What it means to be stewards of investors' capital

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We extend our role of stewardship to the management of companies when we invest

We have a simple investment philosophy that goes to the heart of our roles as stewards of our clients' capital.

We always aim to:

- take a long-term approach when executing our investment process
- make sure that we own securities that have a large Margin of Safety
- be prudent and patient when deploying client assets

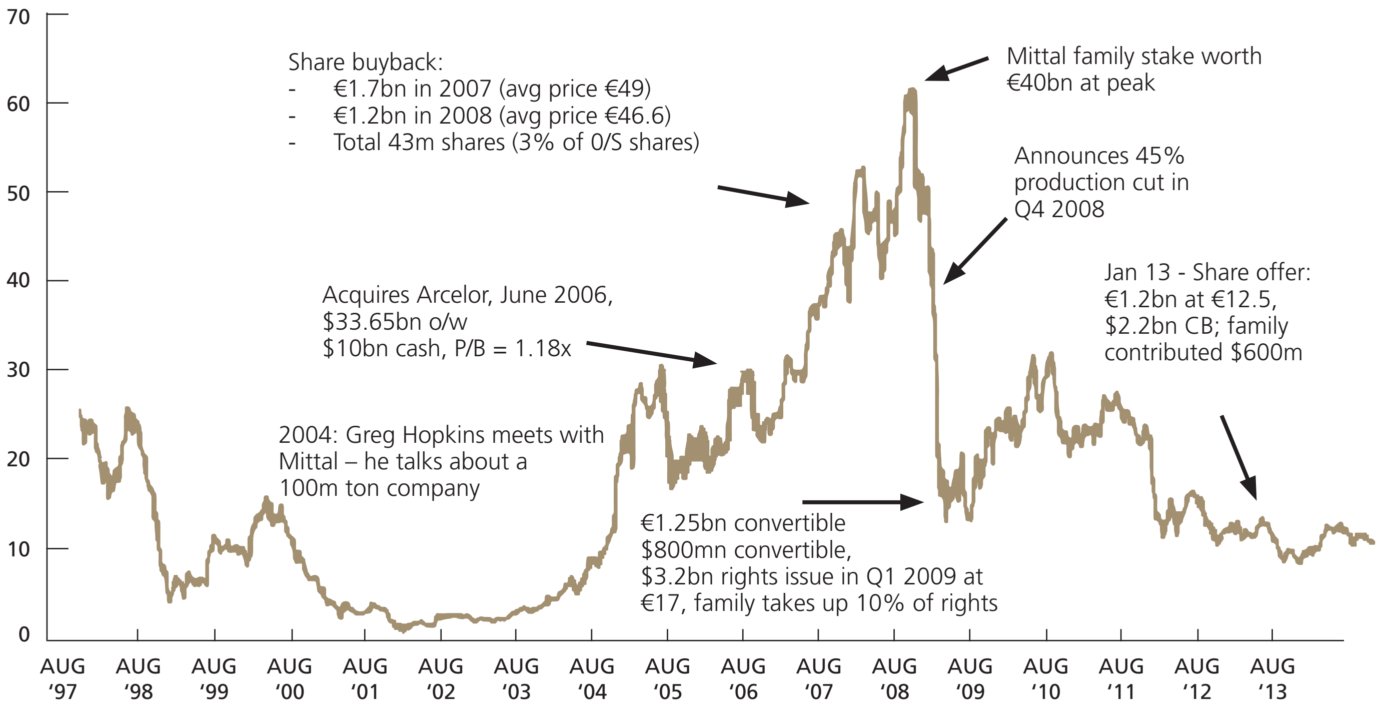
This role of stewardship extends to the management teams of the companies we invest in. When we buy a share on a stock exchange, we are effectively giving our clients' capital to the company's management team. They become stewards of our clients' capital in a broad partnership. When viewed in this regard, it becomes essential to ensure that we hold them accountable for how they manage their businesses and, in turn, our clients' capital.

