FOREWORD

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DID YOU KNOW? TARIFFS

Tariffs are customs taxes on imported goods and services. They increase the cost of the imported goods, thereby making domestic alternatives more attractive.

Tariffs are a source of marginal revenue to the taxing country but mostly act to safeguard local industries or as leverage in trade negotiations. In recent times, however, tariffs have been increasingly used to achieve foreign policy goals. These objectives could be to foster closer political relationships or as a punitive measure.

The US constitution empowers Congress to set tariffs, which has delegated extensive tariff-setting policy to the US president. President Trump has invoked national security considerations to obtain even greater presidential tariff powers to impose his wide-ranging tariffs with little Congressional input.

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NOW THAT THE DUST HAS SETTLED

South Africa's sixth democratic elections are now over. PAUL CLUER takes stock of South Africa's economic and investment prospects under the new administration.

The outcome of South Africa's 8 May national and provincial elections was never in doubt. Most analysts and polls predicted a comfortable ANC win, albeit with reduced support. EFF gains and DA setbacks were anticipated, but voter turnout surprised. Turnout plummeted to 66%, reflecting disenfranchisement with the democratic process and outcomes.

Cyril Ramaphosa was reinstalled as the country's president amid rumours he would dramatically cut the size of his cabinet. In the event, he belatedly announced only a moderately reduced ministerial team. Cabinet's composition and the ANC's subsequent disturbing choice of parliamentary committee chairs are evidence that continued factional battles within the ruling party will compromise governance.

Pravin Gordhan returns as Public Enterprises Minister in a move aimed at fighting state capture at state-owned enterprises (SOEs). South Africa's debt-laden SOEs pose the biggest financial risks to the country. Despite being an able administrator, Gordhan seems disinclined to tackle the gross overstaffing at SOEs which has resulted in an unmanageable wage bill. Government is now planning a massive R230 billion Eskom bailout.

Tito Mboweni continues as Finance Minister amid flagging tax revenues as the country stands on the brink of another technical recession. The expected first-quarter economic contraction came in at a shocking 3.2%. Falling second-quarter output would mean that SA's economy will have shrunk in four of the last six quarters. The SA Reserve Bank says that the economy is now in its 67th month of a weakening cycle — the longest downward cycle since 1945.

The SA economy thus faces severe structural risks and is nearing a sovereign debt trap. The new political leadership augers some hope of a better future, but successfully implementing a turnaround requires tough decisions that do not seem probable. Failure to improve growth will be negative for SA's investment grade rating from ratings agency holdout Moody's Investors Service.

The US Federal Reserve's dovish January U-turn and expectations for interest rate cuts in the world's largest economy have put downward pressure on global interest rates and buoyed US stock markets to all-time highs. Resultant US dollar weakness has offered temporary relief to the beleaguered rand.

Foord's defensive strategy of low "SA Inc." equity, low property, high cash and medium-term government bonds and maximum foreign assets has turned out to be broadly correct. Stock selection detracted from better returns.

South Africa's cash and bond markets offer attractive, high-yielding investment opportunities. Medium-term SA government bonds have a high probability of achieving at least 4% per annum above inflation over the next three to five years and we own substantial quantities of these investments.

Share return prospects for companies that sell services and goods domestically are poor, despite a significant fall in the share prices of SA consumer and industrial companies. We still favour investment in JSE-listed global companies with a lower risk of loss compared to SA Inc. counters. But these too are not immune to short-term volatility.

Lastly, we are reminded that meaningful inflation-beating returns do not come in tidy increments over every discrete period. Returns are lumpy and cyclical. Staying invested through cycles is the key to achieving long-term investment outcomes.

TRADE WARS — THERE ARE NO WINNERS

The World Trade Organisation (WTO) is the guardian of the rules-based system of global trade. US President Donald Trump's displeasure with the WTO is clear as he provokes trade wars with China and with the US's nearest neighbours. Foord Singapore portfolio manager GUY SHIRTLIFF takes a closer look at Trump's trade wars.

Protectionism is the antithesis of globalisation, which integrates the world economy through trade and global value chains. Globalisation drives economic growth and reduces poverty. It was the powerful driving force behind the rise of China and many emerging markets, including South Africa.

