FOREWORD

DID YOU KNOW? BRENT CRUDE

The price of oil has escalated rapidly in the last few months, fuelled by the unrest in North Africa. Two thirds of the world's traded crude oil is priced relative to Brent crude. But did you know that this is just one of the major classifications of crude oil? Other high profile classifications include the OPEC Reference Basket, Dubai Crude and West Texas Intermediate (WTI).

Shell UK Exploration and Production, which names all its oil fields after birds, originally named the oil after the small, dark Brent Goose which inhabits the coastal estuaries surrounding the North Sea oil fields. Interestingly, the Brent Goose breeds further north than any other goose in the world.

Ideal for the production of gasoline and middle distillates, Brent crude is considered a light crude oil containing 0.37% sulphur, classifying it as "sweet."

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IN A NUTSHELL

BRUCE ACKERMAN and WILLIAM FRASER wrap up the markets for the first quarter of the year.

	INTERNATIONAL	SOUTH AFRICA
EQUITIES	Developed market equities rose strongly on optimism about a sustainable US economic recovery given decline in unemployment rate and strong consumer spending - but emerging markets were less buoyant, partly on concern that monetary measures to slow Chinese economy might prove to be too effective	South African equity prices rose 1% during the quarter - with emerging markets generally underperforming developed markets due to inflation risks, Chinese growth concerns and a rotation from emerging market equities to developed market equities
BONDS	Bond yields rose - on inflationary concerns and reduced "safe haven" demand costs in a still uncertain aggregate demand environment	Bond yields rose due to oil- and food-driven inflation concerns and a weaker outlook for SA's budget deficit over the next three years than originally estimated by SA Treasury
CURRENCIES	Euro rose strongly despite prospect of Portugal joining Ireland and Greece in being 'bailed out' - while the Yen rose initially on expected funds repatriation after the earthquake, but then weakened after coordinated currency intervention	The rand advanced during the quarter - high commodity prices have strengthened SA's trade account, and improved sentiment towards the end of Q1 has favoured commodity-based currencies
COMMODITIES	Oil price rose sharply - on generalised Middle East unrest despite indications Saudi Arabia would boost production to offset Libyan supply loss	
ECONOMY	World economic growth will not be markedly adversely affected by the Japanese earthquake - although the role of nuclear power to reduce fossil fuel dependence certainly will	SA's economic activity continues to improve, with the consumer leading the recovery - but private sector fixed investment remains weak
MONETARY AND FISCAL POLICY	Euroland expected to raise interest rates in April - while Chinese monetary tightening to curb inflation is unlikely to suppress their commodity appetite	Interest rates remained unchanged - as inflation trends near the bottom of the inflation target band and the consumer recovery is still fragile

FOORD FLEXIBLE FUND OF FUNDS

SOLID SENSE IN AN UNCERTAIN WORLD

The Foord Flexible Fund of Funds was established three years ago to provide individual investors with a portfolio designed to meet their needs. Foord envisaged a fund which was unconstrained by artificial asset class limits and which was managed to provide real returns in the medium to long term. MIKE SOEKOE takes a closer look.

The Foord Flexible Fund of Funds achieved its three-year track record at the end of March 2011. This milestone is important because a three-year track record is often used as the appropriate evaluation period when measuring the success of any new fund. While many investors may trust the manager behind a fund, natural scepticism for new products usually means that a fund doesn't gain traction until after its three-year anniversary. Many investors may have discounted the importance of the Flexible Fund because Foord already managed the very successful Foord Balanced Fund.

However, unlike the Balanced Fund, the Flexible Fund of Funds gives the highly experienced Foord team maximum flexibility to implement its best investment strategies in any asset class in any investment market in accordance with the rapidly changing dictates of the time. Unlike the Foord Balanced Fund, it is not constrained by Regulation 28 of the Pension Funds Act. Regulation 28 governs the investment limits of pension funds and currently limits an investment in shares to 75% of portfolio and exposure to international assets to 25% (previously 20%) of portfolio.

In the current economic climate, where cash yields little or no interest and where bonds run the risk of interest rate hikes which would cause capital loss, the Foord Flexible Fund is almost fully weighted in equities. Indeed, at this point the allocation is tilted toward the international, developed markets in accordance with Foord's assessment of current relative valuations and expected future returns. The relative weightings will no doubt change as the Foord Flexible Fund stays abreast of global valuations. One thing that will not change however is that the portfolio will continue to represent the most attractively priced and viable South African and global assets.

