PSG Asset Management

PSG Stable Fund Class A

31 December 2018

Investment objective (summary of investment policy)

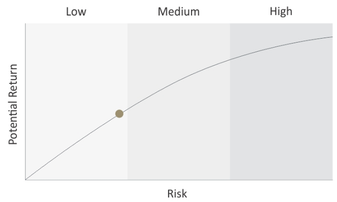
The PSG Stable Fund's objective is to achieve capital appreciation and generate a performance return of CPI+3% over a rolling three-year period with low volatility and low correlation to equity markets through all market cycles. The investment policy provides for investment in a mix of debt securities, money market instruments, bonds, inflation-linked securities, listed equities and property, preference shares and other high yielding securities and derivatives. The fund may have up to 40% in equities. The fund operates within the constraints of Regulation 28 of the Pension Funds Act.

Who should consider investing?

Fund specific risks: The fund sits in the lower middle of the risk/reward spectrum and investors should be comfortable with fluctuations in markets. The risk of short-term monetary loss is low to medium. The portfolio is exposed to equity as well as default and interest rate risks. Interest rate risk is the risk that the value of fixed income investments tends to decrease when interest rates and/or inflation rises. Default risk is where the issuers of fixed income instruments may not be able to meet interest or capital repayments. Property shares may be included in the portfolio and can carry the same risk as investing directly in real estate which is subject to economic and political conditions, interest rates and tax considerations. Investing in foreign securities may be subject to risks pertaining to overseas jurisdictions and markets, including (but not limited to) local liquidity, macroeconomic, political, tax, settlement risks and currency fluctuations. Changes in the relative values of different currencies may adversely affect the value of investments and any related income.

This fund is suitable for investors who:
- have a low risk appetite but require capital growth in real terms
- have a medium-term investment horizon of three years and longer

Risk/reward profile



Higher risk requires a longer investment horizon

Fund details

Inception date	13 September 2011
Fund manager	Paul Bosman, Greg Hopkins and Dirk Jooste
Fund size (ZAR)	R 4 580 476 487
Latest distribution (cpu)	3.61c ; 3.30c
Bi-annual distribution	31 Aug 18 ; 28 Feb 18
ASISA sector	South African - Multi Asset - Low Equity
Benchmark	Inflation +3% over rolling 3 years
Minimum investment	As per the platform minimum
Duration (years)	4.15

The duration is calculated as the weighted average term to maturity of the fixed interest instruments held in the fund.

Number of units	82289874
Price (net asset value per unit)	R1.42
Regulation 28 compliant	Yes

To invest

Speak to your financial adviser or visit www.psg.co.za.

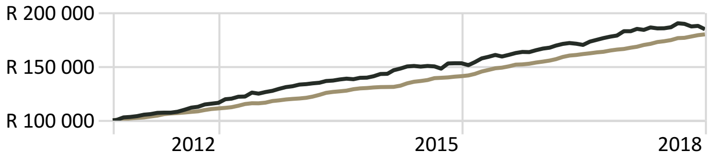
Cut-off times for daily transactions are determined by investment platforms.

Year-to-date (YTD) performance (%)

	YTD (not annualised)
Return	1.01

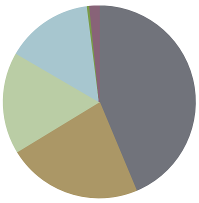
Cumulative long-term performance

Time Period: 9/13/2011 to 12/31/2018



Value of notional R100,000 invested on 9/13/2011 with all distributions reinvested on reinvestment date after fees. Investment performance is for illustrative purposes only.

Asset allocation/investment exposure



	%
Domestic bonds	43.7
Domestic equity	22.6
Domestic cash & NCDs	17.1
Foreign equity	14.6
Foreign cash	0.4
Foreign property	1.6
Total	**100.0**

There may be slight differences in the totals due to rounding.

