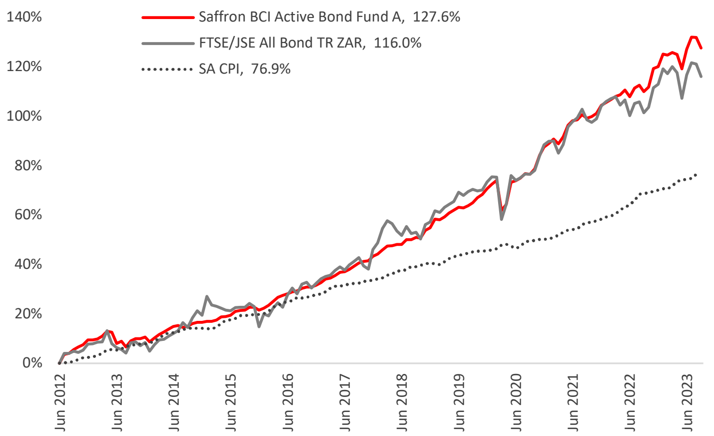
# SAFFRON BCI ACTIVE BOND FUND

CLASS A

Minimum Disclosure Document (MDD)
30 September 2023

## Fund Performance

Since launch cumulative performance graph



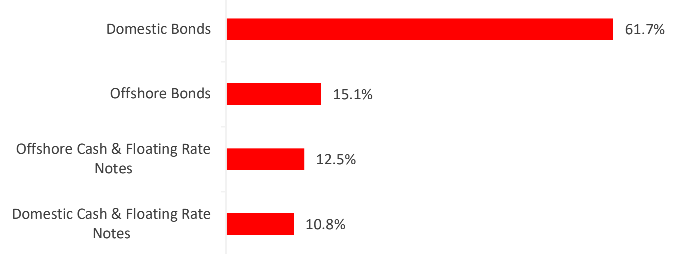

| Monthly % | Oct'22 | Nov'22 | Dec'22 | Jan'23 | Feb'23 | Mar'23 | Apr'23 | May'23 | Jun'23 | Jul'23 | Aug'23 | Sep'23 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund | 0.87 | 3.54 | 0.37 | 2.27 | -0.14 | 0.47 | -0.41 | -2.55 | 3.59 | 2.18 | -0.08 | -1.82 |
| Benchmark | 1.07 | 3.91 | 0.62 | 2.94 | -0.87 | 1.32 | -1.11 | -4.79 | 4.58 | 2.29 | -0.23 | -2.34 |

| Yearly % | Sep'13 | Sep'14 | Sep'15 | Sep'16 | Sep'17 | Sep'18 | Sep'19 | Sep'20 | Sep'21 | Sep'22 | Sep'23 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund | 3.21 | 5.54 | 5.66 | 7.23 | 7.87 | 7.42 | 9.25 | 7.03 | 12.87 | 5.41 | 8.39 |
| Benchmark | 3.15 | 5.79 | 7.04 | 7.65 | 8.20 | 7.14 | 11.42 | 3.58 | 12.46 | 1.48 | 7.22 |

| | Cumulative Return (%) | | | | Annualised Return (%) | | | |
|---|---|---|---|---|---|---|---|---|
| | Fund | Benchmark | Cash | Inflation | Fund | Benchmark | Cash | Inflation |
| 1 Year | 8.39 | 7.24 | 7.32 | 4.81 | 8.39 | 7.24 | 7.32 | 4.81 |
| 3 Years | 28.97 | 22.38 | 15.79 | 18.32 | 8.85 | 6.96 | 5.01 | 5.77 |
| 5 Years | 50.81 | 41.24 | 30.01 | 27.26 | 8.56 | 7.15 | 5.39 | 4.94 |
| 10 Years | 108.95 | 99.58 | 75.74 | 65.08 | 7.65 | 7.15 | 5.80 | 5.14 |
| Inception | 127.66 | 116.05 | 86.40 | 76.91 | 7.59 | 7.09 | 5.69 | 5.20 |

