FOREWORD

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IN THIS ISSUE

DID YOU KNOW?

ASIAN TIGERS

Defined narrowly, "Asian Tigers" refers to the four now highly developed economies of Hong Kong, Singapore, South Korea and Taiwan. Between the 1960s and the 1990s, these four tigers grew their economies from developing laggards to global economic leaders, growing at 7% per annum over this period. Significant investment in export-driven industrial policies, education and research and development fuelled their growth. All of these economies are well known for their high level technological outputs.

Together, they are the eighth largest economy in the world, a fact made all the more remarkable considering that they have a combined total of just over 1% of the world's population. Standards of living in the Asian Tigers are high, with GDP per capita exceeding $32,000 in 2011.

The broader Asian Tigers group also includes the developing economies of Thailand, Indonesia and Malaysia, but these countries have not advanced as rapidly as their more developed cousins. The region attracted some measure of notoriety during the 1997 Asian financial crisis. Although the crisis was a setback for the zone, the economies of the Asian Tigers rebounded strongly.

10 YEARS OF TOP RETURNS

Foord Unit Trusts launched its flagship unit trust portfolios ten years ago on 1 September 2002. MIKE SOEKOE explains that Foord now legitimately enjoys a track record of unparalleled top-ranking returns in the unit trust industry that emulates its track record in managing pension fund portfolios since the early 1980s.

The Morningstar® unit trust performance tables to 31 August 2012 show that Foord's Equity and Balanced funds have achieved top-ranking returns over the ten years since their inception. In the General Equity sector the Foord Equity Fund placed third overall for ten years, whilst the Foord Balanced Fund placed second overall for the same period in the Prudential Variable Equity sector.

It is pleasing to have delivered such top-ranking returns to investors who have been invested in Foord's unit trust funds for the past decade. More pleasing to Foord, however, is the consistency of returns. Analysis of the performance results shows that both funds have placed amongst the top three funds over one, three, five and seven years as well.

> **"IT IS PLEASING TO HAVE DELIVERED SUCH TOP-RANKING RETURNS TO INVESTORS WHO HAVE BEEN INVESTED IN FOORD'S UNIT TRUST FUNDS FOR THE PAST DECADE."**

Foord Rank / Funds in Sector	1 Year	3 Years	5 Years	7 Years	10 Years
Foord Balanced	2/82	2/58	3/40	1/31	2/19
Foord Equity	3/87	2/80	3/63	2/48	3/36

Source: Morningstar®

Consistency of returns over ultra-long periods and also between mandate types such as SA-equity and global multi-asset class mandates is important. It demonstrates the results of a sound investment philosophy and process, centred on fundamental valuation principles and proven risk management techniques when constructing portfolios.

Building concentrated portfolios of our best ideas, not overpaying for investments no matter how much we like them, never betting the farm on any one theme or idea and diversifying portfolio holdings to address the question "What if we are wrong?" underpins Foord's approach to investing. This investment philosophy applies to mandates of all types: South African single-asset class or multi-asset class portfolios (such as balanced funds) or portfolios comprising foreign assets.

BIG ON BHP BILLITON

Twenty years ago few would have believed that the largest mining company in the world would emerge from South Africa, yet not involve Anglo American or De Beers. MIKE TOWNSHEND takes a look at BHP Billiton, a company that has consistently been one of the largest holdings in Foord portfolios for the past five years.

BHP Billiton was created in its current form in 1998 when Brian Gilbertson crafted the merger of the SA-based Billiton Plc with Australia's BHP Ltd. The combined entity is listed in London, Johannesburg and Australia[1]. With a market capitalisation of R1.5 trillion, BHP Billiton is now four times larger than Anglo American.

We regard BHP Billiton as a quality company that meets most of Foord's investment requirements from a fundamental analysis perspective. It has a sustainable competitive advantage in its portfolio of mining assets, an excellent management team and a sound balance sheet. It is strongly cash flow generative, which enables the company to fund its numerous growth prospects from internal resources.

BHP Billiton owns what are considered to be tier 1 mining assets. These are mines that are amongst the largest of their kind in the world, yet still have significant expansion potential. They also exhibit lower operating costs than most mines owned by their peers. These top quality assets are located in politically stable countries that are also well diversified from a currency perspective. Examples of BHP's mining assets include iron ore, coal and copper in Australia; oil and gas in the USA; potash in Canada and copper in Chile. Sadly, less than 3% of their productive assets are situated in South Africa, reflecting management's view of the difficulties facing local mine operators.

