



Chief Executive Officer's review

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In my 2018 review, I noted some hard truths emerging from the South African economic and political landscape. The Zondo Commission threw into stark focus the true extent and cost of years of state capture and corruption. These revelations continued into 2019 and, while increasingly difficult to hear, are necessary to restoring consumer and investor trust.

Promising moves in 2019 included a reconstituted Cabinet, signalling a welcome phasing out of the old guard, the appointment of a new National Director of Public Prosecutions, Minister Tito Mboweni's widely lauded paper on microeconomic reforms, and a new Eskom Chairperson. Also encouraging were a number of high-profile arrests made by the Hawks as 2019 drew to a close.

However, with a grim 2019 Medium-Term Budget Policy Statement laying bare the woeful state of the South African economy, it is apparent that policy action is now urgently required to quell legitimate investment concerns and boost confidence, not only among South Africans, but also with respect to the international community of ratings agencies and asset holders. While this will take time, we urgently need to start. Coronation remains committed to the role that we play in the national dialogue

and, more importantly, implementation.

We eagerly await further details on the implementation of turnaround plans for SOEs and the announcement of the National Budget in February to ascertain the extent of the fiscal restraint and possible new taxes. Positively, we believe the South African Reserve Bank has scope to cut rates more aggressively, and we expect at least two rate cuts in the coming year.

Notwithstanding the above headwinds and uncertainties, Coronation continues to focus on the long term, both from a business and investment perspective. While 2019 has, overall, been a much better year than 2018, we are mindful that our long-term performance remains the true measure of our ultimate success on behalf of our clients and stakeholders.

I would like to thank John Snalam, who has headed up our finance department since inception. His input and advice have been invaluable, and I wish him all the best for the next phase. I would also like to formally welcome incoming CFO and fellow executive director Mary-Anne Musekiwa, who is excellently positioned to assume the role and has benefited from a thorough handover from John. I am confident that she will build on this critical role going forward.

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Global operating environment

The global context in which we operate today is highly unpredictable and disruptive. Global events and trends appear to have protracted timeframes – their impacts are significant and drawn out over long periods of time with little resolution, resulting in prolonged market uncertainty. One simply has to look to Brexit, the US-China trade war, instability in the Middle East, the emergence of nationalist global leaders and fundamentalism for examples.

These factors have deeply affected the asset management industry in South Africa and abroad, not only from a returns perspective but also from an asset flow perspective. As an industry, the share prices and performance of active fund managers are under pressure. As a manager of global assets, we are profoundly impacted by global market trends. Across the globe, active asset managers, who were top performers only a few years ago, have experienced a reversal of fortunes, as passive fund managers continue to drive down fees and attract a greater share of global assets.

Local operating environment

Domestically, South Africa’s fiscal position has deteriorated rapidly, as expenditure growth has consistently exceeded revenue and government has accumulated more debt to meet the shortfall. This seems set to continue. The JSE has failed to deliver the level of returns expected, and the South African consumer remains under financial pressure, which has impacted the levels of savings and flows into the industry. This is largely the result of a decline in the number of employed people due to retrenchments, and a weak domestic economic environment in which many South Africans are being forced to live off their saved capital.

As we are a South African asset manager of significant size, our assets under management will naturally reflect the flows of the industry, which are currently negative. We expect flows to continue to be negative for the medium term until we see a restoration of South Africa’s savings markets and an improvement in the state of the South African economy. The timing of this is difficult to predict.

As an investment-led business, our focus is to grow the value of the client assets entrusted to us over the long term, rather than growing the pool of assets under our management. Despite

the volatility in the market, companies such as ourselves, who use bottom-up fundamental analysis, have the ability to find opportunities in the market and deliver benefit in the long run. While we continuously emphasise that performance should be measured over the long term, it is worth noting that, during 2019, our short-term performance has been exceptional, given the tough operating environment.

Compliance

Given corporate failures of the past, we remain very active owners of every single company we hold on our clients’ behalf, regardless of whether our portfolios own 30% or 0.1% of a business. We vote at company AGMs and ensure that we have assessed every single resolution. Governance has always been a key focus for us, and we ensure that we hold management teams of investee companies accountable. We are also placing greater focus on the agents who represent shareholders, such as board directors, to ensure quality oversight and independence. Auditing firms are also under greater scrutiny and we vote against the appointment of those that have audited the same company for more than 10 years.

This action helps re-establish the link between auditors and shareholders and serves as a reminder that auditors do not report to management. Our process continues to seek out engagements with external parties such as suppliers, customers, and regulators to verify management information.

This year, we have informed all companies listed on the JSE that we will vote against their remuneration policies unless they include malus and clawback provisions. This allows us to hold individual members of management teams accountable, even after they have left the employ of the company, and we will use these learnings to optimise our processes.

