



# Chairman's statement

**SHAMS PATHER**

BBUSC, BCOM (HONS), MBA



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Having been immersed in the South African business community for the full extent of my working life, the past year has been among the most extraordinary. Since Coronation first opened its doors in 1993, South Africa has successfully transitioned to a free and fair democracy, weathered global financial storms, the HIV/AIDS crisis, corruption scandals and State capture. However, never before has there been a conflux of a health and an economic crisis that has affected every economy and sector of society across the world.

Indeed, Covid-19 has reshaped the socio-economic narrative of some of the most powerful nations on earth, catalysing unparalleled fiscal stimulus and monetary easing, political schisms and protest action.

Through this crisis, as one of the largest independent asset managers in the country and custodian of the long-term savings of millions of ordinary South Africans and a portfolio of international clients, Coronation has remained fully operational in service of our clients and stakeholders. By retaining a sharp focus on our key strategic objectives and the application of our valuation-based investment philosophy, the Coronation team has continued to navigate the escalating market

uncertainties to deliver on its investment mandates and to play its part as an active corporate citizen.

## The local economic environment

The key headwinds to growth that challenged South Africa in 2019 persist, namely stagnant/declining tax revenue growth, unproductive expenditure, corruption and the lack of firm policy intervention. The country was downgraded three times in the first half of 2020 by the various ratings agencies, with S&P finally reducing South Africa to junk status in April, as the economic lockdown began to weigh on the already anaemic growth forecast.

As businesses closed their doors, household income stress escalated and unemployment continued to climb, with Covid-19 related job losses estimated to be in the region of two million and rising. While government moved swiftly to contain the virus, it simultaneously implemented access to relief funds by deploying the UIF savings pool and establishing the Solidarity Fund. The South African Reserve Bank implemented three rate cuts totalling 275 basis points. Regretfully, corruption seeped into relief efforts, with personal protective equipment (PPE) tender fraud and missing funds headlining almost immediately.

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In his October Medium-Term Budget Policy Statement, Minister Tito Mboweni confirmed the deteriorating conditions, exacerbated by falling investor confidence and the debt burden that government has taken on in an attempt to save the economy from collapse as a result of Covid-19.

However, the Minister reaffirmed National Treasury’s commitment to take firm action to establish fiscal security, and there are positive indications that public and private sector cooperation is in place in this regard, but how this plays out remains to be seen and the execution risks remain high. As before, it is clear that immediate and decisive action is required to stimulate growth. There is simply no more time to lose.

### **The global economic environment**

The economic damage and fiscal cost of the first wave of Covid-19 are still unknown, and the second wave of infections in a number of countries is preventing a return to ‘normal’, with economic activity slowing again.

Early signs of an economic rebound in the second half of 2020 were relatively good, but momentum has started fading, raising the risk of a Q4-20 ‘double whammy’, with growth faltering as containment strategies intensify.

In October, the IMF confirmed that Covid-19 has caused a global recession that is projected to result in a 4.4% contraction in growth. The flooding of developed markets by central bank monetary easing and enormous fiscal stimulus programmes will aid recovery, albeit likely disjointed and anaemic.

Globally, geopolitical tensions will continue to weigh as the trade stand-off between the US and China continues to play out, although the recent Biden win in the US election could see a slight easing. Brexit will also impact the UK economy and investor sentiment.

Broad uncertainties abound as second waves of Covid-19 infections are sweeping through the northern hemisphere, and lockdowns are re-instated. The full impact of the pandemic will only be known in the fullness of time. At a time when we need it most, the development of vaccines provides a ray of hope.

### **Governance and compliance**

Governance continues to be an important aspect of running our business. A key aspect is establishing a diverse Board with a solid succession plan in place. To this end, we have appointed three new independent non-executive directors and it is my pleasure to welcome Neil Brown, Phakamani Hadebe and Saks Ntombela to the Coronation Board, effective 19 October 2020.

Given the spotlight that has been shone on audit firm independence around the world, and in accordance with what the investment teams encourage in investee companies, Coronation is an early adopter of mandatory audit firm rotation. Following a rigorous tender process, we have recommended KPMG Incorporated (KPMG) for appointment as Coronation’s external audit firm as of the 2021 reporting year. Both the director and audit firm appointments are subject to shareholder approval at the February 2021 annual general meeting.

As the global focus on ESG<sup>2</sup> issues intensifies and in line with what we require of our investee companies and the various voluntary codes to which we are signatory, we have conducted our first carbon footprint assessment, a summary of which is on pages 21 to 23 of this report.

### **Active corporate citizenship**

Coronation continues to play its part as an active corporate citizen, both in our efforts to build a strong and transformed financial services industry and to support the communities in which we operate.

The Coronation Board is extremely proud of the management team and all employees for how deftly and seamlessly the business transitioned to comply with the offsite working conditions necessitated by lockdown regulations. In addition, over and above business-as-usual CSI activities, Coronation played a strong role in Covid-19 relief efforts, with our employees being the lead corporate payroll contributors to the Solidarity Fund.

<sup>2</sup> Environmental, social and governance

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It has been heartening, in the depth of the recent crisis, to see how civil society and the private sector have rallied to support government and NGO relief efforts. I believe that this inherent spirit of cooperation and compassion that South Africans habitually display during hard times will play a vital role in the recovery of our country.

As at 30 September 2020, we are a Level 2 contributor to broad-based black economic empowerment as per the Financial Sector Code, and our employee complement demonstrates our commitment to transforming from within (→ [refer to page 50](#)). We continue to support black enterprise development through financial support and training commitments; as well as pipeline talent development through our bursary and internship programmes (→ [refer to page 44](#)).

### **To conclude**

It has been a privilege to continue to operate at full capacity during the economic lockdown and to retain our full employee complement. Looking ahead, we will continue to focus on delivering on our strategic objectives, which have assisted the business in navigating through many uncertainties in the almost three decades since its inception.

### **A note of gratitude**

We are grateful to our clients for their ongoing trust and business. I would also like to extend my thanks to my fellow Board members and the management team for their skilful management of the Covid-19 operating environment over and above delivering on their annual strategic and operational goals. The Board also commends all Coronation employees for enacting a strong sense of ownership in what has been a personally and professionally demanding environment.