SYNOPSIS

PERFORMANCE (TOTAL RETURN)

	Portfolio	Benchmark
Annualised (since 02/09/2002)	13.6%	13.7%
Last 12 months	- 0.9%	6.5%
Last 3 months	11.2%	10.6%

PORTFOLIO VALUE

R 3 814.0 million (30/09/2020: R 3 636.5 million)

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

Fund construction: 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 'SA Inc.' 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 equity buying

EFFECTIVE ASSET ALLOCATION (previous)

	Foord target		Portfolio	
	%	%	%	%
JSE equities	89	(85)	90	(87)
JSE property	5	(5)	5	(5)
Commodities	3	(3)	3	(3)
Money market	3	(7)	2	(5)
	100		100	

1. PORTFOLIO PERFORMANCE

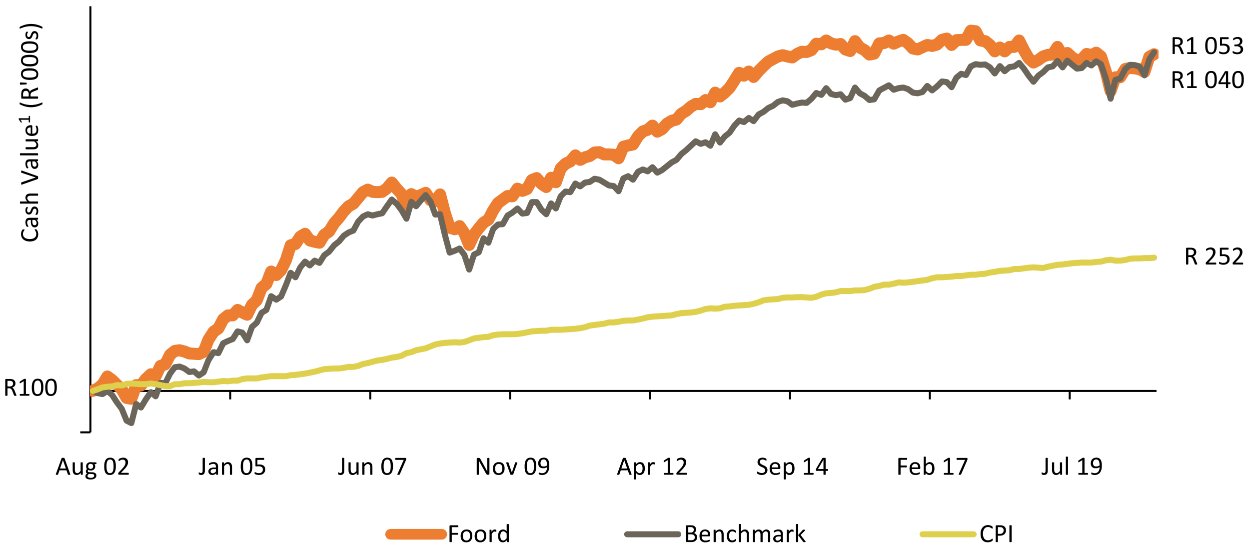
Total performance to 31 December 2020

	Portfolio %	Benchmark* %	Variance %	Peer Group# %
From inception (02/09/2002)	13.6	13.7	- 0.1	12.3
15 years	10.0	11.4	- 1.4	8.7
10 years	7.3	9.5	- 2.2	6.5
7 years	1.8	6.7	- 4.9	3.6
5 years	- 0.5	6.2	- 6.7	3.0
3 years	- 3.1	2.9	- 6.0	-0.9
1 year	- 0.9	6.5	- 7.4	0.5
3 months	11.2	10.6	0.6	10.7

* 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) average

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:

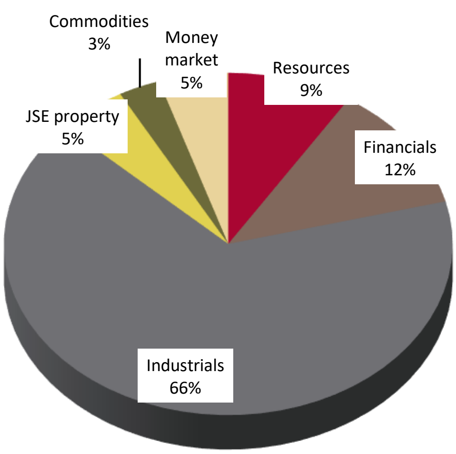
- The contrarian low precious metals and gold miners weight was the largest single contributor to relative performance—gold miners sold off sharply on a weaker dollar gold price and stronger rand, while platinum miners outperformed on the stronger platinum group metals prices
- The newly upweighted healthcare position was the largest detractor—pharmaceutical company Aspen contributed positively in absolute terms while holdings in hospital companies Mediclinic and Netcare detracted
- The long-term investments in key mid cap industrials also added value—Invicta, Omnia and Kap were all up sharply in the quarter
- The lower-than-index allocation to financials detracted as the sector outperformed—but stock selection added value with core holding FirstRand outperforming
- The consumer services investments added value—stock selection was also strong with The Foschini Group, Italtile and Pepkor all contributing meaningfully
- The diversifying physical gold position in NewGold ETF detracted—the dollar price of the metal moved lower and the rand strengthened
- The low listed property weight detracted this quarter, although remains sharply down over the year—stock selection added value with core holding in London property company Capital & Counties outperforming

