

FOREWORD

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Higher borrowing costs are reaching well beyond bond markets. They affect the price of a new home loan, a company's expansion plans and the money governments have left for public services. In this issue of Foreword, I look at what is driving rates higher and why some of the costs have yet to be felt.

Technology is changing businesses faster than we can reliably predict its effects. Linda Eedes examines why AI's much-anticipated jobs shock has yet to arrive. Fresh from the Foord Orient Express investment immersion, Nick Balkin reflects on China's fierce domestic competition — and why better products do not always mean better shareholder returns.

Closer to home, Mike Townshend and Dhersan Chetty assess what El Niño could mean for food prices and the businesses in our portfolios. Julie Macleod-Henderson continues our wealth succession series, explaining how families can help the next generation prepare before an inheritance arrives. Our quarterly Markets in a Nutshell table rounds off the issue.

Did you know that Foord turns 45 this October? We thank all our investors, whether you have been with us for decades or joined recently, for entrusting us with your savings.

Kind regards

Paul Cluer
Managing Director



THE RISING COST OF MONEY

Governments across the world are paying more to borrow. The consequences reach well beyond bond markets, which have been selling off. Foord Managing Director PAUL CLUER explains how higher interest rates find their way into household budgets, including here in South Africa.

America's public debt has passed \$40 trillion. Interest on past borrowing now accounts for more than half its annual budget deficit. Across the OECD group of rich countries, governments have spent more than \$2 trillion on debt interest last year. These are bills that must be paid before a government builds a road or staffs a hospital.

The cost of government debt has risen sharply around the world. In September, the yield on 30-year US Treasury bonds reached 5.5%, its highest since 2004. Japanese 10-year yields touched 3% for the first time in three decades. Britain's 30-year borrowing costs climbed towards 6%. When investors demand higher yields, newly issued bonds cost governments more. Those yields also influence borrowing costs throughout the economy.

Why are lenders demanding more? The US war on Iran has raised energy costs and revived inflation fears. Governments continue to borrow heavily, while central banks are buying fewer bonds than they once did to artificially push rates down. The world's tech giants are also seeking to borrow vast sums to build AI data centres. Investors therefore have more borrowers competing for their money and are now demanding better terms. Meanwhile, resilient US growth has also led markets to expect further increases in short-term interest rates.

For American households, one effect is already apparent. Rates on 30-year fixed-rate mortgages have surpassed 7%. A family taking out a new loan faces a much larger monthly payment than it would have done when rates were low. This is freezing up the US housing market as a result. In countries where home loans have variable rates, central-bank decisions reach monthly payments much sooner. Higher borrowing costs can also deter housebuilding and business investment, affecting jobs and the supply of homes.

The pressure on public finances will take longer to appear. Much of the debt outstanding today was issued when rates were lower. As debt matures, governments must replace it at prevailing yields. A rising interest bill leaves less room in future budgets for services or forces a harder choice over taxes. Borrowing for shorter periods can reduce the cost today, but brings the next refinancing date closer, adding risk.

South African home loans mostly have variable rates linked to the SA Reserve Bank's policy rate, often through the banks' prime rate. Higher oil prices add to local inflation, while persistently high global rates could put pressure on the rand and make imports dearer. In September, SARB raised its policy rate by a quarter of a percentage point to 7.25%. For illustration, that adds about R850 a month to repayments on a R5 million home loan with 20 years left, assuming its rate rises from 10.5% to 10.75%.

South Africa also spent about R420 billion servicing government debt in the last financial year — more than a fifth of all tax revenue. Treasury expects that share to fall if its efforts to stabilise debt take hold. However, a lasting rise in borrowing costs would make the task harder as old bonds mature.

Higher yields give new bond buyers more income, but they have hurt investors who already hold bonds with the longest maturities. Foord has long been wary of that risk. For everyone else, much of the cost still lies ahead. Cheap loans and government bonds will expire, and their replacements will carry today's higher rates. That will affect mortgage payments, business investment and the money that governments have left for public services — even if bond yields stop rising tomorrow.



SO WHERE IS THE AI JOBS SHOCK?

Artificial intelligence can already do work once reserved for people. So why has the predicted jobs shock failed to arrive? Investment executive LINDA EEDES looks at what the evidence tells us about employment, and the danger of investing on a single forecast.

The US economy added 162,000 jobs in August 2026, well ahead of forecasts of around 65,000, while unemployment remained at 4.1%. Businesses are still hiring. AI has helped drive growth through enormous investment in semiconductors, data centres and power infrastructure. But what of the fear that it will eliminate millions of jobs?