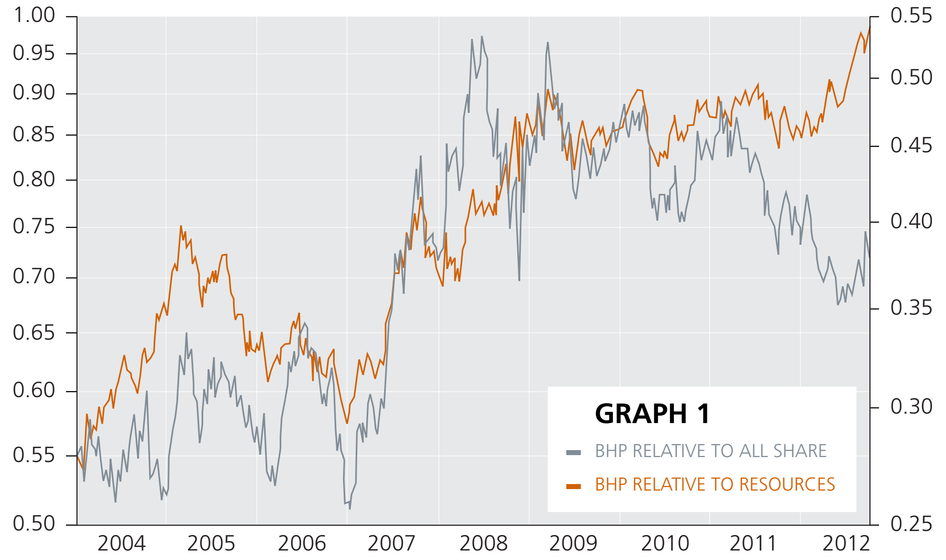
At Foord, we believe one of the best ways to protect and grow clients' capital is to buy and hold a growing but dependable earnings stream, bought at an attractive price. Since 1998, BHP Billiton has grown both earnings and dividends at a significantly faster rate than Anglo American and much of its peer group. It has been one of the top performing resource shares on the JSE over any period since its formation in 1998 (see Graph 1).

When building portfolios we are always cognisant of diversifying and managing risk with the objective of preserving, but also growing, our clients' capital in real terms. Client portfolios have had significant exposure to South African consumer spending for the past few years. A good proportion of this exposure has been via the retail sector (see *Retail Therapy, Foreword Issue 20*). Retail shares have delivered exceptional returns but have always been at risk to a sudden weakening of the rand (a weaker rand raises their input costs and squeezes margins for retailers). Exposure to resource shares, whose earnings immediately benefit from a weaker rand, provides a useful hedge to the retail exposure in portfolios. This is reflected in Graph 2 that shows how the BHP Billiton share price has tended to move in opposite directions to the share prices of retailers listed on the JSE (both price graphs are shown relative to the market).

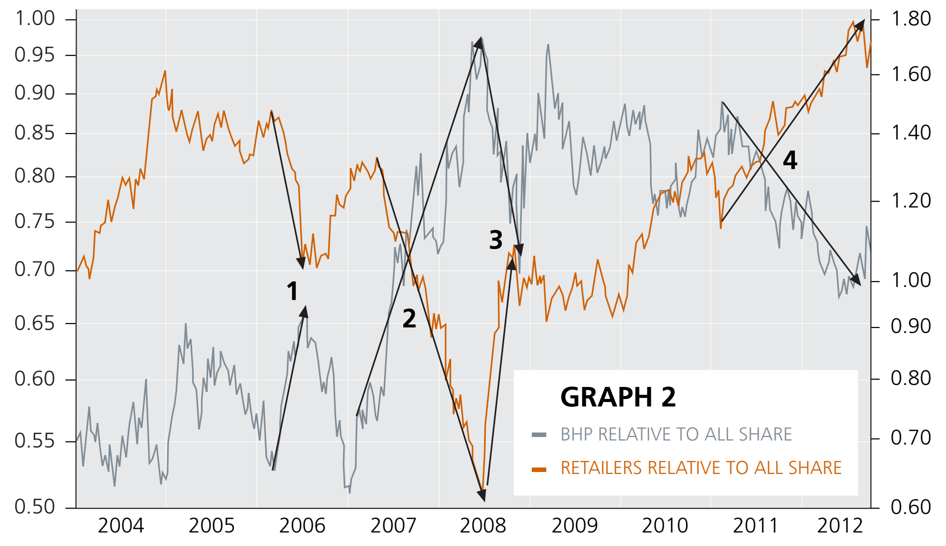
In a nutshell, BHP Billiton serves a dual purpose in our clients' portfolios. Not only is it a quality, well-managed business that can justify being held from a bottom-up perspective, but it also provides useful diversification benefits to the overall portfolio by reducing investment risk.

