CORONATION

GRANITE HEDGE FUND

QUALIFIED INVESTOR HEDGE FUND FACT SHEET AS AT 31 OCTOBER 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)	434.9%	395.3%	238.5%
Since inception p.a.	9.7%	9.3%	7.0%
Latest 10 year p.a.	8.1%	7.6%	5.7%
Latest 5 year p.a.	8.3%	7.5%	6.2%
Latest 1 year	6.0%	4.9%	4.7%
Year to date	4.4%	2.7%	3.6%
Month	0.6%	0.9%	0.3%

PERFORMANCE & RISK STATISTICS (Since inception)

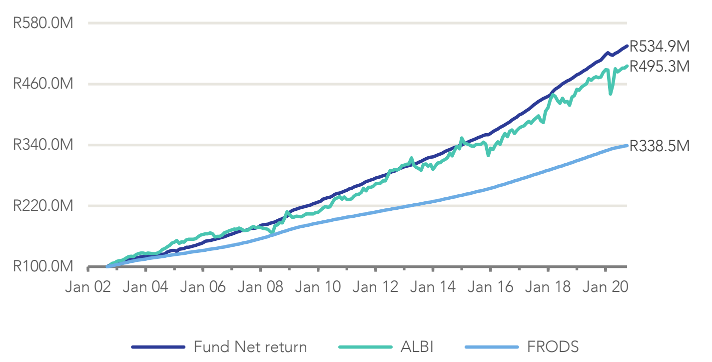
	Fund	ALBI	FRODS
Average Annual Return	9.6%	9.0%	6.9%
Highest Annual Return	17.3%	23.6%	12.3%
Lowest Annual Return	5.8%	(5.6)%	4.7%
Annualised Standard Deviation	1.8%	7.3%	0.6%
Downside Deviation	1.2%	5.3%	
Maximum Drawdown	(1.2)%	(9.8)%	
Sharpe Ratio	1.56	0.31	
Sortino Ratio	2.31	0.43	
% Positive Months	98.6%	69.6%	100.0%
Correlation (ALBI)	0.10		
99% Value at Risk (P&L %)	(0.3)%		

GENERAL INFORMATION

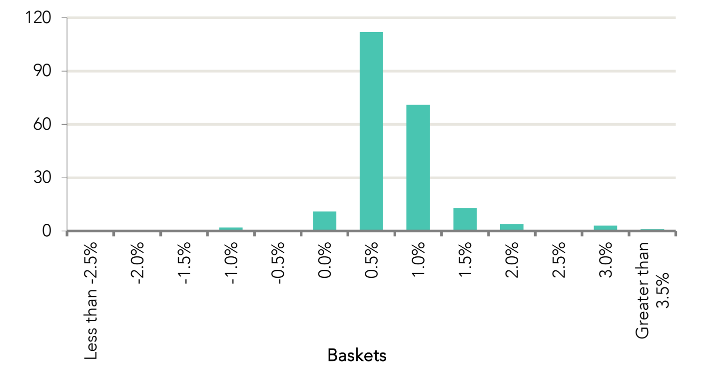
Investment Structure	Limited liability en commandite partnership
Disclosed Partner	Coronation Management Company (RF) (Pty) Ltd
Inception Date	01 October 2002
Hedge Fund CIS launch date	01 October 2017
Year End	30 September
Fund Category	South African Fixed Income Hedge Fund
Target Return	Cash + 3%
Performance 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)†	1.65% (including a performance fee of 0.17%)
Transaction Costs (TC)†	0.05%
Fund Size (R'Millions) ‡	R95.34
Fund Status	Open
NAV (per unit)	296.88 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 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 October 2020.

GROWTH OF R100m INVESTMENT



HISTOGRAM OF MONTHLY NET RETURNS



PORTFOLIO LIQUIDITY

	Days to Trade
Long	7.5
Short	1.9

INCOME DISTRIBUTIONS (cents per unit)

Declaration Date	Amount	Dividend	Interest
30-Sep-20	16.43	0.04	16.39

STRATEGY STATISTICS

Number of long positions	67
Number of short positions	1

MONTHLY COMMENTARY

The Fund returned 0.6% in October, taking the one-year return to 6.0%. This places the fund 0.7% ahead of cash over 12 months.

