FOREWORD

DID YOU KNOW?
GREENBACKS

"Greenback" is the oft-used colloquial term for United States paper dollars. In 1862, the US government made paper currency legal tender to help finance the American Civil War. Interestingly, Confederate dollars were also issued. These followed the fate of the Confederacy and were worthless by the conclusion of the war. Prior to the introduction of paper currency, gold and silver coins were the only legal tender in the USA.

Because photographic technology of the day could not reproduce colour, the back of the bills were printed in a colour other than black. It is believed that the colour green was selected as it was seen as a symbol of stability. The "greenback" has been so called since its introduction when the tradition of the USA printing the back of its money in green began.

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IN THIS ISSUE

THE YEAR AHEAD

In November 2014, MIKE SOEKOE spoke at the Foord investor functions about the year that was and the outlook for investment markets in 2015. For those readers who were unable to attend, we set out a synopsis of the presentation below.

The most important message to investors was that the global economy continues to recover from the "great recession" of 2008/09. Moreover, global economic growth, led by the world's two largest economies (USA and China), should average an attractive 3.0% in 2015. The European economy faces headwinds and is expected to muddle along for at least another 12 months. While China's economic growth will continue to decelerate, it will nevertheless remain at high levels.

The steady decrease of the US unemployment rate should result in wage growth. Higher wages should stimulate the housing sector, a chief foundation of the US economy. New home builds should begin to increase sharply, driven by demand for new homes by young adults. Indeed, the potential exists for housing starts to swell by up to 50% in order to regain the long-term average trend. As a result, we expect US economic growth to average 3.5% in 2015.

A stronger US economy will, in turn, benefit European exports. The euro area, which despite fluctuations is holding up reasonably well, should also profit from lower oil prices and a weaker euro relative to the greenback (see *Did You Know?*). However, geopolitical risk is high. Escalation of the Russia–Ukraine conflict could tip the euro area into a mild recession. We expect economic growth in the euro area to range between 0.5 and 1.0%.

China is expected to deliver economic growth of between 6.5 and 7.0% in the ensuing year. The government under Xi Jinping will continue its attempt to rebalance the economy from one reliant on infrastructure spending to one where consumption drives economic activity. A successful transition will result in a more sustainable Chinese economy.

Short-term interest rates in the US economy have been close to zero for the past few years. However, improved confidence in sustainable employment, wage and housing market growth may cause the US Federal Reserve to slowly raise (or "normalise") interest rates. Our expectations are that US 10-year government bonds will be trading at around 3.0% by the end of 2015 (at the time of writing they were yielding only 2.1%).

A key factor in Foord's asset allocation deliberations is the rand, which weakened against most developed market currencies by an appreciable margin in 2014. In our view, the rand remains vulnerable to further depreciation due to South Africa's especially high "twin deficits." Interest rate normalisation in developed markets will cause South African equities and bonds to become relatively less attractive. The resultant absence (or reversal) of capital inflows and the continued high deficits will leave the rand in an extremely weak position.

The net result of the above considerations is that equities, and most especially foreign equities, remain the most attractive asset class for 2015. After inflation, we expect cash to deliver a low or, possibly, negative return. If our assumptions are correct and yields rise, investors in government bonds may suffer capital loss. However, in an environment where global economies are recovering and borrowing costs are very low, equities should offer inflation-beating returns, albeit off a high base.

Foord's unit trust portfolios are positioned to benefit from investment in quality companies with strong balance sheets, good cash flows, proven management teams and attractive relative dividend yields. Furthermore, because of the weak rand, the portfolios have adequate exposure to foreign assets, especially equities. This is evidenced from the asset allocation in our best investment view fund, the Foord Flexible Fund, which is almost 90% invested in equities, of which more than half is offshore. The fund has no government bond exposure and low cash levels.

THE "ACTIVIST" FUND MANAGER

> **ACTIVIST FUND MANAGERS PURSUE CHANGE IN THE BEST INTERESTS OF THEIR INVESTORS.**

The word "activism" connotes a particular vigour in campaigning for change. Most typically, the word is associated with calls for political and social change. "Shareholder activism" is a term bandied about in investment circles. DARYLL OWEN explains just what it means to be an activist fund manager.

