



CENTAU
ASSET MANAGEMENT

TARGETED GROWTH



Manager's Quarterly Update

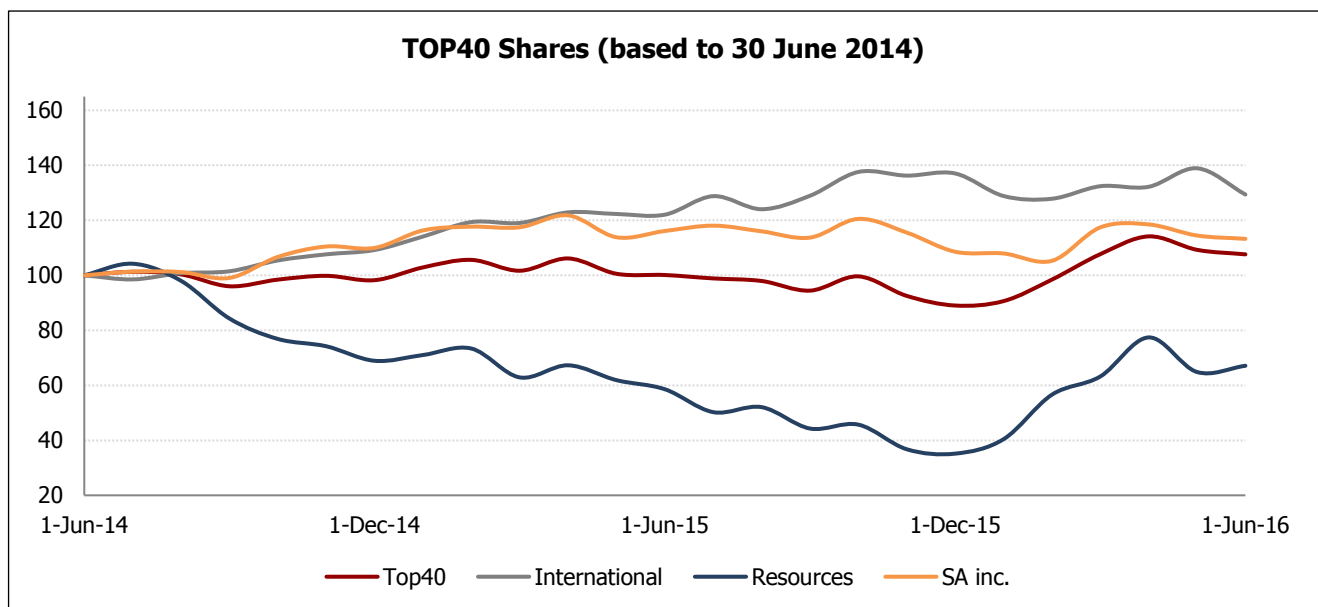
30 June 2016

The First Half Overview

The JSE All Share Index (ALSI) returned 4% over the half comprising a 19% increase in the Resource Index and a negative 1% return from the Financial and Industrial Index. The Rand strengthened 5% against the US Dollar over the period albeit with considerable volatility in between. The United States S&P 500 increased 3% whilst the German DAX fell 10%. Commodity prices staged a recovery with the Bloomberg CRB Metals Index rising 23% from 1st January 2016.

The JSE's Returns over the Last 2 years

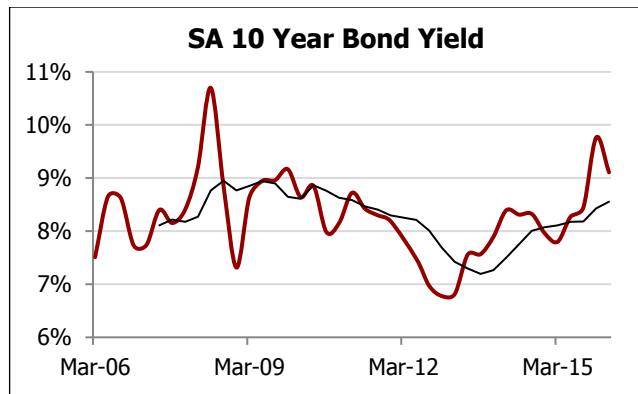
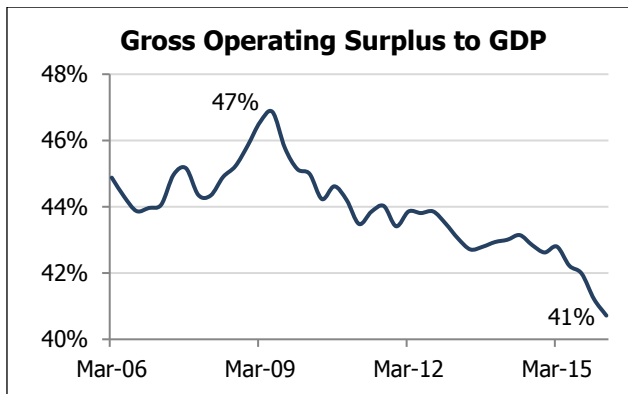
To better explain how the stock market has performed over the last 2 years an equally weighted index of the top 40 shares at 30 June 2014 has been constructed, naming it "Top40". Using the same methodology, these 40 shares have been split into 3 categories namely: International stocks (defined as 60%+ of value residing outside of South Africa at 30 June 2014); Resource stocks; and SA Financial and Industrial stocks (SA inc.). Below is a graph of how these indices (including dividends) have performed over that period:



