

**SYNOPSIS****PERFORMANCE (TOTAL RETURN)**

	<b>Portfolio</b>	<b>Benchmark</b>
Annualised (since 02/01/2014)	6.8%	8.8%
Last 12 months	9.0%	7.1%
Last 3 months	4.2%	1.4%

**PORTFOLIO VALUE**

R 833.4 million (30/09/2020: R 535.4 million)

**TRANSACTIONS**

Net purchases of JSE equities, property, commodities and SA bonds  
Purchases of foreign assets  
Net contributions

**INVESTMENT OUTLOOK AND PORTFOLIO CONSTRUCTION***World:* Economic recovery is expected to continue

Unprecedented monetary and fiscal support

Inflation risks are mounting

Geopolitical risks remain high

Elevated market volatility

Higher US corporate taxes and government spending

Weaker dollar supports commodity prices

*South Africa:* Slow and volatile pace of economic recovery

Unsustainable fiscal deficits to continue

Rising risk of full-blown debt spiral

Slow recovery in employment

Inflation outlook benign

Rand vulnerable to capital outflows

*Portfolio construction:* Equities attractive but selection important

Maximum foreign assets with preference for equities

Bias to JSE-listed global businesses but adding SA Inc. counters

Contrarian low precious metals miners weight

NewGold ETF is an attractive, uncorrelated investment

Cautious on SA listed property

Medium-duration bonds capture high real yield opportunity

**EFFECTIVE ASSET ALLOCATION (previous)**

	<b>Foord target</b>		<b>Portfolio</b>	
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
JSE equities	30	(30)	28	(29)
Foreign assets	30	(30)	28	(31)
JSE property	5	(6)	4	(6)
Commodities	5	(6)	4	(5)
SA bonds	19	(21)	15	(20)
Money market	11	(7)	21	(9)
	<u>10</u>		<u>100</u>	

1. PORTFOLIO PERFORMANCE

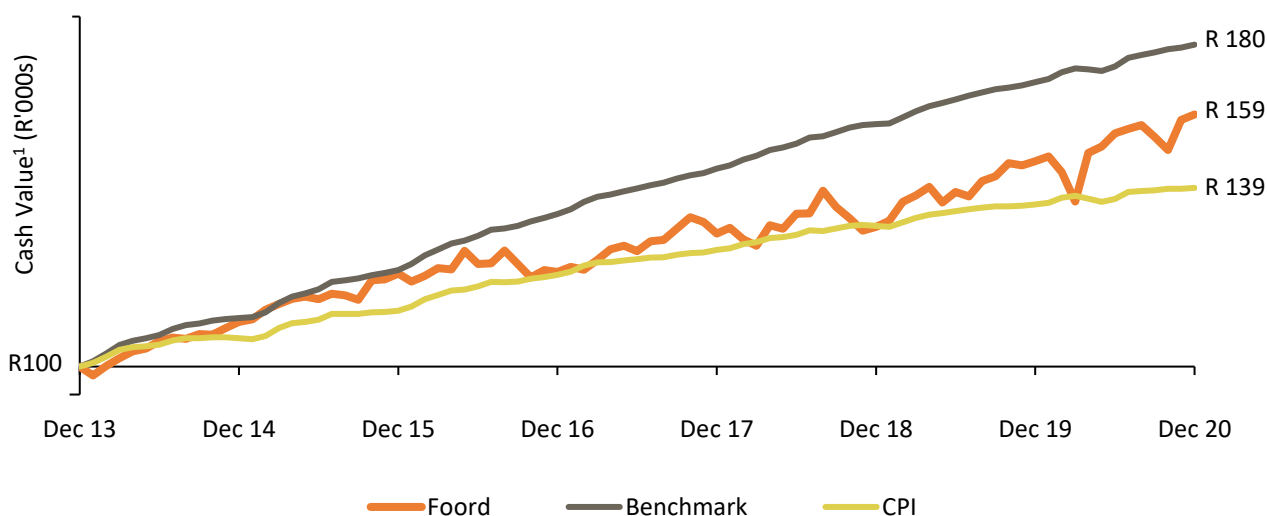
1.1 Total performance to 31 December 2020

