FOREWORD

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DID YOU KNOW?
FEEDER FUND

Feeder funds are unit trust funds that, apart from cash, may only hold units or shares in another unit trust fund. The fund in which the feeder fund invests is known as the master fund or sometimes as the target fund.

The feeder fund is a passive investment strategy. The master fund, in contrast, conducts all the trading activity and owns the underlying investments. Master-feeder structures are commonly used for cross-border investment arrangements.

Abroad, master-feeder fund structures are typically used for hedge fund arrangements with one offshore master fund and often many feeder funds in different jurisdictions. Investment managers with similar products in several countries might use master-feeder structures to achieve cost reductions for economies of scale.

In South Africa, feeder funds are almost exclusively used to invest in offshore funds under South Africa's exchange control regulations. Foord uses feeder funds to invest into its Foord global funds in Luxembourg and Singapore. In 2013, the Guernsey-domiciled Foord International Trust became a feeder fund of the Luxembourg UCITS fund, Foord International Fund.

IN THIS ISSUE

THE ECONOMIC EFFECTS OF WAR

NICK CURTIN
Head of Business Development

Russia's invasion of Ukraine strikes us as one of the most-expected unexpected events of recent times. Steeped in a revisionist ideal of Russian identity, President Putin is rattling the cage of the current world order. NICK CURTIN writes about the inflationary pressures that result from the war.

It is difficult to feign surprise at Russia's invasion of Ukraine. We have for some time flagged escalating geopolitical risks, ranging from the US-China trade wars, Brexit, the China-Taiwan conundrum, Russian insecurities over NATO expansion, ongoing conflict in the Middle East and general schizophrenia in the EU. We even flag the alarming internal political divide in the US as having potentially global geopolitical consequences in the fullness of time.

These dynamics are in fact intricately connected. Nonetheless, the physical outbreak of war with all its concomitant horrors not only disturbs our human sensibilities but disrupts financial markets — especially so when the protagonists are central to the world's energy and food production industries. Well-trodden, although largely dormant, geopolitical fault lines between east and west further complicate matters.

The consequences of war manifest through several channels; the most immediate being via increased market volatility. Volatility results as participants begin to calibrate the initial extent of the conflict and the various permutations for potential escalation. Companies and industries with operations in the geographical area of conflict attract the quickest market adjustments.

Broader ramifications take longer to assert as unintended consequences start to emerge — the most obvious of which in the current Russia-Ukraine war are the energy markets. Russia is a key producer and exporter of oil — and especially natural gas — to large parts of the EU. Since fuel is a key input cost to the production and transport of goods, the effect of surging energy prices on rising global inflation expectations has been swift.

Russia and Ukraine collectively produce around one third of the world's wheat, making up more than a quarter of global wheat exports. Grains are a key ingredient in the global food production chain. The prospect of significant medium-term supply shortfalls caused wheat and other agricultural commodity prices to surge.

Russia and neighbouring ally Belarus are also key participants in the production of fertiliser needed to maintain global crop yields. In time, higher grain prices, compounded by higher energy and fertiliser costs, should lead to higher food prices. In some instances, outright scarcity could result. There could also be serious socio-political consequences in poorer countries, where the economic vulnerabilities to food shortages and inflation could be catastrophic.

If there is any positive for Foord investors to the outbreak of conventional warfare in Europe, it is that the Foord funds were well positioned for the consequences of just such an escalation. The Foord portfolios also had a good amount of hedging to higher energy and agricultural commodity related prices, and no direct exposure to the region.

FOORD INTERNATIONAL FUND — A FUND FOR ALL SEASONS

BRIAN ARCESE
Portfolio Manager

Foord International Fund is Foord's conservative, multi-asset global fund. The fund was launched in 1997 and celebrated its 25th anniversary last month. Portfolio manager BRIAN ARCESE reflects on the fund's objective and achievements.

The managers' early ambition for the Foord International Fund was to deliver meaningful US inflation-beating returns over long periods from a conservatively managed portfolio of global securities. On a since-inception basis the fund has delivered exactly that — with US dollar returns of 6.7% per annum after fees, when US inflation averaged 2.3% per annum.

While not the fund's objective, it is also pleasing to see performance approach world equity market returns (7.2% per annum with significantly more volatility) and meaningfully exceed the fund's peer group (4.0% per annum). Small return differences compounded over long periods have a dramatic impact on portfolio outcomes: $100,000 invested at inception would have grown to $513,340 in the fund, but to just $268,065 if invested in the peer group.

The past quarter-century has been eventful: the run-up to and popping of the technology bubble, a decade-long war in the Middle East, the global financial crisis, the European sovereign debt crisis, the US credit downgrade, the ongoing US-China trade war, a global pandemic, and Russia's invasion of Ukraine.

