PSG Asset Management

ANGLES & PERSPECTIVES

FOURTH QUARTER 2019

Contents

Markets are inherently cyclical, and navigating these market tops and bottoms is critical to investment success. However, the cycles are more often than not impossible to predict. We therefore choose to focus on what we can know for certain, namely the fundamentals of an investment.

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.

Markets are cyclical, which means periods of underperformance are a given

Financial markets have always experienced cycles. Numerous dynamic factors affect the nature and scope of these cycles – company-specific developments, political news, and economic policies. In addition, investors who buy and sell on the market are subject to human emotional and behavioural biases, which also come into play. When combined, these variables create periods of gains and periods of losses that are impossible to predict. Nevertheless, investment managers must have a way to navigate these for their clients.

Following a disciplined, fundamental process is critical to optimise long-term outcomes

We accept that market cycles and movements are a given and are outside our control. We therefore choose to focus on the fundamentals of an investment based on our assessment of the business moat, management team's track record, and inherent margin of safety – our 3M process that we regularly refer to. Following this consistent bottom-up process has achieved good outcomes over time. We naturally keep track of external developments, but we don't build our portfolios for a specific macro outcome because the uncertainty of this would put our clients' investments at too much risk.

While value stocks are underperforming, the value cycle indicates a promising outcome

Different investment styles also display cycles, which is why a long-term approach and a combination of different styles in a client's investment strategy is essential. There is no single approach that works consistently over several investment cycles. For the past decade, growth stocks (companies that are growing their sales and earnings the fastest) have consistently outperformed value stocks (those stocks that are the cheapest when measured by traditional valuation metrics). Yet, we have rotated into uncrowded global value stocks in recent years, which has resulted in short-term underperformance.

In the first article of this edition, Mikhail Motala explains the value cycle with reference to our investment philosophy, and why we are confident our clients will reap the benefits of our approach over the long term. Stocks initially classified as value stocks can turn into growth stocks as they become more expensive. Our process, which has served our clients well, dictates that we sell when the margin of safety erodes, and buy if we identify mispriced quality. The value stocks that we currently hold are trading at significant discounts to their intrinsic value, boding well for strong subsequent returns.

When it comes to retirement savings, successfully navigating market cycles is key

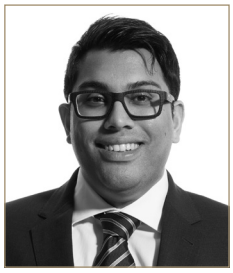
In South Africa, retirement funding risks have been transferred from employers to retirees with the introduction of defined contribution funds and a growing preference for life annuities over guaranteed annuities. While in the past, pension fund members were insulated from market cycles and investment decision-making, the burden of the risk of running out of money has now shifted to members. Achieving an adequate long-term return is, however, difficult and often requires counter-intuitive thinking, because it requires a significant allocation to risk assets, which inevitability results in volatile short-term performance. In his article, Kevin Cousins explains the critical role that advisers play in helping investors make the right investment choices and avoid emotional decisions triggered by short-term market movements. He also warns against investors moving to perceived 'lower-risk' assets, highlighting that prospective returns on equities appear promising.

Instead of identifying catalysts for outperformance, we focus on stock picking

Investors often ask us about external signals that may act as catalysts for a desired outcome. Gustav Schulenburg therefore closes this edition by investigating the merit of looking for catalysts for market out- or underperformance. Gustav uses the example of GDP growth – a popular perceived signal or catalyst – but shows that this has a low correlation with markets, both globally and in South Africa. In contrast, we prefer not to make explicit economic forecasts or identify specific catalysts for outperformance because of the high error rate in consensus predictions about global events. We believe our clients are better served by us when we focus on the fundamentals and intrinsic value of a company – as determined by our 3Ms – and the price we should be willing to pay for a stock.

We trust you'll find these articles insightful and wish you a happy and successful 2020.

Value-turned-growth stocks – understanding the value cycle



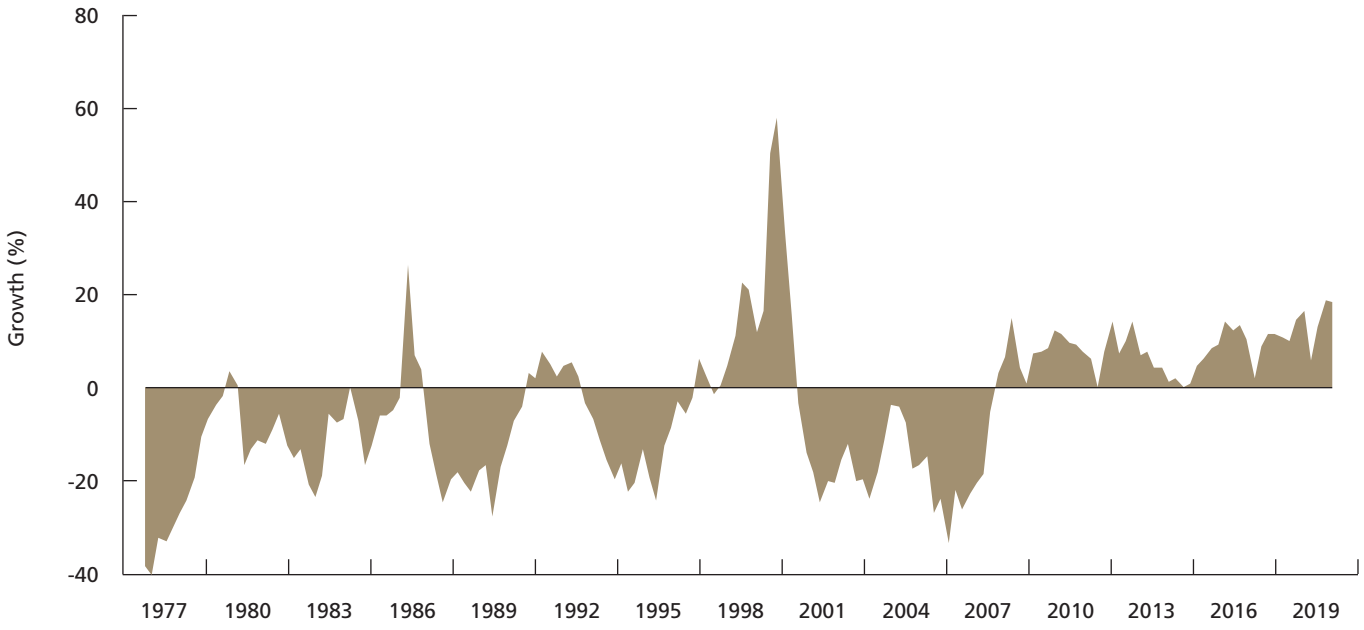
Mikhail Motala

Mikhail joined PSG Asset Management in 2015 and is a member of the investment team. He conducts research on both local and global companies across various sectors. Before joining PSG, he worked in the assurance division at Ernst & Young. Mikhail is a qualified Chartered Accountant.

Growth stocks have outperformed value stocks for the past decade

Graph 1 shows the difference in the performance of the two most popular styles of investing – growth and value investing – since the late 1970s, as represented by the MSCI World Growth and MSCI World Value indices. A shaded area above 0% shows that growth stocks have outperformed value stocks, while a shaded area below the line indicates the opposite. The picture is clear: growth stocks have consistently outperformed value stocks for the past 12 consecutive years. Put another way, investors holding mostly growth stocks over this period have had significantly better outcomes than those holding mostly value stocks. So, how has this affected value investors?

Graph 1: Growth investing has outperformed value investing over the past 12 years



Sources: PSG Asset Management, Bloomberg

There are clear distinctions as well as similarities between the MSCI World Growth and MSCI World Value indices

Growth stocks represent the companies that are growing their sales and earnings the fastest. Value stocks are those that are the cheapest when measured by traditional valuation metrics (price-to-book ratio, price-earnings or P/E ratio, and dividend yield). MSCI uses these definitions to construct its World Growth and World Value indices. A closer look at the geographic and sector compositions of the indices (shown in Tables 1 and 2) reveals further distinctions – as well as interesting similarities.

Several observations are apparent:

- Both indices only consider developed markets.
- Both indices are dominated by the US.
- The UK is deemed more of a value market than a growth market.
- Information technology and consumer discretionary are currently clearly growth sectors.
- Financials and high-yielding sectors such as real estate, energy and utilities are currently value sectors.

Table 1: The geographic compositions of the MSCI World Growth and MSCI World Value indices are largely aligned

	MSCI World Growth Index	MSCI World Value Index
US	63.4%	63.3%
Japan	8.1%	8.2%
France	4.0%	3.6%
UK	3.7%	7.3%
Other*	20.8%	17.6%

*Other represents 19 developed market countries: Australia, Austria, Belgium, Canada, Denmark, Finland, Germany, Hong Kong, Ireland, Israel, Italy, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden and Switzerland.
Sources: PSG Asset Management, MSCI

Table 2: Several market sectors currently clearly fall in either growth or value territory

	MSCI World Growth Index	MSCI World Value Index
Information technology	28.5%	6.2%
Consumer discretionary	14.2%	6.3%
Industrials	13.9%	9.3%
Healthcare	12.7%	12.1%
Communication services	9.1%	7.7%
Consumer staples	8.2%	8.4%
Financials	5.8%	25.7%
Materials	3.8%	5.0%
Real estate	2.4%	4.1%
Energy	1.0%	8.9%
Utilities	0.5%	6.4%

Sources: PSG Asset Management, MSCI

It is worth noting, however, that there are often anomalies within sectors (that are not visible from these tables). Current examples include the following:

- In the consumer discretionary sector (a growth sector), there is a wide divergence between the valuations of growth stocks such as Amazon.com and Nike, and value stocks like L Brands.
- In healthcare (roughly equally split between growth and value), there is a wide divergence between biotechnology companies and all others (hospitals, insurers, etc.).
- In the consumer staples sector, Nestlé is a top 10 holding of the MSCI World Growth Index, while Procter & Gamble is a top 10 holding of the MSCI World Value Index.

In line with our philosophy, we have rotated into uncrowded global value stocks in recent years

Consistently applying a global process that is price sensitive has served our clients well over the long run. We will sell when the 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. Over time, this has yielded favourable outcomes. However, as Chief Investment Officer Greg Hopkins explained in the third quarter 2019 edition of this publication, it can also result in short-term disappointment. This has been the case over the past 12 months, following our steady rotation in recent years out of stocks that had reached our estimates of intrinsic value into stocks that we believe are undervalued. As illustration, Table 3 compares the top 10 holdings of the PSG Global Flexible Fund (which are representative of the global holdings across our funds) on 31 May 2016 to the current top 10 holdings (on 31 December 2019).