	<u>Portfolio</u>	<u>Benchmark*</u>	<u>Variance</u>	<u>Peer Group#</u>
	%	%	%	%
From inception (02/01/2014)	6.8	8.8	- 2.0	5.6
7 years	6.8	8.8	- 2.0	5.6
5 years	6.0	8.6	- 2.6	4.6
3 years	7.6	7.9	- 0.3	4.1
1 year	9.0	7.1	1.9	5.1
3 months	4.2	1.4	2.8	4.5

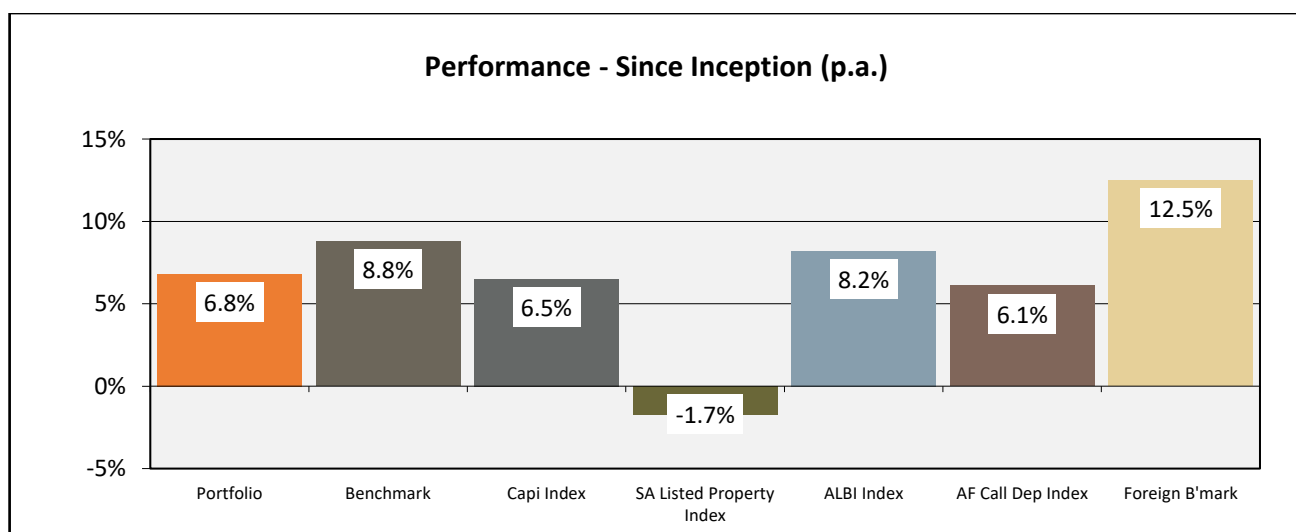
\* CPI + 4% per annum. CPI estimated for December 2020

# (ASISA) South Africa – Multi Asset – Medium Equity average

Daily linked total rates of return (capital and income) based on unit price. Returns in percent net of service 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)



**1.2 Selection to 31 December 2020**

	<u>JSE equities</u>		<u>JSE property</u>		<u>Interest bearing</u>			<u>Foreign assets</u>	
	<u>Portfolio</u>	<u>Capi Index</u>	<u>Portfolio</u>	<u>SA Listed Property Index<sup>#</sup></u>	<u>Portfolio</u>	<u>ALBI Index</u>	<u>AF Call Dep Index</u>	<u>Portfolio</u>	<u>Bench-mark*</u>
	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>
From inception (02/01/2014)	1.6	6.5	- 2.6	- 1.7	8.0	8.2	6.1	11.3	12.5
7 years	1.6	6.5	- 2.6	- 1.7	8.0	8.2	6.1	11.3	12.5
5 years	0.3	5.9	- 8.3	- 8.4	8.9	10.4	6.3	8.3	8.7
3 years	- 2.5	2.8	- 0.5	- 20.7	9.1	8.9	5.9	14.9	15.5
1 year	- 3.1	6.5	- 17.9	- 34.5	9.9	8.7	4.5	23.8	20.4
3 months	10.9	10.6	14.6	22.2	3.9	6.7	0.9	- 0.3	- 3.9

# The FTSE/JSE SA Listed Property Index

\* 60% Morgan Stanley World Equity Index in rand and 40% FTSE World Govt Bond Index in rand

Asset class returns are calculated on a gross basis, using the modified dietz methodology (compounded monthly)

**1.3 Sector contribution to 31 December 2020**

(Returns x weight)