Source: Bloomberg

- International stocks performed well until the end of 2015 driven by a weak Rand, but this year their performance is negative due to Brexit and a firmer Rand. The JSE's largest stock, Naspers, falls into this category and has risen 79% over the last 2 years flattering the overall performance of the JSE.
- Resource shares were poor performers until the end of 2015 but have almost doubled in 2016, nevertheless they are still down around 30% over the last 2 years.
- SA inc. stocks delivered total returns of -3% and 13% and over the last 1 and 2 years respectively despite many of these companies having large offshore earnings bases. The reason why SA inc. shares have been indifferent performers is explained by the 2 graphs below:





Source: Bloomberg

The graph on the left sums up SA corporate profitability which has been under pressure since 2008 as weak domestic demand, declining commodity prices and rising costs squeeze margins whilst the graph on the right shows domestic bond rates which have been rising for the last 3 years. These factors are combining to create an environment where it is difficult for SA equities to deliver high real returns.

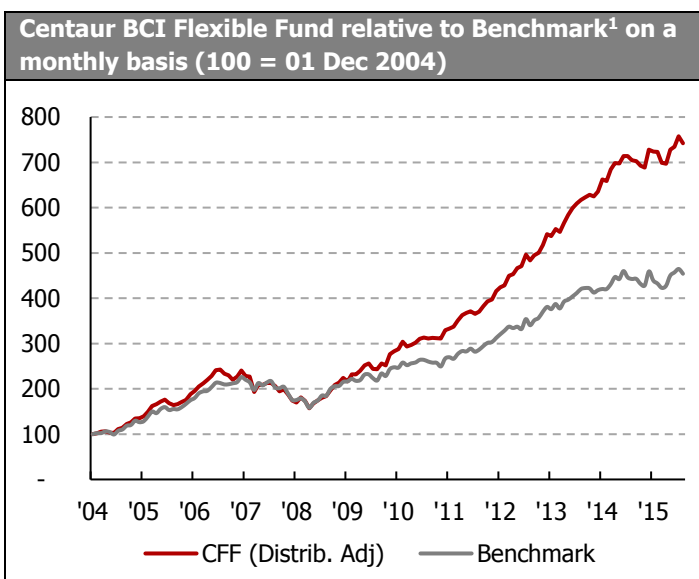
At Centaur we are independently-minded and pragmatic in our assessment of equity returns. We are cautious on SA equity markets with a 45% JSE equity exposure; nevertheless we are using our extensive skills to improve returns using a myriad of strategies including:

- Investing in bonds and preference shares to improve the return on the non-equity portion of the fund.
- Actively trading equity volatility to deliver trading profits for the portfolio.
- Maintaining sell disciplines.
- Looking internationally for exceptional stockpicking opportunities.
- Using smart beta strategies on the S&P500 and Dax Indices to deliver alpha whilst using rand-dollar hedges to moderate international exposure.
- We are constantly searching for domestic stocks which meet our strict criteria for investment and are willing to investment boldly when the opportunity presents itself.

By using the above strategies we are well positioned to preserve capital whilst delivering market leading returns to our unitholders.



Centaur BCI Flexible Fund



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.

