PSG Equity Fund

Quarterly portfolio commentary as at 31 December 2019

by Shaun le Roux and Gustav Schulenburg

Value-style investing, while proven in the long term, faced ongoing headwinds over the past year. 2019 saw momentum-driven markets in which a few selected stocks drove outperformance, and our funds did not reward our investors as we would have liked. Local equity index performance of 12% masked the reality of a very narrow market in which a few stocks dominated returns, with more than half of that return coming from the resource sector, and from a few shares only. Given our low exposure to popular areas which we consider overvalued, and resources in particular, our returns for 2019 were disappointing on both an absolute and relative basis. The good news, as we outline below, is that the future looks bright.

2019 in review

Fund performance was primarily driven by the disappointing returns from local and foreign equities. Asset allocation and fixed income selection added value, but could not offset the effects of equity selection.

Notable detractors over the period were Tongaat, Sun International, Discovery, Super Group and Stefanutti, while strong performances from AECI, AB Inbev, Quilter and Raubex added to portfolio performance.

Our equity positions are inherently diversified. Many of the factors impacting underperforming equities occurred in the same year, but had very little else in common. In particular, foreign equities usually act as a diversifier to local equities (often through the currency), but this wasn't apparent this time. The year was equally remarkable in terms of what we didn't own and therein lies a large part of the reason for the performance of the funds. Large rand hedges (British American Tobacco, Richemont, Naspers) staged a comeback after a difficult 2018. Resources rallied strongly, particularly Diversified Bulk Miners and Platinum Group Metal Miners. US large cap equities in favoured sectors such as technology, or those with popular and (in our view) overpriced attributes such as perceived higher quality, momentum or lower volatility, went to stratospheric heights. Our clients have done very well out of some of the big winners of 2019 (such as Amplats) but, with the benefit of hindsight, we sold too early in favour of what we perceived to be better opportunities.

We believe some important questions should be asked whenever an investment process results in a poor set of numbers in any year.

Firstly, is the process being applied consistently?

- We are committed to applying the process and philosophy that served our clients well in the past in a thorough, interrogative manner. Active managers make mistakes from time to time and the investment environment will play a part in influencing the outcome of a focused process in the shorter term. At such a time, it is tempting to toe the line and reposition the portfolios in line with everyone else's views. However, not diversifying away the characteristic of being out of favour was and continues to be a deliberate action on our part. Low expectations in investing can be a wonderful thing.

Secondly, did anything go right?

- The combination of unfortunate events in 2019 hides what went well: stocks like AECI, AB Inbev, Quilter and Raubex added to performance. Our process also kept us away from stocks such as Sasol and the property sector. While this provides cold comfort given the year's numbers, these examples serve as evidence that our process is relevant and works.

What is it that we think our portfolios have to offer investors now – why should they invest now?

- One very notable factor common to the vast majority of our holdings is that they are to some degree unloved or ignored by the market, and (relative to our assessment of their true potential), priced as such. This was the most significant single common factor this year - stocks of companies out of favour got even cheaper and the current market darlings were priced for even more glamour. It was the Great Mean-Aversion trade of 2019. We considered several plausible explanations for the cause of this unprecedented market behaviour (which reached a fever pitch in August last year), such as the growing impact of passive and quantitative factor-based investing. In the end we don't know exactly what caused this phenomenon or whether it will happen again, but we do suspect that the underlying value of the companies affected negatively by this changed very little this year. This means that they continue to offer long-term value to an extent that we have not seen for over a decade.

What we believe lies ahead

If our process works (which the long-term evidence strongly suggests it does) then the funds are poised for substantial outperformance ahead. Valuation of shares in companies exposed to the South African economy that are held in the funds are some of the most compelling we've seen in our careers. Valuations are low, earnings are subdued, and expectations embedded in the price are reflecting extreme pessimism (again, usually a powerful indicator of subsequent outperformance). Importantly, the shares are not pricing in any good news, which means the investment case is not dependent on a large cyclical economic recovery in SA, although they would stand to benefit materially should any sign of improving confidence appear. In many cases the shares we own derive a significant proportion of their earnings from outside of South Africa, but have been ascribed an SA Inc valuation.

It is vital that investors and advisers understand the nature of our investment process and how it affects the current and likely performance of our funds

- The investment philosophy driving our decisions seeks to ensure the odds are in our favour in an uncertain world by buying low and selling high and is not swayed by comfort of popular opinion.
- Our emphasis on differentiated, superior long-term returns often leads to our funds looking very different to indices and large peer funds. This means that in certain periods, our return profile will also look different (as is currently the case). We encourage our clients to evaluate us on an appropriate long-term horizon and with the knowledge that there will be times when we lag the market over short time periods in order to deliver the outperformance in the good years.
- As valuation-sensitive investors, we can be early in our positioning in order to fully build up the optimal exposures at attractive prices. This has been the case until now. The hard work has been done and we await the rewards.
- Our portfolios provide welcome and necessary diversification compared to other managers, which is a valuable quality over time. Every strategy will have periods of superior and lagging performance and the best way to harness the upswings of each strategy is to be there throughout the

cycle in combination with other funds with different approaches. Trading in and out of strategies is fraught with the risk of buying late and locking in losses.

- The long-term track record of the funds prior to 2019 give us and our clients confidence that our process works and has delivered very satisfactory outcomes over time.
- It is natural to feel uncomfortable in times of short-term underperformance such as we are experiencing now. We take our role in reducing the risk of client capitulation and reducing exposure at exactly the wrong time very seriously.

While we cannot confidently predict timing, we are optimistic about the funds' return potential from here. History suggests the best returns are made when investing in times of temporary discomfort. Behaviourally this is difficult, but the rewards can be very compelling.

Portfolio positioning

Our clients own good businesses and their share prices are very low.

The fund remains invested offshore to the full extent permitted. This not only serves to diversify the portfolio, but is a function of the opportunity set in unloved parts of global equity markets.

The fund's stock holdings trade on average at a 36% discount to intrinsic value. Expressed differently, they potentially offer 56% upside to our assessment of what the businesses are worth. This reflects the most compelling opportunity we have seen in more than a decade.

Changes in portfolio positioning

Q3 2019		Q4 2019	
Domestic equity	67.2%	Domestic equity	69.2%
Domestic cash	0.3%	Domestic cash	0.2%
Foreign equity	29.7%	Foreign equity	27.9%
Foreign property	2.6%	Foreign property	2.6%
Foreign cash	0.2%	Foreign cash	0.1%

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

Number of units as at 31 December 2019 (Class A):	52 573 750
Price (net asset value per unit) as at 31 December 2019 (Class A):	R10.01
Number of units as at 31 December 2019 (Class E):	104 638 668
Price (net asset value per unit) as at 31 December 2019 (Class E):	R10.06

All data as per Bloomberg as at 31 December 2019

Disclaimer

Collective Investment Schemes in Securities (CIS) are generally medium to long-term investments. The value of participatory interests (units) or the investment may go down as well as up and past performance is not a guide to future performance. Fluctuations or movements in the exchange rates may cause the value of underlying international investments to go up or down. CIS are traded at ruling prices and can engage in borrowing and scrip lending. The portfolio may borrow up to 10% of its market value to bridge insufficient liquidity. Where foreign securities are included in a portfolio, the portfolio is exposed to risks such as potential constraints on liquidity and the repatriation of funds, macroeconomic, political, foreign exchange, tax, settlement and potential limitations on the availability of market information. The portfolios may be capped at any time in order for them to be managed in accordance with their mandate. 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. PSG Collective Investments (RF) Limited does not provide any guarantee either with respect to the capital or the return of the portfolio. Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided.