> "The trade war is fast evolving into a US-China cold war, as the US tackles the Chinese threat to America's global hegemony."

But globalisation and the US's rise to global technology superpower have caused the export of lower-end US manufacturing jobs to cheaper labour cost markets. Automobile construction went to Mexico, electronics and appliances to China and clothing spread throughout Asia.

Trump's protectionism is deeply rooted in his 2016 presidential campaign success. He promised to "Make America Great Again" and bring manufacturing jobs back home. Now, in the second half of his first term, Trump has upped the ante on trade. He hopes to deliver on his promise and regain the crucial support of the neglected American middle class ahead of the 2020 presidential elections.

Protectionism can take many forms. Tariffs (see *Did You Know?*) are the bluntest protectionist instrument and Trump's preferred headline-grabbing weapon. Import quotas, currency devaluation, regulation and domestic industry subsidies are more underhanded measures which the US accuses China of using.

The US-China trade war is ostensibly focused on manufactured goods. China is the US's largest trading partner and accounts for almost half of the US global trade deficit. In 2018, China exported $558 billion to the US, but imported only $179 billion. The US has imposed 25% tariffs on half of Chinese exports.

Trump's primary goal in the near-term is re-election. Does he achieve this by rallying nationalistic support with attacks on China and other foes? Or does he seek to bolster growth by withdrawing the drag of trade conflict?

Trump's erratic nature makes it especially difficult to predict his trade war strategy. His name and fame are synonymous with deals. His book *The Art of the Deal* and hit TV show *The Apprentice* bear testimony. The American people chose him to champion change and to find the US a better deal.

But the trade war is fast evolving into a US-China cold war, as the US tackles the Chinese threat to America's global hegemony. Fronts are developing first in economics and technology. China has not always played fair and the US appears resolved to retaliate. Accordingly, a firm and lasting trade deal seems questionable.

The weaponisation of trade at this late stage of the expansion cycle is economically dangerous. We can measure the direct impact of trade tariffs. But the hidden costs are likely to be far more detrimental to global growth and financial markets. The knock-on effects to consumer confidence, damage to planned business capex and sentiment, China closing its doors to trade and pulling back on commodity purchases are the more severe, long-lasting implications.

> "The weaponisation of trade at this late stage of the expansion cycle is economically dangerous."

China is not the only country in the cross-hairs. Trump has targeted neighbours Canada and Mexico with tariffs to achieve specific trade and other outcomes. He has also threatened the EU. Could South Africa fall foul of Trump? This is possible but seems unlikely.

South Africa is the US's 38th largest goods trading partner, running a $3 billion net trade deficit. South Africa's primary exports to the US are precious metals (mostly platinum) and other raw materials. The US lacks these unprocessed commodities and taxing them would not produce the industry development or American jobs that Trump seeks.

From an economic perspective, no one wins a trade war. In the short term, domestic producer competitiveness and employment improve. But in the longer term, trade wars cost jobs by suppressing growth and pushing up prices for domestic consumers.

TEACH YOUR CHILD **TO INVEST**

Many believe we owe it to our families to leave a healthy inheritance once we shuffle off this mortal coil. But CHRISTINA CASTLE suggests it is nobler to leave our loved ones a legacy of investment intelligence and the savvy to create their own retirement nest egg.

My great grandmother's chicken broth has always been a family favourite. It is a simple recipe from which you don't deviate. You don't need to. It's an oldie but a goodie that has been shared through the generations and always tastes as it should.

I am enormously grateful for the culinary wisdom generously imparted from the family kitchen. But I wish that at least one grandparent, great aunt or uncle instead had the inclination to share the basic ingredients for intelligent investing.

Discussion of money and investments in my family was taboo — you just didn't do it. Everything I know today, I have learned myself. But I've had plenty of help from Dave Foord's *Time in the Markets*, with which I have proudly brainwashed my children for years.

Whether your offspring is seven or 27, it's never too early or late to start the money and investing conversation. Just make sure you have it and have it often. Bring them along to Foord's annual *Meet the Team* presentations or read them *Foreword* when you tuck them into bed.

Start with principles that are easy to grasp, simple to convey and bound to spark a conversation and an interest in investing:

Never lose money. That's Warren Buffett's first rule of investing and a cautious reminder to always do your homework for an investment. Never go into an investment prepared to lose. He adds that rule number two is "never forget rule number one."

