# FOREWORD

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## DID YOU KNOW? CRYPTOCURRENCIES

Cryptocurrencies are digital instruments designed to mimic real currencies, but which do not exist in any physical form. They operate using online ledgers with advanced cryptography to secure the transaction records.

Cryptocurrency ledgers are distributed 'consensus' ledgers, meaning they are not centralised in one location. They are synchronised across sites, countries or institutions often using blockchain technology. The main advantage is the lack of a central administrator. Ownership can only be proved by the distributed ledger and not by a single authority.

Bitcoin was the world's first cryptocurrency in 2009 and there are now more than 4,000 privately operated cryptocurrencies in existence.

# CRYPTO IS NO GOLD

WILLIAM FRASER
Portfolio Manager

**Bitcoin and a slew of other cryptocurrencies are gaining traction as alternatives to fiat currencies as mediums of exchange. We asked portfolio manager WILLIAM FRASER whether they might also challenge gold as the ultimate store of value.**

To my mind, there are so few similarities between gold and Bitcoin that to compare them seems like a waste of resources. Gold is easy to understand. We can see it, feel it, mold it. It has many uses and limited supply. Through the centuries we have accepted it as money and stored it in large quantities as national reserves. Bitcoin is new. It is complex. And it was created out of nothing.

But we should not dismiss Bitcoin's utility as a medium of exchange or a store of value without some (even rudimentary) research and analysis. We should also note that different people have different investment objectives, time horizons and risk budgets. So, there may be diverse conclusions as to its utility. Let me offer mine.

I like gold as a store of value in investment portfolios because it typically shines during times of financial stress. It acts as a safe-haven asset, with a proven track record of preserving and even improving value during market dislocations. It is an insurance policy against government economic mismanagement, which could lead to currency devaluation and rising borrowing costs.

In contrast, and despite its limited supply, Bitcoin has failed as a store of value during times of financial market distress. **The extreme volatility of cryptocurrency prices (irrespective of market conditions) suggests demand is for speculative profiteering rather than safety of capital.**

Moreover, major price falls tend to occur when lending dries up and bank collateral requirements rise meaningfully—forcing leveraged Bitcoin speculators to sell. This tends to happen during times of market dislocation. Thus, while Bitcoin's limited supply might imply a store of value, its price history betrays this promise.

Nevertheless, cryptocurrencies (see *Did You Know?*) could become an accepted (and legal) medium of exchange—one day challenging the dollar, euro, yen and other currencies as a means of payment. They therefore compete with fiat currencies more than with gold.

But even in this theatre they face challenges. I have already shown that they lack credentials as good stores of value. They also exhibit great variability in demand while supply is artificially manipulated. Finally, cryptocurrencies are not widely accepted as a medium of exchange—only El Salvador recognises Bitcoin as legal tender. This is because governments understandably want to collect taxes in their own currencies.

Bitcoin's extreme price volatility means it fails the test as a currency with stable purchasing power and as a store of value akin to gold. Bitcoin is merely a promise without any economic or fiscal backing. The potential for better cryptocurrencies (including central bank sponsored crypto coins called Central Bank Digital Currency) means the potential exists for Bitcoin's value to go to zero over time.

# SUSTAINABLE INVESTING — WE'VE BEEN HAVING IT

PAUL CLUER
Managing Director

**Sustainable investing has become the latest hot investment trend, with a global proliferation of funds promoting environmental, social and governance (ESG) outcomes. Managing director PAUL CLUER notes that Foord has always integrated ESG thinking into its investment process.**

Sustainable investing uses ESG factors to evaluate investments in addition to normal financial risk-return metrics. The expectation is that well-governed businesses that strive to reduce their carbon footprints and promote socially progressive causes are best positioned to grow.

With a stellar 40-year track record of successful investing, this is not new news to Foord. As long-term investors, the enduring sustainability of income streams has always been fundamental to Foord's investment philosophy. As the man from the Vodacom ad would say, "We've been having it."

Foord has always considered sustainability factors in its formal macro view, economic and earnings forecasts, probability analysis and top-down asset allocation. Foord also uses ESG factors as a subjective measure to rank attractively priced companies or when evaluating management of investee companies.

The firm has nevertheless improved the rigour, recording and reporting of its ESG research and ESG policy. Some of this relates to investor demand and some to regulatory initiatives, including in the EU where the Foord global funds are domiciled.

We now formally record an ESG risk score for the companies in which we are invested. Foord subscribes to several leading ESG risk scoring services. This includes a leading South African research unit and a leading global unit. The investment team may also calculate its own risk score using a probability/outcome ESG risk scoring matrix.

What are the implications for the investment portfolios of having scored ESG risks at security level? I will be frank in confessing that we do not manage these ESG risks by applying aggregate limits on specific economic sectors, such as fossil fuels or fertilisers. Nor do we set caps, for example on carbon emissions, for our investment portfolios.

