

# FOORD COMPASS LIMITED

JSE code: FCPD • ISIN: ZAE000054466 • Reg Number: 1987/003591/06

ANNUAL INTEREST DISTRIBUTION INCREASED TO 80.1 CENTS

## 10 YEAR ANNUALISED RETURN ON DEBENTURES OF 18.5% PER ANNUM

NET ATTRIBUTABLE ASSET VALUE 799.0 CENTS PER DEBENTURE



## CONDENSED STATEMENT OF FINANCIAL POSITION at 31 December 2011

Notes	Reviewed 2011	Audited 2010
	Rm	Rm
<b>ASSETS</b>		
<b>Current assets</b>		
Investments	1 480.5	1 474.5
Income receivables and unsettled sales	3.0	24.5
Taxation receivable	0.1	0.1
Cash and deposits	528.6	468.6
<b>Total assets</b>	<b>2 012.2</b>	<b>1 967.7</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Capital and reserves</b>		
Ordinary share capital	42.3	35.7
Accumulated profits	0.1	0.1
	42.2	35.6
<b>Non-current liabilities</b>		
Unsecured debentures	1 163.3	1 093.1
Deferred taxation	11.4	11.5
<b>Current liabilities</b>		
Accounts payable	806.6	838.9
Short investment positions	2.9	2.7
Unsettled purchases	720.8	753.9
Debenture interest payable	6.6	2.9
	76.3	79.4
<b>Total equity and liabilities</b>	<b>2 012.2</b>	<b>1 967.7</b>
Number of debentures in issue	153 719 105	147 475 338
Number of ordinary shares in issue	8 800 070	8 800 070
	Cents	Cents
Net attributable asset value per debenture (cum interest)	799.0	787.3
Net attributable asset value per debenture (ex interest)	749.4	733.4
Net attributable asset value per ordinary share	480.7	405.7

## CONDENSED STATEMENT OF COMPREHENSIVE INCOME

Notes	Reviewed 2011	Audited 2010
	Rm	Rm
Investment income	86.0	93.9
Realised trading profits	65.8	43.8
Operating expenditure	(16.3)	(15.5)
<b>Net distributable profit</b>	<b>135.5</b>	<b>122.2</b>
Capital profits on sale of investments	8.4	26.5
Revaluation of investments	19.1	15.5
<b>Net portfolio income before debenture interest</b>	<b>163.0</b>	<b>164.2</b>
Debenture interest	(122.0)	(110.0)
Increase in carrying value of debentures	4 (24.3)	(30.2)
Profit before taxation	16.7	24.0
Taxation expense	5 (4.7)	(11.0)
<b>Profit attributable to ordinary shareholders</b>	<b>12.0</b>	<b>13.0</b>
Weighted average number of debentures in issue	152 268 432	146 291 597
	Cents	Cents
Interest per debenture (weighted)	80.1	75.2
Earnings per debenture (weighted)	96.1	95.8
Earnings per ordinary share	136.4	147.7

## CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Ordinary share capital	Accumulated profits	Total
	Rm	Rm	Rm
Balance at 31 December 2009 (audited)	0.1	31.4	31.5
Dividend paid	-	(8.8)	(8.8)
Profit attributable to ordinary shareholders	-	13.0	13.0
<b>Balance at 31 December 2010 (audited)</b>	<b>0.1</b>	<b>35.6</b>	<b>35.7</b>
Dividend paid	-	(5.4)	(5.4)
Profit attributable to ordinary shareholders	-	12.0	12.0
<b>Balance at 31 December 2011 (reviewed)</b>	<b>0.1</b>	<b>42.2</b>	<b>42.3</b>

## CONDENSED STATEMENT OF CASH FLOWS

	Reviewed 2011	Audited 2010
	Rm	Rm
Net cash inflow from trading activities	149.3	1.6
Interest, dividends and taxation paid	(135.3)	(111.6)
<b>Net cash inflow (outflow) from operating activities</b>	<b>14.0</b>	<b>(110.0)</b>
<b>Net cash received from issue of debentures</b>	<b>46.0</b>	<b>13.9</b>
Net change in cash and deposits	60.0	(96.1)
Cash resources at beginning of year	468.6	564.7
Cash resources at end of year	528.6	468.6

## AUDITOR'S REVIEW REPORT

These results have been reviewed in terms of International Standard on Review Engagements (ISRE) 2410 by our auditors, Deloitte & Touche, whose unmodified review report is available for inspection at the registered office of the company.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

## 1. Basis of preparation and significant accounting policies

The condensed financial statements have been prepared in accordance with the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the AC 500 standards as issued by the Accounting Practices Board and the information as required by International Accounting Standards (IAS) 34 *Interim Financial Reporting* and the requirements of the Companies Act of South Africa. The condensed financial statements have been prepared under the historical cost convention, except for the revaluation of financial instruments.

