

As of 2018/03/31

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	8.43%
Portfolio Manager	Bronwyn Blood
ASISA Fund Classification	South African - Multi Asset - Income
Risk Profile	Conservative
Benchmark	STeFI Composite Index + 1%
Fund Size	R 176 289 950
Portfolio Launch Date*	2016/04/01
Fee Class Launch Date*	2016/04/01
Minimum Lump Sum Investment	LISP Minimums
Minimum Monthly Investment	LISP Minimums
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	3.42
Maximum Annual Advice Fee	1.14
Manager Annual Fee	0.57
Total Expense Ratio	0.62
Transaction Cost	—
Total Investment Charges	0.62

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. The TER is presented for the period 1 April 2016 to 30 September 2017.

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.

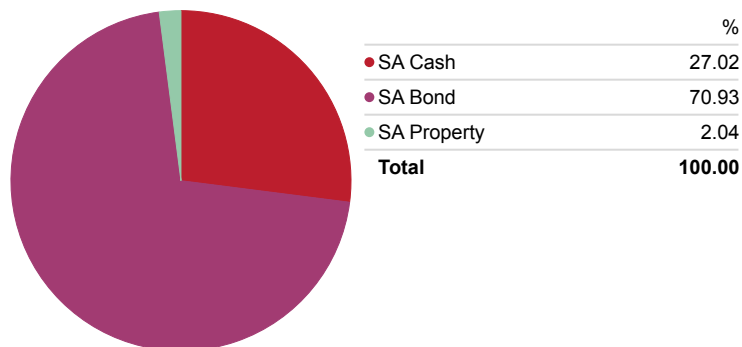
*The Granate Sanlam Collective Investments Multi Income Fund transitioned to Sanlam Collective Investments (RF) (Pty) Ltd on 28 October 2017.

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

Top Ten Holdings

	% of Portfolio
Mercedes-Benz 280820	5.72
Investec 130319	5.70
Standard Bank 121222	4.25
Absa Call	3.42
RSA Bond R186 211126	3.35
Anglo American 220319	3.31
Nedbank 220921	3.13
Investec 121218	2.92
Barclays Africa 170322	2.92
Standard Bank 121218	2.92

Asset Allocation



Annualised Performance (%)

	Fund	Benchmark
1 Year	9.83	5.92
Since Inception	9.73	6.74

Cumulative Performance (%)

	Fund	Benchmark
1 Year	9.83	5.92
Since Inception	20.40	13.93

Highest and Lowest Annual Returns

Time Period: Since Inception to 2017/12/31		
Highest Annual %		9.90
Lowest Annual %		9.90

Risk Statistics (3 Year Rolling)**

Standard Deviation	—
Sharpe Ratio	—
Information Ratio	—
Maximum Drawdown	—

Distribution History (Cents Per Unit)

31/03/2018: 2.03 cpu	30/09/2017: 2.19 cpu	31/12/2016: 2.28 cpu
31/12/2017: 1.37 cpu	30/06/2017: 2.09 cpu	30/09/2016: 2.37 cpu
27/10/2017: 0.63 cpu	31/03/2017: 2.42 cpu	30/06/2016: 2.10 cpu

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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 smooths 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 buy units. 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 of professional 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

All reasonable steps have been taken to ensure the information on this MDD is accurate. The information to follow 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 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 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 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 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 instruments which could be accompanied by additional risks as well as potential limitations on the availability of market 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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As of 2018/03/31

Portfolio Manager Quarterly Comment (31/12/2017)

Economic overview

Economic activity in major economies maintained its strong momentum during the 1st quarter of 2018. Furthermore, consensus forecast for economic growth for both developed and developing economies for 2018 and 2019 have been revised upwards. These upward revisions to economic growth have come despite the increasing risk of "trade wars" as countries are retaliating to the US's imposition of trade barriers and rising policy rates in the US.

Domestic economic data for the 4th quarter of 2017 (released during Q1 2018) showed that the economy is in better shape than previously thought. The domestic economy grew by a quarter-on-quarter annualised rate of 3.1% (1.9% y/y) in the 4th quarter of last year, after recording an upwardly revised 2.3% growth rate in the 3rd quarter. The primary sector (mainly agriculture) remained strong, but encouragingly, both the secondary (manufacturing) and tertiary (trade) sectors rebounded.

Q1 2018 data has been, on balance, encouraging. PMI's, business and consumer sentiment, and mining production have improved while manufacturing production and retail sales have softened, albeit from a strong performance in Q4 2017.

The Monetary Policy Committee (MPC) of the Reserve Bank met twice during the 1st quarter. While both MPC meetings took place after the change in the country's leadership, the situation was very different amongst the two meetings. In the January meeting the economy was still facing significant fiscal and thus rating downgrade risks. Therefore, while inflation was falling and the economy weak, the SARB kept the repo rate unchanged as five members of the MPC voted for no change and one member voted for a 25bp cut. When the MPC met in March, two of the key risks that the economy was facing in January were gone, namely further fiscal deterioration and the rating downgrade. Furthermore, consumer and business confidence showed a marked improvement. This, together with the fact that the committee's inflation forecast was lowered, led to a 25bp repo rate cut. Surprisingly, however, the March MPC statement was relatively hawkish and the decision was a close call as three of the seven (a new member was appointed to the MPC) voted for an unchanged repo rate.

