

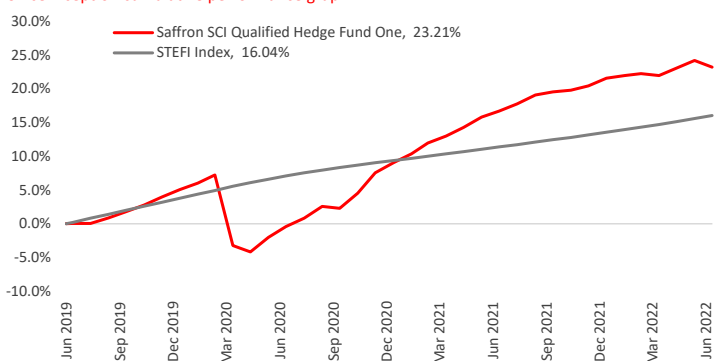
# SAFFRON SCI\* QUALIFIED HEDGE FUND ONE

Class A I Minimum Disclosure Document (MDD)  
As at 30 June 2022



## Fund Performance

### Since inception cumulative performance graph



Monthly %	Jul'21	Aug'21	Sep'21	Oct'21	Nov'21	Dec'21	Jan'22	Feb'22	Mar'22	Apr'22	May'22	Jun'22
Fund	0.94	1.10	0.39	0.20	0.55	0.95	0.33	0.22	-0.22	0.88	0.93	-0.79
Benchmark	0.31	0.33	0.31	0.30	0.34	0.34	0.34	0.32	0.36	0.35	0.40	0.40

Yearly %	Jun'18	Jun'19	Jun'20	Jun'21	Jun'22
Fund	N/A	N/A	-0.48	17.17	5.60
Benchmark	N/A	N/A	6.90	4.01	4.18

	Cumulative Return (%)		Annualised Return (%)	
	Fund	Benchmark	Fund	Benchmark
1 Year	5.60	4.18	5.60	4.18
2 Years	23.73	8.36	11.24	4.09
3 Years	23.14	15.83	7.19	5.02
4 Years	N/A	N/A	N/A	N/A
5 Years	N/A	N/A	N/A	N/A
Since Inception	23.21	16.04	7.12	5.03

## Highest and Lowest Annual Returns

Time Period: Since Inception to 30/06/2022

Highest Annual %:	19.27%	Lowest Annual %:	-2.03%
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## Risk Statistics

	3 Year Rolling	Since Inception
Standard Deviation	3.88%	3.83%
Sharpe Ratio	0.20	0.19
Sortino Ratio	0.22	0.21
Information Ratio	0.19	0.19

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

	Current	Maximum	Mandate
VaR at period end	2.44%	20.00%	20.00%
Highest VaR over the month	2.44%		

## Sources of Leverage

Leverage Sources	Absa Prime Services
Leverage Type	Loan
Leverage Value (ZAR)	59,350,000.00
Gearing Ratio	2.51
Maximum Gearing Per Mandate	4.00

## Counterparty Exposure (%)

Absa Prime Services	100.00%
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## Risk Profile

### Aggressive

You can afford to take on a higher level of risk because of your investment time horizon and/or your appetite for risk. You know that in taking the risk, you need to be patient if you want to achieve the results. So you are willing to invest for the long-term and are prepared to tolerate some volatility in the short term, in anticipation of the higher returns you expect to receive over the longer term.

- 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 June 2022  
Issue Date: 15 July 2022

## 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 Strategy

The portfolio shall invest in a combination of assets in liquid form including cash, cash equivalents, money market instruments, listed and unlisted interest rate instruments, corporate and sovereign bonds, preference shares and listed property. The portfolio shall be permitted to invest in listed and unlisted financial instruments (derivatives) including but not limited to interest rate derivatives, currency derivatives and commodity derivatives. The Manager shall be permitted to invest in offshore investments as legislation permits. The Portfolio may also invest in participatory interests of portfolio of collective investment schemes registered in the Republic of South Africa or of participatory interests in collective investment schemes or other similar schemes. The 10 day 99% VAR shall be limited to 20% of the NAV.

