FOREWORD

DID YOU KNOW? 150 000 AND COUNTING

What started out as a good idea just over three years ago has transformed into a financial literacy initiative that is changing the lives of children in South Africa and around the world.

More than enough and *Little by little* are the first two in a series of picture books published by Foord that introduce children (and grownups) to the concepts of saving and investing. They form part of the *Teach Your Child to Invest* financial literacy initiative and our commitment to consumer education.

To date more than 150 000 books have been printed and distributed throughout the country with the help of nonprofit organisations such as The Otto Foundation, Shoes of Wisdom and Wordworks — and countless financial advisors and Foord investors who value the importance of financial literacy.

While 150 000 is a number we are certainly proud of, we won't stop there. There's another book in the pipeline and thousands to share our stories with. Find out more about Foord's *Teach Your Child to Invest* financial literacy initiative at https://foord.co.za/insights/publications/teach-your-child-to-invest

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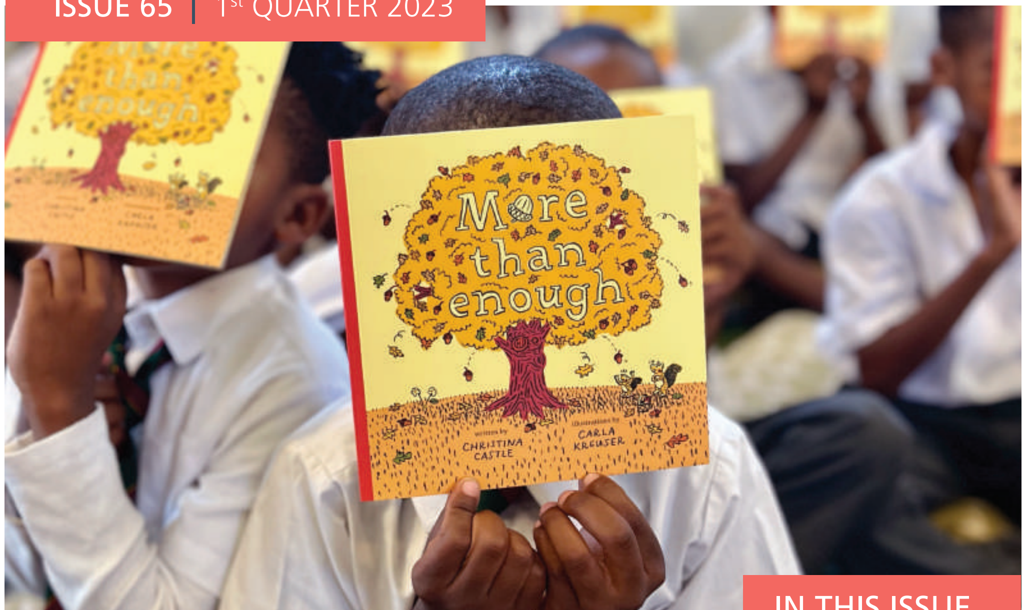

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NICK BALKIN APPOINTED FOORD SA CHIEF INVESTMENT OFFICER

NICK BALKIN
Chief Investment Officer

Dave Foord, eponymous co-founder of investment boutique Foord Asset Management, has been Chief Investment Officer since its founding in 1981. Managing director PAUL CLUER writes that, after 41 years in the role, it was time for a new generation to take the reins.

Dave Foord must surely be the longest serving Chief Investment Officer (CIO) in South Africa. During his 41 years at the helm of Foord's investment team, he has surely also accumulated the best investment performance record of any CIO in the country. Given these factors and his continued passion investments, handing the CIO role to the next generation was not an easy decision for him.

While the decision to appoint a new CIO was in many ways an inevitability, its timing was not. However, having co-founded Foord at the age of 29, Dave felt that it was timely to hand over the reins to the next generation as he approached his 70th birthday. Moreover, the investment team was senior and stable and Foord's investment performance in 2022 was excellent.

Nick Balkin (43) was Dave's natural successor as CIO, given his 18 years tenure with the firm. He formally took over the mantle on 1 January 2023. Nick joined Foord as an equity analyst in 2005 and was promoted to multiple-counsellor portfolio manager on the Foord Equity Fund unit trust and other SA equity strategies in 2010. Accordingly, he has a 12-year track record in these investment strategies.

