

February 2020

### **Annual letter to investors**

*“Do not go where the path may lead, go instead where there is no path and leave a trail.”  
– Ralph Waldo Emerson*

#### **Welcome to our first annual letter**

In this first instalment, we have allocated the largest section to introduce you to who we are and the principles on which Granate Asset Management is being built. We also focus briefly on our fund offering. There will be plenty of letters ahead to share more product-specific details and investment insights. We look forward to writing these in the years to come.

*(POME)GRANATE ASSET MANAGEMENT – Our name is based on the ancient fruit, a symbol of prosperity and abundance. It represents the outcomes we aim to achieve for our clients through fruitful long-term relationships.*

#### **We are relentlessly committed to protect and grow your savings**

If we were offered the limited opportunity to give clients only one message, this would be it — our ‘one thing’.

However, to generate exceptional returns over long periods while providing excellent service is rare. There are several layers to consider when building an asset manager, all of which must be configured correctly. So why does Granate believe we’ll be able to deliver this?

#### **We have taken care to configure the layers of our business to secure favourable odds**

What are these layers?

- a sound investment philosophy with team-wide buy-in
- a rational, thorough and repeatable investment process
- a strong culture based on a common purpose and shared values
- individuals who prioritise client gain over personal gain
- a commitment to client service
- operational control

#### **Our investment philosophy and process combine exclusionary qualitative hurdles and a cash flow-based valuation**

1. We assess a share or bond (debt instrument) based on four quality criteria: corporate governance, balance sheet strength, management’s track record and the competitive landscape in which the company operates.
2. If it clears these hurdles, we perform a valuation based on the future cash flows we expect from the investment.
3. We only invest if our clients get more than we are paying.

We believe that this approach optimises potential returns. It reduces the odds of significant mistakes, which usually arise from overpaying for securities or buying the securities of companies that face structural challenges.

### **The Granate culture is sacrosanct**

Our team members all strongly subscribe to our 'one thing' and are guided by the values that brought — and will keep — our team together:

- We will never swap integrity for money.
- We will support each other and our clients.
- We will collaborate to ensure we execute on our 'one thing'.
- Team members will be given autonomy. We will therefore always appoint people who share the passion for our 'one thing'.
- Granate will be a meritocracy to ensure we keep ourselves sharp for the benefit of our clients.
- We will always be honest.
- We will not grow faster than our ability to provide every client with excellent service.
- We will always communicate in simple language. Complexity creates misunderstanding.
- We will be positive. Even when it is hard.
- We will do good: to our colleagues, our clients and in our community.
- We will never give clients bad coffee.

### **We appoint individuals who place societal benefit over their own**

We also look for caring personalities. These attributes, combined with buy-in into Granate's purpose and values, result in a team that is more focused on client gain than their own.

### **Client service is part of everyone's job description**

We want our clients to say "Wow" — every time. To convert this ideal into reality we do not have a dedicated client services department. Every member of our team works in client services.

### **Employees own 70% of the shares in the business, giving the team operational control**

The remaining 30% is owned by a very supportive shareholder, RMI Investment Managers, who shares our long-term objective.

### **Our offering is concise but caters to a broad range of needs**

We offer the following products:

- The Granate SCI Money Market Fund, which has generated returns in line with our large counterparts.
- The Granate SCI Multi Income Fund, one of South Africa's most consistently performing income funds. It has outperformed both its benchmark and inflation since inception in April 2016, returning 9.31% per year after fees, compared to a benchmark return (STeFI Composite Index +1%) of 8.47% per year.
- The Granate SCI Balanced Fund — launched 1 February 2020
- The Granate SCI Flexible Fund — launched 1 February 2020
- Managed offshore share portfolios — Our clients currently hold the shares of exceptional businesses at prices that in many cases far understate what we deem to be their true value.

Aside from our Balanced and Flexible funds, all products were launched in 2016.

### **We are committed to making a meaningful difference**

The Granate SCI Flexible Fund offers a lower fee class (which includes reports to trustees) exclusively to Public Benefit Organisations. However, this is only one of the ways in which we intend to contribute to our community.

The actions of corporates have significant direct and indirect impacts on the lives of millions of people. Although corporates are transforming globally, we intend on being one of the forces that speed up transformation towards broader social improvement. This includes active engagement on corporate actions relating to governance, employee happiness, ethical sourcing and environmental awareness.

Ultimately, we believe that our most significant contribution will come from our relentless commitment to generate the returns our clients need to retire comfortably, provide for their children's future and escape the risk of over-indebtedness, while offering them excellent service throughout.

Yours sincerely  
The Granate Team

*"See the forest there in every seed  
Angels in the marble waiting to be freed"  
- Coldplay*