In judging the fund on its first three-year track record, the proof is in the pudding: in the three years to 31 March 2011, the fund returned 6.9% per year after costs and fees, underperforming its inflation plus 5% benchmark but outperforming the FTSE/JSE All Share Index (+5.8% per annum) with substantially lower variability of returns and risk of loss.

The fund's ability to invest more offshore also protected the fund during the global financial crisis (when most securities declined, but the rand weakened). The fund declined by a maximum of 16.5% during the height of the market crash, which was substantially lower than the declines experienced by the Foord Balanced Fund of 21.9% and Foord Equity Fund of 38.0% (the market's largest decline during the 'GFC' was 45.4%).

In 2010, the Foord Flexible Fund yielded a very comforting 16.9% return, despite last year's unusually strong rand. The South African equity component of the fund yielded a whopping 33.9% return - well ahead of the SA share market which returned just 19.0%.

In selecting a fund manager and a fund in these uncertain times, two factors are important. While I need reassurance that my investment is safe, I also need the comfort of knowing there is a good probability that it will outstrip inflation by a fair margin over the long term. With these objectives in mind, in my view the Foord Flexible Fund of Funds makes solid sense.

NEW RETIREMENT FUND INVESTMENT REGULATIONS

National Treasury has released the final amendments to Regulation 28 of the Pension Funds Act. PAUL CLUER studies the new regulations that are effective from 1 July 2011.

Previously in *Foreword*, we pointed out how the proposed new regulations required compliance with the investment limitations at an individual member level rather than at an aggregate fund level - this requirement has been retained. In the past, individual members could obtain exposure to, for example, equities and offshore assets in excess of prescribed levels, provided that the whole fund complied with the limits in aggregate. Now, members of a retirement fund (whether a retirement annuity fund, preservation fund, provident fund or pension fund) must ensure that their individual investment portfolios have, notably, no more than 75% exposure to equities and no more than 25% exposure to offshore assets.

National Treasury has stipulated that existing individual accounts in a retirement annuity (RA), pension preservation or provident preservation fund entered into before 1 April 2011 need not comply with the regulated exposure limits unless the amount or frequency of contributions changes, which also includes the making of lump sum contributions, or where the underlying investments are changed. Therefore, investors who wish to retain existing asset class exposures in excess of the newly regulated maximums can do so provided that they maintain status quo in *all* respects (contributions and underlying investments).

In future, investors making use of retirement funding products would be well advised to select as the underlying investment a quality balanced fund managed by a fund manager with a credible and successful long-term track record. Foord has always ensured that its flagship Balanced Fund complies with Regulation 28 and so this fund presents the ideal option for investors seeking consistently excellent long-term returns via retirement fund products.

> **"MEMBERS OF A RETIREMENT FUND MUST ENSURE THAT THEIR INDIVIDUAL INVESTMENT PORTFOLIOS HAVE, NOTABLY, NO MORE THAN 75% EXPOSURE TO EQUITIES AND NO MORE THAN 25% EXPOSURE TO OFFSHORE ASSETS"**

JAPAN

A NATURAL DISASTER FOR THE GLOBAL ECONOMY?

A massive earthquake, measuring 9.0 on the Richter scale, struck Japan on 11 March. This was followed by a 10-metre tsunami that devastated northeastern Japan, causing extensive damage and leading to the loss of more than 18 000 lives. It also resulted in a near meltdown of two nuclear reactors. And as DANE SCHRAUWEN explains, it doesn't necessarily mean a meltdown of the global economy and financial markets.

As the extensive television coverage showed, this event is a humanitarian catastrophe for Japan and one can feel nothing but sympathy for the human suffering and grief experienced by the Japanese nation.

Financial markets initially panicked, with the Nikkei declining 17.5% in the days following the quake*. As the extent of the disaster became apparent, this fear was heightened as the nuclear disaster at the Fukushima nuclear power stations unfolded. However, notwithstanding the scale of the disaster, it is nevertheless important to maintain a sense of perspective on the economic and financial impact.

The northeast of Japan, where the bulk of the damage occurred, represents less than 10% of the Japanese economy. Miyagi prefecture, where the damage was concentrated, represents less than 2%. Although relatively small in an economic context, the northeast was home to steel plants, oil refineries, vehicle and electronic factories, and nuclear power stations.

It is especially the damage to the nuclear plants, and the battle to stop the meltdown at the Fukushima nuclear plant, that extended the impact from the hard hit northeast to the rest of the country. This is because electricity utilities were unable to replace the capacity from the knocked out nuclear plants in the short term. The result was rolling blackouts, a situation familiar to South Africans. The Tokyo region (responsible for about 40% of Japan's economic output) suffered 3-hour blackouts daily following the quake, with obvious knock-on impact on economic activity.

