FOORD
FLEXIBLE FUND OF FUNDS

INVESTMENT RETURNS

	3 Months %	1 Year %	3 Years %	Since Inception %
Foord*	-1.4	19.2	-	**3.0**
Benchmark	2.8	9.9	-	**13.2**

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*	-1.7	9.3	1.8	**7.5**
Benchmark	-8.9	7.2	-10.9	**-0.3**

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*	-3.7	18.7	3.2	**17.2**
Benchmark	-0.8	17.0	4.6	**15.3**

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 (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 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*	-4.7	25.6	1.2	**19.9**
Benchmark	-8.2	21.8	0.3	**17.0**

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 * Net of fees and expenses

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

FOREWORD

ISSUE 14 | 2ND QUARTER 2010

DID YOU KNOW? EUROPE'S PIGS

PIGS is an acronym originally describing the southern European countries of Portugal, Italy, Greece and Spain. These countries are perceived as having high external debt, high government debt and high fiscal deficits relative to their GDPs when compared to their more fiscally disciplined northern European counterparts.

The term was revived following the global financial crisis with most commentators replacing Italy with Ireland. Alternatively, the acronym PIIGS includes both Ireland and Italy, while PIIGGS includes Italy, Ireland and Great Britain.

This year Greece sparked a euro crisis while narrowly averting a debt default only by virtue of a massive rescue package organised by the EU aimed to avoid default contagion. Greece and Portugal have since announced unpopular austerity measures while the UK, Ireland and Spain have prioritised budget cuts.

IN THIS ISSUE

IN A NUTSHELL

BRUCE ACKERMAN and WILLIAM FRASER summarise the market movements for the second quarter of 2010.

INTERNATIONAL	SOUTH AFRICA
EQUITIES	
Equities fell sharply on concern that the world economic recovery may not be sustained - undermining their value attractions if current earnings projections are not achieved as a result	The JSE (resource shares especially) retreated in line with global markets - on fears that global growth is faltering and on growing concerns about the effect that European austerity measures will have on aggregate demand
BONDS	
Longer dated government bond yields declined significantly - on dreaded 'double dip' recession concerns prompting a flight to perceived safe haven assets	SA long yields rose and the yield curve steepened - indicating a sticky inflation outlook due to high growth rates in administered prices and wage settlements
CURRENCIES	
The euro weakened further - on Southern European sovereign debt rating downgrades and fears about the ability of European banks to withstand further loan quality deterioration	The rand depreciated - as slowing inflows into emerging markets moderated demand for rands and improved demand for foreign goods and services weakened the trade and current account balance
COMMODITIES	
Commodity prices, except gold, weakened markedly - in response to signs of a Chinese manufacturing growth slowdown	
ECONOMY	
US economic growth is faltering as evidenced by a relapse in housing starts and the pace of job creation - important influences on consumer spending	First quarter GDP data registered annualised growth of 4.6% - with signs of improving local consumption growth and further improvements in the manufacturing sector
MONETARY AND FISCAL POLICY	
European countries are prioritising budget deficit reduction in stark contrast at to the US - to preserve their access to debt markets at favourable rates	There was positive news for the fiscus - with economic data registering growth in personal income sufficient to offset the effects of unemployment on the SA tax base
Interest rates remained very low in the major economies - but were increased in some others which had largely escaped the full ravages of the 2007/8 credit based recession	Interest rates were unchanged - given improved growth forecasts and expected to remain close to the 6% upper limit of SARB's inflation band

2010 Spotlight on South Africa

As I write, the 2010 FIFA World Cup is drawing to an exciting close, with the tournament likely to have concluded by the time this edition of *Foreword* is mailed. Bafana Bafana were disappointingly knocked out at the group stage. Despite our early exit, the FIFA World Cup has nevertheless profiled South Africa to a much greater degree than the Cricket and Rugby World Cups combined.