	<u>JSE equities</u>	<u>JSE property</u>	<u>Interest bearing*</u>	<u>Other assets</u>	<u>Foreign assets</u>	<u>Portfolio</u>
	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>
1 year	- 0.3	- 1.5	2.5	1.9	7.9	10.5
3 months	3.3	0.8	1.2	- 0.6	- 0.1	4.6

\* Bonds and cash combined

Returns in percent, calculated on a gross basis

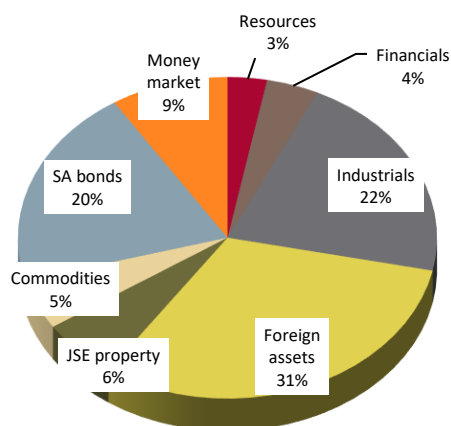
Quarterly performance comment:

- SA equities contributed most to performance with financials, industrials and resources all advancing—core holdings FirstRand, Standard Bank, and Anheuser-Busch InBev advanced, partially offset by declining British American Tobacco
- SA fixed interest securities were positive as the yield curve fell and flattened—the core holding in the medium-term R186 slightly underperformed the All Bond Index as yields at the long end fell, but has strongly outperformed over the year
- The global equity component continued to outperform, ending the year 8% ahead of the benchmark MSCI All Country World Index—but foreign assets in total detracted at the margin this quarter as the rand gained on dollar weakness
- The low listed property weight detracted this quarter but protected capital over the full year with the sector down 34% in 2020—core holding in London value play Capital & Counties made a positive contribution, as did niche warehousing and distribution company Stor-Age
- The diversifying physical gold position detracted from performance over the quarter—on a lower dollar gold price and stronger rand

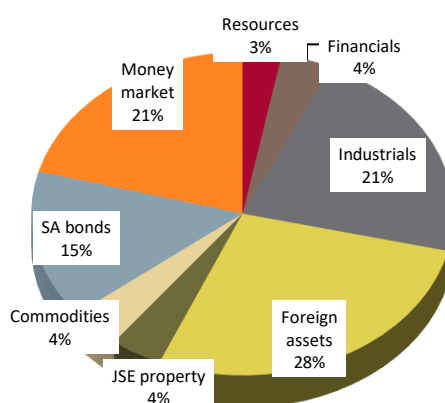
## 2. PORTFOLIO STRUCTURE

Mandate (%)	Portfolio Effective exposure		FTSE/JSE Capped ALSI Weightings
	30/09/2020	31/12/2020	
	%	%	%
JSE equities: resources	3	3	10
JSE equities: financials (ex property)	4	4	5
JSE equities: industrials	22	21	13
0 - 60 JSE equities*	29	28	28
0 - 30 Foreign assets	31	28	
Foord International Fund	17	14	
Foord Global Equity Fund	16	14	
Currencies	-2	0	
0 - 25 JSE property	6	4	
0 - 10 Commodities	5	4	
0 - 100 SA bonds	20	15	
0 - 100 Money market	9	21	
	<b>100</b>	<b>100</b>	
<b>Total portfolio</b>	<b>R 535.4m</b>	<b>R 833.4m</b>	
*Size distribution of JSE equities	%	%	%
Large capitalisation	78	76	90
Mid capitalisation	13	16	7
Small capitalisation	9	8	3
	<b>100</b>	<b>100</b>	<b>100</b>
<u>Exposure analysis</u>	<u>Domestic</u>	<u>Foreign</u>	<u>Total</u>
	%	%	%
Equities	28	23	51
Listed property	4	1	5
Corporate bonds	0	1	1
Government bonds	15	0	15
Commodities	4	1	5
Money market	21	2	23
	<b>72</b>	<b>28</b>	<b>100</b>

