FOREWORD

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DID YOU KNOW? SA INC.

SA Inc. is a term that refers broadly to domestically focused South African businesses. These companies' fortunes are closely linked to the growth prospects of the South African economy. SA Inc. companies contrast with the many rand-hedge shares that dominate the JSE whose earnings are achieved in global markets and other currencies.

Examples of SA Inc. companies include banks and insurance companies, most food and general retailers, many South African real estate funds and industrial companies, including manufacturers operating principally in South Africa with South African customers.

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DIGITALISATION AND THE LISTED PROPERTY SECTOR

The South African property market is not immune to the worldwide structural trend of consumers increasingly choosing to shop online instead of at their local mall. Investment analyst DANIEL GERDIS takes a closer look at the implications for the South African listed real estate sector.

South Africans have seen the rapid rise of online retailers such as Yuppiechef and Takealot, among others. These online stores offer a convenient and safe shopping experience with at times better choice than is available at the local mall. Traditional sit-down and quick service restaurants face similar headwinds to conventional retailers. Fewer feet walking through malls mean fewer hungry mouths to feed at shopping centre food courts.

> FOR MALL OWNERS, DIGITALISATION IS AN ADDED HEADACHE THAT DID NOT EXIST JUST A DECADE AGO.

Suppliers and distributors that service these establishments are finding that their customers require less frequent or fewer deliveries. The challenge these retailers face is how to earn a reasonable return on capital invested in inventory and fitting out and refurbishing stores that are frequented by fewer customers.

Traditional retailers are having to adapt their offerings to incorporate aspects of the online user experience into physical stores. One such initiative is Click and Collect — the process by which an online order is collected at a physical store. It offers the convenience of online shopping with faster availability and flexible collection times, while driving footfall into the store to facilitate cross-selling opportunities. The downside for mall owners is that retailers require less store space. Restaurants and food retailers are also making changes to their business models. The new trend is dark stores — restaurants distributing entirely via food delivery apps with no shop front.

For mall owners, digitalisation is an added headache that did not exist just a decade ago. Malls must now compete to remain a relevant and attractive destination for shoppers. One approach taken internationally is to create a differentiated shopping environment for the customer by introducing new concepts such as pop-up stores, free wi-fi and unique haptic retail experiences that cannot easily be copied by online retailers. This comes with added cost and risk.

In the office segment, space has steadily expanded at an average pace of one percent per quarter for the past 15 years. But digitalisation now offers workers increasing mobility and flexibility in how and where they work. Corporates are adapting to this changing environment innovatively, with shared workspaces, hot-desking or by allowing employees to work from home. This implies divergence in the size and type of office space demanded by prospective tenants from what landlords have traditionally supplied.

These changing consumption patterns are headwinds to the South African listed retail and office property sector. Foord recognised these risks early on and has taken a pragmatic investment approach in the sector. **We prefer property counters that sidestep the retail and office segment risks and instead benefit from the long-term themes of urbanisation, digitalisation and densification.**

Segments that fit these criteria are warehousing, logistics and self-storage. Within these segments we favour niche property companies where management is personally invested and which can deliver inflation-beating distribution growth across the economic cycle, independently of the South African economic growth rate.

STAY ON BOARD THROUGH MARKET CYCLES

In this age of limitless, instantaneous information, it is increasingly difficult to focus on the things that really matter to long-term investment returns. NICK CURTIN revisits the importance of remaining invested through market cycles.

News channels bombard us with "breaking news" headlines — war with North Korea, peace with North Korea; détente with China, trade war with China; Brexit on, Brexit off; Zuma despair, Ramaphosa euphoria. And so it goes. Although such short-term details can't be ignored, it is more important to comprehend their implications for long-term cycles.

STAYING INVESTED THROUGH THESE INEVITABLE CYCLES IS THE MOST IMPORTANT THING THAT INVESTORS MUST DO. THERE IS NO STARTING POINT AND NO FINISH LINE FOR LONG-TERM SAVINGS.

History is replete with examples of economic cycles that drive investment markets. In his book *Time in the Markets*, Dave Foord wrote: "Standing in the way of market cycles, you will not only suffer the ignominy of King Canute but you will do yourself serious financial harm."

