Granate SCI* Unconstrained Fixed Interest Fund Class A

Collective Investment Scheme Minimum Disclosure Document

As of 2018/06/30

GRANATE ASSET MANAGEMENT | Part of RMI Investment Managers

MDD Issue Date: 2018/07/20

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	7.14%
Portfolio Manager	Jonathan Myerson
ASISA Fund Classification	South African - Multi Asset - Income
Risk Profile	Moderate
Benchmark	125% STeFI Composite Index
Fund Size	R 403 404 402
Portfolio Launch Date*	2016/04/01
Fee Class Launch Date*	2016/04/01
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.

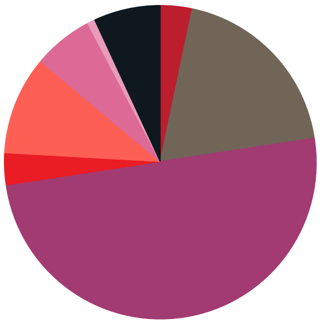
**Risk statistics will only be available once the fund has reached three years performance history.

Top Ten Holdings

Top Ten Holdings	% of Portfolio
Portfolio Date	**2018/06/30**
RSA Bond R2048 280248	12.80
RSA Bond R2044 31012044	10.58
RSA Bond R2040 31012040	5.33
RSA ILB R197 07122023	4.76
RSA Bond R2035 28022035	3.62
RSA Bond R186 211226	2.73
Absa 201218	2.59
Standard Bank 20122018	2.59
Investec 06032019	2.54
Investec 13032019	2.54

Asset Allocation

Portfolio Date: 2018/06/30



	%
Call Money	3.30
FRN Bond	19.30
Fixed Bond	50.00
Coupon CD	3.30
NCD: MM	10.20
Property	6.20
FRN: MM	0.80
ILB	6.90
Total	**100.00**

Annualised Performance (%)

	Fund	Benchmark
1 Year	6.53	9.27
Since Inception	8.30	9.42

Cumulative Performance (%)

	Fund	Benchmark
1 Year	6.53	9.27
Since Inception	19.64	22.46

Highest and Lowest Calendar Year Returns

Time Period: Since Inception to 2017/12/31	
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)

2018/06/30	1.83 cpu	2017/10/27	0.53 cpu
2018/03/31	1.82 cpu	2017/09/30	1.90 cpu
2017/12/31	1.24 cpu	2017/06/30	1.85 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

Sanlam

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Collective Investment Scheme Minimum Disclosure Document

As of 2018/06/30

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
(FSP) License No. 46189
Physical Address: 2 Merchant Place, Cnr Rivonia and Fredman Drive, Sandton, 2196
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Manager Information
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Administered by

Sanlam

GRANATE ASSET MANAGEMENT

Part of RMI Investment Managers

Portfolio Manager Quarterly Comment

Quarterly Commentary (30/06/2018)

Fund Profile

The Granate SCI Unconstrained Fixed Interest Fund 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 the possibility of negative monthly returns. The portfolio is managed in accordance with regulations governing pension funds and CISCA.

Economic overview

Economic activity in major economies maintained its positive momentum during the 2nd quarter of 2018 despite growing concerns around a slowdown in global trade due to rising trade barriers.

Domestic economic data for the 1st quarter 0f 2018 (released during Q2 2018) showed that the economy is in worse shape than previously thought. GDP contracted at a seasonally adjusted quarter-on-quarter annualised rate of 2.2% (0.8% y/y), after recording a 3.1% growth rate in the 4th quarter of 2017.

The manufacturing and mining sectors (making up 7.7% and 12.5% of GDP) contracted by 9.9% and 6.4%, respectively, together contributing 1.6% to the GDP contraction. The agriculture sector, after growing by an average annualised rate of 35% in 2017 contracted by 24.2%, to cut a further 0.7% off GDP growth. Positive contributions came from the finance sector (1.8%) which contributed 0.3% towards growth followed by general government services which makes up 14.9% of GDP and grew by 1.8%.

Q2 2018 data has been, on balance, disappointing. PMI's, retail sales, mining and manufacturing production have all disappointed, posing further downward risk to GDP growth for 2018.

The Monetary Policy Committee (MPC) of the Reserve Bank met once during the 2nd quarter and decided (unanimously) to keep the repo rate unchanged at 6.5%. The MPC's hawkish statement was consistent with its growing focus of an inflation target of 4.5% (rather than 3%-6%). In its assessment, while the inflation forecast has remained broadly unchanged, the risks have moved to the upside due to the higher oil price, a weaker rand, higher electricity prices, and a reversal of capital flows to emerging markets. Importantly, however, the Governor reiterated that "…MPC attempts to 'look through' the first-round effects of such (supply side) shocks and to react to second-around effects". Inflation expectations and wage settlements are key in this regard.

