



1 JULY 2019

Dear Investor

INVESTMENT REPORT: MAY – JUNE 2019

Over the last *two months* the *JSE dropped 0.29%* following a loss of 4.84% in May and a gain of 4.78% in June. The total return from the two growth asset classes, local equity and listed property from 27/04/2015 to 30/06/2019 (just over 4 years), has been a poor +19.23% and -2.17% respectively. Not much better from US equities. The New York Stock Exchange Composite Index, considered most representative US index, is 5.86% below its record high of 22/01/2018 and so is the JSE at 5.51% below its record high of 26/01/2018. (Sources: Morningstar, Yahoo Finance, Moneyweb).

The two *Olympiad unit trusts* yielded *+1.12%* (Managed) and *+1.08%* (Worldwide) over the last *two months*. This is due to our $\pm 60\%$ exposure to local bonds and $\pm 34\%$ to local cash. I feel comfortable with this situation.

Bonds are *lending instruments* on which you *earn interest and capital gains or losses* depending on whether short term interest rates increase or decrease. If short term rates decrease, as we currently expect, then we will earn interest plus a capital gain. Should short term interest rates increase then a capital loss will be suffered. For example should short term interest rates fall from 6.7% pa to 5.7% pa then the current interest rate of 8.11% pa on a 10 yr bond becomes more attractive and the demand for the 10 yr bond increases resulting in a capital gain or vice versa. The extent of capital gains/losses will depend on the duration/term of the underlying bonds. Short term bonds of 3 months will suffer virtually no loss or gain however a long term bond of 30 years could experience significant gains or losses. To counter the risk of capital losses income unit trusts, like we are invested in, sometimes hold more than 100 holdings with different maturity dates. As a result they are considered conservative unlike equities which are rated as aggressive.

Bond markets are significantly larger than stock markets. For example over the first five months of 2019 the turnover of the local bond market was R15 trillion and the JSE slightly more than R2 trillion. (Source: JSE). This is a very large, diversified asset class best left to people like Henk Viljoen, Stanlib Income Fund, M.Com (Economics) (Cum laude) with almost 30 years' experience in this field.

Why Olympiad Managed unit trusts rather than a 5 year fixed deposit?

The short answer is that Bonds, Equity and Property have outperformed Fixed Deposits over the long term. For example the AJ High Curve Wrap Fund, now the *Olympiad BCI Managed FOF*, yielded a *gross return of 160.73%* from *1/6/2009 to 28/2/2019* with one negative year of -3.16% in 2016. Inflation (urban areas) over the same period amounted to 62.9%. (Sources: AIMS/InetBridge + Morningstar).

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In conclusion we must be careful to follow the central bank of America (Fed) when US property and stock markets are at record highs supported by high levels of debt and deteriorating business fundamentals.

Please feel free to contact me should you have any questions/comments.

Regards and Best Wishes

A handwritten signature in blue ink, appearing to be 'A', located above the printed name.

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