[1] Although the Australian operations of BHP make up 60% of the merged entity, there have been two South African CEOs (including the incumbent Marius Kloppers) and two American CEOs. An Australian is yet to take on the top executive position.

BHP BILLITON RELATIVE TO ALL SHARE & RESOURCES INDICES



UNCORRELATED RETURNS
BHP BILLITON AND RETAILERS PRICES RELATIVE TO ALSI



ARE TANGIBLE ASSETS WORTH IT?

In a series of articles on investor behaviour, MORRIS CROOKES explores aspects of behavioural finance, which seeks to explain why we humans make decisions for heuristic reasons rather than after rational analysis. In the first such article, he examines our penchant for tangible assets.

Human beings have five overt senses. We derive a certain level of comfort from engaging them. A favourite asset class amongst investors is property: you can see it and touch it; it can be bought with other people's money and so the returns can be leveraged; it can be leased and so produce an income. It is an asset that is generally understood.

But property investment has some serious shortcomings. For many people, a property investment is often a very substantial proportion of their overall portfolio. Consequently, such investors are often overexposed not only to a single asset class, but also to a single asset within that class. The price of a property is not readily determinable until a willing buyer agrees a price with a willing seller. Furthermore, a property is not something that can necessarily be turned into money immediately: the processes of transfer, conveyancing and registration involve an inevitable delay between a transaction and the realisation of cash. Further still, the costs of buying, selling, maintaining and insuring property are not inconsequential.

Tangible assets are not limited to property, of course. Investors have also invested in non-income yielding corporeal assets such art, Persian rugs and gold coins (which have enjoyed particular attention over recent times with the prodigious increase in the gold price). For the average investor, the issues of over-capitalisation, illiquidity, carrying costs (storage, maintenance and insurance) and lack of diversification remain. In many instances, a true understanding of the nature and

> **“THE PRICE OF A PROPERTY IS NOT READILY DETERMINABLE UNTIL A WILLING BUYER AGREES A PRICE WITH A WILLING SELLER.”**

behaviour of the tangible asset is also lacking (for example, does the average person know how Persian rug values have moved or can expect to move in the future?).

It is for these reasons that investors must be encouraged to look beyond the obvious comfort of tangible, tactile assets. This requires us to challenge our own beliefs and investor behaviour. Without doubt, it is more difficult to appreciate something that we cannot see. It is more difficult to extrapolate those abstractions over the long term without the benefit of sensory cues. It is more difficult, but it is necessary in order to achieve an optimal investment outcome.

The issue is not that tangible assets are bad of themselves, and the rampant sale of properties and homes is not being encouraged. However, for the average investor, it is impossible to build a suitably diversified, liquid portfolio if too much focus and capital is placed on and in tangible assets. Cash is not king. But the inability to timeously convert an investment into cash at a value that is readily determinable can make for catastrophic investing.

In the childhood game of "rock, paper, scissors", it is clear that no one attribute trumps all others. Each has its strength. In the same vein, a preoccupation with tangible assets amounts to a forfeit of other investment imperatives such as liquidity and diversification. These key characteristics of liquidity and diversification are inherent in an entirely intangible investment in a collective investment scheme (unit trust), particularly one that offers exposure to different asset classes and geographies.

TEAM SINGAPORE

In last quarter's edition of *Foreword*, we discussed Foord's entry into Asia via Singapore. This quarter we introduce the permanent team in Foord's Singapore office. The team comprises four senior investment professionals supported by Beverly Lam in an administrative capacity. Their bios are set out below.

Carolyn joined Foord five years ago as an investment analyst. She holds a Bachelor of Business Science (Finance) degree from the University of Cape Town and is a Chartered Accountant (SA) and CFA Charter Holder. Given Carolyn's experience, qualifications and desire for new challenges, she was an ideal choice to head up the Singapore office. Carolyn moved to Singapore in March this year and was instrumental in ensuring the timely launch of the new fund. She is a senior analyst within the Foord group, covering both South African and global stocks. She assists in the management of the Foord Global Equity Fund, the Singapore domiciled unit trust launched in June this year.

