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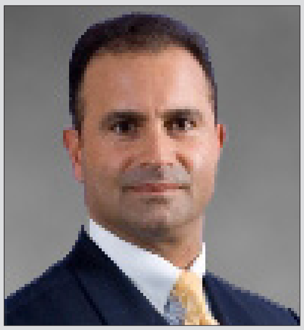
THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Delivering Long-Term Results with a Risk-Managed Growth Fund



JAMES A. ABATE, MBA, CPA, CFA, is the Chief Investment Officer of Centre Asset Management, LLC, and the Portfolio Manager of the firm's American Select Equity Strategy. He also serves as the firm's Managing Director. Prior to founding Centre Asset Management, LLC, Mr. Abate was U.S. Investment Director, North America, for GAM. Prior to GAM, Mr. Abate served as Managing Director & Fund Manager/Head of U.S. Active Equity at Credit Suisse Asset Management responsible for its U.S. Select Equity Strategy and stable of Global Sector Funds. While at GAM and Credit Suisse, Mr. Abate achieved Standard & Poor's Funds Research AAA rating, has received numerous "Category King" mentions in The Wall Street Journal, as well as multiyear Investment Week award nominations. Prior to transitioning to asset management, he was a Manager in Price Waterhouse's Valuation/Corporate Finance Group and served as a commissioned officer in the U.S. Army and Reserves, achieving the rank of Captain. Mr. Abate holds a B.S. in accounting from Fairleigh Dickinson University and an MBA in finance from St. John's University, and formerly was a Visiting Professor in the graduate program at the Zicklin School of Business, Baruch College. Mr. Abate is a contributing author to several John Wiley published books: Applied Equity Valuation, Focus on Value, Short Selling and The Theory and Practice of Investment Management; his article writings have appeared in The Journal of Portfolio Management, Investment Week, FT Investment Adviser, The Wall Street Journal, Mergers & Acquisitions and other various publications; and other writings — with Professor J. Grant, Ph.D. — on EVA, or economic value added approach to security analysis have been adopted by the CFA Institute candidate study programs. Mr. Abate is a former member of the editorial advisory board of The Journal of Portfolio Management.

SECTOR — GENERAL INVESTING

TWST: Can you describe the firm and your role in it?

Mr. Abate: I am the Managing Director of Centre Asset Management where I also serve as the Chief Investment Officer. Centre Asset Management is a firm based in New York and, since 2010, has been a member of the Sanlam Group, which is a leading South African-based financial services company. Centre operates within the Sanlam Investments business cluster, which manages institutional portfolios and retail funds that span the asset class spectrum and that are delivered in a diversified multi-boutique framework around the globe. In the United States, we operate under the Centre Asset Management brand and manage the Centre Funds, and outside the U.S., our investment strategies are available within the Sanlam Funds brand in UCITS format.

The firm is a fundamentally driven specialist active asset manager, focused on equity and fixed income strategies in fund advisory and sub-advisory mandates. Our investment strategies are American Select Equity, Tactical Fixed Income, Africa Equity, and Global Listed Infrastructure — pending fund launch. We are striving to deliver high-conviction, differentiated investment fund strategies that we deem to be tactical, pragmatic and opportunistic. Importantly, we strive to have each of our investment strategies capitalize on very defined market opportunities with a very senior cadre of portfolio managers who bring consistent repeatable investment processes to deliver what we think is differentiated alpha and a very strong focus on upside to downside capture ratios and risk management.

TWST: Was there a strategic reason why you partnered with Sanlam? And it is South African-based?

Mr. Abate: Centre Asset Management is designed and structured to combine the benefits of a boutique, entrepreneurial investment culture with the associated economies of scale from the distribution and operational support from its large group investor. Recognizing the need for scale and additional resource requirements of investment managers after the financial crisis, we entered into a transaction whereby Sanlam became a majority owner of the business in 2010. Sanlam has a number of similar businesses operating throughout the world operating in a multi-boutique framework, and is a South African financial services group headquartered in Cape Town and listed on the Johannesburg Stock Exchange.

