PSG Asset Management

ANGLES & PERSPECTIVES

THIRD QUARTER 2020

Contents

PSG Asset Management's 3M investment philosophy encourages a unique perspective that helps it find investment opportunities throughout the market cycle.

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.

A distinctive approach brings its own value to the portfolios we manage

The longer current market trends persist, the more investors expect patterns of past performance to be repeated. The current market cycle is, however, exceptional by historical standards. When the ability to repeat past performance rests on an ever more demanding set of preconditions for success, simply extrapolating past performance into the future is fraught with peril. Yet many investors continue to pile into crowded areas of the market, oblivious to the mounting dangers.

We believe that in many cases, current rises in asset prices are simply a reflection of investors' willingness to pay more for these assets, rather than an indication of a fundamental improvement in their prospects. We have long held that the initial price investors pay for assets is a key determinant of the long-term investment outcomes they are likely to realise. Investors seem to be losing sight of this in their rush to be included in the club of market leaders.

The current market darlings may be quality companies, but we need to question if investment at any price is truly warranted. Looking beyond the narrow subset of index leaders, however, the current market conditions have produced an abundance of opportunities to invest in above-average companies at below-average prices. These opportunities are, however, set in the context of a volatile market in which the opportunities are not evenly distributed, and typically in unloved sectors of the market.

What concerns us is that these opportunities abound at a time when many investors are far too fearful to venture into the unpopular sectors of the market, and are potentially ready to give up on their long-held investment beliefs. This is because the elongated market cycle has also meant that all investment styles have not been equally successful, with value investing languishing while momentum- and growth-driven investment styles have fared much better. But with investment off a low base offering the prospects of excellent future returns, investors who capitulate now face the real risk of not only having overpaid for some assets, but also missing out on assets that are available at bargain prices.

It is at times like these that contrarian investing can be invaluable as part of a balanced portfolio that includes a variety of investment styles. Those that hold true to this investment style are few and far between, given the challenging conditions of the past few years. However, we believe it is our commitment to allocating capital judiciously in line with our proven 3M process regardless of market cycles that sets us apart from competitors, and that helps us build long-term wealth for our clients as part of their blended solutions.

In the first article, Polarisation and conviction are amplified – the impact on investment outcomes will be significant, Fund Manager Shaun le Roux notes that polarisation and conviction have been amplified. As the conviction of market participants increases, markets have become ever more concentrated. He unpacks the many issues which have divided markets, and outlines that our investment process has a track record of harnessing opportunities in times of crisis and extreme markets.

In the second article, Opportunity in the time of Covid-19, Fund Manager Justin Floor reviews the opportunities we are seeing in the aftermath of the Covid-19 pandemic. He reflects on the fact that episodes of low confidence have been fruitful for contrarian investors in the past, and points out that these have often been followed by periods of outperformance. Divergent drivers of returns in our portfolios mean that the prospects are not dependent on a single macro event or tailwind – adding immense value to our clients' portfolios.

In our final article, Signs of life for SA's currently least loved asset class?, Fund Manager Dirk Jooste and Analyst Ané Craig discuss the outlook for the property sector. After being loved by South Africans for many years, the sector has fallen from grace and been the worst-performing asset class over most longer-term performance periods. Despite some real challenges to the sector, changing market conditions mean there is some value to be found. However, investors need to be discerning, as there are many value traps in the sector and selectivity is key.

We trust that you will find these articles insightful, and that they offer you some guidance in these turbulent times.

"What concerns us is that these opportunities abound at a time when many investors are far too fearful to venture into the unpopular sectors of the market, and are potentially ready to give up on their long-held investment beliefs.

Polarisation and conviction are amplified – the impact on investment outcomes will be significant

Shaun le Roux

Shaun has managed the PSG Equity Fund since 2002 and the PSG Flexible Fund since 2016. He is a CA(SA) and a CFA charterholder.

The world has become visibly polarised, and market participants have responded by becoming even more committed to their opinions. This has given rise to highly concentrated positioning in consensus views in financial markets, and it implies that participants expect extreme conditions to persist. This sets the stage for unloved assets to outperform to an extraordinary extent. Investors should be asking themselves what this could mean for their portfolios.

Extreme views dominate our debates

2020 has been a year we will all remember. It has been a big test of character for all of us, as well as the politicians that run affairs on our behalf. We have had to deal with intense political and social upheaval. Investment markets are mirroring this state of flux. This year has also entrenched the trend of polarisation. The pandemic and its aftermath have served as catalysts for further division of opinion, often aided by the media, whether social or traditional. Views have typically not been a balanced, measured reflection of current affairs. The loudest voices have been those on the opposite ends of the very wide spectrum of public opinion.

Usually, when there are wide extremes in views, the truth lies somewhere in the middle. There is often an element of truth to both narratives. There are also always fanatics at opposite ends of the spectrum. One of the drawbacks of social media is that it gives these fanatics a voice and opportunity to influence public opinion.

These debates elevate some issues in the public mind

There are numerous examples of issues that strongly divide us, including Brexit, US politics and active versus passive investing. 2020 has elevated a few other case studies, some of which include:

- The global response to the coronavirus
  There are very disparate and firmly held views on the appropriateness of the various global responses to the pandemic. History will be the judge of actions taken, but it is proving very challenging to implement rational solutions given political incentivisation structures and high levels of public fear. The current climate is not conducive to a balanced approach that factors in accurate data and considers all the costs of decisions taken.

- The effectiveness of Government and institutions in South Africa
  Government effectiveness in South Africa has been put to the test this year and has been found lacking. We have had to endure irrational rules, rampant corruption and load shedding (despite low levels of economic activity). These are tough times. This makes it difficult to take a balanced view and anti-government rhetoric has become entrenched. Yet, it can be argued that there are blessings hidden in the Covid-19 curse. The severity of the crisis has brought the key stakeholders (Government, business and labour) into the room and has resulted in compromises that would likely not have been achieved otherwise. Indeed, the levels of collaboration are at historic levels and stakeholders have agreed to fast-track economic reform programmes. It may very well prove to be a case of not 'letting a good crisis to go to waste'.

  Yet, these developments receive few positive headlines given the prevailing mood. And while it is appropriate to play a wait-and-see game on actual implementation as past attempts at implementation have been lacking, the public appears unwilling to acknowledge any steps that are being taken in the right direction. These include improvements in governance and capability at critical state-owned enterprises (SOEs) like Eskom, and institutions like the South African Revenue Service (SARS) and the National Prosecuting Authority (NPA). You could argue that the current crisis has shortened time horizons: because everyone is focused on today's hardships, they are failing to notice the structural long-term improvements taking place in the background.

- Does value investing still work?
  The multi-year outperformance of growth over value stocks is well documented and has recently been amplified by the Covid-19 pandemic. Cheap (value) stocks have underperformed by the biggest margin seen in over a century. Hence, it should not come as a surprise to find that the investing public has given up on value stocks and value funds. The effect of this capitulation out of cheap and unloved stocks has been profound. It has given rise to some of the widest discrepancies in relative valuations and some of the highest levels of crowding in growth (particularly technology) stocks on record. Growth investors are highly convicted in the relative attractiveness of secular growth companies in a low growth world. Little attention is given to the price paid for future growth and the fact that the largest part of investment returns has come from multiple expansion in recent years. The backdrop of low valuations and a post-Covid-19 economic recovery could result in a more constructive view on the merits of investing in undervalued businesses.

> “You could argue that the current crisis has shortened time horizons: because everyone is focused on today’s hardships, they are failing to notice the structural long-term improvements taking place in the background.

- Are South African assets value traps?
  South African assets are deeply unloved by both foreigners and locals. Foreigners have consistently reduced exposure to SA equities over the past several years and have aggressively sold domestic bonds in 2020. Local investors may have been big buyers of local bonds, but they have turned their backs on domestic equities. Pension funds have their lowest exposure to domestic equities since the 1980s, and fixed income unit trusts have enjoyed mammoth inflows over the past two years while equity and balanced funds have seen large outflows. South African investors have heavily tilted portfolios to cash, bonds and offshore assets at a time when domestic shares trade at very low valuations in both absolute and relative terms. Our equities are among the cheapest in the emerging market universe at a time when emerging markets are already very cheap relative to developed markets. By their positioning, both foreign and domestic investors are expressing high conviction that South African assets, and particularly domestic stocks, will continue to underperform.