Foord does, however, commit to incrementally improve the individual and aggregate ESG risk scores for its portfolio investments. How we do this depends on how we categorise the stock-level risks. We categorise investments into three broad risk groups: negligible to low ESG risks, medium to high ESG risks and severe ESG risks.

We undertake to monitor the risk scores of companies assessed as having negligible to low risks, to ensure the score does not deteriorate. It is worthwhile noting here that these are point-in-time ratings. They will move over time, which means risk scores may deteriorate as well as improve.

For medium or high risk scores, we commit to influencing investee entities to incrementally promote improved ESG outcomes. This can take the form of management engagement (which is common and widespread) or voting on formal resolutions put to shareholders on ESG issues. Management engagement is behind-the-scenes shareholder activism. Voting on resolutions is captured in our proxy voting records, which we disclose to investors.

"Foord has always considered sustainability factors in its formal macro view, economic and earnings forecasts, probability analysis and top-down asset allocation."

We will avoid investing into counters with severe risks. We will carefully consider divesting from counters already owned in the portfolio where ESG scores deteriorate to unacceptable levels. Finally, we undertake to report to investors on ESG developments and specifically regarding the proxy voting record. We do this in our annual Stewardship Report which is carried on our website.

What are the early take-aways from this risk scoring activity? Firstly, scoring of non-equity investments is less advanced than for companies. Equity funds have more robust scores with more instruments covered than multi-asset funds.

Secondly, the Foord funds score broadly in line with peer groups and benchmarks on overall ESG scores. This is to be expected in a market as small as South Africa's, with limited choice amongst a shrinking pool of listed investments.

Thirdly, most of the risk comes from the S (social) pillar of the ESG risk score, followed by G (governance). While we tend to think of ESG as a proxy for environmental risks, the S and G pillars cover the gamut of other risks: from labour standards, diversity, data privacy and animal testing, to lobbying, corruption and remuneration.

Finally, the Foord funds score well on the E (environmental) pillar risk exposures. The Foord global funds and Foord Balanced Fund qualify for global funds rating service Morningstar's 'Low Carbon Designation™' badge due to low carbon risk and fossil fuel involvement scores. The Foord Equity Fund in South Africa narrowly misses the qualification criteria, but has about half the JSE's resource-heavy level of fossil fuel involvement. Sadly, Morningstar has insufficient coverage of the other Foord funds to credibly rate them in this area.

For now, we will publish Morningstar's Low Carbon Designation™ badges on the fact sheets of qualifying funds, but will not otherwise publish fund or component scores. ESG asks investors to grapple with complex issues to which there are no obvious answers—for example, is saving human lives less important than animal welfare or checking evil pharmaceutical profiteers?

We don't have a firm view on this and many other equally hard questions. Nor should we be the bastions of these trade-off quandaries as fund managers. We do, however, undertake to score, monitor, engage and vote to improve ESG outcomes and to avoid securities where the risk is untenable.

# A MATTER OF TIME

JC XUE
Portfolio Manager

**The good things in life take time to be cultivated and enjoyed—why should investing be any different? Foord Singapore portfolio manager JC XUE reminds us that slowing down can be powerful.**

The accelerating pace of technological development has brought efficiency to our lives, but is increasingly eroding our capacity for patience. Subtly, but surely, technology is influencing society to demand that everything be faster. We read Twitter instead of books, we watch short TikTok clips instead of long videos and we seek to get rich fast instead of slowly. In such a world, slowing down to appreciate time can be powerful.

We can appreciate time in the context of investing. Reuters reported that the average holding period for US shares hit a record low of 5.5 months in June 2020 (down from 14 months in 1999). The emergence of zero-commission trading has turned markets into casinos. The gamification of share trading platforms has incentivised more trade activity in shorter periods.

Shrinking holding periods means fewer investors think of stocks as owning businesses: this offers opportunities for patient investors with much longer time horizons. Lengthening time horizons from mere months to years or decades improves investment success rates. We should be willing to build wealth slowly.

We can also appreciate time as a dimension to evaluate businesses—fast and slow are both useful lenses to evaluate competitive advantages of companies. Retail giant Amazon thrives on the fastest delivery times. Apparel vendor Zara keeps customers returning by responding fastest to fashion trends. However, in the luxury segment it takes decades to build brand heritage. Chanel's 100-year old heritage makes its allure and iconic designs built around its eponymous founder more powerful.

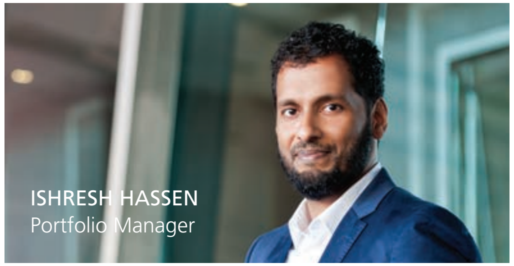
> "Lengthening time horizons from mere months to years or decades improves investment success rates."

