PSG Asset Management

ANGLES & PERSPECTIVES

THIRD QUARTER 2019

Contents

In parts of the markets where fear and uncertainty drive valuations lower, quality securities become available cheaply. Tainted by pessimism, their earnings potential is easily overlooked. While it may take time for the market to realise mispriced value, investors stand to generate outsized returns from such attractive entry points.

Introduction

Anet Ahern

Anet has over 30 years' experience in investment and business management. After starting her career at Allan Gray in 1986, where she fulfilled various roles in trading and investment management, she worked as a portfolio manager at Syfrets, and later BoE Asset Management, where she was CIO and CEO. She also spent six years at Sanlam, where she was the CEO of Sanlam Multi Manager International. Anet joined PSG Asset Management as CEO in 2013.

Things are seldom as good or as bad as they seem

It's easy to get caught up in the hype: when optimism abounds and excitement runs high, it's catching – and pleasantly so. When the opposite is true and the outlook is gloomy, all we seem to see are signs of hopelessness. This is natural. As humans, we tend to base our expectations of the future on recent history, with the belief that current trends are set to continue. When things are good, we can't imagine that anything could go wrong. When things are bad, we struggle to see them ever improving. With hindsight, the truth is usually revealed to lie somewhere in between.

Investing requires objective assessments

A robust investment process with the necessary checks and balances can guard against the emotional biases we are all prone to. Its value is amplified when it is applied as part of a team-based approach that promotes discussion, encourages debate, and is based on a common philosophy. Not only does it help to assess potential investments more objectively, but also to evaluate existing portfolio holdings. When a security has performed well, it can help determine if there's the possibility of further upside or whether the margin of safety has been diminished to the point where it would be best to sell. When a security has performed poorly, it can help identify the reasons for this. Did you get the call wrong? Or does your investment case hold but the price is depressed due to sentiment?

Identifying mispriced value may result in short-term performance lags

In the first article of this edition, Chief Investment Officer Greg Hopkins highlights the importance of distinguishing between permanent and temporary capital losses. As value investors, we seek to identify mispriced quality. This means that we tend to invest in unpopular parts of the markets where fear or uncertainty makes investors retreat and high-quality securities are sold off along with the rest. As we claim no ability in being able to predict the ideal entry and exit points for investing and tend to be early, the prices of some of these securities can lag before they start to recover. However, this does not mean that our assessment of intrinsic worth changes. Greg explains why we believe the bulk of our current underperformance is temporary, and the role that our funds' global holdings have played.

Going against popular sentiment is uncomfortable but presents opportunities

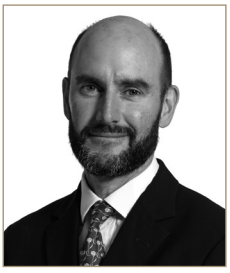
A dominant negative narrative most of us are currently confronted with is the pessimism that shrouds the South African economic outlook. Without trivialising the very real challenges the local economy faces, we believe that a more balanced review is required. With careful security selection, there may be the potential for strong long-term returns. In his article, John Gilchrist illustrates that many asset prices are reflecting poor outcomes, although these aren't foregone conclusions. He also considers the scorecard Moody's uses when assessing a government's ability to repay debt, and recent fears that South Africa may require a bailout from the International Monetary Fund.

Individual prospects within a broader opportunity set must also be assessed objectively

In the final article of this edition, Lyle Sankar notes that the high real yields currently available in local fixed income markets have factored in prevailing fears, while our research indicates that these are not predetermined outcomes. This is presenting attractive opportunities for investors seeking exposure to fixed income markets. However, it's not an equal playing field. Lyle sets out our investment case for government bonds and explains why we currently favour a bias towards duration risk. He also explains why we're more cautious on negotiable certificates of deposit and corporate and bank credit.

Thank you for your continued support and we hope you enjoy the read.

Why a long-term focus is critical to successful value investing



Greg Hopkins

Greg is the Chief Investment Officer at PSG Asset Management and a fund manager on several of our funds. He has over 20 years' investment experience and is a CA(SA) as well as a CFA charterholder.

It's been a tough year for value investors globally

Investors have shown a marked preference for growth stocks in recent years, mostly gravitating towards large-cap companies with predictable earnings. The US market in general – and US technology companies in particular – have been especially popular. Momentum investing (which seeks to capitalise on market trends by buying recent good performers and selling poor performers) has become the favoured investment style. Passive products have also continued to grow. In contrast, markets tainted by pessimism have fallen further out of favour – and their prices have followed suit. It is in these areas that price-sensitive investors find their best long-term opportunities, and for this reason that value investors have seen weaker short-term returns.

The prices of holdings in our funds have been affected by the growing divergence in markets

The divergence between the most and least expensive parts of global markets has widened further in recent months: popular securities have become more expensive, while unpopular securities have become even cheaper. In fact, in the US, the divergence is the widest on record (measured since the 1950s). We tend to invest where there is fear and uncertainty, as this allows us to identify mispriced securities that offer the potential for outsized long-term returns. Current market dislocations have therefore affected the prices of holdings in our funds, which has contributed to short-term underperformance.

Our funds' global holdings have been the swing factor in recent underperformance

Consistently applying a global process that is price sensitive has served our clients well over the long run. However, going against the consensus can result in shorter-term disappointment, and the past year has been a challenging one for our portfolios. We have been careful to communicate the contributors to short-term underperformance, especially the impact of our SA Inc. holdings. However, the biggest swing factor over the past 12 months has proven to be the lower prices of our funds' global holdings.

The composition of our global equity book has changed significantly in recent years

After very strong price performance, we have steadily rotated our portfolios away from US blue chips over the past three years in favour of less crowded and significantly cheaper opportunities in out-of-favour sectors and geographies, where we believe there is mispriced value to be found. In August 2016, 13% of the holdings in our PSG Global Flexible Fund (which are representative of the global holdings across our funds) was in US tech companies such as Microsoft, Cisco and Apple. We also had a large position (14%) in US banks (including J.P. Morgan and Capital One), a sizable holding in US industrials (such as railway operator Union Pacific) and a stake in companies such as Mastercard. While many of these sectors and companies are currently popular, this was not the case when we first invested. In fact, many had sold off quite aggressively. However, they performed well for clients in subsequent years as the market realised their value. In line with our process we have since exited most of these positions, as they reached our estimates of intrinsic value and no longer offer the margin of safety we require.

Our rotation into more uncrowded areas of global markets is shown in Figures 1 and 2. Current holdings include Japanese and UK financials, UK mid-cap shares, as well as US retail and US retail real estate – all market areas investors are shying away from.

In hindsight, we rotated too early out of global equities that were performing well (as many of their prices have continued to rise) and too early into current holdings (as the prices of some of the equities our funds now hold have fallen since we invested in them). However, this is to be expected from our process: we will sell when margin of safety erodes (i.e. when a security's price exceeds what we believe it is worth) and will buy if we identify mispriced quality. As this generally means that we invest contrary to popular sentiment and since it may result in performance lags, it requires a longer-term approach and patience. Both of these appear to be in short supply in the market at present.

With value investing, it is critical to distinguish between temporary and permanent losses

When assessing underperformance, it is key to distinguish between temporary and permanent capital losses. Permanent capital losses result from material impairments to the value of a company (generally caused by mismanagement, balance sheet concerns or management fraud) or due to investing at the wrong price (i.e. at an inflated valuation that cannot be sustained). On the other hand, temporary capital losses are generally caused by share price volatility and the difficulty of timing markets. We claim no ability in being able to predict the ideal entry and exit points for investing and tend to be early. Accordingly, the prices of some of the securities in which our funds invest can lag before they start to recover. However, this does not mean that our assessment of their intrinsic worth changes.

