- 2016 experienced a strong market rotation on global equity markets from defensives to cyclicals which rewarded our portfolio positioning.
- Even after underperforming in 2016, most of the popular large cap defensive equity names on the JSE remain expensive.
- We can find better opportunities for our clients: primarily higher quality cyclical businesses in SA and abroad.
- The stocks in our portfolios are still attractively priced, despite strong share price performance in 2016 in general.
- Our portfolios comprise a diversified selection of higher quality businesses trading at attractive prices and at a substantial discount to the broader market.
- We are confident that the holdings in the Fund will produce satisfactory long-term returns.

2016 in review

By the end of 2015, defensive bond-proxies and popular growth stocks had become very expensive. Hence, our clients owned none of the large cap rand hedge stocks that dominate the JSE indices. At the same time, economically-sensitive businesses with cyclical earnings streams found themselves deeply out of favour. We could find fantastic opportunities for our clients, particularly amongst higher quality cyclical businesses in South Africa and the US.

In our December 2015 commentary we concluded that: "*sentiment is very poor in several areas of the market and it is possible to buy stocks at similar valuation levels to during the global financial crisis of 2008. These are circumstances in which we consider it appropriate to adopt a contrarian approach and invest in unloved cheap stocks on behalf of our clients. Investors should enjoy good long term returns from these stock price levels.*"

It is pleasing to report that many of these "unloved cheap" stocks delivered handsome returns for our investors during 2016. As a result, the Fund materially outperformed its benchmark over the year. The JSE (at an index level) was, however, weighed down by poor performance by expensive large cap rand hedges.

Portfolio positioning and outlook

The panic of 2015 and early 2016 provided the opportunity to buy good businesses at a wide discount to our assessment of intrinsic value. Cyclical companies were deeply out of favour with widest mispricings to be found in the Resource sector. Most commodity producers had very strong share price performance in 2016 and as a result, we reduced our exposure, selling out of Anglo American and BHP Billiton during the year after share prices exceeded our estimate of fair value. The Fund retains exposure to Glencore, where we continue to perceive an attractive discount to our value for the business.

We are long term investors, not traders, but given very strong share price appreciation in some of our holdings, portfolio activity was higher than normal in 2016. We sold Capitec during the year (in favour of PSG), reduced Imperial and Barloworld and took profit in US financials (JP Morgan, Capital One, Wells Fargo, Berkshire and Markel) and Microsoft.

The fears around the potential downgrade of SA sovereign debt saw attractive opportunities arise within interest rate sensitive SA financials and we were buyers of strong franchises like Firstrand, Old Mutual, Barclays and Nedbank at what we thought were very attractive prices for long term investors.

We have also added to Discovery throughout the year. We think the current share price materially understates the strength of the business model, addressable global market, sustainable growth rate and quality of the management team.

At the end of 2015 the Fund had 31.5% of its assets invested directly offshore. By the end of 2016 this had reduced to 22.2% as we could find better opportunities within the SA market in some of the stocks discussed above, especially given the extreme weakness of the rand against other currencies. Our offshore equity investments remain an important source of portfolio diversification and we have high conviction in the long term returns to be derived from our global equity positions, including Sainsbury, Brookfield and Cisco.

A feature of the bond bull market of recent years is that certain equities have competed for capital with developed market bonds and have become very expensive. These have included some of the popular higher quality rand hedges on the JSE like Naspers and British American Tobacco. As a result, investors are poorly compensated for the risk they are taking and are likely to experience poor long term returns. We constantly screen for opportunities to buy quality at a margin of safety but can currently find limited opportunities within the traditional JSE rand hedges and dual-listeds. We think we can find better long term investment ideas, some of which we have discussed above.

Our portfolios comprise a diversified selection of higher quality businesses trading at attractive prices and at a substantial discount to the broader market. We are confident that the holdings in the Fund will produce satisfactory long-term returns.

