FOREWORD

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DID YOU KNOW?

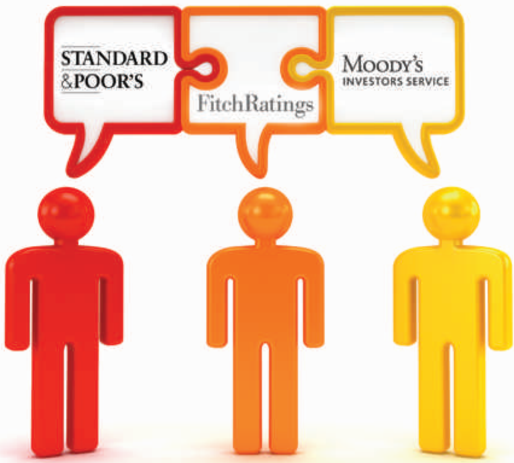
DEBT RATINGS

A debt rating assesses an entity's ability to pay its debts. Such an entity could be a government or a company or any other debtor. A credit rating agency (CRA) issues a rating after careful analysis of all relevant financial information. Following a period of excessive borrowing, many (mostly European) sovereign nations have recently had their debt ratings downgraded.

The world's three premier agencies are Standard & Poor's, Fitch Group and Moody's Investors Service. Each CRA uses its own proprietary ratings scale. Higher ratings generally assess a lower risk of default. Debt instruments issued by higher rated issuers therefore typically command a lower rate of interest commensurate with lower default risk. The opposite applies to poor or "junk" rated instruments or issuers.

A sceptic might justifiably question the independence of the CRAs given that they are paid by the entities they assess. Rather than blindly following published ratings, investors should always conduct their own supplementary analyses.

IN THIS ISSUE



GUESS WHO'S 30?

This quarter Foord celebrates a major milestone: our thirty year anniversary! The company was founded in October 1981 by a 28-year-old Dave Foord together with Liston Meintjes. Both known for calling a spade a spade, they named the company simply Foord & Meintjes. PAUL CLUER takes a look down memory lane.

At the time, the investments industry was dominated by the large life offices, with few exceptions. Dave and Liston had a dream to offer a premium investment management service to investors at a fair and transparent price.

A unit trust license at the time was inaccessible to investment managers outside of the banking groups. Foord & Meintjes therefore opened for business by soliciting clients with personal portfolios of R20,000 and up (worth approximately R290,000 in the cost of money today).

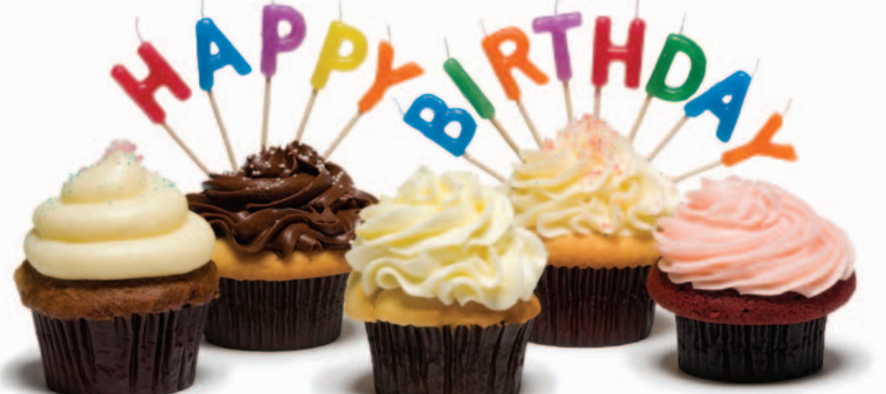
Of course, Dave and Liston were not alone in the business. The very first employee was Loretta Macleod at reception – a position she still holds today. Loretta recalls walking into a small office devoid of any furniture in Market House in the Cape Town city centre. Client #1 was Liston's mother while Client #2 is still a Foord client to this day!

> **"CLIENT #2 IS STILL A FOORD CLIENT TO THIS DAY!"**

In January 1984 Foord won its first institutional mandate – a pension fund portfolio which kicked off a 27-year investment track record for Foord in the retirement fund space. This performance track record remains unrivalled in South Africa for performance generated under the leadership of a single chief investment officer.

Other milestones during Foord's history were the opening of Foord Asset Management (Guernsey) and the Foord International Trust after the relaxation of exchange controls in 1997 and the establishment of Foord Unit Trusts in September 2002.

The past 30 years has had its share of ups and downs, setbacks and accomplishments. The success of Foord Asset Management today is largely attributable to the dedicated efforts of its staff over the years and the loyal support of clients both old and recent. On behalf of the directors of the firm, I extend a special vote of thanks to past and current staff and to all our many and varied clients.



IN A NUTSHELL

BRUCE ACKERMAN and DANE SCHRAUWEN wrap up the markets for the third quarter of the year.

