



# INTEGRATED ANNUAL REPORT

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2018

# 25

*years of creating long-term value*

**CORONATION**

TRUST IS EARNED™

25

years of creating long-term value

## 2018

Strong long-term investment performance across portfolios  
Best Africa Fund Manager – Ai Capital Markets Index Series Awards  
10-year anniversary of Global Emerging Markets Strategy  
10-year anniversary of African Frontier strategies  
2018 Investors Choice Best UCITS non-Equity Fund – Coronation Global Managed  
Implementation of new fund administration model  
Migration to new black-owned unit trust client administration business

- AUM: R587 billion
- Global employee complement: 331
- Employee ownership: 24.4%

## 2017

Strong long-term investment performance across portfolios  
Global franchise AUM reaches R71 billion  
Launch of new administration model  
Reopening of South African Equity, Balanced and Absolute strategies to new institutional investors  
Fee reduction across a number of funds  
Best Africa Fund Manager – Ai Capital Markets Index Series Awards  
➤ AUM: R614 billion  
➤ Employee complement: 302  
➤ Employee ownership: 25%

## 2016

Runner-up Best Large Fund House – 2016 Morningstar South Africa Awards  
Runner-up South African Management Company of 2015 (awarded in 2016) – Raging Bull Awards  
Best Africa Fund Manager – Ai Capital Markets Index Series Awards  
Rated Level 3 – Financial Sector Code  
➤ AUM: R599 billion  
➤ Employee complement: 290  
➤ Employee ownership: 25%

## 2015

Best Large Fund House – 2016 Morningstar South Africa Awards  
Best South African Management Company of 2014 (awarded in 2015) – Raging Bull Awards  
Equities Manager of the Year, Global Manager of the Year – Batseta Imbasa Yegolide Awards  
Overall winner – Financial Mail Top Companies 2015  
Rated Level 3: Financial Sector Code  
➤ AUM: R610 billion  
➤ Employee complement: 278  
➤ Employee ownership: 25%

## 2014

Best Large Fund House – 2014 Morningstar South Africa Awards  
Top Performing Company over five years – Sunday Times Top 100 Companies  
Best Domestic Management Company of 2013 (awarded in 2014) – Raging Bull Awards  
Overall winner – Financial Mail Top Companies 2014  
Rated Level 3: Financial Sector Code  
➤ AUM: R588 billion  
➤ Employee complement: 274  
➤ Employee ownership: 24%

## 2013

Best Large Fund House – 2013 Morningstar South Africa Awards  
Top Performing Company over five years – Sunday Times Top 100 Companies  
Best Domestic Management Company of 2012 (awarded in 2013) – Raging Bull Awards  
Overall winner – Financial Mail Top Companies 2013  
Rated Level 3: Generic Codes on B-BBEE  
➤ AUM: R492 billion  
➤ Employee complement: 246  
➤ Employee ownership: 25%

## 2012

Best Large Fund House – 2012 Morningstar South Africa Awards  
Best Africa Fund Manager – Ai Index Series Awards  
3rd Best Performing Company over five years – Sunday Times Top 100 Companies  
Runner-up Financial Mail Top Companies 2012  
Rated Level 3: Generic Codes on B-BBEE  
➤ AUM: R339 billion  
➤ Employee complement: 218  
➤ Employee ownership: 29%

## 2011

Best Large Fund House – 2011 Morningstar South Africa Awards  
Africa Fund Manager Performance Award for Coronation Top 20 South Africa (Best South Africa Equity Fund of the Year)  
Equities Manager of the Year – POA Imbasa Yegolide Awards  
Rated Level 4: Generic Codes on B-BBEE  
➤ AUM: R247 billion  
➤ Employee complement: 201  
➤ Employee ownership: 29%

## 2010

Best Africa Fund Manager – Ai Index Series Awards  
Rated Level 4: Generic Codes on B-BBEE  
➤ AUM: R200 billion  
➤ Employee complement: 189  
➤ Employee ownership: 30%

## 2009

Reopened Absolute Return unit to new institutional investors  
Rated Level 4: Generic Codes on B-BBEE  
➤ AUM: R155 billion  
➤ Employee complement: 181  
➤ Employee ownership: 30%

## 2008

Launch of two Africa strategies  
➤ AUM: R125 billion  
➤ Employee complement: 174  
➤ Employee ownership: 31%

## 1998

Dublin operation established  
Three new unit trusts launched  
Established FinSource (now Maitland Fund Services), a provider of outsourced back-office services  
➤ AUM: R26 billion  
➤ Employee complement: 72

## 1999

First to introduce absolute return products to the South African market  
London operation established  
Revolutionised industry by offering pooled products through Coronation Life Assurance Company  
➤ AUM: R28 billion  
➤ Employee complement: 80

## 2000

Runner-up Raging Bull Unit Trust Company of the Year  
➤ AUM: R44 billion  
➤ Employee complement: 96

## 2001

Best Unit Trust Provider in PwC Survey of South African Bankers  
Top 10 rating in Deloitte 'Best companies to work for' survey  
Runner-up Raging Bull Unit Trust Company of the Year  
➤ AUM: R48 billion  
➤ Employee complement: 116

## 2002

Launch of Kagiso Asset Management  
Raging Bull Unit Trust Company of the Year  
Named 2nd Best Larger Unit Trust Group over one and three years – Financial Mail/Standard & Poor's Awards  
➤ AUM: R60 billion  
➤ Employee complement: 131

## 2003

Publicly listed on the Johannesburg Stock Exchange  
Runner-up Raging Bull Unit Trust Company of the Year  
Best Larger Unit Trust Group over one year – Financial Mail/Standard & Poor's Awards  
First asset manager in South Africa to gain GIPS compliance  
Best Unit Trust Provider in PwC Survey of South African Bankers  
➤ AUM: R54 billion  
➤ Employee complement: 133

## 2004

Raging Bull Unit Trust Company of the Year  
➤ AUM: R64 billion  
➤ Employee complement: 138

## 2005

Launch of Coronation Fund Managers (Botswana)  
Developed a range of retirement products for the retail market  
Raging Bull Unit Trust Company of the Year  
Formation of the Imvula Trust – our B-BBEE partner  
Closure of Absolute Return unit to new institutional investors  
➤ AUM: R82 billion  
➤ Employee complement: 140

## 2006

Formation of PPS Investments  
Symmetry Hedge Fund Award – Coronation Granite Fixed Income  
➤ AUM: exceeded R100 billion  
➤ Employee complement: 155  
➤ Employee ownership: 28%

## 2007

Signatory to the United Nations' Principles for Responsible Investment (UN PRI)  
Launch of Global Emerging Markets unit trust fund  
Launch of Africa unit  
➤ AUM: R134 billion  
➤ Employee complement: 169  
➤ Employee ownership: 31%

## 1997

Formation of Namibia Asset Management and Namibia Unit Trust Managers  
Launch of first retail international fund of hedge funds in South Africa  
➤ AUM: R20 billion  
➤ Employee complement: 52

## 1996

Unit Trust Company formed  
Launch of international fund of funds business following exchange control deregulation in South Africa  
Launched equity long/short hedge fund  
➤ AUM: R12 billion  
➤ Employee complement: 50

## 1995

Appointed to manage first large institutional client in Swaziland  
➤ AUM: more than doubled to exceed R7 billion  
➤ Employee complement: 31

## 1994

First democratic elections in South Africa  
Upper quartile in all investment performance surveys  
➤ AUM: R3 billion  
➤ Employee complement: 19

## 1993

Investment team forms Coronation Fund Managers and starts managing third-party assets  
➤ Employee complement: 18

Creating value that earns our clients' trust, year after year.



# Contents

<b>SCOPE OF THE REPORT</b>	2
<b>OUR BUSINESS</b>	3
<b>OUR CULTURE</b>	5
<b>2018 AT A GLANCE</b>	7
<b>CHAIRMAN'S STATEMENT</b>	9
<b>CHIEF EXECUTIVE OFFICER'S REVIEW</b>	12
<b>OUR STRATEGIC FOCUS AREAS</b>	16
> Long-term investment performance	17
> Excellent client service	19
> Growing a global franchise	20
> Corporate citizenship	22
> Effective governance	25
<b>RESPONSIBLE INVESTING</b>	27
<b>HOW CORONATION CREATES VALUE FOR STAKEHOLDERS</b>	29
> How Coronation creates value for clients	31
> How Coronation creates value for shareholders	39
> How Coronation creates value for government and regulatory bodies	43
> How Coronation creates value for South African communities	45
> How Coronation creates value through its people	49
> Remuneration	55
> Remuneration Committee Chairman's statement	56
> KPIs across the Company	58
> Remuneration Policy	59
> Implementation report	63
<b>BOARD OF DIRECTORS</b>	70
> Board overview	72
> Committee reports	76
> Social, Ethics and Transformation Committee	76
> Audit and Risk Committee	78
> Remuneration and Nominations Committee	80
<b>COMBINED ASSURANCE</b>	81
<b>INFORMATION TECHNOLOGY AND SYSTEMS REPORT</b>	91
<b>FINANCIAL PERFORMANCE</b>	96
<b>CORPORATE STRUCTURE</b>	104
<b>COMPANY INFORMATION</b>	105



# Scope of the report

*This report aims to describe the business strategy, objectives, performance and activities of Coronation Fund Managers Ltd and its wholly owned subsidiaries (Coronation) during the financial year ended 30 September 2018, and how these combine to create long-term value for stakeholders.*

While emphasis is placed on shareholders, the report addresses all material stakeholders, including our clients without whom we have no business, our employees who play a critical role in our delivery of long-term investment performance and client service, and the communities in which we operate.

The report has been compiled, where applicable, in compliance with International Financial Reporting Standards (IFRS), the Companies Act, No. 71 of 2008, as amended, and the Listings Requirements of the Johannesburg Stock Exchange (JSE).

The content of the report is additionally guided by the principles of the King IV™ Report on Corporate Governance for South Africa, 2016 (King IV™), the International Integrated Reporting Framework (IIRF), the Global Reporting Initiative (GRI) Standards, as well as discussion papers issued by the International Integrated Reporting Council (IIRC) and the Integrated Reporting Council of South Africa (IRCSA).

In considering our application of the six capitals as recommended by the IIRC – financial, human, intellectual, social and relationship, natural and manufactured capitals – the first four are the most material to our business in creating value for our stakeholders. → [Refer to pages 29 to 30](#) for insight into how we create value for our stakeholders.

As an active fund manager, it is the intellect, skill, knowledge and wellbeing of our people that enable us to deliver on our business objectives. For more information please refer as guided below.

- Human and intellectual capital  
(→ [pages 49 to 54](#))
- Social and relationship capital  
(→ [pages 45 to 48](#))
- Corporate citizenship (→ [pages 22 to 34](#))
- The financial performance of the business  
(→ [pages 96 to 103](#))
- Our approach to responsible investment  
(→ [pages 27 to 28](#))

## Directors' approval

The Board of Directors acknowledges responsibility for ensuring the integrity of this report. The directors have applied their collective minds and agree that all the aspects covered in the preparation and presentation of this report are deemed to be material to the business in creating value for its stakeholders and that performance has been fairly presented. The content of this report has, accordingly, been approved for the year ended 30 September 2018.

After making due enquiries, the directors are satisfied that the Company has adequate resources to continue operating for the foreseeable future. For this reason, the financial statements have been prepared on the going concern basis. The full set of audited annual financial statements and the auditor's report can be found in the shareholder information section of our website [www.coronation.com](http://www.coronation.com).

**Shams Pather**

**Judith February**

**Anton Pillay**

**Jock McKenzie**

**John Snalam**

**Hugo Nelson**

**Alexandra Watson**

**Lulama Boyce**



# Our business

2018 marks 25 years of our relentless commitment to delivering the best possible investment growth over the long term.

## WE INVEST

# R587 billion

entrusted to us by our clients

## SINGULARLY FOCUSED

We are a Cape Town-based asset management company and one of the largest independent fund managers in South Africa. We employ 331 people globally and invest the long-term savings of millions of South Africans. Our clients are individuals, pension and provident funds, medical schemes, banks, insurers and other fund managers in southern Africa. We also manage assets for several international retirement funds, endowments and family offices.

Our strategic objective is to deliver investment excellence, which is underpinned by five strategic focus areas, namely long-term performance, world-class client service, corporate citizenship, effective governance, and building a global franchise.

The long-term performance across our entire fund range remains excellent. This includes our full suite of local equity, fixed income, multi-asset class, frontier and emerging market equity products.

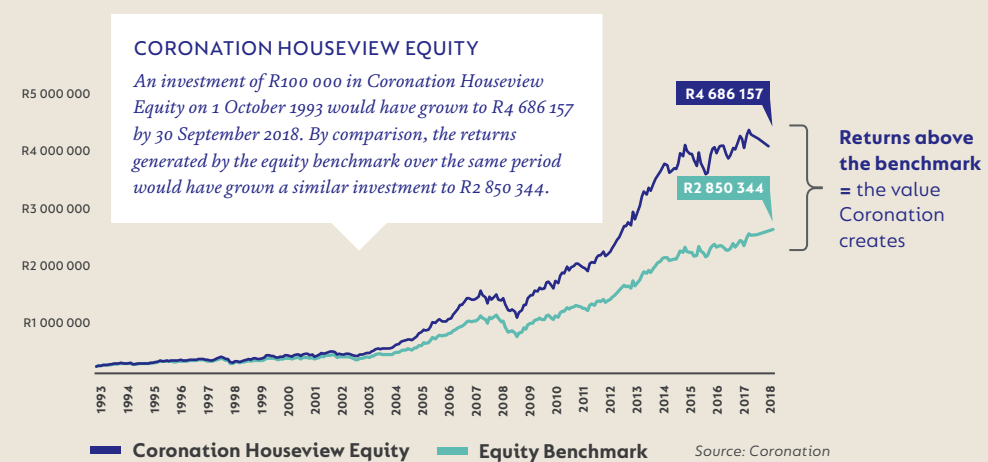
We generate revenue by charging a fee on the assets that we manage. The income remaining after paying total operating expenses and taxes is distributed to our employees, the individuals and communities who are supported through our corporate social investment (CSI) initiatives, and our shareholders.

→ Read more about our commitment to long-term investment growth on pages 17 and 18.

## STRONG LONG-TERM INVESTMENT RETURNS

Coronation's investment team invests our clients' savings according to our long-term investment philosophy (→ refer to page 32). We invest in opportunities across the world and carefully match investments with the risk profile of each product.

### Value allocation to stakeholders



Performance figures are quoted gross of management fees after the deduction of certain costs incurred within the particular fund

## VALUE CREATED

# >60%

in excess of the market's return since inception

## A PROUDLY SOUTH AFRICAN COMPANY



58%  
OF EMPLOYEES ARE BLACK

49%  
OF EMPLOYEES ARE FEMALE



63%  
OF THE BOARD OF DIRECTORS ARE BLACK

MEANINGFUL TRANSFORMATION IN THE SOUTH AFRICAN-FOCUSED INVESTMENT TEAM:

50%  
OF SENIOR PORTFOLIO MANAGERS WITHIN OUR SOUTH AFRICAN-FOCUSED INVESTMENT TEAM ARE BLACK

→ Read more about our employees and our key focus on the transformation and diversity of our people from pages 49 to 54.

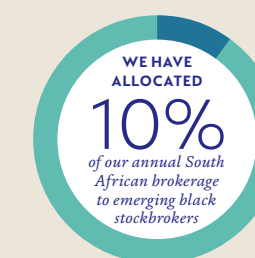
## A RESPONSIBLE CORPORATE CITIZEN

As a proudly South African company, we are determined to ensure that our actions deliver sustainable long-term value to our stakeholders. More specifically, for the past quarter of a century, we have been active participants in advancing meaningful transformation not only within our own business, but also in the broader financial services industry and the communities in which we operate. We achieve this through skills development, participating in industry initiatives, engaging with regulators, and our CSI initiatives.

We believe trust can only be earned by maintaining the highest standards of integrity in all our endeavours.

### ADVANCING ECONOMIC TRANSFORMATION

#### Black-owned stockbrokers



#### Black financial advisers

We assist in the development of black financial advisers through a bespoke business development programme.

#### Independent black-owned business

In the past year, we continued to support the establishment of an independent black-owned administration transfer agency, Intembeko Investment Administrators.

→ Read more on our approach from pages 22 to 24.

## 2018



# 15 989

### CHILDREN

benefited from our maths and literacy programmes



# 5 172

### SMALL-SCALE BLACK FARMERS

+ 226 cooperatives were equipped with the tools to establish sustainable businesses



# 198

### BURSARIES AND SCHOLARSHIPS

allocated to deserving young South Africans





# Our culture

*In 2018, Coronation celebrated its 25th birthday. Founded in 1993, Coronation began with zero assets and no clients. We now manage a significant portion of South Africa's long-term savings as well as assets on behalf of our international institutional clients.*

*We inhabit a universe that is characterised by diversity.*

DESMOND TUTU

From inception, a strong entrepreneurial culture of performance and excellence drove our success. As Coronation has grown, this culture has remained an integral part of the Company's DNA. Coronation has a flat, high-performance structure, where employees are encouraged to take ownership. Our six shared values define our culture, shape our principles and inform our behaviour.

## We always put clients first

Unlike fund managers housed within large financial services groups, **we are independent** and do not have the safety net of in-house assets. Our clients allocate assets to us because **they trust us** to manage their capital responsibly. Our retail distribution is mainly through the non-affiliated channels of independent financial advisers and linked investment service providers. Accordingly, our business depends on **delivering excellent investment returns** and **service to our clients**. We are not an asset gatherer and we do not chase profits; **the needs of existing clients always come first** (→ [refer to page 31](#)).

## We always act with integrity

At Coronation, we believe **trust is earned**. We have a fiduciary responsibility to our clients to act with **uncompromising integrity**. Employees are expected to maintain the **highest ethical standards** in everything they do (→ [refer to page 89](#)).

## Strong performance culture

**We are unashamedly a meritocracy**. We believe in rewarding an employee's contribution, not their job title. **We have a culture of excellence**, and one that is attractive to **highly skilled investment professionals** (→ [refer to page 49](#)).

## Ownership

Our business is 24.4% employee-owned. **We believe that asset management companies should be owner-managed**. Ownership empowers employees and entrenches long-term thinking across all areas of the business. This aligns with our investment philosophy, business objectives and remuneration approach. Our culture of ownership is reflected in the large number of our employees who participate in long-term incentives, with vesting periods which range from one to seven years, extending as far as 2024 (→ [refer to page 63](#)). **Ownership aligns employees' interests with those of all other stakeholders**.

## Long-term thinking

We believe a key risk to the investment industry is that market participants increasingly focus on the short term. This is a fundamental mismatch given the typical long-term objectives of most pension funds and individual investors. **Coronation has an unrelenting focus on the long term**, both from an investment and business perspective. Where we identify value, we are willing to endure short-term pain in our pursuit of compelling, long-term outcomes for clients (→ [refer to page 32](#)).

## Team-based organisation

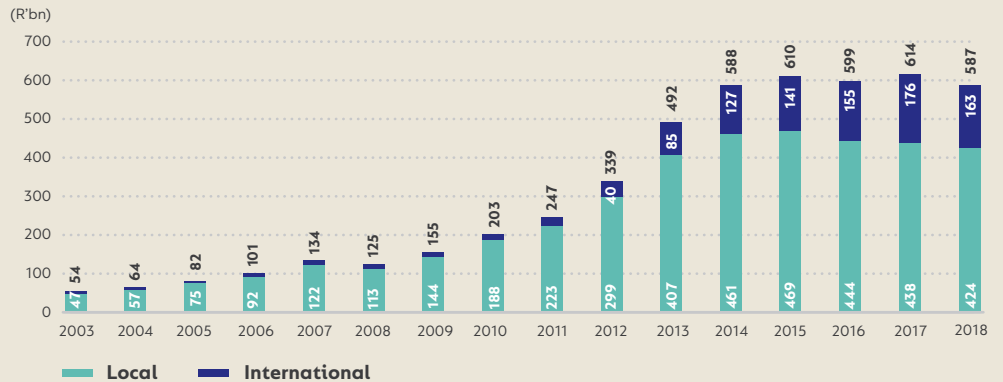
**Our people are critical to our success**. While we know that all strong teams are underpinned by strong individuals, we do not tolerate individuals who put themselves before the organisation, or who do not wish to be part of a strong cohesive team (→ [refer to page 49](#)).



# 2018 at a glance

*Coronation delivered decent performance in extremely challenging conditions.*

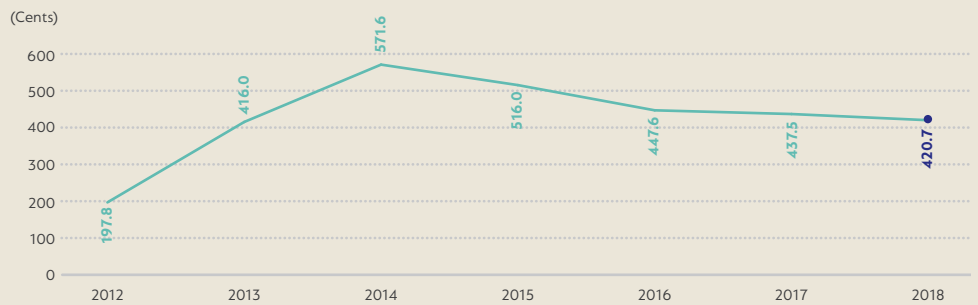
## ASSETS UNDER MANAGEMENT



2018 DILUTED  
HEADLINE EARNINGS  
PER SHARE

420.7  
cents

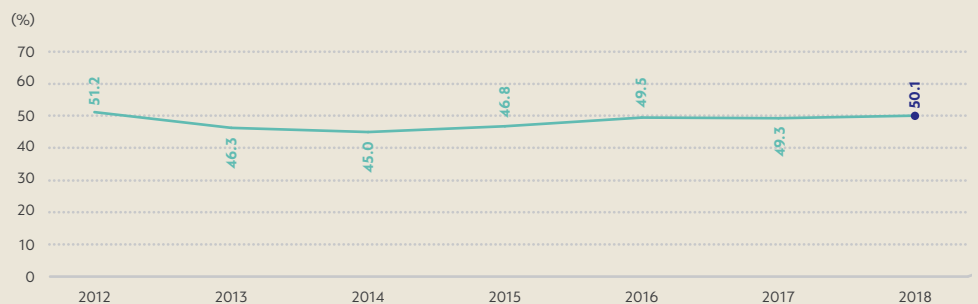
## DILUTED HEADLINE EARNINGS PER SHARE



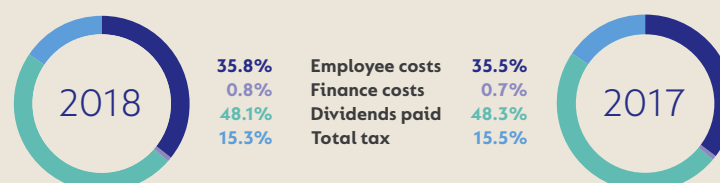
2018 COST-TO-INCOME

50.1%

## COST-TO-INCOME RATIO



## ALLOCATION OF FINANCIAL VALUE TO STAKEHOLDERS



R285bn

*on behalf of South African  
institutional clients*

R61bn

*on behalf of international  
retirement funds, endowments  
and family offices*

R241bn

*on behalf of investors in  
unit trusts, retirement  
annuities, provident funds  
and tax-free investments*

## OUR SOUTH AFRICAN INSTITUTIONAL BUSINESS

### Highlights

- Long-term performance remains excellent; some strategies underperformed in the short term.
- Continued positive reaction following the reopening of some of our top-performing portfolios to new clients in March 2017. These products had been closed for five years.
- Complete and easily understandable range of solutions.
- We successfully completed the implementation of our new fund administration model which consolidates our asset administration service across local and offshore portfolios.
- Total net outflows of R22.6 billion, sharply down from net outflows of R43.7 billion in 2017.

### Challenges and risks

- The weak South African economic environment has depressed the savings market.
- South African retirement funds continue to see net outflows.
- Regulatory changes driving the future pension funds landscape.

## OUR GLOBAL INSTITUTIONAL BUSINESS

### Highlights

- Our global franchise is a compelling business in its own right. Its growth will be a key focus in future years.
- We continue to enhance our relationships with global asset allocators regarding our suite of global solutions.
- Our Global Emerging Markets Strategy reached its 10-year milestone in July; we are proud of its long-term performance versus its global peer group.
- After strong inflows in 2017, we saw net outflows of R4.2 billion in 2018; a reasonable outcome given the material shift towards passive strategies away from active managers.

### Challenges and risks

- A highly competitive market.
- An increasingly complex regulatory environment.
- A strong shift in favour of passive strategies.

→ *Read more about our strategic focus on building a global franchise on pages 20 and 21.*

## OUR SOUTH AFRICAN PERSONAL INVESTMENT BUSINESS

### Highlights

- Excellent long-term performance across unit trusts; short-term performance in some funds has been disappointing.
- Further fee reductions announced on our income-and-growth multi-asset funds as well as our international funds.
- Continued to support the creation of a new black-owned client administration business, the migration to which was successfully completed in the final quarter of calendar 2018.
- We have launched various initiatives to improve client service, including the insourcing of retail client reporting and correspondence, introducing new reporting elements to existing clients and evolving client security through a SIM swap check (→ *read more on page 19*).
- Encouraged a culture of savings among young South Africans by dropping our minimum investment amount for investments made through the [becauseitsyourmoney.com](https://becauseitsyourmoney.com) investment channel.
- Net outflows of R4.2 billion; an improvement from net outflows of R6.9 billion in 2017.

### Challenges and risks

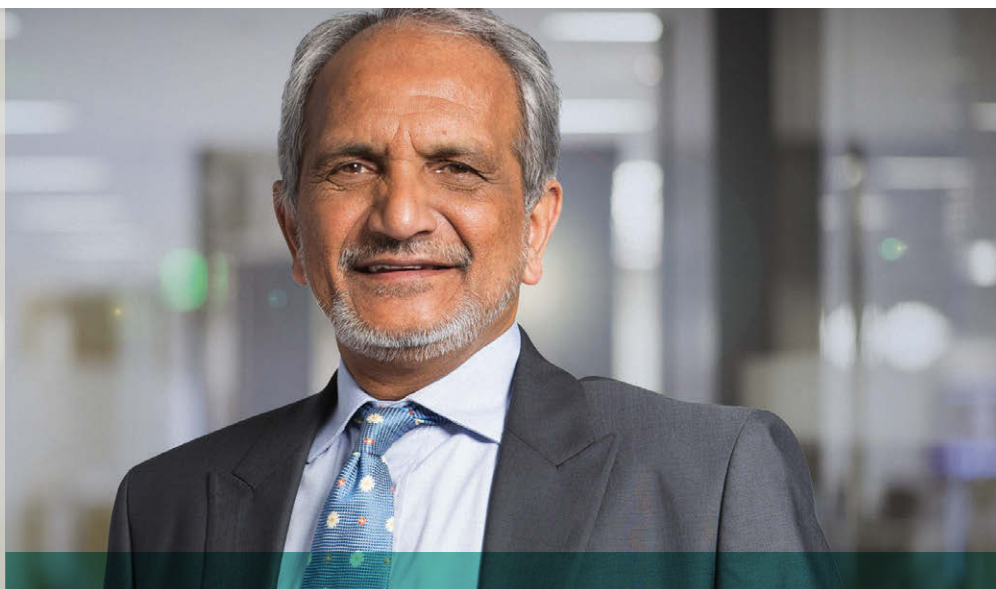
- The retail savings market remains weak. At industry level, inflows over the 12 months under review remained subdued. Savings levels are being impacted by the weak economy and a high unemployment rate, further depressing consumer income and confidence.
- Political, regulatory and policy uncertainty, an increase in interest rates, disruption created by the upcoming election, and the prospect of further ratings downgrades, remain concerning.





# 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** *BBUSC, 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.



# Chief Executive Officer's review

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



**ANTON PILLAY** *BBUSC, CA(SA), CFA, AMP (HARVARD)*

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.

## 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](#)).

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

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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.



# Our strategic focus areas

*The past year saw continued investment into our business to achieve our key strategic objective of delivering investment excellence.*

*This is supported by the following strategic focus areas:*



**Long-term investment performance**



**Client service**



**Growing a global franchise**



**Governance**



**Corporate citizenship**

Our performance against each of these strategic focus areas is detailed in the section that follows.



## LONG-TERM INVESTMENT PERFORMANCE

*Coronation is committed to delivering strong investment returns. This remains the key driver of our business strategy. While the longer-term performance across our entire fund range remains excellent, we experienced short-term underperformance in certain strategies over the past year. This was below our own expectations and that of our clients. We are working hard to rectify this.*

### Investment performance

Our institutional and retail clients who have been invested with us for meaningful periods of time have enjoyed exceptional returns (→ [refer to pages 35 to 36](#)).

