

Cadiz Absolute Yield Fund

REGULATION 28 COMPLIANT

Fund Information

FUND OBJECTIVE

The fund aims to provide investors with a return of 2% in excess cash over a rolling 3 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 inherent in the bond market. Great care is applied to protect the fund against incurring losses.

WHAT DOES THE FUND INVEST IN?

The fund can invest in a combination of assets, such as government and corporate bonds, inflation linked bonds, listed property and cash both in South Africa and offshore. Derivative strategies such as swaps and futures may also be used for efficient portfolio management purposes and to mitigate downside risk. The fund does not invest in ordinary shares.

The intended maximum limits, (see underlying instruments mentioned below), may not exceed 25% of the value of fund:

- Listed property: up to 10%
- Preference shares: up to 10%
- International assets: up to 10%
- Hybrid instruments: up to 5%

The fund has a flexible mandate with no duration or maturity limits for its investments.

WHO IS THE FUND SUITABLE FOR?

- Investors seeking a cash alternative to a bank deposit.
- Retirees who seek a managed exposure to income generating investments.
- Those who seek active management within the fixed interest universe.
- Investors who have at least an 18 month or longer investment horizon.

INVESTMENT PROCESS

The fund is actively managed by an experienced team who are able to change the fund's duration depending on our view of the interest rate cycle and the valuation of fixed rate bonds. Derivatives are deployed to switch between fixed and floating rate exposure, which also mitigates the risk of volatility associated within the bond market.

There are no guarantees that the fund will always outperform cash over short periods of time and therefore capital losses are possible, especially in the case of negative credit events which may affect the underlying holdings. The fund's investments are subject to a stringent risk management process.

FEES ON CLASS A (EXCLUDING VAT)

Initial fee: 0%

Annual Management fee: 0.80%

PERFORMANCE FEE

None

TOTAL EXPENSE RATIO (TER) AND TRANSACTION COSTS

Cadiz Absolute Yield Fund (Class A)

PERIOD (ANNUALISED) | 1 JANUARY 2019 - 31 DECEMBER 2019

Total expense ratio	0.96%
Transaction costs	0.06%
Total investment charge	1.02%

RISK VS REWARD



FUND MANAGER

Sidney McKinnon
Senior Fixed Income
Portfolio Manager – SA

GENERAL INFORMATION

Inception	1 March 2006
Benchmark	STeFi + 2% pa net of fees over rolling 3 years. No negative returns over rolling 12 months
Sector	ASISA SA Multi Asset Income
Fund Class	A
Fund Size	R666 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 000078382
Domicile	South Africa
JSE Code	AHAY

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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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. Unit trusts are traded at ruling prices and can engage in scrip lending and borrowing. 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. A schedule of fees, charges and maximum commissions is available on request from Cadiz Collective Investments. Commission and incentives may be paid, and if so, are included in the overall costs. Portfolios may be closed. Forward pricing is used. 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. Cadiz Collective Investments (RF) (Pty) Ltd - Co. Reg. No. 2004/032263/07. Address: PO Box 816, Constantia, 7848. A member of the Association of Savings & Investment South Africa. Trustees: ABSA Capital Investor Services, Cadiz Funds (Pty) Ltd an authorised financial services provider (PSP 45442)

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Class A as at 31 May 2020

GENERAL INFORMATION

Inception	1 March 2006
Fund category	ASISA SA Multi Asset Income
Portfolio managers	Sidney McKinnon
Fund Size	R666 million
Benchmark	STeFi + 2% pa net of fees over rolling 3 years. No negative returns over rolling 12 months
Performance fee	None

PERFORMANCE 31/05/2020

	Fund	Benchmark	Outperformance
1 Year	5.62%	9.03%	(3.41%)
2 Year (annualised)	7.80%	9.21%	(1.41%)
3 Year (annualised)	7.98%	9.23%	(1.25%)
5 Year (annualised)	7.82%	9.06%	(1.24%)
7 Year (annualised)	7.27%	8.84%	(1.57%)
Since inception (1/03/06) annualised	8.61%	9.16%	(0.55%)

Source: Morningstar

RISK STATISTICS* (FOR CLASS A)

Sharpe ratio annualised	Fund 0.50
Maximum drawdown	-15.04%
Highest annual return	10.81%
Lowest annual return	4.99%

* 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.

