FOREWORD

DID YOU KNOW?

THE *FOUR* HORSEMEN

Four US technology stocks have led the rally since January 2013. Tesla, Netflix, Facebook and LinkedIn are up over 330% on average to September this year. A very similar pattern was observed in the late stages of the dotcom bubble in the late 1990s – Cisco, Dell, Intel and Microsoft were up over 225% on average between October 1998 and the peak of the bubble in March 2000. Things didn't go so well from there! As the saying goes, "History never repeats itself, but it often rhymes." Beware the four horsemen...

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WHAT DETERMINES THE SHORT-TERM DIRECTION OF *EQUITY MARKETS?*

Until recently, global equity markets have been on a steady upward trajectory. Market indices, from America's S&P 500 to the local FTSE/JSE All Share Index, reached all-time highs. Correlations between equity markets, as well as correlations between different asset classes like equities and bonds or commodities, have been high and rising in recent years. Such high correlations are not normal and, as WILLIAM FRASER explains, have occurred despite significant deviations in the economic growth paths of countries.

Economic growth is important when analysing potential asset class returns. Company earnings are geared to positive economic activity. Longer term, growth in earnings should translate into growth in the fair value of shares. But shorter-term market moves are usually the result of factors other than longer-term earnings growth.

Since reaching a peak of over 52 000 in July, the SA market has declined below 50 000 in a short space of time. Four factors explain the market's recent reversal. As fund managers, we should determine whether these factors will have permanency. If they are short-term aberrations, we may use the opportunity of cheaper prices to increase the weighting to equities in our portfolios.

Liquidity

After the global financial crisis, central banks have been quick to use non-traditional tools, like quantitative easing, to support economic activity. The abundance of cheap money, ultimately intended for businesses and consumers, has provided an almost permanent source of capital for financial markets. However, the US Federal Reserve will probably conclude its bond purchase programme this quarter. As those bonds mature in the coming months and years, the additional liquidity will be stripped from the financial system. Buyers of shares outstripped sellers for some time, but the tide is turning. Continuing European Central Bank and Bank of Japan stimuli may delay the process, but not indefinitely.

Interest rates

Many years of ultra-low interest rates have caused market participants to allocate capital to relatively high dividend yielding shares. Federal Reserve guidance shows that US interest rates may rise earlier than anticipated. Rising interest rates will be negative for share markets in the short term, especially those that benefitted most from the preceding period of low and falling rates. This group includes many emerging markets, as well as the JSE.

Investor confidence

In the past five years, equity markets (including the JSE) have risen faster than the earnings of their constituent companies. This is known as price-earnings (PE) expansion or a market re-rating. Higher PE multiples dilute future return prospects. Therefore, the decision to invest in equities at higher PE's is riskier. Investors with short investment horizons may sell to take profits. These factors may compound the negative market momentum if investors lose confidence in future return prospects.

Earnings expectations

Changing earnings growth expectations is an important short-term driver of share prices. Upward earnings revisions are positive for prices, while the contrary holds for negative revision cycles. Valuations on the JSE imply elevated expectations for earnings growth for the market. In our view, this is largely attributable to optimistic earnings forecasts for the resource sector, which has a high risk of negative earnings surprises. This would be negative for the share prices of these commodity companies, and therefore the market index.

In summary, the four indicators analysed above point to a more circumspect period ahead for equity market investors. As long-term, value-oriented investors, we are particularly excited – market drawdowns give us a rare opportunity to buy quality assets for our investors at significantly reduced prices.

A THREE-DECADE TRACK RECORD THAT SPEAKS FOR ITSELF

Recently, Foord marked the milestone of an uninterrupted thirty years of managing retirement fund mandates. In the constantly shifting sands of the investment landscape, a three-decade presence is a momentous achievement. However, it is not the longevity of Foord that should impress but, as PAUL CLUER illustrates, rather the consistency of its performance – the distinguishing feature of Foord's accomplishments.

Consider this scenario: Foord's longest standing institutional client, the AJ North Pension Fund, which has been a Foord retirement fund client for 25 years, has earned a compound annual real return of 14.1% per annum (a nominal return of 21.6% per annum). The effect of such a premium return is profound with many AJ North staff members having retired to pensions that have exceeded their final salaries.

