CENTAUR
ASSET MANAGEMENT

TARGETED GROWTH

Manager's Quarterly Update

30 June 2017

Second Quarter 2017 and Outlook

South Africa is in recession which will be exacerbated by the S&P rating downgrade in late March. An onerous mining charter has been proposed which will further depress investment in the mining industry, whilst the Public Protector called for the South African Reserve Bank's (SARB's) mandate to be altered to be more growth focused. This is an investment environment where the economic rules under the ANC government are in flux, rendering investment decision-making particularly difficult. The ANC's official economic policy, the National Development Plan (NDP), which was released over 4 years ago has never been implemented. Instead there is the unofficial policy of "Zumanomics" compiled by Chris Malikane who is an economic advisor to Finance Minister Gigaba. He has created a new theory explaining the economy as a class war between the tender-based black capitalist and white monopoly capital. He advocates hyperinflation to dispossess the middle-classes of their wealth thus levelling income inequality seemingly unconcerned that this will result in a catastrophic contraction in the economy. Despite free press and overwhelming evidence of Zuma's corruption, the ANC is unwilling to remove him whilst his accomplices lead the Hawks, the Public Protector and the National Prosecuting Authority.

Only by looking at economic history can one draw up some kind of parallels to prepare oneself for the future. Under Pravin Gordhan there was a combined effort between the finance ministry, business and labour to avert a downgrade. Interest rates could have dropped in the second half of 2017 resulting in rising consumer expenditure, re-igniting growth and confidence resulting in a virtuous circle of economic growth. South Africa could have grown out of its difficult economic situation much like it did between 1994 and 2008 when government debt to GDP halved. Instead we are following a deflationary trap where growth is going backwards and SA's debt to GDP is rising; resulting in austerity and tax hikes being required to balance the books. Trust between government and big business has rightly broken down, resulting in diminished investment and low confidence. The negative and prescriptive mining charter further undermines trust. South Africa has entered a grinding downturn and if Brazil's recent contraction is a guide SA could be in recession for 3 years.

The Public Protector's call for the SARB's mandate to be changed is an ominous sign. Until now the SARB has been disciplined in conducting monetary policy thus keeping average inflation at 6% for the last decade. An ANC government that is unwilling to confront its own policy shortcomings is looking for quick fixes and one of these is looser monetary policy to stimulate growth. However, if this is not supported by fiscal policies this can lead to a slippery slope of hyperinflation and wholesale wealth destruction much like Venezuela is currently undergoing. Venezuela under Hugo Chavez faced stiff opposition to his populist policies, but always seemed to have a slight majority and he was never unseated. He died in 2013 but his successor continued his policies resulting in massive wealth destruction and an economy that has nearly halved off its peak in 2012.

In difficult economic times, the government tends to change the rules, the altering of monetary policy would be one example, and wealth taxes are a distinct possibility. The resumption of capital controls on foreign currencies is likely particularly if South Africa faces a balance of payments crisis.

The good news is that corporate South Africa is extremely internationalized with over 60% of the JSE's value residing outside of South Africa and a holding in the JSE All Share Index should be a good hedge against the above risks. In addition, South Africa is a net creditor nation with offshore assets of R6.7 trillion exceeding our offshore liabilities by R700 billion (source: SARB quarterly bulletin September 2016) and rand weakness will only improve this balance.

Investment Strategy

We expect a prolonged recession as adverse policy actions by the ANC government in particular allowing a downgrade and a confrontational stance towards business undermines confidence. Normally the SA Reserve bank would drop interest rates in order to stimulate stagnant credit extension, but is being cautious in light of the increased risk premium afforded to South Africa post the S&P downgrade in March.

We view the current environment as being unique compared to recent history and the economic downturn could be prolonged. Our investment positioning is dominated by the 3 core political scenarios:

1. Status quo: A deflationary environment where SA equities will struggle to perform, the Rand will remain stable and fixed income will be the best performing asset class. This environment is similar to what has been experienced since early 2016 and could last at least until the general election in 2019.
2. Pro-Market change in regime: Under this scenario confidence will improve and the Rand will react positively. It will take time for economic growth to ratchet higher but 3%+ growth is possible with the correct reforms. SA based equities should be the best performing asset class under this scenario.
3. Venezuela: Populist policies take hold and the SARB losses independence, hyperinflation is a key risk under this scenario. Rand hedge shares will be best performers and SA government bonds the worst under this scenario.

