Truffle
Asset Management

July 2024

Mid-Year Investor Letter

Iain Power
Chief Investment Officer

Expect the unexpected

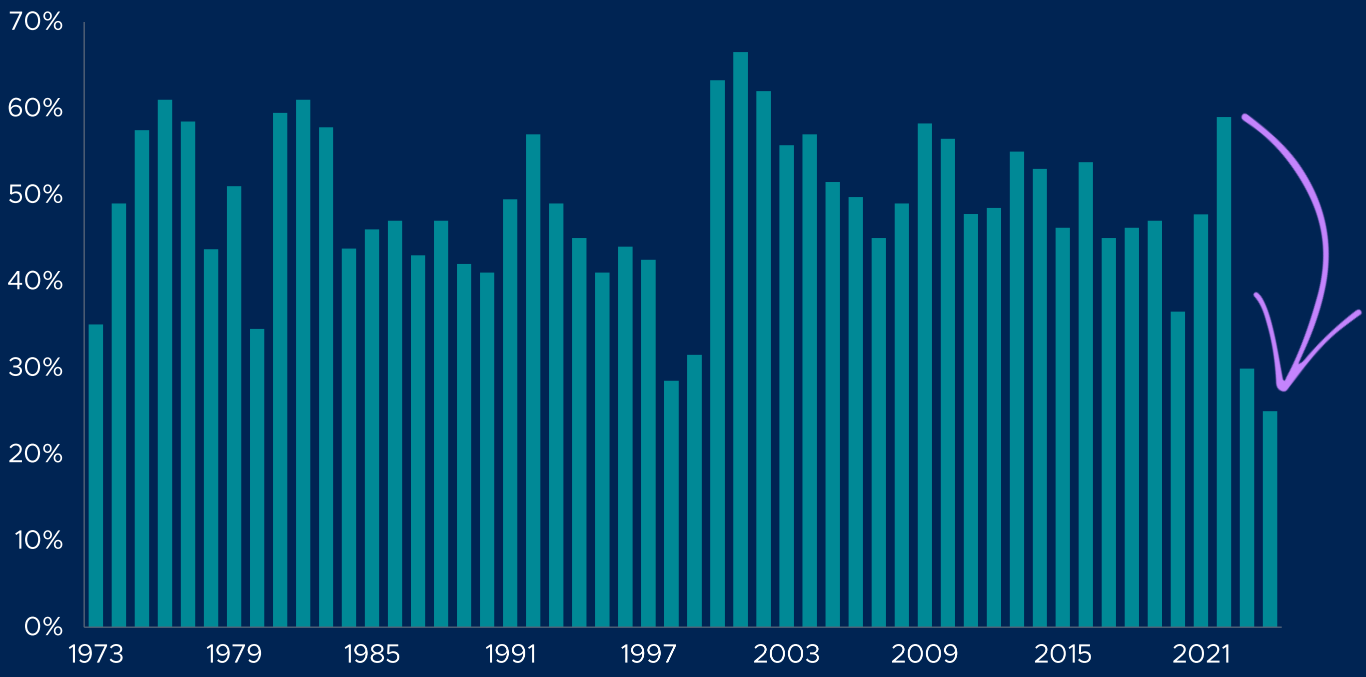
The year began with heightened election uncertainty in South Africa and global market expectations of numerous interest rate cuts as stabilising inflation signalled the US Fed could initiate a rate reduction cycle.

We had mentioned in our January newsletter that we were certain of the challenges facing our local economy in 2024 but less certain of the outcomes. This was especially true when a surprisingly positive outcome of South Africa's 7th democratic election became a watershed moment for the country and its democracy. The ANC's collapse after three decades of majority rule left the party in unchartered territory. However, uncertainty soon gave way to improved sentiment with the formation of a Government of National Unity (GNU). Markets welcomed the outcome given the centrist anchor, policy stability, and the potential for greater commitment to economic reform and growth. The new leadership structure and GNU dynamics will likely experience challenges over the short term; however, the parties are committed to a workable approach. Ramaphosa's recent speech at the Opening of Parliament added to positive sentiment, but with election fears now behind us, we eagerly await the tangible changes that will drive economic growth.

