CENTAUR
ASSET MANAGEMENT

TARGETED GROWTH

Manager's Quarterly Update

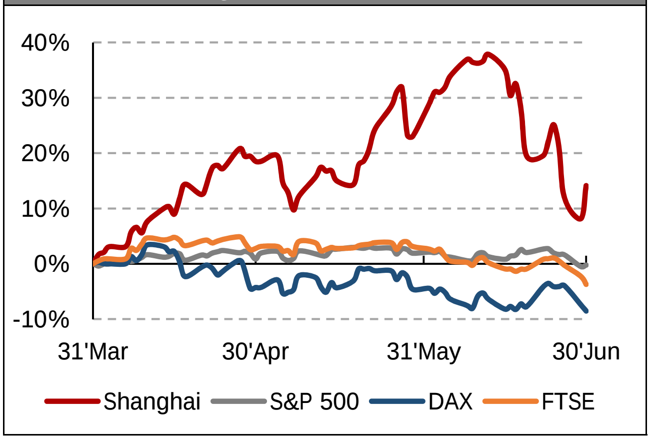
30 June 2015

Contents

2nd Quarter Market Overview and Outlook

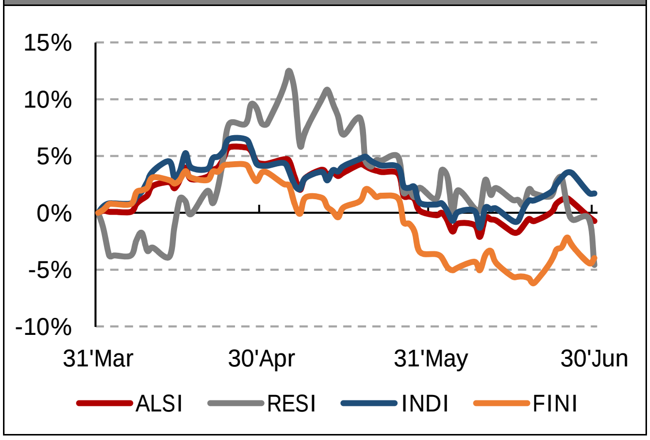
During the quarter under review US markets displayed a jagged-tooth, volatile trading range, with the S&P500 finally closing with a marginal loss of 0.2%. Due to the drawn out Greek debt crisis, European markets declined over the quarter, with the German (DAX) and UK (FTSE) markets falling 8.5% and 4% respectively. The Chinese stock markets also had an exceptionally volatile quarter and although the Shanghai Composite Index was up 14% over the quarter, it had fallen by more than 17% from its intra-quarter high on 12 June 2015.