Local bond performance was unexciting in October, with markets sceptical about the implementation of an ambitious Medium-Term Budget Policy Statement (MTBPS) baseline expenditure consolidation. The All Bond Index delivered 0.9% for the month. The long term (7-12 years) part of the curve put in the best performance, returning 1.4%. Medium-term bonds (3-7 years) returned 1.3%, while the short end (1-3years) of the curve returned 1.0%. Long-term bonds (12+ years) dragged the index's performance lower, with a return of just 0.4%. Inflation-linked bonds were up 1.1%, and cash held steady at 0.3%.

There is ongoing evidence of activity picking up in line with the easing of mobility constraints. Mining, manufacturing and retail sales have all improved, although all remain below pre-pandemic levels of activity. Heavy job losses, estimated at 2.2mn in Q2-20, remain a considerable constraint on the recovery.

The tabling of the MTBPS in late-October highlighted the very tough decisions faced by both the National Treasury and the Government in attempting to steer the fiscus towards a more sustainable position. While the focus on reducing expenditure on wages is necessary and welcome, there is considerable implementation risk, and the baseline is weaker than the June Special Adjustment Budget (SAB). Revenue forecasts for 2020/21 were revised down, mainly reflecting the deeper than previously anticipated recession, and forecasts for the Medium-Term Expenditure Framework (MTEF) are conservative in our view. The MTBPS revised the fiscal baseline to show the budget deficit peaking at -14.6% in 2020/21 year and narrowing to -7.3% by 2023/24. The primary balance will remain in deficit through the MTEF period. The debt-to-GDP ratio is expected to peak at 95.3% in 2025/26, but to remain below 100% over the forecast period.

Headline inflation moderated to 3.0% y/y in September from 3.1% y/y in August, while core inflation remained unchanged at 3.3% y/y. Food, transport and housing and utilities prices are benign, and inflation is expected to average around 3.0% in Q4-20. Recent data continues to point to a domestic consumer base that will continue to limit pricing power and should keep inflation anchored. The South African Reserve Bank (SARB) meets again in November. Despite the weak growth outlook, we expect the repo rate to remain unchanged at 3.5% for a sustained period.

South Africa is on the brink of a debt trap due to years of poor policy choices exacerbated by the effects of the Covid-19 crisis. At the heart of the country's problems lies a large debt load that is being financed at exceptionally high levels of interest and parasitic state-owned enterprises, key among them being Eskom. Policy choices are moving in the right direction; however, implementation is hampered by an incapacitated State and divided political motives within the ruling party. However, the valuation of South African Government Bonds (SAGBs) does embed a significant risk premium, commensurate with the underlying risk, if not more. This valuation is specifically attractive in the longer end of the bond curve, due to high yields and low cash prices. Inflation-linked bonds (ILB's) in the front end of the curve (<7 years) offer an attractive pick up relative to their nominal counterparts with inherent inflation protection.

The Fund continued to tread carefully across its active overlay, not least because of the MTBPS at the end of the month. Indeed, the Fund de-risked substantially going into this event, given the uncertainty around market expectations and potential policy adjustments. With the relatively straightforward absorption of the updated MTEF by the market, the Fund was quick to reimplement an assortment of tactical trades. In aggregate, these provided a modest, but welcome, uplift to the Fund's performance over the month. Elsewhere, the Fund continues to pick up attractive credits on a piecemeal basis. This has now proven an unusually fruitful run in terms of recycling less attractive (often very short-dated) holdings in favour of better priced alternatives. While not a broader attribute of the SA credit markets in recent months, this certainly has been a welcome feature in the parts of the credit spectrum that Granite is most active in. The net result has been a solid spread enhancement, which has enabled outright yield in the Fund to remain particularly attractive in the face of historically low cash rates.
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