Centaur BCI Flexible Fund details
Fund NAV as at 30 Jun 2016: R 1 232.9m
Objective: The fund targets real returns of at least 6% per annum with volatility no greater than 80% of the All Share Index.
Benchmark¹: 15% RESI (J258T), 65% FINDI (J250T), 20% SA Repo.
Fees on Class A: <u>Annual fee:</u> 1.25% p.a. (excl. VAT) on the value of the fund. <u>Performance fee:</u> 20% above benchmark cap over rolling 2-years, capped at 2% p.a.
Inception Date: 1 December 2004

Performance as at 30 June 2016	1 year	3 years	5 years	10 years	Since Inception ³
Centaur BCI Flexible Fund	5.4%	15.4%	19.0%	16.3%	18.9%
Benchmark ¹	2.6%	10.1%	11.8%	11.3%	14.0%
Relative to Benchmark¹	2.7%	5.3%	7.2%	5.0%	4.9%
Average Category return	2.6%	10.3%	11.9%	10.7%	
Relative to Avg. in Category	2.8%	5.1%	7.1%	5.6%	
Std. Deviation ² – Centaur BCI Flexible Fund	10.8%	8.8%	8.6%	12.4%	12.4%
Std. Deviation ² – Benchmark ¹	14.9%	11.6%	10.9%	14.1%	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
4. Highest and lowest calendar year performance since inception (as at 31 May 2016)
 High 37.18 Low -20.29

The Centaur BCI Flexible Fund delivered a return of 5.4% over the last 12 months, outperforming its benchmark by 2.7%. The Centaur BCI Flexible Fund was the best performing South African Flexible Fund over 5 and 8 years as at 30 June 2016 (Source: Moneymate).



Asset Allocation	31 Dec'15	%Δ over the Half	30 Jun'16	Benchmark
Fixed Income	31%	+0%	31%	20%
Local Bonds & Pref Shares	8%	+5%	13%	-
Local Property	4%	+1%	5%	-
Cash & Equivalents	19%	-6%	13%	20%
Equities	69%	+0%	69%	80%
SA Resources	5%	+5%	10%	15%
SA Financial & Industrial	39%	-3%	36%	65%
World Equities	25%	-2%	23%	-
Total	100%		100%	100%

Preference shares and bonds returned over 10% in H1 and, along with additions to our preference share holdings, led to a 5% increase in overall exposure to this category. Holdings in Merafe, Implats and Sappi were increased at favourable levels and this, combined with strong performance, led to a 5% jump in Resources exposure. Exposure to selected SA Financial and Industrial stocks was reduced at attractive prices. World equity exposure decline partially due to Rand strength, but also due to a exposure to Germany stocks which declined over the period. Offshore currency exposure was moderated via currency future overlays which helped reduce the negative impacts of Rand strength.

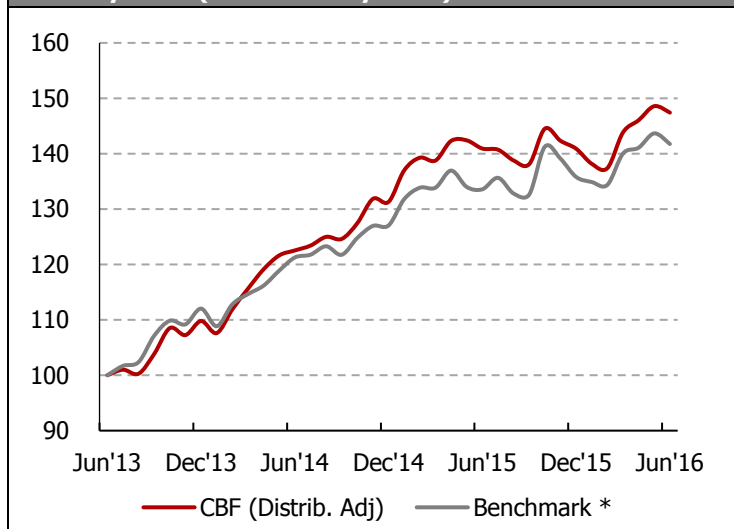
Top 10 Equity Holdings in Centaur BCI Flexible Fund as at 30 June 2016		
Holdings	Sector	% of Fund NAV
RMI Holdings	Equity Investment Instruments	5.1%
British American Tobacco	Tobacco	4.7%
Netease.Com	Offshore - Software	3.7%
Merafe Resources	General Mining	3.7%
Implats	Platinum & Precious Metals	3.2%
WBHO	Heavy Construction	3.2%
Barclays Africa	Banks	3.1%
Hannover	Offshore - Reinsurance	3.0%
Sappi	Paper	3.0%
Woolworths	Broadline Retailers	2.9%

