FOREWORD

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DID YOU KNOW? BULLION

Bullion is the generic word for gold and silver in coin, bar or ingot form. The word originally meant *mint* or *melting place* from the old French word for boiling: *bouillon*. However, the word may also have been derived from the surname of Claude de Bullion who served as French Minister of Finance under King Louis XIII.

Bullion, platinum and palladium are collectively referred to as precious metals. Whereas gold and silver have ancient histories, platinum was only categorised as a precious metal in 1751 and palladium was isolated as a separate metal less than 200 years ago.

Precious metals have a lexicon all their own. For example, the Unit for Delivery of Loco (location) London Gold is the London Good Delivery gold bar, which must have a minimum fineness of 995 (where fineness is the proportion of precious metal in an alloy expressed as parts per thousand). Bars are generally close to 400 troy ounces or 12.5 kilograms.

And closer to home, the one-ounce South African Krugerrand, first issued in 1967, has a fineness of 916.7 or 22 karats.

Source: A Guide to the London Precious Metals Markets, published jointly by the London Bullion Market Association (LBMA) and the London Platinum and Palladium Market (LPPM)

MORE ON TAX TRANSPARENCY

In *Foreword* Issue 37, we reported on the OECD's Common Reporting Standard (CRS) for the automatic sharing of tax information. This standard, affecting investors with cross-border investment holdings in 96 jurisdictions, is now in full swing. BRENDAN AFRICA provides the answers to some frequently asked questions.

What is the purpose of CRS?

CRS will assist the 96 participating member countries to combat tax evasion by monitoring tax payers' foreign financial accounts. The system requires the reporting of financial information where an account is held outside of an investor's tax residence jurisdiction. This information is subsequently shared with the investor's home tax authority for compliance assessment against governing tax laws.

How do I know if I'm reportable?

Investors with accounts in jurisdictions other than their primary tax residence should consider themselves reportable. For example, South African tax residents with Guernsey or Singapore investment accounts and UK tax residents investing in South Africa, will be reportable.

Does this mean I must register for tax?

CRS does not compel unregistered investors to register for tax in their home jurisdictions. This is because reporting is based on tax residency indicators, notwithstanding tax registration status. Indicators include your address, your email domain, your contact telephone number and your passport or identity document nationality. Tax authorities will use reported information to assess the completeness of tax declarations and to pursue potential tax delinquents.

How are joint account holders treated?

CRS guidance states that joint account holders are reportable if they meet the tax residency test. Financial institutions such as Foord are compelled to report joint account holders as if they were primary account holders, with the full account value attributed to each joint holder. This process should not compel joint account holders to register for tax if they are not required to register.

When will reporting occur?

Different jurisdictions have different reporting time tables. South African reporting commenced on 31 May 2017 for investment accounts as at 28 February 2017, while Guernsey reporting commenced on 30 June 2017 for investment accounts as at 31 December 2016. However, some lower risk accounts only become reportable next year and investors can expect full annual reporting from 2018. Singapore-based financial institutions will only commence reporting in 2018 — investors in this jurisdiction can expect communication from Foord later this year.

What must I do?

Affected investors would have received correspondence from Foord's service providers alerting them to the CRS reporting requirements. In most instances, the law requires that Foord requests self-certifications to confirm the investor's tax information. Failing to respond to the self-certification request will not render you immune from reporting as Foord is compelled to report on its database based on tax residence indicators. Investors with inconclusive tax residence indicators who did not complete a self-certification will be reported to all participating jurisdictions. Therefore, investor compliance with these requests will minimise the risk of inaccurate reporting.

Investors seeking further clarity on the applicability of the requirements to their own accounts should consult their tax advisors accordingly.

A LONG-TERM VIEW OF THE RAND

We are frequently asked, "Where do you see the rand going?" The question is valid because investors wish to preserve and grow their investments in rand and dollar terms, an attainable long-term objective. WILLIAM FRASER explains why it's critical to take a long-term view of the rand.

Questions about rand direction are normally framed for short-term currency moves, namely days, weeks or months. This is a notoriously difficult if not impossible exercise and is of little relevance to long-term investment outcomes.

The rand is a particularly liquid emerging market currency and displays significant short-term volatility. In the short term, fickle global investment sentiment drives currency flows and the direction and magnitude of those currency flows determines the rate of exchange against other currencies.

