SYNOPSIS

PERFORMANCE (TOTAL RETURN)

	Portfolio	Benchmark
Annualised (since 02/09/2002)	13.1%	13.3%
Last 12 months	- 6.8%	0.9%
Last 3 months	- 0.4%	1.5%

PORTFOLIO VALUE

R 3 636.5 million (30/06/2020: R 3 766.9 million)

INVESTMENT OUTLOOK AND PORTFOLIO CONSTRUCTION

World: Economic recovery to be slow and volatile
Unprecedented monetary and fiscal support
Inflation risks are mounting
Geopolitical risks rise
Elevated market volatility
US election could spark volatility
Weaker dollar supports higher gold price

South Africa: Slow pace of economic recovery
Unsustainable fiscal deficits to continue
Rising risk of full-blown debt spiral
Slow recovery in employment levels
Inflation outlook remains benign
Rand vulnerable to capital outflows

Fund construction: Contrarian low resources position
Avoid precious metals miners with significant SA-specific risks
High absolute and relative weighting to JSE-listed global businesses
Increase weight to select consumer and diversified industrial companies
Meaningful allocation to healthcare companies
Large allocation to media via Naspers and Prosus
Cautious on SA listed property
NewGold ETF is an attractive, uncorrelated investment
Cash levels lower on price-weakness buying

EFFECTIVE ASSET ALLOCATION (previous)

	Foord target		Portfolio	
	%	%	%	%
JSE equities	85	(84)	87	(85)
JSE property	5	(5)	5	(6)
Commodities	3	(3)	3	(3)
Money market	7	(8)	5	(6)
	100		100	

1. PORTFOLIO PERFORMANCE

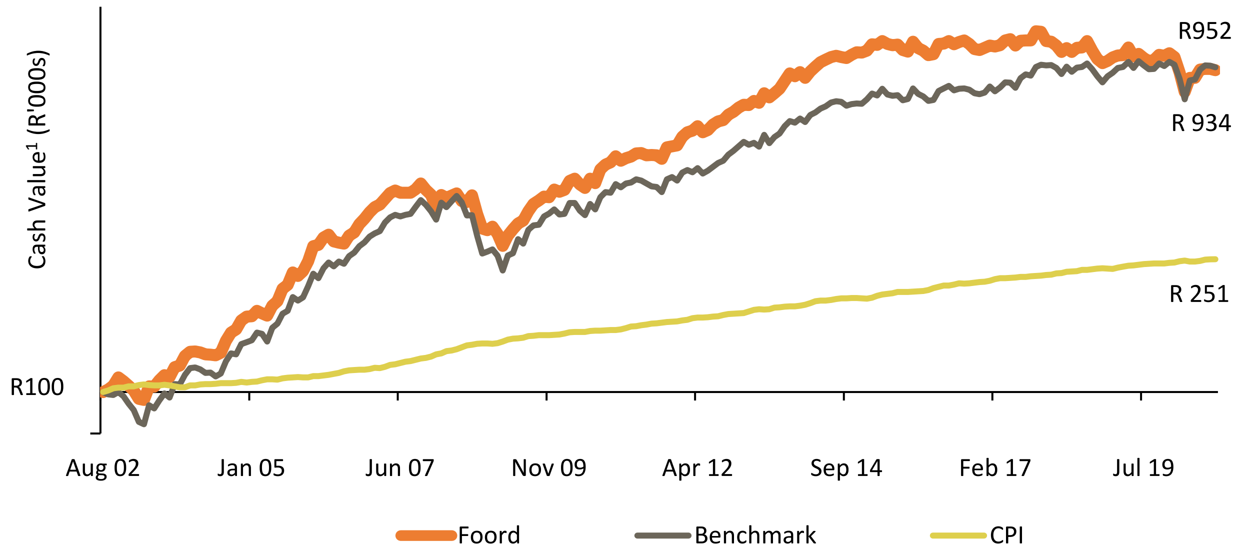
Total performance to 30 September 2020

	Portfolio %	Benchmark* %	Variance %	Peer Group# %
From inception (02/09/2002)	13.1	13.3	- 0.2	12.0
15 years	9.8	11.2	- 1.4	8.6
10 years	7.1	9.4	- 2.3	6.0
7 years	1.1	6.0	- 4.9	2.9
5 years	- 2.5	4.5	- 7.0	1.0
3 years	- 6.6	1.9	- 8.5	-2.1
1 year	- 6.8	0.9	- 7.7	-4.9
9 months	- 11.0	- 3.7	- 7.3	-9.2
3 months	- 0.4	1.5	- 1.9	0.7

* Total return of the FTSE/JSE Capped All Share Index (prior to 01/07/2018 FTSE/JSE All Share Index)

(ASISA) South Africa Equity – General (SA only)

Daily linked time-weighted total rates of return (capital and income) based on unit price. Returns in percent net of management fees and fund expenses. Returns for periods exceeding 12 months are annualised percentages.



