Truffle
Asset Management

Truffle SCI* General Equity Fund

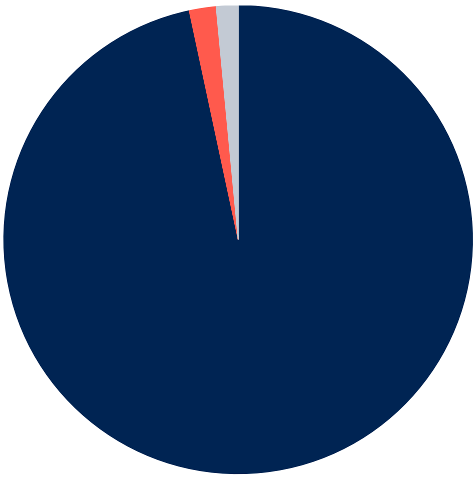
Fund Information

MDD Issue Date	18/08/2023
Ticker	TRGEA
ISIN	ZAE000152005
Portfolio Manager	Iain Power, Saul Miller, Nicole Agar & Sophié-Marié van Garderen
ASISA Sector (South Africa)	(ASISA) South African EQ General
Risk Profile	Aggressive
Benchmark	FTSE/JSE Capped SWIX Index
Fund Size	R 2,566,134,930
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
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	1.04
Total Expense Ratio	1.07
Transaction Cost	0.75
Total Investment Charge	1.82
TER Measurement Period	01 April 2020 - 31 March 2023

Top 10 Holdings (30/06/2023)	%
Naspers Limited	11.26
Prosus Nv	7.16
Absa Group Limited	5.70
Nedbank Group Limited	5.01
British American Tobacco plc	4.59
Anglo American plc	4.40
Firstrand Limited	4.19
Gold Fields Limited	4.02
Bid Corp Limited	3.86
Sasol Limited	3.34

Asset Allocation (31/07/2023)



	%
Domestic Equity	96.65
Domestic Property	1.85
Domestic Cash	1.50
Total	**100.00**

Fund Objective

The Fund aims to achieve superior long term capital growth by investing primarily in local equities.

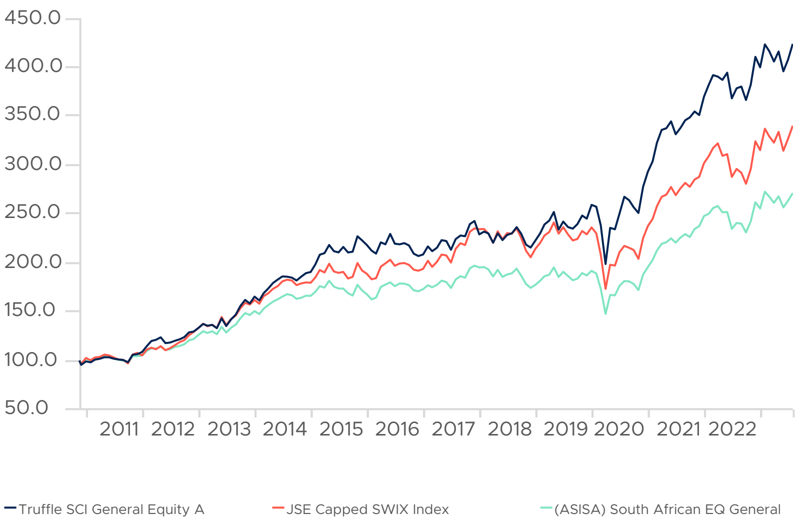
Investment Policy Summary

The fund employs a distinctive stock selection process to construct a portfolio of high quality local and offshore companies. The fund will invest a minimum of exposure to equities in line with the ASISA Standard on Fund Classification. Other investments may include units of other funds and offshore investments as legislation permits. The fund may also invest in derivative instruments for efficient portfolio management purposes.

Why Choose This Fund?

1. A disciplined stock selection process that focuses on investing in quality assets with long term valuation potential.
2. An agile team-based approach where opportunities are clearly identified and exploited.
3. Downside risk management forms a crucial component that aims to generate superior returns.

