

Cadiz Balanced Fund

REGULATION 28 COMPLIANT

Fund Information

FUND OBJECTIVE

The fund aims to provide investors with a balance between capital growth and income over the medium to long term. It offers a diversified exposure to equities and fixed interest instruments managed in line with Regulation 28 of the Pension Funds Act (Act 24 of 1956).

WHAT DOES THE FUND INVEST IN?

The fund invests in equities, fixed interest instruments, listed property and cash. The intended maximum limits are: up to 75% in equities, 25% in listed property, 30% in offshore assets plus an additional 10% in Africa (excl. South Africa). Derivative strategies may also be used to mitigate the risk of capital loss.

The fund is managed to comply with regulations governing retirement investments (Regulation 28) and is suitable for use in pension and provident funds.

WHO IS THE FUND SUITABLE FOR?

- Investors who wish to save for their retirement.
- Those who wish to delegate the complex asset allocation decisions to an experienced investment team.
- Those who have a moderate risk profile and are comfortable with taking market fluctuation to achieve long term capital growth.
- Investors who have a 3 year or longer investment horizon.

INVESTMENT PHILOSOPHY AND PROCESS

We apply a long term, bottom-up investment process to uncover the most attractive risk-adjusted return opportunities for the various asset classes available in local and foreign markets. Our process focuses on avoiding assets that could lose capital permanently, while ensuring the fund is well diversified.

Our equity investment approach is rooted in the belief that the market is prone to overreact to good and bad news. This causes a divergence between the current market price and what the business is worth.

We seek to take advantage of these short-term market overreactions by investing in financially sound, good quality businesses with capable management, when they are typically out of favour and attractively priced.

FEES ON CLASS A (EXCLUDING VAT)

Initial fee: 0%

Annual Management fee: 1.25%

PERFORMANCE FEE

None

TOTAL EXPENSE RATIO (TER) AND TRANSACTION COSTS

CADIZ BALANCED FUND (CLASS A)

PERIOD (ANNUALISED) | JANUARY 2019 - 31 DECEMBER 2019

Total expense ratio	1.50%
Transaction costs	0.20%
Total investment charge	1.70%

RISK VS REWARD

	INCOME	INCOME/GROWTH	INCOME/GROWTH	GROWTH	GROWTH
EXPECTED RETURNS	Money Market	Absolute Yield	Stable	Balanced	Worldwide Flexible
					Equity
	LOW RISK	LOW – MEDIUM RISK	MEDIUM RISK	MEDIUM – HIGH RISK	HIGH RISK

FUND MANAGERS



Brian Munro
Senior Multi Asset
Portfolio Manager – SA



Razeen Dinath
Senior Equity Portfolio
Manager – SA

GENERAL INFORMATION

Inception	1 March 2006
Benchmark	The fund aims to outperform the median return of the funds in the South African - Multi Asset - High Equity category (excluding the Cadiz fund).
Sector	ASISA SA Multi Asset High Equity
Fund Class	A
Fund Size	R228 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 000078366
Domicile	South Africa
JSE Code	AHBF

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 | www.cadiz.co.za

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Class A as at 29 February 2020

GENERAL INFORMATION

Inception	1 March 2006
Fund category	ASISA SA Multi Asset High Equity
Portfolio managers	Brian Munro & Razeen Dinath
Fund Size	R228 million
Benchmark	The fund aims to outperform the median return of the funds in the South African - Multi Asset - High Equity category (excluding the Cadiz fund).
Performance fee	None

RISK STATISTICS* (FOR CLASS A)

Sharpe ratio annualised	Fund 0.11
Maximum drawdown	-29.9%
Highest annual return	19.0%
Lowest annual return	-4.6%

* 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 10 HOLDINGS

January 2020	February 2020
British American Tobacco	British American Tobacco
Naspers	Naspers
Mediclinic International	Mediclinic International
Impala Platinum Holdings	Absa Group
Absa Group	Impala Platinum Holdings
Multichoice Group	Truworths International
Massmart Holdings	Standard Bank Group
MTN Group	MTN Group
Standard Bank Group	Multichoice Group
CVS Health	Shoprite Holdings

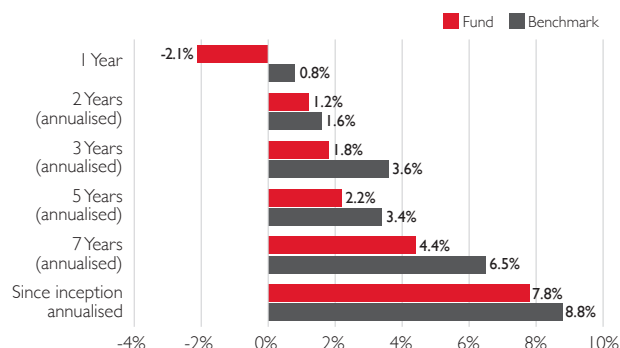
Source: Cadiz Asset Management

PERFORMANCE 29/02/2020

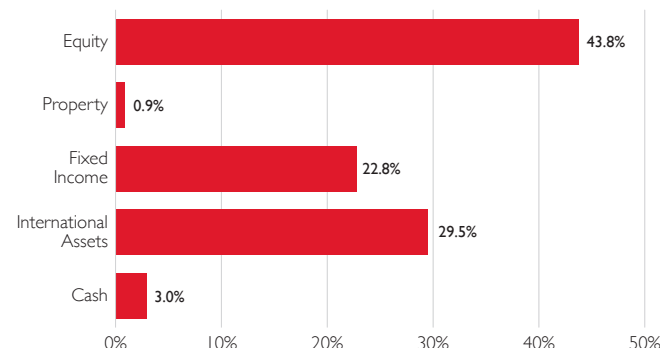
	Fund	Benchmark	Outperformance
1 Year	(2.1%)	0.8%	(3.0%)
2 Year (annualised)	1.2%	1.6%	(0.4%)
3 Year (annualised)	1.8%	3.6%	(1.8%)
5 Year (annualised)	2.2%	3.4%	(1.2%)
7 Year (annualised)	4.4%	6.5%	(2.1%)
Since inception (01/03/06) annualised	7.8%	8.8%	(1.1%)

