Marriott Core Income Fund

31 August 2021

This Minimum Disclosure Document (MDD) provides investors with key information that is intended to assist the investor in understanding the nature and risks of investing in this fund.

Fund Objective and Investment Approach

Marriott Core Income Fund has as its primary objective a high and growing managed income. To achieve this objective, apart from assets in liquid form, the portfolio will invest in high yielding equity, interest bearing and financial instruments. All securities, non-equity securities and financial instruments are to be listed on RSA exchanges or held via portfolios of collective investment schemes comprising such instruments. The fund may from time to time invest in financial instruments in order to meet its investment objectives. The primary objective is a yield comparable with the All Bond Index (ALBI) with an important secondary consideration being growth in income.

Fund Information

Registered Name	Marriott Core Income Fund
Fund Size	R 12,974,433,986.76
Price (NAV) Class A	112.81 cpu
Price (NAV) Class C	112.84 cpu
Distribution Class A	0.5586 cpu
Distribution Class C	0.5859 cpu

Key Features

Fund Classification (ASISA)	South African – Multi Asset – Income
Inception Date:	
Class A	5 February 2001
Class C (LISP-only)	1 July 2013
Base Currency	ZAR
Minimum Initial Investment	R500
Minimum Additional Investment	R300
Minimum Debit Order	R300
Distribution Declaration	Last working day of each month
Distribution Payment Dates	3 to 4 working days after declaration
Instruction Cut-off	15h00 daily
Fund Valuation Frequency	15h00 daily

Fees (excluding VAT)

Marriott Initial Fee	0 %
Marriott Annual Management Fee:	0.9 %
Class A	0.9 %
Class C (LISP-only)	0.65 %
Advisor Initial Fee (max)	3 %
Advisor Annual Fee (max)	0.5 %

TER/TC (including VAT)

Total Expense Ratio	
Class A	1.14 %
Class C (LISP-only)	0.82 %
Transaction Costs	
Class A	0.04 %
Class C (LISP-only)	0.04 %

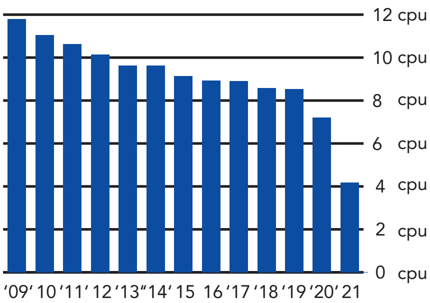
Risk Category Moderately Conservative

Low Medium High

This fund aims to provide a secure income stream with stability in capital. It also aims for modest growth on invested capital.

Distributions Since 2009

(Paid monthly in cents per unit)

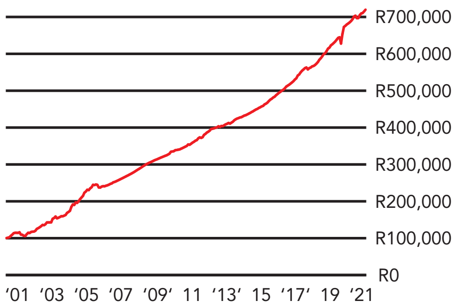


Class A

Source: **Marriott**

Total Returns Since Inception

(Assuming R100,000 invested at inception)

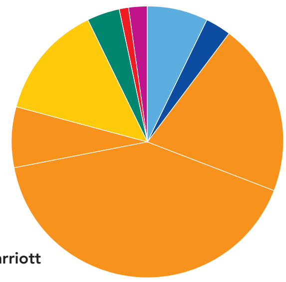


Class A

Source: **Marriott**

Current Asset Allocation

Cash and Short Term Fixed Deposits	7.3%
Medium Term Fixed Deposits	3.1%
RSA Government Bonds	
Treasury Bills	20.6%
R186	41.0%
R2030	7.4%
Floating Corporate Debt	13.5%
Fixed Corporate Debt	3.8%
Real Estate Inv Trusts	1.3%
Preference Shares	2.0%



Source: **Marriott**

Fund Limits and Constraints

None, other than the Collective Investment Schemes Control Act.

