



## Granate Multi Income Fund

Collective Investment Scheme (CIS) portfolio

Assets managed by: Granate Asset Management (Pty) Ltd

### Managers corner

Granate Asset Management is a boutique investment manager, powered by RMI Investment Managers, that specialises in generating stable and growing income solutions for investors whilst preserving capital.

Granate Asset Management (Granate) is part of RMI Investment Managers (RMI IM) and is the vehicle for 'lifting out' investment teams and providing them with an investment management operating platform to manage client investments. The business is set up to attract investment teams that have the ability to raise third-party client investments off their experience, track record and reputation but understand that it is difficult to establish a business on their own given the financial capital and operational requirements to do so. RMI IM is a supportive non-interfering shareholder that provides working and seed capital, operational infrastructure and distribution capability for the investment teams of Granate. RMI IM and the Granate team members share in the economic success of the business, creating an ownership culture among the investment teams, much like the other affiliates of RMI IM. As a result, this appeals to investment teams that want to be more entrepreneurial by creating a business inside a business rather than the typical salary and bonus structure of traditional investment managers.



### Meet your managers



Bronwyn Blood  
BCom (Hons)

Portfolio Manager

Bronwyn joined RMI Specialist Managers (now Granate Asset Management) in December 2015. Prior to this, she was the Portfolio Manager of the Flexible Fixed Interest Funds and the flagship Absolute Yield Fund at Cadiz Asset Management (2006-2015), which was a recipient of many awards in the South African multi-asset income category. Bronwyn started her career as a credit analyst at Old Mutual Specialized Finance (2000-2004) thereafter joining African Harvest (2004-2006) where she developed the credit process for the Fixed Interest team. Cadiz bought African Harvest in 2006 and Bronwyn took over the management of the Flexible Fixed Interest funds. Bronwyn holds a B.Comm (Honours) degree from the University of Natal.

Managed portfolio since 01 Apr 2016



### Managers view

#### Economic overview

Global economic activity in the 3<sup>rd</sup> quarter of 2017 continued its broad-based improvement as reflected by economic indicators in major developed and emerging markets. Inflation ticked up moderately in developed markets but remains significantly lower than central bank targets despite tightening labour markets.

Major central banks kept their lending rates unchanged during the 3<sup>rd</sup> quarter, but the general tune was hawkish. Given economic developments and central bank communications the market has moved to price in a high probability of a policy rate hike in the UK and US this year, but little prospects of higher rates in Japan and the Eurozone anytime soon. In its September meeting the US Federal Reserve confirmed that it will begin implementing its balance sheet normalisation program in October.

Domestic economic data releases during the 3<sup>rd</sup> quarter suggest that the economy continues to grow after emerging from a recession in the 2<sup>nd</sup> quarter, albeit at a significantly lower pace. Most production and consumption data releases remain weak as do consumer and business confidence indicators. Alarming, private sector investment which declined by 7.5% in the 2<sup>nd</sup> quarter remains on a weakening trend. The widening growth gap between South Africa and the world economy should be of great concern. However, the still robust global growth suggests that even a small improvement in domestic confidence could result in a strong boost to local growth.

In South Africa, the Monetary Policy Committee (MPC) of the Reserve Bank met twice in the 3<sup>rd</sup> quarter surprising the market on both occasions. At its July meeting the MPC surprised by lowering the repo rate by 25 basis points to 6.75%. The MPC's decision to cut rates was driven by material downward revisions to the SARB's GDP and inflation forecasts. By September the market was pricing a further 25 basis point rate cut, but the MPC decided to keep it unchanged based on its view that the balance of inflation risks was "somewhat to the upside". Ultimately, the MPC decision seems to have been predicated on 3 interrelated risks: (1) fiscal outlook; (2) outcome of the ANC electoral conference; and (3) rating downgrade.

Given the MPC's reasons not to cut the repo rate in September we consider it unlikely that they will cut again this year. Furthermore, given that inflation will bottom in the 1<sup>st</sup> quarter of 2018, prospects for further rate cuts in this cycle have declined significantly.

#### Market overview

Domestic financial assets had a strong 3<sup>rd</sup> quarter of 2017 outperforming, on aggregate, both developed and emerging aggregates.

