



Chairperson's statement

ALEXANDRA WATSON

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The recent pace of change has been breathtaking and demanding for us all. It has been an uncharted period, during which each one of us has been called to dig deep for additional resilience and optimism, as an extraordinary sequence of mostly negative events has stacked up relentlessly.

At Coronation, with 27% of the business owned by employees, the team has responded in line with the deeply embedded culture of ownership that sets us apart. In spite of ongoing market turmoil and industry pressure, the business has pulled together and continued to protect shareholder interests through rigorous expense management and a 100% dividend payout of fund management earnings per share for the financial year ended 30 September 2022.

In my report last year, I referred to one of the biggest upheavals to human society in recent history – Covid-19 and its economic and social interruption – which has been somewhat overshadowed by the large-scale events of 2022. While the immediate existential threat of Covid-19 has mostly abated and business as usual has returned to most economies across the globe, the effects linger – with new subvariants and outbreaks emerging and the slow easing of China's zero-Covid policy continuing to weigh on mobility and world trade.

According to the World Health Organisation, as of 15 December 2022, over 646 million confirmed cases and 6.6 million deaths had been reported globally, with China's caseload reaching record highs at time of writing. According to a September 2022 McKinsey survey*, Covid-19 remains a top-five threat to global economic recovery, although its weight varies across geographies.

Once again, I extend my condolences to all readers affected personally and economically by the pandemic.

Global environment

2022 has been a year like few others, the end of which remains impacted by three years of mounting geopolitical and economic upheaval. The start of the year was marked by a strong market recovery that was starkly interrupted by the Russian invasion of Ukraine in February, a move that sent markets and all asset classes spiralling.

I am privileged to work with a Board and management team comprising exceptional, dedicated individuals who demonstrate an unwavering commitment to creating long-term value for shareholders (which includes many of our employees), clients and other stakeholders.

The escalation in geopolitical tensions this year saw the intensification of Cold War II and the Iron Curtain once again descend between eastern and western nations. The immediate effects on the global economy were manifold, namely energy crises, supply chain gridlocks and elevated food insecurity and wide-spread inflation.

A further headwind emerged as, globally, central banks commenced aggressive policy tightening to curb the soaring inflationary effects of sanctions against Russia and the unprecedented quantitative easing employed to offset the socioeconomic consequences of Covid-19 lockdowns.

In short, it was a brutal year for financial markets and investors globally. The world remains an uncertain place, as recession looms in the US, the UK and Euro Area; and the eastern response to western hegemony is becoming more polarising and unpredictable.

South Africa 2022

At home, macroeconomic conditions continued to deteriorate in 2022, weighing on growth and the GDP outlook. This is both due to our vulnerability to the aforementioned global macro variables, exacerbated by a stronger dollar, and a span of embedded and deepening systemic risks in our economy.

The laundry list of factors includes:

- ▶ chronic loadshedding, the dire condition of SA's State-owned enterprises and the consequent impact on manufacturing and exports;
- ▶ soaring inflation and the resultant interest rate hikes;
- ▶ chronic unemployment;
- ▶ skills deficits and the poor state of education; and
- ▶ lacklustre income growth and shaky investor confidence.

There is, however, a silver lining to be found in the recovery of the important tourism sector and related travel, which has boosted revenue and employment, although loadshedding, challenges relating to water and steep fuel costs are a drag here too.

In his October Medium-Term Budget Policy Statement, Finance Minister Enoch Godongwana focused on these headwinds and the actions necessary to mitigate the effects, boost growth and protect the poor. Budget has been orientated towards the most pressing issues, including, and most notably, the assumption by National Treasury of approximately R400 billion of Eskom debt, additional funding for infrastructure and an extension of the Social Relief of Distress Grant through to 2024.

It is some comfort that much of these allocations are offset by improved revenue collection by the South African Revenue Service. Of pressing and ongoing concern is recent and potential public sector strike action. This places ongoing pressure on the government wage bill, as workers battle to make ends meet in the face of the reality of the inflation/interest rate conundrum.

Investor sentiment is key

The country's ability to improve investor sentiment has been further eroded by the massive corruption scandals emerging out of State Capture and the looming threat of grey listing by the Financial Action Task Force (FATF) early next year. This is a grave blow to a country whose financial system was previously a shining light. In response, government has rushed to pass legislation to tighten defences against money laundering, raising the risks of unintended consequences.

Key to our economic recovery is reviving foreign direct investment.

On the other hand, completing the R1 billion Zondo Commission has yielded some high-profile successes, resulting in the arrest and prosecution of prominent individuals. Although no one is as yet behind bars, assets have been seized and government is clawing back ill-gotten gains.

Regulation and governance

As I noted last year, regulation of financial services is increasingly onerous, especially regarding sustainability and ESG integration. Coronation continues to engage with the relevant local and international regulators and consultants to understand how we can best comply with the letter and the spirit of new regulations.

