

# Truffle SCI\* Flexible Income Fund

## Minimum Disclosure Document

As of 2019/01/31

# Truffle

Asset Management

MDD Issue Date: 2019/02/19

### Fund Objective

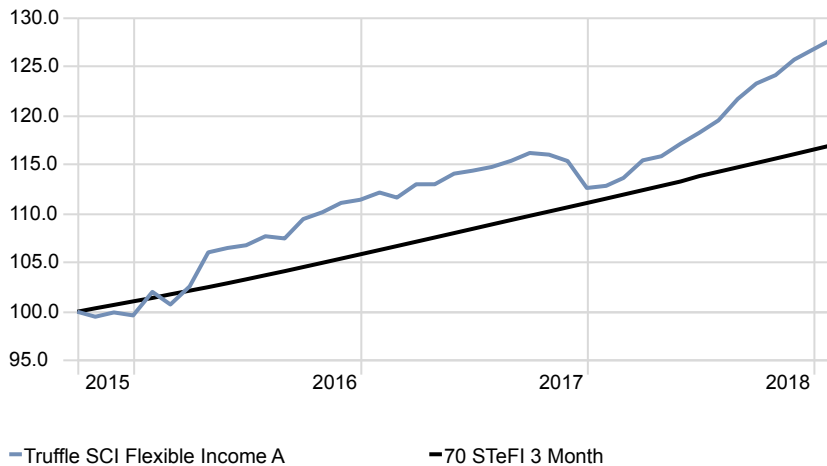
The portfolio aims to achieve a total return of 70% of the STeFI index, over a rolling 12-month period. The portfolio aims to hedge out, where possible, as much of the market risk of the underlying investments as possible (to the extent allowed by the Act), or hold investments that are secure and do not expose the portfolio to market fluctuations. The returns of the fund will primarily be of an income nature.

### Fund Strategy

The portfolio will invest in securities that are full members of the World Federation of Exchanges. In order to achieve this objective, the investments in the portfolio will be limited to cash, listed government and corporate bonds, listed shares, listed preference shares, listed convertible equities, listed and unlisted derivatives, comprising a combination of securities within and outside the republic of South Africa, in accordance with and in compliance with the relevant exchange control regulations. The portfolio may invest in any other securities which are considered consistent with the portfolio's objective and to the extent allowed by the Act. 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.

### Investment Growth

Time Period: 2015/10/03 to 2019/01/31



### Annualised Performance (%)

	Fund	Benchmark
1 Year	13.30	4.91
3 Years	7.82	4.89
Since Inception	7.65	4.83

### Risk Statistics (3 Year Rolling)\*\*

Standard Deviation	3.35
Sharpe Ratio	0.13
Information Ratio	-0.54
Maximum Drawdown	-3.08

### Cumulative Performance (%)

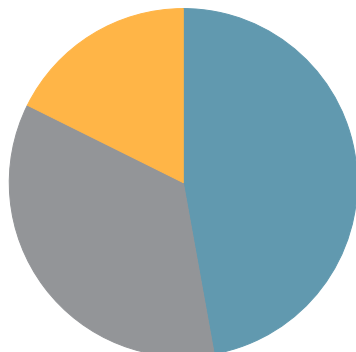
	Fund	Benchmark
1 Year	13.30	4.91
3 Years	25.34	15.42
Since Inception	27.86	17.04

### Highest and Lowest Annual Returns

	Time Period: Since Inception to 2018/12/31
Highest Annual %	12.59
Lowest Annual %	1.08

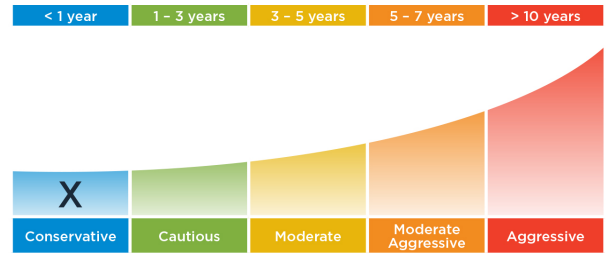
### Asset Allocation

Portfolio Date: 2018/12/31



	%
SA Equity	47.16
SA Bond	35.18
SA Cash	17.66
<b>Total</b>	<b>100.00</b>

### Risk Profile



### Fund Information

Ticker	TMFIA
Portfolio Manager	Louis van der Merwe
ASISA Fund Classification***	South African - Multi Asset - Flexible
Risk Profile	Conservative
Benchmark	70% of 3 Month STeFI Index
Fund Size	R 82 553 291
Portfolio Launch Date*	2013/03/01
Fee Class Launch Date*	2015/10/01
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
Repurchase Period	2-3 business days

