EXECUTIVE SUMMARY
CONVERSATIONS WITH CORONATION

SEPTEMBER 2016

INVESTING IN UNCERTAIN TIMES

Over the past two years, a number of outlier events have triggered extreme volatility in financial markets. These include a collapse in the oil price, Brexit, terror attacks across Europe, the European immigration crisis, an attempted coup in Turkey, Donald Trump's candidacy for US president and the rise of nationalism.

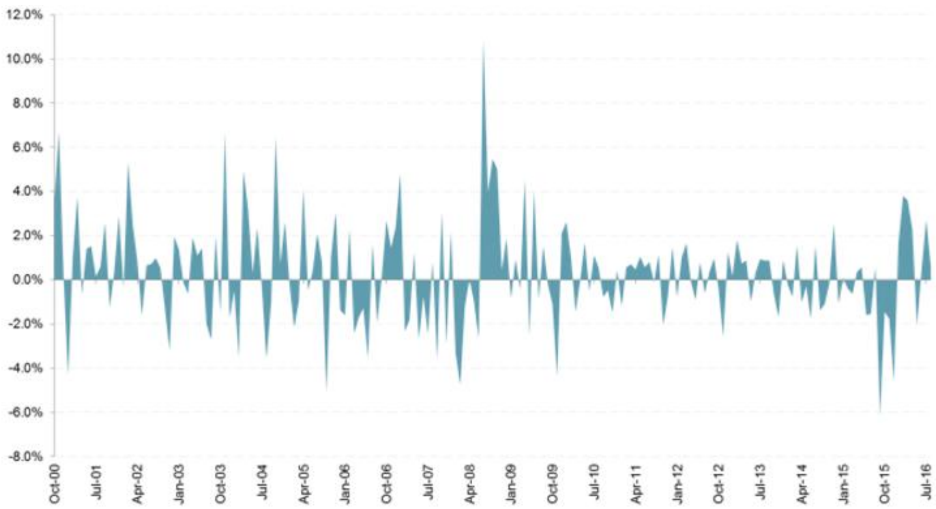
Global and local markets remain unsettled, while political risk is high, both locally and globally. As investors with a long-term horizon, we don't believe you need to react to every item of short-term newsflow to achieve superior returns, choosing instead to take advantage of the volatility to invest in assets that can deliver meaningful returns over the longer term.

We aim to build 'anti-fragile' portfolios that are not only defensive, but can actually thrive in a volatile environment. Our focus is on determining the correct underlying valuation of a company using our own fundamental research, which is the lifeblood of Coronation. We spend enormous time and energy determining the fair long-term value of an investment, and will only invest when there is a large margin of safety between the fair value of the company and its share price. When a black swan event does occur, this margin of safety should provide protection.

Our portfolios capitalise on the widespread mispricing of assets in the markets. Amid the current volatility, investors are fixated on quality companies with stable earnings streams. Many of these shares are now overvalued and priced for perfection. In contrast, cyclical companies are shunned and many trade below their true value. These are the investments that can deliver meaningful returns over time.

In the short run, however, our investment strategy can result in periods of underperformance, specifically in our more aggressive funds.

Short-term performance is random and volatile
Coronation Top 20 fund, monthly alpha



