

The Directors  
Coronation Fund Managers Limited  
7th Floor, MontClare Place  
Cnr of Campground and Main Road  
Cape Town, 7708  
South Africa

17 October 2024

Dear Sirs/Mesdames

## REPORT OF THE INDEPENDENT PROFESSIONAL EXPERT TO THE DIRECTORS OF CORONATION FUND MANAGERS LIMITED REGARDING A PROPOSED B-BBEE TRANSACTION

### Introduction

In terms of the announcement published by Coronation Fund Managers Limited (“Coronation” or the “Company”) on the Stock Exchange News Service operated by the JSE Limited (“JSE”) (“SENS”) on 11 October 2024, holders of ordinary shares in the issued share capital of Coronation (“Coronation Shares” or “Shares”) (“Coronation Shareholders” or “Shareholders”) were advised that Coronation intends to conclude a new Broad-Based Black Economic Empowerment (“B-BBEE”) transaction that aims to increase the effective black ownership of the Company to 51%.

The transaction will be implemented in terms of a number of steps, including inter alia:

- Coronation will establish a new Employee Share Ownership Plan (“ESOP”) which is to be implemented by means of the Imbewu Trust (the “ESOP Trust”). The ESOP Trust will subscribe for 30,367,515 new shares in the ordinary share capital of Coronation for an aggregate subscription price of R3,036.75, representing 81% of the total shares to be issued in terms of the transaction (“ESOP Subscription”);
- Coronation will establish a new Broad-Based Ownership Scheme (“BBOS”) which is to be implemented by means of the Ho Jala Community Trust (the “BBOS Trust”). The BBOS Trust will subscribe for 7,200,000 new shares in the ordinary share capital of Coronation for an aggregate subscription price of R720.00, representing 19% of the total shares to be issued in terms of the transaction (“BBOS Subscription”, together with the ESOP Subscription are collectively the “Subscriptions”); and
- The Subscriptions will each be notionally funded by a 10-year notional vendor funding (“NVF”) arrangement with its reference price being the 30-day volume-weighted average price (“VWAP”) (“NVF Reference Price”) at the earlier of 1 December 2024 and the date of issuance. The NVF is subject to an escalation rate of 85% of the prevailing South African prime lending rate (“NVF Escalation Factor”)

(the “Proposed B-BBEE Transaction”).

### Fairness Opinion

BDO Corporate Finance Proprietary Limited (“BDO Corporate Finance”) has been appointed by the Board as the independent expert to provide an opinion on the fairness of the Proposed B-BBEE Transaction to Coronation Shareholders (“Fairness Opinion”), based on the guidelines contained in Schedule 5 of the JSE Listings Requirements.

## Responsibility

Compliance with the JSE Listings Requirements is the responsibility of the Board. Our responsibility is to report to the Board on whether the terms and conditions of the Proposed B-BBEE Transaction are fair to Shareholders.

## Explanation as to how the term “fair” applies in the context of the Proposed B-BBEE Transaction

Schedule 5.7 of the JSE Listings Requirements states that the “fairness” of a transaction is based on quantitative issues. A transaction will generally be considered fair to a company’s shareholders if the benefits received, as a result of a corporate action, are equal to or greater than the value ceded by a company.

The Proposed B-BBEE Transaction would be considered fair to Coronation Shareholders if the value received by Coronation in terms of the Proposed B-BBEE Transaction is equal to or greater than the cost of the Proposed B-BBEE Transaction. Conversely, the Proposed B-BBEE Transaction would be considered unfair to Coronation Shareholders if the value received by Coronation in terms of the Proposed B-BBEE Transaction is less than the cost of the Proposed B-BBEE Transaction.

In determining the value received by Coronation in terms of the Proposed B-BBEE Transaction we have considered the financial benefit expected to be derived from the Proposed B-BBEE Transaction, represented by the present value of the estimated impact on Coronation’s future cash flows if the Proposed B-BBEE Transaction is not concluded (the “Financial Benefit”). Against this, we have considered the cost of the Proposed B-BBEE Transaction, represented by the fair value of the embedded “in-substance” option held by the ESOP Trust, the present value of all dividends attributed to the ESOP and BBOS Trusts in excess of NVF repayments (“Trickle Distributions”) and other relevant transaction costs (the “Economic Cost”).

