



CENTAUR
ASSET MANAGEMENT

31 DECEMBER 2018

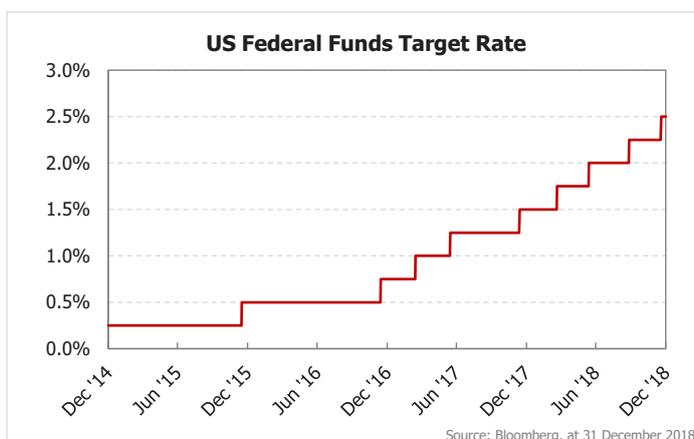
Fourth Quarter Report



The Fourth Quarter 2018

It was a poor year for equities with the MSCI World Index declining 10% in US Dollars and the JSE All Share Index falling 11% in Rands. The key reasons being:

- The key US Fed Funds Rate has been hiked 2.25% off its low which has created heightened global risk aversion. Higher US interest rates are in response to a red-hot US economy which grew at a 4.2% annualised rate in the second quarter. Inflation is a concern as US average hourly earnings are increasing at a 3.2% annual rate.
- The US under President Trump has instituted tariffs of up to 25% on certain Chinese imports, resulting in retaliatory tariffs on US goods. This



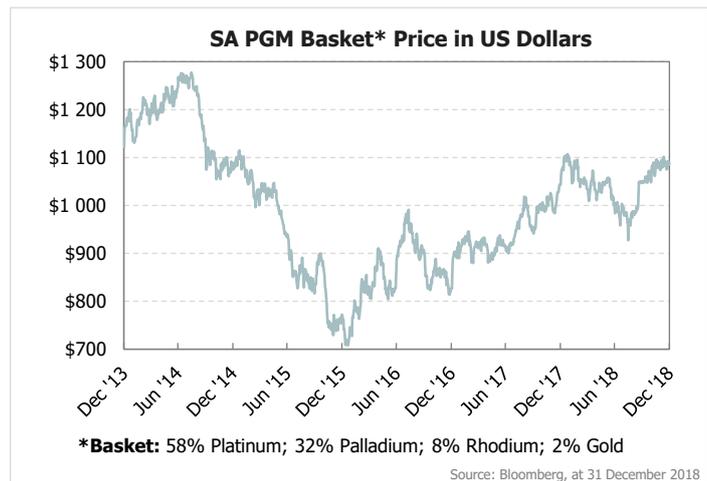
- has created disruption in certain industries resulting in an economic slowdown. For example, BMW's largest manufacturing plant is based in the USA, which exports sports utility vehicles to China which raised tariffs by 25% on these vehicles and China suspended imports of US soybeans leaving farmers with \$12bn of excess stock.
- Brexit is becoming of increasing concern. Initially the market expected a smooth Brexit where Britain remained part of the EU customs union facilitating the smooth flow of goods. However, this may not be the case and a 'hard Brexit' may emerge where the free flow of goods across borders is hindered, which would plunge the UK into recession with knock-on effects on the whole of Europe. Britain with its high personal and government debts is very poorly placed for this eventuality.

In the wake of Nenegate 3 years ago SA growth has been anaemic and a downturn in the agriculture and mining sectors resulted in South Africa entering a mild recession in the first half of 2018. Under President Ramaphosa the true extent of state capture has been exposed with material institutional decay happening at Eskom and SARS. These institutions have been stabilised under new leadership but it will take years for those entities to be on the front foot. He is hamstrung by a divided ANC and hopefully the 2019 election gives him a strong mandate to make positive economic changes.

