



CORONATION FUND MANAGERS LIMITED

(Incorporated in the Republic of South Africa)

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(“Coronation” or the “Company” or the “Coronation Group”)

CORONATION’S PROPOSED BROAD-BASED BLACK ECONOMIC EMPOWERMENT TRANSACTION

1. Introduction

1.1 Coronation is pleased to announce that it intends, subject to the approval from its shareholders (“**Coronation Shareholders**”), to implement a series of transactions, the purpose whereof is to promote the objectives of broad-based black economic empowerment (“**B-BBEE**”) and to secure effective black ownership (“**Black Ownership**”) of the Company on a long-term basis in a manner which, *inter alia*, allows participation by Coronation Group employees who are Black persons, as contemplated under the B-BBEE Act and Codes (as defined below), as well as uplifting a broad base of beneficiaries, as more fully set out in this announcement (the “**Proposed Transaction**”).

2. Rationale for the Proposed Transaction

2.1. Since 2021, Coronation has maintained a Level 1 contributor status in terms of the Amended Financial Sector Codes of Good Practice on B-BBEE, as read with the amended generic Codes of Good Practice on B-BBEE (the “**Codes**”).

2.2. Coronation currently has a verified 31% level of Black Ownership, with R263 billion (42% of total assets under management (“**AUM**”)) being managed by Black employees. Coronation’s South African-based employees are 64% Black of which 57% are Black women.

2.3. The asset management sector in South Africa continues to experience an evolving sector-dynamic and operating environment, with regulatory developments, requirements by capital allocators and local asset management participants placing increased focus on minimum Black Ownership levels substantially exceeding the requirements per the Codes.

2.4. Notwithstanding its Level 1 contributor status and 31% Black Ownership level, Coronation continues to face challenges related to not having 51% Black Ownership, including:

2.4.1. Black Ownership requirements by capital allocators, as referred to above, could place a meaningful portion of Coronation’s current AUM at risk in the future;

2.4.2. Coronation is unable to participate in industry surveys geared towards asset managers with majority Black Ownership. This excludes Coronation from participating in certain client mandates from the outset; and

2.4.3. Coronation has experienced outflows which were specifically allocated to asset managers with at least 51% Black Ownership.

- 2.5. In the absence of the required improvement to its level of Black Ownership to 51%, Coronation is exposed to the possibility that maintaining its current AUM will come under increased pressure, as well as limiting its ability to attract additional assets in South Africa. These factors may consequentially impact its market share, and therefore lead to a possible erosion of Coronation Shareholder value. Accordingly, an enhancement to Coronation's current level of Black Ownership is a business imperative in the current operating environment enabling the business to enhance its competitive position, capitalise on growth opportunities requiring higher Black Ownership and maintain its market leadership.
- 2.6. This business imperative aligns with and supports Coronation's consistent goal of achieving substantial and sustainable transformation for the benefit of its stakeholders, the financial services industry and the wider South African community, by promoting inclusivity and diversity and uplifting a broad base of beneficiaries as contemplated under the B-BBEE Act and Codes.
- 2.7. Coronation is pursuing the Proposed Transaction to:
- 2.7.1. enhance its B-BBEE credentials and thereby promote the objectives of the Broad-Based Black Economic Empowerment Act, No. 53 of 2003, as amended in terms of the Broad Based Black Economic Empowerment Amendment Act, No. 46 of 2013 ("**B-BBEE Act**"), and the Codes;
 - 2.7.2. secure, on a long-term basis, a minimum level of Black Ownership of 51%;
 - 2.7.3. future-proof its current client base and revenue stream, whilst providing potential upside through access to opportunities which would otherwise not be available in the absence of a 51% level of Black Ownership;
 - 2.7.4. attract, retain and incentivise the Black employees of the Coronation Group by aligning their interests with those of Coronation Shareholders; and
 - 2.7.5. as a consequence of the above, enhance Coronation's competitiveness and sustainability whilst simultaneously seeking to benefit and uplift a broad base of beneficiaries and, therefore, meaningfully contribute to the objectives of B-BBEE.