We believe the bulk of current underperformance is temporary

While we have made mistakes on individual calls, a detailed review of the investment theses for our holdings causes us to believe that by far the biggest part of current underperformance is temporary and is the result of early rotations into fund holdings.

Furthermore, we have felt the impact of this to a stronger extent than normal as global holdings have performed as poorly as SA Inc. holdings, while they are usually uncorrelated and act as a counterbalance. This is understandably uncomfortable for our clients (and for us), but we are confident that the potential for strong long-term returns remains significant.

We are encouraged by the current opportunity set embedded in our portfolios

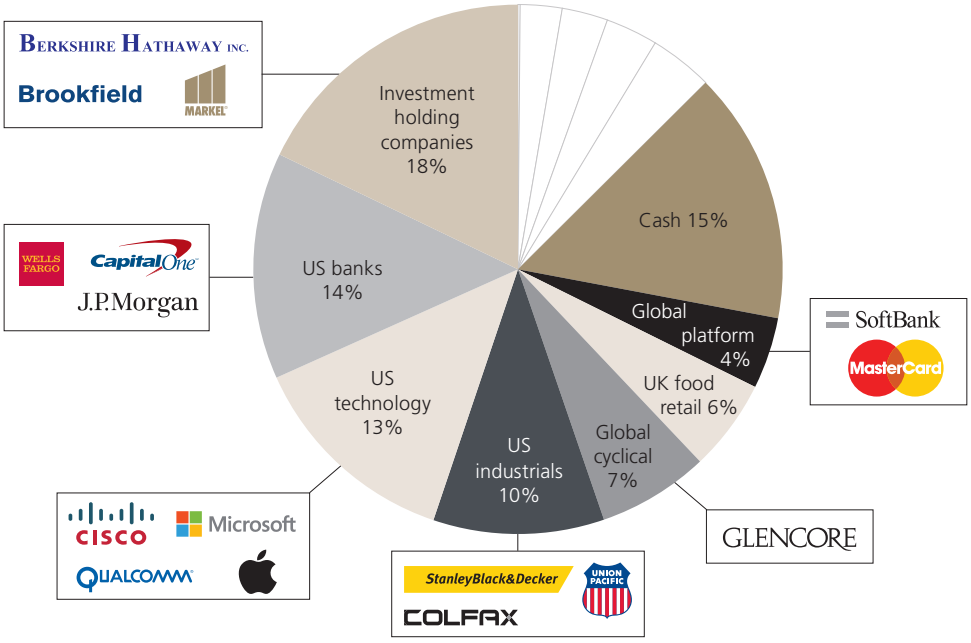
Locally, the valuations of many domestic-facing companies are cheaper than they were during the global financial crisis. Furthermore, while our investee companies have for the most part grown their earnings over the past two years, their prices have continued to weaken. Similarly, the companies in the S&P 500 with the lowest valuations have continued to cheapen, while the prices of those with the highest valuations have remained flat or continued to rise. In both instances, the underlying prospects of these companies have remained the same or even improved, but their prices have continued to decline. In fact, on average, our local stocks currently trade at a 43% discount to intrinsic value and our global stocks at a 38% discount. This implies potential upside of 75% locally and 61% globally (in dollars).

South African government bonds are also presenting attractive potential by offering yields in line with peers that have already been downgraded to below investment grade. (For more on current opportunities in fixed income markets, read Lyle Sankar's article on page 8.)

A focus on valuations is key when emotion runs high and sentiment is poor

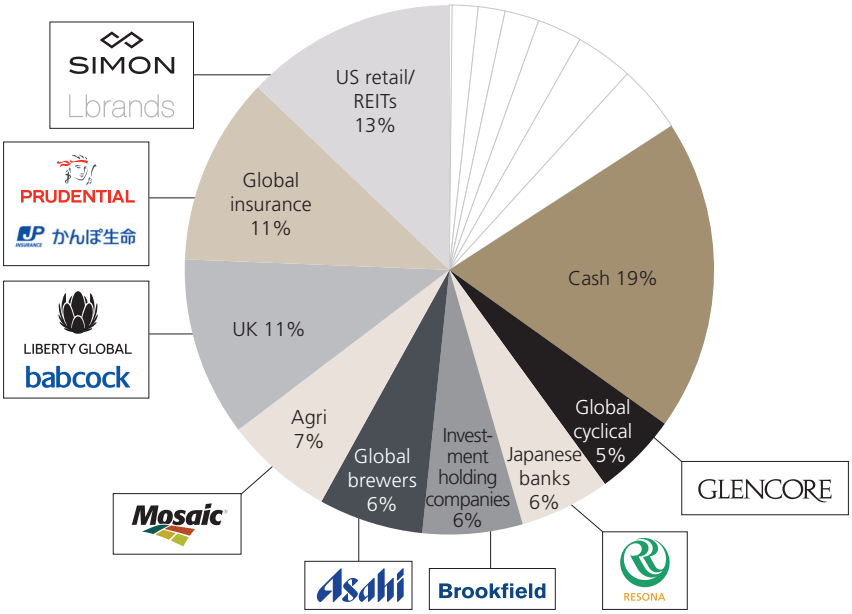
The attractive valuations at which we have been able to acquire our funds' current holdings, given their inherent quality, is symptomatic of poor sentiment and low confidence. But sentiment changes. And when it does, it can change quickly. We have been in similar positions before. However, just as the unpopular companies we invested in previously delivered strong subsequent returns for our clients, current holdings offer the potential to do the same. Buying in uncrowded areas of the market is by definition uncomfortable, especially when buying early. But by doing so, we believe we are laying the foundation for solid long-term returns.

Figure 1*: In 2016 our funds had significant exposures to US banks, technology companies and industrials



Source: PSG Asset Management

Figure 2*: Current holdings include Japanese and UK financials, UK mid-cap shares, and US retail and retail real estate companies



Source: PSG Asset Management

* Holdings of the PSG Global Flexible Fund, which are representative of the global holdings across our funds. Companies named serve as examples of some of the individual holdings in those categories.

John Gilchrist

South Africa: a balanced review of the economy reveals many challenges, very poor sentiment, and opportunity

John has 18 years' investment experience and was previously Co-head of the Customised Solutions Boutique at OMIGSA, which had funds under management totalling over R155 billion. He is a CA(SA), has an MBA from INSEAD in France, and is a member of both our Equity and Fixed Income Investment Committees.

Emotions in South Africa are running high amid extreme negativity

Pessimism shrouds the South African economic outlook, as evidenced by continued weak consumer confidence and business confidence that is at its lowest in 20 years. The reasons behind this are well documented: significant fiscal deterioration (and the prospect of a downgrade to non-investment grade by Moody's), concerns over Eskom (exacerbated by continued load shedding), frustrations over business-unfriendly legislation, and a perceived lack of tangible government action. The disappointment that followed 'Ramaphoria' turning to 'Ramareality' has heightened emotions, while recent commentary has focused on fears that South Africa, like Argentina, may need an International Monetary Fund (IMF) bailout.

Many asset prices are reflecting poor outcomes, although these aren't foregone conclusions

This is true for domestic-facing equities (where good businesses are trading at bear-market valuations) and fixed income instruments such as government bonds, which are offering among the highest real (above-inflation) yields globally, as shown in Graph 1. When viewed from a global investor's perspective, this compares very favourably to the yields on offer from developed market bonds – many of which are negative – and from emerging market peers, including countries such as Brazil that have already been downgraded to junk status. Without trivialising the very real challenges the South African economy faces, we believe a case can be made that careful security selection offers the potential for strong long-term returns.