"This clearly exemplifies the profound benefits of Foord's consistently outstanding long-term investment performance," says Roger Carter of AJ North. "Foord's approach, coupled with the avoidance of high cost structures, the appointment of a single manager and not being swayed by fads or trends, has led to the almost unheard of scenario of our staff members retiring with more monthly income than they had whilst working."

Over the last thirty years in which Foord has managed its retirement fund oriented Global Balanced investment strategy, the compound annual return has been an impressive 21.4% per annum. Over long periods, the creation of wealth must be measured in real terms (i.e. after inflation), and over the same thirty-year period Foord's real return has been 13.1% per annum. However, the greatest vindication of Foord's ability has been the magnitude of the premium of those returns over the average pension fund for the same period: Foord's Global Balanced investment strategy has outperformed the average pension fund in South Africa by 4.1% per annum (calculated using data from the Consulting Actuaries Survey up to December 1997, thereafter the average of the Alexander Forbes Large Manager Watch).

> **"AFTER 30 YEARS A FOORD INVESTOR IS ALMOST THREE TIMES WEALTHIER THAN AN INVESTOR IN THE AVERAGE PENSION FUND."**

Stated differently, after thirty years, a Foord investor is almost three times wealthier than an investor in the average pension fund. The exponential-like return profile is illustrated in Chart 1 where the vertical axis has purposefully not been subject to logarithmic adjustment.

The most fundamental notion is not just that these returns were earned over the long term, but that they were earned consistently over successive long-term investment horizons. Chart 2 shows the inherent (and expected) variability of returns over each calendar year in this track record.

Any long-term investor (exemplified no better than a retirement fund with its inherently long-term perspective) cannot possibly formulate appropriate decisions with this "noisy" information. Rather, better regard should be given to Chart 3.

The longer time horizon reveals the consistency of the annualised ten-year returns (they move in a relatively narrow band) and the persistence thereof (they recur in successive periods). It is returns of this nature that are the hallmark of successful investing.

From inception, Foord has been unapologetically focused on the long-term nature of investment returns.

Astute avoidance of any fickle preoccupation with the short term has safeguarded the appreciable returns earned by retirement fund investors in Foord's portfolios. Consistent with Foord's philosophy, the variability of short-term returns is not a basis for decision-making, but rather an opportunity to invest in assets that are valuable, but cheap, and to sell assets whose prices are in excess of their values.

Foord's 22-strong investment team is characterised by considerable experience. The firm's multiple counsellor approach to the management of its portfolios not only allows for the best investment views of the respective fund managers, but also illustrates Foord's commitment to the long-term interests of its investors by the procurement of robust succession.

CHART 1:
Return profile of Foord's 30-year retirement fund track record

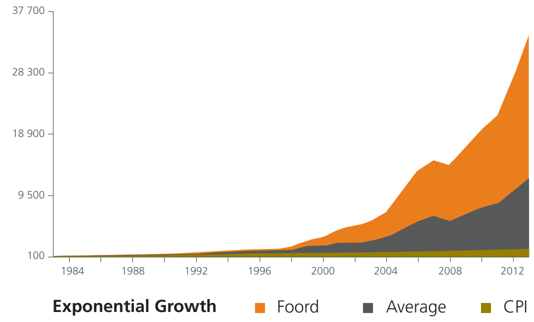


CHART 2:
Short-term return variability

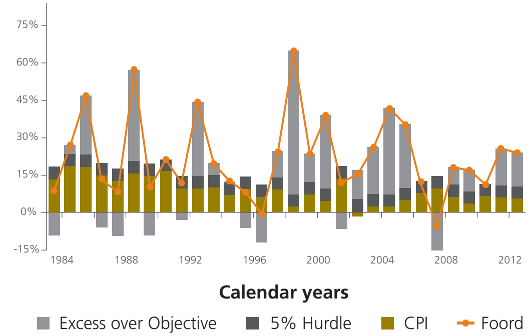
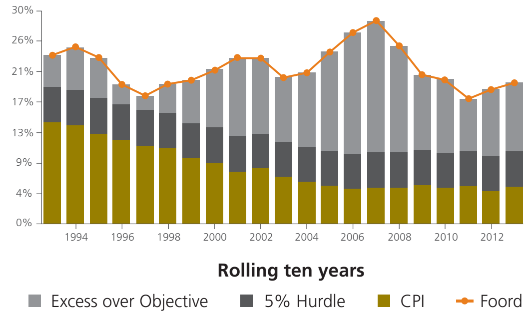


CHART 3:
Long-term return consistency



IMPROVING GLOBAL ECONOMIES
NO PANACEA FOR SOUTH AFRICA

Forecasting future economic conditions is fraught with difficulty. Yet we believe that it is an exercise worth undertaking. At the very least, the process identifies different potential scenarios that can be modelled. DANE SCHRAUWEN reveals that some scenarios are more likely than others.

