FOREWORD

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DID YOU KNOW? GEOPOLITICAL RISKS

The influence of geographic factors on political and economic spheres is broadly referred to as *geopolitics*. The first recorded use of the term was around 1902 by Rudolf Kjellén, the Swedish political scientist who explored the conditions that shift nation-states.

Today, global risks from geopolitical shifts create an ever-changing playing field. The interdependency of countries resulting from trade, immigration, demand for natural resources and even military alliances can alter national demographics, borders and economic hierarchy. Multi-national economic blocs such as BRICS and the EU have been formed to consolidate resources without redrawing borders.

While some moves are consentual, others are not. The ongoing territorial disputes in the South China Sea and the recent illegal Catalonian independence referendum are examples. The events of one nation often reverberate in others. With our global interconnectedness, the intelligent assessment of geo-political risks is essential in the formulation of foreign policy and economic strategy.

FIFTEEN YEARS OF TOP RETURNS

Foord Unit Trusts launched its two maiden portfolios on 1 September 2002. PAUL CLUER takes a closer look at the long-term credentials of the Foord Balanced and Foord Equity funds, which have now achieved their fifteen-year anniversaries with very pleasing long-term track records.

The Foord Balanced Fund is a multi-asset class portfolio managed to comply with the prudential limits set for retirement funds in South Africa. We expect the investment strategy to deliver returns exceeding inflation plus 5% per annum over the long term and most rolling five-year periods. We feel that, if we achieve this outcome, the fund will outperform its peers.

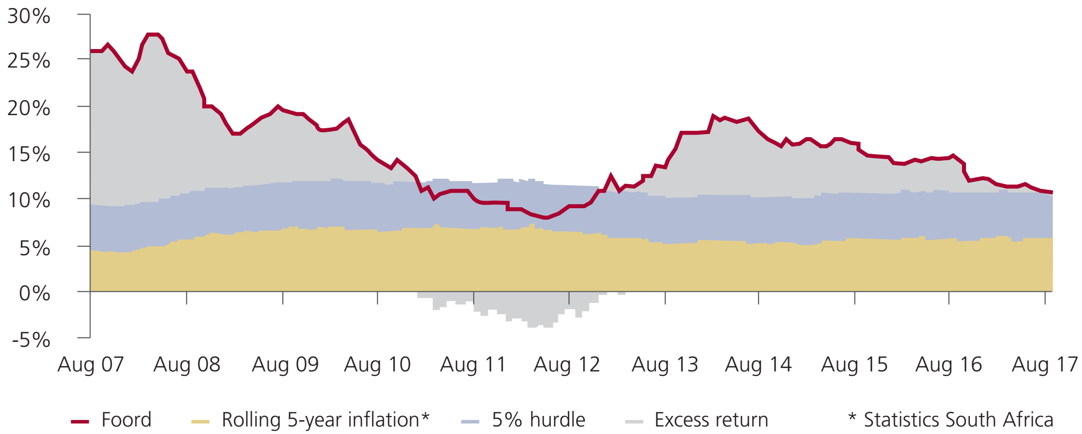
Over its fifteen-year track record to 31 August 2017, the Foord Balanced Fund has achieved a return of 15.0% per annum net of fees and expenses, outperforming its benchmark, the market-value weighted average return of its sector, which delivered 13.1%. Over this period, inflation has averaged 5.5% per annum meaning the fund has delivered a return of inflation plus 9.5%. The fund has outperformed inflation for all rolling five-year periods and inflation plus 5% for all such periods except during 2011 and 2012 when the effects of the global financial crisis were most pronounced in the five-year track record.

For equity portfolios, Foord's thesis is that an actively managed portfolio of high-conviction ideas will, over time, outperform any passive share index. This is premised on the belief that markets are inefficient in the classical sense and that market value-weighted benchmarks are sub-optimally constructed because they prioritise overvalued companies and deprioritise undervalued companies.

On a since-inception basis to 31 August 2017, the Foord Equity Fund has achieved a net-of-fee return of 17.7% per annum, outperforming its benchmark the FTSE/JSE All Share Index which delivered 15.8% gross-of-fees. The fund has achieved this outperformance by managing the risk of loss better than the index. In more than 70% of months when the market was down, the Foord Equity Fund performed better.

FOORD BALANCED FUND

Annualised rolling 5-year returns



* Statistics South Africa

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ON TRACK FOR A GOOD SCORE

We have written previously in *Foreword* about the big-picture global and South African risks and the implications for portfolio construction and investment returns. We've warned on the need for capital preservation and cautious portfolio positioning. In this article, NICK CURTIN unpacks the strategic stance the portfolio managers have adopted given the prevailing high-risk, low-return environment.

