FOREWORD

DID YOU KNOW? WALL STREET TRADITIONS

Floor traders at the New York Stock Exchange gather on the last trading day of each year to sing *Wait 'Til the Sun Shines, Nellie*. The song, which was written in 1905, is about waiting for the rain to end. It has become the stock exchange anthem by common consent. The practice dates back to the days of the Great Depression when traders sought to introduce hope that the new year would bring with it better times.

IN THIS ISSUE

ISSUE 12 | 4TH QUARTER 2009

FOORD UNIT TRUSTS | Tel: 021 531 5085 | Email: unittrusts@foord.co.za | www.foord.co.za

FOORD FLEXIBLE FUND OF FUNDS

INVESTMENT RETURNS

	3 Months %	1 Year %	3 Years %	Since Inception %
Foord*	5.0	13.8	-	**1.8**
Benchmark	1.8	10.7	-	**14.2**

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.
Inception date: 1 April 2008

OBJECTIVE

To provide investors with real returns exceeding 5% per annum, measured over rolling three-year periods. The fund will exploit 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. The fund is suitable for investors with a moderate risk profile who require long-term inflation beating total returns, but who do not require a high income yield.

FOORD INTERNATIONAL FEEDER FUND

INVESTMENT RETURNS

	3 Months %	1 Year %	3 Years %	Since Inception %
Foord*	2.9	-6.5	3.8	**8.7**
Benchmark	1.4	-2.1	-6.0	**1.7**

Benchmark: The ZAR equivalent of the MSCI World Equities Index (developed markets)
Inception date: 1 March 2006

OBJECTIVE

To provide exposure to a portfolio of international securities constructed with the purpose of maximising return with minimum risk. This is achieved through direct investment into the Foord International Trust, which aims to produce an annualised return over time in excess of 10% in US dollars, thereby expecting to outperform world equity indices. The fund is suitable for South African investors who seek to diversify their portfolios offshore and to hedge against rand depreciation.

FOORD BALANCED FUND

INVESTMENT RETURNS

	3 Months %	1 Year %	3 Years %	Since Inception %
Foord*	5.5	17.1	6.3	**18.2**
Benchmark	6.4	17.7	7.7	**16.3**

Benchmark: The market value weighted average total return of the Domestic Asset Allocation Prudential Variable Equity unit trust sector, excluding Foord Balanced Fund.
Inception date: 1 September 2002

OBJECTIVE

The steady growth of income and capital, as well as the preservation of real capital (being capital adjusted for the effects of inflation). The fund is managed to comply with the prudential investment limits set for retirement funds in South Africa (Regulation 28 to the Pension Funds Act). The fund is suitable for pension funds, pension fund members, holders of contractual savings products, medium- to long-term investors and those investors who require the asset allocation decision to be made for them, within prudential investment guidelines.

FOORD EQUITY FUND

INVESTMENT RETURNS

	3 Months %	1 Year %	3 Years %	Since Inception %
Foord*	7.9	29.7	5.4	**21.1**
Benchmark	11.4	32.1	6.5	**18.9**

Benchmark: Total return of the FTSE/JSE All Share Index
Inception date: 1 September 2002

OBJECTIVE

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. The fund is suitable for investors who require maximum long-term capital growth and who are able to withstand investment volatility in the short to medium-term.

NOTE: Investment returns for periods greater than 1 year are annualised * Net of fees and expenses

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

FOORD ASSET MANAGEMENT | Tel: 021 532 6988 | Email: info@foord.co.za | www.foord.co.za

Balanced Fund takes TOP HONOURS

Rested and energised, I hope that all our clients have enjoyed a peaceful break and are ready to take on what is tipped to be a most dynamic year. Let me also add my best wishes to all - including Bafana Bafana - for a prosperous, successful and happy 2010.

Looking back, it is amazing how quickly sentiment can change. One year ago financial markets were in turmoil and the world was entering global recession. Governments acted swiftly to slash interest rates to near-zero levels and to introduce unprecedented fiscal stimulus measures and bailout packages.

Today, many developed market economies, while emerging from technical recession, are still facing headwinds. But the prospects for economic recovery are much improved. Financial markets recovered more swiftly than the real economies and global equity and commodity prices have surged from their March 2009 lows. The world therefore enters 2010 with much more optimism and a greater risk appetite than was the case one year ago.

I am pleased to report that our Foord Balanced Fund unit trust ended the year ranked first in its sector over five years. It is important to remember that the last five years encompassed the end phase of a very strong local bull market as well as a severe market correction, global recession and subsequent swift financial market recovery. The top ranking is important because it bears testimony to an investment philosophy which emphasises risk management and long-term investment across all market cycles. Congratulations to the investment team for this achievement.

In this edition of *Foreword*, Paul Cluer reports on the implementation of the multiple-counsellor process of investment management for the Foord Equity Fund. We are excited by the possibilities that this approach provides, particularly with regard to the consistency of returns, continuity of management and reduced key-man risk.