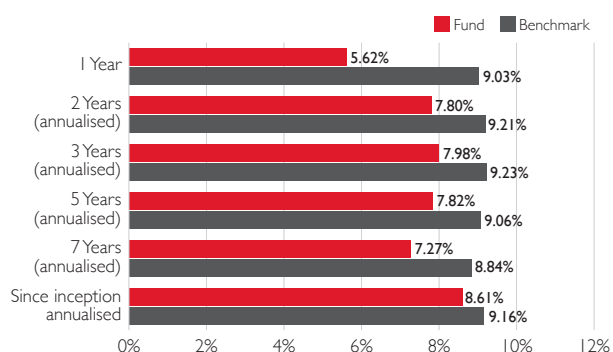
TOP 5 HOLDINGS

May 2020	
US Dollars	
Standard Bank Credit Linked Note	3-7 Years
RSA Government Bond	3-7 Years
Municipal Fixed Rate Bond	3-7 Years
African Bank Inflation Linked Bond	1-2 Years

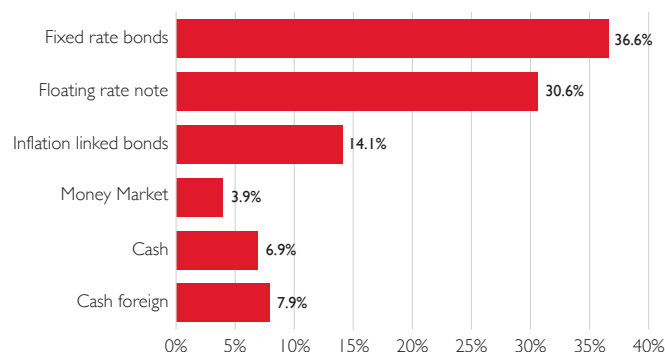
Source: Cadiz Asset Management

MODIFIED DURATION	1.44
GROSS YIELD	8.12%

FUND RETURNS VS BENCHMARK



EFFECTIVE ASSET ALLOCATION EXPOSURE



INCOME DISTRIBUTIONS

Cadiz Absolute Yield Fund Class A

MONTHLY INCOME DISTRIBUTIONS DECLARED (CENTS PER UNIT ROUNDED TO 2 DECIMAL POINTS)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2020	1.55	1.06	-1.37	-0.31	0.76							
2019	0.45	1.16	1.17	0.66	0.89	0.87	0.53	1.25	0.55	0.05	0.17	0.40
2018	0.70	0.85	1.05	0.65	0.35	0.67	0.77	0.43	0.84	0.58	0.68	1.30
2017	0.74	0.72	0.66	0.84	0.92	0.47	1.04	0.99	0.90	-0.12	0.09	1.15
2016	0.25	0.65	0.68	0.81	1.07	0.90	0.81	0.54	0.61	0.70	1.61	0.29
2015	1.25	0.39	0.60	0.61	0.32	0.45	0.71	0.36	0.28	-0.43	0.59	0.20
2014	-0.43	0.79	1.02	0.82	0.86	0.68	0.71	-2.08	0.52	0.90	0.56	0.57
2013	0.49	0.78	0.65	1.28	-0.28	0.21	0.39	-0.19	1.28	0.84	0.21	0.70

* Please note that the fund distributes bi-annually at the end of June and the end of December.

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Quarterly Fund Manager Commentary – First Quarter 2020

ECONOMIC AND MARKET COMMENT

The 1st quarter of 2020 has been fraught with volatility as the South African economy, along with that of the entire globe, reels from the consequences of the COVID-19 pandemic. The dress rehearsal that was the Global Financial Crisis of 2008 seems quite minor in comparison as economies around the world struggle with a deadly twin combination of both a demand shock and a supply shock as lockdowns send citizens home and shutter non-essential services. The jury is still out as to whether South Africa has done the right thing by entering the lockdown as soon as it did – while the curve has been flattened in the short term, many commentators question how poor and vulnerable citizens can survive economically as their livelihoods have literally been terminated overnight.