  Furthermore, the 2020 recession is testing an already fragile domestic fiscal position. Many commentators are expressing high conviction that a sovereign debt default scenario is insurmountable, and an IMF bailout inevitable. Clearly, the risk of this scenario materialising has risen sharply this year and we think it is appropriate to consider the probabilities and consequences of this happening in an open-minded fashion. Yet, current market sentiment appears consistent with a deep conviction that this view will imminently play out. Our base case remains that the likelihood of a default within the immediate future is low given the mitigating factors that receive very little airtime, including the structure of the maturity profile in long-dated rand-denominated bonds.

Our investment process enables us to look beyond the noise

Our investment process has a track record of harnessing opportunities in times of crisis and extreme markets. We try to find the middle ground between quality and price, on the one hand looking for something to hang our investment case on and, on the other, trying to ensure that we do not overpay for assets. However, our contrarian approach has not paid off over the past two years. Investors have been rewarded for taking big bets that strong trends will persist in narrow parts of the market. The Covid-19 pandemic has further amplified prevailing market dynamics and we have seen a further crowding of positions.

Most market participants seem committed to holding fast to their views. They are positioned for extreme conditions to persist. While they may do so, it implies that if the truth lies somewhere in between the extremes (as it usually does) it is possible to foresee a dramatic reversal in performance.

There are ample examples of extreme conditions in markets

- Highest levels of passive (index) investing on record.
- Extremely high levels of concentration within indices.
- Extremely crowded positions among active managers.
- Very extreme valuation discrepancies between what is being crowded into (growth and tech) and what is out of favour (value and emerging markets).
- Sovereign debt has ballooned, yet interest rates in developed markets are at multi-century lows.
- An explosion in money supply.
- The most expensive stocks have become the ‘safe-havens’.

The market seems to think it unlikely that the future will look different to the recent past

This is effectively an all-in bet that a handful of companies will continue to be priced for multi-year domination, that the global economic recovery is anaemic, and that South Africa will become a failed state. Any outcome other than what is embedded in expectations, will likely give rise to extreme reversals and rotations.

This environment is providing a remarkable opportunity to build a portfolio of well-diversified, quality businesses at exceptional valuations. These can be expected to generate excellent long-term returns at just the time that most portfolios are heavily weighted in stocks that could disappoint elevated expectations. We have, however, consciously tried to stay open-minded and use the market volatility and disruptions since March to harness exceptional buying opportunities and improve the quality of our portfolios. Our portfolios have attractive characteristics for current market conditions and do not represent a strong view on future outcomes. We do not own expensive stocks and the cheap stocks that we own have an intrinsic quality that the market is overlooking. Most will be high dividend payers in 2021/2022 and our highest conviction ideas are not dependent on robust macroeconomic conditions in South Africa for our clients to achieve strong returns.

Extreme market views require an open mind and bigger picture thinking

When extreme market views are at play, the importance of generating the required returns at acceptable levels of risk, in as many future scenarios as possible, increases. Portfolios that are dominated by, and highly correlated to, what has worked in the immediate past, could disappoint materially. The conviction with which these views are being expressed could have wide-reaching consequences for future investment returns. At times like these, it becomes more important than ever to rely on the guidance of a trusted financial adviser to blend funds with different styles and views in a fashion that recognises the unpredictability of the future.

Opportunity in the time of Covid–19

Justin Floor

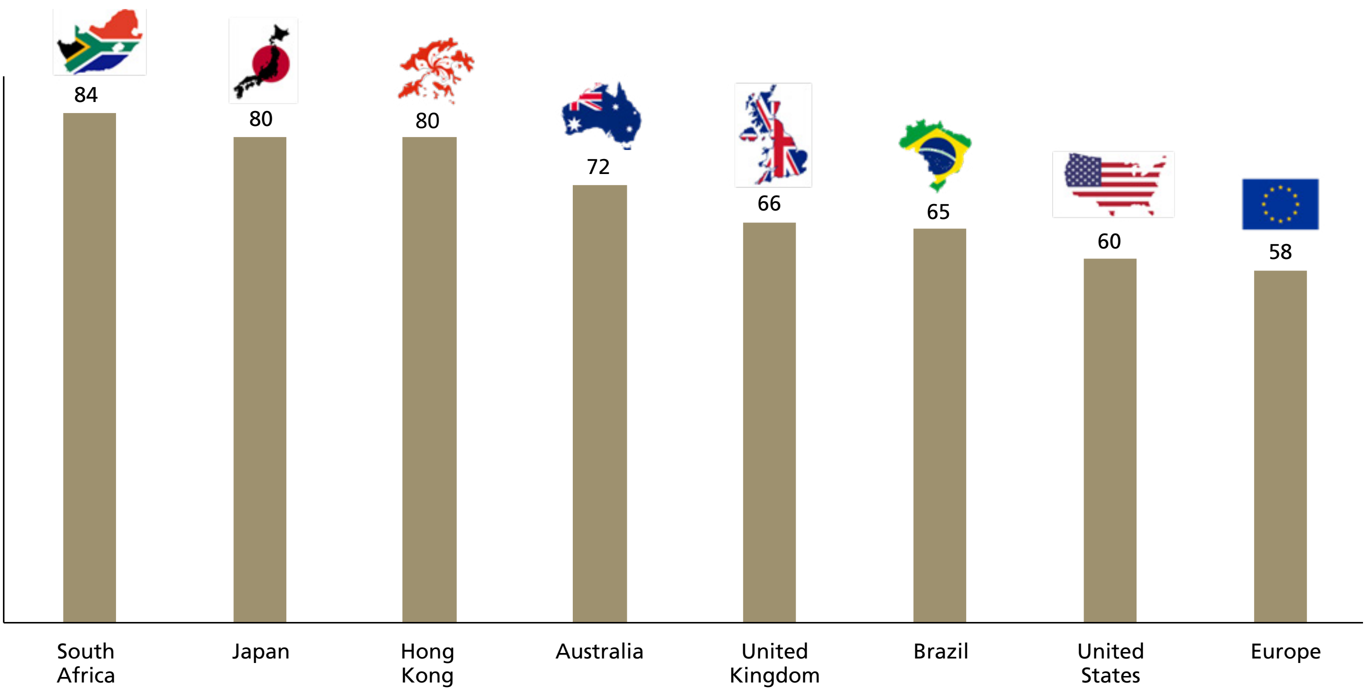
Justin joined PSG Asset Management as a Fund Manager on the PSG Balanced Fund in 2019. He is a qualified actuary and a CFA charterholder, and has over 10 years' investment experience.

2020 will go down in history as a year of extremes. The disparities we confront today are not necessarily new: many have been slowly building and had already reached high levels before the Covid-19 pandemic hit and pushed the elastic band further. Shaun le Roux analyses the impact of the disparities in more detail in his article Polarisation and conviction are amplified – the impact on investment outcomes will be significant, and argues that they have intensified even further during this extraordinary year.

Of particular interest to us as valuation-sensitive investors, is the phenomenon of the valuation gap between in-favour companies and the rest, which had already reached very wide levels prior to February of this year. This is a reasonably common self-reinforcing cycle. These cycles are not unique and have been observed many times in financial market history. This last cycle, however, will likely stand out as being more intense than those that preceded it.

The chart below illustrates the evident opportunity available in global markets. Large index constituents have performed well, but this masks an entire swathe of neglected securities that are undervalued.

Figure 1: Most shares across the globe are in bear market territory



Sources: PSG Asset Management; Bloomberg data as of 10 July 2020, index per country: South Africa (JSE All Share), Japan (Topix 1000), Hong Kong (Hang Seng), Australia (S&P/ASX 200), UK (FTSE 100), Brazil (Bovespa), United States (S&P 500), Europe ex UK (Euro Stoxx 600 (ex-UK))

