

## 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)	459.5%	454.7%	246.9%
Since inception p.a.	9.6%	9.5%	6.8%
Latest 10 year p.a.	7.9%	8.5%	5.5%
Latest 5 year p.a.	8.1%	8.9%	5.7%
Latest 1 year	6.5%	13.9%	3.3%
Year to date	3.3%	5.9%	1.9%
Month	0.7%	0.8%	0.3%

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

	Fund	ALBI	FRODS
Average Annual Return	9.4%	9.1%	6.8%
Highest Annual Return	17.3%	23.6%	12.3%
Lowest Annual Return	4.1%	(5.6)%	3.3%
Annualised Standard Deviation	1.7%	7.3%	0.6%
Downside Deviation	1.2%	5.3%	
Maximum Drawdown	(1.2)%	(9.8)%	
Sharpe Ratio	1.58	0.37	
Sortino Ratio	2.35	0.51	
% Positive Months	98.7%	70.4%	100.0%
Correlation (ALBI)	0.10		
99% Value at Risk (P&L %)	(0.3)%		

## GENERAL INFORMATION

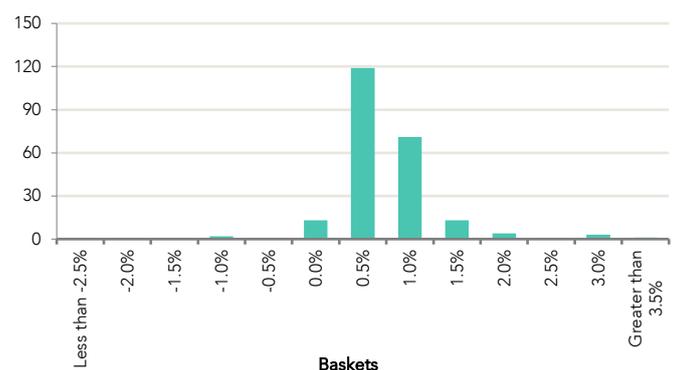
<b>Investment Structure</b>	Limited liability en commandite partnership
<b>Disclosed Partner</b>	Coronation Management Company (RF) (Pty) Ltd
<b>Inception Date</b>	01 October 2002
<b>Hedge Fund CIS launch date</b>	01 October 2017
<b>Year End</b>	30 September
<b>Fund Category</b>	South African Fixed Income 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)<sup>†</sup></b>	2.08% (including a performance fee of 0.59%)
<b>Transaction Costs (TC)<sup>†</sup></b>	0.04%
<b>Fund Size (R'Millions)<sup>‡</sup></b>	R318.99
<b>Fund Status</b>	Open
<b>NAV (per unit)</b>	310.54 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>	KPMG 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

<sup>†</sup>TER and TC data is provided for the 1 year ending 30 June 2021. TER excludes manufactured dividend expenses and scrip borrowing costs, in line with the revised ASISA TER Hedge Fund Disclosure Standard. <sup>‡</sup>Fund assets under management as at 31 July 2021.

## GROWTH OF R100m INVESTMENT



## HISTOGRAM OF MONTHLY NET RETURNS



## PORTFOLIO LIQUIDITY

	Days to Trade
Long	28.0
Short	4.1

## 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	55
Number of short positions	2

## MONTHLY COMMENTARY

The Fund returned 0.7% in July, taking the one-year return to 6.5%. This places the Fund 3.0% ahead of cash over 12 months.

The South African Reserve Bank (SARB) left the repo rate unchanged at 3.5% at the July meeting. The bank's quarterly projection model now points to a single hike in the fourth quarter of 2021, from two at the previous meeting. Central bank Governor, Lesetja Kganyago, reiterated that the Monetary Policy Committee would remain accommodative, despite the anticipated rate hikes. Inflation risks are seen to be to the upside, stemming mostly from rising fuel prices, administered cost increases and hikes in electricity tariffs. Growth forecasts were kept unchanged at 4.2%, with the SARB expecting the social unrest damage to be offset by better-than-expected economic recovery to date. The SARB still assesses risks to the growth outlook as balanced but acknowledges the downside risks coming from the social unrest, disruption of the vaccination programme, a longer-than-expected lockdown to contain the third wave, power supply constraints, and policy uncertainties.

Headline inflation moderated to 4.9% year-on-year (y/y) in June from 5.2% y/y in May. Transport, housing, food and non-alcoholic beverages remain the biggest drivers of inflation. While inflation risks remain balanced, food and fuel supply constraints in part related to the recent unrest could put pressure on some goods prices. Core inflation increased a tick to 3.2% y/y in June from 3.1% y/y in May.

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 and spill into next year, which will provide more breathing space for the fiscus. Despite their recovery in the second quarter of this year, South African government bonds (SAGBs), still embed a significant risk premium relative to cash. The steepness of the yield curve makes the 12- to 15-year area attractive, even if the local rate hiking cycle starts sooner than expected.

The Fund had another solid month on the trot. Favourable tactical positioning in the active overlay was largely responsible for the good monthly outcome. Encouragingly, this was a product of a broad swathe of active exposures appropriately (i.e. relatively capped) sized and positioned for a wide range of outcomes. Indeed, directional trades remain part of the arsenal, but in no way constitute the primary source of the overlay's returns. In an aggregate sense, domestic fixed income markets remain well entrenched within established ranges. This makes for a dearth of longer-term, fundamentally orientated opportunities, but does provide for a palette of mean-reverting, short-term opportunities within the space. Nonetheless, risk premia in certain corners of the local fixed income markets remain elevated, and these offer long-term potential economic returns for the Fund to harvest in a judicious manner.

## DISCLAIMER

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