Granate SCI* Money Market Fund Class B

Collective Investment Scheme Minimum Disclosure Document (MDD)

As of 31/10/2021

MDD Issue Date: **17/11/2021**

Fund objective and strategy

The fund aims to give investors access to a diversified portfolio of money market instruments that are usually unavailable to retail investors, or available at a lower yield. It may, within legal limits, also invest in listed and unlisted derivatives. Its objective is to provide a high level of current income while preserving capital and maintaining liquidity. Capital gains will be incidental.

The fund is managed according to the prudential investment guidelines for South African retirement funds.

Portfolio limits and constraints

Exposure limits are as per the Association for Savings and Investment South Africa's (ASISA's) fund classification structure applicable to South African - Interest Bearing - Money Market portfolios. The portfolio can therefore invest in money market instruments with a maturity limit of less than 13 months, and the average duration of the underlying assets may not exceed 90 days and a weighted average legal maturity of 120 days.

Fund information

Ticker	RSMMB
Yield (%)	4.09
Portfolio manager	Vaneshen Naidoo
ASISA fund classification	South African - Interest Bearing - Money Market
Risk profile	Ultraconservative
Benchmark	STeFI Composite Index
Fund size	R 245,096,547
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 date	Monthly
Income pricing date	1st business day of the following month
Portfolio valuation time	14:00
Transaction cut-off time	13:00
Daily price information	Local media & www.sanlamunittrusts.co.za
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	0.29
Total expense ratio (TER)	0.31
Transaction cost (TC)	—
Total investment charge (TIC)	0.31
TER measurement period	01 October 2018 - 30 September 2021

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 Money Market 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.**

Specific risks

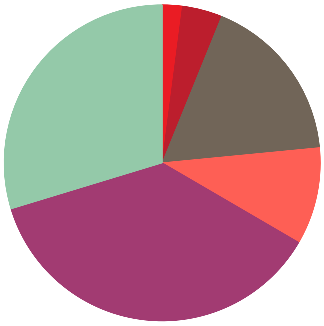
Money market funds are not bank accounts and there are specific risks investors should be aware of. These are interest rate risk, credit risk and liquidity risk. In the Granate SCI Money Market Fund, interest rates risk (the potential for investment losses from unexpected changes in interest rates) is typically influenced by interest rate expectations and is controlled by deciding on the aggregate term of the instruments the fund holds. Credit risk (the risk of a loss due to a borrower failing to make its required payments) is managed by imposing a minimum credit quality requirement for any asset the fund invests in, and there are typically higher exposures to issuers that are subject to additional oversight. Proprietary credit research is a very important part of the investment process. Finally, liquidity profiles of the fund's underlying investments (how quickly they can be converted into cash) are considered to ensure that it can meet its daily obligations. While capital losses are unlikely, they can occur. An example would be if an issuer of an instrument held by the fund defaults. Such losses will be borne by the portfolio and its investors.

Top ten holdings

Top ten holdings	% of portfolio
Portfolio Date	**31/10/2021**
NED SRN 041021	6.14
PNP FRN 180821	4.53
NED SRN 15121	4.10
ABSA CALL	4.02
RMB FRN 100222	3.29
RSA TBILL 170822	3.14
RMB FRN 280422	2.45
NED SRN 151221	2.05
INV FRN 070122	2.05
INV FRN 290422	2.04

Asset allocation

Portfolio Date: 31/10/2021



	%
Bonds: Fixed	2.05
Bonds: Floating	4.09
Cash	17.33
MMI: Fixed	9.94
MMI: Floating	36.90
MMI: Treasury Bills	29.70
Total	**100.00**

Annualised performance (%)

	Fund	Benchmark
1 year	3.82	3.78
3 years	5.87	5.67
5 Years	6.63	6.37
Since inception	6.78	6.49

Cumulative performance (%)

	Fund	Benchmark
1 year	3.82	3.78
3 years	18.65	18.00
5 Years	37.88	36.17
Since inception	44.22	42.06

Highest and lowest calendar-year returns

Time Period: Since Inception to 31/12/2020

Highest annual %	7.98
Lowest annual %	5.57

Monthly returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2021	0.30	0.28	0.31	0.31	0.32	0.32	0.33	0.31	0.32	0.34			3.18
2020	0.60	0.55	0.60	0.55	0.54	0.48	0.42	0.39	0.35	0.33	0.31	0.31	5.57
2019	0.63	0.57	0.64	0.61	0.64	0.62	0.63	0.62	0.60	0.61	0.58	0.60	7.59
2018	0.62	0.56	0.63	0.61	0.63	0.60	0.61	0.62	0.60	0.62	0.61	0.63	7.59
2017	0.66	0.60	0.66	0.63	0.66	0.66	0.66	0.65	0.64	0.65	0.63	0.61	7.98
2016	—	—	—	0.54	0.70	0.66	0.66	0.67	0.65	0.64	0.62	0.65	—

Distribution history (cents per unit)

31/10/2021	0.33 cpu	30/04/2021	0.30 cpu
30/09/2021	0.31 cpu	31/03/2021	0.31 cpu
31/08/2021	0.31 cpu	28/02/2021	0.27 cpu
31/07/2021	0.32 cpu	31/01/2021	0.30 cpu
30/06/2021	0.31 cpu	31/12/2020	0.31 cpu
31/05/2021	0.32 cpu	30/11/2020	0.30 cpu

Administered by

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As of 31/10/2021

GRANATE
ASSET MANAGEMENT

Risk statistics (3-year rolling)

Standard deviation	0.48
Sharpe ratio	3.76
Information ratio	3.74
Maximum drawdown	—

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.