And it has cost more. To host the event, SA built five new stadia and upgraded five others. Timed to coincide with the World Cup, upgrades to infrastructure, such as airports, the Gautrain rail link and freeway interchanges, have run to many tens of billions of rands. The Cup was to a certain extent a blessing in disguise as the investment in infrastructure was important and overdue. GDP growth relating to this fixed investment was captured in previous years. But infrastructure spend aside, economists estimate the month-long event will generate GDP growth for South Africa this year between 0.5% and 1%.

The tournament was anticipated to attract approximately 350,000 foreign tourists, each expected to spend about R30,000 of foreign currency (in aggregate R10.5 billion). The rand has so far remained firm against the US dollar, trading around the R7.50/$ mark for the last ten months. This was the range in which it traded for most of 2008 before the financial crisis caused all emerging market currencies to weaken significantly for the better part of a year. Given the euro woes this year (see *Europe in Crisis. Where to from here?*), the rand is at levels last seen against the euro in early 2007.

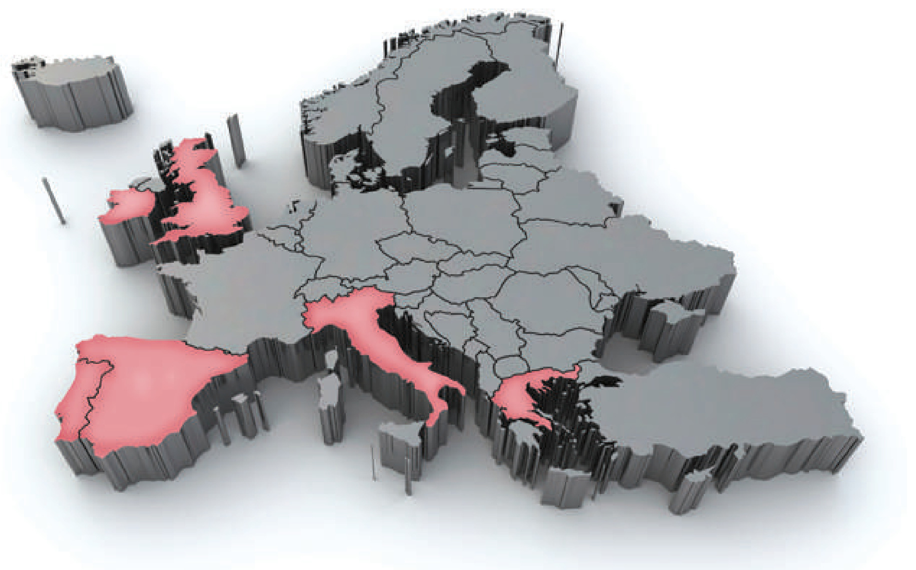
The strong rand provides an excellent entry point into foreign assets at a time when developed economy share markets look attractive on a relative valuation basis compared to local and other emerging equity markets. Investors in the Foord Flexible Fund, which implements Foord's best unconstrained investment view, have a 32% exposure to foreign assets at 30 June 2010. Foord Balanced has a 23% exposure while Foord Equity has a very low exposure to foreign assets and must obtain indirect foreign exposure via rand hedge counters. Investors in these funds may wish to take advantage of the strong rand to top up their foreign asset exposure via the Foord International Feeder Fund.

In this issue of *Foreword*, Bruce Ackerman looks at the crisis in Europe and sets out the implications for global growth and the effect on the South African economy. Bruce has co-managed the Foord International Trust with Dave Foord since its inception in March 1997. FIT has achieved sector leading returns of 6.6% per annum in US$ since inception, during a period when global share markets rose modestly by 1.6% per annum in US$.

Also in this edition, Paul Cluer highlights pending changes to the Income Tax Act and the implications for investors in interest-bearing securities. Arlene Thompson rounds out the newsletter by profiling an emerging trend in wedding registries - a gift that truly keeps on giving.

Chris Greyling
Chairman: Foord Unit Trusts

EUROPE IN CRISIS. Where to from here?