International Indices cumulative returns in local currencies over Q2'15



Source: Bloomberg

SA Indices cumulative returns over Q2'15



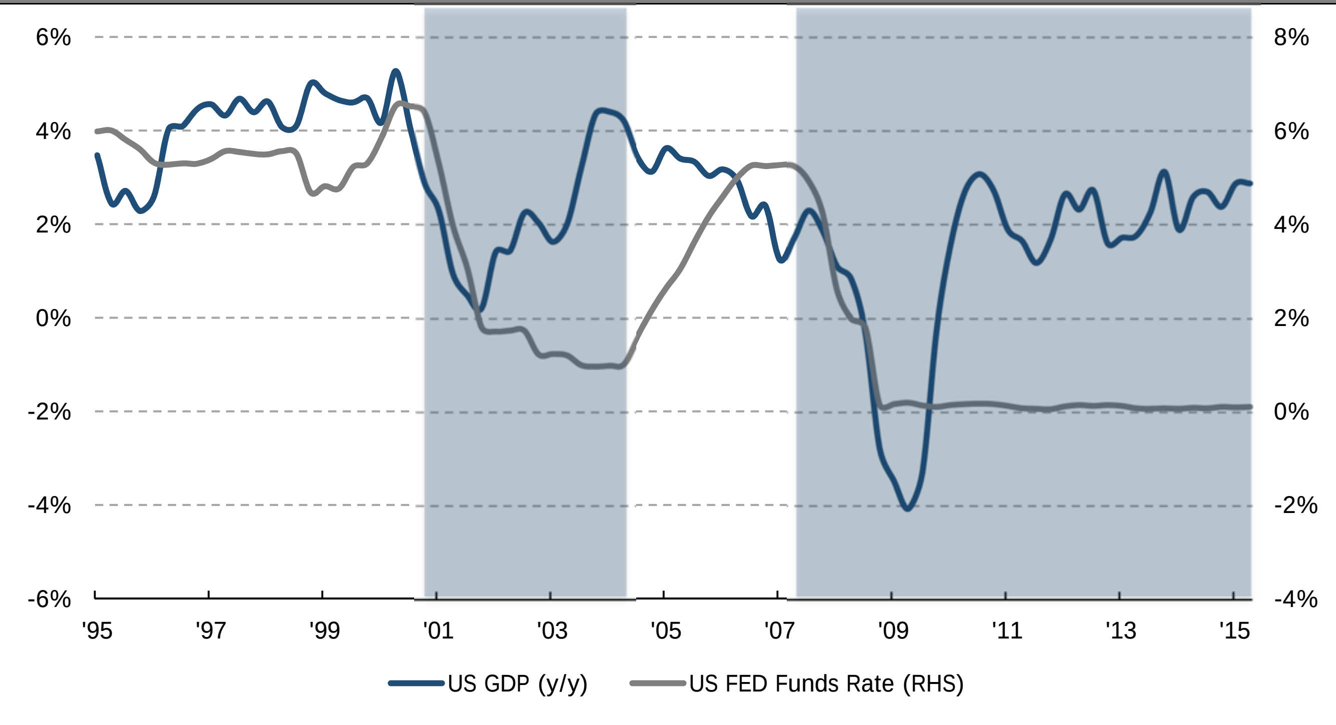
Source: Bloomberg

During this highly volatile trading period for International bourses, the JSE All Share Index rose strongly by 4% (excluding dividends) during April, but then gave up all quarterly gains over the next two months to finish 1% lower than the previous quarter. There was again a marked underperformance by the Resources sector in the 2nd Quarter with the JSE Resources Index declining by 5% over the period. Over the 12-months to 30 June 2015, the Resources Index has fallen by a severe 31%. Our funds benefitted from their strategic and significant underweight resource positioning and overall sound stock selection. The outlook for commodities remains subdued with China transitioning away from an investment-led economy and its economic growth rate decelerating to a slower but more sustainable pace.

The aforementioned Greek debt crisis continues to splash across the media screens and print publications. The Greek economy has indeed taken pain and contracted 26% since 2010. It is important to place this unfolding Greek Soap Opera in context as the Greek economy only comprises 2% of the Eurozone GDP. However, depending upon the unfolding of events, there is the potential for market turbulence and the challenge for the European Central Bank will be to limit any business confidence damage and to quarantine contagion, i.e. preventing a spill over into bordering countries Italy, Spain and Portugal.

The US economy is gradually accelerating with the improvement of in-house prices and consumer spending, accounting for 66% of economic activity. However, overall US and global growth is likely to continue to be sub-par with very high Government debt in many countries including the US (US$ 17 trillion which equates to 100% of US GDP). We expect the market's interpretation of the first anticipated interest rate hike by the US Federal Reserve in more than 5-years will be an additional unsettling factor during the 2nd half of 2015.

US GDP growth relative to US Federal Funds Rate



Source: Bloomberg

Note: Shaded blue area denotes periods of stimulus

In South Africa, the ongoing depreciation of our currency has not afforded much protection to our overall balance of payments. While South Africa's current account deficit has narrowed recently, it remains substantial by historic and global standards. Lower commodity prices and slower Chinese growth are likely to inhibit South African export performance and consumer spending is expected to be sluggish due to increases in electricity prices and higher taxes. Valuation metrics of certain areas of the JSE are at demanding ratings and the lead US market appears to be in expensive territory. We see the possibility of challenging markets ahead and have accordingly positioned our funds with a defensive bias and refined our stock selection and asset mix to reflect the possible rigours ahead.

