Truffle SCI* Income Plus Fund

Minimum Disclosure Document

As of 30/06/2021

Truffle Asset Management

MDD Issue Date: **19/07/2021**

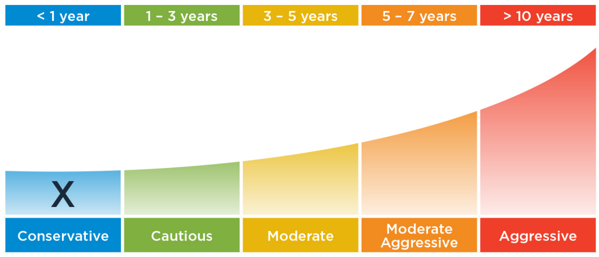
Fund Objective

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

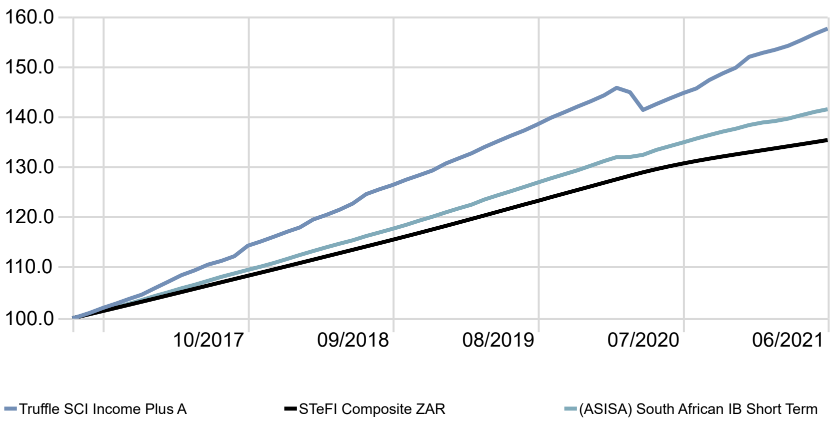
The portfolio will achieve this objective through the inclusion of a range of interest-bearing securities, including, but not limited to, bonds debentures, debenture stock, debenture bonds, notes, non-cumulative preference shares (treated as non-equity securities), other non-equity securities, money 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 30/06/2021



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 278,437,725
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 & www.sanlamunittrusts.co.za
Repurchase Period	2-3 business days

Annualised Performance (%)

	Fund	Benchmark
1 Year	9.71	4.01
3 Years	8.69	6.05
Since Inception	10.03	6.58

Risk Statistics (3 Year Rolling)

Standard Deviation	2.17
Sharpe Ratio	1.13
Information Ratio	1.13
Maximum Drawdown	-3.02

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	0.67
Transaction Cost	—
Total Investment Charges	0.67
TER Measurement Period	01 April 2018 - 31 March 2021

Cumulative Performance (%)

