

## News and Review

### Volume Nine – January 2018

Dear Investor

#### 1. News from the Fund Manager's Office



Although 2017 was a challenging and action packed year, many South Africans welcomed 2018 with renewed optimism. In line with this positivity, our team offers you and your family our best wishes. We thank you for your continued support and the ongoing trust you place in our ability to manage your investments.

#### 1.1 Steinhoff impact on funds under management

Following media reports early in December, Steinhoff International released a statement in which they announced that an investigation into accounting irregularities is taking place, resulting in the cancellation of the release of their financial results until further notice. The irregularities include doubts about the recoverability of non-South African assets to the amount of 6 billion Euro. The CEO, Markus Jooste, resigned with immediate effect. In response to the uncertainty, there was a massive sell-off in its shares and the share price declined materially. At that stage it was announced that the Group's chairman, Christo Wiese, would be running the business until a new CEO was appointed. However, by mid-December, Wiese also said he was stepping down from the supervisory board which resulted in Steinhoff's share price dropping by a further 10.0% on the day.

This surprising news of a company which was widely owned by institutional investors in South Africa, trading as one of the top 10 companies in the JSE SWIX All Share Index until the news broke, and holding iconic brands and businesses such as Pep, Conforama and Poundland, serves as a reminder that investing is a careful trade-off between seeking return and managing risk.

We have had exposure to this share in the recent past with mixed results. Our exposure was as high as 9,09% of the portfolio at the end of June 2017. However, the fund manager started to reduce this exposure resulting in exposures of 6,37% by end July 2017, 4,32% by end September 2017, 1,15% by end November 2017 and finally an exposure of 0,97% on the day that the negative news broke into the market.

By 19 December 2017 we had closed out all exposure to this share. Our final loss came in at 1,93% of the portfolio. As part of our strategy to limit the effect we have invested into Steinhoff Retail Africa on 6 and 7 December 2017 following the sharp reduction in this company's share price. We again sold half of this exposure 13 days later at a profit of 0,57% of the portfolio

(earning a return of 5,5% over the 13 days). In summary, we can say that not only diversification is the reason why the effect on our portfolio was minimal, but also that active market monitoring by our fund manager is crucial to reacting speedily and without emotion.

## **1.2 The election of Cyril Ramaphosa**

2017 was a challenging year for the country as low growth, high unemployment, credit downgrades, the Gupta leaks, mal-administration of public funds and the dire situation at state-owned enterprises dominated news headlines and the minds of investors. The dismissal of respected finance minister, Pravin Gordhan, along with his deputy Mcebisi Jonas, in March, resulted in the rand plummeting. In August, President Zuma survived yet another motion of no confidence in Parliament. The disappointing medium-term budget policy statement in October and the impact of elevated political uncertainty, following yet another cabinet reshuffle in November, also weighed on investor sentiment.

However, the outcome of the ANC elective conference in December seemed to give investors a glimmer of hope as the Ramaphosa camp claimed victory. Not since Nelson Mandela's inauguration in 1994 have the expectations of South Africans been so heightened by this result. This general wave of euphoria carried over into the financial markets with (to date) a 10% strengthening in the USD/ZAR exchange rate and an 8.3% improvement in long bond yields. The JSE also improved by nearly 6.5% - even despite the effect of the stronger rand on rand hedge stocks and the collapse of the Steinhoff share price.

Of course, national elections are not scheduled until April 2019, and many commentators believe that the new ANC president will experience difficult times as the national executive committee is seen to be made up of 50% Zuma loyalists. It is however becoming increasingly obvious that Mr. Zuma will not be allowed to finish his term and that Mr. Ramaphosa is already consolidating power under the mantra of 'one centre of power – the ANC'.

South Africans are looking carefully at the new powerforce as Mr. Ramaphosa is moving boldly and quickly to address the mismanagement and outright looting which have left many of the organs of state in extremely precarious positions. Chief amongst these is Eskom which is, to all intents and purposes, bankrupt and in dire need of at least R20 billion of short-term funding according to some reports. To get the parastatal moving in the right direction again, he has overseen the induction of a new board – and together with the finance minister, Malusi Gigaba, are in discussions with local banks to alleviate Eskom's immediate cash flow problems.

A lot of improvements still need to be implemented before the macro-economic outlook of the country improves substantially and instills new investor confidence in South Africa. For now, our fund manager's negative rand prospects remain. We have a cautious outlook both globally and locally, and we continue to maintain an allocation to assets that we expect will deliver long-term returns that are more in line with expectations. We are monitoring the situation very closely and will continue to act in the best interest of our clients as changes take place.

## **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 December 2017, 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><b>October:</b></p> <ul style="list-style-type: none"> <li>• Decreased holding of Adcock Ingram Holdings; African Rainbow Minerals; Anchor Group Limited; Aspen Pharmacare Holdings; British American Tobacco PLC; Schroder European Real Estate Investment Trust PLC &amp; Steinhoff International Holdings N.V.</li> <li>• Did away with Novus Holdings.</li> <li>• Increased holding of Anglo American PLC; Anheuser-Busch INBEV SA/NV &amp; BHP Billiton.</li> <li>• Added holding of Sasol.</li> </ul> <p><b>November:</b></p> <ul style="list-style-type: none"> <li>• Decreased holding of Anchor Group Limited; Anglo American PLC; Anheuser-Busch Inbev SA/NV; BHP Billiton; Glencore Xstrata PLC &amp; Schroder European Real Estate Investment Trust PLC.</li> <li>• Did away with holding of Adcock Ingram Holdings.</li> <li>• Increased holding of Reinet Investments SCA.</li> </ul> <p><b>December:</b></p> <ul style="list-style-type: none"> <li>• Increased holding of Naspers &amp; SASOL.</li> <li>• Decreased holding of African Rainbow Minerals; Anglo American PLC; BHP Billiton; Glencore Xstrata PLC; Nictus &amp; Reinet Investments SCA*.</li> <li>• Added holding of Steinhoff Africa Retail.</li> <li>• Decreased holding of Steinhoff Africa Retail and did away with holding of Steinhoff International Holdings N.V.</li> </ul> <p>* Please be advised that there was a corporate action event (Stock Split) for Reinet Investments resulting in the increase of the percentage of fund for Reinet Investments although the holding was drastically reduced.</p>

Portfolio	Analysis
IFM Balanced Value Fund of Funds	<p><b>October:</b></p> <ul style="list-style-type: none"> <li>• Increased holding of STANLIB Bond ABIL Retention Fund; Allan Gray Money Market Fund; Momentum Bond Fund (A) &amp; STANLIB Bond Fund A Class.</li> <li>• Decreased holding of Technical Fund.</li> </ul> <p><b>November:</b></p> <ul style="list-style-type: none"> <li>• Increased holding of Allan Gray Money Market Fund &amp; STANLIB Bond Fund A Class.</li> <li>• Decreased holding of Old Mutual Global Bond Feeder Fund A; STANLIB Bond ABIL Retention Fund &amp; Technical Fund.</li> </ul> <p><b>December:</b></p> <ul style="list-style-type: none"> <li>• Increased holding of Allan Gray Money Market Fund.</li> <li>• Decreased holding of Foord Equity Fund Class B1.</li> </ul>

**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 086 111 60 75, and the email is [admin@itransactfm.co.za](mailto: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](mailto:investments@heidengrimaud.co.za).

*Yours in investments.*