Performance

Net of all fees and expenses as per the TER disclosure (including income)

Class A

Annualised (pa)	1 year	2 years	3 years	4 years	5 years	Since Inception (Feb 2001)	Volatility of Return Since Inception: Highest 12 Months	Volatility of Return Since Inception: Lowest 12 Months
Income Return	5.7%	6.7%	7.4%	7.6%	7.8%	9.5%	-	-
Price Return	-0.2%	0.8%	0.9%	0.7%	0.5%	0.6%	-	-
Total Return	5.5%	7.5%	8.3%	8.3%	8.3%	10.1%	35.6%	0.9%

Source: **Marriott**

Class C (LISP-only)

Annualised (pa)	1 year	2 years	3 years	4 years	5 years	Since Inception (July 2013)	Volatility of Return Since Inception: Highest 12 Months	Volatility of Return Since Inception: Lowest 12 Months
Income Return	6.0%	7.0%	7.7%	7.9%	8.1%	8.2%	-	-
Price Return	-0.2%	0.8%	0.9%	0.7%	0.5%	-0.5%	-	-
Total Return	5.8%	7.8%	8.6%	8.6%	8.6%	7.7%	13.9%	3.0%

Source: **Marriott**

For periods longer than 12 months annualised performance figures are used. An annualised performance figure represents the compounded average return in percentage terms earned by the fund over the given period of time.

Commentary

The Marriott Core Income Fund has a high exposure to SA government bonds (weighted average term under 5 years), and is therefore well-positioned to deliver higher returns than money market rates and inflation over the next 24 months. In recent months, however, we have seen volatility across global bond markets driven primarily by concerns over rising inflation and interest rate "normalisation" (interest rates reverting back to pre-pandemic levels) on the back of a strong economic recovery, particularly in the US. In this commentary we provide an update on the following:

1. Why South African medium-term government bonds are currently offering investors excellent value; and,
2. A view on interest rate normalisation in the US and its implications for South African bonds

South African medium-term government bonds are currently offering investors excellent value

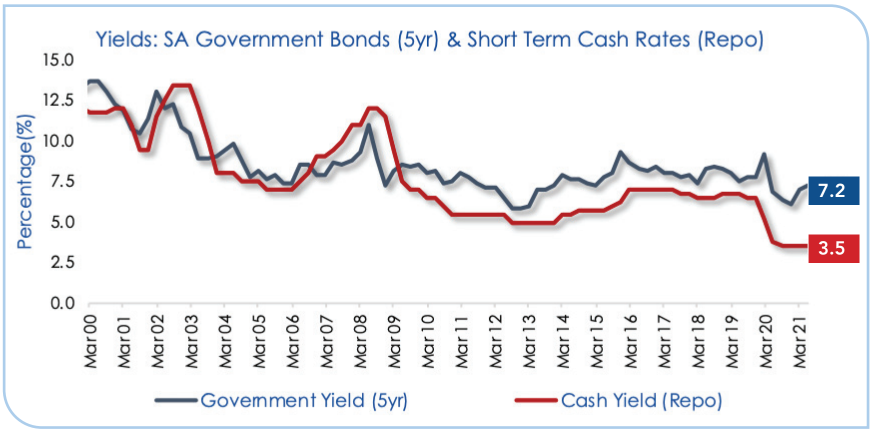
The investment case for South African medium-term government bonds is outlined below:

Yields are approximately double short-term cash rates

The average yield difference between SA Government Bonds (5yr) and short-term cash rates over the last 20 years has been approximately 1%, significantly less than the 3.7% yield differential currently on offer.

Yields are similar to riskier bank deposits

5-year bank deposit yields have on average (10yrs) been 1% higher than the equivalent term government bonds due to lower credit ratings/higher credit risk. Currently, medium- term government bond yields are slightly higher than deposit rates and present investors with a unique opportunity to reduce risk in their portfolio while maintaining a high yield.