Over the years Nick has also managed private client portfolios, SA multi-asset funds (which include the low-equity Nedgroup Investments Stable Fund, the medium-equity Foord Conservative Fund and the high-equity Foord Balanced Fund), long-short SA equity hedge funds, as well as managing a slice of the Foord Global Equity Fund for a time. He has covered the full SA market from a research perspective and has also been Head of Research.

> *"Nick's appointment as CIO of the South African investment team is a timely and positive transition for the firm."*

Dave Foord continues in the role of CIO of Foord Asset Management Singapore, which covers the suite of Foord global funds, including the Foord International Fund and Foord Global Equity Funds. He will continue to offer valuable investment counsel to the broader investment team as needed and he remains a multiple-counsellor portfolio manager on Foord's multi-asset portfolios in South Africa and globally.

Over the decades Foord has built a robust and diverse investment team in South Africa and Singapore. Nick's appointment as CIO of the South African investment team is a timely and positive transition for the firm, cementing Foord's commitment to safety-first investment stewardship for decades to come.

FOORD FLEXIBLE FUND TURNS 15

The Foord Flexible Fund of Funds is Foord's best investment view unit trust for South African retail investors. Managing director PAUL CLUER profiles the fund's investment objective and track record on its 15-year anniversary.

Foord launched the Foord Flexible Fund on 1 April 2008 to provide retail investors with a one-stop investment fund. We designed the fund with an unconstrained mandate to allow it to invest in all asset classes, both locally and abroad, in accordance with Foord's prevailing best investment view. The investment objective is to sustainably deliver long-term inflation-beating returns without taking on undue risk. Its benchmark is South African inflation plus 5% per annum.

We structured the portfolio as a fund of funds to allow the fund manager to invest more than the regulatory maximum 20% limit into Foord's flagship offshore fund, the Foord International Fund. At launch, the portfolio invested into a bespoke SA building block unit trust and the Foord International Fund. Today, it additionally invests into the Foord Bond Fund in SA and the Foord Global Equity Fund abroad.

The Foord Flexible Fund is not burdened by the arbitrary asset class restrictions or limitations that apply to typical 'balanced' funds such as the Foord Balanced Fund. Balanced funds are usually designed to comply with the prudential investment framework set for retirement funds (Regulation 28), which in the main restricts investment in two key growth asset classes: offshore investments and equities.

Asset allocation and stock selection are the key drivers of long-term performance. It stands to reason that a flexible investment policy that permits an unconstrained, dynamic asset allocation approach and high-conviction stock selection is well positioned to achieve superior long-term returns with manageable levels of risk.

It is a fallacy that unconstrained investment mandates imply greater investment risk. In our view, the reverse is true: fewer investment restrictions mean more tools to manage the risk of loss. It is important to understand that investment risk is not volatility of returns, but the chance of permanently losing capital.

The Foord Flexible Fund achieved a 15-year track record at the end of March 2023. This presents a good opportunity to evaluate the fund's achievements with respect to its inflation-beating return objective and the premise that an unconstrained mandate is superior to a similar but artificially constrained investment strategy.

When evaluating a fund's investment returns, it is useful to analyse data that covers at least one full business cycle. A business cycle is typically measured from one economic peak to the next peak, or one economic trough to the next trough. Within these cycles, periods of expansion are typically much longer than periods of contraction.

The US has experienced 12 business cycles since the end of World War II, lasting almost six years on average, with some as long as 11 years. We are therefore confident that an analysis of the Foord Flexible Fund's 15-year returns covers the full gamut of economic events typically associated with a business cycle, with all the attendant investment risks.

Indeed, in the past 15 years we've witnessed the last phase of the bull market that ended with the collapse of Lehman Brothers and the advent of the Global Financial Crisis, the correlated decline of almost all financial markets culminating in the June 2009 economic trough, subsequent loose monetary policy and massive government intervention in financial markets that birthed the 'everything rally', increased regulation, the European debt crisis, negative nominal interest rates, Brexit, SA's 'lost decade' and, more recently, Sino-American trade wars, a global pandemic, the Russian invasion of Ukraine and the return of developed world inflation kicking off the fastest interest rate rises in 50 years. That's quite the decade and a half.

