



Chairman's statement

SHAMS PATHER

BBUSSC, BCOM (HONS), MBA



“We remain singularly focused on delivering an exceptional client experience.”

Coronation is a homegrown South African business that manages the savings of millions of South Africans and a broad geographical base of international clients – a responsibility that we take very seriously. As an investment-led business, we remain singularly focused on delivering an exceptional client experience through long-term wealth creation, service excellence and the contribution we make to society as a corporate citizen and through our CSI initiatives.

Since 1993, the business has grown to be one of the largest independent asset managers in the country and is currently operating in an environment of prolonged uncertainty in South Africa and the world. As anaemic local growth stunts job creation and global economic policy is being overshadowed by geopolitics, our long-term, valuation-based investment philosophy enables us to look through the noise to effectively navigate the challenges.

South Africa 2019

South Africa's political landscape is in transition from a decade of maladministration towards painful stabilisation. As a consequence, growth has suffered, and our ailing economy is in desperate need of tangible action. While the market welcomed Finance Minister Tito Mboweni's surprise release of the National Treasury's plans to boost growth and create jobs, to move the country forward, we need to see some tough decisions being made and some real progress.

In November last year, Standard & Poor's further warned South Africa on its poor outlook and Moody's remains the only rating agency that rates South Africa as an investment-grade country and has provided the country with much leeway over the last 12 months. Its recent statements suggest that it will continue to do so, given the reform intent of government. However, if there are no substantial efforts to fix the problems the country faces, South Africa could be downgraded by the third quarter of 2020. The path to recovery is still unclear.

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The investment environment

Across global economies, growth has decelerated since late 2018, mostly due to moderation in China. This has been compounded by falling global trade volumes and the escalation in the US-China trade war. Elsewhere political tensions remain high as the Hong Kong protests continue, the Middle East remains a source of instability, Brexit continues with its own fraught political uncertainty, and US President Donald Trump continues to be a disruptor across a range of issues and geographies.

Central banks in the US, the EU, Japan and across emerging markets have increased monetary support for their economies in response to this weakness and the uncertainty it poses to domestic growth.

Ultimately, the outlook for global growth will be in the balance between supportive monetary and fiscal policies for reasonably solid domestic demand, and an ongoing deterioration and heightened escalation in uncertainty playing out in global trade. Notwithstanding the pronounced uncertainty, we expect global growth to stabilise for now at weaker levels as policy support matures.

Business overview and strategy

As one of the largest investment managers in the country, our net flows reflect that of the broader industry, which is being impacted by a shrinking pool of formal savers and aggravated by the weak economic environment. As a result, we saw total net outflows of R43.9 billion (7.5% of our opening balance) for the period under review. Until such time that industry flows turn positive, net flows are expected to remain negative. We do not anticipate a reversal in net flows anytime soon.

Given this environment, as at year end, total assets under management (AUM) declined by 2.7% to R571 billion. Compared to that of the previous reporting period, a decrease of 5.9% in average AUM was a result of the sustained weak markets. This contributed to a revenue decline of 14.5% to R3.3 billion. Operating expenses decreased by 6.9%. Fixed costs increased by 2.4%, and variable costs decreased by 11.7%, demonstrating the power of our model in which costs typically decrease in periods of

declining revenue. The combined effect was a decrease of 18.7% in diluted and basic headline earnings per share to 341.9 cents (September 2018: 420.7 cents).

Coronation’s financial results for the 12 months to end-September 2019 reflect the impact of continuing weaker economic conditions, affecting both market returns and the formal savings sector. Domestic equities were up only 1.9%, with emerging market equities up 4.8% in rand.

We are pleased with the good short-term performance for the period under review, but our long-term performance remains the true measure of our ultimate success on behalf of our clients and stakeholders.

From an operational perspective, we continue to extract efficiencies following the implementation of major administration and systems changes in the prior and current financial years, which bodes well for both our clients and other stakeholders in the long term.

Global expansion

Continuing to build on our global franchise is a key part of our strategic vision. Our international AUM increased in the year under review to R66 billion. All our global strategies, with a track record of more than a decade, have outperformed meaningfully since inception.

Net outflows represented 11.4% of our opening AUM; a reasonable outcome, given the ongoing material shift from active to passive strategies. That said, we remain confident in the long-term outlook for our global strategies as well as our value proposition to clients through active management.

Governance

The Board and the management team continued to engage with our stakeholders with the aim of enhancing our alignment with their needs. As stated last year, we have added malus and clawback to our Remuneration Policy, which is effective this year. We have increased the diversity and size of the Board of Directors with the appointments of CFO Mary-Anne Musekiwa as an executive director and Madichaba Nhlumayo as non-executive director.

“We have increased the diversity and size of the Board of Directors ”

Corporate citizenship

We continue to play a meaningful role in ensuring an inclusive society in South Africa. In addition to our impactful corporate social investment initiatives, we have a notable track record in development training, support for small businesses and enterprise development. (→ [Refer to page 21](#)).

We have invested R10 million in the South African Small and Medium-Sized Enterprises Fund, which was established by the CEO Initiative to help solve South Africa's economic challenges by investing in promising small and medium-sized entities. We also became signatory to the CEO Circle – a pledge by big business to support black entrepreneurs and small businesses; and continue to support the YES Programme, which aims to address youth unemployment and upskilling them through job placement.

Recognising our place in the larger economic ecosystem of stakeholders, we will continue to play an active role in ensuring a well-governed industry and inclusive society. While our corporate citizenry efforts may only yield visible results over the long term, current action is needed for sustainable growth and, as an industry stakeholder and client fiduciary, Coronation will continue to invest appropriately in the industry and economy.

Conclusion

While markets and economies continue to be uncertain, as a business, we will continue to focus on clients, which ultimately will ensure the long-term sustainability of the business. We continue to reward shareholders through regular and significant distributions of free cash flow generated.

Notwithstanding some very encouraging outperformance of our clients' portfolios in 2019, our financial results for the year ended 30 September 2019 reflect the weak economic environment, which has affected both market returns and the formal savings industry. While conditions have been tough, our compass remains a long-term valuation-based investment philosophy and we are optimistic about the opportunities that key markets are presenting. We believe that our success in delivering long-term value and excellent service will ultimately benefit all stakeholders.

A note of gratitude

A resilient corporate culture and strong values that are lived every day in a business really matter in challenging markets and uncertain times. I must commend all our employees who uphold the values that have driven us since inception and work hard with integrity and purpose to achieve excellence in all areas of the business. I also thank my fellow Board members for the valued wisdom, clarity and direction that they bring with a collaborative spirit to the table. We also bid farewell to outgoing CFO John Snalam, and wish him all the best in retirement.

On behalf of us all at Coronation, I thank our clients, intermediaries and shareholders for your ongoing support, and for entrusting us with growing your investments. We are, as always, committed to earning your trust.