Truffle SCI* Income Plus Fund

Minimum Disclosure Document

As of 29/02/2020

Truffle Asset Management

MDD Issue Date: 17/03/2020

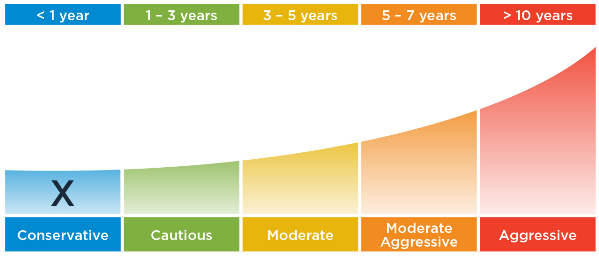
Fund Objective

The portfolio is an actively managed income portfolio that aims to achieve higher yields of income than money market portfolios, while preserving capital.

Fund Strategy

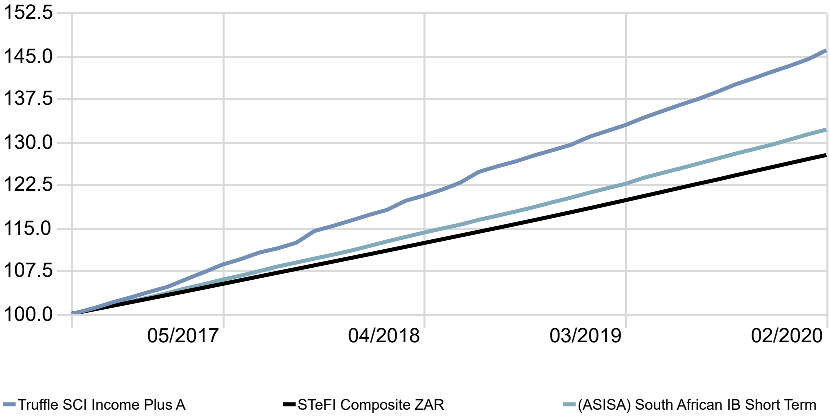
The portfolio will achieve this objective through the inclusion of a range of interest-bearing securities, including, but not limited to, bonds debentures, debenture stock, debenture bonds, notes, non-cumulative preference shares (treated as non-equity securities), other non-equity securities, money market instruments, sub-ordinated floating rate bonds, assets in liquid form, participatory interests in portfolios of collective investment schemes, as well as listed and unlisted financial instruments and any other securities of a similar nature, in meeting the objectives of the portfolio. The portfolio will predominantly invest in short term non-equity securities, but it may include a proportion of the portfolio in longer dated securities, should the market conditions permit, within permissible parameters for a predominantly South African, short term interest bearing portfolio. The portfolio may not include equity securities, property securities, or cumulative preference shares. 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 Manager shall be permitted to invest on behalf of the portfolio in offshore investments as legislation permits.

Risk Profile



Investment Growth

Time Period: 22/09/2016 to 29/02/2020



Fund Information

Ticker	TMICA
Portfolio Managers	Hannes van der Westhuyzen & Palvi Kala
ASISA Fund Classification	South African - Interest Bearing - Short Term
Risk Profile	Conservative
Benchmark	STeFI Composite Index
Fund Size	R 305,727,292
Portfolio Launch Date*	22/09/2016
Fee Class Launch Date*	22/09/2016
Minimum Lump Sum Investment	R 10,000
Minimum Monthly Investment	R 500
Income Declaration Date	Monthly
Income Payment Date	1st business day of the following month
Portfolio Valuation Time	15:00
Transaction Cut Off Time	15:00
Daily Price Information	Local media
Repurchase Period	2-3 business days

Annualised Performance (%)

	Fund	Benchmark
1 Year	10.71	7.24
3 Years	11.71	7.32
Since Inception	11.62	7.37

Risk Statistics (3 Year Rolling)

Standard Deviation	0.89
Sharpe Ratio	4.68
Information Ratio	4.73
Maximum Drawdown	

Cumulative Performance (%)

	Fund	Benchmark
1 Year	10.71	7.24
3 Years	39.42	23.63
Since Inception	45.96	27.69

Highest and Lowest Annual Returns

Time Period: Since Inception to 31/12/2019

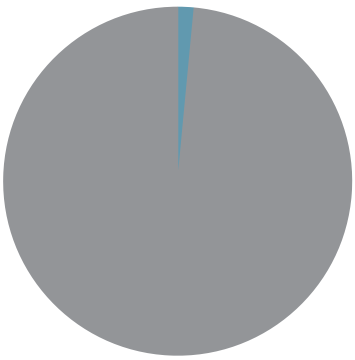
Highest Annual %	12.99
Lowest Annual %	10.67

