

SAFFRON SCI* QUALIFIED HEDGE FUND ONE

Class A I Minimum Disclosure Document (MDD)
As at 30 September 2019



Fund Performance

Since launch cumulative performance graph

The Saffron SCI* Qualified Hedge Fund One was formerly registered as the S-Alt Zeta Qualified Hedge Fund. The name change was approved with a change of investment policy, and as such the historic fund performance ceases to exist.

Yearly %	Sep'15		Sep'16		Sep'17		Sep'18		Sep'19	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
	Cumulative Return (%)		Cumulative Return (%)		Cumulative Return (%)		Cumulative Return (%)		Cumulative Return (%)	
	Fund		Benchmark		Fund		Benchmark		Fund	
	Annualised Return (%)		Annualised Return (%)		Annualised Return (%)		Annualised Return (%)		Annualised Return (%)	
	Fund		Benchmark		Fund		Benchmark		Fund	
1 Year										
2 Years										
3 Years										
4 Years										
5 Years										
Since Inception										

Highest and Lowest Annual Returns

Time Period: Since Inception to 30/09/2019

Highest Annual %
Lowest Annual %

Risk Statistics

Standard Deviation
Sharpe Ratio
Sortino Ratio
Information Ratio

3 Year Rolling Since Inception

Value at Risk (10-day, 99% confidence)

Value at Risk (10-day, 99% confidence)	Regulatory		
	Current	Maximum	Mandate
VaR at period end	0.00%	20.00%	20.00%
Highest VaR during period	0.00%	20.00%	20.00%

Sources of Leverage

Sources of Leverage	Absa Prime Services
Leverage Sources	Total Return Swap
Leverage Type	87,000,000.00
Leverage Value (ZAR)	3.97
Gearing Ratio	4.00
Maximum Gearing Per Mandate	

Counterparty Exposure (%)

Absa Prime Services	100.00%
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Fund Objective

The objective of the fund is to provide consistently superior risk-adjusted returns to investors through exploiting opportunities that present in interest rate and derivative markets.

Fund Manager Details

Investment Manager	Saffron Wealth (Pty) Ltd
FAIS Disclosure	Saffron Wealth (Pty) Ltd is an authorised Financial Services Provider under the Financial Advisory and
Fund Manager	Brandon Quinn

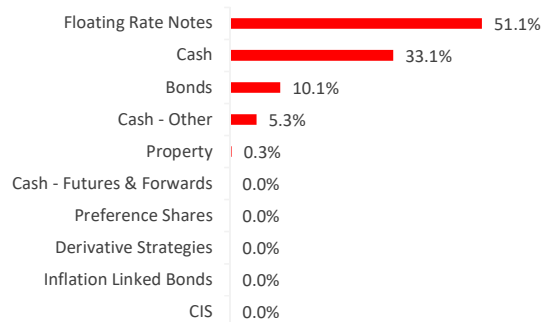
Fund Information

Fund Classification	Qualified Investor Hedge Fund
Base Currency	South African Rand (ZAR)
Inception Date	01 September 2016
Benchmark	STeFI
Risk Profile	High
Liquidity Risk Profile	Monthly
Fund Valuation Time	17:00
Transaction Cut Off Time	14:00
Monthly Price Information	Morningstar
Min. Lump Sum Investment	ZAR 1,000,000.00
Min. Recurring Investment	ZAR 1,000,000.00
Valuation Frequency	Monthly
Valuation Dates	Last day of each month
Income Distribution Freq.	Quarterly
Income Declaration Dates	Last day of March, June, September & December
Income Payment Dates	First business day of April, July, October & January
Fund Size	ZAR 22,096,851.28
Asset Duration	0.44
Fund Duration	2.19

Distribution History (cents per unit)

Fund Holdings

Asset Allocation (%)



Fees (Incl. VAT)

Fees (Incl. VAT)	(%)
Asset Management Fee	1.15% p.a. payable monthly
Broker Advisory Fee (max)	1.15%
Performance Fee	20% of profits above (i) STeFI and (ii) the high water mark, payable quarterly
Total Expense Ratio (TER)	Published after one year per regulation
TER (Excluding Performance Fee)	Published after one year per regulation

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 will only be provided after one year.