The unexpected rand strength experienced in the second quarter of 2017 is a perfect example of this phenomenon. Despite a deteriorating political climate, economic recession, foreign currency sovereign ratings downgrades and record-high unemployment in South Africa, the rand has advanced against hard currencies on the tailwinds of broader emerging market sentiment.

Unlike short-term currency speculation, long-term currency forecasts are an important component of Foord's investment strategy. In the longer term (five years plus), fundamental economic realities like inflation and interest rate differentials are the primary drivers of the exchange rate between currencies. Yet, investors rarely ask our long-term currency views, which is a much more predictable and worthwhile exercise.

Broadly speaking, a country's terms of trade, financial transfers and levels of fixed capital investment largely explain currency flows that affect exchange rates in the short to medium term. The terms of trade refers to the ratio of a country's exports to its imports. Commodities dominate South Africa's exports and therefore its terms of trade. Improving global commodity demand leads to higher commodity prices and improved terms of trade, usually ushering in periods of rand strength.

A stronger rand is a boon to importers and South African consumers and relieves inflationary pressures. But periods of prolonged currency strength can erode a country's manufacturing competitiveness as companies rely on cheaply-imported components rather than investing in local capacity, while all exports become relatively more expensive.

South Africa's financial markets are liquid and easily accessed by foreigners. Demand for SA's financial assets, notably government bonds, surged after the Global Financial Crisis as foreign investors borrowed money in low-interest markets to invest in higher yielding SA assets. Alive to foreign demand for its bonds, the government borrowed heavily. Foreigners also bought copious quantities of JSE-listed shares.

These financial inflows had a positive effect on the exchange rate. The consequence however has been that SA companies and the SA government must now pay ever-higher amounts of interest and dividends to foreign owners of their securities. These financial outflows now well exceed the net proceeds SA enjoys on its trade account. The resultant current account deficit puts downward pressure on the exchange rate.

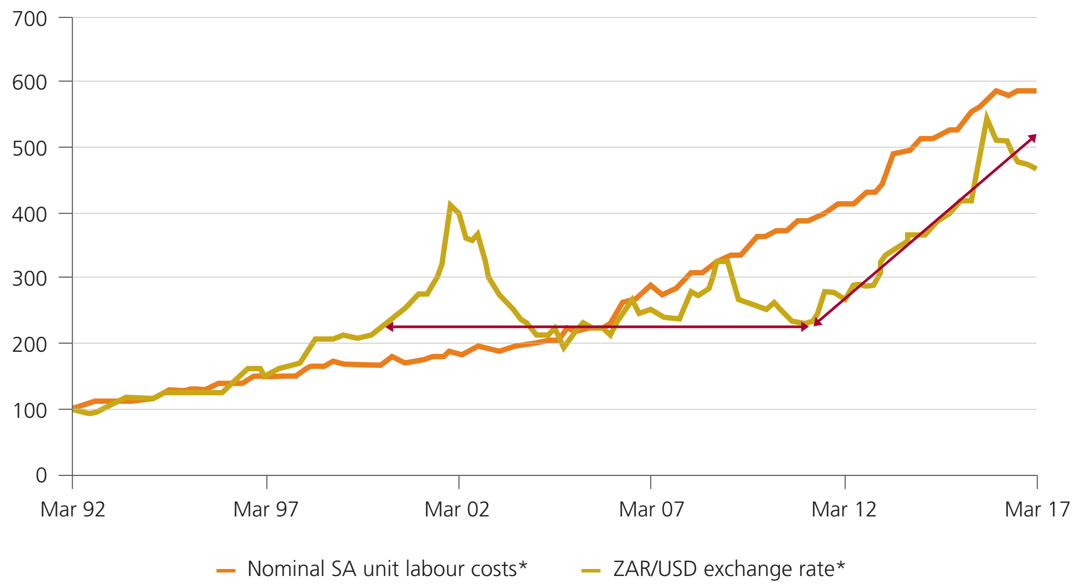
Fixed capital investments by foreigners are longer term focused than trade and financial flows. Government policy uncertainty has deterred fixed investment into South Africa while simultaneously spurring South African businesses to diversify offshore. These factors work to weaken the exchange rate.

