Sygnia Skeleton Balanced 40 Fund

Class A
South African - Multi-Asset - Low Equity

31 July 2021

LOW MANAGEMENT **FEES AT 0.40%**

LOW	LOW MEDIUM	MEDIUM	MEDIUM HIGH	HIGH

LESS RISK/ RETURN — **MORE RISK/ RETURN**

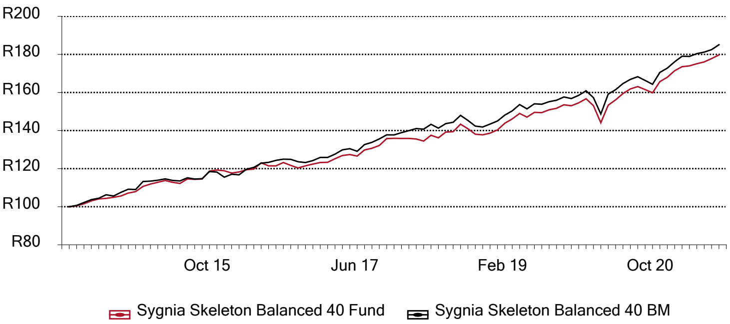
Portfolio Managers	**Iain Anderson, Kyle Hulett**
Regulation 28	**Compliant**
Fund launch date	**15 January 2014**
Class Launch Date	**31 March 2014**
Fund Size	**R 953 Million**
Unit Price	**131.11**
Units in Issue	**723 888 247**

Investment Objective	**The fund aims to maximise returns by investing in multiple asset classes while maintaining a low level of risk**
Income Distribution	**Bi-annually (September and March)** **Payment: 1 Apr 2021 - 1.71 cents per unit** **Payment: 1 Oct 2020 - 2.57 cents per unit**
Trustees	**Standard Bank Trustees (021 441 4100)**

Cumulative Investment Performance

Growth of R100 invested on 31 March 2014

Investment: R179.72
Benchmark: R185.06



Asset Allocation

Asset Class	*Percentage*	*Allocation*
Domestic Equities	21.6%	
Domestic Bonds	28.1%	
Domestic Income	15.2%	
Domestic Money Market	11.3%	
International Equities	16.4%	
International Property	0.3%	
International Cash	7.1%	

Performance Analysis

Periodic Performance	*Fund*	**BM*	*Difference*
1 Month	1.1%	1.4%	-0.3%
3 Months	2.6%	2.6%	0.0%
6 Months	4.8%	5.1%	-0.2%
Year to Date	7.0%	7.1%	-0.1%
1 Year	11.0%	10.9%	0.1%
****3 Years**	8.8%	8.6%	0.2%
****5 Years**	8.2%	8.3%	-0.1%
****Since Inception**	8.3%	8.8%	-0.4%

Performance as calculated by Sygnia Asset Management as at reporting date
**25% SWIX | 26% ALBI | 27% STeFI Call | 15% MSCI All Country Index | 5% Barclays Global Aggregate Bond Index | 2% Offshore Cash*
***Annualised performance figures*

Manager Allocation

Manager	*Percentage*
Sygnia Asset Management	81.5%
Taquanta Asset Management	7.5%
BlackRock Investment Management	2.5%
Other	8.5%

Historical Performance

	Jan	*Feb*	*Mar*	*Apr*	*May*	*Jun*	*Jul*	*Aug*	*Sep*	*Oct*	*Nov*	*Dec*	*Year*
2017	0.7%	0.1%	1.5%	1.4%	0.4%	-0.6%	2.5%	0.7%	1.1%	2.7%	0.1%	-0.1%	11.0%
2018	0.0%	-0.2%	-0.8%	2.3%	-1.0%	2.2%	0.2%	2.8%	-1.7%	-2.0%	-0.2%	0.6%	2.0%
2019	1.2%	2.5%	1.6%	2.0%	-1.3%	1.7%	-0.1%	1.0%	0.5%	1.2%	-0.3%	1.0%	11.5%
2020	1.4%	-2.3%	-5.9%	6.4%	1.8%	2.1%	1.5%	0.8%	-1.0%	-1.0%	3.7%	1.4%	8.7%
2021	2.1%	1.2%	0.2%	0.7%	0.5%	1.0%	1.1%						7.0%

Risk Statistics

	Fund	*BM*
% Negative Months	28.3%	31.7%
Avg Negative Return	-1.2%	-1.1%
Maximum Drawdown	-8.1%	-7.6%
Standard Deviation	5.9%	5.8%
Downside Deviation	4.7%	4.4%
Highest Annual Return: Apr 2020 - Mar 2021	20.7%	20.3%
Lowest Annual Return: Apr 2019 - Mar 2020	-1.4%	-1.1%

The risk statistics reflected above are calculated on a 60-month or since-inception basis, depending on which period is shorter.