### Institutional: balanced portfolios

#### QUARTILE RANKING TO 30 SEPTEMBER 2018

	5-year ranking	10-year ranking	20-year ranking	Since inception ranking
Alexander Forbes SA Large Manager Watch™	4th	3rd	1st	1st
Alexander Forbes Global Large Manager Watch™	2nd	1st	1st	1st

Source: Coronation and Alexander Forbes as at 30 September 2018

### Retail: domestic flagship funds

#### QUARTILE RANKING TO 30 SEPTEMBER 2018

Investor need	Fund	5-year ranking	10-year ranking	Since inception ranking
Long-term growth (equity only)	<b>Top 20</b>	3rd	1st	1st
Long-term growth (multi-asset)	<b>Balanced Plus</b>	2nd	1st	1st
Income and growth	<b>Capital Plus</b>	4th	1st	1st
	<b>Balanced Defensive</b>	2nd	1st	1st
Income only	<b>Strategic Income</b>	1st	1st	1st

Source: Morningstar as at 30 September 2018

### Retail: international flagship funds

#### QUARTILE RANKING TO 30 SEPTEMBER 2018

Investor need	Fund	5-year ranking	10-year ranking	Since inception ranking
Long-term growth (equity only)	<b>Global Emerging Markets</b>	4th	1st	1st
	<b>Global Opportunities Equity</b>	2nd	1st	1st
Long-term growth (multi-asset)	<b>Global Managed</b>	2nd	–	1st
Preservation and growth	<b>Global Capital Plus</b>	2nd	–	1st

Source: For GEM (USD): A-class Bloomberg performance compared to peer group as at 30 September 2018. For Global Capital Plus and Global Managed (USD): Morningstar P-classes (available on platforms), as at 30 September 2018 – custom peer groups based on funds and relevant classes available for sale on South African platforms. The peer group size for Global Capital Plus equals 26 funds, while the peer group size for Global Managed equals 39 funds (both numbers include Coronation funds). For all other funds (rand-denominated): Morningstar A-classes as at 30 September 2018 based on ASISA categories excluding Coronation funds in that category

## Challenges and risks

Recent market volatility highlights that the risk of a sharper tightening of global financial conditions is the biggest risk to the outlook for growth. US Federal Reserve (Fed) policy is, as always, central to global developments. Given the strong, broad-based growth being experienced in the US, the Fed is on track to continue raising interest rates over the next two years – at this stage ahead of its counterparts in other countries. This should, on balance, support the US dollar, but it also implies tighter financial conditions in emerging markets and the likelihood of developing economies' growth rates declining. Were the Fed to tighten more quickly than the markets expect, a broader range of countries could come under pressure.

### Current key geopolitical risks include:

- The impact of US economic policy on the rest of the world
  - › Both fixed income and equity valuations are vulnerable to a rising interest rate environment, but non-US markets are less vulnerable as they have not reacted to the same extent as the US market.
  - › Emerging markets have already seen a selloff in currencies and capital markets, but their levels of indebtedness are generally not as bad as they were in prior emerging markets crises.

- Trade wars will negatively affect global growth, and China, which is most directly impacted, may see about 0.5% shaved off its GDP growth. Trade flows will settle and adapt to the new tariffs and will more than likely move from China to other Asian countries like Bangladesh and Vietnam.
- The rising threat of geopolitical tension with US President Donald Trump's antagonistic moves against most global leaders. A potential hot spot is the Middle East, where he has isolated Iran by unilaterally pulling out of the Iran nuclear deal. These escalating tensions are already having a direct impact on economies through higher oil prices.

For the South African economy, 2018 has been the worst year since the dawn of democracy; even worse than the period immediately following the global financial crisis in 2008/2009. Generally, the South African equity market has been a tough playing field as it has moved sideways over the last three years. It has not been an easy environment, in which to generate positive returns. The good news is that this is history and the outlook and potential return from this point on is more positive.

As long-term investors, we cannot predict how the current set of uncertainties will play out. We remain focused on valuation and will seek to take advantage of attractive opportunities that may emerge. We aim to generate inflation-beating returns for our investors over the long term. Amid market uncertainty, our objective remains to build diversified portfolios that can withstand shocks (→ *refer to page 32*).



## EXCELLENT CLIENT SERVICE

*Our aim is to match excellent investment performance with outstanding client service.*

Putting clients' needs first is at the forefront of what we do. We know that without clients we have no business and that the assets under our management can leave us at 24 hours' notice. In the past year, we believe that we demonstrated our commitment to achieving excellent client service:

### Client satisfaction

We aim to provide excellent levels of service to all our clients. In the institutional arena we had a very active year, carrying out 621 face-to-face client engagements in 16 countries. In our personal investment business, client satisfaction was measured through ongoing client experience surveys with our direct retail investors, as well as annual qualitative research among financial advisers.

In our Annual Investor Survey, we received 5 004 completed surveys which showed that the vast majority of respondents are more than satisfied with our service and offerings (*→ refer to page 37*). Our compliance department reviewed all complaints received on a monthly basis and, in the current reporting period, no material client complaints were required to be formally escalated to the Audit and Risk Committee.

The key principles of our retail client service philosophy are accessibility, accuracy and simplicity. We have therefore set demanding client service benchmarks to ensure our client service team remains focused on delivering on these principles.

Coronation supports the principles set out in the Financial Sector Conduct Authority (FSCA)'s Treating Customers Fairly (TCF) initiative and, through our involvement with ASISA, we are actively engaged in refining the practical aspects of this outcomes-based framework.

### Fees

Our primary job is to add value to the investments that our clients have entrusted to us. We do this through disciplined application of our long-term investment philosophy, by hiring skilled investment professionals and by ensuring that we have a simple and needs-orientated fund range at a fee proportionate to the outcomes our clients receive. (*→ Refer to page 37 for details on the fee reductions and discounts currently in place.*)

### Transparency

We continue to support the principles of clear information disclosure. The past year saw improvements to the effective annual cost standard that was implemented in the previous financial year. This standard requires ongoing disclosure of investors' total expected costs. This is available to all Coronation personal investors through our secure online platform. In addition, non-clients can generate an investment quote on our website, which shows the effective annual cost forecast, while current clients can download a performance summary report (*→ refer to page 38 for details*).

### Client security

We continue to invest in ensuring our clients' information is secure and their investments are protected. Over the year, we introduced a number of new controls, including a SIM swap check that will temporarily block users to our secure website should their phone number recently have undergone a SIM swap. For more information on our IT risk approach, (*→ refer to pages 91 to 95*).

### Enhanced client service platforms

We continued to build on the various client service enhancements effected during the prior financial year aimed at enhancing our capacity to deliver world-class service to our significant local and growing offshore business.

- We completed the implementation of our new fund administration model, which consolidates our asset administration service across local and offshore portfolios.
- We completed the final phase of insourcing our client reporting and correspondence, which relate to our retail life and retirement products.
- We migrated our unit trust client register administration to a black-owned business.



## GROWING A GLOBAL FRANCHISE

*Although we are a proudly South African business, we are global investors. We invest in most developed markets and offer our clients the benefit of our specific experience in emerging and frontier markets.*

Since the launch of our global franchise more than 10 years ago, we have made great strides in establishing a world-class track record in our specialist Emerging and Frontier Market strategies.

This franchise has developed into a compelling business and growing it will be a key focus area in the years ahead. We manage a combined total of R61 billion (September 2017: R71 billion) in our global strategies on behalf of several leading international retirement funds, endowments and family offices. While the past year saw a material shift towards passive strategies away from traditional active managers, we believe net outflows of R4.2 billion, or 5.9% of our opening AUM, is a reasonable outcome.

Our emerging market expertise has helped us to cut through the noise and focus on the value offered by individual companies over the long term. It has also helped us to find exceptional value where others may only see risk as we understand the dynamics of developing economies against the background of political turmoil.

We remain confident in the long-term outlook for our global strategies as well as their value proposition and will continue to focus on distinguishing ourselves from the global peer group. Our view is that active investors like ourselves will deliver the best returns in emerging and frontier markets; many of the best investments in these markets lie beyond the largest indices.

We do not believe that indices such as the MSCI Emerging Markets Index are an appropriate reflection of all the value and investment opportunities in emerging markets. Many of the holdings in the index are often below-average businesses (particularly state-owned banks and energy groups), which are subject to significant state regulation. Often, these companies are poor stewards of capital, and are exposed to cyclical earnings.

In addition, with any similar index, or by investing in an index fund, an investor would systematically own more overpriced stocks, sectors and countries, and fewer of their underpriced counterparts. The importance of researching and selecting a winning portfolio with strong opportunities within emerging markets is even greater when the overall backdrop is challenging.

Accordingly, we build concentrated portfolios of 50 to 70 stocks made up of high-conviction ideas and managed on a clean-slate basis. Our portfolios therefore look significantly different to the index. In fact, we are comfortable taking decisive positions away from the benchmark when the investment case is compelling, as these positions are underpinned by convictions derived from our proprietary analysis.

We are confident that these fast-growing markets will become increasingly vital, and our active, valuation-driven investment approach should continue to yield attractive returns.

AFRICAN INVESTOR  
CAPITAL MARKET INDEX  
SERIES AWARDS

### Best Africa Fund Manager

2010, 2012 and 2016 to 2018



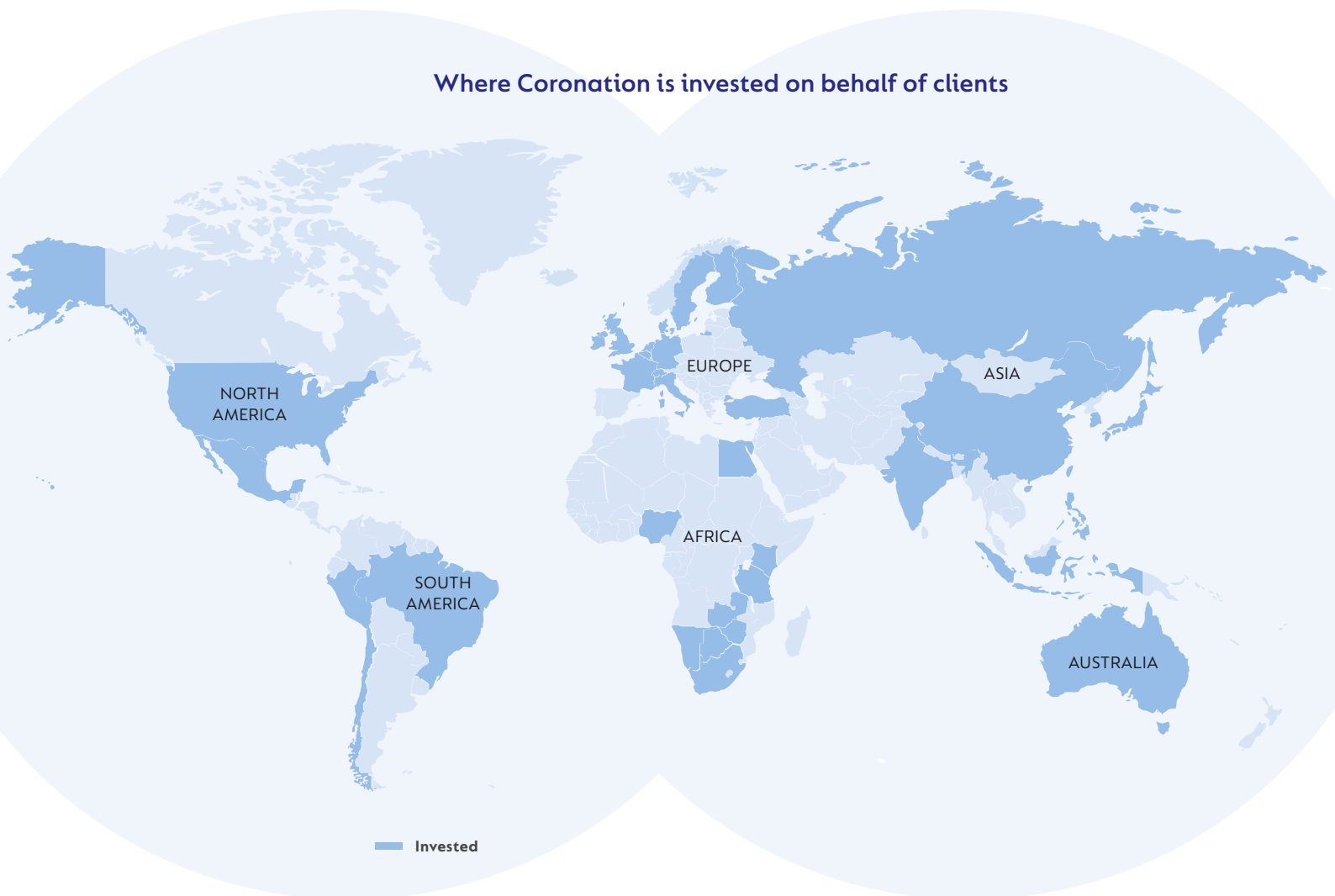
## Strong international track record

### US DOLLAR RETURNS SINCE FUNDS' RESPECTIVE LAUNCH DATES

Offshore US\$ funds	Active return* %	Launch date
Global Equity Fund of Funds	1.9	1 July 2000
Global Emerging Markets Equity Strategy	3.4	14 July 2008
Global Bond	1.6	1 October 2009
Coronation Africa Frontiers Strategy	8.8	1 October 2008
Global Capital Plus	6.9	1 September 2009
Coronation Global Managed Strategy	1.4	1 November 2009

\* Annualised active return for institutional portfolios (gross of fees) since launch to 30 September 2018

### Where Coronation is invested on behalf of clients



\* Countries that have a weight of less than 0.01% of assets under management are not included



## CORPORATE CITIZENSHIP

*We are in it for the long term, which is why we are committed to broad-based transformation and economic empowerment.*

SINCE INCEPTION,  
A TOTAL OF

187

*black employees have benefited directly from the economic upliftment afforded through their personal shareholding in Coronation.*

*Coronation is a proudly South African business. We are one of a few independent asset managers who manage global money from a Cape Town-based head office.*

Our focus is on the long term. In everything we do, we consider the long-term impact of our actions on our business, our stakeholders, the wider community and the environment.

### We strive to conduct our business with integrity

Our Board-appointed committees monitor our business progress and development. This includes oversight of and monitoring adherence to Coronation's code of ethics and related policies, as well as reviewing monthly reports submitted via our anonymous whistle-blowing hotline.

We continue to play an advocacy role in South Africa amid concerns about the integrity of our state to help secure an inclusive and growing economy. We engaged with government bodies on various issues, as well as with regulators via ASISA. Coronation is part of the CEO Initiative and is a member of Business Leadership South Africa (BLSA).

We are committed to advancing transformation in South Africa, by achieving a transformed, diverse workplace.

Through disciplined recruitment, we focus on transformation in all areas of our business and have made a significant contribution to the transformation and development of skills in the broader financial services industry. Over the years, many exceptional black employees have been recruited, trained and retained, many of whom now hold management roles within the business ([→ refer to page 51 for details](#)).

Our scholarship and bursary programmes have been instrumental in achieving a diverse workplace and will continue to make a considerable contribution in coming years.

### Black ownership of our Company

In 2005, Coronation launched the Imvula Trust (Imvula), the first employee-only black economic empowerment deal in the country. By working exclusively with our own people, we created a partnership that we believed would have

a meaningful impact on our business and, over time, achieve true social change. In the creation of a new generation of owners, we made a long-term investment in our people, our business and the economy.

### Supporting black businesses in financial services

#### New black-owned transfer agency

In 2017, Coronation, along with PPS Investments, supported the creation of IntlA which provides dedicated and independent transfer agency services. IntlA is one of the first black-owned and managed transfer agency service providers in South Africa.

The business obtained the necessary licensing and met all regulatory requirements needed to provide the transfer agency services which commenced in November 2018.

#### Black-owned asset managers

Pre-dating black economic empowerment legislation in South Africa, we pioneered a number of corporate initiatives that contributed to transformation and the development of skills in the asset management and financial services industry in southern Africa.

Our most notable successes include:

- ▶ Partnering in the launch of the first Namibian-controlled asset manager – leading to the establishment of Namibia Asset Management in 1996;
- ▶ establishing and funding of African Harvest Asset Management\* in 1999 (subsequently bought out by Cadiz Asset Management); and
- ▶ launching Kagiso Asset Management\*, a joint venture with Kagiso Trust Investments, in 2001.

#### Black-owned stockbrokers

In 2006, we introduced a groundbreaking initiative to transform the South African stockbroking industry with the launch of the Coronation Business Support Programme; an intervention to grow emerging black stockbrokers.

\* Coronation holds no interest in these business

We allocated a minimum of 10% of our South African equity annual brokerage to a group of black stockbrokers. The allocations were guaranteed for periods of three to five years. Coronation also offered operational and strategic support to the participants by means of regular interaction with the CEO and the Head of Dealing. Critical to the programme's success was Coronation's dedicated allocation to skills development, which was one of the key criteria for ongoing inclusion in the programme.

Since 2006, Coronation has allocated in excess of R286 million in brokerage to the programme participants. As a result of this, a number of the businesses have evolved into sustainable stockbroking houses with value-added offerings to the investment community as a whole.

For both the industry and the companies themselves, the transformation has been material.

The programme's success inspired the creation of a broader industry programme. In 2016, ASISA launched its Stockbroker Development Programme, with Coronation as one of its sponsoring managers. Five other large fund managers are also supporting the programme.

### **B-BBEE scorecard**

The FSC provides a benchmark against which we determine our B-BBEE rating. The revised FSC was gazetted as a sector code effective 1 December 2017 in terms of the Broad-Based Black Economic Empowerment Act, No. 53 of 2003. Based on the revised FSC, we are a Level 2 contributor.

### **Preferential procurement**

Our holistic approach to preferential procurement affords us the opportunity to meaningfully contribute to the economic growth and empowerment of all South Africans. Through this programme, we aim to broaden our reach to a growing number of predominantly black-owned and black female-owned supplier businesses, thereby encouraging the formation of new enterprises and the creation of much needed employment opportunities.

The strict implementation of our Procurement Policy guides the continual increase in the procurement of services from B-BBEE-accredited suppliers. It also requires that we identify potential future B-BBEE-accredited suppliers.

Through our Supplier Oversight Programme, regular due diligences are conducted to confirm existing and prospective supplier credentials. Where necessary, we exert our influence over those suppliers where transformation progress is in conflict with our procurement policy or the objectives upon which we have agreed with suppliers. We remain committed to awarding a greater proportion of spend to empowered suppliers over time.

### **Black financial advisers**

As a sponsor and cofounder of ASISA's Independent Financial Adviser (IFA) Development Programme, we provide business development support and skills training to black IFAs. Since the programme's inception in 2015, it has trained 92 black IFA practices and created internship opportunities for 60 individuals (28 of these interns have been absorbed into the practices).

### **Bursaries and skills development**

Since 1993, more than 100 students from underprivileged areas all over South Africa have been given the chance to achieve their dream of a better future through the Coronation Bursary Programme.

The programme provides students with full tertiary bursaries to study at any recognised university in South Africa. These bursaries are awarded on merit and financial need. Over the period of study, students are supported by trained tutors and matched with a Coronation mentor to assist with integration into university life. Furthermore, all students have the opportunity to gain practical work experience through vacation work, primarily at our Cape Town office.

Candidates also have the opportunity to be financed by the Coronation Employee Bursary Fund, which was created in 2007 through voluntary donations made by Coronation employees. In this instance, funding has typically been allocated to beneficiaries of the Coronation Bursary Programme who have expressed a desire to complete a postgraduate degree or master's programme.

In acknowledgement of the vital role played by education in releasing individuals from a life of poverty, we extended our reach to include high-school students in 2012. Since then, we have provided 92 scholarships to previously disadvantaged students through our involvement with the South African Innovative Learning Intervention.

In addition to the Coronation Bursary Programme, we provided support to the second pilot of the Ikusasa Student Financial Aid Programme (ISFAP) which is a public-private partnership that will fund students studying towards occupations in high demand.

To assist in growing and deepening the investment industry's pool of talent, we created a number of internship programmes within our Company and permanent black trainee analyst roles within our investment team.

Our intention is to create a skills development pipeline that will nurture talent within our business and the industry as a whole. We established a successful two-year work experience programme for unemployed graduates in 2012. Thirteen new graduates joined this programme in 2018. Over the past six years, a total of 55 graduates have benefited from our programme.

To further transform the industry through the development of much-needed skills, we launched our External Intern Programme during the course of 2016. This course is run in partnership with one of our suppliers and provides graduate internships for a 12-month period. The programme is aimed at developing specific skills that are in short supply in the marketplace.

Coronation commits extensive resources to developing communities through improved education and entrepreneurship (as detailed on → [pages 45 to 48](#)). In the past year, more than 15 500 school children benefited from our programmes.

## Treading lightly

We aim to contain our environmental footprint. We have taken steps to reduce our carbon usage through internal measures and in the way we communicate with clients. We have stopped providing printed documents at many of our events to cut down on paper wastage. All used paper and toner cartridges are recycled.

Where appropriate, we have introduced e-reporting to clients, which has significantly reduced paper use. We limit air travel and use video-conferencing facilities in all our offices, which are based in Cape Town, Johannesburg, Pretoria, Dublin and London.

Our Cape Town head office workspace has been greened through the ultraviolet treatment of windows and efficient use of lighting. In the past year, excess marketing material was donated and recycled into clothes and bags. We have introduced biodegradable products in our employee restaurant, and all organic waste is collected by a contractor and composted.



## EFFECTIVE GOVERNANCE

*Coronation's ability to add value is heavily dependent on its reputation, which is embodied in its message 'Trust is earned'. The governance processes at Coronation are designed to support ethical and effective leadership emanating from Board level and into the various supportive governance structures within the Group.*

Coronation's governance structures, much like its portfolios, have been designed to perpetuate long-term value creation for our stakeholders.

The Company's leadership is effected through a unitary board that comprises a majority of independent non-executive directors who are primarily responsible for the strategic leadership of the Group with the aim of maintaining an ethical, effective and sustainable business for all stakeholders. The Board is supported in its role by three subcommittees, which discharge responsibilities on behalf of the Group ([→ refer to pages 76 to 80](#)), as well as by its subsidiary boards. To ensure consistent application of the overall Group strategy, the CEO serves as an executive director on each subsidiary board.

The Board and governance structures add value through:

### ► Diversity and cross-pollination

A core consideration in selecting appropriate candidates to serve on the Board is to ensure each individual director brings an appropriate mix of skills, experience and perspective that add value to the robust strategic decision-making processes employed. To this effect, the Board has adopted Group nominations and Board diversity policies ([→ refer to page 75; policies available on \*www.coronation.com\*](#)).

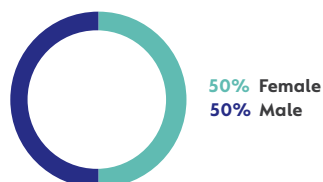
Cumulatively, the Board comprises chartered accountants, chartered financial analysts (CFAs), masters in business administration (MBA) and law, as well as a bachelor of medicine and chemical engineering. Board members are additionally well dispersed in terms of age; however, tenure of Board members has been a focus of discussion in the current year, which was specifically considered in the external assessment of Board independence referred to below. ([→ Refer to pages 71 to 72](#)) for comprehensive biographies of the Board members.

Diversity among non-executive directors in relation to voluntary targets set out in the Board Diversity Policy are reflected in the graphs below.

While each member of the Board serves on at least one subcommittee, all Board members attended each meeting of the Audit and Risk Committee during 2018, which underscores the culture of leading and managing the business to the highest standards of ethics and governance. The cross-pollination of Board members on subcommittees and regular attendance at these meetings ensures all material matters are considered from a variety of perspectives, to better support the ultimate decisions of the Board.

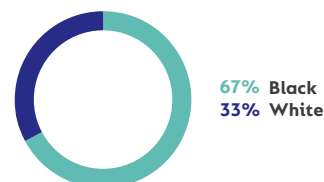
### NON-EXECUTIVE DIRECTORS BY GENDER

Voluntary female membership target: 50%



### NON-EXECUTIVE DIRECTORS BY RACE

Voluntary black membership target: 50%



#### ➤ Ensuring effectiveness and independence

The Board's fiduciary duty is to always act in the best interests of the Company and its stakeholders through exercising autonomy in its decision-making process. Assessing the effectiveness of the Board is therefore a crucial element in determining whether Board members are unfettered and possess adequate capacity to meaningfully engage in the strategic leadership of the business to achieve the desired outcomes for stakeholders. The Board is led by an independent non-executive Chairperson, who is supported by a lead independent director.

All Board members act independently from each other, as well as any shareholder or other stakeholder group.

During 2018 a formal external assessment of the Board was conducted, including the effectiveness and independence of non-executive directors serving in excess of nine years (→ *refer to page 72*).

#### ➤ Accessibility and transparency

Outside of formal Board and subcommittee meetings, the Board is accessible to management, who frequently consult with directors, individually and collectively, on a broad range of topics.

Executive directors and management are responsible for implementing the strategy of the Board, as well as ensuring the effective operation of all areas of the business. This includes development and implementation of appropriate policy, as approved by the Board, in addition to ongoing reporting to the Board and its subcommittees, to enable the Board to effectively fulfil its duties of accountability and oversight of management's execution of its Board approved mandate.

Consequently, the integrity of the operating model and, the information produced for the Board, is ensured through the Group-wide combined assurance model (→ *refer to pages 81 to 90*).





# Responsible investing

*As stewards of our clients' capital, we have the fiduciary responsibility to ensure that the companies in which we invest are managed in a sustainable manner. In effecting this duty, Coronation is an active shareholder.*

Coronation is committed to the principles of good corporate governance and has a fiduciary duty to our clients to ensure, to the extent possible, that the companies in which we invest on behalf of our clients are also committed to adhering to these same principles. Coronation must determine whether the long-term interests of our clients would be best served by avoiding positions in companies that are considered to be poorly governed, or to become more actively involved in the Company through discussions with its board of directors, making our views public, exercising our proxy voting right or through any other means in order to enhance shareholder value. When we value businesses, we incorporate the sustainability of a business into our assessment of its fair value.

As part of the investment process, an in-depth analysis of the Company is performed by the investment analyst. This includes sound quantitative and qualitative analysis of all significant environmental, social and governance (ESG)-related issues. In our ratings of the businesses we analyse, we therefore implicitly build in the risks relating to the levels of governance and environmental and social obligations.

It does not, however, automatically exclude investments in companies that perform poorly on this front, but does force us to carefully consider this as part of the investment decision. In practice, a business with an ambiguous ESG profile requires a much higher hurdle rate to justify an investment.

We take a firm view on all corporate governance issues, which are carefully considered and evaluated before being taken into our investment valuation process. Should a governance concern exist in a potential investment, this is fully reflected in our valuation

of a company. Furthermore, ESG considerations are applied in the ongoing monitoring of companies that we hold on behalf of clients. Any areas of concern are raised with the company as part of Coronation's active engagement with companies as described below.

Where a governance concern arises in an existing investment, appropriate action is taken. The concern is escalated to the CEO of the investee company to decide the appropriate level of engagement with the investee company. This may include holding meetings with management and/or directors, whereafter we will continue to meet with the company and monitor developments.

Should concerns persist, we may seek to intervene more formally through, for example, written letters to the investee company. However, should the issue not be resolved, and should we consider that further action is required, we will engage with regulators, other shareholders, the media and other appropriate parties to ensure our concerns are known and fully understood.

Coronation is an active shareholder in terms of advocating change, in an extreme event, to boards of directors where a board's actions are not in the best interests of its stakeholders. As part of the ongoing investment due diligence process, Coronation meets with company management and conducts site and country visits throughout the period in which the company forms part of our investable universe.

We engage with business management in instances where we believe management is losing sight of its core deliverables, relating to the long-term sustainability of the company or eroding shareholder value. Detailed records of all such engagements are maintained. In terms of proxy voting, we comply with strict

internal guidelines and maintain detailed records of all voting – a summary of which is detailed in the table below. Ancillary to the guidelines, investment analysts apply considered judgement to each proxy vote in consultation with the Chief Investment Officer (CIO). Wherever possible, Coronation will timeously raise its concerns with management so as to afford management the opportunity to address the concerns ahead of voting. A full record of all proxy voting is available in the stewardship section of our website [www.coronation.com](http://www.coronation.com).

## PROXY VOTE RECORDS

	2018	2017	2016	2015	2014	2013
Number of resolutions	2 802	2 466	2 799	2 347	2 767	2 898
Voted in favour	2 541	2 332	2 643	2 223	2 606	2 702
Voted against	259	115	151	121	157	191
Abstained from voting	2	19	5	3	4	5

*Source: Coronation Sharepoint Databases: CAM Research, Africa and Frontier Markets (internal), Emerging Markets (Internal), Global Research (Internal)*

As a minority shareholder, Coronation also recognises that there may be instances where collaboration with government, regulators or other institutional investors is required. AGMs, general and extraordinary general meetings, and voting at AGMs is only part of our responsibility to investors. It is our experience that the majority of the heavy lifting takes place outside the AGM. Over the course of a year, we interact with, and challenge, company management across a variety of issues.

During the 2018 financial year, 923 formal engagements were held with investee company management teams.

We believe that integrating economic growth with respect to the environment is good business practice and are committed to the principles of sustainable development. This requires the incorporation of ESG factors into our investment process in a manner that is fully consistent with the long-term investment horizon of our clients.

As a signatory to the United Nations' Principles for Responsible Investment (UN PRI) since 2007, we consider any factor that may materially affect the sustainable long-term performance of an investment. Coronation fully supports the Code for Responsible Investing in South Africa (CRISA). We endorse the objectives that underpin the Financial Reporting Council (FRC) UK Stewardship Code and comply, where appropriate, with the code in respect of the delivery of investment management services.

## Enhanced reporting and disclosure

As we continue our responsible investment journey we have engaged an ESG consulting firm to advise us on our Stewardship Report and our suite of responsible investment-related policy documents. The report will be available on [www.coronation.com](http://www.coronation.com) during the first quarter of 2019.



# How Coronation creates value for stakeholders

Our focus on achieving the best possible investment returns for our clients in turn creates value for our other stakeholders – including shareholders, regulators and government, communities and our people. The following diagram provides insight into our value-creation process.

## STAKEHOLDER NEEDS

### CLIENTS

- Strong long-term investment performance
- Appropriate and relevant product offering
- Competitive and transparent fees
- Excellent client service
- Information and investment security

### SHAREHOLDERS

- Ethical and sustainable business model
- Return on investment
- Transparent and timely reporting

### GOVERNMENT AND REGULATORS

- Compliance with regulations
- Transparent and proactive engagement with regulators and policymakers

### COMMUNITIES

- High-quality education
- Economic development and upliftment

### OUR PEOPLE

- Sustainable employment
- Recognition and reward of excellence
- Development and career growth
- Commitment to transformation

## CORONATION INPUTS

### INTELLECTUAL CAPITAL

#### HIGHLY SKILLED WORKFORCE

**53%**  
of our SA-based employees are professionally qualified specialists or higher

A further  
**45%**  
are academically qualified and skilled

**67**  
investment professionals have an average of 13 years' investment experience

### HUMAN CAPITAL

**331**  
employees globally

- Strong ethical culture of excellence
- Seasoned and well-respected leadership team

### FINANCIAL CAPITAL

#### REGULATORY CAPITAL

**R490m\***

**R141m**  
investment in information systems and other projects

**R24.4m**  
spent on training

\* Capital that the various subsidiary companies are legislatively required to hold

### SOCIAL AND RELATIONSHIP CAPITAL

- Leveraging off a leading brand in asset management
- Performance and service excellence
- Ongoing investment in education and entrepreneurship
- Corporate citizenship

## HOW CORONATION CREATES VALUE

We invest clients' savings to deliver strong long-term growth. All investments are made according to Coronation's investment philosophy:

*We invest for the long term in assets that are trading below our assessment of their real long-term value, based on our own exhaustive research to identify opportunities.*

## KEY RISKS AND CHALLENGES MANAGED

Extremely challenging market conditions, locally and globally; compounded locally by a subpar economy.

