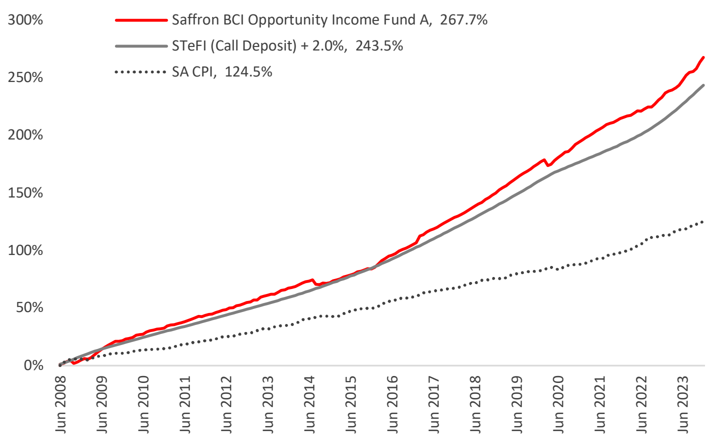
# SAFFRON BCI OPPORTUNITY INCOME FUND

CLASS A

Minimum Disclosure Document (MDD)
31 December 2023

## Fund Performance

Since launch cumulative performance graph



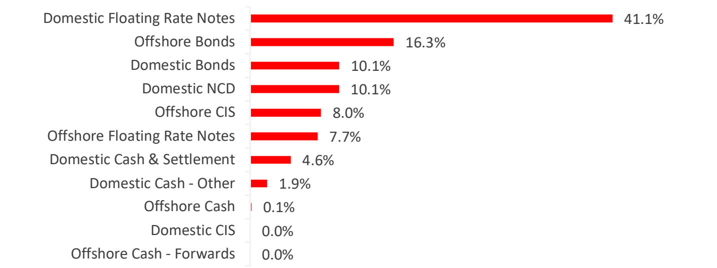

| Monthly % | Jan'23 | Feb'23 | Mar'23 | Apr'23 | May'23 | Jun'23 | Jul'23 | Aug'23 | Sep'23 | Oct'23 | Nov'23 | Dec'23 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund | 1.10 | 0.50 | 0.23 | 0.63 | 0.58 | 1.26 | 1.32 | 0.66 | 0.29 | 0.71 | 1.52 | 1.15 |
| Benchmark | 0.74 | 0.68 | 0.76 | 0.75 | 0.80 | 0.80 | 0.84 | 0.84 | 0.81 | 0.84 | 0.81 | 0.84 |

| Yearly % | Dec'12 | Dec'13 | Dec'14 | Dec'15 | Dec'16 | Dec'17 | Dec'18 | Dec'19 | Dec'20 | Dec'21 | Dec'22 | Dec'23 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund | 7.79 | 8.16 | 2.84 | 6.94 | 11.43 | 11.61 | 9.22 | 10.03 | 6.92 | 7.02 | 5.89 | 10.40 |
| Benchmark | 7.22 | 6.88 | 7.52 | 7.91 | 8.98 | 9.02 | 8.70 | 8.77 | 6.61 | 5.59 | 7.02 | 9.96 |

| | Cumulative Return (%) | | | | Annualised Return (%) | | | |
|---|---|---|---|---|---|---|---|---|
| | Fund | Benchmark | Cash | Inflation | Fund | Benchmark | Cash | Inflation |
| 1 Year | 10.40 | 9.96 | 7.80 | 5.52 | 10.40 | 9.96 | 7.80 | 5.52 |
| 3 Years | 25.10 | 24.26 | 17.10 | 19.51 | 7.75 | 7.51 | 5.40 | 6.12 |
| 5 Years | 47.17 | 44.10 | 30.52 | 27.78 | 8.04 | 7.58 | 5.47 | 5.02 |
| 10 Years | 119.87 | 115.93 | 77.15 | 66.47 | 8.20 | 8.00 | 5.88 | 5.23 |
| Inception | 267.74 | 243.77 | 152.48 | 128.14 | 8.71 | 8.24 | 6.12 | 5.43 |

## Fund Holdings

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




## Risk Statistics (3 Year Rolling)

| | |
|---|---|
| Standard Deviation | 1.21 |
| Sharpe Ratio | -0.23 |
| Information Ratio | -0.35 |
| Maximum Drawdown | -0.07 |

## Highest and Lowest Annual Returns

Time Period: Since Inception to 31/12/2023

| | |
|---|---|
| Highest Annual % | 18.73% |
| Lowest Annual % | 2.84% |

## 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. Removel of Regulation 28. Annualised return is the weighted compound growth rate over the period measured.*

## Fund Objective

The Saffron BCI Opportunity Income Fund is a specialist income portfolio that seeks investment opportunities that meet the objective of delivering an enhanced level of income and stability on capital invested.

