



# Chief Executive Officer's review

*In 2018, Coronation Fund Managers reached its 25-year milestone as a proudly South African company.*



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Established in 1993, prior to the transfer of political power, we demonstrated our confidence in the outcome of negotiations then under way and in the democratic process. We signalled our commitment to the role that the private sector plays in developing economic stability. After a quarter of a century of building our business, we manage a significant portion of South Africans' savings, and are building a strong international brand.

South Africa is inescapably part of the emerging market complex, and thus subject to the prevailing market sentiment. We also have our own unique set of challenges. Following a year of uncertainty in 2017, the early optimism in 2018 that was sparked by the swearing in of President Cyril Ramaphosa faded in the face of ongoing and deeply entrenched economic and political challenges. The headwinds to recovery remain substantial, most notably corruption at the highest levels of business and government,

depressed GDP figures, rising unemployment, the state of education, and the prevailing emerging market risk-on sentiment.

Yet, despite this stark picture that was so clearly articulated by Finance Minister Tito Mboweni in his October Medium-Term Budget Policy Statement, plans for remedial actions such as revisiting the state wage bill, the size of cabinet and the financing of failing state-owned institutions are encouraging, and should have a beneficial impact on the economy. As we watch the Zondo Commission unfold, hard truths are coming to light about the degree and cost of state capture. All moves against corruption, theft and wastage will be a significant step towards restoring consumer and investor trust.

As managers of people's long-term savings, it is our duty to be part of the solution and we take our role as an influential corporate citizen seriously. To this end, we continuously engage with our shareholders, regulators and civil

society groups, and work with the communities in which we operate to promote and sustain economic growth, pursue transformation and deliver long-term value to our stakeholders.

## Operating environment

While the global backdrop is reasonably strong, with areas of decent quality growth, we expect the risk of downside surprises to increase, and are also seeing some growth pressure in the EU and Japan. We remain vigilant as to how events such as trade tensions and Brexit will play out in developed economies. The outlook for emerging markets remains subdued, and it seems unlikely that circumstances in developing markets will improve, especially given deteriorating financial conditions globally.

In 2018, the international asset management industry was marked by a growing preference for passive strategies; technological innovation, which is driving client service enhancements and reporting transparency; and corporate action that has seen a spate of mergers, as well as some financial services companies spinning off their asset managers into independent investment houses. This endorses our belief that the ability of independent asset managers to focus solely on investment performance is the only way to deliver excellent returns.

Also gaining momentum both globally and locally is the responsible approach to investing, and we are continuing to strengthen the incorporation of environmental, social and governance (ESG) factors in our investment processes. To this end, we have engaged an ESG consulting firm to assist us with the enhancement of our stewardship reporting as well as our suite of responsible investment policies. A standalone Stewardship Report will be published on our website in the first quarter of 2019.

## Compliance

We have seen regulatory enhancements across both emerging and developed markets which have required us to invest time and resources to ensure that we comply with the accompanying directives.

On 1 April 2018, the Financial Sector Regulation Act's 'Twin Peaks' model came into effect, splitting regulatory oversight between the Financial Sector Conduct Authority (FSCA) and the Prudential Authority. While this adds an extra layer of complexity to the business, we welcome its introduction as it will promote stability

within the financial system. We have also been preparing for the implementation of the changes required under the Financial Intelligence Centre Amendment Act, as well as the Protection of Personal Information Act.

From an investment perspective, retirement reform continued to drive changes to retirement fund options, with a requirement for default annuitisation and in-fund preservation options. In addition, we are seeing a consolidation of the number of retirement funds, and an increasing market share held by umbrella funds as a result. At Coronation we are looking to implement a default annuity for trustees to offer within their funds during 2019; and will add a default annuity and provide benefits counselling in our retail retirement products.

Further, we have seen a consolidation of funds in the market and the number of available retirement funds has contracted from 13 000 to around 2 000, with an ultimate industry target of 200 to 500 funds. South Africa is not alone in this respect, and we are seeing the same trend towards rationalisation in the UK.

Given our global reach, with offices in London and Dublin, we continue to monitor changes within the European regulatory environment. As of January 2018, the Markets in Financial Instruments Directive (MiFID II) came into effect, requiring increased transparency across the EU financial sector with the aim of restoring confidence in the financial system as a remedy to the decline in trust that followed after the global financial crisis. And, of course, we are analysing the impact of Brexit as it unfolds.

In response to corporate governance failures, highlighted by, but not contained to, Steinhoff, we have supported the move to audit firm rotation, and we continue to deepen our company analysis, exercise enhanced scepticism and have increased our scrutiny of the potential for 'bad actor' business leaders.