→ Key risks as detailed in the risk table on pages 84 to 86

→ Institutional and personal investment-specific risks are on page 8

## HOW WE ENSURE VALUE CREATION FOR STAKEHOLDERS

### CLIENTS

Consistent execution of investment philosophy; regular fee and benchmark reviews; achieving rigorous client service targets; continuous enhancement of client platforms and correspondence; and world-class security measures.

### SHAREHOLDERS

Robust governance structures and ongoing investment in our business to create a world-class asset management company; consistent and sustainable operational performance and cost control; stable investment team; timely reporting and commentary; and regular dividend distribution.

### GOVERNMENT AND REGULATORS

Detailed compliance universe and monitoring plans; and continuous engagement with regulators to achieve a safer financial sector.

### COMMUNITIES

Strong focus on real outcomes to improve education and community development via our CSI programme.

### OUR PEOPLE

Training and development; coaching and mentoring; performance-based remuneration; and employee ownership and empowerment.

## VALUE CREATED FOR STAKEHOLDERS IN 2018

### CLIENTS → refer to pages 31 to 38

- Strong long-term investment performance across portfolios
- Reduced fees announced on a number of our retail funds
- Improvement to the effective annual cost (EAC) model (total investor holding cost disclosure) for both potential and existing clients for improved transparency
- Enhanced client reporting and improved security

### SHAREHOLDERS → refer to pages 39 to 42

- Dividend policy to distribute at least 75% of after-tax cash profit maintained
- Below industry employee turnover
- Increased engagement with shareholders

### GOVERNMENT AND REGULATORS → refer to pages 43 to 44

- No regulatory fines or sanctions received
- Well-established team of experienced compliance professionals
- Total tax paid, including VAT where applicable: R833 million

### COMMUNITIES → refer to pages 45 to 48

- Coronation's mathematics and literacy programmes benefited more than 15 500 children in the past year
- Capsule launched to create maximum CSI impact
- Increased allocations to programmes supporting job creation, education and skills development (→ refer to page 48)

### OUR PEOPLE → refer to pages 49 to 54

- Sustainable employment
- Recognition and reward of excellence
- Skills development and educational support
- Commitment to transformation and diversity

## HOW CORONATION CREATES VALUE FOR CLIENTS

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*Our key focus is on long-term investment outperformance.*

### Our client charter

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- ✦ 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

All our employees commit to the Coronation client charter. Without clients, we have no business. As an independent asset manager with no tied assets, we are conscious of the fact that assets under our management can leave us on 24 hours' notice. Putting clients' needs first is key to our survival as a business.

Coronation has two primary client markets: institutional clients (South Africa and international); and personal investors (South Africa only). We aim to meet all client needs by delivering strong long-term investment returns and excellent client service, with a commitment to:

### No window-dressing of returns

- ✦ Institutional and retail clients are treated equally
- ✦ We were the first asset manager in South Africa to comply with the Global Investment Performance Standards; a set of ethical standards for investment managers

### Appropriate products

- ✦ We offer a complete institutional offering across asset classes and geographies
- ✦ Our focused range of domestic and international unit trust funds is grouped by investor need

### A highly skilled and stable investment team

- ✦ We have one of the biggest and most stable investment teams in South Africa
- ✦ On average, team members have 13.3 years' investment experience
- ✦ Three former chief investment officers still actively manage money

## How we deliver investment outperformance

For almost a quarter of a century, Coronation has invested its clients' savings according to the same disciplined philosophy.

- We take a long-term view when we value an investment opportunity. We ignore short-term movements and sentiment and we look at the true prospects for a business over the next five to 10 years.
- Our own, unique research determines what a share is worth (its fair value). We will only invest if we think the current price is sufficiently below this level, thereby offering a significant margin of safety. Our investment analysis is based on our own detailed financial modelling. We take environmental, social and governance (ESG) considerations into account as we build an investment case (→ *refer to pages 27 to 28 for more information*).
- We carefully consider risk in our valuations, and diversify our investment portfolios across sectors, industries, regions and currencies. We will not allow a portfolio to hinge on a single view, no matter how much we believe in it. Our focus remains on building diversified portfolios of undervalued assets that can withstand shocks.
- We believe in a team-based approach. Our investment team of 67 professionals covering the South African and global

markets sit together in a single, open-plan office. Decisions are therefore not made in a vacuum – our team interacts and exchanges investment information constantly. Our analysts and fund managers are allocated a wide range of investments across different industries and countries. They can therefore 'price profit and risk' across asset classes, sectors and geographies. We believe this broader perspective builds better investors, drives more robust debate and results in stronger investment decisions.

We know that all clients are different, each with differing risk budgets and return targets. This is why we offer a complete fund range that includes building blocks (single asset class) and multi-asset funds. In this way, clients are empowered to select the fund that best meets their needs at a specific point in time. All clients receive the same investment outcomes – no matter their size, or whether they invested directly with Coronation, or through their retirement fund or intermediaries.

In our pursuit of generating long-term outperformance, we are fortunate that the majority of our clients understand this may, from time to time, come at the cost of underperformance in the short term. While these periods may be uncomfortable and testing, we have endured them many times throughout our 25-year history. We therefore know that they are an important part of our compelling and proven long-term investment track record.

## Institutional clients

We are one of the largest managers of institutional assets in South Africa. Our clients include pension and provident funds, medical schemes, major banking and insurance groups, as well as other asset managers, through their multi-manager offerings. Distribution is conducted primarily through investment consultants, multi-managers and umbrella funds. We also manage assets for a growing number of international retirement funds, endowments and family offices.

*Our institutional products cover all asset classes across a number of geographies in both segregated and pooled mandates.*

## Investment strategies

### SOUTH AFRICA

- Specialist Equity
- Specialist Fixed Income
- Global Multi-Asset
- Domestic Multi-Asset

#### Hedge funds

- Equity
- Fixed Interest
- Multi-Strategy

### GLOBAL EMERGING MARKETS

- Equity Long Only
- Equity Hedge

### GLOBAL

- Specialist Equity
- Global Diversified Growth
- Global Capital Preserver

### FRONTIER MARKETS

- Africa Frontiers (excluding South Africa)
- All Africa
- Global Frontiers



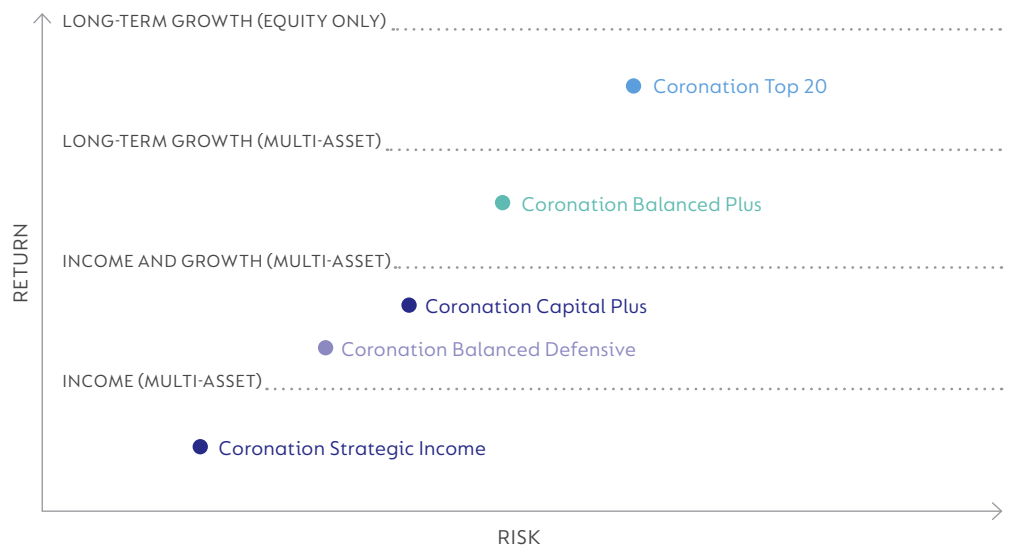
## Personal investment clients

*Our unit trust management company is one of the foremost managers of long-term assets in the South African collective investment schemes industry.*

We offer a comprehensive product range, including specialist funds, individual retirement and life products, and tax-free investments. All funds are directly available from Coronation. We also distribute through the non-affiliated channels of discretionary managers, independent financial advisers and third-party linked investment service providers. We focus solely on investment management; we are not involved in other areas of the value chain, such as investment platform administration and the provision of financial advice.

For South African investors, we offer a focused range of domestic and international funds grouped by investor need:

### *Domestic flagship funds*



### *International flagship funds*



## Engaging with our clients

### Institutional

Coronation's dedicated client relationship managers and fund managers attend to client requests. These managers have frequent investment report backs and meetings with clients. We release monthly and quarterly reports on our investment portfolios. During 2018, we visited clients in 16 countries, held 621 face-to-face engagements, gave 400 presentations and made around 3 200 client calls. To align our communication with the changing consumption patterns of our clients, we broadened our channels to include podcasts and increased the frequency of releasing thought pieces or topical market commentary.

### Personal investments

A team of client service professionals responds to all client queries in accordance with strictly monitored turnaround times. All client-facing employees undergo intensive product and compliance training, and we offer programmes

to improve communication skills. Financial advisers are supported by Coronation investment specialists. Clients and advisers receive regular communication covering a range of investment-related topics. This includes market insights and regulatory updates. In addition, our Company website provides extensive product information. We host comprehensive roadshows, meetings and presentations throughout the course of the year, and conduct focused research via multiple customer touchpoints.

## 2018 outcomes for clients

### Long-term investment performance

Our institutional and individual clients who have invested with us for meaningful periods of time have enjoyed exceptional returns. While our short-term performance in certain strategies has disappointed, our long-term performance continues to place us among the top-tier fund managers.

## INSTITUTIONAL PERFORMANCE – SOUTH AFRICAN PORTFOLIOS

South African Specialist Equity	Annualised return	Active return
<b>Coronation Houseview Equity</b> Since inception in October 1993	16.6%	2.3% p.a.
<b>Coronation Aggressive Equity</b> Since inception in February 2002	16.5%	1.9% p.a.
Domestic Multi-Asset	Annualised return	Active/real return
<b>Coronation Global Houseview</b> Since inception in October 1993	15.9%	9.8% p.a. Real (after-inflation) return
<b>Coronation Managed</b> Since inception in May 1996	16.1%	10.2% p.a. Real (after-inflation) return
South African Specialist Fixed Income	Annualised return	Active return
<b>Coronation Strategic Bond</b> Since inception in January 2008	9.8%	1.4% p.a.
<b>Coronation Active Bond</b> Since inception in July 2000	11.4%	1.0% p.a.

## INSTITUTIONAL PERFORMANCE – GLOBAL PORTFOLIOS

Global portfolios	Annualised return (USD)	Active/real return
<b>Coronation Global Emerging Markets Equity Strategy</b> Since inception in July 2008 (USD)	6.1%	3.4%
<b>Coronation Africa Frontiers</b> Since inception in October 2008 (USD)	9.5%	8.8% Number one in its global peer group
<b>Coronation Global Equity Fund of Funds</b> Since inception in July 2000 (USD)	6.9%	1.9%
<b>Coronation Global Managed Strategy</b> Since inception in November 2009 (USD)	8.2%	6.5% Real (after inflation) return

All institutional performance returns are stated gross of fees as at 30 September 2018.

## UNIT TRUST PERFORMANCE – DOMESTIC AND INTERNATIONAL FUNDS

Fund name	Annualised return	Fund highlight
<b>Coronation Top 20<sup>1</sup></b> Since inception in October 2000	<b>17.8%</b> 3.7% p.a. alpha	A top-performing general equity fund since inception
<b>Coronation Balanced Plus<sup>1</sup></b> Since inception in April 1996	<b>14.6%</b> 8.2% p.a. real return	The no. 1 balanced fund in South Africa since inception
<b>Coronation Capital Plus<sup>1</sup></b> Since inception in July 2001	<b>12.1%</b> 6.2% p.a. real return	The no. 1 multi-asset medium equity fund in South Africa since inception
<b>Coronation Balanced Defensive<sup>1</sup></b> Since inception in February 2007	<b>9.7%</b> 3.6% p.a. real return	A top-performing conservative fund since inception
<b>Coronation Strategic Income<sup>1</sup></b> Since inception in July 2001	<b>10.3%</b> 2.6% p.a. ahead of cash	The no. 1 multi-asset income fund in South Africa since inception
<b>Coronation Global Opportunities Equity [ZAR] Feeder<sup>2</sup></b> Since inception in August 1997	<b>7.0%</b> 0.9% p.a. alpha	Outperformed the global equity market by 0.9% per annum over more than two decades
<b>Coronation Global Managed [ZAR] Feeder<sup>2</sup></b> Since inception in October 2009	<b>6.6%</b>	The no. 1 global multi-asset high-equity fund in South Africa since inception

<sup>1</sup> Rand returns

<sup>2</sup> US dollar returns

All performance returns are stated net of fees for the respective retail classes as at 30 September 2018.

For the highest and lowest actual and annual figures as well as fund benchmarks, refer to the respective funds' comprehensive fact sheet available on [www.coronation.com](http://www.coronation.com).

## Client service

We aim to provide excellent service to all our clients.

In our Annual Investor Survey, we received 5 004 completed surveys. We discovered:

- 84% of clients are happy (or very happy) with long-term investment performance;
- More than 90% of clients rate their online services as good (or excellent);
- 97% of clients found it easy (or very easy) to transact;
- 98% of clients found it easy (or very easy) to open an investment; and
- 98% of clients said Coronation consultants' responses to their queries were professional and well informed.

We maintain a complaints policy, and have established systems and procedures to identify, investigate and resolve any client complaints.

## Client communication

We provide our clients with regular investment information, including through our quarterly *Corospondent* newsletter, which is distributed to both clients and advisers. We have added to our communications this year by releasing topical, relevant articles on a more regular basis as well as increasing the number of podcasts we produce. Our Conversations with Coronation presentation series continues to enjoy strong support from the professional adviser market, once again attracting a large number of attendees in 2018. The presentations also form part of advisers' continued professional development training. Additional channels of communication include our coroconnect adviser information portal.

## Fair fees

We have shown over the years, time and time again, that we value our investment track record far more than our profitability or our market share. Every decision we make is driven by the sincere desire to deliver the best possible investment outcome for our clients.

As part of this commitment, we continually review the fees on our products to make sure they reflect market conditions and offer compelling value to clients.

In recent years, we lowered fees on a number of our funds.

We conducted a major unit trust fee review in 2015 that affected most of our funds. The key aim was to simplify and standardise our fee approach. We introduced pioneering performance-related fee structures for our equity-biased funds, as well as fixed fees for all lower and moderate risk multi-asset funds; 2017 was the first full year during which this lower fee structure was in place, resulting in meaningful fee reductions for clients.

Following the fee reductions announced in 2015, we implemented further fee cuts to our income- and growth, and international funds. All our flagship multi-asset funds now charge the same fixed fee of 1.25% for direct retail investors and 0.85% for clean-class investors via third-party platforms. This is the fee currently charged by our largest fund, Coronation Balanced Plus. As our international business continues to grow, we were also able to share some of the scale benefits with all clients through lower fund management and administration charges in our global funds.

In terms of the current fee structure, fees relating to our equity-biased funds with performance-related fee structures (Top 20, Equity, Market Plus and Global Emerging Markets) were discounted given the underperformance experienced in the past year.

## Fees aligned with clients' interests

<b>BASE FEE</b> SET SIGNIFICANTLY BELOW TYPICAL FIXED-FEE RATES	<b>PERFORMANCE FEE</b> ONLY CHARGED WHEN WE DELIVER OUTPERFORMANCE OF AN INVESTABLE INDEX	<b>CREDITED WITH A DISCOUNT</b> IF WE UNDERPERFORM APPROPRIATE BENCHMARKS OVER A FIVE-YEAR PERIOD UNTIL OUTPERFORMANCE RESUMES
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## Appropriate products

We believe that we currently offer a comprehensive institutional offering across asset classes and geographies, and our focused range of domestic and international unit trusts is suitable for most investor needs. However, we are constantly reviewing and updating our products and have some new products in the pipeline, one of which will be announced at the beginning of 2019. We will also adapt our products to changes in the regulatory environment, if and when the need arises. We only develop new products when we believe that a new mandate can sustainably meet a clearly defined investor need, and in areas where we have adequate capacity, resources and expertise to deliver competitive results over meaningful periods.

This year we added more funds to our Tax-free Investment (TFI) product. Investors can now also choose to invest in our flagship Balanced Plus Fund, our Balanced Defensive Fund, or our Capital Plus Fund. We also added our Global Opportunities Equity Fund of Funds as a TFI option.

To encourage new investors to start saving, and in conjunction with our 25th birthday celebration, for the months of July to September, we dropped our minimum investment requirements and offered a 10% top-up to any starting contribution up to maximum of R250 in our [becauseitsyourmoney](#) investment channel.

Prospective investors could access our funds through our [becauseitsyourmoney.com](#) mobile site. The investment process could be completed on your phone in five minutes. Over the three months, we received over 800 applications.

To help advisers meet their Financial Intermediary and Advisory Services Act (FAIS) training requirements, we recently introduced

our product-specific training module, available on FAIS Exchange. We have also been working hard to ensure that our Coronation events qualify for FAIS CPD points.

## Client security

We continue to invest in making sure our clients' information is secure and their investments are protected. Over the year, we introduced a number of new controls and checks, including a SIM swap check that will temporarily block users to our secure website should their phone number have recently undergone a SIM swap.

## Performance summary report

This year, we also introduced a performance summary report for our investors. Via our secure website, investors can now download a report detailing their personal return across their various Coronation investments (using the internal rate of return calculation methodology).

## Focus for the year ahead

Our main focus remains on delivering investment excellence for our clients. We will seek exceptional performance across all our strategies and build on our current long-term outperformance by adhering to our strict investment philosophy and maintaining a stable investment team.

We will ensure we maintain and improve relationships and service levels with our clients and will actively engage and communicate with them. We will investigate new products in line with the changing investment landscape, and an institutional and retail world which is moving closer together.

## HOW CORONATION CREATES VALUE FOR SHAREHOLDERS

We aim to create sustainable value for shareholders by:

- delivering consistent operational and financial performance;
- adhering to the highest corporate governance requirements;
- maintaining significant distributions of free cash flow; and
- continual engagement with shareholders.

It is important for shareholders to understand that Coronation is not a growth business. We always put the needs of clients first, and we are not asset gatherers. Our business is cyclical, and revenue is geared to market returns and the level of performance we generate on behalf of clients. Fundamentally, we are a cash-generative business, with regular and significant distributions of free cash flow generated paid out to shareholders. This is unlikely to result in a smooth earnings stream. Short-term volatility is intrinsic in our business model, and shareholders should assess the business by looking at the long-term value it has delivered over a meaningful time period.

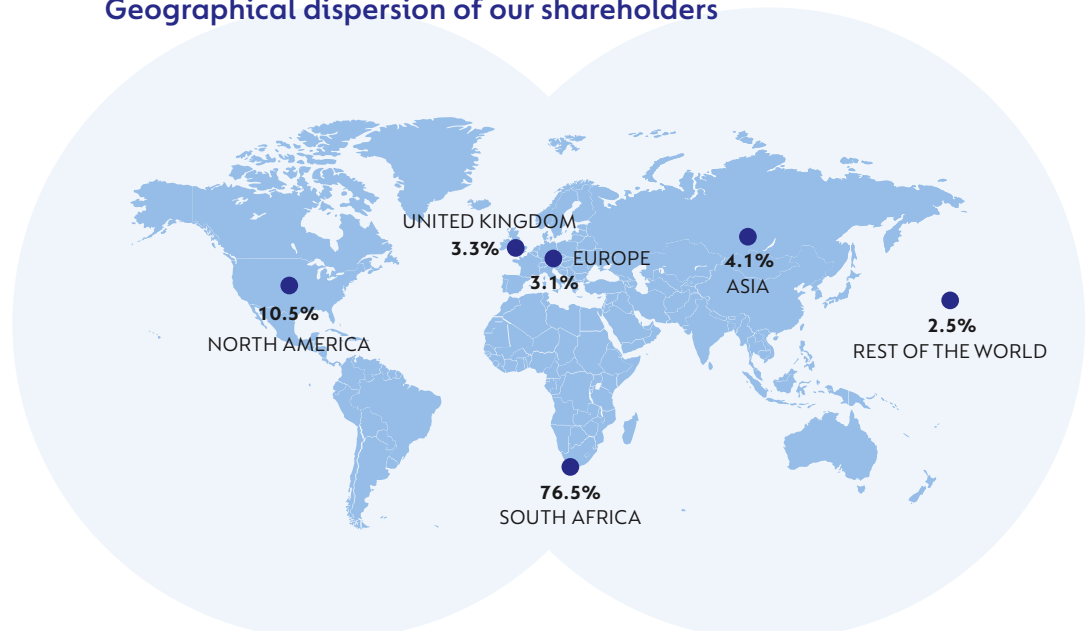
### Shareholder engagement

Coronation's CEO and CFO, as well as other Board members, engage with shareholders to garner their views and maintain strong relationships.

We distribute information on financial results and other company updates through various channels (including our website). Great care is taken to ensure that critical updates reach shareholders simultaneously. Following the release of our interim and annual results, the CEO and CFO host conference calls with analysts and shareholders, as well as one-on-one meetings.

Coronation enjoys high levels of shareholder participation. At our 2018 AGM, shareholders and proxies representing 75% of our authorised shares in issue took part in the shareholder vote. Shareholders are encouraged to engage with management and Board members at the AGM.

### Geographical dispersion of our shareholders



## Shareholder analysis

DISTRIBUTION OF SHAREHOLDERS	NUMBER OF SHAREHOLDERS	%	NUMBER OF SHARES '000	%
1 – 1 000 shares	10 255	53.94	4 693	1.34
1 001 – 10 000 shares	7 212	37.94	22 599	6.46
10 001 – 100 000 shares	1 208	6.35	36 554	10.45
100 001 – 1 000 000 shares	272	1.43	81 071	23.18
1 000 001 shares and over	65	0.34	204 882	58.57
	19 012	100.00	349 799	100.00

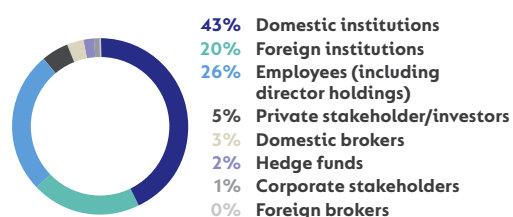
DISTRIBUTION OF SHAREHOLDERS	NUMBER OF SHAREHOLDERS	%	NUMBER OF SHARES '000	%
Banks	64	0.33	6 464	1.85
Brokers	52	0.27	14 368	4.11
Close corporations	104	0.55	540	0.16
Endowment funds	34	0.18	1 083	0.31
Individuals	14 886	78.30	32 392	9.25
Insurance companies	138	0.73	11 113	3.18
Medical aid schemes	36	0.19	1 175	0.34
Mutual funds	742	3.90	97 506	27.87
Nominees and trusts	1 928	10.14	9 928	2.84
Other corporations	22	0.12	770	0.22
Pension funds	418	2.20	60 958	17.43
Private companies	365	1.92	5 018	1.43
Staff holdings	174	0.91	85 334	24.39
Sovereign wealth funds	49	0.26	23 150	6.62
	19 012	100.00	349 799	100.00

PUBLIC/NON-PUBLIC SHAREHOLDERS	NUMBER OF SHAREHOLDERS	%	NUMBER OF SHARES '000	%
<b>Non-public shareholders</b>	175	0.92	91 661	26.20
Directors*	6	0.03	12 491	3.57
Shares held by staff	169	0.89	79 170	22.63
<b>Public shareholders</b>	18 837	99.08	258 138	73.80
	19 012	100.00	349 799	100.00

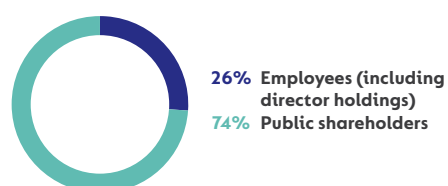
\* Includes directors of subsidiary companies

GEOGRAPHICAL OWNERSHIP	NUMBER OF SHAREHOLDERS	%	NUMBER OF SHARES '000	%
South Africa	18 528	97.45	267 539	76.48
International	484	2.55	82 260	23.52
	19 012	100.00	349 799	100.00

### INVESTOR TYPE



### EMPLOYEE VS PUBLIC SHAREHOLDERS





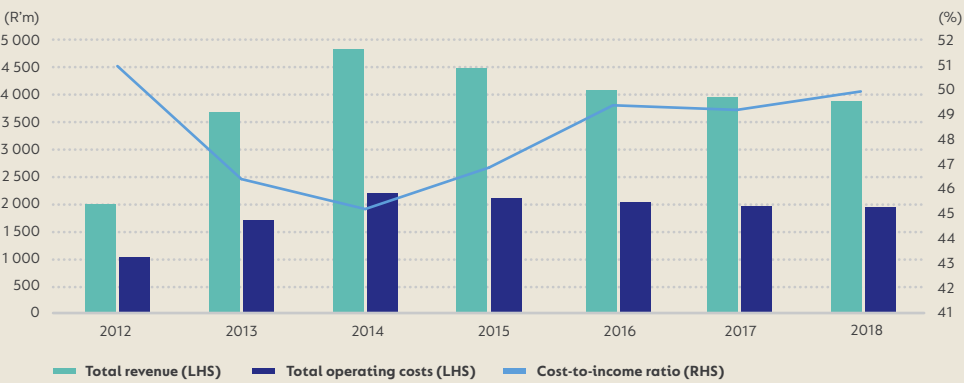
## 2018 outcomes for shareholders

### Financial and operational performance

Coronation delivered a respectable financial performance in a tough environment. While our revenue declined by 1.8% to R3.8 billion, our variable cost model again protected shareholders. A large part of Coronation's variable costs track profit and assets under management.

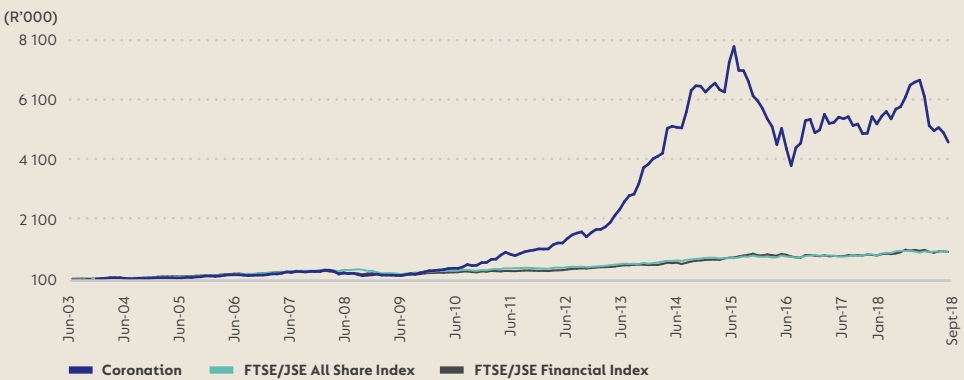
### VARIABLE COST MODEL CONTINUES TO CONTRIBUTE TO EFFECTIVE MANAGEMENT OF TOTAL COSTS

Protects shareholders in down years



### SHARE PERFORMANCE VS FTSE/JSE ALL SHARE AND FTSE/JSE FINANCIAL

Growth of R100 000 invested since Coronation's listing in 2003



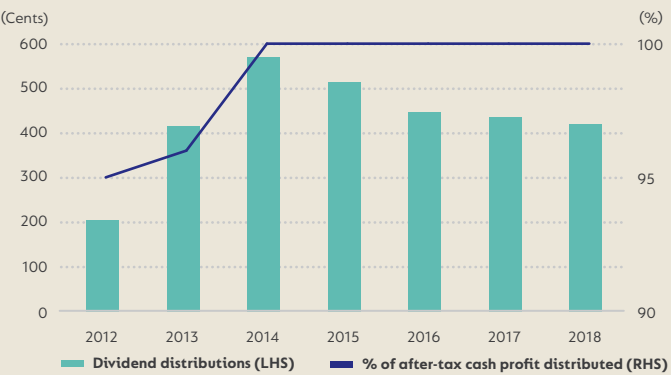
### DIVIDEND POLICY MAINTAINED

We continue to reward shareholders through regular and significant distributions of free cash flow generated. We endeavour to distribute at least 75% of after-tax cash profit. Assessing projected future cash requirements, we paid out almost 100% of after-tax cash profit in the past year.

#### DIVIDEND DISTRIBUTIONS PER SHARE

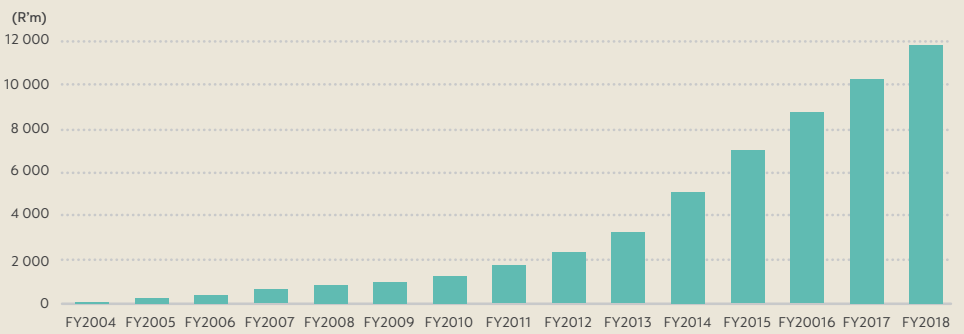
420 cents

437 cents in 2017



### TRACK RECORD OF CASH GENERATION\*

Almost R12 billion paid out in dividends to shareholders since listing in 2003.



