

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.

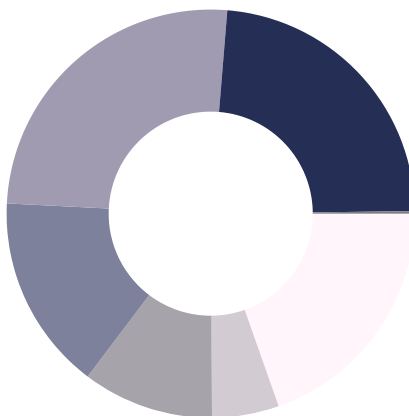
Top 10 Holdings

	%
SPDR Gold Shares ETF	13.0
RSA Govt Bond R2040 9.0% 31012040	11.6
US TB 1.875% 30062026	5.3
RSA Govt Bond R2044 8.75% 31012044	3.9
Texas Pacific Land Corporation	3.8
iShares Core MSCI Japan ETF	3.4
iShares Core FTSE 100 ETF	3.4
Berkshire Hathaway Inc	3.1
Wheaton Precious Metals Corporation	3.0
iShares Core Emerging Markets IMI ETF	2.9

Annualised Performance

	Fund %	Benchmark %
3 months	3.3	2.1
1 year	9.3	9.9
3 years	10.2	11.6
5 years	5.9	10.9
10 years	3.1	10.9
Since inception	9.7	11.2

Launch Date (April 2003)

Asset Allocation Portfolio Date: 30/09/2024

Highest and Lowest Annual Returns

	%
Highest annual return	28.9
Lowest annual return	-19.8

The Fund

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

In the years leading up to 2020, the Fund had performed particularly poorly. RECM's merger with Counterpoint, the acquisition of Bridge and the formation of Merchant West Investments provided the opportunity to change the Fund's investment philosophy and process. This was commenced in August 2020.

This document discusses that philosophy and process, and the investment outcome achieved so far.

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.

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

Our point of departure is that the future is unknowable. As such, the Fund 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, depending on the investment environment.

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

1. Cash – as a store of value, a stable income generator, and to provide the firepower to deploy when one of the other asset classes declines sharply.
2. Bonds – to protect against, and benefit from, deflationary conditions. Bonds are also used to provide a stable source of income.
3. Equities – to provide long-term capital growth.
4. Commodities/hard assets – to protect against, and benefit from, 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. 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. We tend to use ETFs, funds or investment holding 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.

We tend to focus on returns relative to the benchmark – i.e., inflation – rather than relative to the peer group. If the Fund beats its benchmark over time, it will do well relative to the peer group. This Fund looks different to its peer group as it is trying to solve a different problem for its investors. Thus, the peer group does not represent the Fund's set of investment opportunities.

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 equity markets continued their upward trajectory over the September quarter, with the MSCI World Index gaining 6.4% and the MSCI Emerging Markets Index gaining 8.6%, both in US dollars. Over the one-year period, MSCI World delivered a return of 32.4% and MSCI Emerging Markets 26.2%.

The Fund performed well over the quarter, outperforming both its benchmark and peer group average. The outperformance was achieved despite the Fund's low exposure to equities and can be ascribed to its relatively large exposure to gold and South African government bonds. While the Fund's one-year return is below that of the peer group, it is still comfortably above SA and US inflation – both in rand and in US dollar terms. Over the three-year period, as well as since the new investment strategy was finally implemented at the end of September 2020, the Fund has outperformed its peer group as well as its benchmark.

Returns in ZAR	3 Months	1 Year	3 Years (p.a.)	Since 30/09/2020
Merchant West SCI* Worldwide Flexible Fund	3.3	9.3	10.2	9.9
SA Multi-Asset Flexible Funds Avg.	2.5	15.2	8.7	9.7
SA Inflation Rate (CPI)	0.6	4.4	5.6	5.4
Returns in US\$	3 Months	1 Year	3 Years (p.a.)	Since 30/09/2020
Merchant West SCI* Worldwide Flexible Fund	9.5	19.5	5.4	9.0
SA Multi-Asset Flexible Funds Avg.	8.6	26.0	3.9	8.8
SA Inflation Rate (CPI)	0.2	2.5	4.8	4.9
Returns in US\$	3 Months	1 Year	3 Years (p.a.)	Since 30/09/2020
Cash (US Gov Money Market Funds Avg.)	1.2	4.9	3.2	N/A
Bonds (US Treasury 7-10 Year Index)	5.7	11.0	-2.7	-4.5%
Equities (MSCI All Countries World Index)	6.6	31.8	8.1	12.6
Gold (US\$)	13.3	42.6	14.5	7.3

*Note: Inflation Rates lagged by one month

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. The Fund has, therefore, lived up to its nickname, "The Cockroach Fund", as it remains relatively stable in a volatile world where risks abound.

