News and Review

Volume 26 – July 2022

Dear Investor

Increases in the repo rate, fuel prices and ultimately inflation, have been making headlines and have most consumers in a state of panic. But how do these increases affect my investment?

The underlying investments of your unit trust or collective investment scheme ('CIS'), consist largely of instruments purchased on the stock market. This could be a direct investment, or be held via another investment vehicle, such as an Exchange Traded Fund ('ETF') or another CIS.

The stock market and interest rates have an inverse relationship. Whenever the South African Reserve Bank increases the repo rate, its immediate impact can be seen on the stock market.

Not only will you as consumer have less money to spend on a company's products, but it also prompts companies to cut back on their spending. A previously planned expansion or upgrade may be put on hold or even cancelled, which leads to a dip in growth and affects its profit and future cash flows, resulting in a fall in stock prices. If several companies follow suit, it eventually leads to a fall in markets.

The impact of the change in repo rate does not have the same effect on all sectors. For example, the capital-intensive sectors such as capital goods, infrastructure, etc, are more vulnerable to these changes due to high capital or debt on the books of these companies. While stocks of sectors like Information Technology or fast-moving consumer goods usually see a lesser impact.

In a nutshell, an increase in interest rates means a decrease in savings and investment, and a reduction of capital to the economy, which results in a slump in stock markets. As stock prices decrease, the market value of your investment could be impacted accordingly.

However, an increase in the repo rate does not by default mean negative investment returns. Our fund managers apply great skill and care when selecting the underlying instruments that make up your unit trust investment. This type of risk is considered and mitigated as far as possible. However, if this is something that concerns you, please contact us. More information is also available under the 'Minimum Disclosure Documents' section on our website.

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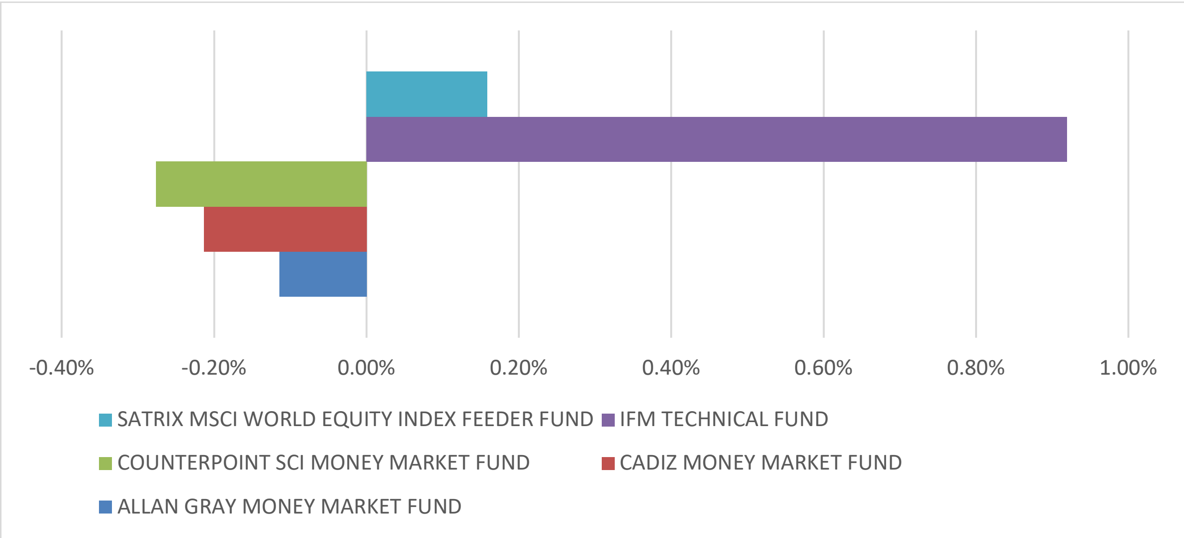
Analysis of the Portfolios

As part of the regulations that govern financial institutions, a manager must publish on its website each calendar quarter a general investor report that details an analysis of the portfolio with reference to the extent to which it has, or has not, adhered to its policy objective. We can report that for the quarter ending 30 June 2022, the following two portfolios have adhered to their respective policy objectives:

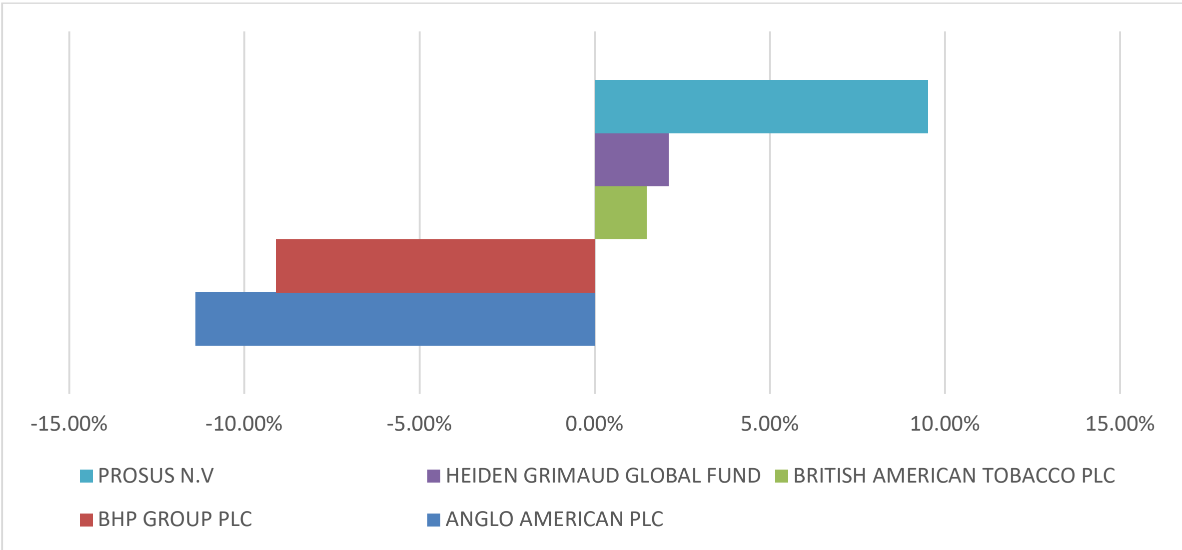
IFM Balanced Value Fund of Funds with the objective of prudential asset allocation and being a medium equity fund to secure balance between capital growth and income.
IFM Technical Fund with the objective of being a general domestic equity fund where investment decisions are based on technical analysis.

During the previous quarter the Manager bought and sold some shares and investments. Herewith an illustration of the changes in holdings as a result of this. Please note that this is not a reflection of the performance of these investments.

IFM Balanced Value Fund of Funds



IFM Technical Fund



News from our Fund Manager

Dear Investor

If you have been following the markets since the beginning of the year you would know that it has been a tumultuous time, not only for the markets but for the world in general. The United States is experiencing inflation at a rate above 9% annually - a level unseen since 1981 and there is a war on Europe's doorstep. South Africa faced a bit of lag experiencing the global inflation contagion. But with oil at above $100 per barrel and commodity prices selling off South African business may come under renewed pressure.

The necessity to invest abroad is more apparent than ever. In the last 2 years the South African Rand has depreciated around 15% to the dollar, reducing the purchasing power of the Rand. The depreciation not only eats into savings, but also into future income. Funds within South Africa struggle with quotas that force them to invest a majority of their portfolios within the country which leaves them chasing very few publicly listed companies all with similar political and economic risks. It is frightening for an investor to be forced to invest in a country with frequent power outages and constant political bombshells. Fortunately, within the Heiden Grimaud Group we have a special investment fund that sits comfortably offshore, with a mandate flexible enough to avoid obvious risks and to also take advantage of opportunities that lie outside the scope of most Fund's mandates. South Africans are allowed to invest R1 million offshore per year using their personal discretionary allowance, and R10 million per year with a Foreign Tax Clearance from SARS, but unfortunately many South Africans don't know this and still have most of their assets within Funds exposed mostly to South African equities.

Our international investment team did well and pivoted out of the market early in the year, due to two reasons. Firstly, during 2021 equities had an incredible year, and profits needed to be realised at high prices. Secondly, due to the volatility in the markets some truly incredible opportunities presented themselves which further warranted a change in strategy. Year to date, they have managed to avoid the majority of the downturn and are positioned very well to take advantage of lower stock prices. They expect further volatility in the market, but as long-term investors, they are more excited than ever. Increased volatility brings more opportunity to the long-term investor and the portfolio has an ample amount of cash to take full advantage of. Already they are seeing more and more great companies trading at very decent prices.

One such opportunity they spotted is an insurance firm based in the United States. The insurance firm went public in 2020 and is growing at a tremendous pace, the founder of the company owns a large number of shares and it is possibly the most undervalued insurance company on the market. The Fund started adding shares to the portfolio after a string of negative short term news hit the company, which impacted its share price and brought the price down to levels that can only be described as ridiculous. **However, it wasn't only the Fund that was adding at low prices, the founder and management of the insurance firm also reported buying more stock at similar levels.**

The Fund also holds multiple **dividend-paying stocks**. These stocks offer the Fund a reliable dividend income and are defensive plays. The companies that pay these dividends have pricing power which can mitigate the effects of inflation on the portfolio.

Looking further, they expect to put more of the **cash to work** and wait for the current positions to bear fruit. Investing has and always will be a long-term game that rewards those who are patient and punishes those who are impulsive. As an **investor's time horizon stretches past 5 years**, the magic starts to happen in the form of compounding.

We will leave you now with a quote from **Albert Einstein**, - "Compound interest is the eighth wonder of the world. He who understands it earns it. He who doesn't pays it."

Kind regards
David Bradfield
Global Investment Officer – Heiden Grimaud Asset Management

Enquiries regarding your investments

As always, we would like to invite you to contact us via the below channels to address any queries or complaints you may have regarding your investment.

- All **administrative enquiries**, for example a request of statement or balance of investment, redemption request, update of contact details, enquiries regarding FICA or assistance required to log onto the online Connect system is handled by Itransact Fund Managers.

✆ 0861 116 075
admin@itransactfm.co.za

- All **investment specific or portfolio enquiries** are handled by Heiden Grimaud Asset Management.

✆ 0861 378 378
investments@heidengrimaud.co.za

- All **Heiden Grimaud Global Fund** enquiries are handled directly by the Heiden Grimaud Group International Network. Their contact details are:

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