	Fund	Benchmark
1 Year	9.71	4.01
3 Years	28.40	19.27
Since Inception	57.77	35.54

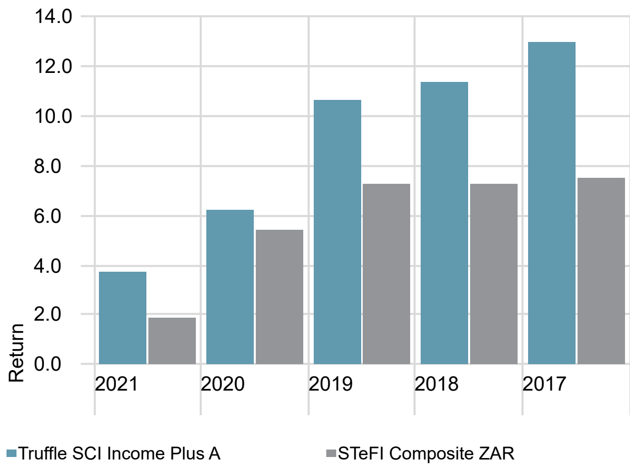
Highest and Lowest Annual Returns

Time Period: Since Inception to 31/12/2020

Highest Annual %	12.99
Lowest Annual %	6.19

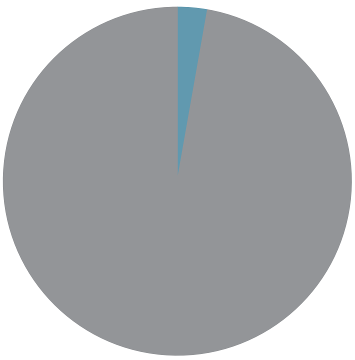
Returns

Calculation Benchmark: STeFI Composite ZAR



Asset Allocation

Portfolio Date: 30/06/2021



	%
Domestic Cash	2.78
Domestic Fixed Income	97.22
Total	**100.00**

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Monthly Returns (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2021	0.52	0.39	0.53	0.72	0.80	0.68							3.70
2020	0.83	1.04	-0.60	-2.43	0.84	0.76	0.75	0.65	1.15	0.90	0.76	1.45	6.19
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)

30/06/2021	0.54cpu	28/02/2021	0.48cpu	31/10/2020	0.49cpu
31/05/2021	0.56cpu	31/01/2021	0.50cpu	30/09/2020	0.50cpu
30/04/2021	0.55cpu	31/12/2020	0.52cpu	31/08/2020	0.56cpu
31/03/2021	0.59cpu	30/11/2020	0.50cpu	31/07/2020	0.52cpu

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 30/06/2021

Truffle Asset Management

Portfolio Manager Comment

As at 30 June 2021

Economic Overview

The carnage of the 3rd Covid wave in South Africa has tragically surpassed expectations

The prevalence and severity of the disease have now left almost no South African unscathed, be it directly or via friends and family. Although the economy as a whole is on track for recovery, parts of it, especially the service sector, will once again struggle. We sincerely hope that the vaccine rollouts reach an accelerated trajectory which brings South African vaccination rates in line with the rest of the world at the very least. Current rates suggest this is now likely since vaccines to the 50–59-year age group opened. Tragically, the human cost over the next month is unlikely to be averted. We sincerely hope that you and your families are managing through these callous times.

South Africa continues on the path of economic reforms and corruption clamp downs

In a significant judgment, former president Jacob Zuma has been found guilty of being in contempt of court by the Constitutional Court and sentenced to 15 months in jail. Several meaningful economic reforms have also occurred over the last month, with the most noteworthy being an increase in the self-generation power limit. It remains to be seen whether the Independent Power Providers (IPP's) will also be allowed to provide renewable power supply instead of it only being permissible for individual companies to self-provide. The former will be a far more efficient and wide-reaching outcome. This decision requires the approval of the Minister of Minerals and Resources. Either way, additional investment and reduced load shedding will be positive for the economy. The full details of the SAA part-privatisation and the port operation separation from Transnet are still to be disclosed, but both steps are positive.

The South African savings rate has reached an 11-year high as households and corporates have been hesitant to spend amid the uncertain environment, which should help consumption expenditure. We further anticipate that capital expenditure will pick up from current depressed levels and help drive GDP growth. This could be through government/ private partnerships on infrastructure, power generation and mining capex, which we expect to rise meaningfully over the next few years. Higher commodity prices will benefit the current account deficit and the budget deficit via higher tax receipts. These factors, coupled with reasonable valuations for domestic shares compared to other regions of the world, have led us to increase our exposure to domestically exposed businesses. However, South Africa's structural issues and an increased likelihood of entering a risk-off environment will continue to temper the extent to which we pivot our portfolios towards the domestic economy.

Commodity prices remain elevated

Speculative positioning in metals remain elevated, and most spot prices are well above the highest cost miners' costs. Furthermore, most of these markets could be in oversupply in the next 2 years. However, the medium to long-term dynamics are better for some metals: Copper's fundamentals remain positive as it will be required for the future buildout of renewable infrastructure. Views vary as to the extent and timing of deficits in copper, but the risks of deficits seem to increase as we look further into the future. Oil prices are far less elevated and should benefit from the continued reopening of the global economy. Palladium and Rhodium prices, although high, should find support from limited new supply and improved demand from the Automotive sector once the semiconductor chip shortage is addressed. Deficits will likely persist over the medium term.