Fees

Initial Fee	0.00%
Management Fee	0.35% per annum (excluding VAT)
Performance Fee	N/A
Other costs	0.07%
VAT	0.06%
Total Expense Ratio (TER)	0.48% (Jun 2021)
Transaction Costs (TC)	0.09% (Jun 2021)
Total Investment Charge (TIC)	0.57% (Jun 2021)

Sygnia

Sygnia Skeleton Balanced 40 Fund

Fund Commentary

Class A
South African - Multi-Asset - Low Equity

2nd Quarter 2021

LOW	LOW MEDIUM	MEDIUM	MEDIUM HIGH	HIGH

LESS RISK/ RETURN — MORE RISK/

0-2 YEARS	2 YEARS+	3 YEARS+	5 YEARS+	7 YEARS+

Market Performance

Global equity markets had a tough June, falling with gold (which had its largest monthly fall since 2016), copper and bitcoin as the Fed signalled a more hawkish outlook. The resource sector was down 9% at the lows before Fed chair Jerome Powell stepped in to calm markets and confirm that the inflation is transitory. We expect a lot of volatility in the second half of the year as the Fed tries to stop asset bubbles from forming (talks rates up) while protecting the economy (talks rates down). The Fed will ideally want to calm markets without actually slowing the economy by raising rates.

The WHO notes that the Delta variant is about 55% more transmissible, making it the dominant Covid-19 force. It has already breached Australia's defences, forcing 80% of the population into lockdown. The Delta variant appears to overcome the first-round dose of the vaccine, highlighting the need for full vaccination. Global vaccination rates remain very unequal, with the US and Europe having vaccinated nearly half their populations and emerging markets and Asia lagging significantly behind. On the bright side, the vaccination rate is accelerating, healthcare providers have become better at triaging and treating, governments have become more targeted in their lockdown measures, and households have become more adept at living in the new normal.

South Africa has moved to level four lockdown until Monday, 12 July, at which point the presidency will "reassess" the situation. However, with the third wave underway and infection numbers significantly high (between 16 000 to 18 000 new infections daily), it is most likely that the lockdown will be extended. The toll this will take on an economy that was just starting to recover remains to be seen, but several industries will take another hit, from the restaurant and hospitality sector through the alcohol industry to gyms and even churches that rely on weekly member collections. More concerning is the recently released Sanlam Benchmark Survey, which showed that 27% of stand-alone retirement funds and 41% of umbrella funds' employers suspended retirement fund contributions last year.

Strong inflationary pressures and recovering growth prompted a sharp shift towards normalising policy, with the Fed providing a hawkish surprise in June. The dot plot showcased seven members seeing a rate hike in 2022, with the majority (13) expecting at least one rate hike before the end of 2023 and the median projection showing two hikes. Speaking at a press conference, Powell acknowledged "the possibility that inflation could turn out to be higher and more persistent than we expect". Additionally, his comments suggested that tapering talks had been initiated. However, monetary policy will remain accommodative, and many key input prices are already lower as commodity prices roll over. The end of Covid unemployment benefits should replenish labour supply, and unemployment is too high at this point to generate wage growth, with the US only likely to return to full employment in 2024.

Longer term, interest rates are unlikely to rise significantly as the global debt load stands at record highs. As of 31 March, outstanding debt was at US$290 trillion, or c.360% of GDP (Chart 2). Global economies have continued to respond to crises by taking on more debt and kicking the can down the road, but if bond yields surge higher without policy support, this tightening of financial conditions will push major economies into recession. Any sharp increase in bond yields will impact the cost-servicing debt supporting $300 trillion worth of global real estate, unleashing a deflationary downward spiral.

However, Japan has managed to kick the can down the road, take on more debt and avoid inflation for 30 years; debt-funded growth has less and less impact as debt grows higher, so it is highly unlikely that the world will inflate or grow its way out of debt with more debt. The pseudo-capitalism model will likely continue, further blurring the boundary between the "independent" central banks and the governments from which they buy bonds as fiscal support.

