

CORONATION



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# 2019 Reviewed Interim Results

for the six months ended 31 March 2019

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21 MAY 2019

Anton Pillay, CEO and John Snalam, CFO



# Agenda

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- Highlights
- Operating environment
- Business update
- Financial results
- Closing comments
- Questions



# Highlights

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# Highlights



- Global & local markets continue to be uncertain - period under review was marked by extremely challenging conditions for economies & financial markets
- AUM remained flat at R586bn at the half year end, while total net outflows represented 3.6% of opening balance
- Active management continued to deliver strong performance over the long term
  - meaningful improvement in short-term performance across most of our strategies
- Manage the business for the long term
  - asset & transfer agency administration changes are now fully implemented and will continue to improve service levels to clients
  - cost control measures implemented have delivered desired results
- Good corporate citizenship
  - transformation and corporate social investment continue to be key integrated focus areas of our business

## REVENUE

R1.6bn

## DILUTED HEPS

165.1c

## TOTAL DIVIDEND PER SHARE

165.0c

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# Operating environment

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# Global economy

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- Global growth slowed meaningfully into end-2018, and early 2019
  - Global trade disputes, domestic policy-generated slowing in China and weakness in Europe all contributed
- Emerging signs that growth is stabilising, at weaker levels. IMF April forecast revisions show downward revisions to growth:
  - Global GDP 2019e 3.2%; 2020f 3.6%; 2021f 3.6%
- Within emerging markets, recession in Argentina, Turkey and weakness in Brazil, Mexico and SA all weigh in
- Weak growth prompted developed market central banks to become more dovish - market rate expectations marked meaningfully lower
- This has provided some reprieve for risk assets

# SA socioeconomic environment



- Being part of the emerging markets group is inescapable
- Economic base is very low, with disappointing GDP growth
- Poor operating environment is expected to continue
- Following the uncertainty in 2017, optimism of early 2018 faded
- Challenges abound but post-election SA on balance positive :
  - New cabinet should result in better policy making and implementation; a lot hinges on this
  - March loadshedding weighed on operating environment and sentiment
  - Growth momentum in Q1-19 sluggish
  - The possibility of stronger growth in 2019



# Capital markets



Markets are ever more uncertain and sensitive to short-term news flow

Economic group	3 months to end March 2019	6 months to end March 2019	12 months to end March 2019
All Share (ZAR)	7.97%	2.71%	5.04%
CAPI	6.77%	1.59%	3.47%
Resources	17.85%	12.51%	41.59%
All Property	1.25%	(5.04%)	(6.95%)
Industrials	7.42%	0.45%	(3.74%)
Financials	(0.45%)	(2.53%)	(5.82%)
USD/ZAR	(0.97%)	(2.35%)	(18.42%)
Cash	1.69%	3.42%	6.91%
CPI	1.46%	1.93%	4.52%
MSCI Emerging Markets (USD)	9.91%	1.71%	(7.41%)
MSCI All Country World (USD)	12.18%	(2.13%)	2.60%
FTSE/JSE Africa ex-SA (USD)	6.38%	1.02%	(14.06%)
MSCI Frontiers Markets (USD)	6.87%	2.25%	(15.00%)



# Business update

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# Our business



Over 25 years of trusted custodianship of client savings

An active manager with a singular focus on long-term investing

## We put clients first

- ▶ Our sole purpose is the delivery of strong long-term investment outperformance and service excellence
- ▶ Long-term investment performance remains excellent
- ▶ Closed institutional strategies for five years
- ▶ Strong symmetry: fees aligned with client outcomes
- ▶ Understand our role as custodians of clients' savings (ESG)

## A proudly South African company

- ▶ Trusted household brand
- ▶ Level 2: revised FSC
- ▶ 24.4% employee-owned
- ▶ 56% of our employees are black, of whom 57% are black females
- ▶ 54%\* of our new hires are black

## Creating a sustainable global business

- ▶ Cyclical nature of business means we need to manage through the investment cycles
- ▶ Employ and train the best people
- ▶ Back-office transitions achieved on time, within budget and without interruption to our clients.
- ▶ Next phase to extract value & synergies from changes to systems

