FOREWORD

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DID YOU KNOW? JUNK STATUS

Junk status is the colloquial term for the credit rating status assigned to debt issuers whose instruments are rated one or more ratings levels below "investment grade" by the three major global ratings agencies. The ratings assigned to junk status are Ba1 or lower by Moody's and BB+ or lower by both Standard & Poor's and Fitch Ratings.

South Africa has a high and rising risk of having its foreign currency sovereign credit rating downgraded below investment grade by these leading ratings agencies. Readers should note that the downgrade risk is limited to bonds issued by the South African government that are denominated in foreign currencies. Rand-denominated South African government bonds, which form the majority of total debt issuance, remain soundly rated.

Junk bonds are also known as high-yield bonds or speculative bonds.

MULTIPLE-COUNSELLOR CHANGES TO INTERNATIONAL PORTFOLIOS

Most readers will already be familiar with Foord's multiple-counsellor portfolio management process implemented in 2009. PRAKASH DESAI revisits the rationale for the process and explains the latest developments in the international portfolios.

From its origin in Foord's South African office, the multiple-counsellor process has evolved to include more portfolio managers across most investment strategies. The Singapore-domiciled Foord Global Equity Fund was managed on this basis by multiple managers from its inception.

The manager mix and weights are formally reviewed at calendar year-ends. Significant planning precedes any changes to ensure that the company's internal capacity optimises the firm's ability to generate superior long-term investment returns for investors. The excellent performance across all investment strategies over the past six years reflects the success of this portfolio management practice.

The Foord International Trust/Fund has been the principal exception to the rule, having been co-managed since its inception by Dave Foord and Bruce Ackerman until Bruce's retirement in 2011. Subsequently, it has been managed by Dave as the sole manager. In contrast to multiple-counsellor management, co-management requires investment ideas to meet with consensus before being included in the portfolio. We favour multiple-counsellor management over co-management because we feel that individuals produce better results than teams and because the right investment idea is unlikely to always meet with consensus.

Foord has now extended the multiple-counsellor process to the Foord International Trust/Fund by appointing Brian Arcese as a multiple-counsellor portfolio manager from 1 January 2016. Accordingly, Dave and Brian will each have an allocation, with Brian initially having a relatively small allocation in accordance with the multiple-counsellor philosophy. Brian has 13 years' experience in the investments industry, eight of which have been as portfolio manager in global markets. His equity research focus is on the consumer discretionary, healthcare and utilities sectors. He holds a BA (Economics) and is a CFA charter holder.

> THE MULTIPLE-COUNSELLOR PROCESS HAS EVOLVED TO INCLUDE MORE PORTFOLIO MANAGERS ACROSS MOST INVESTMENT STRATEGIES

Dave's role as CIO and multiple-counsellor portfolio manager on the firm's global equity and multi-asset strategies remains unchanged. Brian will continue to manage a portion of the Foord Global Equity Fund in addition to his research obligations. As with all things at Foord, as stewards of our investors' assets, we always make these changes in the best interests of investors.

We are also pleased to have appointed two additional research analysts, Jeff Suzuki and Kavitha Menon, to the Singapore office. Four experienced analysts from the SA office also contribute to the global research effort. The team of twelve strong analysts and portfolio managers continues to vigorously apply Foord's multi-decade proven investment philosophy in identifying and implementing the quality investment ideas across the globe for the benefit of our investors. It has never been more important to have this international capability than in the current difficult market conditions.

TAX TRANSPARENCY – IMPLICATIONS FOR INVESTORS

The OECD's new global standard to promote tax transparency between its member countries will come into effect in 2017. Many non-OECD countries have also subscribed to the programme. To date, 96 jurisdictions have adopted the standard including South Africa, Luxembourg, Guernsey and Singapore – jurisdictions where Foord funds are domiciled. BRENDAN AFRICA takes a look at the implications for investors.

The Standard for Automatic Exchange of Financial Account Information, or more informally the Common Reporting Standard, mirrors recent anti-tax avoidance legislation implemented by the US. Similar to the US's 2013 FATCA law, the standard will facilitate the automatic exchange of tax-relevant financial account information between participating tax jurisdictions.

> TAX AUTHORITIES HUNGRY FOR ADDITIONAL REVENUE WILL USE THIS INFORMATION TO MONITOR THE FOREIGN ASSETS AND EARNINGS OF THEIR RESIDENTS IN AN EFFORT TO ENFORCE FULL TAX DISCLOSURE AND COMPLIANCE

Reportable information will include personal and tax identification information and, most notably, investment account information (including investment income, account balances and asset disposals). All financial institutions must report this information annually to local tax authorities in respect of non-resident investors.

