# Sentio Sanlam Collective Investments Balanced Fund

SENTIO

## Minimum Disclosure Document

### As of 31/10/2023

**MDD Issue Date:** 16/11/2023

## Fund Objective

The objective of the portfolio is to provide investors with long term capital growth and to provide a limited measure of capital and income protection.

## Fund Strategy

The portfolio will be actively managed with exposure to various asset classes such as cash, bonds, equities and property, both domestically and internationally, being varied to reflect changing economic and market circumstances, in order to maximise returns for the investors. 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 shall be permitted to invest on behalf of the portfolio in offshore investments as legislation permits.

## Fund Information

| | |
|---|---|
| Ticker | SSCFB3 |
| Portfolio Manager | Mohamed Mayet, Rayhaan Joosub |
| | Imtiaz Suliman, Olwethu Notshe & Sanveer Hariparsad |
| ASISA Fund Classification | South African - Multi Asset - High Equity |
| Risk Profile | Moderate Aggressive |
| Benchmark | ASISA Category Avg: SA - Multi Asset - High Equity |
| Fund Size | R 132,875,190 |
| Portfolio Launch Date* | 02/10/2017 |
| Fee Class Launch Date* | 18/02/2022 |
| 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.sanlamunittrusts.co.za |
| Repurchase Period | 2-3 business days |

## Fees (Incl. VAT)

| Fees (Incl. VAT) | B3-Class (%) |
|---|---|
| Maximum Initial Advice Fee | — |
| Maximum Annual Advice Fee | — |
| Manager Annual Fee | 1.32 |
| Total Expense Ratio | 1.64 |
| Transaction Cost | 0.54 |
| Total Investment Charges | 2.18 |
| Performance Fee | — |
| TER Measurement Period | 18 February 2022 - 30 June 2023 |

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.The TER and Transaction Costs cannot be determined accurately because of the short life span of the Financial Product.

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.

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.

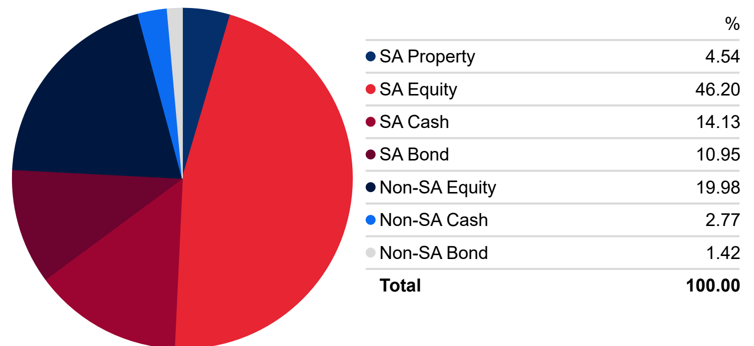
*These figures will become available once sufficient performance history has been met.

## Top Ten Holdings

| Top Ten Holdings | (%) |
|---|---|
| DCCUSD ETF | 7.48 |
| Investec Ltd NCD 26082024 | 3.82 |
| I2025 Government ILB | 2.98 |
| Standard Bank Group Ltd | 2.22 |
| Alibaba Group Holding Ltd | 2.15 |
| Absa Group Ltd | 1.79 |
| Naspers Ltd | 1.79 |
| Starbucks Corp | 1.73 |
| Gold Fields Ltd | 1.72 |
| Pepsico Inc | 1.71 |

## Asset Allocation

Portfolio Date: 30/09/2023



| | % |
|---|---|
| SA Property | 4.54 |
| SA Equity | 46.20 |
| SA Cash | 14.13 |
| SA Bond | 10.95 |
| Non-SA Equity | 19.98 |
| Non-SA Cash | 2.77 |
| Non-SA Bond | 1.42 |
| **Total** | **100.00** |

## Annualised Performance (%)*

| | Fund | Benchmark |
|---|---|---|
| 1 Year | 2.50 | 6.11 |
| 3 Years | — | — |
| 5 Years | — | — |
| Since Inception | -0.75 | 1.85 |

## Cumulative Performance (%)*

| | Fund | Benchmark |
|---|---|---|
| 1 Year | 2.50 | 6.11 |
| 3 Years | — | — |
| 5 Years | — | — |
| Since Inception | -1.27 | 3.16 |

## Highest and Lowest Annual Returns*

Time Period: Since Inception to 31/12/2022

| | |
|---|---|
| Highest Annual % | — |
| Lowest Annual % | — |

## Risk Statistics (3 Year Rolling)*

| | |
|---|---|
| Standard Deviation | — |
| Sharpe Ratio | — |
| Information Ratio | — |
| Maximum Drawdown | — |

## Distribution History (Cents Per Unit)*

| | |
|---|---|
| 30/06/2023 | 15.68 cpu |

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Sanlam

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## Risk Profile

**Moderate Aggressive**
Your primary aim is to achieve the required capital growth necessary to realise your longterm goals and objectives. You are prepared to tolerate fluctuations in your returns because you know that the longer-term picture is worth the short term pain, even if that means you lose money sometimes. While diversified across all the major asset classes, your portfolio will be tilted more towards equities because you know they offer the best long-term returns of all the asset classes and thus your wealth will grow over time.

