

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)	473.5%	468.0%	251.8%
Since inception p.a.	9.5%	9.4%	6.8%
Latest 10 year p.a.	7.7%	8.2%	5.5%
Latest 5 year p.a.	7.8%	9.1%	5.4%
Latest 1 year	5.9%	8.4%	3.3%
Year to date	5.9%	8.4%	3.3%
Month	0.6%	2.7%	0.3%

PERFORMANCE & RISK STATISTICS (Since inception)

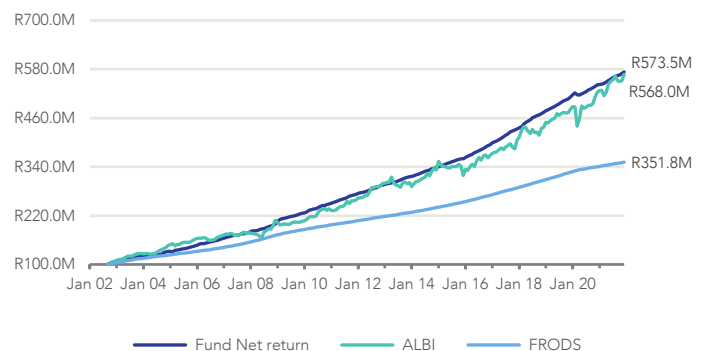
	Fund	ALBI	FRODS
Average Annual Return	9.4%	9.2%	6.7%
Highest Annual Return	17.3%	23.6%	12.3%
Lowest Annual Return	4.1%	(5.6)%	3.3%
Annualised Standard Deviation	1.7%	7.2%	0.6%
Downside Deviation	1.2%	5.2%	
Maximum Drawdown	(1.2)%	(9.8)%	
Sharpe Ratio	1.59	0.37	
Sortino Ratio	2.36	0.51	
% Positive Months	98.7%	70.1%	100.0%
Correlation (ALBI)	0.10		
99% Value at Risk (P&L %)	(0.3)%		

GENERAL INFORMATION

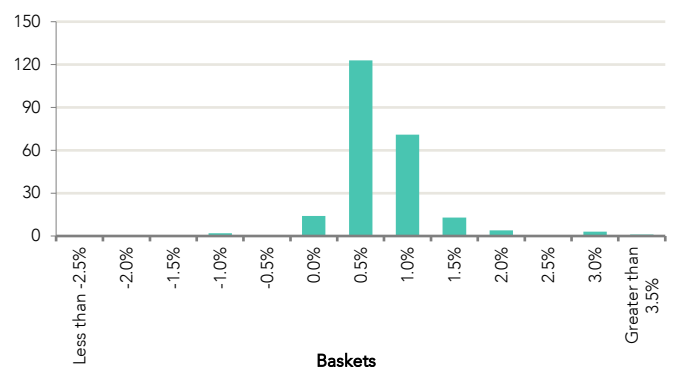
Investment Structure	Limited liability en commandite partnership
Disclosed Partner	Coronation Management Company (RF) (Pty) Ltd
Inception Date	01 October 2002
Hedge Fund CIS launch date	01 October 2017
Year End	30 September
Fund Category	South African Fixed Income Hedge Fund
Target Return	Cash + 3%
Performance 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)[†]	1.97% (including a performance fee of 0.54%)
Transaction Costs (TC)[†]	0.04%
Fund Size (R'Millions)[‡]	R314.06
Fund Status	Open
NAV (per unit)	303.76 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	KPMG 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 November 2021. 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 December 2021.

GROWTH OF R100m INVESTMENT



HISTOGRAM OF MONTHLY NET RETURNS



PORTFOLIO LIQUIDITY

	Days to Trade
Long	11.1
Short	2.1

INCOME DISTRIBUTIONS (cents per unit)

Declaration Date	Amount	Dividend	Interest
30-Sep-21	14.30	0.03	14.28

STRATEGY STATISTICS

Number of long positions	63
Number of short positions	4

MONTHLY COMMENTARY

The Fund returned 0.6% in December, taking the one-year return to 5.9%. This places the Fund 2.3% ahead of cash over 12 months.

In South Africa (SA), the economy contracted by 1.5% quarter on quarter (q/q) in the third quarter of 2021 (Q3-21) from a revised growth of 1.1% q/q in the second quarter of 2021. The trade, agriculture and manufacturing sectors were the biggest contributors to the decline. On the expenditure side, household consumption and exports decreased. Aspects of the weakness in the Q3-21 GDP are very specific and related to the July 2021 riots and their immediate aftermath.

However, the impact on longer-term growth from other economic sectors is unclear given persistently high unemployment and weak consumption across a range of goods and services, despite decent income growth. Gross operating surplus has recovered well, but confidence and investment remain weak. The building blocks for resilient growth are in place, but consumers and businesses remain reticent.

Headline inflation accelerated to 5.5% y/y in November from 5.0% y/y in October. Core inflation slightly increased to 3.3% y/y in November from 3.2% y/y in October. The large fuel hike in November contributed the most to the inflation uptick, while food and other goods and services prices remained relatively stable. Looking ahead, we expect price pressures from food and energy to persist (despite a large January fuel price cut), and some price increases in goods affected by supply constraints are also increasingly likely. The outlook for interest rates, despite some evidence of weak activity in the fourth quarter of 2021 and the emergence of omicron, remains for a steady normalisation of the repo rate.

The prospects for the local economy have improved as reform progress has gathered momentum and global developments have provided tailwinds to the local recovery. Inflation is moving higher but should remain under control despite uneasiness around global inflation. The recovery in growth should gain more traction in 2022, which will provide more breathing space for the fiscus. SA government bonds (SAGBs) still embed a significant risk premium relative to cash and the yield curve remains relatively steep. For bond portfolios, we continue to advocate overweight positions to SAGBs focused in the 12- to 15-year area of the curve and allocations to ILBs with a maturity of less than eight years.

A decent final month to the year for longer-dated assets within SA fixed income markets provided good news for the Fund over December. Monetary policy pricing was largely unchanged, albeit through a circuitous route. The Fund maintained its risk exposures over the month – necessarily, as liquidity in the second half of December is always notoriously poor – and a bias towards high carry positions proved particularly useful. Hence, while tactical activity in the Fund was substantially reduced and overall active risk was pared back, performance was completely satisfactory.

REGULATORY DISCLOSURE AND DISCLAIMER

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