### Fees (Incl. VAT)

	A-Class (%)
Maximum Initial Advice Fee	3.45
Maximum Annual Advice Fee	—
Manager Annual Fee	0.86
Total Expense Ratio	1.41
Transaction Cost	0.03
Total Investment Charges	1.44
Performance Fee	—
TER Measurement Period	01 October 2015 - 30 September 2018

### Top Ten Holdings

	(%)
Discovery Holdings Ltd Preference Shares	6.24
Investec Ltd Preference Shares	6.14
Absa Preference Shares	5.63
PSG Group Ltd Preference Shares	5.46
Firstrand Ltd Preference Shares	5.09
Grindrod Ltd Preference Shares	5.06
Standard Bank Group Ltd Preference Shares	5.02
Firstrand Ltd Bond 06032020	3.78
Barclays Africa Group Ltd Bond 11112020	3.73
Nedbank Ltd Preference Shares	3.62

Administered by



### Monthly Returns (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2019	0.83												1.51
2018	0.19	0.72	1.58	0.36	1.10	0.96	1.07	1.83	1.30	0.70	1.28	0.84	12.59
2017	0.66	-0.46	1.22	0.00	0.96	0.27	0.33	0.54	0.69	-0.15	-0.56	-2.39	1.08
2016	2.42	-1.26	1.83	3.39	0.42	0.26	0.86	-0.21	1.84	0.64	0.86	0.29	11.87

### Distribution History (Cents Per Unit)

2019/01/31	0.29 cpu	2018/09/30	1.64 cpu	2018/05/31	0.25 cpu
2018/12/31	0.71 cpu	2018/08/31	0.81 cpu	2018/04/30	0.79 cpu
2018/11/30	0.26 cpu	2018/07/31	0.42 cpu	2018/03/31	1.30 cpu
2018/10/31	0.41 cpu	2018/06/30	0.66 cpu	2018/02/28	0.43 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 Income Fund transitioned to Sanlam Collective Investments (RF) (Pty) Ltd on 11 November 2017.

\*\*These figures will become available once sufficient performance history has been met.

\*\*\*Fund reclassification: The portfolio was established under Prime Collective Investments in 2013 as a South African - Multi Asset - Flexible fund. In October 2015 the portfolio transitioned to Metropolitan Collective Investments and was erroneously classified as a South African - Multi Asset - Income fund. When the portfolio transitioned to Sanlam Collective Investments in November 2017 the erroneous classification was retained. On 31 July 2018, the fund was reclassified to its original classification of South African - Multi Asset - Flexible.

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

#### Investment Manager Information

Truffle Asset Management (Pty) Ltd  
(FSP) License No. 36584  
Physical Address: 0B Hyde Ln, Hyde Park, Sandton, 2196  
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Tel: +27 (11) 325 0030  
Email: [info@truffle.co.za](mailto:info@truffle.co.za)  
Website: [www.truffle.co.za](http://www.truffle.co.za)

#### Manager Information

Sanlam Collective Investments (RF) (Pty) Ltd  
Physical Address: 2 Strand Road, Bellville, 7530  
Postal Address: P.O. Box 30, Sanlamhof, Bellville, 7532  
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Email: [service@sanlaminvestments.com](mailto:service@sanlaminvestments.com)  
Website: [www.sanlamunitrusts.com](http://www.sanlamunitrusts.com)

#### Trustee Information

Standard Bank of South Africa Ltd  
Tel: +27 (21) 441 4100  
Email: [compliance-sanlam@standardbank.co.za](mailto:compliance-sanlam@standardbank.co.za)

### Portfolio Manager Comment

As at 31 December 2018

#### Market overview

#### 2018 was a tough year for domestic equity markets

2018 has been a tumultuous year for financial market both locally and abroad. Local equities peaked in late January and the All Share Index has since then contracted by 16% from the peak. The Index delivered a total return for the year of -8.5% largely driven by a fall in the PE ratio from 21 at the start of the year to 16 at the close. For the last four years local equities have delivered total returns below inflation and well below historic averages.

Over the year the resource sector continued to be the dominant out-performing sector with particularly good performances from Amplats and Anglo Gold followed by Anglo American and BHP Billiton. SA industrials and healthcare were amongst the poor performers for the year with Aspen, Tongaat, Imperial and Mediclinic amongst the worst performers.