Adding to local surprises, resilient global inflation shifted market hopes of seven US rate cuts through 2024, and as we head into the second half, expectations have been revised down to just two cuts before the year ends. Economic data and the Fed's current narrative certainly indicate a reduction is imminent, although we are unlikely to return to pre-Covid levels soon. Global growth has also remained strong through the first half, supporting risk assets in developed markets, with some equity markets gaining new highs. The hype around Artificial Intelligence (AI) provided a further boost particularly to the large mega-cap tech stocks which have continued to dominate market performance as shown in the chart on page 2. The "magnificent seven" contributed two-thirds of S&P 500 growth in the first half of 2024.

The US economy has remained strong for longer than we anticipated, with US consumers shielded from high interest rates and sticky inflation by pandemic savings, fiscal support and mortgages that have been fixed at previously low interest rates. Cracks are beginning to show as savings deplete and the rising cost of unsecured lending is felt. In contrast to strong corporate balance sheets, the US government continues to run a sizeable deficit, which remains a headwind for further economic growth in the region. Election hype has now shifted to the US with a new race participant, Kamala Harris, replacing Jo Biden for the Democrats. At this stage, the odds appear to be in Trump's favour, which is not helpful for China. Trump's policy is also unlikely to deal with the growing deficit. However, as we have experienced in SA and Europe year to date, anything is possible, and outcomes remain uncertain.

Chart 1: Percentage of S&P stocks outperforming the S&P 500 over the calendar year



Source: Ned Davis Research. Data as at June 2024.

Looking to the East of the world, China continues to stumble. The property market is struggling, and policy changes have shown limited focus on supporting an already hesitant consumer. Geopolitics is also a considerable concern, as potential tariffs will negatively impact Chinese manufacturing. While lacklustre growth in China affects commodity demand, a lack of commodity supply and an upturn in the manufacturing cycle in other regions is positive. We remain constructive on copper on a medium-term view. The metal is benefiting from an improved outlook for global manufacturing, whilst lower supply guidance from major miners means a likely continuation of supply deficits.

Portfolio positioning and performance

Our SA equity funds outperformed benchmarks over the first half of the year.

Local election fears and reluctant investors meant SA markets trailed global counterparts over the first five months of 2024. We adopted a relatively defensive stance amidst local election uncertainty and ongoing macroeconomic challenges earlier in the year. We preferred to hold a higher weighting in companies with exposure to offshore markets and stay focused on those local counters trading on generous valuations with good dividend yields.

SA valuations remained low, and we took the opportunity to build a position in SA-focused stocks shortly ahead of the election. June's rally rewarded locally exposed investors, and our exposure to SA banks, insurers and retailers benefitted our portfolios. We maintain positions in some larger SA banking shares given strong free cash flow and compelling dividend yields. While SA stocks have experienced a re-rating over the first half, certain industrial companies are still to benefit, particularly with infrastructure improvement. We have therefore pivoted overweight positions to the Industrials sector.

Rand hedge stocks such as Anheuser and Bidcorp detracted from relative short-term performance. We maintain a position in Bidcorp given the solid investment case with further growth opportunities as well as compelling valuation metrics.

Noteworthy over the first half was our exit from a position we had built up in MultiChoice. We took profits following a takeover bid from French company Canal+ at a healthy premium. The fund also benefitted from an overweight in AngloGold, given good returns from precious metals; however an underweight in Harmony Gold detracted from relative returns. We maintain a slight overweight position in gold and higher weightings in select miners such as Glencore, which has a meaningful exposure to copper.

Our global multi-asset funds benefitted from a position in Japanese small caps, given business-friendly reforms that have started to unlock value for many companies in this region. Within our global equity, we remain focused on select opportunities. Industrial counters within Europe are trading at reasonable valuations and should benefit from an upturn in manufacturing.