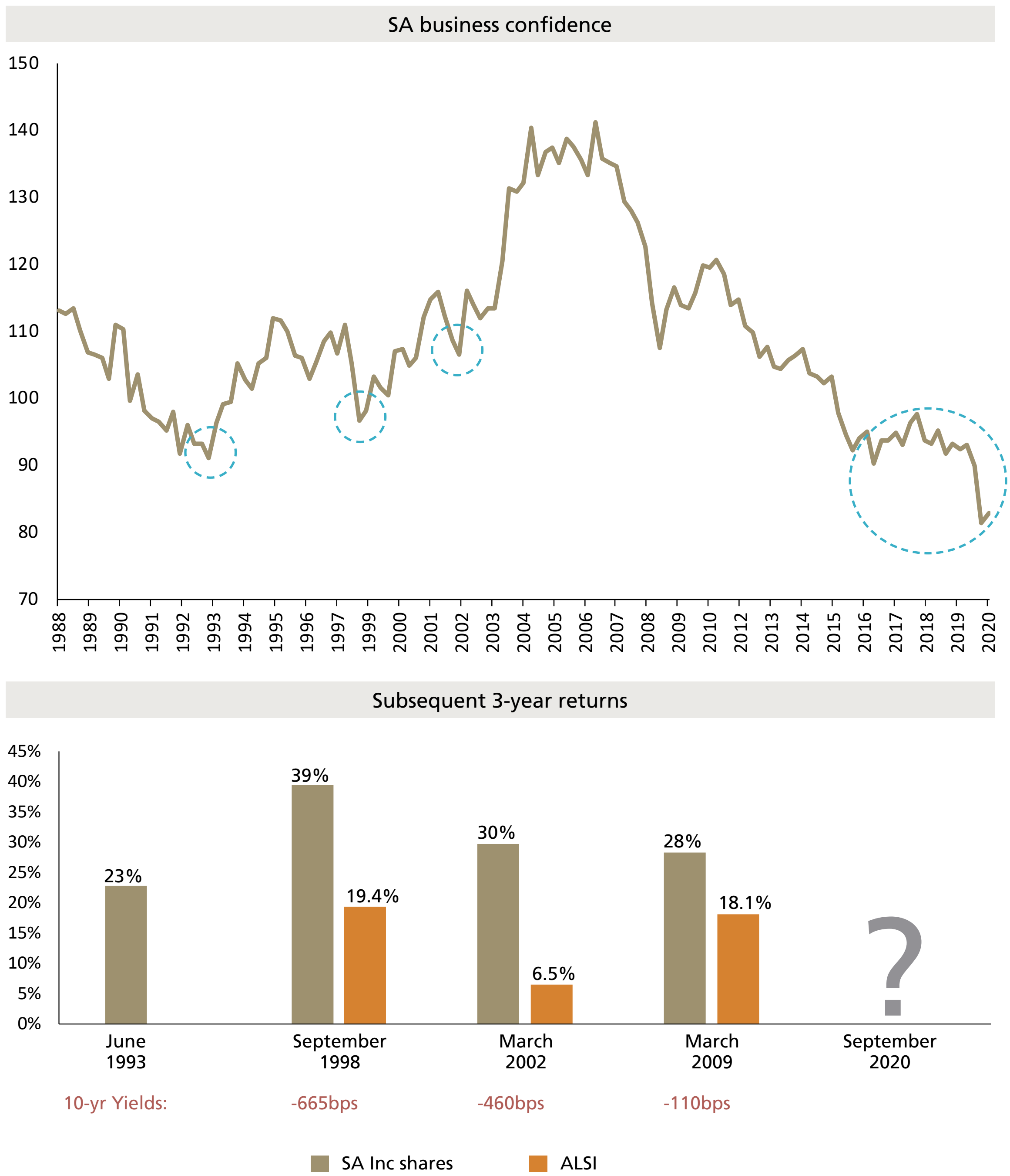
Many of these opportunities have a unifying characteristic of being dependent on physical and social interaction of human beings – for example, as we see in retail or industrial companies that manufacture and sell physical products to customers. The government response to the Covid-19 pandemic has resulted in a substantial disruption to the normal physical and social modes of interaction, and this has widened the pre-existing valuation anomalies even further.

Episodes of low confidence have been fruitful for contrarian investors in the past

The unprecedented events of 2020 have unsurprisingly resulted in elevated caution and low levels of confidence, particularly towards those parts of the market perceived to have less certain prospects or that have had a tough time in the recent past.

Figure 2 below demonstrates how low confidence has fallen in South Africa, as expressed by local businesses. The reasons behind the sentiment are not surprising. What is more surprising is the conclusion that each of the low points in confidence represented exceptional opportunities to invest in domestic equities as well as local government bonds. Paradoxically, investing at each low point would have felt very risky at the time.

Figure 2: Low confidence often coincides with excess returns: SA business confidence and subsequent 3-year returns



Sources: Bloomberg, PSG Asset Management
Note: SA Inc Basket is equally weighted AVI, SBK, AFE and HDC given their long listing histories and sensitivity to the SA economy. Prices only, excluding dividends.

Currently, we stand at the lowest point yet, with the uncertainty and disruption of Covid-19 still in mind, coupled with very real and concerning domestic fiscal and structural challenges. Despite the challenges, the historical precedent strongly suggests (although it does not guarantee) a good outcome if one is brave enough to put capital to work in very depressed markets.

Our investment philosophy and process position us to exploit this opportunity

We seek to manage our clients' investments by consistently applying a thoughtful, price-sensitive process that deliberately seeks to look through current or recent distortions and which takes an appropriately long-term and patient approach. Equally, we seek to understand the qualitative characteristics of any company and are particularly drawn to those companies with underappreciated inherent qualities, managed by high-integrity and skilled management. We believe our 3M process is well suited to exploiting the significant opportunity that currently exists in both offshore and domestic markets. While the opportunity below the headlines appears abundant, not all stocks that appear to be cheap will prove to be good investments.

There are divergent drivers to domestic equity opportunities

While we have an above-average exposure to domestic shares in our funds this doesn't imply that we have a very constructive view on the South African economy. South Africa faces some very real and serious structural challenges and there is a high degree of uncertainty attached to any recovery prospect.

The critical point, which we think is not discussed widely enough, is that there is sufficient variety and inherent quality in certain domestic shares to result in attractive opportunities, even if the macro environment doesn't get much better. Of course, should we see a better than expected recovery, then these shares could benefit from additional tailwinds.

Some companies have very substantial competitive advantages which act to defend cash flows despite the weak environment. A good example is the JSE Limited, which has a number of compelling attributes including weak competition, recurring revenues and a net cash balance sheet. It acts like a toll road on South Africa's capital markets (which are deep and liquid by global emerging market standards). Other categories of attractive domestic companies have underappreciated non-SA revenue streams which can provide valuable vectors of growth, despite domestic challenges.

Good examples here would be Discovery and its growing portfolio of offshore insurance and wellness ventures. Discovery holds a very valuable 25% stake in Ping An Health, which they own together with the largest Chinese insurance group, Ping An. This stake has the potential to be worth more than the rest of Discovery's current businesses in the years ahead.

The third category of attractive domestic shares is large global companies with immaterial African operations, yet listed on our domestic exchange. These are shares such as AB InBev (a top-tier global brewer with a misunderstood balance sheet) and Glencore (which has steadily improving ESG credentials and the substantial opportunity to benefit from the rapidly growing green electrical economy, given its unique portfolio of low-cost and long-life commodity assets).

Markets are currently pricing in that dire economic outcomes will persist indefinitely and therefore these companies (among others) are available at wide discounts to their intrinsic value. Coming off such a low base, the potential for excellent returns is significant.

International diversification brings further balance and opportunity to our approach

We are also not focusing on South African opportunities alone, and see a number of compelling global opportunities contributing additional sources of return potential. Despite the elevated global index levels and the concerns we have around the performance of specific market sectors, especially in the US, there are also many global investment opportunities which are being overlooked by markets and which also excite us. Often, we see a similar dynamic at play, where the market ignores some drivers of growth or revenue simply because they are out of favour. In our previous edition, we elaborated on some of these companies.

Opportunities abound at times of discomfort

Current market conditions are presenting many opportunities to buy mispriced securities. Our buy lists are full and the gap between our portfolio holdings' prices and our estimates of their fair worth is at the widest levels we've seen yet. Pleasingly, we are finding opportunities with varied and diverse sources of return and so the prospects of our funds are not dependent on a single macro event or tailwind. Although we can never be sure about the timing, the large mispricings evident in our portfolios bode well for future returns.

> “Coming off such a low base, the potential for excellent returns is significant.

Signs of life for SA's currently least loved asset class?

Dirk Jooste **Ané Craig**

Dirk joined PSG Asset Management in August 2017 and is a CFA charterholder and has 10 years' investment experience.

Ané Craig joined PSG Asset Management in September 2019. She is a qualified CA and a CFA charterholder and has 5 years' experience in asset management.

The South African listed property sector has had a torrid few years. After being a darling of local investors for several years, the local listed property sector has more recently suffered the ignominy of being the worst performing asset class since 2018. Listed property has seen a year-to-date return of -46.38% till the end of September 2020, and is also the worst performing major asset class over virtually all the periods highlighted below. The sector was facing headwinds even before the onset of the Covid-19 pandemic, which has raised further uncertainty about future returns.

