Granate SCI* Unconstrained Fixed Interest Fund Class A

Collective Investment Scheme Minimum Disclosure Document

As of 31/05/2018

Part of RMI Investment Managers

MDD Issue Date: **21/06/2018**

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	7.11%
Portfolio Manager	Jonathan Myerson
ASISA Fund Classification	South African - Multi Asset - Income
Risk Profile	Moderate
Benchmark	125% STeFI Composite Index
Fund Size	R 396,762,516
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	3.45
Maximum Annual Advice Fee	1.15
Manager Annual Fee	0.97
Total Expense Ratio	1.01
Transaction Cost	0.02
Total Investment Charges	1.03
TER Measurement Period	01 April 2016 - 31 March 2018

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.

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.

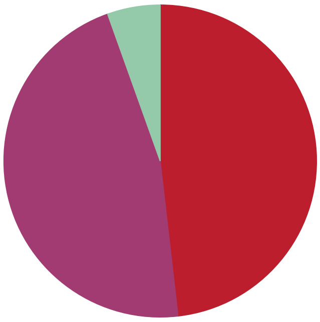
**Risk statistics will only be available once the fund has reached three years performance history.

Top Ten Holdings

Top Ten Holdings	% of Portfolio
Portfolio Date	**31/03/2018**
RSA BONDS 186	8.91
Investec Call	5.58
Nedbank Call	5.27
China Construction Bank	4.04
RSA BONDS R197	3.87
MTN Group Limited	3.02
Nedbank 040418	2.71
China Construction Bank 240518	2.69
RSA BONDS R204	2.59
ABSA 201218	2.57

Asset Allocation

Portfolio Date: 31/03/2018



	%
SA Cash	48.18
SA Bond	46.36
SA Property	5.46
Total	**100.00**

Annualised Performance (%)

	Fund	Benchmark
1 Year	7.48	9.31
Since Inception	8.81	9.44

Cumulative Performance (%)

	Fund	Benchmark
1 Year	7.48	9.31
Since Inception	20.07	21.59

Highest and Lowest Annual Returns

Time Period: 01/01/2017 to 24/12/2017

Highest Monthly %	1.03
Lowest Monthly %	-0.16

Risk Statistics (3 Year Rolling)**

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

Distribution History (Cents Per Unit)

31/03/2018	1.82 cpu	30/09/2017	1.90 cpu
31/12/2017	1.24 cpu	30/06/2017	1.85 cpu
27/10/2017	0.53 cpu	31/03/2017	1.97 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

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GRANATE ASSET MANAGEMENT | Part of RMI Investment Managers

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 buyunits. 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 ofprofessional 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

Investment Manager Information
Granate Asset Management (Pty) Ltd
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Sanlam

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As of 31/05/2018

GRANATE ASSET MANAGEMENT

Part of RMI Investment Managers

Portfolio Manager Quarterly Comment

As at 31 March 2018

Economic overview
Economic activity in major economies maintained its strong momentum during the 1st quarter of 2018. Furthermore, consensus forecast for economic growth for both developed and developing economies for 2018 and 2019 have been revised upwards. These upward revisions to economic growth have come despite the increasing risk of "trade wars" as countries are retaliating to the US's imposition of trade barriers and rising policy rates in the US.

Domestic economic data for the 4th quarter 0f 2017 (released during Q1 2018) showed that the economy is in better shape than previously thought. The domestic economy grew by a quarter-on-quarter annualised rate of 3.1% (1.9% y/y) in the 4th quarter of last year, after recording an upwardly revised 2.3% growth rate in the 3rd quarter. The primary sector (mainly agriculture) remained strong, but encouragingly, both the secondary (manufacturing) and tertiary (trade) sectors rebounded.

Q1 2018 data has been, on balance, encouraging. PMI's, business and consumer sentiment, and mining production have improved while manufacturing production and retail sales have softened, albeit from a strong performance in Q4 2017.

The Monetary Policy Committee (MPC) of the Reserve Bank met twice during the 1st quarter. While both MPC meetings took place after the change in the country's leadership, the situation was very different amongst the two meetings. In the January meeting the economy was still facing significant fiscal and thus rating downgrade risks. Therefore, while inflation was falling and the economy weak, the SARB kept the repo rate unchanged as five members of the MPC voted for no change and one member voted for a 25bp cut. When the MPC met in March, two of the key risks that the economy was facing in January were gone, namely further fiscal deterioration and the rating downgrade. Furthermore, consumer and business confidence showed a marked improvement. This, together with the fact that the committee's inflation forecast was lowered, led to a 25bp repo rate cut. Surprisingly, however, the March MPC statement was relatively hawkish and the decision was a close call as three of the seven (a new member was appointed to the MPC) voted for an unchanged repo rate.