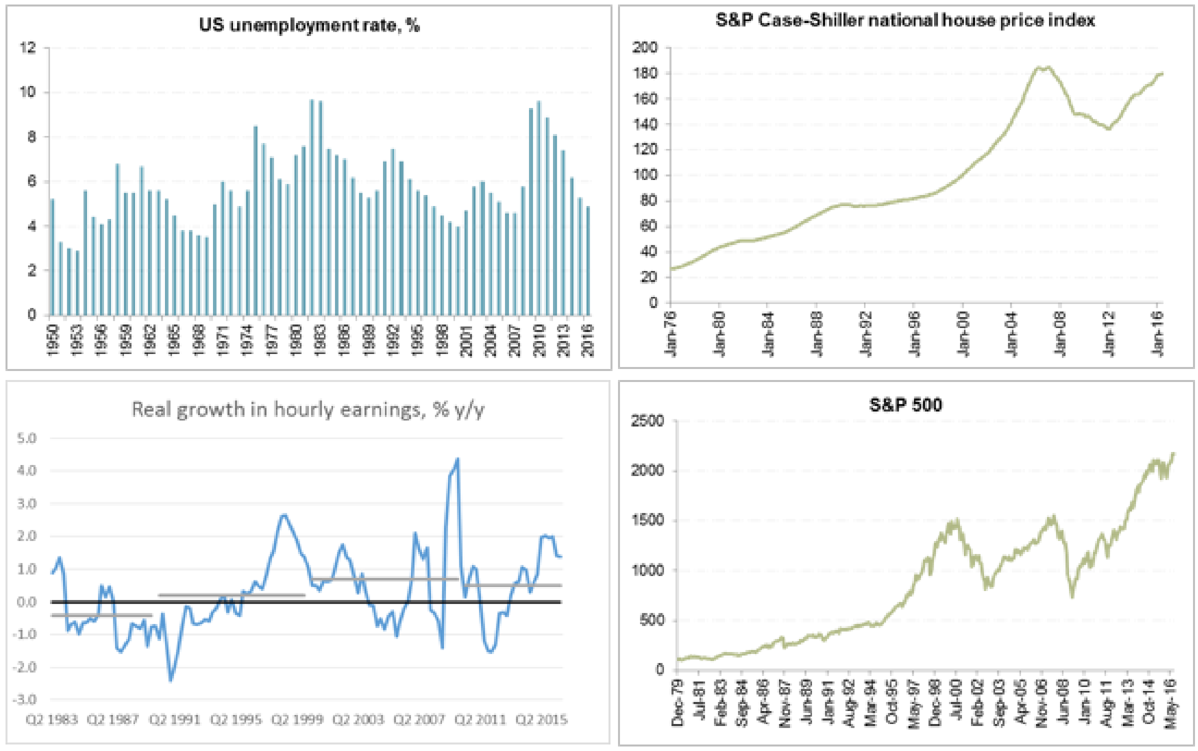
The worst outcome for investors would be to withdraw their money following these periods of underperformance, and then miss out on the very strong outperformance that follows as the mis-priced investments correct to reasonable levels.

INVESTMENT BACKDROP

Despite the negative headlines and obsession with short-term data points, the US economy is generally in good health. A broad array of different metrics shows that real incomes are rising for the first time since 2007, the poverty rate is falling and full-time employment has recovered.

Still, interest rates remain at 2009 levels, sending a signal that the central bank still thinks the economy is in a disaster zone. In our view, a rate hike should have virtually no negative impact – instead, it will send a strong vote of confidence in the economy and help bolster investment.

US economic data



Europe is more challenging. Germany continues to power ahead and some smaller peripherals have grown stronger. However, Italy is problematic amid a banking crisis and a rise of nationalism on the continent is worrying. A combination of concerns about immigration, terrorism and the UK leaving the EU has given oxygen to fringe parties on the left and right. Brexit in particular is causing a lot of uncertainty, and the UK economy will see a lack of real investment until the situation settles.

China has surprised on the upside as early panic about its currency and reserves have subsided. Growth has been stable in the 6% to 7% range and its economy should benefit from a drive to consolidate excess capacity across industries: companies have been merged and corporate defaults have been allowed.

After being shunned for a number of years, emerging markets are enjoying a resurgence of interest. They are generally in a much better fiscal position than the developed world, and are also supported by strong demographic trends that underpin long-term growth. Brazil in particular is gaining amid more stable commodity prices, Russia is no longer a pariah, and South East Asia and India continue to remain in favour.

Sub-Saharan Africa is still off the radar, however. Large companies like Barclays are leaving the continent, creating opportunities for astute investors.

The situation in SA remains concerning. Our country has a poor macro-economic outlook. Somehow a lot of companies had managed to keep delivering, but very difficult trading conditions are starting to manifest across many industries. Political risk has discouraged investment in the economy. The country's credit ratings may still be downgraded, as low growth and the weak balance sheets of state-owned enterprises weigh on the minds of the ratings agencies.

KEY INVESTMENT POSITIONS

Resources

After losing 75% of their value in the last three months of 2016, shares in the sector have recovered by as much as 250% in the first quarter of 2016.

As an investment manager based in Africa, we have first-hand understanding of the unique nature of the commodity cycle. It is a very long, very sticky cycle: Mines can't respond to changes in demand in an instant. There are long leads and lags in bringing on and shuttering capacity, respectively.