3. Summary of the Proposed Transaction

- 3.1. Coronation has approved and will conclude subscription and notional funding agreements ("**Subscription Agreements**") which, subject to the fulfilment of the conditions precedent set out in paragraph 6 below ("**Conditions Precedent**"), will give effect to the Proposed Transaction.
- 3.2. The Proposed Transaction includes the establishment of:
- 3.2.1 an employee share ownership plan ("**ESOP**" or "**ESOP Scheme**") which caters for Coronation ordinary shares ("**Coronation Share(s)**") to be issued to the Imbewu Trust ("**ESOP Trust**") for the benefit of employees who are Black People (as defined in the B-BBEE Act) and are permanently employed by the Coronation Group ("**Qualifying Employees**"); and
 - 3.2.2 a broad-based ownership scheme ("**BBOS**") which caters for Coronation Shares to be issued to the Ho Jala Trust ("**BBOS Trust**"), being a trust whose principal objective is to conduct public benefit activities for the benefit of Black People.

The ESOP Trust and the BBOS Trust are collectively referred to as the "**BEE Trusts**" in this announcement.

3.3. Subject to the fulfilment of the Conditions Precedent, Coronation will issue new Coronation Shares (collectively “**Subscription Shares**”) to the BEE Trusts at a nominal subscription consideration of R0.0001 per Subscription Share (“**Subscription Price**”) as follows:

3.3.1. 7 200 000 Subscription Shares to the BBOS Trust at a total nominal subscription consideration of R720.00;

3.3.2. 30 367 515 Subscription Shares to the ESOP Trust at a total nominal subscription consideration of R3 036.75,

(collectively “**Aggregate Subscription Price**”), equating in total to 9.70% of the total number of Coronation Shares in issue post the abovementioned subscriptions (“**Subscriptions**”).

3.4. The Company will issue the Subscription Shares subject to a notional funding arrangement. The salient features of the notional funding arrangement are as follows:

3.4.1. Duration of the notional funding arrangement: 10 years, ending on the 10th anniversary of the Subscriptions (“**Notional Funding Period**”);

3.4.2. Notional funding balance (“**Notional Funding Balance**”): the notional funding balance from time to time will be determined as per the notional funding formula set out in paragraph 3.7.2 below (“**Notional Funding Formula**”);

3.4.3. Treatment of cash distributions declared to Coronation Shareholders (“**Cash Distributions**”): the Subscription Shares are issued on the basis that the BEE Trusts will receive 10% of the Cash Distributions in respect thereof for the duration of the Notional Funding Period (“**Trickle Distribution**”). The remaining 90% of the Cash Distributions in respect of the Subscription Shares not paid out will adjust the Notional Funding Balance as per the Notional Funding Formula and will be applied to reduce the dilution to other Coronation Shareholders; and

3.4.4. Repurchase of Subscription Shares (“**Repurchases**”): At the end of the Notional Funding Period, the Company will automatically repurchase such number of the Subscription Shares (“**Repurchase Shares**”) from the BEE Trusts which, as at that time, have an aggregate market value (based on a 30-day volume weighted average price (“**VWAP**”) per Coronation Share at that point in time) equal to the Notional Funding Balance, determined in accordance with the Notional Funding Formula. The Repurchase Shares will be repurchased for cash at the same Subscription Price (determined proportionately).

3.5. A summary of the key features of the Proposed Transaction include –

	ESOP	BBOS
Number of Subscription Shares to be issued	30 367 515	7 200 000
Percentage of issued share capital ¹	7.84%	1.86%
Market value ² (R'm)	R1 213	R287
Discount	None	None
Trickle Distribution	10%	10%
Notional Funding Period	10 years	10 years
Estimated number of Qualifying Employees	193	n/a

Note –

1 Based on 387 159 813 Coronation Shares in issue after the Proposed Transaction.

2 Based on the closing price of a Coronation Share on Thursday, 10 October 2024.

3.6. Subject to all the Conditions Precedent being fulfilled, or waived as the case may be, Coronation is targeting issuing the Subscription Shares on or about 1 December 2024.

3.7. Notional funding arrangements and the Repurchases

3.7.1. As stated above, the Company will issue the Subscription Shares subject to a notional funding arrangement, and at the end of the Notional Funding Period the Company will Repurchase, at the Subscription Price, the Repurchase Shares, determined with reference to the Notional Funding Balance on the “**Notional Funding End Date**”, being the date which falls on the 10th anniversary of the “**Notional Funding Commencement Date**” (defined as the earlier of (i) the Subscription Date and (ii) 1 December 2024), in accordance with the formula set out below.