However, the danger in focusing on sector numbers only, is that investors miss out on the potential return opportunities that arise when extremely negative sentiment overshadows fair valuations. Moreover, it seems as if the market is now neglecting the potential value this hybrid asset class can offer as part of a balanced portfolio.

Table 1: Asset class returns over time

	Year to date	1 month	3 months	6 months	1 year	3 years	5 years	7 years	10 years
Best	Global bonds 26.11	Financials 3.36	Resources 6.03	Resources 49.73	Resources 27.31	Resources 20.34	Resources 16.27	Global equities 16.45	Global equities 19.34
	Global equities 21.32	Mid-caps 1.31	Global equities 3.61	Top 40 24.96	Global equities 21.46	Global equities 15.60	Global equities 14.70	Global bonds 10.14	Industrials 12.43
	Resources 11.89	Small-caps 0.78	Small-caps 3.48	ALSI 24.01	Global bonds 16.87	Global bonds 11.69	Global bonds 7.90	Bonds 7.24	Global bonds 11.68
	Cash 4.38	Cash 0.35	Bonds 1.45	Small-caps 21.28	Cash 6.20	Bonds 7.33	Bonds 7.57	Cash 6.80	Top 40 9.91
	Industrials 4.31	Bonds -0.05	Mid-caps 1.34	Global equities 20.31	Top 40 5.59	Cash 6.93	Cash 7.11	Top 40 6.58	ALSI 9.58
	Bonds 1.82	Industrials -1.47	Cash 1.16	Mid-caps 16.92	Industrials 4.31	Top 40 3.57	Top 40 5.26	Industrials 6.37	Bonds 7.62
	Top 40 1.00	ALSI -1.58	ALSI 0.67	Industrials 13.92	Bonds 3.58	ALSI 2.39	ALSI 4.75	ALSI 6.22	Mid-caps 6.82
	ALSI -2.51	Top 40 -1.67	Top 40 0.63	Financials 11.61	ALSI 2.01	Industrials -0.66	Industrials 2.70	Resources 5.38	Financials 6.52
	Small-caps -18.20	Global bonds -1.90	Financials 0.47	Bonds 11.54	Mid-caps -14.96	Mid-caps -4.28	Mid-caps 0.87	Mid-caps 3.25	Cash 6.43
	Mid-caps -24.68	Property -2.97	Global bonds -1.45	Property 3.41	Small-caps -17.60	Financials -8.26	Financials -4.20	Financials 2.09	Small-caps 5.88
	Financials -33.09	Resources -3.39	Industrials -2.29	Cash 2.64	Financials -31.38	Small-caps -11.46	Small-caps -4.45	Small-caps 0.05	Resources 4.86
Worst	Property -46.38	Global equities -4.94	Property -14.14	Global bonds -0.94	Property -46.07	Property -23.80	Property -12.85	Property -4.43	Property 1.78

ALSI | Financials | Mid-caps | Cash
Top 40 | Small-caps | Bonds | Global bonds
Global equities | Property | Industrials | Resources

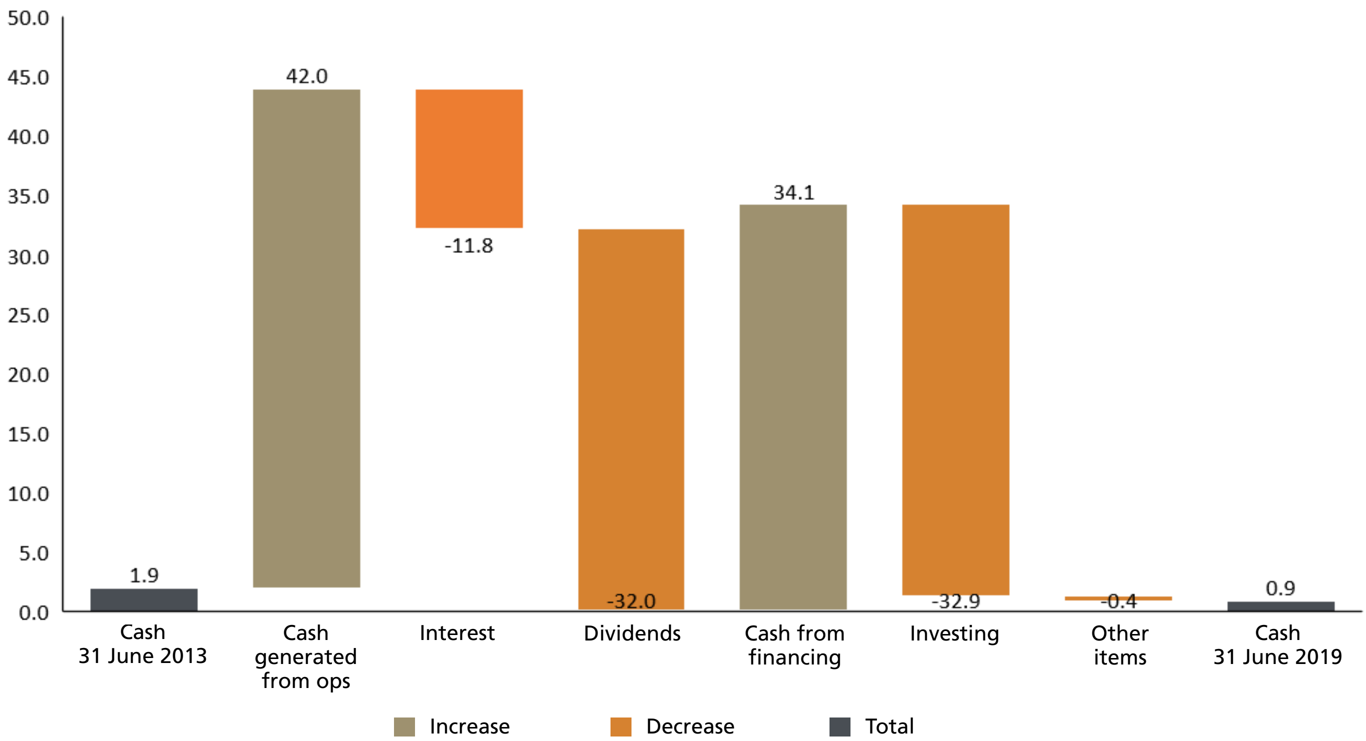
Sources: Bloomberg and Morningstar Direct

Pre-pandemic concerns have been amplified
Even before the pandemic, investors were concerned about the outlook for the sector. The South African economy has not created an environment that supports the growth of either the retail or office property sector over the past few years. Above-inflation increases in rates and taxes and electricity tariffs have been reducing tenant affordability, and an oversupply of rental property in certain nodes has meant that tenants could shop around for lower rentals.

Management of Real Estate Investment Trusts (REITs) have not all run businesses in a way to withstand severe stress. Legislation states that 75% of distributable income must be paid out and also limits tax-deductible expenditure to maintenance only. Capital expenditure (aimed at improvements) cannot be deducted for tax purposes, and since any retained distributable income is also taxable, the majority of management teams have elected to pay out 100% of distributable income as dividends, limiting the organic funding options available to REITs for expansionary purposes. Presented with a choice to fund capital expenditure from rights issues or through debt, many REITs have more recently opted for debt. As a result, their overall level of indebtedness has been steadily creeping up over time, even as the economy has cooled.

Growthpoint (GRT), South Africa's largest listed REIT, is illustrative of this dynamic. After debt interest costs, Growthpoint has opted to pay out all remaining operational cash flow as dividends to shareholders (SA REIT management team incentives are typically skewed to maximising dividend growth), while management continued expanding the property investment portfolio funded from financing sources (i.e. borrowings and rights issues).

