



CENTAUR
ASSET MANAGEMENT

TARGETED GROWTH



Manager's Quarterly Update

31 December 2016

2016 and Outlook

It was a year of surprises starting in June when Britain voted to leave the European Union and consequently the British Pound fell 16% against the US Dollar over the year.

In August there was an upset in the South African local government elections with the Democratic Alliance (DA) securing control of Johannesburg, Tshwane and Nelson Mandela Bay in coalition with other parties. The DA now controls 3 of the 4 largest metros in South Africa and the majority of SA's economic output. Nevertheless the DA's overall electoral support of 27% is still half the ANC's.

In November there was a further upset with the election of Donald Trump as the 45th US President. Global markets have interpreted it positively, expecting him to follow a pro-business approach lowering US corporate tax rates and reducing regulation. Concerns remain about his protectionist policies towards international trade and emigration. The US Fed raised interest rates by a quarter of a percent in December and signalled further rate hikes in 2017. The US S&P500 returned 12% over the year and the Dollar strengthened 3% against the Euro.

The OECD forecasts global economic growth of 3.2% in 2017 whilst the emerging markets of Brazil and Russia are expected to post an economic recovery off a depressed base.

South African politics, bar the local government elections, were relatively muted with no significant cabinet changes. SA averted a sovereign ratings downgrade in December as acknowledgement was given to South Africa's conservative fiscal stance and institutional strength but there remains a chance of a downgrade in June 2017. An undervalued Rand firmed 13% against the US Dollar and the SA All Bond Index returned 15%.

SA economic growth has ground to a virtual halt being hammered by a combination of higher personal taxes, a 1.25% hike in short-term interest rates since June 2015, a severe drought and higher inflation. In 2017 the outlook for economic growth looks brighter particularly in the second half of the year as these negative factors bar taxes will have worked through the system and the reversal of the drought and anticipated lower inflation will provide some tailwind to economic growth. SA's terms of trade have improved dramatically over the last year with prices of our key exports having increased faster than the prices of our imports resulting in a reduced current account deficit. There is also the potential for increased infrastructure investment by the mining industry and by the DA controlled municipalities. With better economic growth confidence should improve, leading to better economic momentum. Negatives are a probable increase in SA taxes, a potential ratings downgrade in June, regulatory uncertainty in SA and the risk of higher US interest rates to global financial markets.

Over the year the JSE All Share Index returned 3% with a 29% rise in the JSE Resources Index counteracted by a 6% decline in the Financial & Industrial Index. Centaur's Funds materially outperformed their benchmarks benefitting from excellent stock picks.

We are more positive on the prospects for the domestic economy and have identified certain domestically oriented stocks which we think have excellent return prospects and are investing accordingly. We are targeting increased equity exposure in line with the Fund's benchmarks. With the prospects of accelerating economic growth and selected opportunities available we are positive on medium-term return prospects.



Woolworths

Woolies has been a superb long-term investment but in 2016 its price declined 30% due to:

- A poor November trading update from its SA clothing division. This division is economically sensitive and we see recovery potential as consumer expenditure improves.
- Country Road, its Australian clothing business, had a poor year in 2016 due to a late winter and poor merchandising in womenswear which management is working hard to rectify.

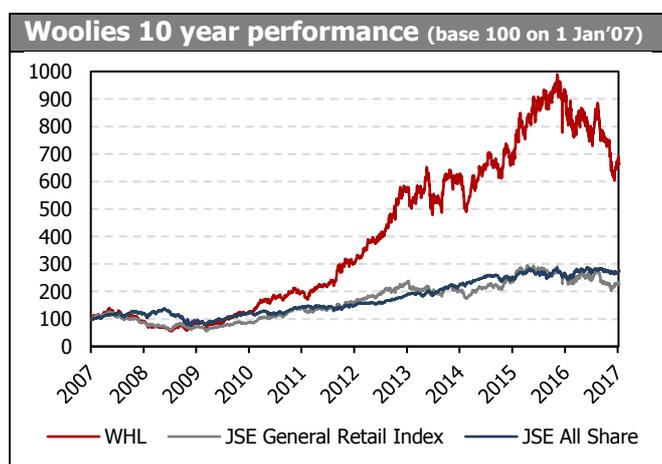
Woolies acquired the Australian retailer, David Jones, in 2014. The rationale was:

- It has a strong brand and well-located stores but its retail processes were outdated. By implementing Woolies world-class merchandising, distribution and loyalty systems a significant improvement in performance could be achieved. Woolies has 15 years' retail experience in Australia.
- There would be improved economies of scale in the designing and sourcing of clothing in the Southern Hemisphere, with increased scale being required to counteract the competitive threat from Zara and H&M.
- In time they could export the highly successful SA food format to Australia.

