

ANNUAL LETTER TO
February 2024

Investors

“Why, the best way to explain it, is to do it.”

The Dodo, Alice's Adventures in Wonderland by Lewis Carroll

A number of clients have taken us up on our open invitation to visit our offices. Some come for meetings while others stroll in for a cup of coffee and a chat. We relish any kind of visit, but wish we could show them more. Although our offices are perhaps somewhat unconventional – with writing on the wall, old wooden roof beams and a slightly angled floor – you’ll still mostly find desks and screens. This year, our letter takes you on what we wish an office visit could be: a guided journey through Granatia.

Although we spend by far most of our collective time on investments, that won’t be the focus of this letter. In fact, many aspects to making good investment decisions have nothing to do with investments. This letter is a window into everything you can’t see, even if you read all our commentaries, study our portfolios and visit our offices. As a client, we would like you to truly know us, not only what we invest in. That is why we are taking you to tea with the Mad Hatters.

So, fill a cup, lace up your walking shoes and wait for the white rabbit.

Who owns Granate?

Not much has changed since we started writing these letters to you. Granatians (it’s corny, we know) still own 70% of Granate, while OUTsurance and Momentum Metropolitan Holdings (MMH) own the remaining 30%. OUTsurance and MMH are in the final stages of concluding a transaction that will result in MMH becoming the sole owner of this 30%. Importantly, the 70% held by Granatians doesn’t lie entirely in the hands of a few people. Almost everyone at Granate is a shareholder.

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What drives us?

Firstly, a clear purpose: to protect and grow our clients' savings in a way that makes them say "Wow", for both investment returns and service. Secondly, the rewarding journey of working towards individual and collective mastery. We want to be challenged and have the autonomy to master our craft in the way we think best. Thirdly, we drive each other. There is tremendous energy in a tightknit team feeding off one another, especially when they are continuously finding ways to improve.

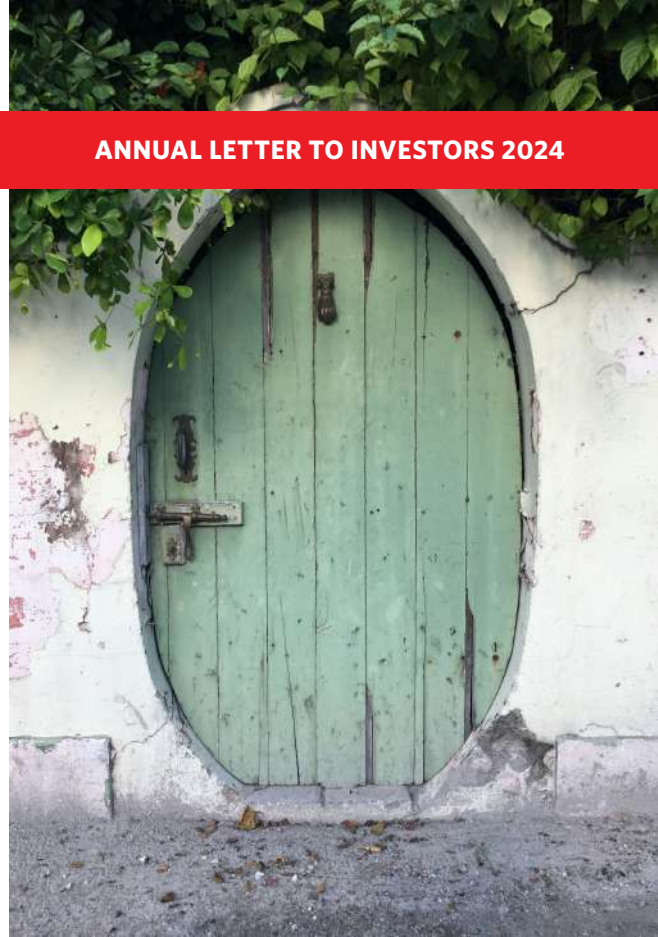
Financial incentivisation is the final element. Our shareholding in Granate promotes long-term thinking and value creation; our personal investments in the funds we manage align our actions with outcomes; our salaries keep the lights on at home; and the bonus pool allows for the just sharing of business profits, irrespective of shareholding, title or experience. To us, 'just' means consistent with the contribution to our collective success. We constantly evolve our frameworks to make sure we remunerate as justly as possible.