## 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, bonds, inflation linked bonds, loan stock, notes, debentures, debenture bonds, convertible bonds, preference shares, listed property securities and property related securities, money market instruments, corporate debt, convertible equities, other interest-bearing securities 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 June 2008 |
| Fund Size | ZAR 1366.47 million |
| NAV Price (Fund Inception) | 100.00 cents |
| NAV Price as at month end | 130.32 cents |
| JSE Code | MIPP |
| ISIN Number | ZAE000120044 |
| ASISA Fund Classification | South African - Multi Asset - Income |
| Benchmark | STeFI Call Deposit index plus 2% p.a. |
| 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)

| | | | | | |
|---|---|---|---|---|---|
| 02/01/2024 | 2.41 | 03/01/2023 | 2.06 | 25/03/2022 | 1.37 |
| 02/10/2023 | 2.40 | 03/10/2022 | 2.09 | 03/01/2022 | 1.53 |
| 03/07/2023 | 2.33 | 01/07/2022 | 1.81 | 01/10/2021 | 1.54 |
| 03/04/2023 | 2.29 | 01/04/2022 | 0.05 | 01/07/2021 | 1.49 |

| | |
|---|---|
| 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**: 1.24% (PY: 1.22%) | TC: 0.01% (PY: 0.01%) | TIC: 1.25% (PY: 1.23%) |
|---|---|---|
| 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.

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 September 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

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.

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## Fund Manager Quarterly Comment - As at 31 December 2023

The fund (Class A) returned 3.42% and 10.40% over the course of the quarter and year respectively, while the benchmark (STeFI Call Deposit +2.0%) returned 2.51% and 9.96%. Over a rolling one-year period, the fund return beat the enhanced cash benchmark during a period of notable market volatility. The 1-year average for the ASISA category was 9.47%. Currency hedged offshore debt (c. +1.41%), Domestic Floating Rate Notes (c. +1.12%) and Domestic Bonds (c. +0.75%) were the main contributors to the return over the quarter.

The quarter unfolded with pivotal global financial events, including the Federal Reserve maintaining the US interest rate, the ECB's commitment to inflation targets, and the BOE's focus on managing inflation. Market indicators like the VIX Index, sovereign spreads, and currency performances reflected changing sentiments. In the South African market, currency depreciation and varied asset class performances were notable, while the SARB's cautious stance suggested considerations for potential easing.

The Federal Reserve's decision to maintain the US interest rate at 5.25-5.50% during the December meeting had profound effects on financial markets. Despite the initial expectation of policy stability, Fed Chair Powell's hint at potential future interest rate cuts sparked a significant market reaction. This was evident in various indicators, such as the 2-year Treasury yield experiencing a notable drop of nearly 30 bps, the S&P500 closing 1.4% higher, and the US dollar showing signs of weakness. The release of the 'dot plot' projections provided further insight into the Federal Open Market Committee (FOMC) members' expectations, with the median projection suggesting an anticipation of 75 bps in interest rate cuts for the following year, along with additional reductions forecasted for 2025 and 2026. As at the time of writing, the FRA market was pricing in 5 x 25bp worth of rate cuts in 2024. Examining the broader trends over the quarter, the yields on US 5-year and 10-year generic bonds saw substantial declines of 76 and 69 bps, respectively, while the US Dollar Index (DXY) displayed a noteworthy loss of -4.56%. Taking a broader annual perspective, the yield on US 5-year bonds experienced a reduction of 16 bps, while the 10-year yield remained unchanged. Additionally, during this period, the DXY registered a loss of -2.11%.

In the recent ECB update, the decision to keep the three key ECB interest rates unchanged highlighted a firm commitment to achieving a timely return of inflation to the 2.00% target, despite recent declines. Looking ahead, the Governing Council outlined plans to advance the normalisation of the Eurosystem's balance sheet, intending to reduce the PEPP portfolio throughout the second half of 2024 and cease reinvestments by end 2023. Despite a decline in market interest rates, the outlook for financial stability remains delicate, marked by geopolitical tensions. Meanwhile, the BOE's decision to maintain its benchmark interest rate at 5.25%, the highest in 15 years, reflects an ongoing commitment to implementing restrictive monetary policy to manage inflation. There's a possibility of additional tightening measures if inflation persists, although market expectations still lean towards a decrease in UK interest rates next year. As at quarter-end, the FRA market (9x12s) was pricing in nearly 1.0% worth of rate cuts.

