Truffle SCI* Flexible Fund

Minimum Disclosure Document

As of 2019/03/31

Truffle Asset Management

MDD Issue Date: 2019/04/25

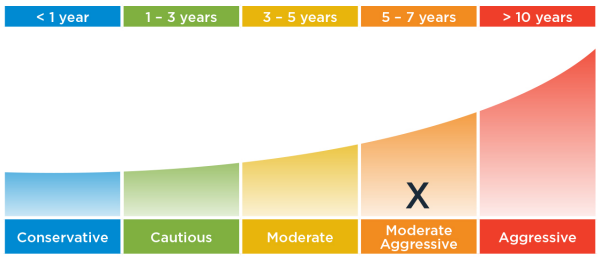
Fund Objective

The primary objective of the portfolio is to maximise returns over the longer term, at the risk of greater short term volatility of capital values. The investment manager has substantial flexibility to vary the asset allocation across the various asset classes in such a manner as deemed appropriate.

Fund Strategy

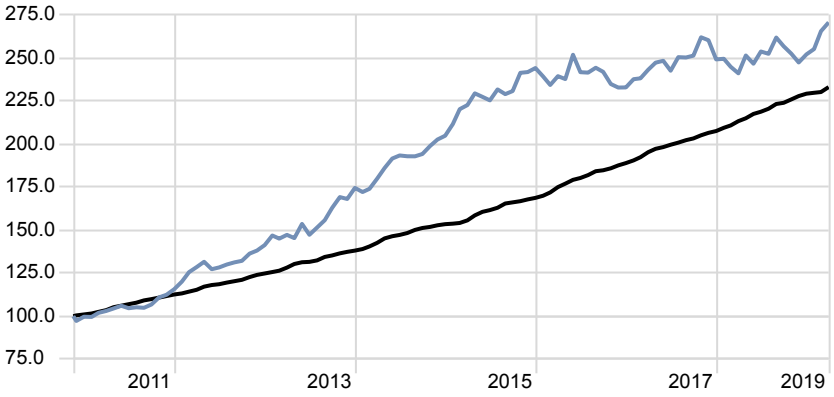
The portfolio will actively invest across the full spectrum of asset classes such as bonds, property shares, equities, financial instruments, participatory interests in trust schemes, cash and money market instruments. The manager may from time to time invest in participatory interests in portfolios 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, at its discretion, on behalf of the portfolio in offshore investments as legislation permits.

Risk Profile



Investment Growth

Time Period: 2010/11/19 to 2019/03/31



Truffle SCI Flexible A — CPI + 5%

Annualised Performance (%)

	Fund	Benchmark
1 Year	12.27	9.26
3 Years	4.17	10.03
5 Years	8.51	10.32
Since Inception	12.63	10.63

Risk Statistics (3 Year Rolling)

Standard Deviation	8.48
Sharpe Ratio	-0.32
Information Ratio	-0.60
Maximum Drawdown	-7.98

Cumulative Performance (%)

	Fund	Benchmark
1 Year	12.27	9.26
3 Years	13.04	33.17
5 Years	50.40	63.38
Since Inception	170.41	132.87

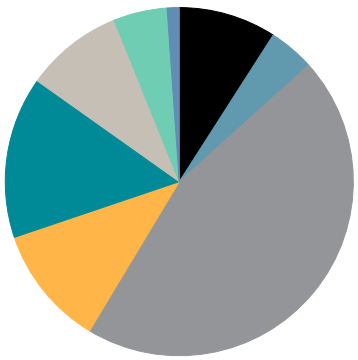
Highest and Lowest Annual Returns

Time Period: Since Inception to 2018/12/31

Highest Annual %	23.50
Lowest Annual %	-4.61

Asset Allocation

Portfolio Date: 2019/03/31



	%
SA Cash	9.07
Non-SA Cash	4.26
SA Equity	45.29
Non-SA Equity	11.20
SA Bond	15.00
Non-SA Bond	9.08
SA Property	4.99
Other	1.12
Total	**100.00**

Fund Information

Ticker	TRFCA
Portfolio Manager	Iain Power, Jonathan du Toit & Charles Booth
ASISA Fund Classification	South African - Multi Asset - Flexible
Risk Profile	Moderate Aggressive
Benchmark	CPI + 5%
Fund Size	R 3 976 592 066
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	1.40
Transaction Cost	0.46
Total Investment Charges	1.86
Performance Fee	—
TER Measurement Period	01 January 2016 - 31 December 2018