3.7.2. Notional Funding Formula

Notional Funding Balance (at any time after the Notional Funding Commencement Date) = A – B – C + D

in which formula -

- A is the number of Subscription Shares multiplied by the VWAP of a Coronation Share over a period of 30 trading days on the JSE Limited (“**JSE**”) (with the last such trading day being the last trading day before Notional Funding Commencement Date) (“**Reference Period**”) provided that if the Company has at any time during the Reference Period declared any Cash Distribution, then A shall be reduced by an amount equal to the number of the Subscription Shares multiplied by the value of such Cash Distribution per Coronation Share;
- B is the Aggregate Subscription Price;
- C is any Cash Distributions (less the Trickle Distributions), any distribution *in specie* and/or any other amount expressly required to adjust the Notional Funding Balance in terms of the Subscription Agreements; and
- D is the total increase in the Notional Funding Balance from the Notional Funding Commencement Date, adjusted for distributions described in “C” above, at an escalation factor being defined as 85% of the publicly quoted prime rate.

3.8. Voting rights and lock-in arrangements

3.8.1. The BEE Trusts shall exercise the voting rights, rights of election and any other rights which they may have in respect of the Subscription Shares, provided that in relation to any specific corporate actions regarding Coronation as set out in the Subscription Agreements, the BEE Trusts shall do so in accordance with the directions of the board of directors of Coronation (“**Board**” or “**Directors**”).

3.8.2. During the Notional Funding Period, the Subscription Shares may not be disposed of or further encumbered, except as may be expressly required or permitted in terms of the Proposed Transaction agreements.

4. Salient features of the ESOP Scheme and the ESOP Trust

4.1. The object and purpose of the ESOP Trust is to, *inter alia*:

4.1.1. subscribe for the Subscription Shares;

4.1.2. allocate ESOP units (“**ESOP Unit**”) to Qualifying Employees. An ESOP Unit represents the right and entitlement of an ESOP participant (“**ESOP Participant**”) to a beneficiary

interest in the Subscription Shares and the Trickle Distributions. Each Subscription Share will be linked to one ESOP Unit; and

- 4.1.3. facilitate direct ownership in Coronation by ESOP Participants by enabling ESOP Participants to ultimately receive Coronation Shares.

4.2. Allocations of the ESOP Units

- 4.2.1. As soon as reasonably possible after the issue and allotment of the Subscription Shares to the ESOP Trust in terms of the Subscription Agreement, the ESOP Trustees shall allocate 75% of all the ESOP Units to Qualifying Employees ("**Initial ESOP Allocation**"), with the 25% balance of the ESOP Units being available for future allocations ("**Future Allocations**").
- 4.2.2. The Initial ESOP Allocation will encompass (i) a general allocation of ESOP Units (comprising approximately 17% of all the ESOP Units) to all Qualifying Employees based on a tiering system determined by the Board ("**General ESOP Allocation**"), and (ii) a specific allocation of ESOP Units (comprising approximately 58% of all the ESOP Units) to Qualifying Employees, based on criteria as determined by the Board to retain and incentivise identified Qualifying Employees ("**Specific ESOP Allocation**").
- 4.2.3. Specific ESOP Allocations shall be subject to a framework designed to identify long term franchise value for Qualifying Employees, which will be subject to a maximum participation of no more than 5% of the Specific ESOP Allocation per ESOP Participant. Further, Qualifying Employees that have meaningfully participated in previous B-BBE transactions will not participate in the Specific ESOP Allocations.
- 4.2.4. ESOP Units proposed to be allocated under a Specific ESOP Allocation to any executive Directors or the company secretary of Coronation, require the approval of a subcommittee of independent non-executive Directors appointed by the Board.

4.3. Vesting of ESOP Units and delivery of Coronation Shares

- 4.3.1. For purposes of the General ESOP Allocation, such ESOP Units shall vest in the ESOP Participant in tranches of 33.3% on each of the 3rd, 4th and 5th anniversary of the allocation date.
- 4.3.2. For purposes of the Specific ESOP Allocation, such ESOP Units shall vest in the ESOP Participant in tranches of 15% on each of the 7th, 8th and 9th anniversary, and the balance of 55% on the 10th anniversary, of the allocation date.
- 4.3.3. ESOP Units may be forfeited prior to vesting if the Qualifying Employee does not meet the service conditions set out in the trust deed of the ESOP Trust. The vesting of the Initial ESOP Allocations shall not confer on any ESOP Participant the right to receive delivery or transfer of any Coronation Shares to which these ESOP Units relate until the expiry of a period of 30 days after the expiry of 10 years from the date of the Initial ESOP Allocation ("**Initial ESOP Allocation Final Vesting Date**") or, in the case of Future Allocations or any subsequent allocations (e.g. in respect of forfeited ESOP Units), the relevant vesting date which shall be no earlier than the Initial ESOP Allocation Final Vesting Date and no later than the expiry of a period of 30 days after the expiry of 15 years from the date of the Initial ESOP Allocation.
- 4.3.4. Notably, notwithstanding the vesting set out above, the ESOP Units shall always remain subject to the notional funding arrangement and the implementation of the Repurchases.