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 Fund including income accruals less permissible deductions divided by the number of units in issue.

Company details

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Conflict of interest disclosure

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Trustees

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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.

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Portfolio positioning

We have seen market conditions as an opportunity to buy good domestic businesses at attractive prices and our exposure rose during 2019. Fixed income (cash and bond) levels have reduced to 11.1%: we view this part of the portfolio as liquid firepower to buy stocks in times of panic. We have elected to hold a significant proportion (7.8%) of this in government bonds as we view the starting real yields and prospective returns to be a compelling alternative to cash. The fund remains invested offshore to the full extent permitted. This not only serves to diversify the portfolio but is a function of the opportunity set in the unloved parts of global equity markets.

The fund's stock holdings trade on average at a 36% discount to intrinsic value or expressed alternatively offer 56% upside to our assessment of what the businesses are worth. This reflects the most compelling opportunity we have seen in more than a decade.

Changes in portfolio positioning

Q3 2019		Q4 2019	
Domestic equity	53.0%	Domestic equity	57.9%
Domestic cash	5.8%	Domestic cash	3.3%
Domestic gold	0.0%	Domestic gold	0.0%
Domestic bonds	8.4%	Domestic bonds	7.8%
Foreign cash	0.8%	Foreign cash	0.4%
Foreign equity	28.2%	Foreign equity	27.0%
Foreign property	3.8%	Foreign property	3.6%

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

Number of units as at 31 December 2019 (Class A):	784 487 723
Price (net asset value per unit) as at 31 December 2019 (Class A):	R4.99
Number of units as at 31 December 2019 (Class E):	1 320 254 856
Price (net asset value per unit) as at 31 December 2019 (Class E):	R4.99

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Trustees

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Tel: +27 21 401 2443
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Additional information

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PSG Balanced Fund

Quarterly portfolio commentary as at 31 December 2019

by Justin Floor & Dirk Jooste

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Portfolio positioning

The compelling bottom-up opportunities we see in domestic and foreign equites are reflected in an aggregate equity exposure slightly above the fund's long-term historical average. The fund is currently only exposed to foreign property, with no domestic property exposure.

The fund retains a healthy allocation to domestic sovereign nominal and inflation-linked bonds which continue to offer generous real yields and attractive risk-adjusted returns.

Changes in portfolio positioning

No major changes were implemented in the fund's positioning over the last quarter.

Q3 2019		Q4 2019	
Domestic equity	45.1%	Domestic equity	46.4%
Domestic cash and NCDs	1.9%	Domestic cash and NCDs	1.2%
Domestic bonds	23.0%	Domestic bonds	23.4%
Foreign equity	26.8%	Foreign equity	26.2%
Foreign cash	0.2%	Foreign cash	0.1%
Foreign property	3.0%	Foreign property	2.7%

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

Number of units as at 31 December 2019 (Class A):	57 112 385
Price (net asset value per unit) as at 31 December 2019 (Class A):	R64.29
Number of units as at 31 December 2019 (Class E):	82 917 526
Price (net asset value per unit) as at 31 December 2019 (Class E):	R64.38

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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.

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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

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Trustee

The Standard Bank of South Africa Limited,
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Email: Compliance-PSG@standardbank.co.za

Additional information

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PSG Stable Fund

Quarterly portfolio commentary as at 31 December 2019

by Dirk Jooste and Justin Floor

Value-style investing, while proven in the long term, faced ongoing headwinds over the past year. 2019 saw momentum-driven markets in which a few selected stocks drove outperformance, and our funds did not reward our investors as we would have liked. Local equity index performance of 12% masked the reality of a very narrow market in which a few stocks dominated returns, with more than half of that return coming from the resource sector, and from a few shares only. Given our low exposure to popular areas which we consider overvalued, and resources in particular, our returns for 2019 were disappointing on both an absolute and relative basis. The good news, as we outline below, is that the future looks bright.

2019 in review

Fund performance was primarily driven by the disappointing returns from local and foreign equities. Asset allocation and fixed income selection added value, but could not offset the effects of equity selection.

Notable detractors over the period were Tongaat, Sun International, Discovery, Super Group and Stefanutti, while strong performances from AECI, AB Inbev, Quilter and Raubex added to portfolio performance.

Our equity positions are inherently diversified. Many of the factors impacting underperforming equities occurred in the same year, but had very little else in common. In particular, foreign equities usually act as a diversifier to local equities (often through the currency), but this wasn't apparent this time. The year was equally remarkable in terms of what we didn't own and therein lies a large part of the reason for the performance of the funds. Large rand hedges (British American Tobacco, Richemont, Naspers) staged a comeback after a difficult 2018. Resources rallied strongly, particularly Diversified Bulk Miners and Platinum Group Metal Miners. US large cap equities in favoured sectors such as technology, or those with popular and (in our view) overpriced attributes such as perceived higher quality, momentum or lower volatility, went to stratospheric heights. Our clients have done very well out of some of the big winners of 2019 (such as Amplats) but, with the benefit of hindsight, we sold too early in favour of what we perceived to be better opportunities.

We believe some important questions should be asked whenever an investment process results in a poor set of numbers in any year.

Firstly, is the process being applied consistently?

- We are committed to applying the process and philosophy that served our clients well in the past in a thorough, interrogative manner. Active managers make mistakes from time to time and the investment environment will play a part in influencing the outcome of a focused process in the shorter term. At such a time, it is tempting to toe the line and reposition the portfolios in line with everyone else's views. However, not diversifying away the characteristic of being out of favour was and continues to be a deliberate action on our part. Low expectations in investing can be a wonderful thing.

Secondly, did anything go right?

- The combination of unfortunate events in 2019 hides what went well: stocks like AECI, AB Inbev, Quilter and Raubex added to performance. Our process also kept us away from stocks such as Sasol and the property sector. While this provides cold comfort given the year's numbers, these examples serve as evidence that our process is relevant and works.

What is it that we think our portfolios have to offer investors now – why should they invest now?

- One very notable factor common to the vast majority of our holdings is that they are to some degree unloved or ignored by the market, and (relative to our assessment of their true potential), priced as such. This was the most significant single common factor this year - stocks of companies out of favour got even cheaper and the current market darlings were priced for even more glamour. It was the Great Mean-Aversion trade of 2019. We considered several plausible explanations for the cause of this unprecedented market behaviour (which reached a fever pitch in August last year), such as the growing impact of passive and quantitative factor-based investing. In the end we don't know exactly what caused this phenomenon or whether it will happen again, but we do suspect that the underlying value of the companies affected negatively by this changed very little this year. This means that they continue to offer long-term value to an extent that we have not seen for over a decade.

