News and Review

Volume 32 – January 2024

Dear Investor

Celebrating 20 years of investment returns

In 2024 we proudly celebrate our 20th year of existence as Collective Investment Scheme Manager. This is an incredible milestone considering the immense economic, societal and regulatory changes experienced over the past two decades.

Many of our existing investors joined us back in the 90's when the funds were still wrap funds. This is a testament to the trust we have created and the reputation we have built throughout the years.

We would like to take this opportunity to extend our gratitude to all our investors for your continuous support and trusting us with your hard earned money. There would be no 20 year celebration without you!

While we expect the next 20 years to look vastly different from the last 20, considering technological advancements, a continuous changing political and regulatory landscape, our core focus remains creating long-term wealth for our investors.

Looking forward to the future, it holds many unknown challenges. IFM is ready to face these challenges and will ensure the next 20 years are as successful as the last.

Our contact details

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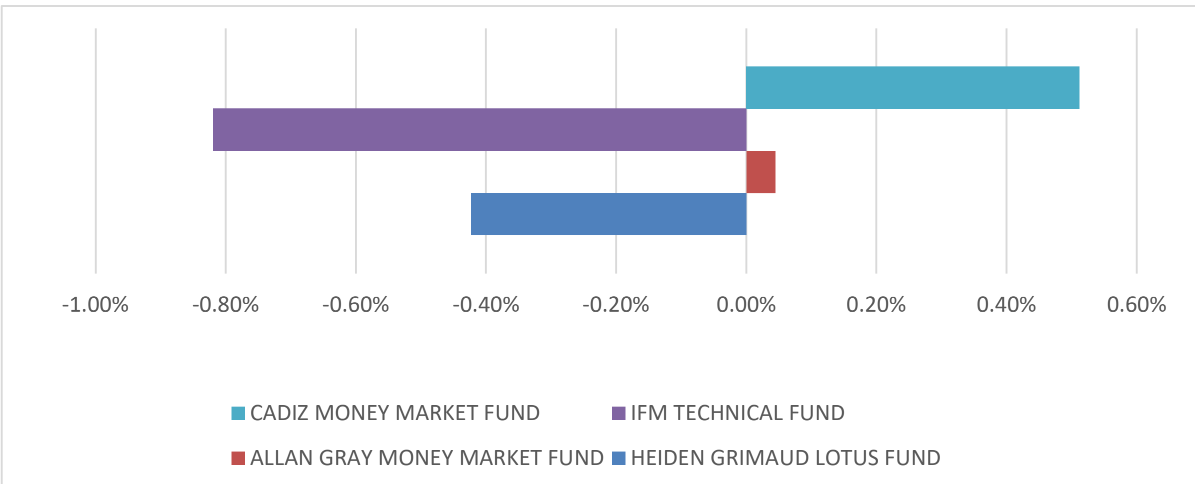
Analysis of the Portfolios

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 31 December 2023, the following two portfolios have adhered to their respective policy objectives:

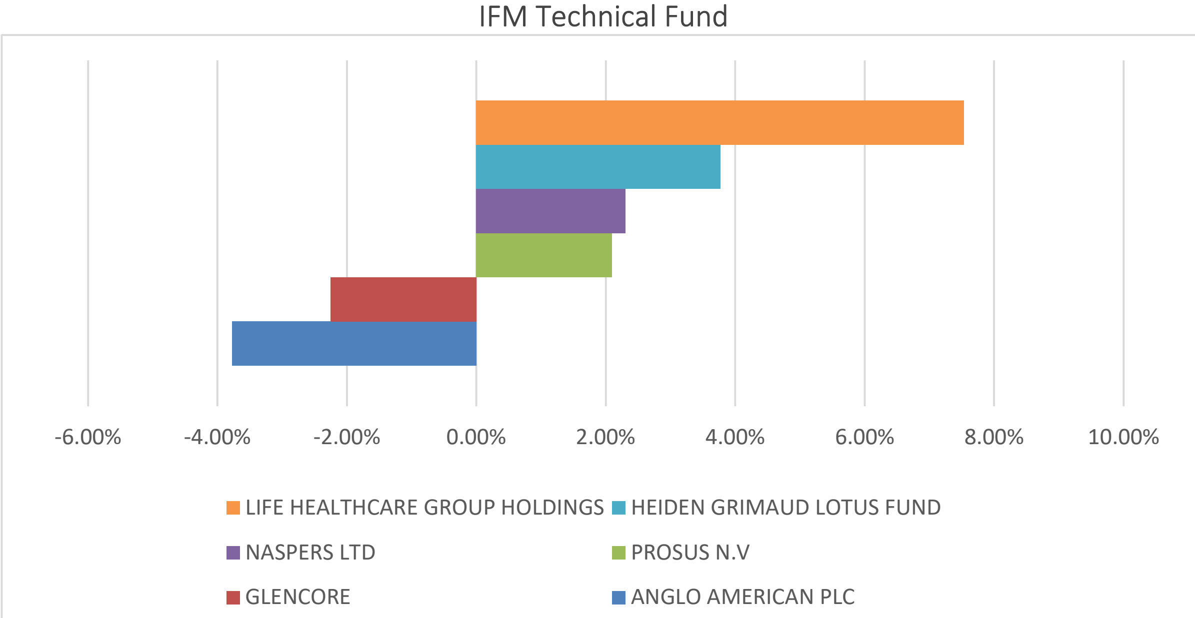
IFM Balanced Value Fund of Funds with the objective of prudential asset allocation and being a medium equity fund to secure balance between capital growth and income.
IFM Technical Fund with the objective of being a general domestic equity fund where investment decisions are based on technical analysis.

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

What determines a share price?