Fees (Incl. VAT)

	A-Class (%)
Maximum Initial Advice Fee	3.45
Maximum Annual Advice Fee	1.15
Manager Annual Fee	0.57
Total Expense Ratio	0.64
Transaction Cost	—
Total Investment Charges	0.64
Performance Fee	—
TER Measurement Period	01 January 2017 - 31 December 2019

Asset Allocation

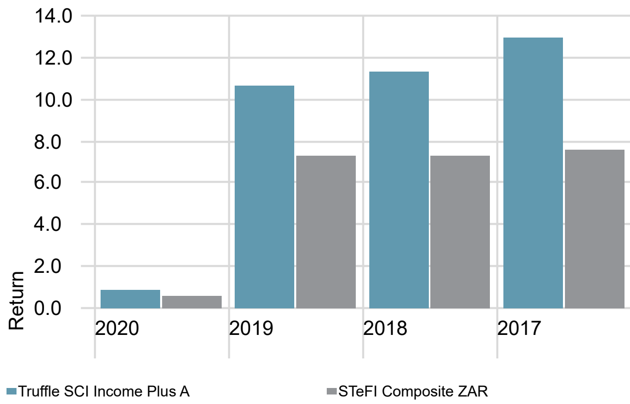
Portfolio Date: 29/02/2020



	%
Domestic Cash	1.50
Floating Rate Securities	98.50
Total	**100.00**

Returns

Calculation Benchmark: STeFI Composite ZAR



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Monthly Returns (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2020	0.83	1.04											1.87
2019	1.09	0.74	0.80	0.95	0.87	0.81	0.78	0.90	0.92	0.79	0.79	0.76	10.67
2018	0.86	0.70	1.35	0.76	0.87	1.00	1.53	0.78	0.67	0.83	0.70	0.74	11.33
2017	0.93	0.78	1.27	1.18	1.24	0.87	1.05	0.68	0.84	1.86	0.75	0.84	12.99
2016										0.87	0.97	0.87	

Distribution History (Cents Per Unit)

29/02/2020	0.73cpu	31/10/2019	0.81cpu	30/06/2019	0.76 cpu
31/01/2020	0.80cpu	30/09/2019	0.81cpu	31/05/2019	0.84 cpu
31/12/2019	0.83cpu	31/08/2019	0.77cpu	30/04/2019	0.87 cpu
30/11/2019	0.75cpu	31/07/2019	0.88 cpu	31/03/2019	0.81 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

Investment Manager Information
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Truffle
Asset Management

Portfolio Manager Comment

As at 31 December 2019

Market overview

The year ended on a high for the global economy

Throughout the year the global economy was plagued by several uncertainties but late in the year some progress was made in resolving at least some of them. Firstly, tangible progress was made between the US and China towards reaching the first phase of a trade deal. Although the deal is yet to be signed, indications are that it should be possible and already some of the retaliatory tariffs imposed by both sides have been reduced, indicating a greater willingness to work together. Despite the consummation of this first phase deal we think the conflict between the US and China is far from over and the relationship is likely to remain volatile and confrontational.

Secondly, the Conservative Party landslide election victory in the UK means that Brexit will in all likelihood happen. However, the form and implications of Brexit still remain murky.

Further, although growth has slowed, notably in Europe, job creation in the US is still strong indicating that the economy is continuing to perform well even though the cycle is mature. This year, being an election year, and a key one at that, we believe that all efforts will be directed at keeping this momentum going. Economic data seems to indicate evidence of green shoots. PMI indices and earnings revision declines have started to improve in many regions. Chinese manufacturing has now shown expansion for a second consecutive month in December.

However, the global rise in nationalism continues and it is concerning that there are too many flashpoints around the globe. In particular, tensions in the Middle East have escalated between the US and Iran. A move away from globalisation and mutual cooperation could be a harbinger of tougher times ahead into the next cycle.

In South Africa progress has been made in facing up to its challenges

2019 was not a good year for South Africa. Throughout the year growth continued to be revised downwards and it is a great concern that the economy is incapable of creating jobs on a large scale as the unemployment rate continues to rise.

However, the good news is that there has, at last, been some visible progress in attempting to reverse the endemic corruption plaguing the nation as finally some arrests are being made. Much more needs to be done but at least a start has been made. In addition, the government is finally facing up to the challenge of rehabilitating the ailing parastatals.

SAA is now in business rescue, making it easier to make the really tough decisions, and Eskom has new leadership intent on returning the utility back to sustainable health.

Regarding the economy, there has not been much good news but bright lights amongst the doom has been the inflation rate that has continued to surprise on the downside and the currency that has remained resilient, notwithstanding the deterioration in our sovereign ratings. But it has to be said that any lasting solution to the major issues facing the country is likely to require some form of short-term austerity. Therefore, a period of disappointing growth over the next few years with a slow recovery remains a likely base case outcome. Domestic corporate profits are likely to be subdued for some time.

