

# SAFFRON BCI ACTIVE BOND FUND

CLASS A

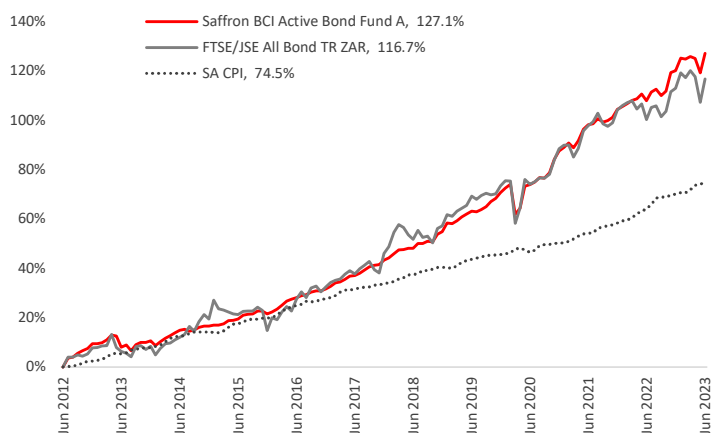
Minimum Disclosure Document (MDD)

30 June 2023



## Fund Performance

Since launch cumulative performance graph



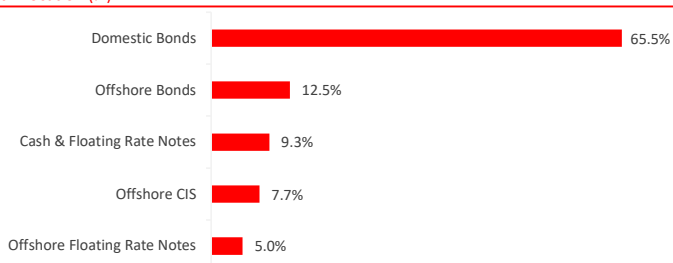
Monthly %	Jul'22	Aug'22	Sep'22	Oct'22	Nov'22	Dec'22	Jan'23	Feb'23	Mar'23	Apr'23	May'23	Jun'23
Fund	1.68	0.53	-1.21	0.87	3.54	0.37	2.27	-0.14	0.47	-0.41	-2.55	3.59
Benchmark	2.44	0.31	-2.11	1.07	3.91	0.62	2.94	-0.87	1.32	-1.11	-4.79	4.58

Yearly %	Jun'13	Jun'14	Jun'15	Jun'16	Jun'17	Jun'18	Jun'19	Jun'20	Jun'21	Jun'22	Jun'23
Fund	7.97	6.43	3.90	7.32	6.91	8.09	10.18	6.56	14.00	4.93	9.19
Benchmark	6.22	5.48	8.21	5.24	7.93	10.19	11.50	2.85	13.68	1.25	8.22

	Cumulative Return (%)				Annualised Return (%)			
	Fund	Benchmark	Cash	Inflation	Fund	Benchmark	Cash	Inflation
1 Year	9.20	8.23	6.55	6.30	9.20	8.23	6.55	6.30
3 Years	30.63	24.58	14.54	19.13	9.31	7.60	4.63	6.01
5 Years	53.37	42.86	29.48	27.00	8.93	7.39	5.30	4.90
10 Years	110.35	104.07	74.33	65.81	7.72	7.39	5.72	5.19
Inception	127.11	116.76	82.73	74.52	7.75	7.29	5.64	5.20

## Fund Holdings

Asset Allocation (%)



## Risk Statistics (3 Year Rolling)

Standard Deviation	4.47
Sharpe Ratio	0.22
Information Ratio	-0.45
Maximum Drawdown	-2.95

## Highest and Lowest Annual Returns

Time Period: Since Inception to 30/06/2023

Highest Annual %	16.71%
Lowest Annual %	-0.75%

## Risk Profile

Low-Moderate Risk

Where the asset allocation contained in this MDD reflects offshore and equity exposure, the portfolio is exposed to currency and equity risks. The portfolio is exposed to default and interest rate risks. Therefore, it is suitable for medium term investment horizons. The expected potential long-term investment returns are lower but less volatile over the medium to long term than higher risk portfolios.