Vincent was recruited in April this year to lead the Singapore investment team as chief investment officer. He has worked at HSBC Asset Management in their Hong Kong and New York research teams and has been a fund manager at Goldman Sachs and Morgan Stanley. Aside from dedicated investment research and assisting with the management of the Foord Global Equity Fund, Vincent's other responsibilities include staff training, coordinating the research effort and monitoring and evaluating the performance of the analyst team. Vincent holds a B.Sc. (Economics) in Accounting and Finance from the London School of Economics and Political Science and is a CFA Charter Holder.

Andrew joined the Foord team in June 2011 to assist Dave Foord and Bruce Ackerman with research on global shares. Andrew previously worked at SIM Global, a boutique enterprise within Sanlam Investment Management where he researched stocks for inclusion in the SIM Global Best Ideas Fund. Having spent his career analysing global companies, Andrew quickly accepted an offer to join the Foord Singapore team. He holds an M Comm in Financial Management and is a Chartered Accountant (SA).

Guy joined Foord in mid-2012 as an equity analyst covering international stocks. Guy had also previously worked at SIM Global and was recruited by Foord Singapore to join the full-time team of investment professionals supporting the efforts of the Foord Global Equity Fund and Foord International Trust. Guy holds a Bachelor of Business Science (Finance) degree from the University of Cape Town and is an Affiliate CFA Charter Holder.

MARKETS IN A NUTSHELL

INTERNATIONAL

EQUITIES

Equity markets rebounded from a poor Q2 as share prices were boosted by additional central bank liquidity and support – with emerging markets typically outperforming developed markets

BONDS

Major sovereigns' bond yields remain low on continued investor caution about global economic growth prospects – while the yields of crisis-hit Eurozone economies retreated latterly as the market digested the ECB's aggressive expansion of its bond buying programme

CURRENCIES

The US dollar weakened against most developed market currencies – with the euro specifically gaining on renewed optimism that a full-blown Eurozone crisis could be avoided

SOUTH AFRICA

EQUITIES

The FTSE/JSE ALSI followed major global markets higher, rising 7% during the quarter – in response to global central banks confirming the aggressive supply of additional liquidity in the quarters ahead

BONDS

SA government bond yields declined despite an unexpected Moody's Investors Service credit rating downgrade at quarter-end – the SA 10-year government bond continues to offer superior yields to global investors, despite having fallen 1.2% since January

CURRENCIES

The rand was volatile but depreciated 2% against the US dollar – with the Marikana tragedy, the poor current account deficit, renewed global risk aversion and QE3 announcements driving the volatility

COMMODITIES

Precious metals prices surged on inflation-hedge appeal due to fears that excess liquidity could stoke inflation, while strike-related interruptions boosted the platinum price – industrial commodity prices also surged and oil rose significantly as did the prices of corn and wheat on downward revision to crop production

ECONOMY

Global economic conditions deteriorated, with slowing Chinese growth still concerning despite better Q2 GDP numbers – while US and European growth missed analyst expectations even though US employment creation improved

Domestic GDP growth continued at a moderate pace with a rebound in mining activity offsetting slower household expenditure and industrial production growth rates – while SA's current account deficit weakened to almost 6% of GDP

MONETARY AND FISCAL POLICY

The European and Japanese central banks announced fresh stimulus measures – while the US unveiled its QE3 stimulus, committing to unlimited purchases of mortgage-backed securities

The SA Reserve Bank surprised the market by cutting rates by 0.5% in the quarter – citing the moderating inflation outlook and downside risks to growth

FOORD FLEXIBLE FUND OF FUNDS

INVESTMENT RETURNS

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	**11.9**	19.1	29.2	7.9
Benchmark	**11.6**	9.9	10.3	1.9

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.
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

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	**9.4**	10.5	16.9	6.8
Benchmark	**7.5**	11.6	24.9	8.5

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 assets including equities, fixed interest, commodities and cash. 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

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	**17.2**	15.3	22.1	6.2
Benchmark	**14.4**	11.1	15.1	4.7

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

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	**20.6**	20.4	30.8	7.0
Benchmark	**17.3**	16.0	24.4	7.3

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 one year are annualised   * Class R, Net of fees and expenses

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

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