Truffle SCI* General Equity Fund

Minimum Disclosure Document

As of 2019/01/31

Truffle Asset Management

MDD Issue Date: 2019/02/21

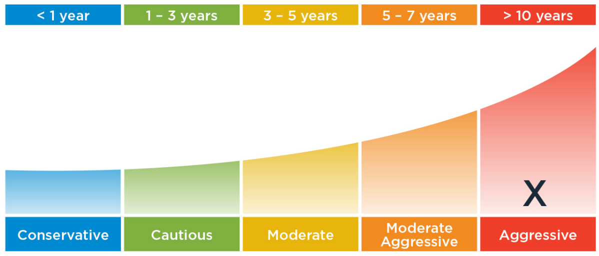
Fund Objective

The primary objective of the portfolio is capital appreciation through investments primarily in equities across all sectors of the JSE Securities Exchange South Africa. The portfolio will invest a minimum of equities in line with the Asisa Standard on Fund Classification.

Fund Strategy

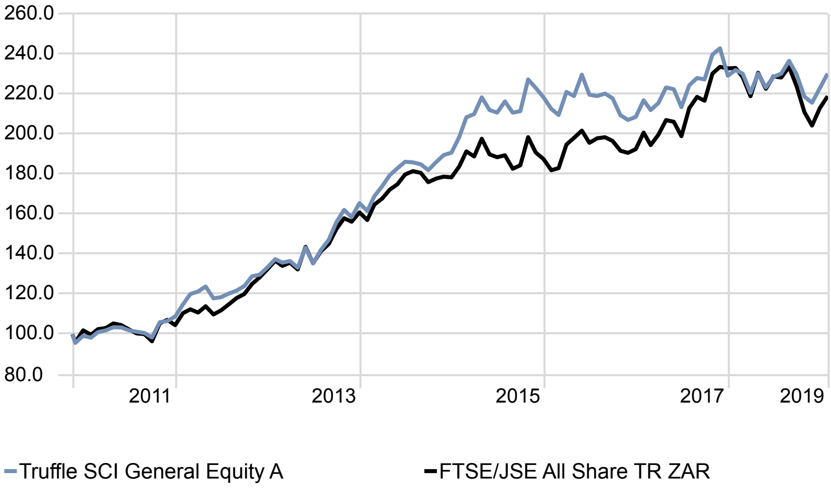
The manager may from time to time invest in participatory interests in portfolios of collective investment schemes registered in the Republic of South Africa. The portfolio will also be allowed to invest in listed and unlisted financial instruments (derivatives) as allowed by the Act from time to time. The manager may also include forward currency interest rate and exchange rate swap transactions, for efficient portfolio management purposes. The Manager shall be permitted to invest on behalf of the portfolio in offshore investments as legislation permits.

Risk Profile



Investment Growth

Time Period: 2010/11/19 to 2019/01/31



Annualised Performance (%)

	Fund	Benchmark
1 Year	-0.76	-6.06
3 Years	2.70	6.36
5 Years	7.34	6.86
Since Inception	10.68	10.11

Risk Statistics (3 Year Rolling)

Standard Deviation	11.01
Sharpe Ratio	-0.36
Information Ratio	-0.58
Maximum Drawdown	-11.19

Cumulative Performance (%)

	Fund	Benchmark
1 Year	-0.76	-6.06
3 Years	8.31	20.33
5 Years	42.48	39.36
Since Inception	129.98	120.32

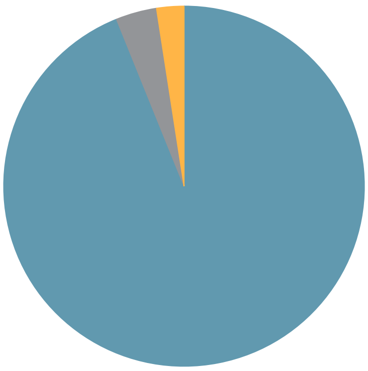
Highest and Lowest Annual Returns

Time Period: Since Inception to 2018/12/31

Highest Annual %	24.04
Lowest Annual %	-4.47

Asset Allocation

Portfolio Date: 2018/12/31



	%
SA Equity	93.89
SA Property	3.67
SA Cash	2.44
Total	**100.00**

Fund Information

Ticker	TRGEA
Portfolio Manager	Iain Power, Jonathan du Toit & Charles Booth
ASISA Fund Classification	South African - Equity - General
Risk Profile	Aggressive
Benchmark	FTSE/JSE All Share Total Return Index (J203T)
Fund Size	R 590 138 295
Portfolio Launch Date*	2010/11/18
Fee Class Launch Date*	2015/10/01
Minimum Lump Sum Investment	R 10 000
Minimum Monthly Investment	R 500
Income Declaration Date	June & December
Income Payment Date	1st business day of July & 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)

Fees (Incl. VAT)	A-Class (%)
Maximum Initial Advice Fee	3.45
Maximum Annual Advice Fee	—
Manager Annual Fee	1.03
Total Expense Ratio	1.36
Transaction Cost	0.53
Total Investment Charges	1.89
Performance Fee	—
TER Measurement Period	01 October 2015 - 30 September 2018