The same accounting policies, presentation and methods of computation are followed in these condensed financial statements as were applied in the preparation of the company's financial statements for the year ended 31 December 2010.

## 2. Operating segments

The company has one principal operating segment and accordingly additional segmental disclosures have not been made.

## 3. Investments

Investments comprise both long and short positions to listed and unlisted securities. The investment objective is to achieve a total return of 10% per annum above the annual change in SA CPI on a rolling five-year basis. In managing the investment portfolio, securities may be held for trading within twelve months or may be realised over longer periods as deemed appropriate by the investment manager.

## 4. Unsecured debentures

	Reviewed 2011	Audited 2010
	Rm	Rm

## Unsecured debentures comprise

Debenture capital at issue price	1 046.5	1 000.5
Cumulative revaluation of debentures	105.4	81.1
Fair value of debentures	1 151.9	1 081.6

## Reconciliation of balance

Balance at beginning of year	1 081.6	1 037.5
Net proceeds on issue of debentures	46.0	13.9
Revaluation - current year	24.3	30.2
Balance at end of year	1 151.9	1 081.6

## Increase in carrying value of debentures

Net portfolio income before debenture interest	163.0	164.2
90% allocation to debenture holders	146.7	147.8
Less: proportionate share of taxation expense	(0.4)	(7.6)
Less: interest distribution for year	(122.0)	(110.0)
Revaluation - current year	24.3	30.2

## 5. Taxation expense

Taxation comprises:		
Current taxation charge - current year	4.8	6.7
Deferred taxation (credit) charge - current year	(0.1)	4.3
Net expense per statement of comprehensive income	4.7	11.0

Deferred taxation relates to the revaluation of investments. The share of the net taxation charge attributable to the unsecured debentures, which amounts to R0.4 million (2010: R7.6 million), has been deducted from the carrying value of the debentures as set out in note 4 above.

**RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011**

The results set out in the preliminary financial statements reflect a commendable result achieved under volatile market conditions. The board of directors has approved a final interest distribution of 49.6 cents per debenture, bringing the full year distribution to 80.1 cents per debenture on a weighted average basis (2010: 75.2 cents). The interest distribution represents an income yield of 10.9% on the opening net attributable asset value per debenture at the beginning of the year (2010: 10.5%).

Net portfolio income before debenture interest was largely unchanged at R163.0 million (2010: R164.2 million). During the year, more trading profits were realised than in the previous year as the portfolio manager took advantage of higher prices in certain markets to realise gains. The level of dividends earned in the portfolio was higher than last year, while interest accruals were lower as a result of the gradual decline in cash exposure and lower average cash rates since the beginning of the reporting period last year. The net result is that distributable income was higher, lifting the interest distribution 6.5% to 80.1 cents per debenture on a weighted average basis.

The net attributable asset value per debenture increased from 733.4 cents to 799.0 cents, cum interest. Together with the 30 cents per debenture half-year distribution, this yielded a total return on the debentures of 13.1% for the year on a net attributable asset value basis (2010: 13.4%). Since the start of the Foord Compass Debenture ten years ago at the beginning of 2002, the debentures have returned 18.5% per annum on an annualised basis. The returns on the debentures for the major periods ended 31 December 2011 are as follows:

	1 year	3 years	5 years	10 years
	to 31 December 2011 (% per annum)			
Income	10.9%	11.2%	11.3%	13.3%
Capital	2.2%	3.0%	-0.7%	5.2%
<b>Total Return*</b>	<b>13.1%</b>	<b>14.2%</b>	<b>10.6%</b>	<b>18.5%</b>

\* Calculated with reference to opening net attributable asset values per debenture

**INVESTMENT RETURNS**

Except for the USA, all major share markets were negative in 2011, reflecting recessionary fears associated with Eurozone over-indebtedness and slowing growth in China. US share markets rose on the relative attractiveness of moderate growth in the world's largest economy and good earnings results from US blue chip companies. Bond yields fell further in the US and UK on safe haven demand and persistently accommodative monetary policy. The dollar surged against most emerging market currencies and gained against the euro, while precious and industrial metals prices posted double digit losses with only gold gaining over the year. In SA, the dividend yield pulled the FTSE/JSE All Share Index into the black for a nominal return of 2.6% while bond yields were flat with the All Bond Index returning 8.8% for the year. The rand depreciated 18% against the US dollar.

