FOREWORD

DID YOU KNOW?
MULTIPLE-COUNSELLOR SYSTEM

In conventional fund management a single fund manager typically takes full responsibility for the management of a portfolio. In contrast, the multiple-counsellor approach involves dividing the assets of each portfolio among several portfolio managers, called counsellors. These managers then make independent investment decisions and manage their portions as though they were separate funds, but with full transparency.

Pioneered by Capital Group in the US in the late 1950's, the initial objective was to implement a system that would manage the growing size of their portfolios. In addition to providing scalability, they also found that the result, which was a blend of each manager's best efforts, contributed to consistency of returns, continuity of management and reduced key-man risk.

Foord first implemented the multiple-counsellor system in 2009 when an additional portfolio manager was introduced to the Foord Equity Fund. Today, almost all Foord funds are managed using this system.

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THE YEAR IN REVIEW

Politics has always impacted financial market outcomes, but in 2017 the effects were particularly acute. This dynamic was not isolated to any specific region but was manifest across the globe, perhaps indicating an inflection point in the world order. NICK CURTIN **reviews the major events and market outcomes of 2017.**

Global equities (+24.0%) had a blistering year, achieving a clean sweep of successive positive monthly gains and standing out for its low volatility and broad gains across markets and sectors. Share markets started the year with strong tailwinds, after Trump's surprise US presidential election victory late in 2016 heralded a period of fiscal expansion. The rally soon tired, but emerging evidence of accelerating, synchronised global economic growth boosted equity markets as valuations were increasingly justified by rising earnings expectations.

Investor sentiment was quickly buoyed by receding European political risks, pro-EU election outcomes in the Netherlands, Italy and France and increasing expectations of a softer Brexit result. Offsetting this, US–North Korean tensions mounted as the year progressed. Latterly, markets gained on the legislative advance of Trump's aggressive US tax reforms, tempered to an extent by signs of a revival of his anti-China trade rhetoric.

> SOUTH AFRICANS EXPECTING A YEAR OF POLITICAL AND ECONOMIC TUMULT WERE NOT DISAPPOINTED.

As growth gathered momentum, monetary policy gradually tightened with the US Federal Reserve making three quarter-point interest rate increases. Surprisingly robust European growth and inflation also portends more hawkish European Central Bank policy.

Bond yields started to rise later in the year in expectation of rising inflation and interest rates as the global economy continues to gather pace. Indeed, our base case expectation is for 2017/2018 to mark the end of a multi-decade bond market rally. On balance, the funds' bias towards select global equities was prescient and well rewarded.

South Africans expecting a year of political and economic tumult were not disappointed. Initially, the JSE tracked emerging markets higher on advancing commodity prices and improving global growth. But the firing of Finance Ministers Gordhan and Jonas, surprisingly higher tax increases and S&P Global Ratings' subsequent sub-investment credit downgrade rattled investors. The economy entered a technical recession in the first part of the year and the country's structural economic problems ensured only tepid growth thereafter.

Notwithstanding the relief rally after Ramaphosa's narrow December ANC elective conference victory, the economic outlook remains distressed with strained public finances, a weak consumer, higher taxes and further credit rating downgrades looming. The FTSE/JSE All Share Index (+21.0%) delivered a solid return for the year, advanced largely due to Naspers, stronger commodity prices and a late, sentiment-driven rally in SA Inc. shares.

Given the outlook, Foord's unit trust portfolios maintain a preference for non-resource companies with foreign earnings, be they listed locally or abroad. Near-dated SA government bonds continue to offer an attractive real yield and the portfolio managers maintain a healthy allocation to select domestically focused companies, including the best managed banks. Global markets should drift higher but we remain somewhat cautious given the late stage of a nine-year expansion cycle. Politics will also likely continue to be the key variable in South Africa in the year ahead.

THE JSE'S LARGEST CORPORATE FAILURE

Markus Jooste's December resignation as Steinhoff CEO and the company's admission of accounting irregularities delaying the publication of its audited financial year-end results caused a precipitous fall in the Steinhoff share price. Managing Director PAUL CLUER clarifies Foord's exposure to the counter.

Steinhoff was founded some 50 years ago in Germany as a furniture manufacturer and sourcing business. It later moved its head office to South Africa to access lower production costs. It listed on the JSE in 1998, embarking on a strategy to consolidate and then dominate fragmented sectors of the global mass-market furniture and household goods sectors. Steinhoff moved its primary listing to Frankfurt in 2015, though its management team remained in South Africa. Steinhoff management and directors were material investors in the company, owning nearly 30% of the issued shares.