Top Ten Holdings

Top Ten Holdings	(%)
Naspers Ltd	15.76
Anglo American Plc	7.46
Sasol Ltd	6.08
Old Mutual Ltd	5.11
British American Tobacco Plc	4.32
Standard Bank Group Ltd	3.71
BHP Billiton Ltd	2.94
Northam Platinum Ltd	2.75
Sappi Ltd	2.60
Bid Corporation Ltd	2.56

Administered by

Sanlam

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Monthly Returns (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2019	3.27												2.28
2018	1.24	-0.78	-4.14	4.34	-3.00	2.35	0.72	2.77	-2.88	-4.82	-1.39	3.37	-2.71
2017	3.97	-2.26	1.67	3.60	-0.42	-4.02	5.13	1.61	-0.31	5.46	1.31	-5.64	9.85
2016	-2.65	-1.43	5.50	-0.92	4.87	-4.37	-0.29	0.56	-1.07	-3.88	-1.14	0.75	-4.47
2015	4.14	4.91	0.79	3.98	-2.91	-0.61	2.66	-2.61	0.36	7.48	-1.84	-2.12	14.49
2014	-2.37	4.56	2.95	3.17	1.97	1.75	-0.15	-0.52	-1.58	2.19	1.89	0.64	15.23

Distribution History (Cents Per Unit)

2018/12/31	2.61 cpu	2017/06/30	0.94 cpu
2018/06/30	1.74 cpu	2016/12/31	1.85 cpu
2017/12/31	0.28 cpu	2016/06/30	1.14 cpu
2017/11/10	1.73 cpu	2015/12/31	0.35 cpu

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.

Distributions
The income that is generated from an investment and given to investors through monthly, quarterly, bi-annual or annual distribution pay-outs.

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.

Maximum Drawdown
The maximum drawdown measures the highest peak to trough loss experienced by the fund.

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.

Total Expense Ratio
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.

Total Investment Charges
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.

Transaction Cost
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.

Additional Information

*The Truffle Sanlam Collective Investments General Equity Fund transitioned to Sanlam Collective Investments (RF) (Pty) Ltd on 11 November 2017.

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. Management of the portfolio is outsourced to Truffle Asset Management (Pty) Ltd, (FSP) Licence No. 36584, 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.

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As of 2019/01/31

Truffle

Asset Management

Portfolio Manager Comment

As at 31 December 2018

Market overview

2018 was a tough year for domestic equity markets

2018 has been a tumultuous year for financial market both locally and abroad. Local equities peaked in late January and the All Share Index has since then contracted by 16% from the peak. The Index delivered a total return for the year of -8.5% largely driven by a fall in the PE ratio from 21 at the start of the year to 16 at the close. For the last four years local equities have delivered total returns below inflation and well below historic averages.

Over the year the resource sector continued to be the dominant out-performing sector with particularly good performances from Amplats and Anglo Gold followed by Anglo American and BHP Billiton. SA industrials and healthcare were amongst the poor performers for the year with Aspen, Tongaat, Imperial and Mediclinic amongst the worst performers.

Domestic property had a particularly disappointing year

The sector experienced steep falls early in the year largely due to the derating of the Resilient Group of property companies, but the index continued to contract further throughout the year and even heavy weights Growthpoint and Redefine suffered although their returns were somewhat protected by their generous yields. The total return from the SA Listed Property sector was -25%, the sector's weakest return in the last two decades. While fundamentals have deteriorated, we think much of the bad news has now been priced into the sector.

Global equity markets struggled

The S&P 500 Index enjoyed positive returns for much of 2018 but collapsed in the 4th quarter ending the year in negative territory. US bond yields rose over the year but did show some strength later in the year. The MSCI World Index fell 8.2% for the year but managed to add 2% over the quarter.

Commodities performance was a mixed bag.

The oil price rose for the first three quarters of the year reaching a high of $85/bbl but then fell sharply in the 4th quarter ending below the opening price of the year. The fall in the last quarter was likely due to increased supply from Saudi Arabia and US shale and concerns over weakening market demand.

Although platinum has underperformed over the year, the rest of the platinum group metals including palladium and rhodium have continued to outperform due to supply shortages. The overall basket price has resulted in improved revenues for the platinum group metal miners. Base metals including copper underperformed while bulk commodities like iron ore and coal remained resilient.

South African economic growth was anaemic in 2018

South Africa was in a technical recession in the first half of the year, however, there was an improvement in the third quarter that is likely to spill over into the 4th quarter. Unemployment remains high at the 6 million mark and shows no signs of improving. Inflation remained relatively stable and within the SARB's control band. As a result, interest rates were also relatively stable.

On the positive side, the new Ramaphosa presidency is showing an encouraging resolve to rid the country of the bane of state capture and corruption and it is possible that major progress will be made in 2019 that could impact on sentiment very positively.