Source: Coronation

\* Includes return of share premium

## HOW CORONATION CREATES VALUE FOR GOVERNMENT AND REGULATORY BODIES

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*Compliance with all regulatory and statutory obligations remains a high priority for Coronation.*

Coronation acts in compliance with relevant governance frameworks that suggest leading governance practices. Accordingly, the Board is guided by the principles set out in King IV™, which affirm our existing approach to corporate governance. We aim to engage government and regulatory bodies in a proactive and meaningful manner. We participate in regulatory discussions to safeguard against unintended outcomes.

We are primarily accountable to the following regulatory bodies:

- Financial Sector Conduct Authority (FSCA) (South Africa)
- Central Bank of Ireland (Ireland)
- Financial Conduct Authority (UK)
- Securities and Exchange Commission (USA)
- Prudential Authority – South African Reserve Bank

The majority of our regulatory interaction is with the FSCA, either directly or through our involvement with the Association for Savings & Investment SA (ASISA). We are committed to playing an active role in shaping the South African financial services industry by working with industry partners and the FSCA.

A number of Coronation employees serve on various ASISA board committees, standing committees and working groups, and we have engaged in numerous significant legislative consultations. This includes the Retail Distribution Review, the Financial Intelligence Centre Act Amendment Bill, changes in the tax treatment of Collective Investment Schemes and the Financial Sector Regulation Bill (Twin

Peaks), which creates the Prudential Authority and a dedicated market conduct regulator, namely the FSCA.

In line with our offshore fund offering and our strategy to grow our global franchise, we are members of the Investment Company Institute (ICI) and the Alternative Investment Management Association (AIMA). This helps us to remain abreast of international industry and regulatory developments and to adjust our practices and strategy in a timely manner.

### Advancing economic transformation

In line with the agenda of government and regulatory bodies to achieve economic transformation and the development of skills in the asset management industry, Coronation has pioneered black businesses and supported the transformation of the industry since its inception a quarter of a century ago.

### 2018 outcomes

In the past year, Coronation actively contributed to shaping the local regulatory landscape through its participation in industry consultations via ASISA, as well as through direct engagement with regulators.

We consulted on a number of issues, including the new retirement default regulations, which took effect on 1 September 2017. Although the interventions are rigorous, we believe they present a positive contribution that will enable retirement savers to retain the necessary flexibility to achieve the best possible outcomes.

## Regulatory outlook

From 1 April 2018, the Financial Sector Regulation Act introduced the Twin Peaks model of financial sector regulation in South Africa. The Twin Peaks model reformed the regulatory and supervisory landscape for the financial sector by dividing the regulatory architecture into the FSCA, responsible for market conduct regulation, and the Prudential Authority (located within the South African Reserve Bank) charged with prudential regulation designed to prevent a financial crisis.

Successfully navigating this transformed regulatory landscape requires financial institutions to understand the regulatory mechanics of the enabling legislation as well as the new roles and responsibilities of the respective authorities. Although the new model is not without some challenges, we do expect it to have a positive impact on the regulatory landscape within which we operate and to achieve a more stable financial system that is supportive of balanced and sustainable economic growth.

We are currently in the process of implementing the changes introduced by the Financial Intelligence Centre Amendment Act. This includes the design and implementation of a risk-based approach to customer due diligence, which will allow us the flexibility to introduce measures to prevent or mitigate money laundering and/or terrorist financing that are commensurate with the risks identified.

Given our operations in Dublin and London, Coronation closely follows European regulatory developments. In particular, this includes MiFID II, effective January 2018. Management has also been looking at various Brexit scenarios and planning for a possible 'Hard Brexit'. Contingency plans are being put in place in order to minimise the impact.

## Financial contribution

As a leading South African asset manager, Coronation makes a substantial contribution to the national fiscus via its annual tax payments. For the period under review our total tax paid, including VAT where applicable, was R833 million.

## HOW CORONATION CREATES VALUE FOR SOUTH AFRICAN COMMUNITIES

*Coronation is dedicated to collaboratively solving the education crisis in South Africa.*

### SOUTH AFRICA IN NUMBERS

According to the South African Child Gauge 2018 and STATS SA:

**GRADE 1s WHO ENTER HIGHER EDUCATION**

15%

**YOUTHS\* NOT INVOLVED IN ANY FORM OF EMPLOYMENT**

34%

*\* Aged between 15 and 24 years*

**UNEMPLOYED**

37.3%

**CHILDREN LIVING IN INCOME POVERTY**

65%

**HOUSEHOLDS WITHIN INADEQUATE ACCESS TO FOOD**

21.3%

We believe that improving the quality of education lies at the heart of breaking the cycle of poverty and in creating sustainable, long-term socio-economic prosperity.

We work with select partners to address issues such as early childhood development; foundation-phase numeracy and literacy; educator and caregiver capacity-building; adult financial education; and entrepreneurial skills development.

Since we first opened our doors 25 years ago, we have added long-term value to a number of projects, both in terms of offering funding and support, as well as Coronation employees donating their time and expertise to initiatives that support enhanced training, mentorships, bursaries and children with hearing disability.

All our projects are strongly aligned with our belief that, as a responsible corporate citizen, we have a key role to play in empowering learners to achieve a quality education, standing them in good stead to succeed in life and become economically productive members of society.

In developing or supporting any CSI initiative, we're guided by four principles:

#### 1. We are in it for the long term

We remain committed to programmes for the long run, and we focus on sustainable results. We apply one of the most important lessons we have learnt from successfully managing money for 25 years – investing with a long-term view.

We believe that consistency is key to success, and our commitment to social interventions is a minimum of three years. In so doing, we aim to form enduring relationships with our CSI partners and the communities we support.

#### 2. We take a holistic approach

At the core of all our efforts is providing children with quality education, but we do not believe

children can be supported in isolation. We equip their parents, teachers and principals with training and tools to ensure better learning.

Our personal monetary management, entrepreneurship and small business initiatives are aimed at strengthening households and communities.

#### 3. We are directly involved in all our projects

We get involved. We visit the schools, talk to the communities and shape projects in response to their needs. Employees across our business are also represented in our CSI committee and staff are invited to participate in all our initiatives.

#### 4. We monitor the outcomes of our programmes

Coronation's Social, Ethics and Transformation (SET) committee meets twice a year and reviews progress reports from our various programmes, from which we implement the required changes. Each programme has stated and quantified objectives and desired outcomes, which are reported on twice a year.



IN 2018, THE COUNTING  
WITH CORONATION  
PROGRAMME BENEFITED

12 289

LEARNERS

+22% from 2017

335

TEACHERS

+23% from 2017

25

SCHOOLS

+25% from 2017

IN 2018, THE CORONATION  
READING ADVENTURE  
ROOMS BENEFITED:

3 700

LEARNERS

35

TEACHERS

26

SCHOOLS

SINCE 2010, THE  
CORONATION SCHOOL  
GARDENS PROJECT HAS  
BENEFITED:

7 496

CHILDREN

404

SCHOOLS

## Adding value to learners

We get involved at the very beginning of a child's journey towards graduating from a tertiary institution. The Early Learning Research Unit ensures that pregnant women and primary caregivers are equipped with all the tools they need to support early childhood development. ECD centres and playgroups support caregivers and communities in providing optimal learning environments.

Once the children advance to primary school through Counting with Coronation (managed by the Primary Science Programme) and Coronation Reading Adventure Rooms (managed by Living through Learning), it is essential that their teachers are trained to lay excellent foundations in numeracy and literacy.

Through these we provide intensive maths and literacy teaching skills development to teachers, including monitoring and evaluating the progress of learners. The reading programme also ensures that classrooms are transformed into fun and stimulating environments.

Looking beyond the classroom, we aim to address poverty, hunger and stimulate economic awareness via the Coronation School Gardens Programme. Children are trained in home-based agriculture, including soil preparation, cultivation and water management, as well as how to market produce. The food grown in these gardens not only supports school feeding schemes but is sold within their communities.

## CASE STUDY

### Shakeelah's story



"I live in Lavender Hill with my mom, grandma and brother, which is a very dangerous place. There are always shootings and fighting going on in our area. Many people are poor and don't have money to provide for themselves and for their families."

"I participate in the School Gardens Programme, which taught me about plants. I have learned many things, like how to make compost with dirt and organic peels, how to spread out the seeds, and I learned how to save water in different kinds of ways. I also learned how to plant, harvest, and in which months we should plant certain vegetables and fruits. This programme has helped me to be a better person and save water. At home I even have a little garden of my own. My grandma and I sometimes take my vegetables and make food to provide for people on the streets."

– *Shakeelah Sampson, Grade 7 learner at Levana Primary School, in Lavender Hill, Cape Town.*

SINCE 2013

183

SCHOOLS

150 000

LEARNERS

*have benefited from the  
Principal's Academy*

IN 2018

18 070

ADULTS

*+15% from 2017*

574

TRAINING SESSIONS

*+2% from 2017*

9

PROVINCES

*benefited from adult  
consumer education  
initiatives*

## Adding value to teachers

Aside from upskilling teachers to deliver maths and literacy training, the Future Leaders Programme aims to address the shortage of qualified teachers in South Africa by providing students studying towards a bachelor of education through Unisa with bursaries, practical classroom training, mentoring and specialised tuition. Incubated within the LEAP Maths and Science Schools and run as a pilot between 2007 and 2017, the programme has since been expanded to other low fee independent and government schools. Participants are also supported in transitioning from interns to full-time employed teachers in LEAP and other schools.

In addition, we support seven school principals who attend UCT's Graduate School of Business Principal Academy. This programme runs an intensive 15-day programme on self-mastery and advanced thinking skills, and partners current incumbents with retired school principals for mentorship and coaching sessions.

## Adding value to parents

In partnership with Avocado Vision, we run a consumer education programme comprising a bespoke series of training modules. It is specifically designed to empower economically active people in impoverished communities aged 16 and above to make more informed decisions about their finances and lifestyles.

We also run workshops that empower parents with the skills to positively influence the life and education choices of their children. Weekly workshops offer parents several benefits:

- Parents are equipped with skills to provide general schooling guidance
- The workshops connect them with other parents in their communities
- They are taught how to budget, invest and save
- Parents are encouraged to teach children about social skills, respect and discipline
- The workshops communicate the importance of parent-school collaboration
- Workshop facilitators answer any questions parents may have about their child's schooling

## Adding value to entrepreneurs

The Growing Entrepreneurs Programme (in collaboration with the South African Institute for Entrepreneurship) provides training for emerging farmers across South Africa and has positively impacted rural and peri-urban communities through economic development, job creation and poverty alleviation, especially among small-scale agricultural farmers.

Over 90% of participating cooperatives have secured access to contract and community markets for which they now supply produce on a regular basis.

IN 2018

5 172

SMALL-SCALE FARMERS

*+1% from 2017*

226

CO-OPS

*+ 5% from 2017*

*received training  
and support*

## CASE STUDY

### Sydwell's story

*Sydwell Nyakane is the owner of Matabula CPA, a farm situated in White River, Mpumalanga.*



He completed Coronation's Growing Entrepreneurs Programme, which empowered him to expand his farming business to include chicken, vegetable and crop production.

"It is a very good course which teaches one to manage one's finances better, how to deal with disaster situations, how to solve one's problems and how to be self-reliant," explains Sydwell. He also believes that the programme has helped him to understand the various markets and selling possibilities.

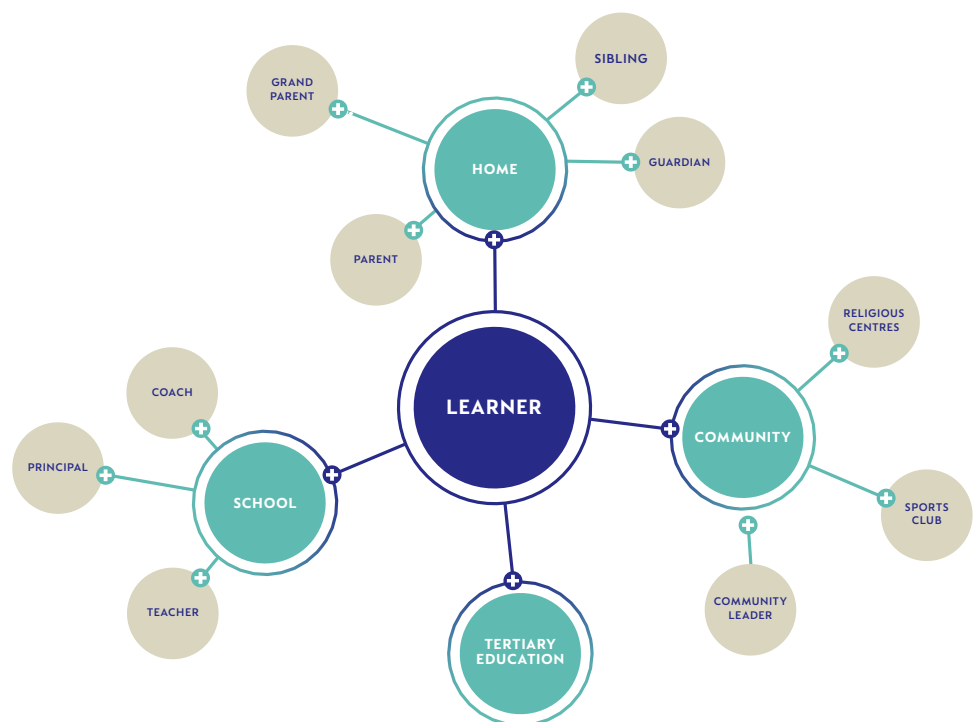
## Maximising our impact

In 2018, Coronation decided to maximise the impact of its community and education-based CSI initiatives with the launch of the Capsule Programme. The aim is to create an integrated, measurable and long-term CSI delivery within the eco-system of a primary school.

It offers our learner, educator and parent training programmes within one school. The result is that children, educators, parents and community members are all aligned and stand to benefit. This will set learners up for success, and will also strengthen communities.

The pilot was rolled out at three schools in the Western Cape during 2018, with an additional three schools coming online in 2019. Through this landmark programme, we are transforming the lives of over 3 200 learners.

### *Maximising our impact via the capsule ecosystem*



## The road ahead

Mirroring our investment philosophy, any CSI commitment we make is taken with a clear, long-term objective in mind, and with the awareness that we are embarking on a prolonged collaboration with our partners and the beneficiaries of our initiatives. These relationships are built on trust and an acknowledgment of the complexities of South Africa's challenges. We are a company of optimists who believe we can collectively steer South Africa towards a better future.

Here's to another 25 years of changing lives.



# HOW CORONATION CREATES VALUE THROUGH ITS PEOPLE

*Our aim is to build and retain exceptional teams of highly skilled individuals – ensuring the sustainability of our business.*



OUR INVESTMENT TEAM

24%  
*of Coronation is employee owned*

3  
*former CIOs still actively managing clients' savings*

67  
*investment professionals*

13.3  
*average of years in the industry*

## DRIVEN BY PERFORMANCE

As an active independent asset manager, Coronation's only asset of significant value is its people. Our business depends on our people's ability to deliver long-term investment outperformance.

Our culture is therefore driven by performance: Coronation is a true meritocracy, where anyone (irrespective of position or title) is recognised for work well done. Our flat hierarchical structure ensures agility, fast decision-making and constant innovation. Dialogue and debate are encouraged, and we have an open-door policy where management is challenged on any aspect of the business.

As we are on 24 hours' notice with our clients, we demand an unwavering commitment to excellence from our employees. All employees are expected to be team players, and are assessed on their individual performance and contribution to the team in which they operate.

Importantly, we believe in a culture of ownership; together, our employees own 24.4% of Coronation. This empowers our people to feel and behave like long-term owners of the business. Entrepreneurial flair remains a vital component of our cultural DNA.

We are uncompromising about ethics, and we expect our employees to always act with integrity. In everything they do, all employees are required to conduct themselves in accordance with our Code of Ethics, Client Charter and our six values (→ *refer to page 6*).

Every year, all our employees are required to pledge that they comply with specific ethical requirements, conflicts of interest, compliance with the requirements of Coronation's compliance manual, confidential information and the Financial Sector Conduct Authority's Treating Customers Fairly initiative.

### Our client charter

- 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

## 2018 key areas of focus and outcomes

### Transformation and diversity

Diversity strengthens our business. Through disciplined and determined recruitment, Coronation has achieved meaningful transformation.

As at end-September 2018\*:

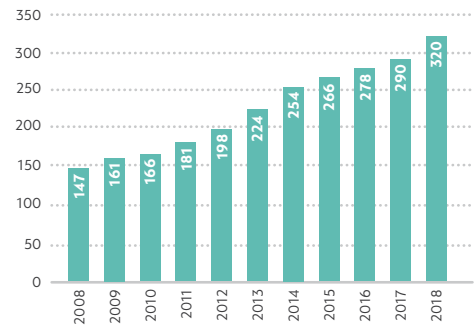
- 58% of our employees are black, of whom 58% are black females.
- 50% of our senior portfolio managers in our South African-focused investment team are black.

\* Figures exclude Dublin and London offices

We continue to make progress in achieving employment equity, and in 2018, 78% of our new permanent employees are black (AIC), of whom 37% are black women. Since the inception of our internship programme introduced in 2012, we have hired 55 graduate interns into the business, who are predominantly black women. For the 2018 financial year, there were 18 graduate interns employed in the business of whom 100% were black and 50% black women.

We are excited about the calibre of prospective employees who are currently benefiting from extensive internship and bursary programmes (→ refer to pages 53 to 54). These employees will strengthen our diversity profile for many years to come.

## SOUTH AFRICAN EMPLOYEE COMPLEMENT



We are determined to achieve greater black representation among senior management.

The Employment Equity Act, No. 55 of 1998, stipulates the inclusion of permanent employees (those individuals on contract for more than three months) and the inclusion of temporary employees (less than three months). Of the 337 total complement, 15 are individuals on contract for more than three months and three are temporary employees. Please note that this table reflects South African employees only and does not include Coronation Global Fund Managers (Ireland) Ltd or Coronation International Ltd employees.

Our South African employee complement is as follows:

Occupational levels	Male				Female				Foreign nationals		Total
	A	C	I	W	A	C	I	W	Male	Female	
Top management	0	1	1	2	0	0	1	0	0	0	5
Senior management	0	2	1	6	0	2	0	0	0	0	11
Professionally qualified and experienced specialists and mid-management	8	22	6	59	3	17	8	33	6	1	163
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	6	24	11	11	19	49	6	22	1	1	150
Semi-skilled and discretionary decision-making	0	1	0	0	1	4	0	0	0	0	6
Unskilled and defined decision-making	0	0	0	0	0	0	0	0	0	0	0
<b>TOTAL PERMANENT</b>	<b>14</b>	<b>50</b>	<b>19</b>	<b>78</b>	<b>23</b>	<b>72</b>	<b>15</b>	<b>55</b>	<b>7</b>	<b>2</b>	<b>335</b>
Temporary employees	1	1	0	0	0	0	0	0	0	0	2
<b>TOTAL SOUTH AFRICAN STAFF</b>	<b>15</b>	<b>51</b>	<b>19</b>	<b>78</b>	<b>23</b>	<b>72</b>	<b>15</b>	<b>55</b>	<b>7</b>	<b>2</b>	<b>337</b>

A = African C = Coloured I = Indian W = White

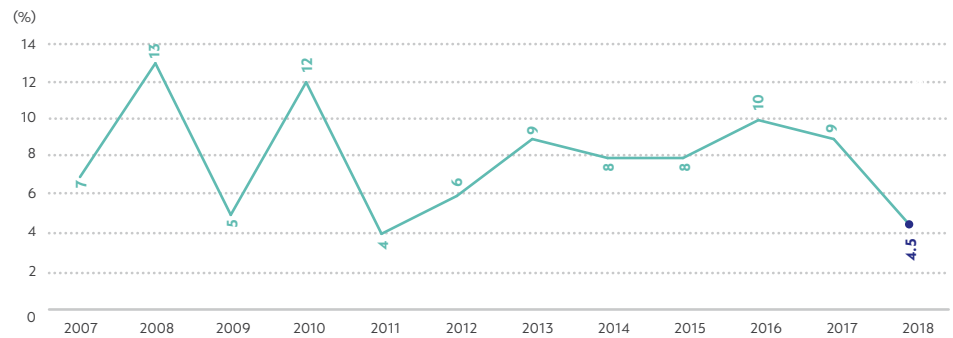
## Retaining highly skilled employees

Long-term retention of world-class talent is critical to the success of our business.

Our investment team remains one of the most experienced and stable in the industry. The average tenure in the investment team is 9.5 years, with an average of six years across the business. There was no turnover among senior employees in the past year.

Across the business, employee turnover remained stable. At 4.5%, it remains well below industry standards. The average tenure of departing employees in 2017 was 4.75 and in 2018 was 4.92 years.

### EMPLOYEE TURNOVER



In the past year, we have maintained a number of initiatives to retain and motivate employees.

Our Remuneration Policy is key to retaining highly skilled employees and aligning their performance with that of all our stakeholders. The policy is simple and straightforward: Variable remuneration (cash and deferred awards of Coronation shares and unit trusts) is directly linked to the Company's profitability. Unlike many other companies, all employees are eligible to receive these awards – not only senior managers. Further information on our Remuneration Policy is on ([→ page 59 to 62](#)).

New starters are required to complete Own it! – a self-driven online induction programme which acquaints them with the important aspects of our culture, ethics and business. Employees are required to complete the programme with 100% pass rate within the first two weeks of employment.

New employees are welcomed through the Ignite Group Coaching Programme. Introduced in 2011, the Ignite Programme is led by an external qualified coach. Employees take part in biweekly two-hour sessions over the course of three months. The programme is aimed at helping new employees deal with the potential challenges of landing and operating in a high-performance-driven culture. We believe it has been highly successful in bolstering individual career development and supporting retention. As at the end of our 2018 financial year, we have had 55 Ignite groups since inception, with a total of 282 employees who have participated in these Ignite coaching groups.

Future talent is earmarked for succession planning, and the appropriate retention mechanisms are put in place to ensure a long-term sustainable business.

We offer individual coaching to employees taking on leadership roles to ensure tailor-made support and development.

Coronation continues to develop leadership skills within our business. In 2018, we launched two bespoke training interventions focusing on developing leadership capabilities within the business. They were designed to play an integral role in entrenching and maintaining the culture and values of Coronation.

The first programme, Leading Manager, develops leadership skills for new managers or team leaders who have direct reports and therefore are responsible for managing and leading a team of employees to optimal performance. The second, Aspiring Leader, was developed for members of the business who hold a level of influence within the business but do not necessarily have any direct reports. Both programmes focus on self-awareness and development and due to the success of these programmes we are excited to offer them again in 2019.

All managers are offered interview skills training, as part of a programme called Hiring Right! This high-intensity programme covers real Coronation case studies and focuses on identifying and selecting top talent. More advanced training has also been offered and to date, we have had 50 employees who have attended the art of interrogation course and 18 employees who have attended the Interviewing for truth skills workshop.

We regularly review employee notice periods to ensure minimal disruption in the event of resignation and to maintain alignment with dynamics in the market.

#### **% of employees with extended notice periods**

2018	77%
2017	66%
2016	63%
2015	58%

*Percentages pertain to the total employee complement of the relevant year*

## **Skills development**

We strive to create an environment that encourages our employees to challenge themselves and grow. Continuous learning is a key component of our culture. The business supports appropriate training initiatives by providing financial assistance towards employees' tuition fees for part-time study. We continue to direct a large portion of the Company's training spend to black employees.

In 2018, R11.4 million was allocated to the skills development of black employees (2017: R7.7 million).

The Chartered Financial Analyst (CFA) professional credential is highly coveted in our industry. A significant portion of our total training spend consists of CFA fees and workplace training, as well as international conferences to ensure our employees remain world-class. Other areas of training include university qualifications, short courses (including regulatory and product training), as well as softer skills training in the form of individual and group coaching, and mentorship.

## **Bursaries**

We also have a substantial bursary programme ([→ refer to page 54](#)). This programme identifies previously disadvantaged learners with academic potential who want to study commerce. During their studies, students are offered mentorship from within the business and vacation work as preparation for the working world. The intention is that, once the bursary students graduate, they would be employed by Coronation.

For the 2018 year, we sponsored 14 students from across the country, eight of whom are black women.

## Mentors

Mentorship is important in the skills development and advancement of all employees. The Coronation Mentorship Programme enables experienced employees to mentor new employees, and provide guidance on Company culture and work processes, as well as industry insight. We currently have 14 active mentors within the business, some of whom focus specifically on mentoring our bursary students.

Employees are encouraged to diversify their skills by exploring new roles and responsibilities within the business. All opportunities at Coronation are posted on both internal and external careers sites to facilitate career progression. In addition to the Leadership Development Programmes.

Employees are responsible for ensuring that they are equipped with the necessary training to successfully fulfil their function. This may take the shape of formal or on-the-job training. In the case of the latter, employees are required to record a monthly report, including detailed content by both the trainer and trainee. To assist in identifying individual development opportunities, we embark on a consultative process between talent management, line management and employees to analyse training trends of prior years and define skills imperatives for the coming year.

## Internships

We continue with our successful Coronation Workplace Experience Internship Programme (ranging from 12 to 23 months), offering unemployed graduates the opportunity to gain valuable work experience. In 2018, 13 interns were included in the programme which, since inception in 2012, has benefited 55 graduates. Currently, 18 are participating in the programme (all of whom are black) and, of the original 55, 18 have been employed in permanent positions within our business (15 of whom are black).

To further transform the financial services industry, we offer a graduate internship for a 12-month period.

We also continue to support the partnership between the ASISA Academy and TSIBA Education whereby students complete the Investment Administration and Client Servicing (IMACS) Programme. Coronation sponsors these IMACS students to complete a six-month internship within our business as part of their programme.

These programmes are aimed at developing specific skills currently found to be in short supply in the marketplace. In addition, our Bursary Programme also plays an integral role in achieving transformation through skills development ([→ refer to page 53 for more details on our programmes](#)).

## Future focus

With a record group of new employees joining Coronation at the start of 2018, we will work hard to entrench our culture. We will also maintain our disciplined approach to enhancing employment equity. As always, we will continue to do our best to attract, retain and motivate highly skilled employees to continue to deliver investment excellence.



# Remuneration

## Executive summary

Employee remuneration is designed to create long-term value for stakeholders and support the long-term strategy of our business. Its implementation is overseen by the Coronation Remuneration Committee, which is chaired by an independent director. In September 2018, Jock McKenzie stepped down as the Remuneration Committee Chair, and handed over to Hugo Nelson. Jock McKenzie remains a Remuneration Committee member.

The Remuneration Policy aims to not only attract and retain top talent, but also ensure that remuneration is based on individual performance and aligns employee rewards with Company performance. This is achieved through a combination of below-market fixed salaries for senior staff and the utilisation of variable remuneration for both short-term variable and long-term deferred remuneration.

Variable remuneration is dependent on Coronation's profitability. Long-term deferred variable remuneration is housed in the CFM Deferred Remuneration Trust, which is invested in Coronation shares and Coronation unit trusts, aligning staff incentivisation with the interests of clients and shareholders.

All staff benefit from a cash reward related to the year in which the profits were generated, should an individual's performance warrant it. In addition, a significant percentage of the variable remuneration for senior employees is deferred over the long term – and would be forfeited if they were to resign or sell any Coronation shares.

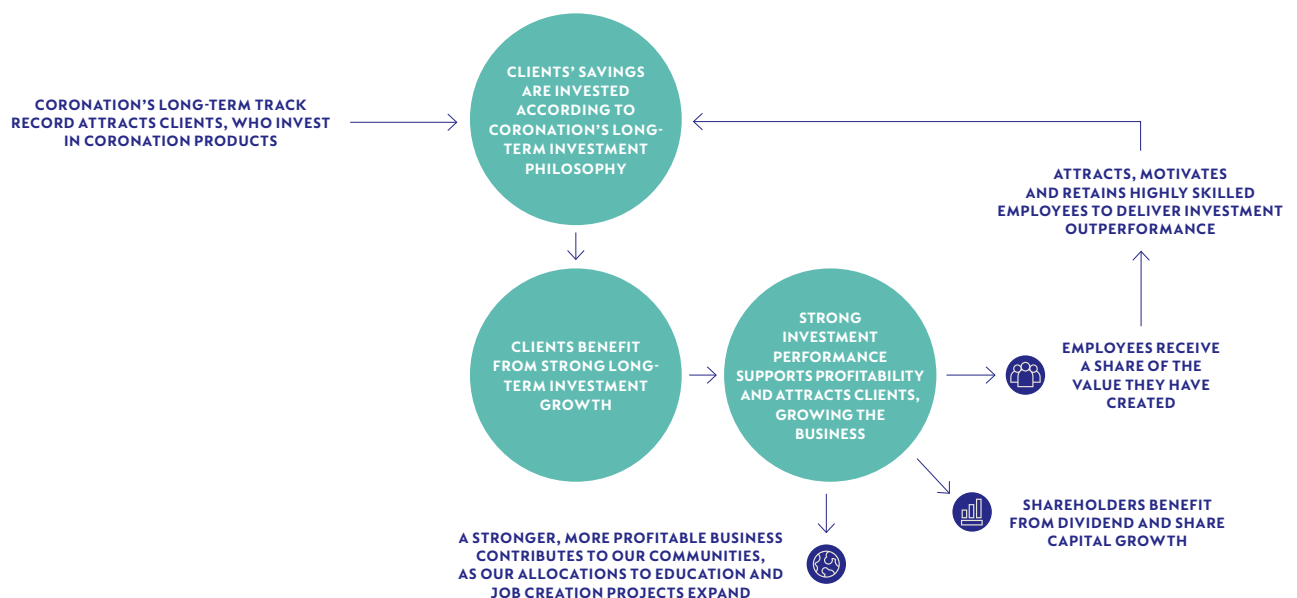
Coronation is 24.4% employee-owned. There is strong evidence globally that owner management of fund management firms correlates strongly with positive long-term investment outcomes and, consequently, delivery on aligned client interests.

