News and Review

Volume 27 – October 2022

Dear Investor

In last quarter's newsletter we focused on how the increases in the repo rate, fuel prices and inflation affect your investment.

During the last quarter, inflation has soared to its highest level since 2009, reaching 7.6% in August. US inflation reached a four-decade high of 9.1% in July!

One of the timeless ways to combat inflation is to invest your money in equities, but where do you start? How do you know which equities to buy? Simple, invest in a unit trust.

Benefits of a unit trust:

- Unit trusts are not only simple, but also transparent. You do not need to have a lot of time, knowledge or expertise to start investing in a unit trust. You can leave it up to professionals with years of experience to make the investment decisions.
- Most unit trusts also have a high liquidity, which means you can access your funds within 1 to 2 working days.
- When investing directly on the stock market, you usually need a substantial sum of money to meet the minimum investment requirements and the fees may seem exorbitant to the man in the street. The beauty of a unit trust investment is that you can start off with a monthly contribution as low as R500 or a once off lump sum of R10,000.
- Compared to most investment products, unit trusts have very competitive fee structures, and when it comes to cost rankings, unit trusts usually beat all other products.
- You don't have to limit your investment to a single or a handful of equities. With a unit trust investment, you get broad diversification from a single investment, and with this level of diversification, you also reduce your investment risk.
- It is also regarded as one of the safest investment vehicles available. Unit trusts, or collective investment schemes, are highly regulated, and investors can be confident that, while they are subject to investment risks, they are not likely to be victims of fraud or embezzlement.

No investment product is without disadvantages, and while there aren't many to consider when it comes to unit trusts, it is important to consider the tax implications for the different types of unit trusts.

