FOREWORD

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IN THIS ISSUE

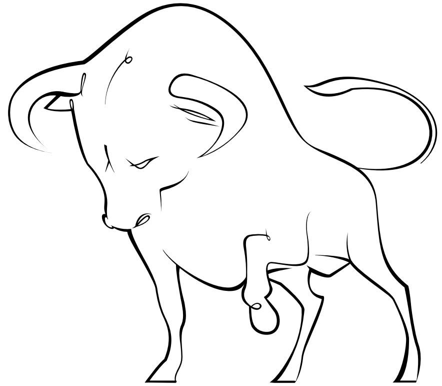
- MANAGING FUNDS FOR NEDGROUP INVESTMENTS
- EQUITIES - GROWTH OR RECESSION?
- TURNING R1 INTO R300
- WELCOME, MARIO SCHOEMAN

DID YOU KNOW? DOUBLE-DIP RECESSION

A double-dip recession occurs when an economy suffers a recession, emerges from the downturn with a short-lived recovery, but quickly falls back into recession. It is also referred to as a W-shaped recession with the "W" shape illustrating the initial decline in GDP, the subsequent recovery and second decline (before growth ultimately returns).

Double-dip recessions are characterised by a slowdown in demand for goods and services because of job losses and lower consumer spending from the previous downturn. Other recession shapes include V-shaped, U-shaped and L-shaped.

FEELING A LITTLE BULLISH



The past quarter has been a good one for investment markets. July saw significant gains in share markets, reversing year-to-date losses incurred in the six months to 30 June. After a weak August, global equity markets surged once more in September as investors increased their appetite for growth assets. Emerging market securities, including those in South Africa, remain in demand. It may appear that the bulls have triumphed over the bears but the price volatility reflected in the equity and bond markets reflects ongoing uncertainty by market participants.

Dane Schrauwen's lead article (see *Managing Equity Risk in Uncertain Times*) in this issue focuses on the continuing debate around the sustainability of the global economic recovery. There are strong arguments for and against the possibility of a double-dip recession. The future path of the recovery has profound implications for investment markets and the construction of investment portfolios. Dane summarises the key issues and sets out Foord's view for the future path of the recovery and explains how Foord has structured its portfolios accordingly.

Also in *Foreword* this quarter, Mike Soekoe discusses the relationship between Foord Asset Management and Nedgroup Investments. In pursuing its Best of Breed™ business model, Nedgroup prefers to partner with boutique, typically owner-managed fund managers who have demonstrable track records in their areas of expertise. There has therefore been a natural synergy and fit which has seen Foord successfully manage two of Nedgroup's flagship portfolios.

Paul Cluer profiles the Foord Umbrella Provident Fund's remarkable achievements since its launch 23 years ago. The Umbrella Fund is the retirement fund of all Foord employees. For the last five years the fund has been fully invested in the Foord Balanced Fund unit trust.

This quarter we welcome Mario Shoeman to the team. Mario joins Mike Soekoe in the business development and client servicing team but will focus on the Gauteng region.

I look forward to communicating again early in the new year.

Chris Greyling
Chairman: Foord Unit Trust

IN A NUTSHELL

BRUCE ACKERMAN and WILLIAM FRASER summarise the market movements for the third quarter of 2010.

	INTERNATIONAL	SOUTH AFRICA
EQUITIES	Equity markets rose strongly, less so those with appreciating currencies - on confidence that a double-dip recession would be avoided owing to continued stimulatory monetary policies and strong emerging economy growth	Improved global sentiment caused JSE-listed shares to appreciate sharply, in line with global markets - with earnings momentum looking positive and developed market valuations appearing reasonable to cheap
BONDS	Government bond yields declined sharply - as interest rates remained at nominal levels, governments were creating money partly to buy in their longer dated bonds, and the prospect of inflation re-emergence remains remote	South African gilt yields dropped significantly - driven by a sharper-than-forecasted decline in domestic inflation, a reduction in the repo rate and foreign demand for high yielding SA debt
CURRENCIES	Euro rebounded on surprisingly strong economic growth in Germany and the apparent stabilisation of peripheral countries' finances - while the dollar weakened on the prospect of further monetary policy easing that would not be followed by Europe	Emerging markets are recipients of re-allocated capital - with JSE-listed shares and the rand benfiting from this trend
COMMODITIES	Industrial commodity prices rose sharply on supply side pressures and on continued Chinese demand - while agricultural commodities' prices benefited from adverse climatic conditions in Russia	
ECONOMY	Merger and acquisition activity revived - an indication of improved business confidence, attractive target valuations and cheap money	Commodity prices rose and import growth slowed - benefiting SA's terms of trade with the current account deficit reducing to 2.8% of GDP in the second quarter
MONETARY AND FISCAL POLICY	Interest rates in developed economies remain at nominal levels - to stimulate flagging economies as further fiscal measures are not feasible, both electorally and debt burden wise	Short-term interest rates were further reduced to 6.0% - as domestic demand remains low, unemployment levels high and inflation falling to 3.5%, while the rand remains strong relative to the currencies of most of SA's trading partners

MANAGING EQUITY RISK
DURING UNCERTAIN TIMES

The American comedian, Evan Esar, said that statistics was "the only science that enables different experts using the same figures to draw different conclusions." As DANE SCHRAUWEN explains, this tongue-in-cheek definition rings true during these uncertain economic times.