The Proposed B-BBEE Transaction would be considered fair to Coronation Shareholders, if the Financial Benefit exceeds the Economic Cost. Whilst it is possible to reliably measure the economic cost of each transaction step, being the Economic Cost in respect of the ESOP, the Trickle Distribution payable to the BBOS Trust and the Proposed B-BBEE Transaction costs, each transaction step is implemented as part of the Proposed B-BBEE Transaction in order to achieve a desired final outcome in terms of the Company’s BEE shareholding and BEE scorecard. We have therefore considered the Proposed B-BBEE Transaction in its entirety when assessing the Financial Benefit of the Proposed B-BBEE Transaction and have compared this to the Economic Cost of the Proposed B-BBEE Transaction in aggregate.

## Details and sources of information

In arriving at our opinion, we have relied upon the following principal sources of information:

- The terms and conditions of the Proposed B-BBEE Transaction, as outlined in the Proposed B-BBEE agreements, comprising:
  - Proposed B-BBEE Transaction term sheet;
  - BBOS Trust Deed;
  - ESOP Trust Deed;
  - Impact on BEE scorecard; and
  - Shareholding breakdown pre-and post the transaction;
- Transaction documents provided by Coronation’s transaction advisors setting out, *inter alia*, transaction steps and the rationale for the Proposed B-BBEE Transaction;
- Annual Integrated Report of Coronation for the financial years ended 30 September 2022 and 30 September 2023;
- Reviewed interim results of Coronation for the six months ended 31 March 2024;
- Precedent transactions of a similar nature;
- Discussions with management and/or advisors of Coronation regarding the rationale for the Proposed B-BBEE Transaction;
- Discussions with management and/or advisors of Coronation on prevailing market, economic, legal and other conditions which may affect underlying values;
- Share volume and share value trading information of Coronation per S&P Capital IQ; and
- Publicly available information relating to Coronation, comparable publicly traded companies and the markets in which Coronation and its peers operate we deemed to be relevant, including company announcements and media articles.

The information above was secured from:

- Management of Coronation and its advisors; and
- Third party sources, including information related to publicly available economic, market and other data which we considered applicable to, or potentially influencing Coronation.

## Procedures

In arriving at our findings, we have undertaken the following procedures and taken into account the following factors:

- Reviewed the terms and conditions of the Proposed B-BBEE Transaction;
- Reviewed the transaction agreements in respect of the Proposed B-BBEE Transaction;
- Reviewed the historical market information, as detailed above;
- Assessed the long-term potential of Coronation;
- Evaluated the relative risks associated with Coronation and the industry in which it operates;
- Reviewed the Department of Trade, Industry and Competition's Code of Good Practice for B-BBEE and Coronation's B-BBEE scorecard before and after implementing the Proposed B-BBEE Transaction;
- Prepared an estimate of the Financial Benefit to Coronation of concluding the Proposed B-BBEE Transaction. In determining this benefit, the following procedures were performed:
  - through discussions with management, assessed the risks to Coronation of not concluding the Proposed B-BBEE Transaction;
  - reviewed existing contracts and performed a quantification of the potential business at risk of being lost were the Proposed B-BBEE Transaction not concluded;
  - identified the mitigating factors that management could take to minimise the identified risks; and
  - based on the above, performed a quantification of the potential cash flow effects to Coronation and quantified the net present value ("NPV") of the potential lost cash flows should the Proposed B-BBEE Transaction not be concluded;
- Prepared an estimate of the Economic Cost to Coronation of concluding the Proposed B-BBEE Transaction. In determining this cost, the following procedures were performed:
  - reviewed the historic traded prices and volumes and calculated the historic volatility of a Coronation Share; and
  - prepared an estimate of the economic cost to Coronation of concluding the Proposed B-BBEE Transaction being the fair value of the embedded "in-substance" options held by the ESOP Trust and the present value of all Trickle Distributions attributed to the ESOP and BBOS Trusts;
- Held discussions with management and/or advisors of Coronation regarding the rationale for the Proposed B-BBEE Transaction;
- Held discussions with management and/or advisors of Coronation regarding the past and current business operations, regulatory requirements, financial condition and future prospects of Coronation and such other matters as we have deemed relevant to our inquiry;
- Reviewed certain publicly available information relating to Coronation and the asset management industry, including Company announcements, media articles and available analyst coverage; and
- Performed such other studies and analyses as we considered appropriate and have taken into account our assessment of general economic, market and financial conditions and our experience in other transactions, as well as our experience in securities valuation and knowledge of the asset management sector.

