THE INSIDE SCOOP

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New Road BCI Income Fund of Funds

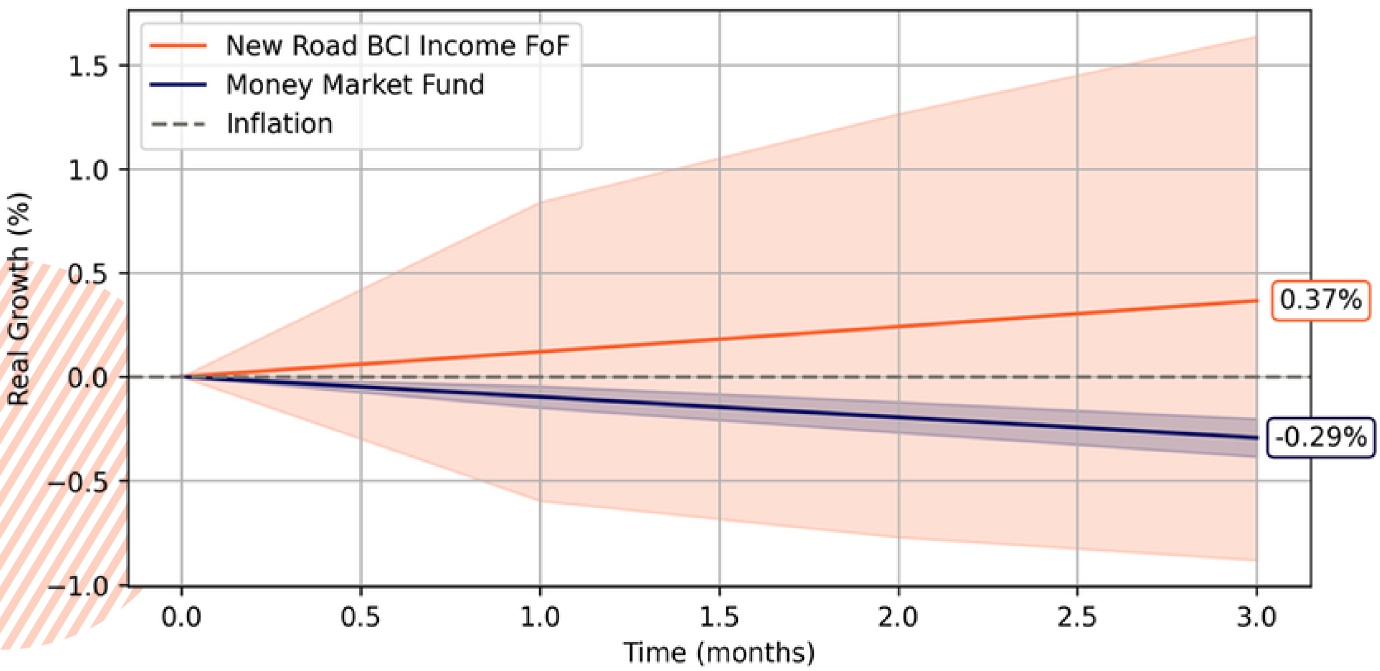
by Garrett Nel

The New Road BCI Income FoF is the most conservative fund offered by New Road Capital and is intended for investors seeking to preserve capital while protecting the real value of their investment through income generating assets. The fund aims to achieve inflation + 1.5% per annum and currently has an annualised return of 7.46% as of the end of April 2022.

It is a well-known fact that money not invested appropriately, loses real value over time due to inflation driving up the overall prices of goods. However, any type of investment has some degree of risk associated with it. Investors often choose to hold cash in a money market account or fund as they deem it a safe haven, especially in times of heightened risk.

In the current high-inflationary climate, money market funds may no longer be sufficient at protecting cash against inflation. Annualised yields on a typical money market fund are no higher than 4.7% at present, while the annualised inflation rate in South Africa is currently 5.9%. This means that investments in the money market are losing real value against inflation.

For better protection against inflation, an Income Fund is a more appropriate investment. The figure below illustrates a simulation of the real growth (inflation adjusted) of cash invested in the New Road BCI Income FoF, versus cash invested in a money market account over a period of three months. The investment in the Income FoF has an expected return above inflation (0.37%), while the money market investment is expected to lose against inflation (-0.29%).



Source: New Road Capital

As the income investment is slightly more volatile, the range of outcomes predicted is wider than for a money market investment (orange shaded area vs. blue shaded area). Because of the low returns expected from money market investments and their low volatility, an investment in one of these funds under the current inflation conditions would guarantee a real loss in value for investors over the period. If, however, an investor placed their funds temporarily in an income fund, they would have a 68.6% chance of beating inflation, and an 80.9% chance of beating the returns of a money market fund. Even in an extreme case, the investor only stands the chance to lose less than 1% of their initial investment when adjusted for inflation. The expected returns obtained from the income fund more than compensate the investor for the small additional volatility taken by significantly reducing the risk of losses in purchasing power.

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