Investment Growth



Annualised Performance (%)

	Fund	Benchmark
1 Year	12.01	14.90
3 Years	16.59	16.12
5 Years	13.00	8.16
10 Years	11.56	9.10
Since Inception	12.04	10.12

Risk Statistics (3 Year Rolling)

Standard Deviation	12.97
Sharpe Ratio	0.87
Max Drawdown	-7.10
Information Ratio	0.10

Highest & Lowest Annual Returns

Time Period: Since Inception to 31/12/2022

Highest Annual %	26.19
Lowest Annual%	-4.47

Monthly Returns (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2023	5.87	-1.62	-2.56	2.53	-4.88	2.96	4.01						6.00
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	

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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)

30/06/2023	4.01 cpu	30/06/2021	3.42 cpu	30/06/2019	2.75 cpu
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

Additional Information

Investment Manager Information

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Portfolio Manager Comment

As at 30 June 2023

Economic Overview

The broader US economy is yet to succumb to pressure from higher rates, remaining buoyant through a quarter of sustained tight monetary policy and declining inflation. US equity markets supported strong quarterly performance for developed markets, as the AI theme drove enthusiasm for technology stocks. China's economic recovery has cooled and growth from here is dependent on the level of incremental stimulus from policymakers.

Globally, most major central banks raised interest rates over the quarter as core inflation remains too high vs. Central Bank target levels.

Sentiment in South Africa remained weak particularly over May when the Rand reached a low of R19.85 to the USD amidst allegations of arms supply to Russia and a potential Putin visit to SA for the BRICS conference. The economy did, however, gain some respite in June as loadshedding was reduced.

US stronger for longer

US economic resilience continued with market consensus switching to a "soft landing". Q1 GDP was revised up from a previous estimate of 1.3% to 2% due to increased consumption estimates. The US Fed may have paused interest rate hikes in June as US inflation comes down, however, the Fed is not yet convinced that further declines to inflation print over the year will be sufficient.

While signals of the increased likelihood of a potential recession in the US have been evident, there are several positive factors that lend credibility to continued economic strength for the remainder of the year. These include:

- US consumers continue to spend excess savings generated during the pandemic.
- Increasing house prices and new builds are evidenced by a strong performance from the homebuilder's index. Higher interest rates have led to supply shortages due to the long-term nature of US mortgage markets and the reluctance of existing homeowners to move and refinance at higher rates. However, this will ultimately result in headwinds for the US consumer.
- Capital expenditure intentions per Fed Surveys are reflecting improvements from current depressed levels. This indicates a potential boost to manufacturing.

The high level of wage inflation (even though marginally declining) and healthy US economy will keep policy rates elevated into 2024 and lessen the probability of a near term recession. However, with 2-year real bond rates at 2.8%, monetary policy is clearly restrictive, and the Fed rhetoric continues to be more hawkish than the sanguine bond market expectations. This is being reflected in a significantly inverted yield curve. Furthermore, tighter lending conditions will place added pressure on the economy. Given the tight monetary policy conditions and with the economy at full employment, the risk of a recession is significant, even if it might be pushed out to next year.

US valuations are stretched with the S&P 500 Price Earnings (PE) multiple at 20X. This implies an expectation of robust earnings growth going forward, of an already elevated earnings base. Even using median market PE's (as opposed to the traditional market weighted PE) which are not distorted by high tech valuations, market valuations are at elevated levels relative to history.

Chinese economy spluttering

China's economic recovery following the post pandemic reopening in the last quarter of 2022 has been mixed. Initially, consumer spending trends suggested a stronger comeback, however, recent key industrial indicators are disappointing on the downside with factory output starting to slow. The Economic Surprise indices remain negative indicating actual performance is below economists' expectations.

Stimulus measures including marginal declines to interest rates and bank required reserve ratios, and the extension of tax exemptions on electric vehicles have provided a limited positive impact on Chinese consumption to date. The Chinese Politburo is expected to announce additional measures to stimulate the sluggish economy after a July meeting, however, the nature and quantum of these measures are uncertain. Expectations are for a more balanced approach aimed to boost consumption, support investment, and preventing further deterioration in the property sectors via:

- Monetary policy: a step-up in monetary policy easing
- Fiscal policy relaxation: new tax breaks and fiscal support on large ticket item consumption
- Specific property policies: to address a) funding strains experienced by developers and b) stimulate demand.

These should go some way to restoring consumer confidence and providing some underpin to the Chinese stock market which is trading on relatively generous valuations.

Given the likely focus on consumption stimulus rather than the historically big, fixed investment rollouts, the impact on commodity prices may well be muted and unfortunate for SA in terms of trade and fiscal budget, which could do with higher commodity prices to boost revenue.

SA: Mounting fiscal pressure

South Africa continued to face significant headwinds through the quarter reaching a high point of pessimism amongst market players in May when the Rand lost almost 10% of value in just one month.
Consumer confidence remained low through Q2 slumping to the second lowest level on record since 1994 (Bureau of Economic Research). The post-Covid labour market recovery remains sluggish with non-farm employment still 3% below pre-pandemic levels.

