CENTAUR
ASSET MANAGEMENT

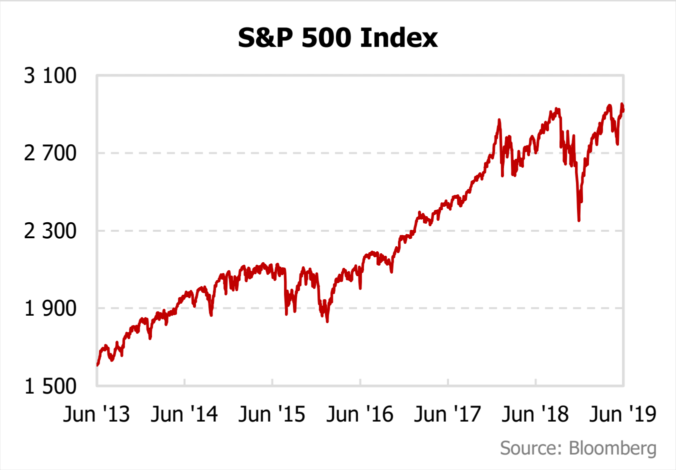
30 JUNE 2019

Second Quarter Report

An Authorised Financial Service Provider FSP 647

The Second Quarter 2019

Local and international equity markets posted solid gains in the quarter recovering from a dismal performance in May. Over the quarter the S&P500 and DAX Indices rose 4% and 8% respectively. The JSE All Share Index gained 3% in the quarter driven by the Banks, Telecommunications, and Insurance sectors. The Resource Index was up 2% due to higher iron ore, palladium and gold prices.



Over the period trade tensions escalated, weighing on global market sentiment. US President Trump continues to negotiate aggressively with China and now other global leaders, which is creating significant volatility in global markets and investor anxiety. Nominal yields on the US ten-year bonds are trading at a two-year low of 2%. The US Federal Reserve and the European Central Bank have become cautious, being open to monetary easing to counter a global economic slowdown. This sudden about turn on the outlook for US interest rates raises questions on the Fed's policy stance. With a US presidential election looming next year, Trump is pressuring the Fed to cut rates. US equity markets are taking an optimistic view that interest rates are heading lower and consequently buoying equity prices with the S&P500 Index approaching all-time highs.

Global markets remain awash in liquidity as the Eurozone and Japan remain committed to keeping rates close to zero underpinning the longest expansionary period in market history. It is also likely that the Chinese government will continue to use aggressive stimulus to counter the impact of tariffs on its economy. The long-term effects of import tariffs are still to be felt. While the US economy currently finds itself in good shape, lower economic growth is probable as the positive impact of recent tax cuts is now in the base and corporate margins remain elevated. In Europe growth is subdued with an escalating chance of a hard-Brexit outcome. Lingering concerns around global growth has seen oil prices come off recent highs while the gold price has found support from the Fed's dovish stance and on geopolitical issues re-igniting its safe haven status.

In SA the national elections on the 8th May and the announcement of the President's new cabinet dominated the local news, but the outcome was largely expected and had little market impact. President Ramaphosa and his reduced cabinet offer a potentially brighter future for SA if they can execute on what needs to be done. A key concern is that the management structures in numerous state entities, including municipalities and parastatal companies, have deteriorated to such an extent that these entities are not manageable and government does not have the ability to turn them around. A disappointment in the quarter was the GDP print for 1Q'19 of -3.2% which was weak across most sectors and worsened by load-shedding and the Gold mining strike. With inflation largely under control bold interest rates cuts are required to stimulate the SA economy.

