FUND FACT SHEET
NOVEMBER 2018

Cadiz Worldwide Flexible Fund

cadiz
ASSET MANAGEMENT

KEY INFORMATION

Portfolio Manager	Razeen Dinath and Brian Munro
Inception	1 March 2002
Benchmark	SA CPI (CPIX until 31/12/08) +6% (TOP40 until 30/11/08)

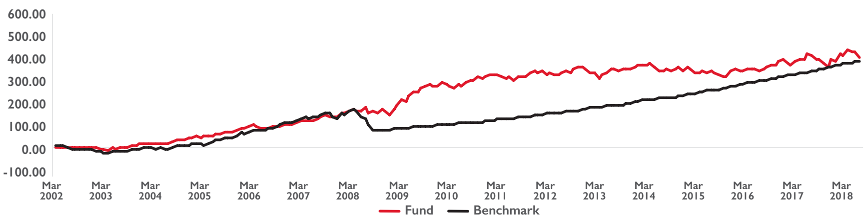
FUND OBJECTIVE

The Cadiz Worldwide Flexible Fund aims to outperform inflation by 6% over a rolling 36 month period. It is a specialist portfolio that invests in financially sound equities, fixed interest instruments, listed property and cash with no limits other than the internal limit of at least 80% of its assets outside South Africa. The fund may make use of derivatives to reduce volatility and risk. In selecting securities for this portfolio, the Manager seeks to secure stable capital growth for investors. The asset allocation is actively managed and continually reflects the portfolio manager's view of the relative attractiveness of the various asset classes and sectors. To achieve these objectives, the Manager has the maximum flexibility in terms of asset allocation.

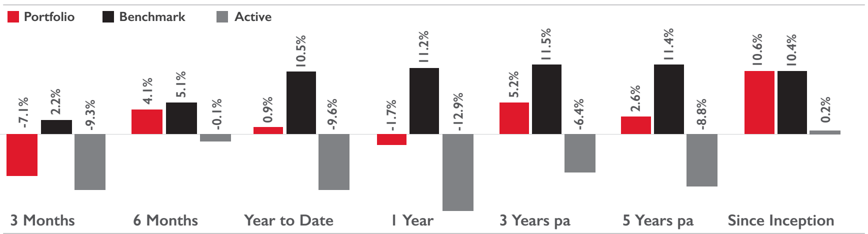
RISK STATISTICS (3 YEARS)

	Fund	Benchmark	Active
Standard Deviation	10.6%	1.1%	9.5%
Tracking error	10.4%		
Information Ratio	-0.6		

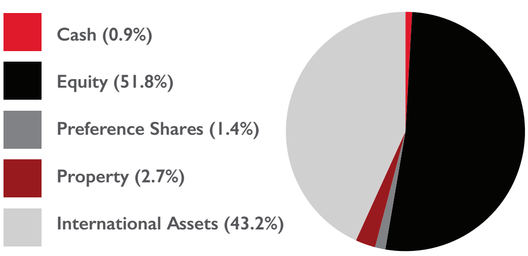
CUMULATIVE PERFORMANCE SINCE INCEPTION



PERIOD RETURN ENDING - 30 NOVEMBER 2018



ASSET ALLOCATION



TOP HOLDINGS

Naspers	7.3%
MTN Group	4.5%
British American Tobacco PLC	4.3%
Mediclinic International plc	3.8%
Woolworths Holdings	3.4%
Impala Platinum Hlds	3.2%
Brait SE	3.1%
Anglogold Ashanti	2.7%
AFRICAN PHOENIX	2.7%
BED BATH BEYOND	2.5%

Quarterly Fund Manager Commentary – Third Quarter 2018

PORTFOLIO COMMENTARY

The Cadiz Worldwide Flexible Fund gained 2.4% in the third quarter. Over a 1 year rolling period, the Fund has delivered a return of 8.5% versus a CPI + 6% target of 11%. Over a rolling 2 year period, the fund has provided a total annualised return of 7%, which is less than the target of 10.9%. Although this result is weak versus the benchmark, the JSE ALSI has delivered a return of 3.3% and 6.7% over the last 1 year and 2 years, with only the US stock market providing good returns.