Table 3: The top 10 holdings of the PSG Global Flexible Fund have changed significantly over the past three years

	Top 10: 31 May 2016	Top 10: 31 December 2019
1	Berkshire Hathaway Inc	Japan Post Insurance Co Ltd
2	Brookfield Asset Management Inc	Brookfield Asset Management Inc
3	Capital One Financial Corp	The Mosaic Co
4	J Sainsbury plc	Liberty Global Inc
5	Softbank Corp	Prudential plc
6	Microsoft Corp	Asahi Group Holdings Ltd
7	JP Morgan Chase & Co	L Brands Inc
8	Cisco Systems Inc	Resona Holdings Inc
9	Colfax Corp	Glencore plc
10	Union Pacific Corp	Simon Property Group Inc

Source: PSG Asset Management

It is useful to consider our rotation in the context of the distinction between growth and value. In May 2016, our funds' global holdings contained many stocks that are now classified as growth stocks. However, a few years earlier our process had identified them as value stocks because they had become cheap for several reasons. By 2018, the stocks had performed well and were reaching valuation levels we considered expensive. At the same time, pockets of value were starting to emerge elsewhere in the market. We therefore started selling these expensive stocks and buying cheap ones, i.e. selling high and buying low – a process we follow consistently. Examples of stocks we've sold over the past three years include Union Pacific and Microsoft, both great companies, but neither of which continue to offer the margin of safety we require.

Union Pacific

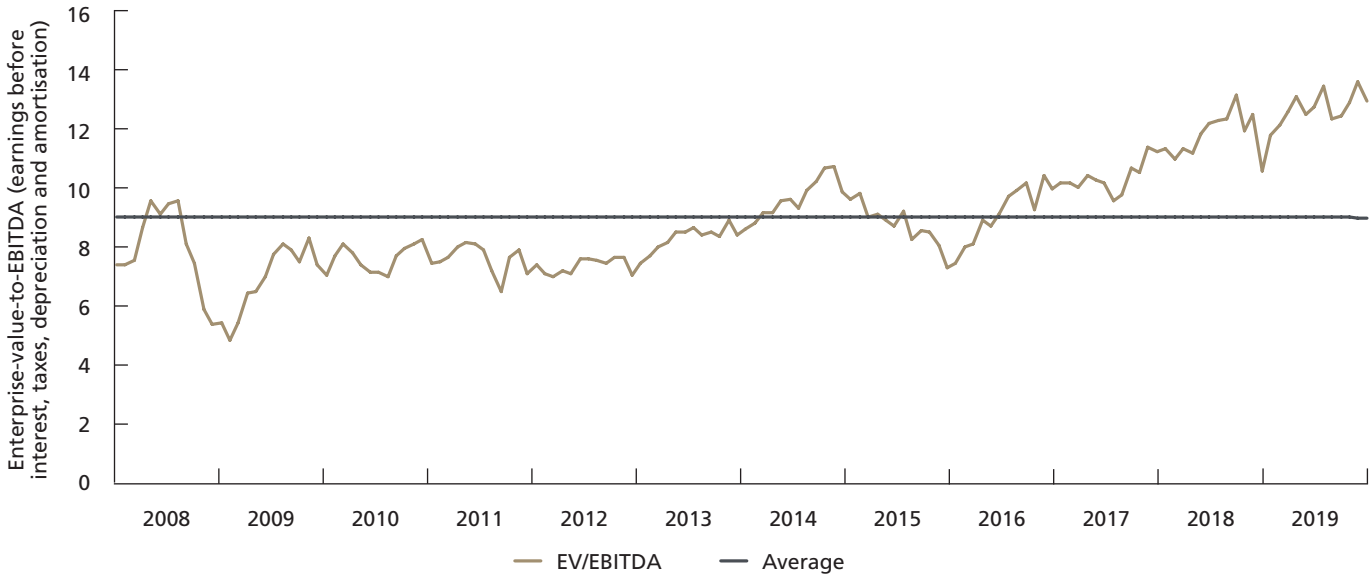
Union Pacific, a railroad owner and operator in the US, is a good leading indicator of US GDP and global trade. We bought Union Pacific when it sold off in 2015 due to concerns about the lower oil price, the 'death of coal', and a sharp reduction in agricultural exports. We started selling when the share reached our appraisal of fair value in December 2017. It has gone on to achieve all-time-high valuation ratings, as shown in Graph 2.

Microsoft

A similar story emerges when looking at Microsoft. Our process identified the company as a good investment opportunity when it traded below its average valuation multiple in 2011. As its share price increased and its valuation level normalised, we started selling. However, the share has since re-rated to levels above those seen before the global financial crisis, as shown in Graph 3.

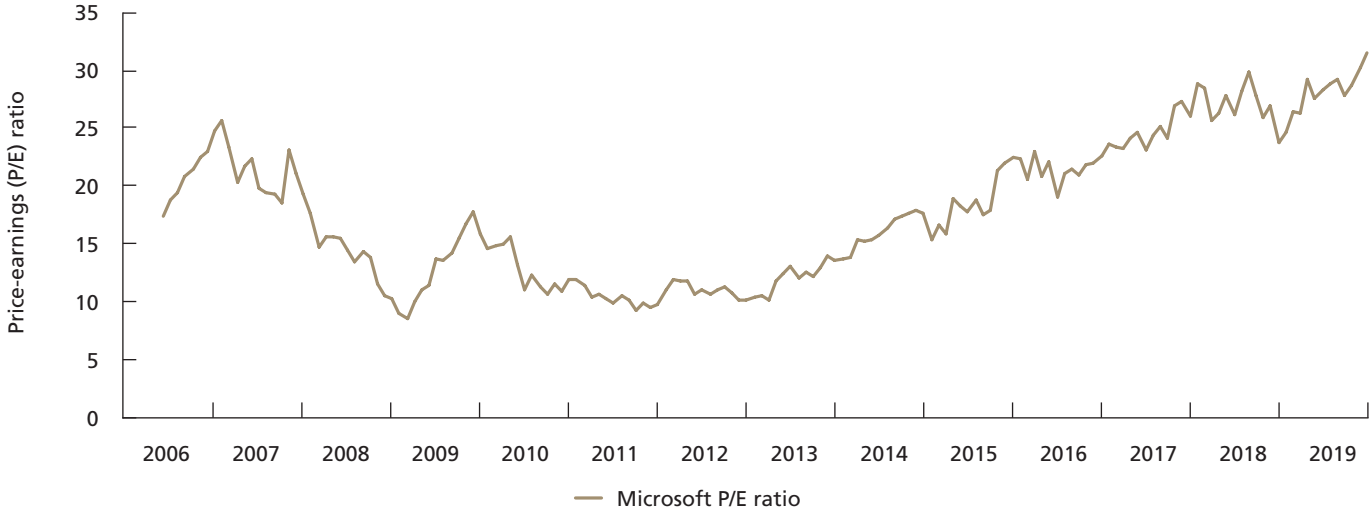
In hindsight, the rotation in our global holdings was too early. The expensive stocks we sold became even more expensive, while the cheap stocks we bought became cheaper (evidenced by the growing divergence between growth and value stocks in recent years).

Graph 2: Union Pacific sold off in 2015 before its share price started rising to all-time highs



Sources: PSG Asset Management, Bloomberg

Graph 3: After trading at a below-average valuation level for several years, Microsoft shares have re-rated to pre-financial crisis levels



Sources: PSG Asset Management, Bloomberg

South African growth and value stocks have shown similar trends to their global counterparts

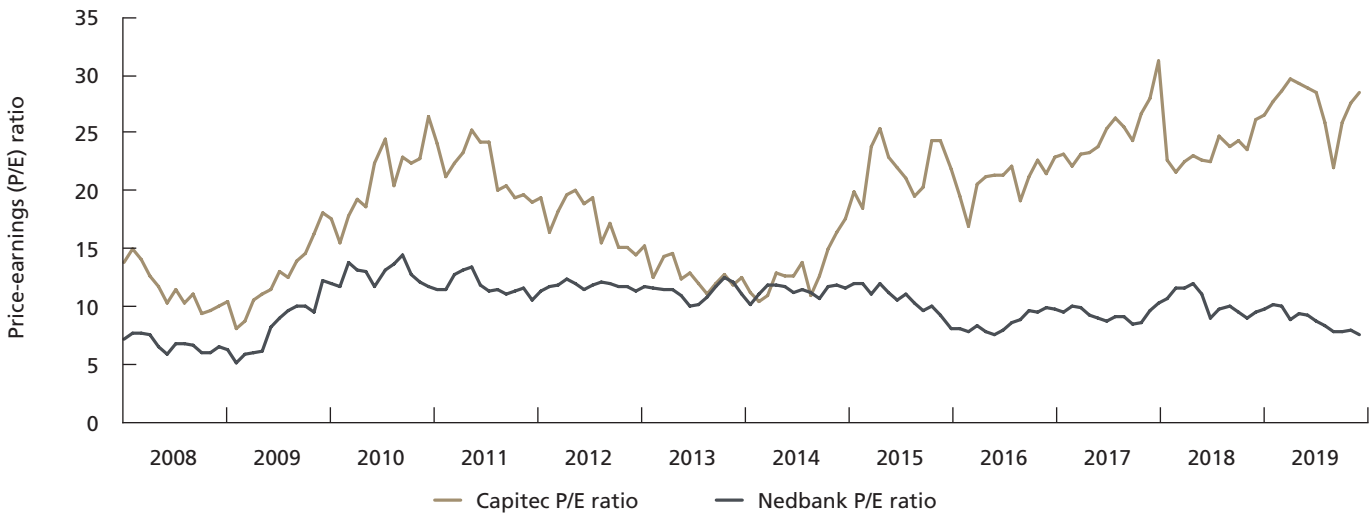
Locally, it is important to bear in mind that the economy is not growing, and it has been a very tough environment for domestic-facing (SA Inc.) companies to produce growth. Therefore, local stocks can be regarded as growth stocks if they're taking market share. While South African companies are not included in either the MSCI World Growth or MSCI World Value indices, similar market dynamics have been at play: the divergence between those that are exhibiting fast growth and those that aren't is extreme. The divergence between the share prices of Capitec and its competitors, and between Clicks and Shoprite, are good illustrations.

