News and Review

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Dear Investor

Which is the better option, a CIS or an ETF?

This is one of the most common misconceptions among South African investors. An Exchange Traded Fund (ETF) is not an alternative to a Collective Investment Scheme (CIS)—rather, most ETFs are a type of Collective Investment Scheme.

Under the Collective Investment Schemes Control Act, 45 of 2002 (CISCA), both traditional unit trusts and most ETFs are regulated as collective investment schemes. The primary difference lies in how investors buy, sell and access the investment, rather than the legal structure itself.

How they are similar

Both unit trusts and most ETFs:

- Are regulated under CISCA.
- Pool money from many investors.
- Provide diversification across multiple securities.
- Must have an independent trustee or custodian safeguarding investors' assets.
- Publish a Net Asset Value (NAV).
- Are managed by an FSCA-approved management company.
- Offer investors proportional ownership in the underlying portfolio.

The key differences explained

1. How you invest

A traditional unit trust is purchased directly from a management company (such as Allan Gray, Coronation, Ninety One or IFM) or through an investment platform.
An ETF is bought through the Johannesburg Stock Exchange using a broker, in the same way as purchasing ordinary shares.

2. Pricing

This is probably the biggest operational difference.

Unit Trust

- One price per day.
- Based on the closing market values of the portfolio.
- Every investor receives the same price for that valuation day.

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Company Registration Number: 1999/012170/07
Directors: CM Gill [Managing], JF Zwarts [Chairman], MR Baisley, TC Meyer, T Gqubule-Mbeki

ETF

- Trades continuously while the JSE is open.
- Price changes throughout the day.
- Investors may buy above or below the latest NAV depending on market conditions, although market makers help keep the trading price close to the fund's NAV.

3. Investment management

Most South African ETFs aim to track an index, such as the FTSE/JSE Top 40 or S&P 500.
Many unit trusts are actively managed, where professional portfolio managers research securities and make investment decisions in an attempt to outperform a benchmark.
However, the distinction is becoming less clear as actively managed ETFs gain popularity.

4. Costs

ETFs often have lower management fees because they typically track an index.
Traditional unit trusts generally have higher management fees because investors pay for active portfolio management.
That said, investors should consider total value, not just fees. A higher-fee active fund may justify its cost if it consistently delivers superior risk-adjusted returns.

5. Liquidity

ETF investors can buy or sell at any point during the trading day.
Unit trust investors submit an instruction and receive the end-of-day price after the portfolio has been valued.

Which is better?

Neither is inherently better—they serve different purposes.

A traditional unit trust may be more appropriate if an investor:

- Invests monthly through debit orders.
- Wants professional active management.
- Is investing for retirement or long-term wealth creation.
- Prefers not to manage a brokerage account.

An ETF may be more appropriate if an investor:

- Wants low-cost market exposure.
- Is comfortable using a brokerage account or investment platform.
- Wants to trade during market hours.
- Wishes to build a diversified portfolio using several index-tracking investments.

One of the biggest misconceptions is that ETFs and unit trusts are competing products. In reality:
Every ETF is a Collective Investment Scheme, with the exception of Exchange Traded Notes (ETNs), Exchange Traded Commodities (ETCs) and other specialist securities or structured products. But not every Collective Investment Scheme is an ETF.

A helpful analogy is to think of a CIS as the broader category, much like "motor vehicles." Within that category, a unit trust is like a sedan, while an ETF is like an SUV. They are different vehicles, but both belong to the same broader class.

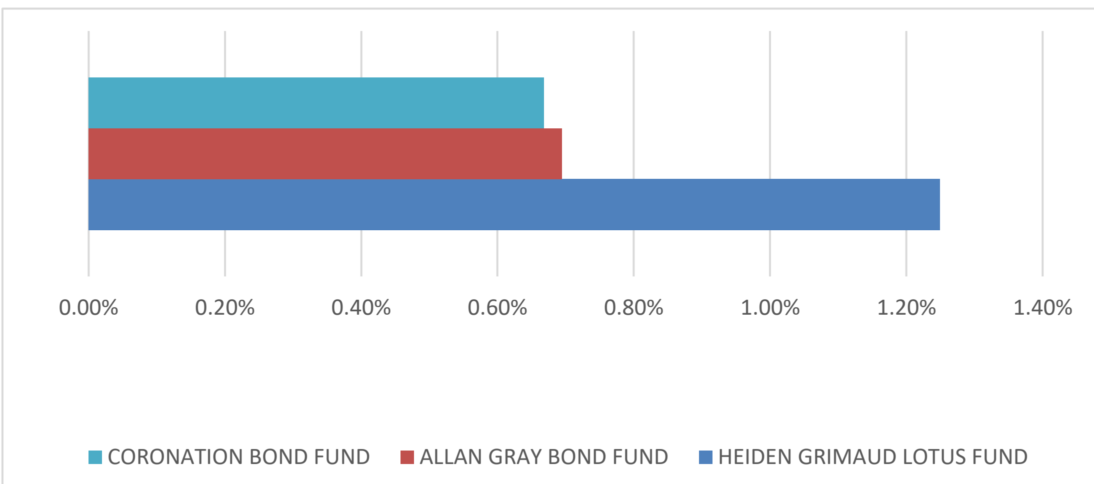
Analysis of the Portfolio

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 2026, the following portfolio has adhered to its policy objective:

IFM Balanced Value Fund of Funds with the objective of prudential asset allocation and being a medium equity fund to secure a balance between capital growth and income.