Over and above fulfilling our mandatory obligations, we continue to play an active role in the financial services sector and have continued to participate in industry developments through engaging with the ASISA, and the FSCA. Earlier this year, we lobbied Treasury to stall proposals for tax on collective investment schemes and will continue to engage until we are satisfied that the best interests of investors have been served.

### RESPONSIBLE INVESTORS

*We are continuing to strengthen the incorporation of environmental, social and governance (ESG) factors in our investment processes.*

2018

2 802

RESOLUTIONS VOTED

+14% from 2017

## Business review

We remain one of the largest independent managers of both institutional assets and collective investment schemes in South Africa, with a total of R587 billion of AUM as at 30 September 2018. In a very muted local operating environment and a contracting savings industry, net outflows across the business slowed to R31.0 billion, down from the previous reporting period's outflows of R43.3 billion.

We manage retail assets totalling R241 billion, making us a leading manager of South Africa's discretionary savings; while our institutional business manages R346 billion on behalf of South African institutions and a growing number of global clients.

For our South African clients, we continue to manage a meaningful share of assets in the local pension funds industry, representing a total AUM of R285 billion, making us one of the largest independent managers of pension assets in the country.

With respect to our global offering, we manage a combined total of R61 billion on behalf of several leading international clients. Net outflows of R4.2 billion represented only 5.9% of opening AUM; a reasonably good outcome, given the material shift towards passive strategies and away from active managers.

From a performance perspective, while our Fixed Interest and Frontier Markets strategies have had an excellent 12-month period, our South African Equity, Global Emerging Markets Equity and Multi-Asset portfolios have not performed in line with our expectations or those of our clients over this period.

The long-term performance across our entire fund range remains excellent. This includes the full suite of local equity, fixed income, multi-asset class, frontier and emerging market equity products. Looking forward, our focus remains on delivering performance over meaningful periods. Our investment approach remains unchanged over the last 25 years, but we are always refining our process.

Our Global Emerging Markets and Africa Frontiers strategies both achieved their 10-year milestones in 2018 and have both generated alpha since inception. We will continue to focus on distinguishing ourselves from our global peer group and engaging with global asset consultants.

*We are a Level 2  
B-BBEE contributor  
under the new FSC.*

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## Investment in our business

Client service excellence is key to our value proposition, as we are aware that without our clients we have no business. During the year under review, we continued to invest in our business through projects that will enhance our ability to offer world-class service to our significant local and growing offshore business. We also successfully completed the implementation of our new fund administration model, which consolidates our asset administration service across local and offshore portfolios. In addition, we have insourced our retail client reporting and correspondence, and after an 18-month long project we successfully completed the migration of our unit trust client administration to Intembeko Investment Administration (IntIA), a black-owned business.

## Corporate citizenship

Since we first opened our doors 25 years ago, we have actively participated in the transformation of the financial services arena as well as empowering previously disadvantaged South Africans.

Internally, we are steadfast in our effort to comply with the requirements of the Financial Sector Code (FSC) and have made good progress both in terms of our talent acquisition process and our supply chain. Our skills development initiatives, which include internships and bursaries, address the education deficit in South Africa, and provide a potential talent pipeline for in-house recruitment.

From a business development perspective, over the years we have established a number of black-owned businesses and we continue to commit 10% of our annual South African brokerage to emerging black stockbrokers, with additional support offered through the ASISA's Stockbroker Development Programme. More recently, we supported the establishment of IntIA, mentioned above.

Further, under the new requirements outlined by the FSC, we are a Level 2 contributor towards Broad-Based Black Economic Empowerment (B-BBEE) (→ refer to page 23).

Our commitment to transformation via education is further reflected in the direction of our CSI allocation. The golden thread that runs through all our CSI initiatives is to empower and inspire learners, educators and parents to initiate and build sustainable communities that create opportunities for themselves and those around them.

In 2018 we brought greater cohesion to our CSI projects by consolidating them under the banner of the Capsule Programme, which integrates and streamlines our CSI projects within communities to achieve maximum impact (→ *refer to pages 45 to 48*).

## Looking forward

We expect that 2019 will be a tough year. However, we are more optimistic about the outlook for South Africa and the major domestic asset classes which, following a period of very disappointing returns, are presenting above-average opportunities to long-term valuation-driven investors such as ourselves.

The outlook for global asset classes is more mixed, which has enabled us to construct differentiated portfolios. We believe that the current positioning of our strategies will generate higher future returns for our clients. Together with our increased investment in our infrastructure, technology and people over the past year to support the provision of world-class service to our clients, we are confident that this will ensure the delivery of sustainable long-term value for all stakeholders.

We appreciate the confidence of our clients, who have trusted our investment philosophy in the face of short-term challenges. We remain singularly focused on delivering long-term value to all our stakeholders.