What started as concern about Greece's ability to service its debts escalated rapidly into a crisis of confidence about the viability of the European common currency and the longer-term solvency of some of its southern constituents. BRUCE ACKERMAN takes a closer look at the crisis in Europe and explains the consequences for the world economy and how it affects South Africa.

The European currency and debt crisis has ramifications for the world economy because the Euroland economies collectively exceed the US in size and the crisis therefore impacts world trade. It affects South Africa specifically as the European Community is our largest trading partner and its continued economic stagnation would affect SA's exports overall. Strict labour laws, which South Africa has chosen to emulate, have rendered Euroland economically less responsive compared to the US - or even the UK which benefits from the flexibility of its independent currency. The Euroland 'one size fits all' monetary policy was responsible for an unprecedented construction boom in Spain and Ireland. However, the unwinding of this boom is now causing substantial unemployment.

It was always going to be difficult to maintain European cohesion as fiscal policy remained the prerogative of the individual nations. Now the prudent German taxpayers are indirectly bailing out the feckless Greek [largely non] taxpayers. The Germans have already reflected their disquiet by inflicting a defeat on the incumbent German coalition at the May regional polls. There is resentment in Germany inter alia that egregious Greek tax evasion, overspending and absurdly generous public sector pensions should be supported by those less improvident. Not only are Greek civil servants revolting, so are the Spanish at the prospect of wage cuts to reduce the bloated public sector wage bill.

Civil unrest aside, the concern remains contagion as rich members of the EC resist further loan aid to their weaker brethren. The partial and potential debt defaults of the PIGS (see *Did You Know?*) might merely have been deferred as economic growth proves elusive and inadequate to reduce the deficits meaningfully in such a demand deflationary environment. However, the European Central Bank does have an economic stimulus measure yet unused in its armoury, namely that of effectively printing money by not sterilising (not offsetting by issuing government paper) the weak country debt it is purchasing.

Throughout Europe, budget deficits need to be reined in - Italy and Germany are already taking the first faltering steps - lest bond markets exact a costly penalty on their ability to issue debt. This will be especially true if their debt ratings are downgraded as has occurred with Greece and Spain already. These fiscal measures will constrain demand growth for even the mighty German economy which garners almost two-thirds of its external trade from EC countries.

> **"SOUTH AFRICA HAS INDIRECTLY BENEFITED FROM THE EURO'S WOES THIS YEAR AS THE GOLD PRICE ROSE AND THE OIL PRICE FELL, THEREBY IMPROVING SA'S TRADE BALANCE."**

In aggregate, the Euroland economy is less indebted than the US and enjoys a higher savings rate. But it suffers from structural rigidities. These hamper economic revival required to boost tax revenues which the eurozone countries need to grow their way out of excessive indebtedness. The former Eastern bloc countries with their more favourable demographics have similar budgetary problems and cannot be relied on to boost the more mature economies.

The euro is no longer so actively touted as an alternative haven to the dollar for Asia's burgeoning foreign currency reserves - except on a diversification basis. The euro's weakness this year does however reduce its overvaluation and should boost exports in the more competitive countries such as France and Germany. The weaker euro should also deter imports to an extent, although obviously it renders vital commodity imports more expensive. However, with substantial surplus productive capacity in Europe this should not prove to be any imminent inflation threat nor should it undermine the continuation for this year at the very least of a [near to] zero interest rate policy.

Banks throughout Euroland have significant exposure to Iberia and Greece on both a governmental and private sector basis. Hence there is justifiable renewed concern over the health of the European banking system, which only very recently emerged from the US-originated mortgage banking crisis. Many banks' capital reserves would be insufficient to withstand even partial sovereign debt defaults.

And so, to an extent, it is in the enlightened self-interests of Germany and France to aid their neighbouring economies. However, it is not reassuring that there appears to be limited appetite for coordinated European measures to address issues - one example is the recent German short selling ban which is effectively unenforceable in a globalised financial world.