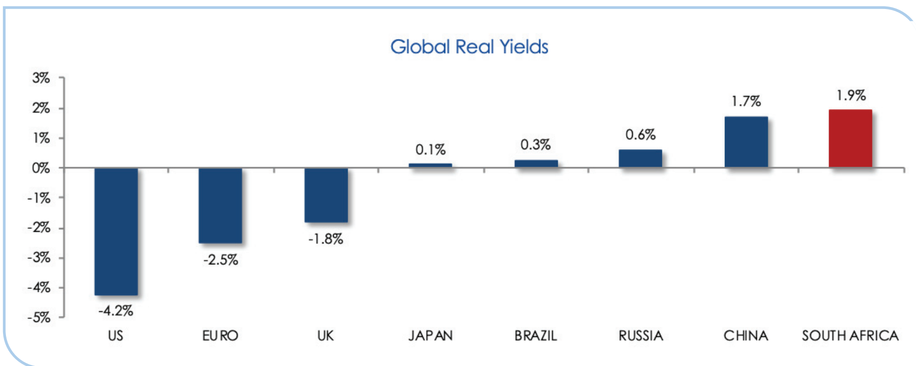
Source: IRESS

Investors are locking in significant interest rate increases

The market is currently pricing in an increase of over 6% in interest rates over the next 5 years. We believe this is highly unlikely given the absence of demand-driven price pressures and presents investors with an opportunity to lock in significant interest rate increases that are unlikely to materialise.

South African real yields are amongst the highest globally

The graph below shows the real yields (5-year government yields minus inflation, per country) on offer across the globe and highlights how attractive South African yields are.



Source: Bloomberg

Very low default risk

The Core Income Fund's preferred bond is the highly liquid R186 which matures in December 2026 and yields approximately 7.5%. With less than five and a half years to go until the bond matures we believe investors need not be concerned about a potential government default given SA's improving government finances (Government debt to GDP is now expected to be well below 100% in 2026) and long maturity profile (average term of approximately 12 years).

The table outlines the expected gross return profile of an investment in the R186 given the current yield and steepness of the curve.

	Expected Gross Returns (2yr)	
	Year 1	Year 2
SA Government Bond - R186	9.4%	8.7%

Assuming no change in yields over the next 24 months

Source: IRESS & Marriott

Note: Investors generally hold shorter term instruments such as cash and floating corporate debt for more capital stability. However, considering how low South African short term rates are (lowest levels in approximately 50 years) the price of low volatility is extremely high. By investing in longer dated instruments like the R186 SA Government Bond, and accepting slightly higher levels of short term volatility, investors can improve their outcomes significantly.

Interest Rate Normalisation

Notwithstanding the value on offer in the South African bond market, we continue to observe periods of volatility as markets attempt to "price in" the unwinding of ultra-accommodative monetary policy across the globe. Although many central banks (including the SARB) have indicated that this will be a very gradual process spread out over a number of years, the yields of SA medium term bonds have already "normalised" as outlined in the table below:

	South Africa		United States	
	June 2019	June 2021	June 2019	June 2021
Short Term Cash Rates	6.8%	3.5%	2.5%	0.25%
Bond yields (5yr)	7.5%	7.3%	1.8%	0.8%
Bond yields (10yr)	8.7%	9.2%	2.0%	1.4%
QE - Bond Purchase Program	n/a	n/a	n/a	$120 billion p.m.
	"Normal" Yields		Lower Yields	

Source: IRESS, Bloomberg & Marriott

Significantly, the SA 5 & 10-year government bonds are currently trading on very similar yields to what was on offer two years ago (pre-pandemic) despite significantly lower interest rates domestically and in the US. It should also be noted that in June 2019 the 5-year bond yield was just 0.20% higher than current yields despite the complete absence of QE in the world's biggest economy. This should give investors real comfort that the yields on offer are not only attractive from a SA and global perspective, but are also fair in the highly unlikely event of an abrupt normalisation of interest rates globally.

In summary, medium term South African government bonds currently offer excellent value to investors. As such, the Core Income Fund has maintained a high exposure to these investments and is therefore well-positioned to deliver higher returns than money market rates and inflation over the next 24 months. The fund's unique flexible mandate also allows us to take advantage of market volatility to lock in even better yields than currently on offer. These are key ingredients for an attractive and predictable investment outcome in the current low interest rate environment.

Contact us: To find out more about this fund or to obtain free of charge additional information such as brochures, application forms, annual reports and other marketing material, please visit our website **www.marriott.co.za** or contact our Client Relationship Team on **0800 336 555**.

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