FOREWORD

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To call the first quarter's market ructions 'eventful' would be an understatement. From the South African Budget Speech fiasco to Trump's tariff tantrums, we've seen it all (almost) these past few months. Curveballs from all quarters have vindicated our cautious positioning. It's little wonder then, that this issue of *Foreword* reflects this sentiment.

In our feature article *America's Future Lies in Innovation — Not Factories*, Rashaad Tayob questions Trump's re-industrialisation strategy and suggests instead that innovation will be key to making America great again. Brian Arcese shares his cautious optimism for China in *China: Tailwinds Persist Despite Trade Turbulence*. Wim Murray focuses closer to home and highlights exciting equity opportunities in *SA Equities — Beyond the Gloom*. Nancy Hossack writes about an out-of-favour sector in *The SA Construction Sector — Foundation for Growth*. Linda Eedes explains how Foord is positioning portfolios in an unpredictable environment in *Investing with Confidence for Safety and Growth*. And finally, we conclude with our quarterly market wrap *Markets in Nutshell*.

Paul Cluer
Managing Director

AMERICA'S FUTURE LIES IN INNOVATION — NOT FACTORIES

US President Donald Trump has put tariffs aggressively back on his policy agenda in his second term, reigniting debates about America's ability to reclaim its industrial past through protectionist policies. The administration argues tariffs will level the playing field, shrink the trade deficit, and restore jobs lost to globalisation. But, as portfolio manager RASHAAD TAYOB argues, America's future lies in innovation, not factories.

Tariffs failed to meaningfully rebalance trade or revive US manufacturing during Trump's first term. While certain sectors briefly benefited, overall gains were undone by supply-chain disruptions, retaliatory measures, and rising consumer prices. Investors hoping for a renaissance in American manufacturing are likely chasing a mirage. I believe that markets are underestimating the costs of this protectionist strategy.

The popular narrative that the US can restore its post-war manufacturing dominance is fundamentally flawed. America's post-World War II industrial supremacy was never sustainable. It was a temporary anomaly created by the destruction in Europe and Asia. Once the world recovered and economies like China and India entered global markets, America's share of manufacturing inevitably shrank. Much of this shift was driven by the rise of the Global South (see *Did You Know?*). History teaches us that wealthy economies naturally evolve from industrial production towards high-value services and innovation.

Today, the US faces structural — not cyclical — headwinds. Tariffs won't reverse decades of economic transformation. Instead, protectionism risks embedding inefficiency, raising prices, and stifling growth. Investors should therefore be cautious about exposure to US companies depending on domestic manufacturing revival, as trade barriers may produce short-term gains but long-term losses.

True economic prosperity lies in innovation, not protectionism. America's historical strength has always been its ability to develop new, high-value products and services that the world hungrily consumes. But domestic policy missteps are eroding this competitive advantage. Declining public investment in research and development, entrenched corporate monopolies, and policy stagnation have diminished America's innovative edge.

Federal R&D spending as a percentage of GDP has fallen sharply — from nearly 2% in 1965 to less than 0.7% today — coinciding with the significant reduction of US manufacturing share globally. At the same time, established industries in finance, healthcare, and education have grown powerful through regulatory capture rather than innovation and genuine competition.

For the US to regain a competitive advantage, it must pivot decisively towards cutting-edge sectors like artificial intelligence, biotechnology, and clean energy — areas where it can genuinely lead globally. Attempting to reclaim low-cost, high-volume manufacturing from economies like China is misguided and self-defeating. China is already taking the lead in many of these sectors — from electric vehicles and renewable energy to advanced manufacturing and now artificial intelligence — challenging the notion that America still holds a natural advantage.

For investors, this suggests opportunities lie not in traditional manufacturing but in innovative companies with high-quality, global franchises able to sustain long-term growth through technological advancement and market leadership. Foord's portfolios reflect this thinking — we maintain selective exposure to global innovators with sustainable competitive advantages, rather than companies banking on artificial trade barriers or unsustainable protectionist measures.

