

Cadiz Absolute Yield Fund

REGULATION 28 COMPLIANT

Fund Information

FUND OBJECTIVE

The fund aims to provide investors with a return of 2% in excess cash over a rolling 3 years and a positive return over any rolling 12 month period. The fund is expected to deliver more consistent returns than an income fund and reduce the volatility inherent in the bond market. Great care is applied to protect the fund against incurring losses.

WHAT DOES THE FUND INVEST IN?

The fund can invest in a combination of assets, such as government and corporate bonds, inflation linked bonds, listed property and cash both in South Africa and offshore. Derivative strategies such as swaps and futures may also be used for efficient portfolio management purposes and to mitigate downside risk. The fund does not invest in ordinary shares.

The intended maximum limits, (see underlying instruments mentioned below), may not exceed 25% of the value of fund:

- Listed property: up to 10%
- Preference shares: up to 10%
- International assets: up to 10%
- Hybrid instruments: up to 5%

The fund has a flexible mandate with no duration or maturity limits for its investments.

WHO IS THE FUND SUITABLE FOR?

- Investors seeking a cash alternative to a bank deposit.
- Retirees who seek a managed exposure to income generating investments.
- Those who seek active management within the fixed interest universe.
- Investors who have at least an 18 month or longer investment horizon.

INVESTMENT PROCESS

The fund is actively managed by an experienced team who are able to change the fund's duration depending on our view of the interest rate cycle and the valuation of fixed rate bonds. Derivatives are deployed to switch between fixed and floating rate exposure, which also mitigates the risk of volatility associated within the bond market.

There are no guarantees that the fund will always outperform cash over short periods of time and therefore capital losses are possible, especially in the case of negative credit events which may affect the underlying holdings. The fund's investments are subject to a stringent risk management process.

FEES ON CLASS A (EXCLUDING VAT)

Initial fee: 0%

Annual Management fee: 0.80%

PERFORMANCE FEE

None

TOTAL EXPENSE RATIO (TER) AND TRANSACTION COSTS

Cadiz Absolute Yield Fund (Class A)

PERIOD (ANNUALISED) 1 MAY 2016 - 31 JULY 2019

Total expense ratio	0.95%
Transaction costs	0.00%
Total investment charge	0.95%

RISK VS REWARD



FUND MANAGERS



Alastair Sellick
Joint Head of Fixed Income



Sidney McKinnon
Joint Head of Fixed Income

GENERAL INFORMATION

Inception	1 March 2006
Benchmark	STeFi + 2% pa net of fees over rolling 3 years. No negative returns over rolling 12 months
Sector	ASISA SA Multi Asset Income
Fund Class	A
Fund Size	R572 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 000078382
Domicile	South Africa
JSE Code	AHAY

CONTACT DETAILS

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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. Unit trusts are traded at ruling prices and can engage in scrip lending and borrowing. 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. A schedule of fees, charges and maximum commissions is available on request from Cadiz Collective Investments. Commission and incentives may be paid, and if so, are included in the overall costs. Portfolios may be closed. Forward pricing is used. 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. Cadiz Collective Investments (RF) (Pty) Ltd – Co. Reg. No. 2004/032263/07. Address: PO Box 816, Constantia, 7848. A member of the Association of Savings & Investment South Africa. Trustees: ABSA Capital Investor Services, Cadiz Funds (Pty) Ltd an authorised financial services provider (PSP 45442)

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Class A as at 31 July 2019

GENERAL INFORMATION

Inception	1 March 2006
Fund category	ASISA SA Multi Asset Income
Portfolio managers	Alastair Sellick & Sidney McKinnon
Fund Size	R572 million
Benchmark	STeFi + 2% pa net of fees over rolling 3 years. No negative returns over rolling 12 months
Performance fee	None

PERFORMANCE 31/07/2019

	Fund	Benchmark	Outperformance
1 Year	9,98%	9,43%	0,55%
2 Year (annualised)	9,15%	9,45%	(0,30%)
3 Year (annualised)	9,25%	9,12%	0,13%
5 Year (annualised)	7,71%	8,87%	(1,16%)
7 Year (annualised)	7,59%	8,94%	(1,35%)
Since inception (1/03/06) annualised	8,84%	9,18%	(0,34%)

Source: Morningstar

RISK STATISTICS* (FOR CLASS A)

Sharpe ratio annualised	Fund 0,57
Maximum drawdown	-15,04%
Highest annual return	10,81%
Lowest annual return	4,99%

* 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.