In this environment, the Foord Compass portfolio achieved a commendable return of 14.9% in ZAR on a gross of fees basis (2010: 16.5%). The return underperformed the one year CPI + 10% objective return of 16.1% but was well ahead of SA equity, bond and cash returns. Since inception from 1 January 2002, the portfolio has achieved a gross return of 22.4% per annum for ten years. This exceeds the CPI + 10% objective of 15.9% over the same period, while also outperforming the SA share, bond and cash market returns and world equity market returns in rands by a substantial margin. The current and longer period returns achieved on the portfolio are tabulated below relative to the objective and SA and world equity markets.

	1 year	3 years	5 years	10 years
	to 31 December 2011 (% per annum)			
Gross portfolio total return	14.9%	17.1%	12.5%	22.4%
CPI + 10% per annum	16.1%	15.3%	16.9%	15.9%
FTSE / JSE All Share Index	2.6%	17.3%	8.1%	15.2%
MSCI World Index in rands	15.9%	5.8%	1.1%	0.1%

**COMMENT**

Stakeholders will recall from previous reports that while seeking to achieve the investment objective over longer periods, the primary objective is protection of capital. Capital is not guaranteed but the risk of loss is actively managed in a diversified portfolio of South African and international assets according to Foord Asset Management's best investment view on an unconstrained basis.

Given the depreciation of the rand during the year, the portfolio benefitted from the weighting to foreign assets which approximated 50% of the portfolio on an effective exposure basis at 31 December 2011. Foreign assets contributed 9.5% of the 14.9% total return. Stock selection within the SA listed share portfolio once again proved to be sound. The investment in SA listed shares returned 18.0% relative to the FTSE/JSE ALSI return of 2.6% and contributed 5.5% of the total portfolio return. The listed property counters included in the portfolio produced double digit returns but given their relatively small weighting only contributed 1.2% of the total return. The contribution from the short SA government bond position was negative again but the portfolio benefitted from the carry position mainly into local corporate bonds and foreign assets, which performed well over the year.

The returns from each major asset class and their respective contributions to the total return of the portfolio are as follows:

	2011		2010	
	Return	Contribution	Return	Contribution
JSE equities	18.0%	5.5%	36.0%	13.6%
JSE property	13.7%	1.2%	17.6%	1.9%
SA bonds	-8.4%	-3.1%	-14.6%	-6.1%
Foreign assets	20.4%	9.5%	8.2%	4.0%
SA cash	5.2%	1.8%	6.3%	3.1%
<b>Total return for year</b>		<b>14.9%</b>		<b>16.5%</b>

**PORTFOLIO STRUCTURE**

The macro structure of the investment portfolio continues to reflect the view that equities are the asset class of choice and are likely to be the only class to deliver inflation beating returns in the medium term. The effective exposure of the portfolio to equities has decreased from 95% to 85% of portfolio. Much of the equity exposure has been obtained via the options market to protect the portfolio against downside volatility in the short term. The top five equity investments by value comprise: Anglo American, Foschini, Kenmare Resources, Steinhoff and Remgro.

**PORTFOLIO STRUCTURE (continued)**

During the year, the overall short government bond exposure was largely unchanged, although a portion of the exposure was switched into a short US Treasury position. The listed property holding was reduced on profit taking during the year, while a gold ETF was added as an inflationary hedge to complement the short US government bond position. Effective cash exposure has increased to 27% of portfolio at year-end.

