CORONATION

GRANITE HEDGE FUND

QUALIFIED INVESTOR HEDGE FUND FACT SHEET AS AT 28 FEBRUARY 2018

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INVESTMENT OBJECTIVE

The Coronation Granite Hedge Fund is managed as a long/short fixed income fund, investing in a diversified portfolio of securities, including derivative instruments, bonds and cash. The Coronation Granite Hedge Fund makes use of six core and distinct fixed income strategies, namely: Directional View Taking, Yield Curve Positioning, Corporate Credit Opportunities, Arbitrage Strategies, Quantitative and Relative Value Trades in the pursuit of producing consistent absolute returns independent of general market direction.

The fund is expected to have low volatility with a very low correlation to the All Bond Index (ALBI). Investment decisions are driven by fundamental proprietary in-house research. The fund's target return is cash plus 3%. The objective is to achieve this return with low risk, providing attractive risk-adjusted returns through a low fund standard deviation.

The fund may make use of derivative instruments for efficient portfolio management purposes.

INVESTMENT PARAMETERS

The Coronation Granite Hedge Fund may not invest in international investments. The fund may use leverage but such leverage shall be limited to five times. The fund is precluded from raising any debt funding over and above that achieved in terms of the long/short process. Value at risk is monitored on a daily basis and is subject to an internal limit of 6% at a 95% confidence level, and 10% at a 99% level. The maximum modified duration of the fund may not exceed that of the ALBI. Directional exposure is limited to 100% of current underlying capital. Individual stock exposure is unlimited for government and parastatal (government guaranteed) bonds, but is constrained for banks and corporate bonds with reference to exposures to credit ratings bands. Limits per issuer within each credit rating band exist and are monitored on a daily basis. No sub-investment grade instruments may be held in the fund. No writing of uncovered options will be permitted. Cash on hand shall at all times exceed all outstanding settlement liabilities, with a minimum balance of 5% of current underlying capital. The fund employs stop-loss strategies to facilitate capital preservation. The intention is to invest the majority of the fund in liquid tradable securities that are listed on BESA or the JSE. The fund may invest in unitised vehicles, in particular money market investment and exposure to small capitalisation shares may be achieved in this way. Investment in derivatives is permitted for efficient investment management of the fund.

FUND RETURNS NET OF FEES

	Fund	ALBI	FRODS
Since inception (cumulative)	338.3%	329.7%	191.3%
Since inception p.a.	10.1%	9.9%	7.2%
Latest 10 year p.a.	9.2%	9.3%	6.4%
Latest 5 year p.a.	8.0%	7.3%	5.9%
Latest 1 year p.a.	9.2%	14.3%	6.6%
Year to date	1.1%	5.9%	1.0%
Month	0.5%	3.9%	0.5%

PERFORMANCE & RISK STATISTICS (Since inception)

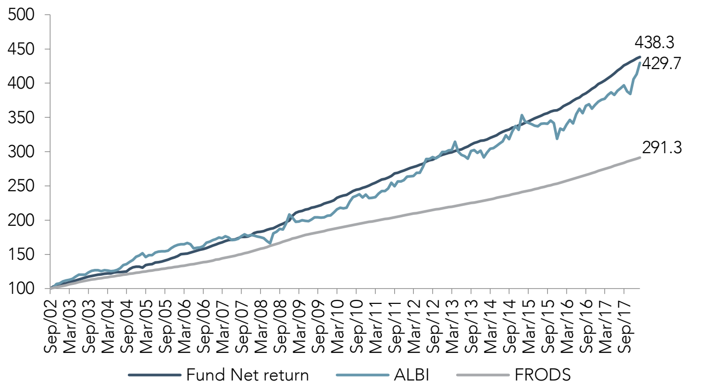
	Fund	ALBI	FRODS
Average Annual Return	9.8%	9.2%	7.1%
Highest Annual Return	17.3%	23.6%	12.3%
Lowest Annual Return	6.4%	-5.6%	4.8%
Annualised Standard Deviation	1.8%	7.0%	0.6%
Downside Deviation	1.1%	4.5%	
Maximum Drawdown	-1.2%	-9.8%	
Sharpe Ratio	1.59	0.39	
Sortino Ratio	2.60	0.61	
% Positive Months	99.5%	70.8%	100.0%
Correlation (ALBI)	0.02		
99% Value at Risk (P&L %)	-0.3%		