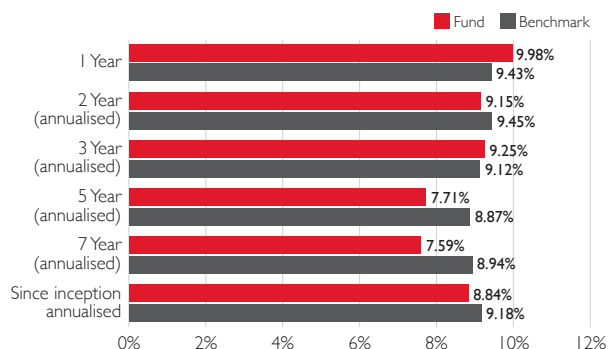
TOP 5 HOLDINGS

June 2019	
Standard Bank Credit Linked Note	3-7 Years
Municipal Fixed Rate Bonds	3-7 Years
South African Rand	
African Bank Inflation Linked Bond	1-3 Years
First Rand Floating Rate Note	3-7 Years

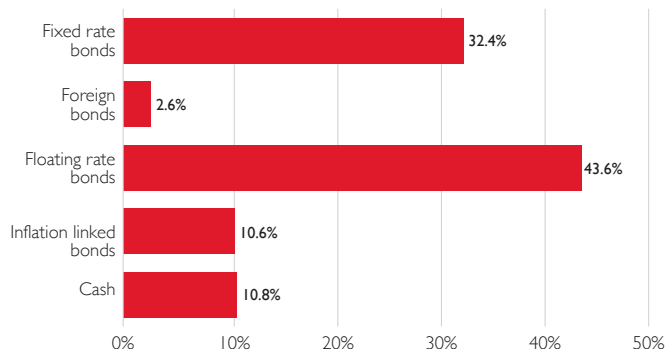
Source: Cadiz Asset Management

MODIFIED DURATION	1.84
GROSS YIELD	9.50%

FUND RETURNS VS BENCHMARK



EFFECTIVE ASSET ALLOCATION EXPOSURE



INCOME DISTRIBUTIONS

Cadiz Absolute Yield Fund Class A

MONTHLY INCOME DISTRIBUTIONS DECLARED (CENTS PER UNIT ROUNDED TO 2 DECIMAL POINTS)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2019	0.45	1.16	1.17	0.66	0.89	0.87	0.53					
2018	0.70	0.85	1.05	0.65	0.35	0.67	0.77	0.43	0.84	0.58	0.68	1.30
2017	0.74	0.72	0.66	0.84	0.92	0.47	1.04	0.99	0.90	-0.12	0.09	1.15
2016	0.25	0.65	0.68	0.81	1.07	0.90	0.81	0.54	0.61	0.70	1.61	0.29
2015	1.25	0.39	0.60	0.61	0.32	0.45	0.71	0.36	0.28	-0.43	0.59	0.20
2014	-0.43	0.79	1.02	0.82	0.86	0.68	0.71	-2.08	0.52	0.90	0.56	0.57
2013	0.49	0.78	0.65	1.28	-0.28	0.21	0.39	-0.19	1.28	0.84	0.21	0.70

* Please note that the fund distributes bi-annually at the end of June and the end of December.