The company's global expansion was attractive to South African investors with limited investment choice in a South African market experiencing gradual relative economic deterioration over the past decade. Part of portfolio risk management is to diversify investment portfolios by including non-correlated investments. Steinhoff had little to no correlation to other JSE-listed shares which was attractive from a portfolio context.

Foord has been a long-term investor in the company. We built a meaningful initial Steinhoff position of 5% of the Foord Equity Fund at prices on average well below R25 per share and we topped up the position at higher prices as the fund size grew. The stock hit an all-time high of R95 in April 2016, but then fell to R56 by end November 2017 before collapsing to a low of R4.57 in December last year after Jooste's resignation.

Steinhoff's 90% share price collapse is headline grabbing because it occurred over just several days. But it is worthwhile noting that history is littered with examples of companies whose share prices have collapsed at a more gradual pace, over five years or more. The economic and performance impact over the full investment horizon is, however, the same.

> THE STEINHOFF SHARE PRICE COLLAPSE IS AN UNUSUAL AND SIGNIFICANT EVENT FOR FOORD AND WE ARE CHASTENED BY THE EXPERIENCE.

Although there was much sensationalist reporting that Foord and other leading fund managers were big investors in Steinhoff shares, Foord did not own any Steinhoff-connected companies with material inter-company balances such as Steinhoff Retail (STAR). We also did not own any Steinhoff debt or convertible instruments. There was, therefore, less risk in the portfolios than that measured by looking at the Steinhoff share weight in isolation.

Furthermore, Foord's Steinhoff holding was not equally weighted across mandates. Rather, we invested in the company in accordance with our policy to match each fund's investment risk to its investment objective and to own assets that suit the investor's profile and time horizon. Accordingly, Foord's exposure to Steinhoff, a significant non-resource rand-hedge counter, was predominantly in SA-only equity funds.

Unlike almost all leading SA general equity unit trust funds, which hold up to 25% of their portfolios directly offshore, the Foord Equity Fund maintains no direct foreign exposure to mitigate the significant prevailing SA-specific risks. Its mandate permits investment only in JSE-listed companies. The Foord Equity Fund's exposure at 5 December was the highest of all Foord's unit trust funds, at 5.2% at the time of Jooste's resignation.

Global balanced funds, suitable for retirement fund portfolios, had a lower allocation than equity portfolios and no exposure to Steinhoff debt or convertible instruments. The Foord Balanced Fund held 2.3% of the fund in Steinhoff shares while more conservative mandates, such as the Foord Conservative Fund, had a significantly lower allocation of 1.3%. Given its substantial allocation to direct offshore assets, Foord's best investment view portfolio, the Foord Flexible Fund of Funds, maintained a very limited Steinhoff holding of 0.8%. These are regrettable, but manageable, losses within the context of long-term portfolios.

At the time of writing, Steinhoff has published little concrete information relating to the accounting irregularities. We do know that it has stated that the 2015 and 2016 audited annual financial statements cannot be relied upon and that it is assessing the carrying value of goodwill and intangible assets of up to €6 billion in addition to appointing certain board subcommittees and forensic assessors. Steinhoff is also engaged in restructuring some of its debt and is seeking to dispose of non-core listed investments.

Steinhoff's underlying businesses are independently run by experienced, capable management teams and they continue to trade in their respective jurisdictions. But given the significant uncertainties, our baseline valuation is underpinned by a conservative break-up value of the Steinhoff group and is substantially higher than current share levels. Based on this scenario, Foord has not disposed of the Steinhoff shares held by the unit trust portfolios. Taking into account reasonable potential losses arising from a restatement of the financial statements, possible fines and a higher future effective tax rate, we are exercising extreme caution in dealing in Steinhoff shares on behalf of investors.

As an investment house that prides itself on being careful and preserving investor capital, we've been adept at avoiding permanent capital losses for investors over the long term. The Steinhoff share price collapse is therefore an unusual and significant event for Foord and we are chastened by the experience. We will keep investors informed as developments at the company unfold.

TAX YEAR-END

The tax year for individuals ends on 28 February 2018. Provisional IT3B and IT3C tax statements can be requested from Foord to assist provisional tax payers with their second provisional tax returns. Final tax statements will be distributed after the tax year-end.

Investors who have not yet availed themselves of any tax-free investment (TFI) products have until the end of February to utilise their R33,000 annual allowance across all TFI accounts. Foord offers tax-free accounts in the Foord Balanced Fund, Foord Equity Fund and Foord Flexible Fund of Funds.

PORTFOLIO MANAGEMENT TEAM UPDATE

Foord's multiple-counsellor system (see *Did You Know?*) allocates the management of each investment portfolio to two or more portfolio managers. The firm annually reviews the optimal fund manager complement, considering the skill set available and capacity of the individual managers. We provide an update on the 2018 team.