[1] Current value of R100 000 notional lump sum invested at inception, distributions reinvested (graphically represented in R'000s above)

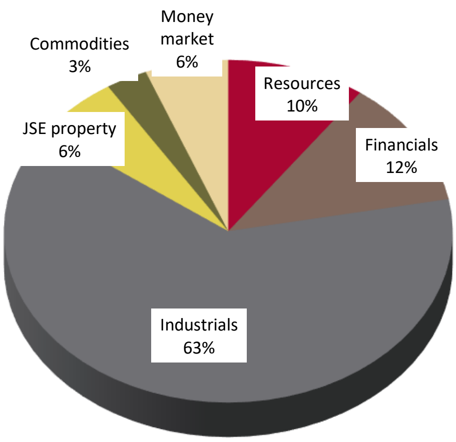
Quarterly performance comment:

- The contrarian low weight to precious metals miners was the largest detractor—these sectors rallied on stronger dollar commodity prices
- The lower than index allocation to financials added value—stock selection was also beneficial with core holding FirstRand outperforming the index
- The diversifying physical gold position in NewGold ETF was positive—the dollar price of the metal rose more than the rand strengthened
- The allocation to London-listed property company Capital & Counties detracted—rising second wave COVID-19 infection rates caused further disruption to retail economic activity in its core Covent Garden estate
- The longstanding holding in pharmaceutical company Aspen detracted over the quarter—retracing at the margin after a strong rally over the past six months
- The overweight allocation to mid-cap companies Invicta, Italtile and PSG added value—quality companies that are likely to deliver good real returns to investors despite the difficult economic environment

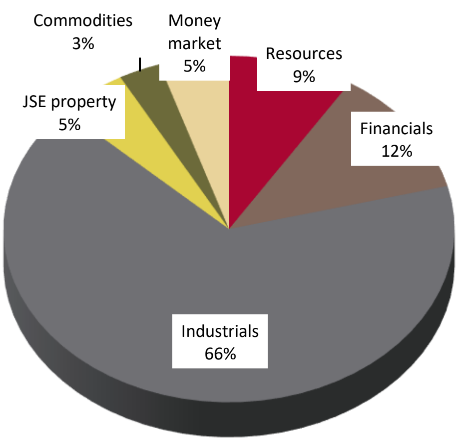
2. PORTFOLIO STRUCTURE

	Portfolio Effective exposure 30/06/2020	Portfolio Effective exposure 30/09/2020	FTSE/JSE Capped Weightings
	%	%	%
JSE equities: resources	10	9	32
JSE equities: financials (ex property)	12	12	14
JSE equities: industrials	63	66	43
JSE property	6	5	3
JSE equities*	91	92	92
Commodities	3	3	
Money market	6	5	
	100	**100**	
Total portfolio	**R 3 766.9m**	**R 3 636.5m**	
*Size distribution of JSE equities	%	%	%
Large capitalisation	72	70	90
Mid capitalisation	14	13	7
Small capitalisation	14	17	3
	100	**100**	**100**

