CORONATION

GRANITE HEDGE FUND

QUALIFIED INVESTOR HEDGE FUND FACT SHEET AS AT 31 JULY 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)	395.5%	367.0%	218.4%
Since inception p.a.	10.0%	9.6%	7.1%
Latest 10 year p.a.	8.6%	8.8%	5.9%
Latest 5 year p.a.	8.5%	8.2%	6.3%
Latest 1 year p.a.	7.6%	8.1%	6.5%
Year to date	4.5%	6.9%	3.8%
Month	0.6%	(0.7)%	0.5%

PERFORMANCE & RISK STATISTICS (Since inception)

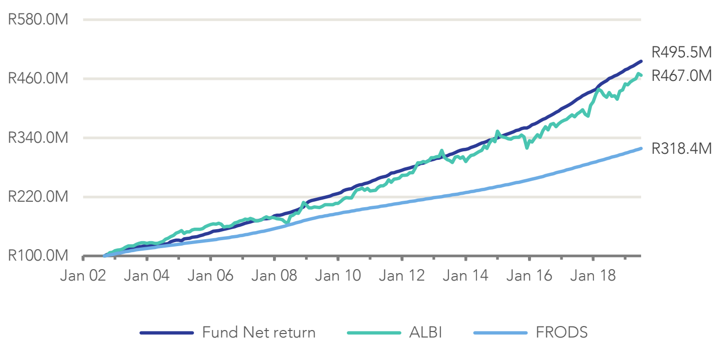
	Fund	ALBI	FRODS
Average Annual Return	9.8%	9.2%	7.0%
Highest Annual Return	17.3%	23.6%	12.3%
Lowest Annual Return	6.4%	(5.6)%	4.8%
Annualised Standard Deviation	1.8%	6.9%	0.6%
Downside Deviation	1.1%	4.3%	
Maximum Drawdown	(1.2)%	(9.8)%	
Sharpe Ratio	1.63	0.36	
Sortino Ratio	2.61	0.57	
% Positive Months	99.5%	69.8%	100.0%
Correlation (ALBI)	0.04		
99% Value at Risk (P&L %)	(0.3)%		

GENERAL INFORMATION

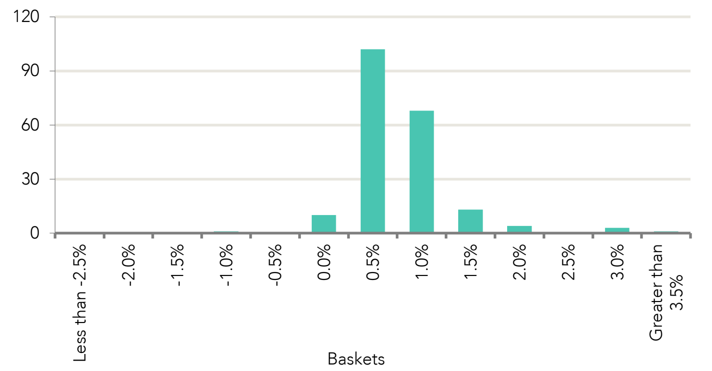
Investment Structure	Limited liability en commandite partnership
Disclosed Partner	Coronation Management Company (RF) (Pty) Ltd
Inception Date	01 October 2002
Hedge Fund CIS launch date	01 October 2017
Year End	30 September
Fund Category	Domestic Fixed Income Hedge
Target Return	Cash + 3%
Performance 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)†	1.97% (including a performance fee of 0.31%)
Transaction Costs (TC)†	0.09%
Fund Size (R'Millions)	R118.69
Fund Status	Open
NAV (per unit)	331.10 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 30 June 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	2.2
Short	1.4

STRATEGY STATISTICS

Number of long positions	62
Number of short positions	3

INCOME DISTRIBUTIONS

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

MONTHLY COMMENTARY

The fund returned 0.6% in July, taking the one-year return to 7.6%. This places the fund 0.3% ahead of cash over 12 months.

Local bonds had a weak month in July, with the All Bond Total Return Index returning -0.7% amid global pressure and a deteriorating domestic fiscal position. The long end of the curve had the worst performance and returned -1.1%. Inflation-linked bonds had a muted performance and only returned 0.1%. Cash returns were stable and returned 0.6%.