What we believe lies ahead

If our process works (which the long-term evidence strongly suggests it does) then the funds are poised for substantial outperformance ahead. Valuation of shares in companies exposed to the South African economy that are held in the funds are some of the most compelling we've seen in our careers. Valuations are low, earnings are subdued, and expectations embedded in the price are reflecting extreme pessimism (again, usually a powerful indicator of subsequent outperformance). Importantly, the shares are not pricing in any good news, which means the investment case is not dependent on a large cyclical economic recovery in SA, although they would stand to benefit materially should any sign of improving confidence appear. In many cases the shares we own derive a significant proportion of their earnings from outside of South Africa, but have been ascribed an SA Inc valuation.

It is vital that investors and advisers understand the nature of our investment process and how it affects the current and likely performance of our funds

- The investment philosophy driving our decisions seeks to ensure the odds are in our favour in an uncertain world by buying low and selling high and is not swayed by comfort of popular opinion.
- Our emphasis on differentiated, superior long-term returns often leads to our funds looking very different to indices and large peer funds. This means that in certain periods, our return profile will also look different (as is currently the case). We encourage our clients to evaluate us on an appropriate long-term horizon and with the knowledge that there will be times when we lag the market over short time periods in order to deliver the outperformance in the good years.
- As valuation-sensitive investors, we can be early in our positioning in order to fully build up the optimal exposures at attractive prices. This has been the case until now. The hard work has been done and we await the rewards.
- Our portfolios provide welcome and necessary diversification compared to other managers, which is a valuable quality over time. Every strategy will have periods of superior and lagging performance and the best way to harness the upswings of each strategy is to be there throughout the cycle in combination with other funds with different approaches. Trading in and out of strategies is fraught with the risk of buying late and locking in losses.
- The long-term track record of the funds prior to 2019 give us and our clients confidence that our process works and has delivered very satisfactory outcomes over time.
- It is natural to feel uncomfortable in times of short-term underperformance such as we are experiencing now. We take our role in reducing the risk of client capitulation and reducing exposure at exactly the wrong time very seriously.

While we cannot confidently predict timing, we are optimistic about the funds' return potential from here. History suggests the best returns are made when investing in times of temporary discomfort. Behaviourally this is difficult, but the rewards can be very compelling.

Portfolio positioning

Equity exposure decreased slightly from 39.3% to 38.8% over the quarter, driven by incremental reductions in holdings where the margin of safety has narrowed and due to market movements.

Domestic cash and NCDs reduced from 13.1% to 9.6% as credit spreads on fixed-rate NCDs from local banks continue to narrow, i.e. yields on these instruments are lower and closer to those offered by government bonds of the same maturities. In turn, domestic bond exposure increased from 44.6% to 49.0% as the proceeds were largely applied to short-dated inflation-linked bonds. We view both nominal and inflation-linked government bonds as compelling components of the current portfolio mix, offering very attractive real yields.

Exposure to foreign property decreased from 2.7% to 2.3% because of dividends distributed in the quarter and market movements.

Aggregate liquidity in the fund remains healthy.

Changes in portfolio positioning

Q3 2019		Q4 2019	
Domestic equity	22.9%	Domestic equity	23.4%
Domestic cash and NCDs	13.1%	Domestic cash and NCDs	9.6%
Domestic bonds	44.6%	Domestic bonds	49.0%
Foreign equity	16.4%	Foreign equity	15.4%
Foreign cash	0.3%	Foreign cash	0.3%
Foreign property	2.7%	Foreign property	2.3%

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

Number of units as at 31 December 2019 (Class A):	50 032 410
Price (net asset value per unit) as at 31 December 2019 (Class A):	R1.38
Number of units as at 31 December 2019 (Class E):	616 024 290
Price (net asset value per unit) as at 31 December 2019 (Class E):	R1.38

All data as per Bloomberg as at 31 December 2019.

Disclaimer

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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

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PSG Diversified Income Fund

Quarterly portfolio commentary as at 31 December 2019

by Lyle Sankar, John Gilchrist & Greg Hopkins

Value-style investing, while proven in the long term, faced ongoing headwinds over the past year. 2019 saw momentum-driven markets in which a few selected stocks drove outperformance, and our funds did not reward our investors as we would have liked. Local equity index performance of 12% masked the reality of a very narrow market in which a few stocks dominated returns, with more than half of that return coming from the resource sector, and from a few shares only. Given our low exposure to popular areas which we consider overvalued, and resources in particular, our returns for 2019 were disappointing on both an absolute and relative basis. The good news, as we outline below, is that the future looks bright.

2019 in review

Fund performance was primarily driven by the disappointing returns from local and foreign equities. Asset allocation and fixed income selection added value, but could not offset the effects of equity selection.

Notable detractors over the period were Tongaat, Sun International, Discovery, Super Group and Stefanutti, while strong performances from AECI, AB Inbev, Quilter and Raubex added to portfolio performance.

Our equity positions are inherently diversified. Many of the factors impacting underperforming equities occurred in the same year, but had very little else in common. In particular, foreign equities usually act as a diversifier to local equities (often through the currency), but this wasn't apparent this time. The year was equally remarkable in terms of what we didn't own and therein lies a large part of the reason for the performance of the funds. Large rand hedges (British American Tobacco, Richemont, Naspers) staged a comeback after a difficult 2018. Resources rallied strongly, particularly Diversified Bulk Miners and Platinum Group Metal Miners. US large cap equities in favoured sectors such as technology, or those with popular and (in our view) overpriced attributes such as perceived higher quality, momentum or lower volatility, went to stratospheric heights. Our clients have done very well out of some of the big winners of 2019 (such as Amplats) but, with the benefit of hindsight, we sold too early in favour of what we perceived to be better opportunities.

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Secondly, did anything go right?

- The combination of unfortunate events in 2019 hides what went well: stocks like AECI, AB Inbev, Quilter and Raubex added to performance. Our process also kept us away from stocks such as Sasol and the property sector. While this provides cold comfort given the year's numbers, these examples serve as evidence that our process is relevant and works.

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- One very notable factor common to the vast majority of our holdings is that they are to some degree unloved or ignored by the market, and (relative to our assessment of their true potential), priced as such. This was the most significant single common factor this year - stocks of companies out of favour got even cheaper and the current market darlings were priced for even more glamour. It was the Great Mean-Aversion trade of 2019. We considered several plausible explanations for the cause of this unprecedented market behaviour (which reached a fever pitch in August last year), such as the growing impact of passive and quantitative factor-based investing. In the end we don't know exactly what caused this phenomenon or whether it will happen again, but we do suspect that the underlying value of the companies affected negatively by this changed very little this year. This means that they continue to offer long-term value to an extent that we have not seen for over a decade.

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While we cannot confidently predict timing, we are optimistic about the funds' return potential from here. History suggests the best returns are made when investing in times of temporary discomfort. Behaviourally this is difficult, but the rewards can be very compelling.