Capitec versus its peers

Capitec is the epitome of a SA Inc. success story. Since its inception, it has produced unmatched growth relative to other SA Inc. companies, as it has continued to take market share from both the big four banks (Nedbank, Standard Bank, FirstRand and Absa) and informal lenders. Investors have seized the opportunity to benefit from this growth, driving the Capitec share price to all-time highs in recent years, both in absolute terms and relative to peers. Comparing its valuation to Nedbank, as one of these peers, reveals the extent of the valuation divergence. At the end of December 2019, the Capitec share price traded at a 384% premium relative to Nedbank's share price, compared to a long-term average of 192% (shown in Graph 4).

We bought Capitec aggressively in the wake of the African Bank crisis in 2014. At the time, its premium relative to the big four banks evaporated, and faster growth was no longer factored into its share price. As Capitec continued to produce stellar results, its valuation started to expand again. We therefore favoured the big four banks over Capitec, where we saw mispriced value.

Graph 4: Capitec is trading at a wide premium to its peers



Sources: PSG Asset Management, Bloomberg

Clicks versus Shoprite

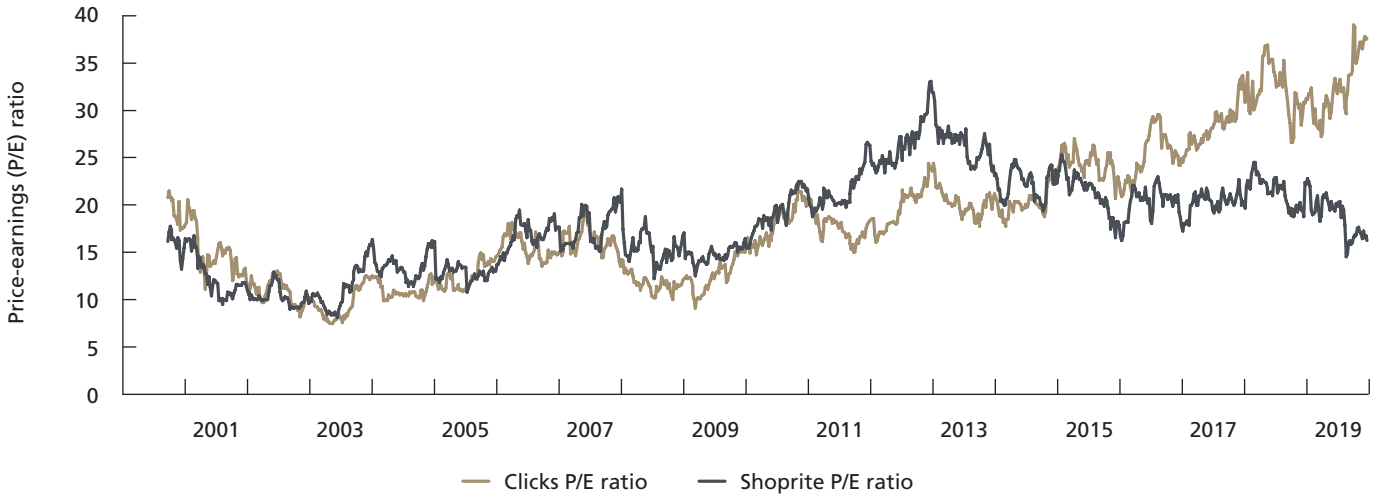
Clicks and Shoprite both sell everyday goods – in many cases to the same consumers. Yet the recent experience of investors in the two companies has been vastly different, again due to growth. As Clicks continues to take market share away from independent pharmacies, its growth has exceeded that of the average SA Inc. company. But as with Capitec, investors have driven its valuation to all-time highs. In fact, the valuation premium of Clicks over Shoprite is 133%, versus a history of trading on average at similar multiples (shown in Graph 5). We believe that the discount embedded in the Shoprite share price is unwarranted. As a result, this appears to be an attractive opportunity and we have invested in Shoprite.

There is a divergence between platinum and other commodity prices

Platinum has been a key reason for the outperformance of several local funds over the past 12 months. We sold our holdings in the sector in the first quarter of 2019 and, as a result, have been underweight platinum for most of the year. While the short-term performance of the platinum sector has been remarkable after strong price performance, an interesting picture emerges when looking at the sector over the longer term.

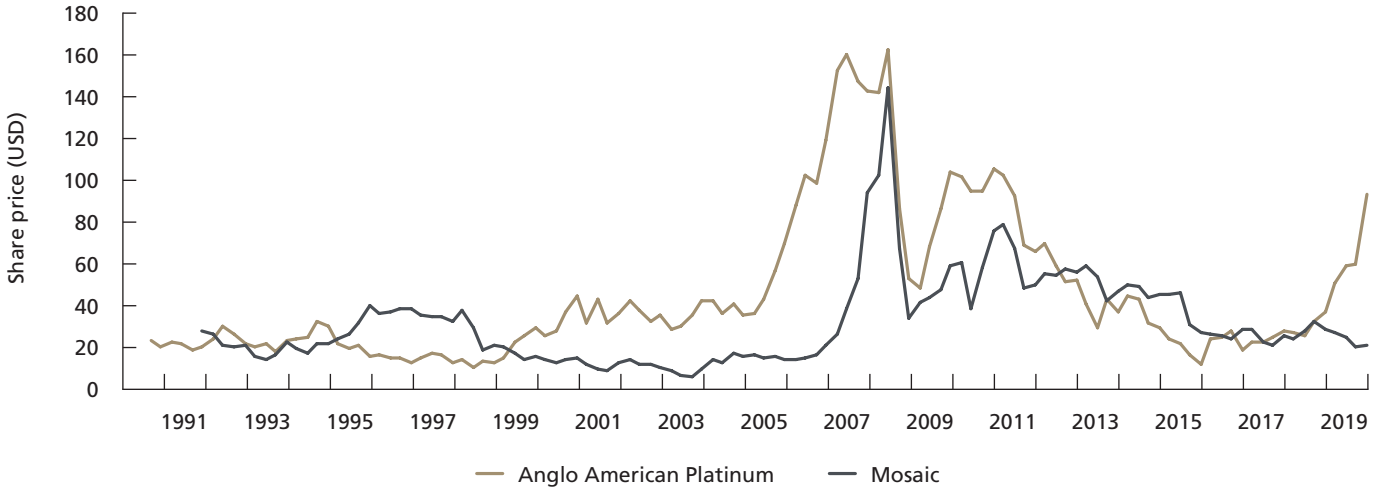
For example, the share price of Anglo American Platinum (Amplats), one of the world's largest platinum producers, has since 1990 only been higher in the commodity bubble of 2011/2012 and before the global financial crisis. It's also interesting to note the relative performance of platinum to another commodity: fertiliser. We therefore turn to the world's largest potash and phosphate producer, The Mosaic Company (Mosaic). While the business models of both Amplats and Mosaic are, on the face of it, different, both are part of oligopolistic industries. For example, five companies control roughly 70% of the global fertiliser market. Furthermore, the share prices of Amplats and Mosaic have shown a remarkable correlation (as shown in Graph 6). The correlation is lagged, as fertiliser appears to be a later-cycle commodity than platinum. At the end of 2018, a significant divergence emerged, with the price differential close to all-time highs. Mosaic is currently a top 10 holding in the PSG Global Flexible Fund and is owned across our domestic funds as well.

Graph 5: While Clicks and Shoprite have historically traded at similar multiples, they are now displaying a wide divergence in valuations



Sources: PSG Asset Management, Bloomberg

Graph 6: A wide divergence between the share prices of Amplats and Mosaic started to emerge in 2018



Sources: PSG Asset Management, Bloomberg

We remain optimistic about the opportunity set embedded in our portfolios

While short-term underperformance is always uncomfortable, the global and local stocks on our buy lists are, on average, trading at significant discounts to intrinsic value – in fact, the highest discounts in years. Just like our previous holdings in value-turned-growth stocks delivered strong subsequent returns for our clients, current holdings in undervalued, high-quality securities hold the potential to do the same over the long term. Our investment decisions are always guided by how we can optimise our clients' returns over the long run – even when this requires riding out the temporary lows of the value investment cycle.

Retirement funding risks and the crucial role advisers play

Kevin Cousins

Kevin is Head of Research at PSG Asset Management and has 26 years' experience in investment management. After working at BoE Asset Management from 1993 to 2002, he co-founded Lauriston Capital, a specialist hedge fund manager. He then worked as part of the hedge fund management team at Brait (now called Matrix Fund Managers). Kevin joined PSG Asset Management in 2015.

Successfully navigating market cycles is key to achieving desired retirement outcomes

Financial markets have always experienced cycles. This means that the short-term returns of risk assets such as equities and property can at times show significant losses. Successfully navigating the extremes of the market cycle is an important element of investment management. Here, the role of the adviser has become crucial, especially in the context of retirement planning. In this complex era, investors have the benefit of transparency and a wide range of funds to choose from on the one hand, but run the risk of running out of retirement savings on the other hand.

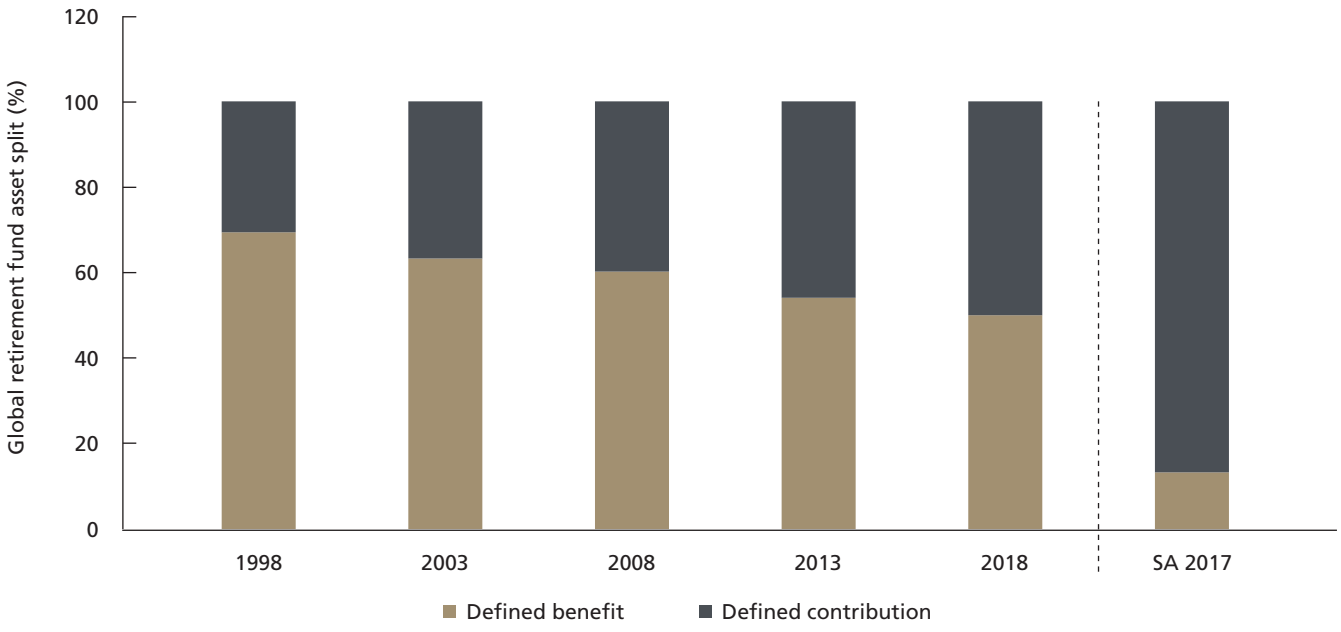
In South Africa, retirement funding risks have been transferred from employers to retirees

