PRO PICK

Craig Gradidge, Director: Investments at Gradidge-Mahura Investments

SASIX INVESTMENT OF THE WEEK

EMPOWERING GOGOS

LoveLife's goGogetter Programme allows communities to take better care of their orphaned and vulnerable teenagers, and in so doing, reduce their risk of contracting HIV/Aids and other diseases. Through this project, loveLife will encourage 500 grandmothers (or *gogos*) to provide the kind of guidance and support needed by young people, especially in cases where there are no longer parents to fulfil this function. By doing this, the programme aims to break the cycle of HIV infection in high-risk households by bolstering community-level intervention for between 7 000 and 10 000 orphans, vulnerable adolescents and children.

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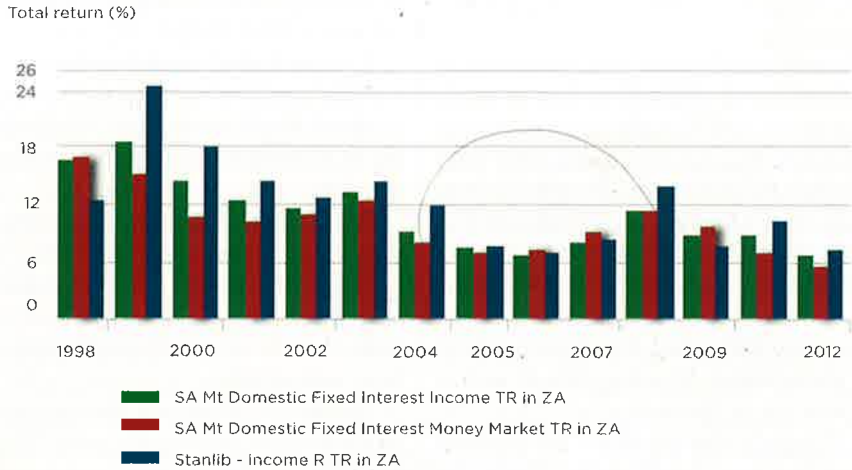
Stanlib Income Fund



SOURCE: Profile Media: Fund Analytics

Interest rates are at their lowest levels in years – which is great if you have debt, but really bad if you want income. Low-risk investors have traditionally chosen the safety of bank deposits and money-market funds as "safe" investments destinations. However, the ever-present threat of inflation has shown these investment options to be quite risky, as investors are now earning less than the rate of inflation as measured by consumer price index.

Another danger that is emerging for many risk-averse investors is "reinvestment" risk. This is the risk that you reinvest returns at a lower rate than the rate at which you made your investment. Investors in guaranteed income products from life insurance companies are dealing with this now. They earned much higher rates from these (expensive) products and will have to settle for much lower rates if they reinvest now.

A quick analysis of unit assets by research house Morningstar (31 August 2012) shows South Africans still have more than R185bn invested in money-market funds and R34bn in income funds. This is puzzling when one considers that income funds tend to outperform money-market funds over time – clearly illustrated in the graph, which goes back to 1998, when money-market funds were first launched in South Africa.

The Stanlib Income fund is managed by Henk Viljoen and Victor Mphaphuli. They have won numerous performance awards in this category, and this is the largest fund in the category by a long way, constituting more than half of the assets in the sector. The fund invests primarily in cash and short dated bonds. This bond exposure is largely responsible for its outperformance relative to cash, while the short dated nature of the bond exposure ensures that risk levels remain comfortably low. The exposure to both bonds and cash also means that the fund is able to manage reinvestment risk as well. The Old Mutual Income fund is also worth considering in this category.

Henk Viljoen

However, it must be noted that if interest rates were to remain low for a while, then the higher relative cost of income funds could start to impact negatively on the potential outperformance relative to cash. Some money-market funds charge as little as 0.28% per annum, while income funds tend to charge 0.86% per annum. That difference of almost 0.50% could be a detractor of future performance. ■