Ultimately, America's economic future and market opportunities depend not on turning back the clock to factory floors, but on embracing and investing in innovation-led growth. Tariffs promise short-term political wins but deliver long-term economic pain. Investors must look beyond simplistic protectionism to find genuine value — exactly as Foord seeks to do.

CHINA: TAILWINDS PERSIST DESPITE TRADE TURBULENCE

Chinese equities entered 2025 with positive momentum. Years of policy overhangs were finally beginning to lift. The combination of renewed stimulus, stabilising property markets, and a tech-sector rebound had markets pricing in a turning point. That optimism was tested in March, when the United States imposed sweeping new tariffs on Chinese imports — with Beijing responding in kind. The tariff war rattled sentiment. But despite the trade war escalation, portfolio manager BRIAN ARCESE writes that Foord remains cautiously optimistic.

The Chinese policy stance has turned meaningfully pro-growth. Since September 2024, the Chinese government has rolled out significant fiscal and monetary support for the world's second largest economy. The first quarter of 2025 saw record government bond issuance, targeted rate cuts, and renewed infrastructure investment — all designed to offset persistent domestic weakness and the growing drag from global demand uncertainty.

Support for the beleaguered property sector continued. The housing market, long a source of economic fragility, is beginning to show tentative signs of stability. In Tier-1 cities, transaction volumes have picked up and prices have started to respond. While property investment remains muted and smaller developers continue to struggle, the government's debt-swap programme and credit easing are working their way through the system. A disorderly housing unwind now looks less likely than it did six months ago.

Regulatory pressure on Chinese technology companies has also eased. A February meeting between President Xi and major tech CEOs signalled a clear shift in tone. The government acknowledged the sector's importance to long-term competitiveness and employment, and promised a more predictable regulatory environment. This coincided with the launch of DeepSeek, an advanced AI model that impressed markets and showcased China's innovation capacity despite ongoing restrictions on semiconductor imports. The Hang Seng Tech Index surged early in the quarter, buoyed by renewed investor confidence and strong earnings momentum.

Trump's new tariffs have disrupted this narrative. By April, the US had raised effective duties on Chinese goods to nearly 145%, while China responded with a broad suite of countermeasures. Markets sold off sharply, with Chinese equities briefly entering correction territory. However, Beijing moved quickly to contain the fallout. State funds intervened to stabilise equity markets, and policymakers signalled further stimulus to cushion the domestic impact. Measures under consideration include enhanced tax rebates for exporters, increased consumption incentives, and targeted liquidity support.

While these developments are a clear setback, the broader story remains intact. China's export reliance on the US has declined meaningfully — from over 7% of GDP a decade ago to under 3% today — and its trade diversification continues. Rising intra-Asian trade, deeper integration via regional agreements, and a growing domestic consumer base reduce China's vulnerability to US-specific shocks. Meanwhile, long-term growth drivers such as AI, green energy, and advanced manufacturing continue to attract investment.

Chinese equities remain among the cheapest in global markets. Valuations reflect deep investor scepticism, yet corporate fundamentals continue to improve. Foord is overweight the region, favouring companies aligned with long-term policy goals, robust balance sheets, and proven management. We see opportunity in technology, select consumer businesses, and dividend-paying state-owned enterprises.

While the tariff conflict introduces volatility, we believe it does not invalidate the investment case. China's policy support, innovation push, and attractive valuations suggest the rally may not be over — only paused. We continue to invest in this market selectively and with conviction.

SA EQUITIES — BEYOND THE GLOOM

South Africa's stock market has endured a challenging decade marked by sluggish economic growth, policy uncertainty, and capital flight. The advent of the GNU brought with it the prospect of political stability and the market subsequently rerated. Recent turbulence relating to US tariffs and concerns around GNU longevity have again seen certain SA Inc. counters derate putting on offer some exciting long-term opportunities for discerning and patient investors regardless of a low-growth environment likely persisting. Portfolio manager WIM MURRAY explains.

