CENTAUR
ASSET MANAGEMENT

TARGETED GROWTH

Manager's Quarterly Update

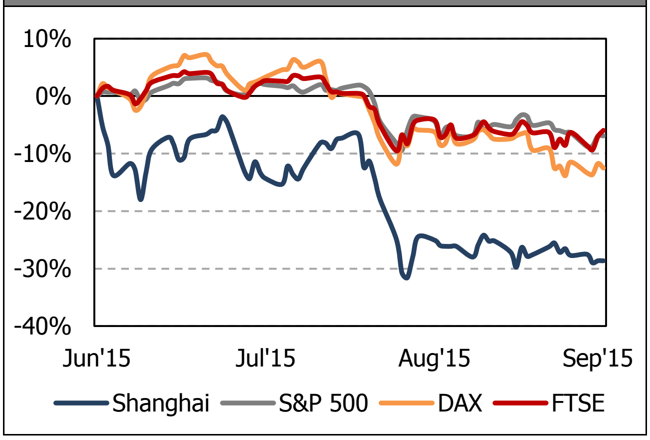
30 September 2015

Contents

3rd Quarter Market Overview and Outlook

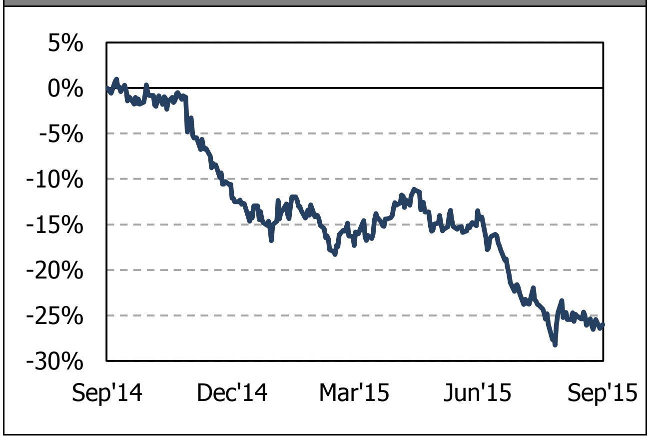
The 3rd Quarter of 2015 was a torrid time for global bourses. The United States S&P 500 fell 7%, the German DAX fell 12%, whilst the China Shanghai Composite Index plunged 29%. The JSE All Share Index declined a modest 3% aided by a weaker rand and a 26% rise in SABMiller which is subject to takeover speculation. These declines were spurred by investor concern as to the risk of a sharp slowdown in the Chinese economy and it simultaneously transitioning from an investment-led to a consumption-based model. In light of this the commodity complex suffered a significant decline with the Bloomberg Commodity Index falling 15% and 26% over the quarter and year respectively.

International Indices cumulative Q3'15 returns



Source: Bloomberg – returns in local currency

Bloomberg Commodity Index since 30 Sept 2014



Source: Bloomberg

Global economic growth forecasts for 2015 have been downscaled due to the slowdown in China as well as the lacklustre growth from the rest of the world bar the USA. Zero inflation is a continuing feature of developed market economies. The fall in the commodity complex and downgrades to global growth prospects will have a knock-on effect on the South African economy and the Rand, along with other commodity exporting currencies, experienced further depreciation. Currently the lone beacon of growth appears to be the United States, although its prospects are clouded by a slowing global economy and the impact of a strong US Dollar.

The uncertain state of global financial markets against a background of downscaled growth prospects appears to have been a key factor in the delay during the quarter of the commencement of US monetary policy normalisation. The European Central Bank and the Bank of Japan are also likely to stay with highly accommodative monetary policies for some time. All in all, a recently released report by the World Economic Forum, noted that 7 years after the global financial crisis, the world economy was evolving against a background of the "New Normal" of lower economic growth, lower productivity growth and higher unemployment.

The South African Reserve Bank has lowered its growth forecast for South Africa to 1.5% for 2015 and 1.6% and 2.1% in the subsequent 2 years. The recent decline in international oil prices has provided relief to current inflationary pressures but consumers are expected to remain constrained in terms of slow employment growth, declining disposable income growth and rising inflation in 2016.

