Granate SCI* Balanced Fund Class B

Collective Investment Scheme Minimum Disclosure Document (MDD)

As of 31/12/2021

GRANATE ASSET MANAGEMENT

MDD Issue Date: 19/01/2022

Fund objective and strategy

The fund aims to deliver long-term capital growth by investing in a range of asset classes, including equities (shares), bonds, preference shares, money market instruments and listed property. It may, within legal limits, also invest in listed and unlisted derivatives, 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.

The fund is managed according to the prudential investment guidelines for South African retirement funds, as set out in Regulation 28 of the Pension Funds Act. It invests mainly in South African markets but can have exposure of up to 30% to foreign markets. Total exposure to shares will not exceed 75%.

Fund information

Ticker	GSBFB
Portfolio managers	Paul Bosman, Bronwyn Blood & Vaneshen Naidoo
ASISA fund classification	South African - Multi Asset - High Equity
Risk profile	Moderate
Benchmark	CPI + 5%
Fund size	R 103,685,790
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)	1.41
Transaction cost (TC)	0.54
Total investment charge (TIC)	1.95
TER measurement period	03 February 2020 - 30 September 2021

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.

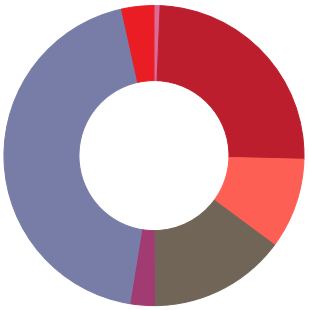
***SCI is an abbreviation for Sanlam Collective Investments.**

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

Top ten equity holdings	**% of portfolio**
Portfolio Date	**31/12/2021**
Capitec Bank Holdings Limited	4.27
RMI Holdings Limited (RMI)	3.68
Afrimat Limited	3.32
Nedbank Group Limited	3.24
British American Tobacco Plc	3.17
Micron Technology Inc	3.09
Sun International Limited	3.04
AIA Group Ltd	2.98
Kaap Agri Ltd	2.97
Exor NV	2.95

Asset allocation

Portfolio Date: 31/12/2021



	%
Foreign Cash and Money Market	0.66
Foreign equity	24.73
Local bonds: CPI	9.76
Local bonds: Fixed	14.80
Local cash and money market	2.63
Local equity	43.95
Local property	3.47
Total	**100.00**

Annualised performance (%)

	Fund	Benchmark
1 Year	27.75	10.80
3 years	—	—
5 years	—	—
Since Inception	21.47	9.52

Cumulative performance (%)

	Fund	Benchmark
1 Year	27.75	10.80
3 years	—	—
5 years	—	—
Since Inception	44.93	18.96

Highest and lowest calendar-year returns

Time Period: Since Inception to 31/12/2021	
Highest annual %	27.75
Lowest annual %	27.75

Distribution history (cents per unit)

31/12/2021	16.52 cpu	30/06/2020	6.41 cpu
30/06/2021	25.98 cpu	31/03/2020	5.44 cpu
31/12/2020	7.79 cpu	—	—