The equity sector was the best performing domestic asset class (+9.4%) followed by property (+5.8%) and bonds (+3.2%). Inflation-linked bonds had another poor quarter (+1.1%) underperforming money market (+1.8%). For the 12 months to the end of September all domestic asset classes offered positive inflation adjusted returns other than inflation-linked bonds which lagged inflation by

approximately 4%.

Domestic bonds performed in line with global markets, the yield on the benchmark 10yr bond, after a short spike in the 1<sup>st</sup> week of the quarter to a yield of 8.91% trended down to a mid-September low of 8.385%. The yield move pattern during the quarter closely resembled the move in US Treasuries, implying that there was little increase in South Africa specific risk in domestic bond yields. This is also confirmed by the strong demand for South African bonds by foreign investors who increased their exposure by a further R30bn during the quarter. The last two weeks of the quarter, however, saw global bond yields coming under pressure, once again following the US Treasury lead. Concerningly, this could be a sign of things to come once Balance Sheet reduction by the US Federal Reserve gains some momentum and global rates rise.

**Portfolio overview**

We have been decreasing duration in the multi income fund throughout the quarter as we have become more concerned over the fiscal outlook for South Africa and the potential for a sovereign downgrade. Although inflation is well contained, we believe there is value in the short end of the inflation linked bond curve. We continue to have a healthy weighting in shorter dated inflation linked bonds, and are looking for opportunities to increase our allocation to this asset class. We are cautious on property as an asset class mainly due to weakening property fundamentals and a moderate growth outlook. We are targeting good quality stocks where there is more certainty in earnings and where we are not pricing in a significant de-rating on the underlying stocks in our valuation model. Preference is being given to stocks with increasing exposure to the residential asset class. Credit spreads have been on a narrowing trend over the last couple of months and there is currently less value in the credit market. We have been positioning the multi income fund into bank paper and favouring the higher quality corporates, and have benefitted from significant spread narrowing in these sectors. We have very low exposure to the SOEs and expect this sector to underperform going forward. We have become more selective about our participation in auctions as the market is showing less risk compensation. We will continue to look for secondary market opportunities in fixed rate credit.



**Portfolio positioning**

We target a yield of STEFI + 2% in the multi income fund, whilst keeping duration low to minimise volatility. We believe that this environment of slow but improving growth and moderate inflation remains a favourable one for income funds for at least the medium term. We continue to diversify the multi income fund appropriately in line with our credit policy and although we do not believe that there are as many attractive opportunities in the credit space as previously, we will continue to favour the very high quality stocks. Looking forward, even if we are entering a moderate rate cutting cycle, real yields should remain high enabling income funds to achieve very positive inflation-beating returns.

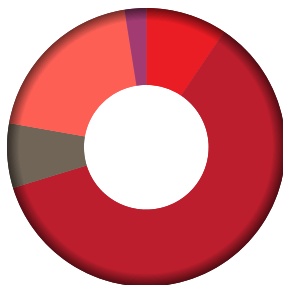
**Facts and figures**



**Holdings**

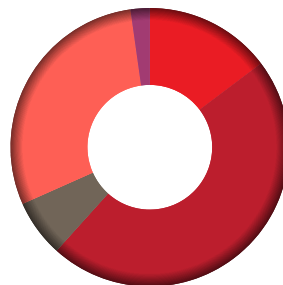
**Q3 2017**

Portfolio allocation (%)

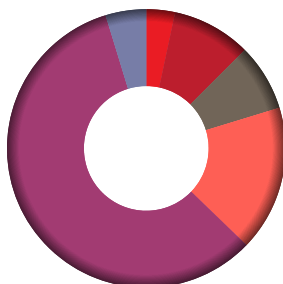


**Q2 2017**

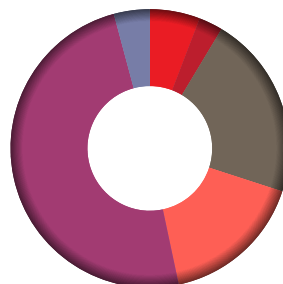
Portfolio allocation (%)



Maturity spread (%)



