

Cadiz Stable Fund

REGULATION 28 COMPLIANT

Fund Information

FUND OBJECTIVE

The fund aims to provide investors with real returns (inflation plus 3%) over rolling 3 year periods, while minimising the risk of capital loss over a one year period.

WHAT DOES THE FUND INVEST IN?

The fund invests in equities, fixed interest instruments, listed property and cash. The intended maximum limits are: up to 40% in equities, 25% in listed property, 30% in offshore assets plus an additional 10% in Africa (excl. South Africa). Derivative strategies may also be used to mitigate the risk of capital loss.

WHO IS THE FUND SUITABLE FOR?

- Investors seeking a low to medium risk multi asset fund.
- Retirees who wish to protect their investment from inflation erosion.
- Those seeking capital preservation.
- Investors who have at least a 3 year investment horizon.

INVESTMENT PHILOSOPHY AND PROCESS

We apply a long-term, bottom-up, valuation driven process to uncover the most attractive risk-adjusted return opportunities for the various asset classes available for investment. We follow an absolute return process and construct portfolios to maximise returns for an acceptable level of downside risk.

Our equity investment approach is rooted in the belief that there are two values for every share, the first being the current market price, and the second what the business is worth to a knowledgeable buyer. This is referred to as intrinsic value, and the time to buy is when there is a large difference between the market price and intrinsic value, and the time to sell is when this price difference narrows. We determine intrinsic value by performing a detailed analysis of the financial statements and a qualitative assessment of the business and management quality.

FEES ON CLASS A (EXCLUDING VAT)

Initial fee: 0%
Annual Management fee: 1.00%

PERFORMANCE FEE

None

TOTAL EXPENSE RATIO (TER) AND TRANSACTION COSTS

Cadiz Stable Fund (Class A)

PERIOD (ANNUALISED) | AUGUST 2015 - 30 SEPTEMBER 2018

Total expense ratio	1.2%
Transaction costs	0.2%
Total investment charge	1.4%

RISK VS REWARD



FUND MANAGERS



Brian Munro
Head of Multi Assets



Razeen Dinath
Head of Equity Research

GENERAL INFORMATION

Inception	3 September 2012
Benchmark	CPI+3% pa net of fees over rolling 3 years. No negative returns over rolling 12 months
Sector	ASISA SA Multi Asset Low Equity
Fund Class	A
Fund Size	R289 million
Regulation 28 compliant	Yes
Minimum Investment	Lump sum: R5 000 Monthly: R500 Adhoc: R500
Income Distribution (Class A)	Bi-annual (end June and end December)
ISIN Code	ZAE 000170205
Domicile	South Africa
JSE Code	CASF

CONTACT DETAILS

A PO Box 44547, Claremont, 7735 | Alphen Estate, Alphen Drive, Constantia, 7806 | T 08000 CADIZ (22349) | F 0861 022 349 | E investorservices@cadiz.co.za | www.cadiz.co.za

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Class A as at 31 January 2019

GENERAL INFORMATION

Inception	3 September 2012
Fund category	ASISA SA Multi Asset Low Equity
Portfolio managers	Brian Munro and Razeen Dinath
Fund Size	R285 million
Benchmark	CPI+3% pa net of fees over rolling 3 years.
Performance fee	No negative returns over rolling 12 months

RISK STATISTICS* (FOR CLASS A)

Sharpe ratio annualised	Fund
Maximum drawdown	-0.15
Highest annual return	-7.2%
Lowest annual return	8.4%
	2.0%

* Risk statistics for Class A refers to the highest and lowest actual 12 month return over the related period since the inception of the fund.