Effective exposure 30/09/2020



Effective exposure 31/12/2020



### 3. MARKET BACKGROUND AND OUTLOOK

#### 3.1 World

- Economic activity improved from the historic second-quarter recession as momentum built on less stringent lockdowns—but the emergence latterly of more transmissible variants and increasingly onerous winter lockdowns suggests that economic recovery in 2021 may not be as robust as first expected
- Positive vaccine trial news flow and the first UK and US inoculations supported expectations for a faster return to normal and propelled equity markets to new highs—the time required to reach global herd immunity is uncertain given the logistical challenges of vaccinating that many people and developing countries' ability to access sufficient supply
- The US elections did little to settle US political uncertainty given President Trump's non-capitulation and legal challenges to Biden's electoral college and popular vote victories—the Democratic clean sweep now makes higher US corporate taxes and increased spending much more likely
- The passage of an additional \$900 billion US relief package further buoyed markets—but the unprecedented peacetime global deficit spending went to personal consumption and not productivity enhancing infrastructure investments, raising the spectre of higher long-term inflation as debt burdens spiral
- The major central banks (excluding China) maintained their extreme monetary policy stance with cash pouring into alternative assets and corporate credits in search of higher yields as a result—global corporate debt issuance in 2020 reached a record \$5.4 trillion, resulting in much weaker balance sheets and sharply rising risk of default should solvency ratios not improve meaningfully
- The US dollar was weaker on the sheer scale of US monetary stimulus and as the eleventh-hour Brexit trade deal buoyed the euro and pound—dollar weakness should persist as the Democrats implement their economic agenda and investors move out of safe havens ahead of economic recovery following the vaccine roll-outs
- Industrial commodity prices surged as market sentiment for economic recovery in 2021 gained momentum—the weaker dollar should provide further support for commodity prices with growing inflation risks in the long-term expected to keep precious metals prices well bid

#### 3.2 South Africa

- The economy recovered at pace from the severe second-quarter recession but is still expected to have contracted by at least 5% in 2020—an unexpected summer second-wave infection caused by a new, more transmissible SARS-CoV-2 variant, return to Level 3 restrictions and bungled vaccine procurement have elevated the risks to meaningful economic recovery
- The mini-budget was disappointingly vague on government's strategy for arresting the rapidly deteriorating public finances—the slim chance of meaningful public wage reductions and incomprehensible support for bankrupt SOEs does not bode well for the trajectory of the country's debt spiral
- SA equities delivered good returns with financials, resources and industrials rallying on buoyant emerging markets sentiment—despite the weak economic outlook, select 'SA Inc.' companies are attractively valued, but resource companies appear to be near the peak of their earnings and operating margins cycles
- The SA government bond yield curve moved lower and flatter as long bond yields fell on the risk-on environment amid hopes for a faster return to normal in 2021—yields remain attractive in the benign inflationary environment but longer term inflation risks include reserve bank independence, money printing and ever-increasing bond issuances

### 3.2 South Africa (Continued)

- Listed property was the best performing asset class as investors were bottom feeding the optically attractive yields, but the asset class is down 34% for the year as property values were marked down amid recession-driven negative rent reversions—risks to distributions persist, given weakening balance sheets, rising debt ratios and persistently difficult trading conditions
- The rand appreciated on broad-based US dollar weakness, but is at risk from capital outflows despite an improved current account surplus—emerging market currencies should stay well bid while market sentiment remains positive for vaccine rollouts, allowing a return to more normal levels of economic activity
- The first, long overdue, high level corruption arrests provided much needed balm to the national psyche—but the country’s fortunes remain intricately linked to internal ANC factional frictions, with the time for much needed structural economic reforms starting to run desperately short