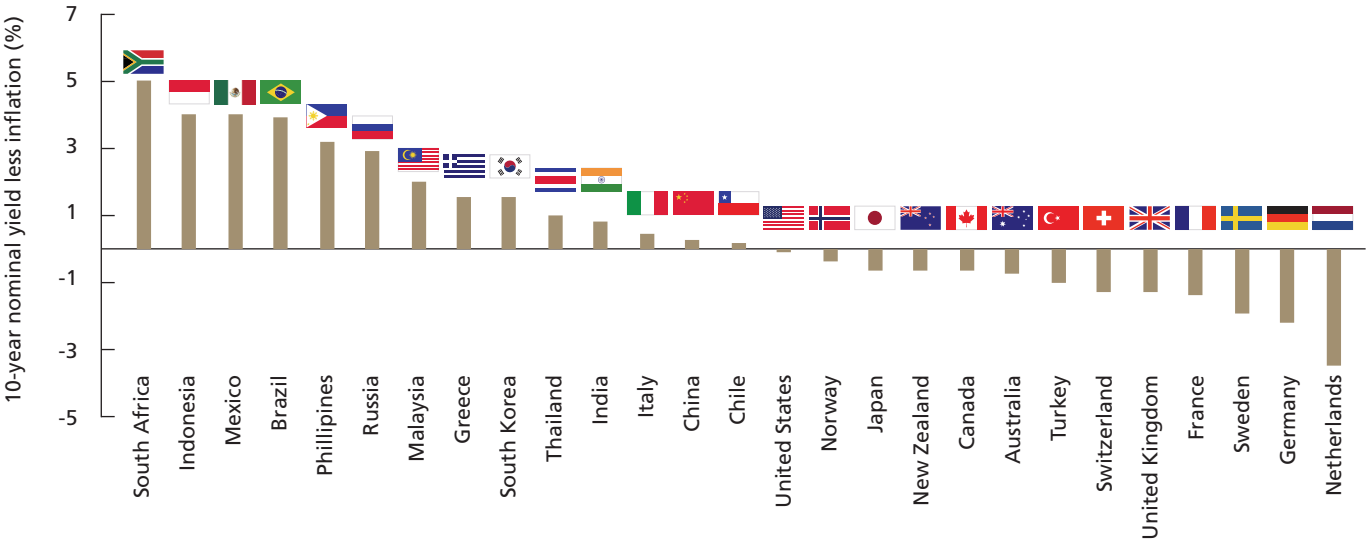
While it is understandably difficult, investors need to try to put emotional biases aside

Allowing our emotions to influence our investment decisions can have unintended negative consequences. A current example is that many South African investors are selling cheap South African securities to take money offshore, due to perceived increased risk locally. Although this provides a currency hedge, it also tends to involve buying expensive equities (the cyclically adjusted price-earnings ratio of the S&P 500 has only been higher in September 1929 and December 1999) or expensive bonds (negative-yielding debt globally totals around $15 trillion). When taking the elevated prices into account, neither of these alternatives can be considered low risk. While investors should always diversify their portfolios adequately, they should also take care to put emotional biases aside and assess potential investments based on available information, prices and the related risk-adjusted returns.

South Africa's fiscus is under pressure, but perhaps not to the level portrayed by common sentiment

Markets remain concerned about the possibility of a Moody's downgrade to junk status. The country's fiscal situation has deteriorated over the last decade and in particular over the last year due to Eskom bailout costs, low economic growth,

Graph 1: South African government bonds are offering attractive real yields



Sources: PSG Asset Management, Bloomberg (as at September 2019)

a weakened SARS, increased spending demands, and a high marginal cost of debt. However, we believe that a narrow focus on the deteriorating debt-to-GDP ratio only is potentially misleading.

Moody's assesses a government's ability to repay debt using a detailed scorecard that weighs various factors based on their historical contribution to sovereign defaults. Graph 2 shows a simplified version of this scorecard, with related factors grouped together. It highlights that structural and governance factors are important in the assessment of sovereign risk. This is often overlooked by investors and market commentators alike. South Africa not only scores relatively well in this area, but the overall trend is also improving. Recent changes at the National Prosecuting Authority, Hawks, Treasury and in state-owned enterprise (SOE) governance structures, along with various commissions of inquiry into corruption, are illustrative of this and might have influenced Moody's less negative rating stance.

The country's deteriorating debt situation (exacerbated by weak growth) remains a concern, and we could well see a downgrade in the next year. However, the high starting nominal and real yields in our government bonds – which already appear to be pricing in a relatively bad outcome – provide a risk buffer for investors.

The IMF sees no need for a South African bailout

Some commentators are treating an IMF bailout as a foregone conclusion, which is symptomatic of the prevailing mood. It is worth noting that the IMF's senior representative in South Africa recently said that '… there is no need for South Africa to approach the IMF …'. A closer look at the range of factors the IMF uses to assess debt sustainability gives more context. South Africa stacks up well against its emerging market peers on structural issues, including its sovereign debt profile (considering its spread of maturities, average overall maturity, level of foreign-currency denominated debt, and externally held debt) and potential financial sector liabilities (we have a sound and well-regulated financial system). In addition, the IMF views emerging market debt-to-GDP levels of 63% to 78% to be sustainable over the short to medium term. South Africa's current debt-to-GDP ratio is estimated at 58% and is forecast to increase to between 65% and 70% in the near term. This implies that there is some room to manoeuvre – albeit limited.

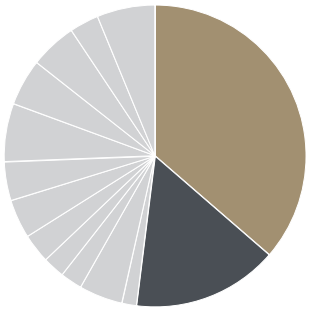
It is also important to note that IMF bailouts are usually required to help resolve balance of payments issues (i.e. differences in the values of payments made to and from a country). South Africa's floating exchange rate allows our current account (trade balance) to self-correct, generally resolving balance of payments issues automatically. Furthermore, relatively low levels of foreign currency-denominated debt mean that this self-correction is unlikely to have significant adverse consequences for the country's debt-to-GDP ratio or debt servicing costs. Finally, a strong debt profile (with an average maturity of 13 years), deep local domestic markets and a credible central bank all help to reduce the likelihood of a bailout.

Government must reduce debt and boost confidence to ensure long-term stability

Despite the South African outlook arguably being more nuanced than most commentators give credit for, it remains critical that South Africa's debt-to-GDP ratio is reduced over time. High debt-to-GDP levels introduce vulnerabilities to economic shocks, and high debt servicing costs can crowd out spending over time.

The Ramaphosa administration's approach to addressing some of its most pressing challenges in coming months will be informative. A specific, actionable plan around Eskom, clear decisions on other SOEs (including hard decisions where appropriate), arrests of those involved in state capture, and the implementation of identified growth-focused initiatives would go a long way towards rebuilding trust and fostering confidence – key ingredients required to spur growth and encourage investment.

Graph 2: Structural and governance factors comprise the biggest portion of Moody's sovereign risk scorecard



GDP-related	36.4%
Debt-related	15.6%
Structural and governance-related	48.0%
Total	**100%**

Sources: PSG Asset Management, Moody's

Poor sentiment and depressed asset prices are presenting attractive investment opportunities

While the South African economy is under significant pressure, we believe an analysis shows that, on a balance of probabilities, excessive negativity is probably priced into many South African assets. Investors who can set aside emotion therefore stand to benefit from attractive risk-adjusted returns over the longer term – especially if capital returns to the market on the back of a better-than-expected economic outcome. While it won't necessarily be a smooth ride, it may well be very rewarding. (For more on current opportunities in fixed income markets, read Lyle Sankar's article on page 8.)