Top five equity holdings (%)

As of Date: 12/31/2018

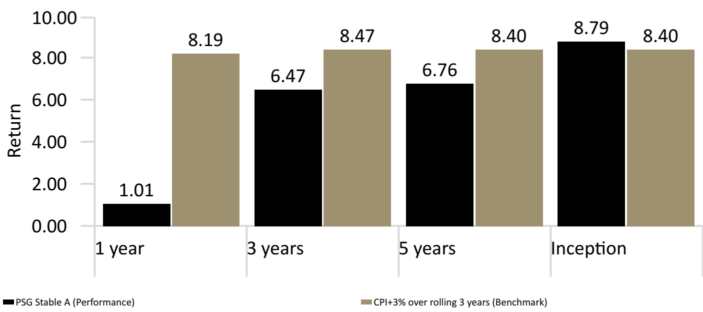
Brookfield Asset Management Inc	3.2
Japan Post Insurance Co Ltd	2.5
AIA Group Ltd	2.2
Old Mutual Ltd	2.1
Discovery Ltd	2.1

Top five issuer exposures (%)

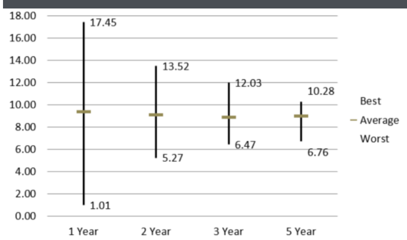
The Republic of South Africa	21.6
FirstRand Bank Ltd	17.4
Standard Bank of SA Ltd	6.8
Land and Agricultural Development Bank of SA	3.8
Eskom Holdings SOC Ltd	2.8

Annualised returns % (after fees)

As of Date: 12/31/2018



Rolling returns (%)



This chart shows you how the performance can vary over time. It is an indication of the distribution of historical rolling returns from the portfolio over each rolling 12-month period.

What is a total expense ratio?

The Total Expense Ratio (TER) is the annualised percentage of the Fund's average assets under management that has been used to pay the Fund's actual expenses over the past three years. This percentage of the average Net Asset Value (NAV) of the portfolio was incurred as charges, levies and fees related to the management of the portfolio. A higher TER ratio does not necessarily imply a poor return, nor does a low TER ratio imply a good return. The current TER cannot be regarded as an indication of future TERs. Part of the Annual Management Fee is payable to the financial intermediary. The sum of the TER and transaction costs is shown as the Total Investment Charge. Since Fund returns are quoted after the deduction of these expenses, the TER and transaction costs should not be deducted again from published returns.

Total investment charge

Total Investment Charge annualised for the period 1/1/2016 to 31/12/2018

Total Expense Ratio % (incl. VAT)	**1.74**
Annual Management Fee % (incl. VAT)	*1.73*
Other costs excl. transaction costs % (incl. VAT)	*0.02*
Transaction costs % (incl. VAT)	*0.17*
Total Investment Charge % (incl. VAT)	**1.91**

Fees

A schedule of fees and 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. 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. Adviser fees are negotiated between the client and adviser and is distinct from the other fees on this document.

Transaction costs

Transaction costs are shown separately and are a necessary cost in administering the Financial Product and impacts Financial Product returns.

Transaction costs should not be considered in isolation as return may be impacted by many other factors over time including market returns, the type of Financial Product, the investment decisions of the investment manager and the TER.

Regulation 28
The fund is managed according to Regulation 28 of the Pension Funds Act. The South African retirement fund industry is governed by the Pension Funds Act No. 24 of 1956. Regulation 28 of the Pension Funds Act prescribes the maximum limits in asset classes that an approved retirement fund may invest in. Exposures in excess of the limits will be corrected immediately, except where due to a change in the fair value or characteristic of an asset, e.g. market value fluctuations, in which case they will be corrected within a reasonable time period.

Performance
All performance data for a lump sum, net of fees, include income and assumes reinvestment of income on a NAV to NAV basis. Annualised performances show longer term performance rescaled over a 12 month period. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. Performance is calculated for the portfolio and individual investor performance may differ as a result thereof. The portfolio is valued at 15h00 daily. Income distributions are net of any applicable taxes. Actual annual figures are available to the investor on request. Prices are published daily and available on the website www.psg.co.za/asset-management and in the daily newspapers. Figures quoted are from Morningstar Inc.

Pricing
Forward pricing is used. Unit trust prices are calculated on a net asset value (NAV) basis, which is the market value of all assets in the portfolio including income accruals less permissible deductions divided by the number of units in issue.

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 holdings company PSG Konsult Limited. The management of the portfolio is delegated to PSG Asset Management (Pty) Ltd, an authorised Financial Services Provider under the Financial Advisory and Intermediary Services Act 2002, FSP no 29524. PSG Asset Management (Pty) Ltd and PSG Collective Investments (RF) Limited are subsidiaries of PSG Konsult Limited. PSG Collective Investments (RF) Limited can be contacted on +27(21) 799 8000; (toll free) 0800 600 168, via email assetmanagement@psg.co.za.

