CORONATION

GRANITE HEDGE FUND

QUALIFIED INVESTOR HEDGE FUND FACT SHEET AS AT 31 OCTOBER 2018

CORONATION
TRUST IS EARNED™

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 5 (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. The portfolio will have maximum credit exposure limits with reference to credit classification bands, determined in accordance with the fund's Credit Exposure Guidelines. Limits per issuer within each credit classification band exist and are monitored on a daily basis. No writing of uncovered options will be permitted. 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)	368.0%	318.2%	203.6%
Since inception p.a.	10.1%	9.3%	7.1%
Latest 10 year p.a.	9.2%	8.4%	6.1%
Latest 5 year p.a.	8.4%	6.7%	6.1%
Latest 1 year p.a.	9.3%	7.8%	6.4%
Year to date	8.0%	3.0%	5.3%
Month	0.5%	(1.7)%	0.5%

PERFORMANCE & RISK STATISTICS (Since inception)

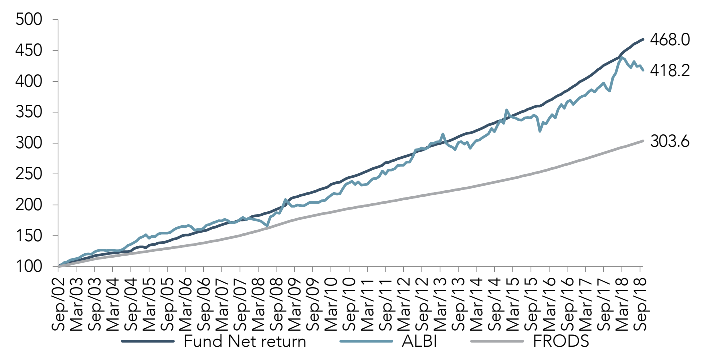
	Fund	ALBI	FRODS
Average Annual Return	9.9%	9.3%	7.0%
Highest Annual Return	17.3%	23.6%	12.3%
Lowest Annual Return	6.4%	(5.6)%	4.8%
Annualised Standard Deviation	1.8%	7.0%	0.6%
Downside Deviation	1.1%	4.4%	
Maximum Drawdown	(1.2)%	(9.8)%	
Sharpe Ratio	1.63	0.31	
Sortino Ratio	2.66	0.49	
% Positive Months	99.5%	69.4%	100.0%
Correlation (ALBI)	0.04		
99% Value at Risk (P&L %)	(0.3)%		

GENERAL INFORMATION

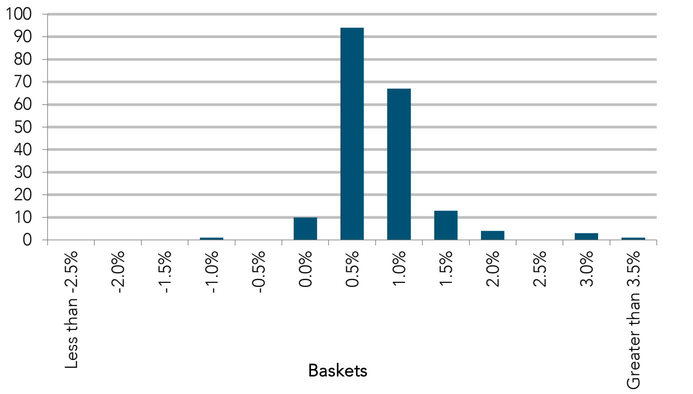
Investment Structure	Limited liability en commandite partnership
Disclosed Partner	Coronation Management Company (RF) (Pty) Ltd
Inception Date	01 October 2002
Hedge Fund CIS launch date	01 October 2017
Year End	30 September
Fund Category	Domestic Fixed Income Hedge
Target Return	Cash + 3%
Performance 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)*[1]	2.55% (including a performance fee of 0.81%)
Total Expense Ratio (TER)*[2]	2.55% (including a performance fee of 0.81%)
Transaction Costs (TC)*	0.20%
Fund Size (R'Millions)	R39.96
Fund Status	Open
NAV (per unit)	312.64 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	Nishan Maharaj, Mark le Roux, Adrian van Pallander, and Seamus Vasey

**Data is provided for the 1 year ending 30 September 2018. [1]TER excludes manufactured dividend expenses. [2]TER includes manufactured dividend expenses.*

GROWTH OF R100m INVESTMENT



HISTOGRAM OF MONTHLY NET RETURNS



PORTFOLIO LIQUIDITY

	Days to Trade
Long	2.2
Short	1.3

INCOME DISTRIBUTIONS

Declaration Date	Amount	Dividend	Interest
30-Sep-18	0.23	0.00	0.23

STRATEGY STATISTICS

Number of long positions	43
Number of short positions	8

MONTHLY COMMENTARY

The fund returned 0.5% in October, taking the one-year return to 9.3%. This places the fund 2.4% ahead of cash over 12 months.