Risk profile: Ultraconservative

The fund is suitable for investors with an extremely low risk tolerance. It has a short timeframe for investment and is designed for minimum capital fluctuations and volatility. Capital protection is of prime importance.

As such, there are no growth assets in the fund, and it is a cash-based investment. It aims to yield returns that are higher than bank deposits and typically higher than inflation.

Additional information

Investment manager information

Granate Asset Management (Pty) Ltd
FSP licence no. 46189
Physical address: 2nd Floor, Josephine Mill
13 Boundary Road, Newlands, Cape Town, 7700
Tel: +27 (21) 276 3450
Email: info@granate.co.za
Website: www.granate.co.za

Manager information

Sanlam Collective Investments (RF) (Pty) Ltd
Physical address: 2 Strand Road, Bellville, 7530
Postal address: P.O. Box 30, Sanlamhof, Bellville, 7532
Tel: +27 (21) 916 1800
Email: service@sanlaminvestments.com
Website: www.sanlamunittrusts.co.za

Trustee information

Standard Bank of South Africa Ltd
Tel: +27 (21) 441 4100
Email: compliance-sanlam@standardbank.co.za

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Sanlam

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Note: Fund commentaries are updated quarterly.

GRANATE
ASSET MANAGEMENT

Portfolio manager quarterly comment - 30/09/2021

Market comment

Why inflation-linked bonds don't always beat inflation – and why we believe they're currently attractive.

Inflation affects us all, both as savers and investors. Ultimately, we're trying to preserve the real purchasing power of our savings into retirement. Now consider that inflation-linked bonds (ILBs) are the only asset class to offer long-term protection against inflation. Not only is the redemption value of an ILB continually adjusted to account for inflation, but its yield (interest rate) – which is set as a percentage of this value – is specified in real (above-inflation) terms (e.g. inflation +2%). Does it not then make sense to utilise this asset class to the full extent in an income fund, where protecting against inflation is an absolute priority? Or as a diversified source of return in a multi-asset fund, which generally targets inflation-plus outcomes?

Well, it turns out that there's more to consider than the return stated on the tin. In fact, it may surprise you to hear that ILBs have *underperformed* inflation for the past six years. This is because the real yields offered by ILBs change over time, and if yields rise – as they have over this period – bond prices fall.

Current ILB yields are very attractive

As indicated by the grey line in Figure 1, 10-year ILBs are currently offering a real yield of 3.64% – up from a yield of under 1% at the end of 2012. In addition to this high real yield and inherent inflation protection if held to maturity, government ILBs are also risk free if you believe the government can print money to repay its debt.

Why are these yields so high, and what is the risk that they continue to rise and further detract from ILB prices? We believe that a significant amount of this risk is already priced in.

Also shown in Figure 1 are real economic growth (real GDP) and inflation (CPI) in South Africa since 2007. Over the longer term, there should be a close link between economic growth and real yields, as the real return earned on assets should decline when the economy slows down and interest rates fall (or conversely improve when the economy grows and interest rates rise). However, this has not been the case in recent years. In contrast to rising real ILB yields, real GDP has been declining, with the gap between the two recently reaching extreme levels.

Interest rates have also declined to all-time lows. As shown in Figure 2, local real repo rates (indicated by the red line) have recently become negative due to the South African Reserve Bank (SARB) cutting interest rates by 300 basis points during the COVID crisis. In fact, the gap between the 10-year real yield and 10-year real repo is at all-time highs.

This anomaly points to a dislocation between the real return on assets in the government sector and the real cost of capital in the private sector, more commonly known as the 'crowding out effect'. Weak economic growth and fiscal deterioration due to rising debt levels have increased the cost of financing in the government sector, while economic and investment activity in the private sector remains subdued and corporate credit remains scarce.

Longer-term gains are possible if market anomalies abate

A negative real policy rate is a sign of very loose monetary policy. Given that the SARB and other central banks globally have started to remove their extraordinary monetary support as economies recover from their lockdown-induced recessions, investors have started to price in rate hikes in the years ahead. This process is likely incomplete, and real rates may increase further.

While this unfolds, the repricing of real yields as a result of policy rate increases may dominate shorter-term returns. However, if we look over the longer term, we know that a real yield of 3.6% offered by a 10-year ILB is very attractive relative to the long-term average. Although we don't know when real yields will revert to fair value, we know that even a small decline in this yield will have a very positive impact on ILB prices, and therefore on overall returns.

At current levels, ILBs are likely to be valuable portfolio additions

We have been including more inflation protection in our funds for a while now. Inflation rates reached all-time lows during the COVID crisis and have started to accelerate. As the economy recovers and if the reform programmes set out for various industry sectors start to take shape, GDP growth should also accelerate. This could mean that the gap between real yields and real economic growth starts to close, as fiscal concerns abate. Even if it doesn't, earning a yield of 3.6% above inflation on a risk-free government bond for the next 10 years is certainly a decent return for any income fund, and a solid contributor in a multi-asset mandate. On a balance of probabilities, it is also likely to beat most private sector asset alternatives in the bond space.

Portfolio manager
Vaneshen Naidoo
CFA ®, M.Sc. (Engineering) (UCT), BSc. Hons (Engineering) (UCT)

Vaneshen joined Granate in December 2015 and manages our money market and cash portfolios. Prior to Granate, he worked at Cadiz Asset Management, which he joined as a graduate in 2006. He was later responsible for analysing the credit and property sectors for the fixed interest and multi-asset teams. Vaneshen holds a M.Sc. in Engineering from the University of Cape Town and is a CFA Charterholder.