

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 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. Directional exposure is limited to 100% of current underlying capital. Individual stock exposure is unlimited for government and parastatal (government guaranteed) bonds, but is constrained for banks and corporate bonds with reference to exposures to credit ratings bands. Limits per issuer within each credit rating band exist and are monitored on a daily basis. No sub-investment grade instruments may be held in the fund. No writing of uncovered options will be permitted. Cash on hand shall at all times exceed all outstanding settlement liabilities, with a minimum balance of 5% of current underlying capital. 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 unithised 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)	345.1%	338.6%	192.9%
Since inception p.a.	10.1%	10.0%	7.2%
Latest 10 year p.a.	9.3%	9.6%	6.4%
Latest 5 year p.a.	8.3%	7.7%	5.9%
Latest 1 year p.a.	10.1%	16.2%	6.6%
Year to date	2.7%	8.1%	1.6%
Month	1.6%	2.1%	0.5%

PERFORMANCE & RISK STATISTICS (Since inception)

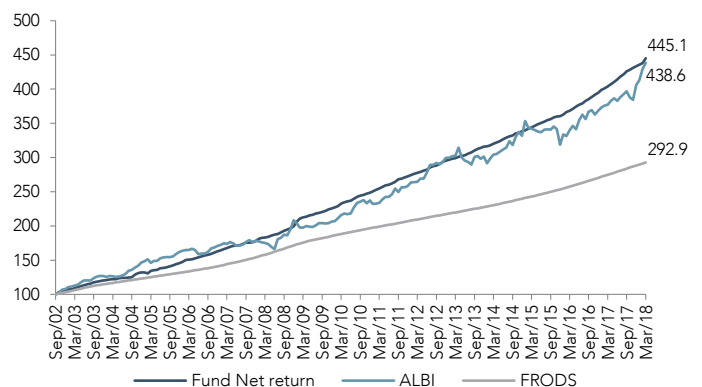
	Fund	ALBI	FRODS
Average Annual Return	9.8%	9.3%	7.0%
Highest Annual Return	17.3%	23.6%	12.3%
Lowest Annual Return	6.4%	-5.6%	4.8%
Annualised Standard Deviation	1.8%	6.9%	0.6%
Downside Deviation	1.1%	4.5%	
Maximum Drawdown	-1.2%	-9.8%	
Sharpe Ratio	1.62	0.41	
Sortino Ratio	2.65	0.63	
% Positive Months	99.5%	71.0%	100.0%
Correlation (ALBI)	0.03		
99% Value at Risk (P&L %)	-0.3%		

GENERAL INFORMATION

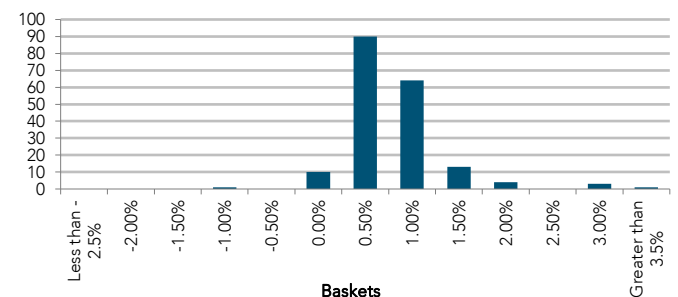
Investment Structure	Limited liability en commandite partnership
Disclosed Partner	Coronation Management Company (RF) (Pty) Ltd
Inception Date	01 October 2002
Hedge Fund CIS launch date	01 October 2017
Year End	30 September
Fund Category	Domestic Fixed Income Hedge
Target Return	Cash + 3%
Performance 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	2.67% (including a performance fee of 0.86%)
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Transaction Costs (TC)*	0.17%
Fund Size (R'Millions)	R37.77
Fund Status	Open
NAV (per unit)	319.36 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 Asset Management (Pty) Ltd (FSP 548)
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	Mark le Roux, Adrian van Pallander & Nishan Maharaj

*Data is provided for the 1 year ending 31 March 2018 and calculated using historic data prior to the launch of the CIS. ¹TER excludes manufactured dividend expenses. ²TER includes manufactured dividend expenses.

