

Fund Objective and Strategy

This is a domestic fixed interest portfolio which seeks to provide investors with exposure to the fixed interest market and aims to offer maximum returns by actively extracting value from various sources within the fixed interest universe.

The portfolio uses strategic asset allocation, aggressive duration (ranging between the duration typical of a money market fund and the longest maturity South African government bond), yield curve positioning, switches, stock selection as well as derivative and other yield enhancement strategies, including exposure to foreign currency to maximize returns. The objective of the portfolio is to maximize both income and capital over a long-term investment horizon.

Given that the portfolio aims to maximize total return (which includes capital) it is expected to be more volatile than a traditional income fund with more frequent negative monthly returns. The Manager shall seek to achieve the objective over time through active management of a portfolio of predominantly local assets which will consist of a combination of interest-bearing securities including bonds, loan stock, debentures, fixed deposits, money market instruments and cash, listed and unlisted derivatives, listed property, and preference shares as well as any other securities which are considered to be consistent with the portfolio objectives and any other securities the Act may allow from time to time. The portfolio will be managed in accordance with regulations governing pension funds and Cisca.

Fund Information

Ticker	RSVIA
12 Month Yield	7.33%
Portfolio Manager	Jonathan Myerson
ASISA Fund Classification	South African - Multi Asset - Income
Risk Profile	Moderate
Benchmark	125% STeFI Composite Index
Fund Size	R 378,104,884
Portfolio Launch Date*	01/04/2016
Fee Class Launch Date*	01/04/2016
Minimum Lump Sum Investment	R 10,000
Minimum Monthly Investment	R 500
Income Declaration Date	March, June, September & December
Income Pricing Date	1st business day of April, July, October & January
Portfolio Valuation Time	15:00
Transaction Cut Off Time	15:00
Daily Price Information	Local media
Repurchase Period	2-3 business days

Fees (Incl. VAT)	A-Class (%)
Maximum Initial Advice Fee	3.42
Maximum Annual Advice Fee	1.14
Manager Annual Fee	0.96
Total Expense Ratio	1.01
Transaction Cost	0.02
Total Investment Charges	1.03

Total Expense Ratio (TER) is the percentage value of the Financial Product that was 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. The current TER may not necessarily be an accurate indication of future TER's. The TER is presented for the period 1 October 2014 to 30 September 2017.

Transaction Cost (TC) is the percentage value of the Financial Product that was 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 impacts Financial Product returns. It 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.

Total Investment Charges (TER + TC) is the total percentage value of the Financial Product that was incurred as costs relating to the investment of the Financial Product.

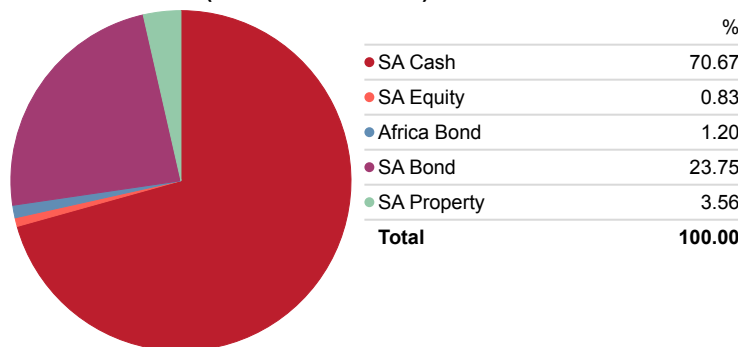
*The Granate Sanlam Collective Investments Unconstrained Fixed Interest Fund transitioned to Sanlam Collective Investments (RF) (Pty) Ltd on 28 October 2017.

**Risk statistics will only be available once the fund has reached three years performance history.

Top Ten Holdings (31 December 2017)

	% of Portfolio
RSA R2037 310137	4.94
Absa Capital 020318	4.23
Investec	3.71
China Construction Bank	3.19
RSA R197 071223	3.13
China Construction Bank 010318	2.83
Investec NCD 020318	2.82
Investec NCD 150318	2.81
RMB 290318	2.81
Nedbank 040418	2.81

Asset Allocation (31 December 2017)



Annualised Performance (%)

	Fund	Benchmark
1 Year	7.58	9.47
Since Inception	8.86	9.51

Cumulative Performance (%)

	Fund	Benchmark
1 Year	7.58	9.47
Since Inception	16.84	18.12

Highest and Lowest Annual Returns

Time Period: Since Inception to 31/12/2017	
Highest Annual %	8.28
Lowest Annual %	8.28

Risk Statistics (3 Year Rolling)**

Standard Deviation	—
Sharpe Ratio	—
Information Ratio	—
Maximum Drawdown	—

Distribution History (Cents Per Unit)

31/12/2017: 1.24 cpu	30/06/2017: 1.85 cpu	30/09/2016: 2.02 cpu
27/10/2017: 0.53 cpu	31/03/2017: 1.97 cpu	30/06/2016: 1.90 cpu
30/09/2017: 1.90 cpu	31/12/2016: 1.96 cpu	

Specific Risks

The main source of risk in this portfolio is interest rate risk, to a lesser extent credit risk; liquidity risk and exchange rate risk also apply. Capital losses 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.

