

# Truffle SCI\* Flexible Fund

## Minimum Disclosure Document

As of 30/11/2020

# Truffle

Asset Management

MDD Issue Date: 15/12/2020

### Fund Objective

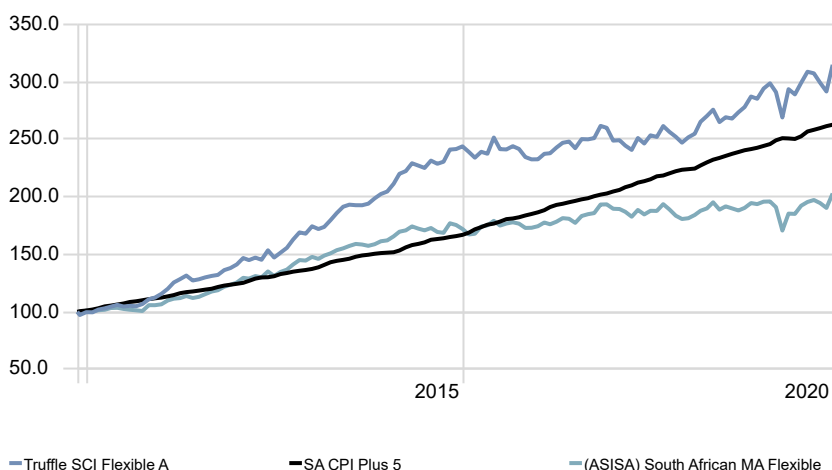
The primary objective of the portfolio is to maximise returns over the longer term, at the risk of greater short term volatility of capital values. The investment manager has substantial flexibility to vary the asset allocation across the various asset classes in such a manner as deemed appropriate.

### Fund Strategy

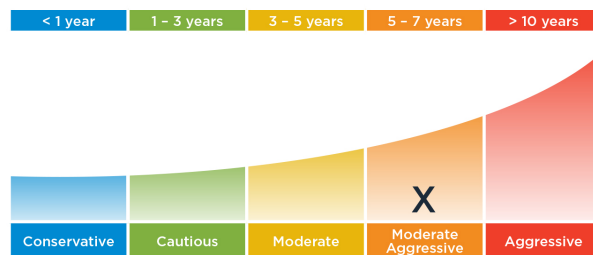
The portfolio will actively invest across the full spectrum of asset classes such as bonds, property shares, equities, financial instruments, participatory interests in trust schemes, cash and money market instruments. The manager may from time to time invest in participatory interests in portfolios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

### Investment Growth

Time Period: 19/11/2010 to 30/11/2020



### Risk Profile



### Fund Information

Ticker	TRFCA
Portfolio Manager	Iain Power, Saul Miller, Nicole Agar & Sophie-Marié van Garderen
ASISA Fund Classification	South African - Multi Asset - Flexible
Risk Profile	Moderate Aggressive
Benchmark	CPI + 5%
Fund Size	R 4,962,111,217
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.sanlamunitrusts.co.za
Repurchase Period	2-3 business days

### Annualised Performance (%)

	Fund	Benchmark
1 Year	10.35	8.26
3 Years	6.58	8.99
5 Years	5.44	9.64
Since Inception	12.11	10.11

### Risk Statistics (3 Year Rolling)

Standard Deviation	11.62
Sharpe Ratio	0.04
Information Ratio	-0.19
Maximum Drawdown	-9.94

### Fees (Incl. VAT)

Maximum Initial Advice Fee	3.45
Maximum Annual Advice Fee	1.15
Manager Annual Fee	1.03
Total Expense Ratio	1.16
Transaction Cost	0.74
Total Investment Charges	1.90
TER Measurement Period	01 October 2017 - 30 September 2020

### A-Class (%)

### Cumulative Performance (%)

	Fund	Benchmark
1 Year	10.35	8.26
3 Years	21.09	29.49
5 Years	30.34	58.43
Since Inception	214.90	162.78

### Highest and Lowest Annual Returns

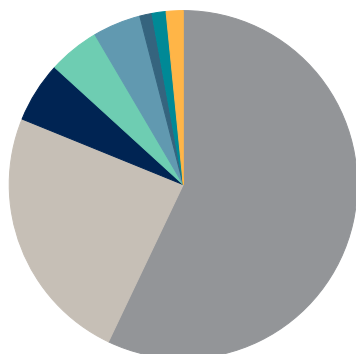
Time Period: Since Inception to 31/12/2019	
Highest Annual %	23.50
Lowest Annual %	-4.61

