Rootstock Sanlam Collective Investments Worldwide Flexible Fund

Minimum Disclosure Document

As of 2019/01/31

MDD Issue Date: **2019/02/14**

Fund Objective

The portfolio will aim to maximize total return for investors by way of a flexible worldwide portfolio actively investing across different asset classes, both locally and internationally.

Fund Strategy

The portfolio may invest in global and local securities, government, corporate and inflation linked bonds, debentures, non-equity securities, property shares, property related securities, preference shares, money market instruments and asset in liquid form. The portfolio may also invest in participatory interests and other forms of participation in portfolios of collective investment schemes or other similar schemes operated in territories with a regulatory environment. The manager may make active use of listed and unlisted financial instruments to reduce the risk that a general decline in the value of equity, property and bond markets may have on the value of the portfolio. The manager shall have the maximum flexibility to vary assets between the various markets, asset classes and countries to reflect the changing economic and market conditions. The manager will be permitted to invest on behalf of the portfolio in offshore investments as legislation permits.

Why Choose This Fund?

The fund is suitable for investors who:

- have discretionary wealth and require little short-term income.
- can tolerate short-term market and currency fluctuations in pursuit of maximising long-term total return.
- seek domestic and international asset exposure.
- are comfortable to grant Rootstock Investment Management a wide degree of investment discretion.
- have been invited by Rootstock Investment Management.

Fund Information

Ticker	MIWR
Portfolio Manager	Thys du Toit
ASISA Fund Classification	Worldwide - Multi Asset - Flexible
Risk Profile	Moderate
Benchmark	CPI + 5%
Fund Size	R 1 676 986 036
Portfolio Launch Date*	2009/07/01
Fee Class Launch Date*	2009/07/01
Minimum Lump Sum Investment	R 10 000 000
Minimum Monthly Investment	—
Income Declaration Date	June & December
Income Payment 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)

Fees (Incl. VAT)	A-Class (%)
Maximum Initial Advice Fee	—
Maximum Annual Advice Fee	1.15
Manager Annual Fee	2.01
Total Expense Ratio	2.06
Transaction Cost	0.46
Total Investment Charges	2.52
Performance Fee	—
TER Measurement Period	01 October 2015 - 30 September 2018

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.

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.

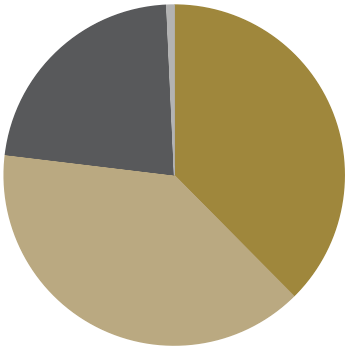
Total Investment Charges (TER + TC) is the total percentage value of the Financial Product that was incurred as costs relating to the investment of the Financial Product.

Top Ten Holdings

Top Ten Holdings	(%)
SIM Money Market Fund	18.54
Naspers Ltd	7.51
British American Tobacco Plc	6.22
Booking Holdings Inc	5.95
Momentum Money Market Fund	5.39
Alphabet Inc	5.12
Anheuser-Busch Inbev SA	4.84
Fastenal Company	4.31
Clientele Ltd	3.82
Facebook Inc	3.81

Asset Allocation

Portfolio Date: 2018/12/31



	%
SA Equity	37.59
Non-SA Equity	39.32
SA Cash	22.36
Non-SA Cash	0.73
Total	**100.00**

Annualised Performance (%)

	Fund	Benchmark
1 Year	-2.07	9.71
3 Years	2.37	10.56
5 Years	7.78	10.57
Since Inception	14.57	10.44

Cumulative Performance (%)

	Fund	Benchmark
1 Year	-2.07	9.71
3 Years	7.29	35.16
5 Years	45.44	65.23
Since Inception	268.20	159.08

Highest and Lowest Annual Returns

Time Period: Since Inception to 2018/12/31

Highest Annual %	32.97
Lowest Annual %	-10.21

Risk Statistics (3 Year Rolling)

Standard Deviation	12.16
Sharpe Ratio	-0.34
Information Ratio	-0.63
Maximum Drawdown	-11.92

Distribution History (Cents Per Unit)

2018/12/31	6.08 cpu
2018/06/30	3.22 cpu
2017/12/31	0.00 cpu
2017/06/30	0.00 cpu

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INVESTMENT MANAGEMENT

Risk Profile

Moderate
This is a moderate-risk portfolio that aims to maximize total return for investors by way of a flexible worldwide portfolio actively investing across different asset classes, both locally and internationally. Currency risk is not actively managed. The recommended term for this investment is five years and longer.

Glossary Terms

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 foreignbased 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.

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.

Sharpe Ratio
The Sharpe Ratio measures total risk-adjusted performance of an investment or portfolio. It measures the amount of excess 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.

