FOREWORD

DID YOU KNOW?

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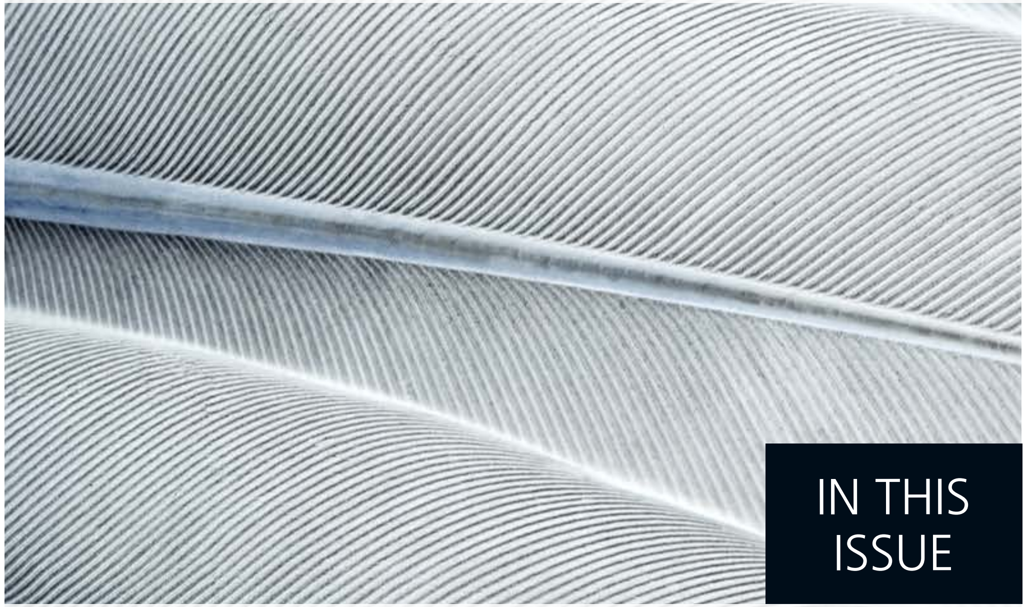
FOORD WINS MORNINGSTAR AWARD FOR 4TH CONSECUTIVE YEAR

Foord was recently awarded Best Fund House – Smaller Fund Range at the Morningstar Awards. This is the fourth consecutive year that Foord has won this award, a testament to Foord's focus on investing through investment cycles.

Morningstar's methodology emphasises one-year risk adjusted returns, but funds must also have delivered compelling three- and five-year returns after adjusting for risk within the award peer groups to obtain an award.

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.



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FOORD UNIT TRUSTS | Tel: 021 532 6969 | Email: unittrusts@foord.co.za | www.foord.co.za

IMPLICATIONS OF SOUTH AFRICA'S RECENT POLITICAL DEVELOPMENTS

Recent South African political developments have been long expected but nevertheless seem to have surprised South Africans. NICK CURTIN explains the implications for Foord's portfolios.

We have noted in various forums how Foord's portfolios have for some time been defensively positioned. The "capital preservation" mantra was a key message of last quarter's *Foreword*. Defensive positioning was the result of Foord's recognition of several heightened uncertainties facing global and local capital markets, one of which is the elevated South African political risk.

In addition, our portfolio managers have been concerned that valuations and forward market multiples insufficiently compensate investors for these myriad uncertainties. We are surprised by the degree of complacency that has crept into market participants.

The most important changes announced in the cabinet reshuffle are those relating to National Treasury. These developments carry the most risk for investors, as policy decisions and actions that divert South Africa from its fiscal consolidation path are likely to be felt in the currency and bond markets, in the valuations of domestically-focused companies and ultimately through likely higher inflation.

Some consequences have already begun to manifest with a sharply weaker rand, higher SA sovereign bond yields and the Standard & Poors and Fitch Ratings foreign currency credit downgrade to sub-investment grade status. We expect further downgrades in due course and continued pressure on the currency, bond yields and "SA Inc." company valuations.

As noted, Foord's portfolio managers were already emphasising preservation of capital through the cycle, for these and other reasons. The above-average money market holdings, low weighting to non-rand hedge JSE shares and very low allocation to SA government bonds evidences our caution.

