# Truffle SCI* General Equity Fund

## Minimum Disclosure Document

As of 31/12/2022

Truffle
Asset Management

**MDD Issue Date:** **23/01/2023**

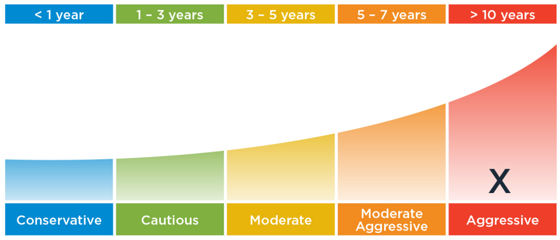
## Fund Objective

The primary objective of the portfolio is capital appreciation through investments primarily in equities across all sectors of the JSE Securities Exchange South Africa. The portfolio will invest a minimum of exposure to equities in line with the Asisa Standard on Fund Classification.

## Fund Strategy

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 on behalf of the portfolio in offshore investments as legislation permits.

## Risk Profile




## Investment Growth

Time Period: 19/11/2010 to 31/12/2022


## Fund Information

| | |
|---|---|
| Ticker | TRGEA |
| Portfolio Manager | Iain Power, Saul Miller, Nicole Agar & Sophié-Marié van Garderen |
| ASISA Fund Classification | South African - Equity - General |
| Risk Profile | Aggressive |
| Benchmark | FTSE/JSE Capped SWIX Index |
| Fund Size | R 1,317,965,274 |
| Portfolio Launch Date | 18/11/2010 |
| Fee Class Launch Date | 18/11/2010 |
| 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 & www.sanlamunittrusts.co.za |
| Repurchase Period | 2-3 business days |

## Annualised Performance (%)

| | Fund | Benchmark |
|---|---|---|
| 1 Year | 8.11 | 4.41 |
| 3 Years | 15.54 | 10.09 |
| 5 Years | 11.79 | 6.10 |
| 10 Years | 11.61 | 8.98 |
| Since Inception | 12.11 | 9.93 |

## Risk Statistics (3 Year Rolling)

| | |
|---|---|
| Standard Deviation | 19.96 |
| Sharpe Ratio | 0.59 |
| Information Ratio | 0.93 |
| Maximum Drawdown | -23.33 |

## Cumulative Performance (%)

| | Fund | Benchmark |
|---|---|---|
| 1 Year | 8.11 | 4.41 |
| 3 Years | 54.24 | 33.44 |
| 5 Years | 74.57 | 34.47 |
| 10 Years | 199.80 | 136.28 |
| Since Inception | 299.60 | 215.05 |

## Highest and Lowest Annual Returns

Time Period: Since Inception to 31/12/2022

| | |
|---|---|
| Highest Annual % | 26.19 |
| Lowest Annual % | -4.47 |

## Fees (Incl. VAT)

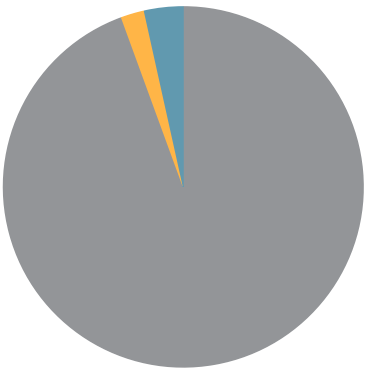
| Fees (Incl. VAT) | A-Class (%) |
|---|---|
| Maximum Initial Advice Fee | 3.45 |
| Maximum Annual Advice Fee | 1.15 |
| Manager Annual Fee | 1.04 |
| Total Expense Ratio | 1.07 |
| Transaction Cost | 0.76 |
| Total Investment Charges | 1.83 |
| TER Measurement Period | 01 October 2019 - 30 September 2022 |

## Top Ten Holdings as at 31/12/2022

| Holding | (%) |
|---|---|
| Absa Group Limited | 8.23 |
| Naspers Limited | 6.82 |
| British American Tobacco plc | 6.53 |
| Impala Platinum Holdings Limited | 5.44 |
| Sasol Limited | 5.16 |
| Glencore plc | 5.06 |
| Anglo American plc | 4.81 |
| Firstrand Limited | 4.17 |
| Investec plc | 4.09 |
| Anheuser-Busch Inbev SA/N.V. | 3.85 |

## Asset Allocation

Portfolio Date: 31/12/2022



| | % |
|---|---|
| Domestic Equity | 94.42 |
| Domestic Property | 2.10 |
| Domestic Cash | 3.48 |
| **Total** | **100.00** |

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## Monthly Returns (%)

