FOREWORD

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DID YOU KNOW? CARBON NEUTRALITY

Carbon neutrality is a misnomer because the term really refers to the balance of carbon *dioxide* (CO_2) emissions and its removal within a system. CO_2 is a colourless, odourless gas that is essential for sustaining life. It is emitted when animals exhale or when organic matter decays or burns. It is absorbed by plants during photosynthesis and is one of the greenhouse gases that act to keep heat escaping the atmosphere.

Atmospheric CO_2 levels began to increase from the Industrial Revolution of 1760 and have accelerated alarmingly since the 1960s. A build-up of CO_2 in the system results in more heat retention, global warming and climate change. We have limited natural carbon sinks (soils, forests and oceans) that sequester (remove) CO_2 from the atmosphere. The world thus focuses on emissions reductions in its quest for carbon neutrality.

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ARE WE IN A COMMODITIES SUPER CYCLE?

Commodity prices have rallied aggressively in the past six months on prospects for normalising global economic activity. Portfolio manager MIKE TOWNSHEND responds to suggestions that the world is experiencing a new commodities super cycle.

Oil, platinum, copper and iron ore have rallied hard since the 2020 pandemic lows. Brent crude surged 145%, platinum gained 60% and copper rose 80% to levels not seen since the last commodity boom ended in 2011. Iron ore is up 85%. There's talk in the financial press of a new commodities super cycle—what's going on here?

Commodity prices usually follow the supply and demand pressures of the economic cycle. During booms, commodity demand is fuelled by greater travel, manufacture, infrastructure development and trade. Rising demand drives up prices, incentivising producers to extract more commodities and explore for new reserves. As production rises, supply inevitably exceeds demand and prices eventually fall.

> Economic cycles repeat themselves every five to seven years, on average. Commodity cycles follow similar patterns. Super cycles are extended periods of above-trend price gains seen across large parts of the commodities complex. They depend on megatrends or catalysts and can last for more than a decade.

The last super cycle began in the late 1990s, when rapid Chinese urbanisation and infrastructure development combined with global underinvestment in new commodity supply to drive commodity prices to multi-decade highs. Producers initially struggled to increase output to match this unprecedented growth in demand, despite the incentive of extraordinarily high prices.

The adage that the 'cure for high prices, is high prices' then proved true as producers invested heavily to increase commodity output. At the same time, Chinese growth slowed from heady double-digit rates to more modest growth rates, with less emphasis on infrastructure development and more focus on the consumer.

It may be too early to call, but I don't believe the current commodity cycle will develop into a super cycle. Firstly, prices have mostly only just recovered from the pandemic lows. Secondly, what could be the catalyst for multi-decade demand? Chinese growth is slowing, India has a massive population but does not have the political unity to co-ordinate sustained infrastructure spend, and the Western world is grappling with ageing populations and over-indebtedness. There are no significant supply constraints.

Specific commodities could nevertheless experience extended price growth. Demand for metals and materials that support renewable energy and electric vehicles should grow over the next decade. 'Green metals' such as copper, cobalt and lithium are probable beneficiaries of the transition to a more carbon-neutral economy (See *Did You Know?*).

Foord's portfolios have meaningful investments in the best quality resource shares. However, the cyclicality of earnings streams makes us reticent about being overweight in this sector in the long term. Material investment in diversified miner BHP Group (and to a lesser extent, Anglo American) affords valuable exposure to two of the world's largest copper mines. Foord's global funds have direct copper exposure via US miner Freeport-McMoran and leading lithium battery material producer Livent.

QUO VADIS, CLEANTECH INVESTORS?

BRIAN ARCESE
Portfolio Manager

Renewed global commitment to the environment has ignited much investment chatter, driving stocks in the cleantech and renewables space to ultra-high valuations. Foord Singapore portfolio manager, BRIAN ARCESE cautions investors to proceed warily, given the valuation risks in this sector.

The 2020 COVID-19 pandemic initiated a great reawakening for climate change issues amidst a renewed focus on the green agenda by global governments. In the US, newly inaugurated President Joe Biden has made swift changes. He has cancelled the Keystone XL pipeline, re-joined the Paris Agreement and plans to ban new oil and gas leases on federal land.

Even coal-reliant China has now pledged to achieve carbon neutrality (see *Did You Know?*) before 2060. It also expects to lower its CO_2 emissions per unit of GDP by 65% from the 2005 level by 2030, increase the share of non-fossil fuels in primary energy consumption to 25% and bring its total installed wind and solar power capacity to more than 1.2 billion kilowatts.

Meanwhile, Europe is leading the world in terms of committed capital expenditure. The European Green Deal is pushing for net zero emissions by 2050, earmarking at least €1 trillion of public green energy funding.

