

FOORD CONSERVATIVE FUND



Possible downgrade: Where to for growth investors?

In these uncertain times, where is the safest place to invest? Equities? Property? Bonds? Contributor Craig Gradidge takes a closer look.

The one issue that has captured the imagination of retail investors in the past three months has been the possibility of the country's sovereign credit rating being downgraded to junk status. This has been the one issue that has dominated discussions we have had with clients since Nenegate in December and the subsequent reaction from markets in response to this. As with everything else, the initial shock has passed and people have had a chance to think less emotionally about the issue.

Uncertainty about the future

There are mixed views in the market, with some commentators suggesting that finance minister Pravin Gordhan is doing the right things and making the right noises to prevent the country's downgrading. Others, like Professor Carlos Braga, professor of International Political Economy at IMD Business School in Switzerland, believes that the downgrade to junk status is a sure bet, and his only forecast for 2016. The professor spoke recently at the annual Investment Forum held in Cape Town and Sun City.

The challenge for an investor wanting to commit fresh capital at this stage is that a wrong call can result in heavy losses that will take a long time to be recovered. It seems that asset managers also differ significantly in terms of their reading of the situation. In the multi-asset high-equity category, the large fund

THE FOORD CONSERVATIVE ASSET ALLOCATION AS AT THE END OF FEBRUARY 2016 IS AS FOLLOWS:

Asset Class	South Africa	International	Total
Equities	22.1%	19.9%	42%
Listed property	1.6%	0.5%	2.1%
Corporate debt	0.2%	0%	0.2%
Government bonds	5.4%	0%	5.4%
Money market	39.9%	5.1%	45%
Commodities	4.8%	0.4%	5.2%
Total	74.4%	26%	100%

managers have significantly different portfolio positions compared to each other, further confusing investors.

Where can you put your money?

Coronation has a high exposure to growth assets (equities and listed property), for example, while Prudential has a big bond exposure. Foord, on the other hand, has a large cash position with almost no bond or property exposure. So much for the argument that active management is the place for investors to be right now.

We think that investors have to find that space where capital is not too exposed in the short term if the manager gets his calls wrong, but there must be sufficient scope for him to deliver inflation-beating returns in the medium to long term. We believe that the multi-asset medium-equity category is a good place to look right now. Funds in this category can have a maximum equity exposure of 60%, listed property exposure of 25%, and offshore exposure of 25%. In this category, our preference would be the Foord Conservative Fund (see table).

One aspect of this fund's portfolio positioning that attracts us is the high cash weighting, which should protect capital in the event of another market surprise before the credit rating decision. The maximum offshore exposure is also reassuring given that prospects for return from local assets have deteriorated somewhat given the economic outlook.

There is sufficient equity exposure in the event that we somehow avoid a downgrade, and markets start running again. Finally, the low exposure to bonds and listed property is also attractive given that we are entering a rising interest rate environment, and the potential for these assets to be sold off significantly in the event of a downgrade. Foreigners still own around 30% of government bonds, up from 22% in 2010.

The historical performance of the fund is shown in the graph. While the fund has a short track record, the manager has a long and enviable track record in managing multi-asset funds. ■
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60%,
 listed property exposure of
 25%,
 and offshore exposure of
 25%.

PERFORMANCE: FOORD CONSERVATIVE FUND VS SA MULTI-ASSET MEDIUM-EQUITY FUNDS



02/01/2014-14/03/2016 Data from Fund Express 2016
 SOURCE: Gradidge-Mahura Investments