Granate SCI* Flexible Fund Class B

Collective Investment Scheme Minimum Disclosure Document (MDD)

As of 31/12/2020

GRANATE
ASSET MANAGEMENT

MDD Issue Date: **19/01/2021**

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 50,143,925
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 & www.sanlamunittrusts.co.za
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)***	1.57
Transaction cost (TC)***	0.33
Total investment charge (TIC)***	1.90
TER measurement period	03 February 2020 - 30 June 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.**

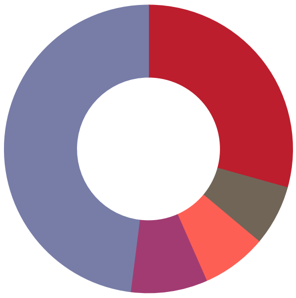
****Granate does not provide financial advice. Advice fees are agreed between the investor and financial adviser.**

******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	% of portfolio
Portfolio Date	**31/12/2020**
Mr Price Group Limited	5.55
Afrimat Limited	5.44
Capitec Bank Holdings Limited	5.37
Nedbank Group Limited	4.57
Hudaco Industries Limited	4.52
Santam Limited	3.76
Exor NV	3.51
Italtile Limited	3.44
Raubex Group	3.37
Inditex	3.19

Asset allocation

Portfolio Date: 31/12/2020



	%
Foreign cash and money market	0.09
Foreign equity	29.25
Local bonds: Fixed	6.78
Local bonds: Floating	7.30
Local cash and money market	8.59
Local equity	47.99
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: 01/01/2020 to 31/12/2020

Highest annual %	—
Lowest annual %	—

Distribution history (cents per unit)

31/12/2020	5.48 cpu	—	—
30/06/2020	6.85 cpu	—	—
31/03/2020	4.73 cpu	—	—

Administered by

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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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Physical address: 2nd Floor, Josephine Mill
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Manager information

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Note: Fund commentaries are updated quarterly.

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Granate SCI Flexible Fund - Commentary

Portfolio manager quarterly comment – 31/12/2020

Hope, fear and what lies in between

"The pessimist complains about the wind; the optimist expects it to change; the realist adjusts the sails." William Arthur Ward

After the rollercoaster that was 2020, we find ourselves deeply contemplating what may lie in store for 2021. In thinking through some scenarios for the year ahead, the current state of play in markets is a combination of hope and fear.

Hope has finally sprung

The dominant market theme towards the end of 2020 was the strong vaccine-inspired global economic recovery. Combined with low interest rates and increased government spending (primarily in developed markets), this inspired a boom in equities and other risk assets, a fall in the dollar, and a consequent rise in the value of emerging market currencies, including the rand.

One scenario for 2021 sees these positive economic hopes and low interest rates continue to buoy markets. We too would like this upbeat global backdrop and renewed risk appetite to continue – and to feed through to South African assets.

Fear continues to lurk

However, the start of the year has seen some fear creep into market thinking:

- Continued virus fears: Rising infections and resulting lockdowns are wreaking further havoc, while new strains of the virus continue to emerge.
- Vaccination rollouts: Economies under pressure (such as our own) are almost certain to lag in vaccinations and to suffer slower growth as the mammoth logistical task of rolling out vaccines becomes evident.
- The return of inflation in a low-growth environment: The Democrat stronghold in the US speaks to further US fiscal stimulus. Combined with easy monetary policy, rising commodity prices, a constrained supply side and evidence of rising supply chain prices, we could have a return to inflation.
- Overexuberance: Global markets are at record highs. Eventually, booming valuations will have priced everything in – and the ongoing fear is always going to be that they have run too far.

We avoid swaying with sentiment

With the pendulum swinging between hope and fear, we cannot get caught up in the emotion. Aiming to stay rational, we avoid positioning portfolios for any single outcome. Rather, we consider the probabilities of various outcomes and seek positive risk compensation from individual investments to compensate for being unable to consistently predict these outcomes accurately.

Diversification means more to us than 'more'

For us, diversification is a trade-off between time horizon, returns and risk, which we define as not delivering the returns our clients need. It is a process that doesn't necessarily result in our clients making the most money in the short term but optimises the likelihood of meeting our mandates.

The winds of investment opportunity blow in many different directions, at different speeds and at different times. If we had an investment barometer with full foresight, diversification would not be necessary. We would simply hoist the sail that harnesses the most exuberant future winds. Risk would be minimal and returns abundant. However, we have made peace with the fact that we will not be able to find such a barometer and that risk is an inescapable companion on our voyage.

So, do we hoist every single sail and build portfolios that will bob along in just about any waters? Cater for all perceivable weather conditions? Surely, the more sails we have, the lower the risk? Not necessarily. Blindly adding sails (or positions) simply for the sake of perceived risk reduction is not diversification. That's simply not trying terribly hard and is better described as a dilution of returns. In fact, given our definition, this *increases* risk.

Diversification is not a numbers game that absolves us from having conviction. It's there to manage the risks of our conviction. It's not there to protect us against bad weather for a day or a week. It's there to ensure we can express our investment philosophy and process to the benefit of our clients in the many years ahead at acceptable levels of risk. It's there to make sure the ship sails swiftly and safely in unchartered waters and that we reach our destination as planned.

Diversifying is harnessing the highest probability opportunities from a variety of different fundamental drivers. It caters for the odd squall of error or tack of misjudgement. Setting our sails in this way makes it possible to have portfolios with few instruments or fundamental exposures that are still highly diversified.

How do we take this into the waters of 2021?

The Granate SCI Money Market Fund is our boat that sails in only the safest waters. It invests in short-term, rand-denominated instruments of only the highest quality.

For those looking for a sunset cruise along the coast, the Granate SCI Multi Income Fund hoists further sails: fixed and variable interest, inflation linkers, property, corporate credit, a bit of duration and some derivatives. Currently, corporate credit and property are not catching the breeze, but we have large sails out for the fixed, variable and inflation-linked winds blowing.

Finally, our equity-centric funds (the Granate SCI Balanced Fund and Granate SCI Flexible Fund) offer longer voyages across open waters by adding further sails: local and global equities. Spending some time in the same waters as our other ships, they benefit from this knowledge as they consider what lies over the horizon. We currently have sails hoisted to capture potential winds from global opportunities (such as those in semiconductors), a rebound in some of South Africa's top businesses, and winds that may come from rand-hedged and dual-listed opportunities.

Ultimately, our funds are built to be fit for purpose, and robust enough to withstand unexpected changes in wind. We never hoist only one sail. And we will always be on the boat with you.

"Now—bring me that horizon." Captain Jack Sparrow

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.