# Granate SCI* Money Market Fund Class A

## Collective Investment Scheme Minimum Disclosure Document

As of 2018/12/31

GRANATE ASSET MANAGEMENT — Part of RMI Investment Managers

**MDD Issue Date:** 2019/01/21

### Fund Objective and Strategy

The objective of the portfolio is to provide investors with a way to participate in a diversified portfolio of money market instruments that ordinarily are either not available or offer a lower yield to retail investors. The primary performance objective of the portfolio is to obtain a high level of current income as is consistent with capital preservation and liquidity. Capital gains will be of an incidental nature.

The portfolio will be managed in accordance with CISCA and Regulation 28 of the Pension Funds Act. The portfolio will be allowed to invest in listed and unlisted financial instruments (derivatives) as allowed by the Act from time to time, in order to achieve the portfolio's objective.

### Portfolio Limits and Constraints

Exposure limits as per the ASISA fund classification structure applicable to South African - Interest Bearing - Money Market Portfolios. Money market instruments with a maturity limit of less than thirteen months, the average duration of the underlying assets may not exceed 90 days and a weighted average legal maturity of 120 days. The portfolio will be managed in compliance with prudential investment guidelines applicable to retirement funds in South Africa.

### Fund Information

| | |
|---|---|
| Ticker | RSMMA |
| 12 Month Yield | 7.28% |
| Portfolio Manager | Vaneshen Naidoo |
| ASISA Fund Classification | South African - Interest Bearing - Money Market |
| Risk Profile | Ultra Conservative |
| Benchmark | STeFI Composite Index |
| Fund Size | R 141 722 402 |
| 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 | Monthly |
| Income Pricing Date | 1st business day of the following month |
| Portfolio Valuation Time | 14:00 |
| Transaction Cut Off Time | 13:00 |
| Daily Price Information | Local media |
| Repurchase Period | 2-3 business days |

### Fees (Incl. VAT)

| Fees (Incl. VAT) | A-Class (%) |
|---|---|
| Maximum Initial Advice Fee | 3.45 |
| Maximum Annual Advice Fee | 1.15 |
| Manager Annual Fee | 0.34 |
| Total Expense Ratio | 0.82 |
| Transaction Cost | — |
| Total Investment Charges | 0.82 |
| TER Measurement Period | 01 April 2016 - 30 September 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 Money Market 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.

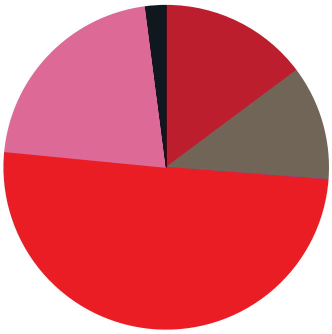
**Specific Risks**
The Granate Money Market Fund is a domestic money market fund which seeks to provide investors with a high level of income, whilst preserving capital, maintaining liquidity and mitigating the risks that are specific to money market funds; namely interest rate risk, liquidity risk and credit risk. Typically the interest rate risk is influenced by the interest rate expectations and is controlled by deciding on the aggregate term of the fund. A minimum credit qualityrequirement for any asset held in the fund is imposed and there are typically higher exposures to the issuers that are subject to additional oversight. Proprietary credit research is a very important of the investment process. Liquidity profiles of the underlying investment are considered so as to ensure that the fund can meet its daily obligations. 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.

### Top Ten Holdings

| Top Ten Holdings | % of Portfolio |
|---|---|
| **Portfolio Date** | **2018/12/31** |
| China Construction Bank Call | 10.71 |
| Nedbank 040119 | 7.19 |
| Nedbank 150319 | 7.08 |
| Investec 060619 | 5.68 |
| Investec Call | 4.03 |
| Investec 070119 | 3.60 |
| Absa 140119 | 3.58 |
| Barloworld 300519 | 3.55 |
| RMB 060619 | 3.55 |
| Nedbank 150319 | 3.54 |

### Asset Allocation

Portfolio Date: 2018/12/31



| | % |
|---|---|
| Call Money | 14.79 |
| FRN Bond | 11.39 |
| Cash | 0.07 |
| NCD: MM | 50.30 |
| Stepped Rate Note | 21.40 |
| Promissory Notes | 2.05 |
| **Total** | **100.00** |