### Top Ten Holdings as at 30/09/2020 (%)

Naspers Ltd	6.96
Sibanye Stillwater Ltd	4.39
Vivendi SA	4.00
Firststrand Ltd	3.99
Firststrand Bank Ltd Bond 23042023	3.94
Impala Platinum Holdings Ltd	3.54
Ping An Insurance Company of China Ltd	3.03
Northam Platinum Ltd	2.56
African Rainbow Minerals Ltd	2.46
Anglogold Ashanti Ltd	2.14

### Asset Allocation

Portfolio Date: 30/11/2020



Asset Class	Percentage (%)
Domestic Equity	57.07
Foreign Equity	24.08
Domestic Property	5.62
Domestic Cash	4.76
Floating Rate Securities	4.45
Domestic Hedged Equity	1.13
Foreign Cash	1.31
Foreign Bonds	1.58
<b>Total</b>	<b>100.00</b>

Administered by



### Monthly Returns (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2020	1.55	-2.57	-7.57	9.14	-1.54	3.46	3.24	-0.45	-2.65	-2.55	7.95		7.02
2019	1.23	4.06	1.92	2.02	-3.92	1.59	-0.43	2.04	1.68	3.27	-0.67	3.11	16.83
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
2013	3.94	-1.22	1.49	-1.28	5.67	-4.09	2.86	2.80	4.62	3.82	-0.65	3.82	23.50
2012	3.81	4.59	2.36	2.38	-3.27	0.82	1.32	0.96	0.66	3.18	1.29	2.29	22.14
2011	-0.11	2.36	1.08	1.41	1.50	-1.35	0.53	-0.28	1.81	3.87	1.37	2.85	15.99
2010												2.52	

### Distribution History (Cents Per Unit)

30/06/2020	3.71 cpu	30/06/2018	3.03 cpu	31/12/2016	2.50 cpu
31/12/2019	4.21 cpu	31/12/2017	0.71 cpu	30/06/2016	2.56 cpu
30/06/2019	3.90 cpu	10/11/2017	2.24 cpu	31/12/2015	0.92 cpu
31/12/2018	3.88 cpu	30/06/2017	2.59 cpu	30/09/2015	0.42 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

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](http://www.sanlamunittrustsmdd.co.za) and using our Effective Annual Cost (EAC) calculator. Alternatively, contact us at 0860 100 266.

#### Investment Manager Information

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### Portfolio Manager Comment

As at 30 September 2020

#### Market overview

#### Low interest rates, subdued inflation and significant stimulus continue to buoy global markets

The MSCI World and the MSCI Emerging market indices posted returns of 8.0% and 9.7% over the quarter. Globally, economic data surprises to the upside have been significant, supporting the V-shaped recovery driven by stimulus and record budget deficits. High personal savings rates should help sustain spending going forward. US, Euro and Japanese 10-year real bond yields are negative. This is propping up equity valuations. The Fed's new Monetary Policy Framework is more accommodative and only targets average inflation of 2% allowing temporary overshoots of this level. Despite extremely accommodative monetary and fiscal stimulus, inflation expectations remain muted. US breakeven inflation, the expected inflation implied by the difference in index linked and nominal bond yields, has fallen from a peak of 1.8% to 1.6% indicating the market's scepticism of the Fed reaching its 2% target rate. Hence, in the short-term, interest rates should remain low.

The near-term market risks including the resurgence of Covid-19 infections and the US stimulus package negotiations should be manageable. It is in both democrat and republican interests to get a stimulus package passed. With mortality rates faring better than infections and the likelihood of a vaccine on the horizon, the impact of Covid-19 will hopefully not result in a significant adverse market impact.

With the gap between US rates and other developed economy rates having been largely closed and given the overvaluation of the dollar relative to most currencies (using the purchasing power of parity) a weaker dollar seems likely. This together with fiscal stimulus especially from China should be positive for commodities given their significant proportion of total demand.

#### Low interest rates are a boon for the short term but a problem for the long term

The 40-year bull market in bonds has been a tailwind for equities. Negative real yields should not be sustainable over time. Although the bull market may have ended, rates could remain depressed for an extended period. Record levels of government spending on top of elevated levels of debt financed at a cost below inflation should be a recipe for inflation. Unless central banks can carefully balance inflation at a level close to the target, bonds and consequently equity markets would likely be adversely impacted. This is a key risk faced by financial markets over the next few years.