South Africa has been a leader in the restructuring of private sector retirement funds from defined benefit funds (where a member's pension is guaranteed and set as a percentage of their final salary) to defined contribution funds (where a member's pension will depend on the contributions they make and how they choose to invest these). This has been driven primarily by employers wanting to avoid onerous retirement benefit liabilities. While this is a global trend (as shown in Graph 1), almost all South African private sector funds have converted to defined contribution funds over the past 30 years. The few remaining defined benefit funds (only some 13% of total fund assets, compared to 50% globally) have been closed to new members.

Previously, pension fund members were insulated from market cycles and investment decision-making

Historically, with defined benefit funds, your pension would be based on your final salary, grow annually to compensate for inflation, and continue until your death. Typically, employers would also provide post-retirement medical funding as part of the benefits package. This meant that as a retiree, you knew with a great deal of certainty what your income would be and did not have to make provision for one of your largest expenses – your medical costs – even if you lived many years longer than expected. Market cycles would still affect your discretionary savings, but you always had your pension to rely on.

Graph 1: Globally, retirement funds are steadily moving from defined benefit to defined contribution funds



Sources: PSG Asset Management, Thinking Ahead Institute, Willis Towers Watson, Registrar of Pension Funds Annual Report

Investment risks under the defined benefit system were of course the same as they are now. Crucially however, they were carried by the pension fund and the employer, who had a responsibility to ensure the fund had sufficient assets. The impact of market cycles on the pension fund assets was evaluated by the fund's trustees, who were in turn advised by actuarial consultants. The actual investment decisions were made by asset managers. In large funds, segregated mandates were allocated to several different managers. Market cycles were therefore of little concern to a member or retiree. Consequently, there was no disclosure of short-term changes in value, as those changes, even if known, would not affect members' pensions.

A growing preference for living rather than life annuities has further shifted the risk to investors

Most retirees have moved away from purchasing life or guaranteed annuities on retirement, opting instead for living annuities (which should more descriptively be called 'phased-withdrawal investment products'). In fact, the purchase of guaranteed annuities has dropped from 50% of all annuities purchased in 2003 to around 10% in 2015. Three forces have driven this shift:

1. The low initial income of a typical guaranteed annuity has pushed retirees towards living annuities, where the retiree can choose a higher level of initial income.
2. The advantages of living annuities have provided a 'pull' for sales. These include the following: your family retains your assets on your death, you have a say in how the assets are invested – and can diversify across asset managers, you have the flexibility to determine how much you withdraw each year, and you retain the ability to purchase a life annuity in the future.
3. Living annuity sales commissions were high compared to the 1.5% regulated maximum commission cap for guaranteed annuities. They also often involved ongoing advice and service fees. This provided a 'push' for sales.

The consequence of this massive change in the way middle-class South Africans fund their retirement is perhaps only now fully appreciated: the risk of running out of money has been shifted squarely to the individual. Whether your retirement savings will be adequate of course depends primarily on how much you save during your working career. What is not fully appreciated, however, is the drastic impact of the other three variables in the equation:

1. how much you spend each year after retirement
2. how long you live
3. the investment return you earn on your assets over time

While you may be able to reduce your spending (within limits) if necessary, you will obviously have no idea how long you may live. When it comes to your investment returns, one of the most important factors is to make rational, long-term decisions.

Managing living annuity portfolios to deliver the required returns is crucial but often difficult

When living annuities are compared to guaranteed annuities, a crucial determinant for success is the expected investment returns that may be achieved over the life of the living annuity. If the expected long-term returns are not achieved, you face the prospect of running out of money. Given the limited scope to reduce your spending on essentials, this could be exacerbated if your cost of living or spending rapidly increases as a percentage of assets each year.

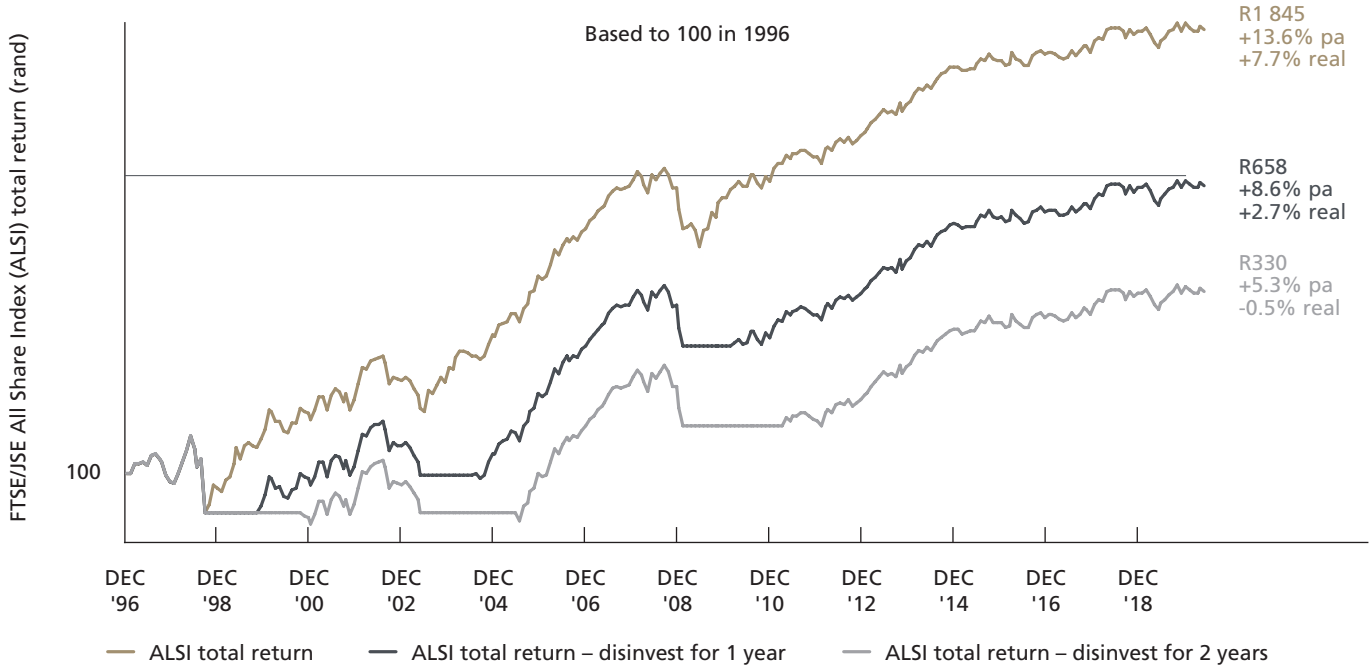
Managing a portfolio of investments to achieve good long-term returns is a difficult undertaking, requiring counter-intuitive thinking. For example, a significant allocation to risk assets such as equities is necessary to deliver the required long-term returns, but this will inevitability result in volatile short-term performance. This volatility will manifest both between asset classes (e.g. equity-heavy funds compared to income funds) and between funds managed by different houses (e.g. the PSG Balanced Fund against a peer).

Emotional decision-making could seriously threaten the chance of you achieving long-term investment goals

While risk asset returns have always displayed short-term volatility, the ability for retirees to monitor the changes in the values of their portfolios and to switch between products is a relatively recent phenomenon. This raises the risk of making emotional decisions triggered by short-term price movements. Using recent past performance as a proxy for future investment returns appears entirely reasonable, works much of the time, and is something even experienced investment professionals are prone to do. However, at crucial points in the market cycle – typically when valuations are at extremes – basing investment decisions on recent historical returns can lead to very poor outcomes.

In Graph 2, we show the total return of the FTSE/JSE All Share Index (ALSI), based to 100 in 1996, and the long-term impact of disinvesting from equity investments following periods of severe negative returns. The gold line shows that the ALSI has delivered returns of 13.6% per year to end November 2019, which, given the average inflation rate of 5.8% over the period, equates to real returns of 7.7% per year. We also show the impact on total returns of an investor who exited the equity market after a drawdown of 25% or more. We show two scenarios: in the first (the charcoal line), the investor sits out for a year before 'getting back in the water'; in the second (the grey line), the investor sits out for two years. As a result, the expected annual real returns decline from 7.7% to 2.7% and -0.5% respectively! While this is a stylised example (we have not included interest earned while out of the market and did not deduct any fees or transaction costs), it clearly illustrates the impact that making an emotional decision during periods of market turmoil could have.

Graph 2: Disinvesting after market declines can dramatically erode investment outcomes



Sources: PSG Asset Management, Bloomberg

In fact, acting to minimise short-term discomfort may increase long-term risks

For example, we believe that for most investors, selling multi-asset funds that have delivered poor recent returns and buying income funds that have delivered excellent recent returns may reduce return volatility, but will actually raise more significant risks. There are two reasons for this: firstly, income funds have insufficient exposure to the risk assets necessary to achieve targeted returns over the long term; and secondly, reducing asset class diversification raises your portfolio's vulnerability to changes in the economic environment.

As an investment team, we face similar pressures when making decisions. But we have the benefits of a shared investment philosophy (we know that cycles happen and focus on the long term) and of operating within a disciplined investment process designed to help mitigate our behavioural failings. Our team also has collective experience or 'muscle memory' of many investment cycles. Despite this, making the right decisions to deliver good long-term performance is still immensely difficult, and will, even when done successfully, include periods of poor short-term performance.

