FOREWORD

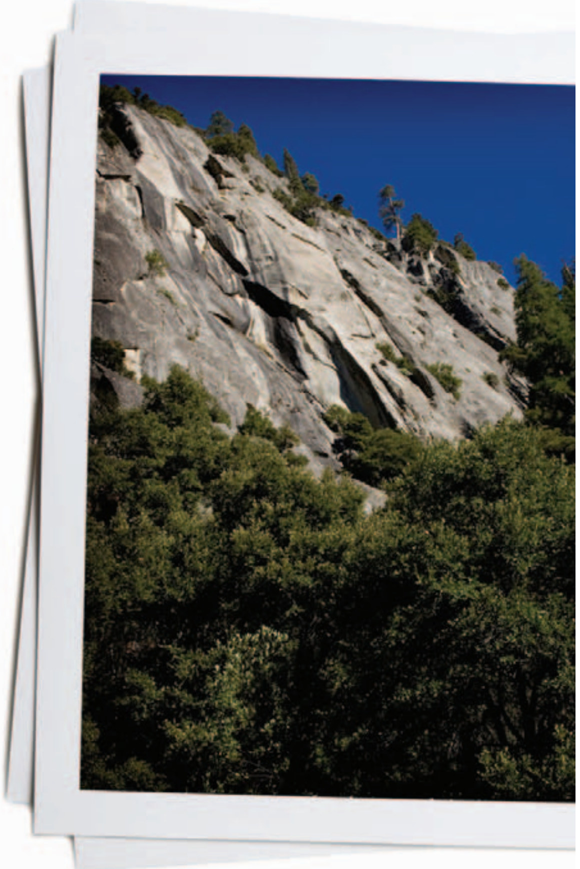
DID YOU KNOW?

FISCAL CLIFF

In the United States, the term "fiscal cliff" is popular jargon to describe the consequences of expiring tax concessions and widespread federal government spending cuts that by law would have become effective on 31 December 2012. The belief is that higher taxes and lower government spending will negatively affect nascent US economic growth, possibly forcing that economy into recession. The word "cliff" implies immediate, destructive and irrevocable consequences, but there is no consensus amongst economists regarding the pace or severity of the impact.

The expiring tax concessions are largely those popularly known as the "Bush tax cuts", implemented in 2001 and 2003 and extended by the Obama administration from 2010 to 2012. The Federal expenditure cuts were codified into law as a compromise measure under the Budget Control Act of 2011, which was enacted in response to the debt ceiling crisis of 2011.

Because 2012 was a presidential election year, Congress delayed implementation of a plan to remedy the concurrent results of tax increases and government spending cuts until after the November presidential elections. Republicans and Democrats ultimately only passed legislation on the 2 January 2013 that preserves the tax cuts for most American households with taxes rising for only the wealthiest taxpayers.



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FOORD BALANCED FUND – DARLING OF THE INDUSTRY

Balanced funds again appear to be the darlings of the investment fraternity. Recent media chatter makes it appear that the Foord Balanced Fund is the darling of darlings. PAUL CLUER explains that it's all with good reason.

There are two primary reasons for the renewed interest in the classic "balanced" fund. Firstly, the advice risk of all financial markets participants was heightened after the 2002 promulgation of the Financial Advisory and Intermediary Services Act. Its implementation marked the end of the promotion of specialist funds and renewed support for multi asset class funds. These funds are generally better diversified and display lower volatility of returns.

Secondly, amendments to the Pension Funds Act regulations in 2011 now require individual member accounts (and not just the fund as whole) to comply with the asset spreading requirements of Regulation 28 (notably equity, limited to 75% of the investment and foreign assets, limited to 25% of the investment). Investors in preservation and retirement annuity funds automatically comply with this complicated regulation by investing into a balanced fund unit trust designed to comply with Regulation 28.

Although the company and fund bears his name, industry doyen Dave Foord shares the management of the fund with Dane Schrauwen and William Fraser, both of whom are experienced portfolio managers. This multiple-counsellor approach allows for considerable scalability and also contributes to performance consistency, management continuity and reduced key-man risk.

During 2012, the Foord Balanced Fund reached its 10-year anniversary (a feat shared by only 21 other funds in its sector). While we celebrated this milestone, it's worthwhile noting that the fund's pedigree is some 30 years in the making: Foord Asset Management was founded in 1981 and some of its first mandates were for balanced funds.

The underlying philosophy of the Foord Balanced Fund is capital protection, i.e. to actively manage the risk of permanent capital loss. To this end, the bottom-up stock picking process is decidedly fundamental, combining long-term macro-economic view with a rigorous analysis of individual company earnings and sustainable returns on equity over the long term. There is no scope in this process for reliance on arbitrary methods such as mean reversion of prices or equity returns, nor is stock selection influenced by a benchmark. Only independently selected, high-conviction positions are held.

