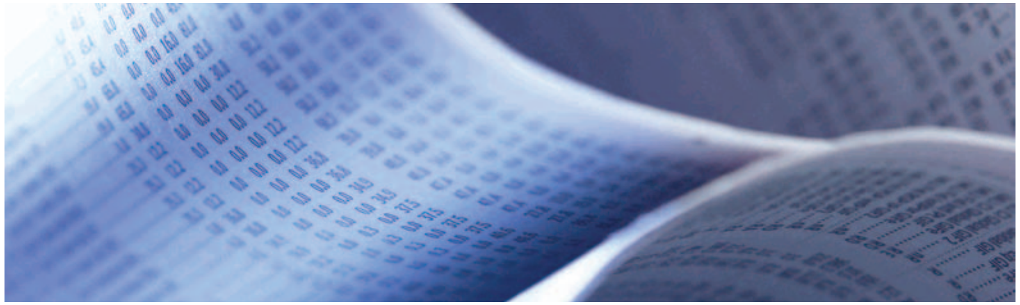
FOREWORD



DID YOU KNOW?
EXCHANGE TRADED FUNDS

An Exchange Traded Fund (ETF) is an investment fund, much like a unit trust or collective investment scheme that is traded on a stock exchange. Although ETFs trade and are priced in real time like shares, they track the performance of a whole portfolio or basket of shares in an index. The Satrix40 ETF, for example, tracks the performance of the JSE Top 40 Index. There are 44 ETFs listed on the JSE ranging from local and global equity index trackers to commodity, currency and bond trackers.

ETFs find favour with investors who believe either or both of the following: that active fund managers cannot beat a passive index over time, and that active fund management is expensive (alternatively, that the additional costs are not warranted by the actual outperformance or alpha). This may well be true for many actively managed funds in the market.

However, it is not true of Foord. The Foord Equity Fund, for example, after costs still exhibits a positive average and median alpha over rolling 1-, 3- and 5-year periods. Investors who can find a fund manager who has proven skill and a long track record of outperformance will earn greater returns over time than investors in passive ETFs.

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IN A NUTSHELL

BRUCE ACKERMAN and WILLIAM FRASER summarise market developments for the fourth quarter of 2011.

INTERNATIONAL

EQUITIES

Wall Street led equity markets strongly higher, prompted by more resilient US economic growth data and optimism engendered by another 'final' Eurozone bailout deal – while emerging equity markets continued to lag on concern that a European recession would crimp Asian export growth

BONDS

Government longer-dated bond yields declined further on investor risk aversion – UK and US bonds benefited from central bank support purchases, with UK yields even briefly falling below those of Germany

CURRENCIES

The dollar strengthened especially against the euro – and precious metals prices slumped in response

COMMODITIES

Industrial commodity prices were mixed but with a downward bias as Chinese manufacturing output slowed – while precious metal prices fell on dollar strength and reduced speculative fervour

ECONOMY

Technocratic governments emerge in Italy and Greece, with a government defeat in Spanish elections – harsh austerity measures are imposed, but their bond yields remain unsustainably elevated

MONETARY AND FISCAL POLICY

Eurozone measures to boost bank liquidity and cut interest rates were regarded as a palliative, stopping well short of consolidated Eurobond issuance – while Australia also cut rates and the Bank of England and US Federal Reserve left monetary policy on hold

SOUTH AFRICA

EQUITIES

The JSE surged 10% in October but declined latterly to cap returns for the quarter at 8.4% – as continued worries about European recession and lethargic Asian growth eclipsed evidence of a nascent US economic recovery

BONDS

SA bond yields were volatile but ended the quarter lower – on improved demand for emerging market debt, despite a deterioration in inflation expectations

CURRENCIES

The rand remained volatile and weak – amidst continued European sovereign debt concerns and a slowdown in demand for commodities from China in particular

ECONOMY

The economy grew at a modest pace in the last six months, boosted by continued growth in private consumption – but mining, manufacturing and agriculture were stagnant on waning commodity demand

MONETARY AND FISCAL POLICY

Cash yields remained stable and low – demand push inflation remains absent as banks limit secured credit growth, while weak demand from Europe and China stalled growth in the primary and secondary sectors of the economy

FOORD COMPASS

Foord Compass Limited ("Compass") is a closed-ended investment fund that trades on the JSE under the share code "FCPD". Just about all Foord portfolios include exposure to Foord Compass Debentures. Many clients hold debentures in their own names. PAUL CLUER provides a short history of Compass and explains what it is today.

Compass Property Loan Stock Company ("Compass") listed ordinary shares and debentures (debt instruments) on the JSE in 1987. It was later renamed to Compass Property Holdings Limited by Anglo American. Following a scheme of arrangement in July 2001, Compass disposed of its entire property portfolio to the listed property group ApexHi (which now forms part of Redefine Properties).