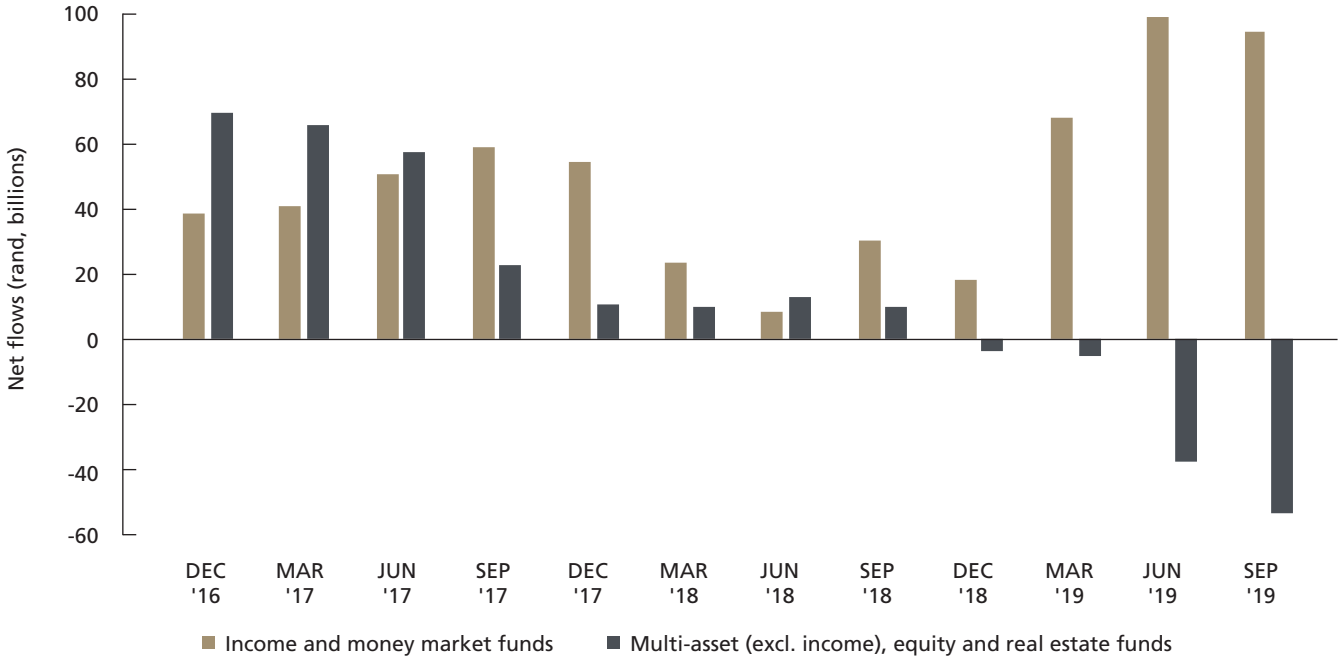
Financial advisers play a crucial role in helping investors avoid emotional decision-making

Fortunately, retirees don't have to make their financial decisions in isolation. Many are likely to have an adviser who would typically have assisted in structuring their initial living annuity purchase. However, retirees will challenge even the best retirement plans when there is a divergence in performance. It is at extremes in the market cycle that advisers play one of their most important roles: keeping clients invested in diversified portfolios with appropriate exposure to risk assets.

We are seeing early signs of investor capitulation, with local investors reducing exposures to risk assets

In our experience, advisers do an excellent job of helping clients stick to a long-term investment plan, but we are still seeing some early signs of investor capitulation from risk assets. Graph 3 shows flows between South African funds, based on data from the Association for Savings and Investment South Africa (ASISA). It contrasts flows for local money market and income funds against flows for local multi-asset, equity and real estate funds (which contain higher proportions of risk assets). Recent quarters have seen dramatic inflows into perceived lower-risk funds, while those with higher risk asset allocations have seen outflows.

Graph 3: Local investors are displaying a marked preference for money market and income funds



Sources: PSG Asset Management, ASISA

We caution against capitulation, as prospective returns from equities appear promising

The S&P 500 is at valuations last seen at market peaks around 2007 and 1999. However, as we have previously noted, there are enormous dispersions between individual markets, sectors and companies, making it inappropriate to 'tar all equities with the same brush'. (For example, an article in the second quarter 2019 edition of this publication, 'China versus Japan: historic growth or future returns?', highlighted how the Tokyo Stock Price Index was at similar ratings to those endured at the low point of the global financial crisis in 2008/2009.) We have also regularly referred to the attractive opportunity in domestically focused South African stocks. Currently, both the South African and global equities on our buy list are trading at about a 40% discount to our aggregated estimates of their intrinsic values. This level was last reached in the first quarter of 2016, and implies excellent future returns. As such, we would caution investors against making decisions based on knee-jerk reactions to minimise temporary discomfort, recommending instead that they work closely with their advisers to ensure their portfolios remain appropriately structured to meet their long-term objectives.

Why we focus on stock picking instead of predicting catalysts for outperformance

Gustav Schulenburg

Gustav joined PSG in 2016 as an equity analyst and is a member of the investment team. He conducts research on both local and global companies across a variety of sectors. Before joining PSG, he spent eight years as an analyst covering local and global emerging market stocks at Electus Fund Managers and the Old Mutual Investment Group.

Clients often ask us what the catalysts for outperformance will be

Sometimes this refers to outperformance of our funds, and other times to the South African economy as a whole. The dictionary definition for a catalyst is 'something that precipitates or induces an event or change', which is why investors often look for external signals to act as a catalyst for a desired outcome. This then tends to prompt them to take action – often to increase or decrease exposure to different assets. As the catalyst, event or newsflow confirms their view, investors perceive their risk to be lower. Some of the most popular catalysts in investing are GDP growth updates, political or leadership changes, and changes in the relative risk-free rates (as measured by returns from government bonds).

We avoid identifying specific catalysts and making explicit economic forecasts

We have all witnessed the high error rate of consensus views about global events that then turn out to be completely wrong (for example, the original Brexit vote and the election of Donald Trump). Experts tend to alter their forecasts after the event, and a new consensus is formed. Due to the high probablity of being wrong and the inherent risk, we therefore don't believe that identifying and then positioning our portfolios for a perceived external catalyst is in our clients' best interests when it comes to generating sustainable long-term outperformance.

A consistent bottom-up process produces better long-term outcomes for clients

In our view, focusing on factors such as the price paid and the inherent quality of the business and management is a better way to identify diverse opportunities for our portfolios and is a less risky way to generate superior returns. We do however spend time understanding the different drivers of the economy and considering the impact that different scenarios could have on our client portfolios. Our main focus is to assess the fundamentals of a company based on our assessment of the business moat, management team's track record, and inherent margin of safety (our 3Ms).

GDP growth is a popular perceived catalyst, but its correlation with markets is low

Some investors focus on the GDP growth rate of a country. Although there is a positive correlation between the economy and the stock market, it is not nearly as strong or as predictable as one might think. When we consider the last 90 years (1930 - 2019) in the US, and we look at the 15 best and 15 worst calendar years from a GDP growth perspective, and then plot those relative to the performance of the S&P 500 over the same time period, we see an interesting result (see Table 1).

Table 1: The correlation between US GDP growth and returns from the stock market has been low

Worst US GDP growth years		
	Real GDP (%)	S&P 500 (%)
1932	(12.9%)	(8.6%)
1946	(11.6%)	(8.4%)
1930	(8.6%)	(25.1%)
1931	(6.4%)	(43.8%)
1938	(3.3%)	29.3%
2008	(2.8%)	(37.0%)
1974	(1.9%)	(25.9%)
1949	(1.5%)	18.3%
1982	(1.4%)	20.4%
1933	(1.3%)	50.0%
1947	(1.1%)	5.2%
1945	(1.0%)	35.8%
2009	(0.2%)	26.5%
1970	(0.2%)	3.6%
1980	0.0%	31.7%

Best US GDP growth years		
	Real GDP (%)	S&P 500 (%)
1942	18.9%	19.2%
1941	17.7%	(12.8%)
1943	17.0%	25.1%
1950	13.4%	30.8%
1936	12.9%	31.9%
1934	10.8%	(1.2%)
1935	8.9%	46.7%
1940	8.8%	(10.7%)
1965	8.5%	12.4%
1944	8.0%	19.0%
1939	8.0%	(1.1%)
1983	7.8%	22.3%
1972	6.9%	18.8%
1978	6.7%	6.5%
1955	6.6%	32.6%

Source: Pension Partners LLC

You will notice that in 13 of the 30 years considered, the stock market moved in the opposite direction to GDP. In other words, more than 43% of the time the stock market did not react positively or negatively to a corresponding GDP growth number.

When we look more specifically at US recessions, and we consider the last 10 recessions, five of them had positive annualised stock market performances (see Table 2). So, 50% of the time the market performed opposite to what most investors would have assumed if they had considered strong GDP growth as a catalyst for outperformance.

During the great financial crisis stock markets suffered globally. However, when we dig a bit deeper to look at the developments from a GDP growth perspective, we once again see that investors would have been ill-advised to use GDP growth as a catalyst.