The performance fee is accrued daily, based on performance over a rolling one year period with payment to the manager being made monthly. Performance fees will only be charged once the performance fee benchmark is outperformed. A copy of the Performance Fee Frequently Asked Questions can be obtained from our website: www.sanlaminvestments.com

- All performance prior to the CIS establishment date are actual net of fee performances in pre regulated investment structures.
- Where return and risk figures are quoted for periods greater than 12 months, these returns are annualised. In other words, they are scaled to represent an equivalent one year measure.
- VAR represents the statistical loss that the Fund can experience given its current holdings over a one Month period with a 1% probability.
- Sources of leverage are from equity and / or fixed interest derivatives provided by the Prime Broker. The types and sources of leverage are based on strategies that implement derivatives, short selling and borrowed money as by the Prime Broker. Leverage is calculated using the Commitment approach.
- Portfolio stress testing is performed by subjecting a portfolio through extreme market situations, and noting the portfolio profit and loss, value at risk and exposure movements.
- In some circumstances asset hypothecation exists and is limited within the contracting arrangements with the different counter parties.

*The legal registered name of this portfolio is: Saffron Sanlam Collective Investments Qualified Hedge Fund One

MDD as at 30 September 2019

Issue Date: 22 October 2019

Administered by:



Collective Investment Schemes (CIS)

Collective Investment Schemes (also called unit trusts) are portfolios of assets such as equities, bonds, cash and listed property, in which investors can buy units. They allow private investors to pool their money together into a single fund, thus spreading their risk across a range of investments, getting the benefit of professional fund management, and reducing their costs.

Distributions

The income that is generated from an investment and given to investors through quarterly distribution payouts.

Fixed-interest investments

Fixed interest funds invest in bonds, fixed-interest and money market instruments. Interest income is a feature of these funds and, in general, capital should remain stable. A fixed-interest investment aims to offer investors a regular income at a set interest rate, which can be fixed over a specified term. If interest rates fall, the fixed interest investment typically becomes more valuable. Conversely if interest rates rise, the value of the investment will fall. The interest provides you with a fixed amount at regular intervals. So this is usually a very predictable way of getting an income from your investment.

LISP (Linked Investment Service Providers)

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.

Leverage

This refers to the use of various financial instruments or borrowed capital, such as margin, to increase the potential return of an investment.

Value at Risk (VaR)

A statistical technique used to measure and quantify the level of financial risk within a firm or investment portfolio over a specific time frame. Value at risk is used by risk managers in order to measure and control the level of risk which the firm undertakes. The risk manager's job is to ensure that risks are not taken beyond the level at which the firm can absorb the losses of a probable worst outcome.

Encumbrance or Rehypothecation

The practice by banks and brokers of using, for their own purposes, assets that have been posted as collateral by their clients. Clients who permit rehypothecation of their collateral may be compensated either through a lower cost of borrowing or a rebate on fees.

Total Expense Ratio (TER)

This is the total costs associated with managing and operating an investment (excluding administration, financial planning and servicing fees). These costs consist primarily of management fees and additional expenses such as trading fees, legal fees, auditor fees and other operational expenses. The total cost of the fund is divided by the fund's total assets under management to arrive at a percentage amount, which represents the TER.

Qualified Investor

Any person, who invests a minimum investment amount of R1 million per hedge fund, and who –

- (a) has demonstrable knowledge and experience in financial and business matters which would enable the investor to assess the merits and risks of a hedge fund investment; or
- (b) has appointed a FSP who has demonstrable knowledge and experience to advise the investor regarding the merits and risks of a hedge fund investment;

Qualified Investor Hedge Fund or QI Fund (QIF)

A hedge fund in which only qualified investors may invest.

