

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)	509.7%	492.2%	269.1%
Since inception p.a.	9.3%	9.2%	6.7%
Latest 10 year p.a.	7.5%	7.1%	5.4%
Latest 5 year p.a.	7.1%	7.8%	5.1%
Latest 1 year	6.3%	4.3%	4.9%
Year to date	6.3%	4.3%	4.9%
Month	0.7%	0.6%	0.6%

PERFORMANCE & RISK STATISTICS (Since inception)

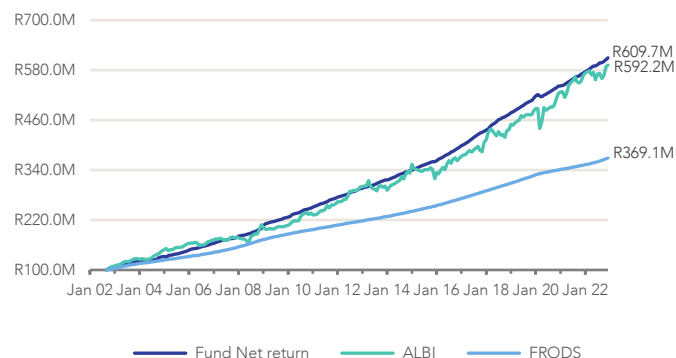
	Fund	ALBI	FRODS
Average Annual Return	9.2%	9.0%	6.6%
Highest Annual Return	17.3%	23.6%	12.3%
Lowest Annual Return	4.1%	(5.6)%	3.3%
Annualised Standard Deviation	1.7%	7.2%	0.6%
Downside Deviation	1.1%	5.2%	
Maximum Drawdown	(1.2)%	(9.8)%	
Sharpe Ratio	1.57	0.35	
Sortino Ratio	2.34	0.48	
% Positive Months	98.4%	70.4%	100.0%
Correlation (ALBI)	0.11		
99% Value at Risk (P&L %)	(0.3)%		

GENERAL INFORMATION

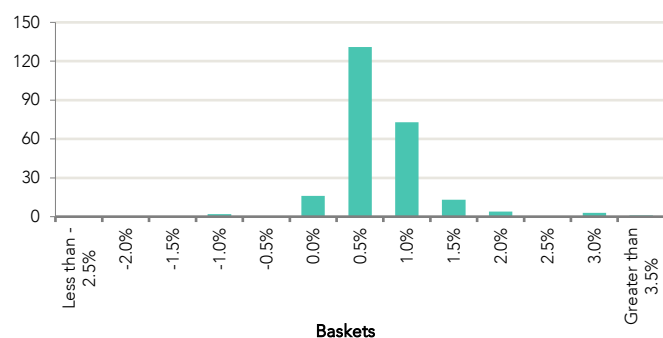
Investment Structure	Limited liability en commandite partnership
Disclosed Partner	Coronation Management Company (RF) (Pty) Ltd
Inception Date	01 October 2002
Hedge Fund CIS launch date	01 October 2017
Year End	30 September
Fund Category	South African Fixed Income Hedge Fund
Target Return	Cash + 3%
Performance 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)[†]	1.68% (including a performance fee of 0.32%)
Transaction Costs (TC)[†]	0.01%
Fund Size (R'Millions)[‡]	R287.50
Fund Status	Open
NAV (per unit)	303.98 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	Apex Fund and Corporate 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 2022. 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 2022.

GROWTH OF R100m INVESTMENT



HISTOGRAM OF MONTHLY NET RETURNS



PORTFOLIO LIQUIDITY

	Days to Trade
Long	25.8
Short	0.9

INCOME DISTRIBUTIONS (cents per unit)

Declaration Date	Amount	Dividend	Interest
30-Sep-22	18.58	0.09	18.49

STRATEGY STATISTICS

Number of long positions	51
Number of short positions	1

MONTHLY COMMENTARY

The Fund returned 0.7% in December, taking the one-year return to 6.3%. This places it 1.5% ahead of cash over 12 months.

The South African economy grew at a much-stronger-than-expected 1.6% quarter on quarter (q/q) in the third quarter of 2022 (Q3-22) following a contraction of 0.7% q/q in the second quarter. On the supply side, growth came mostly from agriculture, transport, and financial and business services, while utilities (mostly electricity) detracted. On the expenditure side, net trade was the biggest contributor, despite challenges in the logistics sector, including strikes in Q3-22. Inventory accumulation, possibly owing to aggravated loadshedding, was also a major positive contributor to growth. Looking ahead, fourth quarter activity in 2022 will be dogged by high stage loadshedding, which may be partly offset by a decent tourist season. However, we expect activity to be weaker than that of Q3-22.

Headline inflation moderated to 7.4% year on year (y/y) in November from 7.6% y/y October, but core inflation remained unchanged at 5.0% y/y. Lower fuel and transport costs accounted for much of the moderation, while food and broader goods and services prices remain sticky. We expect CPI to average 6.9% in 2022. An early and substantial fuel price cut in January should see a faster slowing in headline inflation than we had expected and will lower the average headline CPI for 2023. Despite this, we expect the South African Reserve Bank to raise the repo rate by 50 basis points in January, to a peak rate of 7.5%.

While global monetary policy continues to push into restrictive territory and central banks remain hawkish, risk sentiment has improved, and we have seen a stabilisation in longer dated yields in the US. The messages from central banks continue to highlight that higher peak policy rates may be required to have the desired impact on inflation. This rhetoric, together with economic data releases, will undoubtedly keep markets volatile.

With the progressive evaporation of market liquidity over the mid-summer holiday period, the Fund tended to concentrate trading activity at the beginning of December to avoid liquidity-induced difficulties. So, while the overlay was engaged for a shortened period over the last month due to risk management considerations, this still proved a productive episode. The first half of December within local fixed income market was really dominated by a recovery from the sharp weakness experienced at the end of November – fortunately, the Fund's tactical positions were organised for such an outcome, and this materialised before the necessary squaring up of risk exposures prior to the year-end.

Looking ahead, the Fund is well placed from an enhanced credit carry perspective, which is also expected to provide additional scope to utilise the active overlay relatively assertively. Indeed, with higher base rates and the likely approach of the tail-end of monetary tightening in SA, this is an especially opportune phase of the interest rate cycle for a Fund such as Granite, which has been positioned to take advantage of higher absolute interest rates through both its floating rate allocation and its fixed rate asset selection.

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