Barely a week goes by without another headline about AI-related job cuts. Yet there is still remarkably little evidence of a broad employment shock.

If AI were already displacing workers at scale, employment should be weakening most sharply in occupations with the greatest exposure. Research by the Stanford Institute of Economic Policy Research finds that employment in highly exposed occupations, such as travel agents and customer service personnel, remains relatively stable. US job postings for software developers have grown faster than those for other occupations over the past year. Youth unemployment, often seen as vulnerable to the automation of entry-level tasks, is down more than a percentage point.

Radiology shows how difficult it is to translate technological capability into employment forecasts. In 2016, Geoffrey Hinton, often described as the 'godfather of AI', said people should stop training radiologists. Within five to ten years, he predicted, AI would outperform humans at reading medical images. Ten years later, AI has become exceptionally good at analysing scans. But the number of radiologists has grown by around 10%, and the profession faces a significant shortage.

Reading scans is only part of the job. Radiologists also consult with other doctors and monitor patients. Some perform hands-on procedures. AI can automate scan interpretation and report writing without eliminating the broader role. Meanwhile, faster and cheaper imaging has increased demand for scans, adding to the workload.

This distinction between tasks and jobs matters. Economists Daron Acemoglu and Pascual Restrepo describe how automation can displace workers, make them more productive and create new tasks for people. Software development illustrates the point. AI can write large amounts of code, but developers must direct the tools, check their work and fit the output into larger systems. New roles are also emerging in building AI models and helping businesses use them.

Company surveys offer further clues. In an August New York Fed survey, more than 60% of service-sector firms reported using AI, but only 4% said they had laid off workers because of it. More than a third were training staff to use the tools. So far, many firms appear to be adapting their workforce as they adopt AI.

None of this means AI will not destroy jobs. Technology has eliminated occupations before and will almost certainly do so again — but its effects on employment are more complicated than the headlines suggest.

For investors, the lesson is how hard it is to forecast what follows a technological breakthrough. Hinton was broadly right about AI's capabilities, but much less accurate about their effect on employment. What happens to productivity and wages when millions of people can do their jobs faster and better? How will they use the time freed up? The answers will help shape economic growth.

The gap between expectations and reality reinforces the need for investment portfolios that can perform across a range of outcomes. Valuation is always central. The price paid determines how much good news an investment already allows for. Where prices assume near-perfect execution, even a small disappointment can prove costly.

At Foord, diversification reduces our dependence on any one technology or forecast. We also scrutinise the economics of the businesses we own. Enormous spending on AI does not automatically mean attractive shareholder returns. Companies still need durable competitive advantages and adequate returns on the capital they invest.

AI is likely to be transformative, but its path will be unpredictable. Investing requires conviction; it should not be confused with certainty. Our aim is to compound capital at an acceptable rate even when some assumptions prove wrong, while capturing the upside when we are broadly right. As the old saying has it, it is better to be roughly right than precisely wrong.



CHINA'S TOUGHEST COMPETITION IS AT HOME

China's businesses have made striking gains in technology and manufacturing. Their closest rivals are often just down the road. After September's Foord Orient Express investment immersion, Foord South Africa Chief Investment Officer NICK BALKIN considers what that rivalry means for the companies we own.

It has been ten years since my last visit to China. I expected to see better products and more advanced technology. Yet what stayed with me was how little time a successful business has to enjoy its success. Chinese companies are competing fiercely with one another.

The Orient Express began in Singapore, where Foord's global investment team is based, then took a group of investment advisers and professional investors through several Chinese cities. We met managers, visited businesses and saw how people use their products. I came away with a sharper sense of the pressure those managers face at home.

At Unitree, more than half the workforce works in research and development. The robotics company redesigns its humanoid robots every six to twelve months. That speed is impressive, but it is also necessary when rivals are improving their own machines just as quickly. A company can build a better robot and still struggle to earn much from it before the next one arrives.

Beijing helps to set the pace of innovation. The Chinese government chooses industries it wants to advance and offers cheap land and power, tax breaks and faster approvals. Entrepreneurs put those advantages to work. China's political system may be communist, but its businesses are intensely commercial.

Yet the state can also change the rules. Companies have room to innovate while their plans fit Beijing's priorities. Those that disturb the social harmony the government expects may face penalties. Government support can help a business grow rapidly, but it gives investors less certainty about what happens when that business grows in an unwelcome direction.