The fund's performance statistics encapsulate the rigour of the investment process. The table below shows that the fund is ranked in the top decile of comparable funds for all major periods ended 31 December 2012 and well ahead of the Prudential Variable Equity sector average.

Years	1	2	3	5	7	10
Foord Balanced %	21.9	15.5	15.5	10.8	13.7	17.3
Sector Average %	15.5	10.5	10.6	7.7	10.4	15.0
Rank / No of funds	8/84	3/72	3/61	2/50	2/36	2/20

Source: Annualised returns, net of fees, Morningstar ®

Deeper analysis of returns shows that the frequency of negative returns is zero for all periods longer than three years. Also for all periods of five years or longer, the fund beats its benchmark more than 97% of the time.

The Fund's track record, sector rankings and returns analysis speak volumes. In our view, the Foord Balanced Fund can rightly claim to be the darling of darlings in the unit trust universe.

SABMILLER – WE'LL DRINK TO THAT

Many South African companies have attempted to expand overseas. The failure rate is high and only few have succeeded. One company that stands out as having made a real success of its offshore ventures is SABMiller. CAROLYN LEVIN takes a closer look at this global brewing giant.

The company that is now SABMiller was founded in 1895 as The South African Breweries Limited ("SAB") to serve a growing market of miners and prospectors in and around Johannesburg. The company reports that the drink of choice in South Africa's dusty prospecting fields was raw potato spirit mixed with tobacco juice and pepper – small wonder that beer was well received. In the same year, the Castle Lager brand was launched from a newly commissioned lager brewery with a maximum capacity of 50 000 barrels per annum.

The company listed on the Johannesburg Stock Exchange in 1897 as the bourse's first industrial share. In the late 80's SAB identified that the beer market was in need of consolidation and started on its drive to acquire brewing assets. This acquisition drive continued throughout Africa and then spread to Eastern Europe and Latin America amongst others. SABMiller's post-acquisition strategy is focused on driving down costs in the acquired company, improving product distribution and building each brand into a leadership position in its market. In 2002 SAB acquired the USA's second largest brewer, Miller Brewing Company. The merged entity, SABMiller plc, is the second largest brewer by volume in the world, with over 200 beer brands and operations in over 75 countries around the globe.

At Foord we initially focus on a few key metrics when we analyse a company. SABMiller excels on all of these.

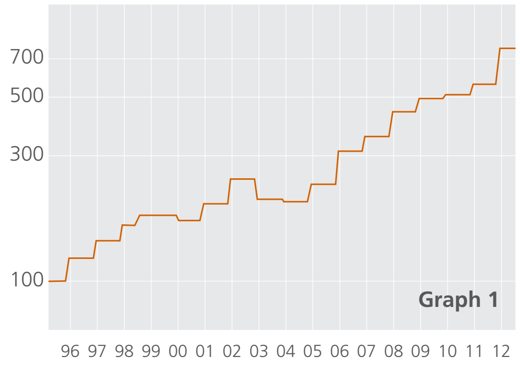
Operational and managerial excellence: the SAB management team has remained stable over the years and generally talent is grown and nurtured from within the company. This results in a solid management team with many years of experience in the industry and a strong track record.

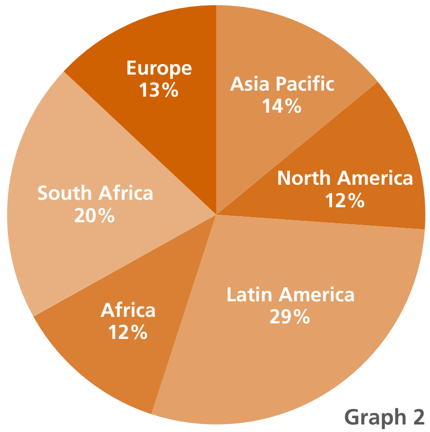
Strong balance sheet and cash flow generation: like many long-term value oriented investors, we prefer to invest in solid companies with a strong and growing dividend stream. Owing to its strong cash generation, SAB has been able to pay a reliable dividend that has increased consistently over the years (see Graph 1).

Good long-term growth prospects: SAB's portfolio is mainly focused on emerging market assets, which is where the majority of future global growth lies in the beer market. The earnings profile is therefore attractive.

Dominant market position: part of SAB's success is its adaptability and the realisation that products must be tailored to local markets. Different geographies have different taste preferences and SAB caters to this by offering distinct local brews in each of its geographies, whilst also having a portfolio of international brands such as Millers, Grolsch and Pilsner.