In an effort to dispose of non-core holdings, in September 2001 Anglo American sold its shareholding in Compass to a consortium led by Foord Asset Management. The Foord consortium subsequently bought out the minority shareholders and the Compass ordinary shares were then delisted. The Compass debentures remained listed with the only asset on the balance sheet comprising A and B units in ApexHi.

As the controlling shareholder, Dave Foord's vision was to convert the company from a listed property fund to a listed investment fund. Only 40% of debenture holders remained invested and so approved the new direction of Compass.

The Compass investment track record essentially started on 1 January 2002 when Foord Asset Management commenced the management of the portfolio following a successful rights issue. The Compass board mandated Foord to manage the portfolio with an absolute return style and set an aggressive performance benchmark of CPI + 10% per annum over rolling five-year periods.

In terms of the Debenture Trust Deed, the company pays out 90% of its qualifying income in the form of interest to debenture holders. It is therefore a high yield instrument and capital growth is low. In the last 10 years, there have been two additional rights issues and the portfolio has grown to approximately R1.2 billion.

The Compass portfolio invests in all global markets (50% of its portfolio is currently invested outside of South Africa) and can take both long and short exposures to all asset classes without restriction. The absence of any major restrictions and the closed-end nature of the fund (you cannot sell your debentures back to the fund, you can only sell them in the market thereby removing redemption risk from the manager) provide the flexibility required to achieve the onerous benchmark.

Over the 10 years since 1 January 2002, the Compass portfolio has returned 22.4% per annum gross of fees and expenses. On a net basis, debenture holders have achieved a total return of 18.5% per annum, of which the income yield on the debentures was 13.3%. These returns are well ahead of the benchmark, CPI + 10% return of 15.9% per annum and the 15.1% per annum that the FTSE/JSE All Share Index has delivered over the same period. In this regard, the investment objective has been achieved and those first debenture holders have received a return well in excess of what the average general equity unit trust has delivered, with much lower volatility.

Foord Compass Debentures can only be acquired in the market via a registered securities broker.

RETAIL THERAPY

In the midst of a global economic downturn, Foord's portfolios hold a sizable allocation to South African retail shares. NICK BALKIN explains why we like the retail sector.

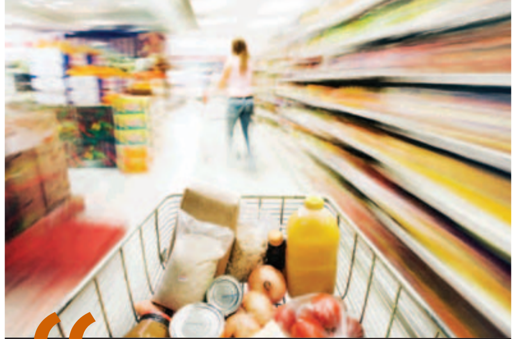
The Foord investment process combines both "top-down" (macro) and "bottom-up" (company specific) elements. From a macro perspective, we like the retail sector as a whole because we believe that the spending capacity of the economy will continue to be supported. Factors supporting growth in consumer spending include:

- The expected continuation of above-inflation wage growth (albeit at a slower pace than in previous years)
- Banks expanding into the largely untapped unsecured loan market, despite reducing their appetite for secured loans such as home mortgages
- The low interest rate environment and the consequent lower debt servicing costs, which have allowed people to stabilise and even decrease their debt burdens.

Changing spending patterns is another supportive factor for the retail sector. The continuing development of a rising middle class has shifted buying behaviour from the informal retail sector to the formal retail sector. Given the extent to which this demographic change can continue, it is likely that this trend will persist for the foreseeable future.

Barriers to entry in the formal retail sector remain high as insufficient mall space is being built to accommodate new entrants. As a result, any new entrants will find it hard to achieve sufficient scale to compete with the larger retail chains. This means that high margins and returns on equity should be sustained by the existing players for longer than expected.

From a bottom-up perspective, you don't have to be an investment professional to understand that buying a share at the right price can determine the extent of



> "SOUTH AFRICAN RETAILERS REMAIN AT A SIGNIFICANT DISCOUNT TO EMERGING MARKET PEERS"

long-term returns. Although South African retailers have enjoyed a significant re-rating over the last two years, they remain at a significant discount to emerging market peers. This is an important consideration as foreign investors, with their global perspective, have significant holdings in South African retail shares.

Having enjoyed two good years of above-market returns, the re-rating of retail shares over the last two years should not be a reason to sell. Our analysis suggests that earnings and dividends in the retail industry will continue to grow at a robust pace. Consequently, returns from such investments should be acceptable at a minimum.