Effective exposure 30/06/2020



Effective exposure 30/09/2020



3. MARKET BACKGROUND AND OUTLOOK

3.1 World

- Economic activity rebounded off historic second-quarter pullbacks as lockdowns eased and economies started to reopen—but recession risks persist given base effects, high unemployment, second wave fears and expiring income replacement stimulus measures
- Developed market bond yields fluctuated several minor degrees around irrational lows on unrelenting central bank stimulus—markets briefly reflected rising inflation risks after the US Federal Reserve fundamentally changed its rate setting policy to average inflation targeting
- Precious metals gold and silver rose further on US dollar weakness and continued monetary and fiscal largesse—precious metals and even cryptocurrencies should stay well bid amid expected dollar softness and growing fiat currency risks
- The vagaries of global market sentiment seesawed emerging market bourses as high yields, demographics and natural resource endowments simultaneously signalled reward and danger—but bigger risks lurk in the developed world corporate debt and alternatives markets as zero interest rates inexorably drive capital to unsustainable companies
- Geopolitical risks mounted when President Trump closed the Chinese consulate in Houston on accusations of espionage, threatened further embargoes on Chinese tech firms Huawei and TikTok and extended export restrictions to China's biggest semiconductor manufacturer, SMIC—China continues to play the long game afforded by its political system, as domestic economic activity took travel and hospitality activity back to pre-pandemic levels
- Gains in a small number of very large US technology companies pushed US equity markets to their most expensive levels since the technology bubble in 2000—the quarter was characterised by a wave of new listings and general corporate activity typically evident of investor exuberance
- Rising sovereign debt levels, pervasive experimental monetary (and now) fiscal policy continued to support financial markets—but the imminent US elections, increasing geopolitical tensions and indications of rising COVID-19 second-wave infection rates could each materially weigh on markets

3.2 South Africa

- The SA economy contracted a record 16% in the second quarter due to COVID-19 lockdowns—an economic recovery is already evident, but the pace of growth is insufficient for a fragile economy hamstrung by uncoordinated and inconsistent government policy responses
- Finance Minister Mboweni's supplementary budget stressed the rising risk of a full-blown debt spiral if government does not cut expenditure—given the growth vacuum and growing budgetary share of debt funding costs
- A fiscal deficit of 15% of GDP is not unreasonable for the 2020/21 fiscal year—forecast to narrow to 10% in 2022 if government stimulus ceases and the wage bill reduction is successfully implemented as currently proposed
- Unemployment rose by 2.8 million people in the second quarter as lockdown regulations led to widespread job losses—employment recovery will be slow given the dearth of fixed investment opportunities despite government commitment to fast track infrastructure projects
- The SA government bond yield curve steepened after SARB's repo rate cuts, with the longer end still availing high real yields under current inflation forecasts—but longer term risks to the inflation outlook include reserve bank independence, money printing to fund deficits and ever increasing bond issuances

3.2 South Africa (Continued)

- The rand was volatile given internal and exogenous shocks but ended slightly stronger against a weaker dollar, but is at risk from continued capital outflows despite an improved current account surplus—emerging market currencies should nevertheless enjoy tailwinds from material increases in hard currency money supply and China's strong recovery
- The managers are cautious despite optically attractive South African equity and listed property valuations—yields may not be as high as they seem given non-payment (delays) of dividends and distributions on depressed revenues in addition to pay-out ratio cuts needed to strengthen balance sheets

4. PORTFOLIO CONSTRUCTION

- Retain contrarian position of low resources weight on concern that market ratings and earnings are unsustainable—BHP Group is the highest quality diversified miner and is the fund's second largest position
- Will not speculate investor capital in the precious metals mining sector given prevailing risks—prefer physical gold via Newgold ETF which is an uncorrelated asset and hedge against market dislocations and rampant inflation risks of the overly loose fiscal and monetary policy environment
- Upweight consumer-facing holdings notwithstanding wariness of the long-term trajectory of the South African economy—on unique value investment opportunities into great companies with strong, sustainable franchises that sold off on near-term earnings downgrades
- Diversified industrial stocks weight increased—on share price resilience and mid-cap acquisitions where corporate prospects are secure even through the pandemic-induced disruption
- Maintain significant healthcare position in a basket of hospital counters and largest sector holding, Aspen Pharmacare, which was further de-risked following the sale of its European thrombosis business—we expect these sector stocks to be more robust as longer term earnings are less geared to the economic cycle
- Financial shares reduced slightly on sale of Capitec shares received from a value-accretive unbundled from PSG—the core banking holding remains FirstRand Bank
- General preference for JSE-listed global businesses given the higher risks in the SA economy and larger global economic opportunity set—well capitalised companies that should deliver hard-currency, real earnings growth through the cycle, supported by expected rand weakness
- Low property exposure via niche storage and logistics counters and UK-based Capital & Counties—while Capco's substantial restaurant-linked trade was impacted by COVID-19, it still has significant financial flexibility to add to its Covent Garden estate as owners are forced to sell for liquidity reasons
- The large media weighting in Naspers and Prosus with the net-cash position giving a solid downside buffer—key asset Tencent is a key COVID-19 beneficiary via increased gaming
- Cash levels lower on price-weakness buying—the portfolio remains well diversified and defensively positioned given the global economic contraction and distressed SA economy

