

The Cadiz Equity Ladder Fund – Strategically Protecting the Downside

The Cadiz Equity Ladder 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.

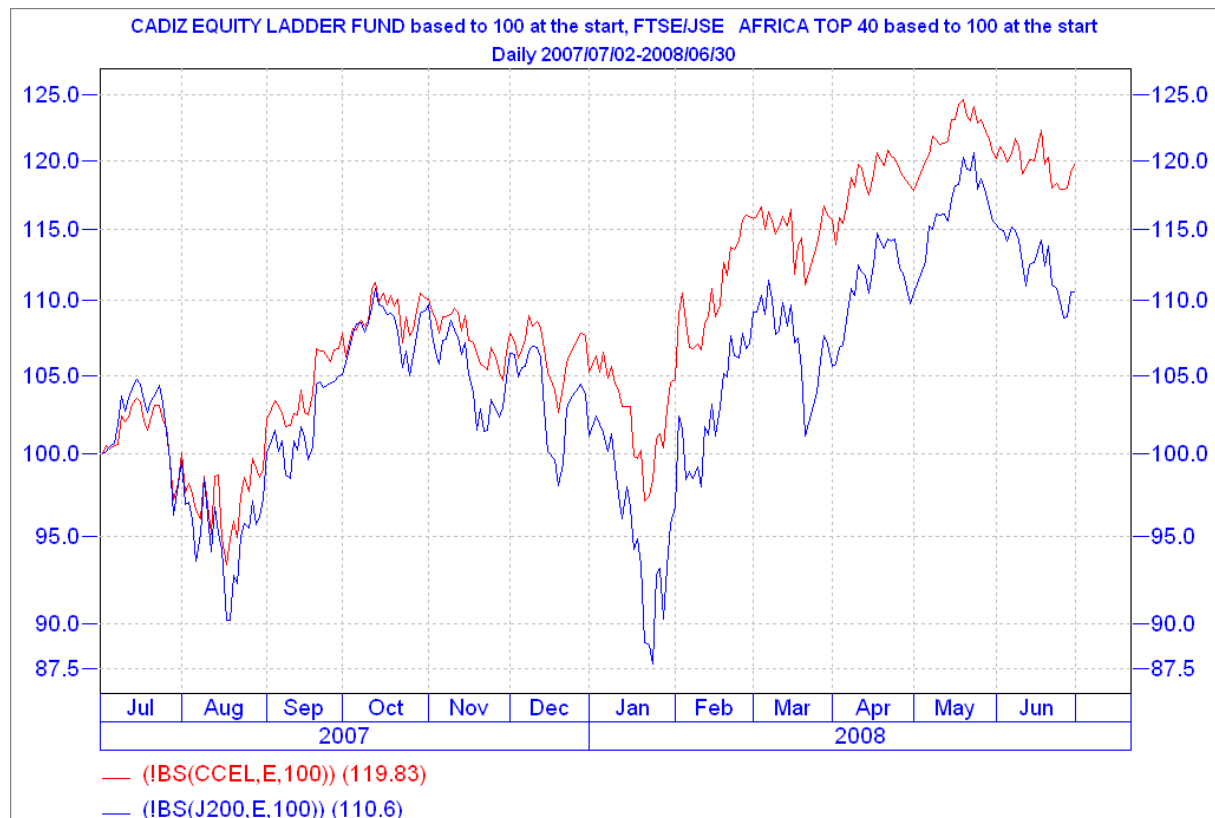
It is important therefore to review the fund from both a performance and a protection perspective.

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 one, two and three years to 30 June 2008. The fund, launched on 1 June 2005, has returned (source: Morningstar):

- **23.62%** for the one year to 30 June 2008, and has outperformed all General Equity, Growth and Value Funds over this period;
- **20.34% pa** for the two years to 30 June 2008; and
- **19.91% pa** for the three years to 30 June 2008.

For the one year to 30 June 2008, the fund has also outperformed the FTSE/JSE Top40 Index, as evidenced in the following graph (source Inet).