With the added push from other developed economies driving their own initiatives, investment in green energy infrastructure should grow into the trillions of dollars—mostly funded through public-private collaboration—to de-carbonise the global economy.

> "Investment in green energy infrastructure should grow into the trillions of dollars—mostly funded through public-private collaboration—to de-carbonise the global economy."

The renewable energy space is where most publicly-traded investment opportunities lie. The sector is poised to be the biggest areas of global capital allocation. It should offer investment opportunities in the areas of renewable sources such as solar and wind, green hydrogen (as an alternative for natural gas) and infrastructure investments to support electrification.

However, this does not mean that opportunities will translate into outsized returns. It is easy for investors seeking to outperform to get caught up in the hype. Investors seeking long-term alpha (beating an index) or just positive returns should be wary of lofty valuations in the cleantech sector. For example, a market leader in offshore wind power is trading at an exceptionally expensive multiple of 47-times 2021 earnings per share (47x 2021 EPS).

> "Cleantech and renewable energy trends are on the right side of history and seem like a clear investment play. They should offer opportunities for investors seeking to make a difference or appreciable investment growth. But the strategy needs long-term investment."

There are nevertheless still some opportunities in better valued companies. For example, we own Quanta Services in the Foord Global Equity Fund. Quanta is a US leader in the construction and maintenance of electric grids and trades on a much lower multiple of 21x 2021 EPS. While not exactly cheap, it is still far more affordable than some of the most prominent companies.

Investors should also consider how companies diversify their earnings. For example, Quanta will benefit from upgrades needed to generate green energy via wind, solar or hydrogen. Many traditional US and European utilities, such as Scotland's SSE Plc and California's Edison International—both owned at times in the Foord Global Equity Fund—are forward thinkers and leaders in the transition to green energy. These companies offer a similar exposure to renewables at a fraction of the valuation of bigger players. At the time of writing, SSE and Edison are on 17x and 13x 2021 EPS, respectively.

Cleantech and renewable energy trends are on the right side of history and seem like a clear investment play. They should offer opportunities for investors seeking to make a difference or appreciable investment growth. But the strategy needs long-term investment—speculation and trend-following will guarantee neither outcome.

Cleantech investors must diligently assess investments for long-term returns by analysing their long-term earnings prospects. They should invest only on a deep understanding of the market and valuations, instead of just blindly following market sentiment.

WHAT IS CLEANTECH?

Short for clean technology, cleantech refers to the technologies and practices that work to improve environmental outcomes. Cleantech's focus is on using renewable materials and energy sources while cutting emissions and eliminating or recycling waste.

The most prominent cleantech examples are in the realm of renewable energy. This includes the production of solar and wind, and to a lesser extent biofuel, hydro, tidal and geothermal heating plants and facilities. It includes a host of supply-chain and dependent industries and all the engineering, installation, technician and maintenance jobs that depend on the sector. Cleantech also embraces areas of recycling, green transportation including electric cars, green chemistry, grey water and more.

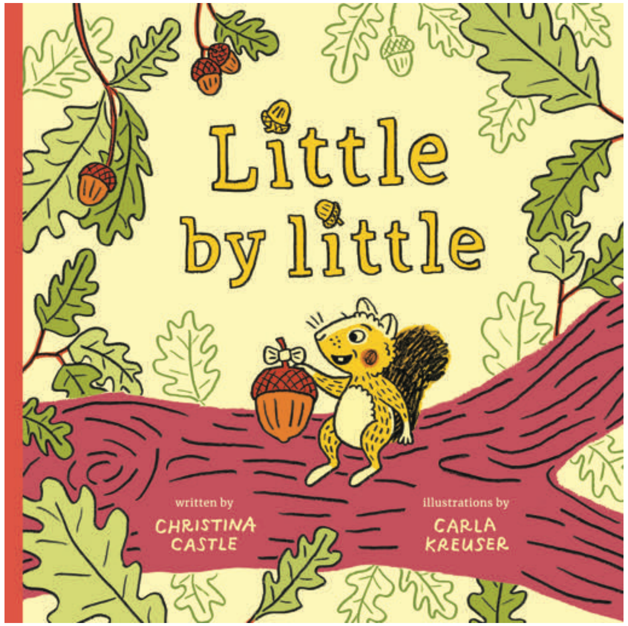
LITTLE BY LITTLE

ANOTHER LITTLE BOOK WITH A BIG MESSAGE ABOUT INVESTING

You may be familiar with *More than enough,* Foord's first children's picture book about saving and investing. Anele the squirrel, her mum and her acorns now return in the second book of the series, *Little by little*.