## Committed to advancing economic transformation in our industry

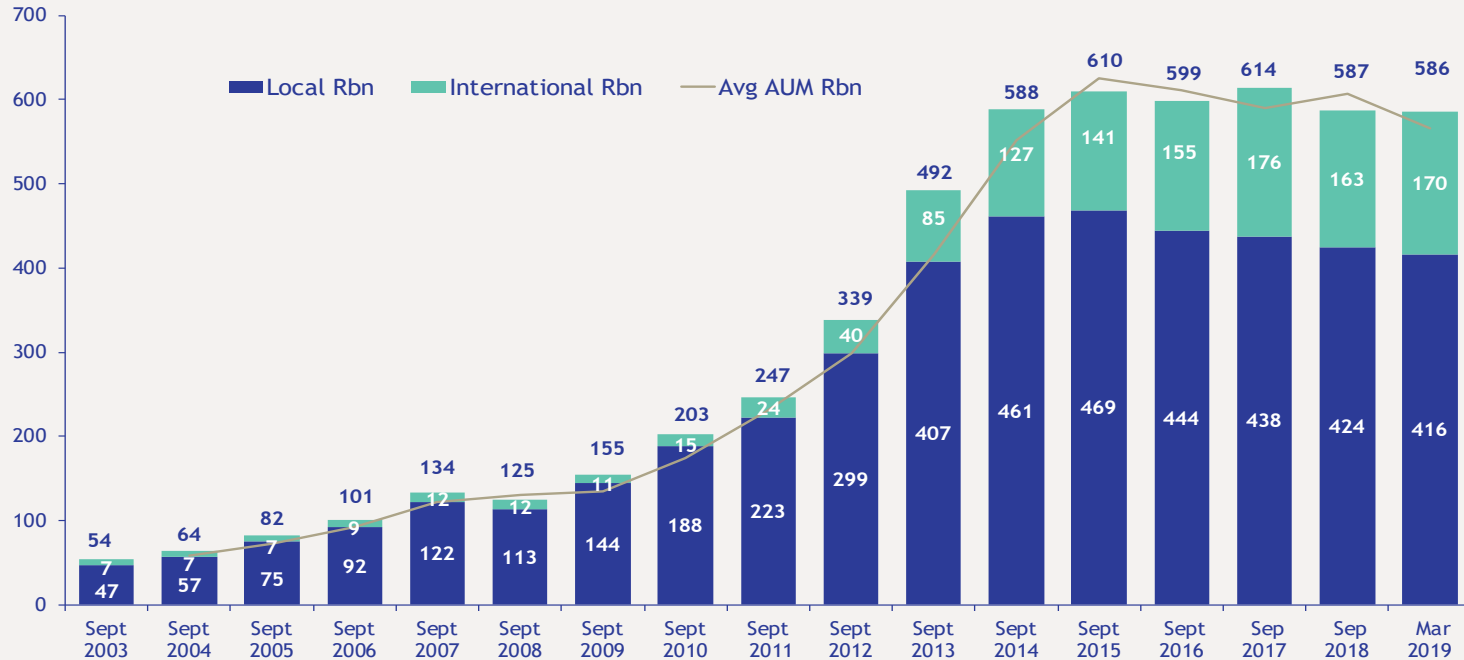
- ▶ **Black-owned stockbrokers**  
For more than a decade we have allocated 10% of our annual South African brokerage to emerging black stockbrokers.
- ▶ **Black financial advisers**  
We assist in the development of black financial advisers through a bespoke business development programme.
- ▶ **Independent black-owned business**  
We recently supported the establishment of an independent black-owned administration transfer agency, Intembeko Investment Administrators

\*Rolling 12 months to 31 March 2019

# Assets under management (Rbn)



As at 31 March 2019



Local: equity 44.7%; fixed interest and cash 23.9%; other 0.8%  
 Foreign: equity 25.1%; fixed interest and cash 5.4%; other 0.1%

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# Investment performance



Key advantage is an investment horizon that lies beyond market's short-term focus

- The long-term performance across strategies remains excellent
  - Includes our full suite of local equity, fixed income, multi-asset class, frontier and emerging market equity products
  - Of the institutional and retail assets that have been invested with us for a period of at least 10 years, 98.7%\* have outperformed their respective benchmarks since inception
- Meaningful improvement in short-term performance across our strategies
  - Strategies where we experienced performance pressures in the recent past (SA Equity and GEM Equity portfolios)
  - Encouraging given that benefited from long-held contrarian positions
- Our focus remains on delivering performance over meaningful periods
  - Investment approach remains unchanged over the last 25 years, but we are always learning and finessing the process
  - Bottom-up, long-term valuation-driven approach does however require patience for its benefits to materialise

