Granate SCI* Flexible Fund Class B

Collective Investment Scheme Minimum Disclosure Document (MDD)

As of 30/06/2020

GRANATE
ASSET MANAGEMENT

MDD Issue Date: **16/07/2020**

Fund objective and strategy

The fund aims to deliver long-term capital growth of at least CPI + 6%, measured over rolling seven-year periods. While it seeks to limit downside risk over the medium to long term, investors should be able to withstand short-term volatility. The fund invests in a range of markets and asset classes, including a flexible combination of investments in local and foreign equities (shares), listed property, fixed income and cash. It may at any given time hold between 0% and 100% exposure to any of these asset classes.

Within legal limits, it may also invest in listed and unlisted derivatives (but may only invest in forward currency agreements and interest rate and exchange rate swaps for efficient portfolio management) as well as in other collective investment schemes (unit trusts). If these collective investment schemes are outside of South Africa, the regulatory environment must offer investors at least equal protection to that in South Africa.

Fund information

Ticker	GSFFB
Portfolio managers	Henno Vermaak & Paul Bosman
ASISA fund classification	South African - Multi Asset - Flexible
Risk profile	High
Benchmark	CPI + 6%
Fund size	R 30,271,910
Portfolio launch date	03/02/2020
Fee class launch date	03/02/2020
Minimum lump sum investment	R 10,000
Minimum monthly investment	R 500
Income declaration dates	June & December
Income pricing date	1st business day of the following month
Portfolio valuation time	15:00
Transaction cut-off time	15:00
Daily price information	Local media
Repurchase period	2-3 business days

Fees are including 15% VAT	**B Class (%)**
Maximum initial advice fee**	3.45
Maximum annual advice fee**	1.15
Manager annual fee	0.98
Total expense ratio (TER)***	1.58
Transaction cost (TC)***	2.41
Total investment charge (TIC)***	3.99
TER measurement period	03 February 2020 - 31 March 2020

The TER shows the percentage of the fund incurred as administration expenses. A higher TER does not necessarily imply a poor return, and a low TER does not necessarily imply a good return. The current TER is also not necessarily an accurate indication of future TERs.

The TC shows the percentage of the fund incurred as expenses related to buying and selling the assets it holds. These expenses are necessary costs in administering the fund. The TC impacts fund returns but should not be considered in isolation, as there are many other factors that impact returns. These include the type of fund invested in, the investment decisions of the investment manager and the TER.

The TIC (TER + TC) measures the total cost to the investor of investing in this fund. It shows the total percentage of the fund incurred as costs.

***SCI is an abbreviation for Sanlam Collective Investments.**

****Granate does not provide financial advice. Advice fees are agreed between the investor and financial adviser.**

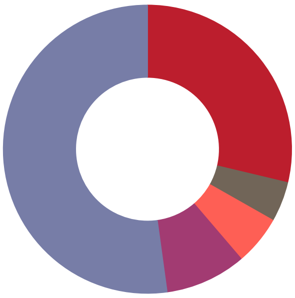
******As the fund's track record is shorter than a year, the TER and TC cannot be accurately determined. Calculations are based on actual data where possible, and on best estimates where data is not available.***

Top ten equity holdings

Top ten equity holdings	**% of portfolio**
Portfolio Date	**30/06/2020**
Nedbank Group Limited	6.05
Mr Price Group Limited	5.66
Afrimat Limited	5.62
Sanlam Limited	5.30
MEI Pharma Inc	5.29
PSG Group Limited	4.82
Hudaco Industries Limited	4.63
Exor NV	4.01
Spar Group	3.87
Santam Limited	3.29

Asset allocation

Portfolio Date: 30/06/2020



	%
Foreign equity	28.73
Local bonds: Fixed	4.47
Local bonds: Floating	5.54
Local cash and money market	9.08
Local equity	52.17
Total	**100.00**