We therefore do extensive management research before we invest

The middle 'M' (for 'management') in our 3M checklist is aimed at doing just that. We enjoy evaluating management's previous track records and how they have made capital allocation decisions in the past. We aim to assess how effective they have been and whether they have acted in the interest of shareholders when making those decisions. This is similar to the process many investors follow before investing in our funds.

Figure 1 shows an extract of a recent internal research report on ArcelorMittal, illustrating our assessment of management's capital allocation track record.

Figure 1: Extract of management assessment for ArcelorMittal



Source: PSG Asset Management

Our conclusion was that the management's track record was mixed. Lakshmi Mittal built a personal fortune of €40 billion at its peak in an industry in which it is notoriously difficult to create shareholder value, namely the steel industry. However, a closer look showed that the company bought its own shares close to the market top (€2.9 billion at an average price of €48) and then sold shares at a much lower level (€3.6 billion at €15). Management effectively bought high and sold low. After cutting production by 45% in the fourth quarter of 2008, it appears in hindsight that the management team was wrong-footed by the great financial crisis.

We get excited about the opportunity to partner with great management teams around the world

One of the surest ways of finding good partners is to make an assessment on how aligned management is with your own interests. Warren Buffett famously said 'Show me the incentive and I will show you the outcome'. As a result, we like investing alongside management teams with large equity ownership in their companies where there is a good alignment of interests with shareholders.

This is a very simple but powerful formula for compounding shareholder wealth. It should come as no surprise that a significant number of businesses in which our clients are invested are run by executives with large shareholdings and excellent long-term track records.

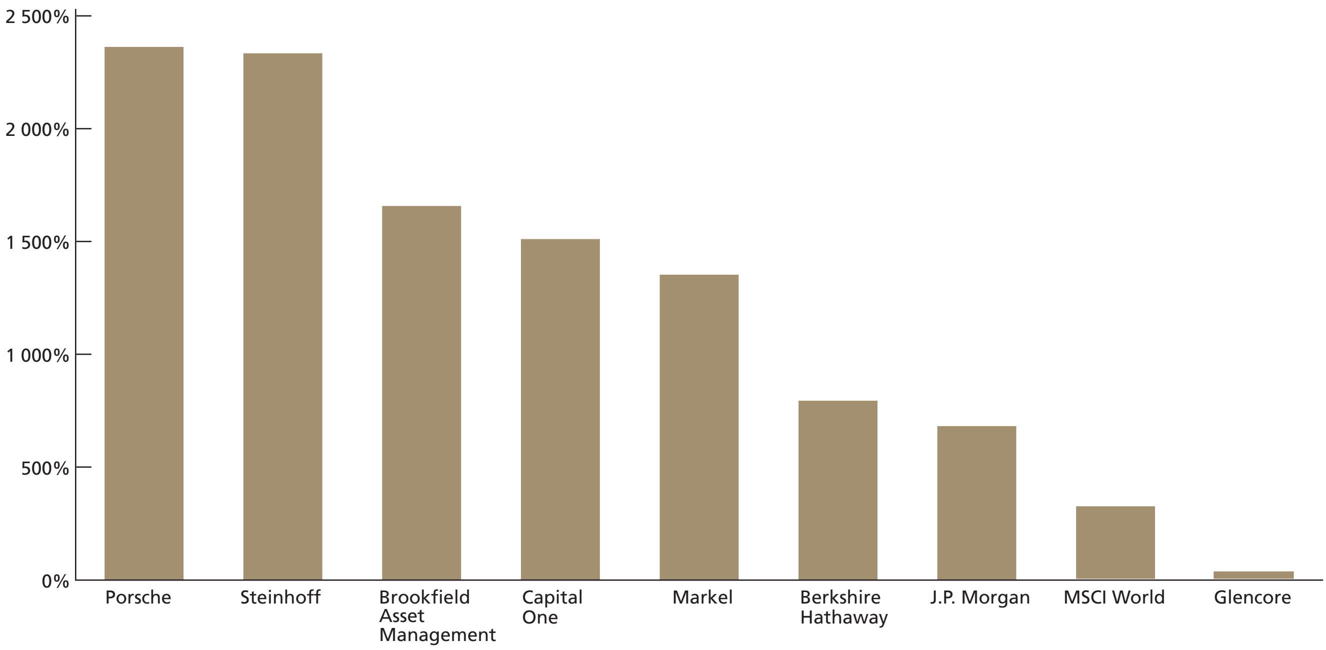
Table 1 highlights share ownership and company performance of a number of companies in our top 10 holdings and Chart 1 shows the total returns.

