CORONATION

GRANITE HEDGE FUND

QUALIFIED INVESTOR HEDGE FUND FACT SHEET AS AT 31 AUGUST 2019

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)	399.0%	371.6%	220.1%
Since inception p.a.	10.0%	9.6%	7.1%
Latest 10 year p.a.	8.6%	8.7%	5.9%
Latest 5 year p.a.	8.6%	7.8%	6.3%
Latest 1 year p.a.	7.8%	11.2%	6.5%
Year to date	5.3%	7.9%	4.3%
Month	0.7%	1.0%	0.5%

PERFORMANCE & RISK STATISTICS (Since inception)

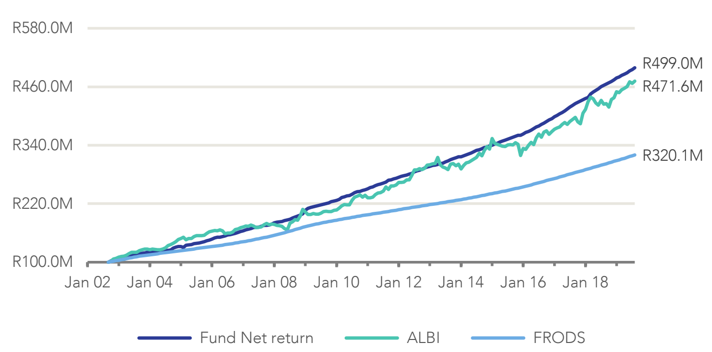
	Fund	ALBI	FRODS
Average Annual Return	9.8%	9.2%	7.0%
Highest Annual Return	17.3%	23.6%	12.3%
Lowest Annual Return	6.4%	(5.6)%	4.8%
Annualised Standard Deviation	1.7%	6.9%	0.6%
Downside Deviation	1.1%	4.3%	
Maximum Drawdown	(1.2)%	(9.8)%	
Sharpe Ratio	1.63	0.36	
Sortino Ratio	2.61	0.57	
% Positive Months	99.5%	70.0%	100.0%
Correlation (ALBI)	0.04		
99% Value at Risk (P&L %)	(0.3)%		

GENERAL INFORMATION

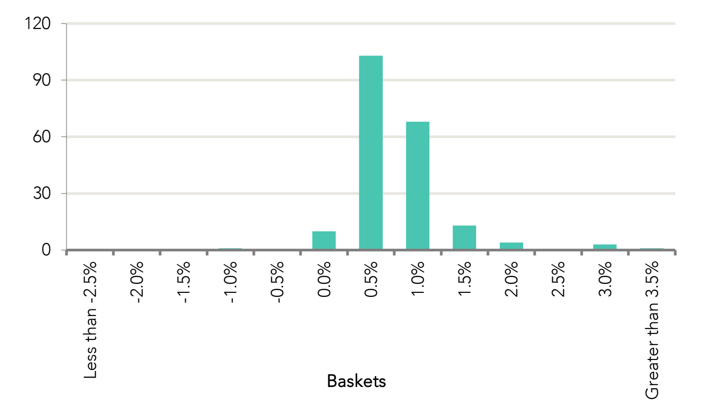
Investment Structure	Limited liability en commandite partnership
Disclosed Partner	Coronation Management Company (RF) (Pty) Ltd
Inception Date	01 October 2002
Hedge Fund CIS launch date	01 October 2017
Year End	30 September
Fund Category	Domestic Fixed Income Hedge
Target Return	Cash + 3%
Performance 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)†	1.83% (including a performance fee of 0.22%)
Transaction Costs (TC)†	0.08%
Fund Size (R'Millions)	R119.52
Fund Status	Open
NAV (per unit)	333.40 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 Alternative Investment Managers (Pty) Ltd (FSP 49893)
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, Adrian van Pallander, and Seamus Vasey

†TER and TC data is provided for the 1 year ending 31 July 2019. TER excludes manufactured dividend expenses and scrip borrowing costs, in line with the revised ASISA TER Hedge Fund Disclosure Standard.

GROWTH OF R100m INVESTMENT



HISTOGRAM OF MONTHLY NET RETURNS



PORTFOLIO LIQUIDITY

	Days to Trade
Long	3.8
Short	1.5

INCOME DISTRIBUTIONS

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

STRATEGY STATISTICS

Number of long positions	63
Number of short positions	4

MONTHLY COMMENTARY

The fund returned 0.7% in August, taking the one-year return to 7.8%. This places the fund 0.5% ahead of cash over 12 months.

The Q2 GDP print surprised the market and came in at 3.1% q/q saa, against a consensus forecast of 2.5% q/q saa. In annual terms GDP grew 0.9% y/y after being flat in Q1-19 and compared to market expectations of 0.7% y/y. The biggest contributors to GDP in value added terms came from mining production, financial and business services, manufacturing and utilities services. Contained load shedding and fewer strike disruptions in Q2-19 helped support growth. Agriculture was again a detractor, as a result of weakness in field crop production and pressure on horticulture. Measured from the demand side, consumer expenditure ticked up a bit, and household consumption grew 2.8% q/q saa in Q2-19, following -0.8% q/q saa in the first quarter. Government expenditure grew by 2.8% q/q saa, broadly reflecting election-related employment growth. For the first time in six quarters, gross fixed capital formation expanded, mostly as a result of increased spending on machinery, equipment and residential property. Net exports however detracted from the GDP growth, as exports weakened in line with deteriorating terms of trade, and imports surged as machinery and equipment demand picked up.
Domestic data activity in June disappointed. Manufacturing production fell by 3.2% y./y from a revised 0.4% y/y contraction in May. Petroleum, iron and steel production declined the most. Mining output also contracted by 4.2% in June compared to May's -1.5% y/y, dragged lower by weak gold and diamond production.

The July CPI print surprised the market to the downside, coming in at 4% y/y vs 4.5% y/y in June. A weaker than expected electricity tariff increase, coupled with lower transport inflation largely accounted for the surprise. Food inflation remained stable with the increase in bread and cereal prices being offset by low diary and processed food inflation. Producer price inflation (PPI) also fell sharply in July to 4.9y/y vs June's 5.8% y/y as fuel and energy prices fell. Given ongoing low growth and benign inflation prints, the market is pricing in a 40% chance of a rate cut at when the SARB MPC meets in September.

South African government bonds (SAGBs) are most likely to exit the FTSE World Government Bond Index (WGBI) in the next 12 months as pressure mounts on Moody's to move SA into sub-investment territory. The global environment has turned more supportive for emerging markets and SA; however, SAGBs have a very limited margin of safety against a turn in global sentiment or a worsening outlook in local economic conditions.

The fund's earlier move to switch further along the negotiable certificates of deposit (NCD) curve, and hence take additional outright directional risk premised off flat monetary policy expectations, proved very beneficial in August. This was especially welcome as opportunities elsewhere in the domestic fixed income markets were limited and fleeting over the month. This continues to be particularly true in the credit market, where spreads remain tight. But one area in which real yields are delivering increasing value is government inflation-linked bonds. While the near-term outlook for these assets isn't wildly compelling – except perhaps for shorter-dated versions as an alternative to their equivalent nominal counterparts – the absolute level of real yields is becoming harder to ignore, even as current inflation languishes around its long-term lows.

DISCLAIMER