Local fixed income is looking attractive – but it's not an equal playing field

Lyle Sankar

Lyle joined PSG Asset Management in 2014 and was appointed Fund Manager of the PSG Money Market Fund and PSG Diversified Income Fund in 2018. He is responsible for credit and fixed income analysis, and serves as fixed income trader for all PSG funds.

Parts of local fixed income markets are reflecting investor fears, providing potential opportunities

Sentiment about South Africa continues to worsen, as negative news headlines shape dominant market narratives. Our assessment focuses on evaluating how likely it is that potential risks will materialise and – importantly – whether market prices reflect this. We believe that the high real yields currently available in local fixed income markets have factored in many prevailing fears, while our research indicates that these are not foregone conclusions. This is presenting attractive opportunities for investors seeking exposure to fixed income markets. (For more on our assessment of current risks, please refer to John Gilchrist's article on page 5.)

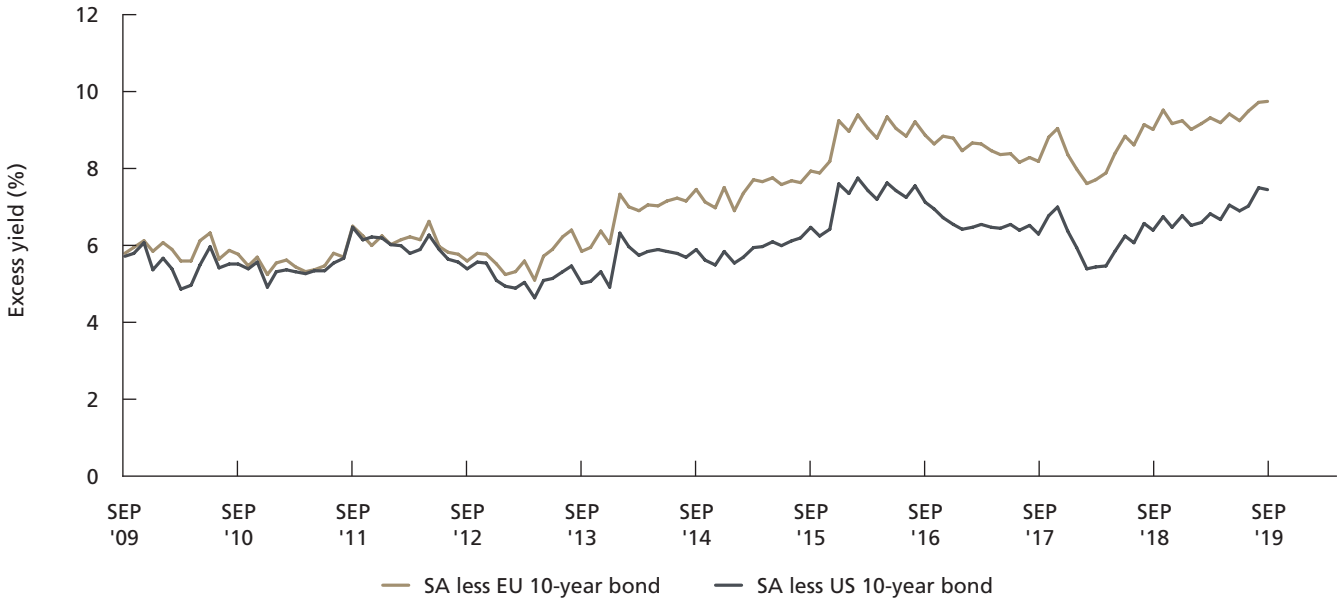
South African government bonds continue to offer compelling real yields

Local government bonds have for some time offered real (above-inflation) yields last seen at the height of the global financial crisis in 2008/2009. This has delivered attractive returns for investors who are willing to do their own homework and to act with conviction. Both nominal and inflation-linked bond curves are currently reflecting close to all-time high yields. They therefore appear to be pricing in both a high probability of a credit rating downgrade to sub-investment grade, as well as a disaster-type scenario that will require an International Monetary Fund bailout. In contrast, developed market bond yields have declined significantly as expectations of higher inflation and growth have somewhat subsided. Graph 1 shows the excess yield offered by South African nominal bonds relative to 'safe-haven' bonds in the US and European Union.

We don't believe the prices of government bonds reflect their true value

Given our analysis, we do not believe that the prices of local government bonds reflect the reality of South Africa's fiscal position – which is more balanced than most market participants give credit for. This disconnect between price and value offers very attractive risk-adjusted returns – especially in a global context. The $5 billion South African Eurobond issuance in late September 2019 supports this view, and clearly indicates that global markets also see significant value in local debt at current levels.

Graph 1: South African bonds are yielding up to 10% more than developed market bonds



Sources: PSG Asset Management, Bloomberg (as at 30 September 2019)

However, fixed income instruments like NCDs and credit are less attractive

Negotiable certificates of deposit (NCDs), corporate credit and bank credit have performed well over the past three years. This can be attributed to the fact that absolute yields have been high relative to history, resulting in the instruments generating strong income returns. However, both absolute yields and credit spreads (the excess yield paid as a risk premium) have fallen materially, reducing the odds of achieving similar outcomes going forward. This has been due to the following key drivers:

- Investment in corporate credit has increased significantly in recent years, as investors have shown a preference for cash and cash-like funds amid fears about the sovereign bond market. In addition, Basel III banking regulations have increased the amount of highly rated corporate credit that banks are required to hold for capital adequacy. This has created a supply and demand imbalance that looks set to continue and has resulted in credit spreads compressing significantly. Narrower credit spreads mean lower potential returns at potentially higher levels of risk, as spreads may no longer be pricing in all the risks associated with corporate lending.
- In addition to spreads compressing, the three-month Johannesburg Interbank Average Rate or JIBAR (the reference rate for spreads) has declined by roughly 40 basis points. This implies that absolute yields and income-earning capacity for investors in floating-rate paper (bank and corporate credit) will be lower going forward. Additional interest rate cuts would further support this outcome.
- NCDs are also popular in cash-like funds. As the market has started to expect interest rate cuts (despite there having been only one cut in the current cycle to date), longer-term fixed NCD rates have fallen by roughly 1% from highs seen in 2016. Despite the real yields available remaining attractive, the opportunity for outsized returns has declined, as shown in Graph 2.

