Granate SCI* Multi Income Fund Class B

Collective Investment Scheme Minimum Disclosure Document

As of 2019/08/31

MDD Issue Date: 2019/09/18

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
Yield	8.97
Portfolio Manager	Bronwyn Blood
ASISA Fund Classification	South African - Multi Asset - Income
Risk Profile	Conservative
Benchmark	STeFI Composite Index + 1%
Fund Size	R 183 063 287
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	0.62
Transaction Cost	—
Total Investment Charges	0.62
TER Measurement Period	30 June 2016 - 30 June 2019

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.

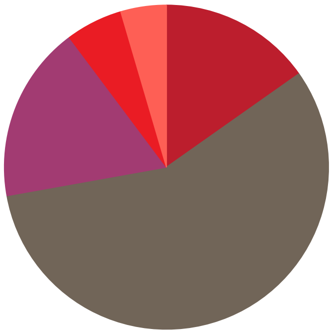
**Risk statistics will only be available once the fund has reached three years performance history.

Top Ten Holdings

Top Ten Holdings	% of Portfolio
Portfolio Date	**2019/06/30**
FirstRand FRN 011026	7.70
RMB FRN 220620	6.13
Absa Fixed 220620	6.12
JIBAR linked swap	4.86
Standard Bank 121222	4.49
China Construction Bank Call	3.71
Nedbank FRN 220921	3.38
Santam FRN 270622	3.35
Standard Bank FRN 121120	3.11
Old Mutual FRN 301124	3.09

Asset Allocation

Portfolio Date: 2019/06/30



	%
MMI: Floating	15.22
Floating Bonds	56.96
Fixed Bonds	17.59
Cash	5.68
MMI: Fixed	4.55
Total	**100.00**

Annualised Performance (%)

	Fund	Benchmark
1 Year	9.78	8.40
3 Years	9.40	8.49
Since Inception	9.42	8.49

Cumulative Performance (%)

	Fund	Benchmark
1 Year	9.78	8.40
3 Years	30.93	27.68
Since Inception	36.01	32.12

Highest and Lowest Calendar Year Returns

Time Period: Since Inception to 2018/12/31

Highest Annual %	9.90
Lowest Annual %	8.35

Risk Statistics (3 Year Rolling)

Standard Deviation	0.66
Sharpe Ratio	2.81
Information Ratio	1.31
Maximum Drawdown	—

Distribution History (Cents Per Unit)

2019/06/30	2.23 cpu	2018/06/30	2.11 cpu
2019/03/31	2.07 cpu	2018/03/31	2.03 cpu
2018/12/31	2.22 cpu	2017/12/31	1.37 cpu
2018/09/30	2.14 cpu	2017/10/27	0.63 cpu

Administered by

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
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As of 2019/08/31

GRANATE ASSET MANAGEMENT

Part of RMI Investment Managers

Granate SCI Multi Inc - Fund Commentary

Quarterly Commentary (30/06/2019)

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

Uncertainty around global economic growth momentum, concerns relating to trade tensions and the possibility of slower global trade translated into dovish comments by both the European central bank (ECB)and the US federal reserve (FED). Both central banks referred more openly to the prospect of policy loosening if growth risks materialise and follow a wave of central banks that have either adopted or alluded to monetary policy easing.

Domestic economic growth in 1Q19 (released in June) came in a lot worse than expected at a seasonally adjusted annualised rate of -3.2%, the worst contraction since 2009. The contraction was broad based - agriculture, mining and manufacturing sectors deteriorating the most - suggesting that the cause of the slowdown is not limited to electricity outages. Leading indicators such as the PMIs and business confidence remain depressed and available data for 2Q19 continues to point to softness in the local economy as the mining and manufacturing sectors remain weak and car sales continue to decline sharply. That said, the electricity supply has stabilised, and the softness does not appear to be as severe as 1Q19. While a technical recession (which brings with it negative sentiment) will probably be avoided, the lowered GDP growth forecast for 2019 of both consensus and the SARB might be difficult to achieve.

The Monetary Policy Committee (MPC) of the Reserve Bank met once during the 2nd quarter and kept the repo rate unchanged at 6.75%. However, the vote was much closer than previous meetings with two of the five members voting for a 25bp cut. The MPC revised its headline and core CPI inflation forecasts lower across the entire forecast horizon. CPI forecasts are now only slightly higher than the mid-point of the inflation target of 4.5% over most of the forecast horizon - something that the SARB has been determined to achieve. There was also further downward revision to the SARB's growth forecast for 2019 which is now expected to average 1.0% (down from 1.3% in March) because of the larger than expected slowdown in the first quarter. The MPC now expects a materially wider output gap than previously envisaged, due to the disappointing 1Q GDP. A wider output gap and a lower inflation trajectory, which is closer to the mid-point target of 4.5%, are reasons that the Quarterly Projection Model (QPM) now embeds one 25bp cut by the end of 1Q20, as opposed to the March 2019 forecast which had one generated hike by the end of 2019. The inflation trajectory and an MPC that sees the balance of risks around its inflation projection being more or less even, provides room for a rate cut and cyclical support for growth without comprising its main objective or credibility.