### Annualised Performance (%)

| | Fund | Benchmark |
|---|---|---|
| 1 Year | 7.53 | 7.25 |
| Since Inception | 7.74 | 7.44 |

### Cumulative Performance (%)

| | Fund | Benchmark |
|---|---|---|
| 1 Year | 7.53 | 7.25 |
| Since Inception | 22.76 | 21.82 |

### Highest and Lowest Calendar Year Returns

| | |
|---|---|
| Time Period: Since Inception to 2018/12/31 | |
| Highest Annual % | 7.86 |
| Lowest Annual % | 7.53 |

### Risk Statistics (3 Year Rolling)**

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

### Distribution History (Cents Per Unit)

| | | | |
|---|---|---|---|
| 2018/12/31 | 0.62 cpu | 2018/06/30 | 0.59 cpu |
| 2018/11/30 | 0.60 cpu | 2018/05/31 | 0.62 cpu |
| 2018/10/31 | 0.61 cpu | 2018/04/30 | 0.60 cpu |
| 2018/09/30 | 0.59 cpu | 2018/03/29 | 0.62 cpu |
| 2018/08/31 | 0.61 cpu | 2018/02/28 | 0.55 cpu |
| 2018/07/31 | 0.60 cpu | 2018/01/31 | 0.61 cpu |

Administered by

Sanlam

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GRANATE
ASSET MANAGEMENT

Part of RMI Investment Managers

## Risk Profile: Ultra Conservative

An ultra-conservative portfolio caters for an extremely low risk tolerance, and is designed for minimum capital fluctuations and volatility. It carries a short time-frame for investment. There are no growth assets in this portfolio and it is a cash-based investment. The ultraconservative portfolio aims to yield returns that are higher than bank deposits and typically higher than inflation. Capital protection is of prime importance.

## 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
Postal Address: 2 Merchant Place, Cnr Rivonia and Fredman Drive, Sandton, 2196
Tel: +27 (21) 446 9410
Email: info@granate.co.za
Website: www.granate.co.za

**Manager Information**
Sanlam Collective Investments (RF) (Pty) Ltd
Physical Address: 2 Strand Road, Bellville, 7530
Postal Address: P.O. Box 30, Sanlamhof, Bellville, 7532
Tel: +27 (21) 916 1800
Email: service@sanlaminvestments.com
Website: www.sanlamunittrusts.co.za

**Trustee Information**
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Email: compliance-sanlam@standardbank.co.za

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As of 2018/12/31

GRANATE ASSET MANAGEMENT

Part of RMI Investment Managers

## Portfolio Manager Quarterly Comment

**Quarterly Commentary (31/12/2018)**

**Fund Profile**

The objective of the Granate SCI Money Market Fund is to provide investors with a way to participate in a diversified portfolio of money market instruments that ordinarily are either not available or offer a lower yield to retail investors. The primary performance objective of the portfolio is to obtain a high level of current income as is consistent with capital preservation and liquidity. Capital gains will be of an incidental nature. The portfolio is managed in accordance with CISCA and Regulation 28 of the Pension Funds Act. The portfolio will be allowed to invest in listed and unlisted financial instruments (derivatives) as allowed by the Act from time to time, in order to achieve the portfolio's objective.

This is an ultra-conservative portfolio that caters for an extremely low risk tolerance and is designed for minimum capital fluctuations and volatility. It carries a short time-frame for investment. There are no growth assets in this portfolio and it is a cash-based investment. The ultraconservative portfolio aims to yield returns that are higher than bank deposits and typically higher than inflation. Capital protection is of prime importance.

The portfolio is bound by the exposure limits as per the ASISA fund classification structure applicable to South African - Interest Bearing - Money Market Portfolios. Money market instruments with a maturity limit of less than thirteen months, the average duration of the underlying assets may not exceed 90 days and a weighted average legal maturity of 120 days.

**Economic overview**

Economic activity has slowed down marginally in the 4th quarter but remains on track to match last year's robust performance. Whilst consensus forecast is for a continuation of the economic upcycle, there are signs that the risks of a US recession (with broader global implications) is growing. Similar (low) rates of unemployment and yield curve shape have historically been followed by recessions.