High yields bode well for future returns

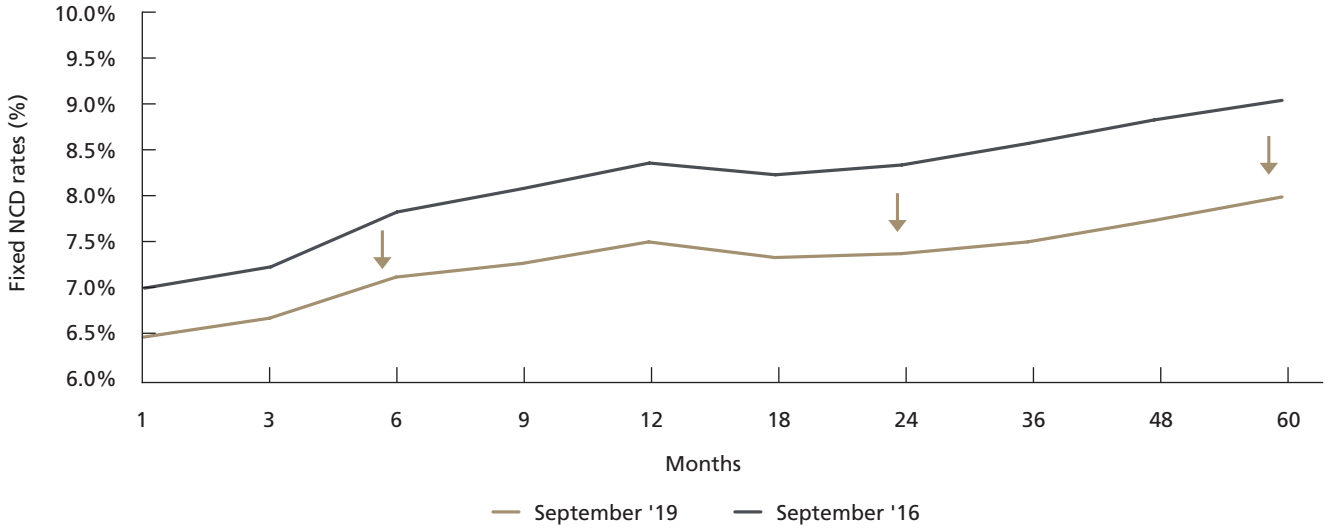
History has shown that over the medium term, returns from local fixed income markets are driven largely by starting real (above-inflation) yields: the higher the starting real yield, the higher the subsequent return. Inflation in South Africa is currently reasonably well anchored around the middle of the South African Reserve Bank's 3% to 6% inflation target band, with little risk of this being exceeded. This implies that long-dated government bonds are currently delivering real yields in the range of 4% to 5% (from starting yields of close to 10%) at low levels of risk and with significant upside potential if real yields normalise. Similarly, real yields on inflation-linked bonds – at close to 3.5% – are at all-time highs, offering attractive absolute returns in addition to diversification benefits. This is in stark contrast to falling yields in the floating-rate and cash-like areas of the market, and therefore looks likely to be the better risk-adjusted opportunity for clients in the years to come.

We favour a bias towards duration risk

We believe that the current environment offers attractive opportunities for investors in need of income – but that not all options are equally attractive. Given the current imbalances in credit markets, duration (interest rate risk) is likely to be better rewarded than credit risk. There is also the possibility that investment into riskier credit grows in an effort to maintain the high yields this market has offered in recent years. It is therefore crucial for investors to be discerning when investing in fixed income securities.

While our funds maintain diversified exposures, we have lightened holdings in expensive credit where we feel spreads and potential future liquidity concerns no longer compensate for the associated risks. Instead, we have locked in higher fixed real yields where we believe better risk-adjusted returns are available. We are confident that the current rate cycle provides sufficient asymmetry – significant upside with limited downside.

Graph 2: Fixed NCD rates have fallen from highs seen in 2016



Sources: PSG Asset Management, Bloomberg (as at 30 September 2019)

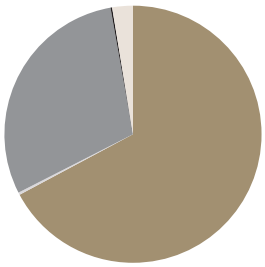
Portfolio holdings as at 30 September 2019

PSG Equity Fund

Top 10 equities

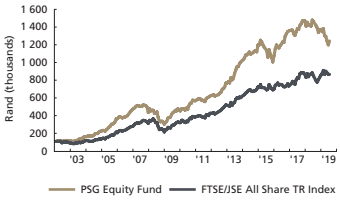
Old Mutual Ltd
AECI Ltd
Glencore plc
Discovery Ltd
Japan Post Insurance Co Ltd
Brookfield Asset Management Inc
Nedbank Group Ltd
Super Group Ltd
Imperial Holdings Ltd
Reunert Ltd

Asset allocation



Domestic equity	67.2%
Domestic cash	0.3%
Foreign equity	29.7%
Foreign cash	0.2%
Foreign property	2.6%
Total	**100%**

Performance

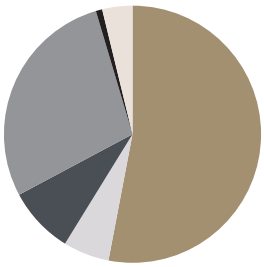


PSG Flexible Fund

Top 10 equities

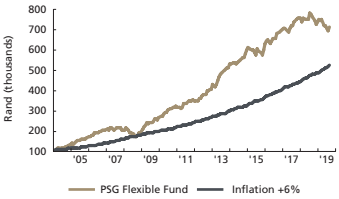
Old Mutual Ltd
Glencore plc
Japan Post Insurance Co Ltd
Discovery Ltd
Nedbank Group Ltd
Brookfield Asset Management Inc
AECI Ltd
Liberty Global Inc
Super Group Ltd
Prudential plc

Asset allocation



Domestic equity	53.0%
Domestic cash	5.8%
Domestic bonds	8.4%
Foreign equity	28.2%
Foreign cash	0.8%
Foreign property	3.8%
Total	**100%**

Performance

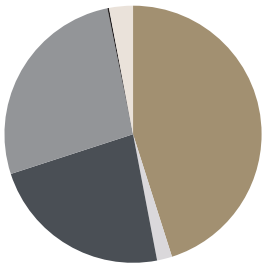


PSG Balanced Fund

Top 10 equities

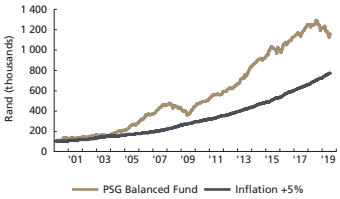
Japan Post Insurance Co Ltd
Old Mutual Ltd
Discovery Ltd
Prudential plc
AECI Ltd
JSE Ltd
Brookfield Asset Management Inc
Nedbank Group Ltd
L Brands Inc
Asahi Group Holdings Ltd

Asset allocation



Domestic equity	45.1%
Domestic cash and NCDs	1.9%
Domestic bonds	23.0%
Foreign equity	26.8%
Foreign cash	0.2%
Foreign property	3.0%
Total	**100%**

Performance



PSG Stable Fund

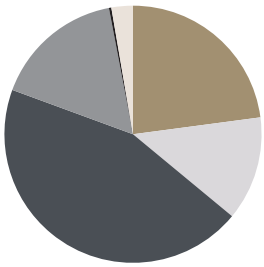
Top 5 equities

Japan Post Insurance Co Ltd
Prudential plc
Old Mutual Ltd
Resona Holdings Inc
AECI Ltd

Top 5 issuer exposures

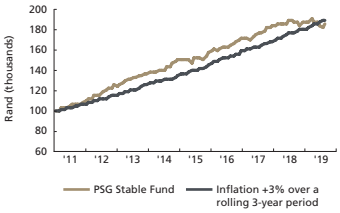
The Republic of South Africa
FirstRand Bank Ltd
Standard Bank of SA Ltd
PSG Money Market Fund
Eskom Holdings SOC Ltd

Asset allocation



Domestic equity	22.9%
Domestic cash and NCDs	13.1%
Domestic bonds	44.6%
Foreign equity	16.4%
Foreign cash	0.3%
Foreign property	2.7%
Total	**100%**

Performance



PSG Diversified Income Fund

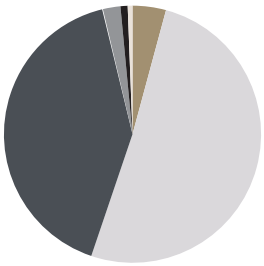
Top 5 equities

Simon Property Group Inc
Old Mutual Ltd
JSE Ltd
Japan Post Insurance Co Ltd
Nedbank Group Ltd