GROWTH OF R100m INVESTMENT



HISTOGRAM OF MONTHLY NET RETURNS





EXPOSURE BY UNDERLYING STRATEGY

	Rand per Point
Directional Strategy	-
Relative Value Strategy	-
Yield Curve Strategy	-39
Credit Strategy	-1.502
Quantitative Strategy	52
Arbitrage Strategy	-
Prime Broking (Multi-strategies)	420

PORTFOLIO LIQUIDITY

	Days to Trade
Long	12.1
Short	5.4

STRATEGY STATISTICS

Number of long positions	41
Number of short positions	8

INCOME DISTRIBUTIONS

Declaration Date	Amount	Dividend	Interest
30-Sep-18	n/a	n/a	n/a
No declarations to date.			

MONTHLY COMMENTARY

The fund returned 1.6% in March, taking the one-year return to 10.1%. This places the fund 3.0% ahead of cash over 12 months.

The themes of late 2017 continued into the first quarter of 2018. Emerging markets continued to move stronger, driven by expectations of strong, synchronous global growth with no significant upward pressure on inflation. Strong upward growth revisions in the US and many of the emerging markets drove global growth expectations higher to between 3.5% and 4.0% for 2018. For the first three months of the year, emerging markets bonds returned 4.3% in dollars as suggested by the J.P. Morgan GBI-EM Diversified Index, compared to 1.4% for emerging market equities and -0.8% for the S&P 500 Index.

In South Africa, "Ramaphoria" continued to inspire a further rally in local assets. SA bonds, despite rallying 50bps since the ANC elective conference, continued to revel in the 'new dawn', with the benchmark bond rallying another 50bps to end the quarter at 7.98%. The All Bond Index (ALBI) returned 8.1%, driven primarily by the bonds with maturity of greater than 12 years (constituting 60.0% of ALBI) which returned 10.0%. The R900bn reduction in bond issuance by National Treasury at their weekly auction drove the outperformance of the longer end of the bond curve.

The local economy is now fundamentally on a much stronger footing, with local inflation forecasts and expectations having been revised lower. Inflation, as measured by the CPI headline index, is set to average 5.0% over the next two years and should, at the bare minimum, start to alleviate pressure on an economy that has struggled to grow meaningfully above 1.0% over the last three years. Furthermore, the risks to inflation are tilted to the downside, stemming primarily from food (15.0% of the basket) and services (50.0% of the basket) inflation. Service prices are set based on historical CPI measurements and based on the lower expected inflation going forward, it's very likely that this becomes self-reinforcing, resulting in stable to lower services' prices. In addition, regulatory scrutiny in the insurance and medical aid industries should help keep prices in check. The consumer should benefit from lower inflation as real disposable income increases, underpinning the growth recovery. As "Ramaphoria" filters through South Africa, we should also see a renewed uptick in both business and consumer confidence. This increased confidence should enable corporate SA to start spending on inventory renewal and investing into longer-term projects. The combination of increased consumer spending and fixed investment could help South Africa achieve 2.0-2.5% growth over the next 2-3 years. While this is a marked improvement, it is still some way off what is necessary to achieve sustainable job creation and reduce poverty levels.

SA fixed income markets have ridden the wave of optimism on the back of the new dawn. However, at current levels, most of the good news (if not more) has already been priced in. The risks from global monetary policy tightening (higher policy rates and a reduction in QE) could have negative consequences for SA yields (which have a very limited buffer to withstand these shocks). We therefore choose to be cautious of directional interest rate risk at current levels, looking instead for more attractive levels before adopting strong outright exposures.

The standout highlight for the fund during March was a widespread re-pricing of a range of credit spreads towards the end of the month. While the tightening of these bond's spreads was justified from a valuation perspective, what made the episode remarkable was the extent of the moves, as well as how many issues were affected. The fund duly experienced a meaningful performance uplift from this rare event. In other developments, the SA Reserve Bank lowered the repo rate, but this was essentially fully anticipated by the market and there were few opportunities for active returns here. National Treasury's announcement of an unexpectedly large retraction of bond issuance over the coming year also created additional volatility, but little opportunity to benefit, as the re-pricing to a more benign supply outcome occurred very rapidly. The fund remains predominantly tactically positioned in the active overlay, with a continued emphasis on relative value exposures.

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