

# Cadiz Stable Fund

REGULATION 28 COMPLIANT

## Quarterly Fund Manager Commentary – Second Quarter 2018

### ASSET CLASS PERFORMANCE

To give some context to the performance of the fund, Table 1 shows the various asset class performances. Resource sector has been the stand out performer along with the Rand depreciating by 16% for Q2'2018.

SOUTH AFRICAN ASSETS	Q2 2018	YTD	1 YEAR
Cash	2%	4%	7%
Bonds	-4%	4%	10%
ILB	-5%	-1%	2%
Property	-2%	-21%	-10%
SWIX	2.1%	-4.8%	12%
ALSI	4.5%	-1.7%	15%
Resources	20%	15%	42%
Financials	-6%	-9%	11%
Industrials	4%	-4%	8%
Rand/Dollar (R/\$)	16%	11%	5%
FOREIGN ASSETS (USD)	Q2 2018	YTD	1 YEAR
US Cash	0.5%	0.9%	1.5%
JMP Global Bonds	-3%	-1%	2%
MSCI World	1.9%	0.8%	11.7%
MSCI EM	-7.9%	-6.6%	8.5%
Gold Price \$	-5%	-3%	1%
S&P GS Commodities	8%	10%	31%

Source: I-NET

### PERFORMANCE REVIEW

After a disappointing first quarter for the Cadiz Stable fund the fund rebounded strongly, generating 6.66% for the second quarter. This is compared to the fund's target benchmark of inflation +3% which delivered 2.05%.

The overall positioning of the fund has hardly changed since the beginning of December 2017. Consequently the swing in the fund performance was a result of a strong reversal in the rand and the rebound in foreign equities. International equities that contributed to the fund performance were the stocks in the Oil Services sector (Transocean and National Oilwell Varco) and Macy's. Local stocks that contributed were Naspers and Sasol while MTN and Impala were the main detractors.

The fund did not hold South African government bonds during most of the quarter and so avoided the poor performance (-3.8%) of the bond market.

### FUND POSITIONING

Only in late June did we reposition the fund, taking advantage of market movements. At attractive bond yields of around 9.5% we bought long-dated government bonds, increasing our bond weight by 10%. At a 9.5% yield this translates into a real yield that is greater than 4%.

Our overall equity allocation across local and foreign markets remains largely unchanged. The fund continues to maintain its overweight position in international equities. We remain underweight South African property and other domestic stocks. Our high conviction positions continue to be the Oil Services sector (Transocean and National Oilwell Varco – international stocks), Naspers, Sasol, MTN and British American Tobacco. We also have overweight positions in the Platinum and Health Care sectors.

Within local equities, we sold Netcare, took some profits on Sasol and used that to fund our purchase of FirstRand Limited (FSR).

Internationally, we sold Softbank. We also trimmed our position by taking profits in Express Scripts, Berkshire Hathaway, Transocean and National Oilwell Varco to fund a number of purchases. This has brought more diversification to the fund and strengthen the fund's defensive qualities.

We were able to buy the following high quality businesses at attractive prices:

- Discovery Communications, which owns and distributes the Discovery suite of TV channels. We also invested in US cable and media companies, Comcast and Charter Communications. These businesses have been sold off due to the threat of over the top (OTT) video content distribution, more commonly known as Internet delivered video programming (mainly driven by Netflix). We believe that the current share prices don't factor in the power of these businesses video content libraries and that the recent changes to net neutrality rules together with increasingly data hungry video applications will result in good earnings per share growth over the long term.
- Philip Morris which is leading the tobacco industry in the roll out of reduced risk products and is available at an attractive price due to potentially more stringent FDA rules with respect to nicotine content in cigarettes.
- L Brands, which owns the Victoria Secret business globally as well as Bath and Body Works in the USA. The Victoria Secret business has been struggling due to over promotion and fashion missteps, while the Bath and Body Works business continues to produce good results. The market had marked down the share price too severely making this an attractive investment opportunity that meets our investment criteria
- Starbucks is a long term dividend compounder. Its share price has been under pressure due to negative public image news flow as well as low same store sales growth in the USA. We agree that Starbucks USA is a mature business but see enough levers for management to pull to continue growing that business at a moderate pace. Growth prospects in China however, are appealing.

We continue to remain disciplined in sticking to our investment philosophy and process and focus intently on protecting and growing your capital by investing in predominantly good businesses at attractive prices with capable management and low financial risk.

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