FOREWORD

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DID YOU KNOW? GREXIT

The term "Grexit" is a combination of the words "Greece" and "exit." The amalgamation refers to Greece's potential withdrawal from the Eurozone. The Greek economy, characterised as it has been by considerable debt levels and budget deficits, has been something of a millstone around the neck of the broader European economy. The stronger European economies, notably Germany, are frustrated with their implicit subsidisation of perceived errant Greek economic management. A Greek exit from the Eurozone would be fraught with difficulty. A disorderly exit could be very damaging to the European economy, already burdened with lacklustre growth and high debt levels.

TAX FREE INVESTMENT ACCOUNTS

WHAT YOU **NEED TO KNOW** BEFORE INVESTING

Tax free investment accounts have been launched onto the market by the savings industry since being given the green light in February. While they offer obvious tax advantages, it's imperative that investors understand the finer detail of these accounts and the tax implications if they are not used correctly. DIANE BEHR unpacks the fine print.

Tax free investment accounts are operated in terms of S12T of the Income Tax Act. Investors in these accounts earn "tax free" income and capital gains. This means that interest earned will be tax free, local dividends will not be subject to dividends withholding tax and gains made on disposal of tax free investments won't attract capital gains tax. Taxes may, however, be withheld on income earned in foreign jurisdictions.

> FOORD WILL OFFER TAX FREE INVESTMENT ACCOUNTS IN THE FOORD BALANCED FUND AND FOORD EQUITY FUND TO EXISTING INVESTORS FROM MAY 2015.
>
> For more information please contact our unit trust team at unittrusts@foord.co.za.

Annual contributions are limited to R30 000 up to 29 February 2016. The lifetime contribution limit per investor is currently R500 000 and penalties apply if these limits are breached. Thus, while investors may have more than one tax free investment account, care must be taken not to exceed the overall investment limit in any tax year across all such accounts.

Any contribution into a tax free investment account in excess of the annual or lifetime contribution limit is subject to taxation by the South African Revenue Service of 40% of such excess[1]. Withdrawals do not reduce the annual or lifetime contribution total. Reinvestments of income, such as interest or dividend income, earned on tax free investment accounts do not count towards the annual or lifetime contribution limits.

Tax free investment accounts are available to individual investors only. They cannot be used by trusts, companies or other legal entities. Parents can open tax free investment accounts for their minor children. Each child will have his or her own annual and lifetime contribution limit. However, should a parent withdraw from the account of a minor child, the proceeds may only be paid into a bank account opened in the name of that child.

Transfers between tax free investments are not allowed before 1 March 2016. The legislation further prohibits the switching of existing investments into tax free accounts: only new monies are allowed.

[1] The 40% penalty was written into the tax free investments legislation when the top marginal rate of taxation was still 40% — the top marginal rate of taxation has subsequently been increased to 41%.

FOORD **INTERNATIONAL FUND**

We have all been disappointed by the low absolute returns achieved over the last 15 months in the Foord International Fund. The fund has returned -0.5% over this period compared to an annualised return of 7.7% (after costs and fees) over the preceding 17 years. What's going on here? Has the fund changed its stripes? WILLIAM FRASER takes a closer look at the objectives of the Foord International Fund.

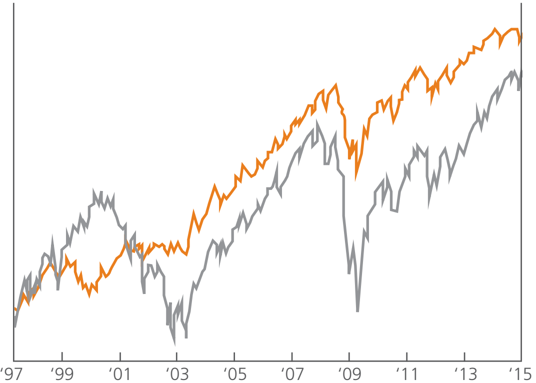
The Foord International Fund was launched as a global *equity* fund in 1997 when South African exchange controls were first relaxed. It was a tumultuous time for global equity markets. Price-earnings multiples (PEs) on the S&P 500 Index in the USA had been rising steadily. PEs on the S&P 500 grew from around 15-times earnings in 1995 to around 20-times earnings when the fund commenced. They headed even higher as investors speculated in the dot-com bubble leading up to the early 2000s.

The father of value of investing, Benjamin Graham, described investing as an operation that "promises safety of principal and an adequate return." He dismissed activities not meeting these requirements as speculative. Given the speculative fever in equity markets and the entrenched Foord investment philosophy of protecting investors from permanent capital losses, the managers changed the fund's investment policy to one of flexible asset allocation.

Tempting as it must have been to ride the equity boom, the change allowed them to diversify the fund's investments out of the overheating equity markets into other asset classes offering better medium-term prospects for capital protection and investment return. Within the reduced equity component, the investment thesis continued to focus on quality companies offering an adequate return, mostly in developed economies.

