Granate SCI* Multi Income Fund Class B

Collective Investment Scheme Minimum Disclosure Document

As of 2018/12/31

GRANATE ASSET MANAGEMENT | Part of RMI Investment Managers

MDD Issue Date: **2019/01/17**

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
12 Month Yield	7.43%
Portfolio Manager	Bronwyn Blood
ASISA Fund Classification	South African - Multi Asset - Income
Risk Profile	Conservative
Benchmark	STeFI Composite Index + 1%
Fund Size	R 182 952 965
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	1.22
Transaction Cost	—
Total Investment Charges	1.22
TER Measurement Period	01 April 2016 - 30 September 2018

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.

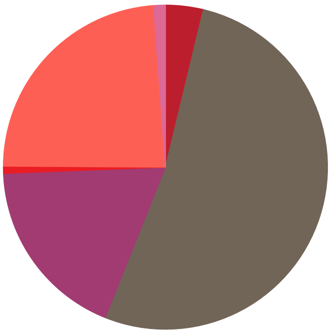
**Risk statistics will only be available once the fund has reached three years performance history.

Top Ten Holdings

Top Ten Holdings	% of Portfolio
Portfolio Date	**2018/12/31**
FirstRand FRN 011026	6.61
Investec 130319	5.82
Standard Bank 121222	3.94
Anglo American 220319	3.24
Nedbank FRN 220921	3.05
Santam FRN 270622	3.00
Standard Bank FRN 121120	2.79
Old Mutual FRN 301124	2.78
Investec FRN 120824	2.22
Investec Call	2.20

Asset Allocation

Portfolio Date: 2018/12/31



	%
Call Money	3.76
FRN Bond	52.30
Fixed Bond	18.33
Cash	0.71
NCD: MM	23.73
Property	1.17
Total	**100.00**

Annualised Performance (%)

	Fund	Benchmark
1 Year	8.35	8.32
Since Inception	9.27	8.51

Cumulative Performance (%)

	Fund	Benchmark
1 Year	8.35	8.32
Since Inception	27.61	25.18

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	—
Sharpe Ratio	—
Information Ratio	—
Maximum Drawdown	—

Distribution History (Cents Per Unit)

2018/12/31	2.22 cpu	2017/12/31	1.37 cpu
2018/09/30	2.14 cpu	2017/10/27	0.63 cpu
2018/06/30	2.11 cpu	2017/09/30	2.19 cpu
2018/03/31	2.03 cpu	2017/06/30	2.09 cpu

Administered by Sanlam

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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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Tel: +27 (21) 446 9410
Email: info@granate.co.za
Website: www.granate.co.za

Manager Information
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Granate SCI Multi Inc - Fund Commentary

Quarterly Commentary (31/12/2018)

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

Economic activity has slowed down marginally in the 4th quarter but remains on track to match last year's robust performance. While consensus forecast is for a continuation of the economic upcycle there are signs that the risks of a US recession (with boarder global implications) is growing. Similar (low) rates of unemployment and yield curve shape have historically been followed by recessions.

Domestic economic growth in the 3rd quarter 0f 2018 (released during Q4 2018) rebounded to a seasonally adjusted quarter-on-quarter annualised (q/q) rate of 2.2% from an upward revised -0.4% 2nd quarter growth rate. The positive outcome means that the economy has emerged from its brief recession. The strong rebound was predominantly due to a strong performance of the manufacturing sector (making up 13.5% of GDP) which recorded its strongest 3rd quarter (7.5%) in over a decade and despite a poor performance of the mining sector (-8.8%) (that makes up only 8.1% of GDP). Concerningly, gross fixed capital formation declined by a q/q rate of 5.1%, its 10th negative quarter in the last 12. High frequency economic data releases for the 4th quarter have surprised on the upside and suggest that the economy continued to grow in 4Q although, judging from the still weak confidence and PMI surveys, momentum remains subdued.

The Monetary Policy Committee (MPC) of the Reserve Bank met once in the 4th quarter and increased the repo rate by 25bps to 6.75% - the first hike since Feb 2016, in a close decision (3:3 vote). While the rate hike was broadly in line with the SARB's Quarterly Projection Model, communicating the decision was made difficult by a much stronger rand and lower oil price since the previous meeting. Furthermore, the MPC's inflation and GDP growth forecasts were lowered, implying less justification for a hike. Therefore, we think that the decision by the SARB should be seen as a further sign that the MPC is focused on the midpoint (4.5%) as the inflation target rather than the 3%-6% range.