Administered by

Risk Profile: Moderate

You prefer to receive stable income flows, but you also want to increase the value of your capital over time. You understand that to allow for some capital growth, its value can fluctuate moderately over time while the likelihood of losing money is relatively low. The portfolio that gives you the most comfort consists primarily of income-oriented asset classes such as cash, nominal and inflation-linked bonds and property. You shy away from too much exposure to equities because of their higher volatility.

Glossary Terms

Annualised Returns

Annualised return is the weighted average compound growth rate over the period measured.

Asset Allocation

Asset allocation is the percentage holding in different asset classes (i.e. equities, bonds, property, etc.). It is used to determine the level of diversification in a portfolio.

Capital Fluctuations (Volatility)

Volatility is a measure of 'risk' and refers to the extent to which the price of an investment or capital value fluctuates over a certain period of time. Funds with high volatility usually offer the potential for higher returns over the longer term than low volatility funds.

Cumulative Returns

Cumulative return is the total growth experienced over the period measured.

Derivatives

Derivatives are instruments generally used as an instrument to protect against risk (capital losses), but can also be used for speculative purposes. Examples are futures, options and swaps.

Distributions

The income that is generated from an investment and given to investors through monthly, quarterly, bi-annual or annual distribution pay-outs.

Diversification

This is a strategy designed to reduce risk within a portfolio by combining a variety of investments (or asset classes) such as equities, bonds, cash or property, which are unlikely to all move in the same direction at the same time. This is designed to reduce the risk (and protect against capital losses) within a portfolio. Diversification allows for more consistent performance under a wide range of economic conditions as it smoothes out the impact of negative market events. The positive performance of some investments or asset classes should neutralize the negative performance of others.

Financial Instruments

Derivatives also known as financial instruments (such as a future, option, or warrants) whose value derives from and is dependent on the change in value of an underlying asset (such as a commodity, currency, or security) to protect against risk (capital losses).

Fund Objective

The fund objective is the portfolio's core goal.

Fund Strategy

The fund strategy is the way that the fund is managed to achieve the fund objective.

Information Ratio

The Information Ratio measures the market risk-adjusted performance of an investment or portfolio. The greater a portfolio's Information Ratio, the better its risk-adjusted performance has been compared to the market in general.

Collective Investment Schemes

Collective Investment Schemes (CIS) (also called unit trusts) are portfolios of assets such as equities, bonds, cash and listed property, in which investors can buy units. They allow private investors to pool their money together into a single fund, thus spreading their risk across a range of investments, getting the benefit of professional fund management, and reducing their costs.

Market Capitalization

Market capitalization is the total value of the issued shares of a publicly traded company; it is calculated by multiplying the share price by the number of shares in issue.

Maximum Drawdown

The maximum drawdown measures the highest peak to trough loss experienced by the fund.

Participatory Interests

When you buy a unit trust, your money is pooled with that of many other investors. The total value of the pool of invested money in a unit trust fund is split into equal portions called participatory interests or units. When you invest your money in a unit trust, you buy a portion of the participatory interests in the total unit trust portfolio. Participatory interests are therefore the number of units that you have in a particular unit trust portfolio.

Sharpe Ratio

The Sharpe Ratio measures total risk-adjusted performance of an investment or portfolio. It measures the amount of risk associated with the returns generated by the portfolio and indicates whether a portfolio's returns are due to excessive risk or not. The greater a portfolio's Sharpe ratio, the better its risk-adjusted performance has been (i.e. a higher return with a contained risk profile, where the portfolio manager is not taking excessive risk to achieve those returns).

Standard Deviation

Standard deviation (also called monthly volatility) is a measure of how much returns on an investment change from month to month. It is typically used by investors to gauge the volatility expected of an investment.