Top Ten Holdings

Top Ten Holdings	(%)
Naspers Ltd	7.38
Firstrand Bank Ltd Bond 23042023	5.10
Sasol Ltd	4.06
Ping An Insurance Company of China Ltd	3.24
Anglo American Plc	3.08
Truffle SCI Income Plus Fund	2.27
Firstrand Ltd	2.07
Anheuser-Busch Inbev SA	2.06
British American Tobacco Plc	2.05
Vanguard Value ETF	1.94

Administered by

Sanlam

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Monthly Returns (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2019	1.23	4.06	1.92										7.37
2018	0.15	-1.88	-1.54	4.30	-1.90	2.87	-0.53	3.75	-1.93	-1.68	-2.02	1.89	1.17
2017	2.05	0.21	2.08	1.70	0.44	-2.32	3.25	-0.08	0.43	4.24	-0.65	-4.28	6.98
2016	-2.00	-2.07	2.18	-0.70	5.94	-4.02	-0.11	1.17	-0.97	-2.92	-0.86	0.03	-4.61
2015	3.30	4.10	1.07	3.06	-0.89	-0.90	2.83	-1.18	0.78	4.59	0.18	0.97	19.19
2014	-1.37	1.07	3.41	3.41	2.96	0.93	-0.24	-0.02	0.70	2.39	1.90	1.08	17.35

Distribution History (Cents Per Unit)

2018/12/31	3.88 cpu	2017/06/30	2.59 cpu	2015/09/30	0.42 cpu
2018/06/30	3.03 cpu	2016/12/31	2.50 cpu	2015/08/31	2.34 cpu
2017/12/31	0.71 cpu	2016/06/30	2.56 cpu	2015/02/28	2.07 cpu
2017/11/10	2.24 cpu	2015/12/31	0.92 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 Flexible 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 2019/03/31

Truffle Asset Management

Portfolio Manager Comment

As at 31 March 2019

Market overview

Global markets enjoyed a strong 1Q 2019

Global financial markets bounced strongly this quarter, recovering from the weak close to 2018. Global equities made impressive gains, with the MSCI World Equity Index delivering a 12.6% USD return, compared with a decline of 8.2% in the previous quarter.

Emerging market equities were not far behind, producing a 10% USD return for the quarter, having fallen by 14.2% in the previous quarter. Global government bonds returned a positive 1.9% for the quarter in USDs.

South African equity returns for the quarter were strong, but lagged other emerging markets, producing an 8% return for the quarter in Rands, and a 7.7% return in USD. South African Bonds were up 3.8% in the quarter.

The global economy is giving mixed signals

Since late 2018 global developed market bond yields have fallen significantly, signalling the market's expectation of the first synchronised slowdown since the 2008 economic crisis. Already weak numbers have emerged from Germany with the rest of the Euro area likely to follow. More and more company profit updates are warning of slowing sales across many industries. Brexit is also not helping and remains a source of major uncertainty.

In the United States, economic growth still remains strong with consumer confidence at high levels and unemployment at record lows. However, business confidence is deteriorating and earnings downgrades have not yet troughed. However, a more dovish FED will help maintain expansionary financial conditions which will aid in extending one of the longest US economic expansion in history.

China's slowdown, which started in the last quarter of 2018, might be nearing its end as fiscal stimulus and a positive credit impulse bring its economy back on the boil. A turn around in Chinese growth would help lift other Asian economies, as well as Europe, which benefits via its export industries.

Despite the possibility of a global turnaround, we remain concerned by the record low unemployment rate and elevated profit margins in the US. Furthermore, the exceptionally low real yields in developed bond markets do not bode well for future financial market returns.

Monetary policy will likely remain accommodative

With the South African repo rate set at over 2.5% above the inflation rate, South African real yields screen as globally attractive. While there is some scope for the SARB to cut interest rates in the quarters ahead, the need to protect the currency, and prevent the knock-on inflation effect, remains.

The South African economy is facing major challenges

South African economic growth has been anaemic for some time now. This has been driven by numerous structural issues. Whilst government spending has remained strong, our lack of employment growth, very high and increasing levels of indebtedness and a high tax burden, are now putting a huge strain on the consumer. Official growth forecasts are all pointing to a lacklustre economic performance in 2019 that will make the worryingly high inequality gap difficult to address. In addition, the parlous state of many of the country's parastatals, notably Eskom, is making efforts to stimulate growth more challenging.