So, what is the bull case for South Africa? I see three major medium-term positive factors namely:

1. Tourism is a massive global growth industry and key European tourist sites such as The Louvre and Venice are overrun with tourists whilst South Africa operates way below potential. Three key things need to change to accelerate growth: easier entry for tourists into SA by reducing VISA requirements; SA's perception as being a high crime country needs to be dampened; and the marketing of SA's unique attributes needs to be increased. For example, Plettenberg Bay, in my opinion has some of the best beaches in the world but operates way below capacity for most of the year. If we could get foreigners to visit, what a wonderful way to create SA prosperity and earn valuable foreign exchange.

2. South Africa has a treasure chest of Platinum Group Metals (PGM's). Global warming is real as is evidenced by rising surface sea temperatures. Despite hype over electric vehicles, the economics are inferior to the internal combustion engine and the immediate solution is increased usage of PGM's to reduce pollution. China is introducing some of the most stringent vehicle emission standards in the world resulting in increasing demand for palladium which is trading at record highs. Another wild card is platinum-



-based fuel cells, which converts hydrogen directly into electricity with the only waste product being water. The Chinese government and Toyota are putting billions of Dollars into research into this technology which may be a viable replacement for the internal combustion engine particularly in buses and trucks. Platinum, is a wonder metal, and SA could also increase jewellery demand by a more active marketing campaign. Higher PGM prices will be particularly positive for SA's terms of trade and economic growth.

3. SA has the infrastructure and the depth of skills more akin to a developed country. For example, our banking and financial services industries are on par with the best in the world. If the government can use this foundation to rapidly increase exports the rest of the economy would follow suit. Niche industries such as movie production, software development, call centres and agriculture all have good expertise which can be built upon.

SA's short-term economic outlook is muted hindered by an international economic slowdown, a lack of decision making prior to national elections and the potential for rolling blackouts at Eskom. Nonetheless economic growth can improve due to improving terms of trade and improved business confidence, but anticipated economic growth is not sufficient to result in business conditions where real profits improve materially and we remain underweight equities in favour of fixed interest investments. The downturn in international markets has resulted in some excellent value and we will be looking to increase exposure thereto.

