

As of 2019/01/31

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
Yield	8.21%
Portfolio Manager	Jonathan Myerson
ASISA Fund Classification	South African - Multi Asset - Income
Risk Profile	Moderate
Benchmark	125% STeFI Composite Index
Fund Size	R 352 611 644
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	1.00
Transaction Cost	0.02
Total Investment Charges	1.02
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 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.

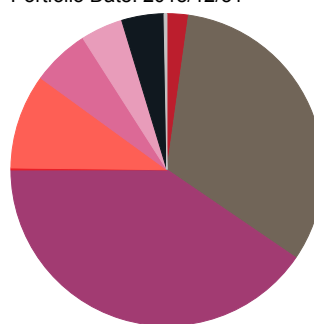
MDD Issue Date: 2019/02/22

Top Ten Holdings

Portfolio Date	2018/12/31	% of Portfolio
RSA Bond R2048 280248		15.97
RSA Bond R2044 310144		6.18
Granate SCI Multi Income Fund		4.38
FirstRand FRN 011026		4.37
Granate SCI Money Market Fund		4.37
Standard Bank 030320		3.96
RSA Bond R197 071223		3.01
Standard Bank 040919		2.97
Santam FRN 270622		2.94
Anglo American 220319		2.38

Asset Allocation

Portfolio Date: 2018/12/31



	%
Call Money	2.21
FRN Bond	32.32
Fixed Bond	40.45
Unlisted Bond	0.20
NCD: MM	9.82
Property	5.95
Fund: MM	4.37
Fund: MI	4.38
Cash	0.30
Total	100.00

Annualised Performance (%)

	Fund	Benchmark
1 Year	7.54	9.14
Since Inception	8.39	9.38

Cumulative Performance (%)

	Fund	Benchmark
1 Year	7.54	9.14
Since Inception	25.65	28.92

Highest and Lowest Calendar Year Returns

Time Period: Since Inception to 2018/12/31

Highest Annual %	8.28
Lowest Annual %	6.00

Risk Statistics (3 Year Rolling)**

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

Distribution History (Cents Per Unit)

2018/12/31	2.04 cpu	2018/03/31	1.82 cpu
2018/09/30	1.90 cpu	2017/12/31	1.24 cpu
2018/06/30	1.83 cpu	2017/10/27	0.53 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

As of 2019/01/31

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 yield is calculated as the latest distribution divided by the average 3-month unit price, annualised. 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

Granate Asset Management (Pty) Ltd
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As of 2019/01/31

Portfolio Manager Quarterly Comment

Quarterly Commentary (31/12/2018)

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

Domestic economic growth in the 3rd quarter of 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% 2nd 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. 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 4th 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.

The bond market returned a respectable 2.7% in the 4th quarter as bond yields (R186) traded in a 50 basis point (bp) range and ended the quarter practically where it started. The long end of the yield curve (R2048), however, was only 2bp lower implying a slight decline in value. The reasonable performance of bonds came with a significant bout of volatility. November (+3.9%) was a stand-out month where the bond market was supported by a strong rand (+6.6%) which benefited from improving terms of trade and a generally supportive global environment, as evident from the strong performance of both EM bonds and equities, that saw foreign investors returning as net buyers (+R2.6bn) to the local market for the first time since July. Taking global markets performance in the 4th quarter into account, South African bonds have held up well – a function of the attractive prospective real yields that they are trading at.

Global economic uncertainty impacted financial markets in the 4th quarter more than it did in the 3rd as evident from the worst quarterly performance in 10 years of key equity indices such as the S&P500 and a spike in the VIX index. This sent investors to the safe haven of developed market bonds driving all key market rates lower with the yield on the 10yr US Treasury declining by 36bp, this despite the US Fed raising its key lending rate by 25bp. Despite the increase in risk aversion emerging markets fared well outperforming all major asset classes.

Inflation-linked bonds continue to perform poorly as inflation, while likely to remain around current levels for the next few months, is not expected to rise rapidly and does not appear to pose a major, hence investors are not seeking inflation protection which this asset class offers.

The listed property sector remains a significant underperformer having recorded its 4th consecutive negative quarter and its 10th negative month of the year in December. The sector has come under growing scrutiny due to allegations of inaccurate financial reporting by some of the larger companies. Furthermore, results and trading update point to very tough trading conditions as also evident by the risk that Edcon (a substantial tenant in most retail shopping centres) may not meet its rental obligations.

Portfolio activity

We maintained the portfolio's high exposure to fixed rate bonds early in the 4th quarter before selling down some of the shorter dated fixed rate bonds. We reduced the fund's fixed rate bond exposure by 14% during the quarter, cutting interest rate risk as our models suggested that the market has moved into expensive territory during November. While we reduced the portfolio's interest rate risk, we increased the exposure to the ultra-long end of the yield curve as we consider the curve to be too steep.

Market volatility during the quarter meant that the rand also strengthened to levels which our models suggested are overvalued. This, together with a narrowing gap between South Africa's short dated yields and those in the US, gave us an opportunity to take on some US\$ exposure at attractive yields.

We increased the portfolio's exposure to the listed property sector by 1% during the quarter to 6% (significantly underweight its strategic asset allocation). The volatility of the sector remained extremely elevated and we continued to focus on counters that we believe are less volatile and now offering attractive yield such as Growthpoint and Equites. After reducing the fund's exposure to Hammerson and Intu in the 3rd quarter, we now sold out of these counters. This despite, in the case of Hammerson, the share trading at a significant discount – we do not believe that the risk associated with Brexit justifies holding the stock.

Portfolio positioning

South Africa's economic growth is expected to pick up in 2019, however, low consumer and business confidence are likely to remain low before the outcome of the general elections is known and there are clear signs that the president is able to implement his economic policies. Given the uncertainty around the further burden that state-owned enterprises will put on the fiscus, the risk of a credit rating downgrade by Moody's remains elevated and is likely to remain a source of volatility during the year. Nonetheless, real yields of South African bonds remain very attractive, offering good returns for investors that are willing to take on a fair amount of volatility.

By the end of the quarter our bond valuation guide, after indicating that South African bonds are offering positive *risk compensation*, were back to fair *risk compensation*. Therefore, we have lowered the fund's exposure to fixed rate bonds but increased the relative exposure to the long end of the curve. In this way we have been able to keep the funds overall yield to maturity the same as it was at the beginning of the quarter at around 9.5%.

We maintain a relatively low (vs the funds strategic asset allocation) exposure to listed property despite a material improvement in value due to the large sell-off of the sector. This is because the economy remains weak and investors are sceptical about the sector's ability to maintain its earnings. Furthermore, property funds with exposure to the retail sector are facing uncertainty around the structural shift in consumer preference and the growth of online shopping. While local market dynamics are clearly different to those in developed markets, it is very likely that online shopping will put pressure on established shopping centres.

Portfolio Manager

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

Prior to joining Granate Asset Management in December 2015, 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 holds an M.Soc.Sci. (Economics) from the University of Cape Town.

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