## Assumptions

We arrived at our findings based on the following assumptions:

- That all agreements that are to be entered into in terms of the Proposed B-BBEE Transaction will be legally enforceable as against the relevant parties thereto;
- That the Proposed B-BBEE Transaction will have the legal, accounting and taxation consequences described in discussions with, and materials furnished to us by representatives and advisors of the Company; and
- That reliance can be placed on the financial information of Coronation.

### **Appropriateness and reasonableness of underlying information and assumptions**

We satisfied ourselves as to the appropriateness and reasonableness of the information and assumptions employed in arriving at our findings by:

- Placing reliance on audit reports in the financial statements of Coronation;
- Conducting analytical reviews on the historical financial results and forecast financial information, such as key ratio and trend analyses; and
- Determining the extent to which information in respect of Coronation was confirmed by documentary evidence as well as our understanding of Coronation and the economic environment in which the Company operates.

### **Limiting conditions**

This Fairness Opinion is provided in connection with and for the purposes of the Proposed B-BBEE Transaction. The Fairness Opinion does not purport to cater for each individual Shareholder's perspective, but rather that of the general body of Shareholders. Should a Shareholder be in doubt as to what action to take, he or she should consult an independent advisor.

Individual Shareholder's decisions regarding the Proposed B-BBEE Transaction may be influenced by such Shareholder's particular circumstances and accordingly, individual Shareholders should consult an independent advisor if in any doubt as to the merits or otherwise of the entering into of the Proposed B-BBEE Transaction.

We have also assumed that the Proposed B-BBEE Transaction will have the legal consequences described in discussions with, and materials furnished to us by representatives and advisors of Coronation and we express no opinion on such consequences.

The Fairness Opinion is based on current economic, regulatory and market as well as other conditions. Subsequent developments may affect the opinion, and we are under no obligation to update, review or re-affirm our opinion based on such development.

We have relied upon and assumed the accuracy of the information provided to us in deriving our conclusions. Where practical, we have corroborated the reasonableness of the information provided to us for the purpose of this Fairness Opinion, whether in writing or obtained in discussion with Coronation management and its advisors, by reference to publicly available or independently obtained information.

We have been neither a party to the negotiations in relation to the Proposed B-BBEE Transaction nor have we been involved in the deliberations leading up to the decision on the part of Coronation to enter into the Proposed B-BBEE Transaction.

We do not, by this letter or otherwise, advise or form any judgement on the strategic, commercial or financial merits or risks of the Proposed B-BBEE Transaction. All such evaluations, advice, judgements or comments remain the sole responsibility of the Board and their advisors. We have however, drawn upon such evaluations, judgements and comments as we deem necessary and appropriate in arriving at our opinion.

The scope of our appointment does not require us to express, and nor do we express, a view on the future growth prospects, earnings potential or value of Shares. We do not express any view as to the price at which Shares may trade nor on the future value, financial performance or condition of Coronation.

It is also not within our terms of reference to compare the merits of the Proposed B-BBEE Transaction to any alternative arrangements that were or may have been available to Coronation. Such comparison and consideration remain the responsibility of the Board and its advisors.

### **Independence, competence and fees**

We confirm that neither BDO Corporate Finance nor any person related to us (as contemplated in the JSE Listings Requirements), have any existing or continuing relationship with Coronation or with any party involved in the Proposed B-BBEE Transaction as contemplated in paragraph 5.12 of Schedule 5 to the JSE Listings Requirements and have not had such relationship within the immediately preceding two years.

We also confirm that we have the necessary qualifications and competence to provide the Fairness Opinion on the Proposed B-BBEE Transaction.

Furthermore, we confirm that our professional fees are not contingent upon the success of the Proposed B-BBEE Transaction. Our fees are not payable in Coronation Shares.