In the long term, the relative levels of inflation and interest rates (themselves interlinked) affect a country's exchange rates. All things being equal, a country with structurally-higher inflation and interest rates should experience steady currency depreciation. South Africa's unit labour costs are a proxy for price pressures in the economy and its global competitiveness. Graph 1 shows SA's nominal unit labour cost growth for the past quarter-century relative to the rand/US dollar exchange rate. Over this time, foreign unit labour cost growth has been flat or negative, even in nominal terms, considering low levels of global inflation and productivity driven by technological advances and improvements.

The graph shows that, despite severe intra-period fluctuations, the rand was relatively unchanged for over a decade from the late 1990s until early 2011. During this period, the rand was affected by currency flows in one or other direction as described earlier in this article. At times, it was quite evidently undervalued and at other times relatively strong.

In the long term, the exchange rate must balance the relative inflationary pressures between SA and the US (in this instance). This implies further depreciation, especially off its relatively strong current levels. In the short to medium term, however, sentiment, trust, confidence and rather fickle global currency flows will lead to more random outcomes.

Graph 1: NOMINAL SA UNIT LABOUR COSTS AND RAND/DOLLAR EXCHANGE RATE



* Based to 100 at 31 March 1992

WORTH ITS WEIGHT IN NEWGOLD

Gold has been used as a unit of exchange and primary store of value, or currency, since ancient times. NICK CURTIN looks at the history and attraction of gold as currency and as an investment.

Given its unique combination of physical properties, gold was the most suitable natural occurring element for currency. Gold is scarce, but available in sufficient quantities to be useable, is easy to forge and is completely inert and durable (it does not tarnish). Even the value of most paper money systems was linked to gold or other precious metals after their Chinese Tang Dynasty invention (AD 618-907).

> GOLD ETFS CAN BE AN ATTRACTIVE INVESTMENT PROPOSITION FOR SOUTH AFRICANS, ESPECIALLY WHEN INVESTMENT RISKS ARE ELEVATED

It was only during the 20th century that the international monetary system's explicit gold link (the gold standard) was finally severed, when US President Nixon ended the international convertibility of US dollars into gold in 1971. The floating exchange rate paper money system that has since prevailed is known as a fiat currency system.

With no explicit underlying commodity link, fiat currency only has value if people have confidence in the central bank that stands behind it. And we are all aware of the central bank shenanigans of quantitative easing, the creation of money out of nowhere. Money printing aside, fiat currencies also fail during times of hyperinflation and can quickly lose their store of value.

So where does gold fit into the fiat currency paradigm and investment opportunity set? For decades, the debate has raged about whether gold is an investment. Jewellery demand is steady but remains weak in an historical context. Gold has very limited industrial use and so is not really a commodity. It also has no yield. A kilogram of gold today will still be a kilogram of gold in 100 years' time, no more and no less.

But because of its history, gold is widely considered to be an alternative store of value relative to fiat money systems. It acts as an insurance policy against a collapse in confidence in the world's reserve currencies, which fluctuate with inflation, interest rates and real yields. Furthermore, gold exchange traded funds (ETFs) are a liquid, rand hedge investment that are not correlated to share market returns.

Gold ETFs can therefore be an attractive investment proposition for South Africans, especially when investment risks are elevated. It is in this context that Foord currently holds a meaningful allocation to gold by way of investment in the NewGold ETF.

NewGold is listed on the JSE Limited and its price tracks the rand price of gold. The security takes the form of debentures issued by NewGold Issuer Limited, an ETF sponsored by Absa's Corporate and Investment Banking division. Each debenture is equivalent to approximately 1/100 ounces of real gold held in a secured gold bullion stockpile (see *Did You Know?*). This bullion is maintained in London Good Delivery gold bars in the London vault of NewGold's custodian, Brink's Global Services Limited.

Perhaps mischievously, some argue that gold never left the core of the international monetary system. They point to the 20% of the world's total gold stock held by governments, central banks and sovereign wealth funds as a sign of its continued relevance. The US Treasury remains the world's largest holder with 8,000 tonnes locked away in Fort Knox and Germany, the IMF and China also hold large quantities.

FOORD GLOBAL EQUITY FUND TURNS FIVE

Foord Global Equity Fund, the Singapore domiciled unit trust managed by Foord Singapore, recently marked its fifth anniversary. The fund comprises a diversified, high-conviction, low risk portfolio of quality shares that aims to outperform the MSCI All Country World index over time, with lower risk.