At least to some extent, mining companies are pricing in the current elevated level of commodity prices. However, as there is a reasonably high correlation between miners' share prices and what they mine, the risk of share price underperformance, at least in the short term, is significant should commodity prices fall. As a result, we somewhat reduced our overweight exposure to the mining sector. We remain overweight, but primarily via the PGM sector, where spot valuations are the cheapest (Impala and Sibanye Stillwater trade on PEs of circa 4X), and short to medium-term deficits are more likely than for other commodities.

US bond yields retreat on the back of more hawkish Fed guidance - we think this is temporary

The Fed governor recently suggested that rate hikes could happen sooner than guided to which caused short-dated bond yields to rise, but 10-year bond yields reduced from 1.59% to 1.47%. This move in the 10-year bond was due to now lower expected long-run inflation expectations, presumably due to the Fed's tougher stance on inflation. US bond yields are often seen as a bellwether for economic prospects, especially relative to short-term rates. Hence, the recent fall in 10 -year yields, both in an absolute sense and relative to short-term rates, seems to have spooked more cyclical and 'value' type shares with the Vanguard value index underperforming the Vanguard growth index by over 7% in June.

We think this move is temporary and that bond yields should rise higher. Whilst many factors driving the short-term inflation spike of 3.8% in core CPI will be transitory (like supply chain bottlenecks and elevated commodity prices), other factors are not. The government, through stimulus, has produced an increase in savings which is likely to translate into higher demand at some stage. Budget deficits are forecast for several years, also keeping demand elevated. However, the productive capacity or the supply of goods has not meaningfully changed. Hence, economies will be closer to or above full capacity, which should heighten medium-term inflationary pressures. As a result, we think the expected inflation embedded in bond yields is more likely to widen going forward. We also believe that with growth returning to the global economy, the sizable negative real yields are not justified and should ultimately rise into positive territory. If inflation turns out to be more moderate, inflation-linked bondholders should require at least a positive real return from their bonds. Bond yields should rise via higher inflation expectations or higher real rates.

The risk of a 'risk-off' environment is increasing

Besides our own internal economic and political considerations, global macro considerations also influence SA share price performance. A number of potential global headwinds could lead to what is termed a 'risk-off' environment. This is when investors turn away from what is considered risky, like emerging markets of which SA is a part, favouring the US market and the dollar. Going into Covid, the collapse in bond yields helped markets rebound. The subsequent moderate rise in yields was offset by a rapid increase in earnings expectations, further boosting markets. Earnings expectations have risen to above pre-Covid levels in some regions like the US and may well not keep pace with interest rate increases going forward. This will put pressure on markets and investor risk appetite. Furthermore, as mentioned earlier, commodity prices are elevated. Falling commodity prices are associated with emerging market outflows.

Mitigating this somewhat is that South Africa is predominantly exposed to PGMs, iron ore and coal. Provided PGMs and coal prices remain reasonably buoyant, the fiscus and terms of trade should continue to benefit. Additionally, SA exposed companies are mostly trading in line with or below their historic valuations on single-digit and low teens PE ratios i.e., they have not benefited from the global low interest rate environment. Although domestically exposed shares may sell off in a risk-off environment, their valuations should provide protection over the medium term.

Portfolio Positioning

We saw an increase in new issuance in the bank and corporate space in the second quarter of the year. Domestic credit spreads continued to tighten as demand for bank and corporate paper increased. Nominal yields experienced volatility over the quarter due to the uncertainty around US inflation and the Fed's hawkishness about the change in the pace of tapering and hikes in policy rates. Overall, the SA yield curve flattened over the quarter, as the market adjusted to the decrease in the weekly auctions as well as fear of the SARB becoming less accommodative in the coming months. Nominal yields are attractive at this stage, and we do have a small duration position in the fund, but we predominantly stick to floating rate bonds to protect the capital of our investors.

Portfolio Manager

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