Over the next twelve to eighteen months, we expect one of three scenarios to manifest. The first scenario is our "base" case and the one that we believe most likely to eventuate. In this scenario, the US economy will continue its steady growth trajectory. Steady US growth will allow the US Federal Reserve to gradually raise rates, starting in the middle of 2015. This slow pace of adjustment will allow currencies and financial markets to adjust in an orderly fashion.

> "FOREIGN EQUITIES REMAIN OUR PREFERRED ASSET CLASS."

For South African investors, equities would be the preferred asset class in an environment of rising US interest rates. A moderately weaker rand and moderately higher SA interest rates will impair returns from bonds and listed property investments. However, South Africa's economy is likely to continue facing a number of headwinds. Accordingly, international equities are likely to be the best performing asset class, eclipsing the SA equity market.

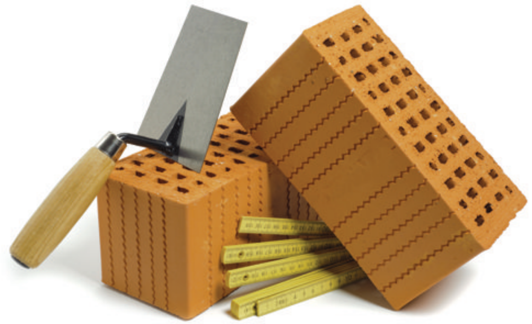
The second potential scenario is one of global stagnation. Although anaemic global growth would inhibit economic activity in South Africa, there are some positives. The rand is likely to strengthen as foreign investors once more favour our higher yielding bonds and money markets. This will allow the South African Reserve Bank to maintain relatively low interest rates. This scenario favours investment in bonds and property over cash and equities, although returns are likely to be muted from all asset classes.

The third possible scenario is one where the US economy enters a period of economic boom. Economic growth becomes self-reinforcing, fuelled by the surplus liquidity and low interest rates that the US Federal Reserve has been slow to remove. US interest rates will have to rise more swiftly than anticipated, which will be negative for all asset classes in the short term, barring cash. However, a boom will be good for corporate profits in the US and abroad and hence also equity prices, in the medium term.

Foreign investors in South Africa are likely to take flight from our markets in this scenario, as they seek higher and more certain investment returns in their home economies. This will result in a sharp depreciation in the rand, followed by a rapid increase in South African interest rates. This shock is likely to tip our economy into recession.

The Foord portfolio managers have taken these and other scenarios into account in constructing portfolios for investors that have a good probability of producing inflation-beating returns whichever scenario manifests. In our view, the Foord portfolios are sufficiently robust to survive negative shocks, and yet positioned well for the more likely scenario of continued steady growth. Foreign equities remain our preferred asset class, which is reflected in our portfolios that are permitted offshore exposure.

FOORD IN BRIEF



WE ARE **RENOVATING**

We have engaged architects and contractors to make some much needed structural changes to our Pinelands office. Renovations have just started and should be completed in early 2015. During construction, parking and meeting facilities will be limited and there will be some noise pollution. If you intend visiting the office, we apologise in advance for any inconvenience caused.

THREE NEW FACES AT FOORD

Julie MacLeod-Henderson recently joined Foord as Head of Retail Investments in KwaZulu Natal. Julie replaces Morris Crookes, who has emigrated with his family to the UK. She has worked in retail investments for most of her career, most recently at Nedgroup Investments. Julie holds a BCom from the University of Natal and a Certified Financial Planning Diploma from the University of the Orange Free State.