Within the US, we have allocated to the Russell Value Index, which looks well-priced relative to the S&P 500. We maintain the view that US valuations are elevated for the mega-cap technology stocks, and while these are good businesses, the ratings at which they are currently trading do not align with potential earnings growth. In the current market environment, there is a high risk of a valuation unwind. We therefore remain underweight the US equity market in our offshore positions but have increased our exposure to European stock markets.

The outlook for SA has improved. The return of electricity availability has boosted economic activity and potential interest rate cuts will provide some relief for consumers. Further infrastructure developments are critical, particularly the ongoing rejuvenation of Transnet. A strong action-oriented leadership and the ability to implement the proposed reform initiatives is important to drive sustainable economic growth and should provide impetus for future SA earnings and share price performance.

Constructing a robust portfolio that can outperform amidst a backdrop of complex challenges across the world requires skill, in-depth research and an agile approach. It's important that we distinguish between short-term noise and long-term fundamental shifts. Factors such as rising geopolitical tensions, ongoing conflict across several regions, global warming and onshoring, as well as a move to right-wing politics, are all driving significant change. Historic correlations are shifting, and we have already seen a dislocation in the gold price vs US 10-year real rates.

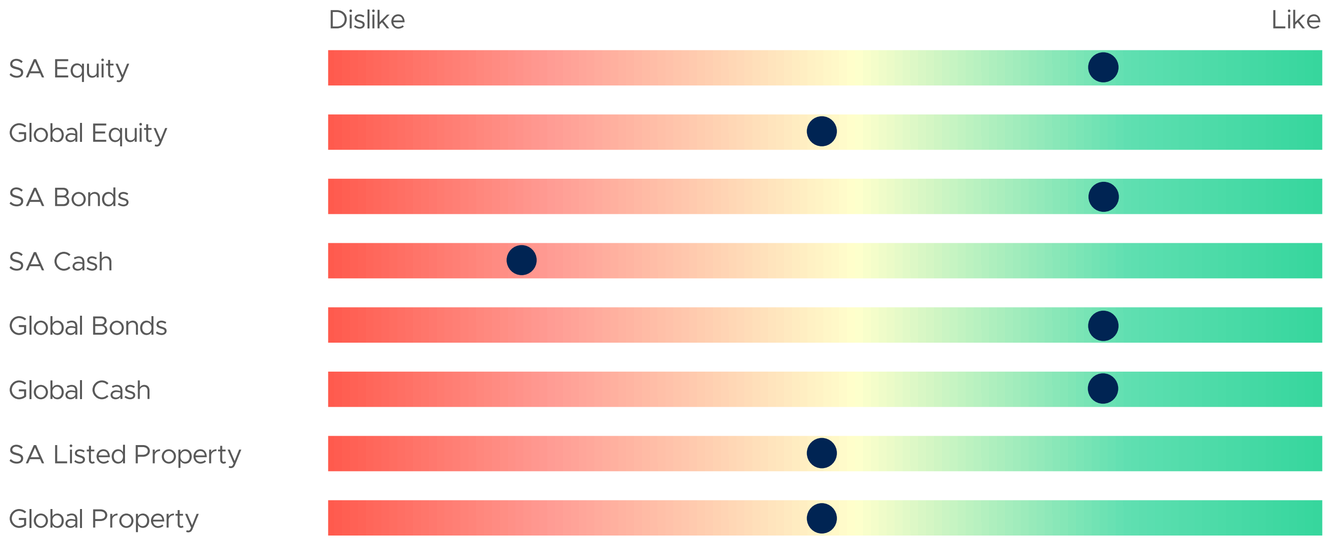
Our focus for the remainder of 2024 remains on finding value while avoiding value traps. Volatility brings opportunity, and it is important to identify and invest in these opportunities while protecting portfolios from downside risk. Selecting stocks where short-term prices are dislocated from the longer-term value that these companies can offer investors is key.

We are grateful for your partnership as clients and look forward to the second half of the year when a new dawn for South Africa will hopefully add growth catalysts. The global arena remains fragile, and we can no doubt expect more of the unexpected.

Constructing a robust portfolio that can outperform amidst a backdrop of complex challenges across the world requires skill, in depth research, and an agile approach.