The effective asset structure of the investment portfolio at 31 December is as follows:

	Domestic %		Foreign %		Total %	
	2011	2010	2011	2010	2011	2010
Equities	63	65	22	30	85	95
Listed property	6	6	0	6	6	12
Government bonds	-34	-47	-11	0	-45	-47
Corporate debt	8	9	16	13	24	22
Commodities	0	0	3	1	3	1
Effective cash exposure	7	14	20	3	27	17
	50	47	50	53	100	100

**OUTLOOK**

Global equities continue to offer value relative to low global interest rates and aberrationally low bond yields but also due to robust company balance sheets, low forward PE multiples and high profit margins. World corporate profit growth is expected to be positive despite an impending Eurozone recession, provided there is no disorderly break-up of the zone with consequent bank failures in that market. We expect global interest rates to remain low given the lack of fiscal capacity outside of China to boost demand through reflation. The US dollar should continue its recovery against major global currencies, reflecting relative US economic strength and competitiveness. In South Africa, equity valuations do not appear to be stretched and corporate earnings growth should continue. South African government bond valuations remain excessively expensive and capital values remain at risk of permanent loss.

The portfolio is positioned to benefit from this macro view but remains globally diversified across economic sectors, bond markets and currencies. Optionality within the portfolio provides additional protection and flexibility to change exposures rapidly if required.

This reviewed preliminary report was prepared under the supervision of PE Cluer.

Signed on behalf of the board



JC Greyling  
18 January 2012



PE Cluer

# FOORD COMPASS LIMITED

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Incorporated in the Republic of South Africa • "Compass" or "the company"

## ANNOUNCEMENT

### INTEREST DISTRIBUTION

Notice is hereby given that a debenture interest payment (number 49) of 49.606 cents per debenture in respect of the six months ended 31 December 2011 is payable to debenture holders recorded in the debenture register of the company on the record date. In compliance with the JSE Listings Requirements, the following dates are applicable:

Last date to trade	Friday, 3 February 2012
Debentures trade ex-interest	Monday, 6 February 2012
Record date	Friday, 10 February 2012
Payment date	Monday, 13 February 2012

### IMPORTANT: ELECTION TO RECEIVE DEBENTURES IN LIEU OF A CASH INTEREST PAYMENT

As provided for in section 6.4 of the Debenture Trust Deed, the board has resolved that debenture holders recorded in the debenture register at the close of business on the record date may elect to receive new fully paid Foord Compass Limited Variable Rate debentures in lieu of a cash interest payment ("the debentures"). The motivation for this decision is to retain cash and build capital for debenture holders. The tax implications of the settlement of the debenture interest payment by the issue of debentures or by the payment of cash should be the same. However, debenture holders are encouraged to consult their professional advisors should they be in any doubt as to the appropriate action to take.

Certificated debenture holders who wish to elect to receive debentures in respect of all or a part of their interest entitlement, must complete the Form of Election (mailed under separate cover) in accordance with the instructions therein and return such election form to the company's transfer secretaries to be received by no later than 12:00 on the record date, being Friday, 10 February 2012. Dematerialised debenture holders who wish to elect to receive debentures in respect of all or a part of their interest entitlement must, in terms of the agreement between themselves and their Central Securities Depository Participant ("CSDP") or broker, instruct their CSDP or broker accordingly.

If the election to receive debentures is not made by dematerialised debenture holders by the cut-off time stipulated by their CSDP or broker, or by 12:00 on Friday, 10 February 2012 in the case of certificated debenture holders, debenture holders will be deemed to have elected to receive a cash interest payment. As indicated above, the last day to trade in the company's debentures on the JSE to ensure that a purchaser appears as an owner on the record date will be Friday, 3 February 2012. The number of debentures to be issued ("the ratio") will be determined with reference to the ex-interest net attributable asset value per debenture as at 31 December 2011 of 749.4 cents. Accordingly, the ratio is 6.619 interest debentures for each 100 debentures held on the record date. Only rounded numbers of interest debentures will be issued based on conventional rounding principles. No fractions will be paid. The right to receive debentures may not be traded on the JSE.

Subject to JSE approval of the debenture election, application will be made to the JSE Limited for a listing of the maximum number of debentures to be issued with effect from the commencement of business on Monday, 13 February 2012. An adjustment to the number of debentures listed will be made on or about Tuesday, 14 February 2012 in accordance with the actual number of debentures issued having regard to the elections made.

Cheques and/or new debenture certificates will be posted to certificated debenture holders and the accounts updated and/or credited by CSDPs or brokers of dematerialised debenture holders on or about Monday, 13 February 2012.

Signed on behalf of the board



JC Greyling  
18 January 2012



PE Cluer