To win in the investment game you must first survive. Understand risk and the importance of managing it. Risk is not volatility. Risk is the chance or possibility of permanently losing money. Spend more time worrying about the downside risk in your investments than dreaming about the upside potential.

> It's never too early or late to start the money and investing conversation.

Compounding is a powerful force. Albert Einstein allegedly said, "Compound interest is the most powerful force in the universe." It competes with the wheel as one of the most important tools of man. You need to harness this force to become a great investor.

Think in years; comprehend in decades. Time is one of the most important elements in the compounding formula. Give your investments time, be patient with them. Only then will you realise their full potential.

Know and understand the difference between investing and speculation. Investment is easy to do and succeed in; speculation is even easier to do but extremely difficult to succeed in. Speculation is a short holding period and uncertain result. An investment is a long holding period and a more certain result.

Diversification is the only "free lunch" available to investors. Diversification means reducing risk of loss by investing in a variety of assets. Use it as often as possible, but not as much as possible, because too much diversification reduces return.

For a copy of *Time in the Markets* or Christina Castle's family chicken broth recipe, please email info@foord.co.za.

WHAT YOU NEED TO KNOW ABOUT **THIRD PARTY PAYMENTS**

Payments from investment accounts to persons or parties other than the named investor are called third party payments. Third party payments carry risks to the affected investors and to Foord. Director of operations and compliance DIANE BEHR sets out the law and Foord's policy regarding third party payments.

At Foord, we believe in long-term investing and in building long-term relationships with investors. We also know that life happens: marriages break up, sometimes acrimoniously; families fall out; minor children grow up to become adults with contractual capacity; people may die without us being informed. We can never know all the circumstances of our investors' lives no matter how long we have known them.

To safeguard investors' interests in their units, Foord's policy is not to make redemption or distribution payments to third party bank accounts. In other words, Foord will only make redemption and distribution payments to a bank account in the name of the investor. We also apply this rule to family members; Foord will not pay into a bank account in the name of the investor's spouse, child or parent.

This is common practice in the financial services industry and protects Foord and its investors. It protects investors from the risk of fraudulent redemption instructions and error in that Foord will only pay to the bank account on record and which Foord verified as belonging to the investor. The practice also protects third parties from tax and other consequences of receiving unexpected deposits.

We must also consider anti-money laundering (AML) and counter terrorist financing (CTF) legislation and regulations. While prevailing AML and CTF rules do not specifically ban third party payments, they require regulated institutions to consider the risks associated with the placement (i.e., source), layering (disguise of source) and integration (placing laundered monies back into the economy) of investor funds. Prohibiting third party payments substantially reduces AML and CTF risks. Foord's policy on third party payments is thus in line with regulatory best practice.

Many of Foord's investors make long-term investments for their minor children, acting as the child's legal guardian. Often, these investments are made at birth or well before bank accounts are opened in the child's name. The same risks and rules are at play — the investments are those of the child and Foord is obliged to safeguard the child's interests in the units by reducing risk of fraud, unauthorised withdrawal and integration risks for anti-money laundering purposes. Redemption payments are only made into a bank account in the child's name.

To prevent holding up the prompt payment of redemption proceeds, we encourage investors to inform Foord of changes to bank accounts or contact details as they occur. Investors changing such static information will receive a confirmation letter confirming that the change has been recorded.

Notwithstanding the prohibition on third party payments, investors may transfer units to existing or new Foord Unit Trusts investors. We allow such transfers only if the receiving investor accepts the transfer. Both investment accounts (the transferor and transferee accounts) must be in good order. Accounts are in good order if there are no outstanding monies and Foord has received all required AML and CTF documentation. This includes proof of bank account ownership, proof of identity and proof of residential address. Please consider the potential tax consequences of the transfer and consult a tax professional if needed.

