meet the promises given to existing clients. This is also the reason why we apply exit fees for short-term investments in our Preference Share Fund, where the underlying asset class is subject to liquidity constraints, and our Global Emerging Markets Fund, where the nature of cross-border investing in multiple markets results in higher trading impact costs.

Furthermore, we are not a business that looks to launch new products in response to market fads. All products launched are required to pass a strict internal test of being relevant for the long-term needs of investors. As such, we have a focused product range that addresses the long-term needs of the different investors in South Africa and abroad.

A client-centric asset manager conducts all its business activities in a manner that looks to what is best for the client. At Coronation, we have been very vocal about our business practices and continue to provide full disclosure to all our clients regarding our company and its operations. We do not engage in softing arrangements, have placed retrospective caps on all our performance fees, and continue to ensure that all our own retirement funds are invested in Coronation pooled vehicles. We were the first local asset manager to gain GIPS[®] compliance and are a signatory to the United Nations' Principles for Responsible Investment, a framework for achieving better long-term investment returns and more sustainable markets.

Since our inception in 1993 we have sought to consistently focus on our key objective of achieving excellence in asset management. While the world around us changes, we hold steadfast to what we believe to be fundamental - our independence, investment philosophy and culture. Our aim is not to be the biggest, but to be the best and for our clients to know that with us their money is in good hands.

Pieter Koekemoer

Head of Personal Investments

The Coronation Client Charter

To confirm our commitment to the core values set out above, we have decided to formalise the key points in the Coronation Client Charter. This represents a public and open commitment from Coronation and its employees to you, our client. Its aim is to provide you with a framework for evaluating our overall performance as your investment provider. While it does not represent a legally binding contract, it provides a clear indication of what you can expect from us and we hope will inspire you to provide us with feedback aimed at improving our adherence to the ideals it incorporates.

- We strive to always put clients first
 - We have an unwavering commitment to the long term
 - We focus on producing top performance over all meaningful periods
 - We are uncompromising about ethics
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