Granate SCI* Multi Income Fund Class B

Collective Investment Scheme Minimum Disclosure Document (MDD)

As of 31/07/2020

GRANATE ASSET MANAGEMENT

MDD Issue Date: **21/08/2020**

Fund objective and strategy

This is a domestic income portfolio that aims to provide consistent positive returns and minimal volatility. Its objective is to outperform money market and traditional income portfolios over the medium to longer term.

The fund invests mainly in fixed income and credit markets, including in instruments such as money market securities, bonds, unlisted loans and inflation-linked bonds. It strategically allocates to these various instruments based on current valuations, seeking to enhance the yield of the portfolio while compensating as far as possible for the underlying risk. Within legal limits and in line with its objective, it may also invest in other securities such as listed property and preference shares.

Given that the fund aims to deliver consistent positive returns, it is designed to be less volatile than traditional bond funds, with significantly fewer negative monthly returns. It employs very moderate duration strategies.

The fund is managed according to the prudential investment guidelines for South African retirement funds.

Fund information

Ticker	RSMIB
Yield (%)	6.52
Portfolio manager	Bronwyn Blood
ASISA fund classification	South African - Multi Asset - Income
Risk profile	Conservative
Benchmark	STeFI Composite Index + 1%
Fund size	R 485,711,942
Portfolio launch date*	01/04/2016
Fee class launch date*	01/04/2016
Minimum lump sum investment	R 10,000
Minimum monthly investment	R 500
Income declaration dates	March, June, September & December
Income pricing dates	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 are including 15% VAT	**B Class (%)**
Maximum initial advice fee**	3.45
Maximum annual advice fee**	1.15
Manager annual fee	0.58
Total expense ratio (TER)	0.62
Transaction cost (TC)	—
Total investment charge (TIC)	0.62
TER measurement period	01 July 2017 - 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.

*The Granate Sanlam Collective Investments Multi Income Fund transitioned to Sanlam Collective Investments (RF) (Pty) Ltd on 28 October 2017.

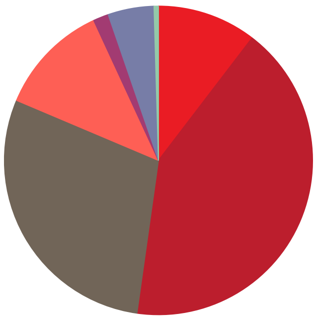
****Granate does not provide financial advice. Advice fees are agreed between the investor and financial adviser.**

Top ten holdings

Top ten holdings	**% of portfolio**
Portfolio Date	**31/07/2020**
Eskom ES26	5.78
R2023 Government Bond	4.56
RMB FRN 181126	4.18
R2030 Asset Swap	4.12
R186 Government Bond	3.25
R186 Asset Swap	3.10
Absa Call	3.06
SBK FRN 250625	2.70
SBK Credit Linked Note	2.70
Nedbank Call	2.52

Asset allocation

Portfolio Date: 31/07/2020



	%
MMI: Floating	10.40
Bonds: Floating	41.83
Bonds: Fixed	29.13
Cash	11.74
MMI: Fixed	1.61
Bonds: CPI-linked	4.83
Property	0.46
Total	**100.00**

Annualised performance (%)

	Fund	Benchmark
1 year	8.19	7.66
3 years	8.74	8.10
Since inception	9.11	8.25

Cumulative performance (%)

	Fund	Benchmark
1 year	8.19	7.66
3 years	28.58	26.32
Since inception	45.94	40.99

Highest and lowest calendar-year returns

Time Period: Since Inception to 31/12/2019

Highest annual %	9.90
Lowest annual %	8.35

Monthly returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2020	0.76	0.57	-1.14	1.43	1.70	0.48	0.67						4.53
2019	1.09	0.64	0.71	0.91	0.75	0.80	0.66	0.83	0.68	0.57	0.61	0.77	9.41
2018	0.59	0.71	0.92	0.71	0.41	0.39	1.00	0.35	0.62	0.58	1.11	0.67	8.35
2017	0.83	0.72	0.73	0.87	0.97	0.68	0.98	0.90	0.77	0.51	0.48	1.06	9.90
2016	—	—	—	0.72	0.73	0.79	0.86	0.72	0.79	0.82	0.76	0.76	—

Distribution history (cents per unit)

30/06/2020	1.64 cpu	30/06/2019	2.23 cpu
31/03/2020	1.84 cpu	31/03/2019	2.07 cpu
31/12/2019	1.95 cpu	31/12/2018	2.22 cpu
30/09/2019	2.10 cpu	30/09/2018	2.14 cpu

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Risk statistics (3-year rolling)

Standard deviation	1.45
Sharpe ratio	1.06
Information ratio	0.40
Maximum drawdown	-1.14

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.

Information ratio
The information ratio measures the risk-adjusted performance of a fund (the returns it generates and the investment risk it takes to do so) compared to its benchmark. The higher the ratio, the better the fund's risk-adjusted performance compared to the benchmark. For this ratio, risk is quantified by the standard deviation of the fund's returns relative to its benchmark.

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 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.

Sharpe ratio
The Sharpe ratio measures the total risk-adjusted performance of a fund: the returns it generates and the risk it takes to do so. It indicates if a fund's returns are due to excessive risk or not. The higher a fund's Sharpe ratio (i.e. a higher return with a contained risk profile), the better its risk-adjusted performance. For this ratio, risk is quantified by the standard deviation.

Standard deviation
Standard deviation is a measure of the extent to which returns on an investment change from month to month. It is typically used by investors to gauge the volatility expected from an investment.