Positively, loadshedding reduced significantly in June as the energy availability factor edged back to 60% on reduced unplanned outages and lower maintenance. If this is sustained it could lead to a near-term upside in the economy.

SA's inflation rate declined over the quarter with CPI prints slowing from 6.8% in April to 6.3% in May. The trajectory is likely to be lower from here, driven by lower fuel and food inflation. Despite the promising trajectory, the Reserve Bank has signalled that rates will likely remain elevated for longer given their determination to get inflation well inside the 3-6% target range. We are hopefully closer to the end of the hiking cycle.

Growing twin deficits weighing on the rand and SA Bonds

South Africa's fiscal position remains tenuous. The outlook for both SA's trade and budget deficits is worsening with lower commodity prices (especially rhodium and palladium) negatively impacting exports and tax revenue. A higher-than-expected rise in the public-sector wage bill, extension of Covid grants, and further SOE funding also pose an increased risk of expenditure overshoots.

A higher budget deficit will result in a higher bond issuance in 2024 restricting yield compression despite reasonably generous valuations while the higher trade deficit will likely keep the Rand at depressed levels relative to fair value.

Meaningful Chinese stimulus in sectors requiring SA commodities would improve the outlook for SA bonds and currency. Stimulus measures have traditionally involved significant property investment (supportive of commodities) however as noted above, the nature of any stimulus measures remains unclear.

SA equity markets are trading on low valuations.

Domestically exposed equities are trading on depressed valuations relative to history. Some of which are justified given the concerns highlighted above. In addition, there are risks associated with the outcomes of the upcoming 2024 election which will also weigh on markets.

However, we think there are enough companies trading on suitably cheap valuations that reflect the tough economic environment and which should provide reasonable double-digit returns going forward.

Outlook: in summary

Several global and local risks continue to weigh on the South African market. A US economic downturn remains likely but may only happen next year. China should introduce further stimulus but the quantum and nature of this remains uncertain. The SA equity market could benefit from this via China exposed shares and possibly through some of its miners.

Locally, small wins such as reduced load-shedding and a respite from political uncertainty should benefit, however, SA's worsening fiscal position poses a risk.

Performance and Positioning

Performance commentary

SA equity markets delivered weak performance over the quarter with the Capped SWIX up 1.2%, supported by a stronger month in June when good performance from the Banking sector outweighed weakness from SA Resources. Despite the April rally in gold and platinum stocks, the sector has come under pressure overall with lower commodity prices. Retailers gained over June, supported by better-than-expected CPI prints and an improved outlook for reduced loadshedding, however, the SA consumer remains under strain with the prime lending rate at 11.75% and food inflation around 12%. This remains well ahead of wage inflation.

The fund's underweight position in the gold and platinum sectors (particularly AngloGold and Sibanye) contributed to performance as PGM stocks followed the sharp decline in basket prices. Naspers and Prosus exposures added to quarterly performance following an announcement in June to simplify the corporate structure. An overweight to Sirius Real Estate was also added given a good trading update in April and the benefit of the Rand's weakness.

The fund benefitted from an overweight position in Nedbank given positive performance from the banking sector, particularly in June. However, the overweight in Absa Group detracted from performance. A combination of lower rates gearing, (in a higher-than-expected interest rate environment) plus fears around Absa's exposure to countries under fiscal pressure including Ghana and Kenya drove market sentiment weaker. Despite this, we believe the shares are trading on a particularly depressed valuation with a forward PE ratio of 6 and a 9% dividend yield.

Anheuser-Busch came under pressure following a marketing campaign for BudLight which resulted in a dramatic loss of support from the US market and a share price fall of more than 10% over May. MTN delivered a strong performance, however, we retained an underweight position given the risks associated with the valuation of the Naira which significantly impacts value unlock from their Nigerian business.

Continued US consumer resilience, despite significant interest rate hikes, will delay a potential US recession while Chinese growth is now dependent on government stimulus. SA equity valuations are attractive, however, the outlook for locally exposed companies remains uncertain. We continue to prefer stocks with exposure to offshore markets. Locally we believe the larger banks offer attractive valuations and relative resilience in the current environment.

Portfolio movements

During the quarter we added to our positions in Nedbank and FirstRand given compelling valuation metrics for these banking stocks. We retain our overweight position in ABSA as we continue to see value in the share.

The earnings outlook for Aspen has improved and we increased our position in this counter over the quarter. We also increased our position in Life Healthcare. We added to Pepkor given valuation metrics and resilience of the business model in the current environment relative to other consumer companies.

We continued to reduce positions in PGM counters given the weakening outlook for PGM prices.

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