Chinese electric vehicles show how much this system can achieve. The old assumption that a Chinese car must be inferior to a Western one is out of date. Quality has improved sharply, including at the luxury end of the market — yet the number of capable local manufacturers makes life difficult for each of them. A new feature soon becomes something customers expect from every brand. Prices come under pressure while development costs keep rising. The cars may be excellent without the carmakers proving a good investment.

Tencent offers a different perspective. South Africans have a particular interest in the company since almost every one of us has some indirect exposure to the stock via Naspers or Prosus, while Foord also owns Tencent directly in the Foord Global Equity Fund. Its shares have fallen by a third over the past year, even though WeChat remains woven into daily life for an enormous number of consumers. Management is now changing its approach to AI. We think the share price leaves too little credit for what Tencent could earn from a network that a billion customers use throughout the day.

The companies we met were also finding ways to deal with restrictions on trade and technology, including building or renting capacity abroad. Their response was practical, though these workarounds cost money. And the political risks have not disappeared.

I returned from the Orient Express tour with greater confidence in the capabilities of several Chinese businesses we own, and some that we do not. I was reminded, too, how hard their rivals make it to hold on to an advantage. China's pace is good news for its customers. For shareholders, the question is how much of the benefit a company can keep.



EL NIÑO AND THE PRICE OF FOOD

A hotter, drier summer threatens South Africa's crops and could push up food prices. But the effects on company profits will vary. Portfolio Manager MIKE TOWNSHEND and Analyst DHERSAN CHETTY examine how prepared the country — and the businesses in our portfolios — are for El Niño.

South Africa's summer planting season approaches with an unwelcome forecast. The South African Weather Service warns that the El Niño developing in the Pacific could become the strongest in living memory. It expects hotter and drier conditions across much of the country, just as farmers sow their summer crops.

El Niño occurs when unusually warm water in the central and eastern tropical Pacific changes atmospheric circulation. The effects reach far beyond the ocean. Southern Africa generally becomes hotter and drier, while other regions experience heavier rain. But the strength of the event does not determine the severity of drought in any one country — local conditions and other ocean temperatures also matter.

For South Africa, the timing is unwelcome. Maize and other summer crops need rain during the coming months. Prolonged heat can damage plants already short of water. Farmers must also contend with higher fuel and fertiliser costs, making planting decisions harder before the first seeds go into the ground.

The country does, however, enter this season with some protection. Two decent harvests have replenished grain stocks. Soil moisture is relatively high and dams are reasonably well supplied. These reserves should soften the initial impact of poor rainfall, although they cannot protect every farm or sustain crops through a prolonged period of drought. Neighbouring countries with less irrigation may be more exposed.

The consequences extend well beyond farming. Maize is both a staple food and an important ingredient in animal feed. Higher prices can therefore reach households through a bag of maize meal or the price of a chicken. Dry pastures also put more pressure on livestock farmers. Meanwhile, disrupted harvests elsewhere can raise the cost of imported foods even where local supplies are adequate.

For consumers, dearer food leaves less money for other purchases. Retailers selling discretionary goods may feel the effects of a drought without buying a single tonne of grain. A sustained rise in food inflation could also complicate the outlook for interest rates, although much would depend on whether price pressures spread through the wider economy.

For investors, this makes the details of each business important. Food producers differ in the ingredients they buy, the stocks they hold and their ability to recover costs through selling prices. Higher food inflation can squeeze one company's profits while leaving another relatively well protected.

Our holdings in Premier and Tiger Brands illustrate this distinction. Both have substantial exposure to wheat, for which global supplies offer a better cushion than the local maize outlook suggests. Strong brands help support their businesses, while cost savings offer scope to improve margins. Tiger Brands has exited maize milling, and Premier has increased stocks to provide some protection against rising input prices.

Astral Foods has taken a different precaution. The chicken producer has hedged its crucial maize feed costs through the coming summer. That should limit the immediate effect of a further rise in maize prices on its profitability. The protection has a time limit, however, since costs beyond the hedge period will depend on subsequent harvests and market prices.

Food retailers can generally pass higher purchase costs on to shoppers. Moderate food inflation may support sales and profits if their own operating costs rise more slowly. But there are limits. Stretched households can buy less or switch to cheaper products, so rising shelf prices alone do not guarantee better earnings.

Our food holdings have some defences against a difficult summer. As the season unfolds, we will watch how long those protections last and whether higher costs begin to weaken demand. Grain stocks and hedges can buy time. The eventual harvest will determine how much of that time businesses need.



THE GREAT WEALTH TRANSFER — START THE CONVERSATION

Wealth may pass to the next generation in a day. Understanding how to look after it takes much longer. In the second article in our series on wealth succession, Head of Distribution JULIE MACLEOD-HENDERSON explains why families should begin talking well before an inheritance arrives.