How do we communicate internally?

In Donella Meadows's book *Thinking in Systems*, she mentions that any system is only as strong as its ability to communicate. We think this is certainly true in a team and have therefore configured Granate to communicate continuously.

Our entire team fits in one large room (except for Vivian, who is multitasking between the front desk and cooking our delicious lunches). We can all hear if somebody accidentally breaks into song. Our seating arrangements harness the benefits of proximity, as teams can generally all be in one discussion from their chairs. We have a large open-floor area so people can easily gather in small chats and we often sit together for lunch in our boardroom.

We do have formal meetings, but try to limit these by sticking to a weekly roster. The roster keeps Wednesdays and Thursdays meeting free, so that there is also quiet time and the option for Granatians to



Lace up your walking shoes and wait for the white rabbit...



work from home. There is a tremendous opportunity cost to meetings – everyone in the room could be doing something else. However, there is also tremendous power in meetings, because there is no debate like live debate.

We naturally also communicate electronically but believe that things often get lost in translation when we aren't connecting face to face.

All these measures are only truly effective if people have the psychological safety to talk openly and freely. This doesn't just happen. If you don't create such an environment intentionally, you can be reasonably sure that you won't have it. This is one of the reasons we go to town on our culture.

How do we develop our culture?

Everybody has a voice, always, on any matter. This is good for every Granatian as it creates an inclusive culture, but it is also hugely helpful for the collective. We would have made many mistakes along the way if we hadn't slowed down to get broader views. Furthermore, we hang out together. We have a book club, wine club and two offsites a year. A large lounge area, between the kitchen and our workstations, also encourages engagement and participation.

Together, we develop frameworks of how we want to behave. We regularly revisit our values and recently produced our very own cultural handbook, in which we detail what failure and success looks like for Granate. Our offsites, annual general meeting (for all Granate shareholders), board meeting feedback sessions and surveys offer opportunities for input to develop or change how we organise ourselves. At these team-wide discussions nothing is off the table and everyone is free to challenge the status quo. We must always be happy that Granate today is the Granate we would build if we started today.

These are the intentional steps we can list, but the most important driver of our culture cannot be listed: the continuous interaction between Granatians who work with autonomy towards individual and collective mastery, chiselling our culture bit by bit. It's the fusion of the broad range of personalities, backgrounds, hobbies, quirks and passions wrapped together by our purpose.

How do we make sure we keep learning?

We have a book club where we all read the same book and then gather with drinks and snacks to compare notes. We cover a broad range of topics and genres but, as you would probably imagine, there have been several books relating to investments and case studies of successful corporate cultures. We have also read books that we hope will help us with our own personal growth. When we unpack these books, we always try to find the read-through to personal or collective development. Sharing experiences and perspectives has been instrumental in understanding each other and ourselves better.

We have internal learning sessions where individuals can share learnings that they have found valuable for



personal development. This is not only about visibly being better, but also about feeling better. We also have investment-related learning sessions during which we cover, for example, academic work or the commentaries of other investors. We do not only consider the publications of successful investors but also those of investors who did not have good long-term results. Learning from others' failures is far better than doing it with our clients' money.

Finally, we have two sets of feedback loops where individuals meet with a panel of three colleagues who can offer advice and fresh perspectives. We like to think of these sessions more as a reflection than a lecture.



How do we think about profits vs reinvesting in the business?

Our largest investment decisions, by far, are in who we hire. When we find individuals who will make Granate much better, our bias is to appoint them. If we don't find such people, there will be more profits. To date, every person we have added to the team has made Granate much better and been good for profitability. The return on good people is so high we cannot afford not to bring them onboard.

Who is in our operations team?

Nosihle Gwala, Brian Mgwili, Julian Geyer and Simone Blanckenberg make Granate happen. They enable the investment and client teams and continue to find new ways to help them streamline processes. They recently established a database from which we can slice and dice any Granate portfolio in whichever way you wish. We already can't imagine life without it. One of their current projects is to build an equally impressive database to enable the client team.

Who is in our client team?