	INTERNATIONAL	SOUTH AFRICA
EQUITIES	Global equity markets exhibited substantial declines as the Greek debt crisis escalated with adverse implications for European banks and other European sovereign debt – while emerging markets declined heavily as their export dependent growth model could be challenged by the global economic stagnation	The JSE tracked global emerging markets lower on increased risk aversion following growing Greek default concerns and rising US recession fears – resource counters continued to decline on the back of collapsing commodity prices as Chinese growth fears increased
BONDS	Bond yields fell to levels previously unimaginable outside deflation ridden Japan – as developed world governments sought to reduce their deficits by implementing austerity measures	SA government bond yields rose sharply – as increased risk aversion resulted in foreign investor selling of SA bonds, reversing the trend of previous quarters
CURRENCIES	The dollar rose on risk aversion despite the US government debt ceiling fiasco and consequent US debt rating downgrade and the yen remained very strong especially against the beleaguered euro – although the burgeoning Swiss Franc fell sharply after it was pegged to the euro to protect Swiss exports	The rand weakened sharply – the withdrawal from emerging markets by foreign investors resulting in the rand depreciating in harmony with other commodity producing countries' currencies
COMMODITIES	All commodity prices bar gold declined significantly – on (misplaced?) fears the Chinese economy would weaken markedly in response to its credit tightening policy	
ECONOMY	Economic growth in the developed world was generally below expectations – despite historically low interest rates in almost all economies	Economic activity slowed on slowing global growth – but consumer spending remains reasonable and fixed investment continues its moderate recovery
MONETARY AND FISCAL POLICY	The European Central Bank and Bank of England kept interest rates on hold, stopping short of emulating the US Federal Reserve which committed to holding interest rates at record lows until 2013 – while the Swiss central bank cut rates in a bid to stem the swift appreciation of its currency	Interest rates were unchanged – despite rising inflation and high rand commodity prices, as economic activity continues to be below potential and the rand weakness is seen as temporary by the SA Reserve Bank

DEVELOPED VS EMERGING MARKETS

The Foord International Trust is managed to benefit from global growth via investment in large, multi-national firms. Such companies are listed in the better regulated developed markets, but often derive a substantial portion of their income from faster growing emerging markets. DANE SCHRAUWEN explains this positioning.

For some time now, Foord has advocated increased exposure to international markets. Although the strength of the rand at the time made such investments more attractive, the recommendation was not only based on our currency outlook. Given the relatively small premium investors were paying for exposure to these large multinationals, they offered better returns at lower risk than many emerging market shares.

Looking 12 months forward, we expect the FTSE/JSE All Share Index to be on a price to earnings (P/E) ratio of about ten times. A large component of those one year forward earnings will come from volatile commodity counters. In contrast, the S&P 500 Index in the United States, comprising the top 500 listed counters in the world's largest economy, is only trading a P/E ratio of around 12 times.

For South African investors, the risks associated with emerging markets have been highlighted by the sudden political changes in North Africa. Apparently stable political systems were changed almost overnight, having major implications for companies listed in those countries. With increasing talk of nationalisation and South Africa moving towards a developmental model of government, regulatory and policy uncertainty has been greatly increased. This increases the risk to investors in South African companies.

Emerging markets are typically less stable and come with increased risks. However, these risks are generally

> "THE RISKS ASSOCIATED WITH EMERGING MARKETS HAVE BEEN HIGHLIGHTED WITH SUDDEN POLITICAL CHANGES IN NORTH AFRICA."

offset by the better growth prospects relative to the subdued growth expected from developed markets. How best to marry these conflicting characteristics?

We favour outsourcing the management of emerging market risks to multinational firms listed in developed markets but which derive a substantial portion of their income from fast growing emerging markets. Such companies bring with them the peace of mind of sound corporate governance and regulation of their listed jurisdiction and the prospect of above average growth via emerging market exposures.

It is unsurprising that many of the holdings in the Foord International Trust are such multinationals. Investments in companies like Nestlé, LVMH (Louis Vuitton Moët Hennessy), General Electric, Diageo and Inditex follow this theme. These companies are all large, world-class multinationals with the bulk of their growth coming from emerging markets. Such investments prove that one can substantially reduce regulatory, policy and political risks, while nevertheless taking advantage of the faster economic growth to be found in emerging markets.

MARKET VOLATILITY RATTLES INVESTORS

The extreme market volatility experienced in the past quarter has unsettled many investors. NICK BALKIN comments on current events and the implications for portfolios. He gives insight into how Foord reacts to these stresses by providing a short comment regarding our outlook for markets, portfolio construction and potential actions.

Softer economic data combined with the Standard & Poor's downgrade of longer-term US government debt has impacted investor confidence. This has obvious implications for short-term focused investors. Such market participants are more worried about suffering a negative quarter than focused on building a strong, sustainable portfolio. It is not surprising therefore that weaker investors run for cover at the first sign of distress, pushing markets lower.

Not unexpectedly, markets entered a seasonally slow patch in August. The northern hemisphere summer usually results in slower economic growth compared to the winter months. That old adage "sell in May and go away" springs to mind. The Japanese earthquake in March and associated supply chain disruptions have contributed to an even slower growth projection this year.

