Truffle SCI* Income Plus Fund

Minimum Disclosure Document

As of 31/10/2022

MDD Issue Date: 15/11/2022

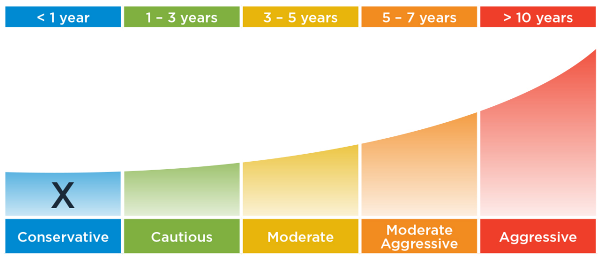
Fund Objective

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

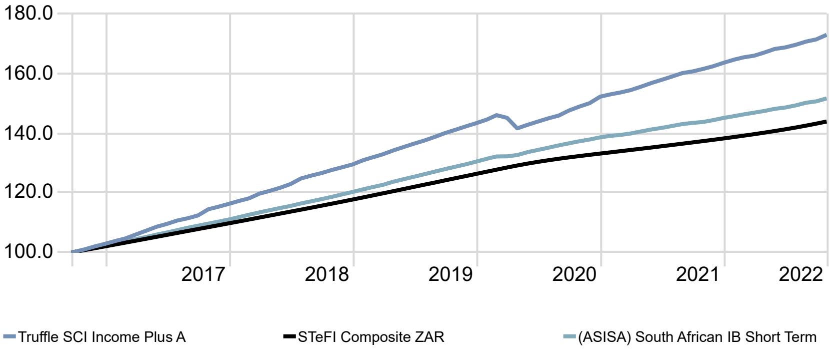
The portfolio will achieve this objective through the inclusion of a range of interest-bearing securities, including, but not limited to, bonds debentures, debenture stock, debenture bonds, notes, non-cumulative preference shares (treated as non-equity securities), other non-equity securities, money 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 31/10/2022



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 537,775,216
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	7.07	4.78
3 Years	7.01	4.83
5 Years	8.60	5.81
Since Inception	9.37	6.13

Risk Statistics (3 Year Rolling)

Standard Deviation	2.09
Sharpe Ratio	0.95
Information Ratio	0.95
Maximum Drawdown	-3.02

Fees (Incl. VAT) — A-Class (%)

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 Charges	0.63
TER Measurement Period	01 October 2019 - 30 September 2022

Cumulative Performance (%)

	Fund	Benchmark
1 Year	7.07	4.78
3 Years	22.53	15.19
5 Years	51.02	32.61
Since Inception	72.86	43.83

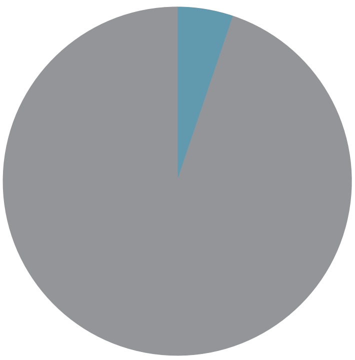
Highest and Lowest Annual Returns

Time Period: Since Inception to 31/12/2021

Highest Annual %	12.99
Lowest Annual %	6.19

Asset Allocation

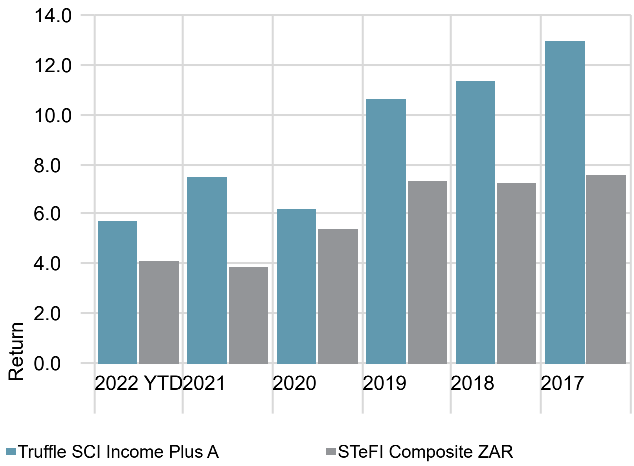
Portfolio Date: 31/10/2022



	%
Domestic Cash	5.20
Domestic Fixed Income	94.80
Total	**100.00**

Returns

Calculation Benchmark: STeFI Composite ZAR



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Truffle
Asset Management

Monthly Returns (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2022	0.65	0.46	0.33	0.63	0.72	0.29	0.52	0.64	0.43	0.90			5.72
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	