Thus, the ability to identify and understand these economic cycles is essential to successfully managing investment risks and achieving long-term, inflation-beating returns. As your investment manager, this has been our job for more than three decades. Staying invested through these inevitable cycles is the most important thing that investors must do. There is no starting point and no finish line for long-term savings.

Correctly assessing market cycles is crucial to Foord's investment process, providing the most attractive investment opportunities and almost certainly the most important risk management imperatives. An example is the steadily rising local and global investment risks that have not fazed the market. While Foord's portfolios in the last two years moved to a decidedly cautious position (especially in SA assets), globally markets have charged ahead, buoyed by synchronised economic growth, US tax cuts and promises of large fiscal stimulus in the US. The giddy mood so typical of late-cycle rallies is all too evident.

In recent months, however, some sobriety has returned. Interest rates are firmly in a rising cycle, core inflation is on the up and various geopolitical flashpoints have resurfaced. Emerging markets have quickly fallen from grace. But while market cycles are unstoppable, fickle and ruthless, we would not be surprised to see a dramatic further move up as the bulls refuse to die. In the words of the famous investor John Templeton, "Bull markets are born on pessimism, grow on scepticism, mature on optimism and die of euphoria."

In South Africa, Ramaphoria is fading as the economic realities hit home. Despite the massive sentiment rally, the economy shrank in the first three months of the year. The rand, one of the world's strongest currencies in 2017, has come unstuck as distressed public finances and foreign funding withdrawal conspired to reveal its true vulnerabilities.

SA Inc. companies (see *Did You Know*) face increasing headwinds despite the optimistic "new dawn." Although political developments are undoubtedly positive, the new president has no magic wand — the fixes will take years in the best-case scenario. Most of the economic realities that we have warned about in the last two years are now starting to become visible and the markets do not like what they see.

ALTHOUGH POLITICAL DEVELOPMENTS ARE UNDOUBTEDLY POSITIVE, THE NEW PRESIDENT HAS NO MAGIC WAND - THE FIXES WILL TAKE YEARS IN THE BEST-CASE SCENARIO.

Simply hoping things will improve has never been a sound investment strategy. Foord's portfolios, however, are very well positioned for the unfolding conditions by focusing on investment ideas with the highest certainty of return in these more challenging market conditions.

Outperformance during such environments is what you should expect from Foord given our long-term "through-the-cycle" investment philosophy. The Foord Balanced and Foord Conservative Funds, having suffered below-average relative returns for some time due to the cautious positioning, were pleasingly provisionally ranked near the top of their respective sectors this quarter and on a year-to-date basis.

GENERAL DATA PROTECTION REGULATION

The European Union General Data Protection Regulation (GDPR) became effective on 25 May 2018. GDPR strengthens and harmonises EU privacy laws, protecting data subjects living in the EU and those whose data is processed by EU-domiciled administrators, including investors in the Foord global funds.

Foord and its administrators will take all reasonable steps to protect personal information and to keep it confidential. Under GDPR, Foord global fund investors are entitled to access their personal data and to have it rectified, deleted, embargoed or transmitted. These investors will have received communication about their GDPR rights and how to exercise them. More information is available at www.foord.com/notices/GDPR.html.

A MATTER OF FACT SHEET

Foord produces monthly fact sheets for each of its unit trust funds which should be considered regular and important reading for all Foord unit trust investors. ARLENE THOMPSON unpacks this loaded two-pager.

Regulation prescribes a minimum set of information to be disclosed by unit trust management companies, known colloquially as fund fact sheets. Foord's fact sheets are divided into five principal areas – the banner, characteristics, portfolio composition and performance, market commentary and fees. A set of prescribed disclosures in fine print concludes the documents.

1 BANNER

The colourful fact sheet banner summarises some important fund details. Here you will find the fund name, fee class, the fact sheet date and country of domiciliation. The equity indicator shown as a series of >>>> marks shows the relative equity weighting in the portfolio as a risk measure. Funds that are managed to comply with the investment limits set out in Regulation 28 to the Pension Funds Act are marked "Reg 28".