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- Even after underperforming in 2016, most of the popular large cap defensive equity names on the JSE remain expensive.
- We can find better opportunities for our clients: primarily higher quality cyclical businesses in SA and abroad.
- The stocks in our portfolios are still attractively priced, despite strong share price performance in 2016 in general.
- The Fund retains relatively high levels of cash as a buffer against unforeseen future events, ready to be employed when we can buy quality businesses at a margin of safety.
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We have also added to Discovery throughout the year. We think the current share price materially understates the strength of the business model, addressable global market, sustainable growth rate and quality of the management team.

At the end of 2015 the Fund had 29.3% of its assets invested directly offshore. By the end of 2016 this had reduced to 22.5% as we could find better opportunities within the SA market in some of the stocks discussed above, especially given the extreme weakness of the rand against other currencies. Our offshore equity investments remain an important source of portfolio diversification and we have high conviction in the long term returns to be derived from our global equity positions, including Sainsbury, Brookfield, Cisco and Berkshire.

The Fund had 31.1% in cash at the end of 2016. This is slightly higher than the end of 2015 (30.6%), but it is worth noting that we employed cash to opportunities that arose during the sharp correction of January/February 2016 and subsequently found ourselves building cash in the latter parts of the year as the margin of safety in the individual holdings narrowed. Cash levels are above historic averages which reflects the limited availability of higher quality businesses at a margin of safety. Cash has always been an important building block in the PSG Flexible Fund. It acts as a buffer against the risk of equity holdings, which are inherently long duration assets and very sensitive to unpredictable changes in economic conditions, company fundamentals and market sentiment. The true value of cash is only apparent when liquidity tightens and panic sets in. What has been pleasing is that our cash positions have been able to lock-in attractive real yields without taking on duration or liquidity risk in recent times.

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"To be useful, your beliefs should be constrained by the logic of probability"
Daniel Kahneman

If a person breaks up a very healthy relationship with a good partner in a moment of emotional irrationality the decades of foregone happy cohabitation is an unnecessary tragedy. Even the best unit trusts can generate poor returns for those clients who exit the fund at the wrong time. Such a tragic break up is to the detriment of both the client as well as the asset manager.

It is common knowledge that investing in a unit trust should be a long-term endeavour. In fact, very few unit trust investors would proclaim to follow a short-term approach. Why then do so many unit trust investors panic and sell at or near the bottom?

In this commentary we explore why it is so hard to make rational long-term investment decisions and how we as investors can prevent ourselves from making irrational decisions when the heat is turned up. The heat was turned up in the beginning of 2016 and we tragically saw a number of our clients exit the fund at a very unfortunate time.
We will explore this topic at both levels of decision making, firstly at the fund manager level and secondly at the client level.

We at PSG Asset Management are also emotional beings and therefore we need to have measures in place to ensure that we remain rational when those dark clouds gather.

How does our team remain rational when market sentiment picks at our emotional cords? We go back to our decision making framework.

One example of such a situation would be when a company which is held in our funds falls out of favour due to industry or company specific challenges. In such a case we would ask a few key questions:

- Is the management team's integrity still intact?
- Is the management team still making sensible capital allocation decisions?
- Is the company's competitive advantage intact and able to generate satisfactory returns on capital?
- Does management have balance sheet wiggle room?
- Is the share pricing in an extremely unlikely scenario?

The drastic sell off in resource companies and South African financial companies during 2015, are prime examples of when we had to rely on our checklist.

Let us consider the second level of decision making, i.e. clients' decision to remain invested or exit a unit trust. If the asset manager has a long-term track record of outperforming benchmarks, we recommend our clients use the following checklist to ensure rational decision making:

- Is the asset manager remaining consistent to its investment philosophy?
- Is the manager clearly communicating the reason for poor short- and medium-term returns?
- If not, why not?
- If there is clear communication:
    - What would be regarded as good reasons?
        - Your manager is acting in a contrarian manner which is inflicting short-term pain for long-term gain.
        - There is a prolonged dislocation between share prices and intrinsic values.
    - What would be concerning justification?
        - Portfolios were too highly correlated, i.e. concentrated bets.
        - There has been a normalisation of multiples, i.e. your manager was invested in over-valued securities.