## 4. PORTFOLIO CONSTRUCTION

- Equity weight increased as global and SA markets rallied latterly and although positive news flow should be supportive, the longer-term risks continue to rise—US market valuations are very high relative to history, only justifiable by extremely low borrowing costs
- A meaningful allocation to equities is maintained but the managers are cautious given the prevailing risks—stock selection is critical with positions focused on good quality, niche global companies at attractive valuations that are well positioned to survive further stress
- The managers opportunistically purchased some niche “SA Inc.” companies but still favour JSE-listed global businesses given the higher risks in the SA economy and more attractive global opportunity set—well capitalised companies that should deliver hard-currency, real earnings growth through the cycle, supported by expected longer term rand weakness
- Retain low resources weight primarily via BHP Group, which is the highest quality diversified miner and the fund’s largest single equity investment—despite likelihood of continued momentum for the sector in the short term, the managers are concerned that current market ratings and earnings are unsustainable
- Maintain the diversifying physical gold position via the NewGold ETF—an uncorrelated asset and hedge against market dislocations and the risk of possible rampant inflation in the future
- Foreign assets were reset to the prudential maximum, with a preference for global equities over bonds and cash with some hedges against market retracement—the fund’s investments favour higher growth and better-valued emerging market businesses with structural tailwinds over more expensive US bourses
- Despite some recovery in SA retail and commercial property counters, the sector faces significant structural challenges—we remain focused on niche logistic and self-storage property counters and UK-listed value play Capital & Counties
- Medium-term SA government bond investments are a meaningful part of the portfolio, although we trimmed holdings at the margin—despite lower nominal yields, bonds still offer attractively high real return prospects given benign inflation
- Reasonably high levels of optionality and liquidity are maintained—allowing the managers to take advantage of attractively priced long-term opportunities

## 4. PORTFOLIO CONSTRUCTION (Continued)

- Our effective asset allocation target is:

Policy parameters	Foord target		Portfolio at	
	Current	Previous	31/12/2020	30/09/2020
%	%	%	%	%
0 - 60 JSE equities	30	30	28	29
0 - 30 Foreign assets	30	30	28	31
Foord International Fund*	17	17	14	17
Foord Global Equity Fund	13	13	14	16
Currencies	0	0	0	-2
0 - 25 JSE property	5	6	4	6
0 - 10 Commodities	5	6	4	5
0 - 100 SA bonds	19	21	15	20
0 - 100 Money market	11	7	21	9
	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

\* Currently 72% in equities, property 5%, commodities 7%, corporate bonds 6% and cash 10%

D FOORD/W FRASER/D OWEN/N BALKIN  
JANUARY 2021

## 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	231,053		231,053	27.7%
Foreign assets	236,623		236,623	28.4%
JSE property	35,652		35,652	4.3%
Commodities	28,567		28,567	3.4%
SA bonds	127,047		127,047	15.3%
Money market	174,470		174,470	20.9%
<b>Total</b>	<b>833,412</b>		<b>833,412</b>	<b>100.0%</b>

## 5.2 Sensitivity report

## JSE EQUITIES

## Change in portfolio equities

Resultant equity change *	-46,211	-23,105	-11,553	0	11,553	23,105	46,211
Resultant portfolio value *	787,201	810,307	821,859	833,412	844,965	856,517	879,623
Resultant portfolio change (%)	-5.5%	-2.8%	-1.4%	0.0%	1.4%	2.8%	5.5%

	-20.0%	-10.0%	-5.0%	0.0%	5.0%	10.0%	20.0%
Resultant equity change *	-46,211	-23,105	-11,553	0	11,553	23,105	46,211
Resultant portfolio value *	787,201	810,307	821,859	833,412	844,965	856,517	879,623
Resultant portfolio change (%)	-5.5%	-2.8%	-1.4%	0.0%	1.4%	2.8%	5.5%

## FOREIGN ASSETS

## Change in R/\$ exchange rate

R/\$ exchange rate	17.6336	16.1642	15.4294	14.6947	13.9600	13.2252	11.7558
Resultant for. assets change *	47,325	23,662	11,831	0	-11,831	-23,662	-47,325
Resultant portfolio value *	880,737	857,074	845,243	833,412	821,581	809,750	786,087
Resultant portfolio change (%)	5.7%	2.8%	1.4%	0.0%	-1.4%	-2.8%	-5.7%

	-20.0%	-10.0%	-5.0%	0.0%	5.0%	10.0%	20.0%
R/\$ exchange rate	17.6336	16.1642	15.4294	14.6947	13.9600	13.2252	11.7558
Resultant for. assets change *	47,325	23,662	11,831	0	-11,831	-23,662	-47,325
Resultant portfolio value *	880,737	857,074	845,243	833,412	821,581	809,750	786,087
Resultant portfolio change (%)	5.7%	2.8%	1.4%	0.0%	-1.4%	-2.8%	-5.7%

## JSE PROPERTY

## Change in portfolio property

Resultant property change *	-7,130	-3,565	-1,783	0	1,783	3,565	7,130
Resultant portfolio value *	826,282	829,847	831,629	833,412	835,195	836,977	840,542
Resultant portfolio change (%)	-0.9%	-0.4%	-0.2%	0.0%	0.2%	0.4%	0.9%