The graph below sets out the annualised returns achieved by Foord on its Foord Flexible, Foord Balanced and Foord Equity Funds for the 15 tumultuous years ended 31 March 2023 relative to SA inflation and the investment opportunity set.

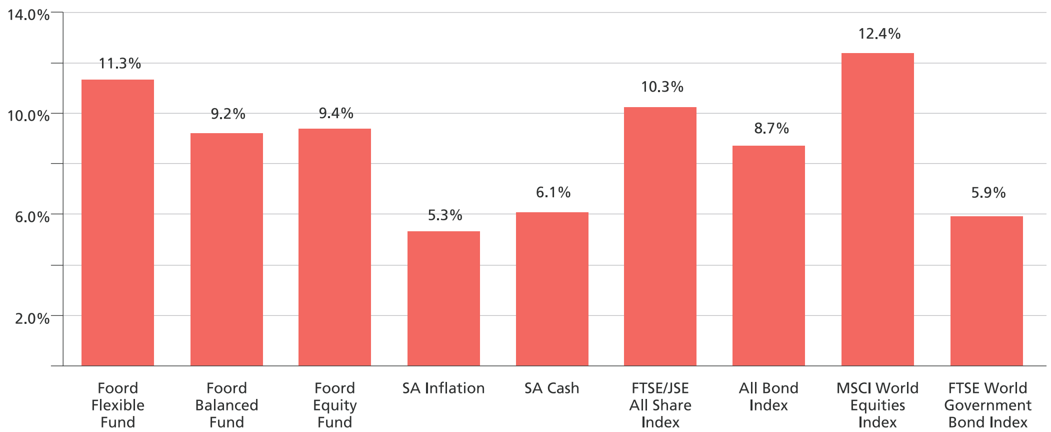
Despite the volatility in financial markets over this time, it has been a good period for investors in the Foord Flexible Fund, which achieved returns of 11.3% per annum when SA inflation has averaged 5.3%. It is also evident that astutely implemented and dynamically managed asset allocation decisions have helped the Foord Flexible Fund achieve a return that exceeds the returns of the key asset class indices, saving only global equities.

I mentioned that our original hypothesis was that an unconstrained, multi-asset class fund should outperform a similar but constrained investment strategy over time. Specifically, we believed that it would outperform the Regulation 28-constrained Foord Balanced Fund, which is ideal for investors investing via retirement fund vehicles, including retirement annuity funds.

The Foord Flexible and Foord Balanced Funds share a basic investment thesis. The implementation differs because of the constrained vs unconstrained nature of the respective portfolios. The cumulative return profile of these funds was initially similar, but started to diverge when the Foord Flexible Fund's offshore and equity weights increased beyond what is possible in the Regulation 28-constrained Foord Balanced Fund.

Over 15 years, the Foord Flexible Fund outperformed the Foord Balanced Fund by 2.1% per annum (both net of fees and expenses). Our initial hypothesis has therefore been proved correct. The outperformance is substantial: an initial investment of R100,000 in the Foord Flexible Fund would have grown to R501,000 and be worth R126,000 more than an equivalent investment in the Foord Balanced Fund over this time. This difference will compound to many millions of rands when extrapolated to 30 or more years.

Successfully managing investment risk and compounding positive returns is the best way to achieve one's long-term investment objectives. While we cannot promise that the Foord Flexible Fund will outperform the Foord Balanced Fund or all asset classes over the next 15 years, on paper it has the better credentials to produce the best long-term total returns.



THE FED RATE HIKES TAKE THEIR TOLL ON BANKS

After the most aggressive rate hiking cycle by the US Federal Reserve in 50 years, cracks are now beginning to appear in the global financial system. It is not surprising to us that highly leveraged sectors such as real estate and banks are now coming under severe pressure. Portfolio manager RASHAAD TAYOB takes a closer look at what this means for South Africa's banking sector.

