

## 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 unlisted 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)	417.5%	387.9%	228.4%
Since inception p.a.	9.9%	9.6%	7.1%
Latest 10 year p.a.	8.6%	9.0%	5.8%
Latest 5 year p.a.	8.8%	6.7%	6.4%
Latest 1 year	8.3%	8.5%	6.4%
Year to date	1.1%	1.2%	0.5%
Month	1.1%	1.2%	0.5%

## PERFORMANCE &amp; RISK STATISTICS (Since inception)

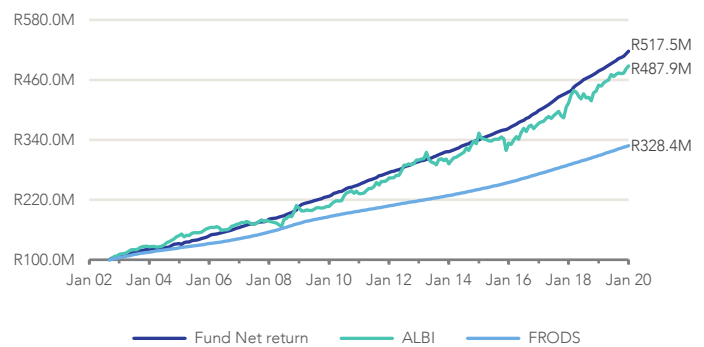
	Fund	ALBI	FRODS
Average Annual Return	9.7%	9.3%	7.0%
Highest Annual Return	17.3%	23.6%	12.3%
Lowest Annual Return	6.4%	(5.6)%	4.8%
Annualised Standard Deviation	1.7%	6.8%	0.6%
Downside Deviation	1.1%	4.3%	
Maximum Drawdown	n/a	n/a	
Sharpe Ratio	1.64	0.36	
Sortino Ratio	2.63	0.57	
% Positive Months	99.5%	70.2%	100.0%
Correlation (ALBI)	0.04		
99% Value at Risk (P&L %)	(0.3)%		

## GENERAL INFORMATION

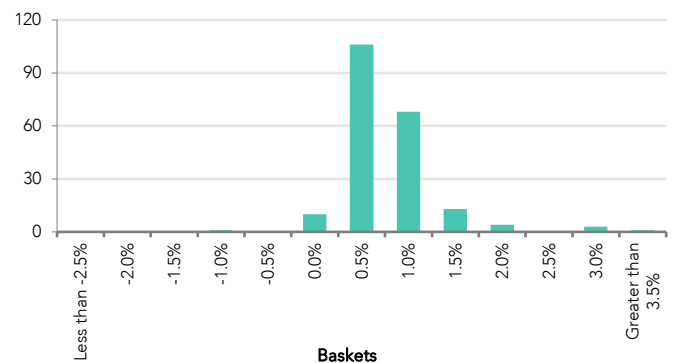
<b>Investment Structure</b>	Limited liability en commandite partnership
<b>Disclosed Partner</b>	Coronation Management Company (RF) (Pty) Ltd
<b>Inception Date</b>	01 October 2002
<b>Hedge Fund CIS launch date</b>	01 October 2017
<b>Year End</b>	30 September
<b>Fund Category</b>	South African Fixed Income Hedge Fund
<b>Target Return</b>	Cash + 3%
<b>Performance Fee Hurdle Rate</b>	Cash + high-water mark
<b>Annual Management Fee</b>	1% (excl. VAT)
<b>Annual Outperformance Fee</b>	15% (excl. VAT) of returns above cash, capped at 3%
<b>Total Expense Ratio (TER)†</b>	1.74% (including a performance fee of 0.31%)
<b>Transaction Costs (TC)†</b>	0.05%
<b>Fund Size (R'Millions)</b>	R94.91
<b>Fund Status</b>	Open
<b>NAV (per unit)</b>	303.27 cents
<b>Base Currency</b>	ZAR
<b>Dealing Frequency</b>	Monthly
<b>Income Distribution</b>	Annual (with all distributions reinvested)
<b>Minimum Investment</b>	R1 million
<b>Notice Period</b>	1 month
<b>Investment Manager</b>	Coronation Alternative Investment Managers (Pty) Ltd (FSP 49893)
<b>Auditor</b>	Ernst & Young Inc.
<b>Prime Brokers</b>	Absa Bank Ltd and FirstRand Bank Ltd
<b>Custodian</b>	Nedbank Ltd
<b>Administrator</b>	Sanne Fund Services SA (Pty) Ltd
<b>Portfolio Managers</b>	Nishan Maharaj, Adrian van Pallander, and Seamus Vasey