Our general South African market outlook is underpinned with a decidedly cautious bias and arguably the turmoil in emerging markets is yet to fully play out. In global markets, equity multiples, whilst not cheap, indicate that valuations are not overheated. A persistent shortfall in aggregate demand will likely remain a feature of the global economic landscape and deflationary pressures are likely to persist which should keep a cap on developed market bond yields.

South African institutions will need to improve the quality of education, inefficient electricity supply, and address inflexible labour markets and the burden of government regulation in order to improve our growth trajectory, which is below par particularly compared to other emerging markets.

Relative to our mandates, we are conservatively positioned across our funds. We maintain our defensive stance and remain circumspect in our stock selection. Market cycles all eventually play out and in these unsettled markets, we at Centaur are in the "wealth preservation" mode. We keenly monitor developments and have maximum flexibility to reposition our portfolios at the appropriate time to have early mover advantage for the next cycle. We once again repeat our mantra embodied within our investment philosophy of protecting your money with a steadfast belief in our ability to produce consistent and market-beating returns over the medium and longer term time horizons.

Centaur BCI Flexible Fund

Performance as at 30 Sept 2015	1 year	3 years	5 years	10 years	Since Inception[3]
Centaur BCI Flexible Fund	**10.2%**	**20.1%**	**20.0%**	**17.7%**	**19.5%**
Benchmark[1]	4.9%	12.6%	12.2%	12.8%	14.5%
Relative to Benchmark[1]	**5.3%**	**7.5%**	**7.8%**	**4.9%**	**5.0%**
Average Category return	6.4%	12.6%	12.4%	11.4%	
Relative to Avg. in Category	**3.8%**	**7.5%**	**7.6%**	**6.3%**	
Std. Deviation[2] – CFF	8.1%	7.8%	8.4%	12.3%	12.2%
Std. Deviation[2] – Benchmark[1]	11.1%	9.8%	9.7%	14.4%	14.3%

Source: Moneymate, Boutique Collective Investments, Centaur

Note: Past performance is not a reliable indicator of future returns.

1. 15% RESI (J258T), 65% FINDI (J250T), 20% SA Repo. Calculated over a 2 year rolling period.
   The Fund's Benchmark was changed from 50% ALSI (J203), 50% FINDI (J213) to 15% RESI (J258), 65% FINDI (J250), 20% SA Repo on 02 July 2007 and to its current benchmark on 01 Feb 2015.
2. Measure of how much an investment's return varies from its average on an annualised basis.
3. Inception Date: 01 December 2004

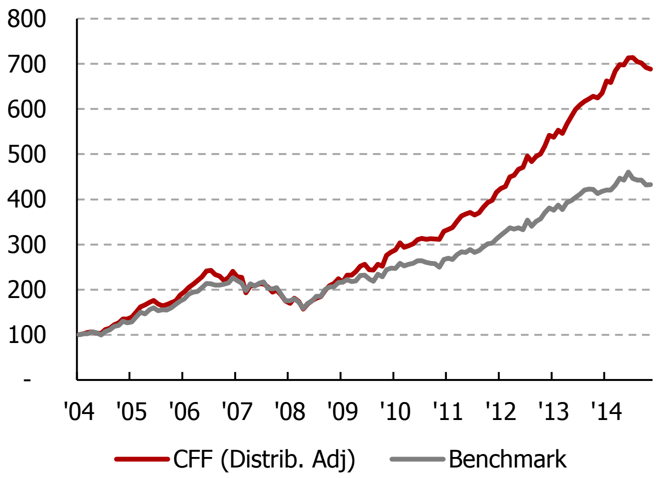
The Centaur BCI Flexible Fund (CFF) has delivered year to date returns of 4.5%, outperforming its benchmark by 1.5% for the period. The CFF was the best performing South African Flexible Fund over 7 years and the 2nd best over 10 years as at 30 September 2015 (Source: Moneymate).