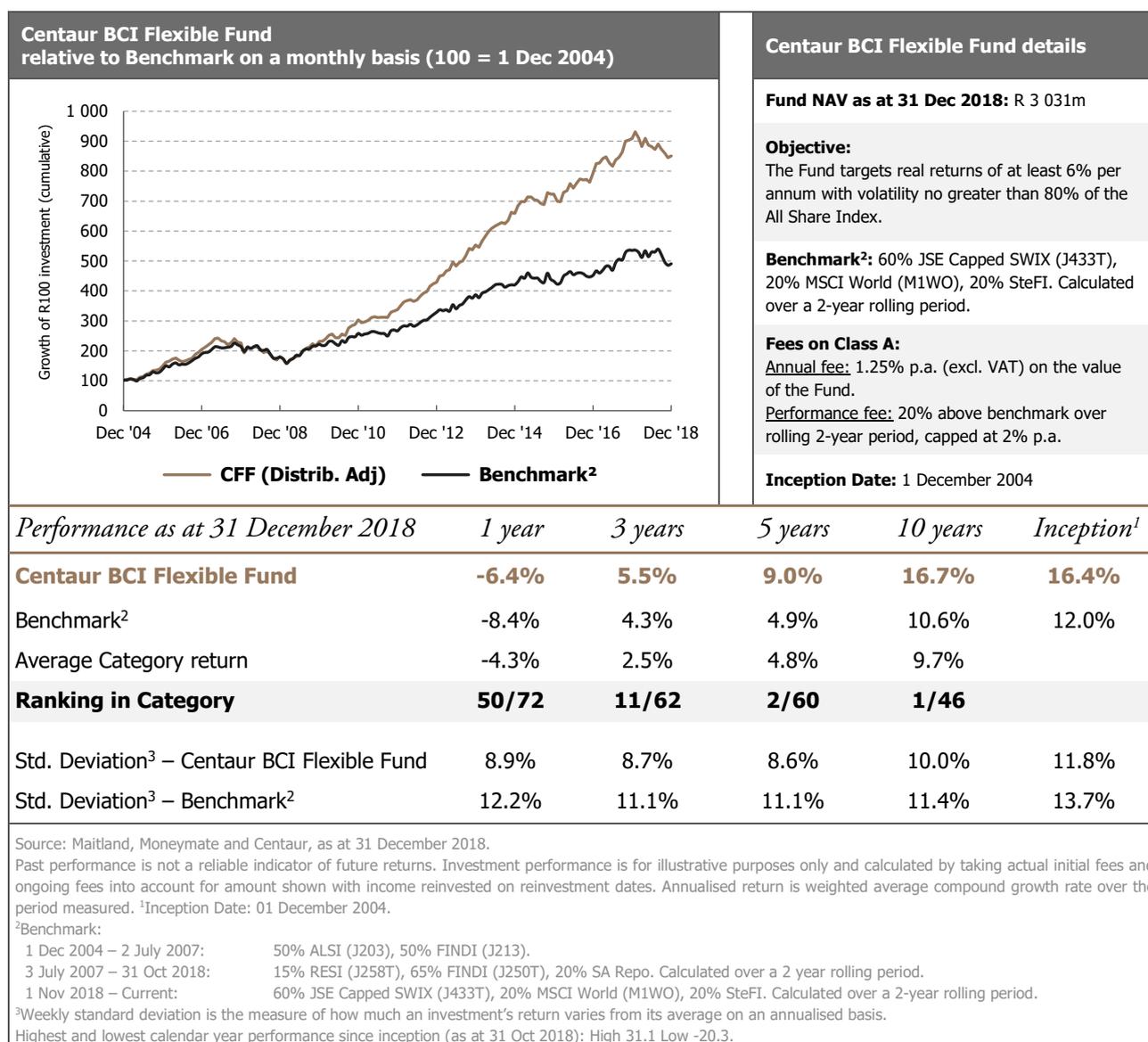
If you have any investment queries, please contact myself or Lance Gardner and address any administrative queries to Kirsty Dale or Megan Morris (admin@centaur.co.za).

Kind regards,



Roger Williams

Centaur BCI Flexible Fund



The Centaur BCI Flexible Fund declined 6% over the last 12 months, outperforming its benchmark by 2%. Over 3 years it remains a top quartile performer and over 5 years it is the second-best performing fund in its category, materially outperforming its benchmark (Source: MoneyMate, 31 December 2018). Over the last year value has been added by asset allocation with a below benchmark exposure to equities assisting performance whilst our offshore stock picks underperformed our benchmark after an excellent year in 2017.

<i>Asset Allocation</i>	<i>30 Sep '18</i>	<i>%Δ over Quarter</i>	<i>31 Dec '18</i>	<i>Benchmark</i>
Fixed Income	36%	0%	36%	20%
SA Cash & Equivalents	14%	-2%	12%	20%
SA Bonds	4%	1%	5%	
SA Prefs & Income Funds	14%	1%	15%	
SA Property	1%	0%	1%	
Offshore Cash	3%	0%	3%	
Equities	64%	0%	64%	80%
SA Resources	11%	1%	12%	10%
SA Financial & Industrial	39%	0%	39%	50%
World Equities	14%	-1%	13%	20%
Total	100%	0%	100%	100%

Cash was utilised to increase exposure to SA bonds and income funds. The Fund's equity content remained unchanged as we remain cautious on domestically exposed shares.