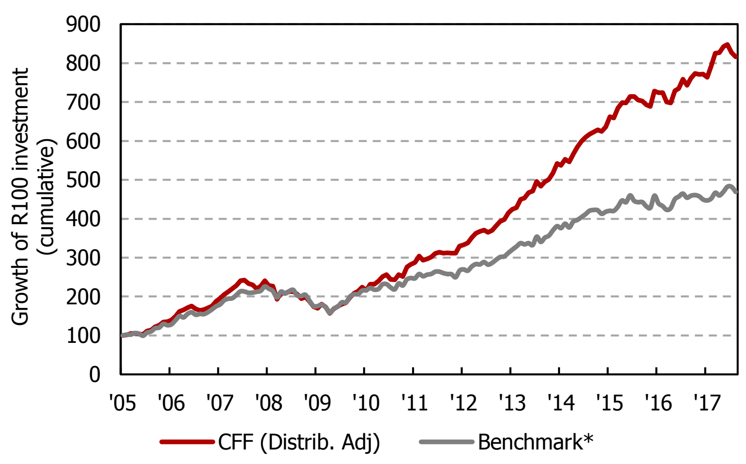
Our investment strategy is dominated by the above scenarios unfolding. We have the "Status Quo" as the base case scenario, but have plotted a migration path towards either a "Change in Regime" or a "Venezuela" scenario. The Public Protectors calls for the SARB's mandate to be changed is extremely concerning and we are now ascribing a higher probability to a "Venezuela" scenario, thus increasing direct offshore exposure and increasing the portfolios weighting to SA listed rand hedges in particular Naspers and British American Tobacco.

A large portion of both unit trusts are in income funds and preference shares which we view as attractive with expected returns of 9% and 11% respectively. We are underweight local SA equities as we are struggling to find great opportunities as the domestic recession is crimping profitability and we see elevated risk premiums due to heightened regulatory uncertainty. A key area of differentiation within the Centaur unit trusts is our international stock picks and we had a strong outperformance in this portion of the portfolio in the first half. The asset allocation of the specific funds will be discussed in more depth later.

During times of uncertainty great investment opportunities manifest and the Centaur investment team is scouring the market to uncover them.

Centaur BCI Flexible Fund

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



Centaur BCI Flexible Fund details

Fund NAV as at 30 June 2017: R 1 980m

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

Source: Boutique Collective Investments
Investment performance is for illustrative purposes only and calculated by taking actual initial fees and ongoing fees into account for amount shown with income reinvested on reinvestment dates.
*The Fund's Benchmark was changed from 50% ALSI (J203), 50% FINDI (J213) to 15% RESI (J258T), 65% FINDI (J250T), 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.

Performance as at 30 June 2017	1 year	3 years	5 years	10 years	Since Inception[3]
Centaur BCI Flexible Fund	**9.9%**	**9.8%**	**17.1%**	**13.3%**	**18.2%**
Benchmark[1]	3.3%	3.7%	10.4%	8.4%	13.1%
Relative to Benchmark[1]	**6.6%**	**6.1%**	**6.8%**	**5.0%**	**5.1%**
Average Category return	2.0%	4.1%	9.9%	8.3%	
Ranking in Category	**3/87**	**2/79**	**1/69**	**2/45**	
Std. Deviation[2] – Centaur BCI Flexible Fund	7.8%	8.9%	8.4%	12.2%	12.1%
Std. Deviation[2] – Benchmark[1]	9.2%	11.6%	10.5%	13.6%	14.0%

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 2017): High 31.1 Low -20.3

The Centaur BCI Flexible Fund delivered a return of 3% over the half and 10% over the last 12 months, being the top performing fund in its category over 5 years (Source: Moneymate, 30 June 17). The Fund's second quarter performance was disappointing due to the S&P downgrade in late March, which resulted in many of our SA-based counters underperforming. In light of the S&P downgrade and attacks on the SARB we have materially lightened exposure to domestic SA and are in the process of increasing weighting to Rand hedges. For example, the weighting in Woolies was reduced from 7% to 4% over the quarter and a new holding of 1.5% was initiated in Naspers towards the end of the half. The underperformance of the Fund relative to its benchmark over the half year was due to a materially underweight exposure to Naspers, which was up 26% in the half and constitutes 17% of the Fund's benchmark.