Volatility is an inherent characteristic of financial markets and in the "bull ring" of the markets, we at Centaur, are as comfortable in playing "defence" as we are at playing "offense". We repeat the mantra embodied within our investment philosophy, that we take an immense amount of pride in protecting your money and steadfastly believe in our ability to produce consistent, market-beating returns.

Centaur BCI Flexible Fund

Performance at 30 June 2015	1 year	3 years	5 years	10 years	Since Inception[3]
Centaur BCI Flexible Fund	**14.2%**	**23.9%**	**23.7%**	**20.0%**	**20.6%**
Benchmark[1]	5.3%	15.6%	15.2%	14.9%	15.1%
Relative to Benchmark[1]	**8.9%**	**8.3%**	**8.5%**	**5.1%**	**5.2%**
Average Category return	7.8%	15.2%	14.3%	12.7%	
Relative to Avg. in Category	**6.4%**	**8.7%**	**9.4%**	**7.3%**	
Std. Deviation[2] – CFF	5.8%	6.6%	8.0%	12.9%	12.9%
Std. Deviation[2] – Benchmark[1]	7.4%	7.8%	8.9%	12.0%	12.1%

Source: Moneymate, 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 returns of 7% for the half year outperforming its peers and benchmark by 6% and 2% respectively for the period. The CFF remains the top performing South African Flexible Fund over 10 years (Source: Moneymate). Outperformance for the half was delivered by superior stock selection, an underweight exposure to resources and a very strong performance from our international holdings. Our equity weighting was on average 7% below benchmark which detracted from performance.

Selected portfolio changes:

BMW – Share price weakness around the Greek debt crises was used as an opportunity to increase exposure to BMW. This car manufacturer has a 20 year pedigree of superior growth and returns and will benefit from a weaker Euro. Despite an excellent pedigree BMW is trading on an attractive forward PE of 7.5X (excluding cash).

Bidvest – Management are experienced acquirers and business operators and 40% of profits come from outside of SA's borders. Earnings quality has improved with 35% of profits coming from foodservices. Despite a difficult SA environment Bidvest has sufficient growth levers to continue delivering good real earnings growth. This company was purchased on a forward PE of 14.5X which is good value for a high quality management team.

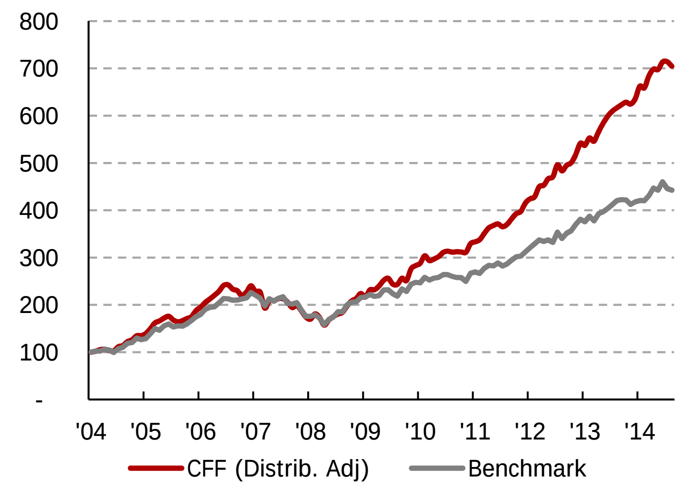
Sasol – Share price strength was used to exit our holding in Sasol, as the outlook for this counter is difficult due to a weak oil price and we are particularly negative on their $10billion ethane cracker investment in the US in which they have little competitive advantage.

Woolies – The holding in Woolies was substantially lightened as operating margins are well above historic levels and we see business conditions getting increasingly difficult in SA as their high income customers are squeezed by higher taxes. Despite good management and a strong brand we think a forward PE of 22X is too rich for a company facing numerous business headwinds.

Mediclinic – The holding in Mediclinic was fully exited as the forward PE of 25X was too high for a capital intensive stock with low teen growth.