Risk profile: Conservative

This fund is suitable for investors who seek stable income flows and are aiming to keep their capital intact. It is highly unlikely to experience negative returns but will also not experience excessive returns on the upside.

The main investment risks are credit risk, interest rate risk and liquidity risk. To mitigate these, the portfolio is largely exposed to high-quality corporates and banks with low interest rate risk, and is diversified across the income-oriented asset classes.

Additional information

Investment manager information
Granate Asset Management (Pty) Ltd
FSP licence no. 46189
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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Portfolio manager quarterly comment - 30/06/2020

Market comment

Global financial markets staged an impressive recovery in the second quarter of 2020. Financial markets have held up extremely well given the unprecedented nature of the economic shock experienced globally. While strict lockdowns have been relaxed in many countries, the recovery in financial markets is more attributable to the extent of the stimulus provided by central banks and governments, and not necessarily because of a rapid improvement in the underlying economies. The International Monetary Fund confirmed this view in its recent publications and indicated that this phenomenon may increase the possibility of financial conditions tightening at some point in the future.

Increased risk appetite from investors and the liquidity available found its way into emerging market assets, which boosted asset prices post the sell-off in March. South African equity and fixed income markets were included in this basket. The domestic bond market was buoyed by a lower repo rate, lower inflation forecasts, the second phase of government's policy response, and foreign investors selling local bonds at a much slower rate, despite the country exiting global indices such as the World Government Bond Index. The South African Reserve Bank (SARB) continued purchasing domestic bonds in the secondary market, in a sustained effort to support the market and prevent any further dislocations. However, it must be noted that the SARB has repeatedly emphasised that this is not a quantitative easing programme.

Domestic bonds underperformed in June, mainly due to the bad news contained in the supplementary budget. South African debt dynamics have worsened, and are deteriorating very rapidly due to the impact of COVID-19. Without intervention, the country could end up in a debt spiral (leaving debt-to-GDP at 140% before the end of the decade). However, National Treasury has made a commitment to rein in non-interest expenditure and return South Africa to a sustainable debt path. Increased bond issuance in the short to medium term is likely to lead to higher yields and a steeper bond yield curve.

The SARB's Monetary Policy Committee (MPC) cut the repo rate by 150 basis points over the course of two meetings held in the quarter. The first, an emergency 100 basis point cut, was implemented in April post the extension of the lockdown, due to a large downward revision to growth forecasts. The second followed at the MPC's May meeting, at which it revised growth even lower and forecast inflation to drop below 3% for the next six months (before normalising next year). These aggressive cuts were made mainly to relieve the struggling consumer. While further cuts are expected, they will likely be smaller. At quarter end, the forward rate agreement market was pricing in further cuts of close to 50 basis points for this year.

Portfolio activity and positioning

Although volatility has decreased over the quarter, opportunities in the bond and credit markets have emerged from the crisis. We have been taking advantage of these deliberately and slowly.

The bond curve has remained steep, with yields on longer-term bonds higher than those on shorter-term bonds. At quarter end, the curve was at a similar level of steepness to its level at the height of the COVID crisis. This has been the main area of opportunity for the fund. However, given recent positive performance from bonds, we were cautious not to increase duration (sensitivity to interest rate changes) too quickly. We took advantage of the steepness in the curve while keeping duration low by investing in asset packs (government bonds with swap overlays). The yield pickups from these asset packs are at far superior levels to those available in the credit space generally, as credit spreads continue to narrow.

Surprisingly, bank funding spreads are at all-time lows, and negotiable certificate of deposit rates are below government bond yields on the short end of the curve. This places the fund in an unusual position of finding government bond opportunities more attractive than having a reasonable money market position (which helps with liquidity). Although we are keeping a decent amount of liquidity in the fund, we are mindful of the negative real yield that cash is offering. Given the potential for the repo rate to be cut further, we will continue to increase the fund's term to maturity. (It is hard to believe there was ever a time when the yield curve was inverted!)

Although credit spreads continue to narrow, we are very active in the secondary market and continue to search for attractive credit bonds while making sure we are comfortable with the issuer's fundamentals. The credit market remains illiquid, particularly in the listed property and SOE sector where bid/offer spreads are extremely wide. Our exposure to both these sectors is negligible, as fundamentals have deteriorated significantly. We have rather upweighted the capital instruments banks have been issuing as well as insurance subordinated debt.

Our inflation-linked bond (ILB) exposure has not increased, as we are weary of government's issuance plans in the ILB space (which may cause pressure on real yields) and of the subdued trajectory for inflation going forward. We have increased our weighting to listed property slightly but are extremely mindful of deteriorating fundamentals in this sector which have not yet fully played out.

The decision to increase modified duration and the term to maturity will impact fund volatility. However, we believe that this is the right thing to do for our investors. With real yields in shorter-dated instruments being negative, there are very few other options currently available for income funds. We are taking on more government bond risk but are being mindful of the volatility risk that fixed-rate bonds bring. It is important to remember that investing in government bonds is highly unlikely to ever result in a permanent loss of capital. Considering the yields these bonds are producing compared to cash, we see this as a down-payment for compelling future returns. The fund remains a top-quartile performer across all relevant time periods.

Portfolio manager
Bronwyn Blood

Prior to joining Granate in December 2015, Bronwyn was the Portfolio Manager of the Flexible Fixed Interest funds and the flagship Absolute Yield Fund at Cadiz Asset Management. She took over the management of the Flexible Fixed Interest funds when Cadiz bought African Harvest in 2006 and managed the Absolute Yield Fund from 2007. Bronwyn holds a BCom Honours degree from the University of Natal.

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