Asset Allocation	30 June'15	%Δ over Quarter	30 Sept'15	Benchmark
Fixed Income	**32%**	**+2%**	**34%**	**20%**
Local Bonds	10%	+3%	13%	**-**
Local Property	4%	-1%	3%	-
Cash & Equivalents	18%	0%	18%	20%
Equities	**68%**	**-2%**	**66%**	**80%**
SA Resources	5%	2%	7%	15%
SA Financial & Industrial	46%	-7%	39%	65%
World Equities	17%	+3%	20%	-
Total	**100%**		**100%**	**100%**

SA equity content declined due to the delisting of Business Connexion (3%) and market movements but on balance we purchased equities over the quarter. Resource shares were bought as good value is starting to emerge. Overseas equity content increased due to purchases and market movements. Despite some correction in selected counters overall valuations remain elevated relative to prospects and equity content remains below benchmark. Market volatility has allowed us to supplement returns via trading within the portfolio. We have a 13% holding in bonds and fixed income as this provides a useful yield pick up over cash with RSA government bonds being purchased on price weakness.

Centaur BCI Flexible Fund Summary

Centaur BCI Flexible Fund relative to Benchmark[1] on a monthly basis (100 = 01 Dec 2004)



Centaur BCI Flexible Fund details

Fund NAV as at 30 Sept 2015: R 1 282m

Objective: The fund targets real returns of at least 6% per annum with volatility no greater than 80% of the All Share Index.

Benchmark[1]: 15% RESI (J258T), 65% FINDI (J250T), 20% SA Repo.

Fees on Class A:
Annual fee: 1.25% p.a. (excl. VAT) on the value of the fund.
Performance fee: 20% above benchmark cap over rolling 2-years, capped at 2% p.a.

Inception Date: 1 December 2004

Source: Bloomberg, Boutique Collective Investments, Centaur
Note: Past performance is not a reliable indicator of future returns.

1. The Fund's Benchmark was changed from 50% ALSI (J203), 50% FINDI (J213) to 15% RESI (J258), 65% FINDI (J250), 20% SA Repo on 02 July 2007 and to the current benchmark on 01 Feb 2015.

Summary of Asset Allocation in Centaur BCI Flexible Fund (% of Fund NAV)

	31 Mar'15	30 Jun'15	30 Sep'15
Local Equities	50%	51%	46%
Offshore Equities	16%	17%	20%
Local and Offshore Cash & Equivalents	22%	18%	18%
Local Bonds	8%	10%	13%
Property	4%	4%	3%

Top 10 Equity Holdings in Centaur BCI Flexible Fund as at 30 September 2015

No	Security	Sector	% of Fund NAV
1	RMI Holdings Limited	Insurance	9%
2	Bidvest Group Limited	Diversified Industrials	5%
3	Lewis Group Limited	Furniture Retail	4%
4	Fiat Chrysler Automobiles	Offshore – Motor Vehicles	4%
5	British American Tobacco Plc	Tobacco	4%
6	Sappi Limited	Forestry & Paper	3%
7	Barclays Africa Group Limited	Banking	3%
8	Hannover Rueckversicherung	Offshore – Insurance	3%
9	Bayerische Motoren Werke AG	Offshore – Motor Vehicles	3%
10	Netease.com	Offshore – Internet Gaming	3%

Source: Maitland, Centaur

Centaur BCI Balanced Fund

Performance as at 30 Sept 2015	1 year	2 years	Since Inception[3]
Centaur BCI Balanced Fund	**10.8%**	**15.3%**	**15.4%**
Benchmark[1]	8.9%	11.3%	13.4%
Relative to Benchmark	**1.9%**	**4.0%**	**2.1%**
Average Category Return	5.9%	8.8%	
Relative to Avg. in Category	**4.9%**	**6.5%**	
Std. Deviation[2] – CBF	6.9%	6.7%	6.7%
Std. Deviation[2] – Benchmark[1]	8.4%	7.7%	7.8%

Source: Moneymate, Boutique Collective Investments, Centaur
Note: Past performance is not a reliable indicator of future returns.