Portfolio positioning

The fund's allocation to equities remained roughly unchanged over the period. The percentage increase in domestic equity allocation was largely due to positive price movements across various holdings. Offshore, the most significant change was a reduction in the fund's holding in Brookfield Asset Management, a position that has performed well for clients. The fund continues to use a well-diversified basket of equities from both our locally and global buy lists.

The allocation to cash and NCDs has reduced over the period by around 4%. In recent years the fund has locked in significant real yields in this market, has looked to take advantage of a fall in NCD rates across the curve by selling into strength. Currently, the fund holds an NCD book with a running yield of roughly 8.6% for a weighted average maturity of 3.6 years, indicating a significant real yield offering locked in over the investment horizon.

Over the period, the rand appreciated against the US dollar from August levels of R15.5/$ to a year-end close of R14/$, roughly 10% stronger. In addition, headline consumer price inflation continued to trend lower, with the average y/y figure for Q4 2019 at 3.7%. In contrast to these moves, nominal and inflation-linked bonds weakened over the period with nominal bond yields higher by 5 bps to 15 bps and inflation-linked bonds higher by roughly 30 bps across the curve. The largest driver of the increase in yields was continued fiscal uncertainty in South Africa, which has resulted in an expectation of increased supply in inflation-linked bonds and longer dated nominal bonds to fund fiscal shortfalls. Current yields remain at very attractive levels with nominal bonds yielding roughly 10% (a real yield of 5% to 6%) and inflation-linked bonds offering a real yield of 3% to 4%. The fund has therefore maintained holdings in these bonds in line with the view that significant risk is potentially already priced into yields. Given the significant strengthening of the rand over the period, the fund has increased its offshore allocation (in cash-like instruments). This provides diversification and protection against any adverse bond yield movements that may result due to heightened geopolitical risks and the upcoming February budget policy statement. The fund continues to look for opportunities to reduce corporate credit where we believe spreads and expected returns no longer reflect underlying credit quality.

Changes in portfolio positioning

Q3 2019		Q4 2019	
Domestic equity	4.2%	Domestic equity	4.4%
Domestic preference shares	0.1%	Domestic preference shares	0.1%
Domestic cash and NCDs	51.0%	Domestic cash and NCDs	46.9%
Domestic bonds	41.0%	Domestic bonds	41.3%
Foreign equity	2.2%	Foreign equity	2.0%
Foreign cash	0.9%	Foreign cash	4.7%
Foreign property	0.6%	Foreign property	0.6%

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

Number of units as at 31 December 2019 (Class A):	916 556 152
Price (net asset value per unit) as at 31 December 2019 (Class A):	R1.21
Number of units as at 31 December 2019 (Class E):	332 842 023
Price (net asset value per unit) as at 31 December 2019 (Class E):	R1.21

All data as per Bloomberg as at 31 December 2019.

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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
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Yield
The yield for the portion attributable to fixed income instruments is calculated daily on an annualised basis and is based on the historic yield of the fixed income instruments. The fund returns include returns from property and equity instruments.

Company details
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PSG Income Fund

Quarterly portfolio commentary as at 31 December 2019
by Lyle Sankar, Duayne Le Roux & Greg Hopkins

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2019 in review

Fund performance was primarily driven by the disappointing returns from local and foreign equities. Asset allocation and fixed income selection added value, but could not offset the effects of equity selection.

Notable detractors over the period were Tongaat, Sun International, Discovery, Super Group and Stefanutti, while strong performances from AECI, AB Inbev, Quilter and Raubex added to portfolio performance.

Our equity positions are inherently diversified. Many of the factors impacting underperforming equities occurred in the same year, but had very little else in common. In particular, foreign equities usually act as a diversifier to local equities (often through the currency), but this wasn't apparent this time. The year was equally remarkable in terms of what we didn't own and therein lies a large part of the reason for the performance of the funds. Large rand hedges (British American Tobacco, Richemont, Naspers) staged a comeback after a difficult 2018. Resources rallied strongly, particularly Diversified Bulk Miners and Platinum Group Metal Miners. US large cap equities in favoured sectors such as technology, or those with popular and (in our view) overpriced attributes such as perceived higher quality, momentum or lower volatility, went to stratospheric heights. Our clients have done very well out of some of the big winners of 2019 (such as Amplats) but, with the benefit of hindsight, we sold too early in favour of what we perceived to be better opportunities.

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- The combination of unfortunate events in 2019 hides what went well: stocks like AECI, AB Inbev, Quilter and Raubex added to performance. Our process also kept us away from stocks such as Sasol and the property sector. While this provides cold comfort given the year's numbers, these examples serve as evidence that our process is relevant and works.

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- One very notable factor common to the vast majority of our holdings is that they are to some degree unloved or ignored by the market, and (relative to our assessment of their true potential), priced as such. This was the most significant single common factor this year - stocks of companies out of favour got even cheaper and the current market darlings were priced for even more glamour. It was the Great Mean-Aversion trade of 2019. We considered several plausible explanations for the cause of this unprecedented market behaviour (which reached a fever pitch in August last year), such as the growing impact of passive and quantitative factor-based investing. In the end we don't know exactly what caused this phenomenon or whether it will happen again, but we do suspect that the underlying value of the companies affected negatively by this changed very little this year. This means that they continue to offer long-term value to an extent that we have not seen for over a decade.

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- Our emphasis on differentiated, superior long-term returns often leads to our funds looking very different to indices and large peer funds. This means that in certain periods, our return profile will also look different (as is currently the case). We encourage our clients to evaluate us on an appropriate long-term horizon and with the knowledge that there will be times when we lag the market over short time periods in order to deliver the outperformance in the good years.
- As valuation-sensitive investors, we can be early in our positioning in order to fully build up the optimal exposures at attractive prices. This has been the case until now. The hard work has been done and we await the rewards.
- Our portfolios provide welcome and necessary diversification compared to other managers, which is a valuable quality over time. Every strategy will have periods of superior and lagging performance and the best way to harness the upswings of each strategy is to be there throughout the cycle in combination with other funds with different approaches. Trading in and out of strategies is fraught with the risk of buying late and locking in losses.
- The long-term track record of the funds prior to 2019 give us and our clients confidence that our process works and has delivered very satisfactory outcomes over time.
- It is natural to feel uncomfortable in times of short-term underperformance such as we are experiencing now. We take our role in reducing the risk of client capitulation and reducing exposure at exactly the wrong time very seriously.

While we cannot confidently predict timing, we are optimistic about the funds' return potential from here. History suggests the best returns are made when investing in times of temporary discomfort. Behaviourally this is difficult, but the rewards can be very compelling.

Portfolio positioning

The allocation to cash and NCDs has increased over the period by around 2.5%, specifically through the addition of shorter dated NCD's where we have sold corporate credit. In recent years, the fund has locked in significant real yields in this market. Currently, the fund holds an NCD book with a running yield of roughly 8.5% for a weighted average maturity of 3.2 years, indicating a significant real yield offering locked in over the investment horizon at majority fixed rates.