But over the long term, the laws of economics do work. High prices will eventually result in larger supply, as has been demonstrated in the oil market. And low prices do lead to mine closures and lower supply.

As long-term investors, our job is to identify investment opportunities based on our assessment of normal prices. Because the cycle can be extreme, we make sure that our exposure is appropriate. Accordingly, we typically restrict our exposure to the miners to not much more than 20% of our domestic equity portfolios.

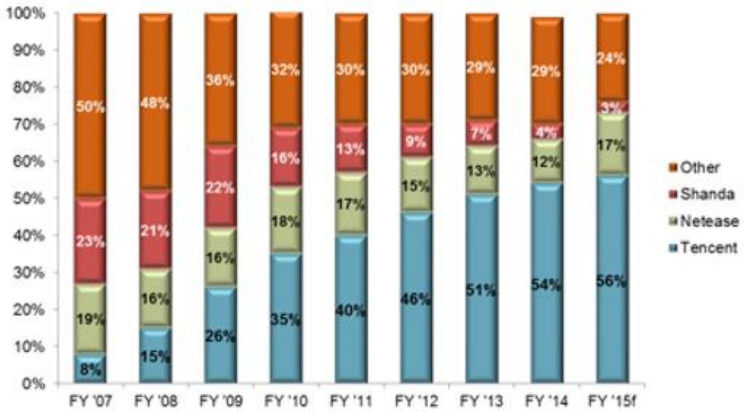
Our key holdings include:

- Anglo American has not wasted the commodity crisis, emerging leaner and meaner after selling off non-core assets. Its share price has rerated from low levels, bolstering the investment returns of our clients. While current market prices are closer to fair value, we continue to maintain some exposure as we rate its underlying assets.
- Exxaro remains a strong cash generator from good coal assets, and offers opportunities to unlock more value.
- Platinum shares (particularly Impala and Northam) could still benefit from significant longer-term supply issues. Southern Africa supplies 80% of globally mined platinum, 45% of palladium and 85% of rhodium, with a significant lack of investment amid low prices and constrained balance sheets. Over the longer term, the current metal price basket is too low to sustain the industry and the supply gap is likely to be felt most acutely beyond 2020. Northam is an attractive asset in the sector, given its healthy balance sheet, strong management team and good empowerment credentials. Northam also has the potential to double group production over the next decade.
- For the first time in many years, BHP Billiton is looking attractive and we are adding to our position. The company traded on a premium rating during the commodity boom, due to the perceived superior abilities of its management. Following the bust, it is clear that it made the same mistakes as many others in the sector. Its rating has since moved to more attractive levels.

Naspers

Naspers continues to be a stock we like and remains a large position. Its underlying assets have strong moats and offer competitive advantages, ensuring a long runway of potential growth. Its key holding, the Chinese group Tencent, has established a massive base of mobile users through its messaging service WeChat, which is now being leveraged to build other businesses. In the past few years, it has grown to become the market leader in mobile gaming, and it is positioned to gain even more market share.

Tencent's share of gaming (%)



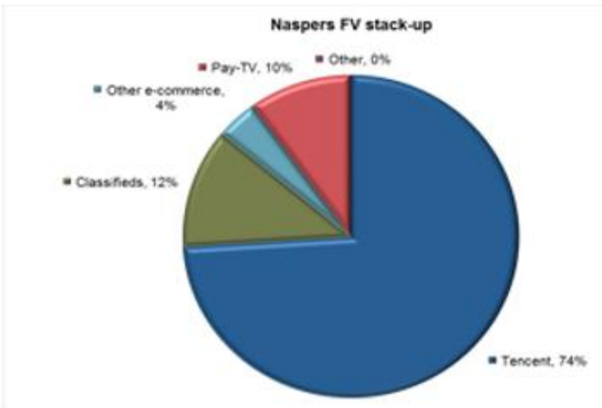
Tencent has also introduced mobile payments, which are growing fast, and has more opportunities in ecommerce and mobile advertising. We see Tencent entrenching its dominant position in China, a market with more than a billion people.

Naspers is also well positioned to become the global leader in classifieds. We like the sector's business model: it has attractive economics (high margins, light on capital and very cash generative), high barriers to entry for new entrants, and the winner takes all. Naspers was an early entrant and invested heavily in building its market position in key emerging markets. Achieving this required heavy investment, and as they are starting to reach scale, stable margins will generate quite a lot of cash.