Market overview

Financial markets ended the year on shaky ground. Locally, money market outperformed all other domestic asset classes both for the quarter and the year. Adjusted for inflation, only bonds and money market recorded positive returns over the last 1, 3, and 5 years. Given the make-up of domestic pension funds (with their heavy weighting towards equities), real value of retirement saving has, at best, remained unchanged over the last 5 years and in many cases would have declined.

The bond market returned a respectable 2.7% in the 4th quarter as bond yields (R186) traded in a 50 basis point (bp) range and ended the quarter practically where is started. The long end of the yield curve (R2048), however, was only 2bp lower implying a slight decline in value. The reasonable performance of bonds came with a significant bout of volatility. November (+3.9%) was a stand-out month where the bond market was supported by a strong rand (+6.6%) which benefited from improving terms of trade and a generally supportive global environment, as evident from the strong performance of both EM bonds and equities, that saw foreign investors returning as net buyers (+R2.6bn) to the local market for the first time since July. Taking global markets performance in the 4th quarter into account, South African bonds have held up well – a function of the attractive prospective real yields that they are trading at.

Global economic uncertainty impacted financial markets in the 4th quarter more than it did in the 3rd as evident from the worst quarterly performance in 10 years of key equity indices such as the S&P500 and a spike in the VIX index. This sent investors to the safe haven of developed market bonds driving all key market rates lower with the yield on the 10yr US Treasury declining by 36bp, this despite the US Fed raising its key lending rate by 25bp. Despite the increase in risk aversion emerging markets fared well outperforming all major asset classes.

Inflation-linked bonds continue to perform poorly as inflation, while likely to remain around current levels for the next few months, is not expected to rise rapidly and does not appear to pose a major, hence investors are not seeking inflation protection which this asset class offers.

The listed property sector remains a significant underperformer having recorded its 4th consecutive negative quarter and its 10th negative month of the year in December. The sector has come under growing scrutiny due to allegations of inaccurate financial reporting by some of the larger companies. Furthermore, results and trading update point to very tough trading conditions as also evident by the risk that Edcon (a substantial tenant in most retail shopping centres) may not meet its rental obligations.

Portfolio activity

The Multi Income fund outperformed the the Stefi index for the quarter with a return of 2.3%, with the highest duration position during the quarter being around 1.25, and ending the quarter at a duration of 0.88. The fund remained true to its objectives of keeping duration below 2 at all times and focusing mainly on yield enhancement. We are saw bond valuation models move into expensive territory towards the end of November and hence cut our duration position. Fixed rate bonds are now only 18% of the fund with the rest of the fund being made up of floating rate bonds and cash. We sold down our government bond position and invested in 1 year NCDs as we are finding the NCD curve relatively flat post 1 year. On a real yield basis, longer dated fixed rate bonds are offering real yields in excess of 4%, which is attractive . The challenge is to not introduce too much interest rate risk into the fund whilst there are significant fiscal risks on the horizon with the potential for government bond yields to move higher.

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. 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 still being our largest weight.

Listed property has continued to underperform and we reduced our exposure from 1.6% to 1.2% in the quarter, selling our exposure to UK property stocks as we became concerned around the risks around the Brexit fallout. We have also reduced exposure to inflation linkers as we are not overly concerned with a material increase in inflation and are getting more attractive real yields from nominal bonds.

Portfolio positioning

With credit spreads having narrowed and looking more expensive, we are not finding value in the credit market. We have reduced our government bond exposure in the form of the R186 as bonds have become more expensive. The burning question for 2019 is where will we find yield if not in the credit space? For now we are comfortable maintaining a larger percentage in money market instruments in the fund as we believe the these instruments are offering value on a relative basis to credit, and will look for opportunities as credit spreads begin to widen.

We will also remain cautious on the property sector and only hold the high quality and less volatile stocks. We believe that the negative environment is generally priced into these better quality stocks and the yields on these stocks are attractive. We are unlikely to upweight our property exposure in the near term, unless particular quality stocks have derated significantly. Inflation linked exposure in the fund will remain low in the fund as long as we believe nominal bonds are compensating us more for inflation.

The fund is very defensively positioned and we are likely to maintain this stance in the near term. We will continue to focus on maximising yield in the investment grade space while diversifying across different sectors and risk categories and being mindful of interest rate risk.

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.

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