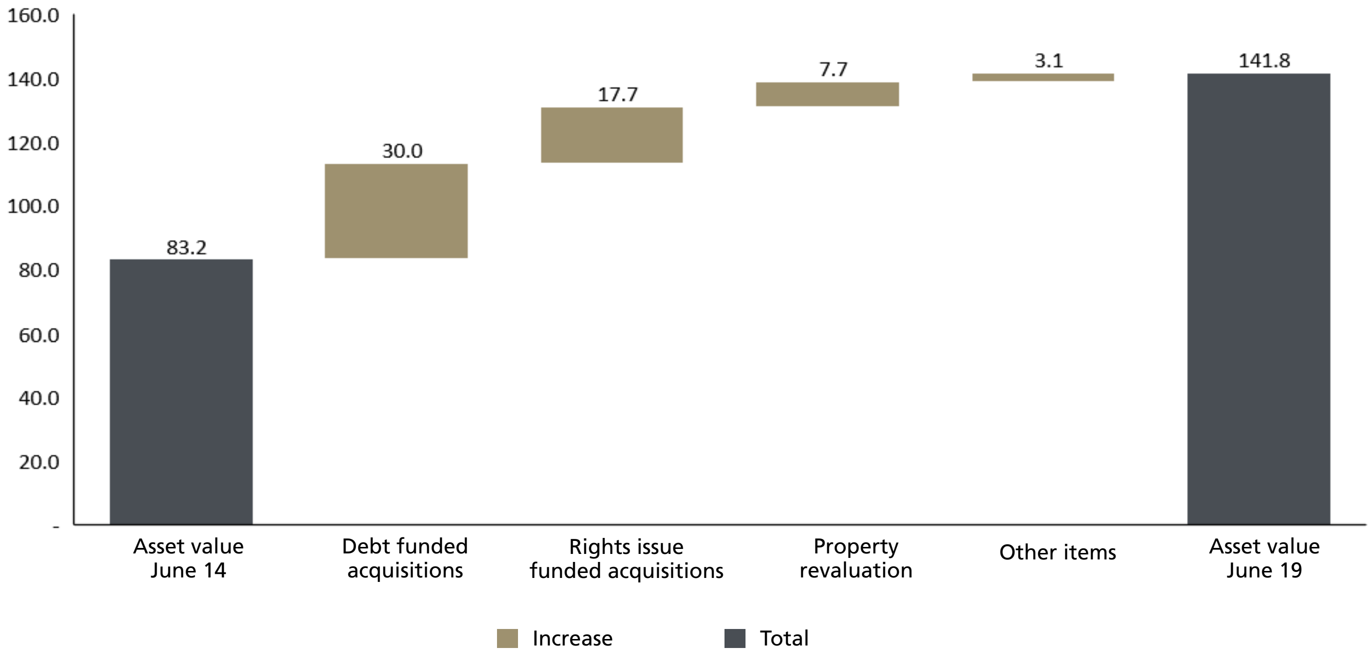
Graph 1: Growthpoint sources and application of cash



Sources: Company Reports, PSG Asset Management

Looking at the evolution of Growthpoint's assets we can see that a primary inorganic asset growth strategy has been pursued via increased borrowings and rights issues.

Graph 2: Growthpoint asset growth primarily driven by increased borrowings and rights issues (R bn)



Sources: Company Reports, PSG Asset Management

While the preceding factors have gradually been souring sentiment against the sector, REITs have been slow to lower their portfolio valuations in response to tighter market conditions. This has created uncertainty about the discount rates that should be applied to future income streams, leading to increased risk premiums and share prices trending sharply lower in response.

The Covid-19 curveball

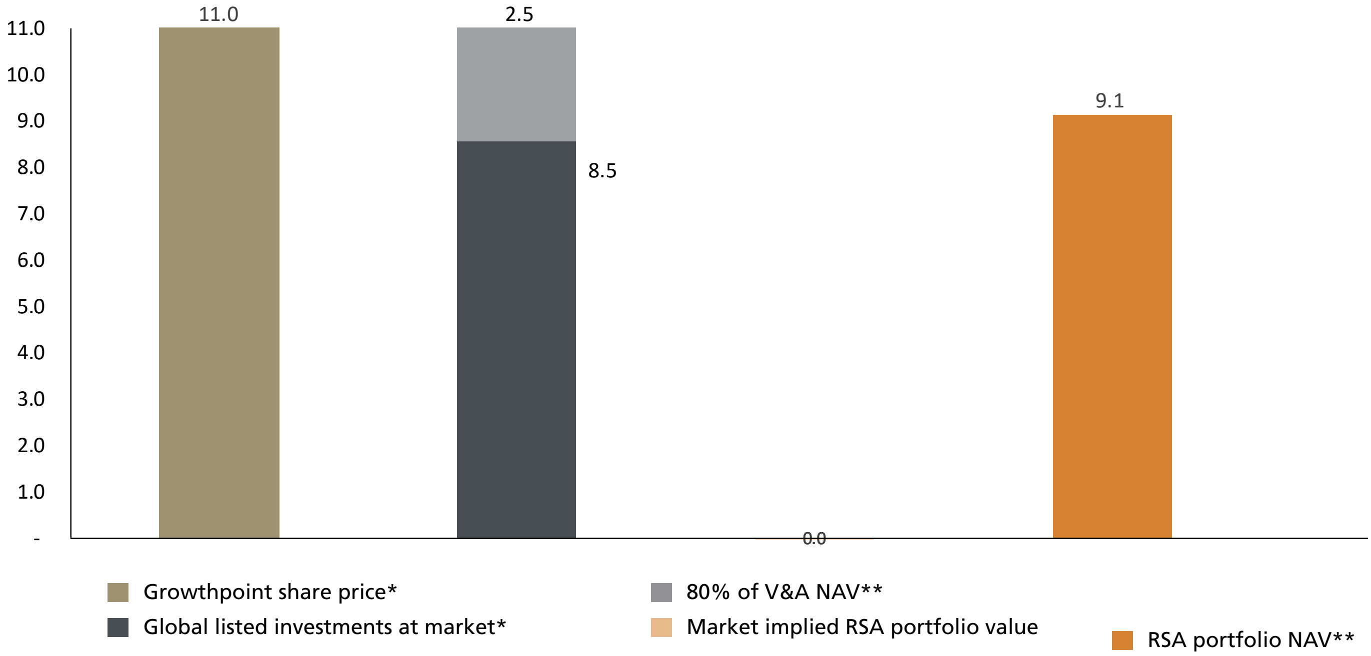
Once the pandemic hit, the impact of the poor economic environment and the level of uncertainty were amplified. While larger retailers may have the reserves to survive temporary restrictions on trading (and grocery stores and pharmacies continued to trade even under lockdown level 5), smaller format stores and offices, which typically have a higher rental per square metre, were considered far less likely to survive lockdown. With the bond-like income stream often associated with REITs called into question, share prices have become deeply distressed, with some of them trading at a discount to net asset value (NAV) as high as 90%.

Searching for opportunity in the midst of distress

The negative conditions dogging the listed property sector are very real, and a large part of the reason why PSG Asset Management has largely avoided the sector over the past few years. To our minds, there were better opportunities to be exploited at lower risk until now, such as those on offer in the longer-dated government bond sector. However, our interest is piqued when extremely negative narratives become conventionally accepted wisdom, even as valuations are driven lower. While the concerns about the listed property sector are indeed real and founded, one has to ask what scenarios could cause the extremely pessimistic forecasts implied by current share prices and wide discounts to NAV to materialise.

As an illustration of the extremely negative sentiment implied by some of the listed REIT counters, we consider the portfolio of Growthpoint comprising of a listed global investment portfolio, the V&A Waterfront and the residual South African portfolio. In the graph below we contrast the Growthpoint share price of R11.00 (as at 30 October 2020) to the value of the listed global investment portfolio a market value of R8.50 per share, and apply a 20% haircut to the V&A Waterfront NAV, which implies a R2.50 per share value. These two items alone equate to the prevailing share price. This implies a residual South African portfolio currently valued at nil, which is a stark contrast to the published June 2020 NAV of R9.10.

Graph 3: Growthpoint share price vs. implied South African portfolio value



* Market Values as at 30 October 2020

** NAV as at 30 June 2020

Sources: Company Reports, PSG Asset Management

Discernment is called for

Accepting risk in return for potential reward is part and parcel of the investment process. We do not consider the existence of risks in themselves to be a deterrent, but rather ask what the likelihood is of the investor being rewarded in the long run – everything considered. Being cheap has never been a sufficient criterion, to our minds, to prompt investment either. However, when low valuations and a sound business strategy are combined with superior management, our process requires that we seriously consider whether the dominant market narrative is overlooking some fundamental quality of the company in question.

Has the negative narrative gone too far?