- **Iain Power,** Chief Investment Officer

Asset class views



Saul Miller
Portfolio Manager

Equity

Global equity markets experienced a good first half in 2024, and while continued economic resilience could sustain market strength, US equity valuations are elevated. We remain underweight the US equity market in our offshore positions but have increased our exposure to European stock markets which are trading in fair value territory.

While many SA Inc. stocks have re-rated and are closer to fair value, we maintain an overweight position in the larger SA banking shares, given strong free cash flow and compelling dividend yields. We have maintained positions in Bidcorp and some other Rand hedge stocks with attractive valuations. Improvements at both Eskom and Transnet are supportive of a better economic growth outlook in South Africa.

Raihan Allie
Portfolio Manager
Fixed Income

Fixed income & cash

Policy changes in the US and South Africa remained on pause, with market expectations of rate cuts now oscillating between one and two before year-end. These tempered expectations are vastly different to the optimistic seven US rate cuts priced in at the beginning of the year; however, as we head into the second half there is renewed market optimism for interest rate paths to track lower again.

We maintain that the rate-hiking cycle has peaked. However, the timing and quantum of potential rate reductions remain uncertain. In our view, the bulk movement in yields due to a reduction in credit spreads is largely done and further upside would be driven by a decline in US real rates. We are mindful of market and valuation changes and aim to adjust our duration exposure when we perceive adequate compensation for risk taken.

Etienne Roux
Portfolio Manager
Property

Property

Given the potential start of a rate reduction cycle, the global property sector's headwinds of the last three years could soon become tailwinds.

The European region announced its first interest rate cut of 25bps, effective 12 June 2024. The UK is expected to follow in the third quarter, while the US could also start cutting rates during the second half of 2024. Given the positive election outcome in South Africa, we should be able to follow these Developed Markets in cutting interest rates in the not-too-distant future.

In addition to the interest rate cycle, the outlook for domestic property shares has improved, given:

1. Increased potential for structural reforms to drive economic growth led by SA's GNU.
2. Operational metrics in the sector continue to improve post the significant challenges experienced during the COVID-19 pandemic.
3. The sector continues to clean up its act regarding governance and the use of inappropriate financial instruments.

Views shown represent Truffle's asset class preferences as at 30 June 2024.

ESG update

During the first half of 2024, we published our 3rd annual Stewardship Report. The report outlines our approach to Responsible Investing and provides an update on progress and activities over 2023. As a UNPRI signatory, Truffle follows PRI best practice. In our Stewardship Report, we highlight several focus areas over the year and some of the trends and themes we see shaping this arena and how we invest.

These include:

- Shifts in production and consumer demand, and how traditional businesses adapt or will need to adapt, e.g., electric vehicles.
- Cost implications of new regulation and how these may impact business models, particularly those in high-carbon usage industries.
- Increased corporate disclosure and the ability to measure both environmental and social impact, as well as increased regulatory scrutiny around those disclosures, to prevent greenwashing.