Domestic economic growth in the 3$^{rd}$ quarter 0f 2018 (released during Q4 2018) rebounded to a seasonally adjusted quarter-on-quarter annualised (q/q) rate of 2.2% from an upward revised -0.4% 2$^{nd}$ quarter growth rate. The positive outcome means that the economy has emerged from its brief recession. The strong rebound was predominantly due to a strong performance of the manufacturing sector (making up 13.5% of GDP) which recorded its strongest 3rd quarter (7.5%) in over a decade and despite a poor performance of the mining sector (-8.8%) (that makes up only 8.1% of GDP). Concerningly, gross fixed capital formation declined by a q/q rate of 5.1%, its 10th negative quarter in the last 12 quarters. High frequency economic data releases for the 4th quarter have surprised on the upside and suggest that the economy continued to grow in 4Q although, judging from the still weak confidence and PMI surveys, momentum remains subdued.

The Monetary Policy Committee (MPC) of the Reserve Bank met once in the 4$^{th}$ quarter and increased the repo rate by 25bps to 6.75% - the first hike since Feb 2016, in a close decision (3:3 vote). While the rate hike was broadly in line with the SARB's Quarterly Projection Model, communicating the decision was made difficult by a much stronger rand and lower oil price since the previous meeting. Furthermore, the MPC's inflation and GDP growth forecasts were lowered, implying less justification for a hike. Therefore, we think that the decision by the SARB should be seen as a further sign that the MPC is focused on the midpoint (4.5%) as the inflation target rather than the 3%-6% range.

We maintain our view that barring a sell-off in the rand or a rally in oil, the SARB is likely to keep the repo rate unchanged in January 2019 before hiking again in March 2019, but global developments could mean a delay in the next hike.

**Market overview**

Financial markets ended the year on shaky ground. Locally, money market outperformed all other domestic asset classes both for the quarter and the year. Adjusted for inflation, only bonds and money market recorded positive returns over the last 1, 3, and 5 years. Given the make-up of domestic pension funds (with their heavy weighting towards equities), real value of retirement saving has, at best, remained unchanged over the last 5 years and in many cases, would have declined.

Money market rates continued their upward trend in the 4$^{th}$ quarter of 2018. The 3-month Negotiable Certificates of Deposit (NCD) rate ended the quarter 17.5 bps higher at 7.125%, while the 12-month NCD rate ended 2.5bps higher at 8.325% (Q3: 8.3%). The large movement in the 3-month NCD was largely due to the rate hike that occurred during the quarter. Money market rates were less volatile that the previous quarter with the 12-month NCD trading in a 12.5-basis point range as compared with the 40-basis point range seen in the previous quarter.

The money market curve flattened during the quarter despite the weaker currency as both economic growth and inflation remain subdued. The gap between what the market is pricing in for the repo rate path and the SARB's Quarterly Projected Model (QPM) continued to widen – the market pricing a 25bps hike by the end of 2019 compared with the QPM's 50bps.

**Portfolio activity**

We started the 4$^{th}$ quarter\ with a higher exposure to longer term floating rate money market assets. This strategy was appropriate as Jibar rates increased post the rate hike and funding rates remained attractive. Thus, the portfolio benefitted by holding these higher yielding assets.

The money market curve continued to price in multiple repo rate hikes and our valuation models indicated that the longer term fixed rate money market instruments offered significant positive risk compensation. We therefore invested with a bias towards longer duration fixed rate assets.

**Portfolio positioning**

Currently the portfolio has a higher exposure to floating rate bank paper. Given the high probability of a repo-rate increase in 2019, floating rate notes will benefit if the reserve bank increases the repo-rate at future meetings. The risk is fewer or no further rate increases because of the absence of demand-pull inflation and potential global developments, but with Jibar and funding rates being abnormally high, the portfolio will benefit by holding these instruments.

We will however continue to follow our valuation models and invest cash holdings into the longer term fixed rate assets which are currently offering positive risk compensation.

The money market portfolio maintains a high level of liquidity through call deposits and bank paper.

**Portfolio Manager**
Vaneshen Naidoo
CFA ®, M.Sc. (Engineering) (UCT), BSc. Hons (Engineering) (UCT)

Vaneshen joined Granate Asset Management in December 2015 and currently manages the Money Market and Cash portfolios in the Fixed Interest Team. He joined Cadiz Asset Management in 2006 as a graduate and during this time analysed the credit and property sectors for the fixed interest and multi asset class teams. Vaneshen holds a BSc. Hons (Engineering) and M.Sc.(Engineering) from The University of Cape Town, and is also a CFA.