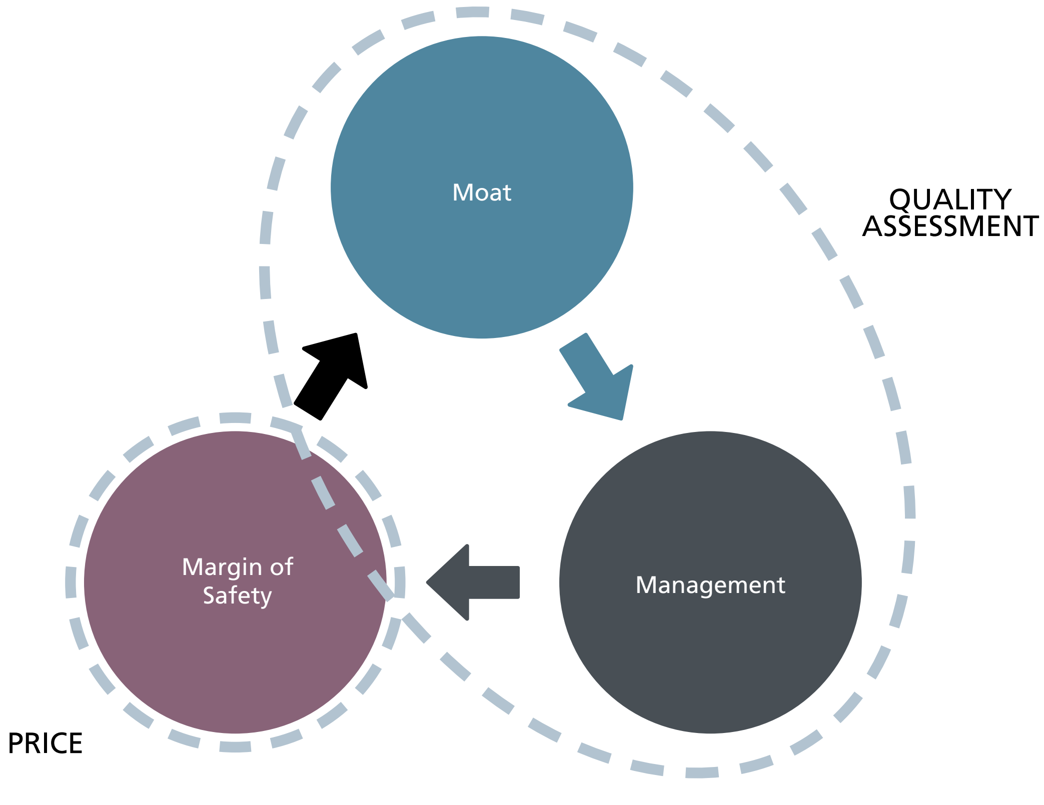
Looking at the listed property sector, we believe market participants are not differentiating enough between companies. While some are likely to breach loan covenants and are likely to be forced to a rights issue as a last resort, others with a sound tenant base and sound management team are far more likely to weather the short-term storm, and reward investors in the long run. The devil is, however, in the detail. We also believe there are many value traps in the sector, and that selectivity is key. With the listed property sector having languished at the bottom of the asset class returns table over the past several years, it may be time for the discerning investor to relook the value proposition of this sector. As it is a hybrid asset class, and with interest rate returns likely to remain low for an extended period, diversifying your sources of return could prove more valuable than ever, provided you apply a judicious and patient approach.

A quick reminder of our 3M process

As investment professionals, we seek to generate consistent long-term returns for our clients. A robust and proven investment process is at the heart of our ability to do so consistently over time, even as market cycles come and go and stocks fall in and out of favour. We understand that generating strong long-term returns for our clients rests on the ability to buy low, invest for the long run and sell high.

To find the most attractive opportunities, we look in the uncrowded areas of the market that offer the best chance of mispricing (generally those characterised by fear, uncertainty or neglect). We further improve our chances of success by applying our 3M process.

The first two M's help us evaluate the quality of companies. These are the strength of **'management'** and evidence of a competitive advantage that serves as a **'moat'**, setting the company apart from its peers. Our third M is the **'margin of safety'**, reflected in how far a security is trading from its fair value (or, viewed differently, whether its current price is setting us up to 'buy low'). Essentially, we are looking for some inherent quality that the market might be missing. As a result, we tend to invest in companies that are as good as the market or better, but trading at a discount. We believe that if we apply this methodology consistently, we will tend to buy quality companies at affordable valuations, helping our clients in growing their investments over time.



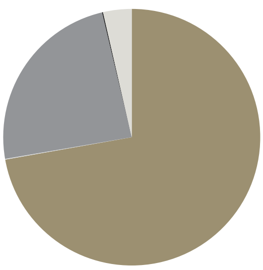
Portfolio holdings as at 30 September 2020

PSG Equity Fund

Top 10 equities

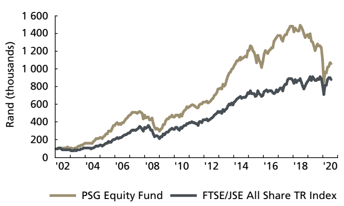
Anheuser-Busch InBev
Discovery Ltd
Remgro Ltd
Glencore plc
Imperial Logistics Ltd
The Mosaic Co
JSE Ltd
AECI Ltd
Super Group Ltd
Liberty Global Inc

Asset allocation



Domestic equity	72.2%
Domestic cash	0.1%
Foreign equity	24.0%
Foreign cash	0.1%
Foreign property	3.6%
Total	**100%**

Performance

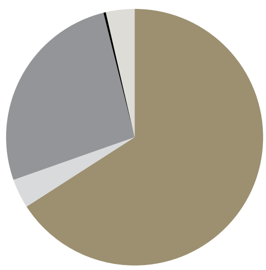


PSG Flexible Fund

Top 10 equities

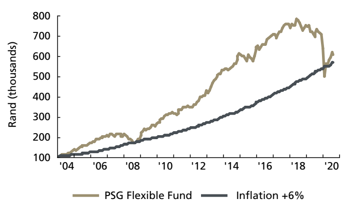
Anheuser-Busch InBev
Remgro Ltd
Discovery Ltd
Glencore plc
The Mosaic Co
JSE Ltd
Liberty Global Inc
Imperial Logistics Ltd
AECI Ltd
Super Group Ltd

Asset allocation



Domestic equity	65.9%
Domestic cash	3.7%
Foreign equity	26.5%
Foreign cash	0.3%
Foreign property	3.6%
Total	**100%**

Performance

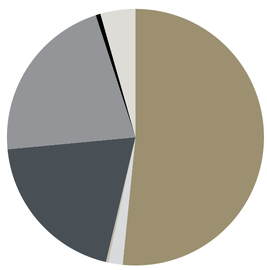


PSG Balanced Fund

Top 10 equities

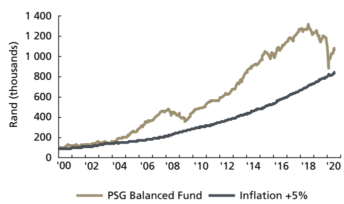
Discovery Ltd
Anheuser-Busch InBev
JSE Ltd
Prudential plc
Liberty Global Inc
Remgro Ltd
Imperial Logistics Ltd
The Mosaic Co
Glencore plc
Japan Post Insurance Co Ltd

Asset allocation



Domestic equity	51.6%
Domestic cash and NCDs	1.8%
Domestic property	0.3%
Domestic bonds	19.8%
Foreign equity	21.5%
Foreign cash	0.6%
Foreign property	4.4%
Total	**100%**

Performance



PSG Stable Fund

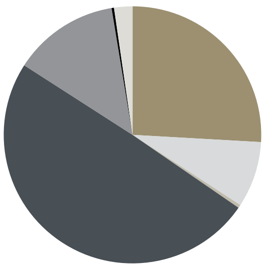
Top 5 equities

Anheuser-Busch InBev
Discovery Ltd
JSE Ltd
Prudential plc
Simon Property Group Inc

Top 5 issuer exposures

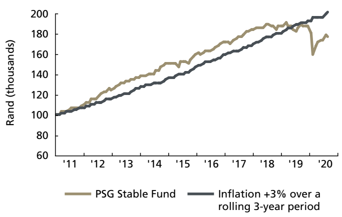
The Republic of South Africa
FirstRand Bank Ltd
Eskom Holdings SOC Ltd
Standard Bank of SA Ltd
Nedbank Ltd

Asset allocation



Domestic equity	25.9%
Domestic cash and NCDs	8.3%
Domestic property	0.4%
Domestic bonds	49.5%
Foreign equity	13.3%
Foreign cash	0.3%
Foreign property	2.3%
Total	**100%**

Performance



PSG Diversified Income Fund

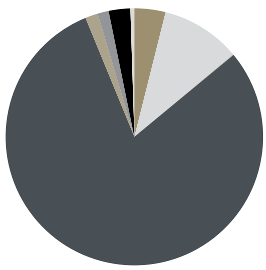
Top 5 equities

JSE Ltd
Absa Bank Ltd preference shares
Shoprite Holdings Ltd
Anheuser-Busch InBev
Remgro Ltd

