Truffle SCI* Income Plus Fund

Minimum Disclosure Document

As of 31/03/2020

Truffle Asset Management

MDD Issue Date: 22/04/2020

Fund Objective

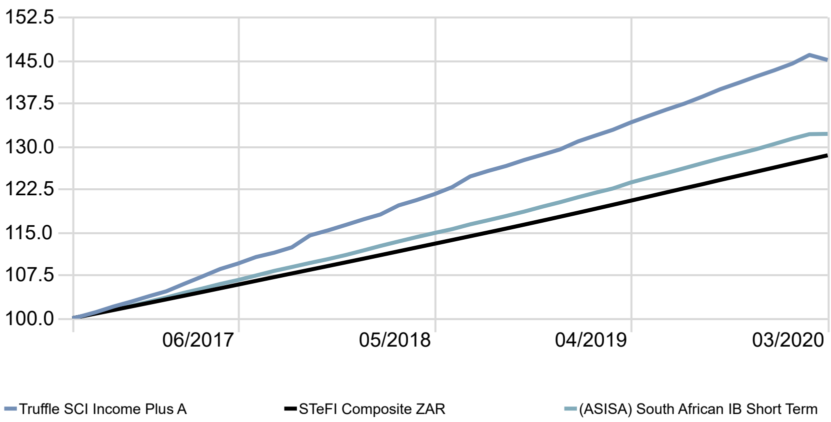
The portfolio is an actively managed income portfolio that aims to achieve higher yields of income than money market portfolios, while preserving capital.

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.

Investment Growth

Time Period: 22/09/2016 to 31/03/2020



Annualised Performance (%)

	Fund	Benchmark
1 Year	9.17	7.21
3 Years	11.02	7.31
Since Inception	11.14	7.36

Risk Statistics (3 Year Rolling)

Standard Deviation	1.23
Sharpe Ratio	2.84
Information Ratio	2.86
Maximum Drawdown	-0.60

Cumulative Performance (%)

	Fund	Benchmark
1 Year	9.17	7.21
3 Years	36.84	23.57
Since Inception	45.08	28.44

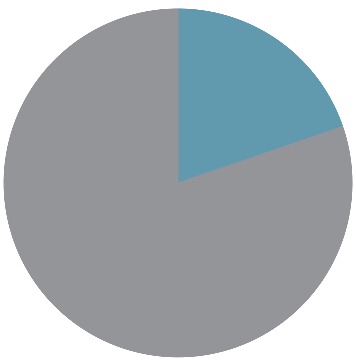
Highest and Lowest Annual Returns

Time Period: Since Inception to 31/12/2019

Highest Annual %	12.99
Lowest Annual %	10.67

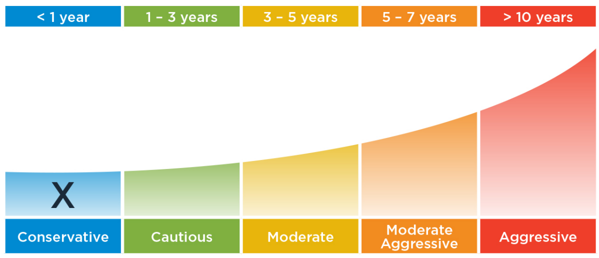
Asset Allocation

Portfolio Date: 31/03/2020



	%
Domestic Cash	19.74
Floating Rate Securities	80.26
Total	**100.00**

Risk Profile



Fund Information

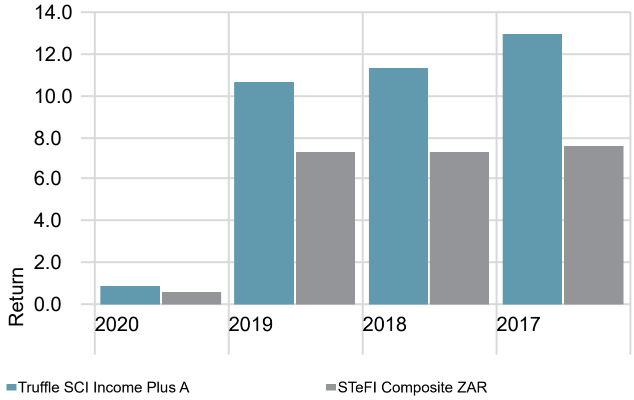
Ticker	TMICA
Portfolio Managers	Hannes van der Westhuyzen & Palvi Kala
ASISA Fund Classification	South African - Interest Bearing - Short Term
Risk Profile	Conservative
Benchmark	STeFI Composite Index
Fund Size	R 297,228,533
Portfolio Launch Date*	22/09/2016
Fee Class Launch Date*	22/09/2016
Minimum 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