Table 1: Share ownership and company performance of a selection of PSG Asset Management's top 10 holdings

	Note	Market Cap US$ (m)	Share ownership value* (directors/management/family) US$ (m)	Total return (20 year CAGR)
Markel		$11 575	$333	14.3%
Porsche	1	$21 241	$10 620	18.2%
Berkshire Hathaway		$338 471	$82 925	11.6%
J.P. Morgan		$250 573	$1 829	10.8%
Brookfield Asset Management	2	$34 196	$1 514	17.4%
Capital One		$48 260	$917	14.9%
Glencore	3	$51 666	$4 567	NM
Steinhoff	4	$22 643	$3 578	15.8%
MSCI World Index				6.7%
FTSE/JSE ALSI				9.2%

Source: Bloomberg, PSG Asset Management (2 July 2015)
* Directors, named executive officer and family where relevant
Note 1: Total return from 26/01/1996; comparable MSCI CAGR = 6.94%; family own 50.01% of the share capital
Note 2: Total return from 29/08/1997; comparable MSCI CAGR = 6.15%
Note 3: Total return from 3/06/2011; NM: Not Meaningful
Note 4: Total return from 25/09/1998; comparable MSCI CAGR = 6.18%

Chart 1: Cumulative total return of a selection of PSG Asset Management's top 10 holdings (20 years from relevant listing date*)



Sources: Bloomberg, PSG Asset Management
*See notes below Table 1 for comparative periods

The exceptional management teams of these companies work tirelessly for their business owners – our fund investors. As custodians of your capital we are comfortable with the ability of these management teams to create shareholder value day after day.

A few examples are worth mentioning:

- **Capital One:** Richard Fairbank started Capital One back in 1988 and remains their CEO 27 years later. He has built Capital One into one of the largest banks in the US with 45 million customers. As CEO he does not take a salary but prefers to earn performance bonuses in shares and deferred cash. Fairbank's shares in the company are worth $666 million. The share price has compounded at 15% a year over the last 20 years, significantly outperforming the MSCI Global Index over that period. The company came through the financial crisis with flying colours, growing its deposit base by over $25 billion in 2008.

- **Glencore:** Ivan Glasenberg has been CEO of Glencore since 2002 and has helped build it into a $51 billion company. He has an exceptional track record of creating shareholder value in what is a pretty tough industry. He still has a significant stake in the company ($4.3 billion). The resources sector is deeply out of favour with a number of companies trading on low valuations on what we believe are low profits. We are very comfortable giving Mr Glasenberg capital to deploy in this sector and believe he will use his expertise to find attractive opportunities to create future shareholder value. There are few CEOs in the resources sector more competent than him.

- **Steinhoff:** Markus Jooste and the management team at Steinhoff have an enviable track record of creating per share value for shareholders. We felt particularly aligned to the management team after watching them in action through the financial crisis and the ensuing sovereign crisis in Europe. Steinhoff used the crises to buy high quality assets at cheap prices, a philosophy that overlaps significantly with our philosophy. Jooste has a personal stake of $408 million (R5 billion) in the company, which certainly ensures that he remains focused.

We aim to invest our clients' money in companies where management creates significant value

We acknowledge that we have a great responsibility when looking after our clients' investments. As shareholders in our business, we have a personal interest in ensuring its sustainable, long-term success. We fulfil this responsibility by finding great partners in the management teams of the companies that are owned in our funds. These management teams create significant value in the companies they operate in and work tirelessly for their shareholders, including the investors in our funds.