\*Asset-weighted portfolios

# Investment performance - Institutional



Local and global strategies annualised alpha at 31 March 2019

Local Strategies	Annualised active return (gross of fees)	
	10 years	Since inception
Multi-Asset (Global)	1.6%	1.2%
Specialist Equity	1.2%	2.0%
Absolute	7.0%	9.0%
Fixed Income (Bond)	1.2%	0.9%

Global Strategies (USD)	Annualised active return (gross of fees)	
	10 years*	Since inception
Multi-Asset*	-	1.3%
GEM	3.5%	4.0%
Africa Frontiers*	10.1%	8.6%

\*Strategies do not have 10-year performance track records.

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# Investment performance - Retail



Key funds relative to category averages at 31 March 2019

	10 years		Since Inception	
	Fund	Category Average	Fund	Category Average
<b>LOCAL FUNDS</b>				
Top 20	14.3%	11.8%	17.6%	14.0%
Balanced Plus	12.5%	10.3%	14.4%	12.0%
Capital Plus	9.7%	9.5%	11.8%	11.1%
Balanced Defensive	10.3%	8.6%	9.5%	7.7%
Strategic Income	9.1%	7.4%	10.3%	9.1%
<b>GLOBAL FUNDS</b>				
Global Opportunities Equity	15.2%	14.5%	12.5%	10.4%
Optimum Growth	16.0%	10.8%	14.3%	10.3%
Global Managed	-	-	13.3%	11.6%
Global Capital Plus	9.8%	8.1%	9.0%	6.8%

Source: A-class return in ZAR from Morningstar as at 31 March 2019. Category average represents relevant ASISA category with Coronation fund excluded.

Global Managed does not have a 10-year track record.

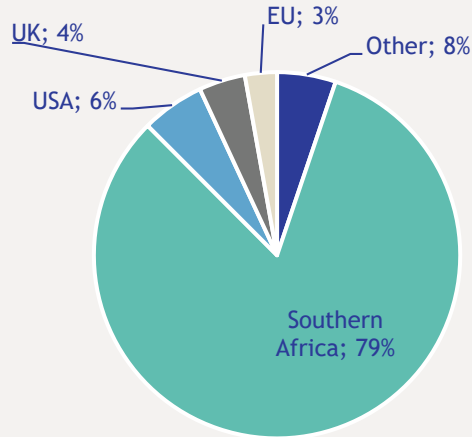
# Institutional business



Worldwide manager of institutional client investments

- Total institutional client net outflows represented 4.0% of opening balance.
- Full range of products available for clients

AUM BY CLIENT LOCATION - INSTITUTIONAL



TOTAL INSTITUTIONAL  
CLIENT AUM OF

**R346bn**

LOCAL INSTITUTIONAL  
CLIENT AUM OF

**R278bn**

GLOBAL INSTITUTIONAL  
CLIENT AUM OF

**R68bn**

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# SA institutional clients



## We remain a significant manager of institutional assets in SA

- SA institutional client assets represent R278bn
- Net outflows equalled 4.3% of our opening balance
- Net outflows remain a function of:
  - Local institutional savings market being a net outflow market
  - Compounded by a depressed local economy
  - Continued retrenchments, withdrawals from the system
- But compulsory preservation could be positive for renewed growth in pension funds market in the next 5-10 years
- Key activities remain focused engagement with our clients, providing them with world-class service and innovation to ensure alignment and fairness

# Global clients



## Continue to build on our international strategies' investment track records

- Over past decade we have made great strides in growing our global franchise
  - Now represents R68bn of assets under management (c.\$131t market)
- Net outflows represented 2.4% of our opening AUM
  - Good outcome given allocation to passive alternatives
- Growing this franchise a key focus going forward
  - GEM Equity Strategy (\$5.6bn in size) reached its 10-year milestone in July 2018
- A compelling business in its own right: continue to focus on distinguishing ourselves from global peer group & engaging with global asset consultants



