



Chairman's statement

This year Coronation celebrated its 25th birthday and, for a quarter of a century, we have remained singularly focused on delivering long-term investment outperformance and service excellence to our clients.



SHAMS PATHER *BBUSSC, BCOM (HONS), MBA*

Since inception, the business has grown to be one of the largest independent asset managers in the country, operating successfully through a period of immense change in South Africa, and the world.

This year also marks 10 years since the onset of the global financial crisis, the effects of which are still being felt in global markets and politics, with events like Brexit and the rise of populism rooted in the near collapse of the financial system. During this time, South Africa has experienced very muted economic growth, averaging around 1.5% per annum, which is far from what is needed to drive recovery and job creation.

South Africa 2018

During the year under review, despite the hope for a post-Zuma recovery under President Cyril Ramaphosa, growth continued to be consistently disappointing. We experienced

a perfect storm of a widening current account deficit, contraction in the mining sector and weak manufacturing output. Compounding this was the protracted drought that exacerbated the woes of the agricultural sector, namely currency weakness, land reform and food price inflation.

This has impacted the pockets of ordinary citizens, and South African households have been under immense strain, which in turn has continued to place the long-term savings environment under pressure.

Additionally, the country continued to be rocked by instability in the Treasury and ongoing revelations as to the depth of corruption in both the public and private sectors. Most recently, affidavits to the Zondo Commission of Enquiry into State Capture included the quantification by Minister Pravin Gordhan of the 2015 sacking of Nhlanhla Nene at R500 billion and counting.

It is clear that the path ahead is not an easy one. However, I am optimistic that the plan of action as outlined by Minister Tito Mboweni in his 2018 Medium-Term Budget Policy Statement, support for the President's infrastructure proposals and his recent housekeeping, will translate into higher levels of confidence, leading to improved investment into the economy by the private sector.

The investment environment

Global growth, especially in developed economies, slowed in the first quarter of 2018, stalling the momentum built through 2017, mainly due to increased trade tensions and rising debt levels. Subsequently, the IMF has revised its global gross domestic product (GDP) outlook for 2018 and 2019 down to 3.7%.

However, in the USA, GDP growth remains strong on the back of US President Donald Trump's pro-business tax reform, solid employment gains and rising inflation. Momentum has slowed visibly in Japan and the EU, and, to a lesser degree, the UK, where the March 2019 deadline for Brexit is casting a pall over activity as well as the national mood.

Deteriorating financial conditions globally will continue to weigh on emerging markets, with South Africa being no exception. Additionally, systemic risks to recovery remain daunting, with third-quarter 2018 unemployment uncomfortably high at 27.5%.

Business overview and strategy

We are an independent active manager with a long-term, valuation-driven investment philosophy. Given the cyclical nature of the business, our revenue stream is highly geared to the returns of the markets and the level of performance that we generate on behalf of our clients.

During the period under review, these cyclical pressures have been particularly acute. A very weak domestic economy, combined with pressure on emerging markets, resulted in the FTSE/JSE All Share Index producing a mediocre return of 3.3% for the year.

Emerging markets as measured by the MSCI Emerging Markets Index lost 0.8%, while developed markets gained 9.8% as measured by the MSCI All Country World Index (both in US dollars.) Over the period, the local currency weakened by 4.3% against the US dollar to close at R14.20.

Against this backdrop, total asset under management (AUM) declined by 4.4% but remained flat compared to the end of March 2018. While our average AUM increased by 3.1% for the 12 months relative to the previous reporting period, revenue declined by 2.6% to R3.8 billion for the year.

We continued to invest in our business to enhance our capacity to deliver world-class service. The fixed expenses related to the implementation of new service platforms were mitigated by a decrease in variable expenses, resulting in operating expenses remaining flat year on year – a sound performance in an economy with inflationary cost pressures. This saw headline earnings per share decline by 3.8% to 420.7 cents.

Global expansion

Another milestone this year was that our Africa and Global Emerging Markets strategies turned 10 years old. Key to our strategic vision is that we continue to build on our global franchise, currently consisting of US\$4.3 billion of international assets.

The Company's expertise in managing money in frontier and emerging markets was celebrated this year when we were named Best Africa Fund Manager for the third consecutive year in the Africa Investor Institutional Investment and Capital Market Awards. This has contributed to building our brand internationally.

Governance

The Board and the management team continued to engage with our stakeholders with the aim of enhancing our alignment with their needs. To this end we have added malus and clawback to our Remuneration Policy, which will be effective as of 2019. We have also included more detailed executive performance measures in this year's report.

Given that several of our non-executive directors have a tenure of more than nine years, we engaged Deloitte to assess their independence, and I am happy to report that Deloitte confirmed the Board's assessment that they acted independently (→ refer to page 72). Additionally, in the interests of proper succession planning, Coronation is in the process of assessing potential candidates to join the Board during the course of 2019.

OPERATING EXPENSES
FLAT YEAR ON YEAR

↑1.0%

*a credible performance
in an economy with
inflationary cost
pressures*

REMARKABLE PROGRESS IN
TRANSFORMING OUR BUSINESS

Level 2

*B-BBEE contributor as
measured by the revised
Financial Sector Code*

78%

*of new recruits in
2018 are black*

SINCE 2006

R286m

*in brokerage allocated by
Coronation to emerging
black stockbrokers*

In the past year, Coronation actively contributed to shaping the local regulatory landscape through its participation in industry consultations via the Association for Savings and Investment SA (ASISA), as well as through direct engagement with regulators, and civil society with organisations like Business Leadership South Africa.

Corporate citizenship

As a proudly South African company, we are active participants in advancing economic transformation in our industry as well as the communities in which we operate.

We are pleased with the tangible progress Coronation has made in transforming the business to reflect our country's diversity. As measured by the Financial Sector Code (FSC), Coronation is a Level 2 contributor to broad-based black economic empowerment, and 78% of new recruits in 2018 are black.

In addition to the support we provide to empowering and developing black independent financial advisers, we supported the establishment of an independent, black-owned investment administrator in 2017, to which we successfully completed the transfer of our unit trust business in November 2018.

We believe that the state of South Africa's education system is a key risk to sustainable economic development and are also mindful of the dire skills shortage in the country. For this reason, we focus the bulk of our CSI on education, empowering the youth through numeracy and literacy programmes, and funding several full higher education bursaries for study at South African universities.

Conclusion

The sustainability of our business is anchored in our firm commitment to long-term investing. We have a proven track record of alpha generation that has endured many periods of short-term underperformance over the past quarter of a century.

While the short-term investment performance across certain strategies has been disappointing, our compass remains a long-term valuation-based investment philosophy, which is informed by independent, unbiased proprietary research. We are cautiously optimistic about the positions currently reflected across our investment portfolios. Our success in achieving long-term value and excellent service will ultimately benefit all stakeholders.

A note of gratitude

In an environment where government and corporate governance failures have led to severe consequences for South Africa, Coronation remains committed to the highest ethical standards. Our employees commit to act with integrity in everything that they do, and I would like to commend them for upholding our uncompromising position on ethics. We also appreciate their ongoing dedication to Coronation, and for striving for excellence in all areas of the business.

I would also like to thank my fellow Board members for their wise and invaluable counsel in an increasingly complex environment. On behalf of us all at Coronation, I thank our clients, intermediaries and shareholders for your support, and for trusting us to grow your investments. As always, we remain committed to earning your trust.