MATRIX FUND MANAGERS

Matrix SCI* Bond Fund

Minimum Disclosure Document and Quarterly Investor Report - 30 September 2021

administered by Sanlam

Investor Profile

The Fund provides investors with active exposure to the South African bond market and may form part of a diversified portfolio.

Over time, it is expected that the Fund will produce returns in excess of a money market fund, but at higher risk.

Investment Objective and Policy

The Fund is a pure bond fund offering both income and capital growth through a diversified portfolio. The Fund has no offshore exposure and aims to outperform the FTSE/JSE All Bond Index. The Fund will predominantly invest in fixed income securities issued or guaranteed by the South African Government with lower credit risk and improved liquidity.

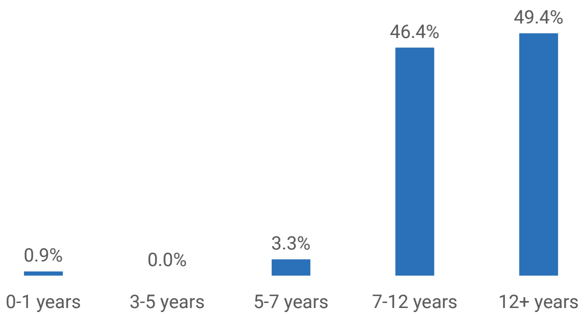
The Fund may invest in other fixed income securities not guaranteed by government and hold money market and other exposure to major South African banks. The Fund is permitted to invest in listed and unlisted financial instruments (such as derivatives) as allowed by CISCA.

Risk-Return Profile

The Fund has a moderate risk-return profile

Risk statistics: 3 years to 30 September 2021	
Std Deviation p.a (%)	9.0
Sharpe Ratio p.a[2]	0.2

Maturity Profile



Asset Allocation	
Local Bonds	99.1%
Local Cash	0.9%

Returns [1]

Class B6	Fund %	Benchmark %
Latest 1 Year	14.2	12.4
Latest 3 Year	9.0	9.1
Latest 5 Year	8.3	8.5
Since Inception	7.7	7.8
Highest Annual	15.2	15.4
Lowest Annual	-3.5	-3.9

Fund Information	Class B6
ASISA Fund Classification	SA Interest Bearing Variable Term
Risk Profile	Moderate
Benchmark	FTSE/JSE All Bond Total Return Index
Fund Size	R1.78 billion
Fee Class Launch date[1]	01 September 2014
Portfolio Launch date	02 January 2004
Minimum investment	LISP minimums apply
Participatory Interests (Units) in Issue	49 963 172
Net Quarterly Units Subscriptions (Redemptions)	49 84 828
NAV per Participatory Interest (cents)	1 089.60
Yield	9.96%
Monthly distribution (cents per unit)	Sep 2021 **7.62**, Aug 2021 **7.88**, Jul 2021 **8.04**, Jun 2021 **7.63**, May 2021 **8.02**, Apr 2021 **7.86**, Mar 2021 **8.63**, Feb 2021 **5.83**, Jan 2021 **7.85**, Dec 2020 **8.07**, Nov 2020 **1.49**, Oct 2020 **7.36**
Income Declaration Dates (paid next working day)	Monthly (last day of the month)
Income price dates	First working day of the month
Daily price information	www.sanlamunittrusts.co.za
Annual Management Fee	0.45% per annum (excl VAT)

Total Investment Charge (incl. VAT) — **As at 30 June 2021**

Management Fees	Total Expense Ratio (TER)	Transaction Costs	Total Investment Charge (TIC)
0.52	0.53	0.09	**0.62**

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Investment Manager Commentary

Disclosure: Any forecasts or market commentary, whether express or implied, are not guaranteed to occur and may change without notification at any time after publication.

After a relatively benign second quarter, risks escalated during the third quarter. China's regulatory tightening turned more aggressive, while last year's "three red-lines" for developers came home to roost in the threat of an Evergrande default. The US debt ceiling deadline loomed increasingly large, while the Fed moved the dot plot higher and confirmed a more rapid pace of tapering in the September FOMC meeting.

The surge in US inflation is a potential challenge for the Fed. While it is correct to look through the first round effects of a supply shock, there is a risk that a wage-price spiral could ensue, which would trigger quicker rate hikes and higher long-term yields. Yet, elevated debt levels require low rates for them to be sustainable.

The SARB shifted to risk management mode in March this year, with a temporary dovish tilt in July following the social unrest. The rhetoric following the September MPC meeting signalled that the start of policy normalisation is nearing and that there is a strong view that it is better to do a little bit (of hikes) sooner than being forced to do a lot (of hikes) later.

