



# Chief Executive Officer's review

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2020 will always be remembered as the year in which a novel coronavirus brought the global economy and community to a standstill. Across the world, governments, policymakers and business leaders struggled to find the balance between attending to the humanitarian crisis while trying to mitigate the economic damage of the consequent lockdowns.

Amid this widespread disruption, as the manager of R569 billion of assets on behalf of local and international clients, Coronation was among those essential services businesses that were granted the licence to remain fully operational throughout the national lockdown. And we are grateful for having been able to continue fulfilling our fiduciary and civic duties.

As the Chairman has noted, reflecting on 2020, it is difficult to ignore the fact that the systemic issues hampering South Africa's road to recovery remain largely unchanged after a decade of State capture. The advent of Covid-19, exacerbated by the undercapacity of the healthcare system to respond to the crisis, has only served to amplify the many challenges.

The economic hardship has further compromised already beleaguered households, as many have experienced dual loss of income. As a consequence, the asset management industry

experienced accelerated outflows as investors cashed in their investments or took retirement fund payment holidays, and widespread retrenchments saw employee contributions to group schemes diminish.

While every life lost to Covid-19 is one too many, in South Africa we fortunately have not seen the high levels of mortality that early modelling predicted, and science is still not clear as to why this is the case. The reality is that the scale of the economic humanitarian crisis outweighs that of the health crisis. In his Covid-19 update on 11 November 2020, President Ramaphosa addressed the nation and eased lockdown restrictions to further relieve certain sectors. Developments of viable vaccines are promising, and while it is early days, this will have a significant impact globally.

## Business review

For the 2020 financial year, we were able to deliver on our commitments to our clients and shareholders through ongoing, excellent long-term performance across our portfolios, improved profitability and increased investment in our business.

While successfully transitioning the majority of employees to work remotely, we remained

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*“We remained focused on delivering an exceptional client experience.”*

focused on delivering an exceptional client experience through increased communication and thought leadership events. We are proud to be part of a business community that stepped up to support government and civil society in their Covid-19 relief efforts. We were also extremely privileged to have retained our full employee complement.

I would like to acknowledge our investment and management teams, the Board and all employees for a seamless shift to remote work and ongoing service excellence, in spite of the personal demands each individual experienced as a result of lockdown. We will continue to monitor the Covid-19 situation and will manage employee work arrangements accordingly, with the wellbeing of our employees, contractors, service providers and clients top of mind.

The South African savings pool continued to shrink on already negative sentiment and stressed household budgets, exacerbated by business closures, loss of household incomes and retirement fund contribution holidays. Coronation's experience is in line with our estimate of the overall industry experience.

After reaching a nadir in the second quarter of 2020, markets experienced a strong rebound in the second half of the calendar year. Our portfolios reflect this in the very strong performance they have delivered for our clients over the long term. This has offset the effects of net AUM outflows as a result of the shrinking savings pool, and total AUM remains flat at R569 billion.

Improved investment performance has seen Coronation's profits up by 16.6%, while revenue increased by 10.7% to R3.6 billion. Total operating expenses are up 8.6%, with fixed costs up 12.8%. It is worth noting that cost increases for most expense lines were largely in line with inflation. Diluted and basic headline earnings per share increased 16.6% for the period to 398.5 cents. Fund management earnings per share increased 14.2% for the period to 383.1 cents.

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 R239 billion. Of our unit trust range, 86% of our funds have delivered first quintile performance in their respective ASISA

categories on an asset-weighted basis, over the past 10 years.

Our institutional business now manages R330 billion on behalf of our South African and global institutional clients. In spite of a tough environment, 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, 95% have outperformed their benchmarks since inception on an asset-weighted basis.

We manage a total of R79 billion in our global strategies on behalf of several leading international retirement funds, endowments and family offices. Following very strong performance in the 2019 calendar year, we have experienced inflows into the Global Emerging Markets Strategy, as clients seek to take advantage of the potential upside inherent in the current market volatility.

## **Covid-19 social response**

Given that the lockdown conditions impacted many of the communities that we support via our CSI programmes and the impact of job losses, I am very proud of both Coronation, our non-executive directors and our employees for the generous support shown to Covid-19 relief initiatives. Coronation employees ranked first in the private sector in terms of corporate payroll donations to the Solidarity Fund, with a total of R13 million in relief funds donated to various charities and initiatives (→ refer to page 20). We were also in a position to provide support to our supply chain partners, an important aspect of ensuring economic recovery across the board.

## **Stewardship**

The global focus on stewardship and responsible investment has sharpened, with regulation being tightened in the EU and the UK. We are members of several voluntary codes such as the Task Force on Climate-Related Financial Disclosures and Climate Action 100+. This year, we achieved the highest Principles for Responsible Investment ratings of either A or A+ in all categories.

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We published our second annual Stewardship Report for the calendar year 2019 in the first half of this year, which outlines in detail our stewardship approach and our views on key themes, as well as our engagement and voting activities. To align our business with the commitments we ask of our investee companies, we have formally included natural capital to our value creation activities. As our first step on this journey, we have included the findings of our first operational carbon footprint analysis in this report (→ [refer to page 21](#)). We will continue to use the learnings from this exercise to improve our operational efficiencies to soften and offset our impact on the environment.

### **Investment in our business**

To maintain, and enhance, our core objective to deliver investment excellence in this fast-paced and competitive industry, where regulatory compliance and client service are key aspects of running a sustainable business, we have continued to invest in information technology and information systems infrastructure. Current projects include upgrades to Coronation Online Services, our direct client service platform, and improving our data management systems.

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.

### **Looking forward**

Coronation continues to focus on the long term, both from a business and investment perspective. The full impact of Covid-19 on businesses, economies and society is yet to be seen, and will play out in the years to come. In this unparalleled time, Coronation has proven its resilience and the sustainability of our business model, through delivering on all of our key strategic objectives (→ [refer to page 15](#)). Finally, I would like to thank our clients, who are at the heart of our business in every way, for their ongoing support.