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 June 2015: R1 337.9m

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:
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

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 Dec'14	31 Mar'15	30 Jun'15
Local Equities	60.1%	49.7%	51.2%
Offshore Equities	13.6%	16.2%	17.1%
Local and Offshore Cash & Equivalents	12.9%	22.1%	18.6%
Local Bonds	9.4%	8.0%	9.5%
Property	4.0%	4.0%	3.6%

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

No	Security	Sector	% of Fund NAV
1	RMI Holdings Limited	Insurance	8.7%
2	Lewis Group Limited	Furniture Retail	6.5%
3	Fiat Chrysler Automobiles	Offshore – Motor Vehicles	4.0%
4	Barclays Africa Group Limited	Banking	4.0%
5	British American Tobacco Plc	Tobacco	3.8%
6	Bidvest Group Limited	Diversified Industrials	3.7%
7	Business Connexion Group Limited	IT	3.1%
8	Netease.com	Offshore – Internet Gaming	2.8%
9	Bayerische Motoren Werke AG	Offshore – Motor Vehicles	2.6%
10	Discovery Holdings Limited	Insurance	2.4%

Centaur BCI Balanced Fund

Performance as at 30 June 2015	1 year	Since Inception[3]
Centaur BCI Balanced Fund	**15.0%**	**18.9%**
Benchmark[1]	10.2%	15.6%
Relative to Benchmark	**4.8%**	**3.3%**
Average Category Return	7.2%	
Relative to Avg. in Category	**7.8%**	
Std. Deviation[2] – CFF	5.9%	6.1%
Std. Deviation[2] – Benchmark[1]	6.8%	7.1%

Source: Moneymate, 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 Balanced Fund (CBF) has delivered returns of 7% for the half year outperforming its peers and benchmark for the period by 3% and 2% respectively. The Fund ranked 5th in its category (SA Multi Asset – High Equity) out of 155 Funds for the 12 months ended 30 June 2015 (Source: Moneymate).

Fund Amalgamation

Following the completion of a successful balloting process, the BCI Flexible Fund (previously jointly managed by David Golembo, one of SA's most experienced fund managers, and Roger Williams) will merge into the Centaur BCI Balanced Fund on the 1 July 2015, creating a R1.1 billion balanced unit trust. The BCI Flexible Fund (and its predecessor fund the Consilium BCI Flexible Fund) has delivered exceptional returns under David as the fund was the best performing SA Multi Asset-High Equity Fund over 3 and 5 years as at 30 June 2015. Both Fund's holdings were similar on merger date and the merger will not affect the CBF's performance. The merged fund will be co-managed by Roger Williams and David Golembo and there will be no changes to the CBF's investment philosophy and targeted returns.

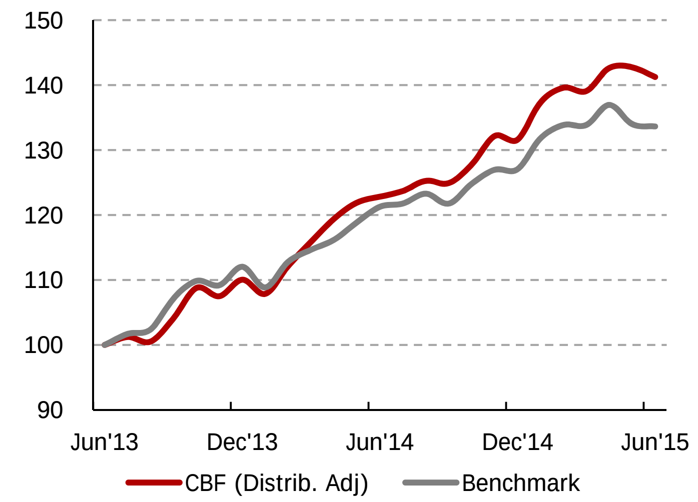
Selected portfolio changes:

Equities – Changes as per Centaur BCI Flexible Fund.