Authored by communications manager Christina Castle and illustrated by Carla Kreuser, *Little by little* introduces a few more forest friends and another very important lesson—that saving and investing takes time, and lots and lots of patience.

Foord will again translate this book into Afrikaans, isiXhosa and isiZulu. We aim to distribute copies to tens of thousands of children around South Africa as part of our financial literacy initiative, TEACH YOUR CHILD TO INVEST.



Free to schools, libraries and community centres in South Africa, and anyone who is keen to create a culture of investing, both books are available in hard copy from our office in Pinelands or to download from our website at https://foord.co.za/insights/publications/teach-your-child-to-invest.

ONE MILLION BOOKS
ONE MILLION LIVES CHANGED

Foord is proud to have played a role in Book Dash achieving the monumental milestone of producing one million books. In just six short years, Book Dash has impacted the lives of literally millions of children around South Africa. It has also inspired us at Foord to publish our own children's books about saving and investing and ensuring they are owned and loved by as many young South Africans as possible.

FOORD IN BRIEF

FAREWELL DARYLL OWEN


DARYLL OWEN
Portfolio Manager

This quarter we bid farewell to portfolio manager DARYLL OWEN, ahead of his immigration to his wife's ancestral home of Portugal in the second quarter of 2021. Daryll joined Foord in 2013 as a second career after a long tenure at BoE and Nedgroup, most recently as chief investment officer at Nedgroup Private Clients.

After decades in the stressful environment of investments, Daryll deserves a well-earned rest. He may not get this, however, as he's confided to an interest in new ventures as soon as he settles into his new home in Lisbon. We wish him all the best for the move and this next chapter.

We also thank Daryll for his leadership and friendship over the last eight years. Curious by nature, he is one of those rare people who made time for everyone in the office—from executives to receptionists. We will all miss his office banter and camaraderie.

STUDENT VACATION PROGRAMME 2021

For several years now, Foord has conducted a week-long vacation programme before the start of the academic year for previously disadvantaged undergraduates with a passion for investments. The initiative is the brainchild of Foord's Head of Equity, PRAVARSHAN MURUGASEN, who selects the candidates and runs the course.

> "This year's Foord Vacation Programme was conducted under strict COVID-19 protocols. The students were of a high calibre and they impressed me with their diligence and insightful questions."
>
> PRAVARSHAN MURUGASEN, HEAD OF EQUITY

The programme offers students an exciting opportunity to engage with and learn from the Foord investment team and take part in an investment case study. Students also meet with staff from other areas of the business to appreciate the diverse skills needed to achieve success in this industry.

See https://foord.co.za/careers/undergraduate-immersion to read more about Foord's student immersion initiatives.

MARKETS IN A NUTSHELL

EQUITIES

WORLD

Developed market equities achieved all-time highs on expectations that vaccine rollouts would accelerate global growth—buoyed by further US stimulus and accommodative monetary policy

SOUTH AFRICA

The JSE outperformed emerging market peers—led higher by resources stocks on a sustained commodities rally and industrial counters on hopes for robust 2021 growth

BONDS

WORLD

Longer dated developed market bond yields were sharply higher—on rising inflation expectations given the rapid US economic recovery and massive increases in money supply

SOUTH AFRICA

The All Bond Index fell as longer dated SA rates tracked global yields higher—the yield curve was steeper as SARB held the repo rate unchanged

CURRENCIES

WORLD

The US dollar outpaced the majors on rising Treasury yields and expectations for faster growth—rising European coronavirus case counts weighed on the euro

SOUTH AFRICA

The rand was stable against the US dollar, bucking general emerging market currency weakness—on surprisingly robust recovery and improved terms of trade

COMMODITIES

Industrial commodities oil, copper, platinum and iron ore rallied on prospects of rising demand—precious metals gold and silver fell on the opportunity cost of rising yields and as central banks downplayed inflation risks

ECONOMY

WORLD

The 2020 economic recession was milder than first expected, with GDP contracting 3.6%—the IMF now forecasts global growth of 6.6% for 2021, moderating to 4.4% next year

SOUTH AFRICA

Fourth quarter GDP growth rebounded, but the SA economy contracted by a staggering 7.0% in real terms last year—reflective of the harsh lockdowns and inconsistent government policy

MONETARY AND FISCAL POLICY

WORLD

New US President Biden hammered through a massive \$1.9 trillion pandemic relief bill and announced a \$2.0 trillion infrastructure plan—global monetary policy remains very accommodative

SOUTH AFRICA

The SA Reserve Bank again kept the repo rate on hold at multi-decade lows, given benign inflation—while SA escaped harsh tax increases after windfall mining tax revenues exceeded expectations

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.

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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