Its business cluster, Sanlam Investments, has a leading presence in Africa and other emerging markets, and its international investments division, of which Centre is part of, focuses on developed markets investment strategies and local distribution. Centre Asset Management is an independently operated investment unit within the Sanlam Investments business cluster, and the partnership Centre has with Sanlam allows it to operate within an entrepreneurial boutique culture but still within the overall resources umbrella of a larger financial services organization.

traditional long-term-focused corporate financier approach when looking at all aspects of the business to assess essentially a company's ability to create long-term value.

The good part is that, in the shorter term, markets tend to often undervalue or overvalue the company's ability to create or destroy long-term wealth. We are specifically trying to exploit those opportunities by capturing those excess returns when the market price converges to a target price based upon our framework. In sum, we're trying to buy good companies when they present themselves as good stock investments, and sell when a company ceases to operate as a good company or its stock price no longer makes it an attractive investment despite remaining a good company.

Importantly, we strive to have each of our investment strategies capitalize on very defined market opportunities with a very senior cadre of portfolio managers who bring consistent repeatable investment processes to deliver what we think is differentiated alpha and a very strong focus on upside to downside capture ratios and risk management.

1-Year Daily Chart of Applied Materials, Inc.

Chart provided by www.BigCharts.com

TWST: You have a highly differentiated stock selection process built upon something called economic value added based investment analysis. Can you describe what that is?

Mr. Abate: Economic value added, or its more generic term of economic profit, is a concept that I have used in managing assets for over 20 years. To bring a greater transparency of the process to investors, I have also authored a number of books, most notably Focus on Value, published by John Wiley in 2001 and which was later incorporated as part of the CFA Level II reading program. It focuses on applying this concept of economic profit, which in essence is a holistic way of looking at companies from an asset-based growth and risk perspective. I have applied it to the American and Global equity funds that I have managed over my career and do so now with the Centre American Select Equity Fund (MUTF:DHAMX; DHANX) and the Sanlam Centre American Select Equity Fund – UCITS (SACASCU; SACASCG).

Now with regard to the process itself, it is a methodology which recognizes as its starting point that companies who generate high economic value added have tended to outperform companies with low economic value added. Importantly, what it does is focus on what we consider to be the fundamentals of wealth creation or destruction. Coming originally from a corporate finance and valuation background prior to getting into investment management, I have always taken that

What economic profit does is look at companies from the perspective of capital allocations today and how those decisions are going to lead to future earnings and cash flow growth relative to the change in assets. In other words, what we want to see in companies is that they themselves invest in productive assets of the business, either organically or through opportunistic acquisitions that, in turn, are going to provide the foundation for future revenue and profits growth and efficiency on assets that should create shareholder value. Alternatively, if companies cannot invest in productive assets due to, let's say, a cyclical downturn generally across the economy or existing excess capacity in their own industry or at their own company level, we want to see these companies wisely contract through either the restructuring of their assets and other downsizing of resources or somehow through some kind of shareholder action that is going to allow them to regain their footing for future shareholder wealth creation.

We are focused on whether or not the decisions those companies are making, as in either capital spending or other growth-oriented capital allocations such as acquisitions or, alternatively, their shrinking or contractory methodologies like dividends, share repurchases or debt paybacks, are the right ones. We relate those capital allocations to the historical and forecasted returns on invested capital and to the company-specific risk level of the business to determine an appropriate hurdle rate, and then make a decision as to whether or not the company will generate an excess return and, thus, create wealth from either growth or from wise contraction.

That, in our belief, is how companies create shareholder value: allocate capital to grow when able to exploit an excess return on capital — over the cost of capital — and wisely contract when unable to. The process by its discipline tends to keep us away from "empire builders," when executives are more concerned with expanding their business units, their staffing levels and the dollar value of assets under their control than they are with developing and implementing ways to benefit shareholders.