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2022 | 3.28 | 2.59 | -0.38 | -0.86 | 1.90 | -6.66 | 2.79 | 0.48 | -3.63 | 4.28 | 7.46 | -2.62 | 8.11 |
| 2021 | 3.61 | 6.26 | 4.09 | 0.48 | 2.11 | -3.84 | 1.97 | 2.31 | 0.85 | 1.75 | -1.05 | 5.36 | 26.19 |
| 2020 | -0.73 | -7.41 | -16.58 | 18.61 | -0.63 | 6.92 | 6.81 | -1.32 | -2.75 | -2.26 | 10.63 | 5.57 | 13.07 |
| 2019 | 3.27 | 3.96 | 1.63 | 3.63 | -7.17 | 3.54 | -2.33 | -0.67 | 1.95 | 3.68 | -1.28 | 5.75 | 16.34 |
| 2018 | 1.24 | -0.78 | -4.14 | 4.34 | -3.00 | 2.35 | 0.72 | 2.77 | -2.88 | -4.82 | -1.39 | 3.37 | -2.71 |
| 2017 | 3.97 | -2.26 | 1.67 | 3.60 | -0.42 | -4.02 | 5.13 | 1.61 | -0.31 | 5.46 | 1.31 | -5.64 | 9.85 |
| 2016 | -2.65 | -1.43 | 5.50 | -0.92 | 4.87 | -4.37 | -0.29 | 0.56 | -1.07 | -3.88 | -1.14 | 0.75 | -4.47 |
| 2015 | 4.14 | 4.91 | 0.79 | 3.98 | -2.91 | -0.61 | 2.66 | -2.61 | 0.36 | 7.48 | -1.84 | -2.12 | 14.49 |
| 2014 | -2.37 | 4.56 | 2.95 | 3.17 | 1.97 | 1.75 | -0.15 | -0.52 | -1.58 | 2.19 | 1.89 | 0.64 | 15.23 |
| 2013 | 3.08 | -1.30 | 0.60 | -2.44 | 7.50 | -5.49 | 4.96 | 3.55 | 5.95 | 4.00 | -2.24 | 4.42 | 24.04 |
| 2012 | 5.57 | 4.49 | 1.08 | 2.05 | -4.79 | 0.51 | 1.51 | 1.27 | 1.80 | 3.97 | 0.62 | 2.82 | 22.58 |
| 2011 | -0.96 | 2.84 | 0.86 | 1.53 | -0.10 | -1.36 | -0.75 | -0.60 | -2.20 | 7.73 | 0.57 | 2.07 | 9.68 |
| 2010 | | | | | | | | | | | | 3.71 | |

## Distribution History (Cents Per Unit)

| | | | | | |
|---|---|---|---|---|---|
| 31/12/2022 | 7.58 cpu | 31/12/2020 | 0.79 cpu | 31/12/2018 | 2.61 cpu |
| 30/06/2022 | 3.92 cpu | 30/06/2020 | 2.02 cpu | 30/06/2018 | 1.74 cpu |
| 31/12/2021 | 3.63 cpu | 31/12/2019 | 3.64 cpu | 31/12/2017 | 0.28 cpu |
| 30/06/2021 | 3.42 cpu | 30/06/2019 | 2.75 cpu | 10/11/2017 | 1.73 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.

**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.

## 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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**Administered by**

Sanlam

# Truffle SCI* General Equity Fund

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As of 31/12/2022

Truffle
Asset Management

## Portfolio Manager Comment

**As at 30 December 2022**

**Economic Overview**

**China reopening gathering steam**

The much-anticipated reopening of the Chinese economy ignited markets as the Chinese government, pressured by social unrest, adopted a surprising full-scale reopening of the economy as opposed to an expected slow-phased approach.

By the end of the quarter, the economic environment appeared to be shifting in a more business-friendly direction, in stark contrast to the unfriendly tone of the 20th Communist Party Congress held in October. Alibaba's subsidiary Ant Financial has been permitted to take up a capital raise, although founder Jack Ma has had to surrender control; whilst new game releases have finally received regulatory approval. The Chinese property sector, plagued with challenges over the last two years, will also receive more stimulus with plans for the relaxation of borrowing restrictions for property developers.

The sustainability of a more business-friendly environment in China remains to be seen. In the interim markets, seem to be giving China the benefit of the doubt with asset valuations rapidly accelerating in the last 2 months.

Chinese equities and foreign companies benefiting from the reopening and regulatory changes have seen a significant increase in valuations. JSE shares include Naspers/ Prosus, diversified miners that have benefited from a higher iron ore price, and Richemont, which will benefit from a recovery in Chinese spend on luxury goods. Our exposure to China's reopening has been primarily via the Mining and Luxury sectors.

Emerging markets should benefit from China reopening its economy via improved commodity prices and demand for goods from emerging markets. Flows into EM markets as a result of this often benefits South African markets. This benefit might be more tempered than has historically been the case given our struggling economy.