Global economic statistics are released daily and interpreted by economists and so-called "experts." At their extremes, the widely divergent views are either for a double-dip recession or for accelerating growth. Investors are just as confused, resulting in substantial price volatility in equity and bond markets.

The economic data coming out of the US has certainly been disappointing. Their housing market is struggling and anaemic job creation has muted consumer spending. But not all news has been poor. Strong corporate profits, rising manufacturing production and record-breaking US GDP per worker point to growth. If growth continues, job creation and consumer spending will follow.

However, the most likely outcome is a muddle-through scenario in which recession is avoided but growth remains relatively muted. Even if a double-dip recession is avoided, high consumer and government debt will have to be worked off over the next decade or so. This will be done primarily through higher taxes to governments and higher savings from consumers.

Although unexciting from an economic perspective, this scenario has profound implications for investment markets, which have already priced in the possibility of recession and deflation. Bonds offer very low yields while shares offer very attractive yields (especially if one believes forecast earnings). In a muddle-through scenario, earnings are unlikely to be as high as current forecasts predict, but this has already been largely discounted in share prices. In contrast, the bond market has already priced in little or no inflation. Even in a mildly inflationary environment, the 2.7% yield offered on US ten-year treasuries offers no protection.

In a worst-case scenario (recession), a diversified portfolio of equities, comprising a judicious mix of good quality growth and defensive shares, coupled with a reasonable cash holding, should offer sufficient protection. Government debt should be avoided, despite the possibility of further gains. If growth and inflation surprise on the upside, a conservative portfolio of shares, property and cash will benefit while bond investors sustain heavy losses as yields rise and bond prices fall.

> **"IN OUR VIEW, THE MOST LIKELY OUTCOME IS A MUDDLE-THROUGH SCENARIO"**

While we believe that the balance of probabilities favour a growth scenario, the risk of recession and deflation is not negligible. For long-term investors, the prudent course is to construct a portfolio that favours growth but nevertheless offers protection in the event of recession.

WHAT WERE YOU DOING 23 YEARS AGO?

Do the maths and you'll find yourself in the late 1980s - a period characterised by Reaganomics, Thatcherism and the fall of the Berlin Wall. From an investment perspective, what did you do 23 years ago? If you had invested R20 000 in the Foord Umbrella Provident Fund 23 years ago, today that investment would be worth over R6 million. PAUL CLUER explains.

> **"THE FUND'S UNIT PRICE APPRECIATED FROM A STARTING VALUE OF R1 PER UNIT TO JUST OVER R300 PER UNIT IN 2010"**

During this time, the fund's unit price appreciated from a starting value of R1 per unit to just over R300 per unit in 2010. That is a return of approximately 30 000% (this is not a typo - it's a return of thirty thousand percent!).

Taking into consideration that R20 000 was worth much more 23 years ago than it is today (equivalent perhaps to the price of a small vehicle today), this is still an outstanding return. And for the last six years the Foord Umbrella Provident Fund has been invested in the Foord Balanced Fund unit trust - a fund that any investor can access with a lump sum from R20 000.

Twenty-three years ago, Carolyn Bywater, an employee at Foord Asset Management, invested retirement contributions of R8 545 into the Foord Umbrella Provident Fund. By the time she left Foord to start a family in 1990, those contributions had grown to R18 145 and today that investment is now valued at R1 329 238 - without any additional contributions in the past 20 years. Her contributions grew by an average of 27.9% per year over this period.

For most people, 23 years seem like forever - especially when contemplating the future. But for many of us, with hindsight, 23 years ago seems like yesterday. This is due to the asymmetrical nature of time: it stretches ahead forever but passes quicker than we realise. If you missed out on investing 23 years ago, it is never too late to start. In another 23 years from now, we will all look back and think how quickly time flies. Wouldn't it be nice to appreciate the passage of time while measuring the compounded growth of your investments?

PARTNERSHIP WITH NEDGROUP INVESTMENTS

Nedgroup Investments is the unit trust business of the Nedbank Group. It pursues a Best of Breed™ model whereby it seeks to appoint the best fund managers to run a particular mandate (it does not "blend" managers, which is known as multi management). MIKE SOEKOE takes a closer look at Nedgroup's relationship with Foord.