From a style perspective, we are deemed a large-cap growth manager but view ourselves in the classical sense of growth investing, meaning we have been through the market cycles since the early 1990s and, in my opinion, have seen times where there is this myopic focus on style boxes by solely looking at EPS growth, accounting-driven price to earnings and book multiples, and momentum when it comes to growth investing. Our approach is more pragmatic and recognizes that growth can come from different sectors and sometimes, like in early 2000, selling technology stocks based on valuation is the right thing to do. We think one has to always recognize that, although secular growth is obviously an area that is of great attraction for traditional growth investors, we tend to do very well when recognizing when cyclical growth opportunities may actually present a better opportunity for asymmetrical returns in the marketplace and, also, when the price to pay for secular growth is simply too rich.

Aside from using these risk management tools in terms of position sizing, we also are taking assessments of overall risk of the market as a whole to tactically employ hedges and other capital preservation strategies when deemed necessary to basically deliver on our objective of being a risk-managed growth fund. We are very cognizant of nominal and relative performance but with a very strong emphasis placed on upside to downside capture over a full market cycle.

One of the things that we talked about at the stock-selection level is attempting to take advantage of changes in risk. When we think that there is a stock market environment where the overall risk level may change, we act upon it. What I mean by that is we are one of the very few large-cap growth funds that will tactically employ capital preservation techniques, given our very pragmatic market orientation and attention to capital preservation. Specifically, we have recognized our objective to deliver a risk-managed fund with a strong upside to downside capture awareness that, at certain points in the market cycle, the overall return from beta can be much lower and asymmetrical to the downside. These tend to be environments where valuations are extended vis-a-vis history, noticeable complacency regarding risk and cyclicality, and broad-based excessive growth-oriented capital allocation decisions.

We are focused on whether or not the decisions those companies are making, as in either capital spending or other growth-oriented capital allocations such as acquisitions or, alternatively, their shrinking or contractory methodologies like dividends, share repurchases or debt paybacks, are the right ones.

For example, one saw this in the environment coming out of the financial crisis and recession in 2009 or in opportunities in 2001 or 2002 as well, points in time when the better investment opportunities were within those sectors that were out of favor and undergoing broad-based wise contraction as opposed to capital growth or stability. Also, it is important to also take a sense of risk and recognize when there is a fundamental difference in the cyclicality that various companies operate within, and that opportunity can emerge when the hurdle rate or the cost of capital for a business changes because of it. Most investors should recognize that a semiconductor capital equipment company, such as Applied Materials (NASDAQ:AMAT), is very different in terms of its risk level compared to a stable grower like Johnson & Johnson (NYSE:JNJ).

That said, if we believe that AMAT will lower its future cyclicality — as we currently do — it warrants a lower hurdle rate or cost of capital. All else being equal, this will create shareholder value most visibly expressed by a higher valuation multiple an investor should be willing to pay. It is bringing this together holistically, almost the way a bond manager looks at risk, combined with analyzing the growth and asset efficiency aspects of the way an equity analyst looks at a company and trying to put that together in an underlying bottom-up perspective.

TWST: On the American Select Equity Fund, can you talk about some of its primary characteristics such as weighting or sector allocation limits or limits on the number of holdings?

Mr. Abate: With the Centre American Select Equity Fund and in the UCITS version, the Sanlam Centre American Select Equity Fund, we have a few basic principles that we adhere to. The first thing is the Fund is concentrated, with the number of holdings typically between 45 to 75 stocks, and the concentration in the top 20 names exceptionally high, typically well in excess of 50% of the net asset value. We pay less attention to sectoral weights than we do to the overall risk characteristics of the entire portfolio — namely size, volatility, currency sensitivity, etc., and use quantitative portfolio construction and risk management tools for what we deem optimal stock position sizing within certain risk parameters.