China's economic growth has become more balanced. Consumption and services have continued to recover, while exports and the housing market are fading on lower Covid-related demand. Commodity prices have begun to drop on the back of this normalisation and on China's strong rhetoric against commodity price manipulations. China's slowdown is a headwind for commodity prices (Chart 3), and despite global fiscal spend supporting commodities, we expect further commodity headwinds into the end of the year.

South Africa's first quarter GDP rose more than expected, at an annualised 4.6% quarter-on-quarter, but growth remains constrained by load-shedding, which returned to stage four in June. President Ramaphosa announced that the Department of Mineral Resources and Energy will amend Schedule 2 of the Electricity Regulation Act to raise the licensing threshold for embedded generation projects from 1 MW to 100 MW within the next 60 days. This is double the limit announced at SONA, but the SONA limit change was also promised within three months, and that deadline has already been missed. The announcement was timeous, as the R225-billion Karpowership emergency power deal may have been sunk by the Environment Department, which turned down the Turkish consortium's proposal.

Meanwhile, money management within municipalities remains dismal, with the latest audit of South African municipalities giving only 27 of 257 municipalities a clean bill of financial health. Twenty-two municipalities managed to go through a combined R5.5 billion in the 2019/20 financial year, but officials are unable to explain where or how the money was spent. In fact, the South African Institute of Chartered Accountants estimates that South Africa lost R1.5 trillion through corruption in the five years between 2014 and 2019. The wheels of justice are turning very slowly but, finally, perceptibly, with South Africa's top court sentencing ex-president Jacob Zuma to 15 months' imprisonment for contempt of court.

Globally, the Covid-19 Delta strain has perpetuated global lockdowns, while pharmaceutical companies face a race against the clock with regard to mass vaccine production and rollouts. Economies are still recovering, and a recovery to pre-2019 levels may take some years, particularly in terms of debt repayments. Locally, businesses are braced for the inevitable economic impact of the current level four lockdown (likely to be extended beyond two weeks).

The light at the end of the corruption tunnel is getting distinctly brighter. The Constitutional Court ruling sentencing Zuma to 15 months' in jail for contempt of court has set a legal precedent and sent a very loud signal that no South African is above the law. This is sure to have several high-ranking ANC members quaking somewhat in their boots – Ace Magashule is at the top of the list, followed by Zweli Mkhize.

It looks like the South African rollercoaster is set for another downhill turn, but we should see an improvement towards the third quarter as the national vaccine rollout gathers momentum.

Fund Performance

The Sygnia Skeleton Balanced 40 Fund returned 2.2% for the quarter, while its strategic benchmark also returned 2.2%. South African equities were down 1.8% for the quarter after a phenomenal run in the first three months of 2021. South African bonds were up 6.9%, making it the best-performing domestic asset class for the quarter. Over one year, the rand/dollar has strengthened by 17.8%, reflecting the extreme levels of overselling of the Covid-induced recession in 2020. The All Bond Index returned 13.7% over the same period, while cash returns reflected by the STeFI Index fell to 4.0%, a result of drastic cuts in interest rates over the past twelve months.

The Fund remains overweight global assets, which has helped the fund's performance despite the strong rand, as many global assets continue to reach new highs. The Fund's investment in the Oxford Sciences Innovation Fund benefitted from increased attention on Covid research and contributed positively to performance.

The fund's positioning is in line with its investment objective of maximising long-term returns with a strong focus on managing the risk of short-term capital losses while maintaining a low level of overall risk.

Important information to consider before investing

Investment Objective and Strategy

The Sygnia Skeleton Balanced 40 Fund is a multi-asset-class fund managed with a low exposure to equities in order to seek a low volatility of returns. The Fund will have exposure to both domestic and foreign assets, which will include equities, fixed interest and money market assets and will comprise a number of underlying portfolios predominantly managed on a passive, index-tracking, basis. The Fund has a composite benchmark of 35% equities, 50% bonds and 15% money market assets and will maintain a total equity exposure of below 40% of the portfolio.

Balancing Risk and Reward

The Fund has an overall 40% allocation to South African and global equities and has a low risk profile. It is a highly suitable vehicle for long-term retirement funds seeking conservative strategies. It is also suited to individual investors seeking to maximise their long-term returns in a risk-controlled manner. The strategy complies with Regulation 28 of the Pension Funds Act, so is suitable for investors in retirement annuities, preservation, pension and provident funds.

