GRANITE HEDGE FUND

QUALIFIED INVESTOR HEDGE FUND FACT SHEET AS AT 30 SEPTEMBER 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)	365.8%	325.4%	202.1%
Since inception p.a.	10.1%	9.5%	7.2%
Latest 10 year p.a.	9.2%	8.6%	6.1%
Latest 5 year p.a.	8.5%	7.2%	6.1%
Latest 1 year p.a.	9.4%	7.1%	6.4%
Year to date	7.5%	4.8%	4.7%
Month	0.6%	0.3%	0.5%

PERFORMANCE & RISK STATISTICS (Since inception)

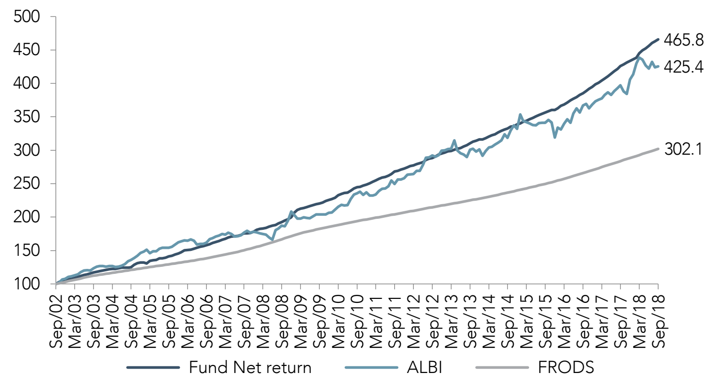
	Fund	ALBI	FRODS
Average Annual Return	9.9%	9.3%	7.0%
Highest Annual Return	17.3%	23.6%	12.3%
Lowest Annual Return	6.4%	(5.6)%	4.8%
Annualised Standard Deviation	1.8%	6.9%	0.6%
Downside Deviation	1.1%	4.4%	
Maximum Drawdown	(1.2)%	(9.8)%	
Sharpe Ratio	1.64	0.33	
Sortino Ratio	2.66	0.53	
% Positive Months	99.5%	69.8%	100.0%
Correlation (ALBI)	0.03		
99% Value at Risk (P&L %)	(0.3)%		

GENERAL INFORMATION

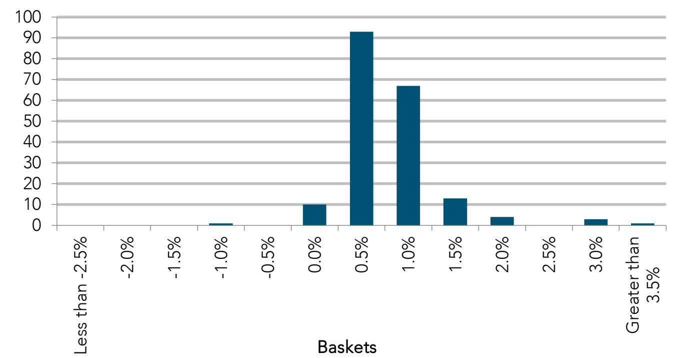
Investment Structure	Limited liability en commandite partnership
Disclosed Partner	Coronation Management Company (RF) (Pty) Ltd
Inception Date	01 October 2002
Hedge Fund CIS launch date	01 October 2017
Year End	30 September
Fund Category	Domestic Fixed Income Hedge
Target Return	Cash + 3%
Performance 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)	R35.98
Fund Status	Open
NAV (per unit)	334.21 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	3.5
Short	0.1

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	10

MONTHLY COMMENTARY

The fund returned 0.6% in September, taking the one-year return to 9.4%. This places the fund 2.1% ahead of cash over 12 months. After a brutal August, September provided a reprieve for South African bond markets, although the aggregate performance was still negative. The All Bond Index fell 0.4% and weakness was concentrated in longer dated bonds (12+ years) that lost 0.7%. This was followed by the belly of the curve, (7-12 years) which was essentially flat over the period. Short dated bonds performed better, up 0.6%, while inflation linkers returned 0.5%. Cash returned 0.6% in September.

Market news during September was dominated by increasingly mixed global activity data, while emerging markets were able to take a breather. In the US and Japan, growth momentum remains strong, with signs of moderating activity in Europe and the UK. Within emerging markets, a combination of Turkey's rate hike and fiscal plan as well as Argentina's IMF arrangements helped provide some stability, while data from China showed a moderation in activity. Trade tensions are ongoing, but the late-month trade agreements (NAFTA 2.0) between the US and Canada and Mexico may diffuse some of the related tension. However, trade aggression with China is expected to escalate in coming months, presenting downside risk to global growth momentum.

A closer look at the economic data shows growth in the US remaining strong, although running estimates for Q3-18 are slower than the robust GDP print for Q2-18. Available data for Q3-18 suggest a modest moderation to about 3.2% as the initial fiscal boost to consumption fades and the trade deficit widens again. In August, consumer prices as measured by the PCE price index, rose 0.2% m/m, both at the headline and core levels. The annual pace of headline inflation was unchanged at 2.2%, while that of core inflation was 2.0%.

The FOMC raised the Fed Funds rate 25 basis points (bps) to a 2.0 - 2.25% range in September, with the notable change to the statement being the removal of the word 'accommodative' in their description of the current monetary policy stance. At this time, an additional 25 bps rate hike is expected at the December meeting, and the central tendency on the dot plot implies four more hikes in 2019.

China's activity data show the economy is slowing. The intensification of trade tension and imposition of 10.0% tariffs on a further $200bn in Chinese exports to the US has started to weigh. The September PMI fell to 50.8 – the weakest since February. The new export orders component of the index fell to 48.0 – a 31-month low. GDP for Q3-18 is forecast at 6.5% y/y from 6.7% in Q2-18. Additional announcements of growth-supportive Chinese policy easing to offset the impact of trade tensions includes a range of tax cuts, an increase in the export tax rebate, lower import tariffs, and a personal income tax cut. Overall credit growth bottomed in August, suggesting some return to credit-related stimulus is also probable in coming months.

South Africa's activity data has improved modestly. Manufacturing production was much better than forecast in July, up 2.9% y/y, but mining production was very weak, contracting -5.2% y/y after 3.7% y/y expansion in June. Business confidence for Q3-18 remained weak at 37 from 28 in Q2-18. Customs trade surprised with a bigger surplus than in July at R8.7bn from a deficit of R4.7bn in July. However, forward-looking PMI data for September was also disappointing, with the headline at 43.2 from 43.4 the month before.

Inflation surprised to the downside in August, at 4.9% y/y from 5.1% y/y. Food inflation remains very low, 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 SARB MPC left the repo rate unchanged at 6.5% in September, but voted 4:3 for a 25 bps 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 25 bps hike in November.

Recent policy pronouncements have made a small, but welcome, step in the right direction. October will see whether the longer-term fiscal stance provides additional policy support, while balancing the continued need for more sustained fiscal consolidation. 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.

The fund had positioned quite aggressively against the market's expectations of monetary policy priced into the FRA curve and shorter-dated swaps. Thus, the MPC meeting outcome, which saw unchanged rates, benefited the portfolio. However, the particularly hawkish stance presented with the rate decision meant that the assertive and near-term rate hiking cycle priced by the market remained largely unchanged. Unfortunately, this meant that the active overlay didn't contribute nearly as much as was intended, despite an accurate against-consensus rate call. While domestic markets continue to offer interesting opportunities for the fund, external influences remain tricky to navigate and complicate the environment.

DISCLAIMER