PERFORMANCE 31/01/2019

	Fund	Benchmark	Outperformance
1 Year	3,5%	7,6%	(4,1%)
2 Years (annualised)	4,8%	7,7%	(3,0%)
3 Years (annualised)	5,8%	8,5%	(2,7%)
5 Years (annualised)	5,3%	8,5%	(3,1%)
Since inception annualised	5,9%	8,5%	(2,6%)

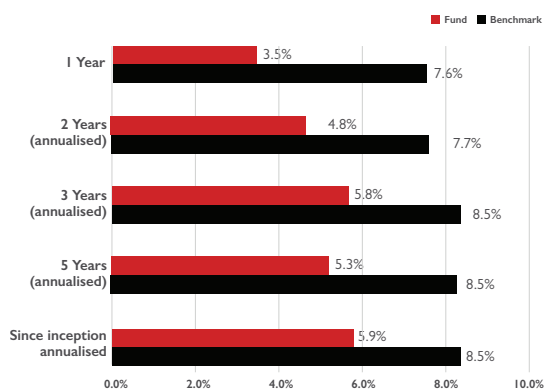
Source: Morningstar

TOP 10 HOLDINGS

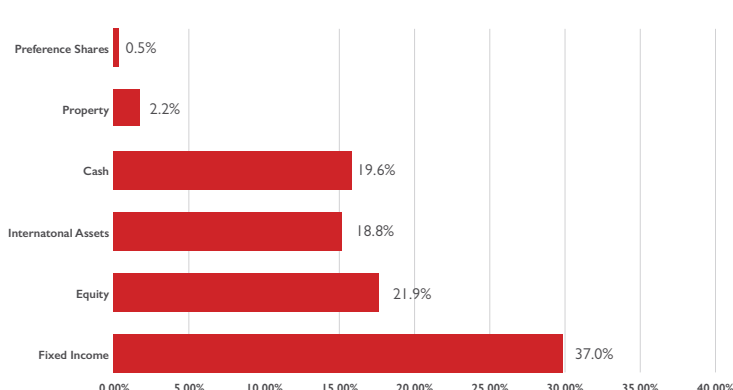
January 2019	December 2018
Naspers	Naspers
British American Tobacco	British American Tobacco
MTN	MTN
Mediclinic International	Mediclinic International
Gilead Sciences Inc	Woolworths Holdings
Standard Bank	Gilead Sciences Inc
Firststrand	Anglogold Ashanti
Anglogold Ashanti	Firststrand
Woolworths Holdings	Standard Bank
Bed, Bath & Beyond	Franklin Resources

Source: Cadiz Asset Management

FUND RETURNS VS BENCHMARK



EFFECTIVE ASSET ALLOCATION



RISK VS REWARD



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Quarterly Fund Manager Commentary – Third Quarter 2018

PORTFOLIO COMMENTARY

2018 was a particularly tough year for risk assets (which include equities, property and commodities) that generated negative returns for the year. Local and global risks have increased due to the trade war between the US and China, Brexit, US interest rate hikes and tightening global liquidity. Locally the risk of having our sovereign credit rating downgraded by Moody's also impacted local markets.

However, with a long term focus, the fund continues to follow a disciplined process to generate capital growth and income for its clients, while limiting the potential for capital loss. With this in mind, the fund has not changed its overall investment strategy:

- For growing our client's capital, the fund's equity allocation ranges between 35% and 40%. (local and international equities). With the sell-off in risk assets in 2018, these investments have become more attractive. Fundamentally, we believe the investment cases for each asset remains intact, where we expect earnings to grow overtime. Share prices usually follow earnings growth in the long term and so we wait patiently for share prices to reach our assessment of what the asset is worth.
- For our income strategy which makes up 60% of the fund we still prefer to be overweight corporate bonds relative to long duration bonds. These approximately high yielding corporate bonds have a better risk-adjusted return and have generated good income for our clients.

ASSET CLASS PERFORMANCE

To give some context to the performance of the fund, Table 1 shows the various asset class performances. Risk assets were negative for the year. In the fourth quarter, International equities (-13.3%) and Brent Crude Oil (-36%) were major underperformers.

For the year, South African Resources (16%), Bonds (8%) and cash (7%) were the winners while Financial and Industrial stocks dragged the overall equity market lower (ALSI -9%). The Rand depreciated 16% against the US Dollar.