Over the period, the rand appreciated against the US dollar from levels of R15.5/$ in August to a year-end close of R14/$, roughly 10% stronger. In addition, headline consumer price inflation continued to trend lower, with the average y/y figure for Q4 2019 at 3.7%. In contrast to these moves, nominal and inflation-linked bonds weakened over the period with nominal bond yields higher by 5 bps to 15 bps and inflation linked bonds higher by roughly 30 bps across the curve. The largest driver of the increase in yields was continued fiscal uncertainty in South Africa resulting in an expectation of increased supply in inflation linked bonds and longer dated nominal bonds to fund shortfalls. The fund has been invested in the belly (7 to 12 year/middle) of the nominal curve, which is largely unchanged over the period, delivering close to 12% returns over the year ended December 2019.

Current yields remain at very attractive levels with nominal bonds yielding roughly 9% (a real yield of around 5%) at the 10-year point and inflation linked bonds offering a real yield of 3% to 4%. The fund has marginally increased holdings in these bonds into weakness in line with the view that significant risk is potentially already priced into yields.

The fund continues to hold a large allocation to floating rate notes through the NCD market, as well as where corporate bonds remain attractive on a risk adjusted manner. This should provide protection against any adverse rate movements as geopolitical risks have risen and as we await the upcoming February budget policy statement. The fund however, continues to look for opportunities to reduce aggregate corporate credit where we believe spreads and expected returns no longer reflect underlying credit quality.

Changes in portfolio positioning

	Q3 2019	Q4 2019
Domestic bonds	27.6%	25.0%
Domestic cash and NCDs	72.4%	75.0%

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

Number of units as at 31 December 2019 (Class A):	21 299 048
Price (net asset value per unit) as at 31 December 2019 (Class A):	R1.03
Number of units as at 31 December 2019 (Class E):	260 800 962
Price (net asset value per unit) as at 31 December 2019 (Class E):	R1.03

All data as per Bloomberg as at 31 December 2019

Disclaimer

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Yield

The yield is calculated daily on an annualised basis. The calculation is based on the historic yield of fixed income instruments.

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 Fund 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 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 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

The Standard Bank of South Africa Limited,
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2 Hertzog Boulevard,
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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.

PSG Money Market Fund

Quarterly portfolio commentary as at 31 December 2019

by Lyle Sankar and Duayne le Roux

Value-style investing, while proven in the long term, faced ongoing headwinds over the past year. 2019 saw momentum-driven markets in which a few selected stocks drove outperformance, and our funds did not reward our investors as we would have liked. Local equity index performance of 12% masked the reality of a very narrow market in which a few stocks dominated returns, with more than half of that return coming from the resource sector, and from a few shares only. Given our low exposure to popular areas which we consider overvalued, and resources in particular, our returns for 2019 were disappointing on both an absolute and relative basis. The good news, as we outline below, is that the future looks bright.

2019 in review

Fund performance was primarily driven by the disappointing returns from local and foreign equities. Asset allocation and fixed income selection added value, but could not offset the effects of equity selection.

Notable detractors over the period were Tongaat, Sun International, Discovery, Super Group and Stefanutti, while strong performances from AECI, AB Inbev, Quilter and Raubex added to portfolio performance.

Our equity positions are inherently diversified. Many of the factors impacting underperforming equities occurred in the same year, but had very little else in common. In particular, foreign equities usually act as a diversifier to local equities (often through the currency), but this wasn't apparent this time. The year was equally remarkable in terms of what we didn't own and therein lies a large part of the reason for the performance of the funds. Large rand hedges (British American Tobacco, Richemont, Naspers) staged a comeback after a difficult 2018. Resources rallied strongly, particularly Diversified Bulk Miners and Platinum Group Metal Miners. US large cap equities in favoured sectors such as technology, or those with popular and (in our view) overpriced attributes such as perceived higher quality, momentum or lower volatility, went to stratospheric heights. Our clients have done very well out of some of the big winners of 2019 (such as Amplats) but, with the benefit of hindsight, we sold too early in favour of what we perceived to be better opportunities.

We believe some important questions should be asked whenever an investment process results in a poor set of numbers in any year.

Firstly, is the process being applied consistently?

- We are committed to applying the process and philosophy that served our clients well in the past in a thorough, interrogative manner. Active managers make mistakes from time to time and the investment environment will play a part in influencing the outcome of a focused process in the shorter term. At such a time, it is tempting to toe the line and reposition the portfolios in line with everyone else's views. However, not diversifying away the characteristic of being out of favour was and continues to be a deliberate action on our part. Low expectations in investing can be a wonderful thing.

Secondly, did anything go right?

- The combination of unfortunate events in 2019 hides what went well: stocks like AECI, AB Inbev, Quilter and Raubex added to performance. Our process also kept us away from stocks such as Sasol and the property sector. While this provides cold comfort given the year's numbers, these examples serve as evidence that our process is relevant and works.

What is it that we think our portfolios have to offer investors now – why should they invest now?

- One very notable factor common to the vast majority of our holdings is that they are to some degree unloved or ignored by the market, and (relative to our assessment of their true potential), priced as such. This was the most significant single common factor this year - stocks of companies out of favour got even cheaper and the current market darlings were priced for even more glamour. It was the Great Mean-Aversion trade of 2019. We considered several plausible explanations for the cause of this unprecedented market behaviour (which reached a fever pitch in August last year), such as the growing impact of passive and quantitative factor-based investing. In the end we don't know exactly what caused this phenomenon or whether it will happen again, but we do suspect that the underlying value of the companies affected negatively by this changed very little this year. This means that they continue to offer long-term value to an extent that we have not seen for over a decade.

What we believe lies ahead

If our process works (which the long-term evidence strongly suggests it does) then the funds are poised for substantial outperformance ahead. Valuation of shares in companies exposed to the South African economy that are held in the funds are some of the most compelling we've seen in our careers. Valuations are low, earnings are subdued, and expectations embedded in the price are reflecting extreme pessimism (again, usually a powerful indicator of subsequent outperformance). Importantly, the shares are not pricing in any good news, which means the investment case is not dependent on a large cyclical economic recovery in SA, although they would stand to benefit materially should any sign of improving confidence appear. In many cases the shares we own derive a significant proportion of their earnings from outside of South Africa, but have been ascribed an SA Inc valuation.

It is vital that investors and advisers understand the nature of our investment process and how it affects the current and likely performance of our funds

- The investment philosophy driving our decisions seeks to ensure the odds are in our favour in an uncertain world by buying low and selling high and is not swayed by comfort of popular opinion.
- Our emphasis on differentiated, superior long-term returns often leads to our funds looking very different to indices and large peer funds. This means that in certain periods, our return profile will also look different (as is currently the case). We encourage our clients to evaluate us on an appropriate long-term horizon and with the knowledge that there will be times when we lag the market over short time periods in order to deliver the outperformance in the good years.
- As valuation-sensitive investors, we can be early in our positioning in order to fully build up the optimal exposures at attractive prices. This has been the case until now. The hard work has been done and we await the rewards.
- Our portfolios provide welcome and necessary diversification compared to other managers, which is a valuable quality over time. Every strategy will have periods of superior and lagging performance and the best way to harness the upswings of each strategy is to be there throughout the cycle in combination with other funds with different approaches. Trading in and out of strategies is fraught with the risk of buying late and locking in losses.
- The long-term track record of the funds prior to 2019 give us and our clients confidence that our process works and has delivered very satisfactory outcomes over time.
- It is natural to feel uncomfortable in times of short-term underperformance such as we are experiencing now. We take our role in reducing the risk of client capitulation and reducing exposure at exactly the wrong time very seriously.

