



CENTAUR
ASSET MANAGEMENT

TARGETED GROWTH



Manager's Quarterly Update

31 March 2017

First Quarter 2017 and Outlook

President Zuma fired South Africa's most competent minister, Pravin Gordhan, replacing him with Malusi Gigaba, who as Minister of Public Enterprises presided over the calamitous decline in South Africa's state owned corporations. A sovereign downgrade has happened and the cost of lending to our discredited government has rightly got a lot more expensive. Unaffordable Russian Nuclear energy will shortly be approved, a project SA does not need and has little chance of completion. President Zuma seems not to care about playing Russian roulette with the South African Economy.

The incentive towards enterprise is being eroded by upwardly shifting tax rates, increasing regulatory burden and uncertain property rights. Blatant corruption is making the system inequitable with a growing portion of our high tax burden being diverted to politically connected individuals. Increasing numbers of economic participants are opting out of a game which is rigged against them. This is summarised by the adaption of a recent e-mail from a Centaur client who runs a small business, "The last 2yrs have been trying in the mining industry and more stringent BEE codes will affect us adversely going forward. The Metal industries trade union says there will be another strike in July which will have a big impact on our business. We are looking to sell our business (if they can) and move to the Western Cape."

The current ANC government is following outdated economic models based on 1950's socialist policies which were abandoned as they failed to deliver prosperity. Property rights are the most important requirement for a prosperous economy and it is revealing that the two sectors of the economy which are the most under attack from property rights, namely mining and agriculture have been the worst performing industries over the last two decades registered compound growth rates of -0.2% and 1.3% respectively over the period.

South Africans are a resilient nation. There are automatic stabilisers in South Africa with SA's offshore assets exceeding its liabilities by 9% at 30 September 2016 and Rand weakness will only improve this balance. One can only be impressed by South Africa's infrastructure and the energy of its people. In both 2015 and 2016 Brazil's economy registered negative 3% growth whilst SA grinded out positive growth. Whilst Zuma was firing Minister Gordhan, across the world SA's most famous son, Elon Musk's company Space X, successfully re-landed a space going rocket on a ship - a world first. The schoolboy from Pretoria, a year my junior, has in the last 8 years since JZ came to power forever changed the world of motor cars and electricity generation. South Africa is blessed with an abundance of talent - imagine what we could do as a nation with the right leadership?



Investment Strategy

We have been aware of a downgrade risk and have been trying to steer a path between sufficient hedging of this risk and a more bullish case for South Africa. The Flexible and Balanced Funds have 20% and 15% direct offshore exposure respectively. In total 44% of the attributable value of the Flexible Fund and 37% of the Balanced Fund resides outside of South Africa. We also have material amounts in cash and fixed interest instruments which should allow us to navigate these stormy waters relatively well.

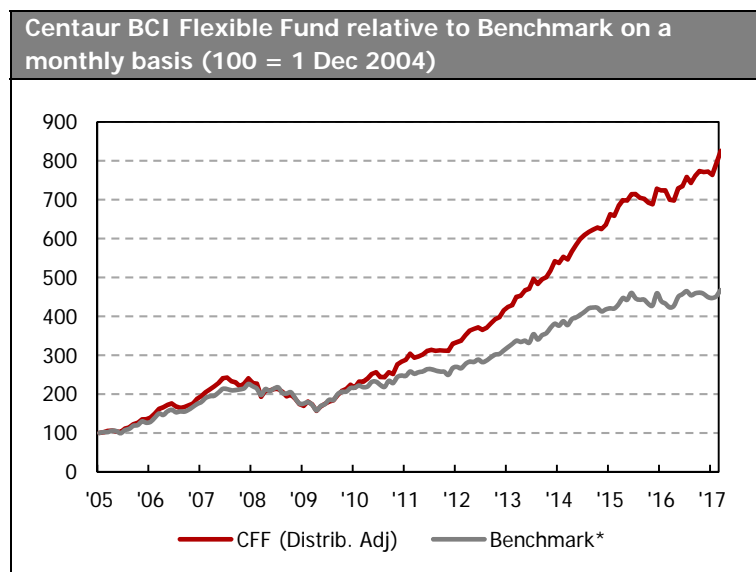
During times of uncertainty great investment opportunities manifest and the Centaur investment team is scouring the market to uncover them. A case in point is Old Mutual which is in the process of splitting into three components namely:

- Old Mutual Emerging Markets – the South African and emerging market life assurance giant.
- Nedbank – one of South Africa's Top four banks and listed on the JSE.
- Old Mutual Wealth – a UK based vertically integrated wealth manager and asset manager.

