EXECUTIVE SUMMARY
CONVERSATIONS WITH CORONATION

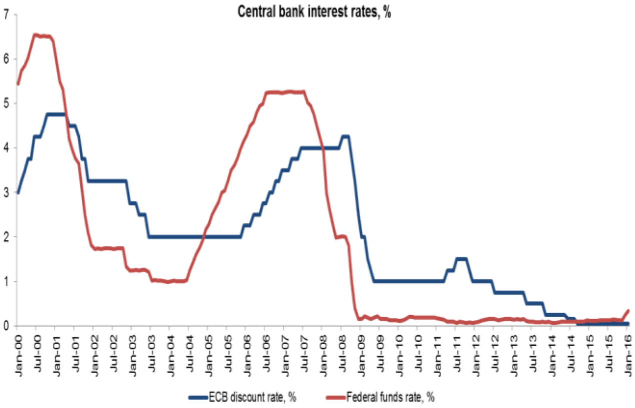
MAY 2016

A SLOW AND LOW WORLD

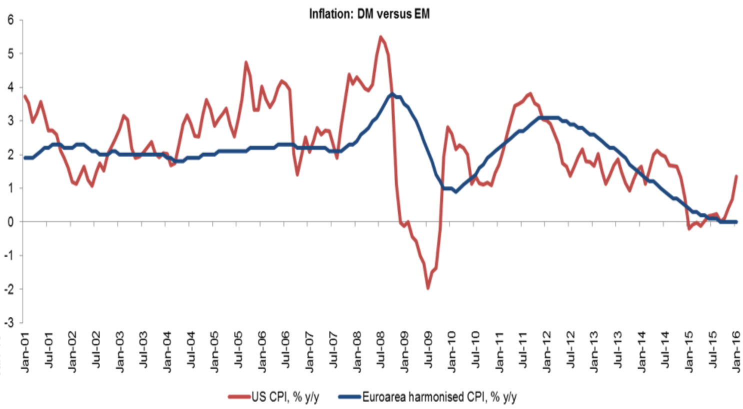
Since 2008, global economic growth has largely ground to a halt and inflation has been low, allowing interest rates to remain at ultra-low, or even negative levels. This followed strong growth in the early 2000s, fuelled by cheap money, strong confidence and booming property markets. Also, the Chinese economy was expanding by more than 10% per annum amid rapid urbanisation, which drove a strong demand for commodities. The change in global growth rates was spurred by subprime problems in the US, which triggered a global financial crisis and a sharp downturn in the world economy. Government revenues declined, fiscal deficits ballooned and banks went bust.

The world was heading for a depression, but aggressive monetary policy saved the day. The US saw early and assertive intervention, while the European response lagged somewhat, eventually accelerating under European Central Bank president Mario Draghi. Still, the aggressive intervention, consisting of zero interest rates and printing of money, did not spark any inflationary uptick. In the US, inflation has remained between 1% and 2%, while Europe has been close to deflation and Japan has experienced negative price growth.

Aggressive monetary policy



… with no sign of inflation



Source: Bloomberg

In the US, unemployment has moderated to normal levels, while in Europe the numbers do not look as good. Worldwide, economic recovery and demand growth have been slow and resistant to stimulus. For the past few years, there has been a total absence of an economic cycle.

Is the current slow growth environment a permanent condition?

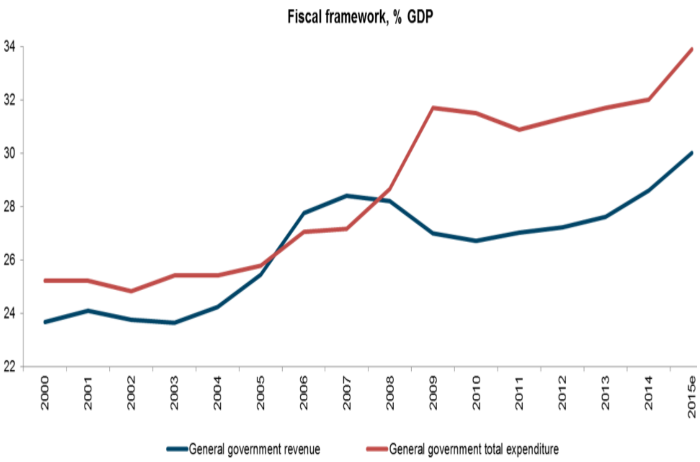
In Japan, this may well be the case – but not in the rest of the world. While a turning point may not be on the horizon, cycles always eventually emerge. Social and political pressure is building on governments to bolster growth and jobs; at some point, fiscal policy will have to be deployed.