Source: Morningstar

FUND RETURNS VS BENCHMARK



EFFECTIVE ASSET ALLOCATION EXPOSURE



RISK VS REWARD



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Quarterly Fund Manager Commentary – Fourth Quarter 2019

PORTFOLIO COMMENTARY

The Cadiz Balanced fund ended the year with a strong quarter of 3.3% and delivered 8.8% for the year. This is compared to its benchmark, which is the peer group median return of the Multi-Asset High Equity unit trust category, which delivered 2.5% for the quarter and 9.9% for the year.

2019 was plagued with a lot of macro uncertainty throughout the year. Despite this, MSCI World equities delivered 28% (in dollars). The US S&P 500 led the way returning 31% while Emerging markets returned 19%. The two main events that supported global equities were, the US Federal Reserve changing from interest rate hikes to cutting interest rates. Other central banks followed suit providing a healthy underpin to global markets. The other event that boosted equity markets towards the end of the year was a phase one trade agreement between the US and China.

For 2020, analysts are expecting the US equity market to return between 7% and 11%, which is made up of between 5% and 9% earnings growth and 2% dividends. However, the equity bull market that started in 2009 is aging and there are several fundamental headwinds and macro risks to this view that could alter the performance for 2020. Risks that need to be monitored include:

- Declining profit margins because of rising wages and input costs greater than revenue growth.
- High debt levels.
- Equity markets are not cheap, trading on valuations above their long-term averages. If earnings were to disappoint analyst expectations, equity markets could fall significantly.
- Political and geopolitical risks.

The best way to invest in this environment is to hold a diversified portfolio of both global and local stocks. Our bottom-up stock selection enables us to find attractively priced businesses even when the overall market valuation is high. Our approach is to invest in predominantly good quality businesses with strong balance sheets and capable management that can compound their earnings over time.

PERFORMANCE REVIEW

The fund added value through asset allocation, being overweight international equities and high yielding corporate bonds. The fund was underweight local equities, especially financials and property stocks, which enhanced performance.

The main contributors to performance for the year came from the exceptional return of the platinum and gold counters we hold in the fund. Solid returns were also generated from our multi-nationals; Facebook, Naspers, Alphabet (Google) and British American Tobacco along with positive contributions from Mediclinic, Metair and Booking Holdings. The high yielding corporate bonds generated good income for our clients.

Stocks that continue to detract from performance were the UK property counters and the offshore drilling companies. Local general retailers also underperformed this quarter as companies faced margin pressure, due to their operating costs growing more than revenue.

FUND POSITIONING

During the quarter, the fund increased its local equity positioning but remains underweight. We incrementally increased our position to multi-nationals Naspers and British American Tobacco and platinum stocks; Impala and Anglo American Platinum. We increased our position in local retailers Shoprite, Truworths and Massmart as the share prices declined. We believe these businesses are attractively priced and offer investors good long-term returns.

The fund also increased its foreign exposure as the rand strengthened and incrementally added to US Retailers. US Retailers had a better quarter after a disappointing third quarter. No new stocks were added to the fund.

The fund sold out of Sasol and Brait as their investment cases no longer stacked up.

- Sasol was a small position in the fund and was sold due to the increased financial risk. The balance sheet is under strain due to the large amount of debt incurred for the Lake Charles Chemical Project (LCCP). Sasol is close to breaching its debt covenants and has already stopped paying a dividend. Operational uncertainty at LCCP continues with continual capital cost overruns and management revising their earnings expectations downward. Sasol also needs to invest further capital in its operations to reduce its carbon emissions. All of this points to sub-par returns on capital. We have lowered our assessment of the business and have exited this investment as the risk/reward is no longer attractive.

The fund shifted bond exposure by investing in long dated government bonds at yields greater than 10%. The South African Reserve Bank (SARB) has clearly communicated that the monetary policy objective is an inflation rate of 4.5%, which if achieved will result in a highly attractive 5% real yield (above inflation) for our clients. We still prefer high yielding corporate bonds over government bonds.

We remain disciplined in sticking to our investment philosophy and process and focus intently on limiting permanent capital loss in order to grow your capital over the long term. This is achieved 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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Important information regarding terms of use

GENERAL INFORMATION AND RISKS

- 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. The manager does not guarantee the capital, nor the income of the portfolio.
- Unit trusts are traded at ruling prices and can engage in scrip lending and borrowing.
- 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.
- 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.
- Different classes of participatory interests apply to this fund and are subject to different fees and charges.
- 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.
- A schedule of fees, charges and minimum commissions is available on request from Cadiz Collective Investments.
- Commissions and incentives may be paid, and if so, are included in the overall costs.
- The manager has the right to close the portfolio to new investments in order to manage it more efficiently in accordance with the mandate.
- 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.
- 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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