FUND FACT SHEET
NOVEMBER 2018

Cadiz Stable Fund

cadiz
ASSET MANAGEMENT

KEY INFORMATION

Portfolio Manager	Brian Munro and Razeen Dinath
Inception	1 October 2012
Benchmark	SA CPI +3%

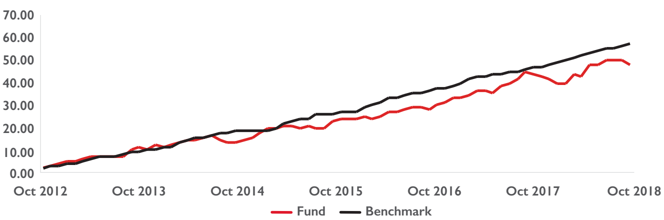
FUND OBJECTIVE

The Cadiz Stable Fund aims to outperform inflation by 3% over a rolling 36 month period and targets capital preservation over rolling 12 month periods. These twin objectives are achieved through active asset allocation with carefully managed equity stock selection. The fund will have exposure to local and global equities, bonds and cash varying the allocation when the appropriate opportunities arise. Suited to low risk institutional investors with a medium term investment horizon seeking consistent real returns. Also suitable as a conservative risk option for funds offering their members investment choice options, or for use in the latter stages of life stage models. The Fund complies with Regulation 28 of the Pension Funds Act, 1956 as amended.

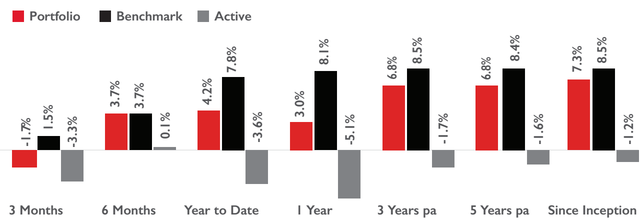
RISK STATISTICS (3 YEARS)

	Fund	Benchmark	Active
Standard Deviation	4.7%	1.1%	3.5%
Tracking error	4.7%		
Information Ratio	-0.4		

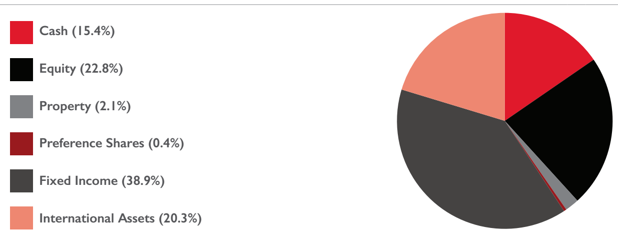
CUMULATIVE PERFORMANCE SINCE INCEPTION



PERIOD RETURN ENDING - 30 NOVEMBER 2018



ASSET ALLOCATION



TOP 10 EQUITY HOLDINGS

Naspers	3.0%
British American Tobacco PLC	2.6%
MTN Group	1.6%
Mediclinic International plc	1.5%
Standard Bank Group	1.5%
Firstrand Limited	1.4%
GILEAD SCIENCES INC	1.4%
Woolworths Holdings	1.3%
Impala Platinum Hlds	1.3%
STARBUCKS	1.2%

Quarterly Fund Manager Commentary – Third Quarter 2018

PORTFOLIO COMMENTARY

The Cadiz Stable fund generated 2.02% for the quarter. This is compared to the fund's target benchmark of inflation +3% which delivered 1.83%.

The divergence of performance between developed markets and emerging markets this year is evident. MSCI EM equities sold off -7.5% compared to MSCI World equities gaining 5.9% (in dollars). Concerns around US-China trade war, US Fed rate hikes and the reversal of quantitative easing by central banks has caused investors to sell emerging markets. So far this month, October 2018, the US equity market has performed poorly and seems to be correcting – following emerging markets.

As equity markets fall, it provides us with excellent opportunities to add quality investments to the portfolio at highly attractive prices. This positions the fund for excellent long term returns. We encourage our clients to stay invested even though there is potential for increased volatility in the stock markets.

PERFORMANCE REVIEW

Stocks that contributed positively to performance were Impala Platinum that rebounded strongly during the quarter. Express Scripts also had a good quarter along with most of our international stocks including the oil services stocks. African Phoenix preference shares also contributed positively with the announcement that the preference shares are likely to be bought back.

Stocks that detracted from performance this last quarter were MTN, Mediclinic and Naspers.

- MTN was hit hard by claims from the Nigerian Central bank and their Attorney General for alleged illegal repatriation of cash and tax underpayment respectively. From our review of the information, it seems that these claims are unfounded. The drop in MTN share price was so severe that at the current price, the market has effectively priced the Nigerian operations at zero. This appears overly pessimistic and hence we still view MTN as an attractive investment.
- Mediclinic also detracted from performance. The other hospital companies in SA reported weaker than expected results which added to the negative view on the sector.
- Naspers continued to drift lower as the market was unimpressed by Tencent's quarter on quarter result and weaker Chinese Yuan due to the trade war. We don't believe that the quarter on quarter performance was definitive evidence of a major slowdown in the business growth prospects and hence are comfortable with our investment.

FUND POSITIONING

At the end of June we began buying South African bonds adding to our corporate bond exposure. We have continued to add to this position this quarter as bond yields have risen. Our property and equity weights have remained similar although we have recycled some capital within equities which will be explained below. With the significant depreciation in the rand we have bought currency futures to protect the fund against the rand strengthening.

As share prices have fallen, we have used this opportunity to slowly add a number of stocks to the portfolio. These include:

- Tiger Brands, which was hit hard by the listeriosis crisis at the start of 2018 and the weak economic environment. We believe the business has a very good long term track record and although it has made some poor capital allocation decisions in the past, new management are in place who are focusing on stabilising core operations.
- Absa which is trading on a 7% dividend yield and even though the SA economic environment is tough with competition in the banking industry heating up, we believe that even if Absa delivers subpar earnings growth, the return prospects are favourable due to the depressed share price.
- Facebook, which has a powerful business model, a strong network effect and the advantage of access to customer information that can be used for targeted advertising. The share price declined more than 25% due to the market downgrading the near term growth expectations. We believe that the near term growth pressures are overly discounted and hence expect a good long term outcome from this investment.

To fund these purchases we have taken profits by reducing our Sasol investment as the share price reached our base case valuation on the back of the recovering oil price. We sold Express Scripts as the share price reflected the deal value of the Cigna buyout. We also sold Charter Communications. Our investment review highlighted that the attractiveness of the investment hinged on very aggressive tax structures and we were uncomfortable with the level of financial risk. This reduced our conviction level and decided to exit this investment.

We continue to remain focused on protecting and growing your capital by taking advantage of the markets short term overreaction to bad news by investing in predominantly good businesses at attractive prices with capable management and low financial risk.

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