Many clients have asked us how the Foord Flexible Fund differs from the Foord Balanced Fund. There is some confusion about which is more appropriate and which is the riskier fund. William Fraser addresses these points in his article, *Weighing up Risk and Returns*.

We conclude the newsletter by updating readers on the latest developments in exchange control, sharing with you our quirky yoga practices and reporting on our Meet the Team functions. Thank you to all clients and advisors who joined us for the Meet the Team sessions. The Foord team thoroughly enjoyed the interaction and the many interesting conversations we shared.

With best wishes to all for the year ahead,

Chris Greyling
Chairman: Foord Unit Trusts

IN A NUTSHELL

Portfolio Managers, **BRUCE ACKERMAN** and **WILLIAM FRASER**, review the markets in the quarter that was on the home front and abroad.

	INTERNATIONAL	SOUTH AFRICA
EQUITIES	Equities rose strongly again in Q4 - delivering an annual gain of 31%, seemingly unattainable when markets troughed in early March before unprecedented government intervention proved successful in averting "a financial meltdown"	S.A. equity market rose significantly for a second quarter, gaining 11% and rising 32% for the year – as continued demand for emerging market assets and improved sentiment lifted equity prices globally, but especially in emerging economies
BONDS	Longer dated government bond yields rose - as economic growth prospects improved and on concern yields could rise further once government bond market support measures are terminated	S.A. bond yields climbed during the quarter - with weak government finances and projected budget deficit (estimated between 9 - 10% of GDP) offsetting better-than-expected inflation numbers
CURRENCIES	Dollar recovered on expectations that 2010 U.S. economic growth would outpace that of Europe and Japan - hence prompting the ending of the zero interest rate policy later in the year	Rand remains strong - benefiting from demand for emerging market securities, relatively high interest rates and higher commodity prices
COMMODITIES	Commodity prices rose - supported by Chinese demand and confidence that the world economic recovery was sustainable even when support measures withdrawn. Specifically, gold boosted by central bank purchases - and as a hedge against competitive currency depreciation	
ECONOMY	U.S. unemployment at a quarter century high - but signs job losses are stabilising which could underpin the all-important consumer. Emerging markets in favour - their economies unfettered by grossly excessive debts, unlike in the U.S. and U.K. for example	S.A. growth lagged global recovery - though first positive GDP print in four quarters (on back of improved trade account) lifts S.A. out of recession, but final demand remains soft
MONETARY AND FISCAL POLICY	Main risks to unabated economic growth surround the timing of government exit strategies - U.K. and some Euroland countries already are implementing tax increases and radical public spending cuts while Australia is raising interest rates	Interest rates left unchanged - because the lagged effect of previous cuts is still to be fully experienced while the longer-term inflation outlook is clouded by higher administered prices, especially electricity hikes

Weighing up RISK and RETURNS

The Foord Balanced Fund and the Foord Flexible Fund of Funds can both invest in all asset classes in South Africa and offshore. Because they are similar, we receive questions about which will generate the best return and which is the riskier fund. WILLIAM FRASER tackles these questions.

The Foord Balanced Fund complies with regulations that govern retirement fund portfolios in South Africa. It is benchmarked against the average prudential fund in its sector. The Foord Flexible Fund targets inflation beating returns and has a CPI plus 5% per annum investment objective.

Both funds may invest in all asset classes, but there are some differences that can result in very different return profiles. The most notable are the 75% portfolio limitation to listed shares in the Balanced Fund and the further restriction that foreign assets may not exceed 20% of the fund. Because both funds are managed using the Foord investment process, the asset allocation decisions will therefore have a similar tendency. In practice, the different objectives and constraints mean the actual exposures will be different.

In general, the Balanced Fund is suboptimal for investors who are not required to comply with prudential limits set for retirement funds. The Flexible Fund, on the contrary, allows the fund manager full discretion to implement his best investment view without any artificial restrictions. It is, however, not

> **"THERE ARE SOME DIFFERENCES THAT CAN RESULT IN VERY DIFFERENT RETURN PROFILES"**

suitable for pension fund investors, since the allocation to shares or international investments may exceed prudential guidelines from time to time.

So which is the riskier fund and which will give the better long-term returns? Some may argue that the flexibility to invest up to 100% in shares or to take unlimited amounts offshore makes the Flexible Fund the riskier of the two because the manager can take bigger "bets". Yes, the investment process involves detailed forecasting and the use of probability analysis. It therefore includes making judgements on uncertain outcomes. However, we do not take punts on an asset class simply because the mandate allows it.

There is also a widely-held belief that because shares are amongst the most volatile of investments they are also amongst the most risky. Some therefore believe that a fund that can invest up to 100% in shares must be more risky than a fund that is restricted to a 75% exposure. As with most things, this may be true some of the time but does not hold all of the time. There are certainly times when an investment into shares can yield high returns with very little risk of loss over the medium term.

The flexibility provided by the Foord Flexible Fund's mandate means that we are able to take unconstrained advantage of asset classes offering the best fundamental value. An often neglected risk is the risk of not meeting one's return objective in the long term. One of the best ways to manage this risk is to allocate a healthy weighting to growth assets such as shares and foreign assets when they are cheap.

