



**CENTAUR**  
ASSET MANAGEMENT

30 SEPTEMBER 2018

*Third Quarter Report*



## The Third Quarter 2018

The US S&P 500 Index rose 7% over the period buoyed by the US economy which grew 4% in the second quarter. The US's stock market performance was an exception with both the German DAX and MSCI Emerging Markets Indices falling 1% in US dollars over the period.

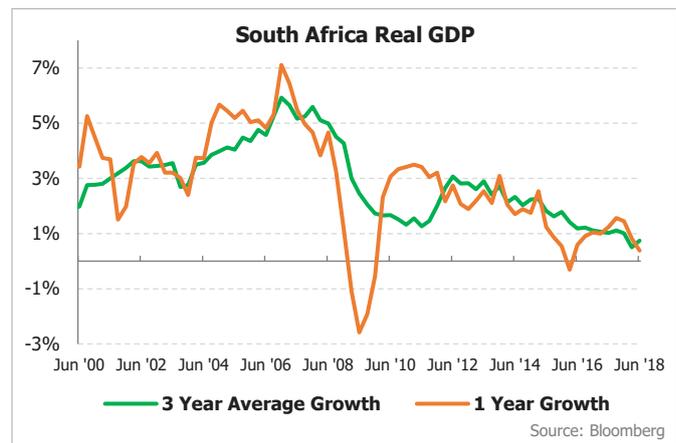
The SA stock market fell 2% over the quarter due to emerging market weakness and the local economic downturn. SA has fallen into recession due to weak domestic expenditure hammered by rising fuel costs and a 1% VAT hike and real disposable incomes declined 1% in the second quarter. The recession has forced the ANC government to take a more proactive stance towards the economy resulting in "The Ramaphosa Stimulus Package" with the key features:

- Recognition that regulation is impeding growth with an immediate focus to simplify tourist visas and make the new mining charter more investor friendly.
- Prioritise government spending on infrastructure.
- Get the South African youth working.

Although the cogs of government work slowly this package is profound in that it signifies an increased focus on the Free Market to lead growth and there is an improved tone of co-operation between government and business.

President Ramaphosa has so far been met with a muted response to his calls for \$100bn foreign investment as investors are dismayed by the policy uncertainty in SA, excessive red tape and a lack of compelling opportunities.

The message is that the SA government has to do more to make itself an attractive investment destination. I am optimistic this is the start by the Ramaphosa government to put our economy on a firmer foundation for longer term economic growth. However, without any catalyst to kick-start economic growth short-term prospects are unexciting.



Centaur is underweight SA equities as weak demand and cost pressures are undermining SA company profitability yet there are pockets of opportunity. In the SA Resource Sector we favour:

- African Rainbow Minerals - The key assets are manganese and iron ore mines in the Northern Cape with significant expansion potential in manganese. In addition, it has significant assets in platinum group metals and coal, is fully empowered and has cash on its balance sheet.
- Sibanye Stillwater – Our valuation on the Stillwater palladium mine in the US is over R15/share (after deducting its \$1.1 billion of debt), leaving the sizeable SA platinum and gold assets trading at a negative R6/share valuation. This company has enormous leverage to firmer platinum group metals prices and under the right conditions has multiple upside.

We are also invested in selected insurers in particular:

- MMI - This share is trading at a 34% discount to embedded value. The experienced new CEO, Hillie Meyer, is busy implementing a 3-year restructuring plan and we foresee a much stronger business emerging with excellent return potential. The ultimate controlling shareholders, being the triumvirate of who founded Rand Merchant Bank, have an excellent pedigree of delivering excellent shareholder returns.
- Discovery - It is the world leader in behavioural health insurance and well placed for enormous growth via its 25% holding in Ping An Health, a significant player in the rapidly growing health insurance sector in China. Ping An

Health grew 90% last financial year and is well placed for ongoing explosive growth as health insurance penetration increases.

- We also pick up exposure to both these insurance investments via RMI Holdings.

Whilst we await further investment opportunities we are happy to hold fixed interest investments with 8-year SA government bonds yielding 9.3%, the top 4 bank preference shares yielding over 10% and money market funds yielding close to 8%.

Centaur is realistic on our assessment of the economic environment and are being as disciplined as possible in our portfolio management to protect capital whilst investing into attractive opportunities. At Centaur we have a wealth of experience and are mindful that there are times to be cautious yet be alert to investing in great opportunities that downturns sow. We thank you for your trust and are using our investment skills to in an attempt to grow your money under tough circumstances.