### Africa investor Index Series Award:

2018, 2017, 2016,  
2012 & 2010

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# Retail business



## Coronation remains one of the foremost managers of retail savings at R240bn

- Industry remains under pressure due to tough economic conditions and muted medium term returns
  - R21bn net outflows from longer-term funds, mostly from lower-risk multi-asset funds
  - Offset by R27bn net inflows to fixed income and cash funds
  - We expect industry inflows to remain under pressure for the foreseeable future
- Net outflows equated 2.9% of opening CIS AUM
  - Coronation business mix similar to industry experience
- We remain focused on client outcomes
  - Long-term performance remains excellent
  - Medium-term performance mixed across mandates
    - As a result, some funds with performance-related fee structures discounted in H1-19
    - Strong recovery in early 2019 across local, global developed and global emerging market funds
  - Transition of administration to Intembeko (independent transfer agency) successfully concluded
  - Continuing to invest in client service infrastructure

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# Financial results

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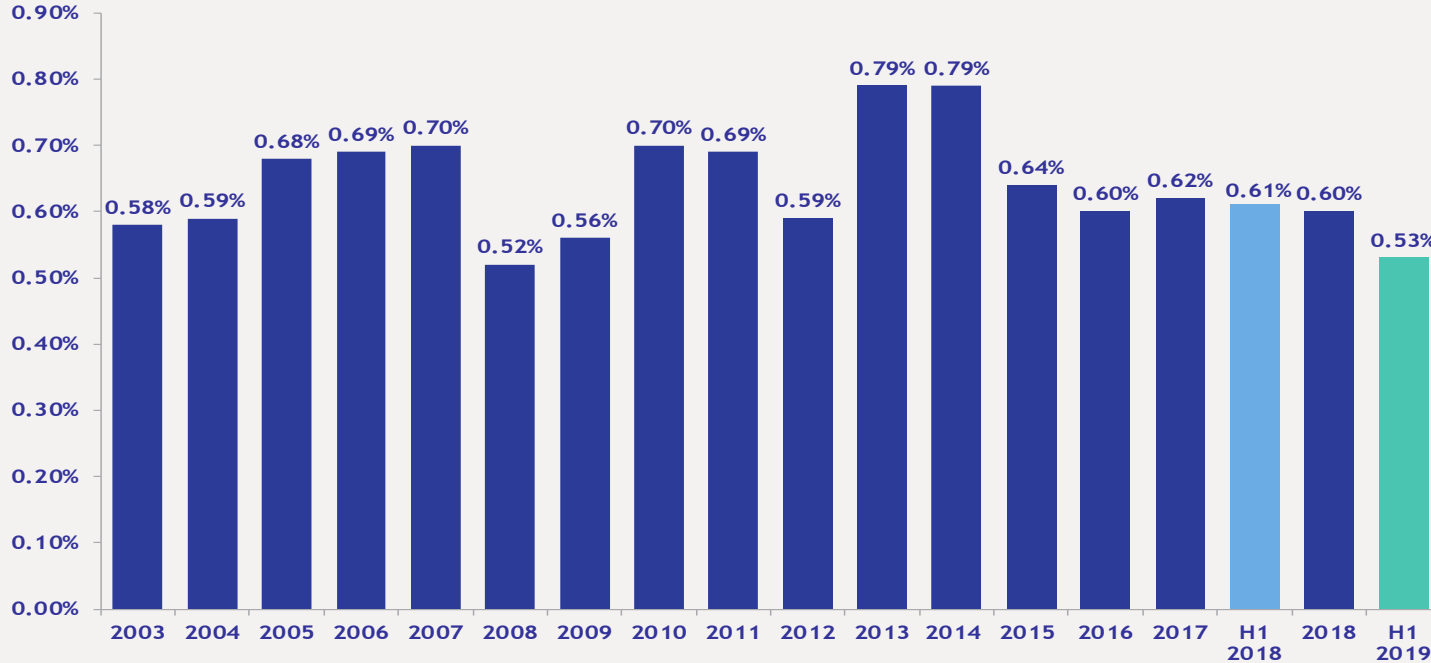
# Robust revenue in tough environment



	March 2019	March 2018	Change
Revenue (from fund management)	R1 632m	R2 079m	(22%)
Profit (from fund management)	R 758m	R1 034m	(27%)
Profit after tax	R 578m	R 782m	(26%)
Cost to income ratio	54.0%	49.3%	