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Risk profile: Moderate

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

All reasonable steps have been taken to ensure the information on this MDD is accurate. The information does not constitute financial advice as contemplated in terms of the Financial Advisory and Intermediary Services Act. Use or rely on this information at your own risk. Independent professional financial advice should always be sought before making an investment decision. The Sanlam Group is a full member of the Association for Savings and Investment SA. Collective investment schemes are generally medium- to long-term investments. Please note that past performances are not necessarily a guide to future performances, and that the value of investments / units / unit trusts may go down as well as up. A schedule of fees and charges and maximum commissions is available on request from the Manager, Sanlam Collective Investments (RF) Pty Ltd, a registered and approved Manager in Collective Investment Schemes in Securities. Additional information of the proposed investment, including brochures, application forms and annual or quarterly reports, can be obtained on request from the Manager, free of charge. Collective investments are traded at ruling prices and can engage in borrowing and scrip lending. Collective investments are calculated on a net asset value (NAV) basis, which is the total market value of all assets in the portfolio including any income accruals and less any deductible expenses such as audit fees, brokerage and service fees. Actual investment performance of the portfolio and the investor will differ depending on the initial fees applicable, the actual investment date, and the date of reinvestment of income as well as dividend withholding tax. Forward pricing is used. The Manager does not provide any guarantee either with respect to the capital or the return of a portfolio. The performance of the portfolio depends on the underlying assets and variable market factors. Performance is based on NAV-to-NAV calculations with income reinvestments done on the ex-div date. Lump sum investment performances are quoted. The yield is calculated as the latest distribution divided by the average 3-month unit price, annualised. The portfolio may invest in participatory interests of other unit trust portfolios. These underlying funds levy their own fees, and may result in a higher fee structure for our portfolio. All the portfolio options presented are approved collective investment schemes in terms of Collective Investment Schemes Control Act, No 45 of 2002 (“CISCA”). The Manager may borrow up to 10% the market value of the portfolio to bridge insufficient liquidity. The fund may from time to time invest in foreign countries and therefore it may have risks regarding liquidity, the repatriation of funds, political and macroeconomic situations, foreign exchange, tax, settlement, and the availability of information. Investments in foreign instruments are also subject to fluctuations in exchange rates which may cause the value of the fund to go up or down. The fund may invest in financial instruments (derivatives) for efficient portfolio management purposes. The Manager has the right to close any portfolios to new investors to manage them more efficiently in accordance with their mandates. Excessive withdrawals from the portfolio may place the portfolio under liquidity pressures and in such circumstances a process of ring-fencing of withdrawal instructions and managed pay-outs over time may be followed. Management of the portfolio is outsourced to Granate Asset Management (Pty) Ltd, (FSP) Licence No. 46189, an Authorised Financial Services Provider under the Financial Advisory and Intermediary Services Act, 2002. Sanlam Collective Investments (RF) (Pty) Ltd retains full legal responsibility for the co-named portfolio. Standard Bank of South Africa Ltd is the appointed trustee of the Sanlam Collective Investments scheme. Sources of Performance and Risk Data: Morningstar Direct, INET BFA and Bloomberg. The risk-free asset assumed for the calculation of Sharpe ratios: STEFI Composite Index. The highest and lowest 12-month returns are based on a calendar year period over 10 years or since inception where the performance history does not exist for 10 years. Obtain a personalised cost estimate before investing by visiting www.sanlamunittrustsmdd.co.za and using our Effective Annual Cost (EAC) calculator. Alternatively, contact us at 0860 100 266.

Investment manager information
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Note: Fund commentaries are updated quarterly.

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Granate SCI Balanced Fund - Commentary

Portfolio manager quarterly comment – 31/12/2021

Thinking like ants: The investment case for semiconductors extends beyond chip shortages

A word on ants
Ants are tiny creatures that alone would have very little chance of survival in a world full of dangers. Yet ants form decentralised, complex colonies that make them remarkably resilient. Take red fire ants, for example, which are native to the rainy regions of South America. When their anthills are flooded, fire ants cluster together to form massive balls that can float on top of the flood waters until they reach dry land again and form a new colony. Ant colonies can move and reform with ease – even without their queen – because they are optimised for resilience, not for efficiency. Scientists have been studying these phenomena for decades to understand how we can design more resilient systems and infrastructure in a world that is always in flux.

Fragile systems
Unfortunately, us humans don't always think like ants. Our thinking has been shaped by the industrial revolution, with its focus on intense measurement and optimisation to maximise productivity. Spurred by Toyota's famous manufacturing practices, processes like lean manufacturing and just-in-time inventory management have become the gold standard, influencing the way that global supply chains operate. Unlike ants, we are organised for efficiency, not resilience.

The problem with perfectly optimised systems, however, is that they can be very fragile. One link breaks and the whole chain crumbles. Consider what happened to global supply chains after Covid lockdowns. Instead of the system being able to adapt and form new pathways – the way ant colonies do – it became clogged up and stuck.

Nowhere has this been more apparent than with semiconductors. Take the automotive sector, for example. Manufacturers were burnt during the global financial crisis (GFC) when vehicle demand fell and stayed below peak for many years. As demand dropped during Covid lockdowns, manufacturers reacted based on their GFC experience, halting production and cancelling their semiconductor orders with the aim of protecting their balance sheets from working capital blowouts. This chip production capacity was diverted to other parts of the economy that were booming, driven by more people working and studying from home. However, Covid was not a financial crisis and vehicle demand came back strongly due to fears of using crowded public transport. When the auto companies started up again, they were pushed to the back of the chip queue. This has created a situation where relatively simple, cheap chips that usually costs a few rands are holding up the production of finished vehicles. The same is true for a wide variety of goods: PCs, tractors, Nintendo consoles… even the equipment used to make chips!

Seeing the bigger picture
While the chip shortage is big news and has everyone talking about semiconductors, the long-term picture is what gets us excited. We have written to you about semiconductors before, but here's a quick recap. Semiconductors, also known as chips, are the microscopic components that are packed together to form integrated circuits. They are the building blocks of all electronic equipment, driving technological advancement in all shapes and forms. Chip demand was historically driven by PC upgrades, and thus tended to be cyclical. Now, however, end markets are vast: PCs, mobile phones, electric and smart vehicles, automated manufacturing, 5G and the Internet of Things, wearable tech, robotics, machine learning and the cloud. All of this means that exponentially more data are created and need to be processed and stored. More data mean more chips and better chips. And these chips are becoming increasingly complex and expensive to create.

