CORONATION

GRANITE HEDGE FUND

QUALIFIED INVESTOR HEDGE FUND FACT SHEET AS AT 31 OCTOBER 2019

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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 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)	404.4%	372.3%	223.4%
Since inception p.a.	9.9%	9.5%	7.1%
Latest 10 year p.a.	8.6%	8.8%	5.8%
Latest 5 year p.a.	8.5%	7.5%	6.4%
Latest 1 year p.a.	7.8%	13.0%	6.5%
Year to date	6.4%	8.1%	5.4%
Month	0.4%	(0.3)%	0.5%

PERFORMANCE & RISK STATISTICS (Since inception)

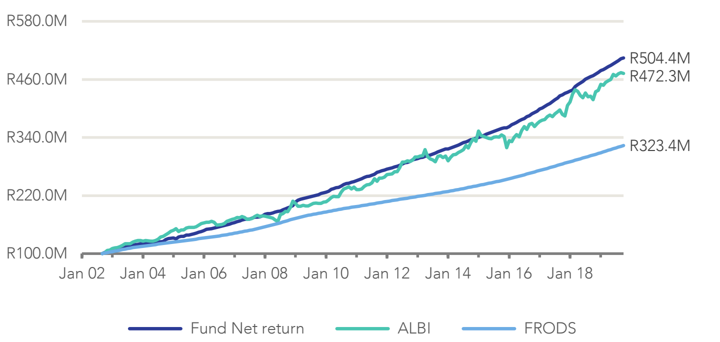
	Fund	ALBI	FRODS
Average Annual Return	9.8%	9.3%	7.0%
Highest Annual Return	17.3%	23.6%	12.3%
Lowest Annual Return	6.4%	(5.6)%	4.8%
Annualised Standard Deviation	1.7%	6.8%	0.6%
Downside Deviation	1.1%	4.3%	
Maximum Drawdown	(1.2)%	(9.8)%	
Sharpe Ratio	1.62	0.35	
Sortino Ratio	2.61	0.56	
% Positive Months	99.5%	69.8%	100.0%
Correlation (ALBI)	0.04		
99% Value at Risk (P&L %)	(0.3)%		

GENERAL INFORMATION

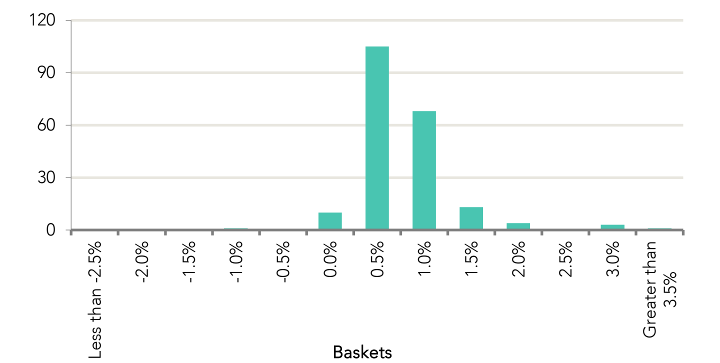
Investment Structure	Limited liability en commandite partnership
Disclosed Partner	Coronation Management Company (RF) (Pty) Ltd
Inception Date	01 October 2002
Hedge Fund CIS launch date	01 October 2017
Year End	30 September
Fund Category	Domestic Fixed Income Hedge
Target Return	Cash + 3%
Performance 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)†	1.79% (including a performance fee of 0.27%)
Transaction Costs (TC)†	0.07%
Fund Size (R'Millions)	R119.28
Fund Status	Open
NAV (per unit)	295.57 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 September 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



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PORTFOLIO LIQUIDITY

	Days to Trade
Long	5.6
Short	2.9

INCOME DISTRIBUTIONS (cents per unit)

Declaration Date	Amount	Dividend	Interest
30-Sep-19	41.25	0.00	41.25

STRATEGY STATISTICS

Number of long positions	85
Number of short positions	11

MONTHLY COMMENTARY

The fund returned 0.4% in September, taking the one-year return to 7.8%. This places the fund 0.8% ahead of cash over 12 months.

Local bonds had a poor performance in October. The All Bond Index returned -0.4% for the month, with the 12+ years part of the curve taking most of the hit and returning -0.5%. The 1-3-year part of the curve held steady and generated 0.6%. Inflation-linked bonds also had a disappointing performance and returned -0.5%. Cash returns remained positive and generated 0.6% for the month.

September headline inflation slowed to 4.1% year-on-year (y/y) versus August's 4.3% y/y. Core inflation moderated to 4.0% y/y from 4.1% y/y. The biggest contributor to the low number was a moderation in rental growth, while food inflation was largely unchanged at 3.7% y/y vs August's 3.8% y/y. Overall inflation pressures remain benign and inflation is well contained around the South African Reserve Bank's target midpoint.

Finance Minister Tito Mboweni delivered a Medium-Term Budget Policy Statement (MTBPS) which severely disappointed markets. The statement showcased a budget deficit average of 6.2% of GDP over the next three years, increasing debt and debt service costs and escalating the debt-to-GDP ratio to 71.3% in 2022/23. The country's finances have deteriorated significantly since the February budget, with SOE bail outs and the large wage bill putting pressure on expenditure as revenue continues to disappoint. The revenue shortfall is expected to reach R50 billion this year and increase in the medium term. Overall, the statement painted a dire picture of the country's fiscal position and issued a strong warning to policymakers that any improvement needs to be contingent on tough political decisions about public sector wages, SOE bailout policies and improving nominal GDP growth.

Rating agency Moody's affirmed South Africa's Baa3 long-term foreign currency and local currency issuer rating but changed the sovereign credit rating outlook from stable to negative. Moody's decision to change the outlook from stable to negative reflects a loss of confidence in government's ability to address the deterioration in its finances and implement structural reforms to help revive economic growth. However, the rating agency cited the country's stable financial sector, resilience to a prolonged period of low growth and a robust macroeconomic policy framework as the main contributors in affirming the rating at Baa3.

South African inflation will remain benign and growth subdued, which would, at worse, allow policy rates to remain on hold. However, persistently low growth and the need for further support of SOEs will weigh heavily on government finances, resulting in wider budget deficits and a significant increase in the debt burden, as highlighted in the MTBPS. Moody's outlook change to negative poses risk of a future sub investment downgrade in the near term and a possible exit of South African government bonds from the FTSE World Government Bond Index.

The fund de-risked substantially before the MTBPS, but remained tactically positioned for a positive outcome. This was clearly misplaced and the fund's active overlay experienced a sizeable reversal on the last day of the month after having posted a very respectable month-to-date performance up until the MTBPS release. Fortunately, the very worst of the market's deep disappointment with the Finance Minister's speech was retraced in the early part of November. However, the broad tone of the Medium-Term Expenditure Framework and Moody's removal of their long-standing leniency through their outlook adjustment has changed the risk environment for the domestic fixed income market noticeably. Significant emphasis has been placed on the local authorities to provide an improved policy outlook at the Budget presentation in February next year to arrest concerns around a potential debt-trap in the coming years. Market anxiety around the South African government's ability to credibly allay these fears appears set to define the environment for domestic interest rate markets over the next three months.

DISCLAIMER