Top 5 issuer exposures

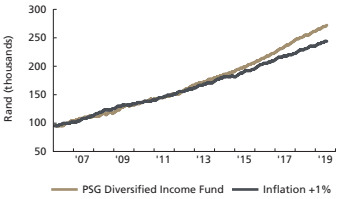
The Republic of South Africa
FirstRand Bank Ltd
PSG Money Market Fund
Standard Bank of SA Ltd
Absa Bank Ltd

Asset allocation



Domestic equity	4.2%
Domestic cash and NCDs	51.0%
Domestic bonds	41.0%
Domestic preference shares	0.1%
Foreign equity	2.2%
Foreign cash	0.9%
Foreign property	0.6%
Total	**100%**

Performance



PSG Income Fund

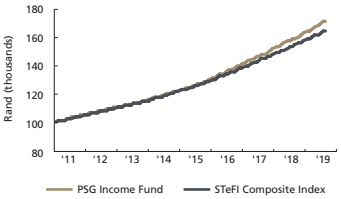
Top 10 issuer exposures

Standard Bank of SA Ltd
Absa Bank Ltd
FirstRand Bank Ltd
Nedbank Ltd
The Republic of South Africa
PSG Money Market Fund
Capitec Bank Ltd
Land and Agricultural Development Bank of SA
Eskom Holdings SOC Ltd
MMI Group Ltd

Asset allocation

Domestic cash and NCDs	72.4%
Domestic bonds	27.6%
Total	**100%**

Performance

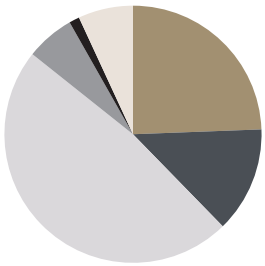


PSG Money Market Fund

Issuer exposures

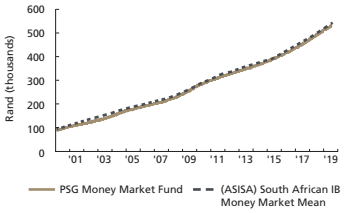
Nedbank Ltd
Absa Bank Ltd
FirstRand Bank Ltd
Standard Bank of SA Ltd
The Republic of South Africa
Investec Bank Ltd
Capitec Bank Ltd

Asset allocation



Linked NCDs/Floating-rate notes	24.4%
Step-rate notes	13.3%
NCDs	48.0%
Treasury Bill	6.1%
Corporate bonds	1.3%
Call	6.9%
Total	**100%**

Performance

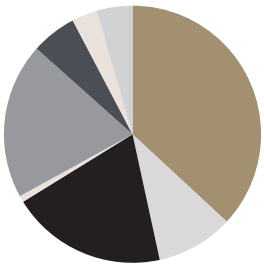


PSG Global Equity Sub-Fund

Top 10 equities

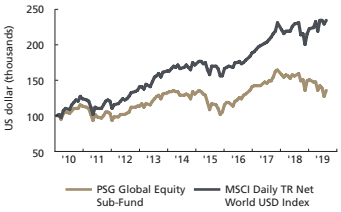
Japan Post Insurance Co Ltd
The Mosaic Co
Liberty Global Inc
Brookfield Asset Management Inc
L Brands Inc
Prudential plc
Resona Holdings Inc
Asahi Group Holdings Ltd
Glencore plc
Washington Prime Group Inc

Regional allocation



US	36.9%
Europe	9.7%
UK	19.6%
Asia ex Japan	0.8%
Japan	19.6%
Canada	5.7%
Africa	3.2%
Cash	4.5%
Total	**100%**

Performance

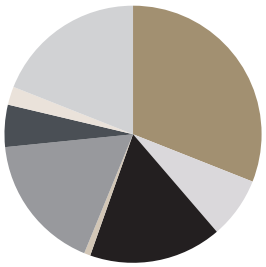


PSG Global Flexible Sub-Fund

Top 10 equities

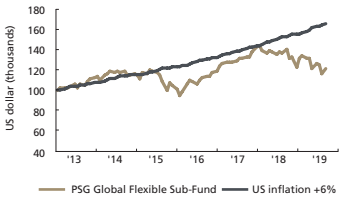
Japan Post Insurance Co Ltd
Liberty Global Inc
Brookfield Asset Management Inc
The Mosaic Co
Asahi Group Holdings Ltd
Prudential plc
L Brands Inc
Resona Holdings Inc
Babcock International Group plc
Washington Prime Group Inc

Regional allocation



US	31.0%
Europe	7.7%
UK	16.7%
Asia ex Japan	0.8%
Japan	17.2%
Canada	5.3%
Africa	2.3%
Cash	19.0%
Total	**100%**

Performance



Percentage annualised performance to 30 September 2019 (net of fees)

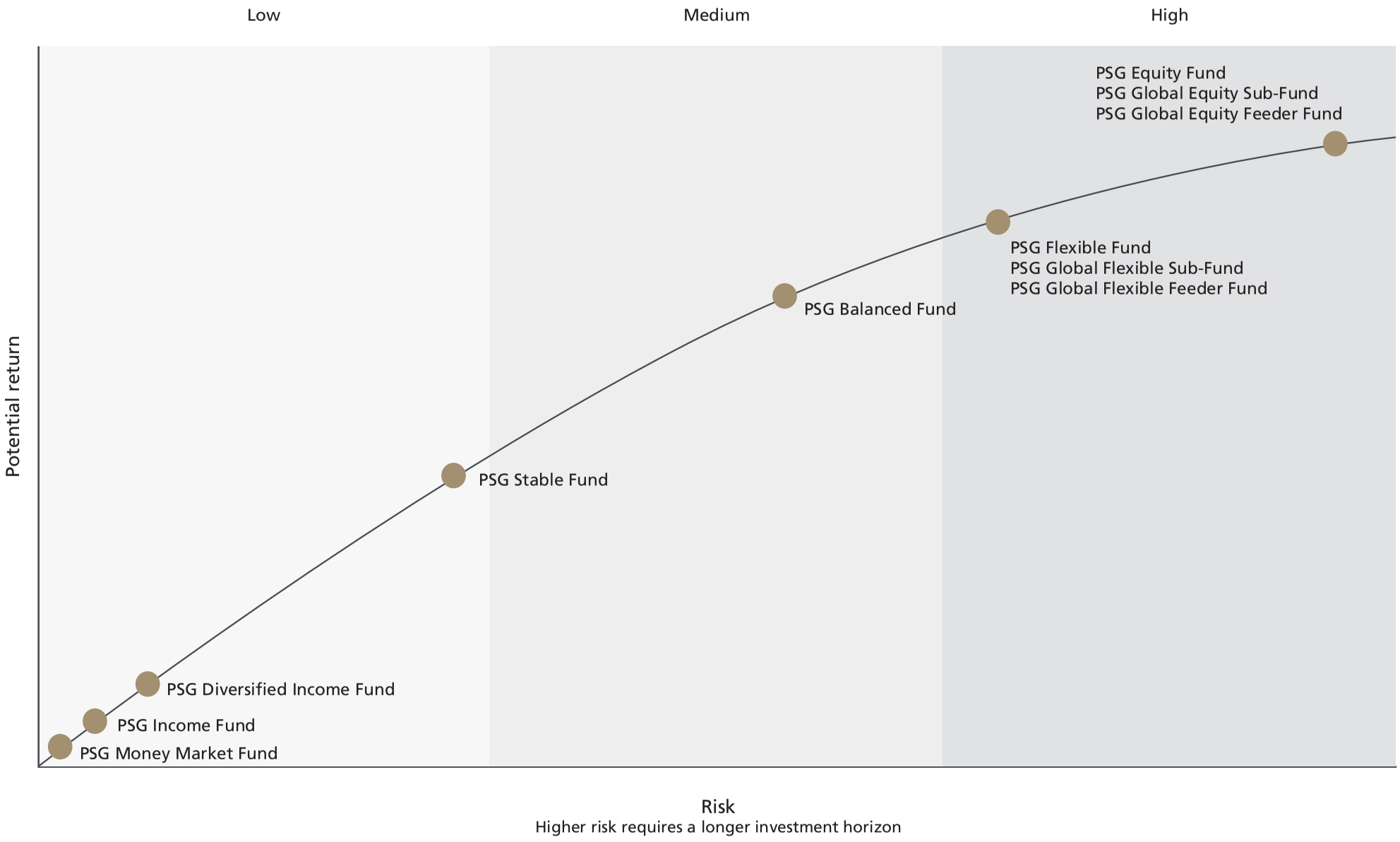
Local funds						
	1 Year	3 Years	5 Years	10 Years	Inception	Fund inception date
PSG Equity Fund A	-15.03	0.28	2.46	11.12	15.40*	31/12/1997
FTSE/JSE All Share Total Return Index	1.86	5.07	5.32	11.48	13.04	
PSG Flexible Fund A	-8.13	2.70	5.87	12.24	14.09**	02/11/1998
Inflation +6%	10.26	10.65	10.90	11.11	11.72	
PSG Balanced Fund A	-9.81	1.93	4.86	9.92	12.75	01/06/1999
Inflation +5%	9.35	9.68	9.91	10.12	10.50	
PSG Stable Fund A	-1.46	4.55	6.03		8.10	13/09/2011
Inflation +3% over a rolling 3-year period	7.34	7.67	7.91		8.30	
PSG Diversified Income Fund A	6.47	7.58	7.69	7.43	7.80	10/04/2006
Inflation +1%	5.34	5.67	5.91	6.12	6.95	
PSG Income Fund A	8.38	8.34	7.93		7.05	01/09/2011
STeFI Composite Index	7.34	7.41	7.15		6.51	
PSG Money Market Fund A	7.30	7.42	7.16	6.45	8.44	19/10/1998
South African Interest Bearing Money Market Mean	7.54	7.60	7.26	6.53	8.52	
PSG Global Equity Feeder Fund A	-9.60	5.92	6.72		11.30	03/05/2011
MSCI Daily Total Return Net World USD Index (in ZAR)	9.11	13.86	13.68		18.88	
PSG Global Flexible Feeder Fund A	-6.67	5.34	7.11		11.07	11/04/2013
US inflation +6% (in ZAR)	15.46	11.72	14.05		16.85	