Bonds & Prefs vs. Property – We are cautious on property relative to bonds given the high issuances of stock, full valuations and a weak economic outlook. With US Bonds spiking during the quarter, indicating an improving US economy, we found our local bonds and preference shares were offering attractive yields and switched some property and cash into bonds and preference shares during the quarter.

Centaur BCI Balanced Fund Summary

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



Source: Bloomberg

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

Centaur BCI Flexible Fund details

Fund NAV as at 30 June 2015: R487.4m

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:

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 Dec'14	31 Mar'15	30 Jun'15
Local Equities	48.5%	46.1%	43.1%
Offshore Equities	5.0%	8.3%	8.9%
Local & Offshore Cash	29.4%	27.1%	24.9%
Local Bonds & Preference Shares	8.9%	10.9%	17.6%
Property	8.2%	7.6%	5.5%

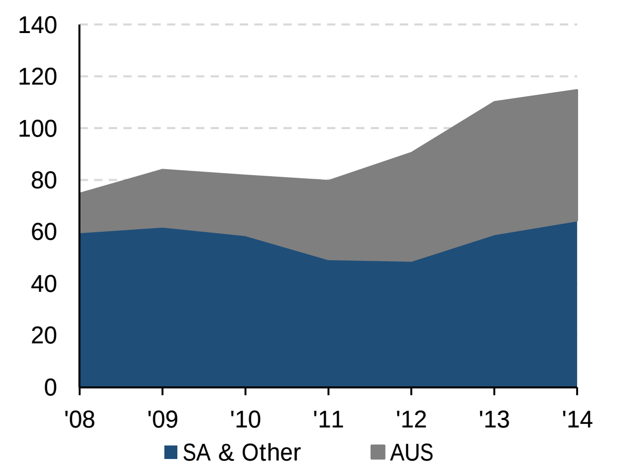
Top 10 Equity Holdings in Centaur BCI Balanced Fund as at 30 June 2015

No.	Security	Sector	% of Fund NAV
1	RMI Holdings Limited	Insurance	6.4%
2	Lewis Group Limited	Furniture Retail	5.6%
3	Fortress Income Fund Ltd A	Property	3.4%
4	Barclays Africa Group Limited	Banking	3.3%
5	Bidvest Group Limited	Diversified Industrials	3.0%
6	Fiat Chrysler Automobiles	Offshore – Motor vehicles	2.9%
7	British American Tobacco Plc	Tobacco	2.8%
8	Netease.com	Offshore – Internet Gaming	2.8%
9	Business Connexion Group Limited	IT	2.5%
10	Discovery Holdings Limited	Insurance	2.3%

Analyst Insight – SA Construction Sector

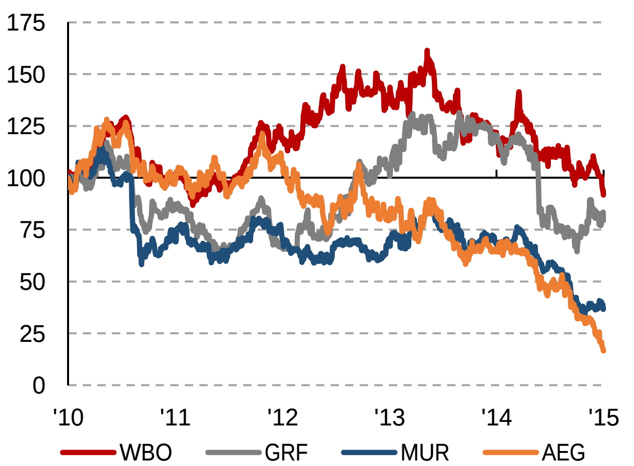
The "Top 4" SA construction stocks (WBHO, Group 5, Murray & Roberts and Aveng) had record order books on hand at the end of 2014, up 30% from 2009 due to continued Liquid Natural Gas (LNG) related infrastructure development in Australia. SA and Africa-related workflows bottomed in 2012 and has started to increase with public sector infrastructure, renewable energy and commercial building helping off-set declines in mining infrastructure. Despite the increase in business, the sector has been one of the worst-performing on the JSE over the past year as earnings got hit by losses on bad projects, industrial action, competition fines and weak commodity demand. We are very wary of Australian LNG exposure as completion of the $200bn in LNG capacity upgrades in Australia will be completed by 2018, at which time the annual investment in this space have shrunk by 80%. Aveng and Murray & Roberts are very vulnerable to this drop in demand.

