Denker SCI Equity Fund*

Minimum Disclosure Document

As of 31/08/2020

DENKER CAPITAL

MDD Issue Date: 17/09/2020

Fund Objective

The objective of the fund is to offer investors a reasonable level of current income and long-term wealth creation through active management of the portfolio.

Fund Strategy

This is an equity fund which diversifies across all sectors of the JSE and may invest a maximum of 30% in offshore assets. The fund invests in financially sound companies when they are attractively priced relative to their long-term return potential. The investment universe may include participatory interests of underlying unit trust portfolios.

Why Choose This Fund?

- Access to a broad range of opportunities. Our structure gives us the ability to focus on investments and access opportunities that build wealth for investors.
- Investors are exposed to global investment opportunities. The fund can invest up to 30% in foreign listed companies.
- We understand and manage risks. We concentrate on understanding the risks companies face so that we invest with a margin of safety and diversify the portfolio.
- Our interests are aligned with investors. The investment team invests their own money in the fund and in the Denker Capital business.

Fund Information

Ticker	SNVL
Portfolio Managers	Claude van Cuyck & Ricco Friedrich
ASISA Fund Classification	South African - Equity - General
Risk Profile	Aggressive
Benchmark	Composite: 87.5% FTSE/JSE Capped SWIX & 12.5% MSCI World Index
Fund Size	R 1,407,100,116
Portfolio Launch Date	01/10/1998
Fee Class Launch Date	01/10/1998
Minimum Lump Sum Investment	R 10,000
Minimum Monthly Investment	R 500
Income Declaration Date	June & December
Income Pricing Date	1st business day of July & January
Portfolio Valuation Time	15:00
Transaction Cut Off Time	15:00
Daily Price Information	Local media
Repurchase Period	2-3 business days

Fees (Incl. VAT)

	Retail Class (%)
Maximum Initial Advice Fee	3.45
Maximum Annual Advice Fee	1.15
Manager Annual Fee	1.55
TER	1.70
TC	0.19
TIC	1.89
Performance Fee	0.12
TER Measurement Period	01 July 2017 - 30 June 2020

Total Expense Ratio (TER) is the percentage value of the Financial Product that was incurred as expenses relating to the administration of the Financial Product. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER may not necessarily be an accurate indication of future TER's. The TER and Transaction Costs cannot be determined accurately because of the short life span of the Financial Product. Calculations are based on actual data where possible and best estimates where actual data is not available.

Transaction Cost (TC) is the percentage value of the Financial Product that was incurred as costs relating to the buying and selling of the assets underlying the Financial Product. Transaction Costs are a necessary cost in administering the Financial Product and impacts Financial Product 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 Financial Product, the investment decisions of the investment manager and the TER.

Total Investment Charges (TER + TC) is the total percentage value of the Financial Product that was incurred as costs relating to the investment of the Financial Product.

Manager Performance Fee (incl. VAT) | Performance Fee Benchmark: 87.5% of the FTSE/JSE Capped Shareholder Weighted Index (J433) and of the 12.5% MSCI World Net Total Return USD Index (NDDUWI), Base Fee: 1.53%, Fee at Benchmark: 1.53%, Fee Hurdle: 87.5% of the FTSE/JSE Capped Shareholder Weighted Index (J433) and 12.5% of the MSCI World Net Total Return USD Index (NDDUWI), Sharing Ratio: 20%, Minimum Fee: 1.53%, Maximum Fee: 3.42%, Fee Example: 1.53% p.a. if the fund performs in line with its Performance Fee Benchmark.

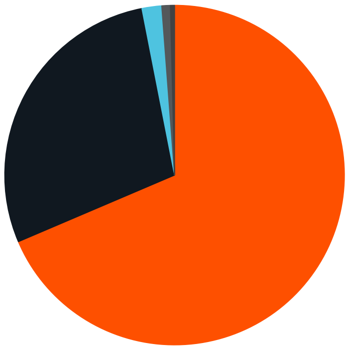
*The Denker Sanlam Collective Investments Equity Fund was renamed from the SIM Value Fund.

Top Ten Holdings

	(%)
Portfolio Date	**30/06/2020**
Naspers Ltd	9.30
Denker Global Financial Fund	8.74
Denker Global Equity Fund	5.82
Anglo American Plc	5.60
Prosus (PRX)	4.68
Samsung Electronics Company Ltd	4.10
Oracle Corporation	3.87
Alibaba Group Holding Ltd	3.21
Italtile Ltd	3.10
MTN Group Ltd	3.10

Asset Allocation

Portfolio Date: 30/06/2020



	%
SA Equity	68.59
Non-SA Equity	28.33
SA Cash	1.88
Non-SA Cash	0.81
SA Other	0.39
Total	**100.00**

Annualised Performance (%)

	Fund	Benchmark
1 Year	-4.03	0.61
3 Year	-1.48	-0.01
5 Years	-1.04	3.65
10 Years	6.41	9.82
Since Inception	15.75	14.42

Cumulative Performance (%)