Caroline Sharp, Alex Dearman and Ryno Oosthuizen do their utmost to make sure our clients know us, and we know them. Long-term investing is far more likely to be successful if it is part of a long-term relationship. The team also look for like-minded individuals with whom we would like to build a long-term partnership. Granate should be bought, not sold. This not only applies to our funds, but also to the basis on which clients join us. We focus on telling rather than selling. Selling is about the goods, not about the people. This is a people business. We like to tell our story, show our way of doing things and open the door to our world as wide as possible. And everything that Granate presents, publishes (this piece included) or hosts has Caroline's beautiful brush all over it.

Who is in our investment team?

Tyron Green, Dalya Abromowitz, Alida Malherbe, Henno Vermaak, Bronwyn Blood, Caroline Webber, Catherine Blersch, Vaneshen Naidoo and Paul Bosman. These individuals cover a broad range of asset classes, domestically and internationally. They work together as a single team, have specific criteria for decision making and communicate continuously. This results in a high velocity of decision making without taking shortcuts. No money is allocated without thorough research and equally thorough debate.

Finally, **Finance and Compliance** is overseen by Philasande Ntshiba. Phila wants perfection and she wants it on time. Her standards are incredibly high, and we must jump that high.

How do we think about growing talent more broadly?

This is something we are really passionate about. Our Graduate Programme has been running for the last four years and offers the opportunity to learn about all areas of our business. We also partner with Tsiba Business School to offer internships as part of their business programme. Both Brian and Julian have completed our internship and graduate programmes, which we believe shows how valuable this experience can be. Our current graduate, Yathi-Thaa Mehana, is already hard at work assisting with research in the investment team. Finally, we are part of the Fezeka Programme, which is aimed at growing black female asset management talent.

How do investment meetings work?

There are no chiefs in our investment meetings. We do not have a chief investment officer and the responsibility of chairing rotates. This is intentional. We do not want one or two dominating voices in the room, as it could reduce the power of having independently minded individuals.

How do we make decisions? We are very wary of voting to reach conclusions and prefer to debate until we agree. Voting can easily become one's final mental destination. We like to think until we reach the true destination, which is our portfolios. Also, voting could close discussions prematurely as sometimes the dissenting voice will retire to a vote rather than come back for another round of lively debate.



Currently, what are our larger investments and why?

In our **Granate BCI Balanced** and **Granate BCI Flexible** funds we continue to hold large exposures to the semiconductor industry as well as listed property. The best long-term investments are normally found where you have a competitive advantage on a strong growth vector. For example, Microsoft developed a very strong competitive advantage in the personal and professional software market. It has been a multi-decade booming industry, with Microsoft remaining largely unchallenged on your PC while evolving over time into cloud computing. It has also rewarded long-term investors very handsomely. We believe that the semiconductor industry (i.e., data processing) presents a multi-decade story and there are a few companies that have significant competitive advantages at different points in the value chain. We have held some of them for a long time and may continue to hold them for years to come.

Another way of making very high returns is to invest in cyclical industries during downturns. Property is a long cycle industry, and it has moved from darling to dog for many fund managers over the last five years. We are now buying carefully selected property companies at significant discounts to the market values of the properties they own. Furthermore, we expect to be paid a double-digit dividend yield while we wait for them to re-rate. Please see our December MDDs and commentary for more detail on current positioning.

Our **Granate BCI Multi Income Fund** continues to make use of a broad range of instruments to achieve the consistent returns it has become known for. Currently, elevated global and local inflation has come to dominate our thinking in positioning the fund. However, this has also resulted in high real (above-inflation) yields – and in opportunities we have seldom seen before. The fund continues to focus on managing interest rate risk, but the SARB has made our job easier by hiking the repo rate to the highest level since 2008. We also search for yield enhancement by investing in credit opportunities. Lately, we've been finding more of them offshore (as covered in our recent commentary). Importantly, we always stick to our mantra of not forecasting macro outcomes. We are building a portfolio for multiple scenarios, while always making sure that the interest-bearing assets we include in the fund deliver positive risk compensation for our investors. Consistent with our multi-asset portfolios we also have a fairly meaningful position in listed property companies, which has not been the case for a while. This is a great example of how the investment team leverages skills and research. The depth of our knowledge and experience across different opportunity sets in the fixed income space allows us to consider a broad spectrum of yield-enhancing assets. We believe that this will help us to achieve a real yield of at least 3% for our clients on a consistent basis.