Asset allocation	31 Dec '16	%Δ over H1'17	30 Jun '17	Benchmark
Fixed Income	**25%**	+13%	**38%**	**20%**
Cash & Equivalents	8%	+10%	18%	20%
SA Bonds	6%	-2%	4%	
SA Prefs & Income Funds	6%	+6%	12%	
SA Property	4%	-2%	2%	
Offshore Cash	1%	+1%	2%	
Equities	**75%**	-13%	**62%**	**80%**
SA Resources	13%	-5%	8%	15%
SA Financial & Industrial	40%	-5%	35%	65%
World Equities	22%	-3%	19%	
Total	**100%**	+0%	**100%**	**100%**

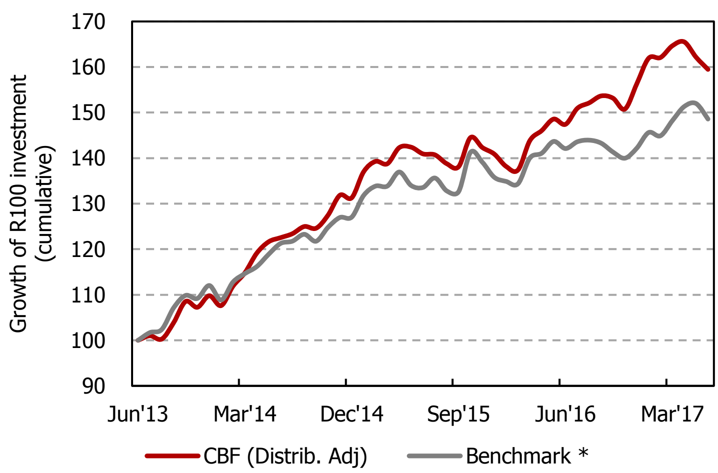
Over the half year the Fund experienced extremely strong inflows and most of these funds were not deployed into equities due to a dearth of SA-based investment opportunities. Local property exposure was reduced given the poor fundamental outlook in a weakening domestic economy. The resource sector weighting decreased 5% on the near total exit of Sappi, Exxaro and Implats and lightening of Merafe, whilst a new holding was initiated in African Rainbow Minerals. The SA Financial & Industrial exposure decreased 5% on exiting holdings in Discovery and Bidcorp and lightening domestically exposed counters, whilst exposure to British American Tobacco, Old Mutual and Naspers was increased. Offshore equity exposure reduced due to a trimming of the strongly-performing Netease and Fiat-Chrysler and due to strong SA inflows which were not immediately deployed. New offshore equity positions were initiated in Hastings Group and Old Mutual Asset Management. Strong performances were registered in the Fund's holdings of Netease, Exor, Hastings, Adcock Ingram and British American Tobacco. The main detractors from performance were Merafe and Woolies.

Top 10 Equity Holdings in Centaur Flexible Fund as at 30 June 2017		
Holdings	**Sector**	**% of Fund NAV**
Old Mutual	Life Assurance	4.2%
British American Tobacco	Tobacco	3.9%
Woolworths	Broadline Retailers	3.9%
MTN	Mobile Telecommunications	3.5%
RMI Holdings	Equity Investment Instruments	3.1%
Adcock Ingram	Pharmaceuticals	2.8%
African Rainbow Minerals	General Mining	2.6%
Merafe Resources	General Mining	2.6%
HCI	Equity Investment Instruments	2.4%
Netease	Offshore - Software	2.4%

Source: Maitland, Centaur

Centaur BCI Balanced Fund

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



Centaur BCI Balanced Fund details

Fund NAV as at 30 Jun 2017: R 1 388m

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

Source: Boutique Collective Investments
Investment performance is for illustrative purposes only and calculated by taking actual initial fees and ongoing fees into account for amount shown with income reinvested on reinvestment dates.
Note: Past performance is not a reliable indicator of future returns.