Table 2: In times of recession in the US, markets delivered positive performance 50% of the time

Recession dates	Annualised Real GDP (%)	Annualised S&P 500 (%)
Jul 1953 to May 1954	(2.1%)	32.0%
Aug 1957 to Apr 1958	(4.3%)	(9.6%)
Apr 1960 to Feb 1961	(0.8%)	21.5%
Dec 1969 to Nov 1970	(0.6%)	(3.1%)
Nov 1973 to Mar 1975	(2.1%)	(13.8%)
Jan 1980 to Jul 1980	(3.7%)	35.5%
Jul 1981 to Nov 1982	(1.6%)	10.7%
Jul 1990 to Mar 1991	(1.4%)	11.6%
Mar 2001 to Nov 2001	(0.1%)	(20.0%)
Dec 2007 to Jun 2009	(2.8%)	(25.3%)
Average	(2.0%)	3.9%

Source: Pension Partners LLC

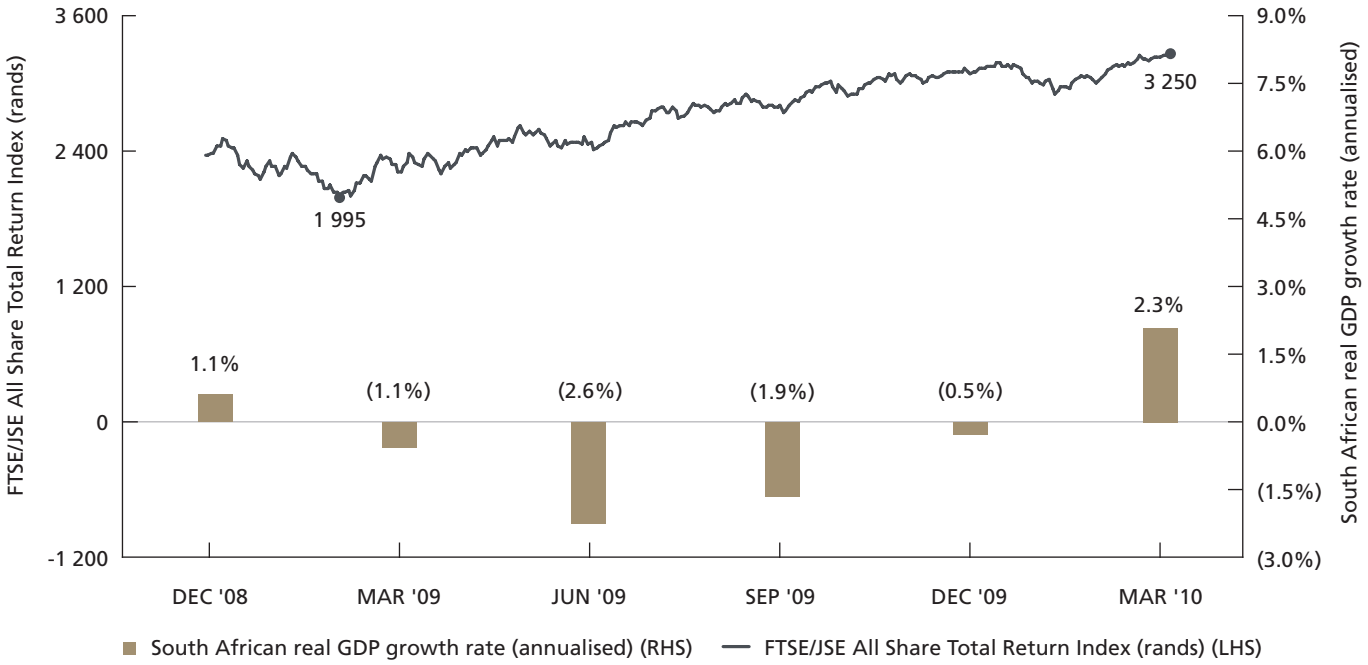
GDP growth as a catalyst for outperformance in South Africa follows the same trend

If we turn our attention closer to home and assess the success rate of using economic growth as a catalyst for returns, we see that investors can materially reduce their returns if they wait for a turnaround in the data. South Africa suffered a painful recession following the great financial crisis with four consecutive quarters of negative annualised real GDP growth. The first positive change in GDP (post-recession) was in March 2010. Arguably this would have been a strong positive catalyst for investors to re-enter markets in the first or second quarter of 2010 after one of the worst global recessions since the Great Depression in 1929. This was not the case. The returns from the JSE as measured by the FTSE bottomed in March 2009 (before the initial negative GDP growth number was released) and was up 63% by the time we saw the first positive GDP number in March 2010 (as shown in Graph 1).

Added to this, it is important to note that our economy showed significant negative GDP growth in the second, third and fourth quarters of 2009, during which time the JSE was up by 23%, 40% and 56% respectively. So, in our minds, there was no clear catalyst to entice South African investors back into the stock market during the period where asset prices rose 63%.

It's interesting to note that a mere eight months after the first sign of positive GDP data in South Africa in November 2010, the index was already reaching new all-time highs. This adds to the argument that looking for a catalyst (in this case South African GDP growth) is often a futile exercise, and the impact on your portfolio can be detrimental. The stock market is not the economy.

Graph 1: FTSE/JSE All Share Total Return Index versus real GDP growth rates in South Africa



Sources: PSG Asset Management, Bloomberg

There is rarely a catalyst that predicts the bursting of an inflated share price bubble

Often the price of a security moves ahead of its fundamentals, which creates a dangerous situation for the buyers of the security. This situation can persist for a long time, and the disconnect between stock price (opinion-driven) and fundamentals (fact-driven) could increase unjustifiably and for longer than anticipated, as the euphoria around a company feeds itself.

This situation lasts until it doesn't … and there is rarely a clear catalyst to indicate when the proverbial 'music will stop'. However, when it does stop, the experience tends to be very painful for the affected investors.

Globally during the late 1990s, IT and telecom company prices were being bid up in the expectation that the internet and communication would change the world. Arguably, this expectation was right – the internet did change the world. But the implied expectations inherent in the high stock prices at the time were excessive. This frenzy of buying and over-confidence in the late nineties wasn't confined to the technology sector. Other companies also received much love from investors who disregarded the price they paid for a company as shown in the accompanying Coca-Cola case study.

We serve our clients better when we focus on the fundamentals of an investment

Catalysts are often linked to the timing of investments rather than company fundamentals. Identifying catalysts for inflection points (positively or negatively) comes with significant risk. Some companies and sectors today exhibit similar traits to those that we saw previously in periods where valuation was disregarded for a few very popular growth companies. We prefer to avoid these types of investments and continue to find good quality businesses at attractive valuations in less crowded areas of the market. We therefore continue to focus our efforts on trying to understand how we could be wrong about an investment, and what the current market price of a security implies for its future.

Coca-Cola case study

Coca-Cola was a very popular investment in the late 1990s, until its share price suddenly crashed

The share price for Coca-Cola climbed from $13 to $44 in three years up to July 1998. Then in 2000 it suddenly crashed by 50% back to $22/share without warning or any identifiable catalyst (as shown in Graph 2). Coca-Cola wasn't the only company to suffer such a decline in value, but the point is that (again) there wasn't a clear catalyst that indicated the run-up was over. The 'bubble' was bursting for many quality and high-growth companies with excessive valuations. Coca-Cola's price-earnings (P/E) ratio continued to derate from1998 until 2009, with the ratio dropping from 54 times (1998) to 12 times (2009), as shown in Graph 3.

Coca-Cola is by many measures a fantastic company, and has been a very good investment over long periods of time. Nevertheless, as is always the case, the price an investor pays for a stock plays a crucial role in their future returns. Investors who bought Coca-Cola in 1998 learned this the hard way as they had to wait 16 years to recover their initial investment, as shown in graph 2.

Graph 2: Coca-Cola's share price took 16 years to recover to its 1998 peak

Sources: PSG Asset Management, Bloomberg

Graph 3: Coca-Cola's price-earnings ratio derated continuously from 1998 to 2009

Sources: PSG Asset Management, Bloomberg

Notes

Notes

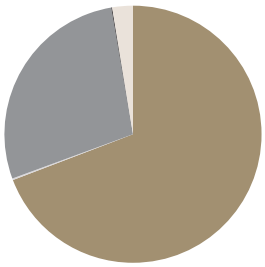
Portfolio holdings as at 31 December 2019

PSG Equity Fund

Top 10 equities

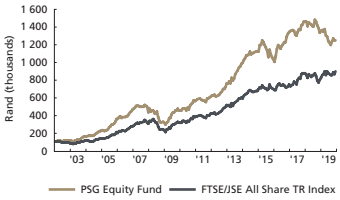
Old Mutual Ltd
Discovery Ltd
AECI Ltd
Glencore plc
Japan Post Insurance Co Ltd
Nedbank Group Ltd
Imperial Logistics Ltd
Super Group Ltd
Prudential plc
JSE Ltd

Asset allocation



Domestic equity	69.2%
Domestic cash	0.2%
Foreign equity	27.9%
Foreign cash	0.1%
Foreign property	2.6%
Total	**100%**

Performance

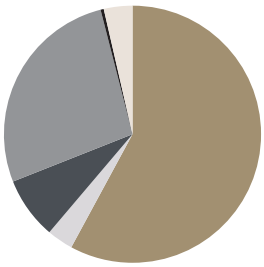


PSG Flexible Fund

Top 10 equities

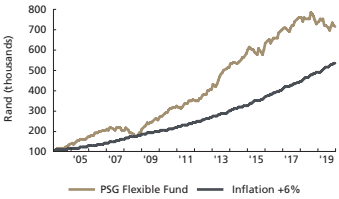
Old Mutual Ltd
Discovery Ltd
Glencore plc
Nedbank Group Ltd
Japan Post Insurance Co Ltd
AECI Ltd
Prudential plc
Imperial Logistics Ltd
The Mosaic Co
Super Group Ltd

Asset allocation



Domestic equity	57.9%
Domestic cash	3.3%
Domestic bonds	7.8%
Foreign equity	27.0%
Foreign cash	0.4%
Foreign property	3.6%
Total	**100%**

Performance

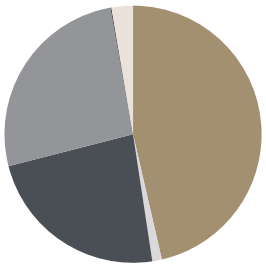


PSG Balanced Fund

Top 10 equities

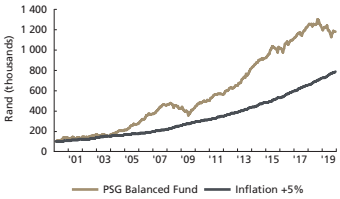
Japan Post Insurance Co Ltd
Discovery Ltd
Old Mutual Ltd
Prudential plc
AECI Ltd
JSE Ltd
Nedbank Group Ltd
Imperial Logistics Ltd
Brookfield Asset Management Inc
Resona Holdings Inc

Asset allocation



Domestic equity	46.4%
Domestic cash and NCDs	1.2%
Domestic bonds	23.4%
Foreign equity	26.2%
Foreign cash	0.1%
Foreign property	2.7%
Total	**100%**

Performance

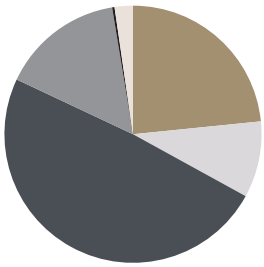


PSG Stable Fund

Top 5 equities
Japan Post Insurance Co Ltd
Discovery Ltd
Prudential plc
AECI Ltd
Old Mutual Ltd

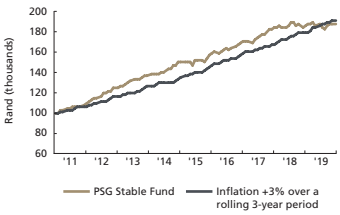
Top 5 issuer exposures
The Republic of South Africa
FirstRand Bank Ltd
Eskom Holdings SOC Ltd
Standard Bank of SA Ltd
PSG Money Market Fund