While an economic recovery will take time the current downturn does provide opportunities to buy shares at attractive prices. We find value in selected SA equity counters and over the quarter the Funds have benefited from our recent purchases of MMI Holdings and MultiChoice Group. With the weak SA economy we have been scouring the world for great investment opportunities and have uncovered select international shares with wonderful business economics and PE's under 10x. An example is Sberbank which is the dominant bank in Russia with returns on equity over 20% yet we purchased it on a PE of 5x earlier this year. Another one of our biggest holdings is Exor with significant holdings in Ferrari, Fiat Chrysler and numerous other sizeable investments. This company is run by John Elkann, who is one of Europe's most astute businessman with an outstanding track record over the last decade. Exor owns one of the 10 largest re-insurers in the world where Mr Elkann seeks to emulate Warren Buffett by using the insurance float to leverage investments for shareholder gains. At a 28% discount to the sum of the parts it remains excellent value despite a doubling in its share price since we purchased it 3 years ago. Due to the local economic downturn there is a shortage of high return SA equity opportunities and we will be selectively increasing exposure to some of the wonderful offshore opportunities we have uncovered.

We have positioned the Funds to focus on the long-term, where patience prevails whilst using short-term noise as an opportunity to enter investments at excellent levels. Centaur's track record reflects the robustness of our investment process and this embodiment of knowledge is captured in our investment methodology, which we refer to as the "Centaur Way". We are optimistic that we have the requisite skills to meet our return targets for our unit holders.

If you have any investment queries, please contact myself or Lance Gardner and address any administrative queries to Kirsty Dale or Megan Morris (admin@centaur.co.za).

Kind regards,

Roger Williams

Laing Walker, Head of Research
Hons(Financial Analysis), MFin (Finance)

There have been 54 clearly identifiable bubbles since the Coin Crisis of 1622, with the average bubble lasting 7½ years. However, there has been a steep increase in the frequency of bubbles since 1960. Since e-Commerce is up over 8x since mid-2010, does it share the characteristics of a bubble?

Bubbles in all asset classes share common characteristics that are usually easily identifiable:

- Asset prices rise significantly, rapidly and continuously, thereby deviating considerably from intrinsic value.
- Herding behaviour, driven by imitation and fear of missing out cause markets to become unstable.
- Many participants are aware they are in a bubble yet continue to ignore all fundamentals.
- Investor psychology becomes more risk-tolerant and one begins to hear things like "this time it's different".
- Bubbles end in a regime change, which is not necessarily a crash, but lower growth.

There are many parallels between the U.S. e-Commerce sector now and Tech in the late 1990s: The sector has attracted dozens of new entrants; shares have dramatically outperformed; and loss-makers have massive price-tags. However, let's examine the facts more closely:

- While the rate of new companies hitting the index this year is set to exceed the previous high of 1999, this boom is not disrupting equity markets as it represents only a small percentage of overall equity indices. Activity outside of the U.S. is much less exciting, and the overall supply of equity has actually contracted over the past 5-years as low interest rates spurred widespread share repurchases.
- The current median price/sales ratio is almost half that of the 14.5x the dotcom bubble averaged in early 2000, and the e-Commerce Index appears only slightly extended, trading on a free cash flow yield of 4.1%, which is only moderately below the 4.5% yield of the S&P 500.
- Most of the e-Commerce firms listing today actually represent real businesses. During the late-1990s many firms came to market prematurely while most of the new firms in the e-Commerce sector are now 12 years old on average, have achieved greater scale underpinned by robust business models and are continuing to grow handsomely and toward higher profitability.

Where valuations appear relatively "high" the market is actually not being euphoric and is rightfully happy to pay up for capital efficient business models that are changing the way consumers behave and transact. For instance, Google and Facebook both have customers running into the billions which creates powerful network effects. As Facebook gathers an increasing database of memories, existing users are more reluctant to leave and new users are more enticed to join. Thus, as these platforms continue to grow, the value of these platforms grows thereby justifying their high multiples. Also with such large captive customer bases they have enormous optionality to deliver new value accretive services in the future. However, caution is warranted in investing in companies repackaging old school business models into an internet guise, like Uber for example. Uber talks of revolutionising personal transport, yet it is just an improved version of the traditional taxi with low switching costs and similar economics. It is difficult to see it validating its current very high valuation.

In our view there is enough evidence to confirm that current e-Commerce trends may indicate a degree of froth, but nothing like what transpired during the dotcom boom and although there is limited current systemic risk to global equity markets, investors in some of these 'new internet' companies will be sorely disappointed as many of these new sub-industries lack sufficient scale and network effects.

