

# FOORD INTERNATIONAL FUND — WHEN PREPARATION BEATS PREDICTION

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## THE RISK WE PREPARED FOR

Twelve months ago I wrote that the most probable risk for 2025 was a US slowdown. Housing was cooling, consumer credit was showing strain, and leading indicators were weakening. With US equities priced generously, the asymmetry was clear: investors did not need a recession to lose money. Rather, they only needed outcomes to be slightly less friendly than the price implied. Our task was not to win a forecasting contest, but to protect capital if that slowdown arrived.

## WHAT ACTUALLY HAPPENED

And a slowdown has not arrived—at least not yet. US growth has been sturdier than expected, helped by productivity gains and easier monetary conditions. Tariffs, a softer labour market and geopolitics have not vanished, but markets moved higher anyway — awash with money and animal spirits. But more important than the direction of returns was their breadth. Market leadership widened beyond a small group of US technology giants. Europe outperformed the US, emerging markets did better, and Chinese equities rose strongly — finishing the year positive for the first time since 2020. Many national markets did better than America's.

## WHY BREADTH MATTERS

In a narrow market, concentration can masquerade as insight. In a broader one, crowding starts to look like risk and valuation discipline starts to matter again. Last year, several unglamorous sectors—industrials, utilities, materials and financials—outperformed the broader technology sector. Diversification was rewarded.

This is not a cue for complacency. US equities remain expensive by their own history, sitting in the top decile of valuation levels over the past two decades. Some markets elsewhere look more plausible on valuation—Japan, parts of Europe, the UK and selectively China—but 'more plausible' is not 'cheap'. High starting valuations do not force an immediate fall, but they do reduce the market's tolerance for disappointment.

## AN 'ALL-WEATHER' PORTFOLIO IN PLAIN ENGLISH

Against that backdrop, the Foord International Fund had its best year ever and is fast out of the blocks in 2026. After several years of sub-par returns, the fund's standout performance understandably invites scrutiny. The explanation is less dramatic than people might prefer. We did not dramatically reposition the portfolio or suddenly take on more risk. Rather, last year just validated an 'all-weather' portfolio built to survive multiple regimes.

'All-weather' can sound like marketing, so here is what it means in practice. We avoid portfolios that depend on one macro call, or on a single crowded theme. We build in optionality: holdings that can protect capital in adverse markets, and businesses that can compound when conditions are benign. It can look pedestrian at times. It also prevents the portfolio from being forced into bad decisions when markets misbehave.

## WHAT WORKED IN 2025

In 2025, equities did most of the work, led by long-standing 'defensive growth' positions. 'Defensive' here is not code for low ambition but describes businesses that can grow in imperfect conditions.

Utilities illustrate the idea. Regulated electricity companies are not exciting, but electricity is becoming more central to modern economies: data centres, electric vehicles, industrial automation and the electrification of heating all

pull demand higher. Grids need investment; renewables require network upgrades; regulation—for all its flaws—can support predictable returns. Long-term fund investment SSE in the UK benefited from that mix of durability and an unusually long investment runway.

Cash flows mattered elsewhere too. SBM Offshore, a leader in floating production storage and offloading units for deep-water oil, benefited from demand for deepwater projects and an improving cash-flow profile. In a broader market, investors tend to rediscover the appeal of contractual cash flows.

A resilient portfolio should not be timid, either. It needs room for asymmetry, including a handful of positions with genuine upside, sized so that failure is survivable and success is meaningful. APR Corporation—Korean beauty devices and cosmetics—was one such investment, helped by strong traction for its Medicube home-use devices in the United States. The lesson is not to chase novelty, but to be paid properly for the risk you take.

Gold played its familiar role as insurance, contributing meaningfully to fund returns through the physical gold-backed ETF and the fund's investment in Wheaton Precious Metals. Fixed income did what we ask of it: stabilise, add modestly, preserve flexibility. We remain cautious on credit, where spreads are tight and compensation for risk is thin, and we prefer sovereign bonds in shorter to intermediate maturities.

### THE VALUE OF BEING UNPOPULAR

Hedges, inevitably, detracted in a rising market, which is exactly what hedges do. But 2025 still offered reminders of why insurance exists: in April, markets suffered a sharp drawdown after President Trump's 'Liberation Day' tariffs imposed on nearly all US trading partners. The outcome could have been a lot worse and the fund stood ready to guard investor capital if this was the case.

### WHAT TO WATCH IN 2026

Our investment thesis remains constructive as we move into 2026. Global growth should stay relatively firm and the US Federal Reserve is expected to continue easing, though the data will dictate the pace. Even so, policy easing does not abolish valuation risk. From current levels, returns are more likely to be lower and more volatile than the recent past, and more sensitive to shifts in sentiment. Diversification will matter even more this year.

US concentration risk remains the obvious fault line. The 'Magnificent Seven' represent roughly a third of the S&P 500's market capitalisation and a larger share of recent index returns. They are excellent businesses, but valuations already assume a great deal of good news. The room for error is low. In a world where market leadership broadens and earnings growth normalises, returns can converge towards the broader market—an environment that punishes crowding and rewards balance.

Outside the US, valuations are generally more attractive in absolute terms, even if not uniformly cheap relative to local history. Breadth across geography and sector remain a feature of the fund's positioning.

### PREPARATION MATTERS MORE THAN PREDICTION

The conclusion is simple: preparation matters more than prediction. Investors are paid over time not for guessing next quarter correctly, but for building portfolios that can withstand the periods when guessing goes wrong—and for retaining the flexibility to act when opportunity appears, usually without warning and rarely when it feels comfortable.



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