## 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 Intermediary Services Act, 2002.
Fund Manager	Brandon Quinn

## Fund Information

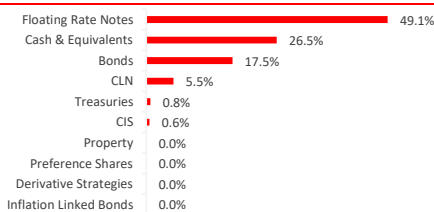
Fund Classification	Qualified Investor Hedge Fund   South African   Fixed Income
Base Currency	South African Rand (ZAR)
Inception Date	May 2019
Benchmark	STeFI
Risk Profile	Aggressive
Liquidity Risk Profile	Monthly
Fund Valuation Time	17:00
Transaction Cut Off Time	14:00
Monthly Price Information	Morningstar
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 28,525,310.36
Asset Duration	0.84
Fund Duration	2.11

## Distribution History (cents per unit)

01/07/2022	0.00 cpu	01/07/2021:	0.00 cpu	01/10/2020:	17.52 cpu
01/04/2022	55.49 cpu	01/04/2021:	0.00 cpu		
03/01/2022	13.83 cpu	04/01/2021:	13.49 cpu		

## Fund Holdings

### Asset Allocation (%)



## 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

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](http://www.sanlaminvestments.com)

Total Expense Ratio (TER) | PERIOD: 01 June 2019 to 30 September 2021

Total Expense Ratio (TER) | 4.53% of the value of the Financial Product 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. Inclusive of the TER of 4.53%, a performance fee of 0.68% of the net asset value of the class of participatory interest of the portfolio was recovered.

Transaction Cost (TC) | 0.03% of the value of the Financial Product 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) | 4.56% of the value of the Financial Product was incurred as costs relating to the investment of the Financial Product.

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

Physical Address: B6 Octo Place, Electron Road, Technopark, Stellenbosch, 7599

Postal Address: Suite 426, Private Bag X5061, Stellenbosch, 7599

Tel: +27 (21) 880 7080

Email: info@saffronwealth.com

Website: www.saffronwealth.com



MDD as at 30 June 2022  
Issue Date: 15 July 2022

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 fund launched in 2016. 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. 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 ceased to exist when the Saffron SCI fund was approved in 2019. 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](http://www.sanlamcollectiveinvestments.com)).

**Manager Information**

Sanlam Collective Investments (RF) (Pty) Ltd

Physical Address: 2 Strand Road, Bellville, 7530

Postal Address: P.O. Box 30, Sanlamhof, Bellville, 7532

Tel: +27 (21) 916 1800

Email: service@sanlaminvestments.com

Website: www.sanlamunitrusts.co.za

**Trustee Information**

Standard Bank of South Africa Ltd

Tel: +27 (21) 401 2002

Email: compliance-sanlam@standardbank.co.za

Administered by:



The fund returned 1.01% and 5.60% for the quarter and year respectively, while the benchmark (STeFI Index) returned 1.15% and 4.18%. On a rolling one-year basis, the fund beat the cash benchmark by 1.42%.

The ongoing war in Ukraine, upside inflation surprises, increasing central bank rates and lower GDP growth with growing fears of a recession have all contributed to the dismal markets. The Federal Reserve hiked by 75 bps at the last FOMC meeting, with the ECB expected to follow soon. South Africa, fearing elevated inflation, followed the DM banks' example and hiked by 50 bps at the last MPC meeting.

The US Federal Reserve announced a 75bps hike in the Federal Funds target rate, which lifted the range to 1.50 – 1.75%. The decision followed some sharp adjustments in interest rate market expectations as both inflation and inflation expectations surprised to the upside. May's CPI data printed higher at 8.6% y/y, despite the market expecting a moderation. Inflation expectations over the next year rose to 5.4% from 5.3% in May, as well as longer-term expectations to 3.3% from 3.0%. Unemployment estimates also softened, with 3.7% expected for 2022, 3.9% for 2023 and 4.1% for 2024 from the current 3.6%. GDP forecasts now stand at 1.7% in 2022 (previously 2.8%), 1.7% in 2023 (previously 2.2%) and 1.9% in 2024 (previously 2.0%). A further 50 to 75bps hike is expected at the July meeting, which should bring the rate closer to the Fed's current neutral estimate of 2.50%. The European Central Bank's (ECB) indicated that rates will rise by 25bps at the 21 July meeting with further increases at the September meeting, unless inflation looks likely to undershoot the latest projections.