Investment grade interest bearing assets in excess of 40% of the portfolio were subsequently included in the fund. This development led to underperformance against equity markets in the ensuing 18 months (see graph below: years 1999 and 2000). The strategy was, however, tremendously successful in the medium term when much of the paper profits accumulated in the tech bubble of the late 1990s became worthless in a short space of time.

FOORD INTERNATIONAL FUND vs
MSCI WORLD EQUITIES INDEX



Having changed the investment policy, the managers set an investment target for absolute returns of 10% per year over investment cycles. With US inflation approaching 4%, this represented a real return target of 6% per annum in US dollars — an onerous objective then and now.

Fast forward to 2015: We have seen major changes in global markets and economies. The cost of money is near zero in most developed economies. Despite this, deflationary fears are plentiful. Ten-year government debt is below 2% in the USA, less than 0.5% in Germany and lower in Japan. Many developed market instruments with shorter-dated maturities yield below 0%.

In a world short of yield, it must once again be tempting to seek short-term return at the expense of medium- to long-term capital protection and an "adequate" investment return. The Foord International Fund, however, continues to eschew excessive returns and speculative securities and asset classes — even at the expense of short-term returns as we have seen. This focus will play a big part in distinguishing the fund's future returns from the markets in general, as it has in the past.

> "THE FOORD INTERNATIONAL FUND CONTINUES TO ESCHEW EXCESSIVE RETURNS AND SPECULATIVE SECURITIES AND ASSET CLASSES — EVEN AT THE EXPENSE OF SHORT-TERM RETURNS."

UPDATE ON **SINGAPORE**

Foord Asset Management (Singapore) has recently appointed three new investment team members. The company uses Foord's tested multiple-counsellor process to manage the Foord Global Equity Fund domiciled in Singapore.

Dave Foord, Guy Shirtliff, Brian Arcese and Ishreth Hassen share the portfolio management responsibility while also conducting investment research. Andrew Coultas as head of research and Braydon Barcham are dedicated analysts. Four of Foord's experienced SA analysts also supplement the global equity research effort.

This year marks the 50th anniversary of the independence of Singapore, home to Foord's international operations. Singapore is a small equatorial island with little in the way of natural resources. Yet it grew from strength to strength under the guidance of its founding father Lee Kuan Yew who was prime minister from 1959 to 1990 (Yew died on 22 March 2015, aged 91). As the gateway between East and West, Singapore is also one of the world's key logistics hubs, building a reputation as a multicultural society.

Singapore is the fourth biggest financial centre globally and is the top-ranked cross border fund management jurisdiction in Asia. It has a comprehensive legal system and regulatory environment and enjoys the coveted AAA credit rating from all three major credit rating agencies.

Singapore is an attractive destination for the expatriate population with its low taxes, excellent schools and low crime rate. Skilled human resources are therefore readily available. The sell-side (securities broking) is well represented in Singapore and Foord has excellent access to corporate management teams who visit the region.

WHY WE **DON'T SAVE ENOUGH**

Among the biggest concerns of most investors is the sufficiency of savings earmarked to sustain a financially successful retirement, when remuneration and employment are no longer practicable. Increases in the cost of living and increased longevity amplify this worry. HEATHER McCULLOCH spotlights this concern from a South African perspective.

"Enough" and "sufficiency" are words that require particular definitions in the context of retirement. For retirement planning purposes, one might hear reference to the "replacement ratio," which is the proportion of one's income immediately before retirement that is required to be sustained after retirement. Globally, it is generally accepted that replacement ratios of between 70% and 100% are sufficient. In South Africa, where retirees cannot depend on state aid, research has been biased towards the need for even higher replacement ratios.

When viewed through this prism, too many people lament having saved insufficiently for retirement. This outcome is regrettable but is rooted in our human behavioural characteristics. The first of these characteristics is myopia: We have a bias towards the present and place greater value on lifestyle experiences now than rewards in the future. A consumer mindset abounds. A recent study in the USA showed that 75% of surveyed households could not park their cars in their garages for want of the space taken up by "stuff" that had been accumulated over the years.

The second behavioural trait that militates against successful saving is loss aversion. Loss aversion is often explained as the pain of losing wealth (even if transient) or the reluctance to experience such loss. But it also manifests in the simple reluctance of people to make do with less.

The third element influencing a poor savings rate is lack of knowledge. Here, lay people are not entirely engineers of their own misfortune: The financial services industry thrives on excessive choice and confusing jargon. That said, investors should ask simple questions to which they deserve uncomplicated answers. The nub of any retirement savings plan is formed on these questions: How long do I have to save? How much do I want and need to have as a retirement income? How long do I expect to live in retirement? What returns can and should I earn on my investments before retirement and after retirement?

So how can we save ourselves from ourselves and ensure that our savings for retirement are at least adequate? Perhaps the first steps are to use our own behavioural biases to our advantage. Firstly, consider making saving for retirement a default option rather than an active choice. It is in our natures to procrastinate on decisions that require active intervention. In contrast, we tend to have little regard for actions that occur without our decisions. In investing parlance, the most obvious of these types of actions is the automatic, regular contribution to retirement savings, for example, retirement fund contributions or investment into unit trusts by monthly debit order.