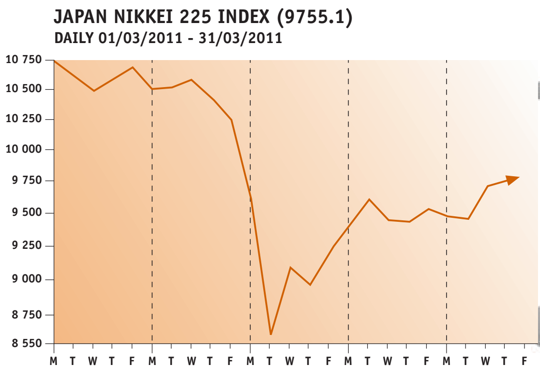
The potential nuclear disaster at Fukushima has broader and longer lasting implications for the world than the short-term disruption of economic activity in Japan. Nuclear energy was enjoying a renaissance as a green energy source, with many countries planning to use nuclear to meet their future energy needs. Fukushima will heighten public fears around the potential dangers of nuclear power, severely limiting appetite for future nuclear power stations. The uranium price has already fallen sharply as the market anticipates the cancellation of a large number of proposed nuclear plants.

Aside from the impact to nuclear sentiment, however, the disaster should have a relatively limited impact on the global economy and financial markets over the medium term. Although economic activity will be disrupted for a quarter or so, Japan is rich enough to rebuild. Reconstruction activity in the medium term should compensate for the short-term contraction in economic activity.

The global supply chain is also bound to be disrupted in the short term, but here too the impact is likely to be of limited duration. Surplus capacity and global supply chains should provide sufficient flexibility to make up for any shortfalls in the affected areas.

The global economy will continue to recover, and we maintain our view that equities are the most attractive asset class on a relative basis.

* The Nikkei subsequently recovered 11.7% over the next week (see graph).



> **THE DISASTER SHOULD HAVE A RELATIVELY LIMITED IMPACT ON THE GLOBAL ECONOMY AND FINANCIAL MARKETS OVER THE MEDIUM TERM**

BUDGET OVERVIEW

Typically, the annual national budget contains several incremental changes. Occasionally, a sweeping change or two is proposed. DARRON WEST examines the implications these changes will have on your investments.

In the context of investing, there is a measure of both such changes in the 2011 national budget. Fortunately, the major proposals pertinent to investors only take effect in 2012 and 2013, and so there is scope to carefully consider their effects.

A new withholding tax on interest payable to non-residents (at the flat rate of 10%) is mooted from 1 January 2013. However, it is unlikely that investors in collective investment schemes (unit trusts) will be affected as the debt instruments held in the unit trust portfolio probably will fall into the categories of instruments that are exempted from the tax.

A more profound development is in the proposed future treatment of retirement benefits. To date, what has differentiated retirement savings in a provident fund from other products is that the entire benefit has been available as a lump sum on retirement or withdrawal from the fund. National Treasury has now proposed that the maximum lump sum benefit from a provident fund shall be limited to one third (bringing the permissible lump sum withdrawal in line with pension funds and retirement annuity funds). However, no date has been set for the implementation of this proposal, which remains subject to consultation, and so investor decisions on this matter should not be made in haste.

Equally profound (and more immediate) is the limitation on retirement fund contributions proposed for implementation from 1 March 2012. Typically, employers contribute to a retirement fund on behalf of an employee. From 1 March 2012, such contributions will be taxed as fringe benefits; however, contributions up to 22.5% of taxable income will be deductible in respect of contributions to retirement funds. Although not clear in the budget proposals, it is expected that these changes will require adjustments to the calculation of employees tax, so that there is no prejudice to an employee's monthly cash flow. It should also be noted that the maximum permissible retirement fund deduction will be R200 000 per annum. Although some reaction to these proposals has been vociferous, if one does the calculations it appears that the proposals will benefit individuals in several circumstances.

Fortunately, none of this detracts from the value of an investment in Foord Unit Trusts.

> "FORTUNATELY, NONE OF THIS DETRACTS FROM THE VALUE OF AN INVESTMENT IN FOORD UNIT TRUSTS"

FOORD FLEXIBLE FUND OF FUNDS

INVESTMENT RETURNS

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	6.9	6.9	12.9	1.3
Benchmark	11.9	11.9	9.0	2.2

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

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	7.0	-2.3	1.0	3.6
Benchmark	5.1	-5.3	6.3	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 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

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	17.5	7.2	10.8	0.9
Benchmark	15.3	7.0	10.2	1.0

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*	21.0	10.1	18.3	-0.4
Benchmark	18.5	5.8	15.2	1.1

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.