†TER and TC data is provided for the 1 year ending 31 December 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	19.7
Short	14.5

## STRATEGY STATISTICS

Number of long positions	85
Number of short positions	9

## INCOME DISTRIBUTIONS (cents per unit)

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

## MONTHLY COMMENTARY

The Fund returned 1.1% in January, taking the one-year return to 8.3%. This places the fund 1.4% ahead of cash over 12 months.

Local bonds delivered a mediocre performance in January. The All Bond Index was up 1.2% for the month, with 3-7-year bonds delivering the best return of 2.0%. Bonds with 7-12-year maturities were up 1.1% and the long end of the curve, 12+ years, delivered 0.9%. Inflation-linked bonds performed poorly, returning -0.1%. Cash remained stable at 0.6%. Given the improvement in global risk sentiment, this lacklustre performance suggests some investor caution about South African (SA) fixed-income assets.

Available data show a synchronised slowing in global growth through 2019, owing in part to the escalation in global trade tensions. With the conclusion of a Sino-USA Phase 1 trade agreement in mid-January, increased monetary accommodation by developed market central banks has helped support some tentative signs of improving activity into year end and into early 2020. However, the emergence of the Coronavirus remains a considerable risk to growth momentum, notably, but not limited to China.

The SA Reserve Bank (SARB) Monetary Policy Committee (MPC) met in January and unanimously voted to cut the repo by 25 basis points (bps) from 6.50% to 6.25%. The decision to cut the repo rate was attributed to persistently weak growth and a balanced inflation risk outlook. The country's deteriorating fiscal position and slow policy reform implementation remain a concern for the central bank. This may inhibit a faster pace of rate cutting than might have been the case if the government's finances were more stable. Furthermore, the central bank revised its inflation forecast down for 2020, from 5.1% to 4.7%.

Headline inflation printed at 4.0% year-on-year (y/y) in December vs 3.6% y/y in November, and core inflation came in at 3.8% y/y in December versus November's 3.9% y/y. Overall, annual inflation for 2019 averaged 4.1% from 4.6% in 2018; comfortably below the SARB's target range midpoint. Food inflation remains benign, and low rental inflation should help keep CPI well within target in 2020. Transport costs are expected to increase in the first half of 2020, before stabilising by year end.

The SA economy has been plagued with low growth, ballooning government deficits and a volatile global geopolitical environment. Low growth and well-contained inflation suggest that the trajectory for SA policy rates will be lower over the next 12 months. In addition, SA bonds have continued to underperform relative to global and emerging market counterparts, suggesting an increased risk premium given SA's precarious economic backdrop. At current levels, SA government bonds seem adequately priced relative to underlying risks, which suggest a neutral allocation in portfolios.

January was another strong month for the fund. The key source of additional performance came from the rate cut delivered by the SARB. Market pricing and analyst expectations had been skewed away from further easing. The fund took the opposing view and had positioned meaningfully for a rate cut based on the litany of deteriorating economic fundamentals, as well as a belief that prior MPC communication had been poorly constructed and was vulnerable to additional weakening of the SA economy. However, with the 'surprise' rate cut, the market has become much more attuned to the capacity and likely necessity of additional monetary easing in the quarters ahead. As such, what had been a fertile ground for strategic trades in the active overlay has now become less so. However, with the particularly significant Budget announced towards the end of February, the potential for further disruption allowing for additional opportunities is seen as relatively high.

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