Secondly, we can prevent our natural inclination towards the tendency to prefer smaller rewards sooner than larger rewards later. This can be done while being mindful of our equally natural aversion to loss. Behavioural finance researchers Shlomo Benartzi and Richard Thaler have coined the phrase "Save More Tomorrow." Using this mindset, investors are encouraged to invest more of their next increase or bonus tomorrow, rather than cutting spending today. If the necessary commitment can be achieved, then the rewards will follow.

Looked at from another perspective, saving sufficiently might well be the result of embracing the good in our bad behaviours.

MORNINGSTAR **WIN**

For the second successive year, Foord was awarded Best Fund House — Smaller Fund Range at the Morningstar Fund Awards held in February this year.

The Best Fund House awards are given to the fund groups with the best performing fund line-ups on a risk-adjusted basis. The Smaller Fund Range award is for fund houses with fewer than 10 funds (but more than three funds) with minimum five-year track records in the Morningstar database.

INCREASE IN INDIVIDUAL **OFFSHORE ALLOWANCE**

In his recent budget speech, the Minister of Finance, Nhlanhla Nene, announced a significant increase in the annual individual offshore investment allowance. From 1 April 2015, adult South African citizens can now transfer R10 million per annum abroad, subject to the requirement to obtain a foreign investment tax clearance certificate from SARS. Local feeder funds remain subject to South African exchange controls. Investors who wish to hold long-term exposures to offshore securities are encouraged to bypass local feeder funds by investing directly in the underlying foreign funds. They will actually hold their assets abroad but would also save the marginal additional fees that are levied by feeder funds.

THREE NEW FACES IN **SINGAPORE**

Foord has recently appointed three new investment team members in the Singapore office. We welcome **Braydon Barcham** (Australian) as equity analyst, **Brian Arcese** (American) and **Isreth Hassen** (Sri Lankan), both as portfolio managers and equity analysts. They bring with them a diverse set of skills and geographical experience. Read more about these new team members in the 'Meet our Team' section at www.foord.com.

MARKETS
IN A NUTSHELL

INTERNATIONAL

EQUITIES

Developed markets (+2.5%) rose in US dollar terms, driven mostly by continental European bourses despite growing Grexit odds (see *Did You Know?*) — emerging markets (+2.4%) also moved higher

BONDS

Yields in developed markets fell further and remain uncomfortably low — headline inflation in these economies remains close to zero, reflecting lower energy prices in the US and excess capacity in Europe

CURRENCIES

New Federal Reserve guidance on the slower pace of future interest rate rises halted the dollar rally in March — notwithstanding, the much weaker euro has improved earnings expectations for Eurozone companies

COMMODITIES

Iron ore prices continued to fall as supply increases gathered steam, but oil rebounded from oversold levels and copper rose towards the end of the quarter — commodity prices broadly remain under pressure

ECONOMY

Economic activity improved in most developed markets — but emerging economy growth rates have slowed, most notably in the commodity and energy exporting countries of Brazil and Russia

MONETARY AND FISCAL POLICY

Modest US interest rate increases in 2015 are now a high probability — in contrast, the commencement of the ECB's bond buying program has kept Eurozone interest rates exceptionally low

SOUTH AFRICA

EQUITIES

The FTSE/JSE All Share Index (+5.8%) rose — banks and certain rand hedge shares gained, but the resources index (-0.2%) lagged

BONDS

Bonds (+3.0%) posted positive returns as yields drifted lower — driven mostly by the trough in inflation (+3.9%) in February on the back of the lower petrol prices

CURRENCIES

The rand (-5.6%) weakened more than most emerging market peers against the dollar — due to weak domestic growth, energy constraints and a persistently negative trade balance

ECONOMY

Government announced a 1% rise in personal income tax for higher earners and a fuel levy increase — but public sector wage pressures mean sovereign credit rating downgrade risks persist

MONETARY AND FISCAL POLICY

The probability of interest rate hikes in the quarters ahead has increased — higher electricity tariffs, a weaker currency and higher food prices mean inflation expectations are again tilting to the upside

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*	**9.6**	-	10.4	3.3
Benchmark	**8.7**	-	8.4	0.9

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**	17.2	12.6	4.1
Benchmark	**14.6**	14.6	9.9	3.7

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*	**15.5**	22.4	14.4	5.5
Benchmark	**11.2**	10.4	9.4	1.2

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.

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*	**21.1**	21.9	16.2	5.5
Benchmark	**17.8**	19.4	12.5	5.8

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*	**13.2**	23.8	17.7	7.0
Benchmark	**18.6**	28.4	27.1	7.9

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*	**14.7**	-	-	7.6
Benchmark	**20.8**	-	-	7.9

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.

FOORD ASSET MANAGEMENT | Tel: 021 532 6988 | Email: info@foord.co.za | www.foord.co.za