

The Cadiz Equity Ladder Fund – Delivering Through the Market Cycle

The Cadiz Equity Ladder unit trust fund has been developed for investors who require exposure to positive equity market growth, but with downside protection. Specifically, the fund aims to achieve equity returns with substantially less risk, while targeting capital preservation over the medium term.

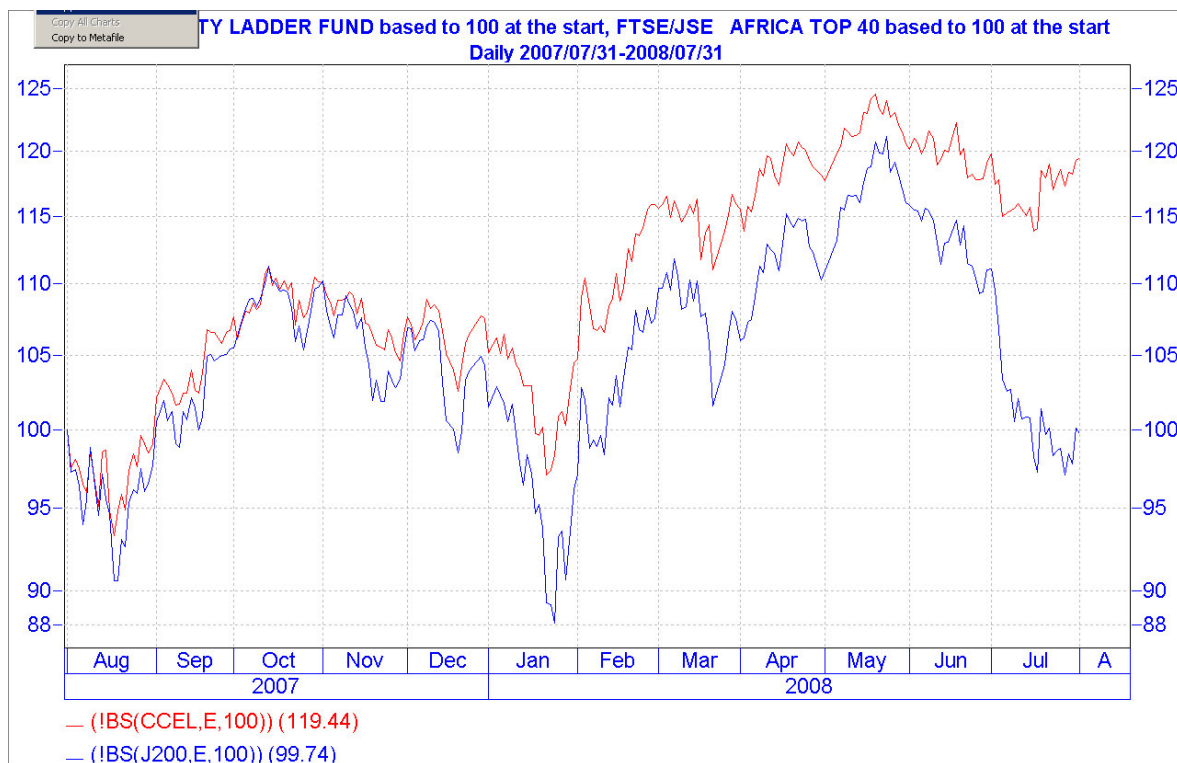
It is important, therefore, to review the fund from both a performance and a protection perspective, and to consider this performance and protection through a full market cycle.

Performance

The Cadiz Equity Ladder Fund continues to deliver exceptional performance to investors. In fact, it is the top-performing Targeted Absolute & Real Return Fund over six months and one, two and three years to 31 July 2008. The unit trust fund, launched on 1 June 2005, has returned (source: Morningstar):

- **14.7%** for the six months to 31 July 2008 – **incredibly this excellent performance ensured that the Cadiz Equity Ladder Fund was the top performing unit trust fund** (out of 556 funds)
- **22.08%** for the one year to 31 July 2008, and has outperformed all General Equity, Growth and Value Funds over this period. **In fact it was the 5th best performing unit trust fund overall** (out of 516 funds);
- **20.62% pa** for the two years to 31 July 2008; and
- **17.75% pa** for the three years to 31 July 2008.

For the one year to 31 July 2008, the fund has also outperformed the FTSE/JSE Top40 Index, as evidenced in the following graph (source Inet).



Institutional Cadiz Equity Ladder Fund

While the unit trust fund only has a three year track record, it is useful to consider the performance of the institutional version to get a view on how this innovative investment strategy performs through the market cycle. The institutional Cadiz Equity Ladder Fund, on which the unit trust fund version was based, is also managed by Francois Finlay.

The following table presents the returns achieved by, and the associated risk of, the institutional Cadiz Equity Ladder Fund.

