Granate SCI* Multi Income Fund Class D

Collective Investment Scheme Minimum Disclosure Document (MDD)

As of 28/02/2022

MDD Issue Date: 16/03/2022

Fund objective and strategy

This is an 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	GRAMFD
Yield (%)	5.01
Portfolio manager	Bronwyn Blood
ASISA fund classification	South African - Multi Asset - Income
Risk profile	Conservative
Benchmark	STeFI Composite Index + 1%
Fund size	R 2,674,139,416
Portfolio launch date*	01/04/2016
Fee class launch date*	01/07/2019
Minimum lump sum investment	R 100,000
Minimum monthly investment	R 10,000
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 & www.sanlamunittrusts.co.za
Repurchase period	2-3 business days

Fees are including 15% VAT	D Class (%)
Maximum initial advice fee**	3.45
Maximum annual advice fee**	1.15
Manager annual fee	0.46
Total expense ratio (TER)	0.48
Transaction cost (TC)	—
Total investment charge (TIC)	0.48
TER measurement period	01 July 2019 - 31 December 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.

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

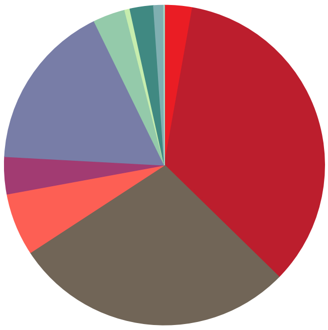
****Granate does not provide financial advice. Advice fees are agreed between the investor and financial adviser.**

Top ten holdings

Top ten holdings	% of portfolio
Portfolio Date	**28/02/2022**
Eskom ES26	4.50
R2030 Government Bond	4.34
R186 Government Bond	3.92
Investec Call	3.57
FRBI254	2.76
FRBI28	2.73
Eskom ES33	2.24
I2025 Government Bond	2.05
Nedbank NGT103	1.97
ABSA Call	1.85

Asset allocation

Portfolio Date: 28/02/2022



	%
MMI: Floating	2.81
Bonds: Floating	34.51
Bonds: Fixed	28.47
Local Cash	6.31
MMI: Fixed	3.76
Bonds: CPI-linked	16.92
Property	3.24
Bonds: Zero Coupon	0.53
MMI: Treasury Bills	2.37
Other CIS: Money Market	0.98
Offshore Cash	0.02
Bonds: Foreign Bonds	0.08
Total	**100.00**

Annualised performance (%)

	Fund	Benchmark
1 Year	8.19	4.89
3 years	—	—
Since Inception	8.52	5.98

Cumulative performance (%)

	Fund	Benchmark
1 Year	8.19	4.89
3 years	—	—
Since Inception	23.53	16.18

Highest and lowest calendar-year returns

Time Period: Since Inception to 31/12/2021

Highest annual %	9.47
Lowest annual %	7.61

Risk statistics (3-year rolling)

Standard deviation	—
Sharpe ratio	—
Information ratio	—
Maximum drawdown	—

Distribution history (cents per unit)

31/12/2021	1.70 cpu	31/12/2020	1.49 cpu
30/09/2021	1.52 cpu	30/09/2020	1.53 cpu
30/06/2021	1.56 cpu	30/06/2020	1.68 cpu
31/03/2021	1.43 cpu	31/03/2020	1.88 cpu

Administered by

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GRANATE ASSET MANAGEMENT

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.

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.

Additional information

Investment manager information

Granate Asset Management (Pty) Ltd
FSP licence no. 46189
Physical address: 2nd Floor, Josephine Mill
13 Boundary Road, Newlands, Cape Town, 7700
Tel: +27 (21) 276 3450
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

Administered by

Sanlam

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Note: Fund commentaries are updated quarterly.

GRANATE
ASSET MANAGEMENT

Portfolio manager quarterly comment - 31/12//2021

Market comment

The emergence of ESG-stamped products in listed fixed income – and how we think about them

We are passionate about funding a better future where we can
At Granate we pursue happiness. We believe that there is happiness in making other people's lives better, even if only a bit better. ESG considerations are all about ensuring wellbeing for more people for longer. We therefore passionately fund a better future where we can, while being consistent with the mandate our clients have given us. Sometimes, funding a better future and being consistent with client mandates align – but sometimes they do not. This commentary considers a few examples in light of recent ESG developments in local fixed income markets.