GENERAL INFORMATION

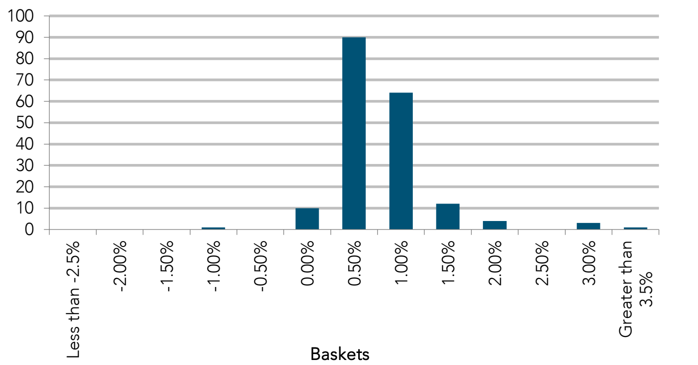
Investment Structure	Limited liability en commandite partnership
Disclosed Partner	Coronation Management Company (RF) (Pty) Ltd
Inception Date	01 October 2002
Hedge Fund CIS launch date	01 October 2017
Year End	30 September
Fund Category	Domestic Fixed Income Hedge
Target Return	Cash + 3%
Performance Fee Hurdle Rate	Cash + high-water mark
Annual Management Fee	1% (excl. VAT)
Annual Outperformance Fee	15% (excl. VAT) of returns above cash, capped at 3%
Total Expense Ratio (TER)*	2.54% (including a performance fee of 0.86%)
Transaction Costs (TC)*	0.16%
Fund Size (R'Millions)	R37.19
Fund Status	Open
NAV (per unit)	314.45 cents
Base Currency	ZAR
Dealing Frequency	Monthly
Income Distribution	Annual (with all distributions reinvested)
Minimum Investment	R1 million
Notice Period	1 month
Investment Manager	Coronation Asset Management (Pty) Ltd (FSP 548)
Auditor	Ernst & Young Inc.
Prime Brokers	Absa Bank Ltd and FirstRand Bank Ltd
Custodian	Nedbank Ltd
Administrator	Sanne Fund Services SA (Pty) Ltd
Portfolio Managers	Mark le Roux, Adrian van Pallander & Nishan Maharaj

Data is provided for the 1 year ending 31 December 2017 and calculated using historic data prior to the launch of the CIS. TER is inclusive of manufactured dividend expenses.

GROWTH OF R100m INVESTMENT



HISTOGRAM OF MONTHLY NET RETURNS



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EXPOSURE BY UNDERLYING STRATEGY

	Rand per Point
Directional Strategy	-
Relative Value Strategy	-
Yield Curve Strategy	-
Credit Strategy	-1 353
Quantitative Strategy	-
Arbitrage Strategy	-
Prime Broking (Multi-strategies)	14 396

PORTFOLIO LIQUIDITY

	Days to Trade
Long	8.5
Short	1.8

STRATEGY STATISTICS

Number of long positions	39
Number of short positions	6

INCOME DISTRIBUTIONS

Declaration Date	Amount	Dividend	Interest
30-Sep-18	n/a	n/a	n/a

No declarations to date.

MONTHLY COMMENTARY

The fund returned 0.52% in February, taking its one-year return to 9.24%. This places the fund 2.1% ahead of cash over 12 months. The All Bond Index had another strong month following its rally in January, reflecting not only supportive global market sentiment, but also renewed optimism about domestic political change. The aggregate index rose 3.9% during the month. The rally was also relatively broad-based, with longer-dated bonds (12+ years) performing best (5.02%), followed by the belly of the curve (7 to 12 years), which rose 2.9%. Short-dated bonds (1 to 3 years) were up 1.13%, and bonds maturing 3 to 7 years rose 1.55%. Inflation-linkers rose 1.12%, while cash returned 0.52%.

