

charge to the borrower and pay to depositors. In contrast, consumer staples that are exposed to input costs will be adversely affected by inflation.

Prolonged levels of inflation have the potential to erode company earnings and thus, investment returns. Whether or not inflation persists over the longer-term, it is important for investors to hedge against the possibility of prolonged elevated levels of inflation.

At Cadiz we believe that the characteristics found in quality businesses can provide some protection against the damage caused by inflation. Quality businesses tend to display the following four characteristics: a competitive advantage, a strong balance sheet, good cash-flow generation and an experienced and capable management team.

Quality businesses with strong competitive advantages, such as strong brands, intellectual property, and networks, create barriers to entry which translates into pricing power. Pricing power allows the business to pass a significant amount of the increase in input cost to the consumer. This, in turn, allows the business to maintain profit margins, offering protection against prolonged inflationary periods.

Quality businesses, with strong balance sheets, have low levels of debt and will fare better than those with a significantly higher debt percentage if financing costs rise. Elevated levels of inflation encourage central banks to raise rates which increases financing costs. Thus, quality businesses are less impacted by the ancillary effects of a period of heightened inflation.

In a difficult operating environment, characterised by rising input and financing costs, combined with a subdued consumer base, an experienced and competent management team is needed now more than ever to avoid decisions that may be value destroying. Furthermore, a strong management team should be able to capitalise on opportunistic acquisitions, brought-about by a difficult operating environment where businesses under financial distress can be acquired at a discount.

Given the above analysis, it is important to note that at Cadiz, our multi-asset funds follow a top-down bottom-up fundamental approach with a bias towards holding quality businesses.

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CADIZ MONEY MARKET FUND – Cadiz Money Market Fund –The number one ranked money market fund over 2, 3, 5, 7 years and 10 years with an annualised yield of 7.38% since inception.

Source: Morningstar | Performance reported for A Class net of fees in ZAR as at 31/12/2021 (ASISA) South African IB Money Market, Inception: 01/03/2006 | Annualised return is the weighted average compound growth rate over the period measured | Benchmark: STeFI Composite ZAR, Category Rank is against the (ASISA) South African IB Money Market Category | Highest Annual Return 12.27%; Lowest Annual Return 5.58%