Despite the current depressed conditions, investment opportunities are still on offer. Sustained low interest rates are bad news for conservative savers, but positive for the pricing of riskier financial assets. Also, even in a slow growth environment, great management teams can grow profits: either by gaining market share, expanding into other markets, exploiting new technologies or containing costs. The current environment also offers attractive valuations in quality cyclical companies, which have been sold off as investors fled to more predictable defensive stocks. With a gaping valuation differential opening up, defensive shares now offer few safeguards and cyclical shares suggest better return potential, even in the absence of a near-term cyclical upturn.

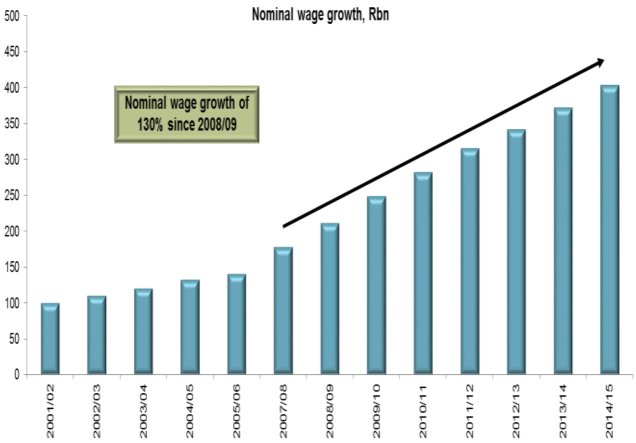
SOUTH AFRICA'S PROSPECTS

As a small, open economy, South Africa has not been immune to the 'slow/low' world. However, the domestic position has been aggravated by a number of poor decisions. Unlike in other countries, SA government expenditure has not adapted to the current global conditions, and continued to increase every year. Also, expenditure has been focused on the wrong type of spending: current, as opposed to capital investment. As a result, the productive capacity of the local economy (e.g. infrastructure, including electricity provision) has been neglected.

Government expenditure has not adjusted…



And the wage bill is the main issue



Sources: Statistics SA, Bureau for Economic Research, SA Reserve Bank

In addition, a number of recent developments have added to the depressed domestic environment.

The firing of Finance Minister Nhlanhla Nene was a massive blow to confidence, and the recent stand-off between Minister Pravin Gordhan and the Hawks, as well as accusations of state capture, have fuelled market volatility, and paved the way for the possible downgrading of SA bonds to junk status. We believe not enough has been done to save our investment grade rating; the credibility of government institutions remains poor and there is a lack of detail on structural reforms to spur growth. Current bond valuations suggest we have already been "junked" and a downgrade by at least one rating agency should be expected within the next few months.

CORONATION'S INCOME-AND-GROWTH FUNDS: POWERED BY OUR ABOLUTE RETURN STRATEGY

Coronation was the first manager, starting in 1999, to manage absolute return mandates in SA. Our two income-and-growth funds are specifically managed to suit cautious investors who need to draw an income over an extended period of time.

Our absolute return investment strategy focuses on both delivering competitive returns over time while managing the risk of capital loss over the shorter term. Coronation's income-and-growth funds target outperformance of cash (in the case of Balanced Defensive) and inflation (in the case of Capital Plus) - not a specific index or the returns of our competitors. While the funds are reliant on a positive performance from growth assets to meet their return objectives, the portfolios are managed to provide a high probability of preserving capital when markets are falling.

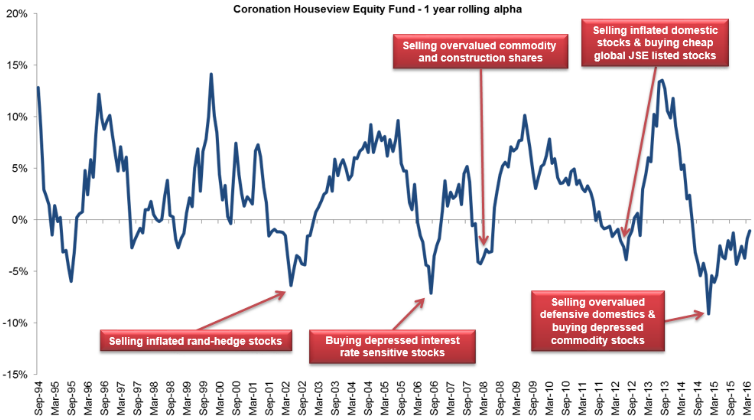
Risk is measured as not losing money and our funds aim to preserve capital over any rolling 12-month period. In its almost ten-year history, the Coronation Balanced Defensive fund has never lost money over any rolling 12-month period, while the Coronation Capital Plus fund has achieved positive returns over these periods 95% of the time.