# Total net fee

As at 31 March 2019



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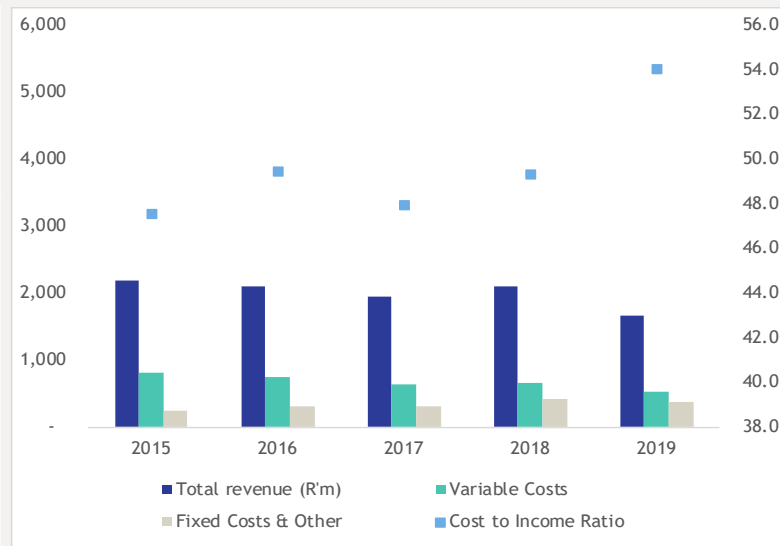
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# Variable cost model



Continues to contribute to effective management of total costs

	Change	March 2019 (Rm)	March 2018 (Rm)
Fixed cost	(6%)	362	342
Variable costs***	18%	527	645
Operating expenses	10%	889	987
Other expenses*		2	68
<b>Total operating expenses**</b>	<b>16%</b>	<b>891</b>	<b>1,055</b>



\*Includes Share-based payment expense and foreign exchange losses

\*\*Excludes finance expense

\*\*\*includes distribution costs of R92m (2018: R107m)

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# Fixed costs



Increase due to continued investment in business

	Change	March 2019 (Rm)	March 2018 (Rm)
Total fixed costs	(6%)	362	342
<i>Major costs include:</i>			
- Employee costs	(16%)	179	154
- Information systems	(11%)	70	63
- Professional fees*	10%	25	28
- Marketing	23%	43	56
Employee complement		339	319

\*Includes MiFID research costs

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# 100% of DHEPS declared



Dividend declared reflects cash earnings

	Change	March 2019	March 2018
Diluted HEPS (cents)	(26%)	165.1	223.4
Interim dividend per share (cents)	(26%)	165	223.0
Actual shares in issue		349 799 102	349 799 102

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# Closing comments



## Ongoing focus and commitment to investment excellence for our clients globally

- Risks & uncertainty remain embedded in the SA and global economies
- We have seen a meaningful improvement in short-term performance across most of our strategies - long-term investment performance remains excellent
- As a good corporate citizen we will play our role as a business to support much-needed economic growth & inclusivity
- Continue to manage the business for the long term and focus on our clients, and expect to see an improvement in our results for the second half of the year, if market levels hold.

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# Questions

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# About Coronation Fund Managers

- Founded in Cape Town, South Africa, in 1993 with zero assets under management
- Listed in 2003
- 24.4% employee-owned
- An independent fund manager with no safety-net of in-house assets
- Singular focus on asset management, outsourcing non-core components of business
- An active manager with a long-term valuation-driven investment approach
- A single global investment team and process
- SA-based business with offices in Cape Town, Johannesburg, Durban, Pretoria, London and Dublin





# Annexure A:

Market & selected strategy performance

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# Local market indicators



Periods ending 31 March 2019

	3 years (p.a.)	5 years (p.a.)	10 years (p.a.)
All Share	5.7%	6.5%	14.0%
All Bond	10.1%	8.3%	8.7%
All Property	(5.9%)	4.1%	11.5%
AF Money Market	7.4%	7.0%	6.6%
MSCI World (ZAR)	10.3%	13.8%	17.1%
Global Bonds (ZAR)	0.6%	7.2%	6.5%
CPI	4.9%	5.0%	5.2%
USD/ZAR	0.4%	(6.2%)	(4.1%)