On the positive side, if President Ramaphosa is returned to power with a strong mandate after the May elections, the country could see a major initiative to tackle corruption and service delivery, issues that have been plaguing the country for some time. If combined with increased policy certainty and fiscal discipline, South Africa could start to meaningfully address the structural issues which have been holding us back. This would no doubt be good for overall business and consumer confidence and could attract higher levels of investment that would raise growth rates and living standards over the medium term.

Domestic equity values continue to improve

In previous commentaries we have observed that domestic equities are not cheap, although value has steadily been improving. Given that the global monetary environment is likely to remain benign and that domestic inflation is under control, domestic interest rates are currently poised for either a cut or at worst, remaining steady. The poor economic outlook points to earnings growth remaining weak, suggesting that equity returns will, at least in the quarters ahead, continue along the path of subdued returns similar to the last few years. Earnings growth needs to accelerate if equities are to enter a new bull market.

Property returns are expected to be subdued

In line with equities, property returns are also expected to be subdued as the growth in distributions is likely to remain weak for the foreseeable future. Although the running yield appears attractive, this needs to be balanced against the poorer quality earnings we are seeing from the property counters.

Portfolio Positioning

The funds underweight positions in many of the highly rated South African focussed stocks paid off handsomely as the poor economic environment translated into difficult trading and ultimately resulted in very poor earnings updates from many of these companies. As we have been warning in previous commentaries for quite some time, the market was too optimistic in terms of the expected earnings growth from many of these companies given the above difficult economic environment. This combined with ratings that were still expensive resulted in significant share price underperformance as the companies released their earnings updates.

The fund's overweight positions in many of the cheap industrial and commodity-based Rand hedges generated significant outperformance as year on year Rand weakness and better global growth buoyed their earnings. In particular the funds overweight positions in platinum did particularly well after a significant improvement in the basket price of the Platinum Group Metals (PGM's) over the last year manifested in significant earnings beats as these companies released their results to the market.
Our underlying investment thesis for the platinum sector has been that the lack of capital investment over the last decade as a result of poor economics would eventually manifest in a lack of supply. This would ultimately drive PGM basket prices higher to the point where producers were once again incentivised to invest in new supply. South African platinum mines have grappled with a decade of declining profitability largely as a consequence of the excess supply resulting from SA mines historically chasing production at the expense of returns. This realisation and the current reduction of unprofitable ounces comes at a time when underlying demand is accelerating and benefitting from tighter global emission standards in both developed market and emerging markets. This has resulted in a significant rise in the PGM basket price, specifically Palladium, which is in a significant deficit position and is expected to remain so for at least the next three years. Even at current PGM basket prices producers are reluctant to invest more capital to meet the current PGM shortages, as long-term concerns around electric vehicles taking more market share from internal combustion engines dominate discussions about the long-term demand outlook. This means we could well see the PGM basket prices move higher and stay elevated for quite some time.

We turned positive on Naspers in November last year. The share price had been weak as a 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. As expected, the Chinese gaming regulators restarted approval in earnest this year, initially with domestic game approvals. The first batch of international games has just been announced. We think this should manifest in a better performance from the gaming business in 2019. Naspers also unbundled Multichoice this quarter, and announced the intended listing of most of its assets in Amsterdam. All of this bodes well for unlocking a portion of the significant discount on which the share trades.

Over the quarter the fund reduced exposure to Howden, Northam Platinum, Capitec, Vanguard Value ETF, Spar and Vodacom. Major purchases included Anheuser-Busch, Reinet, Firstrand and Philip Morris.

Although a significant portion of the fixed income assets remains invested in floating rate subordinated debt of SA top five banks, we have started to reduce these positions after making significant gains as a result of credit spreads narrowing over the last year. We are looking to increase the liquidity of fixed income holdings at this stage of the cycle as the spread compression seen over the last year is no longer sufficient to justify our current exposure.

Contributors and detractors

There were some very large share price moves this quarter, but the stand-out performance was undoubtedly the platinum sector, up 49.7%! We have been steadily building a position in this sector since the middle of last year, and our positions in Implats and Northam contributed meaningfully to performance this quarter. We shared with you last quarter our investment thesis on British American Tobacco and why we thought the valuations were now pricing in a significant amount of risk. The share price increased 29.5% this quarter and our holdings in both British American Tobacco and Reinet were positive contributors. Ping An Insurance Group which we purchased last year also contributed to overall performance on the back of a 28% share price rise over the quarter. We sold out of all our Vodacom prior to their December quarterly update as we feared that the pressure on data pricing, combined with a weak macro, would produce weak numbers. Other contributors to performance were Quilter and the Vanguard Value ETF. Our positions in Pepkor, Sappi and Woolworths detracted from performance.

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