

# FOREWORD

## IN THIS ISSUE

- STAYING THE COURSE
- SMALL AND MID CAPS
- NEW CHINA REGULATION
- NEW ANALYSTS AT FOORD
- CYBERTHEFT IS REAL
- MARKETS IN A NUTSHELL

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# 40

## DID YOU KNOW? FOORD TURNS 40

Foord opened its doors for business on 1 October 1981 in Market House, Greenmarket Square. Then known as Foord & Meintjes, founders Dave Foord and Liston Meintjes were joined by receptionist Loretta Macleod (retired 2020). The company became Foord Asset Management in 2001, after Liston's emigration.

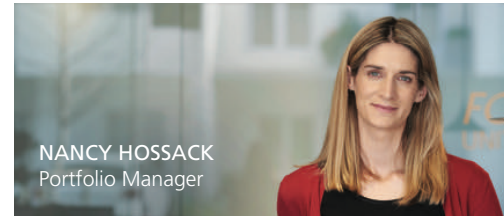
So, 1 October 2021 marks Foord's 40th anniversary. We're immensely proud of this major milestone. The founders' vision was never to be the biggest, but to be the best. They wanted to run an investment boutique, looking after a few people's money really well. It has been our privilege to serve our longest-standing investors over all this time—we thank them and our more recent investors for their loyalty.

Forty years on, this vision of long-term investment stewardship is unchanged. Our forward-looking, value-oriented, long-term investment philosophy that prioritises risk management over shooting for the corners has proved to safely compound retirement savings and to defeat inflation. We will continue in this rewarding endeavour.

Several other important milestones loom in 2022. The Foord Umbrella Provident Fund—retirement vehicle of Foord staff and those of associate companies—will turn 35; Foord Guernsey and the Foord International Fund have a silver anniversary; Foord Unit Trusts will celebrate 20 years in business and new-kid-on-the-block Foord Singapore and the Foord Global Equity Fund reach double digit track records.

We have proudly built a culture across the continents that reflects the Foord DNA—not just in terms of our investment philosophy, but also in our commitment to investment stewardship. This takes time and patience, but also trust and humility. These are qualities that have served us well for the past 40 years and today are the pillars of our reputation.

## STAYING THE COURSE



Even the best investments don't offer a smooth ride. Portfolio manager **NANCY HOSSACK** revisits the thesis that share volatility is opportunity and not risk.

Tencent—the principal asset of the JSE-listed giants Naspers and Prosus—is a perfect example of opportunity amid volatility and staying the course. The Tencent share price grew from HK\$0.86 on listing in 2004 to a high of HK\$681.50 in January this year. It has since retraced to HK\$461.40 on adverse regulatory intervention, but has still yielded an average return of 44% per annum in Hong Kong dollars over 17 years.

I must emphasise the 'average' part—to earn that amazing return, one would have had to white knuckle it (a lot). Given its volatility, the share has 'lost' more than 20% of its value nine times since 2004 (see graph which illustrates how the share has recouped all losses and made a new high whenever the line returns to X-axis). In fact, you only lost money if you sold in the dips.

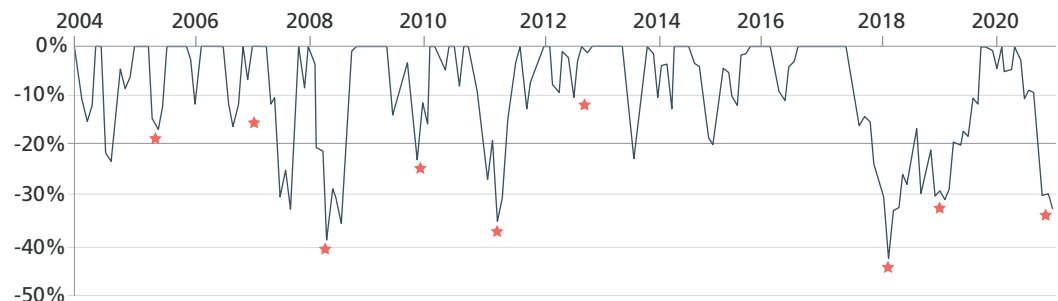
How does one look through this type of volatility to avoid panic selling? The best way is to adjust your time frame. When evaluating the success of your investments (and investment managers), look at the longest time frame possible. This will give you a much better sense check and help you stay the course.