Chip shortages are noteworthy, but the tailwinds matter more. Take Micron, for example, one of only a handful of companies that makes memory chips. Memory prices declined towards the end of 2021 while inventory levels increased, prompting fears of declining end demand and the typical memory boom/bust cycle playing out. You might have noticed Micron's share price take a big dip as a result. However, our understanding is that PC (and other) manufacturers simply cannot complete finished goods because of shortages of certain non-memory chips and have had to slow their memory ordering as a result. With end demand still strong, this appears to have been a short-term blip and was thus an opportunity for us to be incremental buyers. Taking a long-term view, we understand the growth potential for memory to be enormous, continuing to outpace other semiconductors. We see the industry as increasingly rational, and cycles should therefore be less pronounced and more profitable than in the past. Micron is a technology leader and well positioned to capture these tailwinds.

The role of an ecosystem
Semiconductors are manufactured using a complex process of cleaning, depositing and etching extremely thin layers of material on silicon wafers that are fractions of a millimetre in size. The process is mind-bogglingly complex. This is only possible because a network of highly specialised companies works collaboratively within an ecosystem, much in the same way ants do. The creation of chips at the most advanced nodes (referred to as the leading edge) would simply not be possible if it weren't for the investments and breakthroughs in research and development by all players: equipment manufacturers like Apple that design their own chips using computing architecture developed by Arm; electronic design software providers like Cadence that allow designers to lay out and test billions of transistors; manufacturers like Taiwan Semiconductor Manufacturing Company (TSMC) that operate state-of-the-art factories that are cleaner than operating rooms; and the equipment providers like Lam Research that make each step of the manufacturing process possible. Everything must work together perfectly to do what seems (to us at least) like pure magic.

TSMC, the largest independent foundry in the world, epitomises this approach. It has never strayed from its strategy to enable rather than compete with its customers, maintaining its reputation as 'everyone's fab'. By working collaboratively on research and development with its suppliers and customers, it has stepped ahead of its two main competitors (Intel and Samsung) and is currently the only company in the world capable of producing chips at the most advanced node. TSMC's importance for existing customers is growing, and its range of customers is expanding as more companies opt to design their own chips. Its scale also makes it one of only a few companies with sufficient cash generation to spend the billions of dollars needed to build new manufacturing facilities.

Building more resilience
One consequence of the chip shortage is that governments and end-market manufacturers are realising the importance of building resilience in the semiconductor supply chain through more local and dedicated chip capacity. TSMC, Samsung, SK Hynix, Intel and others have all announced ambitious capital expenditure plans for the coming years, and governments (including the US) are offering incentives to invest in local chip production capacity.

While new supply coming online can threaten supply-demand dynamics in any industry, the mitigant with chips is that there are exceptionally strong growth vectors to support this. The clear winners will be the semiconductor equipment manufacturers that sell the highly specialised, complex equipment that is used to make chips. The two names in our portfolio, Applied Materials and Lam Research, are leaders in etch and deposition equipment, the largest and most important segments of the market. We like this part of the supply chain because it is consolidated, specialised, exposed to all growth vectors, and benefits regardless of whom wins the end market technology race (e.g., Intel vs TSMC, Facebook vs Google or Apple vs Qualcomm/Samsung). The outlook for equipment spending is becoming increasingly positive, setting Lam and Applied Materials up for some very good years to come.

A fundamental industry with long-term tailwinds
Perhaps the most important thing the chip shortage has revealed is just how fundamental semiconductors are for the functioning of the modern economy. If you were to map out all the chips in the world it might just look like an enormous ant colony. Chips of different types and ages are scattered around the world performing the tasks they were designed for. And these chips are all connected, either via the internet or through the humans that interact with them.

While the chip shortage has created short-term profit boosts for some companies supplying in-demand chips, it has resulted in a drag for many others. We don't believe the capital investment currently planned is a short-term play that could push the industry into oversupply – that would require billions more. Instead, it's an investment that will make the whole ecosystem more resilient, enabling everyone to better harness the tailwinds to come.

Portfolio Managers
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.

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.

Vaneshen Naidoo
Vaneshen joined Granate in December 2015 and manages our money market and cash portfolios. Prior to Granate, he worked at Cadiz Asset Management, which he joined as a graduate in 2006. He was later responsible for analysing the credit and property sectors for the fixed interest and multi-asset teams. Vaneshen holds a M.Sc. in Engineering from the University of Cape Town and is a CFA Charterholder.