Post-GNU optimism rewarded South African-focused stocks in 2024. improved political stability, and a resilient rand boosted investor appetite. Financial and industrial shares listed on the JSE Limited gained approximately 20% last year. With various counters approaching fair value and prompting prudent profit taking, the funds entered the year with ample cash. Today we see numerous attractive opportunities — particularly among smaller, overlooked companies boasting robust balance sheets and proactive management. As the market continue to focus on the large and highly liquid top 40 shares, these smaller businesses remain overlooked despite offering attractive long-term value.

At Foord, our investment approach hinges on fundamental analysis and valuation discipline. We eschew labels like ‘growth’ or ‘value’ and remain focussed on the quality, sustainability, and growth potential of a company's cash flows. Management quality and disciplined capital allocation further underpin our investment conviction.

Headline inflation currently sits comfortably in the 3–6% target range, aided — until recently — by rand strength, lower fuel costs and stable food prices. Looking forward, we expect inflation to edge higher, reaching 4.5–5.0% within the next 12 to 18 months. Risks include a possible VAT hike, renewed rand weakness, exploding sovereign debt, and global inflationary pressures from the tariff war. Inflation is negative for consumer spending, even if it helps government’s finances.

South Africa’s economic activity remains subdued, despite nascent improvement in business confidence indicators. Investment in infrastructure remains at historically low levels, and private sector credit growth is weak. Corporate capital spending is primarily maintenance-driven rather than expansionary. Achieving GDP growth of 1.5–2.0% this year, from a very low base, would be notable progress.

Nevertheless, select stocks continue to provide fertile opportunities. Companies capable of delivering earnings growth through internal efficiencies and increased market share, independent of macroeconomic tailwinds, remain highly attractive. Notable examples include WHBO — the resilient industry leader, now benefiting from its unique market position, favourable contract terms, and improving margins; Aspen Pharmacare — which offers an intriguing turnaround story through efforts to maximise manufacturing capacity; and Premier Group — which remains attractive on improving operational efficiencies and margin expansion.

Within the resources sector we remain constructive on copper produces, driven by electrification trends and limited new supply; and gold, as a defensive hedge. We are cautious on iron ore producers — given weak Chinese demand and structural property-market pressures — and platinum group metals (PGMs) — due to uncertainties surrounding global vehicle sales and emission regulation delays.

Despite macroeconomic challenges and ongoing risks, South Africa's equity market still holds substantial promise for discerning and patient investors. Foord's forward-looking long-term investment approach positions us to capture value that others might overlook. We remain cautiously optimistic on the SA equity asset class — selectively investing beyond the gloom into SA Inc that will survive and thrive.

THE SA CONSTRUCTION SECTOR — FOUNDATION FOR GROWTH

South Africa's construction industry has endured a bruising decade. Gross fixed capital formation — a key measure of infrastructure investment — lingers at record lows. The construction sector once teemed with giants like Murray & Roberts, Group Five, Aveng, Basil Read and WBHO. Portfolio manager NANCY HOSSACK takes a closer look at the sector and the last man standing: WBHO.

Despite the prevailing economic gloom, in late 2022 we saw compelling reasons to buy WBHO as a standout investment opportunity. This might appear counterintuitive, since construction activity in South Africa has been sluggish due to weak public infrastructure spending and a post-COVID hangover in private sector development. However, what seems like a dire situation masks a powerful competitive advantage for WBHO. With so few remaining large-scale players, the industry has become less crowded, more stable, and potentially more profitable for the survivors.

A defining features of major construction contracts is the requirement for performance guarantees. Performance guarantees are issued by banks or insurers to protect clients from default by contractors. They can only be backed by firms with sizable balance sheets, and act as a significant barrier to entry. With the departure of many of its rivals, WBHO now finds itself in a dominant position. With fewer competitors, it can command better pricing and can cherry pick projects with stronger risk-reward profiles.

