Cadiz Stable Fund

cadiz
ASSET MANAGEMENT

KEY INFORMATION

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

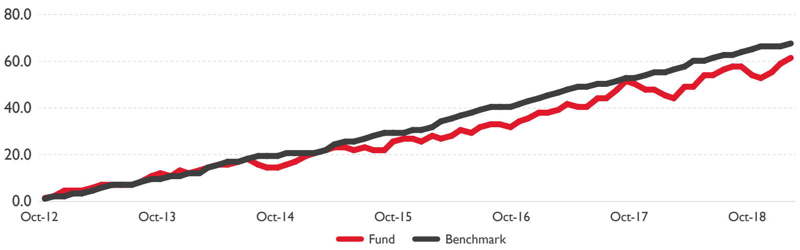
FUND OBJECTIVE

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.

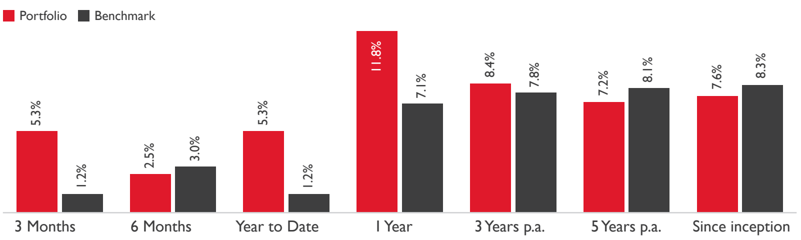
RISK STATISTICS (3 YEARS)

	Fund
Standard Deviation	4.7%

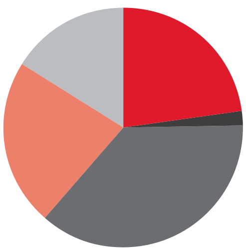
CUMULATIVE PERFORMANCE SINCE INCEPTION



PERIOD RETURN ENDING – 31 MARCH 2019



ASSET ALLOCATION



- Equity (22.9%)
- Property (2.0%)
- Fixed Income (36.6%)
- International Assets (22.6%)
- Cash (15.9%)

TOP 10 EQUITY HOLDINGS

Naspers	3.5%	Gilead Sciences Inc	1.3%
British American Tobacco PLC	3.2%	Facebook Inc-A	1.3%
MTN Group	1.6%	Standard Bank Group	1.2%
Bed Bath & Beyond	1.5%	Franklin Resources	1.2%
Mediclinic International PLC	1.4%	Macy's	1.2%

Quarterly Fund Commentary First Quarter 2019

PORTFOLIO COMMENTARY

The Cadiz Stable fund generated 5.3% for the quarter rebounding strongly as global equity markets recovered. This is compared to the fund's target benchmark of inflation +3% which grew by 1.19%. The quarterly results can be quite volatile and therefore we encourage our clients to ignore the short-term noise and focus on the longer-term results that the fund is producing. Over the last year, the fund delivered 11.8% outperforming inflation+3% of 7.1%.

Global recessionary fears faded as China's economic growth seems to be stabilising. US-China trade talks have also fed positive sentiment. The US Federal Reserve paused on hiking interest rates and the US, European and Japanese central banks have communicated that monetary policy would continue to be accommodative. Collectively, these events have supported equity markets.

Some positive key announcements at the end of the quarter were:

- Moody's confirmed South Africa's credit rating as investment grade which was a major relief to local bond and equity markets. South Africa has been given time to develop credible reform initiatives to boost the economy's growth prospects.
- The South African Reserve Bank (SARB) kept interest rates unchanged at 6.75%, as expected.

PERFORMANCE REVIEW

Stocks that contributed positively to performance were British American Tobacco, Philip Morris, Naspers, Facebook and Bed Bath and Beyond as well as the oil service and platinum stocks. These were some of the stocks that rebounded strongly after a poor end to 2018.

The main detractors of performance during the quarter were Woolworths, Macy's and CVS Health. As part of our process, we regularly re-evaluate each stock's investment case to see if anything has changed and whether the investment case still holds. For these 3 stocks, we believe their investment case is sound with the potential to deliver good long-term investment returns for the fund.

FUND POSITIONING

The fund's overall strategy has not changed. We prefer to be overweight high yielding corporate bonds that generate good income for our clients. Recently, we have increased this allocation as money market instruments have matured. The equity allocation is largely unchanged for the quarter.

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Cadiz Stable Fund

There were some movements within Equities, selling Philip Morris and Starbucks after delivering handsome returns and have recycled this capital into Swatch and Shoprite. After Naspers unbundled MultiChoice Group, we have added to this position. We have summarised the investment case for MultiChoice and Shoprite below:

- MultiChoice Group (MCG) was spun-off from Naspers and listed on the JSE on 27 February 2019. It is an above average business with low financial risk. It is Africa's leading entertainment company with world-class technology and well-invested infrastructure which allows for the distribution of content across multiple platforms. The Group has a highly cash generative South African business and no financial debt. The concern is the African operations which is currently loss making, mainly due to large depreciations of the foreign currencies. MCG has built the network infrastructure in Africa and does not have to spend a lot more capital in this business. This business has a high fixed cost base and can grow earnings quickly as more subscribers are added. These concerns have kept the share price below our assessment of what we believe the business is worth which has enabled us to add to the position.
- Shoprite Holdings is an above average quality business that has a history of creating economic value for shareholders. The company is defensive in nature and generates resilient earnings and cash flows overtime. Its two main competitive advantages are economies of scale and a superior supply chain. The share price has been under pressure lately, as the Group's earnings have been temporarily impacted by currency movements in its Rest of Africa operations, allowing us to take an initial position. Were the share price to fall further, we would add to this investment.

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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