Effective 25/03/2022: Manager change from SCI. Name change from Saffron SCI Active Bond Fund. Benchmark change from CPI + 2%. ASISA Category change from SA Multi Asset Income. Removal of Reg 28. Annualised return is the weighted average compound growth rate over the period measured.

SAFFRON BCI ACTIVE BOND FUND | CLASS A | MDD as at 30 June 2023

Issue Date: 19 July 2023

## Fund Objective

The Saffron BCI Active Bond Fund is an actively managed fixed interest portfolio that invests mainly in nominal and inflation linked government bonds and corporate bonds, with the aim to provide inflation beating returns.

## Investment Policy

In order to achieve this objective, the investments normally to be included in the portfolio will comprise a combination of assets in liquid form and a combination of bonds and interest-bearing securities, including loan stock, debentures, debenture bonds, notes, money market instruments, corporate debt and non-equity securities. The portfolio may also invest in participatory interests and other forms of participation in portfolios of collective investment schemes. The portfolio may from time to time invest in listed and unlisted financial instruments. The manager may also include forward currency, interest rate and exchange rate swap transactions for efficient portfolio management purposes.

## Fund Information

Fund Manager	Brandon Quinn
Launch Date	02 July 2012
Fund Size	ZAR 788.63 million
NAV Price (Fund Inception)	100.00 cents
NAV Price as at month end	138.37 cents
JSE Code	MSIL
ISIN Number	ZAE000168241
ASISA Fund Classification	South African - Interest Bearing - Variable Term
Benchmark	JSE All Bond Index (ALBI)
Minimum Investment Amount	None
Monthly Fixed Admin Fee*	R15 excl. VAT on all direct investor accounts with balances of less than R100,000

## Valuation

Portfolio Valuation Time	15:00
Transaction Cut Off Time	14:00
Regulation 28 Compliant	No

## Distribution History (cents per unit)

03/07/2023	2.55	01/07/2022	1.24	01/07/2021	2.60
03/04/2023	2.40	01/04/2022	0.11	04/01/2021	2.47
03/01/2023	2.22	25/03/2022	1.51	01/07/2020	3.13
03/10/2022	1.87	03/01/2022	4.62	02/01/2020	4.71

Income Declaration Date

31 March, 30 June, 30 September & 31 December

Income Payment Date

2nd business day of April, July, October & January

## Cost Ratios (%)

TER**:	1.46% (PY: 1.38%)	TC:	0.02% (PY: 0.00%)	TIC:	1.48% (PY: 1.38%)
Of the value of the Fund was incurred as expenses relating to the administration of the Fund.		Of the value of the Fund was incurred as costs relating to the buying and selling of the assets underlying the Fund.		Of the value of the Fund was incurred as costs relating to the investment of the Fund.	

## Fees (Incl. VAT) (%)

Annual Service Fee	1.15
Initial Advisory Fee (Max)	3.45
Annual Advice Fee	0.00 - 1.15 (if applicable)
Initial Fee	0.00
Performance Fee	None



## Information & Disclosures

Additional information, including application forms, annual or quarterly reports can be obtained from BCI, free of charge or can be accessed on our website [www.bcis.co.za](http://www.bcis.co.za).

Valuation takes place daily and prices can be viewed on our website ([www.bcis.co.za](http://www.bcis.co.za)) or in the daily newspaper.

Actual annual performance figures are available to existing investors on request.

Upon request the Manager will provide the investor with portfolio quarterly investment holdings reports.

### \* Monthly Fixed Admin Fee

R15 excl. VAT which will apply to all direct investor accounts with balances of less than R100 000 at month end, unless an investor transacts online, in which case no such fee will be levied.

### \*\* Total Expense Ratio (TER)

Please note: A higher TER ratio does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TER's. Transaction Costs are a necessary cost in administering the Fund and impacts Fund 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 Fund, the investment decisions of the investment manager and the TER. The prior year ("PY") TER and Transaction cost calculations are based upon the portfolio's direct costs for the financial year ended 30 June 2022, whilst the underlying portfolios' ratio and cost calculations are based upon their most recent published figures, being 31 December 2022.