Source: IRESS

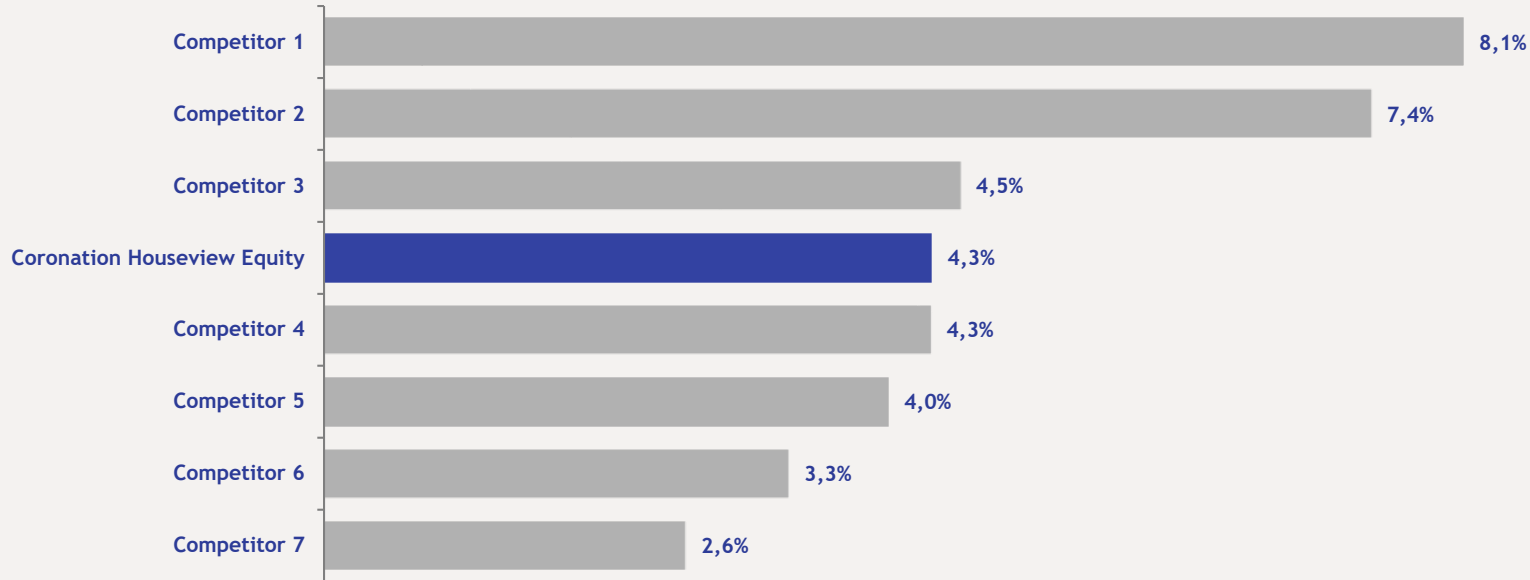
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# Houseview Equity Strategy



Compelling long-term performance (5 years)



Source: Alexander Forbes SA Equity Manager Watch™ Survey to 31 March 2019

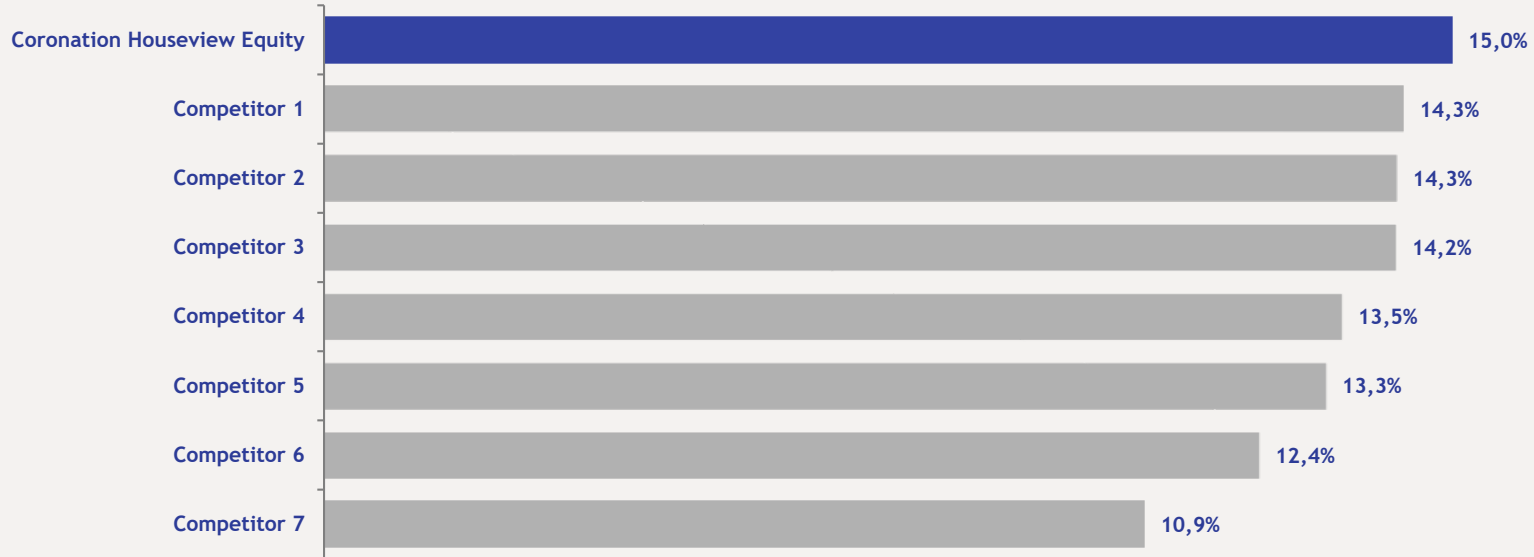
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# Houseview Equity Strategy



