Cadiz Stable Fund

cadiz
ASSET MANAGEMENT

KEY INFORMATION

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

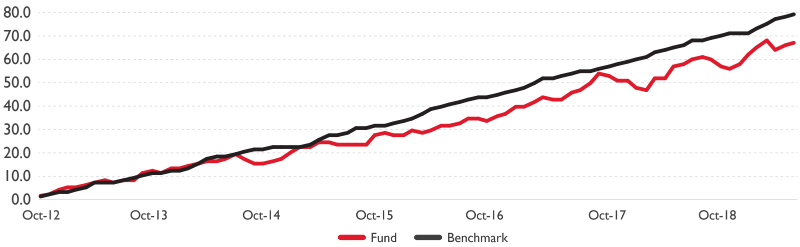
FUND OBJECTIVE

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.

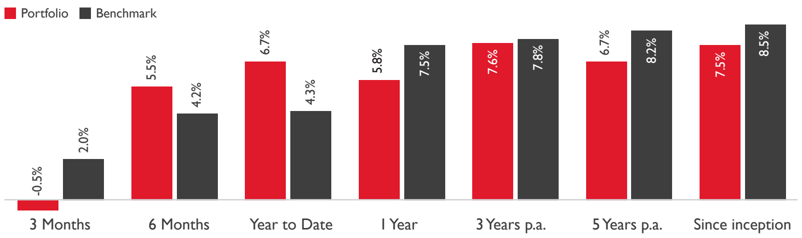
RISK STATISTICS (3 YEARS)

	Fund
Standard Deviation	5.0%

CUMULATIVE PERFORMANCE SINCE INCEPTION



PERIOD RETURN ENDING – 31 JULY 2019



ASSET ALLOCATION

- Equity (22.8%)
- Property (1.3%)
- Fixed Income (40.3%)
- International Assets (26.4%)
- Cash (9.2%)

TOP 10 EQUITY HOLDINGS

Naspers Ltd-N Shares	2.7%	CVS Health	1.2%
British American Tobacco Plc	2.6%	Gilead Sciences	1.1%
MTN Group Ltd	1.7%	Woolworths Holdings Ltd	1.1%
Facebook Inc-A	1.5%	Alphabet Ilnc-A	1.0%
Mediclinic International Plc	1.3%	Multichoice Group Ltd	1.0%

Quarterly Fund Commentary Second Quarter 2019

PORTFOLIO COMMENTARY

The Cadiz Stable fund generated 1.0% for the quarter and 6.3% for the first half of the year. The month of May was a particularly poor month as global markets corrected on renewed fears of an escalating trade war between US and China as negotiations broke down. As a result, the fund underperformed its target benchmark of inflation +3%, which was 2.4% for the quarter. For the first half of the year the fund outperformed its benchmark return which was 3.7%.

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 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, 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.

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

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FUND POSITIONING

The overall fund strategy has not changed. We prefer to be overweight high yielding corporate bonds that generate good income for our clients. The asset allocation is largely unchanged for the quarter.

The fund sold out of Franklin Resources, Brookfield Asset Management, Autozone and Old Mutual which was recycled into better opportunities. We invested into Booking Holdings, Alphabet (Google), Swatch 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 (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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