International funds						
	1 Year	3 Years	5 Years	10 Years	Inception	Fund inception date
PSG Global Equity Sub-Fund A	-15.55	2.69	0.92		3.33	23/07/2010
MSCI Daily Total Return Net World USD Index (in USD)	1.83	10.21	7.18		9.75	
PSG Global Flexible Sub-Fund A	-13.24	2.11	1.16		2.94	02/01/2013
US inflation +6% (in USD)	7.76	8.14	7.53		7.63	

* Fund manager inception date 01/03/2002
** Current benchmark inception date 01/11/2004

Annualised performances show longer-term performance rescaled over a 12-month period.
Annualised performance is the average return per year over the period.
Past performance is not necessarily a guide to future performance.

Risk/reward profile



Unit trust summary

	South African portfolios							Rand-denominated offshore	
	PSG Equity Fund	PSG Flexible Fund	PSG Balanced Fund	PSG Stable Fund	PSG Diversified Income Fund	PSG Income Fund	PSG Money Market Fund	PSG Global Equity Feeder Fund	PSG Global Flexible Feeder Fund
Fund category (ASISA classification)	South African - Equity - General	South African - Multi Asset - Flexible	South African - Multi Asset - High Equity	South African - Multi Asset - Low Equity	South African - Multi Asset - Income	South African - Interest Bearing - Short-term	South African - Interest Bearing - Money Market	Global - Equity - General	Global - Multi Asset - Flexible
Investment objective	Aims to offer investors long-term capital growth without assuming a greater risk, and earn a higher rate of return than that of the South African equity market as presented by the FTSE/JSE All Share Index (including income).	Aims to achieve superior medium- to long-term capital growth by investing in selected sectors of the equity, gilt and money markets, both locally and abroad. The fund has a flexible asset allocation mandate and equity exposure will vary based on opportunity.	Aims to achieve long-term capital growth and a reasonable level of income for investors. The investment policy provides for the active management of the portfolio assets that include equities, bonds, property and cash, both domestically and in foreign markets.	Aims to achieve capital appreciation and generate a return of CPI+3% over a rolling three-year period with low volatility and low correlation to equity markets through all market cycles.	Aims to preserve capital while maximising income returns for investors. The portfolio comprises of a mix of high-yielding securities, property, bonds, preference shares and assets in liquid form (both local and foreign).	Aims to maximise income while achieving as much long-term capital appreciation as interest rate cycles allow.	Aims to provide capital security, a steady income and easy access to your money.	Aims to achieve capital growth over the long term with the generation of income not being the main objective of the portfolio. It is a rand-denominated equity feeder fund whose investment policy provides for it to invest solely in the PSG Global Equity Sub-Fund.	Aims to achieve superior medium- to long-term capital growth through exposure to selected sectors of the global equity, bond and money markets. It is a rand-denominated feeder fund whose investment policy provides for it to invest solely in the PSG Global Flexible Sub-Fund.
Benchmark	FTSE/JSE All Share Total Return Index	Inflation +6%	Inflation +5%	Inflation +3% over a rolling 3-year period	Inflation +1%	STeFI Composite Index	South African - Interest Bearing - Money Market Mean	MSCI Daily Total Return Net World USD Index (in ZAR)	US inflation +6% (in ZAR)
Risk rating	High	Moderate - High	Moderate - High	Moderate	Low - Moderate	Low - Moderate	Low	High	Moderate - High
Time horizon	7 years and longer	5 years and longer	5 years and longer	3 years and longer	2 years and longer	1 year and longer	Minimum of 1 day	7 years and longer	5 years and longer
The fund is suitable for investors who:	• want an equity focused portfolio that should produce high real returns above inflation and capital appreciation over the long term • are comfortable with significant stock market fluctuations • are willing to accept potential capital loss • have a long-term investment horizon of seven years and longer	• want exposure to the equity market, but with managed risk levels • aim to build wealth • are willing to accept potential capital loss • have a medium- to long-term investment horizon of five years and longer	• aim to build wealth with a balanced portfolio that diversifies the risk over the various asset classes • are comfortable with market fluctuation risk • are willing to accept potential capital loss • would prefer the fund manager to make the asset allocation decisions • have an investment horizon of five years and longer	• have a low risk appetite but require capital growth in real terms • have a medium-term investment horizon of three years and longer	• have a low risk appetite • want to earn an income, but need to try and beat inflation • have a short- to medium-term investment horizon of two years and longer	• have a low risk appetite • require an income • have an investment horizon of one year and longer	• seek capital stability, interest income and easy access to their money through a low risk investment • need an interim investment vehicle or 'parking bay' for surplus money • have a short-term investment horizon	• want exposure to global equities without personally expatriating rands • are comfortable with international equity market and currency fluctuations • have a long-term investment horizon of seven years and longer	• want exposure to global equities without personally expatriating rands • are comfortable with international equity market and currency fluctuations • have a long-term investment horizon of five years and longer
Net equity exposure	80% - 100%	0% - 100%	0% - 75%	0% - 40%	0% - 10%	0%	0%	80% - 100%	0% - 100%
Income distribution	Bi-annually	Bi-annually	Bi-annually	Bi-annually	Quarterly	Quarterly	Monthly	Annually	Annually
Minimum investment	As per the platform minimum	As per the platform minimum	As per the platform minimum	As per the platform minimum	As per the platform minimum	As per the platform minimum	R25 000 lump sum	As per the platform minimum	As per the platform minimum
Fees (excl. VAT)	Annual management fee: Class A: 1.50%	Annual management fee: Class A: 1.00% + 7.00% of outperformance of high watermark	Annual management fee: Class A: 1.50%	Annual management fee: Class A: 1.50%	Annual management fee: Class A: 1.00%	Annual management fee: Class A: 0.65%	Annual management fee: Class A: 0.50%	Annual management fee: Class A: 0.75%	Annual management fee: Class A: 0.75%
Compliance with Prudential Investment Guidelines (Regulation 28)	No	No	Yes	Yes	Yes	No	Yes	No	No