Additional Information

All reasonable steps have been taken to ensure the information on this MDD is accurate. The information to follow does not constitute financial advice as contemplated in terms of the Financial Advisory and Intermediary Services Act. Use or rely on this information at your own risk. Independent professional financial advice should always be sought before making an investment decision. The Sanlam Group is a full member of the Association for Savings and Investment SA. Collective investment schemes are generally medium- to long-term investments. Please note that past performances are not necessarily a guide to future performances, and that the value of investments / units / unit trusts may go down as well as up. A schedule of fees and charges and maximum commissions is available from the Manager, Sanlam Collective Investments (RF) Pty Ltd, a registered and approved Manager in Collective Investment Schemes in Securities. Additional information of the proposed investment, including brochures, application forms and annual or quarterly reports, can be obtained from the Manager, free of charge. Collective investments are traded at ruling prices and can engage in borrowing and scrip lending. Collective investments are calculated on a net asset value basis, which is the total market value of all assets in the portfolio including any income accruals and less any deductible expenses such as audit fees, brokerage and service fees. Actual investment performance of the portfolio and the investor will differ depending on the initial fees applicable, the actual investment date, and the date of reinvestment of income as well as dividend withholding-tax. Forward pricing is used. The Manager does not provide any guarantee either with respect to the capital or the return of a portfolio. The performance of the portfolio depends on the underlying assets and variable market factors. Performance is based on NAV to NAV calculations with income reinvestments done on the ex-div date. Lump sum investment performances are quoted. The portfolio may invest in participatory interests of other unit trust portfolios. These underlying funds levy their own fees, and may result in a higher fee structure for our portfolio. All the portfolio options presented are approved collective investment schemes in terms of Collective Investment Schemes Control Act, No 45 of 2002 ("CISCA"). The Manager may borrow up to 10% the market value of the portfolio to bridge insufficient liquidity. The fund may from time to time invest in foreign instruments which could be accompanied by additional risks as well as potential limitations on the availability of market information. Investments in foreign instruments are also subject to fluctuations in exchange rates which may cause the value of the fund to go up or down. The fund may invest in financial instruments (derivatives) for efficient portfolio management purposes. The Manager has the right to close any portfolios to new investors to manage them more efficiently in accordance with their mandates. Excessive withdrawals from the portfolio may place the portfolio under liquidity pressures and in such circumstances a process of ring-fencing of withdrawal instructions and managed pay-outs over time may be followed. Management of the portfolio is outsourced to Granate Asset Management (Pty) Ltd, (FSP) Licence No. 46189, an Authorised Financial Services Provider under the Financial Advisory and Intermediary Services Act, 2002. Sanlam Collective Investments (RF) (Pty) Ltd retains full legal responsibility for the co-named portfolio. Standard Bank of South Africa Ltd is the appointed trustee of the Sanlam Collective Investments scheme. Sources of Performance and Risk Data: Morningstar Direct, INET BFA and Bloomberg. The risk free asset assumed for the calculation of Sharpe ratios: STEFI Composite Index. The highest and lowest 12-month returns are based on a calendar year period over 10 years or since inception where the performance history does not exist for 10 years. Obtain a personalised cost estimate before investing by visiting www.sanlamunittrustsmdd.co.za and using our Effective Annual Cost (EAC) calculator. Alternatively, contact us at 0860 100 266.

Investment Manager Information

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Portfolio Manager Quarterly Comment (31/12/2017)**Economic overview**

Global economic activity in the 4th quarter of 2017 continued to improve and the business cycle upswing is now in its 9th year as interest rates remain low and inflation is, in most countries, below target despite tightening labour markets. 2018 is promising to build on last year's momentum as financial conditions and improved sentiment combine to provide another year of synchronized global growth.

Domestic economic data activity remained relatively weak in the 4th quarter, although the economy is expected to have maintained positive growth after expanding by a quarter-on-quarter annualized rate of 2% (0.8% year-on-year) in the 3rd quarter. The SARB composite of leading indicators continues to improve as does the ABSA PMI which recorded its 4th consecutive increase, albeit remaining below the all-important level of 50 for a 6th month. While a significant confidence boost will support economic growth over the next quarter or two, South Africa's growth is likely to remain below trend for the foreseeable future.

Major central banks continued to communicate to the market a more hawkish outlook for interest rates, although it is only the US (FOMC) and the UK (BOE) that raised policy rates among the main central banks during the quarter. The FOMC remains by far the most hawkish major central bank and after raising its lending rate 3 times in 2017 (from 0.75% to 1.5%) and embarking on shrinking its balance sheet is expected to continue its tightening policy in 2018.

In South Africa, the Monetary Policy Committee (MPC) of the Reserve Bank met once in the 4th quarter (November) and left the repo rate unchanged at 6.75%, a unanimous decision by the six MPC members. The November statement set a more hawkish tone than in September (although with the same decision despite a split MPC vote) as the committee considered risks to the inflation outlook to have increased, mainly due to higher international oil prices and a weaker rand exchange rate. Risks to growth, on the other hand, were deemed to be on the downside. The decision was also affected by the "rapidly deteriorating fiscal position" which the statement said "...could potentially reduce the scope for further monetary policy accommodation".