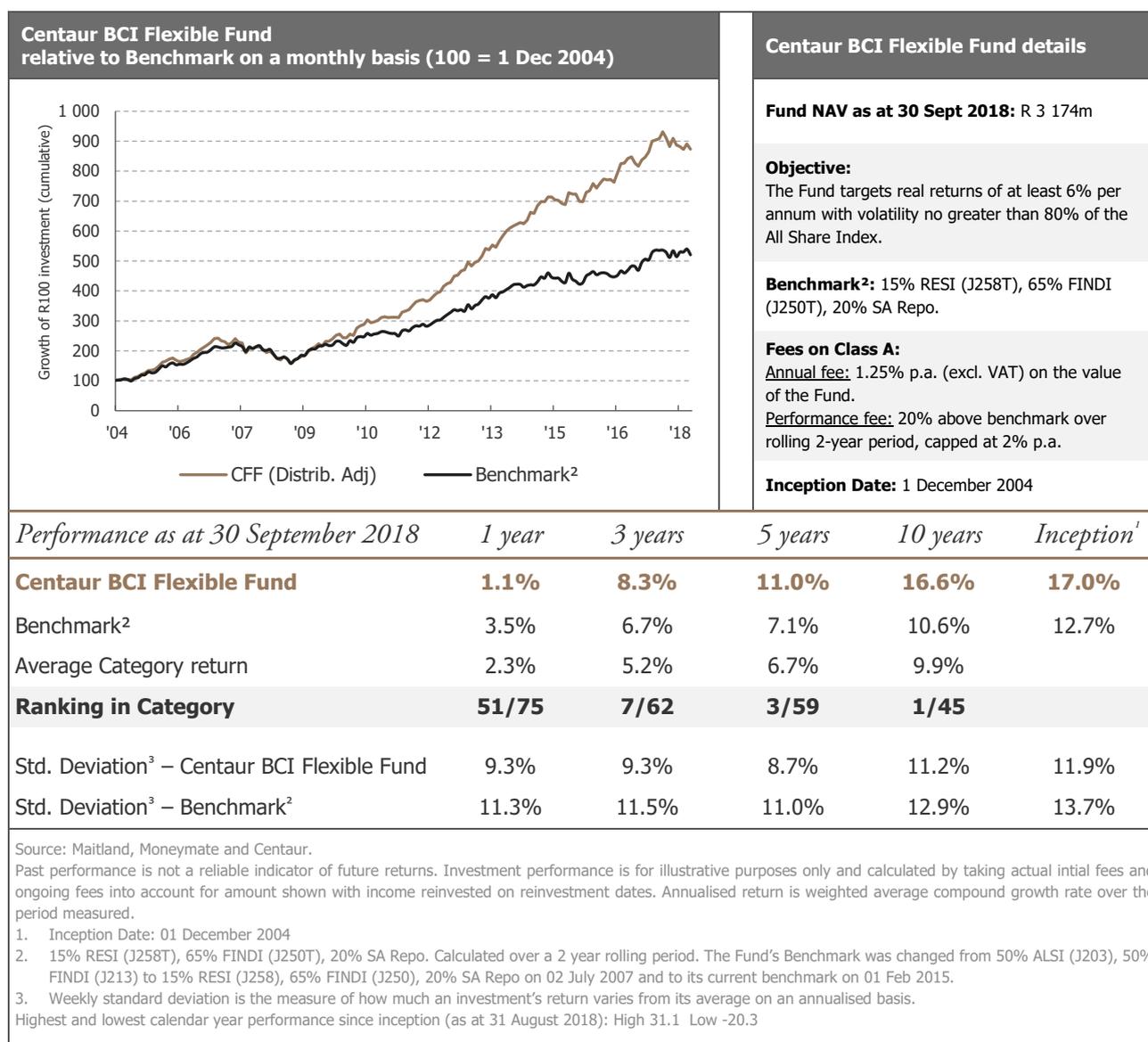
If you have any investment queries, please contact myself or Lance Gardner and address any administrative queries to Kirsty Dale or Megan Morris ([admin@centaur.co.za](mailto:admin@centaur.co.za)).

Kind regards,



**Roger Williams**

## Centaur BCI Flexible Fund



The Centaur BCI Flexible Fund declined 1% over the quarter and rose 1% over the last 12 months, being the top performing Fund in its category over 10 years (Source: MoneyMate, 30 September 2018).

Over the quarter the Fund benefitted from Rand-hedge and insurance sector exposure and not being exposed to certain shares that declined materially such as Aspen and Tiger Brands. However, a slightly under-weight exposure to resource shares detracted from the Fund's relative performance, with energy prices remaining strong.

The recent market volatility has created opportunities to accumulate selected shares at more advantageous levels and with only 64% equity content we have substantial buying capacity.

