Merchant West Sanlam Collective Investments Worldwide Flexible Fund

Quarterly Report
Quarter ending 31 March 2024

Fund Details

Benchmark	ASISA Category	Portfolio Managers	Suitable Investor
CPI + 6%	Worldwide Multi Asset Flexible	Piet Viljoen Daniel King	This Merchant West Sanlam Collective Investments Worldwide Flexible Fund is suitable for investors seeking to both preserve and grow their wealth in real, hard currency terms (US Dollars) over time. The Fund is unrestricted in its choice of investments by asset class, size, industry or geography and has a recommended investment horizon of seven years or more.

Top 10 Holdings

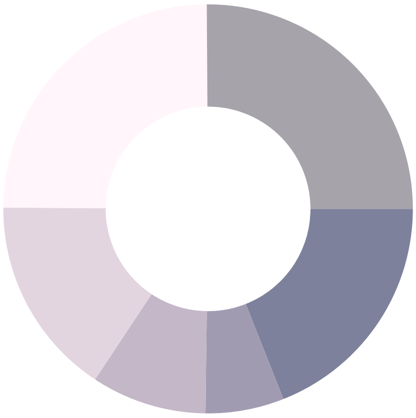
Top 10 Holdings	%
SPDR Gold Shares ETF	11,7
RSA Govt Bond R2040 9.0% 31012040	9,6
US TB 2.5% 30042024	5,6
US TB 1.875% 30062026	5,6
RSA Govt Bond R2035 8.875% 28022035	4,0
Merchant West Sanlam Collective Investments Value Fund Class H	4,0
iShares Core MSCI Japan ETF	3,6
iShares Core FTSE 100 ETF	3,4
Wheaton Precious Metals Corporation	3,3
Franco-Nevada Corporation	3,0

Annualised Performance	Fund %	Benchmark %
3 months	2,3	2,6
1 year	9,5	11,5
3 years	10,6	12,2
5 years	5,1	11,2
10 years	2,7	11,1
Since inception	9,7	11,3

Launch Date (April 2003)

Asset Allocation

Portfolio Date: 31/03/2024



Asset Allocation	%
GlobalEquity	19,0
SA Equity	6,2
Global Fixed Income	9,1
SA Fixed Income	15,8
Global Commodities	24,8
Global Cash	25,1
Total	**100**

Annual Returns

Annual Returns	%
Highest Annual %	28,9
Lowest Annual %	-19,8

The Fund

The Merchant West Sanlam Collective Investments Worldwide Flexible Fund is an unconstrained, globally diversified fund that invests in a set of diversified asset classes: cash, bonds, equity, and commodities.

In the years leading up to 2020, the fund had performed particularly poorly. At that time, the funds' investment strategy was changed, as described below.

Investment Philosophy

The Fund is domiciled in South Africa, and its units are denominated in rand. But its goal is to generate a real return in US dollar terms over time, i.e., a return more than the USA inflation rate.

In simple terms, we expect the Fund to grow, in US$ terms, in line with or above US rates of inflation, thereby preserving the real value of your capital in hard currency terms. Importantly, it aims to do so with lower-than-average levels of volatility.

That is why our nickname for the Fund is "The Cockroach Fund" – it aims to survive during negative environments and thrive in positive ones.

Investment Process

The manager's point of departure is that the future is unknowable. As such, investors should be prepared for any eventuality. The best way to do so is to own a diversified group of asset classes, each one able to protect or grow your capital as the environment determines.

The assets the Fund uses to hedge, protect and grow are:

1. Cash – as a store of value, an income generator, and to have the firepower to deploy when one of the other assets declines sharply.
2. Bonds – to benefit from deflationary conditions and to provide a stable source of income.
3. Equities – to provide long-term capital growth.
4. Commodities/hard assets – to protect against inflationary conditions.

Each asset class is allocated around 25% of the Fund's assets, and weights are rebalanced every two to four months, depending on market movements. Importantly, assets are rebalanced in reaction to market movements, not in anticipation of them. Over time, forecasting market movements consistently well is not a skill in which we have an edge.

Within each asset class, we tend to allocate to components that are either at an attractive point in their capital cycle, undervalued, under owned and misunderstood, or play a specific role. We tend to use ETFs, funds or investment companies to gain exposure to attractive assets; specific stock picks are the exception, not the rule

Performance Review

There are two ways to read the Fund's performance, both given in the table below.