Additional Information

All reasonable steps have been taken to ensure the information on this MDD is accurate. The information to follow does not constitute financial advice as contemplated in terms of the Financial Advisory and Intermediary Services Act. Use or rely on this information at your own risk. Independent professional financial advice should always be sought before making an investment decision. The Sanlam Group is a full member of the Association for Savings and Investment SA. Collective investment schemes are generally medium- to long-term investments. Please note that past performances are not necessarily a guide to future performances, and that the value of investments / units / unit trusts may go down as well as up. A schedule of fees and charges and maximum commissions is available from the Manager, Sanlam Collective Investments (RF) Pty Ltd, a registered and approved Manager in Collective Investment Schemes in Securities. Additional information of the proposed investment, including brochures, application forms and annual or quarterly reports, can be obtained from the Manager, free of charge. Collective investments are traded at ruling prices and can engage in borrowing and scrip lending. Collective investments are calculated on a net asset value basis, which is the total market value of all assets in the portfolio including any income accruals and less any deductible expenses such as audit fees, brokerage and service fees. Actual investment performance of the portfolio and the investor will differ depending on the initial fees applicable, the actual investment date, and the date of reinvestment of income as well as dividend withholding tax. Forward pricing is used. The Manager does not provide any guarantee either with respect to the capital or the return of a portfolio. The performance of the portfolio depends on the underlying assets and variable market factors. Performance is based on NAV to NAV calculations with income reinvestments done on the ex-div date. Lump sum investment performances are quoted. The portfolio may invest in participatory interests of other unit trust portfolios. These underlying funds levy their own fees, and may result in a higher fee structure for our portfolio. All the portfolio options presented are approved collective investment schemes in terms of Collective Investment Schemes Control Act, No 45 of 2002 ("CISCA"). The Manager may borrow up to 10% the market value of the portfolio to bridge insufficient liquidity. The fund may from time to time invest in foreign instruments which could be accompanied by additional risks as well as potential limitations on the availability of market information. Investments in foreign instruments are also subject to fluctuations in exchange rates which may cause the value of the fund to go up or down. The fund may invest in financial instruments (derivatives) for efficient portfolio management purposes. The Manager has the right to close any portfolios to new investors to manage them more efficiently in accordance with their mandates. Management of the portfolio is outsourced to Rootstock Investment Management (Pty) Ltd, (FSP) Licence No. 36572, an Authorised Financial Services Provider under the Financial Advisory and Intermediary Services Act, 2002. Sanlam Collective Investments (RF) (Pty) Ltd retains full legal responsibility for the co-named portfolio. Standard Bank of South Africa Ltd is the appointed trustee of the Sanlam Collective Investments scheme. Sources of Performance and Risk Data: Morningstar Direct, INET BFA and Bloomberg. The risk free asset assumed for the calculation of Sharpe ratios: STEFI Composite Index. The highest and lowest 12- month returns are based on a calendar year period over 10 years or since inception where the performance history does not exist for 10 years. Obtain a personalised cost estimate before investing by visiting www.sanlamunittrustsmdd.co.za and using our Effective Annual Cost (EAC) calculator. Alternatively, contact us at 0860 100 266.

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INVESTMENT MANAGEMENT

Portfolio Manager Comment

As at 31 December 2018

Review

2018 was eventful. What started out as a promising year for investors did not end pleasantly. At home, the ostensibly positive outcome of the ANC elective conference in December 2017 heightened the sense of expectation. Sorely needed structural reforms were on the agenda, *Ramaphoria* entered the local lexicon and investor confidence improved significantly. In the US, tax reforms were expected to be a boon for fixed capital investment and job and wage growth. In aggregate, global GDP growth expectations were buoyant with few significant hazards on the horizon.

In hindsight, investors were overly optimistic. An acceleration in South African economic growth failed to materialise, while talk of land reform exacerbated the already-uncertain policy environment. Although the US economy boomed, its growth was overshadowed by the escalating Trade War and fear of rising interest rates. Chinese economic growth slowed from 6.9% in 2017 to 6.5% in the third quarter of 2018, with a forecast of further deterioration. In the UK, the Brexit quagmire remained unresolved, causing significant uncertainty that has spilled into 2019.

The Rootstock Fund disappointed in 2018, notwithstanding this turbulent backdrop. The return for the year ended 31 December 2018 was -4.3%. The fourth quarter was particularly poor with the fund delivering -8.5%. For comparison, the JSE All Share Index returned -9% for the full year and -5% for the comparative quarter. The rand weakened from R12.40 to R14.30 against the US dollar, some 15% for the year. Abroad, the S&P 500 returned, in US dollar, -4.4% for the full year and -13.8% for the quarter. December alone saw a gut-wrenching -9% US-dollar return, the worst month on record for the US stock market since the 1930s Great Depression.

Our short-term performance has been less than satisfactory, however compared to our peer group, the Rootstock Fund has delivered a first-quartile performance over the longer term. Our long-term performance track record gives us confidence in our investment process and philosophy. We assess our one-year result in greater detail below.

Portfolio commentary

The fund's effective foreign exposure was 61% at the end of December 2018. Excluding our rand-cash holding our offshore exposure was 77%. In light of the structurally weak rand and limited growth opportunities for South African companies, we continue to favour international investment opportunities. In the absence of any economic impetus to grow headline sales, South African companies have focused on winning market share from competitors. This zero-sum game is often a messy affair. Despite the domestic malaise, we remain alert to opportunities in select high-quality, attractively-priced local businesses that thrive in such a difficult environment.