<i>Asset Allocation</i>	<i>30 Jun'18</i>	<i>%Δ over Quarter</i>	<i>30 Sept'18</i>	<i>Benchmark</i>
<b>Fixed Income</b>	<b>36%</b>	<b>0%</b>	<b>36%</b>	<b>20%</b>
Cash & Equivalents	19%	-5%	14%	20%
SA Bonds	4%	0%	4%	
SA Prefs & Income Funds	13%	+1%	14%	
SA Property	0%	+1%	1%	
Offshore Cash	0%	+3%	3%	
<b>Equities</b>	<b>64%</b>	<b>0%</b>	<b>64%</b>	<b>80%</b>
SA Resources	10%	+1%	11%	15%
SA Financial & Industrial	38%	+1%	39%	65%
World Equities	16%	-2%	14%	
<b>Total</b>	<b>100%</b>	<b>0%</b>	<b>100%</b>	<b>100%</b>

The Fund's equity content remained unchanged as we remain cautious on domestically exposed shares. The entire stake in Adcock Ingram was sold as well as Long-4-Life post their over-priced acquisition of shoe retailer, Rage. Rand Merchant Investment Holdings and Old Mutual were pared into price strength. New positions were initiated in ABSA and Discovery Health. The Fund's existing holdings in Naspers, MMI Holdings and African Rainbow Minerals were topped up. Offshore cash increased due to the sale of offshore stocks.

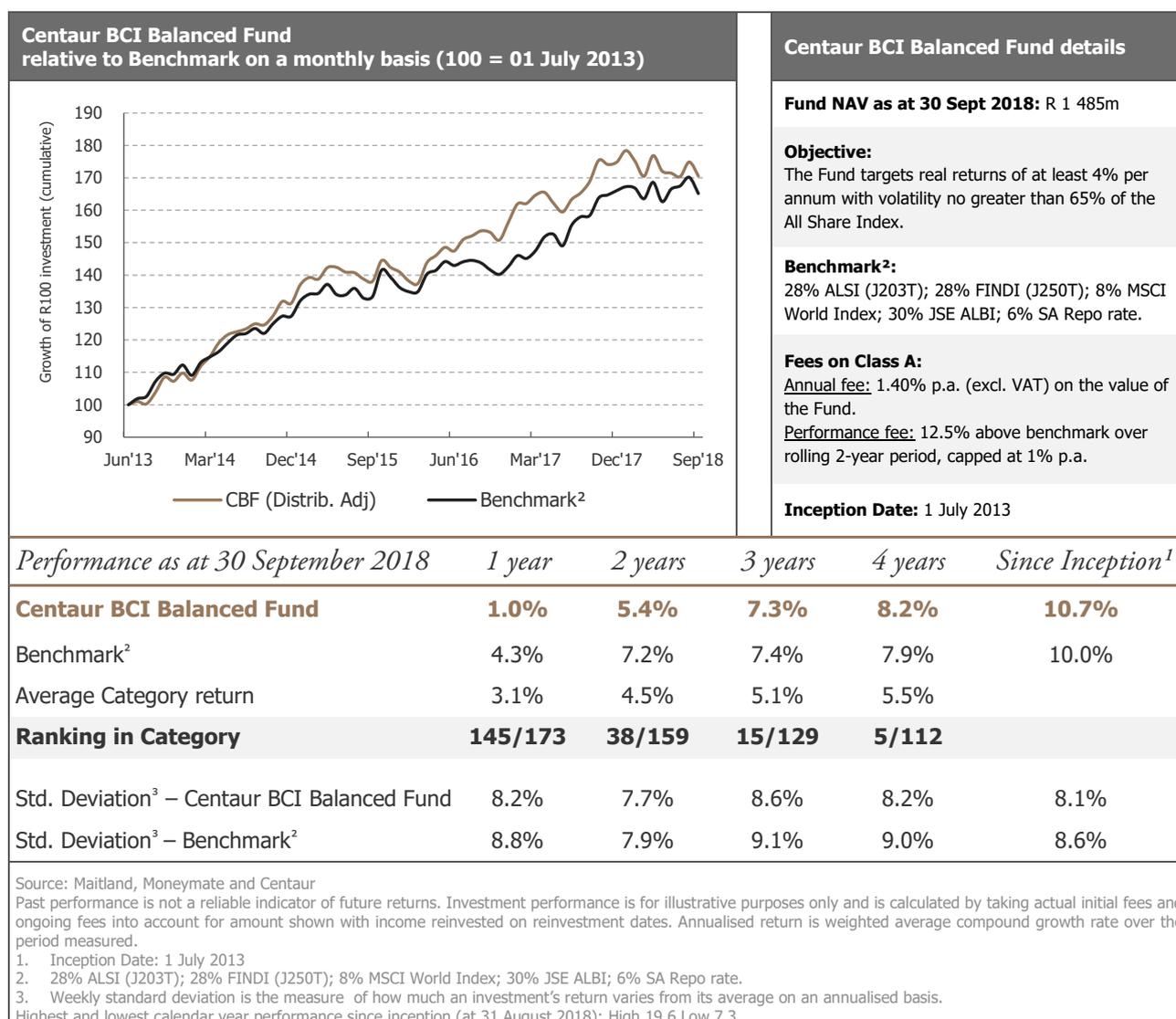
Strong performances were registered in the Fund's holdings of Biogen and African Rainbow Minerals. Key detractors from performance in the quarter were MTN, Blue Label Telecoms, Woolies, Sberbank and Naspers.