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

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	-0.60										1.26
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)

31/03/2020	0.78cpu	30/11/2019	0.75cpu	31/07/2019	0.88 cpu
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

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

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 on request 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 on request 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 countries and therefore it may have risks regarding liquidity, the repatriation of funds, political and macroeconomic situations, foreign exchange, tax, settlement, and the availability of 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 31/03/2020

Truffle Asset Management

Portfolio Manager Comment

As at 31 March 2020

Market overview

The Impact of COVID-19 on the economy

COVID-19 has introduced an unprecedented demand and supply shock to the global economy. We expect the extent and impact on global growth and corporate profitability to be severe. A global recession now looks like a certainty at this stage. The economic impact is exacerbated by corporate leverage which introduces a potential liquidity and credit crisis. Leverage is high in certain sectors of the global economy but particularly in corporate America. The timing of the decision by Russia and the Kingdom of Saudi Arabia to enter into a price war could not have come at a worse time as oil demand plunges on the back of the simultaneous global quarantine lockdowns. Many energy companies are now in financial distress, introducing added contagion to credit markets. The duration of the shock will depend on the length of the quarantine lockdown period and the speed at which infection rates stabilise. Commitments from central banks and governments offering monetary and fiscal stimulus are ongoing and will ameliorate some of the damage. The ultimate impact of the virus and the timing of a recovery remains uncertain.

In South Africa, the impact of the virus may be worse given the already precarious state of the economy and our limited financial resources to stimulate the economy. This is in contrast to many other countries which have much more manageable levels of sovereign debt and can hence engage in various forms of fiscal stimulus. As we expected, on the 27th of March Moody's downgraded our sovereign debt status to junk and there is already speculation of IMF bailouts circulating in the media.

Equity markets have sold off aggressively in anticipation of a recession

The impending recession, high levels of corporate debt and a US stock market that could have been considered expensive on most metrics prior to the 24% fall from its peak, means a sustained rally from here seems unlikely. The MSCI World equity index declined by 20.9% (in USD) over the quarter. Many South African focused businesses, which would be regarded as higher risk than their developed market peers underperformed more significantly, especially when measured in dollar terms. The JSE ALSI Index declined by 21.4% in rands and by 38.4% in dollars. SA Financials declined by 39.5% (in rands). In line with falling commodities, the basic materials sector underperformed with a return of -25.2% (in rands). Foreign exposed companies like Naspers and British American Tobacco helped mitigate the overall JSE decline by delivering positive returns. Chinese domestically focused businesses have been unsurprisingly more resilient than global stock indices given that China appears to have more effectively controlled the spread of the virus than many other countries. This coupled with increased time spent gaming explains the Naspers and Prosus share price resilience, with respective increases of 11.5% and 17.2% over the quarter.

Portfolio Positioning

Defensively positioned with relatively low equity exposure

As we felt markets were expensive at the start of the year, we reduced our equity exposure in January and February by selling down our physical exposure. As mentioned above, the S&P500 is not yet offering value, which coupled with a global recession, will most likely continue to weigh on global markets. We expect news on economic data, potential vaccines and infection rates to be some of the factors that will continue to drive significant volatility going forward.

Property remains unattractive

We continue to maintain a low exposure to the property sector. The outbreak of the COVID-19 virus will place significantly more pressure on property companies. Rents will be difficult to collect and valuation downgrades will result in dangerously higher loan to values for many property stocks. However, Growthpoint, which sold off aggressively, provided us with a cheap entry into one of the higher quality property companies. We will continue to be on the lookout for those counters with low gearing that have been substantially oversold.