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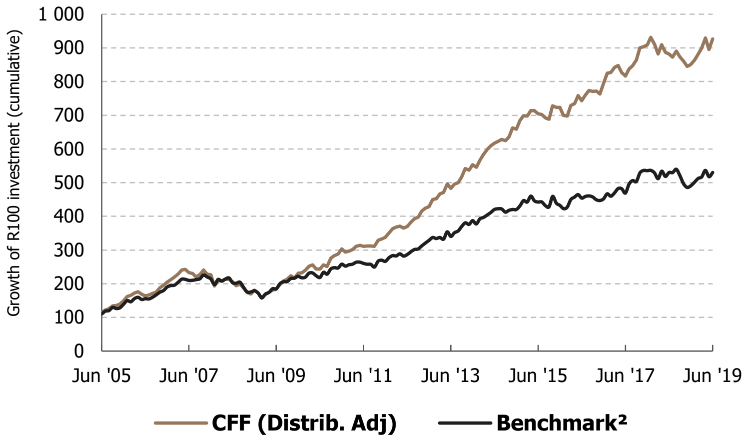
Centaur BCI Flexible Fund

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 Jun 2019: R 3 111m

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

Benchmark[2]: 60% JSE Capped SWIX (J433T), 20% MSCI World (M1WO), 20% SteFI. Calculated over a 2-year rolling period.

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 30 June 2019	*1 year*	*3 years*	*5 years*	*10 years*	*Inception[1]*
Centaur BCI Flexible Fund	**5.0%**	**7.7%**	**8.5%**	**17.5%**	**16.5%**
Benchmark[2]	0.1%	5.3%	4.8%	11.1%	12.1%
Average Category return	2.6%	3.6%	4.8%	10.5%	
Ranking in Category	**24/67**	**5/60**	**3/56**	**1/43**	
Std. Deviation[3] – Centaur BCI Flexible Fund	7.5%	8.2%	8.7%	9.0%	11.7%
Std. Deviation[3] – Benchmark[2]	10.7%	10.2%	11.2%	10.8%	13.6%

Source: Maitland, Moneymate and Centaur, as at 30 June 2019.
Past performance is not a reliable indicator of future returns. 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. Annualised return is the weighted average compound growth rate over the period measured. [1]Inception Date: 01 December 2004.
[2]Benchmark:
1 Dec 2004 – 2 July 2007: 50% ALSI (J203), 50% FINDI (J213).
3 July 2007 – 31 Oct 2018: 15% RESI (J258T), 65% FINDI (J250T), 20% SA Repo. Calculated over a 2 year rolling period.
1 Nov 2018 – Current: 60% JSE Capped SWIX (J433T), 20% MSCI World (M1WO), 20% SteFI. Calculated over a 2-year rolling period.
[3]Weekly standard deviation is the measure of how much an investment's return varies from its average on an annualised basis.
Highest and lowest calendar year performance since inception (as at 31 May 2019): High 46.7 Low -20.3.

The Centaur BCI Flexible Fund rose 3% over the quarter outperforming its benchmark by 1%. Over three and five years it remains a one of the top performing funds in its category materially outperforming its benchmark (Source: Moneymate, 30 June 2019).

Equity exposure decreased slightly partly on exiting our US Quantitative portfolio position and selling shares which reached our price targets. Over the quarter the Fund benefited from exposure to the Insurance, Telecommunications and Banking sectors as well as to selected offshore stocks. The Fund also benefited from opportunistic trading. We are looking to increase equity content closer to the Fund's benchmark.