1. 28% ALSI (J203T); 28% FINDI (J250T); 8% MSCI World Index; 30% JSE ALBI; 6% SA Repo rate.
2. Measure of how much an investment's return varies from its average on an annualised basis.
3. Inception Date: 01 July 2013

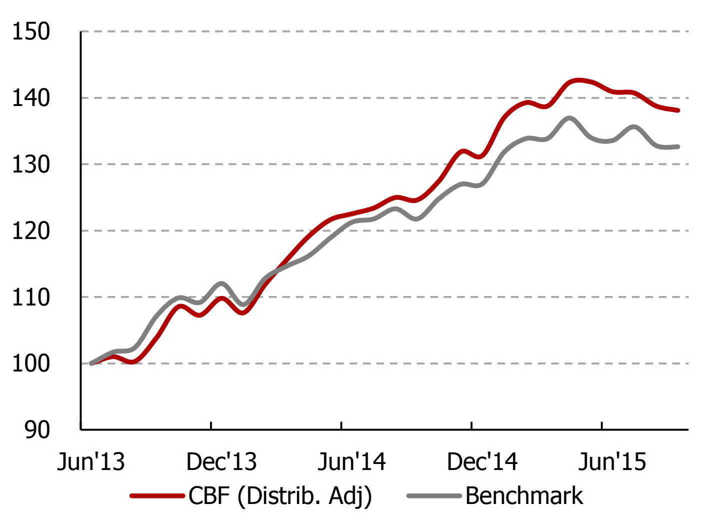
The Centaur BCI Flexible Fund (CFF) has delivered year-to-date returns of 5.2%, outperforming its benchmark by 0.8% for the period. The Fund ranked 2nd in its category (SA Multi Asset – High Equity) out of 139 Funds for the 2 years ended 30 September 2015 (Source: Moneymate).

Asset Allocation	30 June'15	%Δ over Quarter	30 Sept'15	Benchmark
Fixed Income	**48%**	**-1%**	**47%**	**36%**
Local Bonds	17%	+7%	24%	30%
Local Property	6%	-1%	5%	-
Cash & Equivalents	25%	-7%	18%	6%
Equities	**52%**	**1%**	**53%**	**64%**
Local Equity	43%	-2%	41%	56%
World Equities	9%	+3%	12%	8%
Total	**100%**		**100%**	**100%**

Despite the delisting of Business Connexion and negative market movements we were net buyer of equities over the quarter. Offshore equity content increased as money was remitted offshore early in the quarter. Price weakness in RSA Government bonds allowed us to materially increase exposure to this asset class at favourable levels. We remain cautious on property relative to bonds given the high stock issuance and full valuations but retain a 5% weighting. We are underweight equities as overall market valuations are elevated relative to prospects, rising SA interest rates are negative and increased global risk aversion is a major risk. Nevertheless we are accumulating shares in some deep value opportunities which indicate exceptional upside potential.

Centaur BCI Balanced Fund Summary

Centaur BCI Balanced Fund relative to Benchmark on a monthly basis (100 = 01 July 2013)



Source: Bloomberg, Boutique Collective Investments, Centaur
Note: Past performance is not a reliable indicator of future returns.

Centaur BCI Flexible Fund details

Fund NAV as at 30 Sept 2015: R 1 104.2m

Objective: The fund targets real returns of at least 4% per annum with volatility no greater than 65% of the All Share Index.

Benchmark: 28% ALSI (J203T); 28% FINDI (J250T); 8% MSCI World Index; 30% JSE ALBI; 6% SA Repo rate.

Fees on Class A:
Annual fee: 1.50% p.a. (excl. VAT) on the value of the fund.
Performance fee: 12.5% above benchmark cap over rolling 2-year, capped at 1% p.a.