At Foord, we don't focus on the next-quarter earnings of the companies in our portfolios. But we do care a lot about what they will be in three, five and ten years. That means that we don't sell companies that might be facing a tough year if we are optimistic on their long-term earnings. Instead, we often buy more to take advantage of the market's short-termism. Those long-term, high-conviction investments have been the cornerstone of our success.

It's interesting to note that Tencent itself has pursued a similar strategy, by buying back its own shares when the market is too pessimistic. The stars on the graph show when company management bought back Tencent's own shares. Their excellent track record and recent share repurchases reinforce our views on Tencent's prospects from these levels.

This is one investment opportunity where we prefer to stay the course despite the current regulatory headwinds. Hopefully our investors will keep their eyes on the horizon too.

TENCENT: PRICE DRAWDOWN FROM SHARE PRICE HIGH (IN PERCENT)



# CHINA — REGULATING FOR CHANGE



Recent Chinese regulatory initiatives across high-profile industries have spooked global investors. Foord Singapore portfolio manager **JC XUE** discusses the changes and what they mean for the China investment thesis.

The Chinese authorities have tightened the regulatory environment significantly over the last year, rolling out new measures to improve governance oversight. Prominent examples are the new anti-monopoly rules for technology companies—which resulted in fines for dominant players like Alibaba—and rules to take the ‘profit’ out of the ‘for-profit’ tutoring industry. Cryptocurrencies have also come under the spotlight.

The markets certainly seem to be pricing in fears for the instability of the Chinese market given the rising regulatory risks. But let’s take a step back to dissect what the Chinese leaders are communicating through these regulations: they want to correct actual or perceived market failures from having unintended social consequences that are detrimental to the nation’s long-term development. Regulation has become an instrument of social engineering.

As we all know, Western economies have more than their fair share of regulation—but the regulatory processes work slowly and regulators usually signal regulatory trends years in advance. China has lagged the Western economies in most areas of regulation and is slowly catching up for the benefit of Chinese consumers. However, we tend to forget that China operates a command economy. The Chinese authorities can therefore act quickly to improve regulation in areas of previously weak or immature regulation.

“Regulation has become an instrument of social engineering.”

The Chinese antitrust regulations targeting technology platforms were established to eradicate monopolistic behaviours such as exclusivity contracts and predatory pricing. These anti-monopoly rules are aimed at reducing the rent-seeking behaviour of the dominant

tech platforms. The purpose is not to shut down the leading tech platforms, but to regulate them. Having seen the tremendous success of the first platforms, the authorities now want to promote fair competition. Antitrust regulations will allow the next generation of innovators to emerge and to not be gated by the monopolistic behaviours of existing market leaders.

“This round of regulation serves as a healthy reminder to tech platforms to compete on value creation instead of monopolistic behaviour.”

On the other hand, Chinese regulations banning companies that teach the school curriculum from making profits, raising capital or going public have noteworthy social goals. Aside from extreme pressures on students, the financial burden on parents was rising rapidly as the tutoring industry raised prices due to soaring demand. The increased costs of having a child were starting to impact already-low birth rates, adding to China’s demographic headwinds. The government needed to tackle this issue resolutely to ensure China’s long-term competitiveness.

The government unequivocally wants to build a stronger middle class, to advance innovation and to get stronger as a nation. The policy changes thus have worthy objectives, but their abrupt implementation has undoubtedly increased investment uncertainty in the short term. In the long term, the regulatory results should drive healthier economic development, helping China towards its goal of reducing income and wealth inequalities.

China is not rejecting a market driven economy with these initiatives. In fact, the government continues to view vibrant private enterprise to be the most effective way to drive innovation and wealth creation, thereby fulfilling its ‘common prosperity’ goals. However, private enterprise needs rules and regulations to keep playing fields level and to weed out bad actors from the market.

Foord has held a positive view on the rising Chinese middle class and the corresponding consumption growth. This investment thesis is aligned to the Chinese government’s goal of redistribution and a ‘stronger middle’. In fact, core fund holdings like JD.com and Tencent have always created positive value across their ecosystems.

