Truffle Asset Management

Truffle SCI* Income Plus Fund

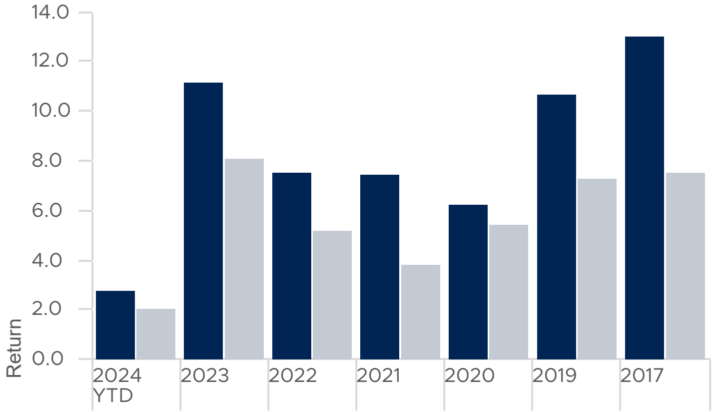
Fund Information

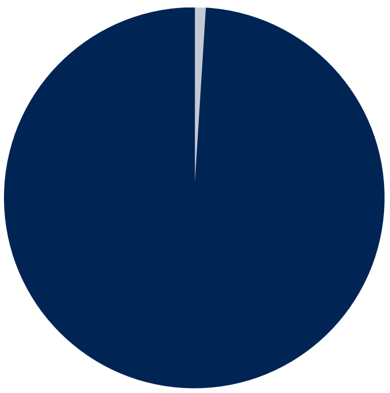
MDD Issue Date	18/04/2024
Ticker	TMICA
ISIN	ZAE000225108
Portfolio Manager	Hannes van der Westhuyzen & Raihan Allie
ASISA Sector (South Africa)	(ASISA) South African IB Short Term
Risk Profile	Conservative
Benchmark	STeFI Composite Index
Fund Size	R 1,041,578,530
Portfolio Launch Date	22/09/2016
Fee 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
Transaction Cut Off Time	15:00
Portfolio Valuation Time	15:00
Daily Price Information	Local media & www.sanlamunittrusts.co.za
Repurchase Period	2-3 business days
Base Currency	South African Rand

Fees (incl. VAT)	A-Class (%)
Maximum Initial Advice Fee	3.45
Maximum Annual Advice Fee	1.15
Manager Annual Fee	0.58
Total Expense Ratio	0.63
Transaction Cost	
Total Investment Charge	0.63
TER Measurement Period	01 January 2021 - 31 December 2023

Returns

Calculation Benchmark: STeFI Composite ZAR





	%
Domestic Cash	1.00
Domestic Fixed Income	99.00
Total	**100.00**

Fund Objective

The Fund aims to achieve higher yields of income than money market portfolios, while aiming to preserve capital through actively investing in a range of predominantly South African fixed income securities.

Investment Policy Summary

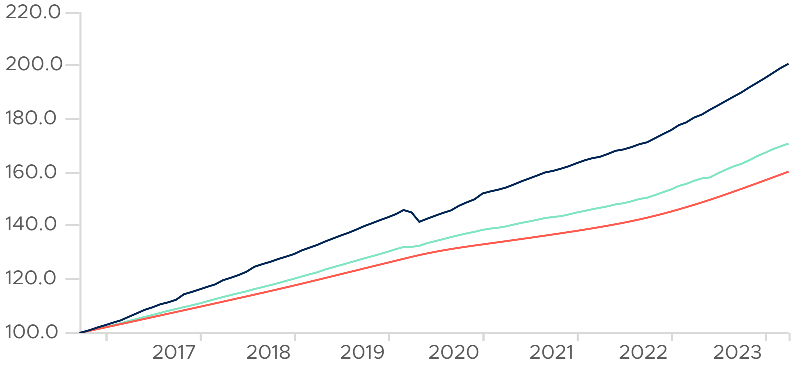
The fund is actively managed through varying market cycles to exploit income earning opportunities while managing the risk of capital loss. The fund invests in a range of fixed income securities including corporate and government bonds and money market instruments that pay regular interest. Other investments may include units of other South African funds and offshore investments as legislation permits. The fund will predominantly invest in short term fixed income securities, but may include a proportion of longer dated securities, within permissible parameters for a predominantly South African, short-term interest-bearing portfolio. The fund may also invest in derivative instruments for efficient portfolio management purposes.