From 30 September 2020 to 30 September 2024				
Fund/Sector	Return	Volatility	Downside Risk	Maximum Drawdown
Merchant West SCI* Worldwide Flexible Fund (ZAR)	9.9%	6.3%	5.5%	-5.1%
Rank in Sector	35/90	2/90	2/90	3/90
Sector Average: Multi-Asset Worldwide Flexible Funds	9.7%	9.3%	9.0%	-13.0%

Source: FE Fund Analytics

There are 90 funds in the sector with a four-year track record. The cockroach was comfortably in the top-half of performers over the period, while showing the 2nd lowest volatility and downside risk, and the 3rd 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:

	Sept-2023	Dec-2023	Mar-2024	June-2024	Sept-2024
Cash	21%	25%	25%	24%	23%
Global	21%	25%	25%	22%	23%
South Africa	0%	0%	0%	2%	0%
Bonds	27%	26%	25%	26%	26%
Global	11%	9%	9%	11%	10%
South Africa	16%	17%	16%	15%	16%
Equities	27%	25%	25%	24%	25%
Global	16%	16%	19%	19%	20%
South Africa	11%	9%	6%	5%	5%
Commodities*	25%	24%	25%	26%	26%
Global	25%	24%	25%	26%	26%
South Africa	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%
Global	73%	74%	78%	78%	79%
South Africa	27%	26%	22%	22%	21%

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

The first building block is cash. The weight of this asset class is slightly below target weight at 23%. The bulk of the cash is held in US Treasury Bills (22%) offering a highly satisfactory low risk return.

The second building block is the bond or fixed-income asset class. Exposure to this building block remained at 26% over the quarter, but the strong increase in the price of SA government bonds resulted in an increase in the SA bond exposure, while the stronger rand left the global bond exposure slightly lower. US bond exposure was reduced slightly as yields declined, with some of the proceeds used to increase exposure to Mexican government bonds. The Fund's offshore bond exposure is still held mainly in short-dated US government bonds, minimising duration and credit risk while continuing to pick up a nice spread over inflation. For now, the fixed-income building block remains exposed to mainly South African rand-denominated bonds, where yields remain significantly higher than inflation despite the recent decline in yields.

The third building block is the equity asset class, which is at target weight of 25%. Exposure to iShares Core MSCI World ETF was increased to ensure that overall equity exposure remains at the neutral weight of 25%. Exposure to FRMO, effectively crypto exposure, which is being built up over time, was also increased. The Fund sold out of offshore small caps Syncona and Westaim, which do not suit the Fund's equity strategy, and managed to sell out of some of its holding in Russian TCS. Overall, the Fund is overweight emerging markets and, in developed markets, underweight the US in favour of Japan and the UK. The Fund has a mix of exposure to growth (via investment holding company Berkshire Hathaway's holding of Apple, investment holding company EXOR's holding of Ferrari and the Core Emerging Markets ETF holdings of Tencent and other EM growth stocks) and value (via the Merchant West SCI* Value Fund as well as investment holding company Astoria).

The fourth building block, commodities, remained slightly overweight at 26%. Exposure to Wheaton Precious Metals was reduced while Texas Pacific Land was increased, a switch – at the margin – of gold into oil. Texas Pacific Land was the Fund's top performer over the September quarter with a return of 15.5% in rand terms.

The Fund's exposure to South African rand-denominated assets decreased to 21% at the end of the September quarter, from 22% at the end of June, due mainly to a decline in the SA cash holding. The largest exposure to local assets remains South African government bonds, which continue to offer above-average, inflation-beating yields.



While the global economy continues to grow at a modest pace and inflation and interest rates are on a downward trajectory, several risks remain. These include escalating tensions in the Middle East (which could result in higher oil prices and pose a risk to lower inflation expectations), a recession in the US which still cannot be ruled out, as well as the uncertainty surrounding the upcoming election in the US. We therefore continue to believe that the prospects for the global economy and financial markets remain uncertain and that exposure to a well-diversified portfolio – such as that offered by the Merchant West SCI* Worldwide Flexible Fund – will stand investors in good stead as we advance into the final quarter of 2024 and a new year.

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
Portfolio Manager

Daniel King
Portfolio Manager

*Sanlam Collective Investments

Disclaimer

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