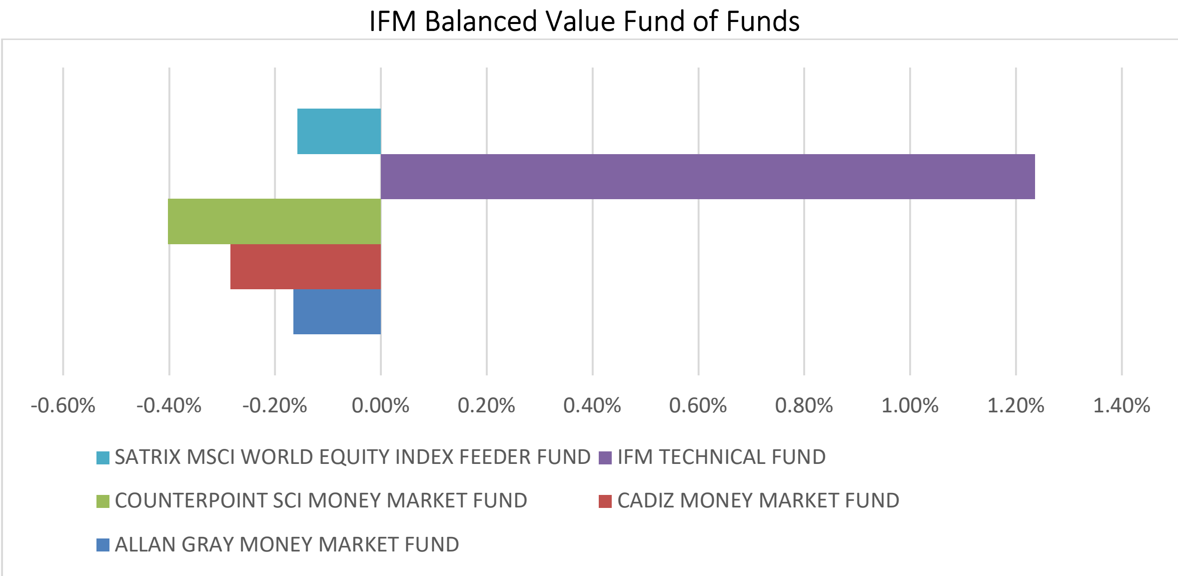
Analysis of the Portfolios

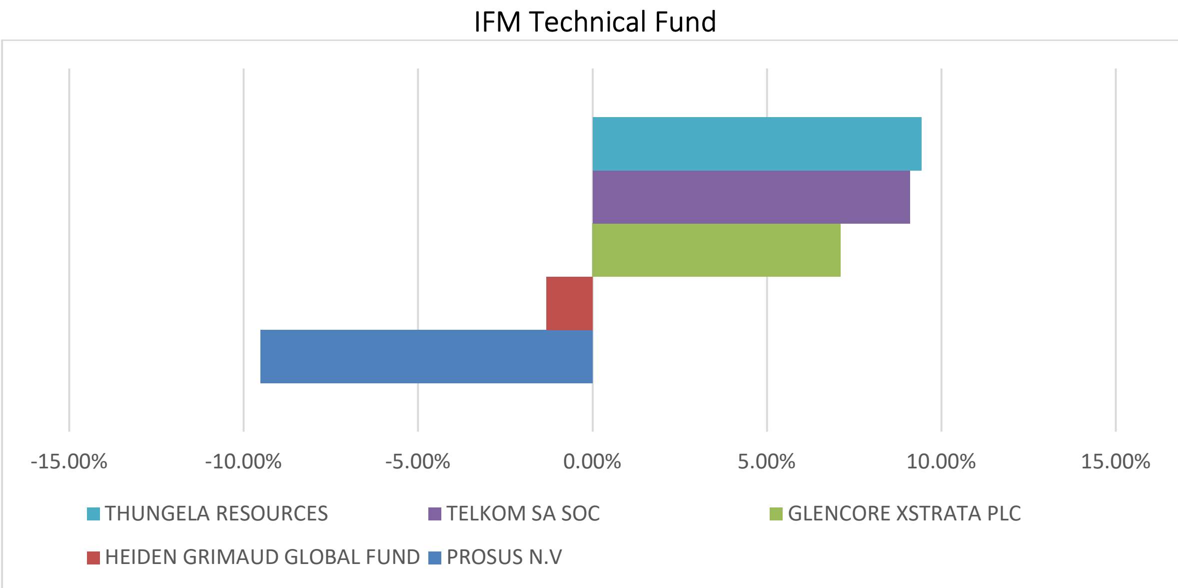
As part of the regulations that govern financial institutions, a manager must publish on its website each calendar quarter a general investor report that details an analysis of the portfolio with reference to the extent to which it has, or has not, adhered to its policy objective. We can report that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





News from our Fund Manager

Dear Investor

Thank you for your trust. It is a privilege to manage your assets alongside ours and together we continue to invest for the future.

After a record 2021 with soaring asset prices, we now enter into an adjustment phase. I would like to share a quote with you;

"There have been ample reasons for concern- among them, the political convulsion in Iran, the enormous new increases in oil prices by OPEC, the narrowing at times of interest-rate differentials between New York and foreign money-market centers, and the limited progress in developing an effective energy policy in the United States. While all these factors contributed to nervousness, what has been most disturbing to foreign exchange markets in the recent months is the reacceleration of inflation in the United States and in much of the rest of the world. Even Germany and Switzerland no longer qualify as islands of stability."

Arthur F. Burns – Former Federal Reserve Chair, 1979.

The parallels to today's times are strikingly similar, trouble in Ukraine, oil prices at record highs, UK government, increasing inflation rates and interest rates, and share prices readjusting. But, after Arthur Burn's speech in 1979, amidst all the turmoil around the world, the S&P 500 and many stock indices across the world increased at a staggering 17.3% per annum. What does this mean for you?

Should we continue to invest in shares?

I recently had a conversation with one of our International Family Office clients where he made the comment that it must be a difficult period for us as asset managers. "On the contrary" I said, we are having so much fun identifying lists of fantastic international corporations that are trading at extremely attractive share prices. We are selectively buying great companies in these markets. It is not often the market gives you such an opportunity, they normally come around once per decade! Granted we will continue to see volatility (prices going up and down on a daily basis) in the markets and for the inexperienced investor it will cause sleepless nights, but where the inexperienced investor will sell, the experienced investor will buy.

As we invest with a minimum 5-year time horizon, we are certain that the investments we are making today will provide our clients with exceptional returns over the next couple of years.

In searching for companies to invest in, we continue to favor value. This in a simplified way mean that these companies have:

- Strong balance sheets (no excessive debt)
- Well known quality products or services
- Annuity type income streams
- Profits = cash flow (This means that

the profits they make can be seen in their growing bank balances)

- Experienced management
- Low share prices relative to the profits that they make
- Low share prices relative to the net assets they own

Our research team naturally dig much deeper when we work through our primary list of candidate shares to invest in.

The South African challenge

At Heiden Grimaud we have always stressed that it is important to also diversify our investment portfolios into geographical areas other than South Africa. We do our best to protect the funds in our care from increasing country related risk.

In addition to the challenges that we have now started to accept as our "new normal" in South Africa, we are faced with another lurking risk scenario. The international financial controlling bodies have identified South Africa as a weakness in the fight against terrorism, money laundering and corruption. As such they have given notice that South Africa might be placed on a list of grey countries (luckily not yet Black-listed) as early as March next year. The South African authorities are scrambling around to try and avoid this happening.

So why the scrambling? Once we are on the list it will take years to get off it and while on the list some of the institutional investors (like international pension funds) are no longer allowed to invest in South Africa. This would mean they have to also sell what they currently own. All this will have a very negative effect on the Rand. In short it will mean that South Africans will become poorer if compared to people living in other countries.

How have we hedged against this risk? We buy companies that conduct most of their operations offshore so the rand-risk is minimized, and/or we invest some of our investable funds outside South Africa.

Kind regards
Chris Meyer
Managing Director – Heiden Grimaud Asset Management

Enquiries regarding your investments

Please contact us via the below channels to address any queries or complaints you may have regarding your investment.

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