Why Choose This Fund?

1. Invest in a broad range of meticulously selected fixed income securities.
2. Truly active portfolio management where opportunities are clearly identified and exploited.
3. A strong focus on downside risk management that aims to protect capital through all market cycles.

Investment Growth**

Time Period: 22/09/2016 to 31/03/2024



Annualised Performance (%)

	Fund	Benchmark
1 Year	11.15	8.39
3 Years	9.14	6.08
5 Years	8.59	6.00
Since Inception	9.70	6.48

Risk Statistics (3 Year Rolling)

Standard Deviation	0.72
Sharpe Ratio	5.40
Max Drawdown	—

Highest & Lowest Annual Return

Time Period: Since Inception to 31/12/2023

Highest Annual %	12.99
Lowest Annual %	6.19

Monthly Returns (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2024	0.98	0.91	0.81										2.72
2023	1.09	0.56	1.02	0.62	0.99	0.85	0.90	0.89	0.84	1.01	0.89	0.94	11.12
2022	0.65	0.46	0.33	0.63	0.72	0.29	0.52	0.64	0.43	0.90	0.87	0.83	7.54
2021	0.52	0.39	0.53	0.72	0.80	0.68	0.70	0.73	0.35	0.52	0.56	0.72	7.46
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	—

***The investment performance is for illustrative purposes only. The investment performance is calculated taking the actual initial fees and all ongoing fees into account for the amount shown and income is reinvested on the reinvestment date.*

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Truffle Asset Management

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.

Derivatives
Derivatives are instruments generally used as an instrument to protect against risk (capital losses), but can also be used for speculative purposes. Examples are futures, options and swaps.

Liquidity
The ability to easily turn assets or investments into cash.

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.

LISP (Linked Investment Service Provider)
A Linked Investment Service Provider is a financial institution which packages, distributes and administers a broad range of unit trust based investments. Any investment made through these products gives an investor a single point of entry into a selection of different investments.

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

Money Market Instruments
A money market instrument is a low risk, highly liquid, short-term (one year or less) debt instrument, issued by financial institutions or governments, that tend to have lower returns than high-risk investments.

Participatory Interests
When you buy a unit trust, your money is pooled with that of many other investors. The total value of the pool of invested money in a unit trust fund is split into equal portions called participatory interests or units. When you invest your money in a unit trust, you buy a portion of the participatory interests in the total unit trust portfolio. Participatory interests are therefore the number of units that you have in a particular unit trust portfolio.

Regulation 28
Regulation 28 of the Pension Funds Act sets out prudent investment limits on certain asset classes in investment funds. It applies specifically to investments in Retirement Annuities and Preservation Funds. The allowed maximum exposures to certain asset classes is: 75% for equities, 25% for property, 45% for foreign (offshore) assets.

Risk-adjusted Returns
Risk-adjusted return refines an investment's return by measuring how much risk is involved in producing that return, which is generally expressed as a number or rating.

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.

Distribution History (Cents per Unit)

31/03/2024	0.80cpu	30/11/2023	0.91cpu	31/07/2023	0.96cpu
29/02/2024	0.86cpu	31/10/2023	0.97cpu	30/06/2023	0.88cpu
31/01/2024	0.99cpu	30/09/2023	0.88cpu	31/05/2023	0.94cpu
31/12/2023	0.87cpu	31/08/2023	0.94cpu	30/04/2023	0.80cpu

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. *SCI is the abbreviation for Sanlam Collective Investments.

Investment Manager Information

Truffle Asset Management (Pty) Ltd
(FSP) License No. 36584
Physical Address: 0B Hyde Ln, Hyde Park, Sandton, 2196
Postal Address: 0B Hyde Ln, Hyde Park, Sandton, 2196
Tel: +27 (11) 325 0030
Email: info@truffle.co.za
Website: www.truffle.co.za

Manager Information

Sanlam Collective Investments (RF) (Pty) Ltd
Physical Address: 2 Strand Road, Bellville, 7530
Postal Address: P.O. Box 30, Sanlamhof, Bellville, 7532
Tel: +27 (21) 916 1800
Email: service@sanlaminvestments.com
Website: www.sanlamunittrusts.com

Trustee Information

Standard Bank of South Africa Ltd
Tel: +27 (21) 441 4100
Email: compliance-sanlam@standardbank.co.z

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Truffle
Asset Management

Portfolio Manager Comment

As at 31 March 2024

Economic Overview

The strength of the US economy continues to propel investor optimism even though interest rates appear set to stay higher for longer. China's annual parliamentary meeting did little to change sentiment as stimulus measures remain limited, while South African markets struggled amidst pre-election uncertainty. Fortunately, a commodities rally in March supported quarterly market performance.