As a reminder, Foord International Fund is a conservatively managed multi-asset fund. While not constructed against or benchmarked to global equities, it is useful to compare the fund's performance through time against that of global equities, particularly during times of increased stress.

> *Over the past 25 years we've forecast far more risks than have come to fruition.*

We covered two of these periods extensively five years ago in the fund's 20th anniversary piece — the development of the dotcom bubble and then from its bursting to the global financial crisis. In both, the fund initially lagged, but then dramatically outperformed during the market draw downs and across the full cycle.

The current investment cycle is elongated and arguably incomplete. The biggest difference in comparison to past cycles is the dearth of real return opportunities outside of key equity markets. Coordinated action by global central banks to supress interest rates has driven returns after inflation in large portions of the credit market into negative territory — while simultaneously pushing equity valuations higher.

Within this long cycle, markets have proven no less volatile than in the past. The fund protected capital and materially outperformed markets over three memorable selloffs: in late 2018 during the US-China trade war, at the onset of the COVID-19 pandemic in 2020, and in the first quarter of 2022 as the US Federal Reserve started its inflation-busting rate hike cycle and Russia invaded Ukraine.

Each of these periods shows how the fund protects capital during periods of stress. But more importantly, they show that fund construction and diversification can offer investors a source of uncorrelated real return — even during volatile periods.

Over the past 25 years we've forecast far more risks than have come to fruition. As a result, we don't position the portfolio for binary outcomes. Instead, we strive to construct an all-weather portfolio that delivers inflation-beating returns regardless of the environment. This careful stewardship has been rewarded with one of the longest tenures in the peer group.

After decades of uncharacteristic sanguinity, geopolitical risk is an increasing worry. Inflation risk has gone from being benign to posing a formidable threat. We will continue to guard against these and countless other risks. With growth prospects uncertain and developed market equity valuations stretched, the fund remains cautiously positioned.

We expect the companies we invest in to generate higher returns than global peers while operating with less leverage — these firms should grow their earnings ahead of developed market inflation. The fund's cash position, although a drag in rising equity markets, provides optionality to exploit volatility should the cycle end abruptly and markets draw down.

It seems fitting that as we close the books on the 100th quarter for Foord International Fund, we have posted one the best quarters in the fund's history relative to equity markets — during this quarter the Foord International Fund rose +5.5% against a global equity market decline of -5.5%.

CELEBRATING TEN YEARS IN SINGAPORE

Foord Singapore has turned ten! The company started in 2012 when three South African staff members relocated to the city state of Singapore. Today, Foord Singapore has ten members of staff, including eight investment professionals.

Singapore's flexible labour policy has allowed Foord to attract and retain a diverse investment team to support the multi-counsellor investment approach for the Foord global funds. Singapore is also known for its business-friendly regulatory environment and tax certainty. Robust regulatory oversight upholds the transparency and integrity of the asset management industry.

Foord Global Equity Fund, a tax-exempt Singapore-domiciled unit trust, is also turning ten this June. We thank our investors for their continued support and trust in Foord's stewardship. We hope to walk many more decades with you in preserving and growing your wealth.

THE INFLATION GENIE

We all know that inflation is a hot topic. For some years now we've talked about it being our No. 1 emerging global risk. Inflation has however only latterly hit home in the real economy and financial markets. Portfolio Manager WILLIAM FRASER looks at how the inflation genie escaped the bottle.

The risk that inflation poses to long-term savings should not be underestimated — inflation of just 5% per annum will halve your capital in less than 15 years. Investors therefore ignore inflation risk at their peril.

First, some useful context to the current inflationary pressures. In the depths of the global financial crisis of 2008/9, authorities desperately employed massive monetary and fiscal stimulus to save the global economy from outright depression. And it worked. But this plentiful, cheap money resulted in a decade-long 'everything rally' in global financial markets — otherwise known as asset inflation.

Financial assets thus enjoyed a goldilocks period of strong economic growth, absurdly low interest rates and record corporate profitability. This was due, in part, to the complete lack of inflationary pressures, which are normal for buoyant economic cycles. Regardless of the myriad reasons used to justify this 'new normal', it was our view that the low-inflation anomaly could not persist indefinitely.

When COVID-19 lockdowns shut most economies, monetary and fiscal support to consumers dwarfed that of the global financial crisis. This money was used to buy goods and, later, services as economies re-opened. While consumers went on a shopping spree, factory output slowed due to COVID-19 restrictions. Put simply, demand increased while supply shrank.

Fast forward to today and much of the world is experiencing a synchronised, rising inflation cycle. The major central banks are behind the curve — just as they told us they would be. Inflation expectations have moved up and further market volatility should be expected if the US Federal Reserve and other central banks continue to talk tough.