While we cannot confidently predict timing, we are optimistic about the funds' return potential from here. History suggests the best returns are made when investing in times of temporary discomfort. Behaviourally this is difficult, but the rewards can be very compelling.

Portfolio positioning

The fund continues to generate real income yields (inflation beating) at low levels of risk. Over the period, the rand appreciated against the US dollar from levels of R15.5/$ in August to a year-end close of R14/$, roughly 10% stronger. In addition, headline consumer price inflation (CPI) continued to trend lower, with the average y/y figure for Q4 2019 at 3.7% and the final print of 3.6% y/y to November 2019. Despite inflation consistently below expectations during 2019 and below the mid-point of the South African Reserve Bank's (SARB) inflation target band (3% to 6%), the SARB held the repo rate steady at 6.5%. Currently, the real repo (repo rate less headline CPI) averages above 2%, implying that money market investors continue to be rewarded with inflation-beating income yields for holding short-term cash. However, the market is currently still pricing in the potential for interest rate cuts over the coming year. We believe that it is likely that inflation remains low against a low growth backdrop, and a bias towards locking in fixed rates is appropriate.

Fixed rate NCD (Bank funding curve) rates fell over the period in anticipation of interest rate cuts, making them marginally less attractive at the 12-month area of the curve. The October 2019 Medium Term Budget Speech indicated wider deficits and greater need to raise debt over the coming years, resulting in RSA Treasury Bill rates rising steeply during the quarter. These rates now exceed NCD rates by an attractive margin, despite being technically of lower credit risk. The fund has exploited this opportunity by selling NCDs into strength and switching into the Treasury Bill market, which should bode well for clients should interest rates be normalised to reflect the low inflation environment we are seeing. The fund continues to use very little exposure to corporate bonds given the low risk-adjusted rates we are currently seeing.

Changes in portfolio positioning

Q3 2019		Q4 2019	
Linked NCDs/ Floating-rate notes	24.4%	Linked NCDs/Floating-rate notes	22.8%
Step rate notes	13.3%	Step rate notes	13.3%
NCDs	48.0%	NCDs	34.9%
Treasury bills	6.1%	Treasury bills	13.8%
Call deposits	6.9%	Call deposits	13.3%
Corporate bonds	1.3%	Corporate bonds	1.9%

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

Number of units as at 31 December 2019 (Class A):	870 458 859
Price (net asset value per unit) as at 31 December 2019 (Class A):	R1.00
Number of units as at 31 December 2019 (Class F):	345 035 469
Price (net asset value per unit) as at 31 December 2019 (Class F):	R1.00

All data as per Bloomberg as at 31 December 2019.

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Money Market
The PSG Money Market Fund maintains a constant price and is targeted at a constant value. The quoted yield is calculated by annualizing 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.

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
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Company details
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Conflict of Interest Disclosure
The fund manager may use the brokerage services of a related party, PSG Securities Ltd.

Trustees
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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.

PSG Asset Management

PSG Global Equity Feeder Fund

Quarterly portfolio commentary as at 31 December 2019

by Philipp Wörz and Greg Hopkins

Value-style investing, while proven in the long term, faced ongoing headwinds over the past year. 2019 was dominated by momentum investing and our funds did not reward our investors as we would have liked. The MSCI World Index's performance of 28.4% including dividends (in dollar terms) masked the reality of a narrow market, in which a few selected stocks drove outperformance. Technology and high quality defensive industrial companies posted stellar returns, while large parts of the markets underperformed. Given our low exposure to expensive technology and defensive companies, our returns for 2019 were disappointing on both an absolute and relative basis. The good news, as we outline below, is that the future looks brighter.

2019 in review

While several shares performed well, such as the fund's multi-year top holding Brookfield Asset Management which returned 52% for 2019, Wheaton Precious Metals (+54%) and Babcock International (+42%), disappointing returns delivered by several of the fund's larger holdings proved to be the primary driver of overall fund performance.

Notable detractors over the period were Japan Post Insurance, L Brands and The Mosaic Company, which declined 24% on average.

Our equity positions are inherently diversified. Many of the factors impacting underperforming occurred in the same year, but had very little else in common. In particular, Japan Post Insurance was hit by a mis-selling scandal, L Brands by continued weakness in its Victoria's Secret business (while the larger Bath & Body Works segment continued to shine) and Mosaic by a perfect storm of US floods, African swine fever and the ongoing US-China trade war which negatively impacted fertilizer prices.

The year was equally remarkable in terms of what we didn't own and therein lies a large part of the reason for the performance of the funds. While as recently as 2016 the funds held significant positions in high-quality US counters such as Microsoft, Union Pacific and JP Morgan, we rotated away from these securities as they hit what we perceived to be their intrinsic values into areas that are currently undervalued and out of favour. It is important for clients to understand that many US stocks, specifically large cap equities in favoured sectors such as technology, or those with popular and (in our view) overpriced attributes such as perceived higher quality, momentum or lower volatility, went to stratospheric heights.

We owned some of these winners previously, but erred by selling too early.

We believe some important questions should be asked whenever an investment process results in a poor set of numbers in any year.

Firstly, is the process being applied consistently?

- We are committed to applying the process and philosophy that served our clients well in the past in a thorough, interrogative manner. Active managers make mistakes from time to time and the investment environment will play a part in influencing the outcome of a focused process in the shorter term. At such a time, it is tempting to toe the line and reposition the portfolios in line with everyone else's views. However, not diversifying away the characteristic of being out of favour was and continues to be deliberate action on our part. Low expectations in investing can be a wonderful thing.

Secondly, did anything go right?

- The combination of unfortunate events in 2019 hides what went well: stocks like Brookfield, AIA, AB Inbev, Wheaton Precious Metals, Prudential Plc and Babcock added to performance. Our process also kept us away from many of the market's landmines. While this provides cold comfort given the year's numbers, these examples serve as evidence that our process is relevant and works.

What is it that we think our portfolios have to offer investors now – why should they invest now?

- One very notable factor common to the vast majority of our holdings is that they are to some degree unloved or ignored by the market, and (relative to our assessment of their true potential), priced as such. This was the most significant single common factor this year - stocks of companies out of favour got even cheaper and the current market darlings were priced for even more glamour. It was the Great Mean-Aversion Trade of 2019. We considered several plausible explanations for the cause of this unprecedented market behaviour (which reached a fever pitch in August last year), such as the growing impact of passive and quantitative factor-based investing. In the end we don't know exactly what caused this phenomenon or whether it will happen again, but we do suspect that the underlying value of the companies affected negatively by this changed very little this year. This means that they continue to offer long-term value to an extent that we have not seen in a long time.