Nedgroup favours boutique investment houses with demonstrable track records where the portfolio managers have material equity participation in the business. This ensures an alignment of interests because the portfolio managers are rewarded financially when they achieve good returns for clients.

Foord Asset Management represents an ideal partner for Nedgroup and in 2004, Nedgroup approached Foord Asset Management to manage the Nedgroup Investments Value Fund. Three years later, Foord was appointed to manage the Nedgroup Investments Stable Fund.

A value fund is an equity fund which prescribes an investment in shares reflecting low relative price-earnings ratios and/or high dividend yields that are trading at a discount to their net asset values. Shares that don't meet these criteria are generally excluded from the investable universe. A stable fund is an asset allocation fund (investing in shares, bonds, listed property, cash and foreign investments) that limits the maximum investment in shares to 40% of the portfolio. In contrast, most prudential funds such as the Foord Balanced Fund limit the maximum equity exposure to 75%.

Nedgroup Investments offers unit trust portfolios that cover both generalist and specialist mandates.

> **"BOTH OF THE NEDGROUP INVESTMENTS FUNDS MANAGED BY FOORD ASSET MANAGEMENT ARE SPECIALIST FUNDS"**

Both of the Nedgroup Investments portfolios managed by Foord Asset Management are specialist funds. The Value Fund disqualifies certain shares from inclusion in the portfolio while the Stable Fund suits investors whose investment horizons do not exceed two years.

At Foord Unit Trusts we believe that long-term savings vehicles should not be overly constrained. Portfolios should be conservative when required but also have the flexibility to take advantage of growth cycles. For the long-term investment needs of clients, we prefer the greater flexibility provided by the generalist mandates of our Foord Equity Fund (representing our best investment view for equities), Foord Balanced Fund (for pension funds) and Foord Flexible Fund (for individual investors). The Foord International Trust is a fully flexible generalist portfolio that invests in securities around the world and that is priced in US dollars.

WELCOME, MARIO SCHOEMAN

During the quarter, Mario Schoeman joined Mike Soekoe in the business development and client servicing team. This team prioritises the financial advisor market by sharing and communicating the Foord investment philosophy, approach and excellent long-term track record.

Mario is based in Johannesburg and will therefore focus on servicing advisors and investors in the Gauteng region. Mario has been in the industry for many years, first with Stanlib and later joining the Old Mutual group where he gained broad industry experience. Mario has completed his MBL and has registered for a PhD.

We are pleased to have Mario join the team and wish him all the best in the role. If you have any questions on your investment portfolio or are seeking more information about Foord products, please don't hesitate to contact Mike or Mario or any member of the Foord team.

WISE WORDS

"The most important variable in valuing any asset is the risk-free interest rate over the life of the investment.

INVESTING INVOLVES ANTICIPATING CHANGES TO THE COST OF MONEY.

Those who succeed have the opportunity to be great investors."

FOORD FLEXIBLE FUND OF FUNDS

INVESTMENT RETURNS

	1 Month %	1 Year %	3 Years %	Since Inception %
Foord*	4.5	15.2	-	**5.1**
Benchmark	1.0	8.9	-	**12.7**

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.
Inception date: 1 April 2008

OBJECTIVE

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, but who do not require a high income yield.

FOORD INTERNATIONAL FEEDER FUND

INVESTMENT RETURNS

	1 Month %	1 Year %	3 Years %	Since Inception %
Foord*	-0.7	1.4	0.7	**6.9**
Benchmark	2.6	-3.0	-9.9	**0.4**

Benchmark: The ZAR equivalent of the MSCI World Equities Index (developed markets)
Inception date: 1 March 2006

OBJECTIVE

To provide exposure to a portfolio of international securities constructed with the purpose of maximising return with minimum risk. This is achieved through direct investment into the Foord International Trust, 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.

FOORD BALANCED FUND

INVESTMENT RETURNS

	1 Month %	1 Year %	3 Years %	Since Inception %
Foord*	6.0	15.7	5.0	**17.8**
Benchmark	4.1	12.8	6.1	**15.5**

Benchmark: The market value weighted average total return of the Domestic Asset Allocation Prudential Variable Equity unit trust sector, excluding Foord Balanced Fund.
Inception date: 1 September 2002

OBJECTIVE

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 (Regulation 28 to the Pension Funds Act). The fund is suitable for pension funds, pension fund members, holders of contractual savings products, medium- to long-term investors and those investors who require the asset allocation decision to be made for them, within prudential investment guidelines.

FOORD EQUITY FUND

INVESTMENT RETURNS

	1 Month %	1 Year %	3 Years %	Since Inception %
Foord*	10.1	24.2	4.7	**21.1**
Benchmark	8.7	21.1	2.3	**18.2**

Benchmark: Total return of the FTSE/JSE All Share Index
Inception date: 1 September 2002

OBJECTIVE

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.

NOTE: Investment returns for periods greater than 1 year are annualised * Net of fees and expenses

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