FOREWORD

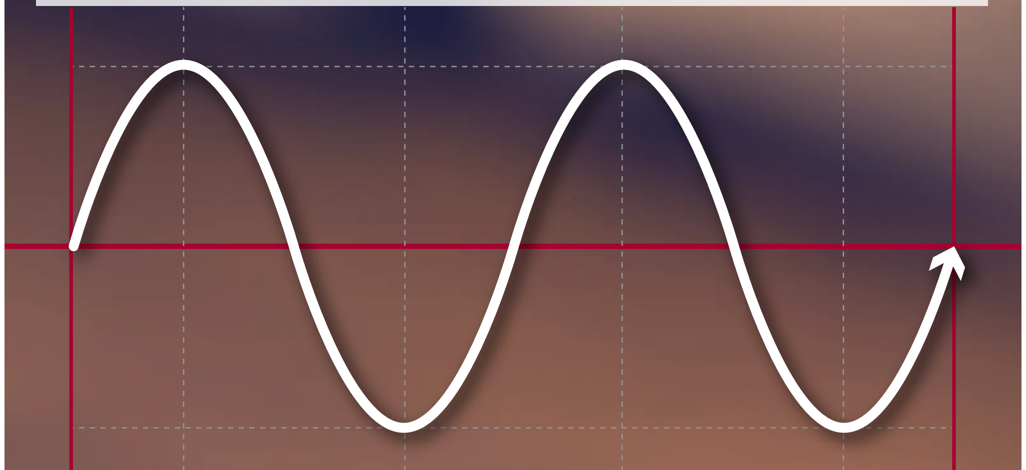
ISSUE 34 2nd QUARTER 2015

DID YOU KNOW? BUSINESS CYCLE

A business cycle is usually measured from one economic peak to the next peak, or one economic trough to the next trough. Within these cycles, periods of expansion (trough to peak) are typically much longer than periods of contraction (peak to trough).

Long-term data shows that the average US business cycle over the last 150 years was just less than five years. More recent data shows that the average business cycle is lengthening. In the last approximately 50 years, the US has experienced 11 business cycles lasting almost six years on average, with some as long as ten years[1].

[1] US National Bureau of Economic Research (NBER) www.nber.org



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CRYSTAL BALL INVESTING

"Crystal ball investing" appropriately invokes images of smoke and mirrors, charlatanism and faux clairvoyance. None of these has any place in investment practice, as JULIE MACLEOD-HENDERSON explains.

Investment has a long-term perspective, the eventual outcome of which is almost certain. Speculation has a short-term perspective and an inherently uncertain outcome. The distinction is important. While both modes of activity are forward-looking, speculation often involves guesswork, conjecture and an absence of cogent evidence, whereas investment is grounded in a pragmatic assessment of the facts and a rigorous evaluation of the probable scenarios established by the factual matrix.

It is trite that alpha is earned by outperforming a benchmark. The outperformance of a benchmark typically has as its sources both asset allocation and security selection. Asset allocation is the exercise of apportioning a portfolio across geographies and industries, whereas security selection is the process of choosing the individual investments (whether particular shares, bonds or properties). Often, the former process is styled as "top down" and the latter "bottom up", although these categorisations are unnecessarily limiting.

The crystal ball myth might manifest more readily in the asset allocation process. Whether or not to have exposure to one industry or another is partly a function of future economic conditions. With perfect foresight (that perennial impossibility), an investor might know if a good thing will keep getting better, or a bad thing worse. Moreover, such perfect foresight might also indicate turning points: when a good thing turns bad, or a bad thing turns good.

The very danger of crystal ball investing is that it seeks to divine an advantageous future akin to the products of perfect foresight. The identification of advantageous outcomes can only be predicated on what is known, what has been experienced, and the probabilities of particular outcomes. More particularly, essential in the assessment of future scenarios is a meticulous consideration of the risks of being wrong, the consequences thereof, and the measures necessary to mitigate and manage such risk.

Some might argue that certain investment managers are more intuitive than others in their assessment of future scenarios. Intuition is nothing more than the ability of the human brain to process vast quantities of information quickly; it also draws on previous experience to contextualize information. But as luck seems to improve with practice, so intuition might improve with experience.

> INVESTING SUCCESSFULLY TAKES GOOD JUDGEMENT – THE BETTER YOUR JUDGEMENT, THE MORE SUCCESSFUL YOU WILL BE AS AN INVESTOR.

