News and Review

Volume Three – July 2016

Dear Investor

Since the last Newsletter global markets (both equity and currency) have been overwhelmingly dominated by one event – BREXIT.

1. <u>Brexit</u>

1.1 What is Brexit?

Brexit (shorthand for '**Br**itain' and '**exit**') refers to the exiting of Britain from the European Union (EU). Because the question of continued immigration into Britain was such a large concern of the British electorate in the election of 2015, David Cameron promised to allow the British public their say over Britain's continued membership of the EU. Despite the Prime Minister's massive 'remain' campaign, financial markets were shocked on the morning of Friday June 24th to discover that, despite all indications to the contrary (at the time all polls reflected a win for the remain campaign), the British electorate had voted to leave the EU.

1.2 Market reaction

Immediate market reaction was a sell-off of global equities and currencies as investors contemplated possible lower economic growth across Europe and Britain and a possible 'snowball' effect on global economic growth in general. Naturally Sterling and Euro values fell against most currencies (including the rand) while government bond yields also plummeted. The Financial Times described it as the largest single-day fall since at least 2007 with global markets **losing $2trn-plus of value.** The result also saw British Prime Minister David Cameron resign, while European leaders held crisis meetings to determine the way forward.

Nevertheless, following two days of upheaval, global markets showed some signs of stability after the shock announcement and were making back some lost ground the last two days of June. Brexit concerns also eased somewhat on expectations of additional stimulus measures from central banks in the wake of the vote and with the Bank of England raising the possibility of conducting bond buy-backs and lowering interest rates to stimulate growth.

1.3 What now?

Although we are currently seeing short-lived market volatility, the long-term economic prospects of Britain remain high, notably in terms of country attractiveness and foreign direct investment.
Country risk experts are confident that the UK's economy will remain robust even with the exit from the EU. 'The economic attractiveness of Britain will not go down and a trade war with London is in no one's interest', said Nicolaas Firzli, director general of the World Pensions Council and advisory board member for the World Bank Global Infrastructure Facility. It is further suggested that the long-term benefits to the UK of leaving the Union, such as less regulation and more control over Britain's trade policy, could outweigh the short-term uncertainty observed in the country risk scores. The UK will continue to abide by EU treaties and laws, but not take part in any decision making, as it negotiates the withdrawal agreement and the terms of its relationship with the remaining 27 nation block.

History shows us that emotions play a major role in market performance, and quite often raw emotion yields to more rational thought. It is unsure what the future holds, not only for the UK markets but all global markets, as a result of this decision. As the procedural process can take at least two years, markets will have time to gradually adjust. We continue to monitor our portfolios and believe that our holdings will endure challenges such as this.

We recommend that our investors remain focused on their long-term investment objective and not be swayed by the media noise that will undoubtedly accompany news of this referendum outcome.
Our fund manager, Chris Meyer, often gets asked the question which company's shares to buy? In the following part of the newsletter he shares his opinion on the topic.

2. Which company's shares to buy?

- **By Chris Meyer (IFM Fund Manager) -**

HeidenGrimaud
Asset Management

People know that I am an asset manager by profession and often want to know what the "tip of the moment" is. Often this is after a nice tennis match sharing a beer or two. I normally just smile and say that I never work on "tips". This is simply a sign of the lack of understanding amongst most people what investing in shares are all about. They are scared to lose their hard earned capital BUT at the same time are also scared to be left behind and miss out on the sure winner that the neighbor has invested in, "just last week".

Over the years a number of different methods/strategies have been developed by investment professionals to try and find the solution to picking the winners of the future. Some of these methods (some kept in the strictest secrecy) have been used by professionals with great success, while others have been less so.

My basic principle of investing is that we are buying a small part of a real business. Not at all different from thinking that you own till number 25 at your local Pick & Pay. The benefit is that you don't have the responsibility to open and close the Pick & Pay every day (and most of them are open 7 days a week!), buy the correct stock items, handle staff recruitment and complaints and so the list goes on. But through investing in Pick & Pay shares this is exactly what happens. You own a part of the operation.

With this basic principle in mind I then try and determine if Pick & Pay is the right company to own a portion of. The only way to know this answer is to go dig around in that particular business' detail. We visit the physical premises, walk around, and see what's new; what improvements have been made since our last visit, who the senior staff members are running the business, and many more points what we call "soft" information. Then we start looking at the numbers (financial statements) to see if they are making decent profits (we are scared of companies that make excessive profits as this is unusual and normally unsustainable), and use their assets in the best possible way (not too many private jets!).

Lastly we look at the price we then have to pay to own a portion of this company. Sometimes you might find great companies BUT they are simply too expensive. Let me give you an example of what we see as possible value. Take Apple Inc. who's share price has dropped by 22, 94% in the past 12 months. Some investors in this share have lost a lot of money. Should you have sold your shares at today's price, you complain to your friends that investing in shares is terrible and people "always" lose money. Maybe not. I will actually try to convince them to rather buy some more shares at these levels. If you had to buy the entire Apple company it will cost you $523,6 billion. So what do you get in return for this huge amount of money? Included in this value is a cash value of $197 billion. If there is not a serious deterioration in the market, you may also get a company that "repay" the rest of your investment (taking the cash that is already in the bank into consideration) back to you through profits (after tax) within the next 6,6 years. Based on historic performance, you may get another $49 billion each year! This is the situation even if they don't come up with any innovative new products that boost profits still further. And how does that compare with Africa's biggest company (by market value) - Naspers. Don't misunderstand me, Naspers is also a brilliant company BUT it is really expensive. It needs 94,57 years to repay you your money needed to buy the whole company. This shows that the price you pay plays a big role in deciding which company (or share) you should invest your limited capital reserves in.