## Fund Holdings

Asset Allocation (%); *(May not add up to 100% due to rounding)*




## Risk Statistics (3 Year Rolling)

| | |
|---|---|
| Standard Deviation | 4.78 |
| Sharpe Ratio | 0.08 |
| Information Ratio | -0.37 |
| Maximum Drawdown | -2.95 |

## Highest and Lowest Annual Returns

Time Period: Since Inception to 30/09/2023

| | |
|---|---|
| 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.*

## 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 830.32 million |
| NAV Price (Fund Inception) | 100.00 cents |
| NAV Price as at month end | 136.15 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 | Daily |
| Portfolio Valuation Time | 15:00 |
| Transaction Cut Off Time | 14:00 |
| Regulation 28 Compliant | No |

## Distribution History (cents per unit)

| | | | | | |
|---|---|---|---|---|---|
| 02/10/2023 | 2.41 | 03/10/2022 | 1.87 | 03/01/2022 | 4.62 |
| 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 |

| | |
|---|---|
| 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**:** 1.42% (PY: 1.42%)
Of the value of the Fund was incurred as expenses relating to the administration of the Fund.

**TC:** 0.02% (PY: 0.02%)
Of the value of the Fund was incurred as costs relating to the buying and selling of the assets underlying the Fund.

**TIC:** 1.44% (PY: 1.44%)
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.

Valuation takes place daily and prices can be viewed on our website (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 2023, whilst the underlying portfolios' ratio and cost calculations are based upon their most recent published figures, being 30 June 2023.

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. 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

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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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## Fund Manager Quarterly Comment - As at 30 September 2023

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

Through the third 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. The European Central Bank (ECB) raised rates by 50bp, the US Federal Reserve (Fed) and Bank of England (BoE) raised rates by 25bp, while the South African Reserve Bank (SARB) opted for no change.

As anticipated, the Fed decided to maintain the federal funds target rate range at 5.25% to 5.50%. This decision was informed by its revised economic outlook, with unemployment expectations for the current year dropping to 3.8% and GDP growth projections rising to 2.1% year-on-year. Fed Chair Powell highlighted encouraging trends, such as robust consumer spending and some housing sector improvements. Nevertheless, he acknowledged the challenge posed by higher mortgage rates. Looking ahead to 2024, the Fed's forecasts indicate a 4.1% unemployment rate and 1.5% GDP growth. In 2025, a rebound is expected, with the economy growing at a 1.8% year-on-year rate, alongside a 4.1% unemployment rate. The Fed's primary objective remains centred on achieving the 2.0% core PCE inflation target over the coming years, all while recognising that the cumulative impact of rate hikes will take time to become evident. Over the quarter, the yields on US 5-year and 10-year generic bonds increased by 45 and 73bp respectively, while the US Dollar Index (DXY) exhibited a gain of 3.2%. Over the past year, the yields on US 5-year and 10-year generic bonds experienced increases of 65 and 83bp respectively, while the US Dollar Index (DXY) recorded a loss of 5.3%. The difference between the US 10-year bond yield and the 2-year bond yield decreased to a c. 50bp from a c. 100bp inversion in the yield curve.

The ECB's account of its July meeting revealed a balanced discussion between hawks and doves. Some advocated for further action to combat inflation, while others stressed the importance of secondary objectives like employment. The shift in inflation drivers toward demand-side factors was acknowledged, but concerns arose about weakening GDP performance and potential labour market impacts. The ECB remains open to future policy actions but is unlikely to raise rates further and won't consider rate cuts anytime soon, with a potential easing move expected around June 2024 to alleviate monetary policy restrictiveness.

The BoE raised its benchmark interest rate by 25 basis points to 5.25%, marking the 14th consecutive rate hike and signalling a restrictive monetary stance. The decision was not unanimous, with six votes in favour of the 25bps hike, two for a 50bps increase, and one for keeping rates steady. The bank's mean CPI projection is 2.0% for the two-year horizon, assuming policy rates peak at just over 6.0%. The market reacted with a slight drop in rate expectations to just under 5.75%. Governor Andrew Bailey suggested that the BoE may be approaching the peak of its tightening cycle but emphasised that future decisions would be data-driven, with a focus on returning inflation to the 2% target. The policy debate is shifting from rate levels to how long they should remain at this level.