In the unlikely event of the world economy relapsing into a recession despite the continued strength of the Chinese economy, South Africa's exports would suffer. This could be the catalyst then for a retreat in SA's overvalued currency. Depreciation of the rand would, however, benefit this country's hard pressed export manufacturing businesses and could make inroads into the intractable unemployment situation - which otherwise will prove destabilising politically in the longer term. Nevertheless, South Africa has indirectly benefited from the euro's woes this year as the gold price rose and the oil price fell, thereby improving SA's trade balance.

THE NEW 'MUST HAVE' ON WEDDING REGISTRIES

Gone are the days when engaged couples limit their gift registeries to items such as crystal glasses, salad servers and hot trays. According to ARLENE THOMPSON, the emerging trend is to list unit trusts, where accounts can be opened from as little as R20 000.

People are increasingly realising the importance of savvy investing for the future - of building a balanced portfolio that will ultimately see them through their retirement. A unit trust investment made for a marrying couple may even allow them to retire several years earlier than originally hoped. Clearly, a wise unit trust investment (like a marriage) is something to be cherished for the long term.

Young couples must look to the future and prepare for their retirement to ensure that theirs is a good one filled with enjoyable leisurely years free from financial worry. Unit trusts are the perfect way for people to build their valuable investment portfolios. The sooner one starts investing, the brighter one's financial future will look.

WISE WORDS

"Give your investment time. Be patient.

TREES TAKE TENS OF YEARS TO GROW.

How would they grow if you transplanted them every 28 months? *"

* Research indicates that the average holding period for a unit trust investor is less than 28 months.

COMPASS AND THE YIELD HUNGRY

Holders of Foord Compass variable rate debentures have enjoyed an historic 13.2% per annum interest yield since the investment fund commenced eight and a half years ago on 1 January 2002. In addition, the debentures have provided net asset value growth of 5.7% per annum over this period when inflation has averaged 6.2% per annum. PAUL CLUER reviews the tax exempt status of listed debt instruments.

Unlike SA-sourced dividend income, interest income earned on any investment falls into the gross income of investors for tax purposes. It is then subject to taxation at the taxpayer's marginal rate. However, high-yielding interest instruments have been sought after by SA individual investors and non-resident investors because the Income Tax Act has provided attractive exemptions to total interest earned.

Presently, the first R22 300 of interest received by a South African resident individual under the age of 65 is exempt from income tax. For individuals over 65, this exemption increases to R32 000. Furthermore, all South African sourced interest received by a non-resident is exempt.

But the draft Taxation Laws Amendment Bill 2010 (released on 10 May) has created some concern amongst investors and financial advisors. At issue is the proposed change to the interest exemptions afforded to both South African residents and non-residents.

In its efforts to curtail tax avoidance, National Treasury has now limited the scope of the exemptions. Only interest from government bonds, listed debt instruments, bank deposits, benefit funds, stockbroking accounts and unit trusts will be exempt for years of assessment ending on or after 1 January 2010.

A "listed debt instrument" includes listed bonds, debentures and other similar instruments, whether corporate or parastatal in nature. Interest paid on the Foord Compass debentures will therefore continue to be exempt up to the appropriate thresholds in the hands of resident taxpayers and fully exempt in the hands of non-resident taxpayers.

From a fund management perspective, it is clear that most local investors will not have to alter their portfolios in anticipation of the proposed legislation. This is because very few investors will have interest sources other than those exempted.

Non-residents should only have concern about the narrower definition of instruments qualifying for the interest exemption if they have established internal structures to maximise the remittance of interest offshore - typically by way of loan structures to SA companies and trusts. Interest earned on such loans will no longer be exempt from SA income tax.

Foord Compass is a closed-ended investment fund targeting returns in excess of CPI+10% per annum over rolling five-year periods. Investors can access the fund by way of variable rate debentures listed on the JSE. To buy or sell these instruments, you should contact your stock broker. For more information on the Foord Compass debentures, visit www.foordcompass.co.za.