Table 1. Asset class performance. Source IRESS

South African Assets	Q4 2018	1-YEAR
Cash	2%	7%
Bonds	3%	8%
ILB	0%	0%
Property	-4%	-25%
SWIX	-4.0%	-12%
ALSI	-4.9%	-9%
Resources	-5%	16%
Financials	-2%	-9%
Industrials	-6%	-18%
Rand/Dollar (R/\$)	1%	16%
Foreign Assets (USD)	Q4 2018	1-YEAR
US Cash	0.6%	0.6%
JPM Global Bonds	1%	1%
S&P 500	-14%	-14%
MSCI World	-13.3%	-13.3%
MSCI EM	-7.6%	-7.6%
ALSI \$	-6.2%	-6.2%
Gold Price \$	8%	8%
Platinum price \$	-3%	-3%
Brent Crude Oil	-36%	-36%

PERFORMANCE REVIEW

The Cadiz Stable fund generated 2.02% for the year. 2018 was a particularly difficult year for the fund to outperform its benchmark of inflation +3% (8.35%) as equity, commodity and property markets were negative for the year where most of the negative returns happened in the fourth quarter. Consequently, the fund's quarterly return was also dragged lower (-2.83%). In a year where risk assets were negative, I'm pleased to report that the fund was able to protect your capital from any loss - a key mandate criteria.

The main detractors of performance in the fourth quarter were International stocks which performed in line with international equities (-13.3%). In particular, the oil services (Transocean and National Oilwell Varco) really suffered as Brent crude oil price fell from a high of \$82 to a low of \$52. An overshoot in both directions as we believe fair value for oil is somewhere between \$60 and \$75. We expect a rebound in the oil services as the oil price recovers to fair value.

Local stocks that mostly detracted from performance were British American Tobacco, Mediclinic and Intu Properties.

- British American Tobacco (BTI) was severely impacted by the news that the US Food and Drug Administration (FDA) unveiled new steps to prevent youth access to flavoured tobacco products and plans to ban menthol in cigarettes. Regarding menthol cigarettes, when the FDA examined menthol in 2013, the published science concluded that menthol should not be treated differently to non-menthol cigarettes.

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The published science has not changed its position since then. Management continue to engage proactively with the FDA on its proposed plan. If anything, it will take time (years) to implement. Consequently, we believe the market has overreacted to the FDA announcement and believe there is meaningful upside to the share price.

- Mediclinic has been impacted by regulatory change in Switzerland, whereby authorities have made changes to medical aid regulations. This has led to patients having shorter hospital visits (days spent in hospital) and has encouraged certain procedures to be conducted in outpatient facilities. This has caught all hospital providers off guard including Mediclinic, impacting their profitability. Overtime, Mediclinic should be able to re-position itself to take advantage of current conditions.
- Intu properties (UK Retail Real Estate) had an offer to be bought out by a consortium of investors including Brookfield Property Group, Olayan Group and the Peel Group. After a lengthy due diligence process, the consortium decided not to buy Intu properties for £2.14 citing political concerns surrounding BREXIT. Consequently the share price fell significantly. It now trades at £1.09, 0.3x Price Book and is extremely cheap.

FUND POSITIONING

Although the fund's overall strategy has not changed, there were some movements in the fund's positioning. Within Equities, we have slowly increased local equities (+3%) as attractive opportunities presented themselves while trimming positions and taking profits amongst some international equities. As we have been buying local assets, we have removed the currency protection we have had against a strengthening rand at favourable currency levels.

Two stocks that were added to the portfolio were Richemont and Bayer AG.

- Bayer AG is an above average quality business and operates in the areas of health care and agriculture. Its competitive advantages stem from the Group's strong R&D capabilities and patent protection, producing products and services that solve genuine customer needs. It has fairly stable revenues and earnings and has generated high returns on capital, creating economic value for shareholders.
- Richemont, a good quality luxury goods business was added to the portfolio. Its share price had fallen too much offering a sufficient margin-of-safety to have a small position. If the stock were to fall further, we would add to this position.

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. Wishing you and your family all the best for 2019.