Inception Date: 1 July 2013

Summary of Asset Allocation in Centaur BCI Balanced Fund (% of Fund NAV)

	31 Mar'15	30 Jun'15	30 Sep'15
Local Equities	46%	43%	41%
Offshore Equities	8%	9%	12%
Local & Offshore Cash	27%	25%	18%
Local Bonds & Preference Shares	11%	17%	24%
Property	8%	6%	5%

Top 10 Equity Holdings in Centaur BCI Balanced Fund as at 30 September 2015

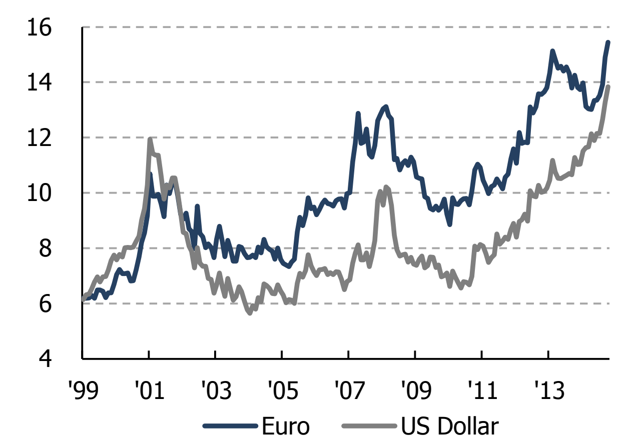
No.	Security	Sector	% of Fund NAV
1	RMI Holdings Limited	Insurance	6%
2	Bidvest Group Limited	Diversified Industrials	4%
3	Lewis Group Limited	Furniture Retail	3%
4	British American Tobacco Plc	Tobacco	3%
5	Sappi Limited	Forestry & Paper	3%
6	Fortress Income Fund Ltd A	Property	2%
7	Barclays Africa Group Limited	Banking	2%
8	SA Corporate	Property	2%
9	Bayerische Motoren Werke AG	Offshore – Motor Vehicles	2%
10	Fiat Chrysler Automobiles	Offshore – Motor Vehicles	2%

Source: Maitland, Centaur

Analyst Insight – The Rand Weakness

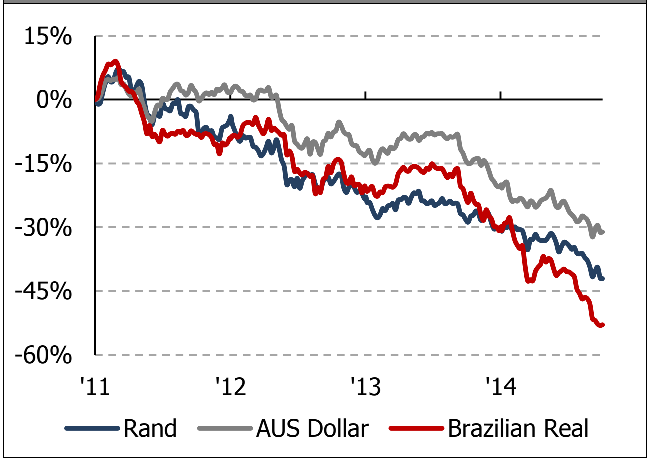
The South African Rand finished the quarter just off its all-time lows relative to the major currencies. This currency weakness isn't isolated to SA and has impacted all countries whose primary export is commodities as the graph on the right indicates.