US economic stimulus measures implemented during the financial crisis and extended last year have ended. This has resulted in a period of stalling liquidity growth – with negative implications for asset prices. The slower growth projections have also resulted in downgrades to corporate earnings forecasts – which in some cases were too optimistic. Lower earnings forecasts bring with them downgrades in the market rating, despite most earnings results actually coming in ahead of expectations.

The softer patch this year has been worse than we expected. Notwithstanding its magnitude, the volatility experienced should not have come as a total surprise to readers of our regular communications. We have previously discussed our belief that the recovery is on track, but emphasised that it would experience headwinds and setbacks along the way. Our base case scenario remains in place: the global economy remains in a phase of expansion, albeit slower than anticipated.

In anticipation of some market weakness, we allowed cash to build up in portfolios at the beginning of the second quarter. A higher cash weighting in the portfolios moderates the effects of volatility and provides liquidity to purchase good quality assets at cheaper prices.

Even if we hadn't expected this market volatility, it is important to remember Foord's investment objectives for investment portfolios. Our goal is to avoid a permanent capital loss for clients, while targeting significant long-term outperformance. One of the key enablers in generating long-term outperformance is to identify key economic drivers and trends, while blocking out the noise.

Amidst all the sentiment-driven market volatility experienced last quarter, it is important to understand that US corporate earnings have mostly met or exceeded earnings expectations. Although earnings expectations have become more conservative, valuations remain more than reasonable, but also importantly very good relative value when compared with the alternatives in the cash and bond markets.

During the volatile quarter, portfolios were generally well-diversified, defensively positioned and able to withstand unexpected developments. The Foord approach is to invest in great companies with a strong value proposition, a sustainable competitive advantage, which are conservatively funded and run by a management team that we trust. This enables us to sleep easily in the knowledge that the long-term wellbeing of our clients' portfolios has been managed by those at the coalface.

We have on numerous occasions also discussed how market dislocations aren't always negative – they provide opportunities for astute long-term investors. We were active during the market lows in gradually acquiring additional exposures to great investments at great prices.

At the height of the financial crisis in 2008, Warren Buffett wrote in the New York Times that, "people who hold cash equivalents feel comfortable. They shouldn't. They have opted for a terrible long-term asset, one that pays virtually nothing and is certain to depreciate in value." Warren's statement is no less true today than it was then.

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FOORD'S NEW FACES

This past quarter Foord welcomed new individuals to the investment and business development teams. Both Andrew Coultas and Morris Crookes bring a generous blend of youth, experience and fresh thinking to Foord.

ANDREW COULTAS

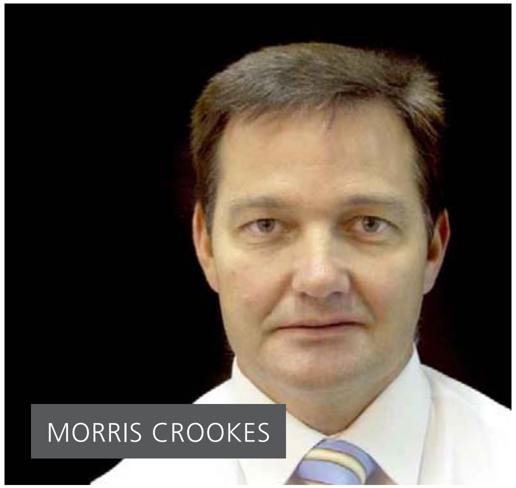
ANDREW COULTAS has joined the investment team as an equity analyst focusing predominantly on global companies listed in developed financial markets. Andrew's research will support the efforts of Dave Foord and Bruce Ackerman who manage the Foord International Trust. In addition to this focus, Andrew will also assist with the research of JSE listed companies, reporting to Mike Townshend.

Andrew is a Chartered Accountant who recently completed his masters in Financial Management at the University of Cape Town. After completing his accounting articles, he cut his teeth in investment research at Sanlam Investment Management.

MORRIS CROOKES has recently joined Mike Soekoe and Mario Schoeman in the Foord business development and client servicing team.

Morris is based in Durban and will therefore focus predominantly on servicing advisors and investors in the KZN region. He started his career as a Liberty Life broker consultant, later moving to Momentum Administration Services as a regional manager before commencing with Allan Gray eight years ago as manager of the KZN region.

Morris holds a certificate in financial planning and an MBA from the University of Wales. He is currently completing his advanced CFP in Investment Planning through the University of the Free State.



MORRIS CROOKES

FOORD FLEXIBLE FUND OF FUNDS

INVESTMENT RETURNS

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	**7.4**	11.1	13.4	4.2
Benchmark	**12.0**	10.2	10.4	2.9

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.
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*	**8.1**	0.8	13.7	9.6
Benchmark	**4.6**	-0.1	11.9	-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 assets including equities, fixed interest, commodities and cash. 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*	**16.7**	10.4	8.4	1.3
Benchmark	**14.4**	9.5	5.7	-0.3

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 (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*	**19.5**	13.5	7.4	-2.6
Benchmark	**16.5**	10.6	3.6	-5.8

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.