The fund achieved a respectable 7.9% in US dollars per annum for five years after fees and expenses, but lags its benchmark over this period. On a relative basis, the fund has performed better since the restructuring of the Foord Singapore investment team on 1 December 2014, achieving an annualised return of 4.4% compared to the benchmark return of 5.6%. In the six months to 30 June 2017, market outcomes have favoured the fund's positioning, with the fund achieving after-fee outperformance of 3.1%.

The fund is managed by chief investment officer Dave Foord, Brian Arcese, Nicholas Balkin, Ishreth Hassen and Guy Shirtliff.

FOORD TEAM UPDATE

In January, **WIM MURRAY** returned to Foord as an equity analyst, having left in 2015 to pursue an MBA abroad. **GIANLUCA SACCO** recently joined the investment team as the first trainee equity analyst under Foord's new one-year traineeship programme. He completed a Masters in Commerce degree at UCT, subsequently obtaining his CA qualification after serving articles at PWC before working for McKinsey & Company.

In Singapore, we welcomed equity analysts **ANJAY KUMAR** and **XUE JING CONG (JC)** to the investment team. Anjay is an Indian citizen with seven years of global investment management experience. Anjay graduated with a Bachelors of Science in Economics and Engineering (specialising in Mechanical Engineering and Applied Mechanics) from the University of Pennsylvania. Anjay's focus is healthcare and industrials.

JC is a Singapore citizen and has worked primarily within the asset management arm of the Singapore sovereign wealth fund. JC graduated with a Bachelor of Business Management in Finance (summa cum laude) from the Singapore Management University and has completed his CFA Level 1. JC will focus primarily on technology.

Portfolio manager **DANE SCHRAUWEN** has been on sabbatical since January to focus on his family's wellness. Dane recently informed us that he now does not foresee a quick resolution and we regrettably announce his decision to take early retirement to put his family's interests first. We wish him well. He will continue to be associated with the firm in a non-executive capacity. In the best interests of investors, contingency arrangements were made last year to supplement the South African multiple-counsellor manager mix. These changes came into force on 1 January and will now simply continue.

Lastly, we recently celebrated **HELENA LA COCK's** 25th work anniversary. Helena joined Foord as secretary to Dave Foord in 1992. Today, she is the personal assistant to many. Known for her hard work, efficiency and infectious laugh, Helena has made a significant contribution to the success that Foord enjoys today.

MARKETS IN A NUTSHELL

WORLD

EQUITIES

Global equity markets extended an eight-year bull market, with the reflation rally spreading to Europe and Asia – European market prospects were boosted by the French populism defeat and the UK electorate expressing a desire for a softer Brexit outcome

BONDS

US 10-year bond yields declined from recent levels on persistently low inflation, but gained latterly after the US again raised the federal funds rate – UK and Eurozone yields rose after unexpectedly hawkish commentary from the ECB and BoE ignited a bond market selloff

CURRENCIES

The US dollar fell from its post election high and the euro was strong as Eurozone political risk waned and fundamentals improved – commodity export currencies were less buoyant and the yen depreciated

SOUTH AFRICA

EQUITIES

The FTSE/JSE All Share Index was little changed, underperforming emerging market bourses that were led higher by China – as resource stocks sold down on commodity price weakness, with the sector's woes compounded by the gazetting of the new mining charter

BONDS

SA government bond yields declined from their post cabinet reshuffle March levels and the SA All Bond Index gained – but yields rose latterly after Moody's downgraded SA's ratings one notch and hawkish central bank commentary triggered global bond sales

CURRENCIES

The rand gained against the US dollar on broad-based dollar weakness – but fell against other major currencies on deteriorating fundamentals and escalating political tension

COMMODITIES

Metals prices declined, led by iron ore (-35.5%), which slumped from its March highs on a continued supply gut – while the extension of OPEC production cuts failed to stem the oil price decline as US production rose

ECONOMY

World: First quarter US growth slowed less sharply than initially thought amid near full employment – while Eurozone economic conditions have improved, with first quarter GDP growth recorded at 0.5% and unemployment at an eight-year low

South Africa: The economy fell into its first technical recession since 2009 after GDP contracted by a surprise 0.7% in the first quarter – all industries except agriculture and mining contracted, with the consumer especially pressured, raising concerns about fiscal slippage