Asset Allocation	*31 Mar '19*	*%Δ over Quarter*	*30 Jun '19*	*Benchmark*
Fixed Income	**28%**	**3%**	**31%**	**20%**
SA Cash & Equivalents	4%	3%	7%	20%
SA Bonds	5%	0%	5%	
SA Prefs & Income Funds	15%	1%	16%	
SA Property	1%	-1%	0%	
Offshore Cash	3%	0%	3%	
Equities	**72%**	**-3%**	**69%**	**80%**
SA Resources	14%	0%	14%	10%
SA Financial & Industrial	39%	-1%	38%	50%
World Equities	19%	-2%	17%	20%
Total	**100%**	**0%**	**100%**	**100%**

Cash increased due to sales of local shares which exceeded fair value and the Fund's equity exposure declined to 69%. The bond exposure remained unchanged while we added to income funds. We exited property entirely given the structural challenges the sector faces.

Shares that were lightened into price strength include African Rainbow Minerals and Naspers. The position in Old Mutual was exited upon it exceeding fair value. The Fund's existing holdings in MMI Holdings, Exxaro and Sibanye-Stillwater were topped up and have positively contributed to performance.

Offshore equity exposure declined on the exit of our US Quantitative portfolio position. The holdings in eBay and HP were topped up while a new position was initiated in a platinum ETF. The investment case is compelling with the platinum price at 15-year lows, and limited investment in new mines, while total PGM automotive demand growth should continue due to increasingly stringent emission limits. Strong performances were registered in the Fund's holdings in MMI Holdings, MultiChoice Group, Sberbank, MTN and Altron, whilst the key detractors from performance in the quarter were Brightsphere Investment Group, Sasol and British American Tobacco.

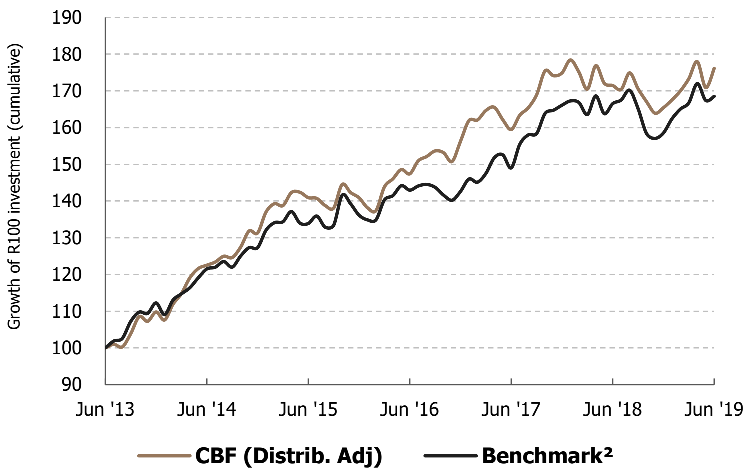
Top 10 Equity Holdings in the Centaur BCI Flexible Fund as at 30 June 2019

Holdings	Sector	% of Fund NAV
Woolworths Holdings	Broadline Retailers	4.7%
MMI Holdings	Life Assurance	4.6%
Exor Nv	Offshore – Investment Services	4.1%
Sibanye-Stillwater	Gold Mining	4.0%
Sberbank of Russia	Offshore – Banking	3.8%
British American Tobacco	Tobacco	3.4%
African Rainbow Minerals	General Mining	3.1%
Naspers	Broadcasting & Entertainment	3.0%
RMI Holdings	Specialty Finance	2.7%
HP Inc	Offshore – Computer Hardware	2.6%

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 2019: R 1 363m

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

Benchmark[2]:
25% JSE All Bond Index (ALBTR), 48% JSE Capped SWIX (J433T), 16% MSCI World (M1WO) and 11% SteFI. Calculated over a 2-year rolling period.

Fees on Class A:
Annual fee: 1.40% p.a. (excl. VAT) on the value of the Fund.
Performance fee: 12.5% above benchmark over a rolling 2-year period, capped at 1% p.a.