Distribution History (Cents Per Unit)

31/10/2022	0.77cpu	30/06/2022	0.63cpu	28/02/2022	0.57cpu
30/09/2022	0.68cpu	31/05/2022	0.61cpu	31/01/2022	0.59cpu
30/08/2022	0.73cpu	30/04/2022	0.65cpu	31/12/2021	0.57cpu
31/07/2022	0.63cpu	31/03/2022	0.62cpu	30/11/2021	0.58cpu

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, 30% for foreign (offshore) assets and 10% African 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

Investment Manager Information
Truffle Asset Management (Pty) Ltd
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As of 31/10/2022

Truffle
Asset Management

Portfolio Manager Comment

As at 30 September 2022

Economic Overview

Rates have risen, but inflation is still too high

It's been a tough few months for Central Banks around the world. Not only is inflation proving more resilient than anticipated, but currency weakness and fiscal stimulus have added further complications. With inflation still running hot in most advanced economies, the immediate focus will be on continuing to deliver meaningful rate hikes. Any imminent rate hike pause looks increasingly remote. As Fed Chair Jerome Powell acknowledged, "We have got to get inflation behind us. I wish there were a painless way to do that. There isn't."

As expected, after the strong August inflation numbers, the Fed unanimously decided to raise rates by 75bps in September to 3.00-3.25%. Rates are now expected to reach 4.4% by the end of 2022, and expectations are for one more 25bps rate hike early next year. As things stand today, it looks like the Fed will need to raise rates a little further and see economic growth weaken by more than it previously thought to tame inflation.

Furthermore, US labour markets remain resilient which will force the Fed's hand. The September unemployment rate dropped back to 3.5%, matching the 50-year pre-Covid low. Worker shortages are thus unlikely to be solved by stronger supply; the adjustment will need to come from weaker labour demand. This reinforces the Feds view that the labour market is "out of balance".

Global risk-off sentiment and the Fed's hawkish stance continued to buoy the dollar. The strong dollar coupled with rising interest rates tightened financial conditions and blunted economic activity. The latest manufacturing numbers suggest that the global industry has already weakened significantly and will probably deteriorate further in the months to come.

With world markets down approximately 25% year-to-date, some of this bad news is starting to reflect in valuations. However, earnings forecasts probably require further downgrades to reflect the double-edged sword of high inflation and slowing growth, which must inevitably result in margin pressure. Hence, we expect markets to remain under pressure.

The energy crisis turns into a cost-of living crisis

The outlook for European gas markets remains one of the most important drivers of European inflation and economic expectations. The sharp increases in gas and electricity prices in Europe mean that households will see a steep rise in their costs of energy consumption. Accordingly, governments have announced emergency support packages worth 1.5% to 7% of GDP.

Emergency measures include a cut to electricity demand (10% overall voluntary cut and 5% peak demand mandatory cut), a cap on revenues for non-gas power generators, a "solidarity contribution" from fossil fuel companies, and measures to support small enterprises. As is the case with oil, markets remain tight with little new gas supply expected to come onstream before the end of 2025, which skews price risk to the upside and could lead to further downgrades of European GDP growth in 2023/2024.

Unfortunately, greater fiscal support and stimulus means that monetary policy will need to be tightened even more aggressively, as painfully illustrated recently in the UK. The new UK government unveiled a massive debt-financed package to fund tax-cuts and energy support in the hope of growing the economy and providing relief for the consumer. This debt-funded spending is occurring as the Bank of England (BoE) is raising interest rates to tame inflation. The "mini-budget" heightened concerns about inflation, already near a 40-year high, and a spiralling government debt burden, which triggered a market selloff of the pound and bonds. This new fiscal support implies that the BoE will now need to tighten policy more aggressively than it otherwise would have to counteract the additional price pressures stemming from the fiscal stimulus.

This backdrop of stimulative fiscal policy resulting in growing budget deficits combined with tight monetary policy is an adverse mix for financial markets.

Geopolitical tensions increasingly take centre-stage

Geopolitical tensions continue unabated and provide additional inflationary headwinds. As Ukraine appears to be gaining momentum in the seven-month-old war, Russia continues to up the ante. Elsewhere, US-China tensions are escalating, and the tech cold war is intensifying, while North Korea is also attempting to flex their muscles again. Whilst we continue to monitor all these situations, it is fair to say that geopolitical risks are currently high, and we require a greater margin of safety in our portfolios.