The March MPC statement suggests that a further rate cut this year is in the balance. Inflation has continued to decline, but the 1% VAT increase, higher oil prices and base effects suggests that inflation has probably bottomed in the 1st quarter. This, together with the MPC's increased focus on the middle of the inflation target band (4.5%) as where it wants inflation expectations to settle, suggests that a further 25bp cut is not a given. A favourable outcome in the public-sector wage negotiations, if obtained, could be the deciding factor.

Market overview

The South African bond yields continued their downward trend in 1st quarter of 2018, with the yield on the benchmark R186 declining by 60 basis points (bp) and the All Bond Index (ALBI) recording its best 1st quarter return on record. The rally in the bond market started at the end of November last year, but picked up significant momentum during the ANC elective conference once it became evident that the "Zuma camp" had lost its grip on power. The downward trend in yields was mainly a result of the market "pricing out" the political risk (with all its implications on the economy) that was being discounted in the bond market.

The chain of events triggered by the favourable outcome of the ANC elective conference culminated in Moody's decision not to downgrade South Africa's credit rating – a move that would have probably resulted in large spike in yields as foreign investors would have sold their local bond holdings. Importantly, the credible budget presented (which still needs to be delivered on) by National Treasury, which articulated a path towards fiscal consolidation, has meant that government will borrow less and reduce the size of its weekly bond auctions. The improved fiscal outlook and the resultant decline in borrowing has resulted in a flattening of the yield curve during the quarter with the aggregate yield on the 12+ sector of the yield curve declining by 77bp points compared with that of the 3-7 sector of the yield curve which fell by only 34bp.

Inflation-linked bonds, which have been out of favour for the best part of the last two years, also ended up having a strong quarter (4.15%) courtesy of a March rally which saw yields fall by between 15bp and 39bp on short and long dated bonds, respectively.

After being the best performing domestic asset class in the 4th quarter of 2017 (+8.3%), the property sector was the worst performer (-19.6%), registering its worst quarterly return since the middle of 2006. The selloff was concentrated in four shares that are part of the Resilient group, which make up 27% of the JSE property index, and accounted for 15.2% of the 19.6% loss of value in the sector.

Portfolio activity

Our duration position has increased to 0.96 (from 0.62) as we took advantage of the more stable bond market outlook. The income fund benefitted from this as the market continued to rally on positive news flow in terms of the budget, the rating reprieve from Moody's, and expectations of an interest rate cut. The corporate bond market also continued to perform well as spreads continued their narrowing trend. We still favor the banks, insurers and higher quality corporates and have been actively seeking opportunities in these sectors to increase the yield in the fund. We are now starting to look for opportunities in the SOE sector again as the leadership changes in this sector bring about better governance and financial stability prospects, and the sector looks more fairly priced.

We have reduced the level of cash in the fund as we took advantage of credit opportunities in the secondary market over the quarter. The secondary credit market continues to be a good alternative for sourcing credit as primary auctions remain subdued and private placements are continuing behind the scenes. We continue to increase our positioning in property and are finding the UK property stocks particularly cheap, but we are also favoring some of the larger South African REITs.

We have no exposure to preference shares as the pricing in that market continues to be unreflective of the underlying fundamentals, and is based more on demand supply dynamics, which are difficult to analyse. We continue to focus on keeping the yield in the fund as high as possible by investing in high quality credit, whilst minimizing downside interest rate risk in this volatile environment.

Portfolio positioning

Although we have increased duration in the fund somewhat, our portfolio position remains defensive. The fund will always be defensively positioned in terms of duration (not likely to go higher than 1.2) and will have the majority of exposure to floating rate bonds. We believe we are exposed to the more stable sectors in the corporate bond market and have stayed out of the lower rated corporates which have experienced liquidity problems in the recent past. Inflation linkers will remain a low weighting in the fund as we see more value in the nominal bond market. We believe that over the long term we should be increasing the weighting in inflation linkers as the lower volatility nature of this asset class suits the objectives of this fund. We are also overweight in listed property but are looking to increase this position marginally.

As the fund grows we can diversify appropriately and in line with our credit policy, across the corporate bond market. We are extremely comfortable that we are well positioned across corporate South Africa, given the current economic environment. Our positioning in the fund remains overweight on banks and insurers and we are likely to increase our exposure to securitizations further in the near term.

Our credit policy has embarked on a process to make sure our sectoral breakdown is more granular and will focus on keeping exposure low to corporate sectors which are more prone to liquidity issues due to the nature of their business. Our credit process is also very focused on making sure we have exposure to the sectors where there is sufficient risk compensation built into the credit spreads. We are thus cautiously optimistic on the SOE sector as this sector is starting to look more fairly priced. We do not see our positioning within the corporate sectors changing much in the near to medium term, but with credit spreads narrowing so significantly we feel that there may be less value in the corporate market. This warrants being more price sensitive which should result in a larger weighting to cash in the fund going forward.

Portfolio Manager

Bronwyn Blood
B.Comm (Honours)

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