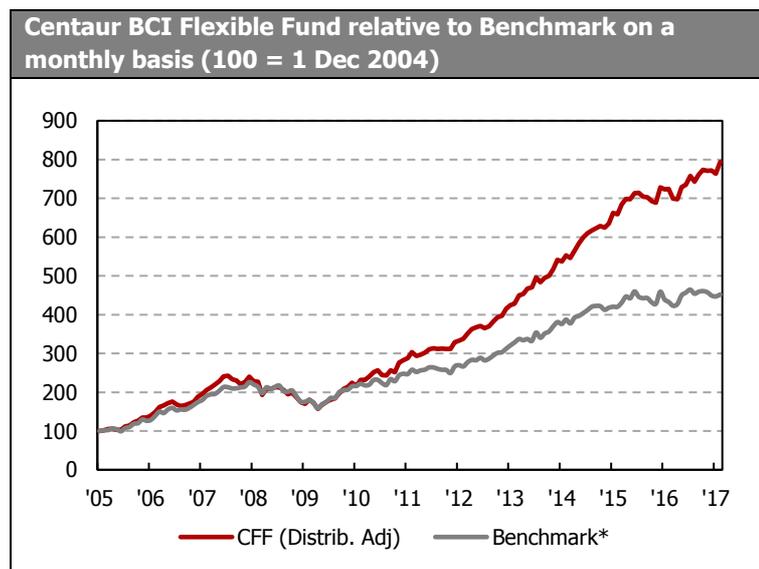
Management has implemented improvements that have increased profitability yet the acquisition has been below market expectations. To fully unlock the benefits of the David Jones acquisition requires a re-engineering of the business and significant investments are being undertaken on multiple fronts which entail material costs and will depress earnings in 2017. For example, David Jones and Country Road are jointly relocating their head offices resulting in the unlocking of A\$360 mil of excess real estate and A\$10 mil in eventual savings, but in the short-term will cost A\$16 mil in additional lease costs. In time these costs will fall away and the benefits of the investments manifest we anticipate strong profit growth from David Jones.

Key threats are increased foreign competition in South Africa and internet retail. Management are cognisant of these threats and have strategies to counteract them. For example 13% of Country Road's sales are via the internet and management are embracing the internet as an additional sales channel and are investing in distribution centres which can fulfil internet orders. This experience will be ported to other segments of the business.

In the medium-term Woolies should be in a strong competitive position due to increased scale and strong growth potential in the highly attractive Australian economy. We rate management's ability to execute highly and have utilized the price weakness in the final quarter to materially increase the Fund's holdings at levels which we deem excellent long-term value.



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 Dec 2016: R 1 311.8m

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 December 2016	1 year	3 years	5 years	10 years	Since Inception ³
Centaur BCI Flexible Fund	9.7%	12.8%	18.6%	14.5%	18.7%
Benchmark ¹	4.5%	5.3%	11.1%	9.0%	13.3%
Relative to Benchmark¹	5.2%	7.5%	7.5%	5.5%	5.4%
Average Category return	2.6%	5.8%	11.1%	9.2%	
Ranking in Category	11/90	2/80	1/70	1/41	
Std. Deviation ² – Centaur BCI Flexible Fund	9.7%	8.9%	8.3%	12.4%	12.3%
Std. Deviation ² – Benchmark ¹	12.0%	11.5%	10.4%	13.9%	14.2%

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 August 2016)

High 37.2 Low -20.3

The Centaur BCI Flexible Fund delivered a return of 10% over the last 12 months outperforming its benchmark by 5%. The Centaur BCI Flexible Fund was the top performing fund in its category over 5 years delivering a 19% p.a. compound return over that period (Maitland & Moneymate, 31 Dec 16).



Asset allocation	30 Sep '16	%Δ over Q4	31 Dec '16	Benchmark
Fixed Income	28%	-2%	26%	20%
Local Bonds & Pref Shares	13%	-1%	12%	
Local Property	5%	-1%	4%	
Cash & Equivalents	10%	0%	10%	20%
Equities	72%	+2%	74%	80%
SA Resources	13%	0%	13%	15%
SA Financial & Industrial	36%	+3%	39%	65%
World Equities	23%	-1%	22%	
Total	100%	+0%	100%	100%

Local Bond and Preference Share allocation declined 1% whilst we trimmed property after a good run from SA Corporate. Equity content increased 2% as we are targeting an equity weighting at least in line with our benchmark weighting. The resource sector weighting increased marginally driven by a stellar performance from Merafe offsetting a weak performance by Implats. A new investment in Exxaro was initiated whilst the funds holding in Sappi was reduced as it reached our price target. The SA Financial & Industrial exposure increased 3% as sales in Richemont were used to fund material purchases of Woolies. Notably strong performances were registered in the funds holdings of Merafe, Fiat, Exor, Altron, and Sappi. World equity exposure reduced slightly due to a trimming in our strongly performing US smart beta strategy.