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Quarterly Fund Manager Commentary – Second Quarter 2019

ECONOMIC AND MARKET COMMENT

The 2nd quarter of 2019 was consumed by a focus on the South African General Election and all things political. Bond markets were characterized by a great deal of uncertainty, and then ultimately staged a rally and an aggressive curve steepening. The Rand was relatively stable early in the quarter; weakened quite abruptly, and then recovered strongly. The Trade Weighted Nominal Effective Exchange Rate of the Rand closed the end of the quarter stronger: USDZAR weakened from 14.33 at the start of April to briefly touch 15.17 in early June, but finished the month at 14.09. South African yields followed the currency, but shorter dated bonds like the R186 outperformed the long end bonds significantly. Concerns about the debt burden at ESKOM continue to weigh on bond investors. There was also talk of fast-tracking the government's support of the struggling parastatal. In addition to the committed R67bn in support to ESKOM over the next 3 years, some of the total R230bn of support over the next decade could occur sooner. This is one of the main reasons behind the expected significant deterioration in the fiscal deficit (as a percentage of GDP) – one of the key metrics Moody's (and all other rating agencies) monitors. The yield curve steepened as initial fears were that this would be funded by National Treasury in the domestic market.

Once the ANC's election victory was assured, SA government bonds rallied, due to a perception that President Ramaphosa had won a significant enough majority to embolden him in tackling corruption. His new cabinet was well received, and several non-performing ministers were axed. However, initial hopes that he has gained the upper hand against the pro-Zuma faction within the ANC have been dashed. The most recent concern is around Ace Magashule deploying ANC MPs tainted by corruption allegations to head parliamentary oversight committees. The New Dawn appears to be at risk.

Global bond and money markets rallied aggressively over the quarter. They appear to be implying that the next move in the Fed Funds rate will be a cut. The US 10yr treasury yield reached a low of 1.97% in June, having started the quarter around 2.43%, as the Fed rate cuts were priced in. The 10yr German Bund yield continued to plunge even further from -0.07% to a low of -0.33%. There is now no chance of an ECB rate hike in the near term. South African bond yields rallied, with the R186 yield falling from 8.54% to end the quarter at 8.08%. However, to illustrate the curve steepening, the R2048 bond opened the quarter at 9.65%, touched 10.04% intra-quarter and closed at 9.66%.

The SARB kept rates unchanged at the May MPC meeting. However, the most notable new development was that two of the voting MPC members were in favour of rate cuts. This came as a surprise, especially given that as recently as November 2018 the SARB had implemented an insurance rate hike. However, inflation outcomes have surprised to the downside and the most recent CPI reading for May 2019 printed at 4.5%, right in line with the mid-point of the 3% to 6% target range. The SARB revised its CPI average forecasts downwards to 4.5% for 2019, 5.1% for 2020 and back down to 4.6% for 2021. This would ordinarily suggest that rate cuts could be on the cards, but we are concerned about the implications of the ESKOM developments on the Sovereign Rating – and the implications for higher cost of capital in the South African economy.

The bond market (All Bond Index) returned +3.70% for Q2 2019. Equity markets (represented by the JSE ALSI) were up 3.92% over the quarter and Inflation Linked Bonds (ILBs) returned +2.76% for the quarter. Cash returned +1.80% for the quarter. Rolling 12 month returns for bonds rose to +11.48%, equities have returned +4.42%, and ILBs a paltry +4.19% with cash returning 7.29% over the last 12 months.

PORTFOLIO REVIEW AND OUTLOOK

We reduced the modified duration positioning of the Fund as yields fell towards the end 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. We intend to retain the strategy of reducing modified duration into strength as and when bond yields rally, especially since close to two local rate cuts are now being priced. 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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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. Unit trusts are traded at ruling prices and can engage in scrip lending and borrowing. 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. A schedule of fees, charges and maximum commissions is available on request from Cadiz Collective Investments. Commission and incentives may be paid, and if so, are included in the overall costs. Portfolios may be closed. Forward pricing is used. 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. Cadiz Collective Investments (RF) (Pty) Ltd – Co. Reg. No. 2004/032263/07. Address: PO Box 816, Constantia, 7848. A member of the Association of Savings & Investment South Africa. Trustees: ABSA Capital Investor Services, Cadiz Funds (Pty) Ltd an authorised financial services provider (FSF 45442)

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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 fund's 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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