The portfolio managers have also maintained the maximum foreign exposure allowable for retirement fund portfolios under Regulation 28 of the Pension Funds Act to provide adequate diversification to SA-specific risks. In addition, they have maintained a bias towards high quality, non-resource rand-hedge companies in the South African equity component of the portfolio.

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This defensive portfolio construction outcome was negative for relative performance in the past year. In short, we have not performed well relative to peers that have held a more sanguine investment view.

We are well positioned for rising volatility and will take advantage of such as and when it happens in order build positions that will drive returns in the next performance up-cycle. For now, investors in Foord portfolios are somewhat protected against these risks, given the large allocation to rand hedge assets and a low allocation to bonds. Any impact on inflation is likely to only occur in time.

FOORD INTERNATIONAL TRUST **20-YEAR ANNIVERSARY**

Foord's flagship global fund, the Foord International Trust (FIT), was launched 20 years ago this March. Multiple-counsellor portfolio manager BRIAN ARCESE examines the fund's performance through the lens of the investment cycle.

Although motivated by South Africa's 1997 introduction of asset swaps, Foord's experience of managing multi-asset, absolute return portfolios in South Africa was FIT's true foundation. The fund's conservative, flexible investment policy was a natural extension of Foord's investment philosophy and proven South African investment capability.

FIT's objective is to achieve long-term, inflation-beating US dollar returns over rolling five-year periods with minimum investment risk. The fund has delivered by achieving 6.6% per annum after fees in US dollars, surpassing the 2.1% annualised growth in US inflation and exceeding global developed market equities (+5.6%) and its peer group (+4.1%).

Over the past 20 years, investors have experienced two investment cycles and we are partway through a third (an investment cycle tracks a business cycle, which is roughly six years long and is measured from one economic peak to the next or one trough to the next – see *Foreword 34*, 2nd Quarter 2015). In this article, we analyse the fund's performance in each cycle to illustrate its credentials.

INVESTMENT CYCLE 1: (FIT Inception – March 2003)

THE DOTCOM BUBBLE

Staying true to mandate and positioned conservatively in high-quality companies and government bonds, FIT soon lagged global equity markets prior to the dotcom bubble peak, returning just 19% cumulatively versus 83% for developed market equities. Thereafter, FIT's conservative security selection and asset allocation aided returns. From bubble peak to market trough, developed market equities declined 41% while FIT posted a positive 11% cumulative return. Over this investment cycle, FIT generated cumulative returns of 35% (+4.9% annualised) versus a developed market equity return of -3% (-0.5% annualised).

INVESTMENT CYCLE 2: (March 2003 to March 2009)

EXPANSION TO GLOBAL FINANCIAL CRISIS (GFC)

During this period of steady economic expansion, FIT again lagged developed market equities, achieving a cumulative 95% return versus 146% for global equity bourses until the crash. Underperformance was expected considering the fund's conservative 62% average weight to listed equities, but the outcome was surprisingly credible. As the global financial crisis unfolded, the fund's conservative positioning benefitted investors, with the fund declining 29% from peak to trough, compared to the 57% global equities drawdown. Across the investment cycle, FIT generated cumulative returns of 38% (+5.5% annualised) versus a developed market equity return of 5.7% (+0.9% annualised).

INVESTMENT CYCLE 3: (March 2009 to present)

POST-GFC RECOVERY AND EXPANSION

After the GFC, global economic growth has been slow and inconsistent, but gradually improving. However, artificially-low interest rates fuelled equity and bond market returns. In this environment, with a less-than-full weight in listed equities, FIT again lagged equity markets with a cumulative return of 103% compared to global equity returns of 213%.