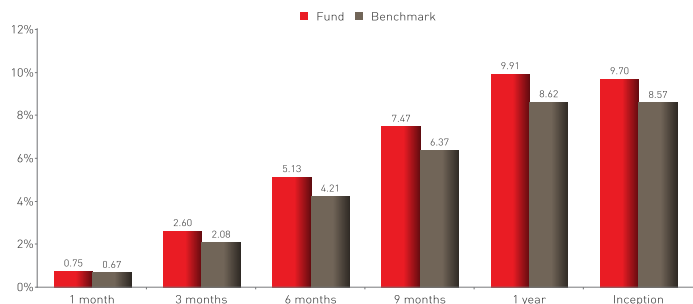
Maturity spread (%)





Performance

Returns (%)



Cumulative for all periods less than 1 year, annualised for all longer periods.

Fund: Granate Multi Income Fund Class A (Inception 1 April 2016) Benchmark: STeFI Composite Index + 1%

All portfolio performance is calculated for a portfolio/portfolio class. Individual investor returns may differ as a result of fees, actual date(s) of investment, date(s) of reinvestment of income and withholding tax. Annualised returns, also known as Compound Annualised Growth Rates (CAGR), are calculated from cumulative returns; they provide an indication of the average annual return achieved from an investment that was held for the stated time period. Actual annual figures are available from the Manager on request. All portfolio performance figures quoted (tables and charts where present) are as at 30/09/2017, based on a lump sum investment, using NAV-NAV prices with income distributions reinvested on the ex-dividend date. CPI/Inflation figures, where present, are lagged by one month. Cash figures, where present, are STeFI Composite Index returns. All figures quoted in ZAR. Source: Morningstar and/or Momentum.



Information

Granate Multi Income Fund

R 45.57 million

Class	Status	Direct Retail	Cost Ratios as at 30 June 2017				FYE	Price, Participatory Interests and AUM			MDD
			TER (%)	TC (%)	TIC (%)	From		TER (%)	NAV Price (cpu)	Units in issue	
A	Open	Yes	0.91	0.01	0.92	4 Apr 2016	0.90	103.20	19,973,141	20,612,573	
B	Open	No	0.63	0.01	0.63	4 Apr 2016	0.62	103.26	24,161,082	24,951,033	
C	Open	No	0.05	0.01	0.05	5 Jul 2016	0.05	103.41	10,978	11,353	

Class, Status, Direct Retail: A portfolio may have multiple classes, each of which may be open or closed to new investment, not all classes of a portfolio are available for direct retail investment as the different classes may be designed for/accessible to different investor types.

Cost Ratios: The Total Expense Ratio (TER) is the percentage of the net asset value of the class of the Financial Product incurred as expenses relating to the administration of the Financial Product. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. A current TER may not necessarily be an accurate indication of future TER's. The disclosed TERs are shown as an annual percentage based on data for the period from the date shown to 30 June 2017. The Transaction Costs Ratio (TC) is the percentage of the net asset value of the Financial Product incurred as costs relating to the buying and selling of the assets underlying the Financial Product. Transaction costs are a necessary cost in administering the Financial Product and impact Financial Product returns. The TC should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of Financial Product, the investment decisions of the investment manager and the TER. The disclosed TC is shown as an annual percentage based on data for the period from the date shown to 30 June 2017. The Total Investment Charges (TIC) is the sum of the TER of the relevant class and the TC of the Financial Product and is shown as a percentage depicting the annual costs relating to the investment of the Financial Product. Cost ratios are calculated using historical actual and/or estimated data and are provided solely as an indication/guide as to the annual expenses/costs that could be incurred. These ratios do not represent any current/actual charges or fees.

FYE: The disclosed Financial year end TERs (total expense ratios) are shown as an annual percentage based on data for the 1 year period to 30 June 2017.

Price, Participatory Interests and AUM: Data as at 30 September 2017

MDD: CIS regulations require a minimum disclosure document (MDD) to be compiled for all CIS portfolios, which must be viewed by an investor at point of sale. A link to the MDD that corresponds to the date of this QIR has been provided in the table above (for the relevant class of the portfolio) and we recommend that you review the MDD for further details on this portfolio.