ZAR spot rates relative to US Dollar and Euro



Source: Bloomberg

Commodity-driven currencies relative to US Dollar



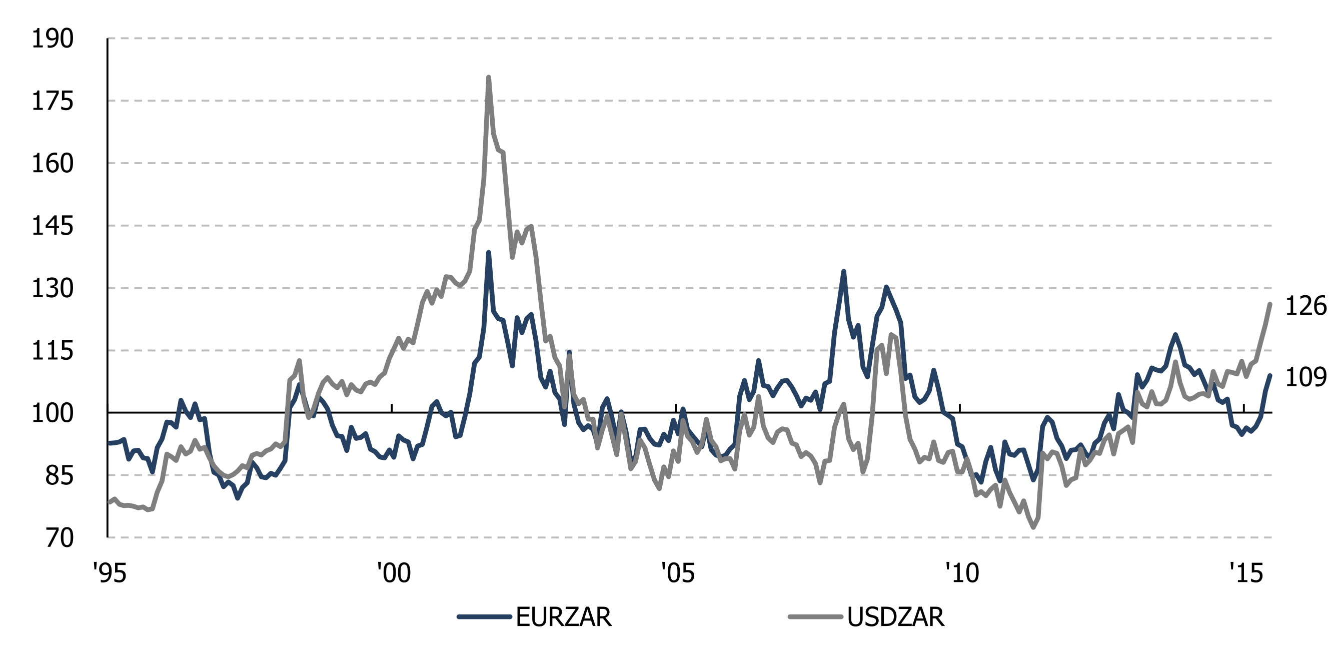
Source: Bloomberg

The economic slowdown in China has led to a large fall in commodity prices thus hurting commodity-driven countries like Australia, South Africa and Brazil. International markets have taken a hard line in reducing exposure to commodity exporting countries' currencies, seeking safe-haven investments into US Dollars and Euros. The lower commodity prices have led to a worsening terms of trade of commodity exporters and increasing trade deficits. Although SA is a major exporter of commodities and precious metals it too is a significant importer of oil and we estimate the net export loss due to lower commodity prices to be only 0.5% of GDP. In fact, despite lower commodity prices, SA reported a substantially improved annualised current account deficit of 3.1% in the second quarter of 2015.

Over the last 20 years when there has been a 5% or more fall in the US stock market over a quarter the Rand weakened on average by 6%, and in no instances out of 14 periods has there been any material Rand strength during those quarters. This phenomenon is generally referred to as risk aversion and the Rand generally has recovered some of this weakness when risk aversion reduces.

By incorporating inflation rate differentials between countries we have calculated a purchasing power parity "fair value" for the Rand relative to the US Dollar and Euro since the Financial Rand was abolished in March 1995, using the average real exchange rate over that period as the base. Based on this analysis the "fair value" of the Rand at 30 September 2015 is R11/US Dollar (26% undervaluation) and R14.20/Euro (9% undervaluation). This analysis also reflects that the Euro is 14% undervalued relative to its "fair value" to the US Dollar. Our analysis is re-enforced by the "Economist Big Mac" index which in June 2015 indicated the Rand was 56% undervalued against the US Dollar.

