CORONATION

GRANITE HEDGE FUND

QUALIFIED INVESTOR HEDGE FUND FACT SHEET AS AT 30 JUNE 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)	422.3%	383.9%	234.8%
Since inception p.a.	9.8%	9.3%	7.0%
Latest 10 year p.a.	8.2%	8.3%	5.8%
Latest 5 year p.a.	8.3%	7.5%	6.3%
Latest 1 year	6.1%	2.8%	5.7%
Year to date	2.0%	0.4%	2.5%
Month	0.4%	(1.2)%	0.3%

PERFORMANCE & RISK STATISTICS (Since inception)

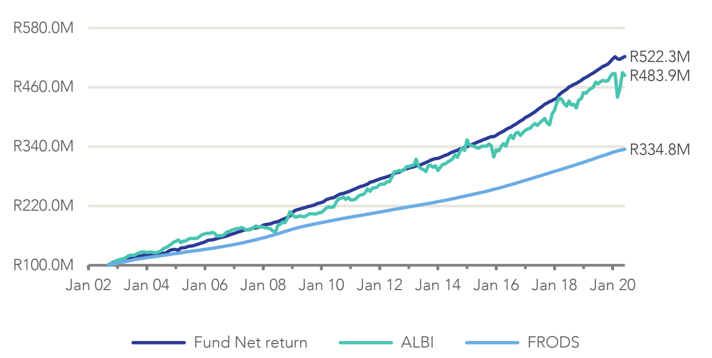
	Fund	ALBI	FRODS
Average Annual Return	9.7%	9.1%	7.0%
Highest Annual Return	17.3%	23.6%	12.3%
Lowest Annual Return	6.1%	(5.6)%	4.8%
Annualised Standard Deviation	1.8%	7.4%	0.6%
Downside Deviation	1.2%	5.3%	
Maximum Drawdown	(1.2)%	(9.8)%	
Sharpe Ratio	1.53	0.30	
Sortino Ratio	2.29	0.42	
% Positive Months	98.6%	69.5%	100.0%
Correlation (ALBI)	0.10		
99% Value at Risk (P&L %)	(0.3)%		

GENERAL INFORMATION

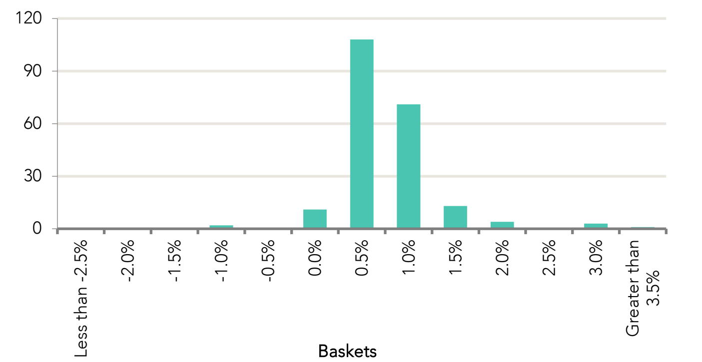
Investment Structure	Limited liability en commandite partnership
Disclosed Partner	Coronation Management Company (RF) (Pty) Ltd
Inception Date	01 October 2002
Hedge Fund CIS launch date	01 October 2017
Year End	30 September
Fund Category	South African Fixed Income Hedge Fund
Target Return	Cash + 3%
Performance 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)†	1.60% (including a performance fee of 0.14%)
Transaction Costs (TC)†	0.05%
Fund Size (R'Millions)	R93.09
Fund Status	Open
NAV (per unit)	306.06 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 May 2020. 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	5.0
Short	0.0

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	67
Number of short positions	0

MONTHLY COMMENTARY

The Fund returned 0.4% in June, taking the one-year return to 6.1%. This places the fund 0.3% behind cash over 12 months.

South Africa's economy contracted 2.0% quarter-on-quarter (q/q), seasonally adjusted and annualised (saa) in the first quarter of 2020 (Q1-20), following a contraction of -1.4% q/q saa in the fourth quarter of last year. This was better than market expectations, but the biggest surprise in the data was the strong gains in agricultural output, assisted by small growth from the tertiary sector. At headline level, this was offset by a deep contraction in mining, manufacturing, utilities, construction and trade. While the better-than-expected headline surprise is welcome, the degree of weakness in some of the larger component industries is a considerable concern. The data reflects some Covid-19-related weakness in the run up to full lockdown, but more likely echoes a combination of very weak underlying demand, and power constraints. Industries such as mining, manufacturing and broader gross fixed capital formation will weaken meaningfully in the second quarter of 2020 (Q2-20), and may remain weak in the third quarter of this year, with weakness in the heavy-weight consumer-related sectors still to come.

Headline inflation for the month of April was 3.0% year-on-year (y/y) vs March's 4.1% y/y. The biggest detractor was the anticipated fall in fuel prices, and the monthly contractions in the prices of beverages, tobacco, clothing and footwear, broader transport costs, telecommunications, and discretionary items, including recreational goods and services. Some of these items were not available for consumption in April, and the rate of change was calculated by inputting the average weighted price changes of the previous month, which accumulated to a -0.6% monthly change. Inflation pressure should remain low for the rest of the year.

The Minister of Finance tabled a special appropriation budget bill in response to the economic impact of Covid-19. The message from the minister is that Covid-19 shock has exacerbated South Africa's profound public finance fragilities and amplified existing concerns over debt sustainability and financing. The fiscal deficit for 2020/21 fiscal year is projected at -14.6% of GDP and the primary balance is projected to come in at -9.7%. The government will increase debt issuance to fund the additional shortfall, and this will see the debt-to-GDP ratio reaching 81.8% in 2020/21. National Treasury expects the economy to contract by -7.2% in 2020 and accelerate by 2.6% in 2021.

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 Q2-20. 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 Fund managed to scalp a handful of new holdings to add to the credit component during June. This came about as areas of the domestic credit market continued to experience spread widening and valuations improved enough to add risk here. The downside is that this credit market weakness reflects in a short-term headwind to performance, but the flipside is that the Fund gets to deploy its cash into favourably priced assets – which was the entire purpose of retaining additional liquidity into the weakness seen in recent months. Elsewhere, however, the poor functioning of domestic fixed income markets in terms of exceptional intraday price volatility and extremely inconsistent liquidity remains present. It is increasingly clear that the sheer volume of new South African government bond issuance is creating distortions that permeate across all aspects of domestic fixed income markets as intermediaries struggle to manage and clear risk. Beyond a more active role by the South African Reserve Bank in terms of market functioning or a sustained step up in net foreign demand for South African debt, it is hard to see how the current conditions improve substantively. Fortunately, the Fund maintains a breadth of opportunity sets to access, so with many quivers to Granite's bow, even rocky market conditions provide opportunities to harvest.

DISCLAIMER