What we believe lies ahead

As we look into 2020, the funds are in an attractive position that even though overall markets are at what we perceive to be full valuations, the holdings in the fund are in our judgement priced attractively and have high potential for strong returns. The situation is similar to that at the end of 2015/early 2016 and if our process works (which the long-term evidence of our long running PSG funds suggests it does), then the fund is poised for outperformance ahead.

Valuation of shares in companies exposed to more cyclical industries are attractive while those exposed to the life insurance sector and some emerging markets, such as South Africa, are some of the most compelling we've seen in our careers. Valuations are low, earnings are subdued, and expectations embedded in the price are reflecting extreme pessimism (again, usually a powerful indicator of subsequent outperformance). Importantly, the shares are not pricing in any good news, which means the investment case is not dependent on improving macro conditions or rising interest rates (for the funds' financial holdings), although they would stand to benefit materially should any sign of improving confidence appear.

The portfolios are carefully constructed with due regard for balancing the opportunity (which is compelling) and the risk, diversifying by geography, currencies, sectors, business models and customers.

It is vital that investors and advisers understand the nature of our investment process and how it affects the current and likely performance of our funds

- The investment philosophy driving our decisions seeks to ensure the odds are in our favour in an uncertain world by buying low and selling high and is not swayed by comfort of popular opinion.
- Our emphasis on differentiated, superior long-term returns often leads to our funds looking very different to indices and large peers. This means that in certain periods our return profile will also look different (as is currently the case). We encourage our clients to evaluate us on an appropriate long-term horizon and with the knowledge that there will be times when we lag the market over short time periods in order to deliver the outperformance in the good years.
- As valuation-sensitive investors, we can be early in our positioning in order to fully build up the optimal exposures at attractive prices. This has been the case until now. The hard work has been done and we await the rewards.
- Our portfolios provide welcome and necessary diversification compared to other managers, which is a valuable quality over time. Every strategy will have periods of superior and lagging performance and the best way to harness the upswings of each strategy is to be there throughout the cycle in combination with other funds with different approaches. Trading in and out of strategies is fraught with the risk of buying late and locking in losses.
- It is natural to feel uncomfortable in times of short-term underperformance such as we are experiencing now. We take our role in reducing the risk of client capitulation and reducing exposure at exactly the wrong time very seriously.

While we cannot confidently predict timing, we are optimistic about the funds' return potential from here. History suggests the best returns are made when investing in times of temporary discomfort. Behaviourally this is difficult, but the rewards can be very compelling.

Portfolio positioning

Over the fourth quarter we added US-listed Tanger Factory Outlets, which operates in the out of favour US retail space, to our holdings. It trades at a well-covered dividend yield of 9% and has grown its dividend for 25 consecutive years. The position was funded from a partial switch out of Washington Prime Group as we are cognisant of the fund's overall exposure to US retail. A portfolio holding, Prudental Plc de-merged its M&G subsidiary in October and we added to M&G at attractive levels. Brookfield Asset Management which had been the fund's largest position for several years is experiencing strong business and share price momentum. We continue to view the opportunity as attractive but have continued to trim the position as the gap to intrinsic value closes.

Our view is that allocating capital to parts of the market that are temporarily unpopular increases the odds of favourable investment outcomes. We are finding opportunities in areas of the market where valuations are reflective of bear market conditions. This is reflected in the fund's equity valuations of 10 times earnings, a price-to-book ratio of 1 times, dividend yield of 4% and a discount to our best estimate of intrinsic value at almost near 40%.

While the past year was unsatisfactory, we welcome market developments in 2020 and beyond.

Changes in portfolio positioning

Q3 2019		Q4 2019	
Equities	95.5%	Equities	94.1%
Cash	4.5%	Cash	5.9%

Q3 2019		Q4 2019	
US	36.9%	US	35.8%
Europe	9.7%	Europe	8.9%
UK	19.6%	UK	21.5%
Asia ex Japan	0.8%	Asia ex Japan	0.0%
Japan	19.6%	Japan	18.8%
Canada	5.7%	Canada	5.6%
Africa	3.2%	Africa	3.5%
Cash	4.5%	Cash	5.9%

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

Please note that the above commentary and portfolio positioning is for the US dollar-denominated PSG Global Equity Sub-Fund. The PSG Global Equity Feeder Fund is 100% invested in the underlying US dollar fund. However, there may be small short-term valuation, trading and translation differences between the two funds.

Number of units as at 31 December 2019 (Class A):	5 866 503
Price (net asset value per unit) as at 31 December 2019 (Class A):	R2.41
Number of units as at 31 December 2019 (Class E):	46 386 020
Price (net asset value per unit) as at 31 December 2019 (Class E):	R2.46

All data as per Bloomberg as at 31 December 2019.

Disclaimer

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Feeder Funds

A Feeder Fund is a portfolio which, apart from assets in liquid form, invests in a single portfolio of a collective investment scheme, which levies its own charges and which could result in a higher fee structure for the feeder fund.

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 Fund 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 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 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.

Trustees

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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.

PSG Asset Management

PSG Global Flexible Feeder Fund

Quarterly portfolio commentary as at 31 December 2019

by Philipp Wörz and Greg Hopkins

Value-style investing, while proven in the long term, faced ongoing headwinds over the past year. 2019 was dominated by momentum investing and our funds did not reward our investors as we would have liked. The MSCI World Index's performance of 28.4% including dividends (in dollar terms) masked the reality of a narrow market, in which a few selected stocks drove outperformance. Technology and high quality defensive industrial companies posted stellar returns, while large parts of the markets underperformed. Given our low exposure to expensive technology and defensive companies, our returns for 2019 were disappointing on both an absolute and relative basis. The good news, as we outline below, is that the future looks brighter.

2019 in review

While several shares performed well, such as the fund's multi-year top holding Brookfield Asset Management which returned 52% for 2019, Wheaton Precious Metals (+54%) and Babcock International (+42%), disappointing returns delivered by several of the fund's larger holdings proved to be the primary driver of overall fund performance.

Notable detractors over the period were Japan Post Insurance, L Brands and The Mosaic Company, which declined 24% on average.

Our equity positions are inherently diversified. Many of the factors impacting underperforming occurred in the same year, but had very little else in common. In particular, Japan Post Insurance was hit by a mis-selling scandal, L Brands by continued weakness in its Victoria's Secret business (while the larger Bath & Body Works segment continued to shine) and Mosaic by a perfect storm of US floods, African swine fever and the ongoing US-China trade war which negatively impacted fertilizer prices.

The year was equally remarkable in terms of what we didn't own and therein lies a large part of the reason for the performance of the funds. While as recently as 2016 the funds held significant positions in high-quality US counters such as Microsoft, Union Pacific and JP Morgan, we rotated away from these securities as they hit what we perceived to be their intrinsic values into areas that are currently undervalued and out of favour. It is important for clients to understand that many US stocks, specifically large cap equities in favoured sectors such as technology, or those with popular and (in our view) overpriced attributes such as perceived higher quality, momentum or lower volatility, went to stratospheric heights.

We owned some of these winners previously, but erred by selling too early.