Even taking regulatory threats to its business into account, Naspers is still currently trading at around 40% below our (conservative) estimate of its fair value.

Naspers valuation

FV stack-up	R/share	% of total
Tencent	2 444	75%
Classifieds	397	12%
Other e-commerce	138	4%
Pay-TV	314	10%
Other	(13)	0%
TOTAL	3 279	100%



Source: Coronation

MTN

It has been a dramatic time for MTN following Nigeria's announcement last year that the mobile company had to pay a fine of $5.2bn for failing to disconnect unverified SIMs by a certain deadline.

MTN was the only operator that was fined, and it appears that it was singled out: none of the other operators complied and MTN was the only profitable mobile business in the market.

We think the company handled the crisis relatively well and in the end, the fine was settled at $1.7bn (currently $1.1bn as the value of the Naira subsequently declined). This is still an onerous amount, but more digestable for the company.

The Nigerian crisis came against a sharp slowdown in economic growth across Africa, and some self-inflicted wounds. MTN was late to recognise the shift from voice to data, underinvested in its network and lost market share to competitors in key markets. To its credit, the Nigerian fine triggered a fundamental reset of it business strategy (including renewed investment in its network) and new management and board skills were injected.

MTN is trading on a cheap valuation, which is not an investment case in itself. However, we believe its network investment will pay off and that data will yield strong growth in future. New management is bringing developed market disciplines to an emerging market business and it is using tough economic times and relative balance sheet strength to improve its competitive position. Nigeria is adopting economic reforms, including the removal of its currency peg, that will put the country on a more sustainable growth path and benefit MTN in the long run. Also, the company should profit as Iran emerges from sanctions and slowly join the global fold.

Old Mutual

Old Mutual is expected to unlock significant value as part of its plans to unbundle its underlying businesses:

- **Old Mutual Emerging Markets** (its SA life insurance business) continues to grow quite nicely and is highly cash generative. Once separately listed, it will be able to pay a strong dividend.
- **Nedbank Group** is under strong management and in a robust capital position. It offers prospects of good growth in Africa, in partnership with Ecobank, and a decent dividend yield.
- **Old Mutual Wealth (UK).** This business, established in 2006 following the takeover of Scandia, is well-positioned to benefit from changes in the UK savings market, including the scrapping of compulsory annuitisation and a consolidation of the UK adviser channel. The business is light on capital and cash generative. Brexit may have some impact in the shorter term, but it is well positioned to grow in the retail market.

The value was always there in the Old Mutual group, and now there is a clear strategy and path to unlocking it. Its new CEO, Bruce Hemphill, has joined with no legacy and is therefore not afraid to take the tough decisions, announcing the strategy to separate the businesses and eliminate the central head office in London, as well as the UK listing. This will lower costs, adding another 5% to our estimation of its fair value. There are additional opportunities within the underlying operations that have the potential to support further unlocking of value.

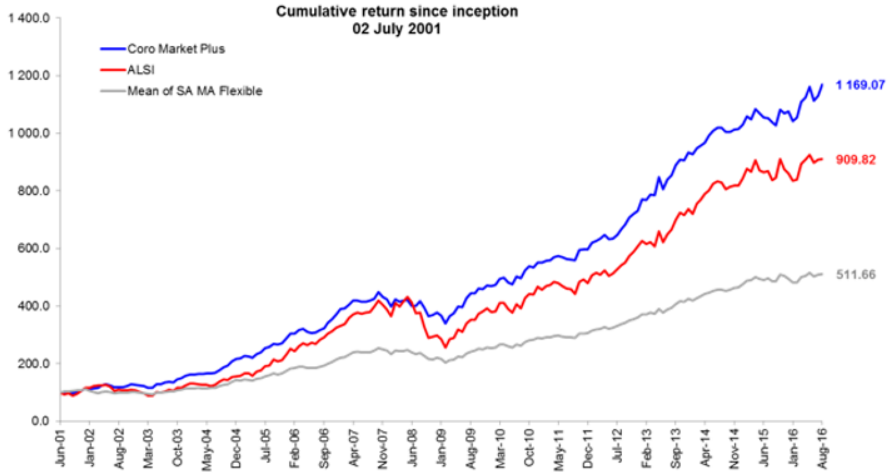
While there are some execution risks with its new business, we believe there is enough upside in its valuation to more than compensate for this.