Compelling long-term performance (10 years)



Source: Alexander Forbes SA Equity Manager Watch™ Survey to 31 March 2019

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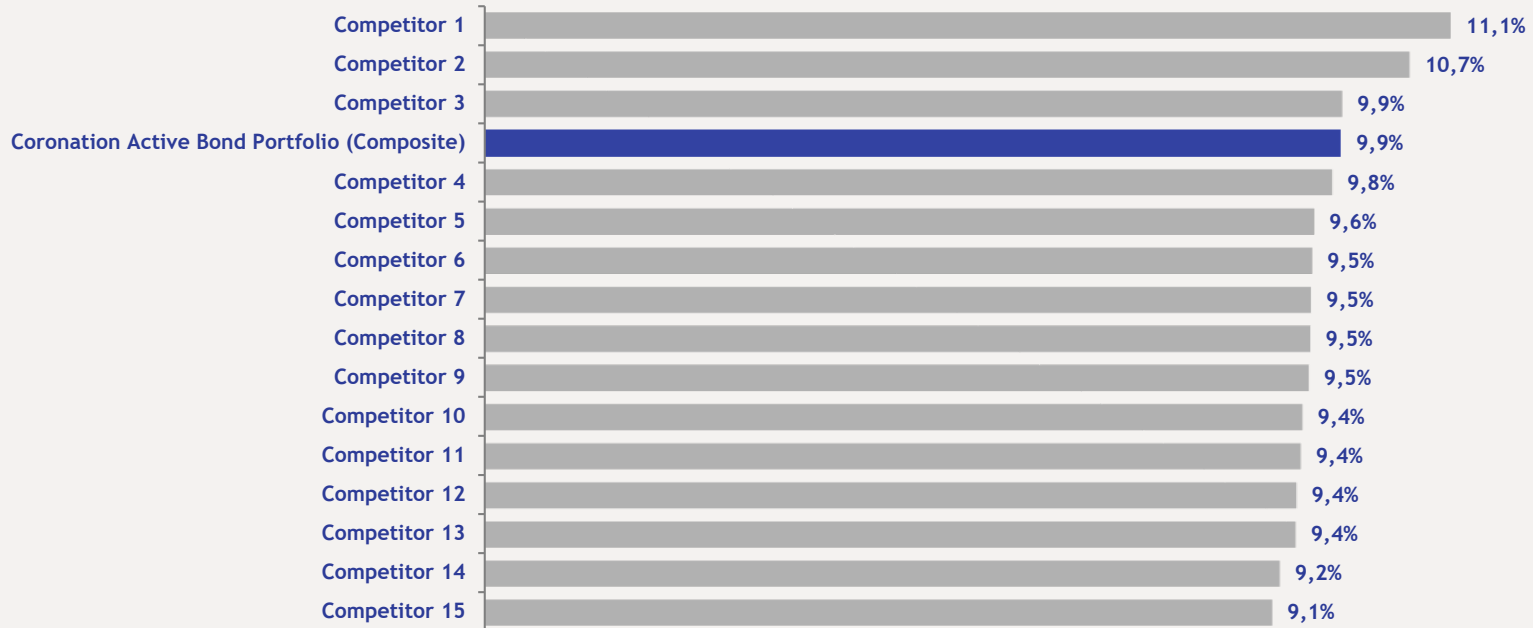
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# Fixed Income Strategies