## Important information



### Disclosures

#### Portfolio

Momentum Collective Investments (RF) (Pty) Ltd (the "Manager"), registration number 1987/004287/07, is authorised in terms of the Collective Investment Schemes Control Act, No 45 of 2002 (CISCA) to administer Collective Investment Schemes (CIS) in Securities. The Manager is the manager of the Momentum Collective Investments Scheme, and MMI Holdings Ltd is a full member of the Association for Savings and Investment SA. Standard Bank of South Africa Limited, registration number 1962/000738/06, is the trustee of the scheme.

Granate Multi Income Fund is a portfolio of the Momentum Collective Investments Scheme and Granate Asset Management (Pty) Ltd, registration number: 2015/090537/07, an authorised financial services provider ("FSP") under the Financial Advisory and Intermediary Services Act No. 37 of 2002 ("FAIS"), FSP number: 46189, is the investment manager of this portfolio.

Granate Multi Income Fund is an incubator portfolio, operating under an agreement entered into between the Manager and Granate Asset Management (Pty) Ltd, registration number: 2015/090537/07, an authorised FSP under FAIS, FSP number: 46189. An incubator portfolio is a third party named portfolio bearing the name of the FSP who intends to apply to the Registrar to be approved as a manager within three years from approval of the portfolio, where the FSP undertakes financial services of a discretionary nature, as contemplated in FAIS, in relation to the assets of the portfolio. The Manager retains full legal responsibility for all third party named portfolios under the Momentum Collective Investments Scheme. This information is not advice, as defined in the Financial Advisory and Intermediary Services Act (No. 37 of 2002). Please note that there may be representatives of the FSP acting under supervision. Your financial adviser may be a related party to the FSP and/or the Manager of this portfolio. It is your financial adviser's responsibility to disclose details of any conflicts of interests that may apply, as well as all fees that they receive, in relation to an investment in this portfolio.

Granate Multi Income Fund is a portfolio that derives its income primarily from interest-bearing instruments. The yield (where present) is current and calculated daily.

The main sources of risk in this portfolio are credit risk, interest rate risk and liquidity risk. Given that the fund aims to deliver consistent positive returns it is designed to be less volatile than traditional bond funds with less frequent negative monthly returns. The fund is largely exposed to high quality companies and banks with low interest rate risk. While capital losses are unlikely, they can occur if, for example, one of the issuers of an instrument held by the portfolio defaults. In this event, losses will be borne by the portfolio and its investors.

#### Collective Investment Schemes (CIS)

CIS are generally medium to long-term investments. The value of participatory interests may go down as well as up and past performance is not necessarily a guide to the future. CIS are traded at ruling prices and can engage in borrowing and scrip lending. The CIS may borrow up to 10% of the market value of the portfolio to bridge insufficient liquidity. Different classes of units apply to portfolios, which are subject to different fees and charges. A schedule of fees and charges and maximum commissions is available on request from the Manager. The Manager reserves the right to close and reopen certain portfolios to new investors from time to time in order to manage them more efficiently in accordance with their mandate. Portfolios are valued daily at approx. 15h00, latest prices can be viewed at [www.momentuminv.co.za](http://www.momentuminv.co.za) and in some national newspapers. Forward pricing is used. Instructions must reach the Manager before 15h00 to ensure same-day value. The Manager does not provide any guarantee, either with respect to the capital or the return of this portfolio. Additional information on the proposed investment including, but not limited to, brochures, application forms and the annual report and any half yearly report can be obtained, free of charge, at [www.momentuminv.co.za](http://www.momentuminv.co.za) or on request from the Manager.

Any forecasts and/or commentary included in this document about the expected future performance of portfolios, asset classes or the market in general are not guaranteed to occur.

Although all reasonable steps have been taken to ensure the validity and accuracy of the information in this document at time of publication, the Manager does not accept any responsibility for any claim, damages, loss or expense, howsoever arising, out of or in connection with the information in this document, whether by a client, investor or intermediary.

This document should not be seen as an offer to purchase any specific product and is not to be construed as advice. Investors are encouraged to obtain independent professional investment and taxation advice before investing with or in any of the Manager's products.



### Contact details

#### Scheme

Momentum Collective Investments Scheme

#### Custodian/Trustee

Standard Bank of South Africa Limited  
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Registration no.: 1962/000738/06

#### Management company

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Registration no.: 1987/004287/07

#### Third party manager

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