Since the Global Financial Crisis of 2008, developed market banks have funded their asset portfolios cheaply, with low or zero-cost deposits. During the COVID-19 pandemic, US banks were inundated with low-yielding deposits after massive government stimulus to corporates and consumers. Most banks made the unfortunate decision to invest those deposits in long-term Treasury and mortgage securities at all-time low yields.

Between March 2022 and March 2023, the US Fed hiked rates by almost 5.0%. The rapid increase in rates in the last year dramatically increased all costs of funding. As interest rates moved up sharply, fixed-rated bonds and loans have lost value, since bond prices move inversely to interest rates. As a result, US banks face unrealised losses on these assets estimated at $2 trillion. Many will face insolvency if they are forced to quickly sell those assets to settle deposit withdrawals.

> *"Between March 2022 and March 2023, the US Fed hiked rates by almost 5.0%."*

The problem is that deposits are now leaving the banking system to capitalise on higher yields available elsewhere, typically in money market funds. Banks have been locked into long-term bonds and loans at much lower fixed yields and they therefore don't have sufficient income to offer more competitive deposit rates.

Developed market banks therefore face existential conundrum: if they offer higher interest rates on deposits, they will sustain net interest-income losses, but if they don't, deposit withdrawals will continue and force them to sustain realised losses as they liquidate long-dated bond assets. The upshot is that if interest rates stay high, we will eventually see more bank failures.

Unlike the US, South Africa runs a largely floating interest rate system. Home loans are issued at a floating rate linked to prime. Banks lend to corporates at floating rates and borrowers must hedge their interest rate risk. This system means that SA banks are naturally hedged, as their cost of funding is largely matched by their income.

US banks especially are in trouble because they ignored interest rate risk. Indeed, US regulators didn't even include rising interest rates in their bank stress testing. To the South African banker this would seem bizarre — interest rate, currency and political volatility are a permanent part of the South African investment environment. The hiking cycle of 2002 saw rates go up to 14.3%, while in 2008 they reached 12.0% — yet no South African banks failed.

While SA banks have better managed their interest rate risks, they have also increased their exposure to longer dated government bonds in recent years to around 10% of their asset portfolios. These longer dated bonds have sustained unrealised losses as yields have risen — but these losses are manageable, given their size.

However, the biggest asset on the balance sheet of SA banks are their loan books — which average around 70% of total assets. Despite a very weak economy with growth of only 1% per annum over the last decade, impairment losses on loan books have been low. The big four SA banks have delivered good returns and are well capitalised, but face headwinds if economic weakness persists.

Unlike the US, which has 4,500 banks, the big four SA banks are dominant — they capture over 80% of all deposits. The concentrated banking sector allows investors and regulators to better scrutinise loan books and capital ratios. Banking failures are nevertheless still possible, as we experienced with African Bank. However, because the big four SA banks are systemically important institutions, the SA Reserve would step in to protect depositors in a crisis.

> *"The big four SA banks have delivered good returns and are well capitalised, but face headwinds if economic weakness persists."*

Nevertheless, the failure of Silicon Valley Bank in the US and Credit Suisse in Switzerland have highlighted risks to subordinated bond holders of all global banks. In these cases, regulators intervened to entirely write off subordinated bond capital ('sub debt') to prevent a disorderly collapse of the banks. Sub-debt investors and not depositors sustained the banks' losses.

And herein lies the lesson (and the risk) for investors in the better managed SA banks: the R165 billion of sub-debt capital owned by the savings and investments sector (unit trusts and retirement funds) is at risk if SA banks run into trouble. Recent events have highlighted that only senior depositors at systemically important institutions are safe. Given the risks on the horizon, the Foord funds are structured with a high degree of credit quality and no exposure to bank subordinated debt. As always, it is safety-first at Foord.