SAB Miller PLC (Dividends)
Monthly 9/30/1995 - 12/30/2012





These factors explain why we like SABMiller as an investment proposition. However, the counter also provides some useful benefits from a portfolio construction perspective. Portfolio construction deals with the inclusion of securities into a portfolio to diversify investment risk and enhance long-term return.

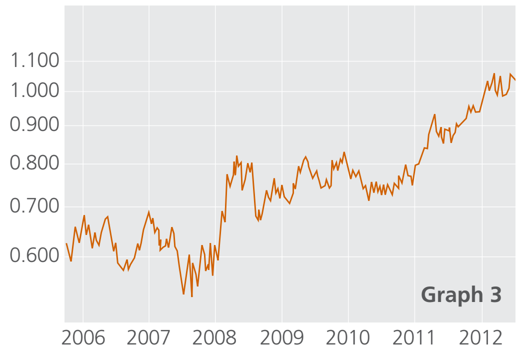
There are not many non-commodity rand hedges listed on the JSE. SAB's diverse mix of operations and revenue streams from around the globe is therefore particularly attractive. Approximately 80% of SAB's profits are derived from outside South Africa, which provides a hedge in the portfolio against a weaker local currency (see Graph 2).

> **"AT FOORD WE INITIALLY FOCUS ON A FEW KEY METRICS WHEN WE ANALYSE A COMPANY. SABMILLER EXCELS ON ALL OF THESE."**

In our view, the attractiveness of SABMiller's fundamental investment qualities and its diversification benefits mean that we rate the company as a high quality company.

It's attraction as a quality company has been reflected in its share price performance. The upward trending Graph 3 highlights SAB's steady outperformance against other stocks listed on the JSE and marks it as a winning stock over the period shown.

SAB relative to the JSE
Weekly 6/11/2006 - 12/9/2012



THE JANUARY EFFECT

The "January Effect" is a purported market phenomenon in which share prices rise in the calendar month of January. You might ask, "Why?" A US-centric explanation is that investors seek to create tax losses in December to offset capital gains earned during the preceding 11 months; in January, these transient sale transactions are reversed, leading to rises in share prices. MIKE SOEKOE examines this phenomenon.

If the January effect was a consistent phenomenon, it would point to inefficiency in the market because any predictable price movements should be eroded to insignificance by arbitrage. For example, if one group of investors (Group A) knew that another group of investors (Group B) planned to sell shares in December, Group A would buy as Group B induced prices to fall by selling. By the same token, knowing that Group B planned to buy shares back in January, Group A would sell at a profit. Absent other catalysts, price indifference should result.

This begs the question whether or not any such phenomenon exists in the broader South African equity market. The average monthly return on the JSE since 1960 is 1.5%. Although the average return for the 52 Januaries in the sample is 2.4%, statistical tests tell us that the 0.9% difference is not significant. In fact, no month has an average return that is statistically significantly different from the overall average – except December.

The South African equity market appears to have a "December Effect" with the average monthly return in December being 4.6% (which is shown to be very significantly different from the overall market average). Historically, the monthly return in December has been higher than the overall market average 69% of the time.

Does the South African equity market become so imbued with festive holiday spirit that equity returns are significantly higher than average? The tax argument might have some plausibility, with individual tax years ending in February in South Africa. Although without any statistical significance, the average monthly return in February is only 0.8%, roughly 50% of the overall market average. It is conceivable that December and January are a sort of ramp up to a sell-off in February for tax purposes.

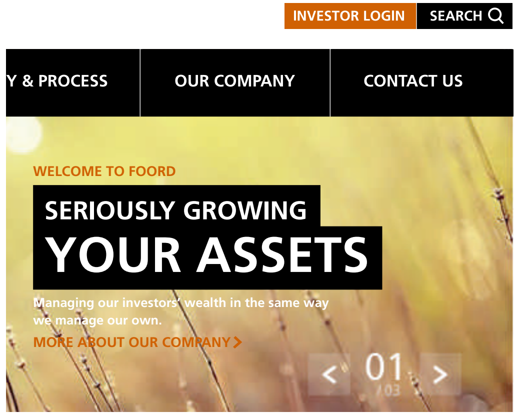
Although interesting, the phenomenon of a "December Effect" proves market inefficiency. A preferable outcome is for no single month significantly different from the average. Instead, returns should be earned more consistently, regardless of the month. An analysis of Foord's equity returns over the past 18 years reveals that no single month has a return that is statistically significantly different from the overall monthly average of 2.02%. While Foord's average returns in December follow (and indeed are better than) the market's, there is little to differentiate the December returns from those of the other months.