Top 5 issuer exposures

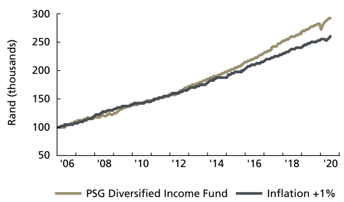
The Republic of South Africa
FirstRand Bank Ltd
Standard Bank of SA Ltd
Eskom Holdings SOC Ltd
The Thekwini Fund 14 (RF) Ltd

Asset allocation



Domestic equity	3.9%
Domestic cash and NCDs	10.0%
Domestic property	0.1%
Domestic bonds	79.8%
Preference shares	1.6%
Foreign equity	1.4%
Foreign cash	2.7%
Foreign property	0.5%
Total	**100%**

Performance

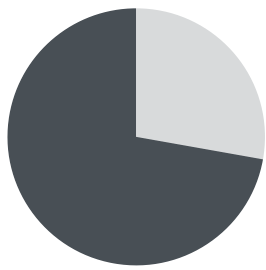


PSG Income Fund

Top 10 issuer exposures

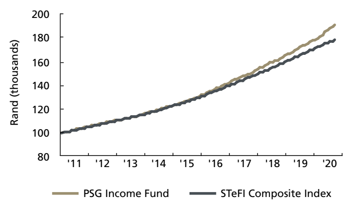
The Republic of South Africa
PSG Money Market Fund
FirstRand Bank Ltd
Absa Bank Ltd
Standard Bank of SA Ltd
Nedbank Ltd
Capitec Bank Ltd
Eskom Holdings SOC Ltd
The Thekwini Fund 15 (RF) Ltd
The Thekwini Fund 14 (RF) Ltd

Asset allocation



Domestic cash and NCDs	27.8%
Domestic bonds	72.2%
Total	**100%**

Performance



PSG Money Market Fund

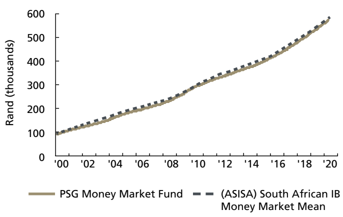
Issuer exposures

The Republic of South Africa
FirstRand Bank Ltd
Nedbank Ltd
Standard Bank of SA Ltd
Absa Bank Ltd
South African Reserve Bank debenture
Investec Bank Ltd

Asset allocation

Linked NCDs/Floating-rate notes	18.0%
Step-rate notes	12.5%
NCDs	28.0%
Treasury Bill	21.0%
Debenture	10.7%
Call	9.8%
Total	**100%**

Performance

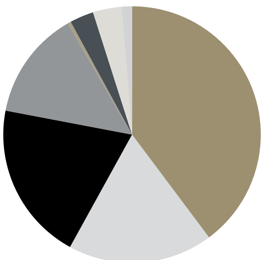


PSG Global Equity Sub-Fund

Top 10 equities

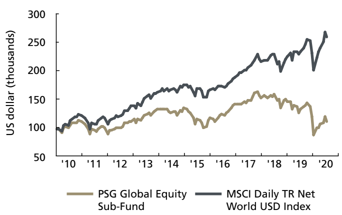
Anheuser-Busch InBev
Prudential plc
Liberty Global Inc
The Mosaic Co
Asahi Group Holdings Ltd
Berkshire Hathaway Inc
Simon Property Group Inc
Glencore plc
Resona Holdings Inc
Japan Post Insurance Co Ltd

Regional allocation



US	39.8%
Europe	18.2%
UK	20.0%
Japan	13.7%
Asia ex Japan	0.4%
Canada	3.0%
Africa	3.6%
Cash	1.3%
Total	**100%**

Performance



PSG Global Flexible Sub-Fund

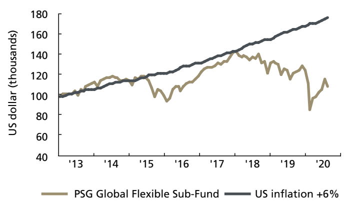
Top 10 equities

Anheuser-Busch InBev
Prudential plc
Liberty Global Inc
The Mosaic Co
Asahi Group Holdings Ltd
Berkshire Hathaway Inc
Japan Post Insurance Co Ltd
Resona Holdings Inc
Simon Property Group Inc
Glencore plc

Regional allocation

US	33.9%
Europe	15.8%
UK	16.8%
Japan	13.2%
Asia ex Japan	0.4%
Canada	2.7%
Africa	2.7%
Cash and bonds	14.5%
Total	**100%**

Performance



Percentage annualised performance to 30 September 2020 (net of fees)

Local funds						
	1 Year	3 Years	5 Years	10 Years	Inception	Fund inception date
PSG Equity Fund A	-15.44	-8.54	-0.11	7.56	13.49*	31/12/1997
FTSE/JSE All Share Total Return Index	2.01	2.39	4.75	9.58	12.41	
PSG Flexible Fund A	-14.92	-5.61	1.17	7.99	12.00**	02/11/1998
SA Inflation + 6%	9.09	10.09	10.59	11.07	11.55	
PSG Balanced Fund A	-9.92	-4.35	1.50	7.24	11.56	01/06/1999
SA Inflation + 5%	8.09	9.12	9.60	10.08	10.39	
PSG Stable Fund A	-5.27	0.11	3.65		6.53	13/09/2011
SA Inflation + 3% over a rolling 3-year period	6.09	7.12	7.60		8.05	
PSG Diversified Income Fund A	5.91	6.63	7.43	7.43	7.67	07/04/2006
SA Inflation + 1%	4.09	5.12	5.60	6.07	6.75	
PSG Income Fund A	9.40	8.57	8.49		7.31	01/09/2011
STeFI Composite Index	6.19	6.93	7.11		6.48	
PSG Money Market Fund A	5.93	6.85	7.06	6.33	8.33	19/10/1998
South African - Interest Bearing - Money Market Mean	6.21	7.06	7.24	6.43	8.41	
PSG Global Equity Feeder Fund A ^	-8.73	-2.08	4.84		8.97	03/05/2011
MSCI Daily Total Return Net World USD Index (in ZAR)	21.41	15.60	14.69		19.15	
PSG Global Flexible Feeder Fund A ^^	-1.17	0.77	5.91		9.35	11/04/2013
US inflation + 6% (in ZAR)	18.01	15.79	11.87		17.01	

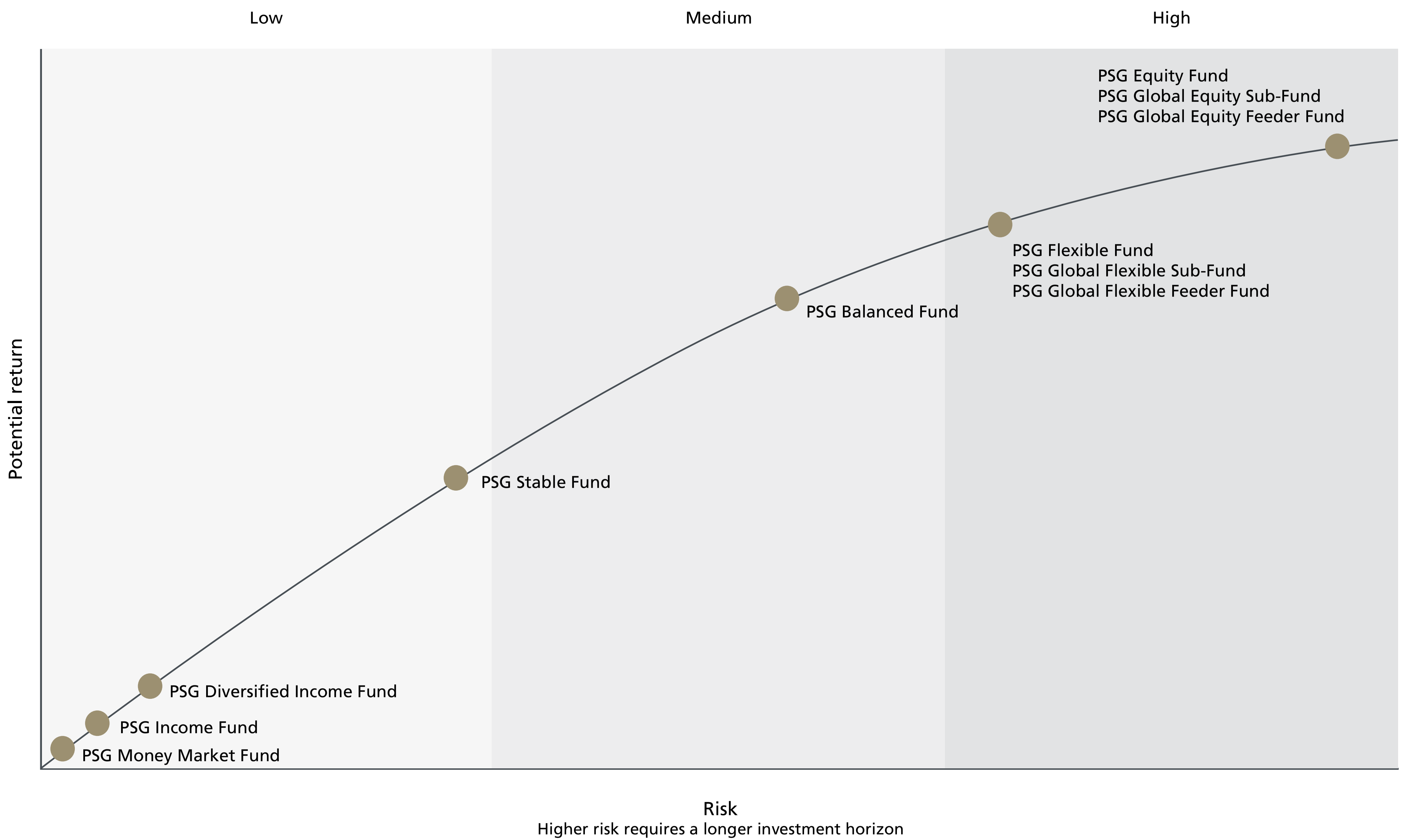
International funds						
	1 Year	3 Years	5 Years	10 Years	Inception	Fund inception date
PSG Global Equity Sub-Fund A	-16.18	-8.69	0.88	1.02	1.23	23/07/2010
MSCI Daily Total Return Net World USD Index (in USD)	10.38	7.74	10.47	9.37	9.81	
PSG Global Flexible Sub-Fund A	-10.39	-6.50	1.77		1.11	02/01/2013
US inflation + 6% (in USD)	7.30	7.92	7.75		7.59	