Investors remain responsible for determining their tax residency. However, financial institutions are now obligated to conduct reasonable due diligence procedures to identify non-resident reportable accounts. Where conflicting residency information cannot be dispelled, reporting would need to be performed for all applicable jurisdictions. Additional due diligence procedures will be required to confirm high value accounts in excess of $1 million.

The reporting requirements will apply to individuals and entities (including trusts and foundations) and will include a requirement to look through passive investment entities to report on the underlying controlling persons and beneficiaries. Reportable financial accounts include bank and investment custody accounts but exclude tax free savings accounts, retirement funds and living annuities.

The financial institutions that will be required to report include banks, life insurers and investment entities such as investment managers, collective investment scheme managers and brokers.

Investors with foreign indicia can expect to be contacted by Foord or its administrators during the course of the year to provide additional information and certifications now required by law. Foord will be compelled to report investors who do not provide the required information to the tax authorities as "undocumented" investors, resulting in account information being shared with all participating jurisdictions.

It stands to reason that tax authorities hungry for additional revenue will use this information to monitor the foreign assets and earnings of their residents in an effort to enforce full tax disclosure and compliance. South Africa has made limited tax amnesty available for this purpose between October 2016 and March 2017. Investors should consult their tax advisors if they are concerned about the tax implications arising from the OECD's automatic exchange of information programme.

WHAT FOORD INVESTORS NEED TO KNOW

Segregated investment portfolio and unit trust investment accounts will qualify as reportable accounts. As a reporting financial institution, Foord will be legally compelled to report annually, without investor consent, the investor information to the local tax authorities. This information may then be shared with tax authorities of other participating countries.

While Guernsey and Luxembourg adopted the standard from 1 January 2016 and South Africa from 1 March 2016, reporting for Foord investors will start in the first quarter of 2017. Singapore is expected to commence reporting in early 2018. Investors with Foord investment accounts outside of their jurisdiction of tax residence will be subjected to the aforementioned due diligence and reporting requirements.

- South African residents investing directly in the Foord international funds will be subject to the reporting and due diligence requirements in the funds' domiciliation: The reported information will automatically be shared with the South African Revenue Service (SARS)
- Non-residents investing in South Africa will have their financial account information automatically exchanged with the tax authorities in their home jurisdiction via SARS
- Investors with accounts in multiple foreign territories will be subjected to reporting in each unique jurisdiction
- Investors in funds domiciled in their own resident domains — for example South African residents invested in the SA-domiciled Foord international feeder funds — will be unaffected

FOORD'S WINNING FUND RANGE

At the recent Morningstar Awards, Foord was awarded Best Fund House – Smaller Fund Range for the third consecutive year.

The Best Fund House awards are given to the fund groups with the best performing fund line-ups on a risk adjusted basis. The Smaller Fund Range award is for fund houses with fewer than 10 funds (but more than three funds) with minimum five-year track records in the Morningstar database.

The Nedgroup Investments Stable Fund, managed by Foord, won the category award for Best Cautious Allocation Fund.

CAUTIOUS ABOUT CONSUMER SHARES

Do you think the economy will improve or deteriorate over the next 12 months? What is the outlook for your household's financial health? Do you believe now is a good time to buy a big ticket item like a house or a car? NANCY MITCHELL **looks at why these questions are important to investors in consumer shares.**

The three questions set out above are key inputs into calculating the FNB/BER Consumer Confidence Index. Answering them will tell you a lot about your own confidence level. We spend much of our time trying to understand how the man on the street is thinking and feeling and typically there are clues all around us. Mood is a difficult thing to quantify, but in June 2015 South Africans experienced a significant deterioration in their levels of optimism. Fifty-seven percent of South Africans today expect a deterioration over the next 12 months versus the 43% that expect an improvement. The last time we were this pessimistic was in 2000 when the dot com bubble burst.

According to Stats SA the poorest 20% of households have between R0 and R600 per month to spend on each member, the richest 20% have over R4,900 per month and the middle has between R1,100 and R2,000 to spend per person. Forty-one percent of those households consist of extended family units and only 21% are a traditional nuclear family (two parents and their children). If one considers that only 30% of people in SA are employed, it becomes obvious that the working population is responsible for a considerable number of dependents. And that means that, from the start, budgets are stretched pretty thin.