JD.com has used economies of scale to provide everyday low prices for consumers. Tencent has been criticised for under-monetising its assets and continues to give more value than it takes—most recently through WeChat mini-programs. In our view, companies like these, building their businesses by treating customers fairly and innovating through healthy competition over monopolistic practices, should experience robust long-term earnings growth in an environment of healthier competition.

Still, each has seen its share price impacted by regulatory actions. In the Foord Global Equity Fund, we opportunistically added to our existing holdings and initiated positions in some others that fell to attractive valuations.

Finally, we are still optimistic for China’s long-term growth trajectory. This round of regulation serves as a healthy reminder to tech platforms to compete on value creation instead of monopolistic behaviour. It facilitates a more conducive environment for new business innovations to flourish and we are excited to discover the next JD.com, Alibaba and Tencent.

# SMALL AND MID CAPS — BIG OPPORTUNITIES



MIKE TOWNSHEND  
Portfolio Manager

The small and mid-capitalisation sectors have been happy hunting grounds for Foord's investment team over the decades. Portfolio manager **MIKE TOWNSHEND** explores the risks of investing in these less familiar stocks.

Firstly, investing in small-cap stocks can be a time consuming, but rewarding, endeavour. Stockbroker and other paid-for research on these companies is usually quite limited. The investment analysts must therefore do most of the fundamental analysis and research themselves.

Secondly, small-cap stocks are less liquid than their larger counterparts. Buyers need time to acquire the requisite quantity of shares, given the low trading volumes. This makes it difficult for large funds to buy enough shares for the investment to have a meaningful impact on returns. If economic conditions change or the company's prospects worsen, it is also more difficult to sell the shares at a favourable price.

Another criticism is the assumption of weaker management teams or market position—meaning they are unable to compete with large, established competitors. Share prices of these companies can be slow to respond to changing economic fundamentals, which can frustrate shorter term investors.

I believe these weaknesses play to Foord's strengths. Our investment approach is to invest in quality companies with long-term growth prospects that are

superior to others available in the market. If a competent executive team translates these prospects into sustainable cash-backed earnings, we will hold our investment for very long periods. This could extend beyond a decade and often has done so. Liquidity risk significantly diminishes as we extend our holding period—if we continue to like the prospects of a company, why should we ever sell?

Foord's total assets under management are a multiple less than the behemoths in the asset management industry. This means we can invest meaningful amounts in companies too small for giant fund managers to even consider.

Our analysts relish the challenge of ferreting out overlooked companies, based on our own in-depth, propriety research. Evaluating management teams is a core aspect of investment decision making. **Many smaller companies have highly motivated and competent management teams, often with a significant equity stake in their companies. We like this natural alignment of interests.**

Wide-ranging discussions with these management teams also offer industry insights that benefit our decisions on larger companies.

Small companies by their very nature enjoy better room for growth. They are also able to exploit lucrative niches too small to have a meaningful impact on larger peers. Both points make them attractive options for long-term investors.

The Foord Equity Fund has 17% of the fund invested in small-cap companies (market caps below R20 billion) and 15% in mid caps (market caps up to R50 billion). This compares to a 3% and 8% weight respectively in the JSE's Capped All Share Index. Shares such as Metair, Omnia, Invicta, Italtile and Massmart are examples that have contributed significantly to the strong performance of the fund this year.

# NEW ANALYSTS AT FOORD

Foord recently welcomed three new analysts to the investment team, bringing with them a fresh blend experience and expertise.

Durban born **DHERSAN CHETTY** joins Foord as an analyst on the industrials and insurance sectors. An experienced analyst, Dhersan spent 10 years on the sell side (stockbroking—first with Kagiso Securities and then a lengthy tenure at UBS Investment Bank) before switching to the buy side (fund managers), where he was most recently with FNB Wealth & Investments. He holds a Bachelor of Business Science (Finance Hons) from the University of KZN and has completed courses at Ivey Business School (Toronto) and the prestigious Stanford Graduate School of Business.

**MPENDULO NCONGWANE** joins us under Foord's trainee analyst programme. He holds a master's degree in chemical engineering from UCT and is enrolled for a PhD through UNISA. The programme enables young and inquiring graduates, CA's, investment interns or non-investment professionals the chance to work alongside Foord's experienced team, contribute meaningfully to investment research and immerse themselves in the world of asset management.