Fixed income returns remain attractive

We have been underweight duration in our fixed income exposure and have been focussed on the floating rate corporate credit market that was yielding a return of around 9% to 9.5%. These floating rate notes will gradually reprice lower over the next 3 months due to the Reserve Bank cutting interest rates by 1%. As a result of the sell-off in global assets, there has been a global lack of liquidity in the bank and corporate bond market that has made price discovery very difficult. We are now slowly seeing limited liquidity returning to the market which suggests spreads will widen by 80 -150bps. It is very difficult to predict where it will settle, but a real return of around 5% on quality assets still looks attractive.

Off shore markets likely to remain depressed

As mentioned above, we think the valuation of the S&P500 is not cheap. We are maintaining a low equity exposure to offshore markets. We purchased NetEase given its compelling valuation and exposure to gaming which should be resilient in the current environment. We will be looking to increase our equity exposure into a meaningful selloff or subject to finding compelling investment opportunities.

We remain cautious on domestically focussed companies and prefer offshore earners

We expect the profits of our well-managed offshore exposed counters to eventually revert to pre COVID-19 levels. We have held very low exposure to domestically focussed companies given SA's low growth environment and lack of necessary structural reforms. COVID-19 and the global recession will increase the pressure on many of our domestically focussed companies, as well as the ability of the state to repair the fiscus. As a result, our conviction levels in many of our domestic company valuations have reduced. Hence, despite the falling prices of these shares, we maintain our underweight positions. Notwithstanding the above, valuations have improved, given the significant sell-offs in certain sectors and shares, despite the uncertain outlook. As a result, we increased our exposure to the hospital sector which should be better shielded from the economic fallout than many other domestic sectors which could be shut down, or suffer from depressed consumer demand when the quarantine period is over. We continue to hold more of our domestic exposure in banks rather than via the retail and domestic industrial sectors. We expect bank earnings to be more defensive; they are on balance well-managed businesses, and the sector offers high liquidity. Our concerns around higher credit losses and their exposure to property finance has increased, but this is somewhat discounted in their significantly lower prices.

The outlook for the mining sector will be challenging over the short term

We have been positive on the PGM sector since the 2nd half of 2018 due to our expectation of growing deficits in palladium and rhodium on the back of both a lack of investment in supply, and tighter auto emission standards driving growth in demand. We have steadily reduced the level of our overweight positions in the PGM sector, initially due to the position size becoming overly large from price outperformance and subsequently due to expected pressure on profitability arising from the impending recession. The risk of palladium and rhodium deficits turning to surpluses in an environment of much reduced motor car demand was a key consideration. Similarly, due to the expected demand contraction in bulk and base metals, we reduced our weighting in the diversified miners. We increased our exposure to the gold sector. Gold should be supported by low interest rates and global growth in debt as a result of fiscal stimulus.

We remain overweight defensive offshore exposed business

The defensive earnings stream from tobacco and British American Tobacco's cheap valuation have resulted in our maintaining an overweight position. We have held a Naspers position due to its exposure to a resilient online Chinese consumer and investments in a suite of diversified businesses that are yet to monetise profit streams.

Given the high levels of volatility and more attractive valuations we are looking to increase our equity exposure. We shall look specifically for those higher quality, globally focussed stocks, with strong balance sheets which should be better able to survive the current crisis and recover much faster than many of the domestically focussed business which are likely to see much bigger earnings declines.

Performance commentary

We are currently experiencing unprecedented volatility in the SA markets, resulting in a massive reduction in risk appetite and hence limited liquidity in the bond markets.

We have always preferred floating rate bonds which has held the fund in good stead during this period of significant bond spread moves which have resulted in large losses for the longer duration instruments.

We hold predominantly bank and corporate bonds that trade at a credit spread above a benchmark, in this case, the JIBAR rate. Since inception of the fund we have provided decent real returns to our investors by investing in credible counterparties at risk reflected credit spreads. We still believe that the bank and corporate bonds that our portfolios hold are high quality assets issued by top SA banks and corporates. We continue to manage the fund with a capital preservation mindset.

COVID-19 has created an environment where, in a scramble for liquidity, both good along with bad assets are being sold in order to create cash. This has resulted in the widening of credit spreads across all bank and corporate bonds as reflected in the lower return you have received for this quarter.

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Palvi Kala
BCom Investment Management
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