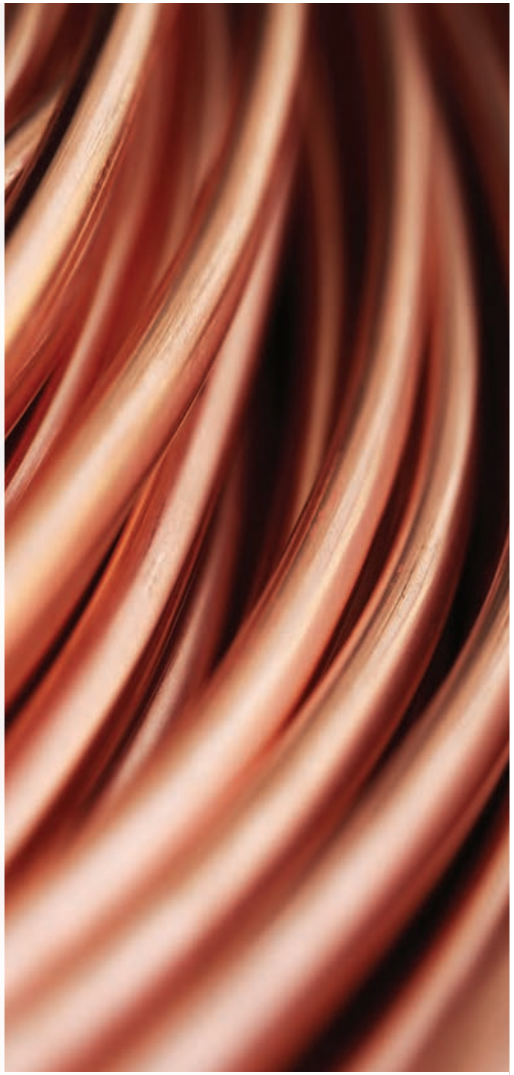
FOREWORD

DID YOU KNOW?
DR COPPER

The copper price has long been a reliable barometer of the health of the global economy—so much so that it attracted the moniker, Dr Copper. The red metal has ubiquitous application across most sectors of the economy, especially in the building industry, car production, electronics and power generation and transmission. New green technologies such as wind farms, electric vehicles and related charging infrastructure are also all copper intensive.

Rising copper prices typically reflect surging demand associated with economic growth. Falling prices suggest sluggish demand and that economic contraction could be on the horizon. The copper price is therefore one of the leading indicators of future economic growth.

The correlation is not foolproof. Increasingly, copper demand relates to the Chinese economy as China now consumes over half of the world's copper supply. Taxes such as tariffs, supply disruptions, inventory levels, market speculation and fluctuations in the US dollar exchange rate can all lead to price changes that are unrelated to underlying demand dynamics.



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THE RISE AND RISE OF THE FOORD GLOBAL EQUITY FUND

The Foord Global Equity Fund performed extraordinarily well in 2020, which was an extraordinary year by any measure. Portfolio manager ISHRETH HASSEN reviews the fund's index-beating performance.

At the start of 2020, global share markets were at or near all-time highs, having delivered the best calendar-year return of the decade in 2019. No one could have predicted the impact of the pandemic on economies and businesses as COVID-19 tipped the world into an economic contraction twice as severe as the 2008/2009 Global Financial Crisis.

The new year delivered the most volatile period in modern investing history. Global share markets quickly fell by a third before recovering on unprecedentedly massive monetary and fiscal stimulus and hopes that the year-end vaccine roll-out would herald a return to normal. Against this backdrop, the Foord Global Equity Fund returned 23.6% in US dollars (after fees and costs), dramatically outperforming the MSCI All Country World Equity Index, which posted a return of 16.3%.

In our view, this alpha (or outperformance) was neither random nor speculative. Our focus on the assessment of value relative to expected future earnings had resulted in a portfolio of under-valued, high-quality businesses with strong leadership teams across disparate sectors and markets. This strategy has proven to be an effective hedge against most market stresses. Last year was no different.

All Foord funds are constructed independently of the benchmark we are trying to beat over time. Excellent stock selection was the cornerstone of the Foord Global Equity Fund's outperformance. The fund's top performance contributors were: China's second-largest e-commerce and logistics business JD.com, copper mining giant Freeport-McMoRan, cutting-edge fibre laser producer IPG Photonics, biotech star BioLife Solutions and Chinese internet giant Tencent.