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



The AI Revolution: An Investment Opportunity... and a Hidden Risk

By Chris Meyer, CA(SA)
Heiden Grimaud Asset Management

One of the greatest investment success stories

One of the greatest investment success stories of the past two decades has been the rise of passive investing. Simply buying a low-cost S&P 500 index fund has consistently outperformed the vast majority of active fund managers. For many investors this has created the impression that passive investing is not only the cheapest solution, but also the safest.

The numbers

The traditional market-cap weighted S&P 500 has comfortably outperformed an equally weighted version of the same 500 companies over the past decade. The difference between these two options is that in the traditional index some bigger companies have a larger percentage share of the index, so investors have a bigger exposure to these companies. In the equally weighted option, we place exactly the same amount into each of the 500 companies, irrespective of the difference in size of the company. Remember the S&P 500 is already an index made up of the 500 biggest, listed companies in America. The reason is simple: a handful of extraordinary technology companies (the really big ones, like Apple, Amazon, Microsoft & Nvidia) have driven an exceptional share of the market's gains.

Performance comparison

Period	S&P 500	Equal Weight
1 Year	20.9%	17.0%
3 Years p.a.	19.0%	12.4%
5 Years p.a.	11.8%	7.1%
10 Years p.a.	13.6%	10.2%

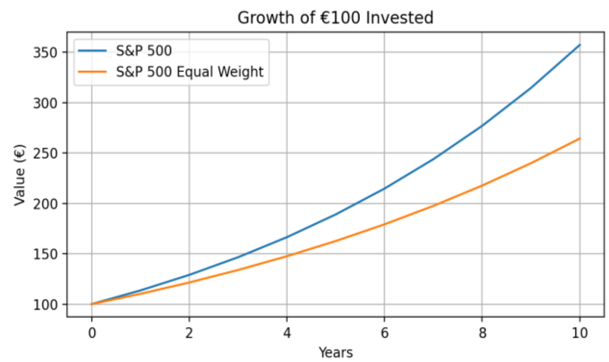


Figure 1: Illustrative growth of €100 invested using the published annualised returns.

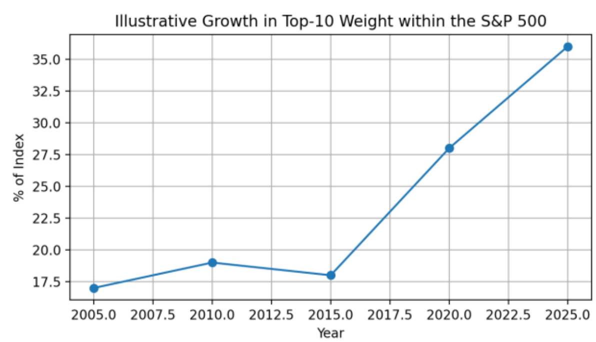


Figure 2: Illustrative trend showing the increasing concentration of the largest companies within the S&P 500. Exact values vary over time but the long-term trend has been unmistakable.

When diversification isn't really diversification

Many investors believe they own a diversified portfolio because they own 500 companies. Technically they do. Economically, however, a very large proportion of their investment is increasingly dependent on fewer than ten companies. That is very different from the S&P 500 of twenty years ago.

A recent Economist article

A recent article in The Economist caught my attention. Not because I agreed with every conclusion, but because it asked a question that I suspect very few investors have considered. Carson Block argues that if artificial intelligence displaces large numbers of highly paid knowledge workers, retirement contributions into passive funds could slow while withdrawals increase. Since passive funds buy and sell according to index weights, the largest companies could experience the greatest selling pressure. Whether or not this scenario unfolds, it reminds us that concentration risk deserves careful attention.

Why I remain bullish on AI

My own view differs from the article in one important respect. I remain extremely bullish on artificial intelligence. I believe AI will create one of the greatest productivity revolutions in history. My concern is not AI itself, but the possibility that investors temporarily overpay for the companies they believe will benefit the most.

Regional outlook

Looking ahead five years, I continue to favor the United States as the world's premier destination for long-term equity investment. America combines deep capital markets, entrepreneurial culture, technological leadership and a regulatory environment that still rewards innovation. I also see compelling long-term opportunities emerging from China as valuations remain attractive in selected sectors. By comparison, Europe's structural growth outlook appears considerably weaker, while South Africa continues to face significant political, fiscal and economic challenges that are likely to constrain growth.

Investment philosophy

Our objective has never been to predict the next correction. It is to identify high-quality businesses, understand valuation risk and build portfolios capable of compounding wealth through multiple market cycles. Diversification should remain intelligent rather than mechanical.

My conclusions

1. I remain extremely optimistic about AI as a technology and the long-term prospects of the American economy.
2. I am becoming increasingly cautious of excessive concentration within the traditional S&P 500 Index.
3. The greatest opportunities over the next decade may come from identifying tomorrow's winners before they become the next mega-cap stocks.

Invitation - private clients

I intentionally limit the number of private client relationships I accept to ensure that each receives the time and attention they deserve. New private client engagements are generally reserved for investors with €5 million (approximately R100 million) or more available for long-term offshore investment. If you would like to explore whether a private client relationship would be appropriate for your circumstances, you are welcome to contact me directly at: chris.meyer@heidengrimaud.com.

Investors with smaller portfolios remain welcome to invest in our established investment strategies and are encouraged to contact us with investment-related enquiries. Existing clients with portfolios from **R2 million** are always welcome to discuss their investments or any questions they may have regarding our funds.

If you would like to explore one of our investment solutions, you are welcome to contact us directly at: investments@heidengrimaud.co.za.

Disclaimer

The views expressed are general in nature and do not constitute personalised investment advice. Past performance is not necessarily indicative of future results.

HeidenGrimaud Asset Management

Enquiries regarding your investments

As always, we would like to invite you to contact us via the channels below 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.

  ✆ 0861 116 075
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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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