Global equities enjoyed a spectacular 2019

It was not surprising that with all the good news reported during the last month of the year that equity markets responded positively. The MSCI All Country World Equity Index ended the year on a very strong note, up 3.6% over the month and up a substantial 27.3% for the year. The S&P 500 index has always been a reasonable proxy for global equities and in 2019 the index tracked the World Index ending the year about 29% higher before dividends. This performance was driven, in the main, by price earnings multiple expansion from 14.5 to 18.2 (a 25% increase) rather than from earnings growth, which was negligible. These US valuations, which are comfortably above average, are already discounting an earnings recovery. Hence, any bad news could result in underperformance.

In a broader global context, although valuations in most regions are now above average post the year end global equity run, they do not appear to be excessively high.

Local equities delivered good, inflation-beating returns

Local equity markets underperformed global equity markets but comfortably outperformed inflation. The ALSI provided a 12% return and the SWIX 9.3%, bonds delivered a 10.3% return and cash provided a 7.3% return. In fact, the divergence between asset classes in 2019 was unusually low with listed property being the notable laggard, achieving only a 1.9% return over the 12 months.

There was significant return divergence across the major sectors of the JSE. Due to the strong price appreciation of the PGM basket over the year, Basic Materials enjoyed an exceptional year providing investors with a 28.7% gain over the 12 months. This performance was well ahead of the 8.9% gain from the Industrial sector and the only marginally positive gain of 0.6% from the Financial sector. It was no surprise that, given the strong performance from the PGM basket, the platinum sector was the top performing sector of the JSE for 2019.

The outlook for the ALSI is best considered via its key constituents. Domestically exposed companies comprise slightly more than half the Capped Swix Index.

Although many of their valuations appear reasonable, lacklustre growth prospects may limit any material re-rating of these companies. For instance, banks are offering dividend yields of between 5-8% but growth expectations have been continually scaled back as the economy struggles to generate credit demand. However, it should be noted that sentiment is negative and hence, improved domestic news flow, including further corruption clampdowns or an improved budget outlook could result in increased demand for domestically exposed companies. It's also important to remember that a more buoyant global economy will offer some support to the rand and domestic based counters.

Many dual listed shares and resource-based shares do appear to have a more promising outlook than domestically exposed companies. British American Tobacco's outlook has improved post a clamp down on vaping in the US. Tencent, which drives the bulk of Naspers and Prosus' value, should deliver impressive earnings growth and is reasonably priced. Deficits in rhodium and palladium should maintain a high PGM basket price. The medium-term outlook for the diversified miners is a bit more unclear. On the positive side, there is room for a potential improvement in base metals if the global economic upturn occurs, yet on the negative side the iron ore price seems over extended and could retrace.

Bonds continued to generate returns well in excess of inflation and the property sector

The ALBI generated a total return of 10.3%, broadly in line with its returns of the last few years. Relative to inflation the domestic yields are generous relative to their own history and compared to most other markets. Although the impact of a potential downgrade by Moody's in March 2020 is being partially discounted in SA bond yields, the country's precarious fiscal position remains a risk. We prefer to take our fixed income exposure via high quality credit offering similar yields without duration risk.

Property remained the poorest performing asset class with a return of 1.9% (as measured by the SAPY) over this last year. Yields remain optically cheap compared to history where they have probably been overvalued. The tough domestic economy will continue to weigh on distribution growth and in fact result in negative growth for some counters like Hyprop and Redefine. Distributions in many counters remain overly high due to financial engineering, debt and overly high pay-outs. As distributions reach more sustainable levels or valuations improve, we will look to increase our position in this sector.

Looking forward

The valuations for most global markets do not look compelling given their re-rating over the last year. Some markets like the US look more expensive than most.

Furthermore, the global geopolitical risks remain as evidenced by the recent escalation in tension between the US and Iran. However, we are still finding sufficient investment opportunities with generous risk adjusted expected returns. Hence, despite a continued murky economic and political outlook, we remain confident that Truffle will deliver inflation beating returns over the medium to long term.

Portfolio Positioning

The portfolio remains predominantly invested in floating rate subordinated debt of SA's top five banks, where we are earning better returns than on government bonds with no equivalent duration risk. Investment opportunities in the corporate debt market outside of the banks are few and far between with an over subscription because of the lack of issuance driving the credit spreads down to unattractive levels. While superficially real yields on longer duration bonds look attractive, the deteriorating fiscal position of the country means probability of a ratings downgrade into 2020 remains high, as a result we continue to prefer shorter duration assets.

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