Annualised performance (%)***

	Fund	Benchmark
1 year	—	—
3 years	—	—
5 years	—	—
Since inception	—	—

Cumulative performance (%)***

	Fund	Benchmark
1 year	—	—
3 years	—	—
5 years	—	—
Since inception	—	—

Highest and lowest calendar-year returns***

Time Period: 01/07/2019 to 30/06/2020	
Highest annual %	—
Lowest annual %	—

Distribution history (cents per unit)

30/06/2020	0.68 cpu	—	—
31/03/2020	0.47 cpu	—	—
—	—	—	—

Administered by

Sanlam

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Risk profile: High

This fund is suitable for individuals who are investing for the long term and are seeking capital growth. It could be significantly invested in shares, which can result in volatility. Investors in this fund should therefore be able to take on a higher level of risk and potential short-term volatility, in exchange for higher potential returns over periods of seven years and longer.

Glossary terms

Annualised returns
Annualised returns show the compound annual growth rate on a total return basis. Total return assumes that distributions are reinvested in the fund.

Asset allocation
Asset allocation is the percentage the fund holds in different asset classes. It is used to determine the level of diversification in the fund.

Capital fluctuations (Volatility)
Volatility refers to the extent to which the price of an investment or capital value fluctuates over a certain time period. High-volatility funds usually offer the potential for higher long-term returns than low-volatility funds.

Collective Investment Schemes
Collective Investment Schemes (also called unit trusts) are portfolios of assets such as equities, bonds, cash and listed property in which investors can buy units. This allows private investors to pool their money into a single fund, which spreads their risk across a range of investments, gives them the benefit of professional fund management and reduces their costs.

Cumulative returns
Cumulative return is the total return an investor would have achieved if they reinvested all distributions.

Derivatives
Derivatives are instruments generally used to protect against risk (capital losses). However, they can also be used for speculative purposes. Examples include futures, options and swaps.

Distributions
Distributions show the income that is generated from an investment and paid out to investors. These pay-outs can be monthly, quarterly, bi-annually or annually.

Diversification
Diversification is a strategy designed to reduce risk and protect against capital losses in a portfolio. It works by combining a variety of asset classes or investments that are unlikely to all move in the same direction at the same time. This allows for more consistent performance under a wide range of economic conditions, as it smooths out the impact of negative market events. The positive performance of some investments or asset classes should neutralise the negative performance of others.

Fund strategy
The fund strategy is how it is managed to achieve its objective.

Participatory interests
When you buy a unit trust, your money is pooled with that of many other investors. The total value of this pool is split into equal portions called participatory interests or units. You therefore buy participatory interests in that unit trust equal to the value of your monetary contribution.

Additional information

Investment manager information
Granate Asset Management (Pty) Ltd
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Note: Fund commentaries are updated quarterly.

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Granate SCI Flexible Fund - Commentary

Portfolio manager quarterly comment – 30/06/2020

Confidence is low but counterbalance is important
The impact of COVID-19 has pushed South African consumer confidence to its lowest level in more than three-and-a-half decades. The FNB/BER Consumer Confidence Index has fallen from an already low -9 in the first quarter to -33 in the second quarter. It is now only three points above its all-time low recorded in 1985. This was not a rosy era. It was the time of violent resistance against apartheid and P.W. Botha's infamous Rubicon speech, which was followed by a sovereign debt crisis.

Comparing 1985 and 2020 is infinitely complicated, especially if you try to infer possible similarities to a path of recovery. However, no matter the nature of the crisis, when the public is this negative it is reflected in the prices of even the highest-quality assets. Asset prices are a function of spending power and emotions, and both are pretty worn down at the moment.

For us, a 'low price' is one that reflects a far higher probability of a bad outcome than we believe to be realistic. If you only spend time looking at bad possible outcomes there is no way you will make rational decisions. In South Africa, this means working hard to counterbalance the streams of depressing news flow. Below are some of the positives we are including in our decision making.