Investment Manager

Saffron Wealth (Pty) Ltd

(FSP) License No. 34638

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Sanlam Collective Investments (RF) Pty Ltd ("SCI") is a registered and approved Manager in Collective Investment Schemes in Securities and is a member company of the Sanlam Group. The Sanlam Group is a full member of the Association for Savings and Investment SA. The management of investments are outsourced to the authorised Financial Services Provider ("FSP") as stated in this Minimum Disclosure Document ("MDD").

While CIS in hedge funds differ from CIS in securities (long-only portfolios) the two may appear similar, as both are structured in the same way and are subject to the same regulatory requirements. The ability of a portfolio to repurchase is dependent upon the liquidity of the securities and cash of the portfolio. A manager may, in exceptional circumstances, suspend repurchases for a period, subject to regulatory approval, to await liquidity and the manager must keep the investors informed about these circumstances. Further risks associated with hedge funds include: investment strategies may be inherently risky; leverage usually means higher volatility; short-selling can lead to significant losses; unlisted instruments might be valued incorrectly; fixed income instruments may be low-grade; exchange rates could turn against the fund; other complex investments might be misunderstood; the client may be caught in a liquidity squeeze; the prime broker or custodian may default; regulations could change; past performance might be theoretical; or the manager may be conflicted.

The information contained in this MDD does not constitute financial advice as contemplated in terms of the Financial Advisory and Intermediary Services Act, and should be read in conjunction with the Upfront Disclosure Document. Use of or reliance on this information is at own risk. Independent professional financial advice should be sought before making an investment decision. Collective investment schemes are generally medium-to long-term investments. The portfolio may invest in other unit trust portfolios which levy their own fees, and may result in a higher fee structure for our portfolio. This fund has no Initial Fees. All the portfolio options presented are approved collective investment schemes in terms of Collective Investment Schemes Control Act, No 45 of 2002 ("CISCA"). The fund may from time to time invest in foreign instruments. If the fund holds assets in foreign countries it could be exposed to the following risks regarding potential constraints on liquidity and the repatriation of funds: macro-economic, political, foreign exchange, tax, settlement and potential limitations on the availability of market information. The Manager has the right to close any portfolios to new investors to manage the fund more efficiently in accordance with their mandates. The Manager retains full legal responsibility for the third-party named portfolio. The portfolio management of all the portfolios is outsourced to financial services providers authorised in terms of the Financial Advisory and Intermediary Services Act, 2002. Collective investments are traded at ruling prices and can engage in borrowing and scrip lending. Collective investments are calculated on a net asset value ("NAV") 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. Where referenced, annualised returns describe the average amount of money earned by an investment each year over a given time period. Cumulative return is the aggregate return of the portfolio for a specified period. 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. Please note that past performance is not necessarily a guide to future performance, and that the value of participatory interests / units in investments / unit trusts may go down as well as up. The promulgation of hedge fund regulations in 2015 prompted the launch of this fund on the stated launch date. As a result, the returns of the fund prior to the launch date are presented as either simulated or actual returns based on past experience in pre-regulated structures. The level of counterparty exposure is restricted to funds that are administered by Sanlam Collective Investments and the respective prime brokers of the underlying portfolio. A schedule of fees and charges and maximum commissions is available from the Manager, SCI. Additional information of the proposed investment, including brochures, application forms and annual or quarterly reports, can be obtained from the Manager, free of charge on the SCI website (www.sanlamcollectiveinvestments.com).

Manager Information

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Trustee Information

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Administered by:



The Saffron SCI* Qualified Hedge Fund One was formerly registered as the S-Alt Zeta Qualified Hedge Fund. The fund name and investment strategy change was approved by the FSCA Regulator during June of 2019. The investment track record of the Saffron SCI* Qualified Hedge Fund One investment strategy therefore starts from June 2019 and in line with Board Notice 92 of the Collective Investments Schemes Control Act, may only be published after 12 months from inception of the new fund. Performance returns will therefore be published from the end of July 2020.

