Granate SCI* Multi Income Fund Class B

Collective Investment Scheme Minimum Disclosure Document (MDD)

As of 30/04/2020

GRANATE
ASSET MANAGEMENT

MDD Issue Date: **19/05/2020**

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 (%)	7.44
Portfolio manager	Bronwyn Blood
ASISA fund classification	South African - Multi Asset - Income
Risk profile	Conservative
Benchmark	STeFI Composite Index + 1%
Fund size	R 339,508,684
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	0.57
Total expense ratio (TER)	0.62
Transaction cost (TC)	—
Total investment charge (TIC)	0.62
TER measurement period	01 January 2017 - 31 December 2019

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.

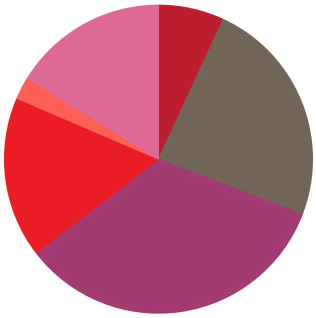
*The Granate Sanlam Collective Investments Multi Income Fund transitioned to Sanlam Collective Investments (RF) (Pty) Ltd on 28 October 2017.

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

Top ten holdings	% of portfolio
Portfolio Date	**31/03/2020**
Eskom ES26	6.44
R2030 Asset Swap	6.26
RMB FRN 181126	6.24
R186	6.21
Nedbank Call	5.79
RMB Call	4.89
R2030	4.76
SBK FRN 160424	3.74
China Construction Bank Call	3.69
Absa Call	3.15

Asset allocation

Portfolio Date: 31/03/2020



	%
Bonds: CPI-linked	6.90
Bonds: Fixed	23.91
Bonds: Floating	33.80
Cash	16.84
MMI: Fixed	2.36
MMI: Floating	15.72
Property	0.47
Total	**100.00**

Annualised performance (%)

	Fund	Benchmark
1 year	7.53	8.21
3 years	8.66	8.35
Since inception	8.94	8.42

Cumulative performance (%)

	Fund	Benchmark
1 year	7.53	8.21
3 years	28.31	27.19
Since inception	41.88	39.12

Highest and lowest calendar-year returns

Time Period: Since Inception to 31/12/2019	
Highest annual %	9.90
Lowest annual %	8.35

Risk statistics (3-year rolling)

Standard deviation	1.34
Sharpe ratio	0.96
Information ratio	0.22
Maximum drawdown	-1.14

Distribution history (cents per unit)

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
30/06/2019	2.23 cpu	30/06/2018	2.11 cpu

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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

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.

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Portfolio manager quarterly comment - 31/03/2020

Market comment

March 2020 must be one of the worst and most volatile months on record, as financial markets globally responded to the economic consequences of the COVID-19 pandemic – a simultaneous demand and supply shock of unprecedented proportions. Policy responses varied across economies, but key actions have been the same: implement a lockdown to contain the health crisis and provide fiscal and monetary stimulus to support the economy. The market sell-off was widespread, as investors moved quite rapidly to increase cash holdings at the expense of risk assets. Even 'safe-haven' assets such as gold sold off at the height of the panic. This was despite central banks' decisive policy action and government announcements of some of the largest economic relief packages in history.

South African equity and fixed income markets were not spared, with foreigners rushing to sell assets. The liquidity squeeze in the fixed income market forced the South African Reserve Bank (SARB) to step in and firstly cut the repo rate by 100 basis points – a magnitude of four times more than the incremental interest rate changes in recent years – and subsequently introduce an additional set of temporary measures. This was somewhat effective in stabilising the fixed income market, despite Moody's finally downgrading the country to below sub-investment grade. Moody's cited the lack of concrete action around structural reforms by government and massive downward revisions to growth due to COVID-19. This combination has given rise to a significantly worse fiscal outlook for the country's overall debt trajectory, as South Africa struggles with a concrete plan to contain its debt levels.

On the monetary front, it seems as though the SARB's Monetary Policy Committee is primed for more cuts to the repo rate, having revised growth down by a further 2% to 4% and indicating that inflation will likely be contained within the 3% to 6% range despite the significant weakening in the currency. At quarter end the forward rate agreement (FRA) market was pricing in further cuts of almost 100 basis points in this year. A lower repo rate, couple with enormous fiscal challenges, means a steeper yield curve is likely for longer.

Portfolio activity and positioning

A crisis like the one we have been experiencing produces once-in-a-decade investment opportunities. Price moves have been dramatic. We have been taking advantage of this deliberately and slowly.

- Government bonds, being fixed-rate in nature, offered extraordinary value compared to the equivalent floating-rate bonds (including credit), and we increased government bond exposure as these instruments sold off. This will be highly accretive to returns over time. We have 12.6% exposure, with a fund modified duration of 1.15.
- Due to the severe disruption in markets, the local bond market underperformed significantly in March. Foreigners sold record amounts, punishing the sector for the poor growth outlook resulting from the crisis. This underperformance is unprecedented.
- There was a window of opportunity during which inflation-linked bonds were trading at unprecedented levels, offering real yields of close to 6%. We took this opportunity buy some for the portfolio.
- Although property has been severely punished, we have slightly upweighted our exposure from 0.3% to 0.5%. However, we are still extremely cautious about the fundamentals of this sector and are not comfortable yet to take a meaningful position. We think the risks far outweigh any potential return.
- Our corporate credit exposure was reduced slightly as we increased liquidity in the fund. Our rigorous credit process leaves us comfortable with the current underlying credit exposures, but we are continually monitoring these for any signs of stress.
- The fund has enough liquidity to take advantage of the opportunities we expect when credit spreads widen. We have not yet decided to increase exposure to credit, as we believe credit spreads have the potential to widen further from here.
- We are overweight South African banks. With strong capital buffers, relatively liquid balance sheets, strong risk mitigations in place and a supportive SARB, we think they will withstand this crisis.

The decision to increase modified duration has impacted short-term performance, as yields increased across the curve and we continued to buy. It's impossible to call the bottom of a market, so we incrementally bought into weakness. It's important to remember that this is not permanent loss of capital. Considering the yields these bonds are producing, 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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