

# Cadiz Equity Fund

## Fund Information

### FUND OBJECTIVE

The fund seeks long-term capital growth with a low risk of permanent capital loss by investing in a diversified portfolio of domestic and foreign shares, which are undervalued relative to their replacement cost or sustainable earnings power.

### WHAT DOES THE FUND INVEST IN?

The fund invests in equities that trade below their intrinsic market value. The fund can hold up to 30% in foreign assets and 10% in Africa (excl. SA), with the highest balance in domestic equities listed in South Africa.

The fund sits at the top end of the risk/return spectrum and can also invest in property related securities.

The portfolio's minimum exposure to equities will be 80% of its net asset value at all times.

### WHO IS THE FUND SUITABLE FOR?

- Investors who have at least a 5 year investment horizon.
- Investors who are in their wealth accumulation phase seeking exposure to equity markets.
- Investors with a high risk profile.

### INVESTMENT PHILOSOPHY AND PROCESS

We are long-term, bottom-up, valuation driven investors searching for quality businesses selling at an attractive price. Our 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. Our investment approach seeks to take advantage of short-term market pessimism by buying financially sound companies when they are typically out of favour and attractively priced.

### FEES ON CLASS A (EXCLUDING VAT)

Initial fee: 0%

Annual Management fee: 1.25%

### TOTAL EXPENSE RATIO (TER) AND TRANSACTION COSTS

Cadiz Equity Fund (Class A)

PERIOD (ANNUALISED) 1 MAY 2016 - 31 JULY 2019

Total expense ratio	2.1%
Transaction costs	0.4%
Total investment charge	2.5%

### RISK VS REWARD



### FUND MANAGERS



**Brian Munro**  
Head of Multi Assets



**Razeen Dinath**  
Head of Equity

### GENERAL INFORMATION

Inception	1 March 2006
Benchmark	Capped SWIX
Sector	ASISA SA Equity-General
Fund Class	A
Fund Size	R141 million
Regulation 28 compliant	No
Minimum Investment	Lump sum: R5 000 Monthly: R500 Adhoc: R500
Income Distribution (Class A)	Bi-annual (end June and end December)
ISIN Code	ZAE 000078358
Domicile	South Africa
JSE Code	AHMF

### CONTACT DETAILS

A PO Box 44547, Claremont, 7735 | Alphen Estate, Alphen Drive, Contantia 7806 | T 08000 CADIZ (22349) | F 0861 022 349 | E [investorservices@cadiz.co.za](mailto:investorservices@cadiz.co.za) | [www.cadiz.co.za](http://www.cadiz.co.za)

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# Cadiz Equity Fund

## Class A as at 31 July 2019

### GENERAL INFORMATION

Inception	1 March 2006
Fund category	ASISA SA Equity-General
Portfolio managers	Brian Munro & Razeen Dinath
Fund Size	R141 million
Benchmark	Capped SWIX

### RISK STATISTICS\* (FOR CLASS A)

Sharpe ratio annualised	Fund 0.17
Maximum drawdown	-46.6%
Highest annual return	36.1%
Lowest annual return	-4.3%

\* 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 31/07/2019

	Fund	Benchmark	Outperformance
1 Year	-0.6%	-3.7%	3.1%
2 Year (annualised)	3.3%	0.6%	2.7%
3 Year (annualised)	7.5%	1.9%	5.6%
5 Year (annualised)	1.7%	4.1%	(2.4%)
7 Year (annualised)	6.2%	9.7%	(3.5%)
Since inception (01/03/06) annualised	8.4%	11.4%	(3.1%)

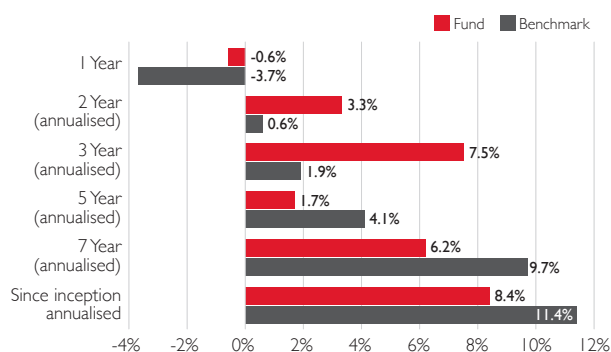
Source: Morningstar

### TOP 10 HOLDINGS

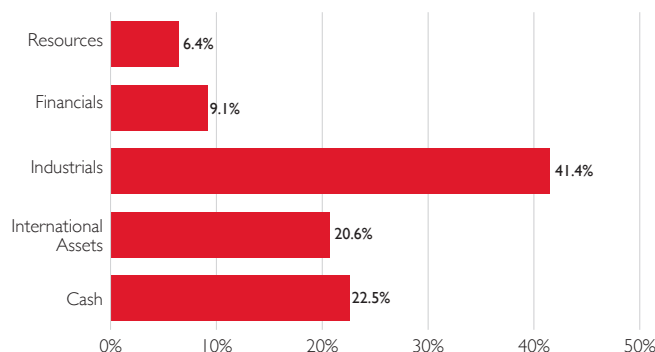
June 2019	July 2019
British American Tobacco	British American Tobacco
Naspers	Naspers
MTN	Mediclinic International
Mediclinic International	MTN
Absa Group	Woolworths Holdings
Multichoice	Absa Group
Facebook Inc	Multichoice
Anglogold Ashanti	Facebook Inc
Sasol	Anglogold Ashanti
Woolworths Holdings	Shoprite Holdings