Is there an inflection point ahead for China?

The much-anticipated 20th National Congress of the Chinese Communist Party takes place this October, where President Xi is expected to retain an unprecedented third term. Whilst some stimulus measures have been introduced to-date to help the ailing economy, it is hoped that more meaningful fiscal stimulus will follow post the Conference. If coupled with a relaxation in the Zero-Covid Policy, consumer confidence could also recover. At present, poor sentiment among households and businesses is reducing their willingness to spend, invest, and hire. Additionally, weak private sector credit demand is dampening the effectiveness of stimulus measures. Should a shift in growth materialise, the fortunes of commodities might see a reversal.

Commodity prices and oil

The stronger dollar and deteriorating global demand outlook weighed on commodity demand and prices. The price of Brent oil fell and dipped below the level last seen prior to Russia's invasion of Ukraine. Industrial metals declined based on concerns regarding Chinese demand while gold fell amid rising real interest rates and a strong dollar. Coal was unsurprisingly resilient, underpinned by the energy crisis.

Notwithstanding demand concerns on weak economic growth, oil remains at highly profitable levels for producers. The continued tightness in the market is highlighted by the US attempts to increase supply by lifting sanctions on countries like Iran and potentially Venezuela. The recent announcement from OPEC + to cut quotas by 2mb/day adds further pressure to supply even though most OPEC countries, including Russia, are already producing well below their individual allowances.

What this all means for South Africa

The surge in energy prices will have the greatest impact on Europe and would likely push their economies into recession. An impact on emerging markets is anticipated, but on a much smaller scale due to the less severe energy price shock outside Europe as well as the limited use of gas for electricity.

A strong dollar is typically negative for commodity prices, as is deteriorating global demand. Lower commodity prices weaken our trade account, as well as our budget deficit through reduced tax receipts from mining companies. However, the lower oil price and resilient coal price are providing some buffer for our trade account.

South Africa's relative potential insulation against global headwinds lies in both domestic reforms and compelling domestic equity valuations. As such, the 2022 Medium Term Budget Policy Statement later this month will be keenly watched by investors. Large revenue overruns combined with good cost control have provided a meaningful improvement in the fiscal backdrop relative to the February 2022 Budget. But the most important aspect will be the potential announcement of the deleveraging of Eskom's balance sheet. We hope to see the recent windfall tax gains from the mining companies being used to address Eskom's contingent liabilities and capital adequacy.

The ongoing crisis at Eskom is spurring some overdue reform urgency from the government. A new, and credible, Eskom board has finally been announced and Eskom management appears to be making some progress in tackling the criminal networks throttling its coal power plants.

We believe it might be difficult for SA to avoid a greylisting by the FATF in its upcoming October review. However, authorities are making substantial progress in addressing the deficiencies which should help SA to exit the list reasonably quickly as was the case with Mauritius, which managed to exit within 20 months. Whilst some negative impacts cannot be ruled out, we think that some of SA's shortcomings are already being discounted in our elevated risk premia. Furthermore, we maintain, that over the long term, capital flows will more likely be influenced by factors like SA's growth and fiscal position.

Domestic SA shares are still offering meaningful value with the ALSI trading on a 12-month forward P/E of 8.3 versus a long-term average closer to 12.5. MSCI SA is trading at 8x 12-month forward consensus, a 27% discount to MSCI EM peers. 10-year bond yields have breached 11% and offer a compelling real yield. These valuation metrics should hopefully provide some relative insulation in markets that we expect to remain volatile.

PORTFOLIO POSITIONING

A tough third quarter for the world with global markets down some 25% year-to-date. We saw multi-decade high inflation prints, aggressive tightening across central banks to tame inflation and slowing global growth. Dramatic moves in markets illustrating the increasing recession fears with more volatility to follow.

The Monetary Policy Committee (MPC) hiked rates by 1.50% in the third quarter, increasing rates along with its global counterparts. These rate hikes are bringing the floating-rate bonds back to rates where they compete with the fixed-rate bonds for up to 5 years, allowing our risk-averse clients to earn attractive returns without taking on unnecessary duration risk. A few banks issued floating rate AT1 and Tier 2 bonds in the market this past quarter, at spreads closer to pre-covid. However, the floating rate secondary market liquidity remains thin.

Global risk-off sentiment and the Fed's hawkish stance continued to buoy the dollar. The strong dollar caused a sell-off in emerging markets, with the Rand declining and weaker South African nominal bonds across the curve. Currently, we are happy with the level of credit diversification and duration risk in the Income Plus fund

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