With a carefully constructed portfolio (such as the unit trusts that we offer) investors over time will earn a decent return on their investment and the risk of capital loss is limited. BUT you must have the time to invest for the medium to long-term. We can't promise short-term extraordinary returns. In reality nobody can. Our own money is invested in the same unit trusts and we see all our clients as our investment partners in these great businesses.

3. Fund News

3.1 Amalgamation

We are pleased to report that the amalgamation of the two smaller portfolios under management, the IFM Income Provider and the IFM Dynamic Fund of Funds, into the IFM Balanced Value Fund of Funds portfolio, effective on 1 June 2016, was positively accepted by the investors holding units in the funds affected. As a result of the amalgamation, and new investments received, the IFM Balanced Value Fund of Funds is now in excess of a total of R100 million rand under management. We would like to thank all our investors for their continued support and belief in us as fund managers. This amalgamation allows us to provide a better focus on the remaining portfolios under management which we believe will ultimately benefit you – the investor.

3.2 Heiden Grimaud Global Fund

We are happy to communicate that our Group has now received final approvals from the Guernsey Financial authorities for the establishment of "The Heiden Grimaud Global Fund". The fund, which is a Euro denominated Guernsey-domiciled fund, offers a very convenient way for investors seeking offshore exposure to developed financial markets as part of their overall investment strategy, with maximum capital appreciation as their primary goal. Investments are made in global equities listed on recognised exchanges around the world, typically those in the developed markets of the US, Europe and UK.

The investment approach followed is to buy companies with a durable competitive advantage producing the highest real returns over the long-term. The fund is typically invested in equity of around thirty to forty companies which are selected using proprietary investment research undertaken by the fund manager. This spread provides enough focus for research efforts while at the same time offering sufficient diversification. The fund sits at the top end of the risk spectrum and investors should have a high tolerance for short-term market volatility in order to achieve long-term objectives. An investment horizon of at least four years or more should be considered. The fund benchmark is the MSCI All Country World Net Index (Euro).

4. General

4.1 Important requirements for you as investor

All investors must update their FICA details with IFM at least once within the last 12 months. This information is very important, as no enquiry or request may be undertaken by a client consultant unless the correct updated detail is on file with us. The necessary requirement for South African citizens is:

- A copy of their identification document (e.g. ID book or passport);
- Written confirmation of the residential address and contact particulars of the person (e.g. utility bill not older than 3 months reflecting the name and address of the investor);

- A copy of a cancelled cheque or recent bank statement with the account name and bank account details (the bank account must be in the name of the investing party, no third party accounts or payments are permitted). Note that we may not accept an electronic generated statement as proof of bank account verification - the account document must have a bank stamp on it.

Investors can nominate a third party to assist them with their investment account and forward instructions on their behalf, for example a wife can nominate her husband, or a parent can nominate a child. To get this arrangement in place, the investor must complete the 'third party nomination' form – available from the investment support team. By completing this paperwork, we adhere to the stipulations of the Protection of Personal Information Act (POPI)and are then able to act on instructions from the nominated party.

4.2 IFM website

We are delighted to announce the launch of our website, www.itransactfm.co.za. Here you will be able to access:

- More information on who we are;
- Historic as well as the latest Minimum Disclosure Documents (Fund Fact Sheets);
- Copies of newsletters;
- Application Forms;
- Details on how to transact and register as an iBrowse user.

4.3 iBrowse

We would also like to remind you that we offer all our investors the opportunity to log onto IFM's online enquiry portal - IBrowse. This functionality will provide you, the investor, with the ability to effect instructions, such as the generation of statements, without having to contact a consultant. Should you wish to make use of this functionality, kindly contact the IFM client consultant team for assistance on how to register as a system user. The consultant will guide you through a few easy steps and no charges are incurred. There is also more information on how to register on our website, www.itransactfm.co.za.

Any enquiries regarding your investments can be directed as follows:

- 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 IBrowse system is handled by Itransact Fund Managers. The telephone number is 0861 116 075, and email is admin@itransactfm.co.za.

- All investment specific or portfolio enquiries are handled by Heiden Grimaud Asset Management. The telephone number for the fund is 0861 378 378, and the email is investments@heidengrimaud.co.za.

4.4 Communication to Investors

We want to communicate to our investors on a more regular basis, sharing articles of interest and other interesting investment news. We already have quite a number of email addresses on record BUT if you are interested in receiving this information and you are not sure if we have your email address, then please send your personal contact email address and your investor number to data@heidengrimaud.co.za. We will then update our database and you will be able to receive more regular up-to-date investment related information.