Retail shares offer scope to apply another key tenet of Foord's investment process: to diversify and manage risk. Exposure to retail shares mitigates our mainline view that the rand should depreciate over time in line with fundamentals. If this view is wrong, retailers would benefit from a sustainable appreciation of the rand, as import costs would fall, lifting volumes and margins. Also, if inflation is higher than we expect, Foord's exposure to defensive food retailers will offset the risks of exposure to more cyclical clothing retailers.

In a nutshell, holding retail shares is entirely consistent with Foord's proven investment philosophy – both from a "top-down" macro-economic perspective and based on "bottom-up" fundamentals of the sector and the companies listed in the sector.

EXCHANGE CONTROLS

Exchange controls imposed by the SA government and regulated by the South African Reserve Bank have been progressively relaxed over the past few years. In October's Medium-Term Budget Policy Statement, the Minister of Finance announced further measures intended to ease the exchange control limits and administrative burdens on individual and corporate entities. PAUL CLUER explains.

The proposed reforms to the prudential and investment regulatory framework aim to promote investment in South Africa as a gateway to Africa and to reduce the cost of doing business. The major change was to eliminate the classification of "inward listed" shares on the JSE. Other changes relate to the improvement of access to cross-border money remittances and reduction in red-tape on cross-border transactions.

The South African Reserve Bank (SARB) has historically classified certain companies headquartered abroad but dual-listed on the JSE as "inward listed." Examples of such companies include British American Tobacco and Capital and Counties (which unbundled out of Liberty International). Such shares formed part of the total offshore allowance permitted to South African institutional investors (currently 25% for retirement funds and 35% for asset managers and unit trust schemes). Rather bizarrely, these shares did not form part of the offshore allowance for South African individuals.

The rationale for including inward listed shares in the offshore allowance for SA institutions was that such companies could raise cash in South Africa by way of rights issues and remit the proceeds abroad – a practice that SARB wished to prevent. However, there are many other companies (admittedly of South African origin) that are listed both in SA and abroad and that are headquartered offshore and which were NOT classified as inward listed. Examples include Old Mutual plc, Investec plc and the former Liberty International plc (prior to unbundling), which were all headquartered in London and had their primary listing on the London Stock Exchange.

SARB was therefore inconsistent with its classification of foreign domiciled companies. Regulation also prohibited the JSE from including such companies in its headline indices. This meant that the market value weighted indices didn't include any allocation to certain shares listed on the bourse.

The Minister of Finance recently advised that the inward listing dispensation has been removed which is hoped will improve the status of the JSE as a gateway to Africa for foreign companies. For institutional investors holding shares in such companies, this will free up additional offshore allowance within the overall limitation (25% and 35%). A consequence has been that these companies have been included in the JSE indices – British American Tobacco has material weight at 2% of the Index.

> "THE MINISTER OF FINANCE HAS NOW ADVISED THAT THE INWARD LISTING DISPENSATION WILL BE REMOVED FROM JANUARY 2012"

WHY TO NOT PANIC ABOUT DAILY MARKET FLUCTUATIONS

We all know that knotted feeling in the pit of the stomach that appears with each new turn in market sentiment. And perhaps, as happens to me, such a gut reaction immediately engenders another involuntary response: "Quick, I need to get out or get in, buy or sell, change my portfolio, go into cash or bonds... DO SOMETHING!" MIKE SOEKOE explains why the better strategy is to invest for the long term with a company like Foord.

The statistics speak for themselves: over a 10-year, 7-year, 5-year or even a 3-year time period, Foord consistently produces (way above) inflation beating returns. "Why?" you may ask. "It may be true that equities and property are the only 'real' growth assets, but in such volatile and uncertain markets, how can Foord be so confident that my money will not only be safe, but that it will actually also continue to grow?"

The answer lies in Foord's tested investment philosophy: always take a long-term view when investing in growth assets such as shares (or any asset class for that matter). I realise this may sound trite, so let's unpack the nuts and bolts of this approach.

Firstly, Foord does not believe in "timing" the market. Markets do sometimes present opportunities for substantial gains from a short-term position. However, in general, betting on the short term is a speculative activity with inherently uncertain results. In looking at listed companies, we rather focus on earnings forecasts of at least three years ahead when deciding to buy or sell shares. Here we look at companies that consistently outperform the market due to their superior earnings growth over time. We believe that it is earnings that will determine the ultimate share price appreciation, and thus by investing (at the right price and with a margin of safety) for the long term, we significantly reduce the risk of getting our "market timing" wrong.