There can be challenges to deploying meaningful ESG capital in local fixed income markets
To deliver on the mandate our clients have given us while also leaning in to making a positive impact is the ESG ideal. To date, this has been challenging for two reasons. The first is the lack of industry agreement on what truly constitutes meaningful ESG investing. The second is the limited (though expanding) opportunity set in which to deploy meaningful ESG capital in the South African fixed income market. Given the high demand for these assets against such restricted supply, it can put the returns our clients need at odds with the ESG outcomes they need. When anything is in hot demand, the cost of attaining it increases.

ESG opportunities in fixed income are growing
Before 2021, green bonds (where proceeds are exclusively applied to finance projects with clear environmental benefits) were the only form of ESG-stampedissuance in the listed South African debt market. All other opportunities – linked to social or sustainability-related projects – were typically unlisted. This meant that they weren't widely available. During 2021, in addition to green bonds, social bonds and sustainability-linked bonds (SLBs) to the value of approximately R10 billion were issued in the listed market. For context, this was more than the value of all green bonds issued in South Africa between 2014 and 2020.

Social bonds are similar to green bonds, in that funding is used for a predetermined outcome. In this case, typically projects that have positive social outcomes, such as funding unbanked small enterprises or affordable housing.

In contrast, SLBs are not project-specific and proceeds can be used for general corporate purposes. Here, the ESG component comprises debt features that change if the company hits sustainability-linked targets (such as increasing renewable energy consumption or reducing carbon emissions). To date, SLBs issued locally have generally been structured so that coupons (interest rate payments to the investor) reduce when the stated ESG targets are met. This means that the issuer is rewarded with lower financing costs – but that the investor's return declines.

Green and social bonds fit comfortably into our ESG framework
We believe that bonds with proceeds specifically earmarked for use in green or social projects are clearly true to the spirit of ESG investing. The investor, the issuer and our society are aligned. The investor receives an interest payment for the bond and has exposure to the issuer's balance sheet (essentially, an identical credit risk to a 'non-green' or 'non-social' bond). The issuer receives capital to invest in ESG outcomes on which it also earns a return. Furthermore, the success of the investment will be assessed by investors when next the issuer seeks to raise capital, incentivising the company in question to be societal in its thinking. Everyone wins.

We were therefore encouraged to see Standard Bank's Tier 2 green bonds being issued in early December, with proceeds earmarked to finance or refinance renewable energy projects. As compensation to investors, the interest rate offered was similar to what 'non-green' debt would have cleared at. (The issuance cleared at 3-month Jibar + 200 basis points, which was 10 basis points lower than Standard Bank's previous Tier 2 auction and 10 basis points wider than FirstRand's Tier 2 issuance two weeks prior.) The bonds therefore offer fair compensation for the credit risk investors take while issuance proceeds target positive change. Everyone wins, and we were happy to add the bond to our client portfolios.

With SLBs, it can be less clear-cut
We are currently less enthusiastic about SLBs. We don't deny that these bonds incentivise issuers to operate more sustainably – which is, of course, part of what we're trying to achieve. But we do need to consider our duty to our clients' financial return requirements.

Of the six SLBs issued in the South African market to date, only one imposes a penalty on the issuer if its stated ESG targets are not met. In this instance, coupon payments will increase. No such provision exists for the remaining SLBs, meaning that issuers stand to benefit from lower financing costs if their ESG targets are met, but without any downside if they aren't. On the flipside, investors bear the cost without qualifying for any upside. This becomes more of a concern when the ESG hurdles linked to these bonds are unambitious. In such cases, issuers can capitalise on the ESG trend and benefit from lower funding costs without having to stretch too far to make improvements in the way they impact society. This is particularly true if proceeds are not applied to funding positive change, as there is no obligation to do so.

There are certainly positives here, but we feel that the structuring of local SLBs could generally be improved. We are therefore especially critical in our assessments of these instruments and their related ESG targets when new issuances come to market.

While client mandates come first, ESG is a must
Our clients have given us a task, which translates into our purpose: to protect and grow their savings. This means that we must first deliver on our mandated benchmarks, so that our clients can retire or live better than they otherwise would have. But we must also consider the state of the world in which they live or may one day retire. We will continue to search for opportunities where these two goals align. Currently, the pickings are slim but we look forward to a broader set of opportunities in years to come.

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.