We believe the Board has the requisite experience, skills and diversity to ensure effective oversight of a large, global asset manager. For details on our investment stewardship activities and how they impact the sustainability of our business, refer to the Long-term Investment section of this report or our 2021 Stewardship Report, available on www.coronation.com. In addition, we have introduced a Sustainability Report to our reporting suite this year, which details our impact on the environment and society.

Active corporate citizenship

At the core of Coronation's corporate social investment (CSI) programme is improving the state of education in South Africa. The current education crisis poses an immediate threat to the future health of our economy and the sustainability of SA Inc. For this reason, we focus on numeracy and literacy and offer full bursaries and internships to students pursuing a career in financial services. Because a hungry child cannot learn, another key focus of this year's CSI activity has been partnering with food relief NGOs. This initiative started during lockdown, when learners lost access to the one certain meal a day they had come to depend on.

As usual, for the team at Coronation, it is not simply about writing cheques, we all roll up our sleeves and lend a hand making record-breaking chains of food cans and thousands of sandwiches. This is true testimony to our ethos of: we are because of our communities.

Outlook

The South African savings environment remains under pressure, and Coronation's share of market is challenged by beleaguered consumers having less to save and invest, increased competition and regulation, not least of which is the easing of the offshore allowance for pension funds under the recently amended Regulation 28.

Globally, active asset managers are experiencing net outflows due to a risk-off sentiment and a flight to passives. However, we remain confident in the fundamentals of the business and our ability to adapt to ensure the ongoing success of our business.

A note of gratitude

I noted earlier, my deep respect for the Coronation team. It is a privilege to lead the Board of a meticulously run world-class company. I also extend my thanks to Coronation's clients who have continued to trust in the long-term prospects of their portfolios, based on our single long-term, valuations-driven investment philosophy that has stood the test of three decades, and to our shareholders, to whom we are accountable.



Chief Executive Officer's review

ANTON PILLAY

BBusSc, CA(SA), CFA,
AMP (Harvard)



Since 1993, we have grown from a small shop with zero assets under management to one of the country's largest independent asset managers. As custodian of the savings of millions of South Africans and select global institutional clients, we have been delivering superior long-term investment outcomes for our clients, unlocking value for our shareholders and striving to positively impact our industry, society and the communities in which we have operated for almost three decades.

During this time, we have experienced many market cycles, crises and global events with far-reaching impacts. By focusing on our core values and valuations-based investment philosophy, deep proprietary research, and our single-minded purpose of delivering superior long-term investment outcomes to the benefit of all our stakeholders, we have consistently navigated the downturns to the benefit of our clients.

At the start of 2022, the world was emerging from two years of unparalleled uncertainty, which has now amplified into a polycrisis. The confluence of the Covid-19 pandemic, the outbreak of war and escalating geopolitical tensions led markets sharply downwards, impacting economies globally.

To underscore the extent and gravity of this, consider that in 2022 the US equity and bond markets were down simultaneously by more than 25%. This is only the fourth time in history that this has occurred – the last time being 1969, which was largely the result of the Federal Reserve Board's policy response to the cost of the war waged by America in Vietnam.

Business update

In the tough and competitive fund management industry, our ability to consistently deliver outperformance, at scale, and over multi-decade periods is a significant differentiator. 2022 saw us deliver credible results that were in line with our expectations and market conditions.

This would not have been possible without the cohort of high-performing and dedicated people that make up the team at Coronation. As our Chairperson Prof Alexandra Watson mentioned in her statement, this is largely due to our strongly ingrained sense of ownership, backed by the flat-structured meritocracy that are hallmarks of our culture. The latter ensures that the full benefit of the diversity of our employee base feeds through into the business, as everyone has an equal voice and the ability to make an impact regardless of position or function.

Coronation is a homegrown South African business with an expanding global presence. We demonstrated our deep belief in the future of our nation by opening our doors just a year before our first democratically elected government was instated.

With 27% of Coronation's shares owned by employees, we feel the cyclical nature of our business to the same extent as our other shareholders. This means that at the top of the cycle, we benefit, but employees also feel the pain when things turn. Therefore, each individual takes full responsibility for ensuring the efficient running and profitability of the business. Ultimately, at the core of Coronation's success is a team of diverse, talented, and dedicated people.

In short, as a whole, we are as fully invested as our clients and shareholders.

This year saw the investment team taking full advantage of the indiscriminate sell-off in global markets, and our portfolios are positioned to reap the rewards of a market recovery. Short-term market moves notwithstanding, across our book, our long-term investment track record remains exemplary. Over the past three decades, 96% of our portfolios have outperformed their benchmarks.¹

While tightly managing fixed costs in a high-inflation environment, we continued to invest in our business to position it to be sustainable and competitive in the long run. With the increasing scourge of cyber crime, of particular importance is ensuring the security and sophistication of our information technology and systems platforms. As part of our continuous drive to enhance our client experience, last year we launched our new Client Online Services for direct investors, and in the first half of 2023, we look forward to releasing a similar service for the IFA's that manage Coronation funds on behalf of their clients.

Transformation

Since we first opened our doors, we have understood the value that diversity, equality and inclusion bring to every aspect of society, and we have actively driven transformation in the business and our industry.