### Risks

Certain investments - including those involving futures, options, equity swaps, and other derivatives may give rise to substantial risk and might not be suitable for all investors. Where foreign securities are included in the portfolio there may be additional risks such as potential constraints on liquidity and repatriation of funds, macroeconomic risk, political risk, foreign exchange risk, tax risk, settlement risk as well as potential limitations on the availability of market information.

### Effective Annual Cost

Boutique Collective Investments adopted the ASISA Standard on Effective Annual Cost ("EAC"). The EAC measure allows you to compare charges on your investments as well as their impact on your investment returns prior to investing. For further information regarding the ASISA Standard on Effective Annual Cost and access to the EAC calculator please visit our website at [www.bcis.co.za](http://www.bcis.co.za). BCI calculates the EAC as per the ASISA standard for a period of 3 years up till the most recent TER reporting period.

### FAIS Conflict of Interest Disclosure

Please note that your financial advisor may be a related party to the co-naming partner and/or BCI. It is your financial advisor's responsibility to disclose all fees he/she receives from any related party. The portfolio's TER includes all fees paid by portfolio to BCI, the trustees, the auditors, banks, the co-naming partner, underlying portfolios, and any other investment consultants/managers as well as distribution fees and LISP rebates, if applicable. The portfolio's performance numbers are calculated net of the TER expenses. The investment manager earns a portion of the service charge and performance fees where applicable. In some instances, portfolios invest in other portfolios which form part of the BCI Scheme. These investments will be detailed in this document, as applicable.

## Disclaimer

Boutique Collective Investments (RF) (Pty) Ltd ("BCI") is a registered Manager of the Boutique Collective Investments Scheme, approved in terms of the Collective Investments Schemes Control Act, No 45 of 2002 and is a full member of the Association for Savings and Investment SA.

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Performance figures quoted for the portfolio is from Morningstar, as at the date of this document for a lump sum investment, using NAV-NAV with income reinvested and do not take any upfront manager's charge into account. Income distributions are declared on the ex-dividend date. Actual investment performance will differ based on the initial fees charge applicable, the actual investment date, the date of reinvestment and dividend withholding tax.

Investments in foreign securities may include additional risks such as potential constraints on liquidity and repatriation of funds, macroeconomic risk, political risk, foreign exchange risk, tax risk, settlement risk as well as potential limitations on the availability of market information.

Boutique Collective Investments (RF) Pty Ltd retains full legal responsibility for the third party named portfolio.

Income funds derive their income from interest-bearing instruments in accordance with Section 100(2) of the Act. The yield is a current yield and is calculated daily. Full details and basis of the award is available from the manager.

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### 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](mailto:info@saffronwealth.com)

Website: [www.saffronwealth.com](http://www.saffronwealth.com)

### Management Company Information

**Boutique Collective Investments (RF) (Pty) Ltd**

Catnia Building, Bella Rosa Village, Bella Rosa Street, Bellville, 7530

Tel: +27 (21) 007 1500/1/2 | +27 (21) 914 1880

Fax: +27 (86) 502 5319

Email: [clientservices@bcis.co.za](mailto:clientservices@bcis.co.za)

Website: [www.bcis.co.za](http://www.bcis.co.za)

### Custodian / Trustee Information

**The Standard Bank of South Africa Ltd**

Tel: +27 (21) 441 4100



The fund aims to deliver inflation beating returns and exceed the SA All Bond Total Return Index on a rolling 3-year basis.

During the second quarter of 2023, central banks remained committed to their mandate of maintaining price stability by implementing tighter monetary policies, with varying degrees of rate hikes. In June, the Federal Reserve left rates unchanged, the European Central Bank (ECB) raised rates by 25bp, and the South African Reserve Bank (SARB) opted for a 50bp hike. Notably, the Bank of England (BOE) surprised the market by unexpectedly raising rates by 50bp in response to an inflation reading that surpassed expectations.