These companies are among the best managed businesses in their industries. Each is very different from the rest, reflective of the diversification within the portfolio. It is notable that none of these stocks are constituents of the MSCI All Country World Index information technology (IT) sector, which was the best performing sector of the year. Nevertheless, they all meaningfully outperformed the IT and other sectors.

Risk management was also critical to the fund's success in 2020. The portfolio spans key markets and sectors based on the managers' conviction of the future earnings of the businesses we own. In many cases, our expectations were very different from the market's.

For example, we hold different views on the speed of technology adaption, the sophistication and growth of the Chinese middle class and the state of commodity cycles like agriculture, precious metals and copper. Last year, the market closed the gap on some of these views to the benefit of our investors. Our portfolio construction has already adjusted accordingly.

The fund management team expects great things with the recent appointment of Jing Cong (JC) Xue as a multiple-counsellor manager on the Foord Global Equity Fund. JC hails from Singapore and has been instrumental in the team's extensive coverage of consumer discretionary, information technology and communication services sectors since 2017.

Foord's commitment to investment stewardship and risk management underpins all that we do. While the future direction of markets is murky, our focus on long-term earnings growth will continue to serve as the guiding light in our quest for value and alpha.

YEAR IN REVIEW

MIKE TOWNSHEND
Portfolio Manager

We will remember 2020 as the year COVID-19 dramatically impacted our lives. Portfolio manager MIKE TOWNSHEND looks at the year that was.

Most investors will happily bid farewell to the tumultuous 2020. The harsh lockdown and border closures hit South Africa hard. Millions sustained income reductions while many businesses suffered liquidation or took on more debt. We adopted new work practices, different ways of socialising and learned a new meaning to the word zoom. Too many of us suffered the loss of loved ones and we pass on our heartfelt condolences to those who may be grieving.

But it hasn't all been bad news. Inflation rates and interest rates are at multi-decade lows, some asset classes performed well and US voters overwhelmingly backed change from Donald Trump's divisive presidency. The Foord unit trusts performed credibly with investors in the multi-asset funds enjoying inflation-beating returns despite massive economic recession. Let's investigate why this happened and delve into some of the year's notable events.

Unexpected shocks to the global economy inevitably cause volatility across asset classes. Within a month of COVID-19 spreading from China to the West, global equity markets, including the JSE, collapsed by around a third on expectations for severe economic contraction. Economists expect the global economy to have shrunk 3% in 2020 with South Africa's GDP set to decline by at least 5%.

The US government responded quickly, pumping $2 trillion directly into the hands of American consumers. It announced another $900 billion stimulus package in December. The EU delivered close to $1 trillion to support its economies, while the Japanese and Chinese authorities also gave significant aid to business and consumers. Indeed, most countries did something. This global stimulus dwarfed all earlier intervention, including that of the 2008/2009 Global Financial Crisis.

This cash quickly found its way into financial markets, given the alternative of holding cash at zero or negative interest rates. The massive fiscal and monetary spending by the world's leading economies thus ignited a price rally on world stock and bond markets.

By year-end most global equity markets had rallied to recoup earlier losses, with some achieving all-time highs. Developed market bourses gained 15.9% and emerging markets 18.3%, while the World Government Bond Index advanced 10.1% (all in US dollars).

The downside of this stimulus is the high levels of government debt. It is difficult to see how governments can sustain such debt levels even if interest rates stay close to or below zero. Governments cannot borrow indefinitely and they must at some point repay debt. In last quarter's *Foreword*, my colleague William Fraser discussed the risks of rising debt and global inflation on the investment landscape. We remain vigilant against these potential threats.

The JSE All Share Index also recovered from its March lows, closing up 7.0%. Index heavyweights Naspers and Prosus (which make up almost 20% of the index) pulled up the bourse, advancing 32.1% and 52.6%. However, the general retail sector declined by 15.4%, financials by 19.7% and the property sector lost a third of its value. These are all mostly SA-centric sectors, reflecting the lockdown's massive economic effect on our economy. Resources advanced 21.2%, with the gold sector rallying 36.5% as investors sought gold's safe-haven qualities.

Currencies were also volatile. The rand collapsed 36% against the US dollar to R19.11/$ before recovering to close 5.0% lower at R14.69/$ as investors sought out emerging markets and high-yielding debt. The dollar was weaker against the other majors.