Market expectations of the path of policy rates continues to trend higher. After pricing in no rate hikes for the year in May, the market has moved to price in a 70% probability of a rate hike by the end of the year and at least two 25 basis points (bps) rate hikes by the end of 2019.

The weaker rand certainly poses a risk that the SARB will move on rates sooner than previously expected. However, a surprisingly weak economy and the absence of demand pull inflation suggests rates on hold for the year.

Market overview

After a spectacular 1st quarter of 2018 for domestic bonds where the All Bond Index (ALBI) returned 8.1%, bonds sold off in the 2nd quarter – the yield on the benchmark R186 rising by 85bps and the ALBI losing 3.8% as global investors turned negative on emerging markets, finding some comfort in the safety of developed market bonds.

The quarter was characterised by large foreign selling of local bonds. After increasing their holdings to a record 43% at the end of March, foreign investors sold a total of R64bn of domestic bonds in the subsequent quarter, the largest 3 month selling on record.

While the yield on the 10 year US Treasury ended the quarter only 10 basis points (bps) higher than where it started, the yield movements during the quarter were particularly volatile. The yield on the 10 year Treasury traded above 3% for the first time in over 5 years during May as a result of investors becoming concerned that the US Federal Reserve will hike its lending rate by more than previously expected. In June, however, the focus moved to the risk that "trade wars" will negatively impact global growth, causing investors to flock to the safety of US Treasuries that then rallied by 37bps in a matter of days.

The listed property sector continued its poor run as it faces both disappointing growth and a risk of rising interest rates. In contrast to the 1st quarter, the 2nd quarter saw domestically focused counters suffer as management teams continue to guide for flat-to-low growth in distributions in the near term.

Inflation-linked bonds remained under pressure, performing worse than any other domestic asset class in the 2nd quarter, even though inflation has bottomed. This suggests that the market is confident that the SARB will do what it takes to ensure that inflation remains well within the target band of 3% to 6%.

Portfolio activity

We started the 2nd quarter with a low interest rate risk exposure as valuation became stretched post the change in government leadership rally. The April sell-off started offering better buying opportunities and we gradually increased our interest rate risk exposure to take advantage of higher yields. We continued to increase our interest rate risk exposure by buying long dated nominal bonds in the weekly auctions that offer a two day "free" option increasing exposure of the amount bought in the auction. Maturing Negotiable Certificates of Deposit, corporate bonds and call money were used to increase the portfolio's exposure to fixed rate bonds from 23% at the end of March to 50% at the end of June.

The exposure to inflation-linked bonds fluctuated during the quarter. The bottom of the inflation cycle did provide some opportunities in the shorter end of the inflation-linked bond curve as the inflation carry (the portion of returns that is attributed to inflation) was attractive. However, we have subsequently reduced the exposure to the longer dated holdings in the portfolio as the market appears to have become too negative on the inflation outlook.

We have increased the exposure to the listed property sector marginally (+0.7%) during the quarter as certain counters appear to be offering better value post the recent sell-off. We did, however, reduce our exposure to the currency hedge counters (namely Hammerson and INTU) as we believe that the benefits of the hedge have now declined.

Portfolio positioning

The global economic environment is uncertain and the last quarter showed the vulnerability of emerging markets to higher US interest rates and a "trade war" induced slowdown. However, it appears that the market has broadly adjusted to this environment and our bond valuation models suggest that nominal bonds are offering a positive risk compensation. At a current yield of above 9% on the All-bond index and good prospects for inflation remaining contained, inflation adjusted yields (real yields) seem attractive at around 4%. Therefore, we remain long interest rate risk on the portfolio and will look for opportunities to increase this further.

While the property sector remains under pressure due to higher interest rates and a weak growth environment, post the selloff in the sector, some SA centric companies are trading at a positive yield spread to the SA 10-year bond. Over all we maintain a significant underweight exposure to the property sector versus our strategic asset allocation as we are very cognisant of the changing nature of the domestic listed property sector. We maintain an exposure to the more liquid, less volatile counters which are focused to "specialised" sectors that we believe have long-term prospects.
Inflation-linked bonds at the long end of the yield curve remain expensive. Shorter dated inflation-linked bonds continue to offer some defensive properties, but we will look to sell out of these and increase our exposure to long-dated bonds.

Portfolio Manager
Jonathan Myerson
M.Soc.Sci. (Economics) (UCT)

Jonathan served as the Head of the Fixed Interest team at Cadiz Asset Management from 2006 to 2015 where he managed the Unconstrained, House View and Inflation-Linked Bond funds. Jonathan has 11 years of sell-side experience having worked as a Fixed Interest Strategist at HSBC from 1995 to 2003 and then at RMB from 2003 to 2006. Jonathan joined Granate at its inception as Head of Fixed Income in November 2015.