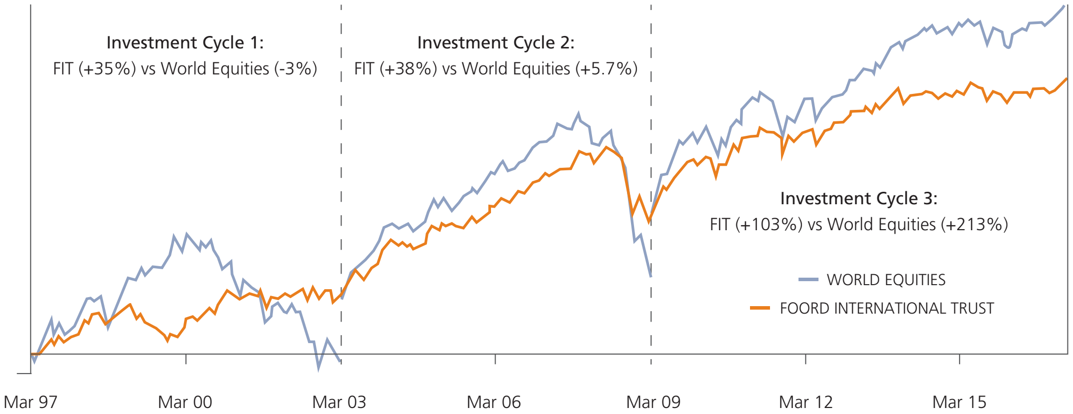
The current investment cycle at eight years and counting is longer than normal, but is still incomplete. Investors might well ask whether it will end differently to the previous two cycles and what could they expect from FIT's relative performance. The largest dissimilarity between the current cycle and the previous two is the notable lack of opportunities to generate real returns outside of select equity markets. While in previous cycles, as market valuations neared their peak, investors could adjust portfolios towards bonds and cash, each asset class offering a real yield, this is not the case today. Accordingly, the managers have maintained a larger equity allocation compared to previous cycles.

That said, structural tailwinds in certain markets afford unique investment opportunities. For example, the fund's Chinese investments, a market which has become increasingly developed and accessible to foreign investors, continue to profit from the structural growth of that country's middle class. In addition, the fund's healthcare sector investments are poised to benefit from the aging global population and the expected increased healthcare services and pharmaceuticals consumption.

As we look ahead, the global investment case remains robust. The recovery, muted for some time, appears to be accelerating. US personal wages are increasing, spurring growth in the world's largest, consumer-driven economy, while European firms recently reported their first quarter of positive annual growth in nearly two years. Despite improving economic fundamentals, much investment uncertainty remains. The unwinding of overly-accommodative monetary policy in the developed economies, coupled with slowing investment growth in China, should cause increased volatility.

With growth prospects uncertain and developed market equity valuations stretched, FIT remains cautiously positioned. Shares in the portfolio are concentrated in companies that generate higher returns than global peers while operating with less leverage – these firms should grow their earnings ahead of developed market inflation. The fund's cash position, although a drag in rising equity markets, provides optionality to exploit expected market volatility and stability should the cycle abruptly end and markets draw down.

As we near the end of this third investment cycle, it is our expectation that FIT will again provide investors with the same degree of protection afforded during the first two full investment cycles of its existence. When this third investment cycle is complete, we expect the fund's relative returns to more closely mirror historical patterns.



THE **TECH** DISRUPTION

Software has become the centre of modern innovation and industry disruption. ISHRETH HASSEN writes about the profound implications of software's inexorable progress.

Over two billion people today access a networked mobile super-computer compared to just 50 million broadband users 15 years ago. Using this infrastructure, technology companies like Google, Amazon, Facebook, Alibaba and Tencent have built complex global data-centre networks to collect, process and derive intelligence from gargantuan volumes of user data.

Today's media landscape is vastly different from a decade ago. The world's largest media company is Google. The largest communication platform is Facebook, the largest video business is Netflix and the largest music company is Spotify. While most legacy media businesses were highly localised with clumsy user insight, today's global software giants own incredibly detailed databases of user data. Data such as location, demographics, purchase habits, searches, likes/dislikes, media preferences and behaviour is used to provide highly targeted content to end users.

Marc Andreessen famously said, "Software is eating the world." He explained that software is "eating much of the value chain of industries that are widely viewed as primarily existing in the physical world." Cameras were eaten by mobile phone software long ago. Uber is now the world's largest taxi company. Priceline is the largest travel agent. Airbnb is one of the largest hotel businesses. Tesla is now bigger than Ford.

