Granate SCI* Unconstrained Fixed Interest Fund Class A

Collective Investment Scheme Minimum Disclosure Document

As of 2019/03/31

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	6.97
Portfolio Manager	Jonathan Myerson
ASISA Fund Classification	South African - Multi Asset - Income
Risk Profile	Moderate
Benchmark	125% STeFI Composite Index
Fund Size	R 373 024 237
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 - 31 December 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.

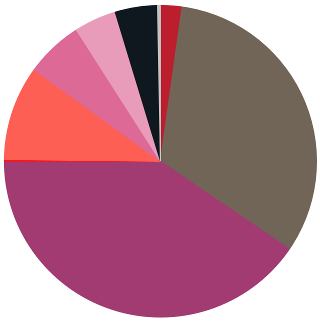
**Risk statistics will only be available once the fund has reached three years performance history.

MDD Issue Date: **2019/04/23**

Top Ten Holdings	% of Portfolio
Portfolio Date	**2019/03/31**
RSA Bond R2048 280248	7.33
RMB FRN 280120	5.44
FirstRand FRN 011026	4.24
Granate SCI Multi Income Fund	4.07
Granate SCI Money Market Fund	4.05
Standard Bank 231220	3.97
Standard Bank 030320	3.95
Standard Bank FRN 040919	2.81
RSA Bond R197 071223	2.79
Santam FRN 270622	2.72

Asset Allocation

Portfolio Date: 2019/03/31



	%
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	7.20	9.15
3 Years	8.56	9.36
Since Inception	8.56	9.36

Cumulative Performance (%)

	Fund	Benchmark
1 Year	7.20	9.15
3 Years	27.94	30.79
Since Inception	27.94	30.79

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	2.22
Sharpe Ratio	0.49
Information Ratio	-0.33
Maximum Drawdown	-1.21

Distribution History (Cents Per Unit)

2019/03/31	1.75 cpu	2018/06/30	1.83 cpu
2018/12/31	2.04 cpu	2018/03/31	1.82 cpu
2018/09/30	1.90 cpu	2017/12/31	1.24 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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As of 2019/03/31

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

Portfolio Manager Quarterly Comment

Quarterly Commentary (31/03/2019)

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 growth in most regions is expected to have peaked, and consensus forecasts are for a mild slowdown. However, leading market indicators have started pointing to an increasing risk of a slowdown and possibly a US recession this year with other large economies also slowing down. Global inflation appears to be at cyclical highs which are well below longer term averages and recent inflation data releases have, on aggregate, surprised on the downside together resulting in major central banks slowing the pace of monetary tightening and communicating a more dovish message.

Domestic economic growth in 4Q18 (released in March) slowed to 1.4% q/q seasonally adjusted annualized rate (saar) from 2.6% in 3Q18 to register a full year expansion of 0.8% (1.4% in 2017). The mining sector remained the biggest detractor in the quarter and for the year while Gross Fixed Capital Formation (Investment) fell for a fourth consecutive quarter. Available data for 1Q19 continues to point to softness in the local economy as the mining and manufacturing sectors remain weak and car sales decline. Leading indicators such as the PMI's and business confidence are depressed. Electricity outages now pose a very significant risk to the economic growth outlook and growth for 2019 can easily be shaved by 0.5% resulting in 2019 failing to beat the weak growth registered in 2018.

The Monetary Policy Committee (MPC) of the Reserve Bank met twice during the 1st quarter and kept the repo rate unchanged at 6.75% - a unanimous decision in both meetings. The March decision was accompanied by the most dovish statement delivered by the MPC in a while, saying that "The overall risks to the inflation outlook are assessed to be more or less evenly balanced" – the first time in 6 meetings that it does not consider the risk to be on the upside.

Both core inflation and growth forecasts were revised downwards for the next three years and inflation expectations (measured by the BER) fell meaningfully, albeit remaining above the middle of the inflation target of 4.5% - something that the SARB is determined to achieve. The downward revision to the SARB's growth forecast was the result of the "bigger than expected slowdown in the global economy, declines in business confidence, potential supply side disruptions from load shedding and growing pressure on household disposable income". We consider it unlikely that the SARB's growth forecast of 1.3% for 2019 will be achieved.