Stewardship

As the stewards of our clients’ capital, we recognise that we have a responsibility to focus on the sustainability of our society and environment. We continue to deepen our focus on social and environmental factors in our company analysis through our proprietary research, which informs our engagement activities with investee company management teams relating to best practice in these arenas. As committed to in our last integrated annual

report, we published our first annual stewardship report in the first quarter of 2019, which outlined our approach to responsible investing. It also disclosed our corporate engagements and proxy voting activity and provided insight into the nature of these engagements through case studies, with both positive and negative outcomes. Our second annual stewardship report will be published on our website in the first quarter of 2020.

Business review

Notwithstanding the enviable performance recovery of our portfolios in 2019, the overwhelming impact of a tough global market in 2019 affected both market returns and the formal savings sector.

Our institutional business now manages R331 billion on behalf of our South African and global institutional clients. In the personal investment space, we continue to manage a meaningful share of South Africa's retirement and savings assets, representing a total AUM of R240 billion, making us one of the largest independent managers of pension assets in the country.

In spite of a difficult five years, our success in building our clients' wealth over the long term is evident in the fact that local clients representing more than 50% of our total institutional assets have been invested with Coronation for more than 10 years. Of these client assets, 97.5% have outperformed their benchmarks since inception on an asset-weighted basis.

We manage a total of R66 billion in our global strategies on behalf of several leading international retirement funds, endowments and family offices, which is R5 billion up from the 2018 reporting period. And, while we saw net outflows representing 11.4% of our opening AUM, this is 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.

All of our global strategies with a track record of more than a decade have delivered meaningful alpha since inception.

Our success in building our retail clients' wealth over the long term is evident in the fact that all of our domestic and global flagship unit

trust funds rank first or second in their respective ASISA categories since inception.

Investment in our business

We continue to look after our clients, not only from an investment perspective, but also from a service perspective. We are now starting to see the efficiency benefits resulting from the successful implementation of our new fund administration model in 2018, which consolidated our asset administration service across local and offshore portfolios. We are also pleased with the outcome of our decision to migrate our unit trust client administration to Intembeko Investment Administrators, a black-owned business. Both of these implementations were undertaken with no impact on our clients or on our service levels.

We expect the full benefits of these implementations to be delivered over the next two years and that they will not only deliver a higher level of service to our clients, but will also enhance the protection of client data.

Despite the difficult market environment and weak returns, our service ratings remain exceptional, with a recent client survey reflecting positive feedback. We will continue to invest in our businesses and people and extract synergies and benefits from system implementations in our quest to remain a world-class asset management company.

Corporate citizenship

We recognise that, as managers of the long-term savings of millions of South Africans, as well as several leading international retirement funds, endowments and family offices, we are a significant corporate citizen and are responsible for being part of the solution to South Africa's pressing challenges. In this light, we continuously engage with our shareholders, regulators, civil society groups and the communities in which we operate to promote and sustain economic growth, pursue transformation and deliver long-term value to our stakeholders.

As noted by our Chairman, Coronation has played an integral role in transforming the South African financial services sector over the past two decades. From a business transformation perspective, we are a Level 2 contributor to broad-based black economic empowerment, and we continue to focus on transforming our business, as well as the industry.

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78%

*of our Board of
Directors are black*

With respect to our peers in the financial services sector and our staff complement, a respectable percentage of our senior leadership team is black, including our CEO, CFO, COO, Head of Institutional Business, Head of Fixed Income and Head of SA Equity Research, and, of our Board of Directors, 78% are black. However, we will continue to boost transformation via our training and recruitment initiatives. As a signal of our commitment and intent, and to make sure that we are accountable and measurable, we will be adding an annual Transformation Report to our reporting suite, which will be published on our website during the first quarter of 2020.

Looking forward

The exhilarating Springbok win over England at the 2019 Rugby World Cup final reminded South Africa of what can be achieved when diverse players come together around a common goal and purpose.

As a company with a long-term focus, we are aware that nothing will change overnight. And, while the private sector is committed to playing its role in the issues that hold us back as a country, a certain level of action from other influencers and decision makers, including government and regulators, is needed.

Encouragingly, South Africa does not fit the profile of an economy in crisis, according to

standards applied by the International Monetary Fund. The stock of gross government debt is expected to hit 60% of GDP this fiscal year, but this is not yet alarming, even by emerging market standards. In addition, government remains able to raise funds in the open market and the proportion of debt that is denominated in foreign currency is relatively small, while local currency-denominated debt has a relatively long redemption lead time. While our current account deficit is relatively large, it has also been relatively steadily funded.

Despite the existing uncertainty, our investment philosophy remains focused on the long term. In a volatile environment, our aim remains to understand the true earnings power and cash-generation ability of the businesses in our universe and to own those that trade at a significant discount to their underlying value.

While conditions have been tough over the past five years, this has resulted in many attractively priced opportunities from which we, as active managers, can construct our client portfolios. In this regard, we are optimistic about the opportunities that key markets present and believe that clients should see better returns in the next five years.