FUND FACT SHEET AUGUST 2020

Cadiz Absolute Yield Fund

PORTFOLIO MANAGER

Sidney McKinnon
Senior Fixed Income
Portfolio Manager – SA

KEY INFORMATION

Inception 1 April 2006

Benchmark STeFI + 2% from 01/08/2017 (SA CPIX + 3% to 31/07/2017)

FUND OBJECTIVES

The fund aims to provide investors with a return of 3% in excess of inflation (CPI) over rolling three 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 normally inherent in the bond market.

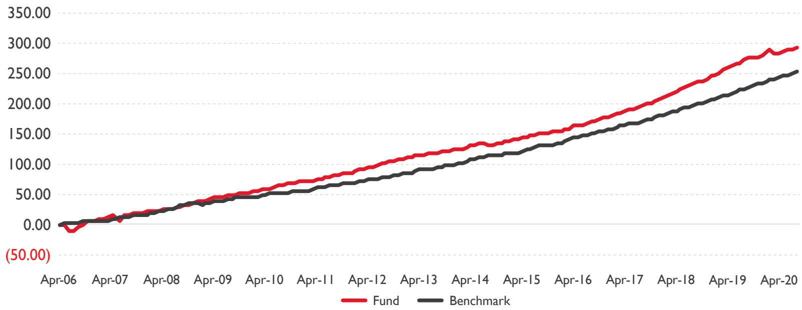
RISK STATISTICS (3 YEARS)

	Fund	Benchmark	Active
Standard Deviation	2.0%	0.2%	1.8%
Tracking error	2.0%		
Information Ratio	0.3		

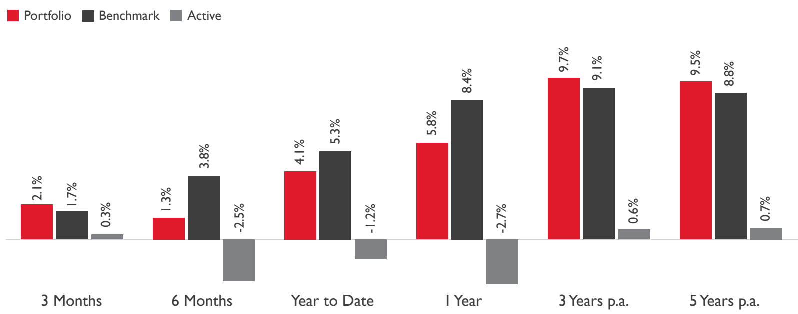
FUND CHARACTERISTICS

Modified Duration	1.8
Average number of holdings	65
Turnover per annum	168.8%
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

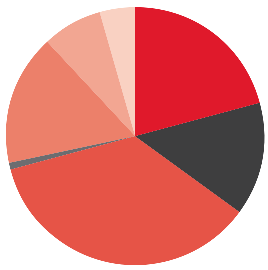
CUMULATIVE PERFORMANCE SINCE INCEPTION



PERIOD RETURN ENDING – 31 AUGUST 2020



SECTOR ALLOCATION



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ASSET MANAGEMENT

Cadiz Absolute Yield Fund

Quarterly Fund Manager Commentary – Second Quarter 2020

ECONOMIC AND MARKET COMMENT

Markets reacted positively to the flattening of the covid-19 infection curve and the partial resumption of economic activity in large parts of the world at the beginning of the quarter. Developed economies started to implement monetary and fiscal stimulus support which caused a wave of risk on sentiment to return. Some of the positivity was curtailed by a sharp rise in US-China tensions and mounting concerns over a second wave of Covid-19 infections. The stimulus programs kept global bond yields in check with most of the decline in yields initially experienced in European bond markets before yields retraced and settled at slightly higher levels by the end of the quarter.

The local fixed interest landscape was driven by substantial rate cuts in April and May as the SARB provided much needed stimulus and liquidity to the local bond market. The SARB continues to provide additional liquidity through open market operations via daily overnight repurchase auctions,7-day and special 3-month term repurchases, weekly auctions and intervention in the secondary market via purchases of government bonds. These actions have supported our local bond market well but foreigners remained net sellers of our bonds as Fitch and S&P Global downgraded our sovereign credit rating in April and South Africa's exit from the FTSE World Government Bond Index commenced. Our local bonds performed exceptionally well during the month of May as the global risk-on trade returned. The gains were however offset somewhat by the announcement by National Treasury, in its supplementary budget, that issuance of local bonds would increase. The JSE All Bond Total Return Index was up 9.94% for the quarter.

The rand once again saw extreme volatility throughout the quarter, reaching a high pf USDZAR 19.08 before falling back to USDZAR 16.52 and eventually ending the period at about USDZAR 17.35.

Money market yields once again declined alongside a spate of aggressive rate cuts as the South African Reserve Bank (SARB) acted swiftly to combat the economic fallout from the global Covid-19 pandemic. The Repo rate was slashed by 100 basis points in April and a further 50 basis points in May bringing borrowing costs to its lowest level on record.

The bond market (All Bond Index) returned 9.94% for Q2 2020, most of the returns emanating from the aggressive rate cuts during the first two months of the term. Equity markets (represented by the JSE ALSI) were up 23.18% and Inflation Linked Bonds (ILBs) returned 4.68% for the quarter. Cash returned 1.46% for the quarter. Rolling 12 month returns for bonds were 2.90%, equities have returned -3.30%, and ILBs -2.88% with cash returning 6.90% over the last 12 months.

PORTFOLIO REVIEW AND OUTLOOK

We increased modified duration in the fund to take advantage of the aggressive rate cuts during the quarter. The quarter was however marred by the default of the Landbank triggering a cross default on certain other notes and bonds that the Landbank uses to fund their operations. This necessitated a write down of the Landbank exposure held in the fund to protect clients invested in the fund and to ensure that existing clients, new clients and those clients that choose to exit the fund are treated fairly. Already much progress has been made allowing us to write back most of the initial adjustments. We took some profit on the US Dollar position taken the previous quarter and continue to monitor the currency position closely. Our increased Inflation Linked exposure however detracted from performance as real yields spiked on the back of the risk-off trade close to the end of the period.

We will continue to exercise caution with our credit assessments before investing in credit assets.

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