

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 APRIL 2019 - 31 MARCH 2020

| | |
|-------------------------|-------|
| Total expense ratio | 1.02% |
| Transaction costs | 0.06% |
| Total investment charge | 1.08% |

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 | R688 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)

Cadiz Absolute Yield Fund

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Class A as at 31 August 2020

GENERAL INFORMATION

| | |
|--------------------|---|
| Inception | 1 March 2006 |
| Fund category | ASISA SA Multi Asset Income |
| Portfolio managers | Sidney McKinnon |
| Fund Size | R688 million |
| Benchmark | STeFi + 2% pa net of fees over rolling 3 years. No negative returns over rolling 12 months |
| Performance fee | None |

PERFORMANCE 31/08/2020

| | Fund | Benchmark | Outperformance |
|--------------------------------------|-------|-----------|----------------|
| 1 Year | 4.72% | 8.44% | (3.72%) |
| 2 Year (annualised) | 7.76% | 8.92% | (1.16%) |
| 3 Year (annualised) | 7.75% | 9.09% | (1.34%) |
| 5 Year (annualised) | 7.88% | 8.90% | (1.02%) |
| 7 Year (annualised) | 7.48% | 8.83% | (1.35%) |
| Since inception (1/03/06) annualised | 8.59% | 9.13% | (0.54%) |

Source: Morningstar

RISK STATISTICS* (FOR CLASS A)

| | |
|-------------------------|-----------|
| Sharpe ratio annualised | Fund 0.51 |
| 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.

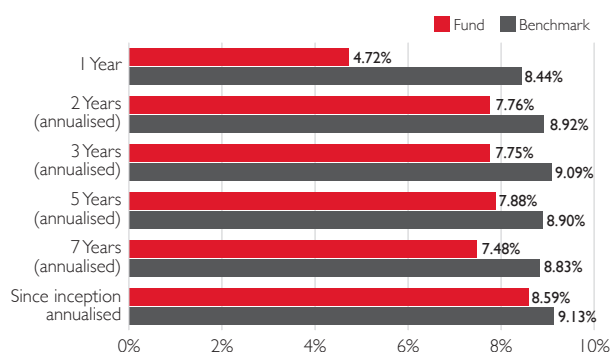
TOP 5 HOLDINGS

| | |
|------------------------------------|-----------|
| August 2020 | |
| Call Account | |
| 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 |

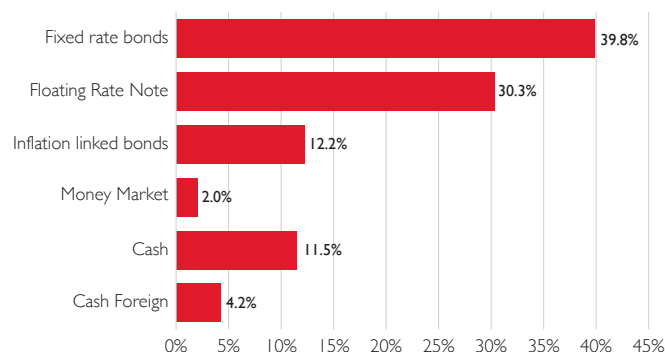
Source: Cadiz Asset Management

| | |
|--------------------------|--------------|
| MODIFIED DURATION | 1.80 |
| GROSS YIELD | 8.13% |

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 | 0.07 | 0.50 | 1.24 | | | | |
| 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 – 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 of 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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Important information regarding terms of use

GENERAL INFORMATION AND RISKS

1. Collective Investment Schemes in Securities (unit trusts) are generally medium to long-term investments.
2. 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.
3. Unit trusts are traded at ruling prices and can engage in scrip lending and borrowing.
4. 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.
5. 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.
6. Different classes of participatory interests apply to this fund and are subject to different fees and charges.
7. 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.
8. A schedule of fees, charges and minimum commissions is available on request from Cadiz Collective Investments.
9. Commissions and incentives may be paid, and if so, are included in the overall costs.
10. The manager has the right to close the portfolio to new investments in order to manage it more efficiently in accordance with the mandate.
11. 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.
12. 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 funds 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 Sector Conduct Authority (FSCA).

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