News and Review

Volume 36 – January 2025

Dear Investor

"Collective investment schemes may pay more tax"

If you have been watching the financial news headlines, you would have seen this topic trending since the end of last year.

Government has been considering tax reforms since 2018, after it had come to its attention that some collective investment schemes ('CIS') were generating profits from the frequent trading of shares and other financial instruments. CISs are exempt from paying Capital Gain Tax ('CGT').

While there might be legitimate reasons for frequent trading, there are entities that have created 'private' CIS funds to avoid paying CGT. Trades are done in the name of the 'private' CIS, but on behalf of an investor, i.e. no CGT is payable.

National Treasury has proposed that all income earned, including all gains and losses derived from the sale of financial instruments in a CIS, be treated as revenue in future. In terms of the Collective Investment Schemes Control Act 45 of 2002, all amounts considered as revenue must be distributed to the unit holders in the portfolio within a 12 month period, or be taxable in the CIS.

The collective investment schemes industry was valued at more than R3 trillion last year. National Treasury could potentially be missing out on billions in tax revenue due to the 'private' CISs operating in the industry.

General consensus in the industry is that the proposed tax amendments are unduly punitive. Many individuals use a CIS as savings for a child's education, or a deposit on a home, but also an investment vehicle for long term growth and to have cash available prior to retirement. Implementing such taxes will more than likely discourage investments into CISs and could have a detrimental impact on the savings industry.

The question is, why punish all CIS investors, and not only the 'private' CISs that have been abusing the exemption?

National Treasury is hosting a workshop on the 17th of January, and we are hoping to have more clarity soon. We are closely monitoring the situation and will keep you informed.

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Analysis of the Portfolios

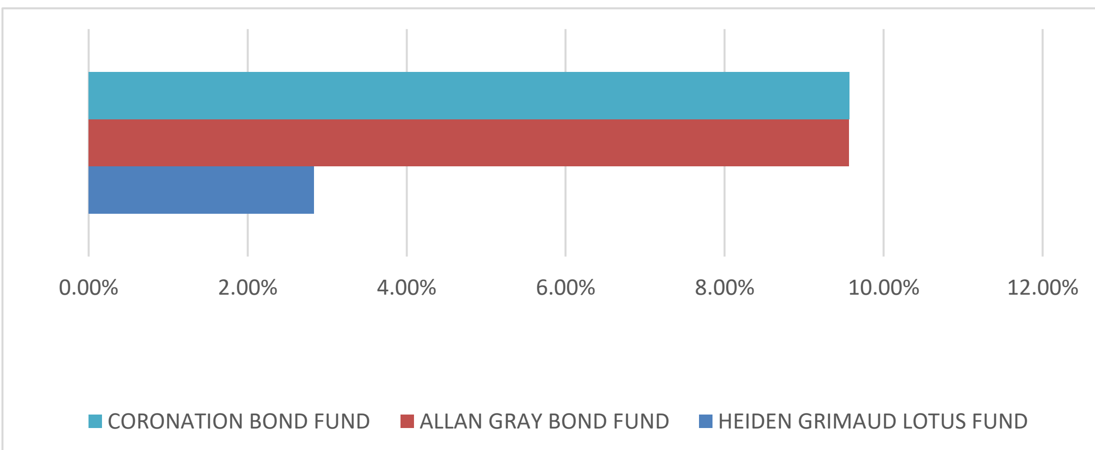
As part of the regulations that govern financial institutions, a manager must publish on its website each calendar quarter a general investor report that details an analysis of the portfolio with reference to the extent to which it has, or has not, adhered to its policy objective. We can report that for the quarter ending 31 December 2024, 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.

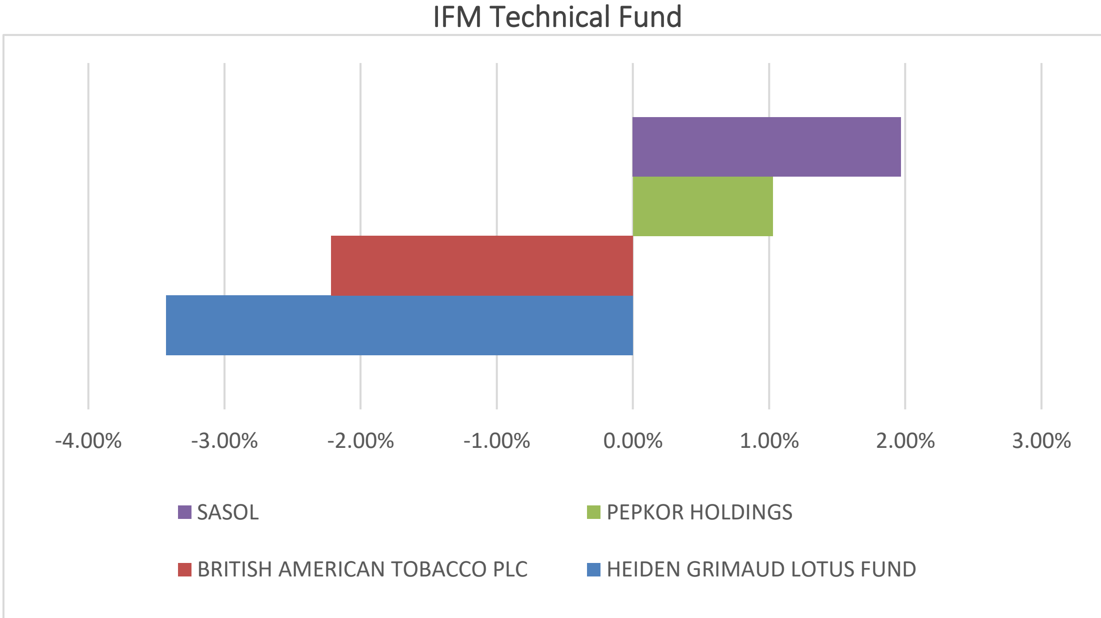
IFM Technical Fund with the objective of being a general domestic equity fund where investment decisions are based on technical analysis.