At the close of the quarter, various indicators reflected noteworthy changes in market dynamics. The VIX Index, a measure of market volatility, closed at 12.45, marking a decrease of 5.07. The J.P. Morgan Emerging Market Bond Index (EMBI) Sovereign Spread tightened by 50 bps, finishing the quarter at 345 bps, with the index delivering a positive return of +9.26%. Examining Credit Default Swaps (CDS), the 5-year CDS for South Africa tightened to 203 bps, showing a significant decrease of 78 bps. Similarly, Brazil's CDS tightened to 133 bps, reflecting a 55 bps reduction, and Turkey's CDS tightened to 284 bps, representing a substantial decrease of 115 bps. Turning to the energy sector, Brent crude oil concluded the quarter at USD 77.04 per barrel, marking a significant decrease of -16.44%. Commodity price movements over the quarter, on which most emerging market economies are dependent, showed the CRB Commodities and Metals Index returning -6.72%, with commodities and metals experiencing divergent trends. Platinum, gold, and copper posted positive returns of +9.25%, +5.40%, and +3.06%, respectively, while palladium incurred a loss of -11.84%.

The South African rand depreciated by -2.96% against the USD over the quarter, aligning with the prevailing trend in the metals markets. Over the preceding one-year period, the USDZAR exchange rate depreciated by -7.78%, contrasting with the robust performance of the CRB Metals Index, which recorded a gain of 2.23%. Notably, the South African rand experienced significant depreciation against other major currencies, registering a -10.63% decrease against the euro and a -13.13% drop against the pound. Within the South African asset class landscape, the top-performing asset class for the quarter was listed property (JSAPYTR Index) at +16.37%, followed by nominal bonds (ALBTR Index) at +8.08%, equity (JALSHTR Index) at +6.92%, and inflation-linked bonds (CILITR Index) at +6.03%. Examining the performance over a 12-month period, property emerged as the standout asset class with a return of +10.15%, while inflation-linked bonds (CILITR Index) delivered a more modest +7.08%.

At the November MPC meeting, the South African Reserve Bank (SARB) maintained a restrictive policy stance, emphasising a focus on inflation risks. Despite a generally hawkish tone, the statement included less hawkish elements, such as a slower increase in South Africa's inflation rate compared to peers and a sharp reduction in the fuel inflation forecast for 2024. Having raised rates by 475 basis points in the current cycle, the SARB anticipates inflation comfortably within the target range by 2024, with the 4.5% midpoint expected only by 2Q25. The SARB adjusted its inflation forecast to 5.8% for 2023 and 5.0% for 2024, while maintaining the forecast for 2025 at 4.5% and providing a similar outlook for 2026. GDP growth estimates were revised up for this year and the next two years to 0.8%, 1.2%, and 1.3%, respectively. Risks to the outlook include a weak rand, higher country risk premiums, and potential shocks to the oil price. The Quarterly Projection Model (QPM) suggests a marginal lowering of the repo rate forecast, hinting the start of a potential mild easing cycle in 2024. The 3-month JIBAR rate increased slightly to 8.40% over the quarter, rising by 114bps over the year, impacting the fund’s increased running yield. The 12-month T-bill average yield tightened by 4bps to 9.18%. The SAGB yield curve saw significant tightening, with the short-end R186 and R2032 contracting by 75bps and 113bps, and the long-end R209 and R2040 tightening by 90bps and 75bps, respectively.

Looking ahead: Whilst major central banks have signalled being at the peak of the rate cycle, 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 / inverted, and at the time of writing, is expected to peak at c. 8.40%.

The fund continues to offer an attractive gross running yield of 11.00% per annum and is strategically positioned in the short end for stable policy rates and tactically positioned in longer duration bonds to capture higher yields and normalised inflation expectations. The fund duration was unchanged at quarter-end at 1.00 year. High cash balances will allow the fund to benefit from value opportunities that are likely to present in this late stage of the global business cycle to achieve our objective of Cash (STeFI Call Deposit) +2.0%.

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