Commodities reflected the economic uncertainty with the oil price plummeting during the crisis before recovering to close 22% down—US oil markets even briefly traded at negative values as oil inventories soared. In contrast, market uncertainty led to a run on precious metals with the gold price up 24%, silver up 47% and palladium up 29%.

Dr Copper (see *Did You Know?*) surged 26% to lead the recovery of the base metal suite. The red metal's price rally bodes well for future economic growth, although it partially reflects rising demand by renewable technologies such as wind farms and electric vehicles.

SA bonds were amongst the best performing asset classes, shrugging off the March junk-status ratings downgrade. The All Bond Index posted a gain of 8.7% as borrowing costs trended lower after the SA Reserve Bank lowered the repo rate to a record 3.5% low during the year. Bonds in the 3–7 year maturity bucket performed best, returning 16.3%.

Some basic investment principles have served Foord's investors well over the past year. Firstly, diversification allowed the multi-asset class funds to spread investment risk across a range of asset classes, geographies, sectors and currencies. This contributed to the excellent performance of the Foord Conservative, Foord Balanced and Foord Flexible Funds compared to peers and the opportunity set.

> "Uncertain and volatile times create opportunities for the flexible investor to take advantage of market mispricing."

Secondly, patience and not panicking at the point of greatest COVID-19 pessimism allowed the funds to participate in the full recovery of equity markets. Finally, sticking to the strategy to favour better-quality companies with more reliable earnings streams and management teams capable of navigating difficult economic circumstances helped avoid the biggest lockdown losers.

We look forward to a less volatile 2021, but are positioned cautiously given the prevailing COVID-19 and geopolitical risks, as well as high market valuations abroad. Uncertain and volatile times create opportunities for the flexible investor to take advantage of market mispricing. The fund managers capitalised on such opportunities at the margin in the South African market but more aggressively in the Foord Global Equity Fund—which dramatically outperformed its benchmark last year.

THE CUPBOARD IS NOW BARE

It is difficult to remember the heady days of the 2010 Soccer World Cup and the general sense of national euphoria and 'gees' we experienced. Business development manager NICK CURTIN writes how the national mood is very different as we limp into 2021.

South Africa's economic growth was solidly mid-single digits in the years before the 2008/2009 Global Financial Crisis (GFC). Significant investment in economic infrastructure had generated employment and expanded the long-term growth potential of the economy. With government debt amounting to just 25% of national GDP in 2008, the public finances were sufficiently robust to endure the GFC's heavy toll. The nation borrowed to spend its way out of that crisis, as did most countries across the world.

But the lost decade that followed saw gross mismanagement of the economy. Phrases like 'state capture,' 'cadre deployment' and 'radical economic transformation' became all too familiar. Growth steadily declined as crisis after crisis retarded the economy's capacity to grow faster than its population growth. South Africans have become poorer and poorer on average, especially in US dollars.

We cannot blame the government for the 2020 COVID-19 pandemic, but we can blame it for the parlous state of the public purse and national health infrastructure. National Treasury estimates the economy to have shrunk by at least 5% last year. Its (optimistic) forecast is for the economy to recover to 2019 levels only by the end of 2024. There goes another lost half-decade.

Compounding the debt problem is that too much of the national borrowing over the last decade has gone to consumption and not enough to fixed investment. For example, per capita public servant salaries increased 206% over the last 13 years—that's 9.0% per annum when inflation was below 6.0% per annum. The *average* annual salary of the 1.3 million government employees today is a staggering R415,000.

> "Foord funds maintain their bias toward international investments."

The government borrowed extensively in 2020 to support employees and industries affected by the excessively austere national lockdown. But as Old Mother Hubbard discovered, the cupboard is now bare. The national debt is (again, optimistically) forecast to spiral to 95% of GDP before moderating. Short of astronomical economic growth, only very aggressive spending cuts can now arrest the debt trap. And spending cuts will cause further economic contraction.

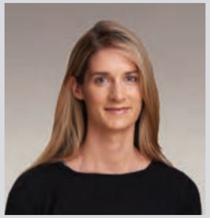
But it's not all doom and gloom. Being discounting machines, the financial markets have already priced most of these harsh realities into 'SA Inc.' securities. Valuations of many quality South African-focused companies have fallen to very attractive levels. We expect solid inflation-beating returns from these investments in the years ahead, despite the difficult economic environment. Near-term government bonds still offer attractively high yields given anaemic inflation and low risk of default. The SA listed property sector has halved in the past three years, affording some select niche opportunities in this troubled sector.