CORONATION MARKET PLUS FUND

This flexible multi-asset fund does not comply with Regulation 28, allowing a larger allocation (35%) to offshore investments than peer funds, and a higher weighting to risk assets in general. This has contributed to its compelling outperformance over the long term.

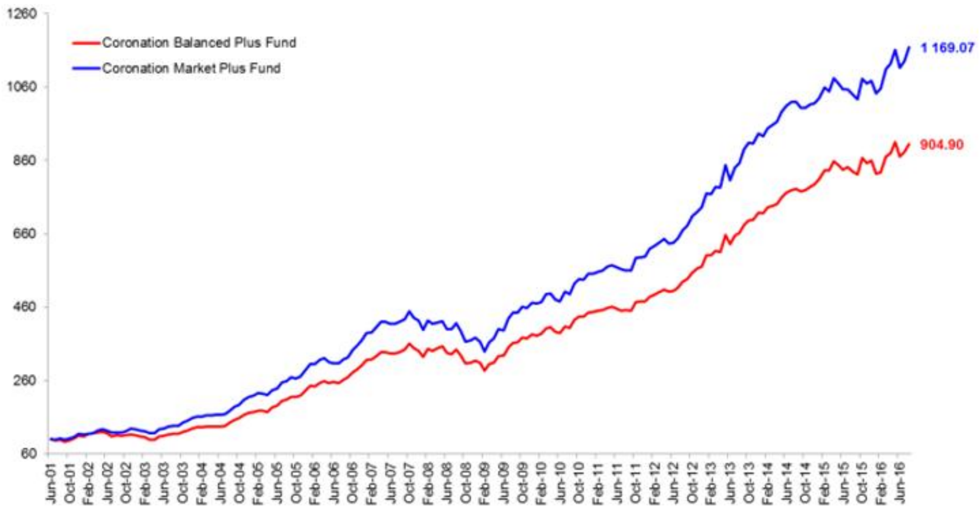
Long-term track record

Performance since inception*



Performance quoted from Morningstar as at 31 August 2016 for a lump sum investment with income distributions reinvested

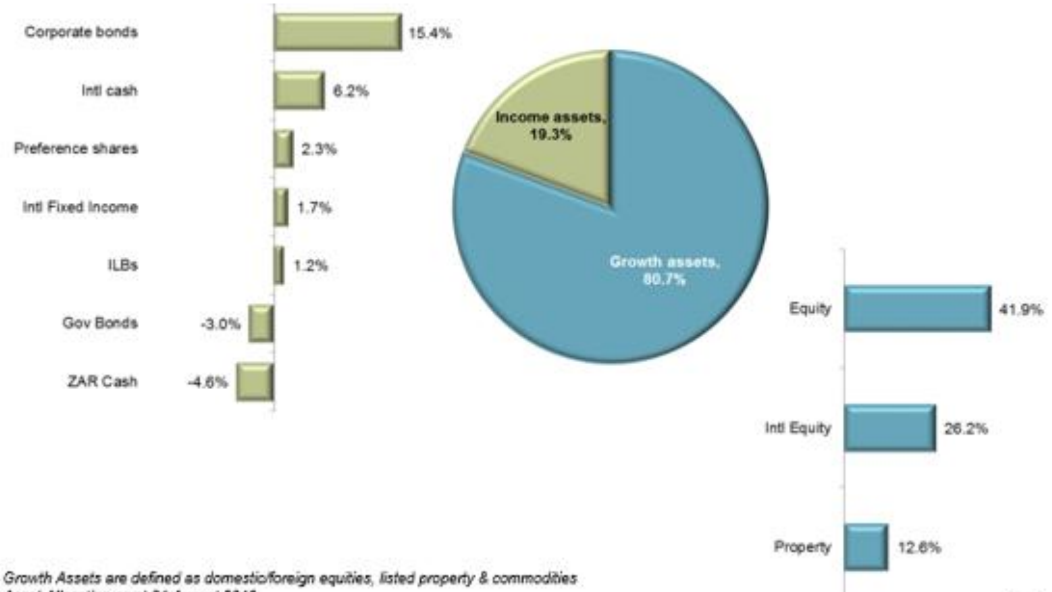
Higher risk, higher return



Currently the fund has close to its maximum exposure to foreign assets, with a bias towards emerging markets. Its large underweight position in domestic SA businesses has been slightly reduced after Nenegate triggered a widespread sell-off, pushing local shares to unwarranted levels. However, we remain cautious, with 41.9% of fund assets invested in local shares.