In our view, rather than being more risky, the additional flexibility provided by the Foord Flexible Fund allows for better management of the risk of loss. Successfully managing investment risk and compounding positive returns is the best way to achieve one's long-term investment objectives. While we cannot promise that the Flexible Fund will outperform the Balanced Fund over periods exceeding five years, on paper it has the better credentials to do so.

Further relaxation of exchange controls

The Minister of Finance announced further steps in the liberalisation of exchange controls in his Medium Term Budget Policy Statement issued in October 2009. MIKE SOEKOE outlines the detail.

The most notable reform pertained to the foreign capital allowance for individuals, which was last adjusted in 2006. The individual allowance for each adult South African resident (being a tax payer in good standing) was increased from R2 million to R4 million. The single per year discretionary allowance was also increased from R500,000 to R750,000.

Clients may wish to utilise this additional allowance to invest directly into the Foord International Trust, which is domiciled in Guernsey. Please contact us if you would like to take advantage of this opportunity.

WISE WORDS

> "Most people have a very poor concept of time. Many cannot see beyond the weekend. **THINK IN YEARS AND COMPREHEND IN DECADES**. You will fare better with investments than most."

FOORD INTRODUCES THE MULTIPLE-COUNSELLOR PROCESS

During the quarter, Foord implemented the multiple-counsellor process of investment management on a number of its equity portfolios. The Foord Equity Fund unit trust also benefits from the new approach. PAUL CLUER explains the concept and the motivation for the change.

In the investment industry, a single individual is typically responsible for the management of an investment portfolio. The multiple-counsellor approach, however, involves dividing the assets of each portfolio among a number of portfolio managers. These managers then make independent investment decisions and manage their portions as though they were separate funds. The sub-portfolios are then combined for client reporting and pricing purposes.

The process was pioneered during the late 1950's by Capital Group in the U.S., one of the world's largest and most successful fund management houses (for more information browse www.capgroup.com). Capital found that the result, which was a blend of each manager's best efforts, contributed to consistency of returns, continuity of management and reduced key-man risk.

The returns on these portfolios result from the combined efforts of the portfolio managers. However, it would be wrong to say that they are being co-managed or managed by consensus or committee.

Consensus based management requires all managers to agree on each security before it is included in the portfolio. In many cases, good investment ideas are forgone because of lack of consensus. In the multiple-counsellor approach, no consensus is required. Each manager will implement his view in separate sub-portfolios and clients will benefit from both views.

In implementing the multiple-counsellor process at Foord, we hope to enhance the returns to unit holders by incorporating the best ideas of a number of managers, while also improving the continuity of management and reducing key-man risk. We expect that as a result, risk of loss in the portfolio will also be lowered. We will initially have just two managers assigned to the portfolio. Dave Foord will continue to manage the major portion of the Foord Equity Fund. However, Dane Schrauwen will be responsible for a smaller share.

"The multiple-counsellor process contributes to consistency of returns, continuity of management and reduced key-man risk."

Dane was appointed in July 2009 from BoE Private Clients where he worked for 14 years as a portfolio manager. He also served on BoE's investment committee and was jointly responsible for shaping many of BoE's current investment processes (see *Foreword 11*).

For more information about Foord's implementation of the multiple-counsellor process please contact Paul Cluer or Mike Soekoe directly.

MEET THE TEAM

In what turned out to be a very busy November, we held Meet the Team functions in the three major centres. ARLENE THOMPSON recalls the events.

In Cape Town we again hosted the event at Kirstenbosch and are grateful to have such a beautiful venue on our doorstep. In Durban we were lucky to secure the fabulously restored Oysterbox Hotel while in Johannesburg the predominant concern for traffic congestion meant that the centrally located Quatermain Boutique Hotel was ideal.

We coupled the evening client sessions with afternoon presentations to advisors. We therefore had a wide variety of clients and advisors attend the events. Sharing information which was both interesting and understandable to everyone proved challenging. Nevertheless, the principal objective was for clients and advisors to meet the Foord team and to establish or renew personal contact.

Thank you to everyone who could attend. For those clients who weren't able to meet the team this time around, we look forward to meeting you at these events in 2010.

Limbering up with yoga

Twice a week, fifteen Foord faithfuls sacrifice their lunch hours to take up their mats in a quiet yet energising space. The calling? Yoga - a fantastic Foord initiative that has encouraged yoga novices and aficionados away from their desks for an hour of mind-clearing physical activity.

Yoga has become a popular discipline for people of all ages and is practiced for both its physical benefits and as a means to quiet the mind. The combination of breath exercises (pranayama), yoga postures (asanas), hand positions (mudras), body locks (bhandas) and meditations comprise the practice of yoga.

Many thanks are due to our ever patient yoga instructor, Juanita Caprari of the Yoga Mala studio in Cape Town. Namaste.

"WHO LOOKS OUTSIDE, DREAMS. WHO LOOKS INSIDE, AWAKENS."