MARKETS IN A NUTSHELL

WORLD

EQUITIES

Global equity markets rose after dovish ECB and US Federal Reserve commentary ignited expectations of a half-point US interest rate cut this year — but falling earnings expectations may scupper investor appetite for equities

BONDS

Demand for sovereign debt soared, with an astounding $12 trillion of government debt now negative yielding — the US yield curve inverted, suggesting a weaker growth outlook and commensurately lower policy rates

CURRENCIES

The US dollar was broadly weaker after Federal Open Market Committee minutes portended near-term US interest rate cuts — the pound was weaker on continued Brexit uncertainty

COMMODITIES

Iron ore prices rose sharply on supply concerns, oil retreated on rising inventory levels and gold rose sharply on the prospect of lower US interest rates — the longer term outlook for commodity prices is skewed to the downside given expectations for weaker global growth, although US dollar weakness may support commodities in the short term

ECONOMY

Growth in the two largest global economies slowed as the US–China trade war escalated — culminating in the US branding Huawei, HIKVision and other Chinese technology businesses national security risks

MONETARY AND FISCAL POLICY

The Fed kept rates unchanged but signalled its propensity to lower the target rate amid growing macro risks and slower growth — there is a high probability of at least two quarter-point reductions this year, unless employment gains continue and sentiment improves

SOUTH AFRICA

EQUITIES

The FTSE/JSE Capped All Share Index advanced, led by financials and industrials, while resources lagged — interest rate sensitive shares benefited from falling bond yields

BONDS

SA bonds rallied as yields fell across all maturities, with the R186 gaining most — prospects of further gains are increasingly assured given expectations that the SA Reserve Bank will lower the repo rate

CURRENCIES

The rand breached R15 to the US dollar on ANC infighting about the SARB's independence but rallied latterly on broad-based US dollar weakness — but poor SA fiscal and economic prospects bode ill for the rand

ECONOMY

First-quarter GDP contracted the most in a decade as severe load shedding constrained mining and manufacturing output — growth should improve but will remain well below Treasury's optimistic forecasts

MONETARY AND FISCAL POLICY

Inflation should rise as petrol, water and electricity prices accelerate — but poor consumer demand and competition by retailers should constrain inflation to the midpoint of the 3-6% inflation target, leaving further scope for rate cuts

FUND RANGE

BEST INVESTMENT VIEW FUNDS

FOORD FLEXIBLE

Exploiting the benefits of global diversification, the fund aims to provide investors with an after-fee return of 5% per annum above the South African inflation rate.

FOR INVESTORS

- With a moderate risk profile
- Seeking long-term inflation-beating returns over periods exceeding five years
- Requiring a balanced exposure to South African and global investments.

FOORD INTERNATIONAL (US$)

The fund aims to achieve meaningful inflation-beating US$ returns over rolling five-year periods from a conservatively managed portfolio of global investments reflecting Foord's prevailing best investment view.

FOR INVESTORS

- With a moderate risk profile
- Requiring diversification through investments not available in South Africa
- Seeking to hedge rand depreciation.

REGULATION 28 FUNDS

FOORD BALANCED

Managed to comply with the statutory investment limits set for retirement funds in South Africa, the fund aims to grow retirement savings by meaningful, inflation-beating returns over the long term.

FOR INVESTORS

- With a moderate risk profile
- Seeking long-term, inflation-beating returns over periods exceeding five years
- From an SA retirement fund investment product (Reg 28).

FOORD CONSERVATIVE

Managed to comply with the statutory investment limits set for retirement funds in South Africa, the fund aims to provide conservative, medium-term investors with inflation-beating returns over rolling three-year periods.

FOR INVESTORS

- With a conservative risk profile
- Close to or in retirement
- Seeking medium-term, inflation-beating returns over periods of three to five years
- From an SA retirement fund investment product (Reg 28).

SPECIALIST EQUITY FUNDS

FOORD EQUITY

The fund aims to outperform the FTSE/JSE Capped All Share Index over the long term, with lower risk of loss.

FOR INVESTORS

- With a higher risk profile
- Seeking long-term growth over periods exceeding five years
- From a portfolio of JSE-listed equity, commodity and property stocks
- And able to withstand investment volatility in the short to medium term.

FOORD GLOBAL EQUITY (US$)

The fund aims to outperform the MSCI All Country World Net Total Return Index from an actively managed portfolio of global equities, without assuming greater risk.

FOR INVESTORS

- With a higher risk profile
- Requiring diversification through investments not available in South Africa
- Seeking to hedge rand depreciation
- And able to withstand investment volatility in the short to medium term.

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