Clearly, activism has its roots in the need for change, a challenge to the status quo, a sense that existing circumstances are unsatisfactory, or not in the best interests of stakeholders. While the implications of the activist fund manager concept are perhaps not as ubiquitous as its socio-political equivalents, activist fund managers share similar ideals in pursuing change in the best interests of their investors.

Investors entrust the management of their savings to professional fund managers. These fund managers, in turn, are mandated to invest those funds in various assets, including the shares of companies listed on exchanges both locally and abroad. In carefully selecting such shares for inclusion in investment portfolios, fund managers must have regard to the fundamental value inherent in the business based on their rigorous analysis.

Shares represent an ownership interest in companies that utilise tangible and intangible assets, and employ human and working capital, to produce a future cash flow stream. The quality of the company's management team in leveraging those resources to maximum effect should not be underestimated. Accordingly, diligent fund managers should assess the quality of corporate executive teams charged with the operational and strategic management of a company. This aspect is a cornerstone of Foord's investment process.

An inherently great company saddled with poor or ineffective management is unlikely to contribute to investor returns as it should. It is these companies that must be the primary subjects of shareholder activism. Where corporate boards of directors or executive teams fail to include the requisite skills, or where they fail to adhere to corporate governance precepts, or where they fail to execute their mandates in the best

interests of shareholders, professional fund managers should not be idle and should take company directors to task.

Such shareholder activism can have many forms. While most professional fund managers have policies that direct them to attend and vote on resolutions tabled at company annual general meetings, often more needs to be done. Company management should be privately engaged to implement change, failing which public pressure should be applied. Further, the South African Companies Act affords shareholders with a sufficient beneficial interest the right to requisition a special general meeting of shareholders. Activist shareholders can use this mechanism to propose a variety of resolutions. Such resolutions may be to remove directors in whom they have no faith, or to install directors who they believe can and will manage the company in the best interests of stakeholders.

Shareholder activism should not be misconstrued as action taken only in desperate circumstances. Like any practice, it should be a constant effort, an ethic that informs every investment decision. Placing necessary limits on corporate executives in the ordinary course of business contributes to good corporate governance. It is for this reason, for example, that Foord Asset Management does not support unsubstantiated resolutions to place control over unissued shares in the hands of company directors, as this type of practice could lead to abuse, whether unwittingly or deliberately.

FOORD'S **PERSPECTIVE**

PPC LIMITED

PPC Limited (previously Pretoria Portland Cement Limited) is the leading supplier of cement and related products in South Africa. The cement industry in South Africa has been stagnant since 2008. It suffered from increased competition as new producers entered the market and because of cheap imports from other emerging markets, notably Pakistan and China. To remain competitive, the company recently embarked on an aggressive African expansion strategy in countries such as Rwanda, Ethiopia and the Democratic Republic of Congo.

PPC was at a critical phase of its expansion strategy when an executive dispute in September 2014 left the company without a chief executive. Executive disputes are fairly common in the corporate world, but are usually swiftly resolved. However, in our view, the PPC board's response was insufficiently urgent and inadequate to safeguard stakeholder interests. As activist shareholders and stewards of our investors' capital, we were rightly concerned.

The Companies Act of 2008 affords shareholders owning at least 10% of the voting rights of a company the right to requisition a special general meeting to consider specific resolutions. Foord, together with other shareholders, asserted the rights of its investors in terms of this rule and called on the PPC board to convene a shareholders' meeting aimed at reconstituting the board of directors to one that has the requisite industry and business skills. It would be the new board's role to appoint a strong executive team.

As a result of the activism of a consortium of shareholders led by Foord, the PPC board of directors announced plans to reconstitute its board in accordance with a sound governance process at the January 2015 annual general meeting of PPC Limited. Regardless of the outcome of that shareholder vote, this achievement speaks volumes for shareholders assertively pressing for their rights.