Looking at just one factor that influences the price. Our more experienced clients must please excuse the slower start to this newsletter. We believe it is necessary to cover a few basics concepts, before we dive into the more serious stuff.

If I can tell you how many times I have heard the following words from friends, clients and even some “professionals”: But the share is to expensive!!

On its own this doesn’t cause any raised eyebrows. However it certainly does when they are purely referring to the price payable per share. As an example of this misconception is when the share with a share price of R100 (company A) is believed to be more expensive than the share with a share price of R50 per share (company B). This is absolutely not the case.

You need to take into account how many shares has been issued by the company. If company A issued 100 shares it means you could buy the whole company for R10,000 (R100 x 100 shares). As an example if company B has 200 shares in issue it would mean that it would also cost R10,000 to buy the whole company. You can therefor see that these two companies’ share prices are in fact “THE SAME” even if different. In the investment world this R10,000 value is referred to as the Market Capitalisation (In short they often call it Market cap).

I was fortunate to grasp this concept very early in my life while still investing my bursary funds at university (fortunately I made handsome profits – Imagine what would have happened to my university studies if it went the other way?). Reading a book on Warren Buffet’s life I later got confirmation that looking at “How much will it cost to buy the whole company?” is an excellent starting point when considering investing in a company. Sometimes you will identify absolutely fantastic companies, BUT they are at that point in time just too expensive compared to other investment opportunities.

So let’s get to some more serious and interesting information. I recently read a very interesting article in Bloomberg (our primary source of news and data at the Heiden Grimaud group) on the recent history of one of the richest families in Europe. This is the Hermès clan, which now counts more than 100 members and owning nearly 67% of Hermès. This fashion house has done exceptionally well during the past 13 years, with the shares in Hermès International SCA following the growth in operating profits. The shares are up more than 1000% during the past 13 years. The Market cap of this company is now €200 billion. Indeed extremely impressive results and even more impressive share price movement.

But it gets even more interesting. The share price has outperformed that of another French fashion house, LVMH Moët Hennessy Louis Vuitton by quite a bit.

LVMH is only up by 600% this past 13 years even though it is known as one of the most impressive, if not the most impressive collection of luxury brands in the world.

So what is going on here? Let's first look at some numbers:

Share	Operating Income (billion)	Turnover / Sales (billion)	Market Cap (billion)	P/E Ratio
Hermès	€4,7	€11,6	€206,2	43,8
LVMH	€21,1	€79,2	€359,3	17,0

You will notice that I added another well-known basic investment ratio in the last column. This is the P/E Ratio. It is a very simple ratio where the price of the company (P) is divided by the Profits (or Earnings – E) of the company. The higher this ratio is the more you are busy paying to become the owner of the business that will earn you a particular level of income.

The higher the ratio the "more expensive" a share is generally. This means that the Hermès shares are more than double as expensive as the LVMH shares. You have to pay double the price for Hermès than what you have to pay for LVMH.

A few questions come to mind. Why is this happening, is probably the first question that most people will ask. If we research a little deeper into Hermès, we notice that the founding family (remember they own 67% of the company) has put in place a private structure that prohibit the family members to sell their shares to outsiders. This in effect means that there is only 33% of the company available for other potential shareholders to buy.

While the company is doing great operationally, investors will want to own the shares of this company as a result. In comes the normal supply : demand principle. With a low supply side (only 33% of the company is available) we have pressure on the share price to go higher than it would do otherwise.

At Heiden Grimaud Asset Management we aim to buy great companies at excellent prices. The result is that even though we acknowledge that Hermès is an excellent company we would favor investing in LVMH as this company is also excellent and is available at a much "cheaper" price.

Naturally there are other factors to keep in mind. If we believed that Hermès has the ability to grow profits annually at a rate double that of LVMH then we would start to consider Hermès. For the moment this is not our believe and we have a 6% allocation of our Heiden Grimaud Lotus Fund (a global unit trust) invested in LVMH.

The availability of a share on the open market, referred to in the investment world as the liquidity level of a particular share is but one of the many factors that influences the price of a share. In this particular example it also comes with an interesting twist about one of the richest families in Europe.

Not going into the details of what cause the price differences between 3 major motor brands' current share prices, I include the below to show that this price anemology is all over the investment world. I again include the Price/earnings ratio of the 3 shares to show how much more expensive the "top" share is relative to the others.

Keep in mind that these companies are not always included in investment portfolios for the simple reason that automotive companies are extremely capital intensive, cyclical (results are directly linked to the performance of the economy) and vulnerable to technological disruption (Electronic Vehicles & driverless cars). Hence most automotive companies aren't highly valued by investors.

Let's look at the share prices and P/E ratios.

Share	Price per share	Price/ Earnings ratio (P/E)	Market Cap (billion)
Mercedes-Benz Group AG	€15,50	4,45	€65,5
Porsche (Dr. Ing hc F Porsche AG	€7,90	7,02	€35,9
Ferrari NV	€315,10	49,1	€57,4

It is important to remember not to look at the price per share to judge these 3 companies but rather at the P/E ratio. These 3 companies have different strategies, target client profiles and operating profit margins. Ferrari trades more like a luxury brand share than an automotive company. Is this justified? Although it generates higher profit margins, it is only 10% higher than that of Porsche.

These examples again show the complexity of the investment world. At Heiden Grimaud Asset Management we prefer to be more cautious and would therefor favor companies with a lower P/E ratio. During bull markets (share prices increase continuously) we tend to slightly underperform, as we do not chase the crowd. For the record we also do not own any automotive companies in our portfolios at the moment.

Kind regards
Chris Meyer
Managing Director

HeidenGrimaud
Asset Management