We consider downside risk in every investment decision – as is evident in our broadly diversified asset allocation across equities, bonds (inflation-linked, credit, government), preference shares, commodities, property and international assets. We limit exposure to individual companies and specific risk factors to avoid building portfolios that are overly reliant on a few ideas

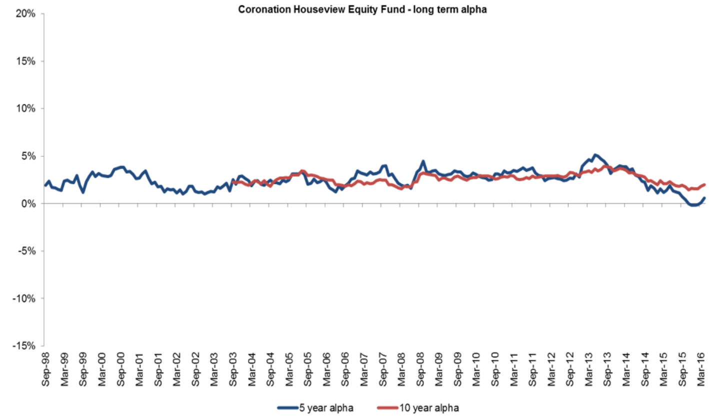
We also use other tools to protect against loss, including buying downside protection (like derivatives) when priced appropriately. Currently, for example, we use protection in the form of put options for Capital Plus, which has double the SA equity holdings of Balanced Defensive. Like insurance premiums, put options can protect the funds against big downturns.

Our portfolios are managed for the long term. While the short-term performance of our income-and-growth funds has been somewhat disappointing, longstanding Coronation clients are familiar with these periods of lumpy returns. They know that the investment decisions that cost us short-term performance can deliver substantial returns over the long term.

A successful track-record comes with many testing years



Alpha over meaningful periods

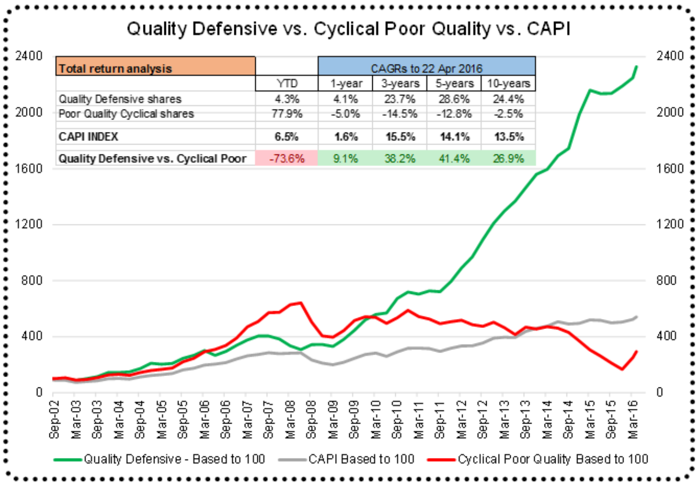


In the past year, our funds have maintained a full allocation to offshore assets and a healthy exposure to SA rand hedge stocks, while having had low duration exposure in fixed income assets. This served us well – the funds did not hold any SA bonds when Nenegate erupted, and the depreciating currency bolstered the performance of our offshore holdings. However, resource exposure and cyclical stocks detracted from performance, although weightings in these holdings were light.

A large valuation gap has opened up between cyclical companies (which require a strong economic tailwind to drive demand for their products) and defensive shares, which have more predictable earnings streams.

Typically, an absolute return portfolio will devote a big chunk of assets to defensive shares; cyclical holdings carry a lot more risk. However, the market's obsession with defensive shares and the indiscriminate sell-off of cyclical shares, have resulted in a massive rating differential.

One-way bet on defensive shares



As valuation-driven investors, we saw investment opportunities in some of these neglected cyclical shares and bought some of these assets for our portfolios, given their depressed valuations.

Ultimately, valuation always comes through, as was confirmed with the recent strong recovery in some of these shares. Anglo American's share price, for example, increased three-fold since the start of the year, without any real change in its macro prospects.