What can we conclude from this analysis? It appears that Foord's returns are not influenced by some arbitrary behavioural phenomenon. More importantly, though, Foord's average returns in the other months are consistently greater than the market, so much so as to erode to insignificance the difference between those other returns and the returns in December. The result is consistent outperformance over time, and it is this outcome that investors can and should be seeking.

> "IT APPEARS THAT FOORD'S RETURNS ARE NOT INFLUENCED BY SOME ABERRANT AND SEEMINGLY ARBITRARY BEHAVIOURAL PHENOMENON."

ONLINE INVESTOR UPDATE

The online investor portal that allows you to check your Foord unit trust statement is scheduled to be upgraded in January 2013, with further features in the pipeline. All Foord clients who wish to use this facility will need to register on www.foord.co.za. Those who have previously registered will be required to re-register.



ANGKOR WAT HALF MARATHON

Smiles, grimaces, fist pumps and a variety of airplane imitations marked Team Foord's first successful completion of the annual Angkor Wat half marathon in Siem Reap, Cambodia. Much of the race route is set in the ancient ruins of Angkor Wat and despite the heat and the dust this marathon proved an inspiring run for the Foord Singapore team. We congratulate the participants on their achievement and wish them best of luck for future runs.

IT WAS GREAT TO SEE YOU

For the past five years we have hosted the annual **MEET THE TEAM** functions in the country's three major centres. Each year they have grown in size and substance. We are proud of what they have become and grateful for the opportunity to interact with our clients – 2012 was no different. Taking on an Asian inspired theme we celebrated another successful investment year in the beautiful venues of The Oyster Box, Marion on Nicol and The Vineyard Hotel. To those who were unable to join us, we hope to see you in the spring of 2013.

MARKETS IN A NUTSHELL

INTERNATIONAL

EQUITIES

Despite the threat of the "fiscal cliff", US equity markets rallied late in the quarter but lagged their peers – as government stimulus (Japan), financial market liberalisation (China) and attractive valuations (Europe) drove markets higher

BONDS

US long bond yields rose despite planned additional Fed purchases (QE3), but German and peripheral Eurozone yields declined – job creation to be the key indicator for the future direction of US rates

CURRENCIES

The US dollar appears to be the best placed developed market currency – with that market's growth prospects significantly better than those of Europe, the UK or Japan

COMMODITIES

Industrial commodity prices recovered in the latter part of Q4 on better Chinese industrial production and fixed asset investment data although the gold price declined following ETF liquidations by investors – while soft commodities fell from their mid-year peaks on better crop forecasts

ECONOMY

Q3 GDP growth rebounded in China (+2.2% QoQ) and the USA (+3% seasonally adjusted annualised rate) – while the Euro area lagged (on-going austerity) and Japan contracted (weak export and consumer sectors)

MONETARY AND FISCAL POLICY

The US Federal Reserve and Bank of Japan announced additional monetary stimuli to support their economies – both currencies depreciated following the announcements (the yen more so than the dollar)

SOUTH AFRICA

EQUITIES

Equities were easily the best performing asset class, returning 10% in the quarter – with noticeable underperformers in gold mining and fixed line telecommunication shares

BONDS

Domestic bond yields continued to fall despite an S&P ratings downgrade – the recovery in the rand and stabilising inflation offsetting declining foreign investor participation in the domestic bond market

CURRENCIES

The rand depreciated sharply following widespread strikes – but recovered latterly on improved foreign risk appetite and the perceived positive result of Cyril Ramaphosa's election to vice president of the ANC

ECONOMY

SA GDP growth expanded at a slower 1.2% annual pace in Q3 – with significant declines in mining and agriculture offset by solid household consumption and government expenditure growth, and an ongoing recovery in fixed capital formation

MONETARY AND FISCAL POLICY

Short-term interest rates were unchanged and should remain so for some time to come – despite higher inflation expectations as economic activity fails to support job creation

FOORD FLEXIBLE FUND OF FUNDS

INVESTMENT RETURNS

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	**12.5**	19.3	26.5	5.6
Benchmark	**11.7**	10.3	11.0	3.0

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*	**9.6**	10.6	15.6	3.3
Benchmark	**8.0**	12.8	22.0	5.1

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*	**17.4**	15.5	21.9	6.1
Benchmark	**14.6**	10.4	14.9	4.6

Benchmark: The market value weighted average total return of the South African Multi Asset High 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*	**21.0**	20.9	30.0	9.2
Benchmark	**17.9**	15.6	26.7	10.3

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 one year are annualised * Class R, 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