	Fund	Benchmark
1 Year	-4.03	0.61
3 Years	-4.37	-0.03
5 Years	-5.11	19.60
10 Years	86.18	155.09
Since Inception	2,365.23	1,814.13

Highest and Lowest Annual Returns

Time Period: 01/01/2010 to 31/12/2019

Highest Annual %	22.21
Lowest Annual %	-6.41

Risk Statistics (3 Year Rolling)

Standard Deviation	15.18
Sharpe Ratio	-0.47
Information Ratio	-0.27
Maximum Drawdown	-23.88

Distribution History (Cents Per Unit)

30/06/2020	21.98 cpu	30/06/2019	25.33 cpu
31/12/2019	34.02 cpu	31/12/2018	29.26 cpu

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Sanlam

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Risk Profile

Aggressive
You can afford to take on a higher level of risk (i.e. will have a greater exposure to equities in your portfolio) because of your investment time horizon, or your appetite for risk. You know that in taking the risk, you need to be patient if you want to achieve the results. So you are willing to invest for the long-term and are prepared to tolerate some volatility in the short term, in anticipation of the higher returns you expect to receive in five years or beyond.

Glossary Terms

Active Stock-picking Process
This is when asset managers actively and tactically vary their stock selections based on economic and market data, and fundamental valuations, etc. This should lessen an investor's exposure to declining markets and helps preserve capital.

Annualised Returns
Annualised return is the weighted average compound growth rate over the period measured.

Asset Allocation
Asset allocation is the percentage holding in different asset classes (i.e. equities, bonds, property, etc.). It is used to determine the level of diversification in a portfolio.

Capital Growth
Capital growth is the profit made on an investment, measured by the increase in its market value over the invested amount or cost price. It is also called capital appreciation.

Distributions
The income that is generated from an investment and given to investors through monthly, quarterly, bi-annual or annual distribution pay-outs.

Derivatives
Derivatives are instruments generally used as an instrument to protect against risk (capital losses), but can also be used for speculative purposes. Examples are futures, options and swaps.

Feeder Fund
A feeder fund is a South African-based fund that feeds exclusively into its primary foreign-based fund. It allows investors easy access to investing in an offshore fund, eliminating complicated tax and other implications. The shares of the feeder fund represent shares in the primary fund (called a master fund).

Liquidity
The ability to easily turn assets or investments into cash.

Information Ratio
The Information Ratio measures the market risk-adjusted performance of an investment or portfolio. The greater a portfolio's Information Ratio, the better its risk-adjusted performance has been compared to the market in general.

LISP (Linked Investment Service Provider)
A Linked Investment Service Provider is a financial institution which packages, distributes and administers a broad range of unit trust based investments. Any investment made through these products gives an investor a single point of entry into a selection of different investments.

Maximum Drawdown
The maximum drawdown measures the highest peak to trough loss experienced by the fund.

Money Market Instruments
A money market instrument is a low risk, highly liquid, short-term (one year or less) debt instrument, issued by financial institutions or governments, that tend to have lower returns than high-risk investments.

Participatory Interests
When you buy a unit trust, your money is pooled with that of many other investors. The total value of the pool of invested money in a unit trust fund is split into equal portions called participatory interests or units. When you invest your money in a unit trust, you buy a portion of the participatory interests in the total unit trust portfolio. Participatory interests are therefore the number of units that you have in a particular unit trust portfolio.

Regulation 28
Regulation 28 of the Pension Funds Act sets out prudent investment limits on certain asset classes in investment funds. It applies specifically to investments in Retirement Annuities and Preservation Funds. The allowed maximum exposures to certain asset classes is: 75% for equities; 25% for property; 25% for foreign (offshore) and 5% African assets.

Sharpe Ratio
The Sharpe Ratio measures total risk-adjusted performance of an investment or portfolio. It measures the amount of risk associated with the returns generated by the portfolio and indicates whether a portfolio's returns are due to excessive risk or not. The greater a portfolio's Sharpe ratio, the better its risk-adjusted performance has been (i.e. a higher return with a contained risk profile, where the portfolio manager is not taking excessive risk to achieve those returns).

Standard Deviation
Standard deviation (also called monthly volatility) is a measure of how much returns on an investment change from month to month. It is typically used by investors to gauge the volatility expected of an investment.

Undervalued Equity Stocks/ Investing in Neglected Global Equities
This is a strategy of selecting shares that trade for less than their intrinsic values. Value investors actively seek stocks that they believe the market has undervalued. They believe the market overreacts to good and bad news, resulting in stock price movements that do not correspond with the company's actual long-term fundamentals. The result is an opportunity for value investors to profit by buying when the price is deflated.