In January, bonds generally rallied, while the world shrugged off news of China's response to the outbreak of COVID-19 in Wuhan province. Many market pundits spoke of looking through the crisis, as at that point, few fully anticipated the emergence of a global pandemic and the drastic impact it would have on the economy. The SARB's January 2020 25bp cut assisted the rally. The Rand weakened dramatically, from a strong point of R13.97 at the start of the year to breaking above R18.00 to the US Dollar at the end of the quarter, closing at R17.93. The R186 started the year at 8.25%, achieved a low in yield of 7.67% just after the Budget was delivered, and then proceeded to sell off aggressively, rising as high as 12.00% and closing the quarter at 9.77%. Issues of valuations, low inflation and extreme value, even on a risk adjusted basis seemed irrelevant over much of March, as the massive wall of sellers swamped the buyers. As value emerged, we increased our holdings of fixed rate bonds, but yields rose far higher than we thought they would, and indeed valuations would suggest.

As the COVID-19 crisis gained momentum, the Fed surprised the market by slashing the Fed Funds rate first by 50bp in February over a weekend, and then by an additional 100bp to a range of 0.00% to 0.25% in mid March. The US 10yr treasury yield reached a low of 0.31% in March, having started the quarter around 1.91%, as the Fed slashed rates and reintroduced massive quantitative easing. The 10yr German Bund yield traded as low as -0.90%, but corrected to -0.47%, at the end of the quarter. At her first Monetary Policy meeting, Christine Lagarde, the new President of the ECB resolved to resume Quantitative Easing, after initially putting Italian bonds into a tailspin by making a comment that the ECB is not in the business of managing sovereign spreads. In fact, they definitely are, and her remarks were later withdrawn.

In their march meeting, the SARB then slashed the repo rate by a further 100bps, and they have subsequently had an emergency meeting, announced just before one of the Tuesday morning bond auctions in April and cut by a further 100bps. The repo now sits at a crisis low of 4.25%, and is likely to fall further. Moody's finally did something they have been long overdue in doing – cut SA's last remaining investment grade credit rating. The sovereign outlook remains negative, and a telling remark is that little has been done by government to address the structural fiscal issues. We remain concerned that the budget deficit will balloon further while growth estimates vary from -5% to -10% for SA. This is not a good environment for a tax authority to collect revenues and the Minister of Finance has indicated that the entire Budget will have to be re-appraised to deal with support for small businesses, the health sector and the completely changed global environment.

The bond market (All Bond Index) returned -8.72% for Q1 2020. Equity markets (represented by the JSE ALSI) were down -21.38% and Inflation Linked Bonds (ILBs) returned -6.61% for the quarter. Cash returned +1.69% for the quarter. Rolling 12 month returns for bonds were -2.95%, equities have returned -18.42%, and ILBs a disappointing -4.66% with cash returning +7.25% over the last 12 months.

PORTFOLIO REVIEW AND OUTLOOK

We have reduced the modified duration positioning of the Fund after volatility spiked and rational behaviour in the bond market vanished. We have also increased the liquid, high quality assets in the Fund, specifically US Dollars. The diversified holdings of Floating Rate Notes (FRNs) protected the fund in the rising short rate environment. However, given that we are still expecting further rate cuts, we will consider increasing modified duration into weakness, and we look to increase duration if the WGBI outflows that will result from the Moody's downgrade give us any opportunities to do so. We will therefore reduce our exposure to Floating Rate Notes (FRNs) if nominal yields rise sufficiently to afford attractive re-entry opportunities. We have also started increasing our holdings of inflation linked government (and corporate) bonds. We will continue to exercise caution with our credit assessments before investing in credit assets, and credit spread widening is the next big stress that we expect to witness in the SA bond market.

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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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