> "YOUR FUND MANAGERS AT FOORD ARE TAKING A LONG-TERM VIEW WITH YOUR INVESTMENTS"

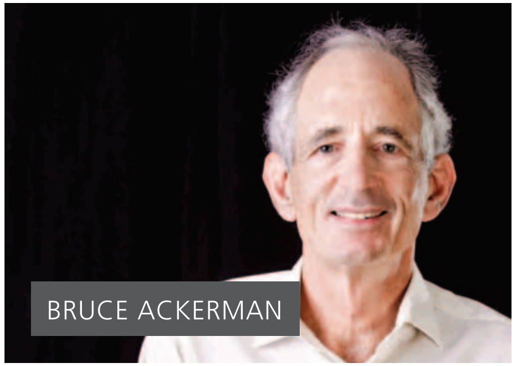
Secondly, look beyond earnings to the quality of management. We favour companies that have sterling track records and top quality managers who can manage specific business risks for our clients. Better management teams in listed companies are better able to manage a variety of future risks. They act as the first line of defence in troubled times. We spend a great deal of time evaluating company management.

Thirdly, we recognise that in good times it is often the riskier companies that deliver the highest share price appreciation. However, in hard times it is these riskier companies that fall the most, often resulting in permanent loss of capital. For this reason Foord avoids such companies altogether. An analysis of our track record shows that we only outperform the market 50% of the time in up markets. In volatile, down or sideways markets such as the one we are currently experiencing, we typically outperform the market more than 80% of the time. The result is that Foord delivers substantial outperformance in the long term, generally at a greatly reduced risk of loss.

Lastly, Foord maintains an active corporate mind set of "what could go wrong?" By constantly questioning our assumptions and views, we best ensure that we are prepared for virtually any eventuality.

And so whatever the news from the markets tonight, rest assured that your fund managers at Foord are taking a long-term view with your investments. Knowledge of that fact should surely negate any knotted feeling in the stomach.

BRUCE ACKERMAN
A RETIRING GENTLEMAN



BRUCE ACKERMAN

A stalwart of the Foord investment team, Bruce Ackerman retired from his "second career" at the end of 2011. BRIAN DAVEY takes this opportunity to pay homage to this retiring gentleman.

An honours and MBA graduate of the University of Cape Town, Bruce began his early career in corporate finance. It was not long before he moved to London where he joined the Lloyds Bank investment department. Bruce's tenure at Lloyds lasted more than two decades where he progressed from investment manager to chief investment officer and managing director of this top 10 UK investment house.

Bruce returned to Cape Town in 1993 and, after a fortuitous meeting with Dave Foord, embarked on a second and unplanned career at the boutique investment house, Foord & Meintjes (now Foord Asset Management). As a man who enjoys the famous malapropisms of Yogi Berra and others, Bruce must have believed that it was "déjà vu all over again" at Foord, where his first responsibility was as a portfolio manager, with particular responsibility for asset allocation and economic forecasting.

In 1996, Dave Foord made the far sighted decision to establish the Guernsey-domiciled Foord International Trust. Bruce was the ideal man to co-pilot this exciting new venture. He had extensive knowledge of regulations in overseas jurisdictions such as the Channel Islands and an encyclopaedic knowledge of the investment opportunities available on the global bourses. With Bruce and Dave as joint investment managers, Foord International Trust is now over $1 billion in size, and is a consistent and five-star rated top-performing fund when measured against its peers.

Bruce has always been willing to assist in any way possible. New client pitches, report backs, writing of economic and investment commentary and the careful mentoring of junior staff were always conducted in good spirit and with a sprinkling of impish comments (including some dreadful puns.) Bruce is legendary for his prolific cover-to-cover reading of his treasured weekly Economist magazine and for the sheer quantity of research material he manages to read and assimilate.

As Bruce heads into his second retirement, I am certain that he will be as busy as ever. Without doubt he will continue to keep abreast of political, economic and investment trends. But he will also maintain his active involvement in very competitive bridge, as well as tennis and table tennis. He will also have more time for his involvement with the sponsorship of underprivileged students and other charitable causes.

Bruce, from the directors and staff at Foord, thank you for everything you have taught us and for a job very well done. We will miss your sharp mind and your generous nature. While your second career has ended, please remember that "it ain't over 'til it's over" or until the "chickens come home to roast."

Alles van die beste!

FOORD
FLEXIBLE FUND OF FUNDS

INVESTMENT RETURNS

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	**9.1**	15.2	15.0	7.9
Benchmark	**11.9**	10.2	11.2	2.4

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

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	**8.6**	3.1	19.0	4.6
Benchmark	**5.8**	5.9	16.2	7.7

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 assets including equities, fixed interest, commodities and cash. 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

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	**17.0**	14.0	9.4	6.3
Benchmark	**14.5**	11.4	6.0	4.7

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

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	**20.1**	20.8	7.8	9.9
Benchmark	**17.0**	17.3	2.6	8.4

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.