In more orthodox monetary policy implementation, pre-emptive normalisation would ensure that low inflation remains banked in anchored expectations, contained wage inflation, and exchange rate stability. Yet being too pre-emptive could have negative consequences via slower cyclical growth and lower confidence. The SARB seems willing to run this risk given existing binding constraints on structural growth.

The November MPC meeting will follow the local government elections, the Medium Term Budget Policy Statement, and the Fed FOMC. That is a lot of event risk to digest. The hurdle for a structural positive improvement in the fiscal outlook remains high, given renewed support, wage increases, and socio-economic pressures. The Fed is expected to confirm the timing and pace of the taper and although this is now partially priced, the flow effect may still be negative for the rand and SA rates. With a surging oil price, the SARB is set to up the ante on pre-emptive to avoid the cure of a substantially higher policy rate.

Market developments

During September, inflation-linked bonds (0.3%) were the only major asset class to meet the return on cash (0.3%). Listed property (-0.8%), fixed-rate bonds (-2.1%), and equities (-3.1%) underperformed sharply. The rand lost 4.0% against the US dollar, which would have been accretive to offshore asset. For 3Q21, listed property (5.9%) and inflation-linked bonds (2.0%) beat cash (1.0%), while fixed-rate bonds (0.4%) and equities (-0.8%) underperformed. The rand depreciated by 5.3% against the US dollar, which would have enhanced offshore asset returns for the quarter.

The dollar gained 1.7% in September, which took the DXY to a year-to-date high and a similar level to a year ago. While the greenback was range bound earlier on in Q3, Delta fears and a dovish Fed gave way to risk off and renewed hawkishness. Concerns about China's property sector and the US debt ceiling boosted safe-haven demand for the dollar. The hawkish dot plot and stronger taper talk from the September FOMC meeting, alongside inflation persistence lifted US yields quite sharply in the final week of the quarter, further benefiting the US dollar. The stronger dollar and risk aversion hit EM FX hard in September, with average depreciation of 2.5% month-on-month. The underlying performance was wide-ranging with the Turkish lira down 6.6% as the central bank surprised the market with a 100bp rate cut, while the Russian rouble gained 0.7% amid the surge in the oil price. The rand lost 4.0% against the dollar, with USD/ZAR back above 15.00 and marginally cheap versus our 14.50 – 15.00 short-term fair-value range.

After moving broadly sideways in July and August, US yields sold off sharply in the final week of September on the confluence of a hawkish Fed and inflation fears. The move was parallel, with the shape of the nominal, TIPS, and breakeven inflation curves unchanged month-on-month. Higher nominal yields were more a function of rising TIPS yields, with only modestly wider breakeven inflation. Other core rates also sold off due to more hawkish monetary policy rhetoric. The BOE turned more hawkish, signalling the potential for a hike before the end of the year, while the Norges Bank was the first of the G10 central banks to lift off the Covid lows. Lower commodity prices, outside of the energy complex, and moderating global growth were exacerbated by the rise in real US yields to push EM local bond yields sharply higher by the end of the quarter. EM yields rose by 36bp, on average, with Philippines yields unchanged at the low end and Turkish yields 135bp higher on the top end. The SA 10-year yield was almost 50bp higher by month end, leaving the market outright cheap versus our fair-value estimates.

Portfolio performance and positioning

The fund matched the benchmark's performance in September and for the third quarter of 2021, but has outperformed for the calendar year to date. On an absolute basis, the losses on the fund were driven by the sell-off in the 10-year area of the curve, which underperformed the other buckets as the belly steepened, but the back end flattened slightly.

Following the social unrest and speculation of a basic income grant, yields sold off on fears of fiscal slippage. This did not materialise and we used the opportunity to go overweight duration, which we maintained throughout August and into September. While the SARB turned notably less hawkish at the July MPC meeting, the incoming domestic data, global inflation gauges, and renewed rand weakness suggested a shift back to a hawkish bias at the September MPC meeting. In anticipation of this, as well as stronger taper talk and higher dots from the Fed's FOMC meeting, we moved underweight duration mid-September.

While the Fed turned more hawkish, the US bond market did not immediately react to confirmation of the taper. Rather, elevated inflation pushed nominal yield higher in the final week of the month. The tone of the SARB MPC statement and Q&A was more hawkish than in July, but not quite as hawkish as the market was expected. Even so, the Bank's Quarterly Projection Model maintained a hike for the November MPC meeting and added a hike to the 2022 repo rate profile. This put upward pressure on the short end of the yield and swaps curves. The domestic market sold off towards the end of the month due to a reassessment of global risks – the Fed taper and China slowdown – as well as the potentially negative spillover of lower commodity prices to domestic growth and tax revenues in the medium term.