However, not all sectors have benefited from the fall in interest rates. The value segment has underperformed the growth segment for approximately 20 years and is trading at the deepest discount on record. Prior to this, value outperformed growth as investors had historically been overly optimistic on earnings forecasts for growth companies. This has not been the case with the FAANGs where superior earnings growth has been delivered for many years. Notwithstanding this, ratings for some of the large-cap tech companies do appear to be stretched and have run ahead of earnings growth. This can be at least partially explained by the fact that high growth companies are more geared to long term interest rates and due to the FAANGs being more of a beneficiary of the pandemic than other sectors. Banks which are a meaningful portion of the value segment have been negatively impacted by lower rates as they are forced to reduce the cost of lending while their funding costs remain at zero i.e. their margins get squeezed.

Hence, although, markets could come under pressure when rates rise, some sectors which are not on pricy valuations should still deliver reasonable returns provided they generate reasonable earnings growth.

#### Are we seeing green shoots in South Africa?

There have been a number of positive developments over the last month. The wheels of justice finally seem to be turning with some individuals being sentenced for corruption. NERSA has approved a plan to tender 12GW of power generation capacity. ICASA (Independent Communications Authority of South Africa) has released the tender for broadband spectrum which will raise R15bn for the fiscus. Unfortunately, Treasury's sourcing of an additional R10.4bn to support SAA rescue process was disappointing in so far as it speaks to their general commitment to fiscal consolidation. The medium-term budget in October will hopefully address this as well as providing more clarity on their commitment to the R233bn of expenditure savings mentioned in the June budget. We still await sign off on much-needed infrastructure projects that will help drive employment and economic growth.

Falling Covid-19 case numbers and significantly lower interest rates are raising economic activity from trough levels. Spending from mid-level consumers has started to pick up as evidenced by housing activity and retail spend. The positive trade account coupled with an improvement in global growth has been supportive of the rand.

#### Equity positioning and outlook

Domestically exposed companies are trading at low levels relative to their history and other emerging markets. The outlook for South Africa has improved recently but remains highly uncertain. We have moderately increased our exposure to domestic companies where valuations are not discounting a recovery in growth to pre Covid levels and where balance

sheets are healthy. Growth in global economies and increased stimulus from China should be positive for commodities and global cyclical shares. Our commodity exposure remains primarily through the platinum group metal mining sector where free cash flow yields remain generous. We maintain a meaningful exposure to Naspers. Tencent, Naspers' major holding, is trading in line with its historic valuation levels unlike US large capitalisation tech companies that are on stretched valuations. Furthermore, Naspers is trading at a discount of over 50% to Tencent and its other holdings.

#### Property remains optimally cheap

Property valuations remain optically cheap. We selectively purchased some domestically exposed counters where the balance sheets are sufficiently well capitalised to withstand lower rental and property valuation levels. Our overall property exposure remains conservative.

#### Long term interest rates remain elevated despite the fall in short term rates

The yield curve in South Africa is extremely steep post the recent rate cuts. The real yield on SA long bonds has become more generous as inflation has reduced. However, domestically exposed equities are also offering decent value. Hence, we have not increased our exposure to long-duration bonds. We have reduced our exposure to short duration bonds where yields have fallen and deployed the proceeds into equity.

#### Contributors and detractors

Our position in the PGM miners was a net contributor to performance over the quarter. An increase in the PGM basket price helped drive the PGM miners higher. African Rainbow Minerals performed strongly over the quarter helped by a buoyant iron ore price and an increase in the PGM basket price. Positions in FirstRand, Capitec and Cashbuild contributed to performance. Increased activity in the home renovations market helped the prospects for Cashbuild.

Naspers underperformed over the quarter as its discount to its underlying holdings widened to over 50%. Sasol and Glencore underperformed over the quarter. Our purchases of Hyprop and Vukile Property fund detracted from performance as they underperformed despite their low valuations. British American Tobacco underperformed due to concerns of a Biden win in the US potentially placing more regulatory pressure on the tobacco industry.

#### Portfolio Managers

Iain Power  
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Saul Miller  
M Bus Sci, FFA

Nicole Agar  
CA (SA)

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