	-20.0%	-10.0%	-5.0%	0.0%	5.0%	10.0%	20.0%
Resultant property change *	-7,130	-3,565	-1,783	0	1,783	3,565	7,130
Resultant portfolio value *	826,282	829,847	831,629	833,412	835,195	836,977	840,542
Resultant portfolio change (%)	-0.9%	-0.4%	-0.2%	0.0%	0.2%	0.4%	0.9%

## SA BONDS

## Change in yields

Resultant fixed income change *	25,434	16,184	7,735	0	-7,094	-13,613	-19,615
Resultant portfolio value *	858,846	849,596	841,147	833,412	826,318	819,799	813,797
Resultant portfolio change (%)	3.1%	1.9%	0.9%	0.0%	-0.9%	-1.6%	-2.4%

	-3.0%	-2.0%	-1.0%	0.0%	1.0%	2.0%	3.0%
Resultant fixed income change *	25,434	16,184	7,735	0	-7,094	-13,613	-19,615
Resultant portfolio value *	858,846	849,596	841,147	833,412	826,318	819,799	813,797
Resultant portfolio change (%)	3.1%	1.9%	0.9%	0.0%	-0.9%	-1.6%	-2.4%

\*[R'000]



## 6. RESPONSIBLE INVESTMENT SUMMARY

Voting resolutions for Q4 2020

Portfolio	Total count	For	Against	Abstain
Adopt Financials	4	100%	0%	0%
Auditor/Risk/Social/Ethics related	55	98%	2%	0%
Buy Back Shares	13	100%	0%	0%
Director Remuneration	58	100%	0%	0%
Dividend Related	5	100%	0%	0%
Issue Shares	14	0%	100%	0%
Loan / Financial Assistance	14	36%	64%	0%
Other	15	67%	33%	0%
Re/Elect Director	76	100%	0%	0%
Remuneration Policy	26	31%	69%	0%
Share under Director Control	6	0%	100%	0%
Signature of Documents	5	100%	0%	0%

Foord Global Equity Fund	Total count	For	Against	Abstain
Auditor/Risk/Social/Ethics related	2	50%	50%	0%
Issue shares	1	100%	0%	0%
Others	1	100%	0%	0%
Re/Elect Director	19	100%	0%	0%
Remuneration Policy including directors' remuneration	6	33%	67%	0%

Foord International Fund	Total count	For	Against	Abstain
Auditor/Risk/Social/Ethics related	2	50%	50%	0%
Issue Shares	1	100%	0%	0%
Others	3	100%	0%	0%
Re/Elect Director	18	100%	0%	0%
Remuneration Policy including directors' remuneration	5	80%	20%	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:**

Collective Investment Schemes in Securities (unit trusts) are generally medium- to long-term investments. The value of participatory interests (units) may go down as well as up and past performance is not necessarily a guide to the future. Performance is calculated for the portfolio. Individual investor performance may differ as a result of the actual investment date, the date of reinvestment and withholding taxes. Performance may be affected by changes in the market or economic conditions and legal, regulatory and tax requirements. Neither Foord nor Foord Unit Trusts provide any guarantee either with respect to the capital or the performance return of the portfolio. Unit trusts are traded at ruling prices and can engage in borrowing. Foord Unit Trusts does not engage in scrip lending. Commission and incentives may be paid and if so, this cost is not borne by the investor. A schedule of fees and charges and maximum commissions is available on request. Distributions may be subject to mandatory withholding taxes. A feeder fund portfolio is a portfolio that, apart from assets in liquid form, consists solely of units in a single portfolio of a single investment scheme. A fund of funds invests only in other Collective Investment Schemes, which may levy their own charges, which could result in a higher fee structure for these portfolios. Foord Unit Trusts is authorised to close the portfolio to new investors in order to manage the portfolio more efficiently in accordance with its mandate.

**FOREIGN INVESTMENT RISK:**

The portfolio may include underlying foreign investments. Fluctuations or movements in exchange rates may cause the value of underlying foreign investments to go up or down. The underlying foreign investments may be adversely affected by political instability as well as exchange controls, changes in taxation, foreign investment policies, restrictions on repatriation of investments and other restrictions and controls that may be imposed by the relevant authorities in the relevant countries.

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