We used the sell-off to move overweight duration, but if global risk aversion persists then it would make this portfolio shift premature. Capital inflows to emerging markets remain muted, with the Fed's taper a notable headwind. The dollar has priced in the less dovish Fed, but this has not yet been reflected in US real yields to the same extent. South Africa remains vulnerable to sharply higher core interest rates via the fiscal deficit rather than the current account, where the trade surplus has buttressed the rand.

The high-frequency JSE data shows persistent net selling of local bonds by non-resident investors during the third quarter, totalling R50.6bn in nominal terms. However, the official Treasury data showed net selling of only R12.9bn for the quarter, with net sales of R17.1bn in September more than reversing the net purchases of R12.6bn in August. The bulk of the foreign disinvestment was taken up by "other financial institutions", which include local unit trusts and hedge funds.

The excess risk premium in the local curve remains substantial relative to the well-behaved inflation outlook and the cyclical improvement in the fiscal position. The combination of lower budget deficits and more hawkish monetary policy should lead to a flatter curve. In the interim, the market has to contend with the Fed's taper, as well as the local government elections and the Medium Term Budget Policy Statement.

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Important information

Management Company

Sanlam Collective Investments (RF) Proprietary Limited (the 'management company') Contact details: 2 Strand Road, Bellville, 7530. Postal Address: P.O Box 30, Sanlamhof, Bellville, 7532. Telephone 021 916 1800. Email: service@sanlaminvestments.com and website: www.sanlamunittrusts.co.za

Investment Manager

Matrix Fund Managers Proprietary Limited (the 'investment manager') (Registration No: 2007/028504/07) is an authorised financial services provider under the Financial Advisory and Intermediary Services Act - FSP No: 44663. Contact details: The Terraces, 25 Protea Road, Claremont, 7708. Postal Address: Postnet Suite 80, Private Bag X1005, Claremont, 7735, Telephone: 021 673 7800, Email: info@matrixfm.co.za and Website: www.matrixfundmanagers.co.za. The investment manager is supervised by the FSCA and is a member of the Association for Savings and Investment South Africa (ASISA).

Complaints and Conflicts of Interest

The complaints policy and procedure, as well as the conflicts of interest management policy, are available on the management company's website. Associates of the management company may be invested within certain portfolios, and the details thereof are available from the management company.

Trustee/Custodian/Depository

Standard Bank of South Africa Limited. Telephone 021 442 4200,
Email: compliance-sanlam@standardbank.co.za

Fund Administrator

Maitland Group South Africa Limited. Registration number: 1981/009543/06.

Fund Auditor

Ernst & Young Incorporated.

Co-Naming Agreement

The management company and the investment manager have entered into a co-naming agreement regarding the administration of the co-named Fund.

Unit Prices

Forward pricing is used and fund valuations take place at approximately 15:00 each business day. Purchase and redemption requests must be received by the Management Company by 14:00 each business day to receive that day's price. Unit trust prices are available daily on www.sanlamunittrusts.com

Total Expense Ratio (TER) and Total Investment Charge (TIC)

The TER is the annualised percentage of the Fund's average assets under management that has been used to pay the Fund's actual expenses over the past 3 years (or shorter periods, where applicable). The TER includes the annual management fees that have been charged (both the base fee and any performance related fee), VAT and other expenses. The TER does not include transaction costs. As expenses vary, the current TER cannot be used as an indication of future TER's. A high TER ratio does not necessarily imply a poor return nor does a low TER imply a good return. Instead, when investing, the investment objective of the Fund should be consistent with the investor's objective and compared against the performance of the Fund. The TER should then be used to compare whether the Fund's performance offers value for money. Transaction Costs (including brokerage, STT, STRATE and FSCA Investor Protection Levies and VAT thereon) are shown separately. Transaction Costs are a necessary cost in administering the Fund and impact Fund returns. They 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. The sum of the TER and Transaction Costs is shown as the Total Investment Charge.

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 on request 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 on request 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 countries and therefore it may have risks regarding liquidity, the repatriation of funds, political and macroeconomic situations, foreign exchange, tax, settlement, and the availability of 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 Matrix Fund Managers Proprietary Limited (the 'investment manager') (FSP License No. 44663), 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.

Footnotes

1. All returns for periods greater than 12 months are annualised. Significant changes to this fund came into effect from 01 September 2014 and all performance figures are calculated from this date and not the original fund launch date.
2. The Sharpe ratio is the average return earned in excess of the cash rate per unit of volatility or total risk.