A last will and testament can tell a family who gets what. But it does not explain why assets were built, how they have been invested or what the person who built them hoped they would achieve. Those questions are harder to ask once that person is gone.

In the first article in this series, I argued that wealth can be inherited, but stewardship must be learned. Families often agree with that principle and still put off the conversation that would make it possible. Parents may be uncomfortable discussing death or worry that talking about an inheritance will create expectations. Some have simply always kept money matters private.

Adult children can be just as reluctant. They may have questions but fear appearing presumptuous by asking them. Each generation waits for the other to begin.

The cost of that silence becomes clear when wealth changes hands. Someone may inherit a portfolio without knowing why it holds certain investments, what it was intended to provide or how much risk its owner was willing to take. The assets arrive with instructions for their transfer, but little guidance on the decisions that follow.

Families can begin this conversation without discussing account balances or promising anyone an inheritance. A parent might explain how the wealth was built and what they learned during difficult periods. What was the money meant to make possible? Which commitments should it continue to support? These are questions an adult child can ask, too. 'What would you want us to understand about the decisions you have made?' is a reasonable place to start.

Such discussions need room for disagreement. The next generation may face different needs and see some choices differently. Explaining the thinking behind a decision gives them a better basis for making their own. It also gives parents a chance to hear what their children know, and where they may need help.

Over time, the conversation should become more practical. Future decision makers need to know where important documents are kept, whom to contact and whether an investment serves a particular purpose. A family need not settle all this over one dinner. It is easier to build understanding through several conversations while everyone has time to think and ask again.

Passing on wealth involves more than arranging its transfer. The sooner families talk about the decisions behind it, the more chance the next generation has to learn before those decisions become theirs.

This is the second in a series of articles on how families can prepare for this generational transition: from starting meaningful conversations and involving younger family members, to helping future investors understand the value of long-term investing. Wealth can be inherited, but stewardship must be learned.



DID YOU KNOW? FOORD TURNS 45

On 1 October 1981, Dave Foord and Liston Meintjes opened an investment firm in Market House on Cape Town's Greenmarket Square. In those days, large life insurers dominated investment management in South Africa. The Foord founders set out to prove that a smaller firm could take better care of investors' money over the long term.

That firm turns 45 this October. Foord remains an investment boutique, but its investment team sits in Singapore as well as in Cape Town. The team is somewhat larger today, and its reach is wider, but it still invests with the long term in mind.

Forty-five years have brought many changes in markets and in the people who make up Foord. Some of our investors have been with us for much of that journey. We thank them — and those who have joined us since — for entrusting us with their investments. It is a responsibility we intend to keep honouring and earning.



MARKETS IN A NUTSHELL

	WORLD	SOUTH AFRICA
Equities	Developed markets gained about 2%, supported by continued enthusiasm for AI, despite rising borrowing costs — Chinese shares also advanced, but European and emerging markets slipped	The JSE finished almost unchanged after a sharp September selloff — resource shares gained 15% over the quarter, offsetting declines in financials and industrials
Bonds	Global government bonds fell as inflation fears, large government deficits and borrowing for AI infrastructure pushed yields sharply higher — borrowing costs in several major markets reached multi-decade highs	Local bonds traded marginally lower as bond yields rose, holding up better than global peers — inflation-linked bonds gained as higher fuel prices revived inflation concerns
Currencies	The dollar recovered in September as expectations of further US rate increases grew — reversing its August decline and ending the quarter slightly stronger against the euro	The rand strengthened during August's commodity rally, then weakened in September — leaving it little changed against the dollar over the quarter
Commodities	Brent crude surged over 40% as renewed fighting disrupted Middle Eastern oil supplies, while copper and gold also gained — stronger metals supported South African miners, but costlier oil raised fuel costs and inflation risks	
Economy	US consumer spending and investment remained resilient, while China's growth slowed and retail sales disappointed — rising energy and transport costs threatened to prolong inflation despite weaker growth in some economies	Figures released in September showed that the economy contracted slightly in the second quarter — SARB still expects a recovery, but higher fuel costs, interest rates and global uncertainty weigh on the outlook
Monetary and fiscal policy	The Fed raised interest rates in September as inflation remained elevated, joining other major central banks in tightening policy — heavy government borrowing added further pressure to market interest rates	SARB raised its policy rate by a quarter of a percentage point to 7.25%, citing the worsening fuel shock and sticky services inflation — it also raised its near-term inflation forecasts despite weak economic growth



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