Inflation adjusted USDZAR and EURZAR indices



Source: Bloomberg, Centaur

Policy uncertainty over nuclear energy, BEE requirements and foreign land ownership is undermining foreign investor confidence. The continual fiscal and current accounts deficits also leave SA vulnerable to global shocks. SA generally is a good place to do business with solid infrastructure, excellent business ethics and strong institutions. The weak exchange rate should lead to a boom in foreign investment however policy uncertainty and the twin deficits mean there are few foreign investors willing to take a long-term view. As the recent debt downgrade in Brazil highlights, any major policy misstep by government could still lead to a substantial further fall in our currency. Another further risk is that the SA Reserve bank errs by not raising interest rates sufficiently to counteract the inflation effects of the weak Rand, allowing inflation to spiral upwards. This could lead to an inflationary cycle of a perpetually weakening Rand much as happened in SA in the 1980's.

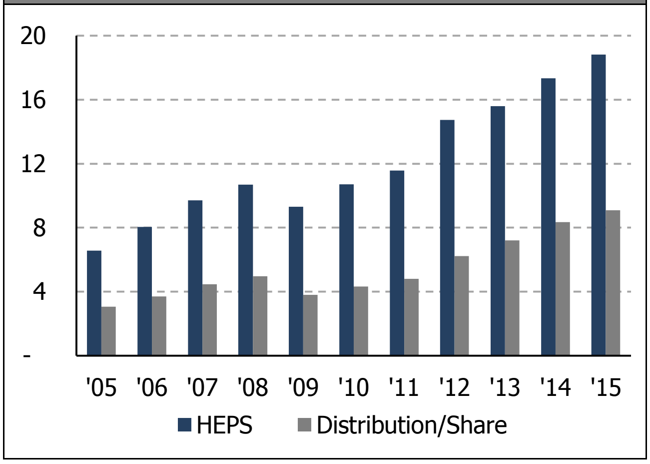
The risk-off trade has left the Rand in an oversold position and a short-term bounce is probable. In the medium-term we expect the Rand to remain at a substantial discount to its fair value as the structural conditions which lead to a weak Rand remain. A substantially stronger Rand would require a material improvement in the price of our export commodities, or an adjustment in our economy towards exports and tourism, combined with policy certainty – conditions which will take years to manifest.

Analyst Insight – Bidvest (BVT)

Bidvest is a diversified industrial company which operates across the globe and is the second largest equity position in our Centaur BCI Flexible and Balanced Funds. Below are some of the major reasons why:

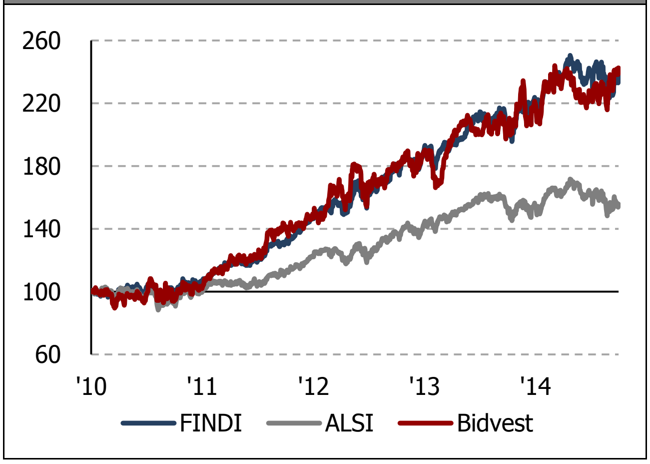
Great Management. Under the leadership of Brian Joffe, management have a proven track record of adding shareholder value through both organic and acquisitive growth. Headline earnings per share have grown at a compound annual growth rate of 11% and 15% over the last 10 and 20 years respectively. Return on Equity is attractive averaging 23% over the last decade. These attributes have driven its strong share price performance as shown below.

Bidvest Earnings and Distributions per Share



Source: Company data, Bloomberg

Bidvest relative to FINDI & ALSI



Source: Bloomberg

Acquisitional expertise. Management are master acquirers, having supplemented growth via acquisitions over numerous years. The company is spread across numerous industries and geographies giving it wide scope to recycle retained earnings into value accretive acquisitions.

