



CENTAUR
ASSET MANAGEMENT

Fourth Quarter Report 2017

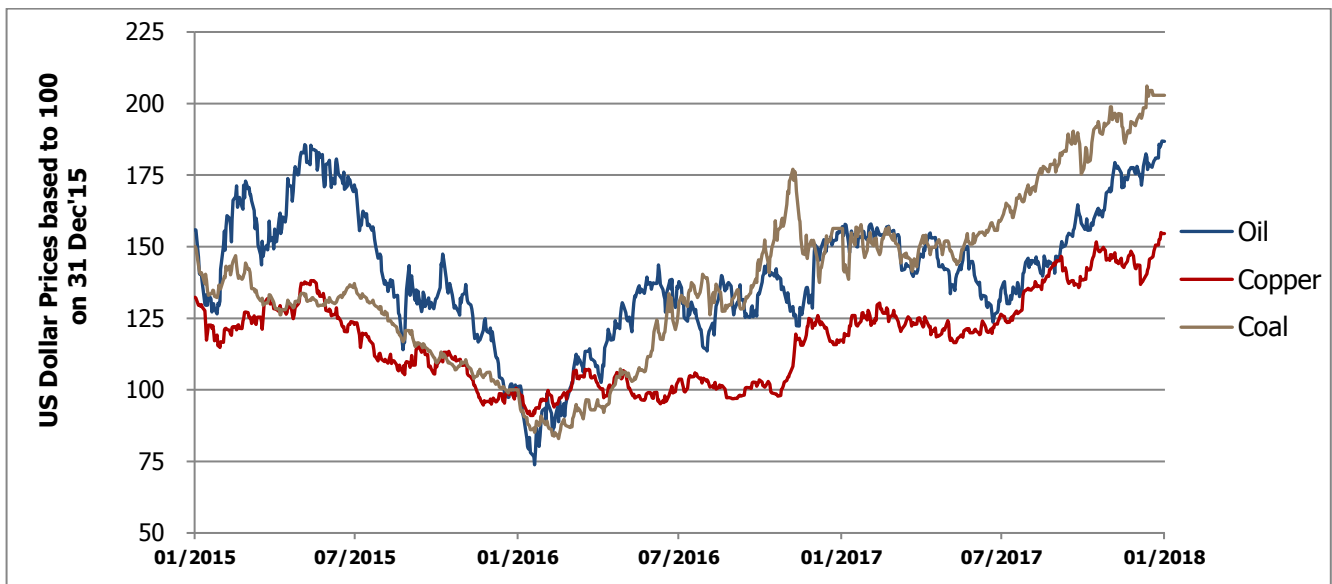


INTELLIGENT INVESTING

2017 and Investment Prospects

It was a great year for global equities with the MSCI World Index returning 22% in US Dollars. President Trump has been a positive factor for equities reducing US regulation and lowering US corporate tax rates whilst his threats towards international trade has not yet manifested. The key US Fed Funds rate were raised by 0.75% to 1.5% over the year as the US Fed policy of interest rate normalization takes place. Higher US interest rates are a key risk to an otherwise rosy economic outlook.

Europe registered 2.2% economic growth in 2017 whilst China and India continued to power ahead with economic growth around 7%. The Euro appreciated 12.5% against the Dollar to end the year at 1.20 but still trades at a discount to its purchasing power average. Due to robust global growth commodity prices have risen strongly, with Cobalt and Palladium being standout performers rising 130% and 56% respectively driven by battery and catalytic converter demand. Other key commodities such as oil, coal and copper have also registered robust gains which can be seen by the below graphs:



Despite strong economic growth US and European inflation is around 2%. This low inflation despite strong growth is due to unprecedented competitive disruption within the retail, electrical energy, personal transportation and media industries due to the adoption of new technologies. Uber has radically changed the taxi industry in 5 years but has grander designs to render car ownership redundant whereby personal transport becomes a service. Amazon has used its massive scale to disrupt retail across the globe further encouraged by a stock market that rewards them for turnover growth rather than profitability. Consumers have better information about products and have the power to improve their real incomes by switching into lower priced products. These rapid secular changes have led to the unprecedented rise of Facebook, Amazon, Netflix and Google, which have led the US stock market to record highs. In China, you have the internet giant, Tencent, whose organic growth in 2017 accelerated to over 50% as it added new products to a network of over 850 million customers. The Chinese are world leaders in internet technologies and fortuitously South African

investors are benefiting via SA's largest stock Naspers (which owns 33% of Tencent) and rose 71% in 2017. Despite Naspers trading at a material discount to the sum of its parts it comprises almost a quarter of the JSE All Share Index and any significant decline in its value will have a large knock-on effect on the SA economy.

Whilst the world economy is evolving at a breath-taking pace, the ANC government is engaging in economic policies most similar to 1950's socialist economics that were abandoned as unsuccessful 30 years ago. The South African government is pouring money into failing parastatals, particularly SAA and Eskom, threatening the fiscal stability of our Economy. In late March, South Africa's sovereign debt was downgraded after Pravin Gordhan was fired as Finance Minister but the ramifications were not as bad as anticipated as financial markets had largely discounted the event. South Africa entered a shallow recession in the first half of the year however the economy has displayed resilience in the face of economic mismanagement and high real interest rates. Recent economic statistics reveal good growth in the primary sector, rising car sales and 2%+ growth in retail sales. With the right economic policies confidence will rapidly improve and interest rates lowered which can result in a resumption of 3%+ economic growth. It is for this reason the election of pro-market Cyril Ramaphosa as the head of the ANC is so positive, however he needs to follow his election with supportive economic changes. The next 6 months' policy actions by the ANC government will be particularly important to our economic future.

Centaur has actively purchased SA mid and small capitalization shares. We are being highly selective in this regard but have identified some well managed companies on prospective PE's under 10X which have the potential to return over 20% p.a. in a more buoyant economy. Another major change particularly in the Centaur BCI Balanced Fund was the aggressive purchase of 13 year bonds on the eve of the downgrade decision in November. The uncertainty around the decision allowed us to buy these bonds on effective yields over 10% and they have subsequently delivered strong returns.

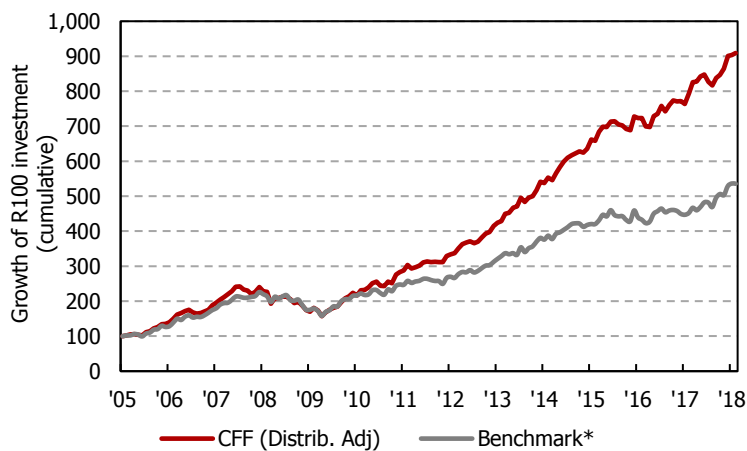
It has been a difficult investment year fraught with investment traps. An active manager could have materially detracted from performance by buying Dollars at the wrong level in the face of the sovereign downgrade in March or investing in Steinhoff, which Centaur did not hold. In addition, the breadth of the market was narrow with the JSE All Share Index's good performance being largely driven by Naspers. At Centaur we have decades of investment experience and have built in a high level of investment discipline into our processes to avoid such missteps but also act boldly when opportunities present themselves. I am very proud of the Centaur team, which has delivered solid returns to our unit holders in a tricky year. I am excited about a new beginning under the leadership of Cyril Ramaphosa and Centaur will use its investment skills to grow your wealth.