THE VALUE AND IMPORTANCE OF CO-INVESTMENT

Investors often, and in good faith, entrust their hard-earned savings to professional fund managers. The fund manager is tasked with managing the investments in accordance with a written investment policy or mandate. For taking this responsibility, fund managers are paid by the investors. But are fees incentive enough for fund managers to truly act in the best interests of their investors? PAUL CLUER examines the concept of co-investment.

It is trite that the interests of fund managers should be aligned with those of investors. Put simply, fund managers should be rewarded if, as a result of their actions and skill, investors sustainably enjoy superior returns. A good and widely practiced mechanism to align the interests of the fund manager and investor is to allow the fund manager to command a "performance fee."

Performance fees allow the manager to share in a percentage of the return on the investment portfolio that exceeds the agreed benchmark return. By the same token, a fund manager should be prepared to allow investors to "claw back" or recoup fees (down to some minimal level) to ensure that a fund manager who underperforms a benchmark similarly feels the pain of loss. Fee rates that decline below the at-benchmark fee rate and high watermark arrangements are common examples.

However, alignment of investor and manager interests through the sole mechanism of performance fees and claw-backs is insufficient. In an extreme scenario, a fund manager may have all of their personal or corporate wealth invested in one asset class while investor funds are deployed into another. If the investment portfolio were to decline (either as a result of the market's vagaries or the manager's poor decisions), investors would suffer the effects of poor returns whilst the manager's investment returns may be completely different.

It is for this reason that the most complete alignment of investor and manager interests is achieved not only with suitable fee arrangements but also with co-investment. Co-investment embraces the notion that the manager's wealth should be invested similarly to that of the investors. In that way, the manager is exposed to the same risks as those in investor portfolios. Consequently, the manager's discretion is exercised more keenly and astutely. It is the proverbial concept of "putting your money where your mouth is."

> **"THE ENTIRE AMOUNT OF THE STAFF PROVIDENT FUND IS INVESTED IN THE FOORD BALANCED FUND UNIT TRUST."**

Foord has embraced co-investment since the firm's inception. Notably, the entire amount of the discretionary assets of the staff provident fund is invested in the Foord Balanced Fund unit trust. Companies in the broader Foord group invest their corporate working capital and reserves in the same Foord products as are available to direct investors.

The vindication of a fund manager's skill might very well lie in the measure of investment by staff in the firm's own products. At Foord, almost all staff, including analysts, portfolio managers and administrative personnel, have significant amounts of their own discretionary money co-invested in Foord's unit trust funds.

FOORD IN BRIEF

TAX FREE INVESTMENTS

In November 2014, National Treasury issued draft regulations on the requirements for tax free investments, which are scheduled to become operational on 1 March 2015. Such investments will include investments administered by managers of collective investment scheme portfolios (unit trusts). Despite their imminence, the draft tax free investments regulations are insufficiently clear on certain key requirements. Accordingly, widespread adoption by the unit trust industry on 1 March 2015 is unlikely. We will continue to keep you informed of developments.

THREE NEW FACES

Sandra Coghlan joined Foord recently as systems architect and developer. She comes to us with over 14 years of development experience, exclusively in financial services. She spent six years abroad working on front office systems at Barclays Capital (London and New York). On her return to South Africa in 2006 she worked at Allan Gray where she had direct experience in asset management. She holds a BSc Hons in Computer Science from the University of Cape Town.


SANDRA COGHLAN
SYSTEMS ARCHITECT AND DEVELOPER


SIPHESIHLE LUKHELE
INSTITUTIONAL INVESTOR RELATIONSHIP MANAGER

Sihle Lukhele has been an investor with Foord since 2007 and has joined the institutional team as Investor Relationship Manager. After completing his BSc (Statistics and Economics) from UCT he spent time at Prescient Investment Management and Alexander Forbes where he was an actuarial analyst. He has spent the past eight years at Sanlam Investment Management.

Sandra Butler joins Diane Behr in the compliance department at Foord as assistant compliance manager. Sandra recently completed her law articles and was admitted as an attorney of the High Court of South Africa in November 2014. She holds a BCom (Accounting and Law) and post-graduate LLB from the University of Cape Town.