Defensive qualities. Food services accounts for 41% of trading profit. Bidvest is well diversified both locally and internationally which improves its defensive qualities in a constrained domestic environment. In the current state of the interest rate cycle Centaur prefers defensive stocks over domestic cyclicals.

Rand hedge qualities. Offshore earnings accounted for 38% of group trading profit in financial 2015 almost entirely in the Food Services business. The expectation is that this will increase as it is a key growth area highlighted by management. This is an important attribute given the current stagnant state of the local economy.

Cash generative. Bidvest is highly cash generative with constant dividend underpin paying out 50% of its earnings as dividends. It also has low gearing giving firepower for acquisitions.

Bidvest was purchased on a forward PE of 13.5x which we deem good value for a quality management team. On purchase we expect returns of between 16% and 20% over a three year period. We have high conviction these returns will be achieved due to good management and the geographically diversified nature of the business.

Analyst Insight – Predicting the World Cup Winner

Every four years SA's attention is diverted to the Rugby World Cup. For the mathematically-minded the tournament offers an additional opportunity to analyse and even bet on the outcome of the games based on the probabilities of the match-ups. The first three rounds of pool games have produced some unlikely upsets, specifically South Africa losing to Japan and England being the first host nation to be knocked out of the tournament in the opening rounds.

Following the Round 3 results, we ran a scenario analysis with probabilities based on outcomes between the sides over the past 5 years. However, some teams have not played sufficient matches against one another to provide reasonable win probabilities. To improve our estimates we analysed historic games and calculated the average win margins then estimated the distributions around these margins and incorporated this into a Monte Carlo simulation. The general effect of this exercise was an increase in the very low probability outcomes whilst a decrease in high probabilities.

Incorporating our adjusted win-lose probabilities into our scenario analysis, our model predicts:

- A New Zealand vs. Australia final with New Zealand twice as likely to win;
- Australia is the second favourite, with SA and Ireland as outside bets;
- France has the most difficult draw and very small chance of World Cup success;
- Our probabilities are similarly aligned to those implied by the current odds at the bookies, indicating the betting market is pretty fairly valued, giving no obvious good bets.

Estimated probability of reaching different rounds of the competition (using scenario analysis)				Currently at the bookies	
Team	**Semi**	**Final**	**Champion**	**Odds***	**Implied probability**
New Zealand	84.0%	61.0%	46.0%	1.1 : 1	46.8%
Australia	78.0%	51.0%	24.0%	2.9 : 1	25.5%
South Africa	60.0%	22.2%	12.4%	6.6 : 1	13.1%
Ireland	53.0%	25.0%	8.5%	8.4 : 1	10.6%
Wales	47.7%	17.8%	5.4%	11 : 1	8.3%
France	27.0%	8.3%	2.0%	14 : 1	6.5%
Argentina	35.5%	10.8%	1.8%	33 : 1	3.0%
Scotland	15.0%	4.3%	0.6%	74 : 1	1.3%

Source: Centaur

*Average odds from 20 betting houses

Despite probabilities, the outcome of each match is not a foregone conclusion. With still plenty of rugby to be played, individual performances, weather conditions and refereeing decisions can influence the outcome of matches, providing teams the catalysts to overcome the odds. Despite the poor start to the competition the Springboks are getting better with each game and historically they have won 40% of the World Cups they have participated in giving them scope to beat our odds and possibly secure ultimate victory.

Contact Details

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We wish all our clients a productive finish to 2015 and look forward to hearing from you.

Kind regards

The Centaur Team

Information and Disclosures

Investment Manager

Centaur Asset Management (Pty) Ltd is an authorised Financial Service Provider FSP 647.

- Additional information, including application forms, annual or quarterly reports can be obtained from BCI, free of charge or can be accessed on our website www.bcis.co.za.
- Valuation takes place daily and prices can be viewed on BCI's website (www.bcis.co.za) or in the daily newspaper.
- Actual annual performance figures are available to existing investors on request.
- Upon request the Manager will provide the investor with portfolio quarterly investment holdings reports.

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