Inception Date: 1 July 2013

Performance as at 30 June 2019	*1 year*	*3 years*	*5 years*	*Inception[1]*
Centaur BCI Balanced Fund	**2.7%**	**6.1%**	**7.5%**	**9.9%**
Benchmark[2]	3.1%	6.3%	7.1%	9.4%
Average Category return	3.2%	4.0%	4.9%	
Ranking in Category	**113/184**	**15/150**	**5/105**	
Std. Deviation[3] – Centaur BCI Balanced Fund	6.7%	7.4%	8.0%	8.0%
Std. Deviation[3] – Benchmark[2]	9.0%	8.1%	8.9%	8.7%

Source: Maitland, Moneymate and Centaur, as at 30 June 2019.
Past performance is not a reliable indicator of future returns. Investment performance is for illustrative purposes only and is calculated by taking actual initial fees and ongoing fees into account for the amount shown with income reinvested on reinvestment dates. Annualised return is the weighted average compound growth rate over the period measured. [1]Inception Date: 01 July 2013.
[2]Benchmark:
1 Jul 2013 – 31 Oct 2018: 28% ALSI (J203T); 28% FINDI (J250T); 8% MSCI World Index; 30% JSE ALBI; 6% SA Repo rate.
1 Nov 2018 – Current: 25% JSE All Bond Index (ALBTR), 48% JSE Capped SWIX (J433T), 16% MSCI World (M1WO) and 11% SteFI. Calculated over a 2-year rolling period.
[3]Weekly standard deviation is the measure of how much an investment's return varies from its average on an annualised basis.
Highest and lowest calendar year performance since inception (at 31 May 2019): High 19.6 Low -5.4.

The Centaur BCI Balanced Fund rose 2% over the quarter. Over three years it remains a top decile performer and over five years it is the fifth-best performing fund in its category (Source: Moneymate, 30 June 2019).

Equity exposure declined marginally as selected shares were trimmed and the equity content remains in line with the Fund's benchmark weighting. Over the quarter the Fund benefited from exposure to the Insurance, Telecommunications and Banking sectors.

Asset Allocation	*31 Mar '19*	*%Δ over Quarter*	*30 Jun '19*	*Benchmark*
Fixed Income	**36%**	**1%**	**37%**	**36%**
Cash & Equivalents	2%	0%	2%	11%
SA Bonds	21%	3%	24%	25%
SA Prefs & Income Funds	6%	1%	7%	
SA Property	2%	0%	2%	
Offshore Cash	5%	-3%	2%	
Equities	**64%**	**-1%**	**63%**	**64%**
Local Equities	48%	-2%	46%	48%
World Equities	16%	1%	17%	16%
Total	**100%**	**0%**	**100%**	**100%**

Equity content decreased marginally to 63% but remains in line with the Fund's benchmark. The fixed income exposure increased on the top-up of bonds, which performed well, while preference shares performed strongly over the quarter. The property exposure was further lightened. Offshore cash reduced partly on the opportunistic repatriation of Euros to Rands.

Shares that were sold into price strength include African Rainbow Minerals, Naspers and Sibanye-Stillwater, whilst exposure to Brightsphere Investment Group, Rand Merchant Insurance and PPC was trimmed. The Fund's existing holdings in Exxaro, and MMI Holdings were topped up, while a new position was initiated in a platinum ETF.

Offshore equity exposure increased on strong price performances by Sberbank and from topping up the holding in Hewlett Packard. Strong local performances were registered in the Fund's holdings of MMI Holdings, MultiChoice Group, Altron, and MTN, whilst the key detractors from performance in the quarter were Stefanutti Stocks, Sasol, British American Tobacco and Brightsphere Investment Group.

Top 10 Equity Holdings in the Centaur BCI Balanced Fund as at 30 June 2019

Holdings	**Sector**	**% of Fund NAV**
Exor Nv	Offshore - Investment Services	4.8%
Woolworths Holdings	Broadline Retailers	4.1%
British American Tobacco	Tobacco	4.0%
MMI Holdings	Life Assurance	3.9%
Sibanye-Stillwater	Gold Mining	3.6%
Sberbank of Russia	Offshore - Banking	3.2%
Naspers	Broadcasting & Entertainment	2.7%
African Rainbow Minerals	General Mining	2.6%
RMI Holdings	Specialty Finance	2.5%
Sasol	Specialty Chemicals	2.3%

Source: Maitland, Centaur

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- 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.centaur.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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