While downside risk in China limits our appetite for resource holdings, we have critically assessed these assets and continue to see value, although our exposure is limited given the risk budget of the funds.

Defensive shares ran long and hard

			CAGRs to 22 Apr 2016			
	Quality Defensive shares	YTD	1-year	3-years	5-years	10-years
1	Naspers	-5.1%	4.1%	50.3%	39.6%	32.1%
2	Mondi	-9.4%	12.5%	34.5%	37.0%	
3	Aspen	3.7%	-15.2%	19.5%	33.7%	23.3%
4	SAB Miller	-5.4%	37.0%	25.4%	32.0%	24.3%
5	Woolworths	-8.7%	-0.9%	14.0%	30.4%	24.8%
6	AVI	15.7%	10.4%	24.3%	30.5%	24.2%
7	British American Tabacco	3.3%	30.1%	25.4%	30.1%	
8	Discovery	-3.1%	-3.3%	20.3%	30.6%	20.8%
9	MR Price	-9.2%	-29.4%	17.0%	26.6%	28.8%
10	Famous Brands	-10.5%	5.5%	14.1%	27.4%	29.0%
11	Netcare	9.8%	-13.5%	25.2%	24.5%	17.9%
12	Santam	29.5%	8.7%	13.2%	18.3%	18.6%
13	Clicks	19.9%	11.2%	25.3%	22.3%	29.9%
14	Sanlam	20.1%	-5.0%	19.9%	25.3%	20.8%
15	Spar	14.2%	9.4%	26.7%	21.1%	23.4%
	Quality Defensive shares	**4.3%**	**4.1%**	**23.7%**	**28.6%**	**24.4%**

Cyclical shares have started to recover

			CAGRs to 22 Apr 2016			
	Poor Quality Cyclical shares	YTD	1-year	3-years	5-years	10-years
1	AngloGold	102.8%	59.2%	8.4%	-7.8%	-2.5%
2	ArcelorMittal	117.8%	-50.9%	-29.5%	-36.1%	-15.7%
3	Aveng	109.7%	-56.2%	-47.1%	-32.8%	-13.0%
4	Altron	-5.9%	-56.4%	-32.4%	-24.8%	-11.7%
5	Impala	122.2%	-7.9%	-21.6%	-21.4%	-6.3%
6	Kumba Iron Ore	198.1%	-4.7%	-30.6%	-17.8%	
7	Anglo American	107.8%	-16.4%	-8.9%	-12.6%	-3.2%
8	Goldfields	41.9%	14.8%	-0.5%	-9.4%	-6.1%
9	Anglo Platinum	109.2%	34.3%	6.2%	-9.5%	-1.4%
10	Murray & Roberts	79.6%	18.3%	-13.3%	-8.1%	-3.5%
11	African Rainbow Minerals	146.2%	22.2%	-11.6%	-9.2%	10.8%
12	PPC	-3.5%	-11.2%	-21.3%	-5.7%	-5.1%
13	Grindrod	18.6%	-18.9%	-10.7%	-0.4%	3.2%
14	Wilson Bailey Homes	10.0%	13.5%	-5.1%	4.0%	9.9%
15	BHP Billiton	14.0%	-14.4%	0.8%	-0.5%	9.8%
	Poor Quality Cyclical shares	**77.9%**	**-5.0%**	**-14.5%**	**-12.8%**	**-2.5%**

SA equity sector exposure

	Balanced Defensive		Capital Plus	
	% Equity	% Fund	% Equity	% Fund
Resources	17%	2.3%	16%	4.8%
Industrials	59%	8.0%	58%	17.1%
Financials	25%	3.4%	25%	7.4%