1. The South African fiscal situation is dire, but we have both room and reason to improve
The emergency supplementary budget speech delivered by Finance Minister Tito Mboweni last month indicated that there will be an under-recovery of tax collection of over R300 billion this year, resulting in some woeful metrics. We know that our public sector is bloated and littered with unproductive expenditure. Plenty of these allocations are legacy spend that has not been addressed, partially because closing funding taps is politically very challenging. The crisis has offered an opportunity for the minister to announce that National Treasury is 'suspending allocations to programmes with a history of poor performance and slow spending'. It is therefore unlikely that money will be reallocated to these areas in coming years. Another important consideration is that the president's hand is forced: any further funding will come with significant conditions. The domestic savings pool will not be able to fully fund deficits and growth initiatives, while foreign funding tends to come with far more strings attached.

2. The economy stands to benefit from lower interest rates
Prior to the COVID outbreak, near-term, cash-like instruments were offering very attractive real yields. This incentivised capital to remain in cash, especially against a backdrop where domestic security prices were flatlining. Interest rate cuts now mean that cash no longer offers risk-free, inflation-beating returns. Money should therefore start to flow into assets that do offer such protection. These include listed securities (bonds and shares) and productive assets like manufacturing and infrastructure.

A further benefit of interest rate cuts is the stimulation of consumption. Large rate cuts, like the 2.75% repo rate reduction we have experienced, free up disposable cash. This money finds its way into the tellers of retailers and eventually, if low rates are sustained and we start to see some economic recovery, into the property market. Most of the increased spending is facilitated by banks in the form of greater credit extension and transaction fee income. While we are mindful that the economic impact of COVID-19 may be felt by many households for some time yet, lower interest rates provide an underpin to spur recovery as this pressure eases.

3. Intended infrastructure spend could provide a welcome boost
Our president has made a very clear public commitment to infrastructure investment. Such spend, as well as new capacity that results, will have both direct and indirect benefits for economic growth. The cynic's view is that we have heard this intention before, with little follow-through. However, we believe that the president has been so vocal on this that his reputation now hinges on execution. He has a record of carefully timed but bold movements. This applies not only to his re-entry into politics and his time in the presidency, but over his full career, which spanned involvement in resistance movements, trade unions, transition negotiations and business. He needs to step up now, and we believe he will.

4. Our institutions remain strong
Through this crisis our National Treasury, Reserve Bank and commercial banks have again proven that they are indeed world-class operations. They managed to stabilise a significant shock to our economy, which should prevent a deep recessionary spiral.

5. Less competition
The strongest detractor from company profits is competition. This crisis is resulting in the closure of less robust businesses, which creates opportunity for consolidation and pricing power for the survivors. We are only investing in strong businesses.

6. Quality securities are available at bargain prices
We pick our investments carefully, looking for companies that have strong balance sheets, exceptionally capable management teams and favourable growth prospects. Normally, you need to pay up for such businesses. But several are currently available at bargain prices on the JSE. You will find some of these names among our top 10 holdings listed in the MDD.

Counterbalance goes both ways
We do not make predictions and do not build portfolios that bet wholly on specific outcomes. We are therefore not betting your entire portfolio on a South African recovery. What we are doing is ensuring that a portion of your portfolio is invested in the strongest domestic companies, so that you don't miss out on what could be a multi-year compounding growth story.

Portfolio managers
Henno Vermaak
Henno joined Granate in July 2019 as an Executive Director and Investment Professional. He founded Capensis Capital (now a subsidiary of Granate) in 2016. Prior to this, he was a portfolio manager at PSG Asset Management, where he was responsible for the PSG Global Flexible and PSG Global Equity funds. Henno is a qualified actuary and CFA Charterholder, and holds a BCom Honours degree from the University of Stellenbosch.

Paul Bosman
Paul joined Granate Asset Management in July 2019 as an Executive Director and Investment Professional. Prior to this he was a portfolio manager at PSG Asset Management, where he was responsible for the PSG Stable and PSG Balanced Funds. Before being appointed portfolio manager, he served as an equity analyst in various subsidiaries of the PSG Group. Paul is a CFA Charterholder and holds a BCom Honours degree from the University of Stellenbosch.