Granate SCI* Multi Income Fund Class B

Collective Investment Scheme Minimum Disclosure Document

As of 2018/07/31

Part of RMI Investment Managers

MDD Issue Date: 2018/08/14

Fund Objective and Strategy

This is a domestic income portfolio which seeks to provide investors with consistent positive returns and minimal volatility. The objective of the portfolio is to deliver real returns in excess of money market and traditional income portfolios over the medium to longer term.

Investors are mainly exposed to the fixed income and credit markets. The portfolio aims to optimize risk-adjusted returns by strategically allocating within the various sources of the fixed interest and credit universe according to current valuations. The portfolio will optimize the yield of the portfolio whilst compensating as far as possible for the underlying risk. This is done by focusing mainly on credit and yield enhancing strategies, whilst very moderate duration strategies are employed.

Given that the portfolio aims to deliver consistent positive returns, it is designed to be less volatile than traditional bond funds with significantly fewer negative monthly returns. The Manager shall seek to achieve this objective by investing in a portfolio of assets which will consist of a combination of interest-bearing securities including money market, bonds, unlisted loans, inflation linkers, listed property and preference shares as well as any other securities which are considered to be consistent with the portfolios objectives or 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	RSMIB
12 Month Yield	8.19%
Portfolio Manager	Bronwyn Blood
ASISA Fund Classification	South African - Multi Asset - Income
Risk Profile	Conservative
Benchmark	STeFI Composite Index + 1%
Fund Size	R 182 333 560
Portfolio Launch Date*	2016/04/01
Fee Class Launch Date*	2016/04/01
Minimum Lump Sum Investment	R 50 000
Minimum Monthly Investment	R 1 000
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)	B-Class (%)
Maximum Initial Advice Fee	3.45
Maximum Annual Advice Fee	1.15
Manager Annual Fee	0.57
Total Expense Ratio	0.61
Transaction Cost	—
Total Investment Charges	0.61
TER Measurement Period	01 April 2016 - 31 March 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 Multi Income Fund transitioned to Sanlam Collective Investments (RF) (Pty) Ltd on 28 October 2017.

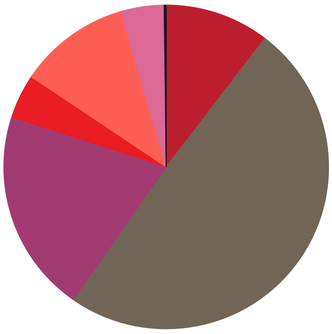
**Risk statistics will only be available once the fund has reached three years performance history.

Top Ten Holdings

Top Ten Holdings	% of Portfolio
Portfolio Date	**2018/06/30**
RSA Bond R186 211226	6.74
China Construction Bank Call	5.87
Investec 130319	5.46
Investec Call	4.87
Standard Bank 121222	3.82
Anglo American 220319	3.17
Nedbank FRN 22092021	2.94
Santam FRN 27062022	2.90
Investec 121218	2.80
Standard Bank 121218	2.79

Asset Allocation

Portfolio Date: 2018/06/30



	%
Call Money	10.40
FRN Bond	49.30
Fixed Bond	20.30
Coupon CD	4.40
NCD: MM	11.10
Property	2.10
FRN: MM	2.20
ILB	0.20
Total	**100.00**

Annualised Performance (%)

	Fund	Benchmark
1 Year	8.77	—
Since Inception	9.45	—

Cumulative Performance (%)

	Fund	Benchmark
1 Year	8.77	—
Since Inception	23.45	—

Highest and Lowest Calendar Year Returns

Time Period: Since Inception to 2017/12/31

Highest Annual %	9.90
Lowest Annual %	9.90

Risk Statistics (3 Year Rolling)

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

Distribution History (Cents Per Unit)

2018/06/30	2.11 cpu	2017/09/30	2.19 cpu
2018/03/31	2.03 cpu	2017/06/30	2.09 cpu
2017/12/31	1.37 cpu	2017/03/31	2.42 cpu
2017/10/27	0.63 cpu	2016/12/31	2.28 cpu