For some time now, we have seen signs of stress in low- and middle-income consumers. Retailers report high peaks over paydays and very low troughs during the week. Bread producers will tell you they see trading down to brown from white breads and consumers are looking for smaller pack sizes where they can find them. In contrast, the high-end consumer has been relatively resilient – upmarket food offerings have continued to perform well and upper-end house prices have accelerated. But even in this segment, cracks are starting to emerge. At the beginning of last year we saw a sharp drop off in new vehicle sales and, in the final quarter, luxury houses followed suit.

We believe the consumer is right to be cautious. A depreciating rand increases the cost of imported goods which raises inflation. Interest rates will need to follow. Then, South Africa's ongoing drought will have a disproportionate impact on the poor. Maize producers reported that volumes of maize sold dropped off by 30% when prices were raised in October. Maize is by far the cheapest source of kilojoules so this means that these consumers are unable to "trade down" into another nutritional source. That has clear implications for the levels of poverty in our country. At the top end, taxpayers are faced with fiscal consolidation and a clear need by National Treasury to raise tax revenues to stave off a widely expected foreign currency denominated sovereign debt downgrade to junk status (see *Did You Know?*).

At Foord Asset Management, we have been steadily decreasing our exposure to the South African consumer. However, a company we continue to favour is Mr Price. Mr Price runs a value-fashion business model and typically services the middle- to upper-income consumer. We like the fact that they hit incredibly low price points, which are significantly lower than their nearest competitors. The business is not exposed to the credit cycle and we believe that Mr Price should take market share in a tough consumer environment. The company experienced some operational issues last year, which disappointed the market and impacted the share price, but we believe these are typical of a fashion retailer. We used the opportunity to increase our weighting in this high-quality business with an exceptional track record.

NEW FACES AT FOORD

EUGENE SLINGER
FINANCIAL ACCOUNTANT

EUGENE SLINGER was recruited for the financial accountant role after Tania Williams filled a vacancy on Foord's administration team. Eugene holds a diploma in internal auditing, including financial accounting, from the Peninsula Technikon. He has worked in the financial accounting team at MGI Bass Gordon for the past nine years.

KAREN DU TOIT
HEAD OF RETAIL INVESTMENTS: NORTH GAUTENG

KAREN DU TOIT has been appointed head of retail distribution, Gauteng North. Karen has worked in business development in Pretoria for most of her professional life and we look forward to her contribution in that region. She has a BA Honours degree in Corporate Communication from RAU.

GRANT KOKS
INVESTOR RELATIONSHIP MANAGER: DIRECT INVESTORS

GRANT KOKS joins Arlene Thompson and Nicola Nurick in the Foord unit trust investor relationship team. Grant has spent the past 10 years in a similar capacity at Coronation Fund Managers. He holds a BCom in PPE from UCT.

MARKETS IN A NUTSHELL

INTERNATIONAL

EQUITIES

After a shocking start to the year, global equity markets (+0.2% in USD) latterly recouped much of their losses – emerging markets (+5.8%) especially recovered from grossly oversold levels as risk sentiment improved

BONDS

Bond yields fell materially in response to lower short-term rates – Japanese 10-year bond yields turned negative, joining the U$7 trillion of global bonds now yielding negative rates

CURRENCIES

The yen and euro advanced against the dollar on improved prospects for very gradual US monetary policy tightening – the British pound weakened meaningfully following the announcement of June's "In-Out" EU plebiscite

COMMODITIES

Commodity prices rebounded from depressed levels amid the significant central bank stimulus – oil, gold, platinum and iron ore price gains seemingly more correlated with speculative activity pursuant to bullish Chinese government comments than any real physical demand changes

ECONOMY

Emerging and developed market GDP growth and industrial production in aggregate expanded relatively slowly – US consumption growth remains buoyant, but Eurozone growth has stabilised at very low levels

MONETARY AND FISCAL POLICY

Major non-US central banks pursued additional monetary stimulus by embracing negative interest rates – however, the US Federal Reserve stayed further interest rate increases this quarter and the Fed funds rate "dot plot" now predicts only two further rate rises this year

SOUTH AFRICA

EQUITIES

The FTSE/JSE All Share Index (+3.9%) advanced, tracking the upward trajectory of most emerging market bourses – led by the resources sector, as commodity prices rebounded, and financial shares, which gained as SARB raised the repo rate

BONDS

The All Bond Index (+6.1%) rose – as long bond yields fell on rand strength and propitious political events, despite higher short-term rates

CURRENCIES

The rand (+5.4% vs USD) recovered on improved risk sentiment and dollar and pound weakness – despite the deteriorating political milieu amid allegations of widespread state capture and graft