The first section of the table looks at the rand returns of the Fund, its benchmark, and its peers, while the second section does the same in US dollar terms. The third section of the table gives the returns of the benchmarks for the four different asset classes used in the fund.

A few comments: Global developed equity markets started the year on a strong note, continuing the recovery seen in the fourth quarter of 2023. Once again it was largely the so-called magnificent seven stocks in the USA that drove markets substantially higher. As was mentioned in the December 2023 quarterly report, the Merchant West Sanlam Collective Investments Worldwide Flexible Fund is bound to underperform its peers during a period of strong growth in equity prices as the Fund will only have about 25% exposure to this asset class. With the strong rebound in global equity prices since October last year, the Fund's underperformance over the past year therefore does not come as a surprise. The Fund's relatively high exposure to South African and Namibian bonds (±17%) over the short term also detracted from overall performance in both rand and US dollar terms.

Despite the low equity exposure, the Fund has managed to outperform SA inflation over the short to medium term (three years and shorter). However, this has not been the case when comparing the Fund's returns in US dollars against US inflation. The main reason for this is because of the Fund's low exposure to global equities (specifically technology-centric companies) and the weaker rand-dollar exchange rate.

But, over time, assets will rise and fall, and the Fund should provide a fairly steady return, as is evident in the three-year period. This period is relevant as the Fund's investment strategy was changed in September 2020 (i.e., three and a half years ago) from a "South African balanced fund centric" view of the world to a "global multi-asset perspective" with less emphasis on benchmark relative allocations. Over this period, the Fund has done better than the peer group and generated above-inflation returns in rand.

Returns in ZAR	**3 Months**	**1 Year**	**3 Years (p.a.)**
Merchant West Sanlam Collective Investments Worldwide Flexible Fund	2.3	9.5	10.6
SA Multi-Asset Flexible Funds Avg.	5.7	17.3	9.6
SA Inflation Rate (CPI)	1.1	5.6	6.1
Returns in US$	**3 Months**	**1 Year**	**3 Years (p.a.)**
Merchant West Sanlam Collective Investments Worldwide Flexible Fund	-1.2	2.6	1.8
SA Multi-Asset Flexible Funds Avg.	2.1	9.9	0.9
US Inflation Rate (CPI)	1.1	3.2	5.7
Returns in US$	**3 Months**	**1 Year**	**3 Years (p.a.)**
Cash (US Gov Money Market Funds Avg.)	1.2	4.8	2.4
Bonds (US Treasury 7–10 Year Index)	-1.4	-1.5	-3.7
Equities (MSCI All Countries World Index)	8.2	23.2	7.0
Gold (US$)	8.2	13.4	9.4

Note: Inflation rates lagged by one month

A secondary objective for the Fund is to achieve its returns with low volatility. This objective was achieved – as is evident in the Fund's downside risk and maximum drawdown, which are significantly lower relative to global equities (MSCI ACWI) and the peer group over the past three years. The Fund has, therefore, lived up to its nickname, "The Cockroach Fund", as it remains relatively stable in a volatile world where risks abound.

Not only has the Fund performed well since the new investment strategy was implemented, but it has also managed to do so with class-leading low levels of volatility – and especially downside volatility. The following table shows how the Fund compares to the sector average across some important metrics.

Three years to 31 March 2024

Fund/Sector	Return	Volatility	Downside Risk	Maximum Drawdown
Merchant West Sanlam Collective Investments Worldwide Flexible Fund (ZAR)	10.6%	6.5%	5.3%	-5.1%
Rank in sector	27/97	3/97	3/97	4/97
Sector average: Multi-Asset Worldwide Flexible funds	9.6%	10.1%	9.1%	-13.0%

Source: FE Fund Analytics

There are 97 funds in the sector with a three-year track record. The cockroach was amongst the top-third performers over the period, while showing the 3rd lowest volatility and downside risk, and the 4th lowest maximum drawdown.

Generating satisfactory returns with below-average volatility and downside risk is key to the investment process of the Fund. Investors – understandably – tend to disinvest when they suffer sharp drawdowns. If we can keep our investors' experience on a reasonably even keel, they will likely stay the course. And staying the course is the best way to get ahead in investing.