2 FUND CHARACTERISTICS

This information is set out in the left-hand column on page one. This is the who, what, why and where of the fund and some housekeeping. It explains the foundation of the fund including its investment objective and investor profile. The detail is important but does not change, except for a few categories such as portfolio size, unit price, number of units and the equity indicator.

3 PORTFOLIO COMPOSITION AND PERFORMANCE

This information is displayed in the right-hand column of page one, using set graphs and tables each month. **These are arguably the most important monthly disclosures.**

The asset and sector allocation tables display the portfolio's month-end composition. This shows which sectors or asset classes the fund owns, how much is invested outside of South Africa and the category limits that apply. **This critical information informs an understanding of the fund's current risk profile,** while the accompanying graph illustrates how the composition has changed over time. Regulation requires that we disclose the top 10 investment positions. This gives readers a sense of the most concentrated investment positions. The top 10 can change from month to month but seldom do so significantly.

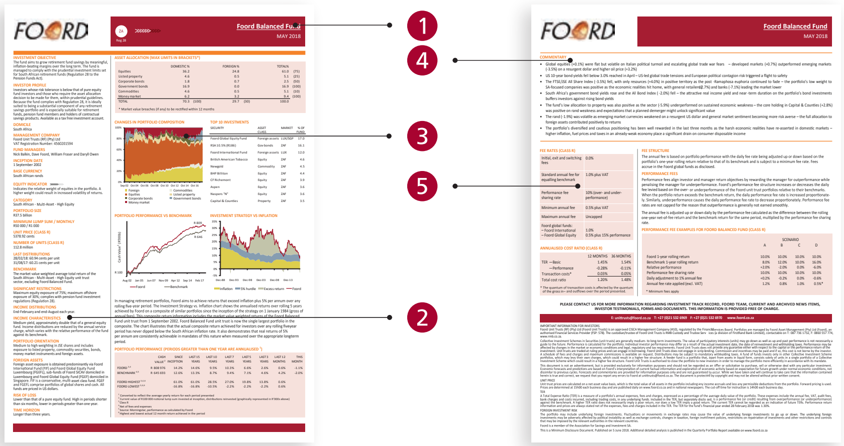
Lastly, this section discloses the fund's most recent monthly and long-term performance numbers, net of all fees and costs. The cash value shows the growth of a R100,000 investment made at the fund's inception, assuming all distributions are promptly reinvested.

4 COMMENTARY

The commentary at the top of page two summarises the key market events for the month that are relevant to the fund. It includes any major new portfolio developments or activities and contextualises the fund's monthly performance return shown on page one. **We recommend that all investors read this information.**

5 FEES

Fees and fee structures vary from fund to fund. This comprehensive section explains the nitty-gritty of how the fee structure works and the rates applied. The performance fee examples table illustrates the annual fee rates for several scenarios. It is worthwhile taking the time to read and understand this section. The annual cost ratio table is the only part of this section that is updated monthly. Regulation requires cost disclosures over rolling three-year periods but we also show cost ratios over rolling 12-month periods which accord with the measurement periods for most performance fee classes.



KEEPING YOU INFORMED – STEINHOFF

Steinhoff's troubles pursuant to Markus Jooste's resignation and emerging evidence of financial impropriety and misstated results have escalated — €10 billion of debt became payable as covenants were breached, business partners sought to reverse past deals and major shareholders including Christo Wiese initiated litigation to recover losses.

At Steinhoff's recent annual general meeting the new board of directors admitted that the company's financial position was severely distressed. However, a full investigation of the group's accounting practices is yet to confirm the extent of the financial misstatement. We share the frustration of Steinhoff shareholders at the slow pace of the review and lack of detail. But we also appreciate the complexity of the task to unravel what appears to be a years-long accounting fraud.

Foord and other leading fund managers are evaluating class action alternatives available to South African Steinhoff shareholders for recourse against Steinhoff, its directors, auditors and advisors. Steinhoff's Netherlands registration complicates the process because the Dutch courts will have jurisdiction for any litigation.

The global litigation funders now being evaluated all have a no-win, no-fee basis but each has a different intended litigation strategy. Our evaluation is at an advanced stage and we will join the class action suit that in our view is mostly likely to be successful. Nevertheless, given Steinhoff's precarious financial position and growing list of creditors, we believe the prospects for any material financial recovery are remote.