Historically, when you go back and look at those types of environments, the risk of drawdown is exceptionally high, and it is prudent to employ tail hedges on top of the underlying stock portfolio to basically protect against what we think can be sudden and sharp drawdowns in the market as a whole. We think the current environment has the first two conditions in place. How that also plays into the number of fund positions and security position sizing is that one recognizes the proportional benefits or the return attributes that come from the market as a whole, beta, and then those that are company-specific within a portfolio.

We emphasize to investors that diversification can be good, but over-diversification can be bad. What I mean by that specifically is, if the return benefit from systematic risk or beta is expected to be lower going forward, the driver for performance from active and concentrated stock selection is going to be proportionally much higher and less correlated to other investments. Investors who put money into actively managed large-cap funds with well in excess of over 100 positions need to recognize that they have essentially eliminated any kind of security-selection risk opportunity, which is why you have probably seen so many people move to passive instruments, as an "over-diversified" fund will tend to underperform simply because of the fee level.

As an active asset manager trying to meet the needs of clients, it's important to offer something special with regard to risk attributes within the fund. Right now, the fund holds 44 positions, and that is at the very low end of the range of underlying positions, which is partially a reflection of the dearth of opportunities in the marketplace that are meeting our investment criteria from a shareholder-wealth-creation perspective. We are taking a very cognizant decision to try to maximize the emphasis on stock risk per se, rather than market risk as a whole given the current environment that we are in.

TWST: Can you talk about just a few holdings that you have now and how you think that they are representative of your philosophy in this fund?

Mr. Abate: To reconcile our areas of emphasis, we think the key issue is to express where we think we are in the business cycle, if possible. This is not driven by any assessment of top-down indicators but more a mosaic that we're crafting from aggregating our bottom-up research. Bottom line right now is that there are not many opportunities, aside from special situations within the consumer discretionary — examples being Coach (NYSE:COH), Ralph Lauren (NYSE:RL) — and energy — example being Cabot Oil & Gas (NYSE:COG) — sectors for what we would consider wealth creators from wise contraction at this point in time, as we are at a very advanced stage of economic recovery that began in 2009. You could argue that we have actually seen the peak and are heading down now in terms of economic expansion rather than reaccelerating.

Aside from using these risk management tools in terms of position sizing, we also are taking assessments of overall risk of the market as a whole to tactically employ hedges and other capital preservation strategies when deemed necessary to basically deliver on our objective of being a risk-managed growth fund.

1-Year Daily Chart of Ralph Lauren Corp

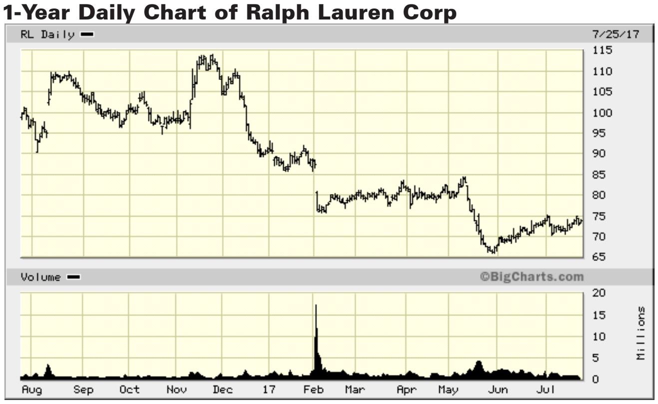


Chart provided by www.BigCharts.com

The majority of our positions at this point are names that are going to be in what we consider to be the capital growth area, with the ability to wisely put money to work by continuing to grow their businesses. Our main concentration at this point is in the technology sector — examples being NVIDIA (NASDAQ:NVDA), Adobe (NASDAQ:ADBE), Activision Blizzard (NASDAQ:ATVI), KLA-Tencor (NASDAQ:KLAC) — and consumer discretionary — examples being Amazon (NASDAQ:AMZN), Netflix (NASDAQ:NFLX) — sectors. We have significantly reduced our exposure to other traditional growth areas, namely in the health care and consumer staples sectors, since the summer of 2016 as we have seen the majority of companies not able to continue to meet the very high expectations that investors are paying for them. Specific to the consumer staples sector, we see the continuing margin improvement and asset efficiency from the broad-based implementation of "zero-based budgeting" having run its course after being a significant positive influence to wealth creation for the past few years.