The recommended investment term for investors in the Fund is a minimum of two to four years. The risk is managed by spreading investments across asset classes, which deliver uncorrelated returns over time. This ensures diversification of sources of returns over market cycles. Tactical asset allocation is used to take advantage of short-term mispricing opportunities in the market in an efficient and cost-effective manner and as a risk management tool in times of market downturns. Equity markets are volatile and the price of equities fluctuate based on a number of factors such as changes in the economic climate, general movements in interest rates and the political and social environment which will also affect the value of the securities held in the unit trust, thereby affecting the overall value of the unit trust. There are regulations in place which limit the amount that a unit trust may invest in securities, thereby spreading the risk across securities, asset classes and companies. The fund may also be exposed to Liquidity Risk. This relates to the ability of the unit trust to trade out of a security held in the portfolio at or near to its fair value. This may impact on liquidity and in the case of foreign securities, the repatriation of funds. The Fund may also be exposed to credit risk where an issuer of a non-equity security may not be able to make interest payments or repay the capital. This will impact the value of the Fund. Regulations also limit the amount a unit trust may be exposed to each issuer, thereby spreading the risk across various issuers.

Collective Investment Schemes in Securities (unit trusts) are generally medium- to long-term investments. The value of units may go down as well as up and past performance is not necessarily an indicator of future performance. Unit trusts are traded at the ruling price and are allowed to engage in borrowing and scrip lending.

Annualised performance figures represent the geometric average return earned by the fund over the given time period. Unannualised performance represents the total return earned by the fund over the given time period, expressed as a percentage. Performance is calculated for the portfolio. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. Reinvestment of income is calculated on the actual amount distributed per participatory interest, using the ex-dividend date NAV price of the applicable class of the portfolio, irrespective of the actual reinvestment date.

Fees

A schedule of fees and charges is available on request from Sygnia. Permissible deductions may include management fees, brokerage, STT, auditor's fees, bank charges and trustee fees. Sygnia does not provide advice and therefore does not charge advice fees.

What is the Total Expense Ratio (TER) and Transaction Costs (TC)?

The total expense ratio (TER) is the annualised percentage of the fund's average assets under management that has been used to pay the fund's actual expenses over the past year. Transaction costs are a necessary cost in administering the fund and impact fund returns. They 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. Since fund returns are quoted after the deduction of these expenses, the TER and Transaction Costs should not be deducted again from the published returns. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return.

Foreign Securities

The fund may also invest in foreign securities, which may be exposed to macroeconomic, settlement, political, tax, reporting or illiquidity risk factors that may be different to similar investments in South African markets. Fluctuations or movements in exchange rates may cause the value of underlying investments to go up or down.

Cumulative Investment Performance

Cumulative investment performance is for illustrative purposes only. The investment performance is calculated by taking all ongoing fees into account for the amount shown, with income reinvested on the reinvestment date.

Tax-Free Unit Trust

This fund qualifies as a tax-free investment according to section 12T of the Income Tax Act, effective from 1 March 2015. South African individuals qualify for the associated tax benefits – namely no tax on dividends, income or capital gains – while still enjoying all the benefits of a unit trust. Contributions to tax-free investments are limited to R36 000 per tax year, with a lifetime limit of R500 000. Amounts invested in excess of these permissible thresholds are taxable.

How are unit prices calculated?

Unit prices 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 permissible deductions from the portfolio, divided by the number of units in issue. Forward pricing is used and fund valuations take place at approximately 15:00 each business day. Purchases and redemption requests must be received by the manager by 14:00 each business day to receive that day's price. The price shown is specific to this class. The fund size represents the portfolio size as a whole. Unit prices are updated by 10:00 every business day and are available on our website, www.sygnia.co.za.

Disclaimer

The fund may be closed to new investments at any time in order to be managed in accordance with its mandate. Sygnia Collective Investments RF (Pty) Ltd is incorporated and registered under the laws of South Africa and is registered under the Collective Investment Schemes Control Act, 2002 (Act No 45 of 2002). Sygnia Asset Management (Proprietary) Limited (FSP Registration No. 873), an authorised financial services provider, is the appointed investment manager of the fund. Sygnia Collective Investments RF (Pty) Ltd does not provide any guarantee with respect to the capital or return of the portfolio. Nothing in this minimum disclosure document will be considered to state or imply that the collective investment scheme or portfolio is suitable for a particular type of investor.

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Additional information such as fund prices, brochures, application forms and a schedule of fees and charges can be requested via admin@sfs.sygnia.co.za or 0860 794 642 (0860 SYGNIA).