

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) 1 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	R302 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

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Class A as at 30 November 2018

GENERAL INFORMATION

Inception	3 September 2012
Fund category	ASISA SA Multi Asset Low Equity
Portfolio managers	Brian Munro and Razeen Dinath
Fund Size	R302 million
Benchmark	CPI+3% pa net of fees over rolling 3 years. No negative returns over rolling 12 months
Performance fee	None

RISK STATISTICS* (FOR CLASS A)

Sharpe ratio annualised	Fund
Maximum drawdown	-0.11
Highest annual return	-7.2%
Lowest annual return	8.4%
	2.1%

* 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 30/11/2018

	Fund	Benchmark	Outperformance
1 Year	1.6%	8.3%	(6.7%)
2 Years (annualised)	6.0%	8.1%	(2.2%)
3 Years (annualised)	5.4%	8.6%	(3.2%)
5 Years (annualised)	5.5%	8.5%	(3.0%)
Since inception annualised	6.0%	8.6%	(2.6%)

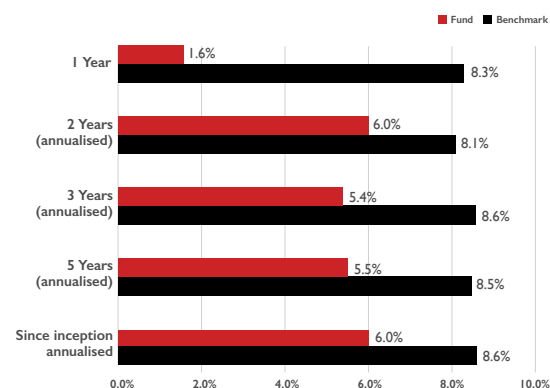
Source: Morningstar

TOP 10 HOLDINGS

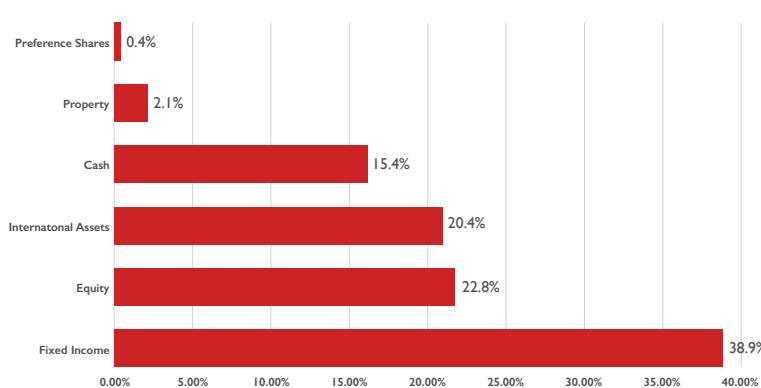
November 2018	October 2018
Naspers	British American Tobacco
British American Tobacco	Naspers
MTN	Mediclinic International
Mediclinic International	MTN
Standard Bank	Gilead Sciences Inc
Firststrand	Standard Bank
Gilead Sciences Inc	Firststrand
Woolworths Holdings	Intu Properties
Impala Platinum	Hammerson
Starbucks	Bed, Bath & Beyond

Source: Cadiz Asset Management

FUND RETURNS VS BENCHMARK



EFFECTIVE ASSET ALLOCATION EXPOSURE



RISK VS REWARD



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Quarterly Fund Manager Commentary – Third Quarter 2018

PORTFOLIO COMMENTARY

The Cadiz Stable fund generated 1.70% 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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Important information regarding terms of use

GENERAL INFORMATION AND RISKS

- Collective Investment Schemes in Securities (unit trusts) are generally medium to long-term investments.
- 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.
- Unit trusts are traded at ruling prices and can engage in scrip lending and borrowing.
- 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.
- 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.
- Different classes of participatory interests apply to this fund and are subject to different fees and charges.
- 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.
- A schedule of fees, charges and minimum commissions is available on request from Cadiz Collective Investments.
- Commissions and incentives may be paid, and if so, are included in the overall costs.
- The manager has the right to close the portfolio to new investments in order to manage it more efficiently in accordance with the mandate.
- 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.
- 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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