While two of the three main upside risks to domestic inflation raised by the MPC (weaker currency, Eskom price increases, and higher international oil prices) have subsided, currency weakness is likely to return as fiscal consolidation remains a challenge that will not vanish anytime soon. This means that Moody's will likely downgrade South Africa's credit rating to below investment grade and tax hikes will keep inflation from remaining at or below the middle of the target range. Therefore, we think that the MPC will change its view on the risks to inflation to be balanced, but keep the repo rate unchanged for the foreseeable future.

Market overview

South African financial markets had a nervous and volatile quarter as investors faced the difficult task of weighing up the probabilities of different ANC elective conference outcomes.

The Property sector was the best performing domestic asset class (+8.3%) followed by Equities (+7.4%), Bonds (+2.2%), Money Market (+1.8%), and Inflation-linked bonds (+1.0%). For the 12 months to the end of December all domestic asset classes offered positive inflation adjusted returns other than inflation-linked bonds which lagged inflation by approximately 1.8% and is now the only asset class to return negative real returns over the last 5 years.

The quarter started poorly for bonds having returned -2.3% and -1.0% in October and November, respectively, but a very strong rally in December (+5.7%) resulted in the asset class returning a respectable 2.2% for the quarter.

Unsurprisingly, given the stellar performance of bonds, the property sector had a strong 4th quarter outperforming all other asset classes as some of the heavyweights in the SAPY index had a strong December while those with a greater exposure to foreign markets performed better in October and November.

The strong performance in income generating assets was supported by a strong rally in the rand which gained 10.62% against the USD in December, its 2nd best monthly performance since 2000. The rand was obviously driven by improved sentiment towards South Africa and strong commodity prices, although we think at current levels it has overshot and unlikely to strengthen much further.

Portfolio activity

As in the previous quarter we kept a relatively low interest rate risk exposure in the portfolio during the quarter as we maintained the view that the risk to bond yields was asymmetric in an environment of deteriorating policy certainty. This despite the fact that from a cyclical perspective bond yields remain at levels above "fair value". The strategy did bare fruits in October and November, where bonds sold off, but also meant that the fund missed out on a significant part of the December rally.

The portfolio's asset class exposure remained defensive. We increased our exposure to the property sector by 1.4% by buying foreign counters as we see this as a good way to pick up some foreign currency exposure where we believe valuations are attractive. The portfolio maintains some exposure to inflation-linked bonds in the short end of the yield curve. While we do remain generally negative on this asset class, we do consider this to be defensive, particularly in the event of a further rating downgrade.

We have also reduced the portfolio's exposure to corporate bonds during the quarter as we believe that the low credit spreads do not, in many cases, offer sufficient liquidity risk compensation and therefore have opted to increase the exposure to bank bonds and NCD's instead.

Portfolio positioning

The ANC elective conference went ahead as scheduled and resulted in a market favorable outcome. The bond and currency markets rallied strongly, with the yield on the R186 retreating to well below their levels prior to the October 25th Medium Term Budget.

The strong rally implies that the market is now pricing in rapid fiscal consolidation and avoiding a Moody's downgrade (and possibly getting a S&P upgrade). We doubt very much that pricing local bonds at pre-MTBPS levels is justified. The post MTBPS selloff was triggered by the significant deterioration of South Africa's debt to GDP and the lack of policy response to the deteriorating fiscal outlook. While we think that the policy implementation post the Zuma era is likely to be better, there are still question marks about government's ability to turn the fiscal trajectory. On the other hand, we know that South Africa's debt burden is already higher than what was tabled in the MTBPS both due to Eskom's failure to secure a 19.9% increase in the electricity tariff and Government's announcement of free higher education for poor and working class students.

A strong confidence rebound post the change in leadership is likely to generate faster economic growth, which should help boost government revenues. However, if the tax buoyancy rate does not improve, revenue could miss the even lower (R50.8bn shortfall) MTBPS projection.

While some of the risks which kept us from going long duration previously have subsided (in particular the ANC elective conference), we are still awaiting Moody's decision and the February budget, both we think could bring negative news to the market. On the other hand, however, a supportive global environment and what is expected to be a better functioning government should be supportive for bonds. Therefore, we will look for opportunities to increase our interest rate risk into weakness while at the same time increasing our foreign currency exposure as we believe that the currency is now trading at levels below its longer term fair value.

Portfolio Manager

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