Top 4 order books (ZAR bn)



Source: Company data, Centaur

Top 4 share prices (100 = 30/06/2010)



Source: Company data, Centaur

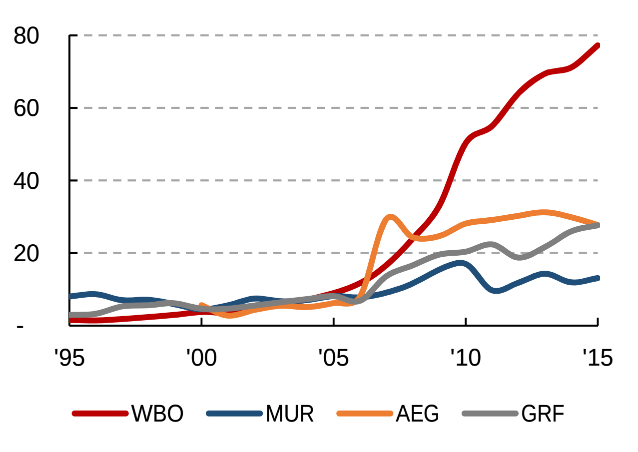
We expect the picture in South Africa and Africa to improve with key drivers being:

- Major energy build projects in SA including nuclear, coal and renewables. Our current energy situation is untenable especially with new capacity from Medupi and Kusile to serve largely as replacement rather than expansion. Given Eskom's poor balance sheet and track record on execution, we expect the Independent Power Producer (IPP) framework is likely to be used to build new projects.
- Increased road and water projects as aging infrastructure requires increased maintenance and upgrades.
- An increasing infrastructure investment backlog in Sub-Saharan Africa given sustained economic growth.

While these expectations paint an attractive picture, the timing remains uncertain. In the meantime the sector continues to be plagued by loss-making contracts, industrial action and liquidity issues and we expect bankruptcies in the industry. Accordingly we view value and quality as a key requirement for early plays on the sector.

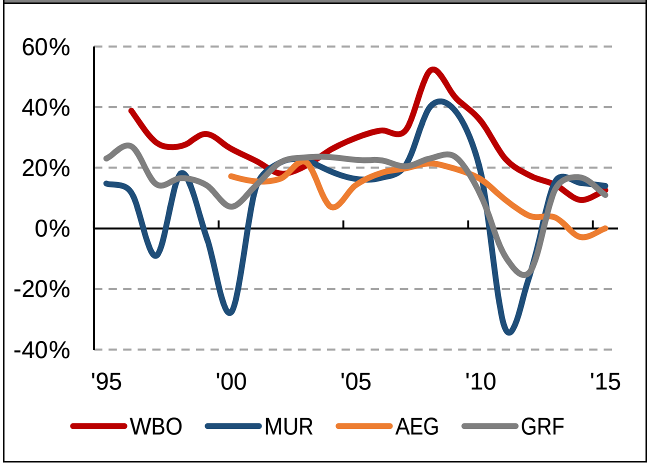
In this respect WBHO stands out in our view. It's the "blue-chip" share in the sector given its relative earnings stability, consistent return-on-equity, track record in growing its book value as well as quality management team. With these qualities, it has managed to navigate the cycle thus far without major earnings or balance sheet shocks, benefitting from prudence and a focus on quality work and execution.

Top 4 tangible book value (ZAR/share)



Source: Company data, Centaur

Top 4 Return on Equity



Source: Company data, Centaur

We highlight that a major part of its growth over the past few years have been supported by geographic expansion in Australia, with almost 70% or R26bn of its current work on hand pertaining to this. While this is concerning in light of the anticipated decline in mining and LNG investment, the bulk of WBO's work relates to commercial and residential construction, a market which is significantly less volatile than commodities. Recent losses in its much smaller civils business has however weighed on group performance and FY'15 results will reflect additional costs to scale down this business. In our view a large part of recent negative price movement in WBO has been due to investor caution regarding the scope of these costs/losses. These costs should be once-off in nature and we expect margins to recover steadily off the low base established in 2015.