A recent example of when the above checklist would have been helpful was during the short-term underperformance of the PSG Balanced Fund at the end of 2015 and beginning of 2016. We invite you to reassess our commentaries written over this period and consider us in the light of the above checklist. They are available in the archives section of our website. Any comment is most welcome.

As Daniel Kahneman teaches us, our decisions should be grounded in the logic of probability. This is possible if we follow a decision making framework rather than act on emotion. We will do our outmost to continuously adhere to this wisdom. We strongly encourage you to do the same.

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A recent example of when the above checklist would have been helpful was during the short-term underperformance of the PSG Stable Fund at the end of 2015 and beginning of 2016. We invite you to reassess our commentaries written over this period and consider us in the light of the above checklist. They are available in the archives section of our website. Any comment is most welcome.

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The strength and stability of the SA bond market was tested this year through various global and local factors that have longer term consequences; such as Brexit, US politics and events in our own SA political arena. Coupled with a protracted interest rate hiking cycle and low growth economy, this created an environment of uncertainty for investors. It is in times of uncertainty that fixed income instruments can bring a sense of certainty to long-term investors. When returns in other asset classes seem more unpredictable, the fixed coupon nature as well as the fixed maturity date of an instrument can bring certainty to investors and savers. This is very beneficial to conservative investors. In multi asset portfolios, fixed income instruments also bring the benefit of diversification in portfolio construction.

Let's take a look at why certain fixed income instruments have been included into our portfolios over the last year:

Cash: Short-term yields in SA are attractive given the outlook for short-term rates and the expected inflation profile over the next year or two. The front end of the yield curve in SA is still very steep, meaning investors and savers are rewarded with a high real yield without having to take large amounts of interest rate risk.

Credit: Credit spreads of certain corporate and bank debt seem to be at cyclical highs at the moment. Given the quality and stability of the SA banking system due to the further implementation of bank capital regulations (Basel 3), we believe bank spreads are at attractive levels given the real yield earned and the duration risk taken. The bulk of SA bank bonds are issued in the three to five year area of the curve. We believe investors are being fairly compensated at present for taking the credit risk on large SA banks, including the fact that we have also seen an improvement in secondary market trading of these bonds.

Government Bonds: Bonds remain attractive on a real yield basis, given the credit quality and liquidity. Yields are however trading above our intrinsic value and will benefit from the expected lower inflation profile over the next year. Notwithstanding the selloff in global bond markets during the last quarter of the year, the SA bond market has remained resilient and yields remain anchored around the 9% level on the 10-year bond. On a global basis, SA real bond yields continue to look attractive given our current economic fundamentals and the fact that SA maintained an investment grade rating.

In summary: We keep allocating to longer dated bank NCD's as they remain attractive on a real yield basis given the level of risk and the expected path of inflation and interest rates. SA government bonds also remain an attractive asset class, due to the high real yield being offered as well as the low credit risk and high liquidity factor in these instruments. The outlook for economic growth is expected to improve next year. The prospect of lower inflation is also positive for fixed income. Global macro factors, especially in the US seem to be changing. We will have to see what the longer-term impacts of expected government policy changes from the US are.

We are adding to the bond positions on specific points of the nominal curve where the real yield remains attractive given the duration risk. We remain positive on valuation in specific areas of the credit market. We will continue to search for real yields that are attractive at an appropriate level of risk.

We have maintained equity exposure in counters that offer attractive valuation metrics. We will continue to search for real yields which are attractive at an appropriate level of risk.

