CORONATION

GRANITE HEDGE FUND

QUALIFIED INVESTOR HEDGE FUND FACT SHEET AS AT 31 AUGUST 2020

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)	428.9%	391.2%	236.7%
Since inception p.a.	9.7%	9.3%	7.0%
Latest 10 year p.a.	8.1%	7.7%	5.7%
Latest 5 year p.a.	8.3%	7.6%	6.3%
Latest 1 year	6.0%	4.2%	5.2%
Year to date	3.3%	1.9%	3.1%
Month	0.6%	0.9%	0.3%

PERFORMANCE & RISK STATISTICS (Since inception)

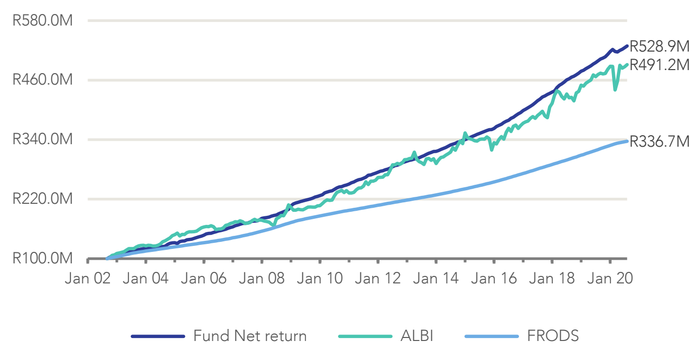
	Fund	ALBI	FRODS
Average Annual Return	9.6%	9.1%	6.9%
Highest Annual Return	17.3%	23.6%	12.3%
Lowest Annual Return	6.0%	(5.6)%	4.8%
Annualised Standard Deviation	1.8%	7.3%	0.6%
Downside Deviation	1.2%	5.3%	
Maximum Drawdown	(1.2)%	(9.8)%	
Sharpe Ratio	1.55	0.31	
Sortino Ratio	2.31	0.43	
% Positive Months	98.6%	69.8%	100.0%
Correlation (ALBI)	0.10		
99% Value at Risk (P&L %)	(0.3)%		

GENERAL INFORMATION

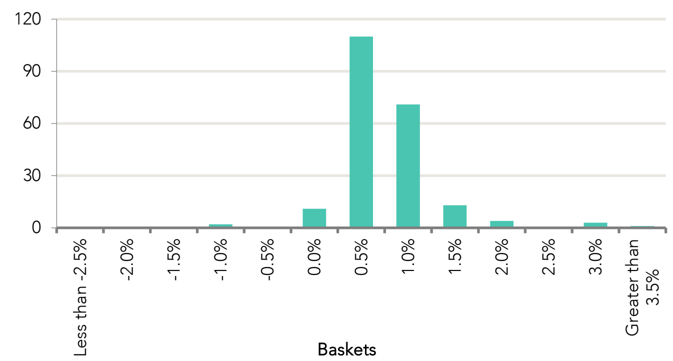
Investment Structure	Limited liability en commandite partnership
Disclosed Partner	Coronation Management Company (RF) (Pty) Ltd
Inception Date	01 October 2002
Hedge Fund CIS launch date	01 October 2017
Year End	30 September
Fund Category	South African Fixed Income Hedge Fund
Target Return	Cash + 3%
Performance 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)†	1.59% (including a performance fee of 0.12%)
Transaction Costs (TC)†	0.05%
Fund Size (R'Millions) ‡	R94.26
Fund Status	Open
NAV (per unit)	309.90 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 2020. TER excludes manufactured dividend expenses and scrip borrowing costs, in line with the revised ASISA TER Hedge Fund Disclosure Standard. ‡Fund assets under management as at 31 August 2020.

GROWTH OF R100m INVESTMENT



HISTOGRAM OF MONTHLY NET RETURNS



PORTFOLIO LIQUIDITY

	Days to Trade
Long	4.7
Short	-

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	78
Number of short positions	0

MONTHLY COMMENTARY

The Fund returned 0.6% in August, taking the one-year return to 6.0%. This places the fund 0.1% ahead of cash over 12 months.

Headline inflation for July printed at 3.2% y/y versus June's 2.2% y/y. The upward pressure in inflation was mostly attributable to a rise in retail fuel prices, coupled with rising 'miscellaneous' goods and services prices (mostly related to funeral expenses) and higher electricity and water tariffs. Core inflation increased to 3.2% in July versus 3.0% in June. Prices are expected to rise in coming months as fuel prices normalise and as economic activity starts picking up. However, inflation should remain well below the South African Reserve Bank's 4.5% midpoint in coming months, leaving room for further monetary policy easing.

GDP contracted -51.0% q/q saa in Q2-20, following a revised -1.8% q/q saa in Q1-20 (-2.0% q/q saa previously). In annual terms, growth fell 17.1% y/y. Measured from the demand side, GDP contracted 52.3% q/q saa and -17.6% y/y. While the Q2-20 shock was on balance worse than expected, it also extends the recession to three consecutive quarters, highlighting the very weak underlying economy. The biggest detractors to the headline series were the cumulative contraction in activity in the primary and secondary sectors of the economy, which faced the hardest shutdowns, while trade sectors fared a little better. On the expenditure side, the collapse in PCE far outweighed the decline in compensation, in part owing to mobility restrictions, which should improve somewhat in Q2-20. The contraction in GFCF was broad-based and is likely to persist in H2-20. The return of load shedding risks capping the recovery as the economy emerges from lockdown.

The fallout from the Covid-19 pandemic will linger for some time. In South Africa, the impact will be felt most in a much dimmer growth outlook, which will have a severe impact on government finances. The effects of the very hard lockdown and poor policy choices will weigh heavily on the economy going forward. As the economy was not well positioned going into the crisis, strong reforms are needed to return the country to a structurally better growth path, although lower interest rates will lend support to the economy through this difficult phase. South African Government Bonds (SAGBs) do embed a decent risk premium, although this premium has reduced slightly post the recovery in the second quarter of 2020. South Africa is on the brink of a debt trap and, although promises have been made to restore the country to a more sustainable debt trajectory, the implementation risks remain elevated. The valuation of SAGBs does provide some offset to this, allowing for elevated risk premia to be harvested judiciously.

The Fund continues to balance managing favourable opportunities with less liquid markets relative to pre-Covid levels within its active overlay. This remains a tricky course to navigate, although the Fund is seeing more success here than not. Another area where the Fund is finding worthwhile additions is with selective secondary market odd lots in credit. While August didn't prove quite as fruitful as July in this respect, the Fund is seen as appropriately invested and has been fortunate in the past few months to be in a position to accumulate well-valued fragments, as these have sporadically floated to the surface. Indeed, the Fund has become increasingly active in recycling holdings, as the continued robust performance of domestic credits is progressively pulling corporate credit prices to levels that we see as incompatible with valuations appropriate for a post-Covid landscape. Thus, having the ability to sell richer holdings and still find reasonably valued fragments elsewhere within the market is a satisfactory position for the Fund to be in.

DISCLAIMER