Performance as at 30 June 2017	1 year	2 years	3 years	Since Inception[3]
Centaur BCI Balanced Fund	**8.2%**	**6.4%**	**9.2%**	**12.4%**
Benchmark[1]	4.6%	5.5%	7.0%	10.4%
Relative to Benchmark	**3.6%**	**0.9%**	**2.2%**	**2.0%**
Average Category Return	1.5%	3.2%	4.6%	
Ranking in Category	**6/212**	**11/173**	**1/147**	
Std. Deviation[2] – Centaur BCI Balanced Fund	7.1%	8.7%	8.2%	8.1%
Std. Deviation[2] – Benchmark[1]	6.9%	9.7%	9.1%	8.7%

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 (at 31 May 2017): High 19.6 Low 7.3

The Centaur BCI Balanced Fund delivered a return of 2% over the half and 8% over the last 12 months, outperforming its benchmark by 3.6%. Over 3 years the Fund is the top performing Balanced Fund in its category out of 147 funds (Moneymate, 30 June 17). The Fund's second quarter performance was disappointing due to the S&P downgrade in late March, which resulted in many of our SA-based counters underperforming. We have amended our investments within this Fund much in line with the commentary under the Centaur BCI Flexible Fund.

Asset allocation	31 Dec '16	%∆ over H1'17	30 Jun '17	Benchmark
Fixed Income	**39%**	+1%	**40%**	**36%**
Cash & Equivalents	10%	-5%	5%	6%
SA Bonds	14%	-2%	12%	30%
SA Prefs and Income Funds	8%	+7%	15%	
SA Property	7%	-1%	6%	
Offshore Cash	0%	+2%	2%	
Equities	**61%**	-1%	**60%**	**64%**
Local Equities	47%	-4%	43%	56%
World Equities	14%	+3%	17%	8%
Total	**100%**	+0%	**100%**	**100%**

Local bond and preference share allocations increased due to greater exposure to income funds. Property allocations were reduced given the poor fundamental outlook in a weakening economy. The portfolio's fixed income duration (including property) is lower than its benchmark as we are wary of the asymmetric downside risk to bonds in light of a "Venezuela" scenario unfolding. Given our concerns on the domestic economy, local equity content was reduced by exiting Discovery and reducing exposure to domestically exposed counters, whilst we purchased British American Tobacco and Naspers. We exited Sappi which reached full valuation. World equity exposure was increased by initiating new positions in Hastings Group, Old Mutual Asset Management and Yoox Net-a-Porter. Strong performances were registered in the Fund's holdings of Netease, British American Tobacco, Hastings and Exor. The main detractors from performance were Merafe, Woolworths and EOH. In addition the fund is underweight Naspers which was up 26% in the half, and constitutes around 12% of the benchmark.

Top 10 Equity Holdings in Centaur BCI Balanced Fund as at 30 June 2017		
Holdings	**Sector**	**% of Fund NAV**
British American Tobacco	Tobacco	4.6%
Old Mutual	Life Assurance	4.0%
Woolworths	Broadline Retailers	4.0%
Adcock Ingram	Pharmaceuticals	3.5%
MTN	Mobile Telecommunications	3.3%
Exor	Offshore - Investment Services	2.9%
Merafe Resources	General Mining	2.8%
African Rainbow Minerals	Offshore - General Mining	2.6%
BMW	Automobiles	2.5%
RMI Holdings	Equity Investment Instruments	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. We are cognisant of the many risks we are facing in the current environment and are committed to use our investment skills to preserve and grow your investment.

If you have any investment queries contact myself or Lance Gardner and address any administrative queries to Kirsten 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.

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Disclaimer

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