In June, the Fed decided to maintain the Federal funds target range at 5.00 to 5.25%, marking a shift from the previous pattern of consecutive interest rate increases observed over the past eleven meetings, resulting in a cumulative increase of 500bp. The Fed clarified that this decision represents a temporary 'pause' in the ongoing hiking cycle. In May, the Consumer Price Index (CPI) inflation stood at 4.00%, slightly below the consensus of 4.10%, but significantly lower than the 4.9% recorded in April. This moderation in inflation was influenced by base effects and lower price pressures. It is worth noting, however, that a considerable portion of this decline can be attributed to a moderation in food and energy price inflation. When focusing on the 'core' measure, which excludes these volatile components, inflation pressures persist, posing a concern for the Fed. Looking ahead, a majority of committee members anticipate the possibility of at least two additional 25bp rate hikes within the year, or alternatively, a single 50bp hike. The median view suggests a projected terminal rate ranging from 5.50% to 5.75%. Throughout the quarter, the yields on US 5-year and 10-year generic bonds increased by 58 and 37bp respectively, while the US Dollar Index (DXY) exhibited a gain of 0.40%. Over the past year, the yields on US 5-year and 10-year generic bonds experienced increases of 113 and 85bp respectively, while the US Dollar Index (DXY) recorded a loss of 1.69%. The difference between the US 10-year bond yield and the 2-year bond yield (4.90%) shows just over a 100bp inversion in the yield curve, which historically has been a good predictor of recessions.

The ECB implemented a 25bp rate hike, raising the Deposit rate, Main 'refi' rate, and Marginal Lending rate to 3.50%, 4.00%, and 4.25% respectively. The Governing Council (GC) reaffirmed its commitment to raising rates as needed to achieve its 2% inflation target. Additionally, the ECB announced the cessation of reinvestment of maturities from the Asset Purchase Programme (APP) starting in July. The pace of balance sheet runoff will accelerate to an average of EUR 25 billion per month, contrasting with the current partial reinvestment strategy resulting in a monthly contraction of EUR 15 billion. The runoff is expected to further increase in speed during the first half of 2024. The latest GDP projections from the ECB indicate growth rates of +0.9%, +1.5%, and +1.6% for 2023, 2024, and 2025 respectively. These figures represent a slight revision downward compared to the previous forecast in March. As for headline inflation, the expected figures are 5.4%, 3.0%, and 2.2% for 2023, 2024, and 2025 respectively. It is noteworthy that neither the headline nor core measures of inflation reach 2.0% on a quarterly basis at any point in the projection horizon, even reaching the 2.0% target by the fourth quarter of 2025. European long-term yields moved higher over the quarter, with the German 10-year trading at 2.39% (+10bps).

In June, the BOE surprised the market by implementing a significant 50bp rate hike, bringing the Bank rate to 5.00%. The decision to raise rates beyond market expectations was driven by robust economic data surpassing forecasts and the presence of upside risks to the Bank's inflation projections. This decisive action by the BOE reflects their commitment to price stability and managing inflation pressures. Currently, market expectations point towards a projected terminal rate of 6.00%. The UK 10-year generic yield however decreased slightly to 3.39% (-10bps).

The VIX Index, which measures market volatility, traded lower at 13.59 at quarter-end, representing a decrease of 5.11. The J.P. Morgan Emerging Market Bond Index (EMBI) Sovereign Spread tightened by 24bp, closing the quarter at 390bp, with the index returning +1.53%. Credit Default Swaps (CDS) for SA's 5-year tightened to 267bp (a decrease of 6bp), while Brazil's tightened to 177bp (a decrease of 52bp), and Turkey's tightened to 487bp (a decrease of 35bp). By the end of the quarter, Brent crude oil closed at USD 75.41 per barrel, marking a 5.61% decrease over the quarter. The CRB Commodities and Metals Index returned -0.51% and -8.77% respectively. Palladium, platinum, and copper experienced losses of 15.94%, 8.93%, and 7.57% respectively. In contrast, gold gained 5.40% over the quarter.