The order books and earnings potential for WBHO and its smaller peer Raubex suggest solid growth. These companies are seeing an uptick in activity, driven by early signs of improved public infrastructure spend and growing private sector investment in energy projects. Even from a historically low base, this trend is meaningful — and WBHO's operational performance already reflects these shifts.

What makes the WBHO investment case particularly interesting is the combination of a cleaner, more focused business following its exit from Australia, a strong balance sheet, and an upside potential that the market seems to be ignoring.

WBHO historically operated in four key geographies: South Africa, Africa, Australia, and, more recently, the UK. Over the last decade, as South African growth slowed, WBHO — like many of its peers — externalised its operations. While its South African and African operations showed steady but modest growth, Australia initially provided a high-growth story. However, this came with costly lessons.

WBHO's recent exit from the Australian market followed a period of aggressive pricing and several problem contracts, which led to significant losses — its first in over five decades. The business has since been wound down, with settlement agreements reached with creditors. While a final resolution on one major project remains outstanding, the financial risk is now well-contained.

This exit has restored stability to WBHO's financial position. The company now boasts a healthier balance sheet and is better positioned to pursue growth opportunities at home and abroad. In the UK it has adopted a risk-averse approach, focusing on careful procurement and margin improvement.

Foord's investment thesis is built on this new foundation. The construction environment in South Africa may still be subdued, but WBHO is uniquely positioned to benefit from a recovery. Government-led infrastructure projects and increased private sector energy investment are expected to provide a tailwind. With fewer credible competitors, WBHO is well placed to win and execute these large-scale projects.

Despite a sizzling 2024 share price performance — the share was up 73% — the market is still not yet priced in the potential upside. WBHO is a business with solid fundamentals, strong barriers to entry, and a skewed risk-reward profile that favours patient investors.

While South Africa's construction sector continues to face macroeconomic headwinds, WBHO stands out as a survivor with a rapidly growing order book and pipeline. In a sector where few remain, that resilience and positioning may prove to be a valuable long-term asset.

INVESTING WITH CONFIDENCE FOR SAFETY AND GROWTH

In an increasingly unpredictable global market, uncertainty continues to dominate the investment landscape. From inflation and interest rate volatility to geopolitical conflict and currency instability, investors face a complex array of risks. In such a climate, sound investment decisions go beyond chasing short-term gains — they require a clear focus on capital protection, risk management, and long-term resilience. Investment professional LINDA EEDES explains how Foord is positioning portfolios to balance growth with resilience.

Investors seek not only attractive returns over time, but also reassurance that their capital is secure when market volatility strikes. Foord's investment approach, honed over four decades, prioritises both these objectives through careful stock selection and rigorous risk management.

Despite recent corrections, US megacap stocks — particularly tech stocks and the Magnificent Seven — remain richly priced compared to historical levels. While they are still operationally dominant, high market valuations heighten the risk of future underperformance or pullbacks. We maintained a low exposure to this expensive segment in order to shield portfolios from concentration risk and volatility. Instead, we see significant opportunities in other global markets, especially in Europe and Asia, where fundamentals are strong and valuations better. Asian technology and communication sectors, for instance, present attractive long-term potential compared to pricier US peers. Diversifying globally enhances long-term returns while moderating risk.

South Africa continues to grapple with economic and structural headwinds. However, some businesses nevertheless still offer compelling investment prospects. While relative political stability after the formation of the GNU last year caused share prices to rerate, we remain cautious and highly selective. Our strategy includes exposure to resilient businesses, as well as globally diversified multinationals listed on the JSE. We also actively manage currency exposure to protect against rand depreciation.

With global inflation risks persisting, inflation-linked bonds here and abroad offer protection against resurgent inflation risks. These instruments deliver attractive yields and preserve purchasing power, safeguarding capital against inflationary erosion.