Asset allocation



Domestic equity	23.4%
Domestic cash and NCDs	9.6%
Domestic bonds	49.0%
Foreign equity	15.4%
Foreign cash	0.3%
Foreign property	2.3%
Total	**100%**

Performance

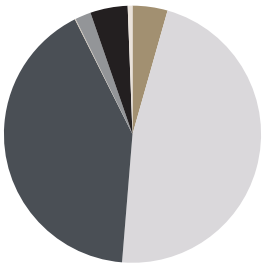


PSG Diversified Income Fund

Top 5 equities
Simon Property Group Inc
Old Mutual Ltd
Japan Post Insurance Co Ltd
AECI Ltd
JSE Ltd

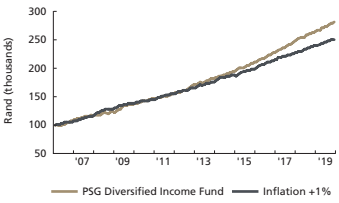
Top 5 issuer exposures
The Republic of South Africa
FirstRand Bank Ltd
Absa Bank Ltd
Nedbank Ltd
PSG Money Market Fund

Asset allocation



Domestic equity	4.4%
Domestic cash and NCDs	46.9%
Domestic bonds	41.3%
Domestic preference shares	0.1%
Foreign equity	2.0%
Foreign cash	4.7%
Foreign property	0.6%
Total	**100%**

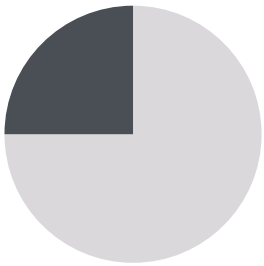
Performance



PSG Income Fund

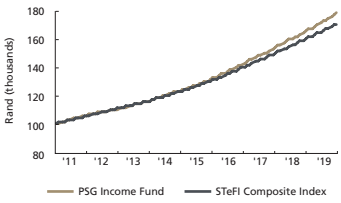
Top 10 issuer exposures
Absa Bank Ltd
FirstRand Bank Ltd
Nedbank Ltd
Standard Bank of SA Ltd
The Republic of South Africa
PSG Money Market Fund
Capitec Bank Ltd
Eskom Holdings SOC Ltd
The Thekwini Fund 14 (RF) Ltd
MMI Group Ltd

Asset allocation



Domestic cash and NCDs	75.0%
Domestic bonds	25.0%
Total	**100%**

Performance

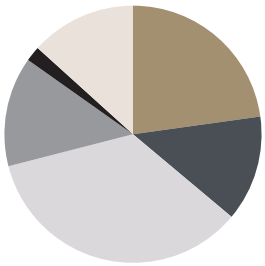


PSG Money Market Fund

Issuer exposures

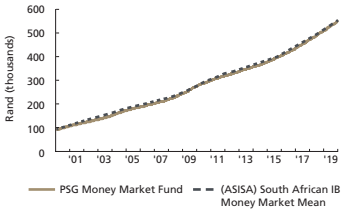
FirstRand Bank Ltd
Nedbank Ltd
Standard Bank of SA Ltd
Absa Bank Ltd
The Republic of South Africa
Investec Bank Ltd
Capitec Bank Ltd
The Thekwini Fund 14 (RF) Ltd

Asset allocation



Linked NCDs/Floating-rate notes	22.8%
Step-rate notes	13.3%
NCDs	34.9%
Treasury Bill	13.8%
Corporate bonds	1.9%
Call	13.3%
Total	**100%**

Performance

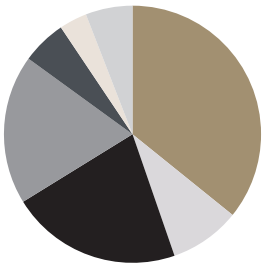


PSG Global Equity Sub-Fund

Top 10 equities

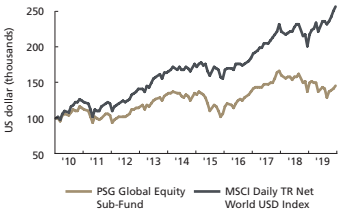
Japan Post Insurance Co Ltd
The Mosaic Co
Brookfield Asset Management Inc
Liberty Global Inc
Prudential plc
Resona Holdings Inc
L Brands Inc
Asahi Group Holdings Ltd
Glencore plc
Simon Property Group Inc

Regional allocation



US	35.8%
Europe	8.9%
UK	21.5%
Japan	18.8%
Canada	5.6%
Africa	3.5%
Cash	5.9%
Total	**100%**

Performance

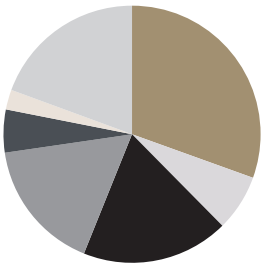


PSG Global Flexible Sub-Fund

Top 10 equities

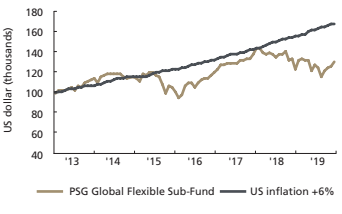
Japan Post Insurance Co Ltd
Brookfield Asset Management Inc
The Mosaic Co
Liberty Global Inc
Prudential plc
Asahi Group Holdings Ltd
L Brands Inc
Resona Holdings Inc
Glencore plc
Simon Property Group Inc

Regional allocation



US	30.5%
Europe	7.1%
UK	18.5%
Japan	16.6%
Canada	5.4%
Africa	2.5%
Cash	19.4%
Total	**100%**

Performance



Percentage annualised performance to 31 December 2019 (net of fees)

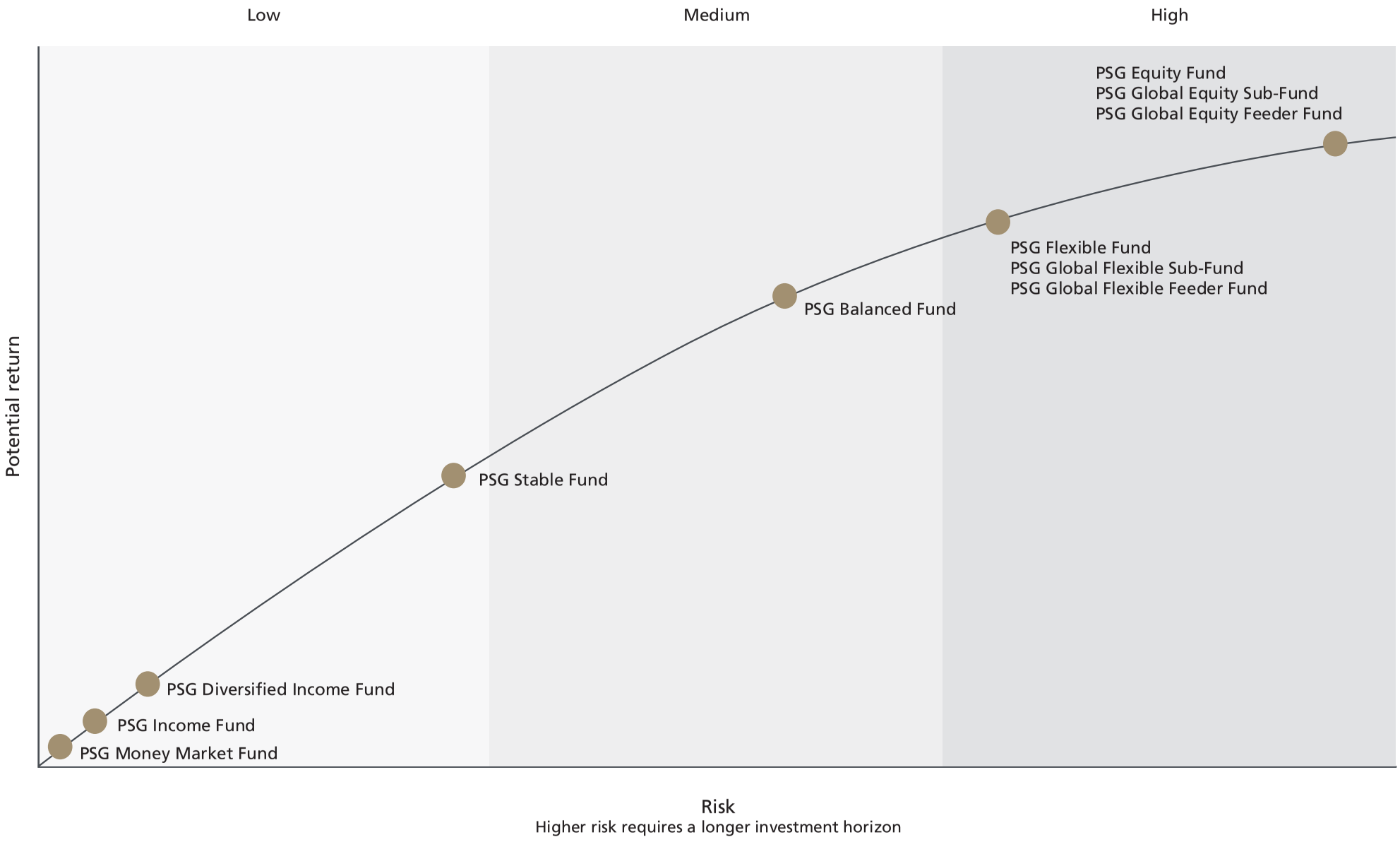
Local funds	1 Year	3 Years	5 Years	10 Years	Inception	Fund inception date
PSG Equity Fund A	-6.86	-1.87	2.04	10.22	15.21*	31/12/1997
FTSE/JSE All Share Total Return Index	12.05	7.43	5.99	10.78	13.13	
PSG Flexible Fund A	-1.55	1.24	5.10	11.59	13.87**	02/11/1998
Inflation +6%	9.48	10.43	10.93	11.11	11.65	
PSG Balanced Fund A	-1.86	1.33	4.22	9.33	12.64	01/06/1999
Inflation +5%	8.57	9.46	9.95	10.12	10.45	
PSG Stable Fund A	2.03	4.18	5.67		7.95	13/09/2011
Inflation +3% over a rolling 3-year period	6.57	7.46	7.95		8.18	
PSG Diversified Income Fund A	6.88	7.36	7.59	7.39	7.75	10/04/2006
Inflation +1%	4.56	5.46	5.94	6.12	6.86	
PSG Income Fund A	8.12	8.35	7.99		7.07	01/09/2011
STeFI Composite Index	7.37	7.37	7.19		6.53	
PSG Money Market Fund A	7.23	7.36	7.19	6.44	8.43	19/10/1998
South African Interest Bearing Money Market Mean	7.45	7.54	7.31	6.52	8.50	
PSG Global Equity Feeder Fund A	3.72	3.49	5.64		10.66	03/05/2011
MSCI Daily Total Return Net World USD Index (in ZAR)	24.13	13.42	12.94		18.30	
PSG Global Flexible Feeder Fund A	2.97	2.89	5.96		10.15	11/04/2013
US inflation +6% (in ZAR)	5.04	8.96	11.89		15.07	

International funds	1 Year	3 Years	5 Years	10 Years	Inception	Fund inception date
PSG Global Equity Sub-Fund A	6.47	3.37	2.32		3.99	23/07/2010
MSCI Daily Total Return Net World USD Index (in USD)	27.69	12.58	8.74		10.44	
PSG Global Flexible Sub-Fund A	6.00	2.73	2.48		3.77	02/01/2013
US inflation +6% (in USD)	8.06	8.15	7.73		7.61	

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

Source: 2019 Morningstar Inc. All rights reserved as at end of December 2019.
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

The information and content of this publication is provided by PSG Asset Management (Pty) Ltd as general information about its products. The information does not constitute any advice and we recommend that you consult with a qualified financial adviser before making investment decisions. For further information on the funds and full disclosure of costs and fees refer to the fund fact sheets on our website.