Weak equity markets are a hindrance to outperforming absolute return benchmarks such as CPI + 6%. 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.

MTN was a large detractor from performance due to claims from the Nigerian central bank and 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 to R70 was so severe that 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. Nothing has come to light that has changed our investment case and we have used the lower price to increase our investment in this good business at more attractive prices.

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.

Woolworths continued to underperform. The financial results highlighted the tough economic environment that South Africa is in, while the turnaround in David Jones is not progressing as quickly as the market would like. The current share price assigns little value to David Jones and together with an improving SA business should deliver a good long term investment result.

Impala platinum has been trounced by the market over the last few years and had a decent recovery in the latest quarter making it the top contributor to

(continues on the next page)

CONTACT DETAILS | T 08000 CADIZ (22349) | F 0861 022 349 | E cam@cadiz.co.za | www.cadiz.co.za

Cadiz Worldwide Flexible Fund

performance. We exited Express Scripts as the share price moved close to the acquisition price on offer from Cigna. African Phoenix preference shares also recovered some underperformance as the possibility of the preference shares being bought back is on the cards. CVS Caremark, Aggreko, Walgreen Boots, Amplats, Berkshire Hathaway, Autozone and Brookfield Asset Management all moved up nicely. We still believe that there is sufficient long term return prospects from these investments to continue owning these businesses on behalf of our clients.

PORTFOLIO POSITIONING

Our offshore investments delivered a return of 8% for the quarter which enabled us to selectively take profit in the offshore holdings. We brought back ~10% of the portfolio as the JSE ALSI weakness has resulted in a lot of SA domiciled businesses offering good long term prospective returns. The net result was that the offshore investments declined from 48% to 44% over the quarter. The fund ended the quarter with 93.4% invested in equities, 2.4% preference shares and 4.2% cash. Local SA equity is at 50.9%, which is still predominantly invested in multinational companies listed on the JSE.

We trimmed our Sasol investment as the share price moved closer to our base case valuation on the back of the recovering oil price. We initiated a new position in Tiger Brands. Tiger Brands had initially been hit hard by the listeriosis crisis at the start of 2018 and the weak economic environment has caused short term expectations to be lowered with a resultant decline in the share price. The business has a very good long term track record but has made poor capital allocation decisions. New management are now in place who are focusing on stabilising and improving the core operations.

We invested in Famous Brands, as the share price has also declined to levels where we believe the long term returns are favourable. It is clear that Famous Brands made a mistake buying Gourmet Burger Kitchen in the UK. The core SA focused business is defensive and in a strong competitive position with excellent return on capital.

Absa has also been added to the fund as the share price declined significantly during the quarter. Absa 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. A smaller investment was made into Standard Bank as the price is also attractive at current levels.

In the international stock picks, we topped up our investment in Aggreko as the share price fell below our bear case valuation. We initiated a new position in Facebook which has a really powerful business model with a strong network effect and the ability to use the tremendous amount of data they have on their vast user base to more effectively aid advertisers in reaching customers. The share price declined more than 20% due to the market downgrading the near term growth expectations after managements 2nd quarter earnings comments. We believe that the near term growth pressures are overly discounted and hence expect a good long term outcome from this investment.

Our investment case review on Charter Communications highlighted that the attractiveness of the investment hinges on very aggressive tax structures and we were uncomfortable with the level of financial risk. This reduced our conviction level and hence we exited.

We invested in Intu properties as we believe that the Brexit fears are too severely discounted in the current share price and Intu has a good UK focused property portfolio with moderate financial risk.

We 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.

CONTACT DETAILS | T 08000 CADIZ (22349) | F 0861 022 349 | E cam@cadiz.co.za | www.cadiz.co.za