Source: Maitland, Centaur



Centaur BCI Balanced Fund

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 Balanced Fund details

Fund NAV as at 30 Jun 2016: R 1 176.7m

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

Performance as at 30 June 2016	1 year	2 years	Since Inception ³
Centaur BCI Balanced Fund	4.6%	9.7%	13.9%
Benchmark ¹	6.1%	8.1%	12.4%
Relative to Benchmark	-1.5%	1.6%	1.5%
Average Category Return	4.7%	6.0%	
Relative to Avg. in Category	-0.1%	3.7%	
Std. Deviation ² – Centaur BCI Balanced Fund	10.2%	8.6%	8.0%
Std. Deviation ² – Benchmark ¹	12.1%	10.2%	9.3%

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

- 28% ALSI (J203T); 28% FINDI (J250T); 8% MSCI World Index; 30% JSE ALBI; 6% SA Repo rate.
- Measure of how much an investment's return varies from its average on an annualised basis.
- Inception Date: 01 July 2013
- Highest and lowest calendar year performance since inception (as at 31 May 2016)
High 19.58 Low 7.30

The Centaur BCI Balanced Fund delivered a return of 4.6% over the last 12 months, slightly underperforming its benchmark. The Fund ranked 10th in its category (SA Multi Asset – High Equity) out of 148 Funds for the 2 years ended 30 June 2016 (Source: Moneymate).



Asset Allocation	31 Dec '15	%Δ over the Half	30 Jun'16	Benchmark
Fixed Income	47%	-3%	44%	36%
Local Bonds & Pref Shares	18%	+5%	23%	30%
Local Property	5%	+2%	7%	-
Cash & Equivalents	24%	-10%	14%	6%
Equities	53%	+3%	56%	64%
Local Equity	37%	+5%	42%	56%
World Equities	16%	-2%	14%	8%
Total	100%		100%	100%

Preference shares and bonds were purchased and this along with strong performance lead to a 5% increase in exposure to this category. Property exposure increased due to the purchase of Growthpoint early in the half and a solid performance by SA Corporate. SA equity holdings increased due to the outperformance of this segment of the portfolio and the net purchases of selected shares. World equity exposure declined partially due to Rand strength but mostly due to a German equity exposure which declined over the period. Currency exposure was managed via currency future overlays which helped reduce the negative impact of Rand strength.

Top 10 Equity Holdings in Centaur BCI Balanced Fund as at 30 June 2016		
Holdings	Sector	% of Fund NAV
British American Tobacco	Tobacco	3.3%
Netease.Com	Offshore - Software	3.1%
SA Corporate Real Estate Fund	Retail REITs	3.1%
RMI Holdings	Equity Investment Instruments	3.0%
Impala Platinum	Platinum & Precious Metals	2.9%
Merafe Resources	Offshore - General Mining	2.9%
Woolworths Holdings	Broadline Retailers	2.9%
Old Mutual	Life Assurance	2.9%
Sappi	Paper	2.8%
Barclays Africa Group	Banks	2.8%

Source: Maitland, Centaur



Brexit

Having decided to leave the European Union (EU), the UK now formally needs to submit its exit application whereupon it has 2 years to negotiate exit terms. Britain has its own currency, central bank and customs union and an orderly exit can be negotiated however there are some major issues:

- The British government was ill prepared for an exit scenario and its government is rudderless with David Cameron having resigned and a new prime minister will only be chosen in September. A formal EU exit is likely in the last quarter of 2016 and there will be considerable uncertainty in the interim.
- Nationalist fire may spread into the rest of Europe and Scotland may break away from the UK.
- The EU will probably play hardball to dissuade other defectors but pragmatism should prevail and trade agreements can be negotiated without too much impact on free trade. The negotiation over the free movement of people will be difficult as 3 million EU citizens live in Britain.

Britain will face a difficult adjustment process as financial services firms lose free access to the EU and some multinationals relocate their head offices into Continental Europe. The UK has 5% unemployment and the loss of EU workers will lead to labour shortages. Estimates are that under Brexit UK GDP will be 3% lower than it would have been whilst EU economic growth too will suffer. Longer-term the EU may benefit due to the relocation benefits as economic activity relocates to continental Europe. The Brexit referendum is non-binding and a second referendum may be held.

SA equities will follow the volatility of global equities however with negligible direct UK exposure we don't expect the Brexit vote will have significant impact on the fair value of the portfolios underlying investments and volatile markets are the ideal time to accumulate quality businesses at excellent prices.

Final Note

I welcome Megan Morris to Centaur who will assist with Client Services. We have a highly capable team who is committed to caring for your money as if it were our own. If you have any investment queries contact myself or Lance Gardner and address any administrative queries to Kirsty Dale (admin@centaur.co.za).

Kind regards

Roger Williams



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

- Annualised performance is the return that would have been achieved if invested for the full 12month period.
- 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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Disclaimer

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