The **Granate BCI Active Bond Fund** is not your traditional bond fund. It doesn't only invest in long-term, fixed-rate government bonds. Because we don't forecast macro-economic outcomes, we use a broad range of bond instruments to build a multi-scenario portfolio. Currently, how the fund is positioned makes it highly sensitive to interest rate movements (though slightly less so following the 2023 year-end bond rally). This means that it should do well in declining inflation and interest rate environments. Given the elevated inflation backdrop globally, the fund has been positioned to offer greater inflation protection. However, as concerns have started to ease, we have started to reduce exposure to inflation-linked bonds. This has allowed us to consider more yield enhancement opportunities. This fund too has taken advantage of the higher real yields and higher credit spreads available in offshore markets.



What do we want to achieve?

We want everyone who forms part of the Granate story – both Granatians (here we include our families) and our clients (here we include the advisers to our clients) – to enjoy this unusually personal, fulfilling and rewarding journey. We truly hope that this has been the experience of clients who have already covered some distance with us in Wonderland.

And this is where the Knave of Hearts is accused of stealing all the Queen's tarts. We trust that over the many years of our journey together, you will never find that the words of Granate are but a dream.

Thank you for trusting Granate

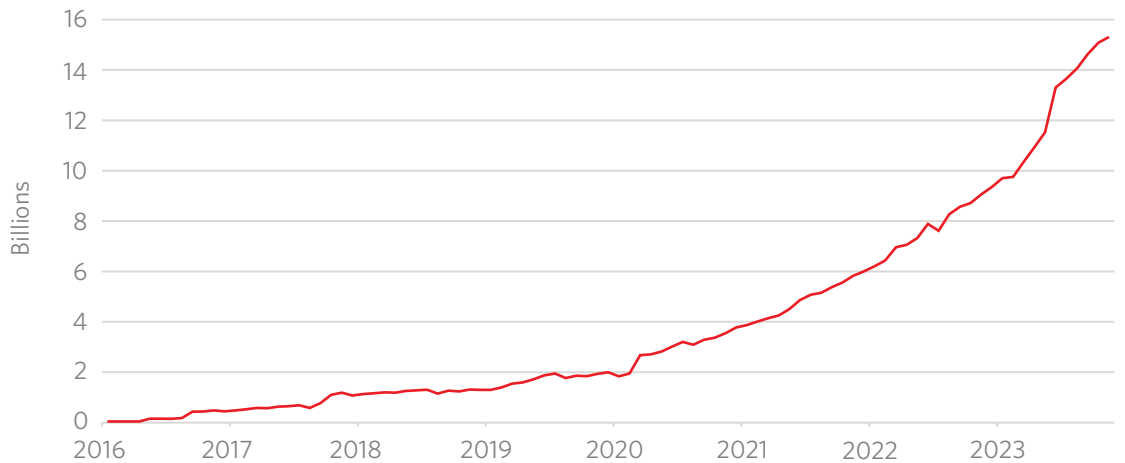
We can assure you that we remain relentlessly committed to protect and grow your savings.



We prefer to think about people rather than assets

Assets under Management | R15.3billion

Source: Maitland | Figures as at 31 January 2024



Fund Performance

	1yr	3yr	5yr	7yr	Since inception
Granate BCI Multi Income Fund 1 May 2016*	9.7%	8.2%	8.6%	8.8%	8.9%
STeFI +1%	9.2%	6.8%	7.0%	7.4%	7.5%
Granate BCI Flexible Fund 3 February 2020*	22.4%	17.3%			16.9%
CPI + 6%	10.1%	11.8%			11.1%
Granate BCI Balanced Fund 3 February 2020*	20.8%	16.2%			16.3%
CPI + 5%	9.1%	10.8%			10.1%
Granate BCI Active Bond Fund 9 May 2022*	7.8%	7.5%	7.5%	7.5%	7.5%
70% ALBI, 20% IGOV, 10% STeFI	7.7%				7.6%

Source: Morningstar, Bloomberg. Returns net of B class fees as of 31 January 2024. * Fund inception date.