## 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.

**Capital Growth**
Capital growth is the profit made on an investment, measured by the increase in its market value over the invested amount or cost price. It is also called capital appreciation.

**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.

**Feeder Fund**
A feeder fund is a South African-based fund that feeds exclusively into its primary foreignbased fund. It allows investors easy access to investing in an offshore fund, eliminating complicated tax and other implications. The shares of the feeder fund represent shares in the primary fund (called a master fund).

**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.

**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.

**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

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 actualinvestment 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 Sentio Capital Management (Pty) Ltd, (FSP) Licence No. 33843, 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 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

***"Know what you own, and know why you own it."***
***-Peter Lynch***

*There was always bound to be some chop and churn as and when we would move to a "new normal". It just came later than originally expected. The market now seems to be debating whether this is a bear steepening due to real growth or this is more of a move higher for nominals as we see inflation slowing, growth decelerating and look and prepare for a stagflationary (recessionary not yet priced) environment. Therefore, markets continue to adjust to the US yield curve bear steepening we are currently witnessing. The 10-year yield continues to hit daily 15-year highs and as a result we are seeing a broader asset class reset and increased debate around asset allocation decisions.*

*Carrying market exposure has been challenging. As has often been said in 2023, the headline index levels continue to mask the sectoral rotations and the narrowness of performance contribution. The S&P 493 (excluding the "Magnificent 7") is now down on the year and mega cap tech has gone from being a duration asset to being quality, balance sheet strength and AI beneficiaries that are capturing flight to safety capital as quality and cash flow security proxies. Since the start of 2022 equity markets have gone through several phases dominated by the shifts in inflation and growth expectations. And while growth has held up much better than many investors feared at the start of the year, the relentless rise in interest rates, at a time of stagnant profit growth, has resulted in a broadly sideways market environment.*

*Almost as soon as the Equity markets began to believe in goldilocks end game of soft landing, high employment, resilient consumer, and re-accelerating US growth, the Fed (and with it the ECB and other CB's) announced a hawkish "hold" of rates, a shift to "higher for longer" and leading to a fairly broad-based risk-off move. There was a lot of hope baked into the theoretical outlook: For a while, equity markets (and the lack of equity risk premia) ignored Oil at $90, slowing China, stickier inflation, believed in rates cuts in 2024, in spite of what central bank speakers said and that the consumer would carry on with the unexpected resilience they've exhibited in 2023.*

***The risks***

*In recent months, there has been a notable increase in interest rates, even as the monetary tightening cycle appeared to be coming to an end. The strong economic performance, especially in the context of a fed funds rate above 5%, has led to speculation that the neutral or equilibrium interest rate might be higher than previously assumed, challenging the secular stagnation hypothesis of the last economic cycle. With this, a key concern in the public sector is the sustainability of rising government interest costs. Projections indicate that federal interest expenses will increase from 2% of GDP in 2022 to 3% in 2024 and potentially 4% by 2030. This trajectory raises questions about whether the government can manage these growing costs effectively. The current primary deficit remains a major fiscal challenge, rather than the interest expense, as the structural deficit continues to be significant. Dealing with the chronic primary deficit is crucial. Goldman Sachs projects that the debt-to-GDP ratio will rise from 96% to 123% over the next decade, primarily due to this ongoing primary deficit of approximately 3%.*

*In this context, the issue of demand for the growing supply of government debt becomes significant. Questions arise about who will buy the debt, particularly in the face of ongoing Quantitative Tightening (QT) and the Federal Reserve's balance sheet deleveraging. Moreover, there are concerns about whether China and other Asian nations are moving toward de-dollarization and reducing their holdings of US treasuries.*

*With the backdrop of higher yields and rates, credit markets have experienced a slowdown in credit creation. High-quality issuers have chosen to reduce their leverage, while low-quality issuers have encountered difficulties accessing credit. Small businesses have reported declining optimism, with credit becoming harder to obtain.*

*The potential for a consumer credit crunch in 2024 looms, driven by the delayed consequences of rising interest rates. This situation adds complexity to the credit landscape. The financial health of the US consumer is also under scrutiny. A Federal Reserve study reveals that for the bottom 80% of households by income, bank deposits and liquid assets are lower in 2023 than they were in 2020, after adjusting for inflation. This suggests that the majority of Americans have depleted their extra savings from the pandemic era.*

*The housing market poses another challenge. Mortgage rates have risen significantly over the past three years, while median home prices have increased substantially. The gap between median home prices and median income continues to widen. This situation could lead to inflationary pressure or downward pressure on house prices and household equity.*