We have communicated often about the mounting risks and distortions in global financial markets resulting from a decade of post-crisis experimental monetary policy. Interest rates are still at record lows, central bank balance sheets remain massively swollen and the global debt problem has not diminished. How and when do these abnormalities unwind? And what impact will this have on financial markets? To quote Donald Rumsfeld, these are the "known unknowns".

At the same time, markets continue to reach new highs, and volatility levels reach new lows. These are not healthy investment conditions. Include the numerous and escalating geopolitical risks (see *Did You Know?*) and it becomes clear that the current risk environment is elevated and ripe. The South African economy remains constrained. Its political environment will get worse before it gets better. Our base case for South Africa is that near-recessionary conditions are likely to extend for longer than most expect.

As real and worrying as these big picture issues are, there is little that Foord can do to control them. But we can navigate the risks, as we have done over the decades, evidenced by our industry-leading, risk-adjusted, long-term return track record. Against this backdrop, we have communicated the defensive and cautious portfolio positioning, but what does this strategy actually entail?

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> A FIVE-DAY GAME.
> WE ARE NOT COMPETING
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Importantly, it does not mean that we have given up on returns in a high risk, low return environment or that we have battened down the hatches awaiting a market crash. It does mean, though, that we must be even more attuned to the consequences of bad investment decisions than we normally would be given the low margin for error. Because our investment philosophy leads us to avoid binary outcomes, the current paradigm requires a higher-than-average threshold for deploying capital into an investment idea.

We are long-term investors. To employ a cricketing analogy, we are playing a five-day game. We are not competing in the T20 format. Conditions out in the middle have been tricky; the pitch is unpredictable and the ball is swinging. This is not the environment to be slashing at every wide ball, hoping for the best. The risks are too many. And remember that risk is what can happen, not what will happen.

Our strategy is to be patient, wait for the loose deliveries and only play a shot when there is high conviction and low risk. We are therefore playing conservatively with a very straight bat behind the line. The loose deliveries will come and so will the boundaries, but the priority at this stage of the innings has been to stay at the crease and see off the new ball. To finish first, first you must finish.

Conditions for scoring will improve, indeed they already have. As we have repeatedly said over the last two years, returns are expected to be backend-loaded on a five- to seven-year view. And we remain on track with this expectation.

Certainty of outcomes has always been a hallmark of Foord's investment philosophy. In the prevailing environment, we place a high premium on maximising the certainty of the outcome as opposed to swinging for the fences and risking a binary result. This is what Foord is good at — keeping the scoreboard ticking over by grinding out returns and compounding them over long periods without risking permanent loss of capital. And we are privileged to have a player/coach who is the best tactician in the game.

Throughout Foord's 36-year history, there have been many unpredictable risk environments. It has been through these times that we have added most investment value. Successful investment requires that we separate the sentiment and emotion of macro-economic and political issues from the mathematical objectivity and level-headed judgment required when analysing investments. Foord's portfolios are full of compelling investment ideas which we think collectively, with relatively high certainty, will deliver good inflation-beating returns over the full investment horizon, notwithstanding the bleak near-term macro environment.

The good news is that we've nearly seen off the new ball and have taken most of the body-blows that we were expecting. Scoring conditions have started to improve as recent headwinds turn to tailwinds.

We remain on track for a good score.

JOINT INVESTORS

Joint investments are investments made jointly by two or more individual investors. Joint ownership of unit trust investments is permissible in terms of common law and the Main Deeds of the Foord Unit Trust Scheme and the prospectuses of the Foord global funds. DIANE BEHR provides an overview of the implications of joint registration.

SOUTH AFRICAN FUNDS

South African laws on wills and succession place obligations on financial institutions on the death or insolvency of investors that affect joint accounts. New developments in global tax reporting obligations are also relevant.

Because of these developments, Foord will now only permit joint registration if:

1. The joint investors are married, and
2. The investors maintain an equal interest in the investment.

Reporting to SARS of the annual IT3B and IT3C statements and the withholding and payment of dividends tax on a joint account will be made for only the main investor and in respect of the entire account. However, automated exchange of tax information programmes for non-resident investors (including FATCA and CRS) require reporting to SARS for each joint investor as if they were the sole investor.

On the death or insolvency of one joint investor, the account will be split into two equal accounts for the successors in title being the surviving spouse and an estate-late account to be operated by the validly appointed executor.

Joint investors should carefully consider the effect these practices may have on their individual tax profiles and should consider separate registration as an alternative.

FOORD GLOBAL FUNDS

Probate laws in foreign jurisdictions such as Guernsey and Singapore can prove onerous for the executors and heirs of deceased South African investors. Joint investment is a useful mechanism to manage the probate processes but comes with certain risks. These relate principally to the automatic exchange of tax information programmes supported by all major global investment jurisdictions that require reporting for each joint investor as if they were the sole investor.