Administered by

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As of 2018/07/31

Risk Profile: Conservative

This portfolio suits the investor who is seeking stable income flows and aims to keep capital intact. This means that the portfolio is highly unlikely to experience negative returns, but equally will not experience excessive returns on the upside. The main sources of risk are credit risk, interest rate risk and liquidity risk. The portfolio is largely exposed to high quality corporates and banks with low interest rate risk. The portfolio is less volatile than traditional bond funds and is diversified across the income oriented asset classes such as cash, nominal bonds, inflation linked bonds and property.

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
Standard Bank of South Africa Ltd
Tel: +27 (21) 441 4100
Email: compliance-sanlam@standardbank.co.za

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Granate SCI Multi Inc - Fund Commentary

Quarterly Commentary (30/06/2018)

Fund Profile

The Granate SCI Multi Income Fund is a domestic income portfolio which seeks to provide investors with consistent positive returns and minimal volatility. The objective of the portfolio is to deliver real returns in excess of money market and traditional income portfolios over the medium to longer term. Investors are primarily exposed to the fixed income and credit markets.

The portfolio aims to optimize risk-adjusted returns by strategically allocating within the various sources of the fixed interest and credit universe according to current valuations. The portfolio will optimize the yield of the portfolio whilst compensating as far as possible for the underlying risk. This is done by focusing mainly on credit and yield enhancing strategies, whilst very moderate duration strategies are employed. The portfolio is managed in accordance with regulations governing pension funds and CISCA.

Economic overview

Economic activity in major economies maintained its positive momentum during the 2nd quarter of 2018 despite growing concerns around a slowdown in global trade due to higher trade barriers.
Domestic economic data for the 1st quarter 0f 2018 (released during Q2 2018) showed that the economy is in worse shape than previously thought. GDP contracted at a seasonally adjusted quarter-on-quarter annualised rate of 2.2% (0.8% y/y), after recording a 3.1% growth rate in the 4th quarter of 2017.

The manufacturing and mining sectors (making up 7.7% and 12.5% of GDP) contracted by 9.9% and 6.4%, respectively, together contributing 1.6% to the GDP contraction. The agriculture sector, after growing by an average annualised rate of 35% in 2017 contracted by 24.2%, to cut a further 0.7% off GDP growth. Positive contributions came from the finance sector (1.8%) which contributed 0.3% towards growth followed by general government services which makes up 14.9% of GDP and grew by 1.8%.

Q2 2018 data has been, on balance, disappointing. PMI's, retail sales, mining and manufacturing production have all disappointed, posing further downward risk to GDP growth for 2018.

The Monetary Policy Committee (MPC) of the Reserve Bank met once during the 2nd quarter and decided (unanimously) to keep the repo rate unchanged at 6.5%. The MPC's hawkish statement was consistent with its growing focus of an inflation target of 4.5% (rather than 3%-6%). In its assessment, while the inflation forecast has remained broadly unchanged, the risks have moved to the upside due to the higher oil price, a weaker rand, higher electricity prices, and a reversal of capital flows to emerging markets. Importantly, however, the Governor reiterated that "…MPC attempts to 'look through' the first-round effects of such (supply side) shocks and to react to second-around effects". Inflation expectations and wage settlements are key in this regard.

Market expectations of the path of policy rates continues to trend higher. After pricing in no rate hikes for the year in May, the market has moved to price in a 70% probability of a rate hike by the end of the year and at least two 25 basis points (bps) rate hikes by the end of 2019.

The weaker rand certainly poses a risk that the SARB will move on rates sooner than previously expected. However, a surprisingly weak economy and the absence of demand pull inflation suggests rates on hold for the year.