MARKETS IN A NUTSHELL

WORLD

EQUITIES

Global equities advanced marginally and volatility increased as peak economic cycle concerns rose — corporate earnings still support valuations but symptoms of late bull market stages are increasingly evident

BONDS

Trade war fears and an emerging market sell-off coaxed the US 10-year yield below 3% — despite rising inflation, wage rates and very low unemployment levels

CURRENCIES

The US dollar was resurgent — on higher interest rates and safe haven investment as the trade war rattled investors

COMMODITIES

The oil price scaled 2014 highs — driven by OPEC and Russian production cuts, Venezuelan collapse, Saudi Arabian political turmoil and new US sanctions on Iran

ECONOMY

US and Chinese strength sustained global economic expansion while Europe and Japan softened — but slower ex-US growth, accelerating emerging market outflows and a flatter US yield curve are risks to continued synchronised growth

MONETARY AND FISCAL POLICY

Global monetary policy divergence continued when the US Federal Reserve raised interest rates another 0.25% — the ECB was more dovish, confirming stimulus withdrawal by December but suggesting no rate increases until well into 2019

SOUTH AFRICA

EQUITIES

SA equities rose, buoyed by resources and non-resource rand hedges — domestically focused companies such as banks and retailers de-rated significantly from their first quarter sentiment-driven highs

BONDS

SA bond yields were sharply higher and the ALBI declined as global risk sentiment waned – given subdued demand, SA government bond yields still offer attractive real yields

CURRENCIES

The rand suffered its worst quarter since 2011 on emerging market weakness — the widening current account deficit and higher US interest rates should sustain its vulnerability

ECONOMY

After a surprise Q4 2017 GDP print, first quarter SA economic growth slumped most since 2009 on mining, manufacturing and agriculture weakness — recession is not expected but 2018's GDP growth rate may fall well below forecasts

MONETARY AND FISCAL POLICY

SARB kept interest rates on hold despite May's benign inflation print — but an interest rate increase in the 12-month forecast horizon is possible given rising US rates, accelerating emerging market outflows and deteriorating balance of payments

FUND OBJECTIVE

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

FOORD FLEXIBLE FUND OF FUNDS

ZA — Inception date: 1 April 2008

The fund seeks 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. It aims to achieve this objective by exploiting the benefits of global diversification in a portfolio that continually reflects Foord Asset Management's prevailing view on all available asset classes, both in South Africa and abroad.

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	12.4	6.1	5.8	10.9
Benchmark	11.2	10.6	9.5	2.9

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

ZA — Inception date: 1 September 2002

The fund aims to grow retirement fund savings by meaningful, inflation-beating margins over the long term. The fund is managed to comply with the prudential investment limits set for South African retirement funds (Regulation 28 to the Pension Funds Act).

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	14.4	4.2	6.2	6.6
Benchmark	12.7	5.9	8.7	3.8

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

ZA — 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*	6.4	5.4	7.1	6.0
Benchmark	9.7	9.5	8.5	2.6

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

ZA — 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*	16.3	-0.6	-1.5	-7.2
Benchmark	15.3	6.7	15.0	-6.0

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

FOORD INTERNATIONAL FUND

LUX — USD — Inception date: 1 August 2014

The fund aims to achieve meaningful inflation-beating US$ returns over rolling five-year periods from a conservatively managed portfolio of global equities, warrants, exchange traded funds, UCITS and other UCIs, interest bearing securities and cash instruments reflecting Foord's prevailing best investment view.

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	6.6	3.0	2.7	0.1
Benchmark	2.1	1.8	2.8	0.4

Benchmark: US inflation

FOORD GLOBAL EQUITY FUND

SG — USD — Inception date: 1 June 2012

The fund aims to achieve optimum risk adjusted total return by investing primarily in a diversified portfolio of global equities. Without assuming greater risk, it seeks to achieve a higher total rate of return than the MSCI All Country World Net Total Return Index.

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord**	7.8	5.9	7.9	0.2
Benchmark	11.3	8.2	10.7	0.5

Benchmark: MSCI All Country World Equity Index.

NOTE: Investment returns for periods greater than one year are annualised | * Class R, Net of fees and expenses | ** Class B, Net of fees and expenses