After a September reprieve, October was another tough month for South African bond markets, and performance was negative. The All Bond Index fell 1.7% and weakness was concentrated in longer-dated bonds (12+ years) which lost 2.3%. This was followed by the belly of the curve, (7-12 years), which was down 1.5%. Short-dated bonds performed better, up 1.3%, while inflation linkers returned 0.8%. Cash returned 0.6% in October.

Markets grappled with a combination of data that showed more uneven growth dynamics across developed economies as well as rising inflation risk, as tight labour markets and emerging pipeline price pressures started to emerge. In emerging markets, weak activity data in China was not offset by news of policy interventions to support growth, and ongoing rhetoric about a likely escalation in trade tensions remains a lingering uncertainty.

A closer look at the economic data shows US growth momentum slowed in the third quarter of 2018 off a robust second quarter, but, in aggregate, remains strong. Preliminary data show GDP slowed to 3.5% quarter-on-quarter (q/q) seasonally adjusted and annualised (saa), from 4.2% q/q saa in the second quarter of the year. While much attention was being given to the mid-term elections, September headline consumer prices moderated from 2.7% year-on-year (y/y) to 2.3%, while core inflation was steady at 2.2%. Core PCE inflation was also unchanged at 2.0% y/y.

Having raised the Fed Funds rate by 25 basis points (bps) to a 2.0% - 2.25% range in September, some uncertainty about a December hike has emerged with slightly more mixed data and considerably weaker equity and bond markets. The publication of strong October payroll data – notably the increase in average hourly earnings to 3.1% y/y - the strongest since June 2009 – seems likely to keep the Federal Open Market Committee on track to hike another 25 bps at the December 19 meeting.

China's activity data show the economy is slowing. The intensification of trade tension and imposition of 10% tariffs on a further $200bn in Chinese exports to the US has started to weigh. GDP for Q3-18 was weaker than expected at 6.5% y/y from 6.7% in the previous quarter. The October PMI fell to 50.2 – the weakest since February. Additional announcements of growth-supportive Chinese policy easing continued in October and overall loan growth picked up modestly.

In South Africa, the Medium-Term Budget Policy Statement detailed a weak economy and deterioration in fiscal outlook, which now sees gross government debt at 58.5% of GDP by the end of 2021/22. However, the newly-appointed Finance Minister Tito Mboweni delivered a strong commitment to consolidation with little tolerance for waste and has since spoken of his desire to see loss-making state-owned enterprises sold off or shut down. Activity data seem to have stabilised. Manufacturing, retail and wholesale trade sales have recovered modestly off second-quarter lows, while retail credit accelerated slightly in September to show growth of 5.1% y/y. Negatively, mining production contracted sharply in August, and the unemployment rate ticked up to 27.5% in third quarter from 27.2% in the second quarter.

Inflation was unchanged at 4.9% y/y in September. Food inflation accelerated modestly, but remains low in absolute terms, and despite isolated pressure on retail fuel prices, both general goods and services price pressure in a weak economic context remains subdued. Core inflation was unchanged at 4.2% y/y. The South African Reserve Bank (SARB) MPC left the repo rate unchanged at 6.5% in September but voted 4:3 for a 25bps hike. The hawkish stance represented by this vote, especially in the face of weak growth and acknowledged absence of demand pressures, suggests the SARB may be willing to sacrifice growth in the short-term for tighter policy and a longer-term moderation in expectations. This increases the risk of a 25bps hike in November.

Recent policy pronouncements have made a small, but welcome, step in the right direction. Local bonds have adjusted to reflect realistic expectations for the local economy and the more unfriendly global environment. South African bonds compare favourably to their emerging market peers, relative to their own history, and offer a decent cushion against further global policy normalisation. At current levels, the yields on offer in the local bond market are attractive relative to their underlying fundamentals and warrant a neutral to overweight allocation.

October was a rough month for the fund. The active overlay was appropriately positioned to weather the domestically reflected turmoil seen across other macro markets and performed suitably well in this context. However, there was a low probability SA-specific risk that materialised, impacting performance adversely. The overlay had short exposures to the front end of the government bond curve in anticipation of modest yield curve normalisation. The curve had become distorted primarily as a result of National Treasury's switch auctions, which served to redistribute existing debt stock from near- to far-dated maturities. Given the extent of this distortion – and the sizeable incremental cost to the fiscus of these switch auctions – this exercise was judged to have been completed. However, in the immediate run-up to the Medium-Term Budget Policy Statement (MTBPS), there were two surprise additional switch auctions in quick succession – ostensibly an expensive window-dressing exercise to flatter short-term fiscal metrics. The result was an even more severe distortion of the short-end of the yield curve. Unfortunately, the short-squeeze hurt the fund and dented October's returns heavily. The positives for the month were continued reinforcement of the fund's credit selection, as these holdings held up particularly well.

DISCLAIMER