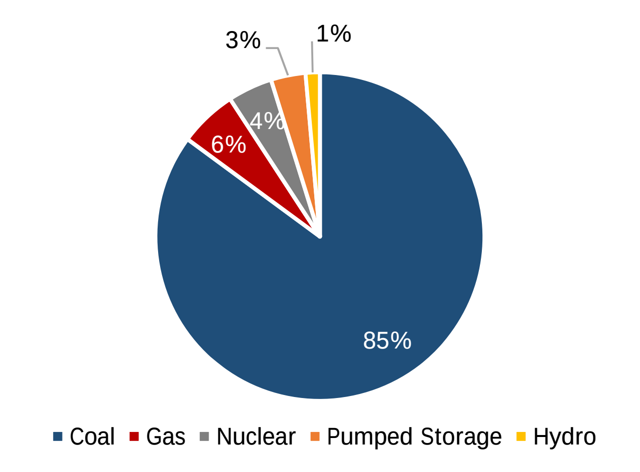
Outside of Australia civils, the company is in good health and remains profitable with decent margins despite significant market pressures. We anticipate that any improvement in local market conditions will be beneficial to both work-load and margins. It has none of the liquidity issues that has forced some of its peers to sell assets, and with R2.9bn in net cash (52% of its market cap) on its balance sheet this should not only help it maintain its dividend, but also place it in a solid position to take advantage of probable market consolidation.

Although we think it is still early in the cycle, WBO is trading at a historic low price to tangible book value and has a highly attractive risk reward profile.

Analyst Insight – Eskom's Nuclear Ambitions

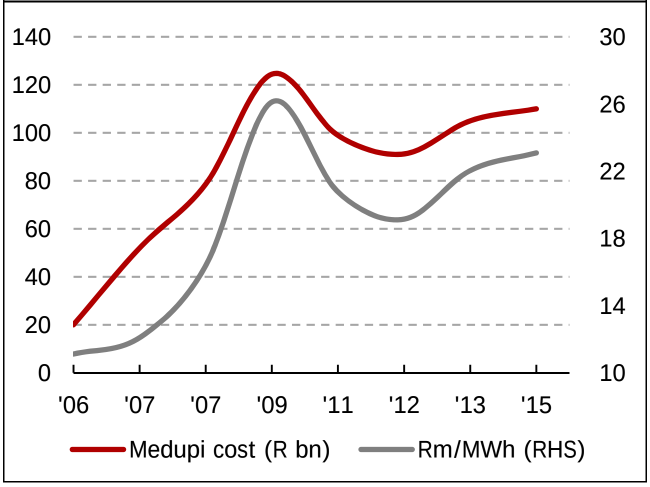
It is likely that about 12.5GW of electricity capacity will come on-line by 2023 which includes the 3 public sector projects (Medupi, Kusile and the storage operation at Ingula) and renewable projects. However, almost 11GW is likely to be de-commissioned in that period, and almost 20GW between 2025 and 2035. This is because coal-fired power plants have a finite life of 50-60 years and are uneconomical to maintain thereafter. Eskom estimates that the average fleet age is currently 30 years. Government has accordingly begun actively exploring a nuclear programme and has already signed preliminary agreements to open discussions with various countries. The formal procurement process to select bidders for the potential 9,600MW nuclear capacity will start by December 2015 however reports from Russia indicate that they already have the project.