Cash was the top-performing asset class in South Africa for the quarter at 1.83%, followed by bonds (All Bond Total Return Index) at 0.78% and Inflation-linked bonds (CILI Index) at 0.25%. Equities (ALSI Total Return) lost -4.57% and Property lost -4.44%. Over a rolling 12-month basis, Bonds were the top performer (+11.48%) followed by Cash (+7.38%), with Property posting the lowest return of -2.70%.

The US Fed lowered the policy rates by 25bps to a range of 1.75% to 2.00%. Seven Fed members voted for the 25bp cut, while three voted against it. The Fed cited uncertainty around the global outlook but offered few indications on the policy path going forward. The median 'dot' (projected FFTR) for 2019 reflected only two 25bps with policy rates on hold in 2020 and 2021.

In the recent risk-off environment, the US 10-year Treasury yield traded 36 bps lower (2.03% to 1.67%) at quarter end, while the Dollar Index strengthened significantly from 96.84 to 99.38, up 2.62% over the period. 3-Month USD Libor decreased materially to 2.10%, down 23 bps and 70 bps QTD and YTD respectively.

As was widely expected, the European Central Bank (ECB) cut the deposit rate by 10bps to -0.50%. The other key ECB interest rates remained unchanged at 0.00% (main refinancing rate) and 0.25% (marginal lending rate). In their forward guidance the ECB stated that 'key ECB interest rates to remain at their present or lower levels until it has seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within its projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics'. It also stated that it expects QE to run until 'shortly before it starts raising' rates.

With the backdrop of this low policy rate outlook the German 10-year yield reached a record low rate of -0.74% in September 2019, closing the quarter at -0.57%. The French 10-year yield also hit a record low of -0.45% in August 2019, closing the quarter at -0.27%.

The Bank of England (BOE) kept interest rates at 0.75% after a unanimous vote, however cautioned that further Brexit uncertainty and tariff wars could warrant a rate cut in the near future.

The Commodity Research Bureau (CRB) indices continued to weaken in 3Q19. The CRB Commodities Index returned -4.6% (-4.3% in the previous quarter), with the CRB Metals Index the biggest loser at -6.9% (-13.3% in 2Q19). The CRB Livestock Index returned -6.2% (previously -7.6%). An attack on a Saudi Arabian oil processing facility and its second-largest oil field pushed the price of Brent crude oil substantially higher when markets opened on the 16th of September. The price initially rose by over USD10 to above USD70 per barrel before falling to trade around USD66 per barrel. The attack affected c.5% of global oil supply. At quarter end, Brent traded at USD60.78, down -6.6% for the quarter. The rand price per barrel was flat for the quarter as the rand depreciated by 7.0% against the dollar, trading at ZAR923.86 per barrel (+0.68%). Platinum (+6.1%), palladium (+8.2%) and gold (+6.4%) performed strongly, with industrial copper losing (-4.1%).

In the global credit space, the Markit iBoxx USD Liquid High Yield Index gained 0.83% over the period. The VIX Index, which measures risk sentiment, traded slightly higher at the end of the quarter at 16.24 from 14.06.

The J.P. Morgan Emerging Market Bond Spread traded slightly higher at 863.81 at quarter end (up 0.90%). The JPM EMBI spread closed the quarter at 399.59 (up 2.90 bps). South Africa's 5-year Credit Default Swap spread widened by 30bps to 193.43 bps whilst its Emerging Market peers' spreads tightened. Russia's spread traded at 85.94 (24 bps lower), followed by Turkey at 357.98 (-13 bps) and Brazil at 136.54 (-11 bps).