The price of Brent crude (USD) continued to increase, by more than 9.0% over the quarter to a supply-constrained c.USD 115 / barrel. The Commodity Research Bureau (CRB) Commodity Index (-5.7%) and CRB Metals Index (-22.77%) softened losing some of the gains achieved in the first quarter. Copper (-20.2%), platinum (-9.4%), palladium (-14.8%) and gold (-6.15%) also lost over the quarter. The softening in metals prices negatively impacted the fiscal view on South Africa, weakening the local currency (USDZAR down -11.0%). The rand also depreciated against the EUR (-5.4%) and the GBP (-3.1%) over the period.

The VIX Index, a measure of market volatility, traded higher at 28.71 at the end of the quarter (+9.08). The J.P. Morgan Emerging Market Bond Index (EMBI) Sovereign Spread widened by 91 bps, ending the quarter at 461 bps. Emerging Market 5-year Credit Default Swaps widened significantly, with South Africa at 316 (+108 bps), Brazil at 295 (+87 bps) and Turkey at 847 (+294 bps) at quarter end.

In the South African asset class universe, the highly illiquid Inflation-linked bonds (CILI Total Return) was the top performer at +3.26%, followed by cash (STeFI) at +1.15%. Property (JSAPY), Equities (ALSI Total Return) and nominal bonds (ALBI Total Return) all had negative returns at -11.56%, -10.65% and -3.71% respectively. Over the past 12 months, inflation-linked bonds were the top performing asset class at +10.72% and Property the worst performer at +0.22%.

The SARB announced a 50bps increase in the repo rate in May, taking the policy rate to 4.75% from 3.50% before the start of the policy tightening cycle in November 2021. SA's inflation surprised above the 3-6% target in May. Headline CPI inflation accelerated to 6.5% y/y, its highest level since 2017, from 5.9% the previous month. Core CPI climbed from 3.9% to 4.1% in May. The major driver for headline CPI in May was broad-based food inflation, which rose to 7.8%. The CPI inflation forecast for 2022 was revised to 5.9% (previously 5.8%), 5.0% in 2023 (previously 4.6%) and 4.7% in 2024. The SARB now sees greater persistence in headline inflation remaining above the target midpoint of 4.5%. The SARB's Brent crude oil assumption for 2023 and 2024 was revised higher by USD10 per barrel, to USD90 and USD85 per barrel respectively. The underlying assumption is for the war in Ukraine to continue for the rest of year, impacting key commodity prices. The SARB's real GDP growth forecast for 2022 was revised lower to 1.7%, from 2.0% in March. At the time of writing, the FRA market priced in another 50 bps increase at the July meeting and a further 2.75% increase in the repo rate over the next two years. The 3-month JIBAR rate moved 64 bps higher to 5.01%, while 12-month JIBAR rose by 109 bps to 7.44% over the quarter, the effects of which will be seen in an increased running yield of the fund.

The 12-m T-bill average yield rose by 99bps to 7.04% at the end of June. In the SA bond market, foreign investors were net sellers, with a R33.4bn net outflow in June, R19bn in May and R12.9bn in April. The cumulative outflow for the last 12 months is at R288.4bn. In the SA bond space, the 1- to 3-years bucket returned +0.04%, the 3- to 7-years bucket returned -0.54%, the 7- to 12-years bucket returned -2.26% and the 12+ years bucket -5.19%. The top performing area of the curve for the year was the 1- to 3-years bucket at +4.26%. According to the SARB's May statement of assets and liabilities, the accumulated government bond holdings increased by R353m after a R659m decrease the month before. As at the end of May, holdings were at R40.2bn, leaving the cumulative increase at R32.1bn since secondary market bond-buying was announced in March 2020.

At the end of 2Q 2022, the fund was 2.51x geared, with an effective 26.51% allocation to cash. The largest asset class exposures were to Floating Rate Notes (49.07%) and Fixed Rate Bonds (17.53%). The Value-at-Risk (VaR) risk measure (99% confidence, 10-day period) calculated by the independent risk managers stood at 2.44%. The asset-pool is expected to outperform the gearing cost going forward, given the significant difference in the gearing cost versus the gross running yield of the underlying assets (8.38% per annum).

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