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2016 was a reminder of the risks of forecasting in financial market

2016 can best be described as driven by negative sentiment relating to heightened political uncertainty (locally and abroad). Globally, there has been a sharp focus on the potential unwinding of low (to negative) global yields, and the impact this would have on emerging markets. Our local rates were impacted by the significant surprises of Brexit and a Trump presidential victory in the US. Against a backdrop of questions around the strength of the South African economy, independence of National Treasury and fears of a downgrade to below investment grade credit rating, local interest rates were higher for much of the year.

At the outset of the year, amidst political fears, it was difficult to ignore the negative sentiment which gripped local markets. Forecasters and market pundits painted a grim outlook for the year and it would have been very hard to find an economist or any conversation suggesting positives for the future of the South African economy. It was widely predicted that we would again replace our finance minister (Minister Pravin Gordhan), be unable to produce a credible fiscal budget and would face an imminent downgrade to below investment grade. The rand was predicted to spike to R20/$, inflation to rise sharply above the 6% target and the South Africa Reserve Bank (SARB) to be forced to hike interest rates significantly - a very unfriendly environment for local fixed income markets.

At the time of writing, this picture appears to be unfolding very differently. The rand/$ exchange rate instead of weakening, had strengthened 12% over the 2016 year and inflation expectations have significantly reduced as food inflation worked itself out of the system. The market is now starting to look towards inflation falling below the 6% target of the SARB. South Africa, albeit it in a fluid situation, has managed to avoid a downgrade to below investment grade status, whilst ensuring the independence of National Treasury. This year has therefore taught lessons about the risk of forecasting based on binary events, and the implications of positioning portfolios for a one-sided outcome.

Opportunities were presented through focused and fundamental research

As an investor in money markets, the fruition of the above forecast would have resulted in significant losses for investors. It was therefore more important than ever to remain focused on the fundamental drivers of local rates, specifically the outlook for inflation. This allowed us to see the opportunity presented in the NCD (Negotiable Certificate of Deposit) market, a compelling opportunity for the Money Market fund where we have been able to take advantage of the negative sentiment and forecasts of excessive inflation. With rating agency decisions scheduled for December 2016, NCD rates remained elevated throughout the year, offering in excess of 2% real yields at current headline inflation of 6.6% (November 2016).

While we believe that certain risks mentioned above still remain, we prefer not to focus on predicting the outcomes of rating agencies and political events, instead focusing our attention on better understanding the pressures on inflation and growth into 2017. We therefore look to position the portfolio for a range of outcomes, but towards a greater position in fixed rate exposure (this would benefit investors should inflation expectations normalize). Headline inflation pressures eased with a stronger rand, improved wage negotiations and lower food inflation expected going forward. There is reasonable basis to believe that inflation should be more comfortable for the SARB going into 2017, a very positive outcome with real yields in excess of 2% already locked in for our investors looking for real income growth capital preservation over the short term.

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- 2016 experienced a strong market rotation from defensives to cyclicals which benefitted the portfolio's performance.
- The average stock on global markets returned 8.2%. (incl. dividends) in US Dollars.
- MSCI emerging markets rose by 11.3% with Brazil (+67%) and Russia (+56%) being standouts.
- High quality defensive equities underperformed but continue to be very expensive.
- Quality cyclical companies performed strongly but are still attractively priced.
- The stocks in the portfolio offer attractive return profiles at current share price levels.

2016 in review
2016 turned out to be very different to the way it started. After one of the worst starts on record, (MSCI World fell by 12% to mid-Feb), global equity indices staged a recovery and returned 8.2% in 2016.

The path was by no means smooth and was heavily influenced by geopolitical events, such as Brexit, Trump and impeachments of multiple presidents. Furthermore, the introduction of fiscal stimulus in Japan is likely a sign of what's to come in other developed nations as the effects of loose monetary policies lose steam.

Even though emerging markets as an asset class outperformed their developed market counterparts, performances within this group were divergent. Brazil and Russia were up 67% and 56% respectively while Turkish stocks declined 8% (all in US dollars).