Indeed, the very notion of investing being predicated on a trend is anathema. Momentum of itself is not a successful investment strategy. Time and again, through all manner of investment cycles and over the fullness of a long-term investment horizon, the practice of buying undervalued assets and selling them when they are priced well above their fair value, prevails. It is the discipline of, often, acquiring that which might appear out of favour and selling that which is favoured.

If anything, a successful long-term investment philosophy eschews trends. Without doubt, investing successfully takes good judgement – the better your judgement, the more successful you will be as an investor. The fact that good judgement is in short supply amongst market participants leads to market inefficiency and volatility. This increases opportunities for those with longer time horizons and better judgement of the probabilities of a range of future outcomes.

FOORD FLEXIBLE FUND PROVES ITS STRIPES

Foord launched the Flexible Fund of Funds in April 2008 to provide retail investors with a one-stop investment fund. As PAUL CLUER explains, the fund was designed with an unconstrained mandate to allow it to invest in all asset classes, both locally and abroad, in accordance with Foord's prevailing best investment view.

The Foord Flexible Fund is not burdened by the arbitrary asset class restrictions or limitations that apply to typical balanced funds, that are usually designed to comply with the prudential investment framework set for retirement funds (Regulation 28), which limits exposure to offshore investments and equities. It is a fallacy that unconstrained investment mandates imply greater investment risk. In our view, the reverse is true: Fewer investment restrictions means a greater number of tools to manage the risk of loss.

The Foord Flexible Fund recently achieved a seven-year track record. When evaluating investment returns, it is useful to analyse data that covers at least one full business cycle (see *Did You Know?*). We can be fairly confident that an analysis of the Foord Flexible Fund's seven-year returns covers the full gamut of economic events typically associated with a business cycle, with all the attendant investment risks.

> THE FOORD FLEXIBLE FUND IS NOT BURDENED BY THE ARBITRARY ASSET CLASS RESTRICTIONS OR LIMITATIONS THAT APPLY TO TYPICAL BALANCED FUNDS.

Indeed, in the past seven years we've witnessed the last phase of the previous bull market, the advent of the financial crisis, the collapse of Lehman Brothers, the correlated decline of almost all financial markets culminating in the June 2009 economic trough, subsequent loose monetary policy and massive government intervention in financial markets, increased regulation, the on-going European debt crisis and, most recently, the phenomenon of negative nominal interest rates, falling commodity prices and global currency wars.

GRAPH 1 sets out the annualised returns achieved by Foord on its Flexible, Balanced and Equity funds for the seven tumultuous years ended 31 May 2015 relative to key economic metrics and index returns. It has been a good period for investors in the Foord Flexible Fund, which has achieved returns of 10.5% per annum above the SA inflation rate. Investors in the Foord Balanced and Equity Funds also realised substantial inflation-beating returns.

It is evident that astutely implemented and dynamically managed asset allocation decisions have helped the Foord Flexible Fund achieve a return that exceeds the returns of the key asset class indices. Indeed, the fund has outperformed the Foord Equity Fund return, which itself has performed extremely well: adding alpha of 5.4% per annum over the SA share market for seven years.

I mentioned earlier that our hypothesis for the Foord Flexible Fund was that an unconstrained, multi-asset class fund should outperform a similar, but constrained investment strategy over time. Specifically, we believed that it would outperform the constrained Foord Balanced Fund, which is ideal for investors investing via retirement vehicles such as retirement annuity funds.

GRAPH 2 shows the cumulative returns of the Foord Flexible and Foord Balanced Funds based to 1.0 on 1 April 2008, the launch date of the Foord Flexible Fund. The cumulative return of the FTSE/JSE All Share Index has been included as a volatility reference.

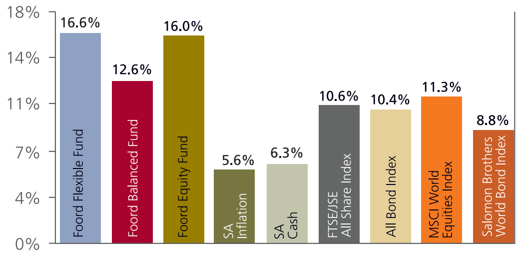
The Foord Flexible and Foord Balanced Funds share a basic investment thesis. The implementation differs as a result of the constrained vs unconstrained nature of the respective portfolios. The cumulative return profile of these funds is initially similar, but starts to diverge when the Foord Flexible Fund's offshore and equity weights increased beyond what is possible in the Regulation 28-constrained Foord Balanced Fund.