Click here to read more in our latest report

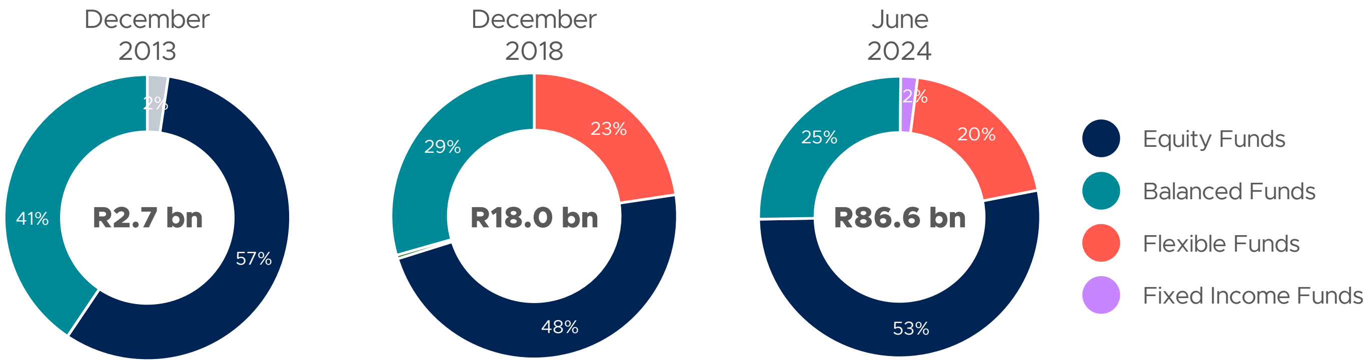
Stewardship report

Business update

Truffle celebrated our **16th birthday** in April this year. We are pleased to have steadily and consistently grown our assets under management and broadened our client base over 16 years while maintaining a focused range of funds.

This is particularly pleasing given the number of headwinds facing the retirement and investment industry in South Africa over recent years, including:

- Lack of growth in South African retirement savings pool with the increasing trend of early withdrawals.
- Increased allocation to offshore assets.
- Weak SA consumer (investor) given the macro-economic environment.
- Macroeconomic uncertainty over the last 18 months has driven reluctance by South African investors to allocate to risk assets.



Source: Truffle Asset Management.

Investment awards

The first half of 2024 included the annual industry awards season. We are incredibly proud of our investment team for the nominations and wins this year at the Morningstar, Raging Bull and the INN8 Diamond Awards. This is testament to the team's dedication and commitment to delivering consistent financial outcomes for clients.

RAGING BULL AWARDS
RAGING BULL CERTIFICATE
WINNER
2023

The Amplify SCI* Wealth Protector Fund received the Raging Bull certificate for **Best South African Multi-Asset Low Equity fund for risk adjusted performance over 5 years.** This is the 5th Raging Bull win for this fund over the last 5 years!

RAGING BULL AWARDS
RAGING BULL CERTIFICATE
WINNER
2023

The Truffle SCI* Income Plus Fund received the Raging Bull certificate for **Best SA-Interest-Bearing Short-Term fund.** This is the 5th Raging Bull win for this fund over the last 5 years!

MORNINGSTAR Awards 2024

For the third consecutive year, the Truffle SCI* Income Plus Fund won the Morningstar award for **Best Bond Fund.**

DIAMOND AWARDS

Truffle was named the **Best Multi Asset Low Equity Manager** at the INN8 Diamond Awards. Launched in February 2024, these awards recognise and honour excellence across the local asset management industry.

People update

The development and addition of complementary specialist expertise, and the strengthening of our systems and infrastructure to offer excellent client service and the best investment outcomes remains critical. We welcomed four new members to the Truffle team over the first half of this year and look forward to their fresh perspectives.

Lebohang Mofokeng joined in March as an equity analyst. Lebo is a well-qualified investment professional with almost 8 years of experience and specifically responsibility for coverage of mining companies, commodities and industrial companies.

Keitumetse Maake joined in June, adding a wealth of legal, compliance and risk experience to the Truffle team. An attorney by training, Keitumetse has 7 years' experience in financial services.

Lilita Nyalela joined Truffle's internship programme in April and is well-placed in our Quantitative and Performance team. She has completed a Bachelor of Science specializing in Actuarial Science and an Honours in Mathematical Statistics, at the University of the Free State.

Zai Khan joined Truffle as a Distribution Intern in May. She completed a Bachelor of Commerce specialising in Economics and Finance before pursuing her Honours in Economics at the University of Cape Town.

Welcome to the team, Lebo, Keitu, Lilita, and Zai.

Lebohang Mofokeng
Equity Analyst

Keitumetse Maake
Head of Legal, Compliance & Risk

Lilita Nyalela
Intern: Quantitative and Performance team

Zai Khan
Intern: Distribution team

Finally, culture is what makes Truffle, and our people define who we are. On a warm March weekend, we hosted the inaugural Truffle conference which provided an opportunity for teams across Johannesburg and Cape Town to gather together in person. Our first conference focused on gaining a common and in depth understanding of the Truffle values and how we can apply these to work together most effectively as we deliver the Truffle strategy. From a social perspective, we enjoyed a "Proudly South African" evening of celebrating team achievements and welcoming new team members.