## Changes to policy and report

The philosophy and approach underpinning Coronation's remuneration has remained largely unchanged for the year under review and remuneration allocations for 2018 once again continue to reflect alignment with all stakeholders.

The Policy has been updated to include a provision for malus and clawback for 2019, in line with international best practice. We continue to enhance disclosure in line with the input we obtain through regular engagement with our shareholders.

## How Coronation's Remuneration Policy creates long-term stakeholder value





# HOW CORONATION'S REMUNERATION POLICY CREATES LONG-TERM STAKEHOLDER VALUE

## REMUNERATION COMMITTEE REPORT

On behalf of the Coronation Remuneration Committee, we are pleased to submit the remuneration report for 2018.

### Background

Coronation was an early adopter of integrated reporting as well as King IV™ principles in South Africa, and we continue to review and remain abreast of industry remuneration trends and regulatory changes.

Recently, the growing prominence of the responsible approach to investing has meant that asset managers are enhancing their consideration of environmental, social and governance (ESG) factors in their investment processes (→ *refer to the responsible investment section on pages 27 to 28*). An aspect of this is the 'say on pay' movement, and there is increased scrutiny of the fairness of executive compensation and a tightening regulatory environment globally.

### Coronation's 2018 remuneration outcomes

At the 2018 annual general meeting, 83.6% of Coronation's shareholders voted in favour of the Remuneration Policy, which ties employee remuneration to Company performance. This high degree of support notwithstanding, Coronation's management team continued to engage shareholders throughout the year.

Building on last year's reporting enhancements, we have incorporated shareholder feedback into the Remuneration Policy. While it remains largely unchanged, we have implemented provision for malus and clawbacks, effective in the 2019 reporting year; and in this year's report we have provided enhanced information on key performance indicators (KPIs) for the CEO and CFO.

### Remuneration review

The operating environment continued to be a challenging one, both from a market and an economic perspective, and Company earnings declined 3.4% in the year under review.

These negative conditions were exacerbated by corporate governance failures that not only stripped billions of rand from the investment and retirement savings of ordinary South Africans, but also called into question the integrity of the auditing community and oversight exercised by boards.

The Remuneration Committee (the Committee), which is chaired by a non-executive member of the Board, ensures that the remuneration process is fair and responsible and that it endorses the performance culture of the Company.

With this in mind, underperformance in certain strategies over the short term, mainly in South African Equity and Global Emerging Markets, has been fully reflected in the remuneration of affected investment professionals and relevant management members.

Measures varied, according to the performance and accountability of each individual, but they included any, or all, of the following items:

- ▶ Material (and in some cases extreme) cuts to total variable remuneration.
- ▶ The vesting terms of deferred long-term incentives were extended to five years (from the previous three years) with the first vesting at the end of year two (as opposed to the previous year one).
- ▶ A zero cash variable remuneration allocation.

In addition, we implemented two significant projects relating to our asset administration and transfer agency services during 2018. Given the long-term strategic importance of these projects, the individuals involved in securing the success were allocated a project bonus based on successful delivery.

The remuneration approach succeeded in its attraction and retention goals, with turnover among employees who benefited from the CFM Deferred Remuneration Trust at 1% in the year under review (2017: 3%).



In line with our long-term orientation, vesting periods within the CFM Deferred Remuneration Trust extend as far as 2024 and a significant number of key employees have restraints of trade and extended notice periods. In 2018, 57% of the variable remuneration pool was allocated to the long term:

Year	% of variable remuneration allocated to the long term*
2018	57
2017	48
2016	57
2015	55

\* Deferred remuneration, restraints of trade and notice period extensions

As per our Policy, variable remuneration is allocated to all employees of the Group. In 2018, 98% of eligible employees received cash variable remuneration, and 44% benefited from deferred variable remuneration (which were invested in Coronation shares and unit trusts) as depicted below:

Year	% of eligible Coronation employees who received deferred variable remuneration*
2018	44
2017	46
2016	41
2015	42

Percentages pertain to total employee complement of the relevant year  
\* Coronation shares and Coronation unit trusts

Despite the challenging short-term environment, Coronation's executive directors have continued to remain focused on the long term and have continued to invest in the business, building the brand locally and globally, enhancing systems and recruiting top talent. We provide details of executive performance and remuneration on → [pages 64 to 68](#).

## Conclusion

The Committee has ensured that variable pay is distributed fairly, according to an individual's performance against their Key Performance Indicators (KPIs) as well as qualitative assessments, such that our human capital is recognised and rewarded for their contribution to the business.

Going forward, we will continue to monitor global and local regulatory developments and will continue to measure how the remuneration policy delivers long-term value creation.

The sense of ownership that our remuneration policy is designed to foster came to the fore as Coronation employees rallied in this challenging time, travelling extensively and focusing on clear and timeous communications to ensure that our customers continued to receive the excellent service that is enshrined in the Coronation client charter.

### Jock McKenzie

Outgoing Chairperson: Coronation Remuneration Committee

### Hugo Nelson
















Incoming Chairperson: Coronation Remuneration Committee

\* Chairperson changeover effective 6 September 2018

## Coronation's strategic focus areas

- Long-term investment performance
- Client service
- Governance
- Corporate citizenship
- Growing a global franchise

## KPIs ACROSS THE COMPANY

	Strategy and values	Operational excellence	Governance and corporate citizenship	Stakeholder engagement
<b>Key KPIs across the Company</b>	     <ul style="list-style-type: none"> <li>Execution of strategy in line with the Board mandate.</li> <li>Entrenching Company culture, including ethical values and behaviour.</li> <li>Delivering investment excellence.</li> </ul>	   <ul style="list-style-type: none"> <li>Delivering sustainable financial performance.</li> <li>Manage risk in all areas of the business.</li> <li>Achieve operational efficiencies and contain costs.</li> </ul>	  <ul style="list-style-type: none"> <li>Complying with all relevant regulatory and corporate governance requirements.</li> <li>Advancing meaningful economic transformation.</li> <li>Promoting ethical leadership and good governance in South Africa.</li> </ul>	     <ul style="list-style-type: none"> <li>Improving stakeholder relations and delivering on stakeholder requirements.</li> </ul>
<b>Key 2018 outcomes for the Company</b>	<ul style="list-style-type: none"> <li>Performance across our fund range over the longer term indicated a strong performance, but was disappointing over the short term due to internal and external challenges.</li> <li>We manage a combined total of R587 billion (September 2017: R614 billion) on behalf of leading international retirement funds, endowments and family offices.</li> <li>Roll out of key operational projects to enhance customer relationship and experience.</li> <li>Stable employee turnover and strong employment equity.</li> </ul>	<ul style="list-style-type: none"> <li>Outperformed industry benchmarks for cost ratios.</li> <li>Total expenses are flat (0.1% up on 2017).</li> <li>Launch of new investment administration model, consolidating global and South African products under one administrator and supporting the creation of a new black-owned transfer agency.</li> </ul>	<ul style="list-style-type: none"> <li>Coronation complied with regulatory requirements across all jurisdictions.</li> <li>Support of black businesses, including through black stockbroker programme and enterprise development, and creation of a new black-owned business. <i>→ Refer to page 22</i></li> <li>Numeracy and literacy programmes benefited more than 15 500 children in the past year</li> <li>Increased allocations to programmes supporting job creation, education and skills development.</li> <li>Engaging with regulators to ensure good outcomes for investors.</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing engagement with a large group of shareholders and global voting advisers.</li> <li>Meaningful engagement with regulators.</li> <li>Increased surveys to gain feedback from clients.</li> <li>Employee engagement.</li> </ul>
<b>Attracting and retaining highly skilled professionals</b>	<p>The Remuneration Policy succeeded in retaining and motivating highly skilled individuals who are in demand across the world. Turnover among employees who benefited from the CFM Deferred Remuneration Trust was only 1% in the past financial year. In addition, Coronation succeeded in making a number of valuable appointments, particularly of black professionals. As the Company's global reach expands, Coronation is increasingly required to attract and retain highly skilled professionals.</p>			

→ Refer to page 29 to 54 for detailed information on how Coronation harnesses financial, human, intellectual, and social and relationship capital to create value for its stakeholders.

Legend:



# REMUNERATION POLICY

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## Introduction

Our remuneration framework is designed to create long-term value for all stakeholders – shareholders, clients, our employees and our community, in a manner that is fair and responsible.

The Remuneration Policy plays a critical role in supporting the overall business strategy of encouraging a high-performance, competitive business with a structure that attracts, retains, motivates and rewards high-performance employees.

This section contains a summary of the Remuneration Policy, which is available in full at [www.coronation.com](http://www.coronation.com).

## Remuneration philosophy

The objectives of the policy remain the following:

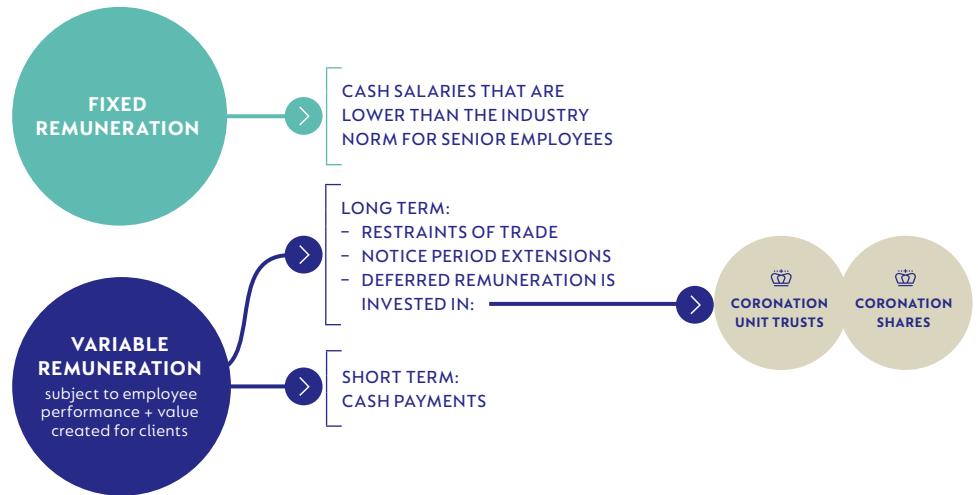
The remuneration process must motivate employees to achieve the long-term corporate strategy through supporting the Coronation values, specifically:

- focusing on long-term value creation;
- always putting clients first;
- creating a culture of ownership;
- recognising that Coronation is a team-based organisation;

- Coronation can attract, retain and motivate highly talented and sought-after individuals;
- employees are rewarded for outstanding and excellent performance. This is essential if the Group's remuneration process is to successfully support its strong performance culture;
- the remuneration structures and implementation are simple and easy to understand, and result in as few unintended consequences as possible;
- the remuneration process is holistic enough to be able to assess the performance of an individual without solely relying on quantitative metrics;
- the rewards for excellent performance should align employees' interests with that of the broader Group and its clients;
- an effective balance is achieved between cash and deferred remuneration to ensure alignment with stakeholder interests, business sustainability and the Group's long-term ethos; and
- good corporate governance in relation to remuneration is applied and the approach to remuneration is consistent with, and promotes, sound and effective risk management.

## Remuneration principles and structure

Coronation has a very simple framework by which to achieve these objectives and to avoid complicated structures that can result in unintended consequences. It applies the principles and practices to all employees, including executives, although the structure and value of individual packages vary by role, seniority and contribution.



### Fixed remuneration

Cash salaries that are lower than the industry norm for senior employees.

### Variable remuneration

Subject to employee performance + value created for clients.

#### Long term

- Restraints of trade
- Notice period extensions

Deferred remuneration is invested in:

- Coronation unit trusts
- Coronation shares

#### Short term

##### Cash payments

Total employee remuneration for all employees consists of fixed and variable (performance-based) remuneration as detailed on the following page.

Variable remuneration has been the cornerstone of Coronation's success since inception 25 years ago. It underpins our values, instils a sense of ownership and promotes a performance culture that directly aligns employee and stakeholder interests.

## FIXED REMUNERATION

Elements	Outcomes
<ul style="list-style-type: none"> <li>Fixed remuneration is determined on a total cost-to-company basis, consisting of a base salary and compulsory benefits*</li> </ul>	<ul style="list-style-type: none"> <li>This is based on roles and responsibilities. Senior employees receive fixed remuneration that is well below industry norm. This is capped to contain fixed costs and to encourage a performance-driven culture. In the case of its most senior employees, the differential is material.</li> </ul>

\* Compulsory benefits include retirement provision (including disability plans death and funeral cover) and medical insurance

## VARIABLE REMUNERATION

Elements	Outcomes
<ul style="list-style-type: none"> <li>Variable remuneration is allocated to all employees according to their contribution</li> <li>Variable remuneration: short-term cash payments</li> </ul>	<ul style="list-style-type: none"> <li>This is directly dependent on the Company earnings and is paid from an allocation of 30% of audited pre-tax net profit. This is a contractual obligation in terms of our memorandum of incorporation and in employment contracts. It was communicated to shareholders in our prospectus on listing in 2003.</li> <li>It is allocated based on individual employee performance appraisals that factor in both qualitative and quantitative measures.</li> </ul>
<ul style="list-style-type: none"> <li>Deferred remuneration</li> </ul>	<ul style="list-style-type: none"> <li>Allocated to eligible employees.</li> <li>Invested in either Coronation unit trusts or in listed Coronation shares, which are purchased on the market, aligning employees with the interests of shareholders and clients.</li> <li>Forfeited if employees resign or sell Coronation shares.</li> </ul>

## OTHER

<ul style="list-style-type: none"> <li>Restraint and notice period extensions</li> </ul>	<ul style="list-style-type: none"> <li>In certain instances, the Remuneration Committee deems it necessary to make payments for notice period extension or restraint payments.</li> </ul>
<ul style="list-style-type: none"> <li>Termination payments</li> </ul>	<ul style="list-style-type: none"> <li>Coronation does not make termination payments unless obliged to do so under labour law or if a labour dispute has been settled.</li> </ul>
<ul style="list-style-type: none"> <li>Once-off allocations</li> </ul>	<ul style="list-style-type: none"> <li>In exceptional circumstances, once-off allocations will be made to relocation costs or to make good any loss of benefit or obligation that arises from the particular employee's resignation from their previous employer.</li> </ul>

## Remuneration governance

The Coronation Board of Directors has the ultimate responsibility for the governance of the remuneration framework and for setting the direction for how remuneration is approached on a Group-wide basis. It ensures that the process that governs the assessment of employees' performance is robust and fair given that this informs the allocation.

The Committee is responsible for key decisions regarding remuneration including the implications for overall risk management. The Committee has full oversight and control of the Remuneration Policy and practices.

Remuneration allocations are not calculated according to mechanistic and set formulas. We believe this kind of mechanistic measurement can result in unintended consequences. At Coronation, all employees are subject to holistic annual performance assessments which consider both qualitative and quantitative measures, including KPIs. Assessments also balance the performance of the individual with that of the team in which the employee operates and the broader organisation. Management's final recommended allocations in respect of the variable components are submitted to the Committee for consideration and approvals.

Following the Committee's approval of deferred remuneration allocations, the underlying investments are proposed to the CFM Deferred Remuneration Trust. The trustees of the CFM Deferred Remuneration Trust are independent of the executives and ensure that, once allocations have been made, the trust rules are strictly applied to all beneficiaries.

## Conclusion

The Remuneration Policy and the implementation report will be tabled every year at Coronation's AGM for a separate non-binding advisory vote by the shareholders of Coronation. Coronation continuously reviews its remuneration framework to ensure that it supports achieving our strategic objectives and promotes positive long-term outcomes for all stakeholders. As part of this process, Coronation actively seeks out the views of its shareholders where appropriate in relation to its remuneration practices.



# Implementation report

## Introduction

The Remuneration Committee (the Committee) is responsible for implementing Coronation's Remuneration Policy (the Policy). It is constituted to enable it to exercise competent and independent judgement on remuneration policies and practices. The Committee ensures that the remuneration process is fair and responsible, accounting for all employees.

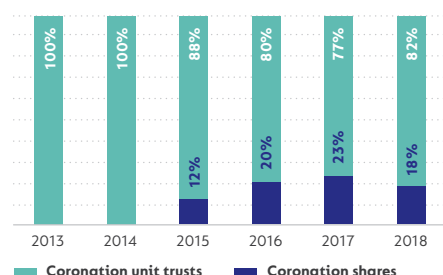
As outlined, the Committee found that the Policy achieved its objectives in the current year and it was implemented without any deviations.

## Variable allocation

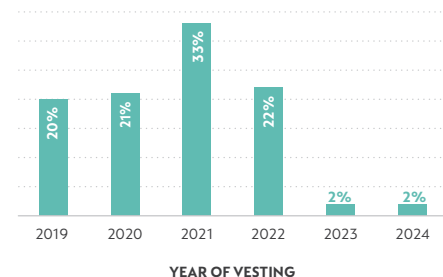
The contractual 30% allocation from audited pre-tax net profit of the Coronation Group, the amount available for cash allocations and deferred remuneration declined by 2.9% in 2018 (→ refer to KPIs across the Company on page 58).

For the period under review, 57% of the variable remuneration allocation was deferred and was primarily invested in Coronation unit trusts.

### INVESTMENTS HELD BY THE CFM DEFERRED REMUNERATION TRUST AS AT 30 SEPTEMBER 2018



### VESTING PROFILE OF DEFERRED VARIABLE REMUNERATION AS AT 30 SEPTEMBER 2018



## Fixed allocation

The fixed component of total remuneration increased by 14% to R217 million due to inflationary adjustments and new employee appointments – which were mainly driven by changes to our fund administration outsourcing arrangements. The total employee complement increased from 303 to 331 as at 30 September 2018.

## Executive directors' key performance measures – 2018

The Committee determines the awards to the executive directors based on individual performance. Performance is measured quantitatively and qualitatively. Specific emphasis is placed on the long-term performance of the individual, given that this is the defining characteristic of Coronation as a business and an investment manager.

Please note that, in some instances, the Committee considers the disclosure of certain details on the performance measures to be commercially sensitive.

The following tables provide details of the KPIs that the Committee has considered. It should be noted that the weightings have been assigned to each KPI only to give the reader a sense of the importance of each measure in the current financial year. They have not been used to perform a formulaic, overall score for the executive concerned.



## Anton Pillay

BBusSc, CA(SA), CFA, AMP (Harvard)

Chief Executive Officer

KPI	Weighting	The CEO must	Action
<b>Strategic/values</b>	<b>40%</b>		
<b>Culture and values</b>		<ul style="list-style-type: none"> <li>➤ Build the meritocratic and entrepreneurial culture of the Company.</li> <li>➤ Instil the core values of putting clients' first, uncompromising ethics and teamwork.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Coronation remains a people-focused, investment-led business. While the Company had policies and processes in place to ensure its values and codes are maintained, it is ultimately about behaviour on a daily basis.</li> <li>➤ The CEO ensures that business culture and values are instilled, and where necessary are encouraged through regular engagement with employees.</li> </ul>
<b>Talent management</b>		<ul style="list-style-type: none"> <li>➤ Create a high-performance working environment that attracts, retains and develops world-class skills.</li> <li>➤ Ensure an industry-leading staff turnover ratio.</li> <li>➤ Ensure that there are succession plans in place.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Turnover well below industry standard at 4.5%.</li> <li>➤ Regular engagement and internal communication.</li> <li>➤ Continued development of employees through both internal and external initiatives.</li> <li>➤ Continued process of support through coaching and mentoring.</li> </ul>
<b>Brand and reputation</b>		<ul style="list-style-type: none"> <li>➤ Be accountable for building the Coronation brand and ensuring it becomes a household name.</li> </ul>	<ul style="list-style-type: none"> <li>➤ New above and below the line brand activation.</li> <li>➤ Launched <a href="https://becauseitsyourmoney.com">becauseitsyourmoney.com</a> and savings month campaign to appeal to youth.</li> <li>➤ Market research conducted.</li> </ul>
<b>Roll out of global product range</b>		<ul style="list-style-type: none"> <li>➤ Be accountable for building the franchise value of our key global products (→ <i>see page 34 for fund range</i>).</li> <li>➤ Build relationships with asset allocators and clients.</li> <li>➤ Establishing compelling performance track records across the fund range.</li> <li>➤ Build out the investment teams.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Our global strategies continued to deliver excellent long-term performance, with GEM facing some challenges over the short term.</li> <li>➤ The team continued to engage actively with current and potential clients.</li> <li>➤ 65 shareholder engagements.</li> <li>➤ The investment team remains stable and continues to deepen their understanding of global markets to identify opportunities.</li> </ul>
<b>Platform efficiency and technology</b>		<ul style="list-style-type: none"> <li>➤ Be accountable for the successful migration of the administration (domestic business) from one provider to another.</li> <li>➤ Key deliverables include whether delivery is on time, on budget and without disruption to clients.</li> </ul>	<ul style="list-style-type: none"> <li>➤ The migration to new service providers was seamlessly and successfully implemented.</li> </ul>

KPI	Weighting	The CEO must	Action
<b>Operational</b>	<b>25%</b>		
<b>Cost control</b>		<ul style="list-style-type: none"> <li>➤ Implementation of sound Group financial management and controls.</li> <li>➤ Ensure that costs are judiciously managed and reduced where appropriate.</li> <li>➤ Benchmark cost to income and cost to AUM ratios against leading local and international competitors.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Fixed expenses increased due to platform and service provider implementation costs. Variable expenses decreased, resulting in operating expenses remaining flat year on year.</li> <li>➤ Maintained 50% cost-to-income ratio.</li> </ul>
<b>Investment performance</b>		<ul style="list-style-type: none"> <li>➤ Be accountable for ensuring that all Coronation funds deliver compelling investment performance over meaningful periods (five-years +).</li> </ul>	<ul style="list-style-type: none"> <li>➤ Short-term performance is disappointing for certain strategies while our long-term performance across the product range remains exceptional: two out of three funds are top quartile over the 10-year period; and seven unit trusts are top quartile long-term performers.</li> </ul>
<b>Governance</b>	<b>20%</b>		
<b>Governance and risk management</b>		<ul style="list-style-type: none"> <li>➤ Be responsible for building an appropriate risk and compliance culture and processes to protect client assets, minimise the risk of reputational damage and of financial losses.</li> </ul>	<ul style="list-style-type: none"> <li>➤ The Company continued to operate to the highest levels of global governance and risk management with no issues.</li> </ul>
<b>Transformation</b>		<ul style="list-style-type: none"> <li>➤ Drive industry-leading and credible transformation through the business.</li> <li>➤ Sustain and improve black employee representation and procurement.</li> <li>➤ Improve gender diversity broadly.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Rated as Level 2 B-BBEE contributor in terms of revised FSC.</li> <li>➤ 78% of new hires were black; 58% of the business is black, 58% of whom were black women.</li> <li>➤ Supported establishment of black-owned fund administration service.</li> </ul>
<b>Clients/stakeholders</b>	<b>15%</b>		
<b>Clients</b>		<ul style="list-style-type: none"> <li>➤ Maintain and strengthen key client relationships.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Client-facing teams have continued to focus on ensuring clients are kept abreast of Company and product developments.</li> </ul>
<b>Stakeholder relations</b>		<ul style="list-style-type: none"> <li>➤ Ensure that transparent communications and sound relationships are maintained with key stakeholders.</li> </ul>	<ul style="list-style-type: none"> <li>➤ The CEO communicated with a number of stakeholders through the course of the year.</li> <li>➤ Shareholder and regulatory engagements in respect of proposed changes to the CIS taxation regime.</li> <li>➤ As a board member of ASISA, the CEO engaged on various industry-related issues.</li> </ul>

## 2018 Board assessment

Assessing the CEO's performance against KPIs and qualitative measures, the Remuneration Committee decided on an allotment from the variable remuneration allocation. As the executives' award opportunity is directly aligned with the profitability of the Company, we believe minimum, on-target and maximum performance outcomes are not applicable. The CEO was also impacted by investment underperformance across certain strategies, but has KPIs across the business, and operational project delivery was significant during the year.

Group wide, the total allocation for 2018 was adjusted downwards to reflect the reduction in the available cash allocations resulting from the decline in the contractual 30% allocation from audited net profit before taxation of the Coronation Group.

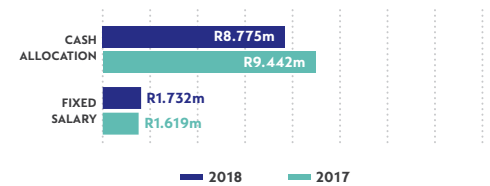
In addition, the available allocation was smaller due to an increase in employees and a larger allotment across the Company to retain employees whose responsibilities have increased.

The CEO's total remuneration was determined after taking into account the outcome of his performance against 2018 KPIs as detailed above, the key outcomes being:

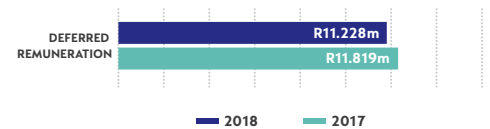
- launch of a new investment administration model and progress in implementation of the new transfer agency services;
- maintained Coronation's global franchise in tough environment;
- no turnover among senior employees – stable employee turnover across the business;

- market-leading cost control metrics;
- short-term investment underperformance across certain strategies impacted negatively on performance assessment but longer-term investment outperformance remains strong;
- continued compliance with regulatory requirements across all jurisdictions; and
- maintained Coronation's strong brand and reputation through new above and below the line brand activation.

## 2018 REMUNERATION OUTCOME



The Committee allocated the CEO a long-term allocation which is invested in Coronation shares and unit trusts with vesting periods of between one and five years. The CEO's underlying holdings as at 30 September 2018 are the same proportion represented in the CFM Deferred Remuneration Trust (→ [refer page 63](#)).



The CEO's shareholding in Coronation's issued share capital is 1.35%. The CEO has not sold any of his shares, ensuring alignment with shareholders and Company values. The CEO has a permanent employment contract, with a notice period of 12 months and a 12-month paid restraint of trade.

## John Snalam

BCom, CTA, CA(SA)

Chief Financial Officer

KPI	Weighting	KPI	Action
<b>Strategic/values</b>	<b>20%</b>		
<b>Financial operating model</b>		<ul style="list-style-type: none"> <li>➤ The CFO is responsible for ensuring the implementation of an effective financial operating model and controls of the Group, including sound balance sheet management and maintaining required statutory levels of capital and liquidity. The number of reportable items raised by external auditors being the key metric for this deliverable.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Successive clean audits for 26 years since inception of Coronation in 1993 for the Group and across all subsidiary companies and associated entities and products.</li> </ul>
<b>Talent management</b>		<ul style="list-style-type: none"> <li>➤ The CFO is responsible for ensuring the finance department employs the appropriate world class skills to deliver on its responsibilities and roles (finance, company secretarial, transformation and remuneration).</li> </ul>	<ul style="list-style-type: none"> <li>➤ Small but highly effective finance team, with minimal staff turnover for 15 years, that executes all financial and related activities for all entities within the listed Group.</li> </ul>
<b>Operational</b>	<b>35%</b>		
<b>Cost control</b>		<ul style="list-style-type: none"> <li>➤ A proactive focus on controllable costs is entrenched in the culture of the Company. The CFO is responsible for ensuring the required cost controls are implemented and adhered to across the Group. He is also responsible for the preparation of and reporting on budgets and holding the departmental heads accountable to projected budgets. The business must continue to benchmark favourably on cost to income and cost to AUM ratios against leading, local and international competitors.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Variable cost model established at inception in 1993 and maintained to date, as the most appropriate and beneficial model for the type of business and structure of Coronation.</li> <li>➤ Have successfully maintained below 50% cost-to-income ratio since 2010, which compares very favourably to asset management industry averages of between 65% and 75%.</li> </ul>
<b>Financial reporting</b>		<ul style="list-style-type: none"> <li>➤ The CFO is responsible for maintaining a high level of internal and external reporting (including relevant statutory and regulatory reporting) as measured by the relevance, accuracy and timeliness of the reporting.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Detailed monthly and ad hoc reporting of all financial facets of the business and further financial analysis and forecasting/valuation produced quarterly for Board reporting.</li> <li>➤ Biannual results reporting to the market.</li> <li>➤ Annual audited financial statements for the Group and all subsidiaries and entities.</li> <li>➤ Regular regulatory financial reporting.</li> </ul>
<b>Tax</b>		<ul style="list-style-type: none"> <li>➤ The CFO is responsible for the management of the Group's tax affairs, including appropriate implementation of tax regulation and interaction with the respective regulatory bodies.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Implementation and monitoring of conservative tax strategies for all Group companies, entities and products.</li> <li>➤ Interaction with all relevant tax authorities.</li> </ul>

KPI	Weighting	KPI	Action
<b>Governance</b>	<b>25%</b>		
<b>Governance and risk management</b>		<ul style="list-style-type: none"> <li>➤ The CFO should ensure that an environment of appropriate corporate governance and effective risk management prevails across the Company and is specifically responsible for oversight of and assisting the company secretarial function.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Clean financial closing reports from internal audit to the Audit Committee since inception.</li> </ul>
<b>Transformation</b>		<ul style="list-style-type: none"> <li>➤ The CFO is responsible for monitoring and reporting on transformation initiatives and goals from an internal and external perspective. CFO also specifically responsible for driving enterprise development, supplier development and preferential procurement initiatives.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Regular BEE reporting internally and to SET Committee.</li> <li>➤ Annual external verification of scorecard.</li> <li>➤ Rated as Level 2 B-BBEE contributor in terms of revised FSC.</li> </ul>
<b>Clients/stakeholders</b>	<b>20%</b>		
<b>Stakeholder relations</b>		<ul style="list-style-type: none"> <li>➤ The CFO needs to ensure excellent and relevant communication is maintained with shareholders, analysts, regulators and Board of Directors.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Regular ad hoc interaction with investors and analysts.</li> <li>➤ Formalised biannual reporting and interaction with investors and analysts.</li> <li>➤ Regular formal Board meetings and ad hoc interaction with the Board of Directors.</li> </ul>

## 2018 Board assessment

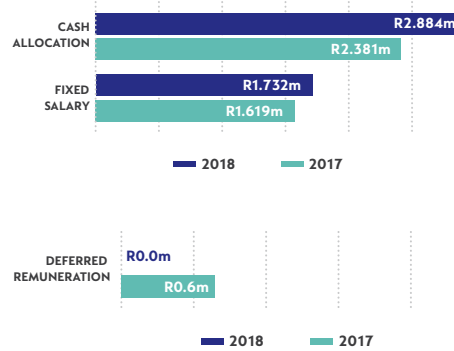
Assessing the CFO's performance against KPIs and qualitative measures, the Remuneration Committee decided on an allotment from the variable remuneration allocation. The award opportunity is directly aligned with the profitability of the Company.