Smartphone mobile eco-systems democratised software access. Soon, artificial intelligence (AI) ecosystems will allow a new technology paradigm shift. Futurist Kevin Kelly believes AI will revolutionise our lives just as electricity did in the 19th century. Everything previously "electrified" will become "cognified." Smartphones, houses, media, retail, banking, manufacturing – all goods and services – will be enhanced by AI.

The $2.5 trillion automobile industry will not escape cognification. Today's vehicles have engines, infotainment systems, safety features and numerous other functions that depend heavily on software. Autonomous driving, already being tested, will dramatically alter car ownership and fleet utilisation patterns. And inter alia disrupt oil, auto insurance, auto parts, urban planning and logistics industries.

Companies like Google and Baidu have developed neural networks, which get smarter and better with experience, to power driverless cars. Google's proprietary, self-designed chips that power its driverless software are at least 30 times more effective than Intel or Nvidia's chips. No leading traditional auto company can compete with Google on software or infrastructure. Google's advantage is its unique ability to leverage its existing network of data-centres that power its search, Android, youtube, Appstore, chrome and map ecosystems.

"Companies in every industry need to assume that a software revolution is coming," wrote Marc Andreessen in 2011. "In some industries, particularly those with a heavy real-world component such as oil and gas, the software revolution is an opportunity for incumbents." Today, the same applies to manufacturing, staples, food retail and healthcare. Management teams with excellent technical executives will fare better than others.

These structural software trends are not only of interest. They assist in shaping Foord's macro investment view, stock selection and portfolio construction as we focus on identifying quality businesses in all industries that can grow earnings ahead of expectations and the market.

MIKE SOEKOE **RETIRES**

This quarter, we bid a sad farewell to Foord's head of global distribution, Mike Soekoe, who retired at the end of March. PAUL CLUER looks back at Mike's time at Foord.

Mike joined Foord in 2008, on the verge of turning 50 (but looking 40), in the embryonic position of business development manager for retail investors. In plain English, Mike's role was to engage financial advisors to share the Foord investment philosophy and to build professional relationships.

This was Mike's third career, having started out in the fast-paced world of open-outcry stockbroking, where he first met Dave Foord in the 1980s. Choosing to escape the big city rat race, Mike later "retired" to the Garden Route where he then established a regional office for BoE Private Clients, which flourished under his stewardship.

Despite his background in stockbroking and wealth management, Mike had no specific business development experience in the unit trust industry and no obvious networks with the financial advisor community. But, to his credit, Dave knew that Mike had the right personality, temperament and energy to make a good go of the role. Always the glass-half-full kind of man, Mike was equally optimistic.

And the rest, as they say, is history. Denied the classical financial services sales tools of commissions and large advertising budgets and armed only with Foord's investment stewardship value proposition and track record, Mike set about building relationships, developing his network and advocating the Foord unit trust funds in a crowded space.

He slowly got traction in the market, getting appointments with financial advisors and then business started to flow as Foord's brand grew. Ever conscious of his wish for an early retirement, Mike then set about building a team to assist him in the major metropolitan centres. From humble beginnings with breakfast sessions for only 8 to 12 advisors, Mike and his team have built up the multi-city, bi-annual "Mind of the Manager" roadshows that now draw hundreds of financial advisors per session.

MIKE SOEKOE
HEAD OF GLOBAL DISTRIBUTION

For the past two years, Mike was based in London while performing a similar role for Foord's offshore investment funds. Now, having dispelled the travel bug, he and his wife Lin will return to South Africa to spend more time with their children and grandchildren. Lin is keen to renew her *pro bono* work at the Women's Legal Centre and Mike has missed the sun, the outdoors life and especially his Vic Bay surfing.

Mike has achieved a huge amount during his nearly nine-year tenure at Foord. I know that he would not have made the decision to retire if he did not have full confidence in the team that now continues his work. We will all miss Mike's enthusiasm, friendship, good humour and special interpersonal insights. As with almost all other Foord retirees, Mike now transitions into the role of investor and we will be pleased to host him at the annual year-end investor roadshows that have become the hallmark of Mike's career at Foord.