Period to 31 July 2008	Performance of Fund	Performance of FTSE/JSE Top 40 Index	Difference
1 year	21.02%	-0.26%	21.28%
5 years (annualised)	23.44%	26.09%	-2.65%
Since inception (March 2002) (annualised)	16.29%	14.80%	1.49%
Risk since inception	10.56%	16.53%	-5.98%

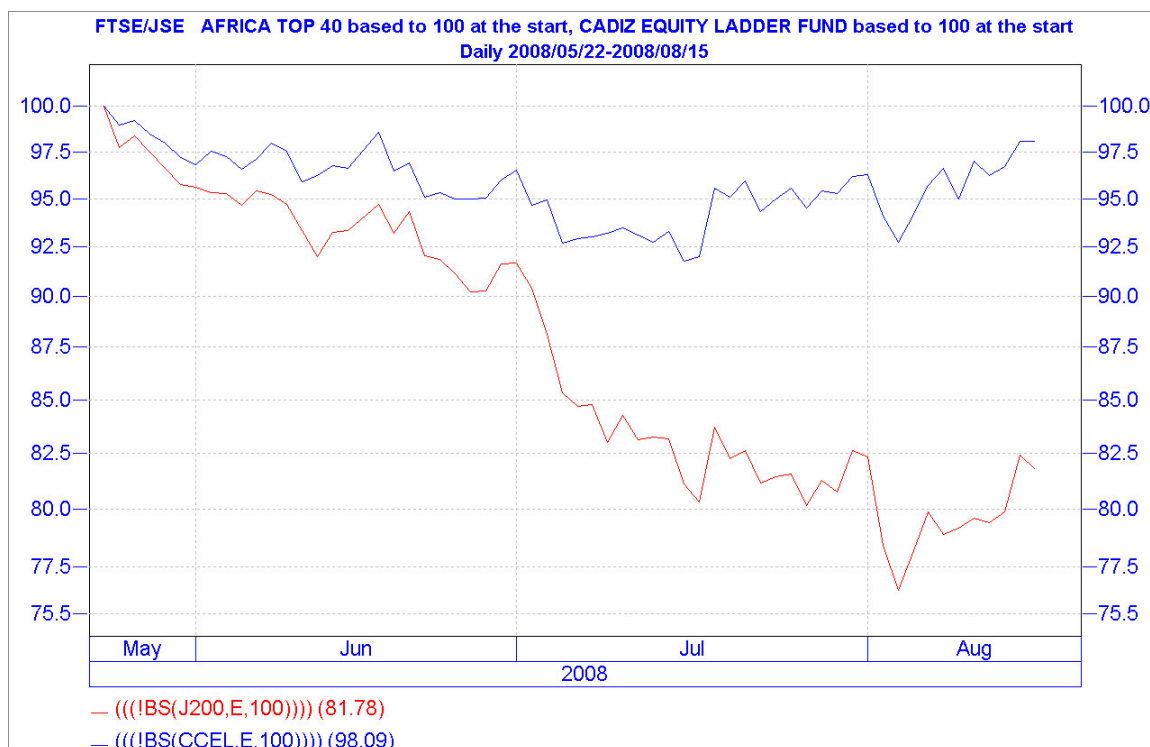
Observations

- **As expected**, during periods of market underperformance (ie the one year to 31 July 2008), the Cadiz Equity Ladder Fund outperforms – for this period substantially. This is due to two primary reasons. Firstly, and most importantly, the fund’s protection kicks in and secondly, during periods of increased market volatility, the fund manager, Francois Finlay, is able to eke out significant additional performance through dynamically managing the portfolio’s hedging strategy
 - You will note that the one year performance of the institutional Cadiz Equity Ladder Fund is within 6 basis points of the one year performance of the Cadiz Equity Ladder unit trust
- **As expected**, during periods of strong equity market performance (ie the five years to 31 July 2008), the Cadiz Equity Ladder Fund slightly underperforms the FTSE/JSE Top 40 Index. This is simply due to the cost of providing the portfolio with protection. We estimate this cost to be in the region of 4% pa
- Interestingly, since the fund’s inception, it has slightly outperformed the FTSE/JSE Top 40 Index. We would expect though that, given that equities outperform other asset classes and inflation over the long term, the fund to slightly underperform, but importantly demonstrate nowhere near the volatility or risk associated with the FTSE/JSE Top 40 Index
- **As expected**, since inception, the institutional Cadiz Equity Ladder Fund has achieved its benchmark-like returns at substantially less risk

It is refreshing to see that the institutional Cadiz Equity Ladder Fund is meeting investor expectations through the market cycle – delivering equity like returns, with substantially less risk. **Importantly, the fund ‘does what it says on the tin’.**

An Update on Protection

The benefit of this strategy of protecting the downside is most evident in the following Inet graph, which illustrates the performance of the Cadiz Equity Ladder Fund and the FTSE/JSE Africa Top 40 Index during the most recent period of market weakness (22 May 2008 to 14 August 2008). You will see that, while the market lost some 23%, the Cadiz Equity Ladder Fund fell by substantially less than half the market’s decline, losing only 8%, and has now almost completely recovered this limited downside, whereas the market is still down 18% from its high.



This level of protection provided by the Cadiz Equity Ladder Fund has been particularly pleasing given that, on average, we target a delta of 75% of the portfolio. What this delta average means is that if the market were to fall by 10%, we would expect the fund to fall by only 7.5%. When the manager is negative on the market this delta will fall to as low as 50% and when positive the delta will rise to as high as 90%. However, before and during this period the fund manager put in place derivative strategies that increased the downside protection.

In conclusion

There is much academic research supporting the behavioural finance theory that investors are generally more worried about avoiding unexpected losses than they are pleased about making unexpected gains. By strategically restricting the downside, the Cadiz Equity Ladder Fund addresses this investor need of limiting the pain of financial loss. Therefore, the Cadiz Equity Ladder Fund is ideal for mid- to long term investors who require equity exposure to generate inflation-beating returns, but who are risk sensitive and do not want to lose significant capital or have all their market gains eroded when the equity markets crash.

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