The total allocation for 2018 was adjusted downwards to reflect the reduction in the available cash allocations resulting from the decline in the contractual 30% allocation from audited net profit before taxation of the Coronation Group. In addition, the available allocation was smaller due to an increase in employees and a larger allotment across the Company to retain employees whose responsibilities have increased.

The CFO's total remuneration was determined after taking into account the outcome of his performance against 2018 KPIs as detailed above, the key outcome being:

- unqualified audits across the Group during the financial year;
- Coronation's cost-to-income and cost-to-AUM ratios outperformed leading local and international competitors;
- all subsidiaries maintained required levels of regulatory capital and liquidity;
- compliance with regulatory requirements across all jurisdictions; and
- BEE scorecard improvement.

## 2018 REMUNERATION OUTCOME



The CFO's shareholding is 0.16% of Coronation's issued share capital. The CFO has a permanent employment contract with a three-month notice period and a six-month paid restraint of trade. CFO John Snalam will be retiring in 2019.

## Non-executive directors

Non-executive directors of Coronation receive an annual fixed fee and an attendance fee for Board and subcommittee meetings, as contained in a resolution that is subject to shareholder approval. They do not participate in any of the remuneration structures addressed in this policy document or receive share options.

In preparation for the 2018 fee proposal for non-executive directors, the Remuneration Committee considered the increased demands on directors to contend with the growing complexity of a global business and a dynamic regulatory environment.

In addition, director fees were reviewed against the January 2018 PricewaterhouseCoopers Non-Executive Directors Practices and Trends Report and were found to be lower than the observed non-executive fees in the financial service industry (for companies comparable in size to Coronation).

## 2018 FEES PAID TO THE NON-EXECUTIVE DIRECTORS\*

Non-executive directors	Basic fee R'000	Board meetings R'000	Audit and Risk Committee meetings R'000	Remuneration and Nominations Committee meetings R'000	SET Committee meetings R'000	Total 2018 R'000
Shams Pather	135	539	121	224	–	1 019
Alexandra Watson	124	318	277	–	106	825
Judith February	135	304	91	–	148	678
Jock McKenzie	135	304	182	210	–	831
Lulama Boyce	118	265	159	–	–	542
Hugo Nelson	132	296	175	189	–	792
Total	779	2 026	1 005	623	254	4 687

\* Actual non-executive directors' fees paid (excluding value added tax (VAT) where applicable)

We have proposed an inflation-based increase for 2019 year. We continue to monitor the fees to ensure they are we are able to attract and retain non-executive directors with the required experience and expertise, especially given that we will be focusing on succession in the immediate future.

The proposal (as detailed in our [Notice to shareholders](#) available on [www.coronation.com](http://www.coronation.com)) will be submitted for approval by shareholders by way of a special resolution tabled at the AGM, in compliance with the Companies Act. Approvals for non-executive directors' fees are sought excluding VAT, and where necessary non-executive directors will levy VAT on their fees.





# Board of Directors

*Our unitary Board comprising a majority of independent, non-executive directors from diverse backgrounds, and with different skill sets and experience.*



Back row: Jock McKenzie, Judith February, Anton Pillay, Alexandra Watson, Hugo Nelson, John Snalam  
Front row: Shams Pather, Lulama Boyce

## SHAMS PATHER

**Independent Non-Executive Chairman, 68**

*BBusSc, BCom (Hons), MBA (UCT)*

Shams was appointed to the Board in 2005 and to the position of Chairman in March 2009. He has more than 30 years' experience in the asset management industry. From 1974 to 2003, he worked at Norwich Union, Colonial Mutual Life Assurance, Southern Life and Real Africa Asset Management. His directorships include Oceana Group Ltd, Lungisa Industrial (Pty) Ltd, Lungisa Technologies (Pty) Ltd, Lungisa Investment Holdings (Pty) Ltd, Centre for Proteomics and Genomics Research and Kagiso Tiso Holdings (Pty) Ltd.

## ANTON PILLAY

**Chief Executive Officer, 48**

*BBusSc, CA(SA), CFA, AMP (Harvard)*

Anton was appointed Chief Executive Officer of Coronation Fund Managers in February 2013 and has been a member of the Board since June 2009. He joined Coronation in January 2006 from BoE (Pty) Ltd, where he held a number of key positions and directorships. Anton has extensive knowledge and experience of the investment and banking industry. He is a director of various Coronation subsidiaries, and also serves as chairperson of Namibia Asset Management and on the board of PPS Investments. Anton is a member of ASISA.

## JOHN SNALAM

**Chief Financial Officer, 59**

*BCom, CTA, CA(SA)*

John has been the Chief Financial Officer of Coronation Fund Managers since its inception in 1993. During that time, he has been responsible for all finance and legal functions related to the business, as well as responsibilities for operations, risk and compliance. He also held directorships on the boards of all South African operating subsidiaries of the Group. Prior to joining Coronation, John spent eight years in the fields of finance, operations and compliance within financial services companies in London and South Africa. John was appointed to the Board in November 2012.

## JUDITH FEBRUARY

**Independent Non-Executive Director, 47**

*BA (Law), LLB, LLM (UCT)*

Judith is a senior research associate at the Institute for Security Studies and a Visiting Fellow at the Wits School of Governance. Prior to that, Judith headed up IDASA's South African governance programme. She practised law in Cape Town until 2000 and holds an LLM in Commercial Law. Judith also is a Conflict Dynamics accredited commercial mediator. She is a regular media analyst on South African politics and writes columns for *Eyewitness News*, *Daily Maverick* and *Media24*. She is the author of 'Turning and Turning: exploring the complexities of South Africa's democracy', published by PanMacMillan in August 2018. Judith also chairs the Springfield Convent School board of governors. She was appointed to the Board in August 2008.

## ALEXANDRA WATSON

**Lead Independent Non-Executive Director, 62**

*BCom (Hons), CA(SA)*

Alexandra is an emeritus professor of the University of Cape Town, having retired earlier this year after decades of teaching postgraduate financial reporting. She is a former chairman of the accounting practices committee, the technical accounting committee of the South African Institute of Chartered Accountants, and is a member of the Financial Reporting Investigations Panel (an advisory panel of financial reporting experts formed by a joint venture of the JSE and SAICA). In April 2018, Alexandra was appointed as an independent director of Steinhoff International Holdings N.V. She is the vice-chairman of the board of the Global Reporting Initiative, an Amsterdam-based organisation promoting understanding and communication of sustainability issues and in November 2018 was appointed to the board of WWF-SA.

## LULAMA BOYCE

**Independent Non-Executive Director, 39**

*BCom (Hons), CA(SA), MCom, Financial Management (UJ)*

Lulama is the head of department of commercial accounting at the University of Johannesburg. She is also a member of the board of Adcock Ingram Holdings. She graduated from the University of Cape Town in 2002 and served her articles at Grant Thornton Johannesburg. She is a former account manager of the Industrial Development Corporation (IDC) and was part of the transport and financial services business unit from 2008 to 2011. She is a former project finance consultant and served on the audit committee of Automotive Supplier Park (ASP) from 2007 to 2009. Lulama was appointed to the Board in October 2014 and is an independent non-executive director of Coronation Management Company (RF) (Pty) Ltd and Coronation Life Assurance Company Ltd.

## JOCK MCKENZIE

**Independent Non-Executive Director, 71**

*BSc (Chem Eng), MA (Lancaster)*

Jock is a member of the boards of Sappi and Capitec and Zululand Distilling Company (Pty) Ltd. He chairs the board of trustees of the UCT Foundation, the Carleton Lloyd Educational Trust and the Rondebosch Boys' Schools Education Trust. Jock held several senior executive positions globally and in South Africa. In 1999, he was appointed chairman and chief executive officer of the Caltex Corporation, and served as president for Asia, Middle East and Africa Products of the Chevron Texaco Corporation from October 2001 to January 2004. Jock was appointed to the Board in May 2009.

## HUGO NELSON

**Independent Non-Executive Director, 48**

*MBChB, MBA (Oxon), CFA*

Hugo is founding partner of Fortitude Vincimus Capital Advisors (Pty) Ltd. He is former CEO of Coronation Fund Managers, prior to which he was a member of the investment team of the business for eight years. Hugo is a medical doctor who found his way into investment management via an MBA completed at Oxford University. He is a CFA charterholder. Hugo is a trustee of the DG Murray Trust, member of the Steinhoff NV supervisory board and a patron of George Whitfield College. Hugo was appointed to the Board in November 2016.





# Board overview

*The Board has full and effective control of the Coronation Fund Managers Ltd and its subsidiaries, which is exercised through the management team and subsidiary boards.*

The Board of Directors (the Board) provides strategic direction to management and approves the implementation of strategy to create sustainable value for all stakeholders.

Its responsibilities include:

- monitoring Coronation's performance;
- overseeing risk management structures; and
- ensuring that the Company culture and values support Coronation's corporate objectives.

The management team is accountable for the development and implementation of strategy and policies.

The Board is accountable to shareholders and is responsible for overseeing the management of relationships with the various stakeholders. In fulfilling its responsibilities, the Board is aware of the importance of achieving economic performance while conforming to governance principles. All directors are also entitled to seek independent professional advice regarding the affairs of Coronation. The Company Secretary may assist directors, Board committees and their members in obtaining professional advice.

Continuing to earn and build on Coronation's clients' trust is the foundation upon which the business has been built. As a good corporate citizen and a leader within the South African asset management industry, Coronation has a responsibility to conduct itself in an ethical and responsible manner. As it is an increasingly global company, the Board will continue to ensure that Coronation complies with best governance practices around the world, including King IV™, to sustain an environment of effective oversight and accountability.

We are aligned to the principles as detailed in our King IV™ application register, which can be viewed on our website [www.coronation.com](http://www.coronation.com).

## Board composition

As at 30 September 2018, Coronation's unitary Board comprised of two executive directors and six independent non-executive directors. The Chairman is an independent non-executive director. The Board is responsible for appointing the CEO. The roles of the Chairman and CEO have been specifically separated. The non-executive directors have the integrity, skills and experience to provide independent insight and value at board meetings. There is a clear division of responsibilities at Board level to ensure a balance of power and authority, such that no one individual has unfettered powers of decision-making. The Board is satisfied that its current composition ensures such a balance of power and authority. Profiles of the directors are detailed on → [pages 70 to 71](#).

Mr Shams Pather, Prof Alexandra Watson, Ms Judith February and Mr Jock McKenzie are independent non-executive directors who have been members of the Board for longer than nine years. In terms of King IV™, the Board is required to initiate a review when an independent non-executive director's tenure exceeds a period of nine years. As at September 2018, a formal assessment of the independence of these Board members was conducted by Deloitte & Touche.

The Board also considered various criteria which would likely affect or appear to affect the aforementioned directors' character and judgement. This included assessments of relationships and circumstances that could create material conflicts of interest. Based on the formal assessment conducted by Deloitte & Touche and its own assessment, the Board concluded that, in each instance, the independence of Mr Pather, Prof Watson, Ms February and Mr McKenzie's character and judgement were not impaired by their length of service. The rest of the non-executive members were considered independent.

Coronation is in the process of assessing potential candidates to join the Board during the course of 2019 to ensure orderly succession in due course.

## Board and subcommittee assessments

For the year ended 30 September 2018, Deloitte & Touche facilitated a formal effectiveness assessment of the Board and its committees. The assessment included an online assessment by individual directors, covering both targeted questions and free-text comments, and a series of one-on-one meetings in which directors provided constructive feedback on the functioning of the Board and its committees.

The independent assessment concluded that the performance of the Board and its committees continue to be highly effective with no material findings noted. The assessment confirmed that directors are engaged on matters relating to the Board and Coronation, and that executives engage openly and transparently with the Board.

## Lead independent non-executive director

Prof Alexandra Watson is the lead independent non-executive director. The lead independent non-executive is expected to:

- lead the Board in the absence of the Chairperson;
- lead the performance appraisal of the Chairperson;
- assist the Chairperson in all other matters where necessary; and
- act as Chairperson in any other instance where the Chairperson is conflicted in relation to a matter being considered by the Board.

## Director nominations

Based on the recommendation from the Remuneration and Nominations Committee, the Board considers the nomination of new directors for appointment, or re-appointment in the case of existing directors, and recommends the same to shareholders. In line with Company policy, at least one third of the non-executive directors are required to retire from their appointment each year. The directors who are required to retire are those who have been

in office the longest since their last election or appointment. The retiring directors may make themselves eligible for re-election. The retiring directors eligible for re-election at the 2019 Annual General Meeting are Mr John Snalam, Ms Lulama Boyce and Mr John David (Jock) McKenzie.

The Committee has recommended that additional directors be appointed for the purposes of succession planning.

## Outside interests

In terms of the Companies Act, all directors must disclose outside business interests. The declaration of directors' interest and conflicts of interests is a standard agenda item at each Board meeting. Directors who are conflicted recuse themselves and do not participate in meetings. The Company Secretary maintains a register of all the directors' interest, which is presented to the Board annually. The Board is aware of directors' outside commitments and is satisfied that all directors allocate sufficient time to enable them to discharge their duties effectively.

## Non-executive director fees

Non-executive directors receive fees for their services as directors of the Board and for services as members of committees. These fees were determined and agreed by the Board on the recommendation of the Remuneration and Nominations Committee (→ *refer to director's remuneration on page 69*).

Although the Board retains overall responsibility for Coronation, it does delegate authority to the executives to manage the day-to-day business and affairs of Coronation. The Delegation of Authority Framework clearly sets out specific levels of authority and the required approvals necessary for all decisions to be made, while providing the necessary autonomy for the day-to-day operations. The framework is reviewed annually by the Board.

As at 30 September 2018, the Board had three committees, namely the Audit and Risk Committee, the Remuneration and Nominations Committee and the Social, Ethics and Transformation Committee. (→ *Refer to page 74 for each Committee's membership*). All Board Committee charters are available for review on our website [www.coronation.com](http://www.coronation.com).

## BOARD AND COMMITTEE MEMBERSHIP

	Board of Directors	Audit and Risk Committee	SET Committee	Remuneration and Nominations Committee
Shams Pather <sup>1*</sup>	Chairman			Member
Lulama Boyce <sup>1</sup>	Director	Member		
Judith February <sup>1</sup>	Director		Chairman	
Jock McKenzie <sup>1^</sup>	Director	Member		Member
Hugo Nelson <sup>1†</sup>	Director	Member		Chairman
Alexandra Watson <sup>1</sup>	Director	Chairman	Member	
Anton Pillay <sup>2</sup>	CEO		Member	
John Snalam <sup>2</sup>	CFO			

<sup>1</sup> Independent non-executive

<sup>\*</sup> Chair on matters relating to the nomination and appointment of individuals

<sup>^</sup> Chair on matters relating to remuneration until 6 September 2018

<sup>2</sup> Executive

<sup>†</sup> Hugo Nelson replaced Jock McKenzie as chairman of all matters that relate to remuneration on 6 September 2018

## Meeting attendance

The Board meets a minimum of four times a year, with additional meetings as required. Material decisions may be taken between meetings by way of written resolutions, as provided for in the memorandum of incorporation. The non-executive directors are provided with comprehensive information on the business and are updated on business developments between Board meetings. The Board met on five occasions during the 2018 financial year.

Attendance at the meetings of the Board and the committees as at 30 September 2018 was as follows:

	Board of Directors	Audit and Risk Committee	SET Committee	Remuneration and Nominations Committee
Shams Pather	100%			100%
Lulama Boyce	100%	100%		
Judith February	100%		100%	
Jock McKenzie	100%	100%		100%
Hugo Nelson	100%	100%		100%
Alexandra Watson	100%	100%	100%	
Anton Pillay	100%		100%	
John Snalam	100%			

## Diversity Policy

The Board recognises that the promotion and implementation of gender and race diversity is critical to achieving sustainable transformation in the long term, and has adopted a Diversity Policy, which is available at [www.coronation.com](http://www.coronation.com). In assessing the composition of the Board, consideration will be given to the appointment of female and/or black directors to attain and maintain gender and race diversity within the Board, having due regard to the skills, expertise, experience and background required to fill any Board positions. The target for non-executive directors of the Board is 50% black and 50% female. At 30 September 2018, our voluntary target for non-executive directors of the Board was achieved.

## Company Secretary

The Board selects and appoints the Company Secretary and recognises the importance of this role in entrenching good corporate governance. All directors have unlimited access to the services of the Company Secretary, who in turn has access to appropriate resources in the provision of this support.

Ms Lee-Anne Parenzee was appointed as Company Secretary by the Board in accordance with the Companies Act with effect from 8 November 2012. In accordance with the JSE Listings Requirements, a detailed assessment was conducted by the Board to consider and satisfy itself as to Ms Parenzee's competence, qualifications and experience. The Board agreed that all the requirements had been met, was satisfied with her performance and is confident in her ability to meet the responsibilities of the position. She does not serve as a director of the Board and the assessment confirmed her arm's-length relationship with the Board.



# Committee reports

## SOCIAL, ETHICS AND TRANSFORMATION (SET) COMMITTEE

The responsibilities of the SET Committee include upholding, monitoring and reporting to the Board on organisational ethics; responsible corporate citizenship; organisational transformation and the fulfilment of its statutory duties on behalf of the Group; as well as any additional functions as delegated by the Board. The SET charter, approved annually by the Board, more fully sets out the Committee's responsibilities and is available for review in the shareholder information section of our website [www.coronation.com](http://www.coronation.com).

While this Committee has insight into the investment process, especially in relation to stewardship and the consideration of ESG factors during the investment process, the SET Committee is not accountable for trading decisions made by the investment team, which are operational, given the nature of the business. As the business continues its responsible investment journey, it is revising its Stewardship Report which will be published on the website in the first quarter of 2019.

The Committee comprises independent non-executive directors Ms Judith February (Chairperson), Prof Alexandra Watson, as well as executive director Mr Anton Pillay, who lend a wealth of experience and diverse perspectives to Committee discussions.

In addition, managers in business including the Chief Operating Officer, heads of Talent Management and Marketing attend and report at Committee meetings by invitation. The Committee is supported in the execution of its mandate by joint staff and management Employment Equity and CSI committees. The activities of these committees are part of the SET Committee agenda.

The Committee met twice during 2018, and each meeting was fully attended by its members.

In its deliberations during the year, the Committee considered substantive local and international regulation and frameworks, as well as leading industry practice. Furthermore, the Committee received feedback on the monitoring, assessment and measurement of Group activities as they relate to social and economic development, transformation and ethics, including the Group's standing in terms of the goals and purposes of, inter alia, the following:

- The Companies Act;
- United Nations Global Compact 10 Principles;
- OECD recommendations regarding corruption;
- Employment Equity Act; and
- Broad-Based Black Economic Empowerment Act.

### Key areas of focus 2017/ 2018

#### Labour and employment practices

- Oversight of the impact of the revised FSC gazetted during December 2017 on Coronation and monitoring measures implemented by management to influence the businesses rating under the revised FSC in 2018.
- Overseeing that meaningful transformation is taking place within the business in terms of recruitment, employee retention and career development, as well as the development of the workforce pipeline through graduate recruitment and bursary programmes. (→ *Refer to pages 49 to 54 for information on our employees and page 23 to 24 on our initiatives to develop young talent*).

### Organisational ethics

- Overseeing the promotion of an ethical culture, equality, and prevention of unfair discrimination, including oversight and monitoring adherence to the code of ethics and related policies.
- Monitoring the results of the anonymous whistle-blowing mechanism, maintained by a third party.
- Receiving regular feedback on an initial and follow-up assurance provider due diligence performed in 2017 and 2018, respectively.

### Corporate citizenship

- The Committee discussed at length the efficacy of social impact investing programmes.
- The Committee monitored corporate spend in respect of the various programmes supported.
- Focus was allocated to the CSI Capsule Programme, which was launched at three schools in the city during March 2018. The launch was attended by Prof Alexandra Watson on behalf of the Committee.

### Stakeholder engagement

Reviewing a summary of engagement with the material stakeholders including the number and method of engagement, and the nature of discussions held. No material matters requiring the focus of the Committee were noted during the year.

The Committee relies on management for the implementation of strategies and initiatives, of which the primary contributors are the management team as well as the Employment Equity and CSI committees. The Committee completed a self-assessment during the 2018 financial year and is of the opinion that it has effectively discharged its responsibilities in terms of its mandate.

### Future focus

Given the increased culture of stakeholder activism across the country, the Committee continues to apply increasing focus to the Group's relationships with its stakeholders, as well as public perception of the Company. In addition, the Committee will continue to focus on meaningful transformation initiatives within the business and further entrenching the culture of responsible corporate governance and transparency within the Company.

The Committee looks forward to reviewing the performance of the CSI Capsule Programme that launched in March 2018, post the first anniversary of the project in 2019, as well as the launch of an improved graduate recruitment programme in 2019 (*→ refer to page 54 for more information*).

The Committee remains focused on ensuring the maintenance of an ethical culture within Coronation, to ensure that we serve as reliable and trusted custodians of our clients' assets, and because we realise this is good for business and it our duty to model best practice as a large corporate citizen in South Africa.

## AUDIT AND RISK COMMITTEE

The joint Audit and Risk Committee (the Committee) is responsible for enabling the maintenance of sound systems of combined assurance, including risk management and risk management and compliance, as well as overseeing the preparation of accurate integrated and financial reports in compliance with all applicable reporting standards.

The Committee's duties, as mandated by the Board, extends, inter alia, to:

- managing strategic and major financial risks;
- overseeing the adequacy and effectiveness of information technology, operational and financial risks and controls;
- reviewing the effectiveness of the system of monitoring compliance with relevant laws and regulation;
- recommending the appointment of the external auditor to shareholders and evaluating the performance of the incumbent;
- appointing and removing other assurance providers, as well as ensuring assurance providers collectively possess the required skill and expertise to address the complexity and volume of risk faced by the Group; and
- satisfying itself that the finance function possesses the necessary skill and expertise.

The Audit and Risk Committee Charter, available on our website [www.coronation.com](http://www.coronation.com), more fully describes the role and function of the Committee, which discharges its responsibilities on behalf of the Group.

The Committee comprises four independent non-executive directors, three of whom provide expertise in the fields of commerce and finance including the Committee Chairperson, Prof. Alexandra Watson, a former professor at the college of accounting of the University of Cape Town, and Lulama Boyce, the Head of the commercial accounting department at the University of Johannesburg. Collectively, the Committee has the skills needed to fulfil its duties, including financial and broader corporate reporting expertise. As previously

disclosed, further to director Lulama Boyce replacing Shams Pather on the Committee effective 10 October 2017, there were no changes to the Committee since the last reporting date.

The Committee meets at least three times a year, in May, August and November, in conjunction with the key reporting cycles of the Group. The Committee met three times during the 2018 financial year, with full member attendance at all meetings.

Committee meetings are attended by management, the internal and external auditors by standing invitation, as well as external subject matter experts as required. In addition, the remaining Board members regularly attend and observe the proceedings of Committee meetings. The Chairman of the Committee reports on the status of the external audit, operational risk assurance, and compliance and risk management functions, as well as relevant issues relating to subsidiary companies at meetings of the Board of Directors.

The CFO, internal and external auditors, the Risk Officer, the Risk Assurance Manager and the Global Head of Risk and Compliance have unrestricted access to the Committee Chairperson, which ensures that their independence is not compromised. The Board reviewed the performance of the Committee and is of the opinion that it has effectively discharged its responsibilities, as contained in its terms of reference for the year under review. Given that John Snalam will retire as CFO in 2019, his replacement will be announced.

### Key focus areas

#### Oversight of financial controls and external audit

During the year, the Committee approved the external auditor's terms of engagement and scope of work. It agreed to the external audit plan prior to the commencement of the audit. Full feedback was given to the Committee after the audit was completed, and an independent JSE review was considered in relation to the annual financial statements. The Audit and Risk Committee considered the quality of the external audit by reviewing the results of the review performed by the Independent Regulatory Board of Auditors as well as the feedback received from management.

### Ensuring auditor independence

- The Committee has set a limit of 10% of audit fees for any non-audit work undertaken by the external auditors.
- The Committee reviews the quantum and type of non-audit services provided by external auditors to ensure compliance with the specified limits.
- The tenure of the external audit firm is reviewed annually by the Committee. Historically, the external audit function is put out to tender between every eight and 10 years. The existing external audit firm is not precluded from participating.
- The Committee oversees the rotation of audit partners every five years, in accordance with the requirements of the Companies Act.
- The Company has received confirmation from the external auditor that the partners and staff responsible for the audit comply with all legal and professional requirements with regard to rotation and independence. The Committee is satisfied that the external auditor is independent of Coronation.

The Audit and Risk Committee also considered and is satisfied with the expertise and adequacy of resources within the finance function, as well as with the performance and competency of CFO Mr John Snalam. In making these assessments, feedback was obtained from both the external and internal audit. The Committee is of the opinion that he has the appropriate expertise and experience to meet

his responsibilities in the position, as required by the JSE, given the following:

- successive unqualified audits of the Group since its inception;
- regular and comprehensive financial reporting to the Board; and
- independent discussions between the Committee Chair and external auditors regarding the effectiveness of the finance function.

Based on the processes and assurances obtained, the Committee is of the view that the accounting practices are effective. Significant matters that the Committee considered in relation to the annual financial statements included the early adoption of IFRIC 23, as issued by the International Accounting Standards Board and in-depth consideration of 'control' as defined by IFRS 10.

### Oversight of combined assurance

During the year, the Committee approved the operational risk assurance plan, as detailed on → [pages 84 to 86](#), as well as the output of the Group's combined assurance. The Audit and Risk Committee has considered and is satisfied with the effectiveness of the Risk Assurance Manager and the arrangements in place for combined assurance, including operational risk assurance. Nothing has come to the attention of the Audit and Risk Committee to indicate any material breakdown in the system of control during the year under review or in the performance of any assurance provider.



## REMUNERATION AND NOMINATIONS COMMITTEE

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The Remuneration and Nominations Committee is a combined Committee, consisting of three independent non-executive directors who operate under formal terms of reference. On matters that relate to the nomination and appointment of individuals, the Committee is chaired by the Chairman of the Board, Mr Shams Pather; and on matters of remuneration by Dr Hugo Nelson, who was appointed on 6 September 2018. Mr Nelson succeeded Mr Jock McKenzie, who remains a member of the Committee. The CEO or any other manager's attendance at meetings is by invitation, with the purpose of assisting in the execution of the Committee's mandate. The Committee usually meets three times a year, in April, September and October, as well as on an ad hoc basis if required. During the 2018 financial year, the Committee met three times and there was full attendance at all meetings by its members.

The primary objective of the Committee is to ensure that the Group Remuneration Policy structures and processes are appropriate to achieve the overall business strategy, objectives, values and long-term interests, and are applied in an independent and objective manner to provide assurance to stakeholders.

The Committee ensures optimal remuneration structures that appropriately reward employees for their individual and team-based contribution

to the performance and long-term success of the business. In line with our long-term approach to investing on behalf of our clients, specific focus is given to incentives and longer-term remuneration structures.

Additionally, the Committee is responsible for ensuring that the Group Nominations Policy caters for succession planning across key areas of the business, and to ensure that the Board is resourced with individuals who have the appropriate expertise, qualifications and experience to fulfil the role of a company director. Further, the Committee has to ensure that it achieves an appropriate level of race and gender diversity in accordance with Coronation's Diversity Policy ([→ refer to page 75](#)).

The Committee adheres to good corporate governance practices and reporting standards by conducting regular reviews of all relevant policies and plans. For reference purposes, where appropriate, it makes use of independent benchmarking studies and comparisons of local and international remuneration practices within the investment industry.

The Board reviewed the performance of the Committee and is of the opinion that it has effectively discharged its responsibilities, as contained in its terms of reference.

For further details, refer to the remuneration section ([→ pages 55 to 69](#)). Please see the Committee charter in the shareholder information section of our website [www.coronation.com](http://www.coronation.com).



# Combined assurance

## Introduction

With the support of the Board and the Audit and Risk Committee, Coronation has implemented a combined assurance model, comprising five lines of assurance as depicted in the figure below. The implementation of a combined assurance model enables an efficient and holistic approach to risk management and assurance activities across the Group that, taken as a whole, provides a level of assurance that is greater than the sum of its parts and adequately supports the integrity of information produced for reporting and decision-making.

The model recognises varying levels of assurance, ranging from management to specialised independent external assurance, and is designed to maximise the value obtained from assurance, while minimising duplication.

Key aspects of our line of assurance are as follows:

## Management and control functions

Management, as the first line of assurance, is primarily accountable for owning and managing risk within the departments they manage.

This includes designing and implementing effective processes and controls to identify and mitigate risk to achieve the objectives of the business, as well as comply with relevant regulation.

Management is supported by specialist internal control functions within the second line of assurance, which includes the risk and compliance functions. These control functions provide subject matter expertise to management in relation to the design and operating effectiveness of processes implemented by management. They monitor key risk areas and report any material issues to management and the Audit and Risk Committee.