Opportunities amidst relentless US strength

Recent data shows that US strength continues to reward wage earners and any indications of the economy losing resilience appear to have dissipated, driving market expectations further towards a soft (or even no) landing. Unemployment remains low and payrolls continue to exceed expectation while the PMI index has crossed the 50 threshold into expansionary territory at 50.3.

As economic strength persists, the downward inflation trajectory has come into question with some months in the quarter registering metrics above expectation. The risk remains that inflation settles above expectations of 2% or requires more aggressive monetary policy than the three rate cuts this year priced by the market.

Although long term rates have risen, the US equity market surged over the quarter as corporate earnings have proved resilient, resulting in a compressed Equity Risk Premium (ERP) of circa 1%. US market valuations remain elevated, and the likelihood that reasonable returns can be earned by the mega-caps seems low especially if one considers how lofty long-term earnings expectations are for this group of shares. However, with the manufacturing cycle bottoming out, and data still reflecting a strong economy, a pullback may not be imminent.

Outside of US equity, other markets or specific sectors are offering compelling value with a reasonable earnings outlook, notably:

- Certain Asian countries have cheaper exposure to the AI opportunity and would benefit from a turn in the manufacturing cycle.
- European equity markets offer some deep value opportunities, notably companies within the Financials and Energy sectors which are engaged in share buy backs.
- Fixed income markets are more fairly priced relative to 2023. Short dated US treasuries offer a 4-5% yield, which can be further enhanced by investing in credit.
- Short dated European credit also presents a real return opportunity.

Overall, Europe should benefit from an upturn in the manufacturing cycle and lower energy costs; however, this will need to be balanced against higher interest costs on sizable amounts of debt that are maturing this year.

China's Year of the Dragon

As China begins a new year, the lack of meaningful fiscal stimulus continues to hamper growth prospects while rebalancing China's economy from investment to consumption-led will be difficult even with stimulus. Like the US, the PMI has moved into expansionary territory, but employment gains are weak, and prices remain in deflation.

China's National People's Congress, an annual significant political event, held in March illustrated the country's ambition to compete with the US on technology; however, the lack of further stimulus measures disappointed markets with growth likely to slow more going forward as a result.

Chinese valuations are low relative to most regions. However, global investor appetite (and the prices investors are willing to pay) for Chinese assets remains uncertain given the weak growth prospects as well as the challenging regulatory and geopolitical outlook.

This risk should be balanced against the availability of well-run businesses that can produce decent cash flows. We therefore maintain a modest exposure to Chinese assets.

Glittering gold

Most commodities rallied strongly over March lifting commodity performance for the quarter. Copper is benefiting from an improved outlook for global manufacturing which has slumped over the last year. Lower supply guidance from major miners is also resulting in a continuation of expected deficits. Iron ore on the other hand, has underperformed due to reduced steel production and strong supply.

Gold has historically shown an inverse directional relationship with USD real interest rates however, despite range bound real rates, the shiny metal has reached record highs. This is potentially due to higher demand from Central Banks who are wary of geopolitical tensions and fear that the confiscation of USD reserves is becoming a meaningful risk. It is also possible, although less likely, that rising tail risk of inflation induced by US debt is becoming a concern. We currently maintain a position in gold given ongoing heightened geopolitical risk and elevated real rates.

Oil prices surged, mostly off the back of numerous supply issues, with US crude futures reaching $85 per barrel for the first time since October. Houthi attacks in the Red Sea resulted in delivery delays to European consumers while Mexico is curtailing crude exports to increase domestic refining; the likelihood of sanctions against Venezuela is also increasing. Amidst growing oil demand from China as manufacturing increases, numerous OPEC+ supply cuts have also driven prices up.

South Africa gaining energy

Uncertainty over election outcomes continues to drive weak appetite for risk assets and local investors remain uncertain amidst economic inertia. Some polls are indicating a lower result for the ANC than tabled earlier this year, and while changes are still possible just two months from election date, a coalition government remains likely.

Positively, updates from Rudi Dicks, Head of the Project Management Office within the Presidency are signalling much needed improvements to local infrastructure.