As noted, we have some very significant exposure to innovation. Long-term holdings that have done well and continue to be holdings are companies like NVIDIA, Alphabet (NASDAQ:GOOG), Facebook (NASDAQ:FB) and Amazon. We have supplemented that with some more cyclical technology names like KLA-Tencor, Corning (NYSE:GLW), Adobe and Applied Materials.

Specifically, Applied Materials is a company that has done exceptionally well, and is in the midst of a profits recovery as well as benefiting from a valuation multiple expansion as touched on previously. The profit recovery that we have seen in terms of incrementally improving margins and sales trajectory really began in the middle half of 2016 as we started to see some stabilization in memory and other chip prices, but, more importantly, just the demand for semiconductor and memory just really exploded with expansion being done by the manufacturers, but not in an undisciplined way that will sow the seeds for excess capacity and near-term wealth destruction.

With AMAT, you have a company that has done very well with regard to restructuring its business prior to the 2016 upturn environment because of a prior slowdown and rationalization in the industry. By taking advantage of a leaner structure, you are seeing an increase in margins that we have not seen since the 2004 to 2005 time frame. More importantly, we have seen returns on assets and incremental returns on capital increase at a rate that we haven't seen in a long time because of a slimmed-down asset base and employee headcount. We expect this to have persistence because of the fact that the cycle itself is becoming, let's call it more disciplined, which argues for a lower risk level being associated with Applied Materials as a company.

Now, of course, it is still a very cyclical business, semiconductor capital equipment manufacturing, but what people might be missing with Applied Materials and for some of the other names in the space is that you are potentially replacing the short-term boom/bust cycle of capital spending for semiconductor and semiconductor capital equipment companies with more of an oligopolistic type of environment with fewer and larger players in this space on the front and the back end of semiconductor capital equipment manufacturing. You see more discipline in the semiconductor producers such as Micron (NASDAQ:MU), Samsung (KRX:005930), Hynix (KRX:000660), etc. We expect this to be a much longer and a much smoother investment cycle and as price earnings multiples are a combination of two things, an assessment of risk and growth, and using this basic framework the higher the growth, the higher the p/e, and the lower the risk, the higher the p/e.

What people might be missing with Applied Materials, and why we think this stock price rally has further to go, is that other investors and the sellside analysts are assessing the growth particularly accurate but underestimating the risk-level decline because of the dampening volatility of the semiconductor cycle, which will be a further boost to the multiple that investors will be willing to pay for Applied

Materials and other semiconductor capital equipment stocks such as KLA-Tencor. Applied Materials is now trading at 16 times trailing earnings and 13 times forward earnings. Applied Materials is a company from our perspective that can gather further multiple expansion in a market that we think will struggle to basically even maintain the valuation multiple that is applied across the market as a whole.

On the other side, and this is really a new area of emphasis within the fund, is that within the traditional cyclical areas of the market, our current preference is toward the consumer over industrials, and that we want to be positively exposed to the quality of the improvement in employment and wages from the economic environment that we are in. What we are seeing within the consumer cyclical sector is a number of companies undertake some very far-reaching and efficacious restructurings of their operations during this industry-specific growth slowdown over the past two years, most notably Coach, Whole Foods (NASDAQ:WFM) — which is being acquired by Amazon — Nordstrom (NYSE:JWN), Ralph Lauren, Chipotle (NYSE:CMG) and the Gap (NYSE:GPS).

The other area that we have seen actually benefit from this in terms of wise contraction is in the energy sector, most notably from the domestic producers, particularly natural gas, names like Cabot Oil & Gas and EQT (NYSE:EQT), which just announced an acquisition of Rice (NYSE:RICE) to consolidate its position as the number one natural gas producer to gain efficiencies on its asset base and cost structure. This highlights our pragmatism of being a growth manager willing to embrace cyclical growth in the classical sense and be dynamic across various market sectors.