## Risk management report

Risk is an inherent and unavoidable part of any business. The appropriate management of risk is crucial to protecting stakeholder interests, the adherence to regulatory requirements, and maintaining the long-term sustainability of the business.

At Coronation, the Board is ultimately responsible for ensuring that risks are managed effectively, within a tolerance (risk appetite) defined by the Board. The Board has delegated responsibility for overseeing risk management to the Audit and Risk Committee (the Committee) and ultimately, management and the risk function. Risk management is a multi-faceted discipline which requires appropriate governance, independent monitoring, frequent communication, the application of judgement and detailed knowledge of specialised products and markets.

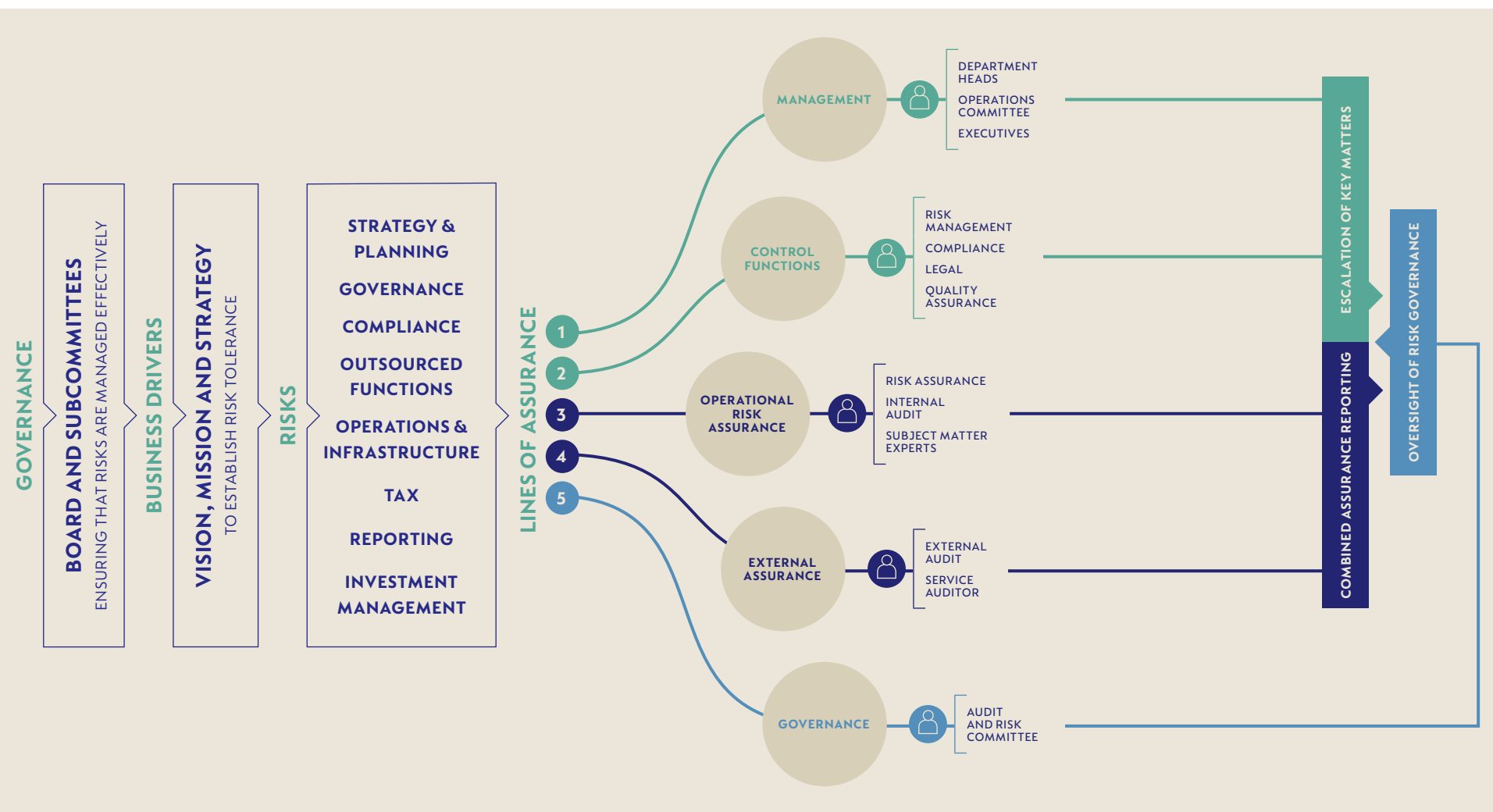
Coronation's risk management objectives are to:

- create risk awareness and understanding across all levels of the organisation;
- integrate risk consciousness into the organisation's daily decision-making and implementation processes;
- facilitate risk identification and mitigation across the Group within risk appetite and risk-tolerance parameters defined by the Board;
- improve the Group's ability to prevent, detect, correct, escalate and respond to critical risk issues by conducting risk monitoring; and
- comply with appropriate risk management and corporate governance frameworks and guidelines.

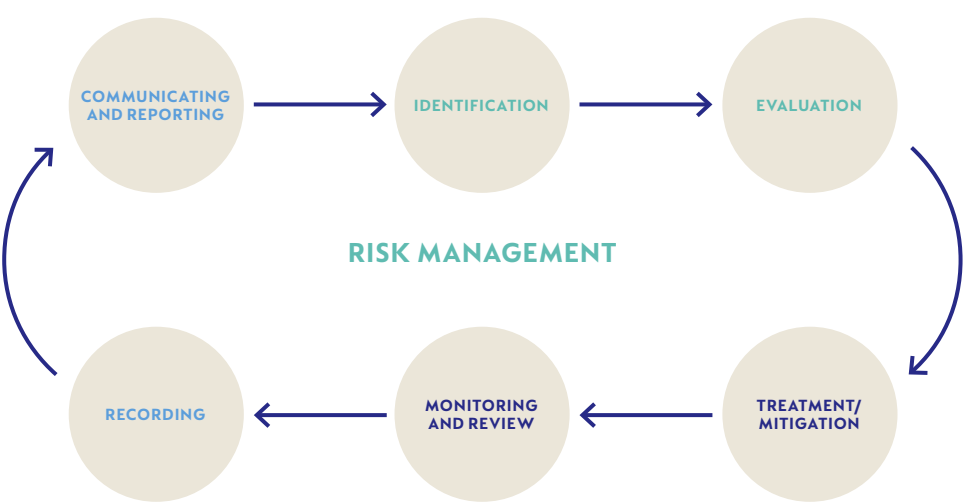
Coronation's Risk Management Strategy and Framework more fully articulates the Risk Management Policy and guides the approach to risk management across the business, which includes the key elements as illustrated in the diagram below.

Risk management is a cyclical and ongoing process that should ensure that resources are effectively employed to minimise the probability of negative events, while maximising the realisation of opportunities.

We adopt a dual top-down and bottom-up approach to identifying risks, which considers the external environment and strategic planning to identify key strategic risks, as well as identifying risks at the operational level – which include process, client and product-specific risks.



Management are the risk owners and take an active role in day-to-day risk management. This include responsibility for identifying, evaluating, mitigating and monitoring risk as well as applying the framework.



The risk function comprises the Risk Officer and Risk Assurance Manager, who report to the Head of Global Risk and Compliance, who in turn reports administratively to the CEO and functionally to the Chair of the Committee. The risk function is responsible for overseeing and reporting on the adequacy and effectiveness of management’s procedures to manage risk across the Group. More specifically, the Risk Officer is responsible for ensuring that policies and procedures are established for measuring, managing and reporting risk. The Risk Assurance Manager is responsible for the design and execution of the operational risk assurance plan which assesses the integrity of controls implemented to manage risk.

All Committee meetings are attended by the Global Head of Risk and Compliance, the Risk Officer and the Risk Assurance Manager, who formally report to the Committee at each meeting. The Audit and Risk Committee escalates material risk matters to the Board, and there is also ongoing interaction between executive members of the Board and the management team.

Coronation has developed, implemented and continuously improves the framework to ensure that the management of risk is integrated into the organisation’s overall corporate governance structures, strategy, planning, reporting processes, policies, values and culture.

Nothing has come to the attention of the Board to indicate that there has been any material breakdown in the risk management function, processes or systems during the year under review. We recognise that, in a complex financial services environment, risk management processes and strategies should evolve: they should be subject to ongoing review and modifications, taking into account risk appetite, risk tolerance and risk resilience of the business.

The table below outlines the key risk types facing the business, along with the relevant mitigating controls, which have been implemented.

Risk	Definition	Management and mitigation
<b>STRATEGY AND PLANNING RISKS</b>		
<b>Reputational risk</b>	An action, event or transaction that may cause a loss of confidence in Coronation's integrity or otherwise damage the Coronation brand.	Our ownership culture, long-term strategic thinking and client-centric philosophy drive our behaviour, protect stakeholder interests and mitigate reputational risk. In addition, our remuneration structure is designed to ensure that employees' interests and stakeholder interests are aligned. All forms of media are regularly monitored to enable a proactive approach to reputational risk management. Material events which may impact the Group are directly escalated to the CEO and Chairman of the Board for consideration.
<b>Market change risk</b>	Failure to respond to fundamental changes in the fund management industry, including disruptive technologies, distribution patterns, embracing new channels, or products to meet the changing profile and demands of clients.	We continue to invest in the Coronation brand and our direct investor infrastructure. Through ongoing client engagement and the publication of thought leadership, we affirm our commitment to our long-term investment philosophy. We regularly review and revise our fee structures to remain competitive and stay abreast of competitor consolidation and aggregation strategies. We actively participate in industry bodies to influence legislative outcomes where possible and in addition, develop new products in response to changing needs of clients, subsequent to conducting in-depth research and viability assessments.
<b>Compliance and regulatory risk</b>	Non-adherence to regulations.	Our compliance department maintains a robust compliance programme to ensure compliance with all relevant regulations. This team, with assistance from specialised external compliance consultants as needed, implements and tests adherence to current regulation on an ongoing basis, facilitates training and awareness for employees and continuously monitors the pipeline of new or amended legislation potentially impacting the business. Periodic independent assurance is obtained on the adequacy and efficacy of our compliance arrangements.
<b>Transformation risk</b>	Not responding in a considered manner to achieving true transformation and potential non-achievement of FSC targets.	The Employment Equity Committee oversees and monitors achievement of transformational targets in accordance with our Employment Equity Plan. In addition, the Committee ensures that policies and practices do not prohibit the sourcing and retention of talented black individuals. The Committee reports to and its activities are overseen by the SET Committee ( <a href="#">→ refer to pages 76 to 77</a> ). In developing the pipeline of black talent, Coronation makes a significant investment in educating previously disadvantaged youth through our bursary, internship and graduate recruitment programmes ( <a href="#">→ refer to pages 53 to 54</a> ).
<b>Brexit risk</b>	The effects of Brexit on our offshore operating model.	Management is looking at various scenarios which includes a 'no-deal, hard Brexit' by assessing the impacts and identifying points to investigate further. Coronation is closely monitoring the situation and is in the process of formulating a practical Brexit contingency plan.

Risk	Definition	Management and mitigation
<b>INVESTMENT MANAGEMENT RISK</b>		
<b>Investment performance risk</b>	Sustained poor investment returns relative to peer funds and benchmarks.	All client assets are managed by a single and stable investment team of highly skilled individuals who are unwavering in the application of our tried and tested investment philosophy, underpinned by our commitment to the long term. The investment team is subdivided into teams with specific focus per asset type and/or region, who rigorously monitor the markets and make investment decisions supported by our proprietary research. The investment team is predominantly based at our Cape Town headquarters, which facilitates continuous in-person engagement, further entrenched by a daily morning meeting of all investment team members. Extensive insights and thought leadership on markets and Coronation strategies is made available to clients as well as the general public, including in our quarterly publication, <i>Corospondent</i> . Additional information on investment governance is provided on → <a href="#">pages 27 to 28</a> .
<b>Credit risk</b>	Inability of a counterparty to a financial instrument to meet its obligations in terms of an existing contract, or failure to service its debt timeously.	Credit risk is overseen by our Counterparty and Credit Risk Committee, comprising fixed income portfolio managers, credit analysts, risk and compliance representatives. The Committee is chaired by an experienced independent non-executive Chairperson. It convenes monthly and is guided by a Counterparty and Credit Risk Policy, which defines the approval process for new credit exposures and stipulates conservative quantitative issuer exposure limits. Adherence to the credit risk guidelines is monitored daily by the investment risk and performance team, a specialist control function, through a review of system-generated reports, which are also received by members of the Committee and the management team.
<b>OUTSOURCING, OPERATIONS AND INFRASTRUCTURE RISKS</b>		
<b>Outsourcing risk</b>	The inability or unwillingness of an outsourcing or key service provider to discharge its contractual obligations.	Given our dedicated focus on investment management and related core activities, operational aspects of the business are outsourced where appropriate. However, we remain fully accountable for the delivery and risks associated with outsourced processes. To this end we have implemented a service provider management framework, including: <ul style="list-style-type: none"> <li>➤ implementation of controls to ensure robust oversight of key outsourced providers on a real-time and ongoing basis, including daily, weekly and monthly transaction review;</li> <li>➤ monitoring adherence to service level agreements and implementation of formal communication channels, as well as formal escalation procedures to manage and resolve issues identified; and</li> <li>➤ conducting periodic formal on-site due diligence.</li> </ul>
<b>Risk of failure operational processes</b>	Operational processes and controls may be inadequate and/or ineffective from a design or operating effectiveness perspective, resulting in operational errors and financial loss.	Our combined assurance model, including the annual operational risk assurance plan, ensures the ongoing assessment of the design and operating effectiveness of our control environment. The combined approach to assurance ensures that resources with the appropriate level of skill and expertise review key processes to maximise the quality and quantity of assurance obtained (→ <a href="#">refer to page 81</a> ).
<b>Human resources risk</b>	Inability to attract, motivate and prevent the departure of top talent.	Our people are our most prized assets. Accordingly, our work environment, culture and Remuneration Policy are designed to attract, retain and motivate great talent (→ <a href="#">refer to page 55</a> ). Our high-performance culture, employee ownership and personal career development opportunities are defining characteristics of our business that helps to attract and retain employees. We maintain a bursary and internship programme (→ <a href="#">refer to pages 53 to 54</a> ) which serves the dual purpose of developing the nation's youth and providing a workforce pipeline.

Risk	Definition	Management and mitigation
<b>OUTSOURCING, OPERATIONS AND INFRASTRUCTURE RISKS (CONTINUED)</b>		
<b>Information and technology (IT) risk</b>	Obsolescence of infrastructure, deficiency in integration, failures/ inadequacies in systems/ networks that may significantly disrupt core operations.	IT systems and data (technology) are viewed as key enablers of the Group's strategic objectives, and as such, a robust technology and systems governance framework has been implemented (→ <a href="#">refer to pages 91 to 95</a> ). The Board-approved framework sets out the objectives of technology which includes ensuring high integrity and availability of technology and information to meet business needs in a timely manner.
<b>Cyber security risk</b>	Ineffective preparation for and management of cyber threats that may significantly disrupt core operations, cause financial loss and damage our reputation.	<p>Cyber risk is holistically managed across people, processes and technology. This includes enforcing appropriate policies, ongoing employee awareness and employing technology to prevent and/or detect potential or actual threats to the security of our environment.</p> <p>Vulnerability management occurs on an ongoing basis whereby the server and desktop environments are scanned for threats and patches deployed as needed.</p> <p>Independent subject matter experts perform penetration testing on a regular basis, and the implementation of recommendations is closely monitored.</p> <p>Live monitoring of cyber threats and system logs occurs via our dedicated Security Operations Centre (SOC).</p>
<b>Data protection risk</b>	Policies and processes do not adequately ensure protection of client data, including sufficient oversight of data at our service providers.	Protection of client data is a focus area. A number of initiatives have been implemented or are in the process of being implemented such as increasing staff awareness, the development of data classification policies, relooking at service provider agreements with an emphasis on data protection language, etc. In addition, subject matter experts have been engaged to test the effectiveness of the IT security at various intervals throughout the year.
<b>Disaster recovery and business continuity risk</b>	A physical event or system issue which could impair Coronation's ability to perform core business activities.	Comprehensive business continuity/disaster recovery plans are designed and tested annually to ensure complete restoration of core business functions in the event of a disaster, within a defined recovery timeline. This includes user acceptance testing to verify recovered systems are fully operational. Key features of the continuity and recovery plans include off-site retention of data backups and access to a recovery warm site.
<b>Fraud risk</b>	Clients are exposed to and may potentially become victims of fraudulent activities.	<p>Operational processes and controls are designed to identify and prevent fraudulent activity.</p> <p>Periodic assurance is obtained to ensure consistent application of the agreed controls in all high-risk areas and to identify any areas of weakness. We remain aware of emerging fraud trends through participation in industry forums.</p>
<b>FINANCIAL AND REPORTING RISKS</b>		
<b>Liquidity and capital risk</b>	Insufficient liquidity to meet Coronation's liabilities when due, under both normal and stressed conditions as well as not maintaining sufficient regulatory capital.	<p>Regular detailed cash flows are prepared on a rolling prospective 12-month basis based on business forecasts. These are reviewed internally and subjected to stress tests. These are further presented on a quarterly basis to the Board for review and approval.</p> <p>Ongoing assessment of liquidity and capital requirements and available liquid resources and facilities is performed at management and Board level.</p>

## COMPLIANCE REPORT

### Overview

Coronation's global compliance function is responsible for monitoring compliance with all regulatory obligations in all jurisdictions in which the Group operates. We are primarily answerable to the following regulators:

- FSCA (South Africa)
- Prudential Authority (South Africa)
- Central Bank of Ireland (Ireland)
- Financial Conduct Authority (UK)
- Securities and Exchange Commission (USA)

Our Compliance Programme is designed to identify and understand the full universe of applicable regulations, provide appropriate employee training and ensure that, where possible, compliance requirements are embedded in our operational processes and controls. To test adherence to regulatory obligations on an ongoing basis, we execute appropriate risk-based compliance monitoring plans and employ external assurance providers.

Frequent interaction between the compliance team and business/operational employees is facilitated by key business and operational

functions being centralised on one floor in our Cape Town headquarters. The Head of Global Risk and Compliance is in direct and regular contact with the CEO, COO, CFO and senior management, and attends key management and governance meetings. In addition to attending Audit and Risk Committee meetings and reporting to the Chair of the Committee, the Head of Global Risk and Compliance periodically conducts one-on-one meetings with the independent non-executive Chair of the Audit and Risk Committee.

The global compliance function is managed out of Cape Town and consists of the Head of Global Risk and Compliance, three South Africa-based compliance officers, a Compliance Officer based in Dublin and an external compliance consultant in London. We also employ the services of compliance consultants and law firms to ensure we obtain expert advice and remain abreast of all material regulatory developments. Coronation has not had any regulatory penalties, sanctions or fines for contraventions or non-compliance with regulatory obligations imposed on it or any of its directors or officers.

### CORONATION'S KEY COMPLIANCE GOALS

Goal	Measures
Identify all regulatory obligations in all jurisdictions in which we operate, and implement risk-based programmes to implement and monitor compliance	We have a well-established team of experienced compliance professionals who, together with external regulatory and compliance advisers, ensure that all regulatory obligations have been identified and appropriate risk-based compliance monitoring plans have been implemented.
Take a proactive approach in identifying, preparing for and implementing changes required by new or amended regulation	Locally, we commit significant resources to the various ASISA structures which monitor, comment and lobby in relation to new or amended legislation. Internationally, we are members of the Investment Company Institute, which serves a similar purpose in relation to US and EU legislation. These channels, together with our local and international network of legal and compliance advisers, ensures we remain abreast of all material regulatory developments.

## CORONATION'S KEY COMPLIANCE GOALS

Goal	Measures
Promote employee awareness and understanding of regulatory obligations/internal policies through training and communication	<p>We have an ongoing training and awareness programme consisting of the following elements:</p> <ul style="list-style-type: none"> <li>▶ Compliance Induction Training;</li> <li>▶ Compliance Broadcasts distributed by email to all staff covering key policies and alerts;</li> <li>▶ E-learning and in-person training to satisfy various regulatory requirements; and</li> <li>▶ On the job training, particularly in instances where compliance requirements are embedded in daily processes.</li> </ul>
Work in close partnership with management to develop pragmatic risk-based solutions to regulatory challenges	<p>All key departments, management and executive management are physically present in one location. This significantly enhances the ability to engage in meaningful conversations and achieve considered decision-making. The Global Head of Risk and Compliance is in daily contact with the CEO and COO, and regular contact with other members of executive management.</p>
Ensure the Audit and Risk Committee is kept informed of material compliance risks facing the firm, including via effective formal reporting	<p>Monthly written risk and compliance reports are provided to executive management, as well as the independent Chair of the Committee.</p> <p>A risk and compliance report-pack is provided to the Committee for review and discussion at the three-yearly Committee meetings. In addition, prior to each Audit and Risk Committee meeting the Global Head of Risk and Compliance, the Risk Officer and the Risk Assurance Manager meet with the independent Chair of the Committee, without management present.</p>
Manage service provider and regulatory relationships effectively	<p>Our compliance staff remain in regular contact with third party service providers, as well as key personnel at our key regulators (directly or via intermediaries or industry associations).</p>

### Key areas of regulatory focus over the period

#### Domestic

- ▶ Retail distribution review
- ▶ Protection of Personal Information Act
- ▶ Hedge fund declaration and regulations
- ▶ King IV™
- ▶ Long-Term Insurance Bill and related rules and regulations
- ▶ Board Notice 92 in relation to advertising, marketing and disclosures
- ▶ Financial Intelligence Centre Act
- ▶ Financial Advisory and Intermediary Services Act Fit and Proper Amendments

#### International

- ▶ MiFID II
- ▶ Brexit
- ▶ Ireland Consultation Paper 86 on fund management company effectiveness/ delegate oversight
- ▶ European Market Infrastructure Regulation (EMIR)
- ▶ Regulatory impact of offering cross-border services and products



## Compliance monitoring

Coronation's compliance department manages a comprehensive compliance monitoring programme which includes:

- Real-time monitoring embedded in operational processes, including in relation to:
  - › Investment rule monitoring
  - › Personal account investing
  - › Insider information declarations
  - › Gift declarations
  - › Best execution
- Retrospective monitoring in the form of internal assurance:
  - › Risk-based compliance monitoring plans covering key global legislative obligations are executed by Coronation's compliance officers
  - › Retrospective monitoring in the form of external assurance
  - › Various independent external assurance providers conduct periodic reviews of key elements of Coronation's Compliance Programme

## Culture of compliance

We strive to be leaders in promoting the highest standards of ethical behaviour and professional excellence. High ethical standards are critical to maintaining stakeholder trust in Coronation, the financial markets and the investment profession. Under 'stakeholders' we include the public, regulators, clients, prospective clients, shareholders, employees, colleagues in the investment profession, and other participants in the global capital markets. Furthermore, we view ethical behaviour as much more than a compliance requirement. Clients are under no obligation to continue entrusting us with their assets. For any investment manager eager to earn and continue to earn their clients' trust, ethical behaviour is a business imperative.

All employees are required to conduct themselves in accordance with our code of ethics, client charter and our six values (→ *refer to pages 6 and 50*). In addition, all employees are required to complete an annual declaration

that includes the provision of information and/or declarations in relation to outside interests, personal account investing, broker statements, conflicts of interest, compliance with the requirements of Coronation's compliance policies, confidential information and the FSCA TCF initiative.

Coronation is supportive of the TCF principles, to the extent relevant to our business, and we believe that they are consistent with the objectives required for a long-term, sustainable investment business. Furthermore, the TCF principles are supported by our client charter and six values that focus on putting clients first, acting ethically and with integrity.

## Compliance policies

A key element of our compliance programme is the design and maintenance of an appropriate compliance policy framework. Key written policies include:

- code of ethics
- Conflicts of interest management
- Whistle-blowing
- Anti-money laundering and financial crime
- TCF
- Complaints handling and resolution
- Investment rule management
- Asset pricing and valuation
- Business continuity and disaster recovery
- Outside interests and personal account investing
- Gifts and inducements
- Inside information
- Credit risk management
- Order execution
- Transactions costs

The compliance department, in conjunction with internal subject matter experts, is responsible for ensuring that all policies remain current and are reviewed periodically.

## Assurance report

In addition to the assurance provided by management and control functions, the third and fourth lines of assurance comprise the independent assessment of the control environment by a broad range of assurance providers and subject matter experts.

The third line of assurance, termed operational risk assurance, refers to internal reviews of the control environment the results of which are reported to management and the Audit and Risk Committee (the Committee). Operational risk assurance comprises the Risk Assurance Manager, internal audit and various subject matter experts. The Risk Assurance Manager and internal audit have free and unrestricted access to the Committee to maintain the appropriate level of independence.

The activities of operational risk assurance are guided by the operational risk assurance charter, approved by the Committee, which sets forth the nature, scope and purpose of the operational risk assurance function. An annual Operational Risk Assurance Plan, is designed to ensure optimal coverage of material risks by the third and fourth lines of assurance and is reviewed and approved by the Committee. The plan is developed by the Risk Assurance Manager, in close consultation with the Risk Officer, management and assurance providers, as well as analysis of the risk register and the results of previous assurance activities. Planned independent assurance extends across all areas of the business, including internal control functions such as risk management and compliance.

Execution of the plan is allocated to the provider best suited to each particular assurance requirement, thereby maximising the added value of the exercise. The results of work performed by each assurance provider are reported in its original format to the Committee. This, coupled with the employment of a range of service providers, ensures that the Committee obtains the appropriate level of independent and objective assurance. The Committee has considered and is satisfied with the arrangements of operational risk assurance, as well as the performance of the Risk Assurance Manager and internal audit.

The fourth line of assurance includes independent external assurance, the results of which are publicly available, and is therefore primarily directed towards the Group's shareholders and clients. This includes the annual financial audit, conducted by the Group external auditor as well as assurance in accordance with the International Standards on Assurance Engagements – Assurance Reports on Controls at a Service Organisation (ISAE 3402 type II).

EY was appointed external auditor in 2011, with the incumbent designated audit partner, Ms Leigh-Ann Killin appointed during 2018. Nothing has come to the attention of the Audit and Risk Committee to indicate any material breakdown in the system of control during the year under review.

As designated by the Board, the Committee oversees the adequate and effective risk management and system of internal control within the business, and therefore forms the fifth line of assurance (*→ refer to pages 78 to 79 for the Committee report*).



# Information technology and systems report

## Governance

The effective management of information, information technology (IT) and information systems (IS) is key to achieving our strategic objectives, particularly in delivering excellent client service and supporting long-term investment outperformance. The Board aims to represent the interests of all stakeholders in delivering a successful and sustainable business. Accordingly, the Board is accountable for governing the ethical and effective application of resources toward the achievement of strategic outcomes to create value for stakeholders.

IT and IS at Coronation are viewed as key enablers of the Group's strategic objectives, and as such, require robust governance.

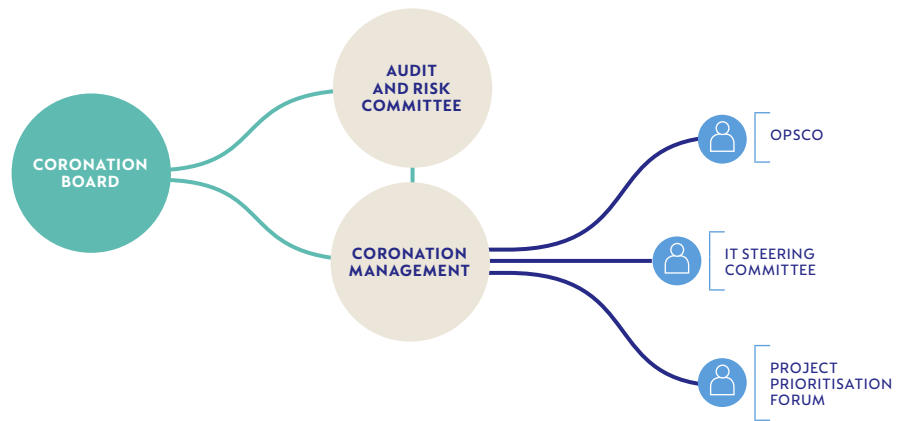
The Group has identified the following as key technology and information governance objectives:

- Monitoring the alignment of short-, medium- and long-term strategies of the business and technology;
- Maintaining formalised IT governance at Coronation, aligned to existing corporate governance structures and leading practices;
- Monitoring the integrity and availability of technology and information to meet business needs in a timely manner;
- Developing and maintaining appropriate organisational structures, relationships, frameworks and processes to support IT governance;
- Measuring and managing the cost expended and the value received from technology;
- Managing technology resources and assets, including information, in an efficient and effective manner, such that the value derived from these resources is maximised;

- Safeguarding technology resources and information;
- Monitoring adherence to legislative requirements and other guidance as it pertains to IT management relevant to the Group, including but not limited to King IV™ Control Objectives for Information and Related Technologies (COBIT); the Information Technology Infrastructure Library (ITIL); and the International Organisation for Standardisation 27000 series supporting information security (ISO 27000);
- Establishing appropriate policies and frameworks pertaining to managing IT across the business and monitoring adherence thereto; and
- Establishing performance criteria aligned with operational expectations and periodic measurement of actual versus desired performance levels.

The Board has delegated the responsibility for the governance of IT to Coronation management. Management approves the direction for how IT should be managed and is supported by the Operations Committee (OPSCO), the IT Steering Committee and the Project Prioritisation Forum.

In addition, the Board has mandated the Audit and Risk Committee to oversee the adequate and effective risk management and system of internal control, including those pertaining to technology. The organisational and governance structure is illustrated in the following visual.



We also set up dedicated committees to deal with specific technology projects.