ECONOMY

Mining and industrial production growth was extremely poor and vehicle sales declined sharply – the economy faces multiple headwinds with rising interest rates and inflation, low real wage growth and deteriorating export demand

MONETARY AND FISCAL POLICY

The SARB's Monetary Policy Committee moved aggressively to quell rising inflation risks by increasing the repo rate by 0.75% – while Pravin Gordhan tabled an austere budget focused on deep expenditure cuts as taxpayers largely escaped additional direct nominal taxes

FUND OBJECTIVE

		Since Inception %	3 Years %	1 Year %	3 Months %

FOORD CONSERVATIVE FUND

Inception date: 2 January 2014

The fund seeks to provide investors with a net-of-fee return of 4% per annum above the annual change in the South African Consumer Price Index, measured over rolling three-year periods. The portfolio is managed to comply with the statutory limits set for retirement funds in South Africa (Regulation 28 to the Pension Funds Act). The fund is appropriate for conservative investors who are close to, or typically in, retirement and whose time horizon does not exceed three to five years.

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	8.3	-	6.8	1.0
Benchmark	9.6	-	10.7	2.6

Benchmark: CPI + 4% per annum, which is applied daily by using the most recently available inflation data and accordingly will be lagged on average by 5 to 6 weeks.

FOORD BALANCED FUND

Inception date: 1 September 2002

The steady growth of income and capital, as well as the preservation of real capital (being capital adjusted for the effects of inflation). The fund is managed to comply with the prudential investment limits set for retirement funds in South Africa. The fund is suitable for pension funds, pension fund members and holders of contractual savings products.

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	16.3	11.9	5.8	1.0
Benchmark	14.0	11.0	6.4	2.2

Benchmark: The market value weighted average total return of the South African Multi Asset High Equity unit trust sector, excluding Foord Balanced Fund.

FOORD FLEXIBLE FUND OF FUNDS

Inception date: 1 April 2008

To provide investors with real returns exceeding 5% per annum, measured over rolling three-year periods. The fund will exploit the benefits of global diversification in a portfolio that continually reflects Foord Asset Management's prevailing view on all available asset classes, both in South Africa and abroad. The fund is suitable for investors with a moderate risk profile who require long-term inflation beating total returns.

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	15.0	16.6	11.6	-2.4
Benchmark	11.3	10.8	11.8	2.8

Benchmark: CPI + 5% per annum, which is applied daily by using the most recently available inflation data and accordingly will be lagged on average by 5 to 6 weeks.

FOORD EQUITY FUND

Inception date: 1 September 2002

To earn a higher total rate of return than that of the South African equity market, as represented by the return of the FTSE/JSE All Share Index including income, without assuming greater risk. The fund is suitable for investors who require maximum long-term capital growth and who are able to withstand investment volatility in the short to medium term.

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	19.5	14.0	0.7	4.8
Benchmark	16.6	12.8	3.2	3.9

Benchmark: Total return of the FTSE/JSE All Share Index

FOORD INTERNATIONAL FEEDER FUND

TEMPORARILY CLOSED TO NEW INVESTMENT

Inception date: 1 March 2006

To provide exposure to a portfolio of international assets including equities, fixed interest, commodities and cash. This is achieved through direct investment into the Foord International Fund, which aims to produce an annualised return over time in excess of 10% in US dollars, thereby expecting to outperform world equity indices. The fund is suitable for South African investors who seek to diversify their portfolios offshore and to hedge against rand depreciation.

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	13.8	20.1	20.0	-6.0
Benchmark	11.0	17.8	22.7	-4.6

Benchmark: US inflation in ZAR

FOORD GLOBAL EQUITY FEEDER FUND

TEMPORARILY CLOSED TO NEW INVESTMENT

Inception date: 2 May 2014

To provide investors with exposure to a diversified mix of global equity and equity-related securities. This is achieved through direct investment into the Foord Global Equity Fund, which aims to produce a higher total rate of return than the MSCI All Country World Index, without assuming greater risk.

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	15.2	-	14.4	-6.6
Benchmark	18.9	-	15.4	-5.5

Benchmark: ZAR equivalent of the MSCI All Country World Equity Index.

NOTE: Investment returns for periods greater than one year are annualised | * Class R, Net of fees and expenses | A MEMBER OF THE ASSOCIATION FOR SAVINGS & INVESTMENT SA

PLEASE REFER TO THE FACT SHEETS CARRIED ON WWW.FOORD.CO.ZA FOR MORE DETAILED INFORMATION.

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