MONETARY AND FISCAL POLICY

World: The US Fed raised the target range for its federal funds rate by 0.25% for the third successive quarter and maintained its forecast for one more rate hike this year – the BoE voted 5-3 to maintain record low interest rates and the ECB tellingly ruled out further rate cuts in a sign that it's nearing the end of its stimulus programme

South Africa: Headline inflation declined to 5.4% in benign inflationary conditions, but SARB's task is complicated by the low growth environment and fiscal consolida-tion – while the bank has had to fend off attempts by the Public Protector and others who seek to change its constitutional mandate

FUND OBJECTIVE

		Since Inception %	3 Years %	1 Year %	3 Months %

FOORD FLEXIBLE FUND OF FUNDS

Inception date: 1 April 2008

The fund aims to provide investors with a net-of-fee return of 5% per annum above the annual change in the South African Consumer Price Index, measured over rolling three year periods. Exploiting the benefits of global diversification, the portfolio continually reflects Foord's prevailing best investment view on all available asset classes in South Africa and around the world.

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	**13.1**	8.0	2.9	1.8
Benchmark	**11.3**	10.6	10.7	2.8

Benchmark: CPI + 5% per annum, which is applied daily by using the most recently available inflation data and accordingly will be lagged on average by 5 to 6 weeks.

FOORD BALANCED FUND

Inception date: 1 September 2002

The fund aims to achieve the steady growth of income and capital as well as the preservation of real capital (capital is adjusted for inflation). The portfolio is managed to comply with the statutory investment limits set for retirement funds in South Africa (Regulation 28).

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	**14.9**	4.9	1.0	0.9
Benchmark	**13.0**	4.7	2.3	0.4

Benchmark: The market value weighted average total return of the South African Multi Asset High Equity unit trust sector, excluding Foord Balanced Fund.

FOORD CONSERVATIVE FUND

Inception date: 2 January 2014

The fund aims to provide investors with a net-of-fee return of 4% per annum above the annual change in the South African Consumer Price Index, measured over rolling three-year periods. The portfolio is managed to comply with the statutory investment limits set for retirement funds in South Africa (Regulation 28).

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	**6.2**	5.6	2.4	1.6
Benchmark	**10.0**	9.6	9.6	2.5

Benchmark: CPI + 4% per annum, which is applied daily by using the most recently available inflation data and accordingly will be lagged on average by 5 to 6 weeks.

FOORD EQUITY FUND

Inception date: 1 September 2002

The fund aims to earn a higher total rate of return than that of the South African equity market, as represented by the return of the FTSE/JSE All Share Index including income, without assuming greater risk.

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	**17.6**	2.7	-1.0	-0.3
Benchmark	**15.3**	3.4	1.7	-0.4

Benchmark: Total return of the FTSE/JSE All Share Index

FOORD INTERNATIONAL FEEDER FUND
CLOSED TO NEW INVESTMENT

Inception date: 1 March 2006

The fund aims to achieve long-term inflation-beating US$ returns over rolling five-year periods by way of investment in listed securities on global exchanges — including equities, exchange traded funds, UCITS and other UCIs, convertible bonds, interest-bearing securities and warrants as well as cash deposits.

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	**12.0**	10.0	-0.9	1.5
Benchmark	**8.8**	8.1	-9.8	-2.5

Benchmark: US inflation in ZAR

FOORD GLOBAL EQUITY FEEDER FUND
CLOSED TO NEW INVESTMENT

Inception date: 2 May 2014

The fund aims to provide investors with exposure to a diversified mix of global equity and equity-related securities. This is achieved through direct investment into the Foord Global Equity Fund, which aims to produce a higher total rate of return than the MSCI All Country World Index, without assuming greater risk.

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	**10.5**	10.0	7.9	4.4
Benchmark	**13.3**	12.4	5.6	2.2

Benchmark: ZAR equivalent of the MSCI All Country World Equity Index.

NOTE: Investment returns for periods greater than one year are annualised | * Class R, Net of fees and expenses | A MEMBER OF THE ASSOCIATION FOR SAVINGS & INVESTMENT SA

PLEASE REFER TO THE FACT SHEETS CARRIED ON WWW.FOORD.CO.ZA FOR MORE DETAILED INFORMATION.

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