The March MPC statement suggests that a further rate cut this year is in the balance. Inflation has continued to decline, but the 1% VAT increase, higher oil prices and base effects suggests that inflation has probably bottomed in the 1st quarter. This, together with the MPC's increased focus on the middle of the inflation target band (4.5%) as where it wants inflation expectations to settle, suggests that a further 25bp cut is not a given. A favorable outcome in the public-sector wage negotiations, if obtained, could be the deciding factor.

Market overview
The South African bond yields continued their downward trend in 1st quarter of 2018, with the yield on the benchmark R186 declining by 60 basis points (bp) and the All Bond Index (ALBI) recording its best 1st quarter return on record. The rally in the bond market started at the end of November last year, but picked up significant momentum during the ANC elective conference once it became evident that the "Zuma camp" has lost its grip on power. The downward trend in yields was mainly a result of the market "pricing out" the political risk (with all its implications on the economy) that was being discounted in the bond market.

The chain of events triggered by the favourable outcome of the ANC elective conference culminated in Moody's decision not to downgrade South Africa's credit rating – a move that would have probably resulted in large spike in yields as foreign investors would have sold their local bond holdings. Importantly, the credible budget presented (which still needs to be delivered on) by National Treasury, which articulated a path towards fiscal consolidation, has meant that government will borrow less and reduce the size of its weekly bond auctions. The improved fiscal outlook and the resultant decline in borrowing has resulted in a flattening of the yield curve during the quarter with the aggregate yield on the 12+ sector of the yield curve declining by 77bp points compared with that of the 3-7 sector of the yield curve which fell by only 34bp.

Inflation-linked bonds, which have been out of favour for the best part of the last two years, also ended up having a strong quarter (4.15%) courtesy of a March rally which saw yields fall by between 15bp and 39bp on short and long dated bonds, respectively.

After being the best performing domestic asset class in the 4th quarter of 2017 (+8.3%), the property sector was the worst performer (-19.6%), registering its worst quarterly return since the middle of 2006. The selloff was concentrated in four shares that are part of the Resilient group, which make up 27% of the JSE property index, and accounted for 15.2% of the 19.6% loss of value in the sector.

Portfolio activity
We increased the interest rate risk exposure in the fund during the first two and a half months of the quarter as risk events passed and it was becoming clearer that the market is moving into "normal" valuation mode where the political risk and the damage that was inflicted to the economy during the Zuma era ended. The increase in interest rate risk in the fund was done through purchases of government bonds with the longest maturities, a reflection of our view that yields were too high, and that the long end of the nominal yield curve offered the best value across the curve. Furthermore, we significantly reduced the fund's (payed) swap position as a strategy of increasing interest rate risk and taking profit on the bond-swap spread.

The portfolio's asset class exposure was kept defensive during the quarter, with holdings in the more volatile asset classes (namely listed property and long-dated nominal and inflation-linked bonds) kept well below the fund's long-term strategic asset allocation. We did, however, increase the fund's exposure to property (+0.9%) to 5.6% by buying domestically focused counters that should benefit from the low interest rate environment and improved business sentiment.

In line with our view that the shorter end of the inflation-linked curve was offering better value than nominal bonds we increased the funds exposure to this asset class.

Portfolio positioning
Towards the end of the 1st quarter we reduced the interest rate risk of the fund significantly as our valuation models showed that the bond market rally pushed yields to levels below fair value. The Unconstrained fund maintains high levels of liquidity at all times either by holding large exposures to government bonds or shorter dated bank assets (NCD's or call money). Our preference remains for shorter dated inflation-linked bonds as they should continue to benefit from declining issuance, falling real policy (repo) rates, and attractive inflation carry over the next few months due to the VAT hike, increase in sin tax and the higher fuel levy. Furthermore, we believe that near-term inflation forecasts (priced in by the market) could be biased to the downside – a regular occurrence when the cyclical inflation rate bottoms.

In line with Granate's house view, the fund is relatively underweight the corporate bond market and overweight banks (due to the low exposure to government bonds). Whilst we are of the view that the rand is overvalued, we do not consider current levels on the rand to justify an outright purchase of foreign currency in the fund. Since the fund is cognizant of limiting drawdowns, our preference is, at this stage, to use certain listed property holdings (namely Hammerson and Intu) for foreign currency exposure. The portfolio's asset class exposure remains underweight property, long-dated nominal and inflation-linked bonds relative to its long-term strategic asset allocation. We will look to move closer to the fund's long-term strategic asset allocation as valuations become more attractive.

Portfolio Manager
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