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Important information regarding terms of use

GENERAL INFORMATION AND RISKS

1. Collective Investment Schemes in Securities (unit trusts) are generally medium to long-term investments.
2. The value of participatory interests (units) may go down as well as up and past performance is not necessarily a guide to the future. The manager does not guarantee the capital, nor the income of the portfolio.
3. Unit trusts are traded at ruling prices and can engage in scrip lending and borrowing.
4. Portfolios are priced daily and prices can be obtained from the website and in the daily newspapers or on Profile Data. Figures quoted are from Morningstar Inc.
5. Unit trust prices are calculated on a net asset value basis, which is the total value of all assets in the portfolio including any income accruals and less any permissible deductions (brokerage, UST, VAT, auditor's fees, bank charges, trustee and custodian fees and the annual management fee) from the portfolio, divided by the number of units in issue.
6. Different classes of participatory interests apply to this fund and are subject to different fees and charges.
7. Performance is shown for the most expensive class of the Fund and individual investor performance may differ as a result of initial fees, actual investment date, date of any subsequent reinvestment and any dividend withholding tax.
8. A schedule of fees, charges and minimum commissions is available on request from Cadiz Collective Investments.
9. Commissions and incentives may be paid, and if so, are included in the overall costs.
10. The manager has the right to close the portfolio to new investments in order to manage it more efficiently in accordance with the mandate.
11. Cadiz Collective Investments' portfolios are valued daily at 15:00. Instructions must reach Cadiz Collective Investments before 14:00 (11:00 for Cadiz Money Market Fund) to ensure same day value.
12. Transaction costs are necessary costs in administering the fund and impacts the fund returns. They should be considered in isolation as returns may be impacted by many factors over time including market returns, type of fund, the investment decisions of the investment manager and TER.

IMPORTANT INFORMATION FOR INVESTORS:

Total Expense Ratio (TER)

- TER is a measure of a funds expenses relating to administration of the portfolio expressed as a percentage of the average daily value of the fund over a three year period. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return.
- The sum of the TER and transaction costs is shown as the Total Investment Charge. Since Fund returns are quoted after the deduction of these expenses, the TER and Transaction costs should not be deducted again from the published returns.

Regulation 28 Compliance

- Where indicated the fund is managed to comply with Regulation 28 of the Pension Funds Act. Exposures in excess of the limits will be corrected immediately, except where, due to a change in the fair value or characteristic of an asset, e.g. market value fluctuations, in which case they will be corrected within a reasonable time period.
- The Management Company does not monitor compliance by retirement funds with section 19(4) of the Pension Funds Act (item 6 of Table 1 to Regulation 28).

Foreign investment risk

The portfolio may include underlying foreign investments. Fluctuations or movements in exchange rates may cause the value of the underlying foreign investments to go up or down. The underlying foreign investments may be adversely affected by political instability as well as exchange controls, changes in taxation, foreign investment policies, restrictions on repatriation of investments and other restrictions and controls that may be imposed by the relevant authorities in the relevant countries.

Derivative risk

The use of derivatives may increase the overall risk in the Fund by multiplying the effect of gains and losses.

Maximum drawdown

- A maximum drawdown is the maximum loss from peak to trough of a portfolio.
- It is an indicator of downside risk over a specified time period.

Sharpe ratio

The sharpe ratio is the average return earned in excess of one risk-free rate per unit of volatility or total risk.

Risks associated with investing in fixed interest and Money Market investments

- A money market fund is not a bank deposit account.
- Fluctuations in the market value of the securities in which a fixed income fund invests may have a negative impact on the fund. The income instruments are likely to be especially sensitive to changes in interest rates or changes in the market participants' expectations of how interest rates will change in future.
- There is a risk that certain corporate and other counterparties with whom the manager invests or through whom the manager transacts run into financial difficulty, and are unable to honour their commitments in full, which will lead to a potential loss of capital.
- There is a risk that in a high inflation environment, the securities in the Fund may appreciate at a rate lower than the inflation rate, and as such, the purchasing power of an investor's capital may decline.

Complaints

Cadiz Collective Investments are committed to handling client complaints in a timely and fair manner and has implemented systems and procedures to satisfy this commitment. The detailed Complaints Handling and Resolution Procedure is available on the website, or can be requested directly from the manager. A complaint should be lodged in writing with the Compliance Officer at investorservices@cadiz.co.za

An investor can obtain, free of charge, additional information on the proposed investment including, but not limited to, brochures, application forms and the annual report and any half-yearly report.

About the Management Company

Cadiz Collective Investments (RF) (Pty) Ltd – Co. Reg. NO 2004/032263/07, is registered as a management company under the Collective Investment Schemes Control Act 45 of 2002. It operates 6 unit trust portfolios under the Cadiz Unit Trust scheme, and is supervised by the Financial Services Board ("FSB").

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