In Singapore, Foord appointed **YI XIANG YIM** as an investment analyst. Yi Xiang holds a Bachelor of Business Management (summa cum laude) from the Singapore Management University.

## CYBERTHEFT IS REAL — BE VIGILANT

Long gone are the days of lax home security arrangements. We now lock doors, secure walls with electric fencing and maintain complex alarm systems linked to armed response. Foord's operations manager **DIANE BEHR** says that we must similarly adapt our online security to the soaring risks of theft from electronic intruders.

As with all financial services companies, we are seeing increased fraudulent activity as processes become digitalised. Foremost in the fight against digital crime is to secure your email account. Fraudsters can compromise your email account to obtain sensitive information like account numbers, addresses and signatures. They can also change your passwords and then access your online investment and banking sites.

Protect your email by activating two-factor authentication—usually offered for free by email

providers. Use strong passwords (whole sentences work well) and change them often. Never use the same password twice.

The most impenetrable castle is easily overrun if the door is opened to a con artist, or the keys are left under the flowerpot for the neighbour to feed the cat. Please keep your online passwords and usernames secret and keep them safe. So invest in a good password management app such as Bitwarden (there are others).

Protect your online environment by using the latest anti-virus software. Do not click on unknown links. Select the highest security options on your phone and other mobile devices and do not leave your phone, device or computer unlocked. Avoid using free public Wi-Fi to access your email, investment sites or any social media or other sites linked to your email.

# MARKETS IN A NUTSHELL

## WORLD

### EQUITIES

Developed market equities face headwinds of slowing growth, supply bottlenecks and fears of hawkish central bank policy—Chinese bourses fell by nearly a fifth on China’s first pandemic-related GDP contraction and after swingeing regulatory interventions spooked investors

### BONDS

Developed market bond yields rose on inflation worries and expectations for rising rates—the imminent tapering of the Fed’s stimulus programme and prospects of a 2022 US rate increase should put pressure on yields

### CURRENCIES

US dollar resilience should persist in the short term given economic expectations and interest rate differentials—but higher inflation and the sheer size of the US debt burden suggest longer term dollar weakness

### COMMODITIES

Industrial and precious metals prices came under pressure on US dollar strength and the opportunity costs of higher rates, while oil prices rose above \$80/bbl on Chinese power constraints—but iron ore slumped on slowing Chinese growth and the possibly imminent default of China’s largest property developer, Evergrande

### ECONOMY

The pace of global growth is slowing despite ongoing stimulus—supply-chain bottlenecks and sporadic Delta variant flare ups should dampen near-term prospects despite greater social and travel freedoms

### MONETARY AND FISCAL POLICY

US Fed officials indicated that the pace of the US economic recovery warranted an earlier tapering of its bond-buying programme—absent a major setback in growth, the long-anticipated increase in the US federal funds rate should follow only in late 2022

## SOUTH AFRICA

The JSE eked out a gain, buoyed by banks, listed property and pharmaceutical stocks even as Naspers and Prosus fell on Tencent’s sharp pullback—but resources fell again as key industrial and precious metals prices retraced

The ALBI ended flat, with bond yields latterly tracking global yields higher—weaker commodity prices and higher inflation are near-term headwinds for bonds

The rand gave back 80 cents against the dollar late in the quarter—US dollar strength, emerging market jitters and commodity price weakness all contributed to its depreciation

GDP growth surprised, but manufacturing and construction contracted—Stats SA’s inclusion of new areas of economic value add resulted in nominal GDP ballooning more than 10%

Tax revenues significantly outpaced earlier projections on elevated commodity prices and rebounding economic activity—the budget deficit should narrow significantly this fiscal year, but forecasts remain uncertain given poor economic prospects

## FUND RANGE

### BEST INVESTMENT VIEW FUNDS

#### FOORD FLEXIBLE

#### FOR INVESTORS

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.

- 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\$)

#### FOR INVESTORS

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.

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

#### FOORD BALANCED

#### FOR INVESTORS

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.

- 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

#### FOR INVESTORS

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.

- 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).

### REGULATION 28 FUNDS

#### FOORD EQUITY

#### FOR INVESTORS

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

- 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\$)

#### FOR INVESTORS

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.

- 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.

### SPECIALIST EQUITY FUNDS

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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