SANDRA BUTLER
ASSISTANT COMPLIANCE MANAGER

MARKETS IN A NUTSHELL

INTERNATIONAL / SOUTH AFRICA

EQUITIES

International: The S&P 500 index (+4.9%) in the USA was the only major developed market to produce a positive return in US dollars – emerging markets, notably Russia (-32.8%) and Brazil (-14.8%) were again down

South Africa: The FTSE/JSE ALSI (+1.4%) rose – resources (-19.3%) were led down by Sasol (-28.1%), but financials (+10.8%) and industrials (+7.0%) recorded healthy gains

BONDS

International: Lower commodity prices fuelled deflation fears, notably in the Eurozone – developed market bond yields fell sharply, with Eurozone bonds trading down in anticipation of additional ECB quantitative easing

South Africa: SA bonds (+4.2%) outperformed equities as domestic bond yields tracked global yields lower – with inflation seemingly tamed and forecast to fall below 4.5% in Q2 2015 on petrol price relief

CURRENCIES

International: The US dollar was dominant, rising against all the majors – the currency effect weighed on the European bourses (Dax -0.9%; CAC -6.9%) and Japan's Nikkei (-1.1%)

South Africa: The rand weakened against the dollar but recovered against sterling and the euro – the trade account weakness was exacerbated by international investors dumping financial assets

COMMODITIES

Oil (-38.2%) tumbled to a five-year low after an OPEC decision to maintain output quotas in an oversupplied energy market weighed heavily on the price – almost all other industrial and precious metal prices declined

ECONOMY

International: The US economy grew 5% in Q3 2014 – igniting a further rally in the greenback and increasing speculation that the US Federal Reserve may start to increase interest rates sooner than previously anticipated

South Africa: SA sovereign debt ratings were confirmed as investment grade by both S&P and Fitch – austerity measures announced by the Finance Ministry late last year appear to have allayed fears of rampant government spending for now

MONETARY AND FISCAL POLICY

International: The US Federal Reserve sent a strong signal that monetary policy tightening would commence from mid-2015 – while the People's Bank of China cut its key lending rate to counter a deepening slowdown

South Africa: The SA Reserve Bank left the repo rate unchanged given evenly balanced inflation risks – but the growth outlook remains subdued despite an uptick recorded in Q3 2014

FUND OBJECTIVE

FOORD CONSERVATIVE FUND (ZA) — Inception date: 2 January 2014

The fund seeks 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 limits set for retirement funds in South Africa (Regulation 28 to the Pension Funds Act). The fund is appropriate for conservative investors who are close to, or typically in, retirement and whose time horizon does not exceed three to five years.

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	**8.6**	-	8.6	2.3
Benchmark	**10.0**	-	10.0	1.4

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 BALANCED FUND (ZA) — Inception date: 1 September 2002

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. The fund is suitable for pension funds, pension fund members and holders of contractual savings products.

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	**17.2**	17.9	10.1	2.9
Benchmark	**14.6**	14.9	8.9	0.7

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

FOORD FLEXIBLE FUND (ZA) — Inception date: 1 April 2008

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.

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	**15.2**	23.3	10.0	2.6
Benchmark	**11.4**	10.9	11.0	1.6

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 EQUITY FUND (ZA) — Inception date: 1 September 2002

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.

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	**21.0**	23.9	14.5	3.8
Benchmark	**17.6**	19.5	10.9	1.4

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

FOORD INTERNATIONAL FEEDER FUND (ZA) — Inception date: 1 March 2006

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 Fund, 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.

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	**12.7**	21.2	9.5	3.0
Benchmark	**18.1**	23.9	21.3	4.8

Benchmark: The ZAR equivalent of 10% per annum in US dollars

FOORD GLOBAL EQUITY FEEDER FUND (ZA) — Inception date: 2 May 2014

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*	**6.6**	-	-	0.3
Benchmark	**12.0**	-	-	2.7

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

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