For example, we've seen Ralph Lauren's stock price collapse from almost $190 down to the low $70s here, where we have just recently gotten involved in a very contrarian manner. This hopefully low point in the stock price has happened when the company, for the first time since the early part of 2013, has seen a positive inflection in its net profit margin and ability to take down inventories and undertaking a massive restructuring to turn things around and rightsize themselves for a smaller brick-and-mortar retail distribution channel. There are very few areas of the market where you can argue that there is a potential for not only a cyclical recovery in earnings driven by restructuring and rightsizing compounded by the fact that these companies are viewed as being best-in-class branded businesses that have the ability to capture a significant multiple expansion based upon a revival of future long-term growth prospects that can compound the returns that we see in terms of what is happening in terms of near-term earnings recovery.

If you look Ralph Lauren, the company's stock trades at roughly 0.8 times on a price-to-sales basis. The last time the stock traded at that low multiple level was in the depths of the recession in 2009. At prior peaks after sales and margins recovered, you have seen Ralph Lauren trade at almost 2.5 times on a price-to-sales basis. Also, I would not be surprised as we have seen with Whole Foods and Staples (NASDAQ:SPLS) that you are going to start to see potentially a high degree of M&A or buyout activity by private equity funds or strategic acquirers if the public markets don't recognize this long-term value opportunity at today's stock prices.

We have witnessed recovery thus far with companies like Coach, which is probably two years ahead of Ralph Lauren in terms of its restructuring activity. That stock has been one of the best-performing stocks in the market this year and now in the second year of its earnings and margin recovery story, and we have appropriately seen its multiple expand alongside that.

As we progress further into 2017, despite the fact that we have very low enthusiasm about the prospect for capital gains in the U.S. stock market as a whole, we do have a high degree of optimism for the companies owned within the fund. That being said, ours is a very concentrated approach to stock selection and one of the other things that gives us comfort is that we continue to complement our pragmatic large-capitalization portfolio of underlying high-conviction stocks with this cognizance of risk management and the continuation of tail hedging via protective put options just in case the market does enter into a period of corrective activity. We think this has a very high likelihood given the very high expectations that are embedded within the market as a whole and the complacency by investors over future shocks to growth or risk levels.

Just to expand on that, we tend to look at the breakdown between risk and growth and, right now, when we calculate through our own proprietary formulas for the average stock within the S&P 500 Index on an equal-weighted basis, we determine a market implied growth rate — what is currently priced in in terms of expected future growth in perpetuity based on current capital structure and stock price — a figure that is 12.1%. We have not seen a number like this in the past unless the economy is just emerging from recession. You could think about it in the context of the fact that, when you look at the five-year annualized EPS growth, it is been 7% which has occurred during an economic recovery. The implied 12.1% rate of growth in perpetuity from this point in time makes an implicit assumption that we are going to experience a new paradigm of growth with near-zero risk of recession in the future.

Also, any kind of disruption to the global economy itself is a very dangerous thing. When you then look at risk, one of the things that we look at is the equity risk premium, the 10-year forward expected return on stocks versus Treasury bonds. That is at the lowest level that we have seen in a number of years, and we think the extremely low risk premium is a flashing caution signal.

The bottom line is that we expect to be in a sustained period where future returns from the market as a whole are at best zero or low single digits with a high probability of a short and sudden risk event in the near term, where the drawdown is sustained unlike what we witnessed back in the summer of 2015 or the start of 2016. From that perspective, active management, concentrated stock selection and cognizance of risk management are all the things that we are trying to bring to bear within the Centre American Select Equity Fund and the Sanlam Centre American Select Equity Fund. We think we are poised to do well and deliver a very good risk-managed growth solution for clients as we further progress into 2017 and into 2018.

TWST: Thank you. (KJL)

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