Conflict of interest disclosure
The Fund may from time to time invest in a portolio 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 investors. Neither PSG Collective Investments (RF) Limited nor PSG Asset Management (Pty) Ltd retains any portion of such discount for their own accounts. The fund manager may use the brokerage services of a related party, PSG Securities Ltd.

Trustee
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Tel: +27 21 401 2443
Email: Compliance-PSG@standardbank.co.za

Additional information
Additional information is available free of charge on the website www.psg.co.za/asset-management and may include publications, brochures, forms and annual reports.

by Paul Bosman, Greg Hopkins and Dirk Jooste

Current context

2018 was a tough year for most investors. After a 'Ramaphoric' start, the JSE experienced its worst year since the global financial crisis. Market sentiment swayed as South Africa's economic reality set in and, compounded by investor aversion towards emerging markets in general, the FTSE/JSE All Share Index ended the year 9% down in rand terms. The rand, having rallied to R11.50 against the US dollar, was trading at R14.35 at year end. Generally, developed markets also disappointed, and while the US largely managed to buck this trend, ongoing uncertainty about trade relations with China and a series of interest rate hikes by the US Federal Reserve spurred market jitters. The S&P 500 closed the year on $2 506.85, down from $2 673.61 on 1 January 2018, after a sharp sell-off in the final quarter.

Our perspective

While it may feel uncomfortable or even frightening, times like these – clouded by fear and uncertainty – tend to present the best investment opportunities. As Warren Buffett once said, "Every decade or so, dark clouds will fill the economic skies, and they will briefly rain gold. When downpours of that sort occur, it's imperative that we rush outdoors carrying washtubs, not teaspoons."

We believe that South Africa currently offers a standout investment opportunity. While rolling five-year returns of the FTSE/JSE All Share Index to December 2018 have only been poorer on four occasions over the past 40 years, three-year annualised returns following previous low points averaged around 24%. Furthermore, starting yields in both the fixed income and equity markets are high. 20-year government bonds are offering yields of around 10%, and the domestic-facing companies our portfolios currently hold are, on average, trading at price-earnings ratios of 8 to 9 times. This has created the opportunity for strong potential returns in future.

Similarly, we continue to find value in selected global counters. While overall market valuations remain elevated when compared to history despite recent declines, there continue to be pockets characterised by fear and uncertainty. Here, low prices and low expectations have resulted in quality assets trading at wide margins of safety. A few examples include Brookfield Asset Management, Japan Post Insurance, L Brands and The Mosaic Company; companies our portfolios have held for some time and which we still believe offer attractive return prospects.

Portfolio positioning

Equity exposure increased in 2018 as opportunities were presented by the market sell-off. The fund currently holds 38.8% in equities (as at 31 December 2018), compared to 36.5% a year ago. This comprises an allocation of 22.6% to domestic equities, 14.6% to foreign equities and 1.6% to foreign property. Within equities, our preference remains for above-average quality businesses trading at wide margins of safety, and preferably on low levels of earnings. This combination increases the likelihood of favourable long-term returns.

The fund's holdings in domestic cash and negotiable certificates of deposit decreased by 8.9% over the year, from 26.0% to 17.1%. This was because of compelling opportunities in the domestic bond market. Consequently, the fund's allocation to domestic bonds grew by 7.3% to 43.7% as at end 2018. This was largely due to the addition of inflation-linked bonds, where exposure increased from 0.2% to 9.5% – a position that offers attractive real yields and which we believe enhances the all-weather nature of the portfolio. Foreign cash exposure is slightly lower compared to the previous year-end, at 0.4%.

Changes in portfolio positioning

Q3 2018		Q4 2018	
Domestic equity	21.7%	Domestic equity	22.6%
Domestic cash and NCDs	21.0%	Domestic cash and NCDs	17.1%
Domestic bonds	40.2%	Domestic bonds	43.7%
Foreign equity	14.3%	Foreign equity	14.6%
Foreign cash	1.3%	Foreign cash	0.4%
Foreign property	1.5%	Foreign property	1.6%

There may be slight differences in the totals due to rounding.

All data as per Bloomberg to 31 December 2018.