Breakdown of SA electricity production



Source: Eskom

Medupui estimated cost escalations over time



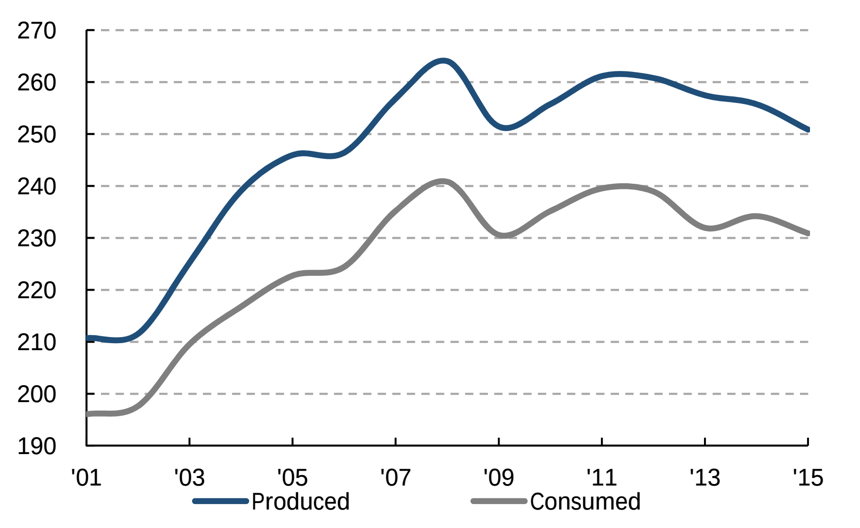
Source: Eskom

A massive concern is the huge upfront capital cost of a nuclear build and the probable cost over-runs given global experiences on nuclear projects and SA's poor track record on mega-projects. The graph above illustrates the five-fold increase in the estimated costs for Medupi over 9 years to the current estimate of R110 billion which excludes capitalised interest and flue gas desulphurisation costs which adds another R20 billion. Medupi is also 4 years behind schedule.

By contrast a nuclear project is an order of magnitude more complex than coal-fired plants. For example Koeberg, in the Western Cape, experienced huge delays, with each of the two units taking more than 8 years to complete. Typically a nuclear power plant would be expected to take about 5 years from start of construction to commercial operation. A more recent example is the 1,600MW Olkiluoto-3 plant being constructed in Finland which is experiencing serious delays and cost overruns. Construction began in 2005 with expected completion in 2009 but it is likely to be 10 years behind schedule, with almost a threefold increase in cost and is now projected at more than $11 billion (2014). Using Olkiluoto as a base case would imply a R800 billion price tag for SA's 9,600MW nuclear ambition. Using a 12 year construction period and adding capitalised interest at 10% p.a. implies an all in cost of R1,425 billion or 37% of SA's current GDP. In order to earn a 11% return on capital and assuming a 60% operating margin the hourly wholesale tariff would have to be around R3.50/kWh which is over 4 times current rates. At this price most users will resort to alternatives such as electricity efficiency, solar generation and the SA government will probably have to increase taxes to fund the cost.

The Department of Energy's Integrated Resource Plan 2010 (IRP 2010) is outdated and the demand projections used to justify a nuclear build were much higher than the current demand outlook. The graph below shows how demand has been muted since 2007 and has dropped off. Furthermore electricity demand will probably decline due to greater energy efficiency spurred on by higher prices. The world is at an inflection point where renewable energy is a becoming a viable alternative to conventional power sources.

Production & Consumption (GWh p.a.) of Eskom Electricity



Source: Eskom (to 30 April 2015)

Although nuclear energy causes no air pollution it carries the constant threat of a plant meltdown and both Germany and Japan are phasing out nuclear energy post the 2011 Fukushima disaster. Given Eskom's poor track record on execution it can be expected that this nuclear mega project would be way over budget and delayed. The SA Government seems determined to go ahead and given President Zuma's track record he is likely to have the nuclear programme forced through. In the short term this will boost industry, however it will likely be at the expense of a serious deterioration in our current account, permanently saddling SA with high debt. SA's proposed nuclear programme is a serious threat to the future macro-economic stability of SA.

Centaur News and Developments

New Employees

We welcome Scott Young who joins our investment team as an equity analyst. Scott is a CFA charter holder with over 7 years of investment experience making him a valued addition to our team.

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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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Disclaimer

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