Additional Information

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DENKER CAPITAL

Portfolio Manager Quarterly Comment

Quarter to June 2020

Market review

Global markets

While economies worldwide have taken a knock, global equity markets had one of the best quarters in stock market history. Markets jumped as governments and central banks announced unprecedented spending and liquidity support for the economy. On a total US dollar return basis - the S&P 500 Index gained 20.4% (it's third highest quarterly return in over 40 years), the MSCI World Index 19.4% and the MSCI Emerging Markets Index 18.1%. Despite some volatility during the quarter, yields on US 10 year maturity government bonds closed the quarter at similar levels as prevailed at the beginning of the quarter. The yield on 10 year German bonds, which are amongst the lowest risk bonds in Europe, ended the quarter at -0.4% (similar to the rate that prevailed at the start of the quarter).

In the second quarter headlines have focussed on the daily tally of Covid-19 deaths, vaccine trials, lockdowns and, finally, on the scale, frequency and consequences of unprecedented interventions by monetary authorities and lawmakers to support economies shuttered by lockdowns.

The US has one of the most flexible labour markets on the globe. Before the pandemic drove the US into recession, the unemployment rate was at a 50-year low of 3.5%. In April over 20 million Americans were laid off and unemployment reached 14.7%. By June, 8 million jobs had been created and unemployment in the US fell to 11.1%. Online betting sites show that Democratic nominee Joe Biden is most likely to win the presidential election (opinion polls have long had him in the lead). There is also a growing likelihood that the US senate might swing to the Democrats, or at least may be split evenly.

The UK recorded a 5.8% contraction in month-on-month output in March. The Bank of England said it expects GDP to fall by 14% in 2020. According to historical records, this would be the sharpest downturn since 1706.

South African markets

The FTSE/JSE Capped Swix gained 21.6% in rand. US dollar investors earned a slightly higher quarterly return as the rand strengthened from R17.84 to R17.32. SA 10-year maturity bond yields fell from 10.9% at the end of March to 9.6%. The South African Reserve Bank cut short-term interest rates to 3.75%.

The nationwide lockdown, justified by the effort to save lives and prepare health facilities, did substantial economic damage. In June Finance Minister Tito Mboweni presented the supplementary budget to parliament. Mboweni cautioned, "The public finances are dangerously overstretched… If we remain passive, economic growth will stagnate. Our debt will spiral inexorably upwards and debt-service costs will crowd out public spending on education and other policy priorities… Eventually the gains of the democratic era would be lost..." He then presented a budget that aims to achieve a primary surplus (revenues exceeding non-interest expenditure) by 2023/24. In the days following the supplementary budget, all three major ratings agencies announced scepticism about the credibility of the proposed budget.

Portfolio review

Last quarter we commented on the level at which market participants were panicking, as they have done in previous crises. We indicated that it was a good time to look for long-term investment opportunities because, as in the past, the crisis offered opportunities to buy great quality companies at attractive valuations. We also highlighted that valuations at the end of March were at 2 standard deviations below long-term averages (in terms of Price to Book multiples) and that it was a good time to allocate capital as the probability of achieving returns well above inflation over the next five years was high. This is what history has taught us and as Mark Twain has said, "history doesn't repeat itself, but it often rhymes". Although the economic outlook in South Africa is expected to remain challenging, especially as we slowly recover from the Covid-19 crisis, valuations are still extremely attractive.

Measured from the beginning of the year to the trough in the FTSE/JSE All Share Index on the 23rd March, the market had declined by 35.1%. The same index is down 3.2% for the year to date – which indicates a strong recovery from the lows seen in March. The FTSE/JSE Capped Swix is down 10.7% for the year, highlighting the influence of a stock like Naspers on the overall index performance. On a year to date basis, small cap shares are down 25.7%, financials are down 31.7% and property is down 37.6%. The fund had no exposure to property and little exposure to banks relative to the weighting of banks in the Capped Swix. The Industrial Index is up 6.8%, benefiting from the large weighting in Naspers. Resources are up 5.5% for the year, largely driven by the strong performance of gold shares. In Q2, the gold mining Index was up 68% and year to date it is up 75.8%. Notwithstanding the strong performance in gold shares through the crises, SA gold shares have poor business economics. They have consistently generated poor returns on invested capital and have not been good long-term investments. We don't invest in SA listed gold companies for this reason. This has been a drag on short-term relative performance. On the positive side, our investments in both Prosus and Naspers have delivered year to date returns of 52.6% and 38.1% respectively.

In Q1, we added to MTN and Sasol at extremely attractive prices and both recovered sharply in Q2. Sasol is up 258% in Q2, while MTN rose by 16.5% and is up 80% from its low in March. In Q2, we added to our positions in Investec, ABInbev, FirstRand, Sanlam, Reinet and a few small cap positions including Combined Motor Holdings, Hudaco and Italtile. We financed these purchases through the outright sale of Quilter, most of Dischem, Mediclinic and Woolies holdings as well as reducing exposure to Remgro and Foschini.

As we mentioned in last quarter's commentary, the crisis offered opportunities for us to improve the quality of the portfolio at attractive long-term valuations. Although the JSE Indices have recovered, this has been concentrated by a few stocks. The breadth of opportunities is large within the overall universe of the JSE. The portfolio pricing and value metrics remain compelling, with a historic PE ratio of 11.7x versus the benchmark of 14.3x and a portfolio dividend yield of 4.6%.

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