To read the full article about the implications of joint registration, see www.foord.co.za.

RAPPED IN MATHS

It's no secret that Foord champions the cause of education. Over the years we have supported many educational initiatives that strive to improve the futures of disadvantaged young South Africans. Kurt Minnaar's Dreamer Education initiative challenges the traditional education paradigm and demands we all sit up (stand up, in this case) and listen. CHRISTINA CASTLE took a lesson from the founder, maths teacher and choreographer, Kurt Minnaar.

There is nothing unassuming about Kurt Minnaar. He burst into public life in the very same way he burst into the classroom nearly 10 year ago as a newly graduated teacher, with dreams of making a difference. It didn't take him long, as a new teacher, to realise that South Africa's education system was in a dire situation and that the way children were taught was the key to change. He understood early on that to make a difference in the classroom, he had to connect with his students. And rap spoke volumes.

Using his love for music, movement and dance, his classroom transformed into a studio, as students were drummed with the basics. Multiplication tables morphed into rap lyrics, desks became a platform of creative mathematical expression and critical concepts were mastered. The results spoke for themselves. A chance exposure of his classroom in action on social media propelled Minnaar into the public space and Dreamer Education was born.

Minnaar has since realised the potential of his alternative teaching method. Today he is out of the classroom, developing tools and other collateral that help students grasp basic mathematical concepts and training material for teachers to bring his method into South African classrooms. He employs a crew of equally-passionate individuals who are committed to spreading their rap on maths to the masses.

Foord is proud to be part of the Dreamer Education journey.

For more information visit www.dreamereducationsa.com.

MARKETS IN A NUTSHELL

EQUITIES

WORLD

Global equity markets (+5.2%) advanced for the third consecutive quarter – supported by expected growth in corporate earnings, Trump's aggressive tax reform policy proposal and robust Eurozone manufacturing data

SOUTH AFRICA

The FTSE/JSE All Share Index (+8.9%) was boosted by resources counters, Richemont (+15.9%) and Naspers (+15.0%) – banks and general retailers lagged, while British American Tobacco (-4.2%) was negative despite a decent earnings update

BONDS

WORLD

Global bond yields edged higher after initially falling on escalating North Korean geopolitical tensions – on better economic growth numbers, inflationary surprises and the US Federal Reserve signalling continued monetary policy tightening

SOUTH AFRICA

The government bond yield curve steepened on lower short rates and long-dated yields rising to accommodate growing fiscal deficit risks – but food disinflation has caused positive real yields across the curve, unacceptably high at the short end

CURRENCIES

WORLD

The US dollar strengthened after the US Fed's September policy meeting and sterling firmed – while emerging market currencies came under pressure

SOUTH AFRICA

The rand weakened, reversing previous gains – on dollar strength, expectations of hawkish global central bank policy, lower precious metals prices and poor domestic news flow

COMMODITIES

Oil, copper and iron ore made double-digit advances, benefiting from global growth dynamics and short-term supply/demand disruptions – gold (+3.2%) and platinum (-1.2%) underperformed industrial metals on dollar strength and anticipated central bank policy adjustments

ECONOMY

WORLD

Synchronised global economic growth gained momentum – US GDP expanded 3.0% (q-on-q, annualised) for the 3 months ended June, the Eurozone 2.4% and China 6.9%

SOUTH AFRICA

Second-quarter economic growth rebounded to 2.5% (annualised), driven by agricultural sector gains off a post-drought base – SA's current account deficit widened on rising payments to Southern African Customs Union trading partners

MONETARY AND FISCAL POLICY

WORLD

The US Fed left rates unchanged but its commentary has become more hawkish – in the UK, the BOE indicated that some withdrawal of monetary stimulus in the coming months would be appropriate

SOUTH AFRICA

SARB's Monetary Policy Committee surprised the market twice, by lowering rates in July and then leaving them unchanged in September – highlighting risks that may derail the expected inflation trajectory and cause a policy reversal

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*	**13.4**	9.3	8.2	5.8
Benchmark	**11.2**	10.4	9.8	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.

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*	**15.0**	6.5	6.8	5.2
Benchmark	**13.1**	6.3	6.7	5.2

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*	**7.0**	6.7	6.8	4.3
Benchmark	**9.8**	9.3	8.7	1.7

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*	**17.5**	4.1	2.4	3.5
Benchmark	**15.7**	7.2	10.2	8.9

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*	**12.3**	11.1	7.5	6.5
Benchmark	**9.0**	7.4	0.5	4.2

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*	**12.2**	11.7	14.0	7.8
Benchmark	**15.1**	14.1	16.2	9.0

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.

FOORD ASSET MANAGEMENT | Tel: 021 532 6988 | Email: info@foord.co.za | www.foord.co.za