MARKETS IN A NUTSHELL

EQUITIES

WORLD

Global equities rallied on expectations that inflation had peaked and that interest rates would soon trend lower — despite fears of a new banking crisis after three US banks failed and Swiss national icon Credit Suisse was forced to merge with rival UBS

SOUTH AFRICA

The JSE tracked global bourses higher, pulled up by index heavyweights Naspers / Prosus on China's COVID-19 reopening and easing of prohibitive tech regulations — but resources stocks were down on generally lower commodities prices (excluding precious metals)

BONDS

WORLD

Developed market bond yields were mostly lower on expectations that the rate rising cycle would soon peak — the US yield curve remains inverted, suggesting recession risk is high

SOUTH AFRICA

SA bond yields tracked global yields lower, with the SA All Bond Index delivering a positive return — SA has one of the steepest yield curves, reflecting the country's long-term risks

CURRENCIES

WORLD

The US dollar was weaker against most majors — driven by changes to rate hike expectations, with the Fed's big hikes almost certainly all behind us

SOUTH AFRICA

The rand weakened against the US dollar on deteriorating fundamentals — despite an intra-quarter rally after SARB surprised the market with a 0.5% repo rate increase

COMMODITIES

The commodities complex was mixed, with precious metals rising and gold nearing the $2,000 mark — while energy prices, including oil, were lower and industrial metal prices fell

ECONOMY

WORLD

Developed market economies have improved growth prospects after energy prices abated and China's economy reopened — inflation is lower in all markets, but core inflation delivered upside surprises in the US and Eurozone

SOUTH AFRICA

Economic growth prospects are beset by persistent (and worsening) load shedding — while FATF's grey listing of SA for anti-money laundering failures added to the country's woes

MONETARY AND FISCAL POLICY

WORLD

The US Federal Reserve raised rates by 0.25% twice, taking the federal funds rate to its highest level since 2007 — while the ECB played catchup, making two 0.5% increases, with the bloc's inflation high but moderating

SOUTH AFRICA

The SARB delivered a surprise 0.5% rate increase when all expectations were for a hike half this size — citing inflation risks from energy, administered prices and food, with rand weakness a key worry

WHERE THERE'S A WILL, THERE'S A WAY

Death is not a subject that we like to discuss, but it is something we ought to plan for. Foord director DIANE BEHR explains how a valid will allows you to control the distribution of your net assets after death and avoid the inordinate delays associated with intestate succession.

In South Africa, the Administration of Estates Act governs deceased estates. In most cases, the Master of the High Court will issue letters of executorship that appoint a nominated executor to wind up the estate in accordance with the deceased's will.

Any person aged 16 years and older is free to make a will to determine how their estate should devolve upon their death. A valid will ensures that an executor you trust to act with integrity and professionalism winds up your estate and that your chosen heirs inherit your assets.

If you die without a will, or with an invalid will, the provisions of the Intestate Succession Act will determine who inherits your assets. Broadly speaking, the beneficiaries of the full estate in order of preference are: spouses, then, in equal shares, dependants, failing which parents, failing which siblings. There is no provision for other interested parties or charities.

A will is an essential document for every adult investor. Make sure that your will is valid and professionally drawn up in accordance with all the legal formalities. It is tempting to print and sign a generic internet version. However, the cost of dying intestate could be devastating on your intended heirs if different from legal succession rules. Intestate succession is also an inordinately long (and therefore expensive) process.

Inform your heirs of the whereabouts of your will and discuss its contents with them. Seek professional advice on the tax implications of your will. Understand the tax burdens associated with death (capital gains taxes on death and estate duties on the devolution of assets) and what assets the executor will need to liquidate to settle these taxes.

The Trust Deed of Foord Unit Trusts and the prospectuses of the Foord global funds allow joint-name registration of a single account by two persons. Given the tax and estate implications, Foord now only accepts joint-name registration by spouses. Joint registration offers ease of administration on death but does not supplant the need for a will. Importantly, ensure that joint-name registration does not conflict with the provisions of your will.

In South Africa, Foord Unit Trusts automatically splits joint-named accounts into two on the death or insolvency of one spouse: one wholly owned by the surviving spouse and the other under the executor's authority. Abroad, the surviving investor becomes the sole-named account holder of the full account. Risks associated with joint registration by South African investors in the Foord global funds relate principally to the automatic exchange of tax information between countries, including South Africa, which require reporting for each joint investor as if they were the sole investor.