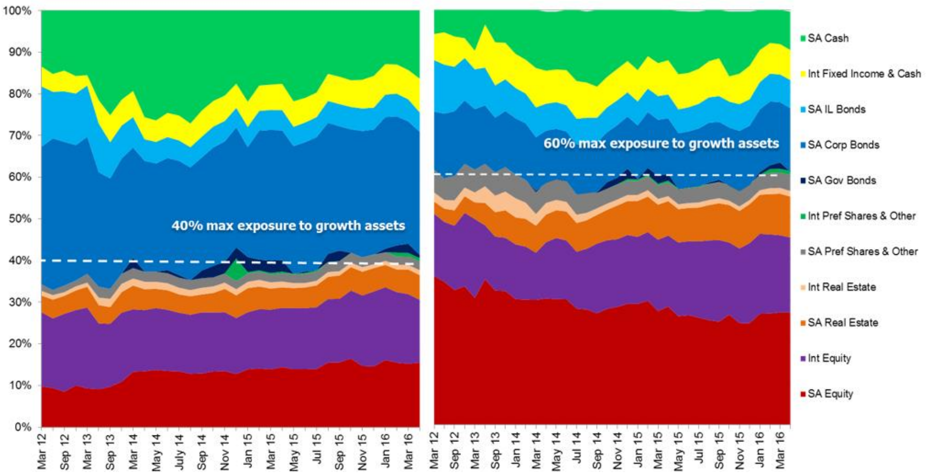
As at 30 April 2016

Client Service: 0800 22 11 77 Fax: 021 680 2500
Email: clientservice@coronation.co.za **www.coronation.com**

EXECUTIVE SUMMARY
CONVERSATIONS WITH CORONATION

We believe in active asset allocation, and will change the weightings in various asset classes to best capture returns and manage risks. While we have added to domestic equities, which now offer decent value, funds remain fully exposed to global assets, with emerging markets offering better value than developed markets. We run a low modified duration in our bond exposure, preferring floating rate bonds over fixed rate bonds and corporate bonds over government issues.

Balanced Defensive asset allocation **Capital Plus asset allocation**



Growth assets are defined as domestic/foreign equities, listed property and commodities.
Asset allocation as at 30 April 2016.

Going forward, market returns will be somewhat lower than those enjoyed over the previous decade and, as we have been cautioning for some time now, return expectations should be moderated.

	Last 10 years (ZAR)	10 year forecast (ZAR)
Local equity	13.7%	8 – 12%
Global equity	14.1%	9 – 13%
Local property	16.7%	8 - 12%
Local bonds	7.6%	8 – 9%
Global bonds	13.4%	4 – 6%
Cash	7.5%	7 – 9%
50:50 portfolio	11.1%	7.7%-10.4%
Inflation	6.4%	6 – 7%
Real return	4.7%	1%-4%

As at 30 April 2016. 50:50 portfolio used as a proxy for income & growth fund with asset allocation set at 25% local equity, 10% global equity, 5% local property, 35% local bonds 10% global bonds and 5% local cash.

We continue to believe that equities will be the strongest weapon with which to beat inflation, and securing an active return will be key. We are confident that our long-term, valuation-based approach will enhance outcomes for our clients in the future. Our income-and-growth funds will continue to be well-diversified, aiming for reasonable inflation-beating returns while avoiding large drawdowns in market sell-offs.

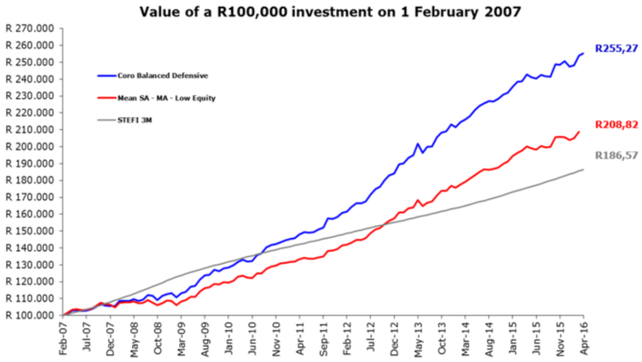
CORONATION BALANCED DEFENSIVE FUND

Balanced Defensive has delivered on its dual mandate of providing stable real returns over time and preserving capital in the short term. It is a top-performing conservative fund over five years and since launch in 2007, without suffering any capital losses over any 12-month period and without taking on additional risk. The fund's Sortino ratio (which measures its risk-adjusted return) is 1.5, far higher than the industry average. Fees will be discounted if performance is negative over any 12-month period.