5. Salient features of the BBOS Trust

- 5.1. Coronation wishes to establish the BBOS Trust as a broad-based ownership scheme as contemplated in terms of the Codes and as a public benefit organisation (“**PBO**”) in terms of the South African Income Tax Act, No. 58 of 1962, thereby conducting public benefit activities for the benefit of Black People and accordingly contributing to and enhancing the Black Ownership of Coronation.
- 5.2. The beneficiaries of the BBOS Trust (“**BBOS Beneficiaries**”) will include any PBO or other organisation that carries on public benefit activities, benefiting Black People.
- 5.3. The BBOS Trust shall endure until the BBOS Trustees, with Coronation’s consent, agree to dissolve the BBOS Trust.

6. Conditions Precedent

The Subscription Agreements are subject to the fulfilment of the following Conditions Precedent, namely that by no later than 17h00 on 28 February 2025 (or such later dates as may be agreed in writing) –

- 6.1. the trust deeds of the BEE Trusts have become unconditional and the BEE Trusts have acceded to the Subscription Agreements;
- 6.2. the Board has passed and adopted the necessary resolutions for the implementation of the Proposed Transaction; and
- 6.3. the Company has complied with JSE Listings Requirements (“**JSE Listings Requirements**”) and obtained all necessary Coronation Shareholder approvals for the implementation of the Proposed Transaction in terms of both the JSE Listings Requirements and the Companies Act, No. 71 of 2008 (as amended in terms of the Companies Amendment Act, No. 16 of 2024).

7. Estimated economic cost and *pro forma* financial effects of the Proposed Transaction

- 7.1. The estimated economic cost of the Proposed Transaction comprises a cost calculated with reference to the requirements of IFRS 2 – Share-Based Payments (“**IFRS 2 Charge**”) for the ESOP Scheme and the expensing of any Trickle Distributions payable to the BBOS Trust, where applicable.
- 7.2. The estimated IFRS 2 Charge, based on the valuation of the ESOP Scheme which includes the entitlement of Qualifying Employees to a Trickle Distribution prior to vesting, accrues proportionately over the ten-year period of the ESOP Scheme based on the relevant service periods. The IFRS 2 Charge is recognised as an operating expense through the statement of comprehensive income, together with any Trickle Distribution payable to the BBOS Trust which is recognised as a donation expense per Coronation’s accounting policy. The IFRS 2 Charge has no effect on the Company’s cash flow.
- 7.3. As at the date of this announcement, Coronation estimates that the total indicative expense in respect of the Proposed Transaction (which will be recognised in the statement of comprehensive income over the duration of the Notional Funding Period, being 10 years) to be approximately R270 million to R330 million. Coronation further estimates the dilutionary impact of the Proposed Transaction on earnings and dividends per Coronation Share to be approximately 2% to 3% (excluding transaction implementation expenses) and 1%, respectively. This information is the responsibility of the Board and has not been reviewed or reported on by Coronation’s external auditors.

7.4. The detailed *pro forma* financial effects of the Proposed Transaction will be presented in the circular to be distributed to Coronation Shareholders (“**Circular**”) in accordance with paragraph 10 below.

8. Letters of support

8.1. Coronation Shareholders holding 26.95% of the issued share capital have provided letters of support to vote in favour of the Proposed Transaction.

9. Fairness opinion

9.1. The Board has appointed BDO Corporate Finance Proprietary Limited as an independent expert, to provide an opinion on the fairness of the Proposed Transaction to Coronation Shareholders, which will be contained in the Circular. The Board’s opinion on the Proposed Transaction will also be contained in the Circular.

10. Distribution of the Circular and notice of general meeting

10.1. The Circular containing full details of the Proposed Transaction, together with a notice convening a general meeting of Coronation Shareholders in order to consider and, if deemed fit, to pass the resolutions necessary to approve and implement the Proposed Transaction, will be distributed to Coronation Shareholders in due course.

10.2. Further details relating to the general meeting, including the date and time of the meeting, will be published on the Stock Exchange News Service of the JSE upon distribution of the Circular and notice of general meeting.

Cape Town

11 October 2024

Investment Bank, Corporate Advisor and Transaction Sponsor

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