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

^ The PSG Global Equity Feeder Fund feeds into the PSG Global Equity Sub-Fund
^^ The PSG Global Flexible Feeder Fund feeds into the PSG Global Flexible Sub-Fund

Source: 2020 Morningstar Inc. All rights reserved as at end of September 2020.
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 to 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 to 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 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	SA CPI + 6%	SA CPI + 5%	SA CPI + 3% over a rolling 3-year period	SA CPI + 1%	STeFI Composite Index	South African - Interest-bearing - Money Market Mean	MSCI Daily Total Return Net World USD Index (in ZAR)	US CPI + 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% Class E: 0.75% + 20.00% performance fee on outperformance of the benchmark	Annual management fee: Class A: 1.00% + 7.00% performance fee on outperformance of the high-water mark Class E: 0.75% + 7.00% performance fee on outperformance of the high-water mark	Annual management fee: Class A: 1.50% Class E: 1.00%	Annual management fee: Class A: 1.50% Class E: 1.00%	Annual management fee: Class A: 1.00% Class E: 0.60%	Annual management fee: Class A: 0.65% Class E: 0.40%	Annual management fee: Class A: 0.50% Class F: 0.30%	Annual management fee: Class A: 0.75% Class E: 0.25%	Annual management fee: Class A: 0.75% Class B: 0.25%
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. The A classes have been closed to new investors.

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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. **Redemptions:** The ability of a portfolio to repurchase is dependent upon the liquidity of the securities and cash of the portfolio. To protect investors, a manager may suspend repurchases for a period, subject to regulatory approval, to await liquidity. A suspension ensures that the sale of a large number of units will not force PSG Collective Investments to sell the underlying investments at a price in the market which could have a negative impact on investors. PSG Collective Investments will keep all investors informed should a situation arise where such suspension is required. **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, with a cut-off time of 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 is a member of the Association for Savings and Investment 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, The Towers, 2 Heerengracht Street, Cnr 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 reinvested 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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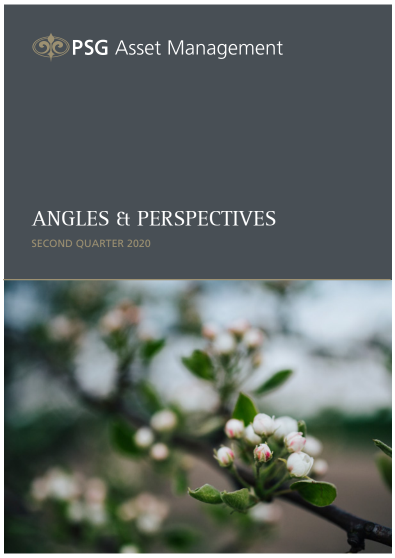
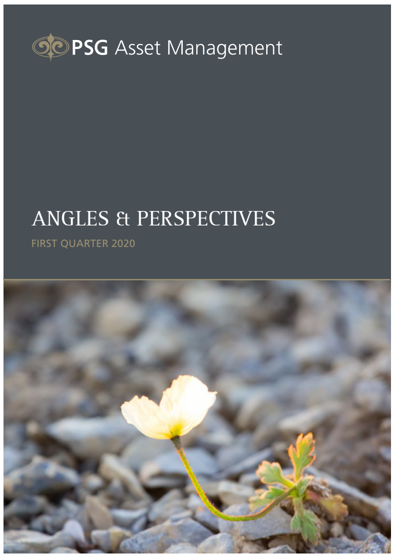
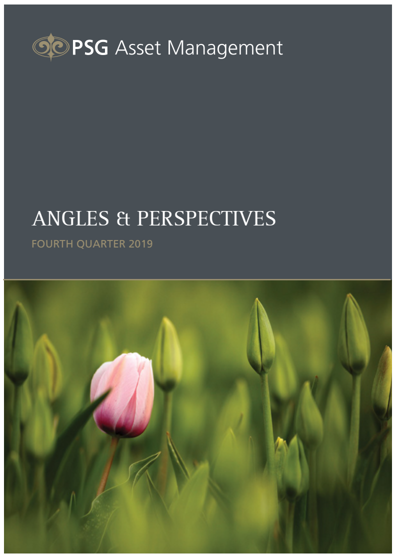


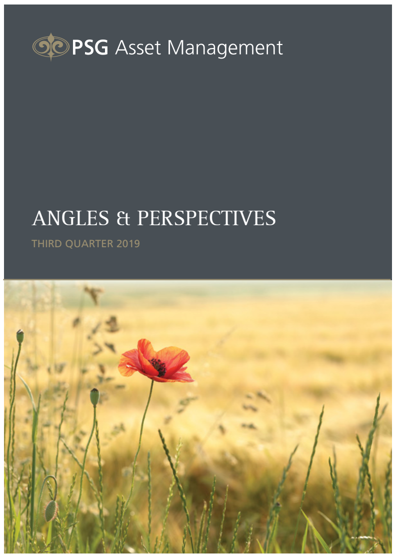
Second quarter 2020



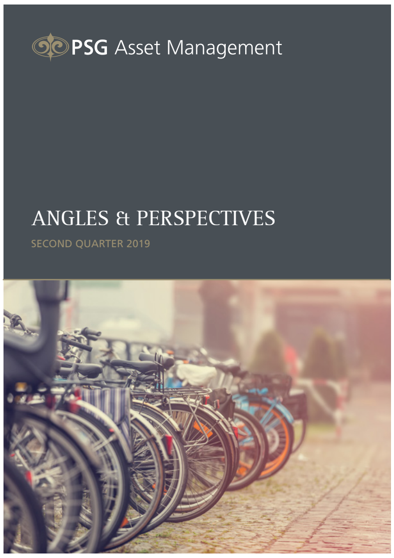
First quarter 2020



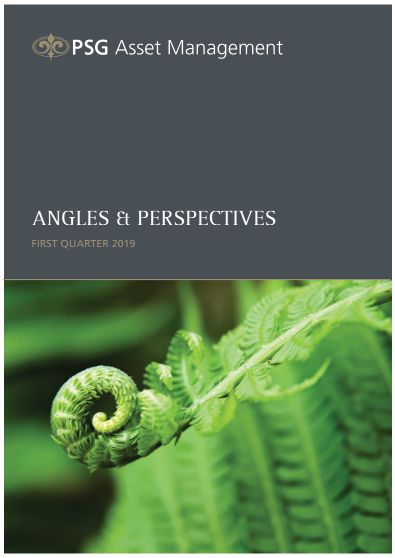
Fourth quarter 2019



Third quarter 2019



Second quarter 2019



First quarter 2019

PSG Asset Management