Old Mutual management have committed to the split and we anticipate this to happen in late 2018 resulting in a 20% value uplift. Each business on its own is attractive with good market positions, critical mass and strong brands and around 35% of the attributable value of the business resides out of South Africa. Within the unit trust we can hedge out the Nedbank risk which we think is the most vulnerable to political risk. The recent political turmoil has resulted in price weakness giving an attractive entry level.



Centaur BCI Flexible Fund



Source: Boutique Collective Investments

*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.

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

Centaur BCI Flexible Fund details

Fund NAV as at 31 Mar 2017: R 1 636.1 m

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

Benchmark*: 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 over rolling 2-year period, capped at 2% p.a.

Inception Date: 1 December 2004

Performance as at 31 March 2017	1 year	3 years	5 years	10 years	Since Inception ³
Centaur BCI Flexible Fund	15.6%	13.0%	18.0%	13.9%	18.9%
Benchmark ¹	4.4%	5.8%	10.7%	8.7%	13.4%
Relative to Benchmark¹	11.2%	7.2%	7.3%	5.2%	5.5%
Average Category return	3.0%	5.7%	10.3%	8.7%	
Ranking in Category	3/90	1/79	1/70	2/42	
Std. Deviation ² – Centaur BCI Flexible Fund	7.7%	8.8%	8.3%	12.2%	12.2%
Std. Deviation ² – Benchmark ¹	9.4%	11.3%	10.4%	13.7%	14.1%

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 28 February 2017)

High 31.1 Low -20.3

The Centaur BCI Flexible Fund delivered a return of 6% over the quarter and 16% over the last 12 months materially outperforming its benchmark by 11%. The Centaur BCI Flexible Fund was the top performing fund in its category over 5 years delivering a 18% p.a. compound return over that period (Moneymate, 31 Mar 17). This fund was awarded two 2016 Raging Bull awards – Top Performing South African Multi-Asset Flexible Fund and the Best Risk Adjusted South African Multi-Asset Flexible Fund for its performance at December 2016. Centaur further received the 2016 Morningstar award for Best Flexible Allocation fund for its performance at December 2016.



Asset allocation	31 Dec '16	%Δ over Q1	31 Mar '17	Benchmark
Fixed Income	26%	+5%	31%	20%
Local Bonds & Pref Shares	12%	-1%	11%	
Local Property	4%	-1%	3%	
Cash & Equivalents	10%	+7%	17%	20%
Equities	74%	-5%	69%	80%
SA Resources	13%	-3%	10%	15%
SA Financial & Industrial	39%	+2%	41%	65%
World Equities	22%	-4%	18%	
Total	100%		100%	100%

Local Bond, Preference Share and Property allocation declined 1% on market movements and on reducing preference share holdings. Equity content decreased 5% given strong inflows into the fund. The resource sector weighting decreased 3% on trimming Merafe, Exxaro and Sappi post a stellar performance. The SA Financial & Industrial exposure increased 2% on increasing holdings in Barclays, Woolies, MTN and Hosken Consolidated Investments. Notably strong performances were registered in the fund holdings of Exor, Adcock Ingram and British American Tobacco. World equity exposure reduced by 4% due to a trimming of the strongly performing Netease and Fiat positions which was used to fund a new position in Hastings Group in the UK whilst 2% of the fund is held in offshore cash.

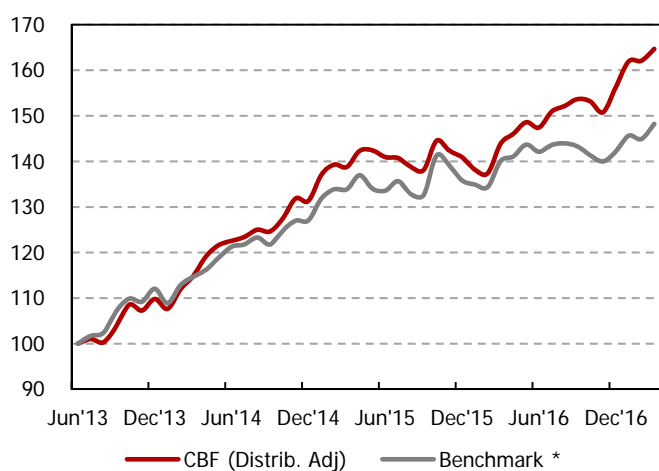
Top 10 Equity Holdings in Centaur BCI Flexible Fund as at 31 March 2017		
Holdings	Sector	% of Fund NAV
Woolworths	Investment Holdings	6.2%
MTN Group	Mobile Telecommunications	4.1%
RMI Holdings	Equity Investment Instruments	4.1%
Merafe Resources	General Mining	4.1%
British American Tobacco	Tobacco	3.6%
WBHO	Heavy Construction	3.1%
HCI	Equity Investment Instrument	2.9%
Sasol	Speciality Chemicals	2.9%
PPC	Building Materials & Fixtures	2.8%
Netease	Offshore - Software	2.8%