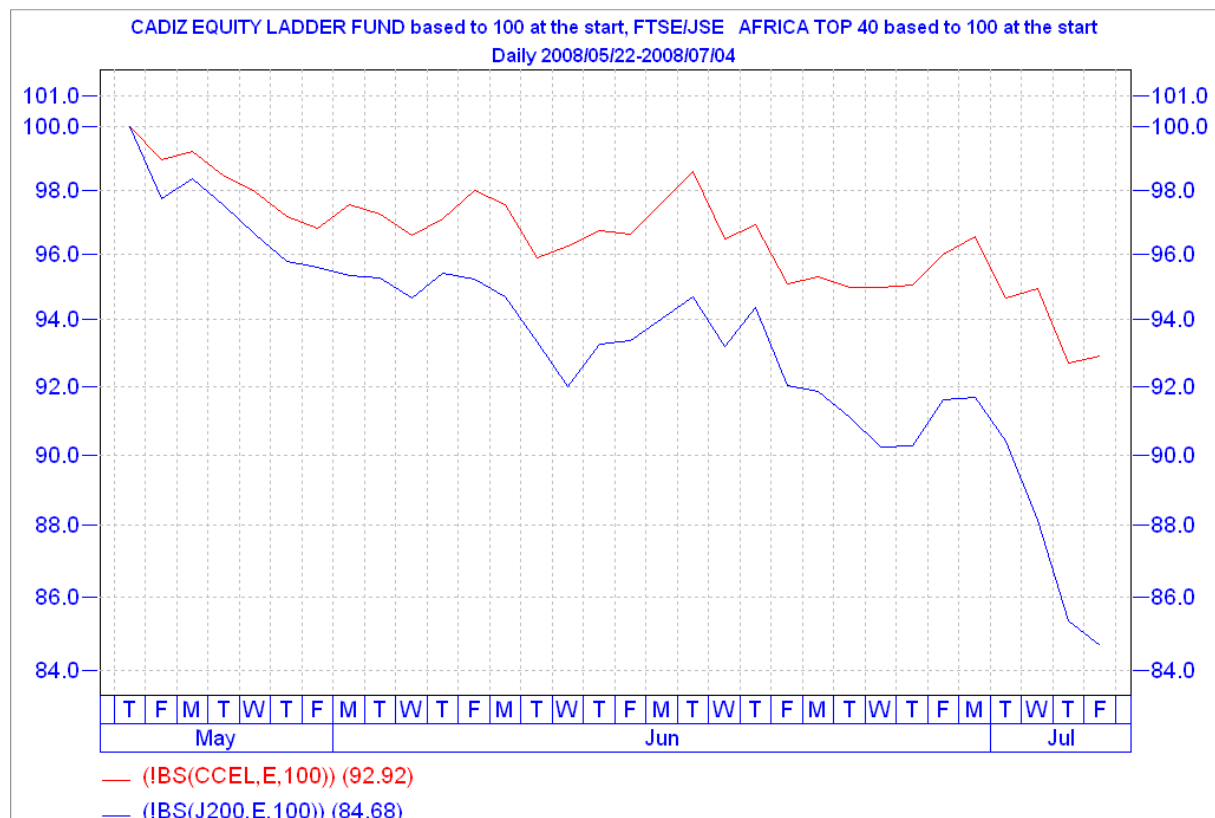
However, over a full market cycle we do not expect the Cadiz Equity Ladder Fund to outperform the FTSE/JSE Africa Top 40 Index, because of the cost of portfolio protection (discussed further below). In times of increased market volatility the fund manager, Francois Finlay is able to eke out significant additional performance through dynamically managing the portfolio's hedging strategy.

Protection

The graph on the preceding page also illustrates how the Cadiz Equity Ladder Fund protects the downside through a hedging mechanism (the use of SAFEX derivatives). The hedging mechanism is a dynamic process; where futures and options are invested in that effectively protect you if the market or a share falls below the protection level.

You will see that as the equity market (illustrated by the FTSE/JSE Africa Top 40 index in blue) rises, so the Cadiz Equity Ladder Fund (in red) rises, but by slightly less. This is because the portfolio's protection (just like short term household insurance) is not free, with some of the interest earned on the portfolio being used to pay for it. Importantly, however, when equity markets turn down, the Cadiz Equity Ladder Fund does not fall be anywhere near the same margin.

The benefit of this strategy of protecting the downside is more evident in the following Inet graph, which illustrates the performance of the Cadiz Equity Ladder Fund and the FTSE/JSE Africa Top 40 Index for the most recent period of market weakness (22 May 2008 to 4 July 2008). You will see that, while the market lost some 15%, the Cadiz Equity Ladder Fund fell by less than half the market's decline, losing only 7% over the same period.



The 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, the fund manager has recently put in place derivative strategies that are increasing 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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