They say good things come in 3s!

Truffle SCI* Income Plus Fund
2022 - Winner
2023 - Winner
2024 - Winner - Best Bond Fund

MORNINGSTAR Awards 2022
MORNINGSTAR Awards 2024
MORNINGSTAR Awards 2023

Insights from Truffle

Below are some recent articles written by our team.

Balancing Carbon Tax

Active stewardship is becoming increasingly important and forms a key element of Truffle's approach to responsible investing. An important theme informing our ESG research and engagement activity is the evolution of regulation relating to environmental protection.

By: Vuyolwethu Nzube
June 2024

Read more

Are we heading towards a copper supply cliff?

Copper has long been referred to as Dr Copper as the price of this conductive, versatile metal provides a good barometer of the health of the global economy given its myriad of end-use applications.

By: Thishan Govender
April 2024

Read more

Are real returns beyond the passport gates

Emerging Market players share similar characteristics and in aggregate should benefit from the cutting cycle, however local idiosyncratic challenges mean risks will differ across each region building the case for diversification.

By: Raihan Allie
April 2024

Read more

The Investment case for Japan

Japan is emerging from two decades of deflation following collapsing asset prices of the 80's asset bubble. In 2024, many Japanese companies are trading at significant low price to book ratios relative to other regions.

By: Iain Power
March 2024

Read more

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Performance Summary

	Annualised Performance vs. Benchmark								
	Inception Date	1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception	Highest	Lowest
Truffle SCI* Income Plus Fund A	22 Sep 2016	11.38%	9.32%	8.61%	9.45%	-	9.76%	12.99%	6.19%
STeFI Composite ZAR		8.50%	6.47%	6.05%	6.41%	-	6.53%	-	-
Amplify SCI* Wealth Protector Fund B5	15 Aug 2016	10.17%	10.04%	10.59%	9.77%	-	9.41%	13.04%	4.06%
CPI + 3% over a rolling 3-year period		8.10%	8.95%	7.98%	7.85%	-	7.92%	-	-
Nedgroup Investments Managed Fund A	01 Nov 2003**	9.62%	10.01%	11.85%	9.80%	-	9.39%	22.37%	0.60%
CPI + 4% /ASISA Category Average		9.10%	9.95%	8.98%	8.85%	-	8.91%	-	-
Nedgroup Investments Balanced Fund A2	11 Oct 2011	6.78%	7.94%	10.60%	8.98%	8.40%	11.02%	21.18%	-3.17%
CPI + 4% /ASISA Category Average		9.10%	9.95%	8.98%	8.85%	9.00%	9.18%	-	-
Truffle SCI* Flexible Fund A	18 Nov 2010	8.33%	8.28%	11.15%	9.48%	8.99%	11.94%	23.50%	-4.61%
CPI + 5%		10.10%	10.95%	9.98%	9.85%	10.00%	10.28%	-	-
Truffle SCI* SA Equity Fund C	27 Jul 2012***	9.55%	10.70%	13.17%	-	-	11.75%	27.07%	8.41%
Capped SWIX		10.04%	10.12%	8.74%	-	-	7.28%	-	-
Truffle SCI* General Equity Fund A	18 Nov 2010	9.31%	10.36%	12.96%	11.09%	9.12%	11.77%	26.19%	-4.47%.
Capped SWIX		10.04%	10.12%	8.74%	8.72%	7.10%	9.73%	-	-

* SCI acronym stands for Sanlam Collective Investments.
** Truffle Asset Management has been the investment manager since December 2015.
*** Fee class launch date (C class) is 01/08/2018.

The returns shown are net of fees and are annualised since inception show for the period(s) ended 30 June 2024. Performance data source: © Morningstar Direct. Truffle SCI SA Equity Fund benchmark changed from SWIX to Capped SWIX on 13 November 2017. Truffle SCI* General Equity Fund* benchmark changed from ALSI to Capped SWIX on 01 May 2019.

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