

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)	518.4%	504.3%	273.1%
Since inception p.a.	9.3%	9.2%	6.7%
Latest 10 year p.a.	7.6%	7.2%	5.5%
Latest 5 year p.a.	7.1%	7.1%	5.1%
Latest 1 year	6.7%	4.9%	5.4%
Year to date	1.4%	2.0%	1.1%
Month	0.5%	(0.9)%	0.5%

PERFORMANCE & RISK STATISTICS (Since inception)

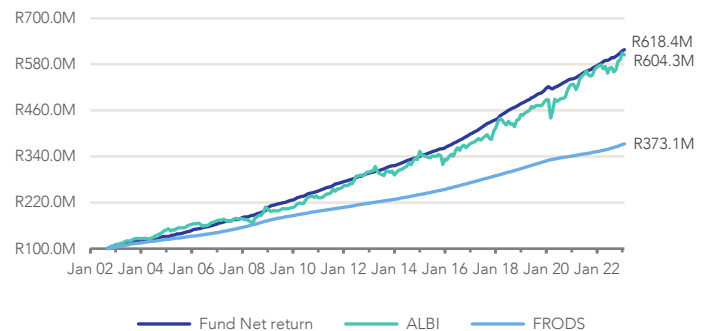
	Fund	ALBI	FRODS
Average Annual Return	9.2%	8.9%	6.6%
Highest Annual Return	17.3%	23.6%	12.3%
Lowest Annual Return	4.1%	(5.6)%	3.3%
Annualised Standard Deviation	1.7%	7.2%	0.6%
Downside Deviation	1.1%	5.2%	
Maximum Drawdown	(1.2)%	(9.8)%	
Sharpe Ratio	1.57	0.35	
Sortino Ratio	2.34	0.49	
% Positive Months	98.4%	70.2%	100.0%
Correlation (ALBI)	0.12		
99% Value at Risk (P&L %)	(0.3)%		

GENERAL INFORMATION

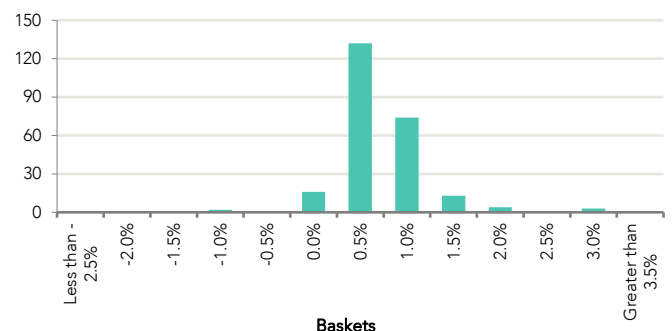
Investment Structure	Limited liability en commandite partnership
Disclosed Partner	Coronation Management Company (RF) (Pty) Ltd
Inception Date	01 October 2002
Hedge Fund CIS launch date	01 October 2017
Year End	30 September
Fund Category	South African Fixed Income Hedge Fund
Target Return	Cash + 3%
Performance 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)[†]	1.69% (including a performance fee of 0.33%)
Transaction Costs (TC)[†]	0.01%
Fund Size (R'Millions)[‡]	R276.62
Fund Status	Open
NAV (per unit)	308.30 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 31 January 2023. 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 28 February 2023.

GROWTH OF R100m INVESTMENT



HISTOGRAM OF MONTHLY NET RETURNS



PORTFOLIO LIQUIDITY

	Days to Trade
Long	27.2
Short	7.4

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	54
Number of short positions	9

MONTHLY COMMENTARY

The Fund returned 0.5% in February, taking the one-year return to 6.7%. This places it 1.3% ahead of cash over 12 months.

The Minister of Finance Enoch Godongwana delivered the National Budget speech 2023/2024 on 22 February 2023. The budget's key feature was the Eskom debt relief, with details given on how the government will go about easing the embattled State-owned entity's debt burden – largely through loans to be translated into equity as specified conditions are met. The rescue plan also includes a R70 million nominal debt transfer in 2025/2026. On the revenue side, National Treasury did not adjust its revenue baseline despite the deteriorating growth fundamentals with risks to global growth, terms of trade and the electricity crisis not evident in revenue adjustments. On the expenditure side, the high wage bill is at risk to likely breach the current expenditure targets should trade unions demand wage settlements higher than budget estimates. Overall, non-interest spending is expected to fall in 2023/2024 and rise at a below inflation rate in the outer years – a base line we think is optimistic in the near-term.

Headline inflation slowed to 6.9% year on year (y/y) in January from 7.2% y/y in December, while core inflation was unchanged at 4.9% y/y. Food and non-alcoholic beverages inflation continues to be sticky and contributed most to headline inflation. Fuel prices declined significantly following the fuel price cut at the start of the month, although this has partly reversed since. Elsewhere, the price of imported goods – furnishings, textiles and appliances, in particular, saw strong monthly gains. Recent currency weakness saw fuel prices rise modestly in February and more aggressively in March, while the food inflation surprise suggests some pass through of the rising impact of loadshedding on non-durable items costs to consumers. This will see a slower moderation in headline CPI in the first half of 2023. We expect the South African Reserve Bank's Monetary Policy Committee to raise the repo rate a further 25 basis points (bps) in March, to 7.5%, even as US rate expectations get pared back assertively.

The global environment will remain in a state of flux for at least the first half of 2023 as the battle between monetary policy normalisation, slowing global growth and sticky inflation wages on. Risk sentiment has recovered slightly since the severe bout of risk aversion in second half of 2022. To add to the effects of the current global challenges, South Africa faces its own headwinds – both politically and economically; and these could well provide plenty of volatility for domestic fixed income markets for the foreseeable future.

A noteworthy event for the Fund during February was the write-down of the portfolio's legacy exposure to the Land Bank to zero. While the aggregate exposure was relatively modest at c. 0.2%, by marking the valuation to effectively zero naturally resulted in a fairly material monthly decline to contend with. Importantly, this occurred because the note held by the Fund of the defaulted issuer moved past its original maturity date. Thus, even as some capital has been returned by the Land Bank to its lenders over this work-out period of the past couple of years, the prudent approach at this juncture is to value the holding at zero. Significantly, the Land Bank will still be paying interest on these past-due bonds, albeit at a lower than the market-related level. This means that the Fund will still be receiving interest income, at least for now.

Elsewhere, the Fund's active overlay performed reasonably well, even as February proved viciously uni-directional with respect to SA interest rates, with practically everything gained during January given back in the following month. Domestic and external factors in the year-to-date are providing fixed income markets cause for some hefty intra-month oscillations. Fortunately, the risk calibration of the Fund is currently well-suited to these conditions, allowing for the ability of the active overlay to participate freely and flexibly, as opportunities present themselves.

REGULATORY DISCLOSURE AND DISCLAIMER

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