Central bank rhetoric in developed economies generated some volatility; US president Donald Trump's tariff announcement in early March also added considerable uncertainty, while generally positive economic news continued in February. In the US, incoming activity data have been mixed in the wake of the announced tax changes and fiscal adjustment. GDP is tracking about 1.7% q/q, broadly on track for 3.45% annualised. With respect to inflation, the January data again surprised markets to the upside. Jerome Powell took over as chairperson of the US Federal Reserve (Fed) from Janet Yellen in February, delivering a relatively upbeat assessment of the US economy in his inaugural post-MPC statement. A stated expectation that inflation will sustainably return to 2% saw an adjustment in market expectations of the trajectory of Fed hikes in the year ahead. The market is now pricing three hikes of 25 basis points (bps) each this year, from two hikes prior to the February Federal Open Market Committee meeting. Consensus forecasts are closer to four hikes in 2018.

Economic news from Europe remained relatively strong. Tracking GDP for Q1-18 is ahead of Q4-17's 0.6% q/q at 0.8% q/q. Euro area inflation remains well within target, despite the elevated rate of output growth and low unemployment. In the UK, Brexit negotiations remain at the centre of domestic politics. Data show that growth momentum continues to slow. Inflation was stable in January at 3% y/y. Core inflation however accelerated to 2.7% y/y from 2.5% y/y, which was ahead of expectations, suggesting some lagged impact of currency weakness is still affecting underlying prices. The rise in core inflation is likely to keep the Bank of England (BoE) on a hawkish footing, following an 'on hold' outcome from the BoE in February. Increasingly, markets expect a 25bps rate hike from the BoE at the next meeting in March.

Growth momentum in Japan seems to have slowed a little in Q1-18, owing in part to weather-related stoppages. CPI accelerated 0.9% y/y in January. Core inflation (ex-fresh food) was up 0.4% y/y. Underlying inflation looks reasonably resilient across a relatively broad base. In February, Bank of Japan (BoJ) governor Kuroda said he intends to start formulating an exit strategy in 2019, when he believes inflation will be sustainably above 2%.Within emerging markets, the rise in global trade and commodity prices through 2017 provided a welcome boost to activity and profitability.

In South Africa, after a tense month of behind-doors negotiations, former President Jacob Zuma resigned on 14 February, with Cyril Ramaphosa sworn in on Thursday, 15 February 2018. Just four working days later former Finance Minister Malusi Gigaba delivered the 2018/9 Budget, which detailed a 1% VAT hike to 15%, effective in April. Total revenue increases of R36 billion were announced for the coming fiscal year. On Monday, 26 February, President Ramaphosa reshuffled his Cabinet, replacing amongst others, Mr Gigaba, with former Finance Minister Nhlanhla Nene. Despite the 1% VAT hike, which will add up to 0.6ppts to headline inflation, the stronger currency should ensure inflation remains within the target range through 2018, with January's CPI print showing inflation of 4.4% y/y and further moderation expected in February, and an even lower print possible with another cut to fuel prices in March. Given the somewhat tighter fiscal policy signalled in the Budget, coupled with the change in political leadership and Cabinet reshuffle (and despite the VAT hike), we think Moody's might just keep south Africa at investment grade at its March review, leaving room for the MPC to cut rates by 25 bps at the March meeting. Recent political changes in SA have the potential to positively influence policy implementation, and place the local economy on a path to rehabilitation. Parastatals need to be stabilised, growth initiatives need to be pursued in earnest and confidence needs to be restored in SA's institutions in order to put SA on a more sustainable path towards higher growth. In the short term, growth could receive a boost from consumer spending and inventory renewal as corporate SA starts to spend again after a multi-year hiatus. Inflation will remain well behaved with chances of further downside surprises added to the case for a lower repo rate. SA government bonds should benefit from this renewed optimism and contained inflation. However, at current levels, they price in a great deal of good news and are at best fair to slightly expensive, keeping us more neutral in our allocation to SA government bonds, looking instead for more attractive levels to enter overweight positions.

The fund had an overall mixed month in February, with active trades and credit holdings producing both winners and losers. The net outcome was fairly neutral, with performance dominated by the fund's carry component. A further complication during the month was the risk hiatus implemented around the presentation of Budget 2018, which necessarily trimmed the fund's ability to enhance performance. In terms of other major risk events on the immediate horizon, Moody's potential resolution of its outlook for its SA sovereign rating is the most significant concern. The fund's risk is being managed with this consideration in mind.

DISCLAIMER