Shares that were pared into price strength include African Rainbow Minerals and Wilson Bayly Holmes, whilst exposure to Old Mutual, Sibanye-Stillwater, Naspers and RMI Holdings was trimmed. New positions were initiated in Firstrand and Exxaro. The Fund's existing holdings in Discovery and Sasol were topped. Offshore equity exposure declined as the offshore counters came under pressure on concerns around global growth but the funds holdings in Sberbank and Fiat Chrysler were topped up.

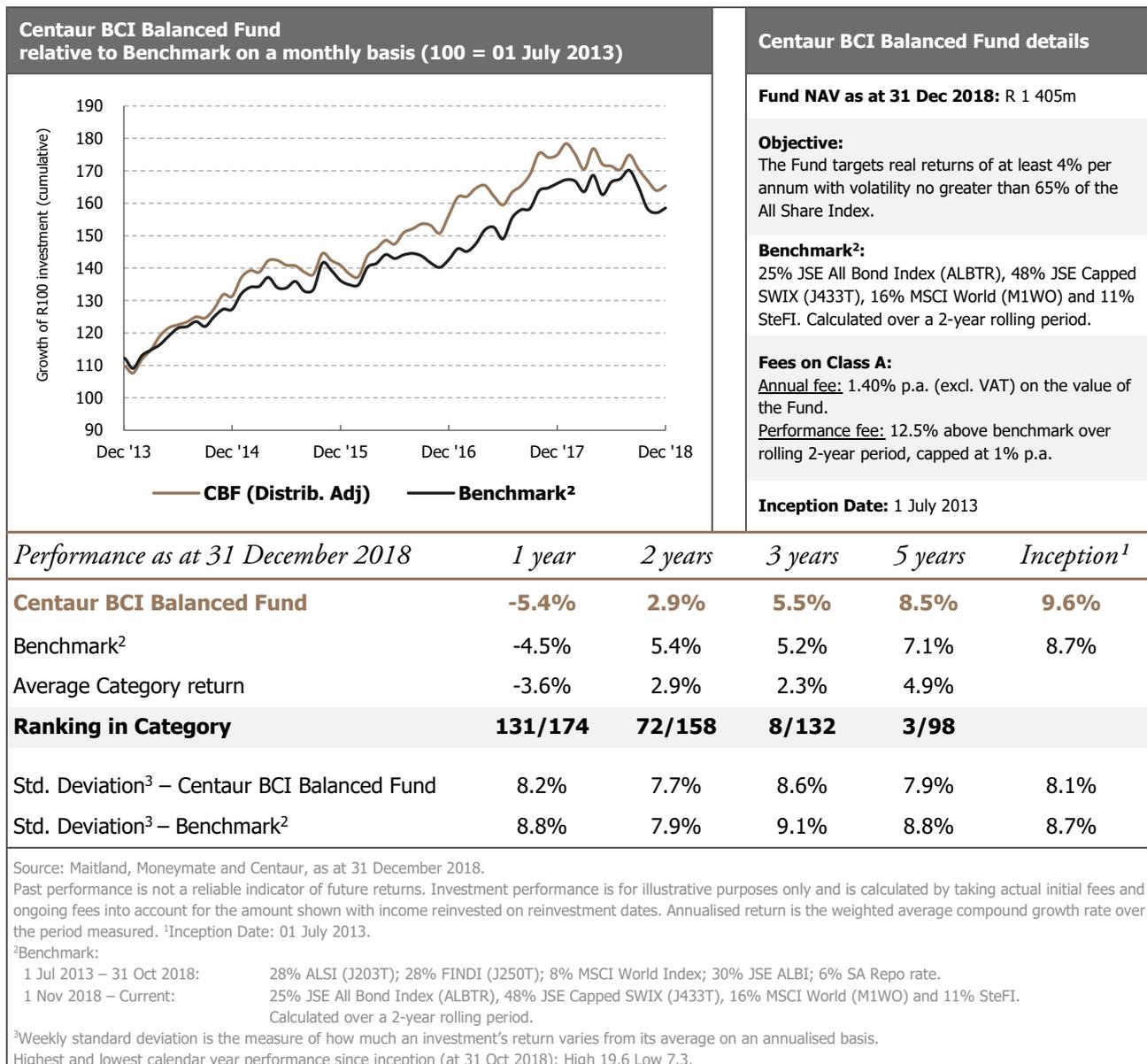
Strong performances were registered in the Fund's holdings of African Rainbow Minerals and Sibanye-Stillwater, whilst the key detractors from performance in the quarter were BATS, Sasol, Exor and Fiat Chrysler.