The VIX Index, which measures market volatility, traded higher at 17.52 at quarter-end, representing an increase of 3.93. The J.P. Morgan Emerging Market Bond Index (EMBI) Sovereign Spread widened slightly by 6bp, closing the quarter at 396bp, with the index returning -2.63%. Credit Default Swaps (CDS) for SA's 5-year widened to 280bp (an increase of 14bp), while Brazil's widened to 188bp (an increase of 11bp), and Turkey's tightened to 398bp (a decrease of 89bp). By the end of the quarter, Brent crude oil closed significantly higher at USD 92.20 per barrel, marking a 22.26% increase over the quarter. The CRB Commodities and Metals Index returned 0.13% and -0.27% respectively. Palladium, platinum, and copper were flat, returning 1.44%, 0.18%, and -1.32% respectively. In contrast, gold gained 5.40% over the quarter.

During the quarter, the South African rand exhibited a slight depreciation of 0.39% against the USD, tracking the relatively flat trend observed in metals markets. Over a rolling one-year period, the USDZAR exchange rate experienced a decline of -4.63%, while the CRB Metals Index displayed strength, recording a gain of 2.67%. Additionally, the South African rand faced notable depreciation against other major currencies, including a -12.75% drop against the euro and a -14.25% decrease against the pound. Within the South African asset class universe, the top-performing asset class for the quarter was Cash (STeFI Index), which delivered a solid return of +2.05%. In contrast, nominal bonds (ALBTR Index) yielded a negative return of -0.36%, while inflation-linked bonds (CILITR Index) posted a slight positive return of +0.78%. Equity (JALSHTR Index) and Listed property, on the other hand, experienced returns of -3.48% and -0.97%, respectively. Looking at performance over a 12-month period, Equity (JALSHTR Index) emerged as the standout asset class with a return of +17.68%. In comparison, Inflation-linked bonds (CILITR Index) delivered a mere +2.98%.

The SARB decided to maintain the repo rate at 8.25%, in line with expectations. Notably, the SARB adjusted its inflation forecast, lowering it by 10bp to 5.9% for 2023 but increasing it by 10bp to 5.1% for 2024, while keeping the 2025 forecast at 4.5%. These adjustments were influenced by factors such as rising food and fuel inflation estimates. Growth projections saw minimal changes, with an upward revision for 2023 to 0.7% from 0.4%, while 2024 and 2025 forecasts remained at 1.0% and 1.1%, respectively. The SARB emphasised the presence of "serious upside risks" to inflation, maintaining a hawkish stance. Additionally, the MPC underlined the QPM's role as a "broad policy guide," aligning the current repo rate with the QPM forecast for 2023. However, the QPM projections suggest a potential shallow and delayed loosening cycle in 2024, with a projected repo rate of 7.57%, decreasing to 7.31% in 2025. Overall, economic uncertainties persist, impacting both inflation and growth prospects.

At the time of writing, the 3x6s FRA priced in another c. 25bp rate increase to c. 8.50%. The 3-month JIBAR rate decreased by 17bp to 8.33% over the quarter, but increased by 187bp 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 tightened by 29bp to 9.22%. The short-end of the SAGB yield curve lifted significantly over the quarter (R186 and R2032 were 23bp and 57bp wider respectively), while the long-end lifted (R2048 yield was up +57bp). The 1- to 3-year bucket returned +0.03%, the 3- to 7-year bucket returned +0.37%, the 7- to 12-year bucket returned -0.12% and the 12+ years bucket -0.60% over the quarter.

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 geo-political 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. 8.50%.

The fund (Class A) returned 0.24% and 8.39% for the quarter and year respectively. In comparison, SA headline inflation rose by 4.80% for the year and the benchmark SA All Bond Total Return Index (ALBTR Index) returned 7.24%. The average for the ASISA category (South African - Interest Bearing – Variable Term) was 6.11%. On a rolling 3-year basis, the fund returned 8.85% (annualised) versus the ALBTR at 6.96% (annualised). Over the quarter, the fund decreased duration slightly to 4.62 years from 4.74 years versus the ALBI's duration of c. 5.61 years. The gross running yield of the fund was at 13.32% at quarter close.

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