After a number of years of outperformance, well-loved, high quality defensive companies started what could well be a multi-year underperformance trend. High quality companies which we have previously held in the funds when they could be bought at a margin of safety, such as Unilever (-3.7% total return), Reckitt Benckiser (-7.2%), Nestle (-1.6%) and Roche (-15%) materially underperformed the average company. We have written about our cautious stance on these types of companies in previous commentaries and continue to hold this view today as these staple, bond like equities are expensive in absolute terms and relative to their own histories.

The standout performance in 2016 and especially over the 2nd half of the year came from cyclical stocks with energy, materials and financials delivering strong returns.

Given this backdrop the PSG Global Equity Fund delivered a return of 19% in 2016 (vs MSCI World total return of +8.2%) and 5% in the 4th quarter (vs MSCI World +2%).

In last year's commentary we wrote about some of the fund's detractors where cyclical pressures (which generally do not impact intrinsic values) weighed on earnings and sentiment in the short term. In 2016 most of these names recovered strongly with Glencore, Colfax Corp., Anglo American and Capital One being the fund's top contributors to performance (note: we sold Anglo American in April 2016). The only material detractor was Sainsbury which we continue to view as an extremely attractive and asymmetric investment opportunity and it thus remains one of our highest conviction holdings.

The 4th quarter witnessed some unexpected political events such as the election of Donald Trump and a 'NO' vote in the Italian referendum on constitutional reform. As referred to in our Q3 commentary, as part of our investment process we do not try and forecast uncertain political outcomes and always select stocks in a bottom up fashion based on our 3Ms (Moat, Management, Margin of Safety).

During Q4 of 2016, rising bond yields and inflation expectations after the election of Donald Trump led to an acceleration in the rotation from defensives to cyclicals. This specifically benefitted US banks holdings in the fund (Capital One +22.1%, JPMorgan +30.5% and Wells Fargo +25.5% in the quarter), as well as cyclically exposed companies Glencore (+24.4%), Colfax Corp. (+14.3%) and Union Pacific (+7%). The fund's largest position at the end of Q3, Berkshire Hathaway, returned 12.8% in the quarter and therefore materially contributed to performance.

While fund returns were strong in Q4, detractors to performance included National Grid (-15.7%), Brookfield Asset Management (-5.5%) and US tech stocks Qualcomm (-4%) and Cisco Systems (-3.9%).

Portfolio positioning and outlook
As mentioned above, the 4th quarter saw some sharp upward moves in share prices and over the latter part of the quarter we reduced the funds exposure to global bank holdings after the significant re-rating they enjoyed since the US election. This is because they are now starting to price in both more normalised interest rates and a continued favourable bad debt environment. At a price/book ratio of 1.2 times however, the bank holdings in the fund continue to offer good long term value and account for 13.5% of the fund.

Another notable change in the portfolio is a reduction in the fund's exposure to Berkshire Hathaway, which has been the fund's largest position throughout 2016, as the recent share price increase narrowed its discount to intrinsic value.

Fortunately, stocks across the globe are not perfectly correlated and we continue to find good opportunities to re-deploy profits. We increased the fund's exposure to Brookfield Asset Management, which has been under pressure in the latest yield sell off, even though its exposure to 'real' assets should be beneficial in an environment of higher inflation and bond yields.

Apple is now in the Top 10 as we are increasingly of the view that the company's software platform is lifting barriers to exit, while its cheap valuation and mountain of foreign-held cash should get a boost from lower repatriation taxes and more than offset any potential headwinds from higher tariffs or added supply chain complexities in the Trump era.

We also continued to increase exposure to Yahoo Japan, now the fund's 6th largest position and added Hong Kong listed AIA Group to the portfolio. AIA Group is South East Asia's largest life insurer with a market cap of $69bn and operates in 17 countries across the region. Founded in 1919, the company was spun out of AIG in 2010 and continues to enjoy a long runway of growth. Rising populations, urbanisation and spending power coupled with structurally low social welfare payments and low private cover should continue to provide long term tailwinds to this best in class insurer.