**US equity valuations facing headwinds**

Market participants mostly expect a recession in 2023 which has become more likely given persistent inflation coupled with stringent monetary policy. Interest rates are expected to decline to 3% in 2 years with the US market pricing for inflation to return to approximately 2% by the end of 2023 and remain there. Long-term real rates are priced at approximately 1.4% which seems a reasonable level relative to sustainable US economic growth.

However, the risk of inflation staying elevated compared to levels over the last few decades seems high given that globalization benefits are no longer present. In the short term, a tight labour market will also keep the pressure on inflation (via wage inflation above 4%) once the benefit from goods deflation is worked out of the base over the next year.

Real yields staying elevated means falling bond yields are unlikely to be a source of help for equity markets. Currently, the equity market valuation does not appear to be reflecting a higher real yield environment. The S&P500 Price Earnings (PE) of 16.8x is in line with the average of the last 10 years when real rates averaged 0.35%. A multiple of 14x would be more reasonable assuming real rates remain above 1%.

If we use a lower earnings base than what appears to be captured in the optimistic consensus earnings forecasts, this will raise the PE further to over 18x. The US economy is slowing down indicated by weaker economic data (PMIs and ISM metrics), however, the market is not pricing for any meaningful slowdown.

Over the long term, there are several headwinds that could weigh on US earnings expectations including:

- Higher taxes to fund growing budget deficits
- Less government spending
- Deglobalization may well depress profits if higher costs cannot be passed on to consumers
- Higher interest and debt funding costs

The US market is approximately 60% of the global equity market and may weigh on the overall market, however, equity valuations in other regions are reasonable relative to history. In the short term, a reopening of China and lower energy costs will be positive for European and Emerging Markets equities.

**SA's persistent power pressures**

Loadshedding increased and will continue to weigh heavily on the SA's economy placing further cost pressures on corporates and consumers (especially the lower LSM groups) over the next year. The resignation of the CEO is clearly disappointing.

On the political front, the positive outcome of the ANC elective conference helps offset some of the negative fallout from the well-publicised Phala Phala incident. President Cyril Ramaphosa will need to make a second term matter if SA is to escape a growth quagmire. The noise and uncertainty regarding the future leader who will ultimately replace Cyril Ramaphosa will amplify from here. This might be more of a medium-term concern.

We have positioned the portfolio more in favour of offshore exposed counters as a result of the concerns expressed above. However, we do concede that valuations of many domestically exposed shares are relatively cheap, and we therefore maintain some domestic exposure. Financials may deliver muted earnings growth but will pay out generous dividends over the next year. China's reopening is positive for commodity prices which should help our current account and budget deficit. This should help ameliorate some of the pressure that the rand would otherwise face. This should also be positive for domestic bonds.

**2023 outlook more challenging**

Globally, several factors driving the bull markets of the past decades have changed. From an interest rate perspective, any significant declines in long rates will likely be accompanied by recession while the disinflation benefits of deglobalization that helped lower rates are unlikely to repeat. This will have negative implications for equity and housing markets. More reasonable valuations outside of the US will ameliorate some of this pressure in respect of global equity portfolios.

Fiscal positions have weakened, and budget deficits and debt levels are high in many of the world's large economies. The need to reign these in will not be positive for global growth. We've seen the first sign of bond markets acting against reckless deficit spending by a developed market with the resultant resignation of the UK prime minister and Chancellor of the Exchequer. The desire from the world's Treasuries for higher inflation to erode debt levels versus Central Bank mandates to rein in inflation could be a source of additional volatility.

Geopolitical tension with the potential increased conflict between large powers and the rise of populism is difficult to quantify. They will also create volatility as witnessed in 2022. Valuation opportunities will no doubt arise as the above factors play out. This will require a more dynamic investment process.

Locally, positive political moves and an ability to repair power issues remain the biggest challenges to the 2023 growth trajectory.

**PORTFOLIO POSITIONING**

**Contributors and detractors**

Market volatility continued over the quarter however South African equities ended the quarter strongly with the Capped SWIX up 12,2%. Stronger returns were largely driven by the Resources, Luxury and Technology stocks as investors responded to China's reopening.

An overweight exposure to Investec contributed meaningfully to performance although local banks came under some pressure in December as markets priced for political uncertainty. We remain overweight banks and especially like banks with credit exposure to the higher income groups given their ability to stay resilient during a recessionary environment.

Our Naspers underweight detracted as the share, having lost value at the start of the quarter, gained significantly in November because of market sentiment around China's surprising full-scale reopening. British American Tobacco detracted as the defensive nature of the share underperformed in a risk-on market.

**Portfolio movements**

We maintained our exposure to Investec and remain overweight banks. We have been building a position in Anheuser-Busch as the company is well-positioned for a weakening dollar and the valuation is compelling.

We switched some British American Tobacco into Anglo American to better position for the China reopening. We continued to reduce exposure to consumer retail given the weakening SA economy and further reduced our holding in MTN as Nigerian forex markets look increasingly fragile.

**Portfolio Managers**
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