Our transformation status is the result of years of dedication to meaningful and substantive broad-based transformation via recruitment, training, procurement and enterprise development initiatives. This year, we were proud to place first in the Gender Reporting by JSE-listed Companies category in the Accenture 10th Gender Mainstreaming Awards.

We are 29% black owned and have maintained our status of Level 1 contributor to broad-based black economic empowerment.²

From an investment management perspective, R269 billion, representing 47% of our total AUM, is managed by black investment professionals and half of our South Africa-based investment team leaders are black.

In addition, we are aware of the serious skills deficit in South Africa, and we deploy a significant amount of funding and employee time to various business and graduate development and mentorship programmes.

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. Our 2021 Stewardship Report details our stewardship activities for that calendar year, including our position on climate change and the carbon emissions of our key equity portfolios. Having being awarded first place for companies with an AUM of less than £60 billion in the International Corporate Governance Network's Global Stewardship Disclosure Awards, we were honoured to be recognised for our stewardship disclosure.

We are a participating investor in Climate Action 100+ and fully support the transition to a greener, more sustainable and equitable world. We will continue in our endeavours to engage on these matters. We encourage companies to adopt the Task Force on Climate-Related Financial Disclosures framework when reporting on climate risks in their businesses and apply this when reporting on our business operations. This year we have published our first Sustainability Report and our third operational Carbon Footprint Assessment.

Active corporate citizenship

We are committed to contributing to an inclusive economy and a prosperous society. During the period under review, we continued to support education and training initiatives via our CSI and enterprise development programmes. We sharpened our focus on hunger relief initiatives in partnership with FoodForward SA and Ladles of Love. For us, it's not just about handing over money, we understand that time and human connection are integral aspects of uplifting communities, and our employees love getting involved. You can [watch us in action here](#).

¹ As at 30 September 2022, Company-wide, asset-weighted since-inception track record for funds with >10-year track records.

² As per the Financial Sector Code

Coronation is also an active participant in industry and government-related engagements to find solutions to reduce unemployment, improve the available skillset, kickstart growth, and place South Africa on the road to economic recovery. In response to the unemployment crisis in South Africa, we continue to support and engage the youth through job training initiatives.

What is particularly close to my heart is engaging with students in the financial services arena to inspire and support them in their journey towards becoming fully-fledged investment professionals contributing to the health of South Africa's business arena and economy.

Full year results

Fund management companies are cyclical businesses that are heavily impacted by market movements. Our financial results for the period under review reflect the sharp declines seen across all asset classes globally. In this challenging market environment, we experienced net outflows representing 6% of our average assets under management (AUM). This is in line with our expectations and reflects the realities of a shrinking domestic savings pool.

As a large domestic manager, we expect Coronation's flows to broadly reflect that of the South African savings pool and the economic reality within which it operates. Recent changes to Regulation 28 will further shrink the available pool of domestically managed assets. For the period under review, average AUM was R621 billion, which is marginally higher than that of the previous year (September 2021: R617 billion). Closing AUM is 9% lower at R574 billion (September 2021: R634 billion). Reflecting the extreme volatility currently in markets, AUM as at 15 November 2022 had recovered to R610 billion.

Total expenses were down by 12% from the previous year, which is a significant decline considering the current inflationary environment. This is the result of our continued focus on managing fixed expenses, which were marginally up by 2%, and our variable expenditure model that has shielded shareholders from the extreme cost pressures that businesses around the world are currently experiencing. It is also worth noting that we continue to invest in the business to ensure that we are able to offer our clients world-class service in an ever-evolving landscape.

Fund management earnings per share (FMEPS) for the year ended 30 September 2022 decreased by 18% to 387.0 cents from 470.9 cents in the previous year. FMEPS is used by management to measure true operating financial performance. FMEPS excludes the net mark-to-market impact of fair value gains and losses and related foreign exchange movements on our investments held for seeding products. Diluted and basic headline earnings per share decreased by 25% to 366.3 cents (September 2021: 487.9 cents).

Looking forward

While we have no direct impact on the global macro variables that inevitably impact emerging markets the most, in South Africa there is much to be done. My colleagues and I are very active in engaging with the authorities and industry bodies to accelerate policy implementation and to find ways to cut through the red tape that hinders growth. Of grave concern to us is how our once vaunted SOEs now weigh on growth and development potential and the lack of finalisation of investigations and legal processes relating to both public and private sector fraud and theft.

There is no doubt that there are tough times ahead for economies across the world, and there is no telling when the tide will turn.

Amid this ongoing uncertainty, our highly experienced and well-resourced investment team continues to employ the same long-term investment approach that has driven outperformance across a significant portion of our fund range for nearly three decades. We will continue to manage the business to deliver long-term value to our clients, shareholders and other stakeholders.

And finally, to our clients and shareholders for staying the course with us, and to the Board and my colleagues for their support, wise counsel and hard work, thank you.

* Company-wide, asset-weighted since-inception track record for funds with >10-year track records