FUND FACT SHEET JULY 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.

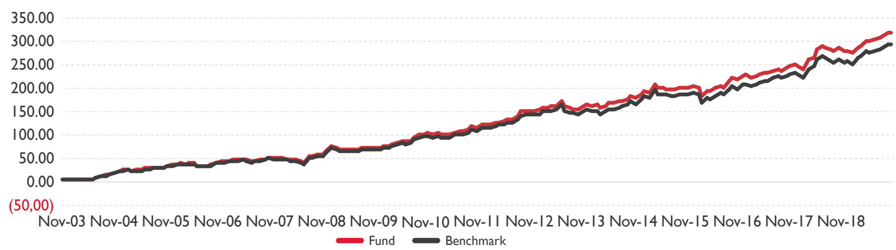
RISK STATISTICS (3 YEARS)

	Fund	Benchmark	Active
Standard Deviation	6,1%	6.4%	-0.3%
Tracking error	1,0%		
Information Ratio	0,2		

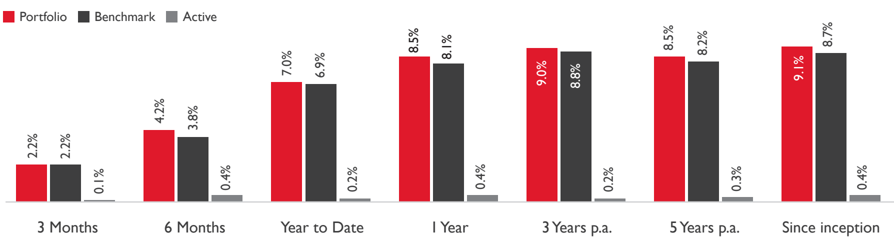
FUND CHARACTERISTICS

Modified Duration	7,1
Average number of holdings	46
Turnover per annum	371,3%
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	0.2

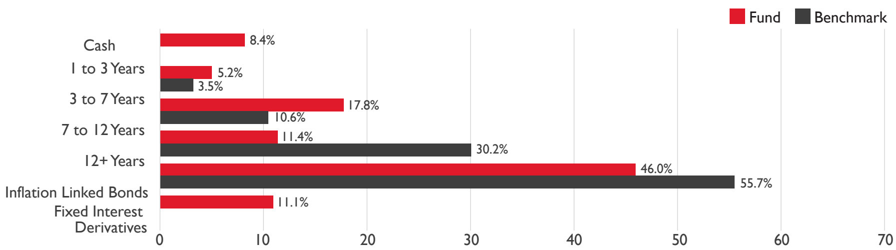
CUMULATIVE PERFORMANCE SINCE INCEPTION



PERIOD RETURN ENDING – 31 JULY 2019



SECTOR ALLOCATION



Quarterly Fund 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%.

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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.

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