As can be seen from Graphs 1 and 2, the Foord Flexible Fund has outperformed the Foord Balanced Fund – by 4.0% per annum for the seven years ended 31 May 2015 (both net of fees and expenses, with distributions reinvested). Our hypothesis has thus proved correct in this period. The outperformance is substantial: An initial investment of R100,000 in the Foord Flexible Fund would have been worth R63,071 more than an equivalent investment in the Foord Balanced Fund after seven years (see TABLE 1).

Those investments, compounded for a further 23 years at the same average returns, produce projected terminal values of a starkly different magnitude – the Foord Flexible Fund investment would have grown to just over R9.0m while the Foord Balanced Fund investment would have grown to just over R3.5m. The power of compounding a small incremental return (16.6% vs 12.6%) would have added R5.5m over 30 years on a R100,000 initial investment.

While we cannot promise that the Foord Flexible Fund will outperform the Foord Balanced Fund or the SA share market over the next seven years, on paper it has the better credentials to produce the best long-term total returns.

GRAPH 1:
Annualised ZAR returns for the seven years ended 31 May 2015 (fund returns net of fees and expenses)



GRAPH 2:
Foord Flexible Fund vs Regulation 28-constrained Foord Balanced Fund (based to 1.0 on 31 March 2008)

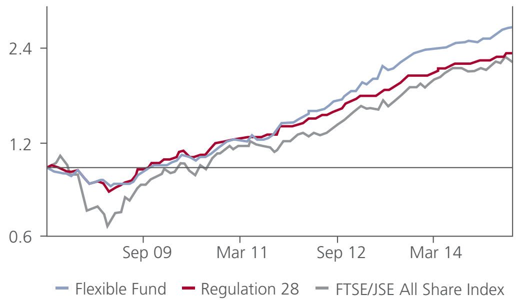


TABLE 1: Terminal values of R100,000 compounded for 7 and 30 years for selected return series

	SA Inflation	FTSE/JSE All Share Index	Foord Balanced Fund	Foord Flexible Fund
7-year annualised return	5.6%	10.6%	12.6%	16.6%
Year 7	R 146 854	R 202 046	R 229 681	R 292 752
Year 30 projected for illustration	R 527 533	R 2 054 252	R 3 516 833	R 9 040 321

GOOD GOVERNANCE

Environmental, Social and Governance (ESG) considerations have gained prominence in investment circles over the last decade. NICK CURTIN explains how ESG principles have formed a part of Foord's DNA for decades.

The United Nations-supported Principles of Responsible Investing (PRI) and the Code for Responsible Investing in South Africa (CRISA) are examples of voluntary codes aimed at encouraging investors and institutions to consider sustainability and governance issues. There are many asset managers and some large institutional investors that have loudly proclaimed their adherence to one or more ESG codes, largely to appease their pension fund investors or to gain some marketing edge over their peers.

Because non-financial factors can directly influence the long-term sustainability of a company's future income streams, ESG factors have been part of Foord's DNA since we first started managing money. Therefore, when analysing companies we need to consider the impact that ESG issues will have on valuations and to discern the true risk of permanent capital loss. In addition to being active shareholders, we know that understanding the long-term social, economic and geopolitical themes is crucial when building diversified, long-term portfolios.

By way of example, there is a notable socio-political response to the growing inequality divide globally. Combined with increasingly strained public finances in most parts of the world, the likely political response in the form of higher taxes on wealth will have material impacts on many industries and companies. Similarly, the regulatory pushback against multi-nationals shifting profits to friendlier tax jurisdictions will have to be factored in when forecasting long-term sustainable earnings. In the South African context, the introduction of a carbon tax will also have obvious ramifications for a number of industries and large companies. Importantly, these changes will also lead to opportunities.

Staying ahead of these secular trends and positioning accordingly is an essential part of the active investment management process. Getting these big calls right is a cornerstone of the Foord investment philosophy and an important part of the promise to protect and grow our investors' savings over the long term in a responsible way.

> THERE IS A NOTABLE SOCIO-POLITICAL RESPONSE TO THE GROWING INEQUALITY DIVIDE GLOBALLY.

CHECKMATE

Famed for producing South Africa's first chess Grandmaster, Kenny Solomon, the Mitchell's Plain Chess Club continues to grow the sport within the local community, teaching, mentoring and supporting children, teenagers and adults alike. Foord chooses to support a variety of educational initiatives that work to produce leaders and thinkers of tomorrow. Foord's sponsorship of club jerseys, clocks and chess literature facilitates the learning at the Mitchell's Plain Chess Club. We are proud to be associated with this inspiring community initiative.