In alcohol, the best spirits and wine take years to age. You cannot accelerate time to create 20-year-old whiskey (though some have tried). In media, memory builds nostalgia, which is a function of time. Franchises like Star Wars monetise nostalgia and build nostalgia for new generations. In sports, a loyal fan base is built through years of winning trophies. You cannot recreate the fan base without the legacy of success.

Companies thus exploit the value of time through the spectrum of very long versus very short. Products and services delivered on the extreme ends of the time spectrum therefore have advantages that are difficult to replicate.

At Foord, we harness time by setting longer investment horizons to reap the rewards of compounding business value over decades, not months. And by building portfolios with durable businesses that understand how time can create formidable competitive advantages.

# FOORD — WE FIND VALUE



ISHRESH HASSEN
Portfolio Manager

**The savings industry likes to complicate matters by trying to place fund managers into a myriad of style boxes. Foord Singapore portfolio manager ISHRETH HASSEN writes that Foord eschews manager style labels and just seeks to find value.**

You may have seen how investment consultants label fund managers as having 'growth' or 'growth at a reasonable price' or 'quality' or 'value' or 'momentum' styles, or even a combination of several styles. These labels refer to the kind of companies they like to invest in and are mostly self-explanatory.

> "Foord has always sought to buy quality businesses priced at less than what they are truly worth—and then hold them for the long term."

However, style definitions are not relevant for true long-term investors (like Foord). This is because, over time, good companies reflect many (if not all) of these style descriptors at various points in the business and market cycles. Sometimes a share price might be temporarily depressed and it may look like a 'value' share. In booming business cycles it will show 'growth' attributes, while during frothy stock market periods it might appear to be a 'momentum' stock, and so on.

What does matter is the price you paid when you invested, and how cheap that price is measured against the future value of that business. Foord has always sought to buy quality businesses priced at less than what they are truly worth—and then hold them for the long term. If we find value correctly and then properly diversify the portfolio to manage risks, the long-term compounding of earnings growth will protect investors from the ravages of inflation.

This is, quite simply, what we call 'value investing'. And to us, value investing is a very broad church. Sometimes we find value in the traditional sense—when a company is priced way lower than the value of its underlying assets (it may or may not be a quality business, and very often it's not). The return from the investment comes when some catalyst closes the gap between price and underlying value. When this occurs, you must redeploy the capital into the next investment idea.

We also find value in high-quality, long-term compounding businesses that at first look expensive, but which offer good value based on how much we think they can grow in the coming years. Value for Foord is not only about what a company is worth today or next year, but more about what we think it will be worth in five, ten or fifteen years. This is the best kind of value to find, because it can deliver the most powerful long-term compounding.

We avoid style labels for good reason. You should be wary of them, too. We work hard to understand where a business will be in the future, then buy it at a good enough price such that the future value delivers a satisfactory return to our investors for the risk taken. And then we manage the risks by diversifying, which is the only free lunch available to investors.

We find value. It's as simple as that.

# MARKETS IN A NUTSHELL

## WORLD / SOUTH AFRICA

### EQUITIES

**World:** The global equity rally was sustained despite prospects of US interest rate rises coming earlier than expected—on continued stimulus, vaccine rollouts and the improving global economic outlook

**South Africa:** The JSE moved sideways, weighed down by the retracement of the resources index on lower commodity prices—but the listed property sector continued to recover from 2020's lows

### BONDS

**World:** Developed market long bond yields declined even with accelerating US and Eurozone inflation—policymakers suggest rising inflation is transitory

**South Africa:** The All Bond Index rallied as SA bond yields tracked global rates lower—longer dated bonds outperformed as the yield curve flattened

### CURRENCIES

**World:** The US dollar was weaker against other majors on improved global data—but rallied after the US Federal Reserve showed it would not tolerate structurally higher inflation

**South Africa:** The rand rallied through R14/$ on South Africa's favourable terms of trade and record trade surplus—but later retraced on waning commodity prices and SA's rampant COVID-19 caseload

### COMMODITIES

Oil and natural gas were sharply higher after OPEC+ signalled robust demand amid managed supply—precious and industrials metals also rallied but retraced latterly on US dollar strength and easing inflation worries

### ECONOMY

**World:** The World Bank says global GDP will expand at its fastest post-recession pace in 80 years, led by a few key economies—but many emerging economies will still struggle with the pandemic's aftermath

**South Africa:** Mining output has sustained the recovery of the SA economy, albeit with economic output still well below pre-pandemic levels—but the jobs bloodbath continues

### MONETARY AND FISCAL POLICY

**World:** The US Fed dismissed nascent inflation as transitory but spooked markets by bringing forward to 2023 the date when it first expects to raise rates—global monetary policy remains exceptionally loose

**South Africa:** SARB again kept rates on hold but cited growing inflationary pressures as SA CPI rose to 5.2% in May—most economists now forecast repo rate increases in late 2021 or early 2022

# 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.

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