Market overview

After a spectacular 1st quarter of 2018 for domestic bonds where the All Bond Index (ALBI) returned 8.1%, bonds sold off in the 2nd quarter – the yield on the benchmark R186 rising by 85 basis points (bps) and the ALBI losing 3.8% as global investors turned negative on emerging markets, finding some comfort in the safety of developed market bonds.

The quarter was characterised by large foreign selling of local bonds. After increasing their holdings to a record 43% at the end of March, foreign investors sold a total of R64bn of domestic bonds in the subsequent quarter, the largest 3 month selling on record.

While the yield on the 10 year US Treasury ended the quarter only 10 basis points (bps) higher than where it started, the yield movements during the quarter were particularly volatile. The yield on the 10 year Treasury traded above 3% for the first time in over 5 years during May as a result of investors becoming concerned that the US Federal Reserve will hike its lending rate by more than previously expected. In June, however, the focus moved to the risk that "trade wars" will negatively impact global growth, causing investors to flock to the safety of US Treasuries that then rallied by 37bps in a matter of days.

The listed property sector continued its poor run as it faces both disappointing growth and a risk of rising interest rates. In contrast to the 1st quarter, the 2nd quarter saw domestically focused counters suffer as management teams continue to guide for flat-to-low growth in distributions in the near term.
Inflation-linked bonds remain under pressure, performing worse than any other domestic asset class in the 2nd quarter, even though inflation has bottomed. This suggests that the market is confident that the SARB will do what it takes to ensure that inflation remains well within the target band of 3% to 6%.

Portfolio activity

Over the quarter as the bond market underperformed, our fair value model was indicating positive risk compensation for fixed rate government bonds. As such, we increased our duration in the fund to 1.1 from a level of 0.75, and increased our exposure to the R186. The fixed rate exposure in the fund has increased from 13% to 21% over the quarter. It is very clear that government bonds have become cheaper versus credit as bonds have underperformed swaps, and there has been a continuation of credit spread narrowing. Bank funding spreads have become expensive and the fund has benefited from positive performance in bank subordinated and hybrid debt. We reduced exposure to inflation linkers over the quarter as we found better relative value in nominal bonds, because the inflation risk premium that is priced into the nominal bond market was very attractive. Our exposure to listed property has remained low at 2.3% as we believe that on a risk-adjusted basis the property market needs to become cheaper before an increased exposure to this sector is justified. With most fixed income asset classes underperforming, the fund's large weighting to floating rate credit bonds enabled a positive return for the month. This is consistent with the fund's mandate to achieve consistent positive returns even in times of significant underperformance in fixed income asset classes.

Portfolio positioning

With credit spreads having narrowed, combined with a low supply of corporates coming to the debt capital markets to raise debt, means that credit is looking expensive, but could continue to perform positively and become more expensive. If our bond valuation model continues to offer value, we will favour government bonds over corporates, but will keep investing in high quality corporates to keep the yield in the fund high. We are favouring the insurance and securitization sectors in the credit space as bank spreads have become more expensive. We will look to increase duration in the fund if the bond market sells off further and our valuation model indicates positive risk compensation. Our property valuation model is indicating that some stocks are cheap and we will be slightly upweighting these exposures but will keep our property exposure lower than 5%, until we see meaningful recovery prospects for the sector. With real yields generally at low levels in the inflation linker market, we will not be increasing exposure unless there are attractive opportunities in the inflation linked bond corporate space.

With the recent emerging market sell off, offshore credit spreads are starting to offer value and we are looking for credit opportunities in the offshore market, but will always hedge this exposure back into Rands. We will continue to keep the yield in the fund high while diversifying across different sectors and risk categories and being mindful of interest rate risk.

Portfolio Manager
Bronwyn Blood
B.Comm (Honours)

Prior to joining Granate Asset Management in December 2015, she was the Portfolio Manager of the Flexible Fixed Interest Funds and the flagship Absolute Yield Fund at Cadiz Asset Management. When Cadiz bought African Harvest in 2006 Bronwyn took over the management of the Flexible Fixed Interest funds.