The fund is maintaining a very short duration in bonds, with particular exposure to credit opportunities in SA, but very little offshore. The fund has a relatively large weighting in select SA property holdings, which have performed well for the fund. The fund's property selection has delivered a total year-to-date return of 18%.

Coronation Market Plus fund
Portfolio positioning

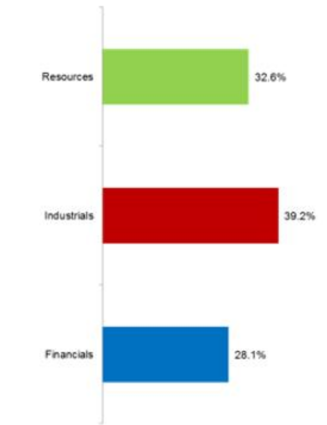


Growth Assets are defined as domestic/foreign equities, listed property & commodities
Asset Allocation as at 31 August 2016

CORONATION TOP 20 FUND

The Top 20 fund reflects Coronation's 20 highest conviction share ideas. The fund's exposure to banks is slightly higher than a year ago. Following the political gyrations in SA at the end of last year, banks were sold down to extremely attractive levels. At that time, we added some exposure.

Coronation Top 20 fund
Equity holdings



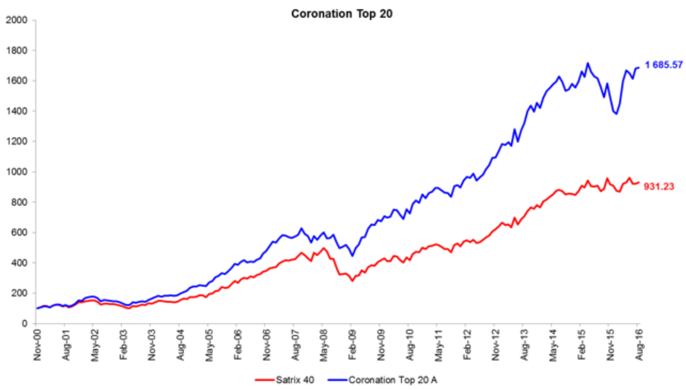
EQUITY TOP 10	% FUND	PE NORMAL	DIV YIELD (f)
Naspers	13.8%	12.9	0.5%
Mondi	10.3%	11.4	3.3%
Old Mutual	9.1%	8.5	3.2%
MTN	8.3%	9.0	6.2%
Standard Bank Group	7.2%	8.4	5.9%
Steinhoff International Holdings	7.2%	13.4	3.3%
Anglo American Plc	7.1%	7.3	1.0%
Intu Properties Plc	4.9%	20.0	4.4%
Nedbank	4.8%	9.1	5.7%
British American Tobacco Plc	4.5%	16.4	3.7%
	77.2%		

Sector allocation as at 31 August 2016. Holdings as at 31 August 2016

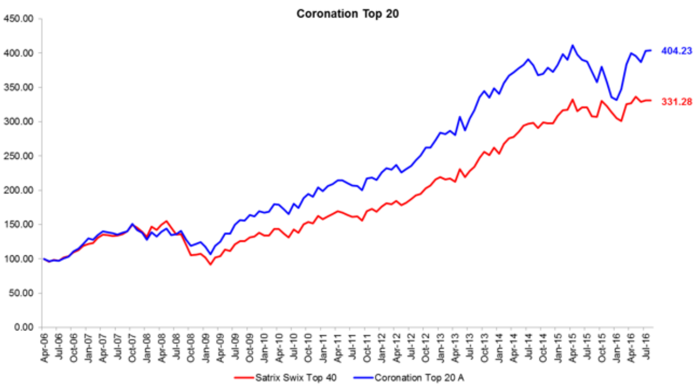
The fund currently has exposure of some 33% to resources, but it must be noted that this includes a large stake in the packaging firm Mondi, which we believe is more of an industrial share. Excluding Mondi, the fund's resource exposure is roughly 23%. The fund has achieved a solid outperformance of the market and its benchmark, as well as the most popular exchange-traded funds.