Source: Maitland, Centaur



Centaur BCI Balanced Fund

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



Source: Boutique Collective Investments

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

Centaur BCI Balanced Fund details

Fund NAV as at 31 Mar 2017: R 1 415.1m

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 over rolling 2-year period, capped at 1% p.a.

Inception Date: 1 July 2013

Performance as at 31 March 2017	1 year	2 years	3 years	Since Inception ³
Centaur BCI Balanced Fund	14.5%	8.9%	12.8%	14.2%
Benchmark ¹	5.9%	5.2%	8.9%	11.1%
Relative to Benchmark	8.6%	3.7%	3.8%	3.2%
Average Category Return	2.2%	3.1%	6.0%	
Ranking in Category	2/199	4/166	1/138	
Std. Deviation ² – Centaur BCI Balanced Fund	6.9%	8.6%	8.1%	8.2%
Std. Deviation ² – Benchmark ¹	7.1%	9.7%	8.9%	8.8%

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
4. Highest and lowest calendar year performance since inception (as at 28 February 2017)
High 19.6 Low 7.3

The Centaur BCI Balanced Fund delivered a return of 5% over the quarter and 15% over the last 12 months materially outperforming its benchmark by 9%. Over 3 years the Fund is the top performing Balanced Fund in its category out of 138 funds (Moneymate, 31 Mar 17). This fund was recently awarded the 2016 Raging Bull award for the Top Performing South African Multi-Asset High Equity for its performance at December 2016.



Asset Allocation	31 Dec'16	%Δ over Q1	31 Mar '17	Benchmark
Fixed Income	41%	-2%	39%	36%
Local Bonds & Pref Shares	22%	0%	22%	30%
Local Property	7%	0%	7%	
Cash & Equivalent	12%	-2%	10%	6%
Equities	59%	+2%	61%	64%
Local Equity	45%	+3%	48%	56%
World Equities	14%	-1%	13%	8%
Total	100%		100%	100%

Local Bond, Preference Share and Property allocations were unchanged. The portfolio's fixed income duration (including property) is materially lower than its benchmark. Local equity content increased as holdings in Barclays, Woolies, MTN and Hosken Consolidated Investments were topped up. Strong performances were registered in the funds holdings of Exor, Adcock Ingram and British American Tobacco. World equity exposure reduced slightly due to a trimming of the strongly performing Netease and Fiat positions which was used to fund a new position in Hastings Group in the UK whilst 2% of the fund is held in offshore cash.

Top 10 Equity Holdings in Centaur BCI Balanced Fund as at 31 March 2017		
Holdings	Sector	% of Fund NAV
Woolworths	Broadline Retailers	5.7%
British American Tobacco	Tobacco	4.5%
Merafe Resources	General Mining	3.8%
MTN Group	Mobile Telecommunications	3.5%
RMI Holdings	Equity Investment Instruments	3.3%
Old Mutual	Life Assurance	2.9%
WBHO	Heavy Construction	2.7%
Netease	Offshore - Software	2.7%
Exor	Offshore - Investment Services	2.7%
Fiat Chrysler Automobiles	Offshore - Automobiles	2.5%

Source: Maitland, Centaur



At Centaur, we have a highly capable investment team who is committed to caring for your money as if it were our own and we are particularly proud of our long-term track record. As a testament to this, Centaur recently won three Raging Bull Awards and one MorningStar award for our fund's performance to end December 2016. Although political conditions are difficult we are committed to use our investment skills and will seek to grow your portfolio.

If you have any investment queries contact myself or Lance Gardner and address any administrative queries to Kirsty Dale or Megan Morris (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.

Management Company Information

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Disclaimer

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