For full disclosure on all risks, costs and fees, as well as performance fees FAQ, refer to the fund fact sheets on our website: www.psg.co.za/asset-management

Contact information

Local unit trusts
0800 600 168
local.instructions@psgadmin.co.za

Offshore unit trusts
0800 600 168
offshore.instructions@psgadmin.co.za

General enquiries
+27 (21) 799 8000
assetmanagement@psg.co.za

Websites
www.psg.co.za/asset-management
www.psgkglobal.com

Cape Town office

Physical address
First Floor, PSG House
Alphen Park
Constantia Main Road
Constantia
Western Cape
7806

Postal address
Private Bag X3
Constantia
7848

Switchboard
+27 (21) 799 8000

Guernsey office

Address
11 New Street
St Peter Port
Guernsey
GY1 2PF

Switchboard
+44 (1481) 726034

Malta office

Address
Unit G02
Ground floor
SmartCity Malta
SCM 01
Ricasoli
Kalkara
SCM 1001

Switchboard
+356 (2180) 7586

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Trustee: The Standard Bank of South Africa Limited, Main Tower, Standard Bank Centre, 2 Hertzog Boulevard, Cape Town, 8001. Tel: +27 (21) 401 2443. Email: compliance-PSG@standardbank.co.za. **Conflict of Interest Disclosure:** The funds may from time to time invest in a portfolio managed by a related party. PSG Collective Investments (RF) Limited or the Fund Manager may negotiate a discount in fees charged by the underlying portfolio. All discounts negotiated are re-invested in the fund for the benefit of the investor. Neither PSG Collective Investments (RF) Limited nor PSG Asset Management (Pty) Limited retains any portion of such discount for their own accounts. The Fund Manager may use the brokerage services of a related party, PSG Securities Limited.

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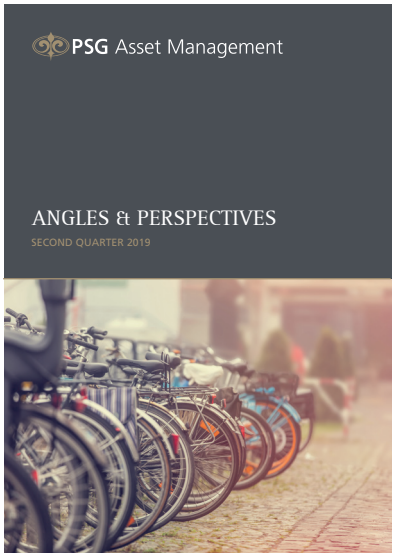
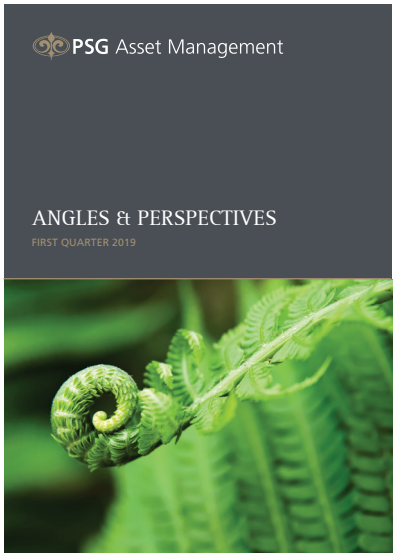
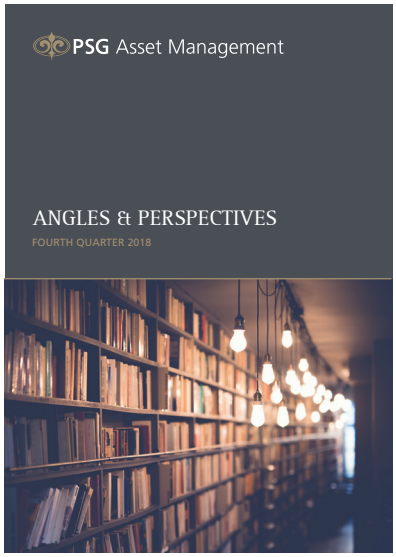


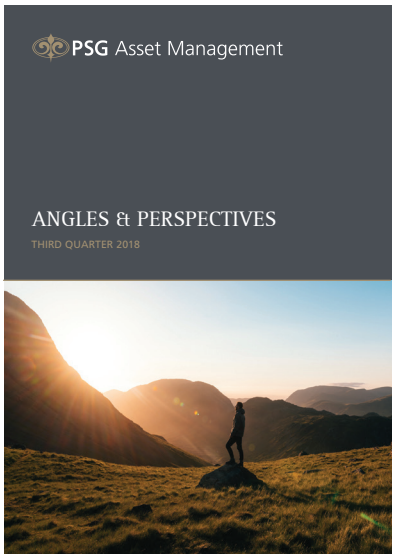
Second quarter 2019



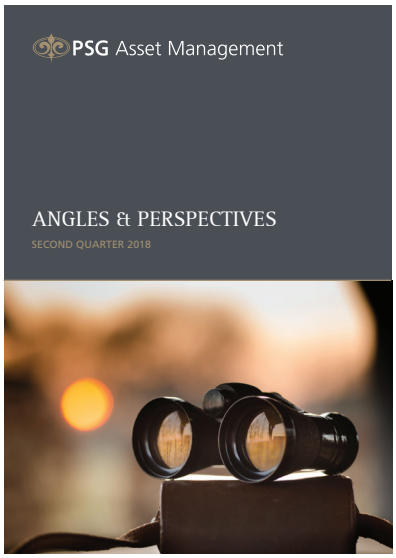
First quarter 2019



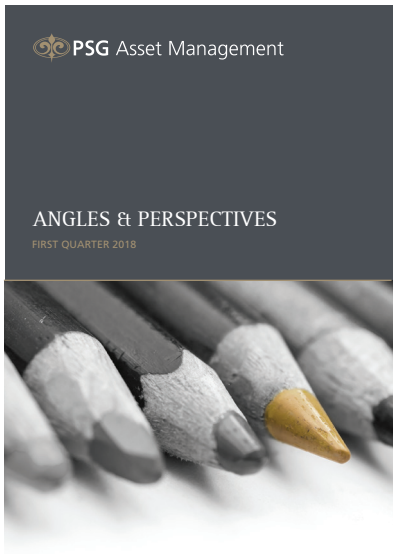
Fourth quarter 2018



Third quarter 2018



Second quarter 2018



First quarter 2018

PSG Asset Management