#### *Top 10 Equity Holdings in the Centaur BCI Flexible Fund as at 30 September 2018*

<b>Holdings</b>	<b>Sector</b>	<b>% of Fund NAV</b>
Naspers	Broadcasting & Entertainment	4.6%
RMI Holdings	Specialty Finance	4.2%
African Rainbow Minerals	General Mining	4.0%
Exor Nv	Offshore - Investment Services	3.8%
British American Tobacco	Tobacco	3.3%
Old Mutual	Full Line Insurance	3.3%
Woolworth Holdings	Broadline Retailers	3.3%
MMI Holdings	Life Assurance	2.9%
ABSA Group	Banking	2.5%
Wilson Bayley Holmes	Heavy Construction	2.5%

Source: Maitland, Centaur

## Centaur BCI Balanced Fund



The Centaur BCI Balanced Fund's return declined 1% for the quarter and increased by 1% for the last 12 months, being the top performing Fund in its category over 5 years out of 95 funds (Source: MoneyMate, 30 September 2018).

Over the quarter the Fund benefited from offshore exposure to the weaker Rand, and by being underweight property relative to its benchmark. The key detractor from performance was the overweight exposure to the telecommunications sector.

<i>Asset Allocation</i>	<i>30 June'18</i>	<i>%Δ over Quarter</i>	<i>30 Sept'18</i>	<i>Benchmark</i>
<b>Fixed Income</b>	<b>37%</b>	<b>0%</b>	<b>37%</b>	<b>36%</b>
Cash & Equivalents	3%	-2%	1%	6%
SA Bonds	20%	0%	20%	30%
SA Prefs & Income Funds	8%	-2%	6%	
SA Property	2%	+1%	3%	
Offshore Cash	4%	+3%	7%	
<b>Equities</b>	<b>63%</b>	<b>0%</b>	<b>63%</b>	<b>64%</b>
Local Equities	48%	+1%	49%	56%
World Equities	15%	-1%	14%	8%
<b>Total</b>	<b>100%</b>	<b>0%</b>	<b>100%</b>	<b>100%</b>

The modified duration of the Funds' fixed interest exposure was increased slightly to 1.75 years which remains below its benchmark weighting of 2.2 years. We remain cautious on domestic counters, but there are selected opportunities and new positions were initiated in ABSA and Discovery Health. Offshore holdings in Admiral were exited while exposure to Fiat Chrysler was reduced and Biogen was pared back on price strength, which increased the offshore cash holdings.

Strong performances were registered in the Fund's holdings of Biogen and African Rainbow Minerals. Key detractors from performance in the quarter were MTN, Blue Label Telecoms, Woolies and Naspers.

*Top 10 Equity Holdings in the Centaur BCI Balanced Fund as at 30 September 2018*

<b>Holdings</b>	<b>Sector</b>	<b>% of Fund NAV</b>
British American Tobacco	Tobacco	4.2%
Exor Nv	Offshore - Investment Services	4.2%
African Rainbow Minerals Limited	General Mining	3.8%
Naspers	Broadcasting & Entertainment	3.8%
RMI Holdings	Specialty Finance	3.6%
Sasol	Speciality Chemicals	3.3%
Old Mutual	Full Line Insurance	3.1%
MMI Holdings	Life Assurance	2.9%
Merafe Resources	General Mining	2.9%
Woolworth Holdings	Broadline Retailers	2.9%

Source: Maitland, Centaur



## CENTAUR

ASSET MANAGEMENT

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

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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](http://www.centaur.co.za).
- Valuation takes place daily and prices can be viewed on BCI's website ([www.bcis.co.za](http://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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### Custodian / Trustee Information

The Standard Bank of South African Limited  
Tel: 021 441 4100

### Disclaimer

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