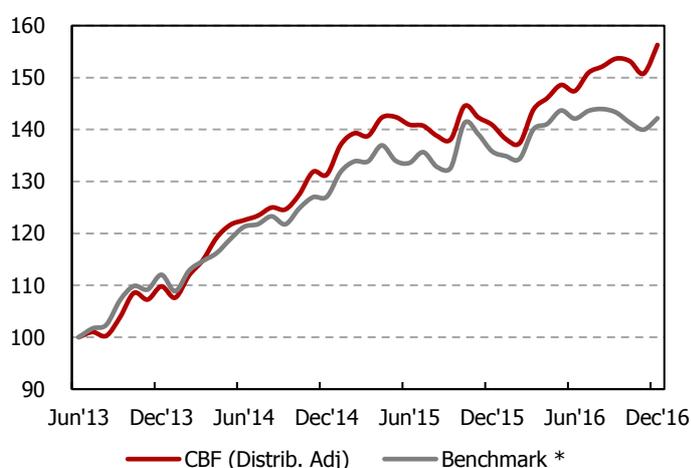
Top 10 Equity Holdings in Centaur BCI Flexible Fund as at 31 December 2016		
Holdings	Sector	% of Fund NAV
Merafe Resources	General Mining	5.6%
Woolworths	Investment Holdings	5.3%
RMI Holdings	Equity Investment Instruments	4.5%
Netease	Offshore - Software	4.0%
British American Tobacco	Tobacco	3.9%
Fiat Chrysler Automobiles	Automobiles	3.4%
WBHO	Heavy Construction	3.3%
Old Mutual	Life Assurance	3.2%
Sasol	Speciality Chemicals	3.0%
BMW	Offshore - Automobiles	3.0%

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 Dec 2016: R 1 291.1m

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 December 2016	1 year	2 years	3 years	Since Inception ³
Centaur BCI Balanced Fund	10.9%	9.1%	12.5%	13.6%
Benchmark ¹	4.7%	5.8%	8.3%	10.6%
Relative to Benchmark	6.2%	3.3%	4.2%	3.0%
Average Category Return	1.5%	4.2%	5.9%	
Ranking in Category	7/186	5/158	1/136	
Std. Deviation ² – Centaur BCI Balanced Fund	9.0%	8.7%	8.2%	8.4%
Std. Deviation ² – Benchmark ¹	8.9%	9.8%	9.2%	9.0%

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 30 November 2016)
High 19.6 Low 7.3

The Centaur BCI Balanced Fund delivered a return of 11% over the last 12 months materially outperforming its benchmark by 6%. Over 3 years the Fund is the top performing Balanced Fund in its category out of 136 funds (Moneymate, 31 Dec 16).



Asset Allocation	30 Sep'16	%Δ over Q4	31 Dec '16	Benchmark
Fixed Income	42%	-1%	41%	36%
Local Bonds & Pref Shares	23%	-1%	22%	30%
Local Property	7%	0%	7%	
Cash & Equivalent	12%	0%	12%	6%
Equities	58%	1%	59%	64%
Local Equity	44%	1%	45%	56%
World Equities	14%	0%	14%	8%
Total	100%		100%	100%

Local Bond, Preference Share and Property allocations declined marginally due to late inflows. The portfolio fixed income duration (including property) is approximately 5% lower than its benchmark. Equity content increased 1% and would have been 61% were it not for late inflows which reduced it below our desired level. Strong performances were registered in the funds holdings of Merafe, Altron, and Sappi. New positions were initiated in Exxaro and Accelerate Property Fund whilst the fund's holding in Woolies was materially increased. World equity exposure was flat with strong performances from Fiat, Exor and BMW. We are targeting equity content and bond duration in line with our benchmark.

Top 10 Equity Holdings in Centaur BCI Balanced Fund as at 31 December 2016		
Holdings	Sector	% of Fund NAV
Woolworths	Broadline Retailers	4.8%
Merafe Resources	General Mining	4.5%
British American Tobacco	Tobacco	4.3%
Netease	Offshore - Software	3.3%
Old Mutual	Life Assurance	3.2%
Fiat Chrysler Automobiles	Offshore - Automobiles	2.7%
Sasol	Speciality Chemicals	2.7%
WBHO	Heavy Construction	2.7%
RMI Holdings	Equity Investment Instruments	2.6%
Exor	Offshore - Investment Services	2.5%

Source: Maitland, Centaur



At Centaur we are committed to investment excellence and I am extremely proud that the Centaur BCI Flexible Fund and Centaur BCI Balanced Fund are first in their categories over 5 years and 3 years respectively. I would like to congratulate the Centaur team on a job well done. Despite a superb track record we are working tirelessly to uncover investment opportunities with which we can continue to grow your investments. We are committed to caring for your money as if it were our own.

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.

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Disclaimer

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