We reported earlier in the year on the multiple-counsellor changes made at the beginning of last year that resulted in William Fraser joining Dave Foord and Daryll Owen on South African multi-asset mandates and Dave Foord joining Nicholas Balkin and Brian Davey on South African equity mandates. Accordingly, all key South African investment strategies were shared between three portfolio managers. Abroad, five portfolio managers shared responsibility for the Foord Global Equity Fund and two for the Foord International Fund.

> A HIGHLY SKILLED TEAM OF INVESTMENT ANALYSTS SUPPORTS THE PORTFOLIO MANAGERS IN SOUTH AFRICA AND ABROAD.

Mike Townshend has shared responsibility for the management of personal investment portfolios with Brian Davey for the past five years and has built good relationships with these investors. Mike has enjoyed a two-year secondment with his family to Foord's Singapore office and returned late last year to assume the leadership of the personal investment portfolio initiative ahead of Brian's departure in March 2018 – after an impressive 23 years with Foord, Brian will be taking well-deserved retirement (see *Farewell Brian Davey*). Darryl Owen now also joins the SA-equity multiple-counsellor portfolio management team of Nicholas Balkin and Dave Foord.

Foord Asset Management Singapore and the Foord Global Equity Fund achieved their fifth anniversaries last year. The Foord Global Equity Fund has had a stable multiple-counsellor portfolio team under Dave Foord as Chief Investment Officer for the last three years and it has achieved very good performance results in this time.

South African portfolio manager Nicholas Balkin was part of that portfolio management team, but he will now focus his full efforts on South African portfolios. Accordingly, he joins the South African multi-asset portfolio team of Dave Foord, Daryll Owen and William Fraser. The remaining four Foord Global Equity Fund portfolio managers continue in their role. The Foord International Fund continues to be managed by Dave Foord and Brian Arcese with no changes expected. And, as always, a highly skilled team of investment analysts supports the portfolio managers in South Africa and abroad.

FAREWELL BRIAN DAVEY

Foord's lead personal investment portfolio manager, Brian Davey, has made the decision to retire from Foord. NICHOLAS BALKIN bids a sad farewell to this champion "Foordie".


BRIAN DAVEY
PORTFOLIO MANAGER

On the eve of his 57th birthday in March, Brian's marathon 23 years of employment at Foord will conclude. He will join his wife Anne on retirement with plans to explore the world's most eccentric destinations.

Having completed a conversion course at UCT, Brian qualified as a chartered accountant after serving articles at Bass Gordon Willis. He joined Foord as an investment analyst in April 1995, when the company was still known as Foord & Meintjes and the portfolio managers were Dave Foord, Liston Meinjtes and Mark Hodges.

Brian was part of a crop of new hires for the firm in the mid-1990s given the company's steady growth during that decade. But poor relative performance in 1997 and 1998 resulted in a massive loss of investors, a total freeze on employment and some staff retrenchment. Natural leavers were not replaced. As a result, only a handful of the mid-1990s new faces, Brian included, proved to have multi-decade staying power.

But 1999 was Foord's best year ever and the company survived and subsequently thrived, as did Brian's career. Under the watchful eyes and tutelage of the portfolio managers, Brian honed his analytical skills and later took on responsibility for personal investment portfolio management, affectionately known as the private client business.

Always curious about people, their lives, loves and motivations, Brian quickly develops a good rapport with investors, making them feel valuable and appreciated. These qualities and his good sense of humour have also made Brian a favourite of everyone in the office.

A rapacious reader, he loves to leave intriguing clippings on the desks of other employees and he forwards an enormous amount of emails and news items internally. This is just one of the ways in which Brian says, "I'm thinking of you." He is always first to make a witty comment and to lift spirits when they need lifting.

Despite his love for people, Brian doesn't enjoy the spotlight. As a result, he eschewed a portfolio management role on institutional mandates until very recently, even after the multiple-counsellor portfolio management system was implemented in 2009. He was eventually persuaded to participate and he has made a valuable contribution as a counsellor for the past four years with his independent views and unique way of looking at investments.

Brian has been an investment analyst, portfolio manager, provident fund trustee and director of the company during his long tenure at Foord. Most importantly, he has been a friend and mentor to all. He will be greatly missed and we wish him all the very best for his retirement.