Even though many high quality defensive companies sold off in the 2nd half of the year they continue to trade at expensive valuation multiples and do not offer an adequate margin of safety. The fund therefore has limited exposure to this part of the market.

While the market as a whole is at relatively elevated levels with the MSCI World trading at a PE ratio of 22 times we continue to find good opportunities within the market which should generate attractive returns from current levels. The Price Earnings ratio of the fund of 14.9 times compares well to the market.

We are still encouraged about the outlook from the equity holdings in the fund:

- They are attractively priced relative to history and the market in general;
- They are generally on low levels of earnings;
- Many are on high sustainable dividend or total payout yields;
- They are generally of above-average quality.

While the year ahead will likely continue to be marked by known and unknown (political) uncertainty, we will continue to focus on finding undervalued contrarian opportunities which an unpredictable world will likely present.

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Tel: +27 (21) 799 8000, Email: asset.management@psg.co.za, Website: www.psg.co.za/asset-management

- 2016 experienced a strong market rotation from defensives to cyclicals which benefitted the portfolio's performance.
- The average stock on global markets returned 8.2%. (incl. dividends) in US Dollars.
- MSCI emerging markets rose by 11.3% with Brazil (+67%) and Russia (+56%) being standouts.
- High quality defensive equities underperformed but continue to be very expensive.
- Quality cyclical companies performed strongly but are still attractively priced.
- The stocks in the portfolio offer attractive return profiles at current share price levels.

2016 in review
2016 turned out to be very different to the way it started. After one of the worst starts on record, (MSCI World fell by 12% to mid-Feb), global equity indices staged a recovery and returned 8.2% in 2016.

The path was by no means smooth and was heavily influenced by geopolitical events, such as Brexit, Trump and impeachments of multiple presidents. Furthermore, the introduction of fiscal stimulus in Japan is likely a sign of what's to come in other developed nations as the effects of loose monetary policies lose steam.

Even though emerging markets as an asset class outperformed their developed market counterparts, performances within this group were divergent. Brazil and Russia were up 67% and 56% respectively while Turkish stocks declined 8% (all in US dollars).

After a number of years of outperformance, well-loved, high quality defensive companies started what could well be a multi-year underperformance trend. High quality companies which we have previously held in the funds when they could be bought at a margin of safety, such as Unilever (-3.7% total return), Reckitt Benckiser (-7.2%), Nestle (-1.6%) and Roche (-15%) materially underperformed the average company. We have written about our cautious stance on these types of companies in previous commentaries and continue to hold this view today as these staple, bond like equities are expensive in absolute terms and relative to their own histories.

The standout performance in 2016 and especially over the 2nd half of the year came from cyclical stocks with energy, materials and financials delivering strong returns.

Given this backdrop the PSG Global Equity Fund delivered a return of 19% in 2016 (vs MSCI World total return of +8.2%) and 5% in the 4th quarter (vs MSCI World +2%).

In last year's commentary we wrote about some of the fund's detractors where cyclical pressures (which generally do not impact intrinsic values) weighed on earnings and sentiment in the short term. In 2016 most of these names recovered strongly with Glencore, Colfax Corp., Anglo American and Capital One being the fund's top contributors to performance (note: we sold Anglo American in April 2016). The only material detractor was Sainsbury which we continue to view as an extremely attractive and asymmetric investment opportunity and it thus remains one of our highest conviction holdings.

The 4th quarter witnessed some unexpected political events such as the election of Donald Trump and a 'NO' vote in the Italian referendum on constitutional reform. As referred to in our Q3 commentary, as part of our investment process we do not try and forecast uncertain political outcomes and always select stocks in a bottom up fashion based on our 3Ms (Moat, Management, Margin of Safety).

