



# Chief Executive Officer's review

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*“Our employees are the heart of our company.”*

This reporting period is a particularly poignant one, as it serves as a reminder of the challenging road the world has endured for almost two years. The humanitarian and economic impact of Covid-19 persists with the ever-present threat of new waves of infection and the emergence of new variants. While we were one of the fortunate companies that were able to operate throughout, we were not unaffected by its impact.

We were deeply saddened by the loss of a long-serving colleague Lynelle Leng to Covid-19, as well as the passing of our Chairperson Shams Pather. A mentor to many, Shams was an industry giant and an astute businessman with a sharp and enquiring mind and sense of humanity. He was a person of absolute authority, tempered with kindness, who led by example and expected the best from those around him. He is missed very much by everyone at Coronation.

## Business review

As the custodian of the savings of millions of South Africans and select global clients, Coronation has been privileged to remain fully operational in service of our clients and stakeholders. With nearly three decades of experience, we continued to draw on our long-established values and culture to guide us through the uncertain operating environment. This, underpinned by our long-term investment philosophy, enabled us to continue to deliver on our promise to our clients, employees, and shareholders, as well as South African society and the underprivileged communities we work hard to uplift.

While we delivered exceptional results for our clients and shareholders, it would not have been easy to continue with the lockdown status quo. After over 500 days with approximately 80% of our employees working from home, we returned in full to the office on 2 November. Our employees are the heart of our company, and we need the effective collaboration and decisions that can only come from face-to-face engagement. We draw our strength and motivation from robust debate and water cooler encounters. It quite simply generates a different energy and, in many ways, ensures a better outcome for all. It is encouraging to have the team back together in person once again.

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Safety remains the key priority. We have implemented strict Covid-19 protocols to ensure everyone’s protection and continue to encourage all our employees to get vaccinated. Employees who are not vaccinated are required to have Covid-19 tests to retain access to the office. Visitors, likewise, are also required to produce proof of vaccination or negative tests before entering the premises.

## Investment in our business

When managing a business through uncertain times, a sharp focus is required to ensure you remain true to your purpose, while simultaneously not ignoring your societal role. Our focus remained firmly set on our long-term goal of providing investment excellence to our clients. We also continued to invest in our people and the business, and key to this is ensuring that we maintain robust, world-class information and technology systems. This year we successfully launched our new Client Online Services, an online portal for our direct investors, and I am confident that it will exceed the expectations of our clients.

From a regulatory perspective, the pace of change globally did not slow during the pandemic and our risk and compliance team have been hard at work ensuring we comply with new requirements both locally and abroad. As a country, we have certainly not made it easier for business to operate, and, in addition to the uncertainty due to long-outstanding decisions and policies, this places significant cost and capacity pressures on South African businesses. We need to continue to do whatever is necessary to instil confidence to attract investment and encourage entrepreneurship to ensure much-needed employment and economic growth.

## Transformation

With the growing emphasis on transformation, diversity and inclusion globally, we continue to make progress in our diversity representation across both race and gender. We continue to play a role in ensuring meaningful and substantive transformation through our various initiatives, and this year we achieved the status of Level 1 contributor to broad-based black economic empowerment as measured by the Financial Sector Code. Our culture and values are important factors in delivering on our commitment to be responsible stewards of our clients’ assets, and we understand that we have been granted a social licence to operate.

## Covid-19 social response

We are an active corporate citizen committed to contributing to the health and prosperity of South African society and the economy. We continued to be in the privileged position to operate efficiently throughout lockdown, and we have not had to retrench or furlough employees, nor did we require any government relief. In addition to supporting our existing social investment programmes, and our support of black brokerage and adviser businesses, our corporate citizenship actions remained focused on Covid-19 relief programmes. We made a further commitment of R6.4 million, including donations to food security organisations FoodForwardSA and Ladles of Love, and the Solidarity Fund's vaccine rollout programme.

## Stewardship

We have been active stewards of our clients’ capital for almost 30 years and fully integrate environmental, social and governance considerations into our investment and business processes. This includes active engagement, voting and shareholder activism.

Our stewardship responsibility is twofold – as a JSE-listed entity and as an investor. In a first for a South African asset manager to date, we wrote letters to 89 JSE-listed companies urging them to adopt the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) when reporting on climate risks in their businesses. Coronation has adopted the TCFD framework and have published our second Carbon Footprint Assessment, which is available on our [website](#).

We fully support the transition to a greener, more sustainable and equitable world. In addition to our participation in initiatives like the UN Principles for Responsible Investment and Climate Action 100+, we will continue in our endeavours to engage on these matters, to ensure an appropriate outcome over the long term. This is an important journey, and we continue to learn, to ensure that we make a meaningful impact.

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## Full year results

The past year has been an exceptional one for Coronation’s clients and shareholders. Markets continued to perform strongly in 2021 after coming off the low base of March 2020. For the 12-month reporting period, the MSCI All Country World Index was up 11% (USD), the MSCI Global Emerging Markets Index was up 18% (USD) and the FTSE/JSE All Share Index was up 23% (ZAR).

Strong outperformance of the underlying markets in client mandates contributed to excellent results for the 12 months ended 30 September 2021, with revenue up by 17% and headline earnings up by 22% from the prior year. We believe the outperformance enjoyed by our clients is the result of an unwavering commitment to active long-term investing, in-depth proprietary research and the benefits that come from a stable and experienced team.

However, it is worth reiterating, as we did in our interim results report in May, that these results benefited from a cyclical high in performance fees that we expect to normalise in the years to come. As always, we will continue to keep our focus on the long term as we navigate short-term troughs and peaks.

Given the strong outperformance across our portfolios, average AUM increased by 9% year on year to R617 billion and year-end AUM is up 11% to R634 billion. However, as an investment-led business, our primary focus remains on growing the value of the client assets entrusted to us over the long term, rather than simply looking to grow the pool of assets under our management.

Total operating expenses increased by 8% compared to the 12 months ended 30 September 2020, with the highest growth attributed to the increased regulatory burden and investment in information systems and technology. Fixed costs are up by 5% compared to the prior year. We continue to invest in information systems and technology infrastructure, which are key to delivering on our promise of superior client service. Fund management earnings per share, the more appropriate measure used by management, increased by 23% for the period to 470.9 cents.

Despite the very positive reporting period for our clients and shareholders, the pressure of economic lockdowns continued to exacerbate the plight of the already stressed economy and local savings industry. As a sizeable industry participant, it is likely that Coronation will continue to reflect the outflow experience of the broader South African savings industry. We expect this to remain the case for the foreseeable future. For the year, we had outflows of 5% of the average AUM.

## Looking forward

We have to do what is necessary to stimulate the growth that is required in our nation. While improved tax collection and a strong commodity cycle are supportive of recovery, these alone are not enough to stimulate the growth South Africa so badly needs. With issues such as new variants, slow vaccine uptake, soaring unemployment, increasing government debt, and failing State-owned entities and municipalities, the challenge is real. In our industry, we are acutely aware that, for our business to be sustainable, we need a citizenry that is in a position to save and invest.

To this end, Coronation’s management actively engages with government, regulators, industry bodies and our peers to seek solutions and drive change, for the benefit of all our stakeholders.

Key issues where I would like to see decisive action include clarity with respect to key policy decisions, the resolution of the spectrum dispute and our energy crisis, as well as tangible evidence of infrastructure development.

Finally, I would like to thank our clients, who are our only reason for being in business, for their ongoing support, my colleagues for their hard work and dedication, and the Board for its strategic guidance of Coronation.