Over the quarter, the rand depreciated against most of the major currencies, including the British pound (-4.1%), the Australian dollar (-3.8%), the US dollar (-7.0%), the Euro (-3.3%) and the Japanese yen (-7.4%).

The South African Reserve Bank (SARB) held the repo rate at 6.50% at the September MPC meeting. The decision was supported by continued concerns around fiscal risks, as well as heightened trade and geopolitical risks. The inflation outlook was revised downwards to 4.20% for 2019, kept stable at 5.10% in 2020 and revised upwards to 4.70% in 2021. The growth outlook for 2019 was unchanged at 0.60% but revised downwards for 2020 and 2021 to 1.50% (down by -0.30%) and 1.80% (down by -0.20%) respectively. The SARB's QPM projects no more cuts over the forecast period. Upside risks to inflation includes higher electricity, food and fuel prices. Headline inflation ticked up slightly in August to 4.30% from 4.00% in July, partly driven by a rise in the electricity and other fuel costs category, after Nersa's recent hikes in electricity tariffs. Core inflation printed at 4.30%.

The trade balance in August exceeded consensus expectations at a surplus of R6.8bn (following a R3.7bn deficit in July). The upside emerged from stronger-than-expected exports. Exports increased by R9.5bn m/m, led by higher mineral products (up R4.8bn m/m; usually coal products), a R1.6bn m/m increase in precious metals and stones and a R1bn m/m increase in machinery and electronics. Imports declined in August, supported by a R2.3bn m/m decrease in mineral product imports (mainly oil), as well as vehicle and transport equipment (R1.4bn m/m decrease). The trade data is expected to remain volatile give the significant swings in the exchange rate.

For the month of August, the budget deficit printed at R32.8bn, bringing the total deficit for the 2019/20 fiscal year to R189.4bn. The deficit increased by 44.2% compared to the same period last year. Expenditure growth has been outpacing revenue growth. Since the beginning of this fiscal year (April 2019), revenue has grown by 4.2% y/y to R509.7bn compared to expenditure growth at 12.6% y/y at R699.1bn - the strongest growth since the 2008 recession. The increase in government expenditure was mainly caused by the financial assistance extended to Eskom in April (R13.5bn) and SAA and Denel in August (R3.8bn). The budget deficit is expected to exceed 6.0% of GDP (versus 4.5% forecast by National Treasury in the 2019 Budget) and debt levels are expected to breach 60% of GDP (versus a 56.1% forecast).

The second quarter GDP grew by 3.1% q/q on a seasonally adjusted basis, better than the consensus estimate of 2.5%. Positive contributions came from all sectors, except Agriculture (-4.2%), Construction (-1.6%) and Transport (-0.3%), which in total subtracted 0.2% from the figure. General sentiment is however still weak amid growing concern about underwhelming pro-growth reform traction and an increasingly fragile global economy.

The shift in the secondary credit bond market continued over the past three months as investors hunted for yield-enhancing assets both globally and locally. Significant oversubscriptions in public auctions of corporate debt has pushed primary market issuance spreads to the bottom-end of auction price guidance levels.

At the end of Q3 2019, the fund was 3.9x geared, slightly below the maximum gearing of 4.00x allowed by the fund mandate. The fund had a 33.1% allocation to cash, which includes the gearing liquidity requirement. The largest asset class exposures were to Floating Rate Notes (51.1%) and Fixed Rate Bonds (10.1%). The Value-at-Risk (VaR) risk measure (99% confidence, 10-day period) calculated by the external risk oversight stood at 0.00%. The asset-pool continued to out-perform the gearing cost over the quarter and is expected to generate further out-performance as the cash holdings are deployed.

The fund aims to enhance total return through value opportunities that, on a geared and risk-adjusted basis, achieve or exceed our hurdle return of STEFI.

Portfolio Manager

Brandon Quinn
BCom, CFA

Assistant Manager

Anina Swiegers
BCom (Hons), CFA