Source: Cadiz Asset Management

### FUND RETURNS VS BENCHMARK



### ASSET ALLOCATION EXPOSURE



### RISK VS REWARD



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# Cadiz Equity Fund

## Quarterly Fund Manager Commentary – Second Quarter 2019

### PORTFOLIO COMMENTARY

The Cadiz Equity fund declined 0.5% this quarter. The Fund generated 8.3% for the rolling 3-year period which significantly outperformed the Capped SWIX benchmark of 3.7%. The rolling 1 year period is also quite volatile as the 10.6% return at the prior quarter end has reduced to -0.5% which is in line with the return of the Capped SWIX.

The last 18 months has seen global markets correct 3 times and then rebound – essentially moving sideways with volatility. We are at an interesting phase of the business cycle. Various economic indicators suggest the global economy is struggling and is likely to slow to around trend-growth. The risks are that the global economy slows even further towards a recession. Consequently, safe haven assets such as gold, global bonds and even the US Dollar have rallied. On the other hand, global equity markets are posting all-time highs with the S&P 500 leading the way and returning 17% for the first half of the year. Earnings growth has slowed and there are indications that company earnings growth is expected to either be flat or negative.

While the risks of a global recession have increased, we continue to find good investment opportunities where prices have already fallen significantly. These investments should generate handsome real returns for the fund in the long term.

### PERFORMANCE REVIEW

Stocks that contributed positively to the fund return were AngloGold, MTN, Absa, Richemont, Multichoice, Facebook and Discovery Inc. We continue to hold these investments in the fund.

The main detractors of performance were British American Tobacco, Transocean, Diamond Offshore drilling, Bed Bath and Beyond, Macy's, Intu and Hammerson. US cigarette volumes were weaker than market expectations which led to the Tobacco sector decline. The oil services companies were driven by sharp movements in the oil price due to inventory build in the US and lower prospects for demand on weak economic indicators. US retailers also sold off on recession fears. Intu and Hammerson declined as the possibility of a hard BREXIT once again came into play with the resignation of Theresa May.

We exited our investment in Transocean and swapped this into Diamond Offshore Drilling, which maintains our overall exposure to the offshore drillers. Transocean has recently acquired one of their competitors which has significantly increased their debt levels on the balance sheet, increasing their financial risk. Diamond Offshore Drilling offers the same exposure, has lower debt levels and is more likely to last through the cycle. As a result, Diamond Offshore Drilling is offering a better risk-adjusted return for investors.

### FUND POSITIONING

The fund has continued to receive inflows and this together with negative market movements over the quarter has resulted in the cash position increasing to 18%, while total equity exposure declined from 87% to 82%. Our offshore equity exposure has decreased from 28% to 26% while local equity exposure declined to 53.5% from 58%.

The fund sold out of Comcast, Franklin Resources, Transocean and Old Mutual which was recycled into better opportunities. We invested into Booking Holdings, Alphabet, City Lodge and Truworths. We have summarised the investment case for Booking Holdings and Alphabet below.

Booking Holdings share price has declined due to concerns about the health of the European economy and the impact this will have on travel. Booking Holdings is the world's leading provider of online travel & related services. Booking.com is the world's leading brand for booking online accommodation reservations. The Group operates a capital light platform business model, and through their online platforms, they are able to connect consumers wishing to make travel reservations with providers of travel services around the world. Booking's primary competitive advantage lies in its network effect where they have built more partnerships with hotels, motels, and other accommodations compared to their competitors, and therefore offer consumers greater choice. The business has low financial risk. Management are innovative with a long-term focus seeking to expand the moat and have delivered good operating results. We invested at an attractive price of 17x free cash flow.

Alphabet's (Google) share price suffered some pressure due to regulatory concerns. This gave us an opportunity to invest in this high quality business that dominates the internet search business with Google. The business has a proven track record of growing its intrinsic value through time, has a strong moat around its business and is a strong generator of free cash flow. The business has low financial risk with surplus cash. Were there to be further price weakness, we would look to increase our position in this quality business.

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.

Thank you for your continued support.

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# Cadiz Equity Fund

## 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](mailto: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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