The long-running equity bull market entered its ninth year in 2018. Lofty equity valuations, market turbulence and increased economic uncertainty warranted a more cautious asset allocation. We decreased equity exposure from 88% at the beginning of 2018 to 77% at year end.

Although most of our holdings delivered a satisfactory performance, regrettably this did not compensate for the negative performance of our two largest holdings, viz. British American Tobacco (BATS) and Naspers. BATS and Naspers reduced the one-year total return of the fund by approximately 4.7%.

At the end of March 2018, we wrote about the 'Elephants in the Room' (see *Quarterly Comment Q1 2018*), at which point BATS and Naspers had fallen for the year-to-date 15% and 16% respectively. At the time, BATS was valued at an attractive 13.5 times earnings and at a 20% discount to its peer group. We flagged US FDA regulation as a potential risk but did not foresee the aggressive selloff after the FDA's *proposed* menthol cigarette ban. By year-end, BATS had fallen 47% in rand. It is presently valued at less than ten times earnings. In our scenario analysis, assuming the worst-case, a complete ban on menthol cigarettes in the US, BATS will still be able to service its debt and sustain its dividend. Despite the negative price action, our investment thesis remains unchanged and we believe that BATS will continue to generate a growing stream of cash flows over time.

In January 2018, Naspers' share price was R3,700, declining to a low of R2,350 during October 2018, a fall of 36%. Naspers recovered to R2,900, ending down 16% for the year. The fluidity in share price notwithstanding, Naspers' business continued to develop. Management took significant action, streamlining their investment portfolio. Most noteworthy was a reduction in Naspers' Tencent holding, from 33.2% to 31.2%, at a price of HKD440, realising $10 billion. The timing proved fortuitous, just before Chinese gaming authorities halted the approval of new games. Since the disposal, Tencent has fallen 25%. Additionally, Naspers disposed of its 11% stake in Indian e-commerce operator Flipkart, selling to Walmart for $2.2 billion. Most recently, the process of unbundling MultiChoice to shareholders was initiated. MultiChoice will list separately on the JSE in 2019.

The large decline in Tencent is attributed to a freeze in game monetisation approvals pending a change in regulatory control within the Chinese administration. As a consequence, Tencent was unable to monetise games it had just released. Unfortunately, their two biggest games of the year, global phenomena Fortnite and PUBG, were affected. After nine months of uncertainty, the regulatory reshuffle has been completed, and a trickle of new games have been approved for monetisation. Game approvals are expected to normalise in due course. In the meantime, both Naspers and Tencent are trading at attractive valuations relative to their five-year averages.

Portfolio changes

During the quarter, we disposed of Life Healthcare and Quilter PLC. We sold Life Healthcare, at a small profit, on account of a deteriorating operating environment and an unappealing valuation. Quilter PLC, which the fund received as part of the Old Mutual unbundling, operates in a growing UK wealth-management industry and appears cheap. However, we have concluded that the company, a second-tier player, is overly complex compared to its peers.

New additions to the portfolio include Fastenal Company and Facebook Inc. Fastenal is the largest fastener and safety equipment distributor in the US. The business is highly profitable with operating profit margins in excess of 20% and return on invested capital of 24%. Fastenal is the most-efficient distributor of low-value, critical products, and is transforming itself into a higher-margin service business. We have previously owned Facebook, disposing thereof after the Cambridge Analytica election-interference scandal. The recent price weakness has presented an opportunity to acquire a highly cash-generative company that, together with Google, dominates the online-advertising market.

The future is ever uncertain, and 2019 will likely be filled with surprises and accompanying opportunities. Notably, close to 50% of the world's population (excluding China), some 3.3 billion people, will elect new leaders this year. The 62 countries holding national elections include India, Nigeria, Indonesia, various European nations and South Africa. The wave of populism and protectionist rhetoric sweeping the world will doubtless provide a few upsets. On the economic front, global growth is expected to moderate, driven by the US and China, with interest rates continuing their upward trajectory. The US is running at full capacity, with 3.9% unemployment, and China is transitioning from a manufacturing to a consumption-driven economy. Both circumstances make it difficult to sustain present growth rates. Furthermore, expansion of global money supply is expected to slow to 2% from a high of 10% reached in 2012. Increasing rates and reduced monetary stimulus (read: Quantitative Easing) will increase volatility and put downward pressure on equity valuations.

Despite a lot of doom and gloom, we are cautiously optimistic about the year. There are most certainly several headwinds to growth and attentiveness is necessary. However, the recent market correction has created the opportunity to acquire several high-quality companies at valuations that offer a sufficient margin-of-safety. Increased volatility will create further opportunities. The Rootstock team maintains its single-minded focus, with the necessary knowledge and experience, to capitalise on passing opportunities. As ever, we strive to preserve and grow your, and our, capital as best we can. We thank you for your continued support and wish you a prosperous 2019.

Portfolio Manager
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