News and Review

Volume One – January 2016

Dear Investor

In 2015 the Heiden Grimaud Group experienced a very positive year when one of the largest players in fund administration, Automated Outsourcing Services, joined us as shareholders in the Heiden Grimaud unit trust company. This has strengthened our company exponentially, not only from an operational aspect, but also in the development of new investment products such as tailor-made unit trusts for large institutional funds. This division of the group will henceforth be trading under the brand name Itransact Fund Managers, with Heiden Grimaud Asset Management remaining as fund manager. Communication in this regards was sent to all investors in February and August 2015. The registered office address is now at AOS House, 15 Philips Street in Ferndale, Randburg where a dedicated team of client service consultants are able to assist you with administrative enquiries. Should you wish to contact us the following contact details can be used:

Administrative Enquiries	Itransact Fund Managers / Automated Outsourcing Services **For example:** - Request of statement or balance of investment - Redemption request - Update of contact details - Enquiries regarding FICA - Assistance to log onto the IBrowse system	**Office Address:** AOS House, 15 Phillips Street, Ferndale, Randburg, 2194 **Postal Address:** PO Box 4769, Randburg, 2125 **Fax Number:** 011 561 6812 **Telephone Number:** 0861 11 60 75 **Email:** admin@itransactfm.co.za **Online IBrowse Enquiry Portal:** http://s-ibrowse:7744/i-Browse/
Investment Specific or Portfolio Enquiries	Heiden Grimaud Asset Management	**Telephone Number:** 0861 378 378 **Email:** investments@heidengrimaud.co.za

To ensure that you receive important information and news that is sent to our investors, always update a change of address with our administrative office, and ensure that your FICA document requirements are complete and on record with us. As an accountable and reporting institution, registered with the Financial Intelligence Centre, we have to adhere to the requirements of the Financial Intelligence Centre Act 38 of 2001 (FICA). We have to abide by these requirements to ensure that we are not fined with serious penalties and can therefore not action any instructions from an investor - even the request for an updated statement cannot be processed - without your FICA documents being in place.

In an effort to assist our investors, we now offer you the opportunity to log onto IFM's online enquiry portal, IBrowse, and effect instructions such as the generation of statements automatically. Should you wish to make use of this functionality, kindly contact the IFM client consultant team for assistance on how to register as a user.

The annual financial statements for the financial year ending September 2015 will be available on our website, www.itransactfm.co.za. Should you wish to receive a hard copy of these statements, contact our support team.

News from our Fund Manager

HeidenGrimaud
Asset Management

1. Review of the Markets in 2015

2015 was a turbulent year for global stock markets with numerous events sparked considerable volatility across world markets resulting in major international bourses ending the year with lower than expected performance figures. Largely driven by fears of a protracted slowdown in the Chinese economy, some of the major shifts during the past year include the slide in commodity prices, most notably oil, and the strength of the US dollar as markets sensed a turnaround in US interest-rate policy – a premonition subsequently proved correct as the US Federal Reserve (Fed) finally raised interest rates in December for the first time in almost a decade.

Although gold fared slightly better than other major commodities - falling 10.6% year-on-year, the precious metal has been on a downward trajectory since late 2012 after reaching its all time high in 2011. Lower commodity prices, and the subsequent worsening of terms of trade for commodity exporters (including South Africa), fed a general sell-off in emerging markets and a weakening of many emerging market currencies (including the rand). European markets also see-sawed throughout the year on fears that Greece would be forced to leave the Euro (*known as*

Grexit – the Greek exit) until a bailout deal was finally reached between the European Central Bank (ECB) and other European nations.

Locally, South Africa was not excluded from this international turmoil patterns. Factors such as the weakening currency, electricity shortages, high unemployment figures and a severe drought negatively impacted the country. The surprise December announcement by President Jacob Zuma of a cabinet reshuffle in the Treasury had a hugely negative impact on local markets, not only driving up 10-year bond yields by a further percentage point, but also putting further downward pressure on an already weak rand.

Even before the reshuffle was announced, rating agency Fitch lowered South Africa's sovereign credit rating to BBB-, while Standard & Poor revised its forecast for the country, lowering its outlook from stable to negative. Lower growth forecasts have been factored into the rating agencies' latest assessments and the risk of a further downgrade of SA debt over the next 12 months is of major concern. On the plus side positive factors are the relatively low external debt, the SA Reserve Bank's (SARB) commitment to containing inflation (particularly with Pravin Gordhan back at the helm in Treasury), and National Treasury's commitment to ensuring debt sustainability.

While the banking sector was hard hit in early December by the presidents' sacking of the then financial minister, Mr Nhlanhla Nene, the continued rout in commodity prices, along with the ongoing threat of industrial action and electricity constraints within the commodity sector, took its toll and resulted in most of the equity losers for 2015 coming from resources, followed closely by construction counters.