NEW FACES AT FOORD

BRENDAN AFRICA
CHIEF FINANCIAL OFFICER

BRENDAN AFRICA joined Foord as Chief Financial Officer. He worked for Deloitte for his entire professional career, the last eight years as an audit partner, predominantly on financial services audits. He holds an accounting honours degree from the University of Cape Town (UCT) and is registered as a CA(SA) with the South African Institute of Chartered Accountants.

NANCY MITCHELL
EQUITY ANALYST

Foord welcomed **NANCY MITCHELL** to the investment team as equity analyst. She holds a B.Bus.Sci (Finance Hons) degree from UCT and qualified as a CA(SA) after completing accounting articles with Investec in 2010. She was subsequently employed at Investec Asset Management as an equity analyst. Nancy is working towards her CFA charter.

UNATHI HEWANA
JUNIOR EQUITY ANALYST

UNATHI HEWANA also recently joined Foord's investment team. Schooled in Grahamstown, she obtained her B.Sc (Hons) degree in Biotechnology from Rhodes University in 2011 followed by a B.Com (Hons) degree in Financial Analysis and Portfolio Management from UCT. Prior to joining the Foord team, Unathi was employed at RECM as a trainee equity analyst.

MARKETS IN A NUTSHELL

EQUITIES

INTERNATIONAL

Emerging markets (+0.8%) outperformed developed markets (+0.5%) – Russia (+7.7%), China (+6.2%) and Brazil (+7.0%) led the emerging markets pack with Turkey (+1.2%) and South Africa (-0.6%) the laggards

SOUTH AFRICA

Resources (-4.9%) continued to underperform the broader market with industrials (+1.7%) providing the best total returns – the FTSE/JSE All Share Index (-0.2%) was slightly negative over the three month period

BONDS

INTERNATIONAL

US, UK and Eurozone bond yields rose sharply as deflation fears abated following an unexpected Eurozone inflation increase – while expectations for higher US interest rates in the second half of the year are increasing

SOUTH AFRICA

Bond yields sold off during the quarter (All Bond Index -1.4%) and underperformed cash (+1.6%) – higher global yields, rising oil prices, a weaker currency and expectations for a repo rate increase all contributed to rising yields

CURRENCIES

INTERNATIONAL

The US dollar depreciated during the quarter on a trade weighted basis – weaker than expected first quarter GDP in the US weighed on the greenback, exacerbated by a widening trade deficit

SOUTH AFRICA

The rand weakened against most developed market peers – ongoing concerns about domestic growth, driven by falling electricity supply, as well as global geopolitical tensions weighed on the currency

COMMODITIES

Except for oil (+10.2%), commodity prices continued to fall across the complex due to increased supply and falling demand – platinum (-4.5%) and copper (-5.1%) were down over the quarter

ECONOMY

INTERNATIONAL

Global economic activity was mixed with instability from the Greek debt crisis raising concerns for future growth prospects – in aggregate, emerging economies continued to show signs of deterioration whilst the US, UK and Europe continued to improve

SOUTH AFRICA

Economic performance was better in the quarter – accelerating retail sales growth and some improvement in manufacturing conditions contributed positively

MONETARY AND FISCAL POLICY

INTERNATIONAL

Interest rates remained near zero percent in most developed market economies – China reduced interest rates, and further reduced the reserve requirement rate for banks in an attempt to stimulate lending and overall economic activity

SOUTH AFRICA

The SA Reserve Bank kept interest rates on hold but warned of rising inflation expectations – real wage growth and increasing administered prices could result in inflation breaching the upper 6% target band by latest Q1 2016

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**	-	7.9	0.9
Benchmark	**9.9**	-	8.6	3.7

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*	**16.9**	16.6	8.3	0.5
Benchmark	**14.3**	14.5	5.0	0.1

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 OF FUNDS

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*	**15.1**	21.8	11.7	1.2
Benchmark	**11.4**	10.7	9.6	3.9

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*	**20.6**	21.7	8.6	-0.1
Benchmark	**17.4**	19.0	4.8	-0.2

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*	**13.1**	23.1	16.9	2.5
Benchmark	**18.3**	25.5	26.2	0.3

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*	**13.3**	-	12.0	0.9
Benchmark	**17.7**	-	15.5	0.2

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.