On the global front, the International Monetary Fund (IMF) reduced its 2019 global growth forecasts in July to 3.2% from a previous forecast of 3.3%. The IMF cited ongoing trade wars between China and the U.S., a poor growth outlook in emerging markets and a decrease in consumer confidence as the main drivers behind the cut in the growth rate. There was much central bank activity in July; with the Fed cutting its funds rate range by 25 basis points (bps), the South African Reserve Bank (SARB) cutting the repo rate by 25bps and the European Central Bank (ECB) leaving rates unchanged, among others.

In South Africa, the South African Reserve Bank's (SARB) monetary policy committee (MPC) voted unanimously to cut the repo rate by 25bps to 6.25%, as expected by the market. The MPC noted inflation has remained balanced at the mid-range of the target band, providing some room to ease monetary policy. The statement however reiterated that South Africa's problems remain structural in nature and rate cuts will do little to address these issues. SARB Governor Lesetja Kganyago also mentioned that a 50bps cut was not discussed in the meeting and cautioned that further easing would be data dependent. The forward rate agreement (FRA) curve has since flattened and is only pricing in 50% of a 25bps rate cut in the next 12 months.

June headline CPI printed at 4.5%; unchanged from May's numbers. Core inflation ticked up to 4.3% year-on-year (y/y) from 4.1% y/y in May. Food and alcoholic beverages inflation rose, but transportation inflation and petrol prices decreased. Inflation has consistently printed at 4.5% and below in the last seven months. The SARB now sees inflation risks balanced and inflation averaging 4.4% y/y in 2019.

Domestic activity data remain mixed - manufacturing production increased by a meagre 1.1% y/y in May vs April's 4.3%. May's numbers were supported by an increase in food and beverages and growth in the textile sector but offset by weaker petroleum and chemical production. Mining production in May contracted by 1.5% y/y, dragged down by gold and diamond production, which decreased by 24.4% y/y and 30.7% y/y respectively. Retail sales accelerated by 2.2% y/y in May vs April's 2.7% y/y increase. Taken together, sequential GDP activity in Q2-19 is expected to have picked up to 2.4% quarter-on-quarter (q/q) seasonally adjusted and annualised (saa) after contracting -3.2% q/q saa in Q1-19.

The Minister of Finance tabled a Special Appropriation Bill to release additional funding for failing power utility Eskom. Under the bill, Eskom will receive R59bn more over the next two financial years; R26bn for the 2019/20 financial year and R33bn in 2020/21, in addition to the R23bn a year already allocated. State-owned entities (SoEs) remain a key risk to fiscus. National Treasury has increased nominal and inflation-linked bond issuance to accommodate the additional expenditure. Moody's issued a statement saying Eskom's financial developments are credit negative, but made no ratings action, while Fitch lowered South Africa's outlook from stable to negative and affirmed the BB+ rating level.

The South African rand was among the poorer-performing emerging market currencies for the month of July. The rand depreciated by 2.2% against the dollar following the Special Appropriation Bill announcement. The rand remains under pressure amid poor domestic economic news and rising global risk aversion as global growth remains uncertain and trade hostilities continue.

South African government bonds (SAGBs) are most likely to exit the Citi 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 in local economic conditions. Therefore, it is prudent to maintain a cautious approach to SAGBs from an outright perspective, at prevailing levels.

Opportunities in local credit continue to dwindle as spreads compress even further. The fund has instead used recent volatility in monetary policy expectations and banking sector liquidity demand as opportunities to switch out of short-dated NCD holdings into areas where value arose, specifically the 1 year and 5-year points. Other sources of attractive, risk-adjusted yield enhancement have been scarce. In the active overlay, substantial moves in the domestic market posed meaningful risks for the fund to navigate through over July. A source of performance drag came from the exposure to inflation-linked bonds, although outright real yields continue to be attractive. Fortunately, with relatively light positioning elsewhere and a mix of favorable trades across the range of strategies (RV, asset packs, directional, etc.), overall performance was reasonable, despite the sharp moves in local fixed interest markets during the month.

DISCLAIMER

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