FUND FACT SHEET MARCH 2019

Cadiz Passive Bond Fund

cadiz
ASSET MANAGEMENT

KEY INFORMATION

Portfolio managers	Alastair Sellick & Sidney McKinnon
Inception	1 November 2003
Benchmark	BESA ALBI

FUND OBJECTIVE

The Cadiz Asset Management Passive Bond product encompasses both segregated and pooled portfolios. These moderate risk South African bond mandates focus on delivering strong consistent returns over the medium to longer term, benchmarked against the BESA All Bond Index. Passive bond mandates are managed on a full-discretionary best house view basis and are appropriate for institutional clients, such as pension and provident funds, seeking moderate risk specialist fixed interest investment strategies. This product is managed to have an average modified duration of ± 0.2 relative to the BESA ALL Bond Index. The Passive Bond product has consistently outperformed the BESA All Bond Index since inception.

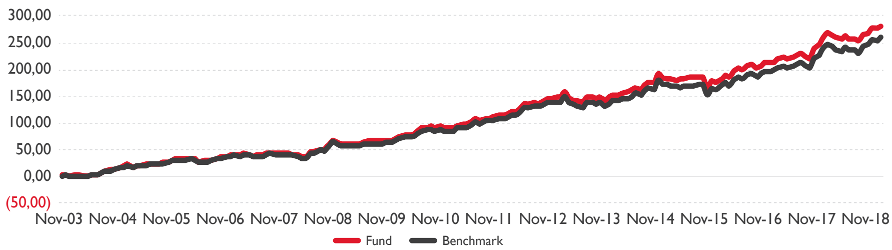
RISK STATISTICS (3 YEARS)

	Fund	Benchmark	Active
Standard Deviation	6.6%	6.8%	-0.2%
Tracking error	1.0%		
Information Ratio	0.2		

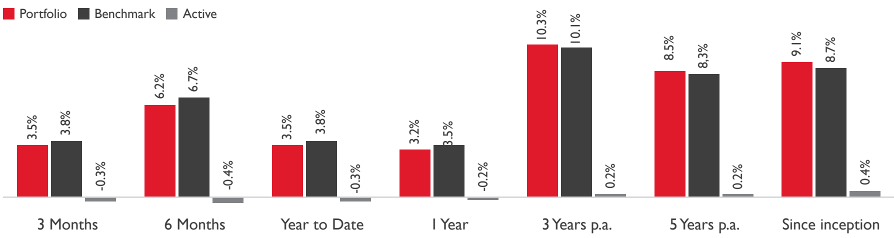
FUND CHARACTERISTICS

Modified Duration	6.9
Average number of holdings	55
Turnover per annum	62.5%
Maximum exposure to one stock	15.0%
Credit limit applied	40.0%
Maximum exposure to single counterpart (excluding government and government guaranteed debt)	15.0%
Maximum duration deviation around benchmark	1

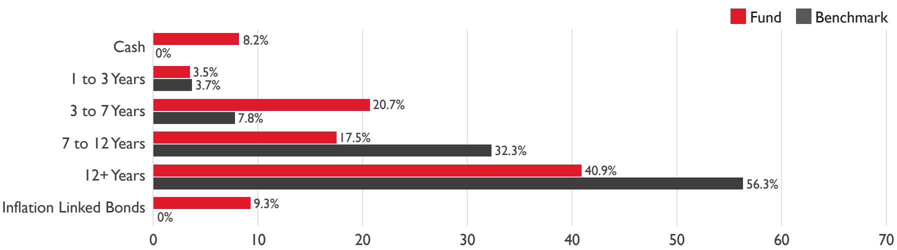
CUMULATIVE PERFORMANCE SINCE INCEPTION



PERIOD RETURN ENDING – 31 MARCH 2019



SECTOR ALLOCATION



Quarterly Fund Commentary First Quarter 2019

ECONOMIC AND MARKET COMMENT

The 1st quarter of 2019 was characterised by a strong rally in the Rand, and then an abrupt weakness which left the Trade Weighted Nominal Effective Exchange Rate of the Rand roughly unchanged at the end of the quarter. USDZAR strengthened from 14.38 at the start of January to 13.25 at the start of February, and then weakened back to close the quarter at 14.50. South African yields followed the currency lower, and then corrected sharply when the Rand weakened. On the 20th February, new Finance Minister Tito Mboweni delivered a generally downbeat Budget Speech, which highlighted the dire state of affairs at ESKOM – and in addition, committed R67bn in support to ESKOM over the next 3 years, and a total of R230bn over the next decade. This is one of the main reasons behind the significant deterioration in the fiscal deficit (as a percentage of GDP) – one of the key metrics Moody's (and all other rating agencies) monitors.

In spite of the woes at the Fiscus, SA government bonds rallied, due to a perception that the Budget was better than the market had expected, and our bonds were also boosted by a strong rally in global yields – mainly on the back of the Federal Reserve indicating that it would now be "on pause" for the rest of 2019. In fact, global bond and money markets are implying that the next move in the Fed Funds rate will be a cut. We disagree and expect at least one or two further hikes by the Fed in 2020. In addition, the ECB was forced to remove all talk of its first rate hike, and instead had to announce a new TLTRO III programme. TLTRO is an acronym meaning "Targeted Longer-Term Refinancing Operations" and is a measure that stimulates bank lending to the real economy – a way of increasing economic growth by providing cheap money to banks. This is a version of Quantitative Easing that the ECB is implementing.

Global bond yields generally rallied throughout the quarter, with the US 10yr treasury yield reaching a low of 2.33%, having started the quarter around 2.70%, ass the Fed rate cuts were priced out. The 10yr German Bund yield plunged from 0.24% to -0.07% and there is no chance of an ECB rate hike in the near term. South African bond yields rallied, with the R186 yield falling from 8.87% to end the quarter at 8.58% - but it reached an intra-quarter high of 9.11% right after Minister Mbweni's Budget Speech. The yield curve steepened over the quarter, reflecting the deteriorating revenue collection at SARS and the higher budget deficit and increased bond issuance by National Treasury.

(continues on the next page)

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The SARB kept rates unchanged in their January and March MPC meetings. However, they emphasized that the current monetary policy stance is accommodative; we also have had significant petrol and electricity price increases which will put pressure on inflation towards H2 2019. Inflation will peak close to the 6% upper target, and then fall back to the middle of the 3% to 6% target range, around 4.5%

The bond market (All Bond Index) returned +3.76% for Q1 2019. Equity markets (represented by the JSE ALSI) were up 7.97% over the quarter and Inflation Linked Bonds (ILBs) returned +0.50% for the quarter. Cash returned +1.73% for the quarter. Rolling 12 month returns for bonds fell to +7.26%, equities have returned +5.04%, and ILBs were negative at -3.14% with cash returning 7.26% over the last 12 months.

PORTFOLIO REVIEW AND OUTLOOK

We reduced the modified duration positioning of the Fund when risk aversion struck at the beginning of the quarter, and have tried to increase the liquid high quality assets in the Fund. The diversified holdings of Floating Rate Notes (FRNs) protected the fund in the rising short rate environment, and now that yields have fallen, we intend to increase holdings of FRNs. Our current House View on interest rates is that the SARB will hike again at some point in 2019. We will therefore reduce modified duration into strength as and when bond yields rally. We will continue to increase our exposure to Floating Rate Notes (FRNs) if attractive opportunities present themselves, in terms of credit spreads, even though investors continue to over-pay for credit of late. We will continue to exercise caution with our credit assessments before investing in credit assets.

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