MARKETS IN A NUTSHELL

EQUITIES

WORLD

Global equity markets advanced, posting stellar results for the year – emerging markets (+37.8%) outperformed developed markets (+22.4%)

SOUTH AFRICA

Cyril Ramaphosa's ANC presidential win possibly heralds a more efficient and investment-friendly government – domestically focused assets, led by retailers and banks, outperformed rand-hedge counters

BONDS

WORLD

The US 10-year treasury yield rose, but traded at levels too low for this stage of an economic expansion – the spread between short and long dated yields has narrowed abnormally given growth prospects and interest and inflation rate expectations

SOUTH AFRICA

Bond yields fell sharply after the ANC elective conference, buoyed by the stronger currency and attractive real yields – but price gains were capped by the risk that Moody's might also downgrade SA's rand denominated debt below investment grade

CURRENCIES

WORLD

The US dollar resumed its weakening trajectory of the first half of the year – after a brief rebound early in the quarter

SOUTH AFRICA

The rand surged on Ramaphosa's victory – investors quickly forgetting the bleak fiscal outlook of October's Medium-term Budget Policy Statement and subsequent S&P ratings downgrade

COMMODITIES

Hard commodity prices, barometers of global growth, rose, with iron ore, copper and oil price gains underpinning robust global demand – precious metals prices gained on modest US dollar weakness

ECONOMY

WORLD

World growth accelerated, led by the US which recorded Q3 2017 GDP growth of 3% – the Eurozone continued to grow from a low base and China's expansion accelerated as fixed capital formation was boosted

SOUTH AFRICA

The economy continued to recover from Q1's recession – but investment and consumer confidence was close to all-time lows, evidenced by rising unemployment and lack of private sector investment

MONETARY AND FISCAL POLICY

WORLD

Developed market monetary policy expansion stabilised as the Fed raised interest rates and the BoE reversed the emergency Brexit cut in response to rising inflation – while the ECB has indicated it could soon start tapering financial asset purchases

SOUTH AFRICA

Inflation was contained below SARB's 6% upper target range despite higher fuel prices – the MPC kept rates steady notwithstanding the benign inflation outlook, referencing potential currency weakness in the event of an unfavourable ANC election outcome

FUND OBJECTIVE

FOORD FLEXIBLE FUND OF FUNDS

ZA

Inception date: 1 April 2008

The fund seeks to provide investors with a net-of-fee return of 5% per annum above the annual change in the South African Consumer Price Index, measured over rolling three year periods. It aims to achieve this objective by exploiting 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.

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	12.6	6.8	5.6	-4.4
Benchmark	11.2	10.6	10.0	2.1

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 BALANCED FUND

ZA

Inception date: 1 September 2002

The fund aims to achieve the steady growth of income and capital as well as the preservation of real capital (capital is adjusted for inflation). The portfolio is managed to comply with the statutory investment limits set for retirement funds in South Africa (Regulation 28).

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	14.7	4.9	6.9	-1.6
Benchmark	13.1	7.0	11.6	2.8

Benchmark: The market value weighted average total return of the South African Multi Asset High Equity unit trust sector, excluding Foord Balanced Fund.

FOORD CONSERVATIVE FUND

ZA

Inception date: 2 January 2014

The fund aims 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 investment limits set for retirement funds in South Africa (Regulation 28).

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	6.3	5.5	7.3	-1.0
Benchmark	9.6	9.5	9.0	1.9

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 EQUITY FUND

ZA

Inception date: 1 September 2002

The fund aims 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.

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	17.2	2.7	4.6	-0.4
Benchmark	15.9	9.3	21.0	7.4

Benchmark: Total return of the FTSE/JSE All Share Index

FOORD INTERNATIONAL FUND

LUX USD

Inception date: 1 August 2014

The fund aims to achieve meaningful inflation-beating US$ returns over rolling five-year periods from a conservatively managed portfolio of global equities, warrants, exchange traded funds, UCITS and other UCIs, interest bearing securities and cash instruments reflecting Foord's prevailing best investment view.

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	7.0	6.0	15.5	1.8
Benchmark	2.1	1.6	1.9	0.6

Benchmark: US inflation

FOORD GLOBAL EQUITY FUND

SG USD

Inception date: 1 June 2012

The fund aims to achieve optimum risk adjusted total return by investing primarily in a diversified portfolio of global equities. Without assuming greater risk, it seeks to achieve a higher total rate of return than the MSCI All Country World Net Total Return Index.

	Since Inception %	3 Years %	1 Year %	3 Months %
Foord*	9.0	8.4	26.4	4.0
Benchmark	12.4	9.3	24.0	5.7

Benchmark: MSCI All Country World Equity Index.

NOTE: Investment returns for periods greater than one year are annualised | * Class R, Net of fees and expenses | A MEMBER OF THE ASSOCIATION FOR SAVINGS & INVESTMENT SA

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

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