2. Looking Forward to 2016

South Africa's GDP growth is unlikely to gain traction in 2016. The SA economy is forecast to expand by only 1,3% compared with an estimated 1,4% in 2015. The potential growth rate of the economy has been steadily revised downwards over the past 3 years but even so delivery has still fallen short of estimates. The SARB's latest estimates of the potential growth rate of the economy are 1,9% and 2,15% for 2016 and 2017 respectively but these may be difficult to achieve given the factors discussed previously.

The State of the Nation address on 11 February 2016 will hopefully provide guidance to the government's priorities going into the local elections in May. This will lay the basis for the Budget Review on 24 February. A number of policy issues such as the issue on minimum wage, land reform actions and possible financing of the National Health Insurance Plan could be revealed. The affordability and financing of nuclear energy development will probably be high on the agenda. The newly appointed finance minister, Mr Gordhan, has announced that the government's nuclear plans will be dealt with in the 2016 budget.

The financial health of state owned enterprises (SOE's) remains of deep concern and will also be under the spotlight in 2016. SAA's leasing, rather than purchasing of aircraft from Airbus will provide some support to its cash flow. In Sanral's case, the strength of revenue collections will be critical but the issuing of bonds in the capital market will remain an important source of funding, especially in view of the redemption of three floating bonds to the amount of R3,5 bn in the latter part of 2016. In February NERSA will announce its decision on Eskom's revenue application of R22,8 bn for F16/17. While weak demand has reduced the risk of load shedding, additional capacity will be slow in coming on stream in 2016 as the deadlines for Medupi and Kusile have been pushed out yet again.

3. Background on Boutique Investments and Unit Trusts – Did you know?

The funds under management are known as boutique investment funds. According to the industry body, The Association for Savings and Investment South Africa (ASISA), the number of boutique managers in South Africa has risen from 8% of the investment managers' space in 1999, to around 38% currently. ASISA's members are considered the custodian of the bulk of the nations' savings and investments and are among the country's biggest contributors to the national GDP.

As boutique investment funds, we aim to build wealth in a sustainable manner and thereby preserve long-term value for our investors. Mr Chris Meyer, (CA (SA), MCom) fund manager of the unit trust funds under management, believes that this boutique approach offers investors a more focused and specialized investment approach. He undertakes thorough, detailed research on listed companies considered for investment and has a specific stop-loss in place should equities not perform in view of expectations. The funds are known as a collective investment schemes, meaning that a number of people pool their money in a fund, that then buys and sells shares, cash, or bonds on their behalf. The selection of unit trusts is designed to simplify your investment choice, while delivering real value over the long term. Each unit trust in the portfolio was carefully selected to meet specific investment needs. The benefit of these funds is that they offer the man in the street, or well seasoned investors, an effective way of saving money. In March 2003, legislation in SA was changed, adapting to the growth and diversification of the financial services industry. The old Unit Trust Control Act of 1981 was replaced by the Collective Investment Schemes Control Act no 45 of 2002. One of the many changes included the renaming of unit trusts to collective investments and units to participatory interests.

It is important that investors understand the volatility of return associated with different investment types. Shares (equities) for instance have the potential for the highest return, but with a higher level of risk. An investment in this type of asset should be viewed with a 7 to 10 year horizon. Bonds generally have a lower risk than shares because the holder of a bond has the security of knowing that the face value plus interest will be repaid in full by government or semi government authorities at a specific time in the future.

Corporate bonds can also be included and have a slightly higher risk than government issued bonds because they are not backed by government funds. The risk of default on corporate bonds is always paramount in the investment decision. An investment in this type of asset should be viewed with a 3 to 6 year horizon. Cash is generally regarded as the safest investment. Whilst it is theoretically possible to make a capital loss investing in cash, it is highly unlikely. Due to its stable nature, cash has a relatively low return in comparison to the other investment classes. One should always take into consideration the effect of inflation on the real return of a cash investment. An investment in this type of asset may be viewed with a horizon less than 3 years.

A unit trust is priced per unit on a forward pricing basis. This means that when you buy or sell units you do so at the closing price of that day. Pricing changes daily, and is determined by the net asset value (NAV) of the portfolio's underlying investments.

4. Investment Returns (*Source: Morningstar*)

Below you can find the returns of our two biggest funds. Both have done well in consistently outperforming the Benchmarks, placing them in the top quartile of their categories.

	This Month	Last 3 Months	Last 6 Months	Last 12 Months	Last 3 Years	Last 5 Years	Last 10 years
IFM Balanced Value FoF	0,15%	4,77%	3,93%	10,43%	12,57%	11,66%	11,25%
Benchmark	-2,89%	-4,68%	-4,27%	-0,11%	6,53%	9,21%	10,61%
IFM Technical Fund	-2,40%	0,60%	1,12%	10,58%	15,84%	14,45%	13,25%
Benchmark	0,70%	-4,46%	-2,92%	7,01%	10,52%	12,54%	13,75%

In closing, as mentioned, the last year has seen considerable volatility across most markets. However, due to some of South Africa's unique economic challenges, SA has generally fared worse than many of its peers. For this reason, Heiden Grimaud is looking more and more at rand-hedge investments and is currently working on a new rand-hedge investment product. Exciting news in this regard in our next newsletter.

Yours in Investments.