## Valuation approach

### *The Economic Cost of the Proposed B-BBEE Transaction*

The Economic Costs of the Proposed B-BBEE Transaction comprises a number of components, i.e.

- fair value of the embedded “in-substance” option held by the ESOP Trust;
- the present value of all dividends attributed to the ESOP and BBOS Trusts in excess of NVF repayments (i.e Trickle Distributions); and
- transaction costs.

We performed a *Monte Carlo* option pricing model to determine the fair value of the embedded “in-substance” option held by the ESOP Trust. The deemed option being valued in respect of the Proposed B-BBEE Transaction has a strike price that is influenced by dividends and distributions from Coronation and the NVF Escalation Factor.

Key internal value drivers for the *Monte Carlo* option pricing model valuation include:

- a forward dividend yield of 8.5% on a normalised basis; and
- a term of 10-years for the purposes of the valuation to derive a fair value of the Proposed B-BBEE Transaction given the 10-year NVF maturity date.

Key external value drivers for the *Monte Carlo* option pricing model valuation include:

- the 30-day VWAP of a Coronation Share of R38.31 on 09 October 2024;
- the expected volatility of a Coronation Share of 20.91%. The volatility was calculated by taking the annualised standard deviation of the continuously compounded daily returns of the underlying share prices under the assumption that the share price returns are log-normally distributed. As Coronation is a listed company, we used the 1-year historical share price history to calculate the volatility to be used in the valuation; and
- annual risk-free rates varying between 8.29% and 11.27% based on the nominal zero-coupon swap rate curve provided by the JSE as at 09 October 2024 for a period equating to the NVF.

Additionally, sensitivity analyses were performed considering key value drivers which comprise the expected volatility of a Coronation Share and dividend yield as follows:

- increasing and decreasing the NVF Reference Price by a maximum of 400 basis points;
- increasing and decreasing the volatility by a maximum of 50 basis points; and
- increasing and decreasing the dividend yield by a maximum of 20 basis points.

The sensitivity analysis did not indicate a sufficient effect to alter our opinion in respect of the Proposed B-BBEE Transaction.

### *The Financial Benefit of the Proposed B-BBEE Transaction*

In assessing the quantifiable benefits of the Proposed B-BBEE Transaction, we held discussions with management of Coronation to identify and understand the impact on Coronation’s business if the Proposed B-BBEE Transaction is not concluded.

The Financial Benefit of the Proposed B-BBEE Transaction comprises the NPV of the potential cash flows effects of not implementing the Proposed B-BBEE Transaction using a discounted cash flows approach (“DCF Valuation”). The valuation was performed by reviewing assets under management potentially at risk and applying a probability weighting to reflect the risk of lost business and resultant impact on operating profit and cash flows.

We found that the key internal value drivers of the DCF Valuation are estimates of projected earnings at risk, the probability of loss and the discount rate.

External value drivers of the DCF Valuation comprise key macro-economic parameters being: forecast interest rates, forecast annual inflation rates and forecast gross domestic product growth rates.

We also note that Coronation’s reputation is expected to be negatively impacted in the event that its B-BBEE ownership status deteriorates. The impact of this is not however specifically quantifiable.

## Conclusion

BDO Corporate Finance has considered the terms and conditions of the Proposed B-BBEE Transaction and, based on and subject to the conditions set out herein, is of the opinion that the Proposed B-BBEE Transaction is fair to Coronation Shareholders.

Our views are based on market, economic, industry, monetary and other conditions (where applicable) prevailing on, and our analysis of the information made available to us up to 09 October 2024 (the “Last Practicable Date”). We assume no responsibility to update, revise or reaffirm our opinion, factors or assumptions in light of any subsequent development after the Last Practicable Date that may affect our opinion or factors, or assumptions contained herein.

We have assumed that all conditions precedent, including any material regulatory and other approvals or consents required in connection with the Proposed B-BBEE Transaction have been fulfilled or obtained.

Accordingly, it should be understood that subsequent developments may affect this opinion, which we are under no obligation to update, revise or re-affirm.

Yours faithfully

A handwritten signature in black ink, appearing to read 'N. Lazanakis', with a horizontal line underneath.

N Lazanakis CA(SA)

Director

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