2. PORTFOLIO STRUCTURE

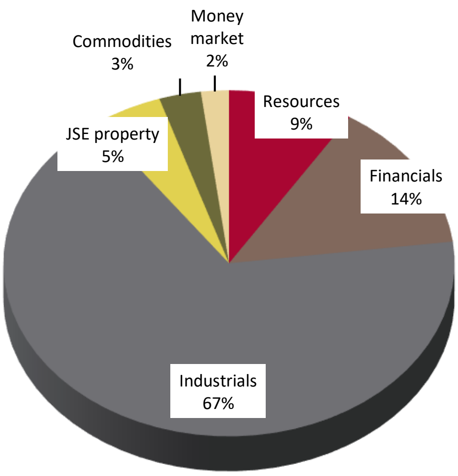
	Portfolio Effective exposure 30/09/2020	Portfolio Effective exposure 31/12/2020	FTSE/JSE Capped ALSI Weightings
	%	%	%
JSE equities: resources	9	9	32
JSE equities: financials (ex property)	12	14	17
JSE equities: industrials	66	67	43
JSE property	5	5	3
JSE equities*	92	95	95
Commodities	3	3	
Money market	5	2	
	100	**100**	
Total portfolio	**R 3 636.5m**	**R 3 814.0m**	

*Size distribution of JSE equities	%	%	%
Large capitalisation	70	70	90
Mid capitalisation	13	14	7
Small capitalisation	17	16	3
	100	**100**	**100**

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

- Added Anglo American to the portfolio to diversify commodity and counter specific risk in the fund's principal sector investment, the highest quality diversified miner BHP Group—increasing the exposure to consumer metals like copper which should remain elevated given the scarcity of supply against increased demand from electric cars
- Purchased hospital counters on share price weakness associated with near-term earnings uncertainty—largest fund's largest healthcare sector holding, Aspen Pharmacare, entered a COVID-19 vaccine manufacturing partnership with Johnson & Johnson which should improve shareholder returns
- The core allocation to JSE-listed global businesses is maintained in well capitalised corporates with pricing power in hard currencies—medium-term headwinds facing the local South African economy have been exacerbated by the knock-on effects of the COVID-19 pandemic
- The large media sector weighting in Naspers and Prosus is maintained—both companies have commenced sizable share buyback programmes which is an important capital allocation signal from management to reduce the valuation discount over time
- Diversifying allocation to physical gold ETF NewGold is still in place—the preferred hedge against market volatility and longer term inflation risks
- Cash levels were reduced to take advantage of attractive entry prices to build long-term positions in select quality SA Inc. companies—the portfolio remains well diversified across economic drivers with sufficient liquidity

4. PORTFOLIO CONSTRUCTION (Continued)

- Our effective asset allocation target is:

	Capped ALSI	Foord target		Portfolio at	
	Current	Current	Previous	31/12/2020	30/09/2020
	%	%	%	%	%
Precious metals	12	0	0	0	0
Commodity cyclicals	25	9	9	9	9
Capital goods/construction	1	2	2	1	2
Information technology	0	1	1	1	1
Industrials/transport	4	10	9	11	10
Overseas companies	13	14	14	13	14
Health	2	11	10	12	10
Consumer/services	7	13	12	14	14
Telecommunications	3	1	1	0	0
Media	12	15	15	15	15
Financials	18	13	12	14	12
Property	3	5	5	5	5
Commodities	0	3	3	3	3
Money market	0	3	7	2	5
	100	**100**	**100**	**100**	**100**

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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	3,457,494		3,457,494	90.7%
JSE property	179,299		179,299	4.7%
Commodities	104,975		104,975	2.7%
Money market	72,188		72,188	1.9%
Total	**3,813,956**		**3,813,956**	**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 *	-691,499	-345,749	-172,875	0	172,875	345,749	691,499
Resultant portfolio value *	3,122,457	3,468,207	3,641,081	3,813,956	3,986,831	4,159,705	4,505,455
Resultant portfolio change (%)	-18.1%	-9.1%	-4.5%	0.0%	4.5%	9.1%	18.1%

JSE PROPERTY

Change in portfolio property	**-20.0%**	**-10.0%**	**-5.0%**	**0.0%**	**5.0%**	**10.0%**	**20.0%**
Resultant property change *	-35,860	-17,930	-8,965	0	8,965	17,930	35,860
Resultant portfolio value *	3,778,096	3,796,026	3,804,991	3,813,956	3,822,921	3,831,886	3,849,816
Resultant portfolio change (%)	-0.9%	-0.5%	-0.2%	0.0%	0.2%	0.5%	0.9%

*[R'000]

6. RESPONSIBLE INVESTMENT SUMMARY

Voting resolutions for Q4 2020	Total count	For	Against	Abstain
Adopt Financials	4	100%	0%	0%
Auditor/Risk/Social/Ethics related	57	98%	2%	0%
Buy Back Shares	13	100%	0%	0%
Director Remuneration	46	98%	2%	0%
Dividend Related	5	100%	0%	0%
Issue Shares	14	0%	100%	0%
Loan / Financial Assistance	13	31%	69%	0%
Other	23	78%	22%	0%
Re/Elect Director	77	100%	0%	0%
Remuneration Policy	26	31%	69%	0%
Shares under Director Control	6	0%	100%	0%
Signature of Documents	4	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

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