Below is the Top 20's performance shown since the respective inception dates of the various ETFs.

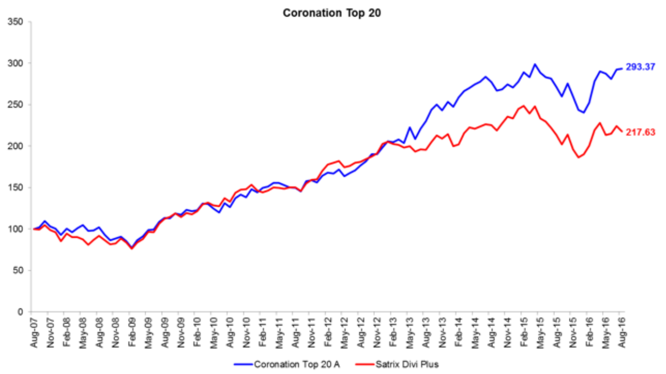
Top 20 vs. Satrix 40



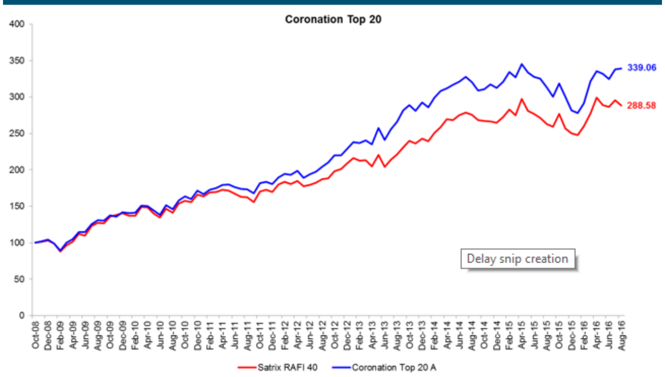
Top 20 vs. Satrix SWIX Top 40



Top 20 vs. Satrix Divi Plus



Top 20 vs. Satrix RAFI 40



These performances are all of net of fees. If the fund underperforms its benchmark (the FTSE/JSE CAPI), fees are discounted to levels similar to (or below) index investments.

Passive investments increasingly require an active decision by the investor, given the plethora of new indices. Indices are also becoming more skewed and concentrated, introducing a lot of specific risk. For example, while your client may think that they are investing in a large basket of shares by investing in the Swix ETF, in truth, some 20% of their capital will be invested in Naspers. Choosing the right index will end up requiring an active decision.

FUND CLASS DESIGNATIONS

Coronation recently announced the standardisation of the names used for main fee classes available in the market: A class – standard retail fee class; D class – discounted administration fee class; P class – platform or clean class (lowest fee class available). Standardising the class names does not involve any change to mandates or fees, and took effect on September 1st 2016.

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SEPTEMBER 2016

EFFECTIVE ANNUAL COST DISCLOSURE

All product suppliers have agreed to a new measure (Effective Annual Cost or EAC) to make it simpler for clients to compare costs across different products before investing. It is a standardised way to show expected total cost of ownership over different holding periods, including investment, administration, advice and other costs. It will assist advisers in meeting FAIS disclosure requirements.

The investment cost component of the EAC consists of the fund management fee plus VAT, other portfolio costs and transaction costs. In the past, the management fee was the main focus of disclosure, and the EAC will obviously be slightly higher than that fee. Careful interpretation is required and the challenge will remain to have cost conversations in the context of value for money.

Note that these costs are not new, and we have always and will continue to show past performance information after all management fees and portfolio costs.

Domestic Flagship Funds
Consistent top quartile returns

	Fund	5 year ranking	10 year ranking	S.I. ranking
LT Growth (equity only)	Top 20	2nd Quartile	1st Quartile	1st Quartile
LT Growth (multi asset)	Balanced Plus	1st Quartile	1st Quartile	1st Quartile
Income & Growth	Capital Plus	2nd Quartile	1st Quartile	1st Quartile
	Balanced Defensive	1st Quartile	-	1st Quartile
Income only	Strategic Income	1st Quartile	1st Quartile	1st Quartile

Morningstar as at 31 August 2016