Given the tough SA outlook, the Foord funds maintain their bias toward international investments—yet the fund managers are increasingly finding opportunities in quality assets across the South African investment landscape. The portfolios now already include some such gems.

FOORD IN BRIEF

FOORD'S NEW PORTFOLIO MANAGERS NEED NO INTRODUCTION

We are pleased to announce the appointments of Nancy Hossack and JC Xue as portfolio managers. They may be familiar to readers of *Foreword* or to investors who have attended roadshow events over the years. Their appointments reflect our preference for developing and promoting from within the firm.



NANCY HOSSACK has joined Nick Balkin and Dave Foord as multiple-counsellor portfolio managers on equity mandates. She has been an analyst for almost ten years, starting at Investec Asset Management (now Ninety One). Nancy joined Foord as an analyst in early 2015 and is Foord's lead analyst for the retail and technology sectors within the SA environment. Nancy completed a Bachelor of Business Science (Hons) and PGDA at the University of Cape Town and is a CA(SA).

JING CONG (JC) XUE has been appointed as a multiple-counsellor portfolio manager on the Foord Global Equity Fund alongside Brian Arcese, Dave Foord and Ishreth Hassen. With over eight years in the industry, JC joined Foord in 2017 and is lead analyst for the consumer discretionary, information technology and communication services sectors. He graduated with a Bachelor of Business Management in Finance (Summa Cum Laude) from the Singapore Management University.

LORETTA MACLEOD—A LEGEND RETIRES

LORETTA MACLEOD started work as receptionist at Foord & Meintjes in October 1981 as Foord's first employee. The team of three worked from offices at Market House in Greenmarket Square before their move to Pinelands. By all accounts, Loretta arrived before Dave Foord (who was serving a restraint) and also before the furniture. She then became part of the furniture—a familiar and welcoming face to investors and colleagues for the next 39 years.

An avid traveller, Loretta plans to expand her adventurer's footprint in retirement when the pandemic abates. We expect that she has already packed her passport. Loretta, thank you for your loyalty, commitment and friendship over the past four decades. We will toast you with your favourite glass of bubbly at a fitting farewell when we finally can. *Bon voyage.*

MARKETS IN A NUTSHELL

WORLD | SOUTH AFRICA

EQUITIES

World: Positive vaccine trials and the first UK and US inoculations propelled equity bourses to new highs—further buoyed by the passage in the US of another $900 billion relief package

South Africa: The JSE rallied on buoyant emerging markets sentiment and higher commodity prices—listed property gained most, but the sector was down 34% for the year given its structural headwinds

BONDS

World: US long bond yields edged higher on modest employment gains and COVID-19 vaccination approvals—but European yields trended lower as much of the bloc went into harsh lockdown

South Africa: The SA government bond yield curve moved lower and flatter—long bond yields fell on the risk-on environment amid hopes for a faster return to normal in 2021

CURRENCIES

World: The US dollar was weaker on the sheer scale of US monetary stimulus—while an 11th hour Brexit trade deal buoyed the euro and pound

South Africa: The rand gained on broad-based US dollar weakness—emerging market currencies should stay well bid given prevailing optimism for 2021 growth

COMMODITIES

Industrial commodity prices surged as market sentiment for economic recovery gained momentum and the dollar weakened—growing long-term inflation risks should keep precious metals prices well bid

ECONOMY

World: Economic activity improved as momentum built on less stringent lockdowns—but new, more transmissible SAR-CoV-2 variants and onerous winter lockdowns suggest the pace of recovery could slow

South Africa: The economy recovered at pace but hit speedbumps with an unexpected summer second-wave and bungled vaccine procurement—economic activity is expected to have contracted at least 5% in 2020

MONETARY AND FISCAL POLICY

World: The major central banks (excluding China) maintained extremely loose monetary policies—in the US, the Democratic Party clean sweep now makes higher corporate taxes and increased spending more probable

South Africa: The mini-budget was disappointingly vague on government's strategy to arrest the rapidly deteriorating public finances—reliance on public wage reductions and incomprehensible support for bankrupt SOEs does not bode well for the debt spiral

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.