The MPC considers the current policy stance to be accommodative and the SARB's Quarterly Projection Model (QPM) is forecasting 1 rate hike in 2019. It is difficult to see the need for further monetary tightening given the weak performance of the economy. However, given the SARB's determination to get inflation expectations down to 4.5% we believe that a rate cut is very unlikely in 2019.

Market overview

After a shaky end to 2018 financial markets recovered in the 1st quarter of 2019 with all major asset classes recording a positive return.

Locally, equities outperformed all other domestic asset classes followed by bonds which returned an inflation beating return of 3.8% as foreign investors turned net buyers in the quarter - the first in 4. The bond market (ALBI) ended the quarter 22 basis points lower than where it started led by the medium dated maturities of the index which were the biggest beneficiary of lower inflation. Yields on longer dated maturities also fell, but to a lesser extent as investors remain concerned by the deteriorating fiscal outlook which has means that Government borrowing will increase. Yields on shorter dated maturities also lagged the decline of medium maturities as it has become evident that National Treasury will slow the pace of switch auctions which will reduce speculative demand for the shorter end of the yield curve.

Inflation-linked bonds also remained out of favor underperforming all other domestic asset classes in the quarter. For the 12 months to the end of March the asset class lost 3.1% – the largest loss since ILB's were first issued in 1999. The asset class that is supposed to protect investors from rising inflation continues to destroy value, investors in this asset class now losing approximately 7.2% in real terms over the last 12 months. Looking forward, an upward leg in the inflation cycle does make the asset class more attractive, but the demand for inflation protection will remain subdued. We expect increasing demand for ILB's during April as the inflation carry becomes attractive from May.

The listed property sector managed to break its 4-quarter streak of negative returns and outperformed ILB's in the quarter to avoid the wooden spoon but remains a significant underperformer. While property yields are seemingly at attractive levels, oversupply and weak domestic growth pose further risk to the sector as its ability to meet revenue growth projections remains high.

Portfolio activity

We reduced the portfolio's exposure to local currency fixed rate bonds by a further 12% during the quarter while increasing exposure to foreign currency bonds to 8% as we considered the increasing fiscal deterioration to pose a risk to local bonds even though inflation remains low. Our decision to increase the funds' exposure to foreign currency stemmed from the fact that we see a growing probability that Moody's, despite skipping the rating review at the end of March, will lower South Africa's credit rating later this year which will make financing the growing debt more costly.

We reduced the portfolio's exposure to the listed property sector by 3.5% during the quarter to 2.5% (significantly underweight its strategic asset allocation). The volatility of the sector remained extremely elevated and we remain concerned that both structural and cyclical headwinds will remain and could even intensify as all property sectors struggle to fill vacancies and raise rentals.

The portfolio's exposure to ILB's was increased by 5% (although also remains below the strategic asset allocation of the asset class). The increase in exposure to ILB's was done in the short end of the yield curve where we see significantly better value versus shorter dated nominal bonds.

Portfolio positioning

Consensus forecast for domestic growth in 2019 is for a material improvement from 2018. We doubt that this relatively optimistic outlook will materialise and will not be surprised to see economic growth in 2019 failing to match that of 2018. While the clear risk to domestic growth comes from electricity constraints and poor consumer (limiting consumption) and business confidence (limiting investment), we think that the market is underplaying the growing likelihood of softer global growth and potentially a US recession which some leading indicators are pointing to. Weak domestic growth will negatively impact the already fragile fiscal outcome and weaker global growth will make financing the growing deficit more difficult.

Our bond valuation guides are indicating that at the end of the 1st quarter domestic bonds are offering slightly better than fair risk compensation. Current yields continue to price in some probability of Moody's lowering South Africa's credit rating - we expect a rating downgrade by the end of the year, which will result in higher rates. Our preference remains for the long end of the yield curve as it is both pricing in some fiscal slippage and trading at a historically high inflation adjusted yield.

We will look to increase the fund's exposure to inflation-linked bonds at the short to medium sectors of the yield curve at yields above 3% as they are offering good value on an absolute and relative (versus both cash and nominal bonds) basis.

The fund remains highly liquid with well diversified exposure to high quality credit.

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.