Party	Role and responsibility
<b>Coronation Board</b>	<ul style="list-style-type: none"> <li>➤ Sets strategic goals and objectives for the business including IT-related goals and objectives</li> <li>➤ Evaluates and approves significant IT-related initiatives</li> <li>➤ Exercises ongoing oversight of IT management</li> <li>➤ Evaluates the effectiveness of the Company's IT arrangements, including outsourced services, in achieving strategic objectives</li> <li>➤ Monitors implementation of significant technology initiatives/projects</li> <li>➤ Monitors the management of technology-related risks, including cyber risk, with the support of the Audit and Risk Committee</li> </ul>
<b>Audit and Risk Committee</b>	<ul style="list-style-type: none"> <li>➤ Monitors the management of IT-related risks, including cyber risk</li> <li>➤ Oversees technology-, IS- and information-related assurance</li> </ul>
<b>Management</b>	<ul style="list-style-type: none"> <li>➤ Establish the target business and operating model to achieve strategic goals established by the Board</li> <li>➤ Responsible for implementation and execution of effective IT management within the business</li> <li>➤ Approve significant IT-related initiatives prior to seeking the Board approval to implement</li> <li>➤ Oversee major IT projects</li> </ul>
<b>OPSCO</b>	<ul style="list-style-type: none"> <li>➤ Drives implementation of IT-related projects</li> <li>➤ Recommends technology-related projects to executives based on strategic goals and objectives</li> <li>➤ Oversees end-user acceptance of technology</li> <li>➤ Responsible for the operational management of IT</li> </ul>
<b>IT Steering Committee</b>	<ul style="list-style-type: none"> <li>➤ Drives implementation of appropriate technology infrastructure to support business and objectives</li> <li>➤ Advises on technology-related risks faced by the business</li> <li>➤ Acts as an adviser to the business in respect of IT</li> </ul>
<b>Project Prioritisation Forum</b>	<ul style="list-style-type: none"> <li>➤ Prioritises and optimises efficient delivery of approved projects</li> </ul>

## Key areas of focus in 2018

To further our strategic objective of excellent client service, we maintained our drive to deliver on our key projects, all of which ultimately will contribute to an improved client experience and a reduction in risk.

During the period, the major focus areas were as follows:

### Implementing our new administration model

As communicated to the market in July 2017, we determined that significant changes were required to our outsourced administration model to enable us to continue to provide our clients with world-class services. The most significant elements of the new model are as follows:

- Asset administration services
  - › Consolidation of our outsourced administration services with a single service provider
  - › Insourcing of certain functions which were previously outsourced
- Transfer agency
  - › Creation of a new, independent black-owned transfer agency business

Over the course of the last 18 months, significant IT resources were dedicated to establishing the new model, specifically:

#### ➤ The transfer of administration services to JP Morgan and establishing a new in-house middle-office function

Effective 1 July 2018, we successfully completed the transfer of the asset administration of our domestic products to JP Morgan and implemented our new in-house 'middle office' function which includes matching and settlement, trade support, corporate actions processing, and proxy voting processing.

During the implementation of the project, we identified an opportunity to enhance our data management through the implementation of the foundations of a meta-data management solution using best of breed industry technology. Significant

technology and operational resources were devoted to ensuring the on-time delivery of all services required to complete our implementation on time and in line with what we have previously communicated to the market.

#### ➤ The migration of our transfer agency services

As part of our new administration model, Coronation has supported the creation of a new black-owned transfer agency business, InTIA. Over the last year, significant resources, in terms of both people and technology, have been dedicated to implement and establish this new venture. Migration to the new transfer agency service was completed in November 2018. We expect that our contribution to the establishment of InTIA will result not only in a great experience for our clients but also in the achievement of the objectives of B-BBEE through the distribution of InTIA profits to black beneficiaries.

#### ➤ The management of technology risks

Coronation's key technology risks are detailed on → [pages 94 to 95](#). During the past year, there was no material breach of our IT and IS security processes to manage these risks. We measure the value added by our IT strategy and investments against the following benchmarks:

- › Improvements in client service and meeting the evolving needs of clients;
- › Derisking of the business;
- › The scalability and flexibility of systems;
- › Operational efficiencies and cost savings; and
- › Platform stability .

Outcomes are measured through active monitoring and feedback from clients and intermediaries. Our evaluation of our performance against these benchmarks is favourable. We remain committed to ensuring that they are met through our efficient delivery of sustainable, scalable technology solutions.

## IT risk management

We consider technology risks as part of our overall risk assessment. These risks are incorporated in an annual operational risk assessment and material IT/IS risks are escalated to the key risk register which is submitted to the Audit and Risk Committee. The Committee also reviews regular reports on IT and IS risk. Key technology risks are detailed below:

Risk	Mitigation strategies
<b>Security of information</b>	We monitor and protect security of information through various measures, including file tracking and monitoring, data loss prevention software, access controls, approval processes and backup controls. Coronation's SOC monitors these measures. Coronation has implemented software to identify cyber attacks in real time. A summary of these attempts is reported to the Audit and Risk Committee.
<b>Disaster recovery and business continuity</b>	Coronation has an established Business Continuity and Disaster Recovery Plan.  Disaster recovery tests are conducted annually, and the results are reviewed by the Audit and Risk Committee. An integral component of our business continuity planning involves the assessment of potential disruptive events that could affect normal working operations. These scenarios are workshopped with the relevant business heads to agree on the most appropriate response that will ensure business continuity.
<b>Cyber security risk</b>	This includes the loss of data confidentiality, availability and integrity as a result of unauthorised access to systems. Cyber risk is holistically managed across people, process and technology. This includes enforcing appropriate policies, ongoing employee awareness and employing technology to prevent and/or detect potential or actual threats to the security of the environment. Vulnerability management occurs on an ongoing basis on both the server and desktop environments. In addition, independent subject matter experts perform penetration testing at regular intervals, and the implementation of recommendations are closely monitored.
<b>Third-party supplier risk</b>	A significant number of operational procedures have been designed to exercise adequate and effective oversight over these third parties. These operational processes are audited annually. In addition, periodic due diligence is performed on material service providers in terms of a defined Service Provider Framework. Feedback on IT due diligence performed on material service providers is distributed to the audit and risk committee. Third-party ISAE 3402 reports are regularly obtained and distributed to the Chairperson of the Audit and Risk Committee. Coronation reviews daily diagnostic reports and incident logs from service providers.
<b>Duplicate and inconsistent data</b>	Data have been migrated to a new data warehouse which has improved control functionality and data governance, as well as ownership reporting capabilities.
<b>Failure to resolve data validation and integration errors between internal and external systems accurately and in a timely manner</b>	We have a number of procedures in place for the early detection and resolution of variances, including automated and manual reconciliations that are performed to detect variances, as well as an alert system on automated errors.
<b>Unavailability of cloud-based solutions</b>	Redundant connectivity has been built into email, internet and telephone lines. Strong relationships are maintained with vendors, which is monitored through constant evaluation. In addition, clear escalation paths are defined and cloud due diligence assessments are performed.
<b>Inability to recruit IS employees with the relevant skills and experience</b>	Coronation has talent management initiatives (detailed on → <a href="#">pages 52 to 54</a> ) to attract highly skilled employees. In the event that it is not possible to recruit IS employees of suitable skills and experience, an insourcing arrangement will be entered into.

Risk	Mitigation strategies
<b>Failure to upgrade or replace key systems and infrastructure to meet changing business needs/business priorities</b>	An information systems strategy is in place, which governs the replacement strategy of key systems and the achievement of business requirements. Furthermore, IT and IS report to the COO, which facilitates alignment between business and technology.
<b>Failure to secure client and other confidential data on mobile devices</b>	A Mobility and Bring Your Own Device (BYOD) Policy is in place, enforcing password controls on mobile devices. Our systems also have the ability to remotely clear and secure mobile phones.

The IT general control environment is annually assured in accordance with ISAE 3402. In addition, specific IT/IS reviews are performed by PricewaterhouseCoopers. The results of these reviews are reported to the Audit and Risk Committee.

#### Future focus

- Enhancing and extracting additional efficiencies from the new services related to JP Morgan outsourcing and middle office.
- The wider roll out of CRM systems, improved automation and workflow.
- Implementation of solutions to address regulatory changes required by the FIC.
- Effective management of software vendors.
- The governance, management and security of data will continue to be a priority.
- Implementing a Protection of Personal Information (POPI) Framework.



# Financial performance

*The condensed consolidated financial information has been extracted from the audited financial statements. The audited financial statements are available at [www.coronation.com](http://www.coronation.com).*

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	AUDITED 30 SEPT 2018 R MILLION	AUDITED 30 SEPT 2017 R MILLION	% CHANGE
<b>Fund management activities</b>			
<b>Revenue</b>	<b>3 848</b>	3 919	(2)
Other income	18	6	
<b>Total operating expenses*</b>	<b>(1 933)</b>	(1 934)	(0)
Other expenses*	(3)	(6)	
Operating expenses*	(1 930)	(1 928)	
<b>Results from operating activities</b>	<b>1 933</b>	1 991	(3)
Finance and dividend income	38	37	
Finance expense	(24)	(23)	
Share of profit of equity-accounted investee	8	8	
<b>Profit from fund management</b>	<b>1 955</b>	2 013	(3)
<b>Income attributable to policyholder linked assets and investment partnerships</b>	<b>5</b>	2	
Net fair value gains on policyholder and investment partnership financial instruments	99	45	
Administration expenses borne by policyholders and investors in investment partnerships	(94)	(43)	
<b>Profit before income tax</b>	<b>1 960</b>	2 015	(3)
<b>Income tax expense</b>	<b>(489)</b>	(492)	
Taxation on shareholder profits	(484)	(490)	
Taxation on policyholder investment contracts	(5)	(2)	
<b>Profit for the year</b>	<b>1 471</b>	1 523	(3)
<b>Other comprehensive income (to be reclassified to profit and loss in future periods)</b>	<b>55</b>	67	
Foreign currency translation differences for foreign operations	22	(24)	
Net change in fair value of available-for-sale financial assets	33	91	
<b>Total comprehensive income for the year</b>	<b>1 526</b>	1 590	
<b>Profit attributable to:</b>			
– equity holders of the company	1 471	1 523	(3)
– non-controlling interest	–	–	
<b>Profit for the year</b>	<b>1 471</b>	1 523	
<b>Total comprehensive income attributable to:</b>			
– equity holders of the company	1 526	1 590	(4)
– non-controlling interest	–	–	
<b>Total comprehensive income for the year</b>	<b>1 526</b>	1 590	
<b>Earnings per share (cents)</b>			
– basic	420.7	435.4	(3)
– diluted	420.7	435.4	(3)
<b>Note to the statement of comprehensive income</b>			
Earnings attributable to shareholders	1 471	1 523	
Non-controlling interest	–	–	
<b>Earnings attributable to ordinary shareholders</b>	<b>1 471</b>	1 523	
Profit on disposal of financial assets available for sale	–	7	
<b>Headline earnings attributable to ordinary shareholders</b>	<b>1 471</b>	1 530	
<b>Headline earnings per share (cents)</b>			
– basic	420.7	437.5	(4)
– diluted	420.7	437.5	(4)
<b>Dividend per share (cents)</b>			
– interim	223.0	220.0	1
– final	197.0	217.0	(9)

\* The following changes have been made to the presentation of operating expenses in order to more appropriately describe the nature of such expenses. 'Other expenses' now includes foreign exchange losses as well as share-based payment expenses. Previously the share-based payment expense was separately disclosed as 'share-based payment expense'. No foreign exchange losses were incurred in the 2017 financial year, and the foreign exchange losses reported at interim this year have all reversed.



## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	AUDITED 30 SEPT 2018 R MILLION	AUDITED 30 SEPT 2017 R MILLION
<b>Assets</b>		
Intangible assets	1 088	1 088
Equipment	20	21
Investment in equity-accounted investees	41	39
Deferred tax asset	125	171
Investments backing policyholder funds and investments held through investment partnerships	51 424	55 721
Investment securities	1 190	934
Taxation receivable	15	–
Trade and other receivables	448	558
Cash and cash equivalents	805	564
<b>Total assets</b>	<b>55 156</b>	<b>59 096</b>
<b>Liabilities</b>		
Long-term borrowings (note 3)	300	150
Deferred tax liabilities	23	24
Policyholder investment contract liabilities and liabilities to holders of interests in investment partnerships	51 421	55 718
Short-term portion of long-term borrowings (note 3)	–	150
External investors in consolidated funds (note 5)	221	–
Taxation payable	–	35
Trade and other payables	935	747
<b>Total liabilities</b>	<b>52 900</b>	<b>56 824</b>
<b>Net assets</b>	<b>2 256</b>	<b>2 272</b>
<b>Equity</b>		
Share capital and premium	256	256
Retained earnings	1 539	1 607
Reserves	301	243
Total equity attributable to equity holders of the company	2 096	2 106
Non-controlling interest in consolidated funds (note 5)	160	166
<b>Total equity</b>	<b>2 256</b>	<b>2 272</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

R MILLION	SHARE CAPITAL AND PREMIUM	FOREIGN CURRENCY TRANS- LATION RESERVE	RETAINED EARNINGS	SHARE- BASED PAYMENT RESERVE	REVALUA- TION RESERVE	ISSUED CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	NON- CON- TROLLING INTEREST	TOTAL EQUITY
Balance at 30 September 2016 (audited)	256	155	1 586	29	16	2 042	136	2 178
Total comprehensive income for the year								
Profit for the year			1 523			1 523		1 523
Other comprehensive income (available to be recycled to profit and loss in future periods)								
Currency translation differences		(24)				(24)		(24)
Revaluation of available-for-sale financial assets					91	91		91
Total other comprehensive income	-	(24)	-	-	91	67	-	67
Total comprehensive income for the year	-	(24)	1 523	-	91	1 590	-	1 590
Transactions with owners recorded directly to equity								
Share-based payments				6		6		6
Transfer to retained earnings			30	(30)				
Dividends paid			(1 532)			(1 532)		(1 532)
Change in non-controlling interest in consolidated funds (note 5)							30	30
Total transactions with owners	-	-	(1 502)	(24)	-	(1 526)	30	(1 496)
Balance at 30 September 2017 (audited)	256	131	1 607	5	107	2 106	166	2 272
Total comprehensive income for the year								
Profit for the year			1 471			1 471		1 471
Other comprehensive income (available to be recycled to profit and loss in future periods)								
Currency translation differences		22				22		22
Revaluation of available-for-sale financial assets					33	33		33
Total other comprehensive income	-	22	-	-	33	55	-	55
Total comprehensive income for the year	-	22	1 471	-	33	1 526	-	1 526
Transactions with owners recorded directly to equity								
Share-based payments				3		3		3
Dividends paid			(1 539)			(1 539)		(1 539)
Change in non-controlling interest in consolidated funds (note 5)							(6)	(6)
Total transactions with owners	-	-	(1 539)	3	-	(1 536)	(6)	(1 542)
Balance at 30 September 2018 (audited)	256	153	1 539	8	140	2 096	160	2 256

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	AUDITED 30 SEPT 2018 R MILLION	AUDITED 30 SEPT 2017 R MILLION
<b>Cash flows from operating activities</b>		
Profit from fund management	1 955	2 013
Non-cash and other adjustments	(15)	15
<b>Operating cash flows before changes in working capital</b>	<b>1 940</b>	<b>2 028</b>
Working capital changes	314	(5)
Cash flows from policyholders and investment partnership activities	(2 427)	(977)
<b>Cash (utilised by)/generated from operations</b>	<b>(173)</b>	<b>1 046</b>
Interest paid	(24)	(23)
Income taxes paid	(490)	(454)
<b>Net cash from operating activities</b>	<b>(687)</b>	<b>569</b>
<b>Cash flows from investing activities</b>		
Finance and dividend income	38	37
Acquisition of equipment	(12)	(10)
Net (acquisition)/disposal of investment securities	(8)	9
<b>Net cash from investing activities</b>	<b>18</b>	<b>36</b>
<b>Cash flows from financing activities</b>		
Dividends paid	(1 539)	(1 532)
<b>Net cash from financing activities</b>	<b>(1 539)</b>	<b>(1 532)</b>
<b>Decrease in cash and cash equivalents</b>	<b>(2 208)</b>	<b>(927)</b>
Net increase in cash and cash equivalents – shareholders	219	50
Net decrease in cash and cash equivalents – policyholders and investment partnerships	(2 427)	(977)
<b>Cash and cash equivalents at beginning of the period</b>	<b>8 259</b>	<b>9 210</b>
Cash and cash equivalents at beginning of period – shareholders	564	538
Cash and cash equivalents at beginning of period – policyholders and investment partnerships	7 695	8 672
<b>Effect of exchange rate fluctuations on cash held</b>	<b>22</b>	<b>(24)</b>
<b>Cash and cash equivalents at end of the period</b>	<b>6 073</b>	<b>8 259</b>
Cash and cash equivalents at end of period – shareholders	805	564
Cash and cash equivalents at end of period – policyholders and investment partnerships	5 268	7 695

The above cash flows include the policyholder and investment partnership activities. These cash flows represent net contributions and withdrawals by policyholders and investment partnerships and the related investing activities. Cash and cash equivalents of policyholders and investment partnerships are not available for use by the shareholders of the Group.

## CONDENSED CONSOLIDATED SEGMENT REPORT

R MILLION	AFRICA		INTERNATIONAL		GROUP	
	AUDITED 30 SEPT 2018	AUDITED 30 SEPT 2017 RESTATED**	AUDITED 30 SEPT 2018	AUDITED 30 SEPT 2017 RESTATED**	AUDITED 30 SEPT 2018	AUDITED 30 SEPT 2017
Segment external revenue	2 516	2 525	1 332	1 394	3 848	3 919
Segment operating expenses	(1 457)	(1 461)	(476)	(473)	(1 933)	(1 934)
Segment profit	1 059	1 064	856	921	1 915	1 985
Share of income of equity-accounted investee	8	8	–	–	8	8
Net finance and other income/(expense)	10	17	22	3	32	20
Profit from fund management	1 077	1 089	878	924	1 955	2 013
Income*					5	2
Profit before income tax					1 960	2 015
Segment assets	1 557	1 121	921	956	2 478	2 077
Investments*					52 678	57 019
Total assets					55 156	59 096

\* Income and investments are attributable to and backing policyholder funds and investments held through investment partnerships, consolidated funds and other assets

\*\* Segmental assets to the value of R505 million previously categorised as Africa assets have been restated as International assets

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 1. Basis of preparation and accounting policies

The financial information has been prepared in accordance with the framework concepts and the measurement and recognition requirements of the International Financial Reporting Standards (IFRS); the International Accounting Standard 34 Interim Financial Reporting, the Listings Requirements of the JSE Limited, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, as well as the South African Companies Act, 71 of 2008. The condensed consolidated financial statements do not include all of the information required for a complete set of IFRS annual financial statements.

These condensed consolidated financial statements have been prepared in accordance with the historical cost basis except for certain financial instruments which are stated at fair value. The condensed consolidated financial statements are presented in rand, rounded to the nearest million. The accounting policies applied in the presentation of the condensed financial statements are in terms of IFRS and are consistent with those presented in the previous annual financial statements. IFRS 9 and IFRS 15 will not have a material impact on opening equity for the 2019 financial year. Comparatives will not be restated.

These audited results have been prepared under the supervision of H Rawoot CA(SA).

## 2. Related-party transactions

Related-party transactions for the current year are similar to those disclosed in the Group's annual financial statements for the year ended 30 September 2017. No new significant related party transactions arose during the current year.

## 3. Long-term and short-term borrowings

Cumulative redeemable preference shares with dividends linked to prime are payable on a quarterly basis, with R150 million capital repayments due on 1 April 2020 and 1 April 2021 respectively. The latter was previously due on 31 March 2018.

## 4. Fair value disclosure

The table on the following page analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as closing prices) or indirectly (i.e. derived from closing prices). The majority of Level 2 investments are deposits held with financial institutions. The fair values of these deposits are determined using a discounted cash flow valuation methodology based on market rates, reflecting the time value of money and counter party credit risk. The fair value of policyholder and investment partnership liabilities that are included in Level 2 of the hierarchy are measured with reference to the quoted prices in an active market of the investments underlying the liabilities. Cash and cash equivalent balances along with their related liabilities of R1 383 million (30 September 2017: R2 253 million) have been excluded from the below table in current and prior years respectively.

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

R MILLION	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
<b>September 2018</b>				
Investments backing policyholder funds and investments held through investment partnerships	45 017	5 024	–	50 041
Investment securities	1 189	–	1	1 190
	<b>46 206</b>	<b>5 024</b>	<b>1</b>	<b>51 231</b>
Policyholder, external investor and investment partnership liabilities	–	50 259	–	50 259
<b>September 2017</b>				
Investments backing policyholder funds and investments held through investment partnerships	46 960	6 508	–	53 468
Investment securities	933	–	1	934
	<b>47 893</b>	<b>6 508</b>	<b>1</b>	<b>54 402</b>
Policyholder, external investor and investment partnership liabilities	–	53 465	–	53 465

During the current year, a net amount of R63 million in debentures was transferred from Level 1 to Level 2 as these are now considered to be held in an inactive market.

Fair value for all other financial assets and liabilities have not been presented because they are not carried at fair value and their carrying amounts approximate fair value.

## 5. Non-controlling interest in consolidated funds and external investors in consolidated funds

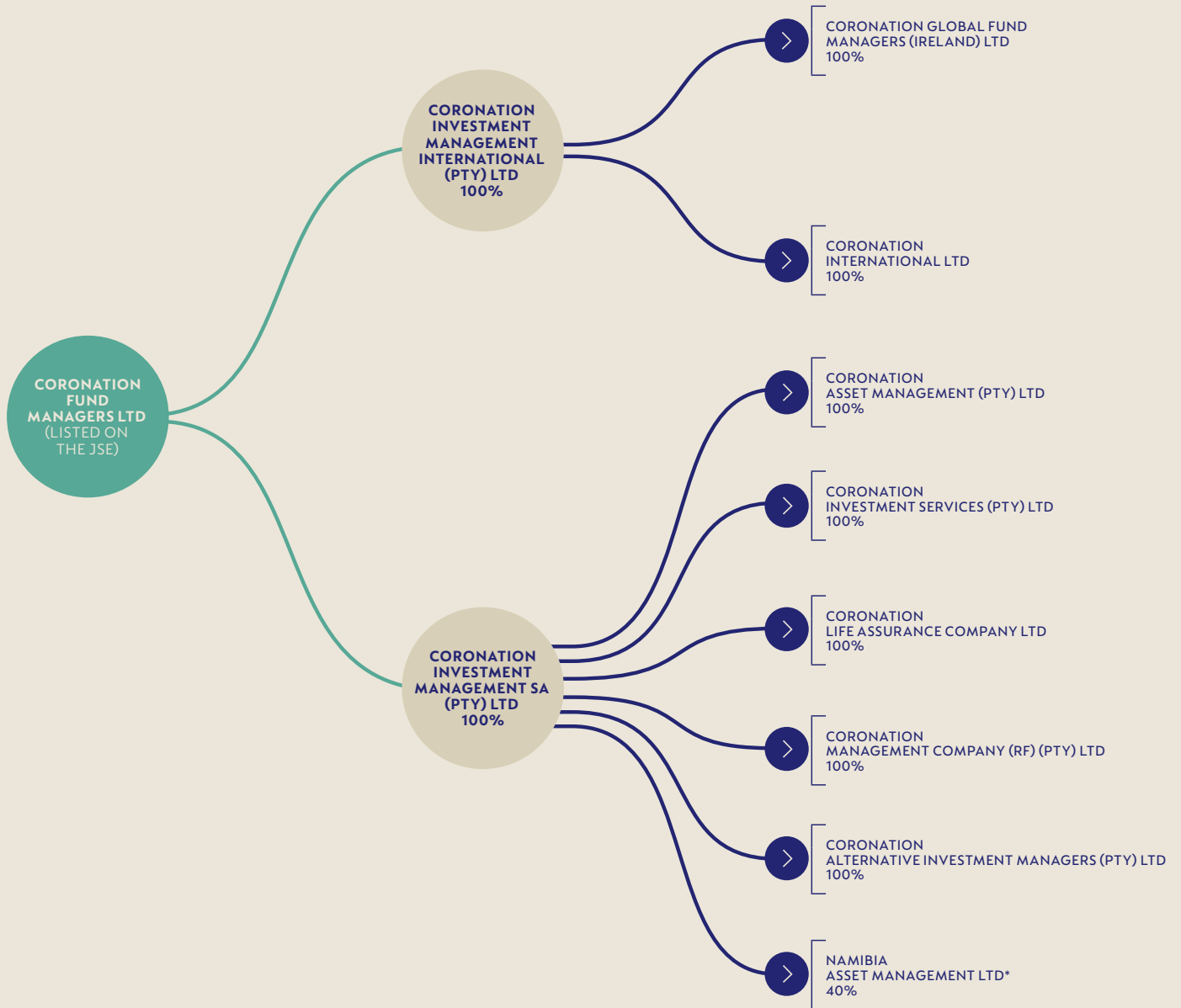
The non-controlling interest in consolidated funds arises as a result of the continued consolidation of Coronation Global Frontiers Fund. The Group's interest in the Coronation Global Equity Select Feeder Fund increased to 52% during the period to augment regulatory capital held within the Group. As a result the fund is now consolidated and there has been no material change to the acquisition value as at year-end.

## 6. Contingent liabilities: South African Revenue Service (SARS) matters

From time to time, in common with other organisations, companies in the Group are subject to review by SARS. One of our companies has been the subject of a review on a matter of principle relating to international operations, and assessed for the 2012, 2013 and 2014 financial periods, to which management strongly disagreed and has objected. Management is confident, supported by external advisers, of the company's position and an outflow is not considered probable should the matter be interpreted by a court of law, the ultimate tax authority on these matters. Any amounts involved are currently not considered capable of reliable estimation.



# Corporate structure



\* Not included in the scope of this report. See <http://www.namasset.com.na> for more information.



# Company information

## Annual general meeting:

Tuesday, 19 February 2019 at 10:00

**Share code (ordinary shares):** CML

**ISIN:** ZAE000047353

## Board of Directors

Shams Pather\* (chairman)  
Anton Pillay (chief executive officer)  
John Snalam (chief financial officer)  
Lulama Boyce\*  
Judith February\*  
Jock McKenzie\*  
Hugo Nelson\*  
Alexandra Watson\*

\* Independent non-executive directors

## Company Secretary

Lee-Anne Parenzee

## Registered office

7th Floor, MontClare Place  
Cnr Campground and Main Roads  
Claremont 7708  
Cape Town

## Postal address

PO Box 44684  
Claremont 7735

## Transfer secretaries

Computershare Investor  
Services (Pty) Ltd  
Rosebank Towers  
15 Biermann Avenue  
Rosebank 2196  
(PO Box 61051, Marshalltown 2107)

## Auditors

Ernst & Young Inc.  
3rd Floor, Waterway House  
3 Dock Road  
V&A Waterfront  
Cape Town 8001

## Sponsor

PSG Capital Proprietary Limited  
(Registration number 2006/015817/07)  
1st Floor  
Ou Kollege Building  
35 Kerk Street  
Stellenbosch 7600  
(PO Box 7403, Stellenbosch 7599)

and

2nd Floor, Building 3  
11 Alice Lane  
Sandhurst  
Sandton 2196  
(PO Box 650957, Benmore 2010)

All information and opinions herein are of a general nature and are not intended to address the circumstances of any particular individual or entity. Accordingly, there may be limitations as to the appropriateness of any such information and opinions. It is therefore recommended that the reader first obtain the appropriate legal, tax, investment or other professional advice prior to acting upon information or opinions. Neither Coronation Fund Managers Limited nor any subsidiary of Coronation Fund Managers Limited (collectively "Coronation") is acting, purporting to act nor is it authorised to act in any way as an adviser. Any information or opinions contained herein may change and are expressed in good faith. Coronation does not undertake to advise any person if such information or opinions should change or become inaccurate. This document is for information purposes only and does not constitute or form part of any offer to the public to issue or sell, or any solicitation of any offer to subscribe for or purchase an investment, nor shall it or the fact of its distribution form the basis of, or be relied upon in connection with any contract for investment. In the event that specific unit trusts, funds and/or strategies (collectively "funds") and/or their performance is mentioned, please refer to the relevant fact sheet and/or MDD in order to obtain all the necessary information regarding that fund (<https://www.coronation.com/personal/funds-and-products/complete-fund-range-and-fact-sheets/#js-complete-fund-range>). Fund investments should be considered a medium- to long-term investment. The value of investments may go down as well as up, and is therefore not guaranteed. Past performance is not necessarily an indication of future performance. Fluctuations or movements in exchange rates may cause the value of underlying investments to go up or down. Funds are allowed to engage in scrip lending and borrowing. Performance is calculated by Coronation for a lump sum investment with income distributions, to the extent applicable, reinvested. Coronation Fund Managers Limited is a full member of the Association for Savings & Investment SA (ASISA). Coronation Asset Management (Pty) Ltd (FSP 548) and Coronation Investment Management International (Pty) Ltd (FSP 45646) are authorised financial services providers.

**For Unit Trusts:** All underlying price and distribution data is sourced from Morningstar. Performance figures are quoted after the deduction of all costs (including manager fees and trading costs) incurred within the unit trust. Note that individual investor performance may differ as a result of the actual investment date, the date of reinvestment of distributions and dividend withholding tax, where applicable. Annualised performance figures represent the geometric average return earned by the unit trust over the given time period. Where foreign securities are included in a unit trust it may be exposed to macroeconomic, settlement, political, tax, reporting or illiquidity risk factors that may be different to similar investments in the South African markets. Excessive withdrawals could place the unit trust under liquidity pressures, in such circumstances a process of ring-fencing of redemption instructions and managed pay-outs over time may be followed. A fund of funds unit trust invests in collective investment schemes that levy their own fees and charges, which could result in a higher fee structure for the unit trust. A feeder fund unit trust invests in a single fund of a collective investment scheme, which levies its own charges and could result in a higher fee structure for the feeder fund. Coronation Management Company (RF) (Pty) Ltd is a Collective Investment Schemes Manager approved by the Financial Services Board in terms of the Collective Investment Schemes Control Act. Unit trusts are traded at ruling prices set on every day trading. Forward pricing is used. Additional information such as fund prices, brochures, application forms and a schedule of fees and charges is available on our website, [www.coronation.com](http://www.coronation.com).



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