The South African rand followed the metals' trend and depreciated by 5.61% against the USD during the quarter. Over a rolling one-year period, the USDZAR exchange rate saw a significant decline of 15.79%, while the CRB Metals Index declined by 9.64%. Furthermore, the rand depreciated by 6.73% against the euro and 9.09% against the pound. In the South African asset class universe, Cash (StEFl Index) was the top-performing asset class at +1.92%. Nominal bonds (ALBTR Index) and Inflation-linked bonds (CILTR Index) were negative at -1.53% and -0.74% respectively. Equity (JALSHT Index) and Listed property returned 1.16% and 0.66% respectively.

The sensitivity of domestic policy rates to developments in major central banks continues to be a concern, as any misalignment could lead to increased currency volatility. The SARB Monetary Policy Committee (MPC) unanimously decided to raise the repo rate by 50bp to 8.25%. Despite a slight easing in April, with inflation at 6.8% year-on-year, it remains well above the SARB's target range of 3 to 6%. The SARB has revised its estimates for core goods inflation and food price inflation, anticipating higher levels compared to previous forecasts. Consequently, the projected headline inflation for 2023 has been adjusted upward from 6.0% to 6.2%. Furthermore, the projection for headline inflation in 2024 has increased to 5.1% (previously 4.9%), before gradually declining to an estimated 4.5% in 2025 due to expected easing in food and fuel inflation. While global growth prospects have shown some improvement, the domestic economic environment remains fragile. Persistent load shedding has severely impacted all sectors of the economy and dampened confidence. The SARB expects that load shedding alone will deduct two percentage points from this year's growth. The GDP forecast for this year remains largely unchanged at 0.3%, compared to 0.2% in the previous meeting. The SARB's growth expectations for 2024 and 2025 remain at 1.0% and 1.1% respectively. These developments reflect the ongoing challenges in the domestic and global economic landscapes, emphasising the need for careful policy considerations to navigate the uncertainties ahead.

At the time of writing, the 3x6s FRA priced in another 44bp increase to 8.70%. The 3-month JIBAR rate moved 54bp higher to 8.50% over the quarter and 349bp over the year, the effects of which would have been seen in the fund's increased running yield. The 12-month T-bill average yield widened by 95bp to 9.51%. In the SA bond market, non-residents were net sellers of only R1.5bn in June, after being net sellers of R68.4bn in May. The cumulative outflow for 1H23 is R217.7bn, and R336.4bn over the last year. The short-end and belly of the SAGB yield curve lifted significantly over the quarter (R186 and R2032 were 77bp and 68bp wider respectively), while the long-end lifted (R2048 yield was up +68bp). The 1- to 3-year bucket returned +0.48%, the 3- to 7-year bucket returned -0.33%, the 7- to 12-year bucket returned -1.48% and the 12+ years bucket -2.59% over the quarter. The top performing area of the curve for the year was the 7- to 12-years bucket at +10.22%.

Looking ahead: Whilst major central banks have signalled being closer to the peak of the rate cycle (resulting in likely smaller incremental increases before holding to allow typically delayed policy effects to fully manifest), risks remain from inflation surprises particularly against a backdrop of volatile energy markets and numerous global geopolitical risks. The long end of the SA FRA curve remains flat / slightly inverted, and at the time of writing, is expected to peak at c. 8.70%.

The fund (Class A) returned 0.53% and 9.20% for the quarter and year respectively. In comparison, SA headline inflation rose by 6.30% for the year and the benchmark SA All Bond Total Return Index (ALBTR Index) returned 8.23%. On a rolling 3-year basis, the fund returned 9.31% (annualised) versus the ALBTR at 7.60% (annualised). Over the quarter, the fund increased duration to 4.74 years from 3.55 years versus the ALBI's duration of c. 5.73 years. The gross running yield of the fund was at 13.13% at quarter close versus the ALBI's yield at 10.47%.

**Portfolio Manager**  
Brandon Quinn  
BCom, CFA

**Assistant Manager**  
Anina Swiegers  
BCom (Hons), CFA

**BOUTIQUE**  
+ COLLECTIVE  
INVESTMENTS