Roger Williams

2 January 2018

Centaur BCI Flexible Fund

Centaur BCI Flexible Fund relative to Benchmark on a monthly basis (100 = 1 Dec 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 (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 2017: R 2 386m

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 2017	1 year	3 years	5 years	10 years	Since Inception ³
Centaur BCI Flexible Fund	14.5%	11.3%	16.2%	14.9%	18.4%
Benchmark ¹	18.5%	8.4%	10.3%	9.6%	13.7%
Relative to Benchmark¹	-3.9%	2.9%	6.0%	5.3%	4.7%
Average Category return	9.0%	5.5%	8.9%	8.7%	
Ranking in Category	12/82	2/72	1/61	1/43	
Std. Deviation ² – Centaur BCI Flexible Fund	6.9%	8.6%	8.4%	11.9%	12.0%
Std. Deviation ² – Benchmark ¹	8.2%	11.3%	10.7%	13.4%	13.8%

Source: Moneymate, Boutique Collective Investments, Centaur
 Note: Past performance is not a reliable indicator of future returns.

- 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.
- Measure of how much an investment's return varies from its average on an annualised basis.
- Inception Date: 01 December 2004
- Highest and lowest calendar year performance since inception (as at 30 November 2017): High 31.1 Low -20.3

The Centaur BCI Flexible Fund delivered a return of 14.5% for the year and is the top performing fund in its category over 5 years (Source: Moneymate 30 Dec'17). Despite good returns the Fund marginally underperformed its benchmark over the quarter and year due to an underweight exposure to Naspers, which was up 18% in the quarter and 71% for the year.

A stake in Long-4-Life was initiated, which under the leadership of legendary entrepreneur Brian Joffe has rapidly positioned itself into an operating company via acquisitions. A stake in Blue Label Telecom was opportunistically purchased on prospective PE's of under 8X. This company is essentially a payment platform and will grow via adding new products to the platform and the acquisition of 45% of Cell C.

Asset allocation	30 Sep '17	%Δ over Quarter	31 Dec '17	Benchmark
Fixed Income	27%	0%	27%	20%
Cash & Equivalents	5%	+2%	7%	20%
SA Bonds	4%	0%	4%	
SA Prefs & Income Funds	12%	+1%	13%	
SA Property	2%	0%	2%	
Offshore Cash	4%	-3%	1%	
Equities	73%	0%	73%	80%
SA Resources	9%	+1%	10%	15%
SA Financial & Industrial	44%	0%	44%	65%
World Equities	20%	-1%	19%	
Total	100%	0%	100%	100%

The fund's existing holdings in Old Mutual, RMI Holdings, PPC and Implats were added to. New positions were initiated in Long-4-Life, Afrimat and Blue Label Telecoms and internationally in the Admiral Group. Offshore holdings in OMAM, Exor and Sberbank were added to whilst Fiat-Chrysler and Hannover Re were lightened. Despite extensive buying the Fund's equity content was unchanged due to material new inflows into the fund and sale of the entire holding in Barclays Group Africa post a very strong run in December.

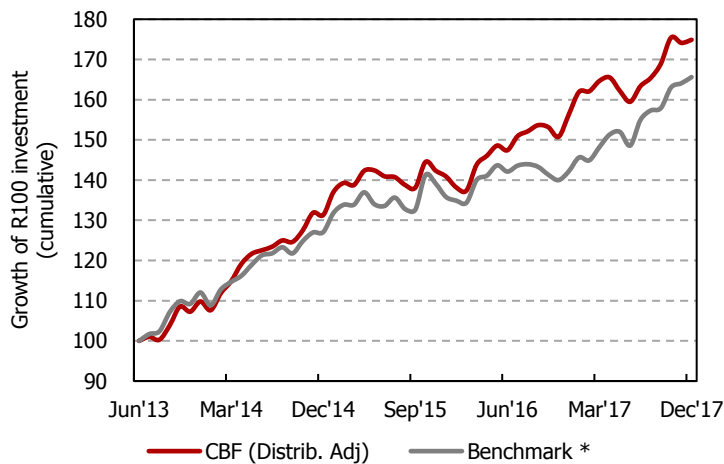
Particularly strong performances were registered in the Fund's holdings of Netease, Sberbank, African Rainbow Minerals, Naspers and MMI. The main detractors of performance in the quarter was Exor due to rand strength.