4. PORTFOLIO CONSTRUCTION

- Our effective asset allocation target is:

	Benchmark	Foord target		Portfolio at	
	Current	Current	Previous	30/09/2020	30/06/2020
	%	%	%	%	%
Precious metals	14	0	0	0	0
Commodity cyclicals	25	9	9	9	10
Capital goods/construction	1	2	2	2	2
Information technology	0	1	1	1	1
Industrials/transport	3	9	8	10	8
Overseas companies	13	14	14	14	14
Health	2	10	10	10	9
Consumer/services	7	12	11	14	12
Telecommunications	3	1	1	0	0
Media	14	15	15	15	16
Financials	15	12	13	12	12
Property	3	5	5	5	6
Commodities	0	3	3	3	3
Money market	0	7	8	5	7
	100	**100**	**100**	**100**	**100**

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OCTOBER 2020

5. EFFECTIVE EXPOSURE AND PORTFOLIO SENSITIVITY

5.1 Effective exposure

Asset class	Market value R'000	Option exposure R'000	Effective exposure R'000	Effective exposure %
JSE equities	3,141,431		3,141,431	86.4%
JSE property	185,311		185,311	5.1%
Commodities	116,320		116,320	3.2%
Money market	193,467		193,467	5.3%
Total	**3,636,529**		**3,636,529**	**100.0%**

5.2 Sensitivity report

JSE EQUITIES

Change in portfolio equities	**-20.0%**	**-10.0%**	**-5.0%**	**0.0%**	**5.0%**	**10.0%**	**20.0%**
Resultant equity change *	-628,286	-314,143	-157,072	0	157,072	314,143	628,286
Resultant portfolio value *	3,008,243	3,322,386	3,479,457	3,636,529	3,793,601	3,950,672	4,264,815
Resultant portfolio change (%)	-17.3%	-8.6%	-4.3%	0.0%	4.3%	8.6%	17.3%

JSE PROPERTY

Change in portfolio property	**-20.0%**	**-10.0%**	**-5.0%**	**0.0%**	**5.0%**	**10.0%**	**20.0%**
Resultant property change *	-37,062	-18,531	-9,266	0	9,266	18,531	37,062
Resultant portfolio value *	3,599,467	3,617,998	3,627,263	3,636,529	3,645,795	3,655,060	3,673,591
Resultant portfolio change (%)	-1.0%	-0.5%	-0.3%	0.0%	0.3%	0.5%	1.0%

*[R'000]

6. RESPONSIBLE INVESTMENT SUMMARY

Voting resolutions for Q3 2020	Total count	For	Against	Abstain
Adopt Financials	10	100%	0%	0%
Auditor/Risk/Social/Ethics related	58	83%	17%	0%
Buy Back Shares	12	83%	17%	0%
Director Remuneration	78	95%	5%	0%
Disapply Preemptive Rights	2	0%	100%	0%
Dividend Related	1	100%	0%	0%
Issue Shares	11	0%	100%	0%
Loan / Financial Assistance	18	39%	61%	0%
Other	20	85%	15%	0%
Political Expenditure/Donation	1	0%	100%	0%
Re/Elect Director	95	98%	2%	0%
Remuneration Policy	31	26%	74%	0%
Share Option Scheme	1	100%	0%	0%
Shares under Director Control	2	0%	100%	0%
Signature of Documents	2	100%	0%	0%

General comments:

- There are few abstentions. We apply our minds to every single resolution put to shareholders. When there is an abstention it would typically be intentional or for strategic reasons
- We typically vote against any resolution that could dilute the interests of existing shareholders. Examples include placing shares under the blanket control of directors, providing loans and financial assistance to associate companies or subsidiaries and blanket authority to issue shares. On the rare occasion, we have voted in favour of such resolutions, we were able to gain the required conviction in the specifics of the strategic rationale for such activities and could gain comfort that such activities are indeed to be used to the reasons stated
- The firm also has a strong philosophy regarding management remuneration models. We believe in rewarding good managers with appropriate cash remuneration on achievement of relevant performance metrics that enhance long-term shareholder value. We are generally not in favour of share option schemes given the inherent asymmetry between risk and reward typical of such schemes. In addition, we do not believe that existing shareholders should be diluted by the issuing of new shares to management as is the case with most option schemes. We are in favour of the alignment created between management and shareholders when management has acquired its stake in the company through open market share trading and paid for out of management's own cash earnings

IMPORTANT INFORMATION FOR INVESTORS:
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