During Q4 of 2016, rising bond yields and inflation expectations after the election of Donald Trump led to an acceleration in the rotation from defensives to cyclicals. This specifically benefitted US banks holdings in the fund (Capital One +22.1%, JPMorgan +30.5% and Wells Fargo +25.5% in the quarter), as well as cyclically exposed companies Glencore (+24.4%), Colfax Corp. (+14.3%) and Union Pacific (+7%). The fund's largest position at the end of Q3, Berkshire Hathaway, returned 12.8% in the quarter and therefore materially contributed to performance.

While fund returns were strong in Q4, detractors to performance included National Grid (-15.7%), Brookfield Asset Management (-5.5%) and US tech stocks Qualcomm (-4%) and Cisco Systems (-3.9%).

Portfolio positioning and outlook
As mentioned above, the 4th quarter saw some sharp upward moves in share prices and over the latter part of the quarter we reduced the funds exposure to global bank holdings after the significant re-rating they enjoyed since the US election. This is because they are now starting to price in both more normalised interest rates and a continued favourable bad debt environment. At a price/book ratio of 1.2 times however, the bank holdings in the fund continue to offer good long term value and account for 13.5% of the fund.

Another notable change in the portfolio is a reduction in the fund's exposure to Berkshire Hathaway, which has been the fund's largest position throughout 2016, as the recent share price increase narrowed its discount to intrinsic value.

Fortunately, stocks across the globe are not perfectly correlated and we continue to find good opportunities to re-deploy profits. We increased the fund's exposure to Brookfield Asset Management, which has been under pressure in the latest yield sell off, even though its exposure to 'real' assets should be beneficial in an environment of higher inflation and bond yields.

Apple is now in the Top 10 as we are increasingly of the view that the company's software platform is lifting barriers to exit, while its cheap valuation and mountain of foreign-held cash should get a boost from lower repatriation taxes and more than offset any potential headwinds from higher tariffs or added supply chain complexities in the Trump era.

We also continued to increase exposure to Yahoo Japan, now the fund's 6th largest position and added Hong Kong listed AIA Group to the portfolio. AIA Group is South East Asia's largest life insurer with a market cap of $69bn and operates in 17 countries across the region. Founded in 1919, the company was spun out of AIG in 2010 and continues to enjoy a long runway of growth. Rising populations, urbanisation and spending power coupled with structurally low social welfare payments and low private cover should continue to provide long term tailwinds to this best in class insurer.

Even though many high quality defensive companies sold off in the 2nd half of the year they continue to trade at expensive valuation multiples and do not offer an adequate margin of safety. The fund therefore has limited exposure to this part of the market.

While the market as a whole is at relatively elevated levels with the MSCI World trading at a PE ratio of 22 times we continue to find good opportunities within the market which should generate attractive returns from current levels. The Price Earnings ratio of the fund of 14.9 times compares well to the market.

We are still encouraged about the outlook from the equity holdings in the fund:

- They are attractively priced relative to history and the market in general;
- They are generally on low levels of earnings;
- Many are on high sustainable dividend or total payout yields;
- They are generally of above-average quality.

We continue to allocate capital dependent on available opportunities and the PSG Global Flexible Fund had 24% of its assets in cash at the end of December, up from 18% at the end of November and 15% in September, reflective of rising asset prices and the sales referred to above. In February 2016, during the midst of the market sell off when opportunities were even more abundant, cash levels reduced to as low as 8%, demonstrating the benefit of the fund's flexible approach.

While the year ahead will likely continue to be marked by known and unknown (political) uncertainty, we will continue to focus on finding undervalued contrarian opportunities which an unpredictable world will likely present.

MANAGEMENT COMPANY: PSG Collective Investments (RF) Limited, 1st Floor, PSG House, Alphen Park, Constantia Main Road, Constantia 7806
Tel: +27 (21) 799 8000, Email: asset.management@psg.co.za, Website: www.psg.co.za/asset-management