Our projection last year that gold could reach $3,000 per ounce drew scepticism. Rising geopolitical tensions and economic uncertainty sparked by tariff wars have since driven gold beyond $3,300 per ounce — another all-time high. Gold remains a core portfolio hedge, providing stability and protection in turbulent markets.

Foord's investment philosophy has stood the test of time. Since our founding in 1981, we have consistently followed a disciplined, long-term approach to investing — protecting capital in turbulent times while positioning portfolios to grow steadily over time. Our track record across multiple market cycles demonstrates the strength of this philosophy.

In 2025, investing for safety and growth is not simply desirable — it is essential. And this is precisely our focus.

DID YOU KNOW? GLOBAL SOUTH

The term Global South refers broadly to emerging and developing countries, mostly in Asia, Africa, and Latin America. First used in the 1960s, the term gained wider prominence in the 1980s through the Brandt Report, which highlighted the stark divide in wealth and development between the industrialised ‘North’ and the poorer ‘South.’

The rise of the Global South has been one of the most important structural shifts in the global economy. Countries like China, India, Brazil, Vietnam, and Indonesia have grown rapidly through industrialisation, urbanisation, and export-led development. As labour-intensive manufacturing moved out of developed markets, many Global South economies became key players in global supply chains — offering cheaper inputs, faster growth, and rising consumer demand.

For investors, the Global South presents both opportunity and complexity. These economies often boast younger populations, improving governance, and stronger long-term growth prospects than many ageing developed markets. But they also carry risks, including political instability, currency volatility, and weaker institutions.

	WORLD	SOUTH AFRICA
Equities	Global equity markets declined on escalating trade-war jitters, led lower by US bourses and the Magnificent Seven — but European and Chinese bourses were positive, with the Chinese tech sector re-rating after the DeepSeek breakthrough	South African equities rallied on the back of surging resource shares, as copper, gold and platinum-group metals soared — while financial shares were slightly weaker and industrials only mildly positive
Bonds	Global bonds posted modest gains as investors sought safety and began pricing in policy easing — US Treasury yields fell by roughly 30 basis points amid growth concerns, while European bond yields ticked higher on signs of fiscal expansion	South African bonds eked out a small gain even as late-quarter fiscal worries and the Budget vote fracas prompted a steeper yield curve — but shorter-term yields remained relatively anchored, mitigating larger bond price moves
Currencies	The US dollar weakened notably in the first quarter as US rate-hikes remained paused and trade uncertainty grew — the euro and yen both appreciated, while emerging-market currencies also experienced relief	The rand appreciated modestly amid the global dollar slump, buoyed by high commodity export prices and improved investor sentiment — but was weaker against the pound and euro
Commodities	Commodity markets were divergent, with metals price surging but crude oil prices falling on softer demand expectations and ample supply — gold briefly topped at all-time high intra quarter of $3,100 per ounce as investors flocked to safe havens	
Economy	The global economy grew at a subdued pace and the IMF's updated outlook left full-year world GDP growth forecast around 3.3% (below historical trend) — prospects of a trade war and tariff announcements eroded business confidence, but inflation continued to ease	South Africa's economy remained fragile but avoided contraction in Q4 2024, taking full-year 2024 growth to a paltry 0.6%, underpinned by a recovery in agriculture and trade — while consumer price inflation was muted and near the lower end of the 3-6% target range
Monetary and fiscal policy	The US Federal Reserve maintained its rate cut pause, while the ECB again cut rates by 0.25% but warned of 'phenomenal uncertainty' from trade wars — on the fiscal front, the US dramatically upped tariffs on all countries and Germany broke fiscal tradition by unveiling a multi-year infrastructure and defence spending package	The SA Reserve Bank cut the repo rate by 0.25% at the January MPC meeting for the third consecutive time, but held rates steady in March amid global uncertainty — meanwhile Finance Minister Enoch Godongwana presented a divisive 2025/26 national budget on the second attempt, that only narrowly (and conditionally) won parliamentary support

DISCLOSURE