Disclaimer: Collective Investment Schemes in Securities (CIS) are generally medium- to long-term investments. The value of participatory interests (units) or the investment may go down as well as up and past performance is not a guide to future performance. Where foreign securities are included in a portfolio, the portfolio is exposed to risks such as potential constraints on liquidity and the repatriation of funds, macroeconomic, political, foreign exchange, tax, settlement and potential limitations on the availability of market information. Fluctuations or movements in the exchange rates may cause the value of underlying international investments to go up or down. CIS are traded at ruling prices and can engage in borrowing and scrip lending. The funds may borrow up to 10% of the market value to bridge insufficient liquidity. The portfolios may be capped at any time in order for them to be managed in accordance with their mandate. **Pricing:** Forward pricing is used. Prices are published daily and available on the website www.psg.co.za/asset-management and in the daily newspapers. Unit trust prices are calculated on a net asset value (NAV) basis, which is the total market value of all assets in the fund, including income accruals less permissible deductions divided by the number of units in issue. **Fees:** A schedule of fees, charges and maximum commissions is available on request from PSG Collective Investments (RF) Limited. Commission and incentives may be paid and, if so, are included in the overall costs. **Performance:** All performance data is for a lump sum, net of fees, includes income and assumes reinvestment of income on a NAV to NAV basis. Performance is calculated for the portfolio and individual investor performance may differ as a result thereof. Different classes of participatory interest can apply to these portfolios and are subject to different fees, charges and possibly dividend withholding tax and will thus have differing performances. Annualised performance shows longer-term performance rescaled over a 12-month period. Individual performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. Investment performance data is for illustrative purposes only. Income distributions are net of any applicable taxes. Actual performance figures are available on request. **Yield:** Where a portfolio derives its income from interest-bearing instruments, the yield is calculated daily based on the historical yield of such instruments. **Source of performance:** Figures quoted are from Morningstar Inc. **Cut-off times:** The cut-off time for processing investment transactions is 14h30 daily, with the exception of the PSG Money Market Fund, which is 11h00. Different cut-off times may be prescribed by Investment Platforms. The portfolio is valued at 15h00 daily. **Additional information:** Additional information is available free of charge on the website and may include publications, brochures, application forms and annual reports. **Company details:** PSG Collective Investments (RF) Limited is registered as a CIS Manager with the Financial Sector Conduct Authority, and a member of the Association of Savings and Investments South Africa (ASISA) through its holding company PSG Konsult Limited. The management of the portfolios is delegated to PSG Asset Management (Pty) Limited, an authorised Financial Services Provider under the Financial Advisory and Intermediary Services Act 2002, FSP no 29524. PSG Asset Management (Pty) Limited and PSG Collective Investments (RF) Limited are subsidiaries of PSG Konsult Limited. **Money Market:** The PSG Money Market Fund maintains a constant price and is targeted at a constant value. The quoted yield is calculated by annualising the average 7-day yield. A money market portfolio is not a bank deposit account. Excessive withdrawals from the portfolio may place the portfolio under liquidity pressures and in such circumstances a process of ring-fencing of withdrawal instructions and managed payouts over time may be followed. The total return to the investor is made up of interest received and any gain or loss made on any particular instrument. In most cases the return will merely have the effect of increasing or decreasing the daily yield but in the case of abnormal losses it can have the effect of reducing the capital value of the portfolio. **Fund of funds:** A fund of funds portfolio only invests in portfolios of CIS, which levy their own charges, which could result in a higher fee structure for fund of funds portfolios. **Feeder funds:** A feeder fund is a portfolio that, apart from assets in liquid form, invests in a single portfolio of a CIS, which levies its own charges and which could result in a higher fee structure for that feeder fund.

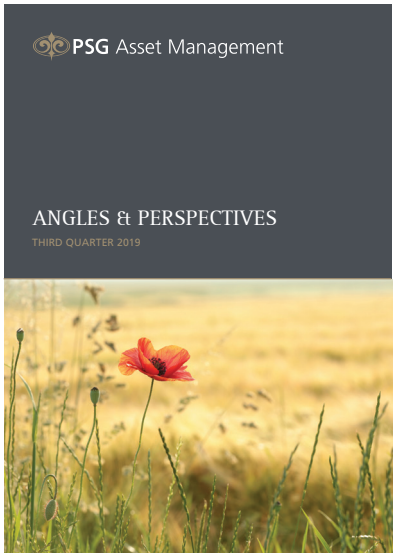
Trustee: The Standard Bank of South Africa Limited, Main Tower, Standard Bank Centre, 2 Hertzog Boulevard, Cape Town, 8001. Tel: +27 (21) 401 2443. Email: compliance-PSG@standardbank.co.za. **Conflict of Interest Disclosure:** The funds may from time to time invest in a portfolio managed by a related 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.

PSG Collective Investments (RF) Limited does not provide any guarantee either with respect to the capital or the return of the portfolio and can be contacted on 0800 600 168 or on email at assetmanagement@psg.co.za.

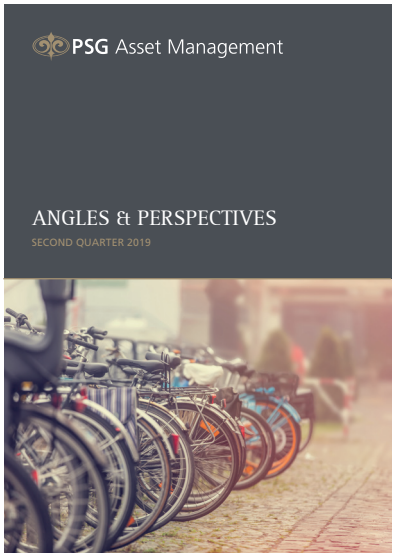
Date issued: 22 January 2020

Digital subscriptions

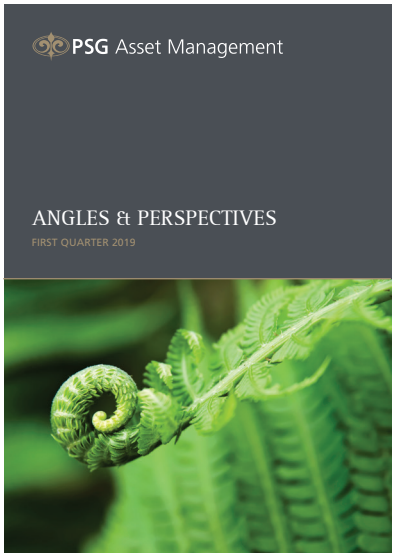
Angles & Perspectives is a quarterly publication. If you are not on our regular mailing list and would like to receive an electronic copy going forward, please email us at assetmanagement@psg.co.za.



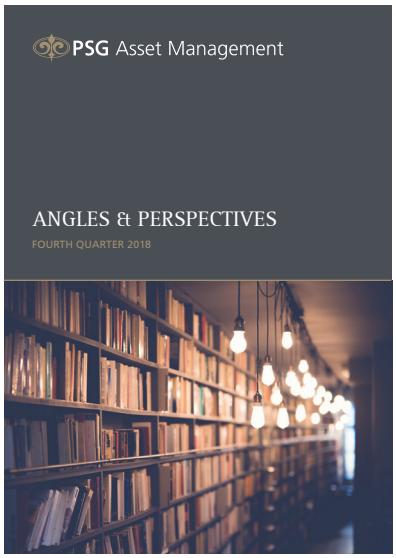
Third quarter 2019



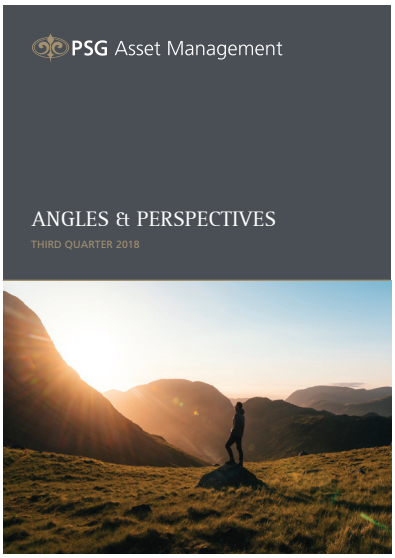
Second quarter 2019



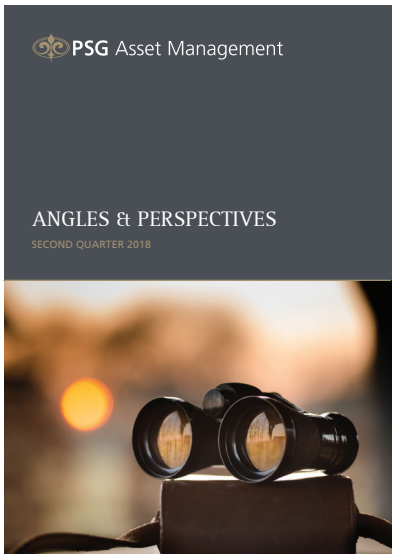
First quarter 2019



Fourth quarter 2018



Third quarter 2018



Second quarter 2018

PSG Asset Management