#### Domestic property had a particularly disappointing year

The sector experienced steep falls early in the year largely due to the derating of the Resilient Group of property companies, but the index continued to contract further throughout the year and even heavy weights Growthpoint and Redefine suffered although their returns were somewhat protected by their generous yields. The total return from the SA Listed Property sector was -25%, the sector's weakest return in the last two decades. While fundamentals have deteriorated, we think much of the bad news has now been priced into the sector.

#### Bonds were the best performing asset class for year

This was the year to have been invested in bonds as the All Bond Index returned 2.8% for the quarter and ended the year with a full year return of 7.7%. This is an outperformance over Equities of 16.27%! At current ALBI yields of around 9.25% compared with what is available elsewhere we can still expect off shore interest in South African bonds.

#### Global equity markets struggled

The S&P 500 Index enjoyed positive returns for much of 2018 but collapsed in the 4<sup>th</sup> quarter ending the year in negative territory. US bond yields rose over the year but did show some strength later in the year. The MSCI World Index fell 8.2% for the year but managed to add 2% over the quarter.

#### Commodities performance was a mixed bag.

The oil price rose for the first three quarters of the year reaching a high of \$85/bbl but then fell sharply in the fourth quarter ending below the opening price of the year. The fall in the last quarter was likely due to increased supply from Saudi Arabia and US shale and concerns over weakening market demand. Although platinum has underperformed over the year, the rest of the platinum group metals including palladium and rhodium have continued to outperform due to supply shortages. The overall basket price has resulted in improved revenues for the platinum group metal miners. Base metals including copper underperformed while bulk commodities like iron ore and coal remained resilient.

#### South African economic growth was anaemic in 2018

South Africa was in a technical recession in the first half of the year, however, there was an improvement in the third quarter that is likely to spill over into the fourth quarter. Unemployment remains high at the 6 million mark and shows no signs of improving. Inflation remained relatively stable and within the SARB's control band. As a result, interest rates were also relatively stable.

On the positive side, the new Ramaphosa presidency is showing an encouraging resolve to rid the country of the bane of state capture and corruption and it is possible that major progress will be made in 2019 that could impact on sentiment very positively.

#### The global economic cycle is aging and 2019 will see a synchronised global slowdown

Global growth is set to slow in 2019 as Europe, Emerging Markets and China economic activity slows. While the US economy remain a bright light with relatively strong growth vs. the rest of the world, it too will also see slower growth in the back end of 2019 as tighter monetary policy and the impact of the tax cuts seen in 2018 are now largely in the base. The slowdown has increased fears of recession and has seen global equity markets de-rate in anticipation of lower earnings.

#### The aging global cycle is also clouded by geopolitical tensions, trade wars and tighter monetary conditions

The Trump administration's attack on global trading practices has been a source of much global angst in 2018. Now that the Republican Party has lost the US lower house in the recent mid-term elections, it remains to be seen whether the Democrats can reign in Trump without creating an even more unstable economic environment. Tighter monetary conditions are also a cause for concern as the FED reduces its balance sheet and normalises interest rates. At the same time the European Central Bank is set to reduce its own QE program which has supported financial assets.

Brexit remains a mess as is evident from the depressed valuations of UK exposed companies.

It is worthwhile reflecting on a warning made by *The Economist* in its review of 2018 'that even a rich, peaceful and apparently stable country can absent-mindedly set fire to its constitutional arrangements without any serious plan for replacing them'.

#### 2019 could be the turning point for SA equities

In 2019 the South African economy is poised to grow, albeit, modestly from the low base of 2018. The weaker currency will provide some impetus to the mining and other export industries and the lower fuel price could spur retail spending from 2018's low base. This would be good news for corporate profits that have not shown growth since 2016.

With PE ratios having contracted to more normal levels during 2018, any uptick in corporate profits is likely to translate into positive equity returns. However, sentiment will be a key factor over the year and it is possible that a global equity bear market could unfold providing the local equity market with headwinds.

From the current low base, property's underperformance should be stemmed. Rental growth will be weak for some time but the sector does offer an attractive running yield that could support current prices i.e. with no increase in prices, property returns could still beat inflation by virtue of the high prevailing yields.

#### Portfolio Positioning

Quarter 4 contributed handsomely to the fund's excellent return for 2018. The Steinhoff preference shares as still suspended due to the JSE waiting on the latest audited financial statements, and we think the release of the statements will happen in the next couple of months.

#### Portfolio Managers

Louis van der Merwe  
BCom