*In summary, the confluence of factors, including rising interest rates, a chronic primary deficit, concerns about demand for government debt, and potential consumer credit issues, has created uncertainty in financial markets. Additionally, the financial well-being of the majority of Americans and the housing market pose challenges in the coming months.*

***How to position***

*In the end, valuations didn't matter in 3Q23, fundamentals didn't matter. We are now witnessing a paradigm shift playing out from QE to QT, deglobalization, higher for longer rate environment and problematic fiscal deficits. It feels like a distant memory now: but not that long ago, we had trillions of negative debt and saw Austria issuing 100-year paper at 0.88%!*

*As previously mentioned, in the aftermath of the first quarter of this year, we saw a unique opportunity within the realm of risk assets. This window of opportunity was shaped by two critical factors: the deceleration of inflation and China's strategic stimulus initiatives. However, the initial optimism surrounding these developments over time gave way to a more nuanced and uncertain outlook. Among others, the enduring strength of the US dollar threw a significant spanner in the wheel. This unexpected resilience of the US currency undercut the expected global economic boost driven by lower inflation. Consequently, the benefits of reduced inflation failed to materialize beyond US borders. As China and Europe found themselves in the midst of economic slowdowns, each grappling with its unique set of challenges. these factors contributed to a less optimistic global economic outlook than initially anticipated. Saudi Arabia and Russia's decision to curtail oil output that led to a sharp increase in energy prices, rekindled fears of inflation and prompted central banks worldwide to adopt a more hawkish stance than initially predicted, further complicating the economic landscape.*

*With this, markets are now back to pre-GFC levels of real yields in the US 30-years while equity multiples have a long way to travel. The bull case was a disinflationary bull-flattening but it seems that the persistent rise in energy, the inability for fiscal spending to be constrained and soft landing/no landing = QT continues = term premium repricing has disrupted the narrative. It's not a great backdrop for equities and the asset class has been capped on the upside by rates as every risk rally has driven a selloff in bonds and floored on the downside by the resilience of the consumer/service economy/excess savings in the system. In fact, a lot of the charts in the US now look to be breaking down (Industrials, Tech, Materials all making lower highs) and the Russell is close to retesting the levels it saw around SVB/regional bank concerns. Outside the magnificent 7, the median stock in the US is barely up on the year and the spread between mid-caps and large caps is basically at 1 yr lows). The long and variable lags of higher rates are not absent they are just severely delayed given our starting point.*

*And valuations look even more extended today, with the equity risk premium falling below 100bps to new cycle lows, as both nominal and real interest rates have risen amid supply/ demand imbalances and the Fed's affirmation that it's serious about keeping rates "higher for longer." And in this new 'higher for longer' rates environment, the key risk for the S&P 500 ROE will be higher interest expenses and lower leverage. Although the long-maturity, fixed-rate debt structures of S&P 500 companies generally insulate them from higher rates, borrow costs for S&P 500 companies have ticked up on a year/year basis by the largest amount in nearly two decades. On the back of this we are likely going to see rising delinquencies as cost of debt rises for both consumer and corporates. We should also start to see the debt vs equity interplay become more important with more cap structure re-equitisations (Severn Trent/SAS recent examples) and we expect to see asset allocation decisions with rotations to sit higher in cap structures and taking advantage of lower risk more stable returns offered in credit and even cash.*

*In South Africa, we continue to expect a subdued picture: Real yields are too low relative to the US and a lot lower than major emerging market peers, Brazil and Mexico, continuing to pressurise the Rand and keeping the SARB hawkish. Energy reform / restructuring is not easy and slow and current elevated levels of loadshedding are not helping with the macro outlook, notwithstanding that so far growth rates have surprised to the upside, albeit at low levels. And while equity valuations are cheap relative to DM's and EM's, the low weighting in global indices, coupled with low growth rates is keeping global investor interest limited. Domestic investors at the same time are hampered by above idiosyncratic issues and are enticed to move up to 45% of their assets offshore, seeking better growth, risk and return. This all currently provides a somewhat toxic mix for SA capital markets.*

*The surprise of 1H23 was that there was "no recession", as expected in 2H22. 2H23 surprised with a "higher-for-longer" scenario, while we now expect 1H24 surprise to be the advent of a "recession". Therefore, the fund has started a strategic shift toward developed market growth and quality assets, as concerns loom about the sustainability of current economic growth trends. Notably, there are indications that the US economy may be on the brink of a hard landing, with the US Leading Economic Index declining for 16 consecutive months. While the initial forecast predicted a US recession in the third quarter, the US Conference Board has pushed this projection to the fourth quarter. Furthermore, business surveys in the US, such as the Philly Fed Manufacturing PMI, are raising concerns. These surveys provide forward-looking indicators for future prices, adding to the uncertainty in the economic landscape. This process is a transition, not an all-out switch as a recessionary scenario in US is not expected before mid-24 at this stage. In SA, short-term, fiscal pressure and further steepening of the yield curve are expected, while market volatility might yield interesting tactical opportunities.*


***Portfolio Managers***

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