We therefore believe that rate cuts are very likely in the 2nd of 2019 with the risk of rates remaining flat if Eskom's challenging financial situation (and the knock-on consequences this could have for South Africa's fiscal position, credit rating, and exchange rate) cannot be resolved.

Market overview

Financial markets had a 2nd consecutive positive quarter in 2019, buoyed mainly by dovish central banks and despite generally softer economic data in both emerging and developed markets.

Locally, all major asset classes recorded a positive return. The listed property sector (4.52%) outperformed all other domestic asset classes followed closely by equities (3.92%) and bonds (3.70%). For the 12 months to the end of June, listed property has however underperformed all other major asset classes. Despite the short-term outperformance in listed property, yields are seemingly at attractive levels. We are however wary of the risk that the oversupply and weak domestic growth poses to the sector as well as the risk inherent in the highly geared offshore investments. What is becoming more apparent is that the correlation of listed property with the equity market continues to rise as it does its volatility.

Lower growth, inflation and probability of lower policy rates have driven the US 10yr bond below 2% for the first time in almost three years. The local bond market (ALBI) ended the quarter 13 basis points lower than where it started led by the medium dated maturities of the index, despite foreign investors turning net sellers of bonds in the 2nd quarter. Yields on longer dated maturities also fell, but to a lesser extent as investors remain concerned by the deteriorating fiscal outlook which means that government borrowing will increase. The fiscal deterioration worsened at the State of the Nation Address (SONA) where there was commitment by government to accelerate the timing of the fiscal support for Eskom to ensure that the utility has enough cash to meet its commitments in the short to medium term.

Inflation-linked bonds continue to perform poorly - now the only domestic asset class to record a negative real annualised return over the last five years, as investors have had little appetite for the long end of the curve due to more attractive valuations for long dated nominal bonds. Looking forward, an upward leg in the inflation cycle, real yields of 3% (and above) and potential repo rate cuts does make the asset class more attractive, but the demand for inflation protection over the medium term will likely remain subdued. The lack of demand will be compounded by the inflation carry becoming less attractive post July.

Portfolio activity

The Multi Income fund outperformed the the Stefi index for the quarter with a return of 2.40%. The fund's duration hovered between 0.7 and 0.8 over the quarter, and was able to benefit from the strong performance in bonds. The bond swap spread narrowed over the quarter as bonds outperformed swaps which benefitted the swap overlay position that the fund had in place.

Credit spreads continued to narrow during the quarter and we are finding limited value in the credit market and we have shortened our credit duration position considerably. The majority of the fund exposure is in the 1-3 year area now as longer dated credit spreads are not compensating us for the risk in this asset class, particularly in the lower rated categories. As credit has been rolling off we have been investing in 1 year NCDs which are offering very good value, especially when compared to longer dated NCDs. We will not be reinvesting extensively until we see better value in the credit market. The fund is positioned in high quality credit with the banking sector and insurance sector still being our largest weight.

Although listed property performed well over the quarter we slightly reduced our exposure to this asset class. We also have a very low exposure to inflation linkers, however it appears that since inflation has bottomed, inflation linkers are now offering better value than they have in the past, particularly in the short end. Although inflation linkers are generally illiquid, the shorter end government bond linkers have decent liquidity characteristics.

Portfolio positioning

After the significant rally in bonds we will be monitoring our fair value model closely to determine whether we should be reducing duration. At the moment the fair value model is indicating that the bond market is still offering value, and we cannot escape the fact that on a real yield basis government bonds appear to be offering a significantly positive risk adjusted real return. Floating rate credit appears to be getting more expensive as spreads adjust lower and issuers are using this opportunity to come to the bond market, benefitting from the significant flexibility that the corporate bond market has to offer.

In an environment where the corporate bond market is flooded with demand and spreads continue to narrow, we feel very comfortable with the fund being defensively positioned. Although it is tough to optimise yield with credit spreads continuing to narrow, we would rather be cautious on our level of credit exposure than experience negative drawdowns in the fund due to corporate stress. Money market paper appears to be offering better value relative to other asset classes and we will start to add inflation linkers to the portfolio since there are now certain signs that inflation has bottomed.

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. Bronwyn holds a B.Comm (Honours) degree from the University of Natal.