JULIE MACLEOD-HENDERSON
HEAD OF RETAIL INVESTMENTS: KWAZULU NATAL

JANINE BROWN
UNIT TRUST CLIENT SERVICE

Foord recently welcomed **Janine Brown** to the unit trust investor services and administration team. Janine joins us from Maitland Fund Services where she was head of the international and SA client service teams and team leader for the fund accounting team in the hedge fund division. She holds a BCompt degree from UNISA and is also a Registered Accounting Officer.

Niel van den Heever joined Foord as Assistant Securities Dealer in August. He graduated with a BCom in Economics from the University of the Free State and has been working as a securities dealer at a company that specialises in agricultural, financial and foreign exchange markets. Niel has completed his South African Institute for Financial Markets exams and is a registered member of the SAIFM.

NIEL VAN DEN HEEVER
ASSISTANT SECURITIES DEALER

MARKETS IN A NUTSHELL

INTERNATIONAL

EQUITIES

Developed markets (-2.2%) outperformed emerging markets (-3.4%) – the S&P 500 (+0.6%) was the best placed developed market, compared to emerging market underperformers Greece (-20.0%), Russia (-15.0%) and Hungary (-12.8%)

BONDS

10-year US Treasury yield was little changed – stock market weakness and a firming dollar helped bonds end the quarter on a stronger note

CURRENCIES

The US dollar has risen sharply since June, but has been deflating on a real effective basis since 2002 – leaving US trade prospects fundamentally better off than in the last expansion

COMMODITIES

Brent crude declined by 16.9% as North American and OPEC production grew while the iron ore price fell 17.4% due to strong supply growth from low cost producers – the gold price declined by 9% on dollar strength and the prospects of higher US interest rates

ECONOMY

US GDP expanded by 4.6% in Q2, while the unemployment rate was unchanged at 6.1% – the Chinese economy grew by 7.5% YoY in Q2, an improvement on the previous quarterly growth rate

MONETARY AND FISCAL POLICY

The US Federal Reserve continues to lower monthly liquidity injections and will likely cease bond purchases in Q4 – the Bank of Japan, European Central Bank and Bank of China continue to support their economies through bond purchases, lower interest rates and non-traditional liquidity injections

SOUTH AFRICA

EQUITIES

The FTSE/JSE ALSI peaked at 52,242 at the end of July, but pulled back sharply in September and declined by 2.1% (total return) – resource stocks fell 7.1% and industrials 0.4% while financial shares managed to show a small gain (+0.4%)

BONDS

The All Bond Index (+2.2%) outperformed both cash (+1.5%) and equities – supported by a downscaling in interest rate expectations and falling global yields

CURRENCIES

The rand declined by a substantial 6.6% against a generally strong US dollar – the pressure on the rand also reflected weak commodity prices, notably iron ore which traded at levels last seen in 2009

ECONOMY

Real GDP growth rebounded in Q2 but remains pedestrian, while the current account deficit widened to 6.2% of GDP – mainly due to the impact of strikes in the platinum sector and to the normalisation in the income account deficit

MONETARY AND FISCAL POLICY

The MPC kept rates on hold but continued to signal a tightening bias – the SARB marked down the growth outlook to 1.5% for 2014 and 2.8% for 2015 while inflation is forecast at 6.2% and 6.3% for 2014 and 2015

FUND OBJECTIVE

FOORD CONSERVATIVE FUND — ZA — Inception date: 1 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*	**6.2**	-	-	1.3
Benchmark	**8.5**	-	-	2.3

Benchmark: CPI + 4% per annum.

FOORD BALANCED FUND — ZA — 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*	**17.3**	19.1	11.9	0.5
Benchmark	**14.9**	16.4	12.8	0.5

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 — ZA — 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*	**15.4**	25.5	14.6	2.1
Benchmark	**11.6**	11.1	11.5	2.6

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 — ZA — 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*	**21.2**	26.3	17.2	-0.8
Benchmark	**17.9**	22.2	15.4	-2.1

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

FOORD INTERNATIONAL FEEDER FUND — ZA — 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*	**12.7**	21.8	13.7	3.4
Benchmark	**18.1**	22.9	24.0	4.4

Benchmark: The ZAR equivalent of 10% per annum in US dollars

FOORD GLOBAL EQUITY FEEDER FUND — ZA — 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.

Regulation prohibits performance reporting for periods less than six months.

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

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