Top 10 Equity Holdings in the Centaur Flexible Fund as at 31 December 2017		
Holdings	Sector	% of Fund NAV
Old Mutual Plc	Life Assurance	6.3%
Woolworths Holdings Ltd	Broadline Retailers	4.5%
British American Tobacco Plc	Tobacco	4.4%
RMI Holdings Ltd	Equity Investment Instruments	4.3%
Naspers Ltd	Broadcasting & Entertainment	4.0%
Exor Nv	Offshore - Investment Services	3.7%
MTN Group Ltd	Mobile Telecommunications	3.4%
African Rainbow Minerals Ltd	General Mining	3.3%
PPC Ltd	Building Materials & Fixtures	3.2%
MMI Holdings Ltd	Financial Services	2.9%

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

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.

Centaur BCI Balanced Fund details

Fund NAV as at 30 Dec 2017: R 1 535m

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 2017	1 year	2 years	3 years	4 years	Since Inception ³
Centaur BCI Balanced Fund	11.9%	11.4%	10.0%	12.3%	13.2%
Benchmark ¹	16.5%	10.4%	9.2%	10.3%	11.9%
Relative to Benchmark	-4.6%	1.0%	0.8%	2.1%	1.4%
Average Category Return	9.6%	5.3%	6.1%	7.0%	
Ranking in Category	33/170	6/139	3/117	1/101	
Std. Deviation ² – Centaur BCI Balanced Fund	6.9%	8.0%	8.1%	7.9%	8.0%
Std. Deviation ² – Benchmark ¹	6.1%	7.7%	8.7%	8.5%	8.4%

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 30 November 2017): High 19.6 Low 7.3

The Centaur BCI Balanced Fund delivered a return of 11.9% for the year. Over 4 years the Fund is the best performing Balanced Fund in its category out of 101 funds (Moneymate, 30 December 17). The Fund's fourth quarter performance improved on buoyant global markets and good stock picks. The underperformance of the Fund relative to its benchmark for the 12-month period was due to a materially underweight holding in Naspers which increased 71% for the year.

Asset allocation	30 Sep '17	%Δ over Quarter	31 Dec '17	Benchmark
Fixed Income	34%	+3%	37%	36%
Cash & Equivalents	2%	+1%	3%	6%
SA Bonds	11%	+5%	16%	30%
SA Prefs and Income Funds	9%	0%	9%	
SA Property	6%	-2%	4%	
Offshore Cash	6%	-1%	5%	
Equities	66%	-3%	63%	64%
Local Equities	49%	0%	49%	56%
World Equities	17%	-3%	14%	8%
Total	100%	-3%	100%	100%

The Fund increased the modified duration of its fixed interest exposure from 1.1 to 1.7 years by purchasing SA government bonds at 10% effective yields. We added to our existing holdings in Old Mutual, RMI and Implats whilst exiting Barclays Group Africa and lightening Altron.

The offshore stocks had a solid performance and we increased the funds exposure to Exor and Omam whilst lightening Fiat-Chrysler. Particularly strong performances were registered in the Fund's holdings of Netease, African Rainbow Minerals, Naspers and MMI. The main detractors of performance in the quarter were EOH and Exor.

Top 10 Equity Holdings in the Centaur BCI Balanced Fund as at 31 December 2017		
Holdings	Sector	% of Fund NAV
Old Mutual Plc	Life Assurance	5.3%
British American Tobacco Plc	Tobacco	4.8%
Woolworths Holdings Ltd	Broadline Retailers	4.3%
Naspers Ltd	Broadcasting & Entertainment	4.2%
RMI Holdings Ltd	Equity Investment Instruments	3.7%
MTN Group Ltd	Mobile Telecommunications	3.6%
African Rainbow Minerals Ltd	Offshore - General Mining	3.3%
Exor Nv	Offshore - Investment Services	4.9%
Merafe Resources Ltd	General Mining	2.9%
PPC Ltd	Building Materials & Fixtures	2.7%

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 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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