Governments in developed markets have now started to rein in the free money. Nevertheless, demand for goods and services has stayed strong because labour markets are tight and getting tighter. In short, more people are employed, and they are earning more. As a result, wage inflation has set in for the first time in decades — underpinning a likely sustainable rise in inflationary pressures.

Russia's invasion of Ukraine is only adding fuel to the inflationary fire. Russia is a major exporter of oil and gas, while both countries account for roughly a third of global wheat production. As a result, energy and food prices have already surged.

So that is how the inflation genie escaped the bottle — and getting it back in will be a challenging task. As we have said all too often in the last ten years, we seem to be in uncharted territory and the rear-view mirror is a dangerous place to be looking.

HEATHER RIDLEY RETIRES

Heather Ridley, Foord's fearless head dealer, retired at the end of March after 27 years of service. While not quite the Foord record, 27 years is a full career by anyone's standards — especially in the high-pressure environment of the dealing room.

Heather served as personal assistant to Dave Foord for some years before volunteering to cover the dealing desk during a vacancy. She took to the job with such flair and acumen that she was soon the permanent dealer.

Today, securities dealing is dominated by direct market access and algorithmic trading. But it wasn't always so. Traders would receive orders — to buy or sell securities — from portfolio managers and would work those trades in the market: never put too much with one broker, never disclose your full hand, seek the best possible price, and deal fairly for all clients.

The job attracted its fair amount of related administration and involves long hours, from well before market open to well after the closing bell. Heather took it all in her stride.

Heather has a zest for life that we will miss in the office. She knew how to work hard, and she knows how to play hard. Her booming voice and boisterous laugh could often be heard across the office. She has a fighting spirit which came from her drive to do what was right and what was fair for investors — you never argued with Heather unless you absolutely knew you were right.

Heather, we wish you everything of the best in your retirement. You're far too young to slow down, so we are sure you will soon be engaged in interesting and purposeful activities. Thank you for your diligence and care on the desk all these years. Bon voyage.

FOORD FEEDER FUNDS

Foord International Feeder Fund and Foord Global Equity Feeder Fund are rand-priced conduits into Foord's US dollar-denominated global funds. Feeder fund investors escape the complexities of SA's exchange control regulations. This burden instead falls to Foord within the constraints of SARB's exchange control regulations, which set an upper foreign exposure limit for all South African unit trusts.

Schemes that exceed the limit must close. As readers will know, Foord closed its feeder funds to new inflows in 2016 after the late-2015 'Nenegate' rand blowout pushed the scheme over the limit. The funds have remained closed to investment ever since.

Foord has collaborated with Prescient Management Company to again offer feeder fund access to the Foord global funds. Prescient Foord International Feeder Fund and Prescient Foord Global Equity Feeder Fund are now open for investment. Please visit www.foord.co.za/foord-global-funds for links to the Prescient feeder funds or for direct US dollar access to the Foord global funds.

MARKETS IN A NUTSHELL

WORLD / SOUTH AFRICA

EQUITIES

World: Equities retreated on the US Federal Reserve's more hawkish tone, Russia's invasion of Ukraine and Chinese COVID-19 lockdowns — commodity export emerging markets excluding Russia outperformed

South Africa: South Africa was the standout emerging markets equity performer in US dollars — as resources benefited from the commodity price rally and financials delivered earnings beats on undemanding valuations

BONDS

World: Developed market bonds sold off on expectations that inflation pressures would persist — on higher US wages and rampant energy and food prices

South Africa: The SA yield curve flattened marginally on higher short-term rates — high coupons resulted in the All Bond Index advancing for the quarter

CURRENCIES

World: The US dollar rose against all the majors in anticipation of higher US interest rates — as the Fed turned decidedly hawkish

South Africa: The rand strengthened against major currencies on improved terms of trade — and SA's attraction as an emerging market safe haven given geopolitical headwinds in Russia and China

COMMODITIES

Russia's invasion of Ukraine unsettled markets and sparked a sharp rise in energy and soft commodity prices — precious metals gold and silver rallied on the eruption of geopolitical risk and the prospect of stubbornly higher inflation

ECONOMY

World: The fast pace of global economic growth slowed — as the base effect of post-lockdown economic re-openings started to fade

South Africa: Inflation accelerated on better-than-expected economic recovery — sharply higher global fuel and soft commodity prices should add to inflation pressures in the months ahead

MONETARY AND FISCAL POLICY

World: The Fed raised rates by 0.25% and indicated that balance sheet reduction and more rate increases would happen quicker than previously guided — the Fed is forecasting up to eight interest rate increases for 2022

South Africa: National fiscus projections improved with windfall tax receipts and mining royalties on the export commodity price boom — while SARB raised interest rates another 0.25% to combat inflation 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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