Top 10 Equity Holdings in the Centaur BCI Flexible Fund as at 31 December 2018

Holdings	Sector	% of Fund NAV
Naspers	Broadcasting & Entertainment	4.2%
Woolworth Holdings	Broadline Retailers	3.8%
African Rainbow Minerals	General Mining	3.3%
Exor Nv	Offshore - Investment Services	3.3%
Sasol	Specialty Chemicals	3.2%
MMI Holdings	Life Assurance	3.0%
RMI Holdings	Specialty Finance	3.0%
ABSA Group	Banking	3.0%
Sibanye-Stillwater	Gold Mining	2.8%
British American Tobacco	Tobacco	2.5%

Source: Maitland, Centaur

Centaur BCI Balanced Fund



The Centaur BCI Balanced Fund declined 5% over the last 12 months, marginally underperforming its benchmark. Over 3 years it remains a top decile performer and over 5 years it is the third-best performing fund in its category (Source: MoneyMate, 30 December 2018). In 2018 value has been added by asset allocation with a below benchmark exposure to equities assisting performance whilst our offshore stock picks underperformed our benchmark.

<i>Asset Allocation</i>	<i>30 Sept '18</i>	<i>%Δ over Quarter</i>	<i>31 Dec '18</i>	<i>Benchmark</i>
Fixed Income	37%	+3%	40%	36%
Cash & Equivalents	1%	2%	3%	11%
SA Bonds	20%	1%	21%	25%
SA Prefs & Income Funds	6%	0%	6%	
SA Property	3%	0%	3%	
Offshore Cash	7%	0%	7%	
Equities	63%	-3%	60%	64%
Local Equities	49%	-2%	47%	48%
World Equities	14%	-1%	13%	16%
Total	100%	0%	100%	100%

The modified duration of the Funds' fixed interest exposure was increased slightly to 1.8 years, marginally ahead of the Fund's benchmark. We remain cautious on domestic counters and reduced equity content by 3% with African Rainbow Minerals, Sibanye-Stillwater and Wilson Bayly Holmes being trimmed into price strength whilst exposure to MTN, Old Mutual, Naspers and RMI Holdings was reduced. A new holding was initiated in FirstRand whilst holdings in Discovery and Quilter were topped up.

Exposure to BMW was reduced and a new position was initiated in Sberbank, Russia's largest bank which is trading on a PE of under 5X despite a return on equity of over 20%.

Over the quarter strong performances were registered in the Fund's holdings of African Rainbow Minerals and Sibanye-Stillwater whilst key detractors from performance were BATS, Exor, Brightsphere and Fiat Chrysler.

Top 10 Equity Holdings in the Centaur BCI Balanced Fund as at 31 December 2018

Holdings	Sector	% of Fund NAV
Exor Nv	Offshore - Investment Services	3.7%
Naspers	Broadcasting & Entertainment	3.5%
Woolworth Holdings	Broadline Retailers	3.4%
African Rainbow Minerals	General Mining	3.2%
British American Tobacco	Tobacco	3.2%
MMI Holdings	Life Assurance	3.0%
RMI Holdings	Specialty Finance	2.9%
Sasol	Specialty Chemicals	2.7%
Sibanye-Stillwater	Gold Mining	2.7%
Merafe Resources	General Mining	2.5%

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.
- 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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