There is optimism that the worst of the energy crisis is behind us due to a combination of increased private sector power generation and better performance from Eskom's coal fleet. While loadshedding remains an issue, the average stage of loadshedding in the first two months of 2024 was 1.8, much better than the average of stage 3.8 that was recorded in the first two months of 2023. Eskom estimates that the rooftop solar capacity installed in the country was up to 5.4GW by the end January, with 2.4GW installed over the past year, resulting in YTD demand for Eskom power being down 7.1% vs the same period last year. Demand is down just over 9% from the equivalent period in 2019. Given the better performance in energy generation the focus has moved to transmission. Around 14 000km's of new grid capacity is required. Funding for this additional capacity will need to come from third parties who require generation assets to be split from the transmission and distribution assets. A split of this nature is dependent on debtholder approval which was recently obtained.

Poor logistics has also weighed heavily on the local economy - the University of Stellenbosch estimated that Transnet's inability to rail sufficient volumes of mostly coal and iron ore to ports could have cost the economy as much as R411bn in FY22 and a further R353bn in FY23. Economic reform is clearly highly dependent on a Transnet turnaround and the appointment of Michelle Phillips to a permanent position as CEO is a crucial step in their restructuring strategy.

Accumulating a maintenance backlog of an estimated R200bn whilst servicing expensive debt has added significant urgency to the implementation of a credible restructuring plan. Partnering with private sector companies to operate trains independently on the state-owned rail network across SA is therefore positive with the recent Freight Logistics Roadmap and the release of Transnet's draft network statement important steps in the process. If all goes well, trains run by private operators could be operational in the second half of the year provided tariffs encourage the transport of tonnage to move away from trucks and onto rail.

While Transnet progresses in the right direction, it is also pleasing to note that port operations have improved from a low point in 2023 and various initiatives support further improvements.

South Africa's economy grew 1.2% year on year to 31 December 2023, slightly ahead of market expectations. However short-term economic headwinds remain unchanged with tight monetary policy likely to be in place until after the election and/or when the US Fed starts cutting rates. While local valuations remain cheap, with significant long-term uncertainty it remains important to focus on companies offering strong cashflow and dividend yields.

Outlook

Overall global markets have experienced a good start to 2024 and while continued economic resilience with rate cuts implemented later in the year could sustain market strength, US equity valuations are elevated and at risk of falling. Within our global portfolios, we remain underweight the US equity market in our offshore positions but have increased pour exposure to European stock markets which are trading in fair value territory. We maintain an exposure to Japan given reasonable valuations and constructive changes to the Japanese economy.

Locally, we continue to adopt a defensive stance ahead of elections and given ongoing economic uncertainty. We prefer companies with exposure to offshore markets and stay focused on companies trading on generous valuations and with good dividend yields. In the short-term SA could benefit from a cyclical market recovery as global manufacturing strengthens and thus supports commodity prices. By next quarter we should have better visibility of the longer-term impact of election outcomes.

Performance & Positioning

Performance
The bond market euphoria at the close of 2023 has faded over the first quarter of 2024. There were no rate changes in the US or South Africa over the period, and market expectations at the start of the year for seven US rate cuts in 2024 have been revised down to just three. This now aligns to the Fed dot plot.

Hotter than expected inflation prints in the opening months of the year as well as a continued resilient US economy and labour market are driving the higher for longer market expectation. Ongoing geopolitical risks and higher energy prices raise further risk of a resurgence in global inflation. The risks to inflation warrant further introspection before any rate cuts are implemented given the increased potential for policy errors. The Fed therefore remains cautious in their approach to policy change, requiring data to provide sustained evidence of inflation trending towards target.

The knock-on effect of US policy decisions spreads well beyond their shores, negatively impacting the South African bond market over the first quarter of 2024. The SA Bond index (ALBI) shed 1.8% on a total return basis.

Portfolio movements
The fund continued to benefit from a higher for longer rate environment as the fund maintained its allocation to floating rate instruments with zero duration in the positioning over the period. We maintain our view that the rate hiking cycle has peaked with rate cutting forthcoming, however, the timing of any rate reductions remains uncertain.

We believe South Africa's MPC is unlikely to reduce rates prior to actions by the Fed and the European Central Bank (ECB). We therefore remain cautious on duration and will adjust fixed rate exposure when we perceive adequate compensation for the additional risk given fixed rate instruments will benefit from a reduction in policy rates.

Portfolio Managers
Hannes van der Westhuyzen
CA(SA)

Raihan Allie
B.Bus.Sci., CFA