EXECUTIVE SUMMARY
CONVERSATIONS WITH CORONATION

MAY 2016

Balanced Defensive

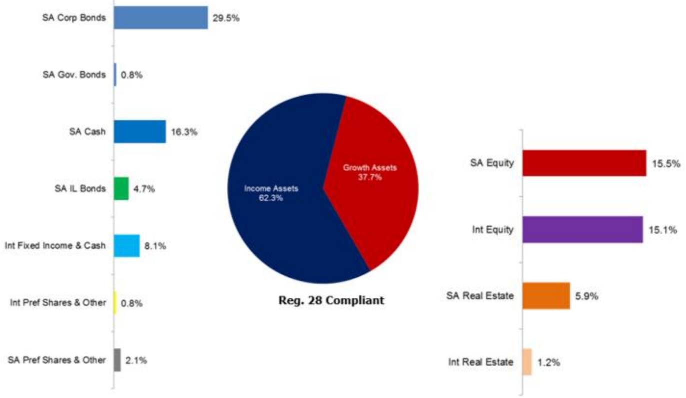


Risk statistics

	Coronation Balanced Defensive	ASISA Low Equity
Annualised Risk (Std. Deviation)	4.0%	3.5%
Annualised Average Return	10.9%	8.5%
Best Month	3.5%	2.9%
Worst Month	-2.6%	-2.3%
Sortino Ratio	1.5	0.6
Percent Profitable	79.8%	77.1%
Gain/Loss Ratio	1.8	1.6
Max Drawdown	-2.6%	-2.7%
Max Gain	21.2%	20.1%
SI Return	10.8%	8.4%

Performance quoted from Morningstar as at 30 April 2016 for a lump sum investment with income distributions reinvested. Growth assets are defined as domestic/foreign equities, listed property and commodities. Asset allocation as at 30 April 2016

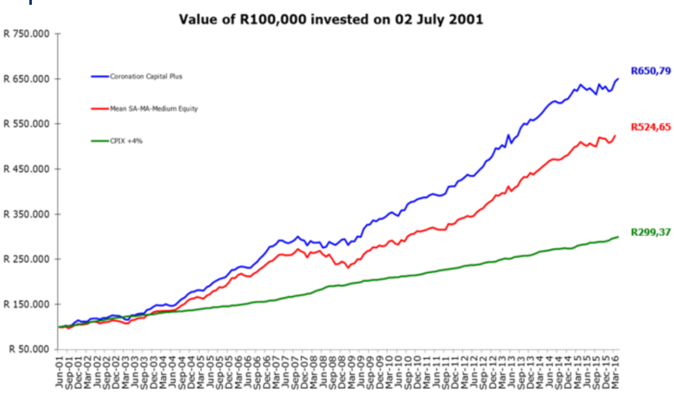
Balanced Defensive portfolio positioning



CORONATION CAPITAL PLUS FUND

Capital Plus has delivered solid inflation-beating returns over the long term: a real return of 7.4% p.a. since launch in 2001. It is the top-performing medium-equity fund in SA since launch. The fund has delivered real returns with limited downside and its maximum drawdown rate is almost half that of its peer group. We have been able to deliver better returns, but at lower risk. Fees will be discounted if performance is negative over any 24-month period.

Capital Plus



Risk statistics

	Coronation Capital Plus	ASISA Medium Equity
Annualised Risk (Std. Deviation)	7.0%	6.8%
Annualised Average Return	13.7%	12.1%
Best Month	8.8%	10.5%
Worst Month	-4.3%	-4.5%
Sortino Ratio	1.5	1.0
Percent Profitable	70.1%	70.1%
Gain/Loss Ratio	1.8	1.5
Max Drawdown	-8.3%	-15.3%
Max Gain	29.5%	39.0%
SI Return	13.5%	11.9%

Performance quoted from Morningstar as at 30 April 2016 for a lump sum investment with income distributions reinvested. Growth assets are defined as domestic/foreign equities, listed property and commodities. Asset allocation as at 30 April 2016

Client Service: 0800 22 11 77 Fax: 021 680 2500
Email: clientservice@coronation.co.za **www.coronation.com**

CORONATION FUND MANAGERS
TRUST IS EARNED

While Balanced Defensive is suited to investors who require an income in the second half of retirement, Capital Plus is more appropriate for those in the first half of retirement. Accordingly, it has a higher risk budget than Balanced Defensive, allowing a larger exposure to equities and listed property. As such, it is expected to deliver higher returns over time. This has not been the case over the past five years: Balanced Defensive has delivered better returns at lower risk. While the Capital Plus asset allocation positioning was correct (with full exposure to offshore assets, low duration in fixed income assets and a healthy exposure to rand hedge stocks), the fund was hit by the poor performance of some of its domestic equity holdings. Although its weighting was light in these assets, resource exposure and cyclical stocks still detracted from its performance. We have critically assessed these holdings and continue to see value.

We expect Capital Plus to revert to type and deliver stronger long-term returns than Balanced Defensive in future, given its larger exposure to equities, which we believe will outperform income assets over time. In addition, the funds are now managed by the same portfolio managers, eliminating implementation differences. While the shorter-term performance of Capital Plus has been disappointing, we are confident that it will deliver on its mandate of CPI plus 4 percentage points.

Capital Plus portfolio positioning