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

2025 Q1 Investment Outlook: Navigating Change in a Shifting Global Landscape

As we approach the 1st quarter of 2025, it's nearly impossible to discuss investments without considering the influence of two key figures: Donald Trump and Elon Musk. Their impact on both the American and global economies cannot be overstated, and investors should take note of the potential opportunities — and risks — their actions may create.

For many years, the old saying, *"If America sneezes, the rest of the world catches a cold,"* held true. Today, however, we may be witnessing a moment in history where America's actions reverberate globally more powerfully than ever before.

The Trump-Musk Dynamic: A Powerful Combination

Media coverage of Donald Trump's potential challenges in the 2024 election was abundant. Critics often emphasised his controversial policies and unpredictable nature, but with his strong electoral mandate and his position in a second and final term as president, Trump managed to secure re-election. He is focused on proving that his bold ideas can succeed.

Enter Elon Musk, a figure known for his ambition, innovation, and, at times, ruthless approach to business. Musk, who has invested heavily in Trump's campaign (to the tune of at least $250 million), now holds a key position as one of the co-chairmen of the Department of Government Efficiency (DOGE). Musk's mandate: to drastically reduce government spending. His track record in business speaks volumes — for example, when he acquired Twitter (now X) for $44 billion, he immediately slashed 80% of the workforce, yet the company continued to operate smoothly. Musk's ability to cut through inefficiencies and drive value is unquestioned.

Together, Trump and Musk are poised to reshape the American political and economic landscape. Their agenda includes cutting $2 trillion from government costs and rolling back regulations that hinder business growth. These moves are likely to create a more favorable environment for U.S. companies, with tax cuts and reduced bureaucracy boosting corporate profitability.

What Does This Mean for Investors?

As we assess the future investment landscape, our view is clear: **a larger allocation to the U.S. market is essential**. Trump and Musk's reforms are expected to benefit American companies, driving economic growth and creating investment opportunities. U.S. firms will likely see lower taxes, fewer regulations, and a greater ability to reinvest in their businesses and employees.

Adjusting Our Portfolio Strategy

Given these developments, we believe it's prudent to **rebalance our portfolios** to increase exposure to U.S. equities. This will be a key focus for both our clients and our unit trust funds in the coming year. While we remain optimistic about long-term growth prospects in East Asia (which we believe could outperform the U.S. over the long haul), the current political and economic environment in the U.S. presents a compelling case for higher short- to medium-term allocations to American assets.

Conversely, we see opportunities to **reduce exposure to Europe and developing markets**, including South Africa. It's important to note that South Africa currently represents just **0.29% of the MSCI ACWI index**.

For many South African investors, especially those with substantial exposure to local assets (including property), this highlights the risk of being over-concentrated in one market. Diversifying out of South Africa is increasingly important in a globally connected investment world.

Proposed Portfolio Allocation

To give our clients a clearer picture, we have outlined below our **proposed portfolio allocation** for the next 12 months, compared to the official MSCI ACWI index. Our rebalancing efforts will reflect this strategy, aligning with our forward-looking view of the global investment landscape.

Proposed Portfolio Allocation vs. MSCI ACWI Index Allocation (12-Month Outlook)		
Geographical Area/ Country	MSCI ACWI Index Allocation	Heiden Grimaud Proposed Allocation
USA	62.6%	80%
Canada	2.8%	0%
UK	3.5%	0%
Europe, Middle East & Africa*	13.0%	0%
South Africa	0.29%	0% (max 0.3%)
Other Emerging Markets	6.7%	0%
China	2.4%	15%
Japan	6.1%	5%
Asia Pacific	0.8%	0%
Australia	1.8%	0%
TOTAL	**100%**	**100%**

*South Africa is normally included here

Key Insights

- **USA:** Our proposed allocation to U.S. equities significantly increases, reflecting our belief in the strong growth potential driven by political and economic changes led by Trump and Musk.
- **South Africa:** With South Africa making up just **0.29%** of the MSCI ACWI Index, we're reducing exposure to local assets, aligning more closely with global benchmarks.
- **China & Asia:** We are increasing our exposure to **China** (15%) as we see significant long-term growth opportunities in the region, while maintaining a more conservative approach to **Japan** and **Asia Pacific**.
- **Other Emerging Markets:** We've reduced allocations here to focus on the U.S. and China, which we believe present more compelling near-term opportunities.

Conclusion

These proposed changes to our portfolio allocation reflect our strategic shift toward markets with stronger growth drivers, particularly the U.S. and China. We are aligning our investments with the expected political and economic shifts, while also focusing on global diversification and risk management.

Kind regards
Chris Meyer
Managing Director

HeidenGrimaud 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 Ireport system is handled by Itransact Fund Managers.

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

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

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