The global economic cycle is aging and 2019 will see a synchronised global slowdown

Global growth is set to slow in 2019 as Europe, Emerging Markets and China economic activity slows. While the US economy remain a bright light with relatively strong growth vs. the rest of the world, it too will also see slower growth in the back end of 2019 as tighter monetary policy and the impact of the tax cuts seen in 2018 are now largely in the base. The slowdown has increased fears of recession and has seen global equity markets de-rate in anticipation of lower earnings.

The aging global cycle is also clouded by geopolitical tensions, trade wars and tighter monetary conditions

The Trump administration's attack on global trading practices has been a source of much global angst in 2018. Now that the Republican Party has lost the US lower house in the recent mid-term elections, it remains to be seen whether the Democrats can reign in Trump without creating an even more unstable economic environment. Tighter monetary conditions are also a cause for concern as the FED reduces its balance sheet and normalises interest rates. At the same time the European Central Bank is set to reduce its own QE program which has supported financial assets. Brexit remains a mess as is evident from the depressed valuations of UK exposed companies.

It is worthwhile reflecting on a warning made by *The Economist* in its review of 2018 *'that even a rich, peaceful and apparently stable country can absent-mindedly set fire to it constitutional arrangements without any serious plan for replacing them'.*

2019 could be the turning point for SA equities

In 2019 the South African economy is poised to grow, albeit, modestly from the low base of 2018. The weaker currency will provide some impetus to the mining and other export industries and the lower fuel price could spur retail spending from 2018's low base. This would be good news for corporate profits that have not shown growth since 2016.

With PE ratios having contracted to more normal levels during 2018, any uptick in corporate profits is likely to translate into positive equity returns. However, sentiment will be a key factor over the year and it is possible that a global equity bear market could unfold providing the local equity market with headwinds.

From the current low base, property's underperformance should be stemmed. Rental growth will be weak for some time but the sector does offer an attractive running yield that could support current prices i.e. with no increase in prices, property returns could still beat inflation by virtue of the high prevailing yields.

Portfolio Positioning

As discussed in the previous commentaries, the fund has been underweight domestically focussed companies for most of the year as valuations were overly demanding. However, post their dismal performance over the last year some of these shares are now offering value. While in the shorter term there is still downside risk to these companies' earnings, it is now partly discounted in their cheaper valuations. As a result, the fund has increased its exposure to domestically focussed companies at the expense of the offshore earners.

Post Naspers' disappointing share price performance over the last year, it currently offers good value. The disappointing performance was the result of a sell-off in Tencent due to concerns around a moratorium by the Chinese gaming regulators on new game approvals. We believed the moratorium would be temporary, and took the opportunity to increase our exposure to Naspers in the last quarter. As expected, the Chinese gaming regulators announced that the approval process would restart in early January 2019 albeit at a slower rate than in previous years. We think this should manifest in a better performance from the gaming business in 2019.

Tencent looks reasonable value, trading on a forward PE of 28X vs. its long-term median PE of 29X. The other Naspers investments produced improved metrics and free cash flow in their recent financial results. This bodes well for unlocking a portion of the significant discount on which the share trades.
The British American Tobacco share price came under significant pressure in 2018 on the back of increased regulatory pressure from the US Food and Drug Administration (FDA) as they seek to reduce cigarette consumption and their associated health risks. The FDA is looking to reduce nicotine content in combustible cigarettes, formally advance the process to ban menthol, as well as increase the regulation of the sales of flavoured e-vapor nicotine products, with the aim of preventing under age minors access to these products.

The FDA possesses the legislative authority to prohibit menthol according to the 2009 Tobacco Control Act. However, any proposed ban must be based on sufficient evidence that it would be of benefit to public health and would therefore be justifiable. It will also have to stand up in court, as a legal challenge by the tobacco industry is inevitable. This will most likely delay the ban and give British American Tobacco time to transition their businesses away from menthol which currently contributes 22% of their profits. The process from the date of proposing a rule to a ban becoming effective would take a minimum of 2 years with litigation possibly delaying the process by another 2 years. Once the ban eventually comes into effect, the economic impact is likely to be much lower than the superficial number suggests, largely as a result of many menthol smokers switching to other brands. When Canada banned menthol cigarettes in 2015 there was only a 10% loss of share, as only 10% of menthol smokers chose to quit rather than switch to other brands.

Against this backdrop we have seen British American Tobacco's rating more than halve from a forward PE of 18X to the current 8X. Although the share price will probably remain volatile as new news emerges, the current valuation is now pricing in a significant amount of the above risks and looks attractive.

Over the quarter domestically focussed purchases included Woolies, Spar, RMB Holdings, Standard Bank Remgro and Nedbank. The fund also increased exposure to British American Tobacco, Naspers and Northam. Purchases were funded by sales of Anglo American, Anheuser Busch, Richemont, BHP Billiton, Investec and Shoprite.

Contributors and detractors

Top contributors to performance over the quarter included Anglogold, Impala Platinum, Richemont, RMB Holdings, Capitec, Old Mutual and Mondi. Top detractors to performance included British American Tobacco, Sasol, BHP Billiton, Goldfields, Sappi and MediClinic.

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