MARKETS IN A NUTSHELL

WORLD

EQUITIES

The Trump "risk-on" rally continued, propelling US equity markets to record highs – European bourses also rallied on improving fundamentals, while the Nikkei underperformed other Asian markets

BONDS

Bracing for a more hawkish outcome, US bonds yields rose sharply before retreating on Fed confirmation it anticipated gradual rate increases – euro bond yields gained on positive economic data and accelerating inflation, with 10-year bonds again reflecting positive yields

CURRENCIES

Higher commodity prices boosted emerging market currencies – the yen outperformed other hard currencies, while sterling was hamstrung by Brexit uncertainties

SOUTH AFRICA

The FTSE/JSE All Share Index advanced, tracking global emerging markets higher – on higher commodity prices and improved investor sentiment

Treasury announced a new 45% top marginal income tax bracket, fiscal drag and a surprise DWT increase to boost government revenue – SA government bonds were initially supported by continued demand for high yielding emerging market debt, but sold off after Pravin Gordhan was fired

Emerging market currencies rallied, with the real, rouble and rand making material gains – the rand's advance to R12.30/$ was abruptly halted after the cabinet reshuffle, giving back R1.00 against the dollar

COMMODITIES

Metals prices, except iron ore which declined from elevated levels, advanced with gold (+8.6%), platinum (+5.2%) and copper (+5.9%) gaining – oil prices declined on higher US stockpiles and signs of poor OPEC member state production cut compliance

ECONOMY

A synchronised global growth cycle is emerging, with leading indicators and PMIs heralding more healthy growth – forward-looking indicators suggest that soft data (business leaders' expectations) support hard data prints (output by businesses)

The SA economy contracted 0.3% in Q4 2016, dragged lower by the mining and manufacturing sectors – a significant improvement in net exports and increased foreign dividend receipts boosted SA's current account

MONETARY AND FISCAL POLICY

The Federal Reserve increased its benchmark federal funds rate to 1.0% amid rising confidence that the US economy is poised for robust growth – benchmark interest rates in other major developed economies were unchanged

The South African Reserve Bank kept the repo rate unchanged, with the governor noting that SA may have reached the peak of the current hiking cycle – rising food prices pushed inflation higher, in line with SARB's estimates

FUND OBJECTIVE

FOORD FLEXIBLE FUND OF FUNDS

Inception date: 1 April 2008

The fund aims to provide investors with a net-of-fee return of 5% per annum above the annual change in the South African Consumer Price Index, measured over rolling three year periods. Exploiting the benefits of global diversification, the portfolio continually reflects Foord's prevailing best investment view on all available asset classes in South Africa and around the world.

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	**13.3**	8.6	0.5	2.5
Benchmark	**11.3**	11.0	11.8	2.9

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 BALANCED FUND

Inception date: 1 September 2002

The fund aims to achieve the steady growth of income and capital as well as the preservation of real capital (capital is adjusted for inflation). The portfolio is managed to comply with the statutory investment limits set for retirement funds in South Africa (Regulation 28).

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	**15.1**	6.1	0.3	2.3
Benchmark	**13.2**	6.2	2.3	2.8

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

FOORD CONSERVATIVE FUND

Inception date: 2 January 2014

The fund aims 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 investment limits set for retirement funds in South Africa (Regulation 28).

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	**6.2**	6.2	1.5	2.2
Benchmark	**9.9**	9.9	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 EQUITY FUND

Inception date: 1 September 2002

The fund aims 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.

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	**17.9**	5.1	-0.7	1.8
Benchmark	**15.6**	6.0	2.5	3.8

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

FOORD INTERNATIONAL FEEDER FUND

CLOSED TO NEW INVESTMENT

Inception date: 1 March 2006

The fund aims to achieve long-term inflation-beating US$ returns over rolling five-year periods by way of investment in listed securities on global exchanges — including equities, exchange traded funds, UCITS and other UCIs, convertible bonds, interest-bearing securities and warrants as well as cash deposits.

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	**12.1**	10.6	-4.1	2.5
Benchmark	**9.2**	9.7	-6.7	-1.8

Benchmark: US inflation in ZAR

FOORD GLOBAL EQUITY FEEDER FUND

CLOSED TO NEW INVESTMENT

Inception date: 2 May 2014

The fund aims 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*	**9.9**	-	0.4	5.4
Benchmark	**13.7**	-	4.3	3.9

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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