Fund Positioning

This table shows how the Fund's exposure to the asset class building blocks has changed over time:

	Mar-2023	June-2023	Sept-2023	Dec-2023	Mar-2024
Cash	**30%**	**23%**	**21%**	**25%**	**25%**
Global	26%	20%	21%	25%	25%
South Africa	4%	3%	0%	0%	0%
Bonds	**24%**	**30%**	**27%**	**26%**	**25%**
Global	4%	11%	11%	9%	9%
South Africa	20%	19%	16%	17%	16%
Equities	**23%**	**23%**	**27%**	**25%**	**25%**
Global	11%	12%	16%	16%	19%
South Africa	12%	11%	11%	9%	6%
Commodities*	**23%**	**24%**	**25%**	**24%**	**25%**
Global	23%	24%	25%	24%	25%
South Africa	0%	0%	0%	0%	0%
Total	**100%**	**100%**	**100%**	**100%**	**100%**
Global	64%	67%	73%	74%	88%
South Africa	36%	33%	27%	26%	22%

*** Note: Global Commodities includes exposure to commodity royalty and streaming companies.**

The first building block is cash. The weight of this asset class remains on target weight of 25%. The bulk of the Cash is held in US Treasury Bills (19%) offering a highly satisfactory low risk return. There is also a small exposure to Japanese yen (5%) and British pounds (1%), as well as de minimis holdings in ZAR for liquidity purposes.

The second building block is the bond or fixed-income asset class. Exposure to this building block decreased slightly during the quarter mainly due to the decline in the market value of the SA government bonds. For now, the fixed-income building block remains exposed to mainly South African rand-denominated bonds, where yields are significantly higher than inflation. At current yields of over 12%, the risk of loss is tiny, as the running yield swamps any capital loss which could result from even further interest rate increase, however unlikely. The Fund's offshore bonds are mainly in short-dated US government bonds, minimising duration and credit risk while picking up a nice spread over inflation.

The third building block is the equity asset class. Overall exposure to equities remained on target weight of 25%. However, exposure to SA equities was reduced with the sale of units in the Merchant West Sanlam Collective Investments Value Fund in favour of global equities with the purchase of a holding in the iShares MSCIEM Latin America ETF. The Fund's holding in Westaim Corporation, an investment holding company specialising in providing long-term capital to businesses operating primarily within the global financial services industry, was increased. Overall, the Fund is overweight emerging markets (still predominantly SA) and, in developed markets, underweight the US, in favour of Japan and the UK.

The fourth building block, commodities, increased slightly from 24% to 25% due to the strong gains in the SPDR Gold Shares ETF and Franco-Nevada, the Canada-based, gold-focused royalty and streaming company. The holding in Yellow Cake (a uranium holding investment company) was trimmed further after further strong price gains in the first half of January.

The Fund's exposure to South African rand-denominated assets declined further during the quarter from 26% at the end of December to 22% at the end of March 2024. The decline in rand-denominated assets can largely be ascribed to the reduction in South African equities. Notable is that the exposure to SA has reduced by almost 40% through the course of the year as lacklustre economic growth, with no sign of any improvement in the short term, as well as uncertainty surrounding the upcoming elections, has resulted in other emerging markets offering better prospects.

The only reason the Fund still has such a high exposure to South African assets is due its large holding of bonds, which continue to offer above-average, inflation-beating yields.

The global investment landscape continues to face several risks in 2024. The possibility of "higher-for-longer" interest rates in the US now seems inevitable rather than just a possibility, while the effects of multi-year high-interest rates have not yet fully filtered through into the economy. Although the global narrative for economic growth has shifted from talk of a so-called "hard landing" to a "soft-landing" to "no-landing", recession indicators have not dissipated. These include inverted yield curves, disrupted trade flows, supply chain shortages and increased uncertainty due to geopolitical tensions and political changes across the globe on the back of elections. We therefore continue to believe that the prospects for the global economy and financial markets remain uncertain and that a measure of caution will stand investors in good stead as we advance into 2024.

Finally, we thank you for your continued support of the Fund and look forward to working with you to continue creating positive financial outcomes.

Piet Viljoen	**Daniel King**	**Krynauw Strydom.**
Portfolio Manager	Portfolio Manager	Fixed Income Analyst