

News and Review

Volume Ten – May 2018



1. News from the Fund Manager's Office

As custodians of people's wealth, our primary vision is to provide value-driven asset management services, with a long-term investment horizon, to clients in a responsible manner. While our primary goal is to make money for our clients, we do not promise or attempt to achieve *unsustainable* high investment returns.

There are times when investing seems easy and the runs flow and then there are times when it is very difficult. Volatility in equity markets has been one of the big talking points of late and the rapid changes in sentiment that has been driving these swings have been caused by a number of issues. The South African economy has challenged investors considerably. From unpredictable exchange rates to extremely worrying employment numbers, the local economic prospects looked dire and South African shares were battling.

While this level of volatility might seem high compared to the years of relative calm that preceded it, it is actually not extreme by historical standards. We have seen several periods of equity-market fatigue in the last 20 years. Looking back into the history of the markets over this period, there are three occurrences where the general market has dropped by 30%. Although the market has not gone up in a straight line, it has still grown in value by 10 times over the same period. A negative 3, 6 or 12 months does not change the principle of growth over the long term.

In times where there are changes, it is important to respond with patience and stick to the core investment values. Shares don't always move logically and often returns come when you least expect them. Our basis philosophy is to invest in companies that we think are undervalued and sell them where we think they have reached their worth, regardless of popular opinion. If we can find these companies and identify appropriate entry prices, the underlying value of your investment will go up every year. Share prices sometimes run ahead of this underlying value and sometimes they lag it, but over time, share prices follow

earnings. The equities that we invest in have a balance sheet that supports the value of the equities. So, even though the price dropped considerably, there is still assets in the company which are worth money.

Investing into equities can be quite intimidating as there are risks and capital cannot be guaranteed. However, over the long periods, the risk of loss is significantly decreased. Many investors are discouraged by the daily movements of the market and the volatility and uncertainty can become too much. They cash out at the wrong time. But one should keep having faith in the market. Staying invested and being in the right shares always delivers a great return over time.

As fund managers we are continuously watching the situation and making adjustments to the portfolios throughout. Our funds invested heavily into rand-hedge equities and internationally based portfolios and shares. With a reversal of the Zuma economical drag as a result of Cyril Ramaphosa's victory at the ANC elective conference in December 2017, the currency has strengthened remarkably since from over R14,50 against the USD, to levels well below R12,30 per USD. As a result, we have since December moved away from the over exposure to Rand hedge investments. However, we believe that the South African Rand is set to remain as volatile as it has been in 2017, with politics, state capture, corruption and poor economic growth all having an impact on the performance of the Rand. We do not believe it is correct to completely abandon the hedge against depreciation in the currency.

The stock market is not a place wherein many people make a fortune overnight. Granted, you might hear about the odd 'overnight' success story, but the use of the phrase is relative. If you want to succeed when the markets turn volatile, it is important to invest for the long term. This means maintaining your composure and staying calm when the waters get choppy.

We would like to thank you for your continued faith and support in these volatile market scenarios. Our funds have compounded considerably since inception, but recent returns have been more muted. We are working hard to try and repeat that initial growth performance to achieve our primary goal of maximum capital appreciation for you, our clients.

2. 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 March 2018, the following two portfolios have adhered to their respective policy objectives:

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

Herewith a summary of the analysis of the respective portfolios for this quarter.

Portfolio	Analysis
IFM Technical Fund	<p><u>January 2018</u></p> <ul style="list-style-type: none"> • Increased holding of Anchor Group Limited; Anglo American PLC & Glencore Xstrata PLC. • Did away with holding of African Rainbow Minerals; Anheuser-Busch INBEV SA/NV & Aspen Pharmacare Holdings. • Decreased holding of Schroder European Real Estate Investment Trust PLC. <p><u>February 2018</u></p> <ul style="list-style-type: none"> • Decreased holding of Anglo American PLC; British American Tobacco PLC; Naspers; Reinet Investments SCA; Sasol & Compagnie Financiere Richemont SA. • Did away with holding of Steinhoff Africa Retail & Nictus. • Increased holding of Anchor Group Limited. <p><u>March 2018</u></p> <ul style="list-style-type: none"> • Increased holding of Anchor Group Limited; Anglo American PLC; BHP Billiton; Glencore Xstrata PLC & Naspers. • Added holding of Barclays Africa Group & MMI Holdings. • Did away with holding of Sasol. • Decreased holding of Indequity Group.

Portfolio	Analysis
IFM Balanced Value Fund of Funds	<p><u>January 2018</u></p> <ul style="list-style-type: none"> • Increased holding of Allan Gray Money Market Fund; STANLIB Bond ABIL Retention Fund; Momentum Bond Fund (A) & STANLIB Bond Fund A Class. • Decreased holding of Technical Fund & Foord Equity Fund Class B1. <p><u>February 2018</u></p> <ul style="list-style-type: none"> • Decreased holding of Old Mutual Global Bond Feeder Fund A. • Increased holding of Allan Gray Money Market Fund. <p><u>March 2018</u></p> <ul style="list-style-type: none"> • Increased holding of Foord Equity Fund Class B1; Allan Gray Money Market Fund & STANLIB Bond Fund A Class. • Did away with holding of STANLIB Bond ABIL Retention Fund.

3. Enquiries regarding your investments

Should you have any enquiries regarding your investments, please direct it 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 the 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.

Yours in investments.