Compelling long-term performance (10 years)



Source: SA Bond Manager Watch™ to 31 March 2019

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# Houseview Equity Strategy



Exceptional long-term active returns (alpha) over 25 years

	5 Years (p.a.)	10 years (p.a.)	*Since inception (p.a.)
Houseview Equity	4.3%	15.0%	16.4%
FTSE/JSE Capped SWIX	5.4%	13.8%	14.3%
Active return	(0.9%)	1.3%	2.1%

\*Since Inception - October 1993

Source: Independent Retirement Fund Survey as at 31 March 2019

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# Global Absolute



Consistent delivery of real returns over significant periods

	5 years (p.a.)	10 years (p.a.)	*Since inception (p.a.)
Global Absolute	7.2%	12.2%	15.0%
CPI	5.0%	5.2%	5.6%

\*Since Inception - August 1999

Source: Independent Retirement Fund Survey as at 31 March 2019

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# Global Emerging Markets Equity (USD)



A highly compelling track record of alpha generation

	10 years (p.a.)	*Since inception (p.a.)
Global Emerging Markets Equity Strategy	12.7%	6.8%
MSCI Daily TR Net Emerging Markets USD	9.2%	2.8%
Active Return	3.5%	4.0%

\*Since Inception - 14 July 2008  
Returns quoted in USD

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# Coronation Africa Frontiers Portfolio



Performance in USD - Periods ending 31 March 2019

	1 year	3 years (p.a.)	5 years (p.a.)	10 years (p.a.)	* Since inception (p.a.)
Coronation Africa Frontiers Portfolio	(6.5%)	11.0%	1.2%	10.8%	9.4%
JSE Africa Index - ex SA 30	(14.1%)	5.4%	(2.0%)	4.8%	(1.2%)
Outperformance	7.5%	5.6%	3.2%	6.0%	10.6%
USD Libor + 5%	7.6%	6.6%	6.1%	5.7%	5.8%

\*Since Inception - November 2008 (Composite)

Source: Micropal & Bloomberg

Gross Returns Annualised

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# Strong international track record



## US dollar returns since their respective launch dates

Offshore USD Funds	*Active return	Launch date
Global Equity Fund of Funds	2.3%	01-Jul-00
Global Emerging Markets Equity Strategy	4.0%	14-Jul-08
Global Bond	1.7%	01-Oct-09
Coronation Africa Frontiers Strategy	10.6%	01-Oct-08
Global Capital Plus	3.7%	01-Sep-09
Coronation Global Managed Strategy	1.0%	01-Nov-09

\*Annualised active return for Institutional portfolios (gross of fees) since launch to 31 March 2019

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# Investment performance - Retail



## Domestic flagship funds as at 31 March 2019

	Fund	5-year ranking	10-year ranking	Since inception ranking
Long-term Growth (equity only)	Top 20	3rd Quartile	1st Quartile	1st Quartile
Long-term Growth (multi asset)	Balanced Plus	2nd Quartile	1st Quartile	1st Quartile
Income & Growth	Capital Plus	3rd Quartile	2nd Quartile	1st Quartile
	Balanced Defensive	2nd Quartile	1st Quartile	1st Quartile
Income only	Strategic Income	1st Quartile	1st Quartile	1st Quartile

Source: Morningstar as at 31 March 2019

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# Investment performance - Retail



International flagship funds as at 31 March 2019

		5-year ranking	10-year ranking	Since inception ranking
LT Growth (equity only)	Global Emerging Markets	4th Quartile	1st Quartile	1st Quartile
	Global Opportunities Equity	2nd Quartile	1st Quartile	1st Quartile
LT Growth (multi asset)	Global Managed	2nd Quartile	-	1st Quartile
Preservation & growth	Global Capital Plus	1st Quartile	-	1st Quartile

Source: For GEM [USD]: Bloomberg as 31 March 2019 / For GCP and GM [USD]: Morningstar as at 31 March 2019 - custom peer groups based on funds available for sale on South African platforms / For all other funds [Rand-denominated]: Morningstar as at 31 March 2019 based on ASISA categories excluding Coronation funds in that category

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*Thank you*

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