We believe some important questions should be asked whenever an investment process results in a poor set of numbers in any year.

Firstly, is the process being applied consistently?

- We are committed to applying the process and philosophy that served our clients well in the past in a thorough, interrogative manner. Active managers make mistakes from time to time and the investment environment will play a part in influencing the outcome of a focused process in the shorter term. At such a time, it is tempting to toe the line and reposition the portfolios in line with everyone else's views. However, not diversifying away the characteristic of being out of favour was and continues to be deliberate action on our part. Low expectations in investing can be a wonderful thing.

Secondly, did anything go right?

- The combination of unfortunate events in 2019 hides what went well: stocks like Brookfield, AIA, AB Inbev, Wheaton Precious Metals, Prudential Plc and Babcock added to performance. Our process also kept us away from many of the market's landmines. While this provides cold comfort given the year's numbers, these examples serve as evidence that our process is relevant and works.

What is it that we think our portfolios have to offer investors now – why should they invest now?

- One very notable factor common to the vast majority of our holdings is that they are to some degree unloved or ignored by the market, and (relative to our assessment of their true potential), priced as such. This was the most significant single common factor this year - stocks of companies out of favour got even cheaper and the current market darlings were priced for even more glamour. It was the Great Mean-Aversion Trade of 2019. We considered several plausible explanations for the cause of this unprecedented market behaviour (which reached a fever pitch in August last year), such as the growing impact of passive and quantitative factor-based investing. In the end we don't know exactly what caused this phenomenon or whether it will happen again, but we do suspect that the underlying value of the companies affected negatively by this changed very little this year. This means that they continue to offer long-term value to an extent that we have not seen in a long time.

What we believe lies ahead

As we look into 2020, the funds are in an attractive position that even though overall markets are at what we perceive to be full valuations, the holdings in the fund are in our judgement priced attractively and have high potential for strong returns. The situation is similar to that at the end of 2015/early 2016 and if our process works (which the long-term evidence of our long running PSG funds suggests it does), then the fund is poised for outperformance ahead.

Valuation of shares in companies exposed to more cyclical industries are attractive while those exposed to the life insurance sector and some emerging markets, such as South Africa, are some of the most compelling we've seen in our careers. Valuations are low, earnings are subdued, and expectations embedded in the price are reflecting extreme pessimism (again, usually a powerful indicator of subsequent outperformance). Importantly, the shares are not pricing in any good news, which means the investment case is not dependent on improving macro conditions or rising interest rates (for the funds' financial holdings), although they would stand to benefit materially should any sign of improving confidence appear.

The portfolios are carefully constructed with due regard for balancing the opportunity (which is compelling) and the risk, diversifying by geography, currencies, sectors, business models and customers.

It is vital that investors and advisers understand the nature of our investment process and how it affects the current and likely performance of our funds

- The investment philosophy driving our decisions seeks to ensure the odds are in our favour in an uncertain world by buying low and selling high and is not swayed by comfort of popular opinion.
- Our emphasis on differentiated, superior long-term returns often leads to our funds looking very different to indices and large peers. This means that in certain periods our return profile will also look different (as is currently the case). We encourage our clients to evaluate us on an appropriate long-term horizon and with the knowledge that there will be times when we lag the market over short time periods in order to deliver the outperformance in the good years.
- As valuation-sensitive investors, we can be early in our positioning in order to fully build up the optimal exposures at attractive prices. This has been the case until now. The hard work has been done and we await the rewards.
- Our portfolios provide welcome and necessary diversification compared to other managers, which is a valuable quality over time. Every strategy will have periods of superior and lagging performance and the best way to harness the upswings of each strategy is to be there throughout the cycle in combination with other funds with different approaches. Trading in and out of strategies is fraught with the risk of buying late and locking in losses.
- It is natural to feel uncomfortable in times of short-term underperformance such as we are experiencing now. We take our role in reducing the risk of client capitulation and reducing exposure at exactly the wrong time very seriously.

While we cannot confidently predict timing, we are optimistic about the funds' return potential from here. History suggests the best returns are made when investing in times of temporary discomfort. Behaviourally this is difficult, but the rewards can be very compelling.

Portfolio positioning

Over the fourth quarter we added to US-listed Tanger Factory Outlets, which operates in the out-of-favour US retail space, to our holdings. It trades at a well-covered dividend yield of 9% and has grown its dividend for 25 consecutive years. The position was funded by a partial switch out of Washington Prime Group as we are cognisant of the fund's overall exposure to US retail. A portfolio holding, Prudential Plc de-merged its M&G subsidiary in October and we added to M&G at attractive levels. Brookfield Asset Management which had been the fund's largest position for several years, is experiencing strong business and share price momentum. We continue to view the opportunity as attractive but have continued to trim the position as the gap to intrinsic value closes.

Cash, while not attractive from a yield perspective, continues to be an underappreciated asset class in our view and can provide significant optionality going forward given that we are finding few opportunities in some of the higher quality defensive parts of the market. The fund held 19% of its assets in cash at the end of December, which will likely provide valuable firepower in time.

Our view is that allocating capital to parts of the market that are temporarily unpopular increases the odds of favourable investment outcomes. We are finding opportunities in areas of the market where valuations are reflective of bear market conditions. This is reflected in the fund's equity valuations of 10 times earnings, a price to book ratio of 1 times, dividend yield of 4% and a discount to our best estimate of intrinsic value at almost 40%.

While the past year was unsatisfactory, we welcome market developments in 2020 and beyond.

Changes in portfolio positioning

Q3 2019		Q4 2019	
Equities	81.0%	Equities	80.6%
Bonds	0.8%	Bonds	0.9%
Cash	18.2%	Cash	18.5%

Q3 2019		Q4 2019	
US	31.0%	US	30.5%
Europe	7.7%	Europe	7.1%
UK	16.7%	UK	18.5%
Asia ex Japan	0.8%	Asia ex Japan	0.0%
Japan	17.2%	Japan	16.6%
Canada	5.3%	Canada	5.4%
Africa	2.3%	Africa	2.5%
Cash and Bonds	19.0%	Cash and Bonds	19.4%

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

Please note that the above commentary and portfolio positioning is for the US dollar-denominated PSG Global Flexible Sub-Fund. The PSG Global Flexible Feeder Fund is 100% invested in the underlying US dollar fund. However, there may be small short-term valuation, trading and translation differences between the two funds.

Number of units as at 31 December 2019 (Class A):	23 332 839
Price (net asset value per unit) as at 31 December 2019 (Class A):	R1.91
Number of units as at 31 December 2019 (Class B):	227 202 324
Price (net asset value per unit) as at 31 December 2019 (Class B):	R1.98

All data as per Bloomberg as at 31 December 2019.

Disclaimer

Collective Investment Schemes in Securities (CIS) are generally medium to long-term investments. The value of participatory interests (units) or the investment may go down as well as up and past performance is not a guide to future performance. Fluctuations or movements in the exchange rates may cause the value of underlying international investments to go up or down. CIS are traded at ruling prices and can engage in borrowing and scrip lending. The portfolio may borrow up to 10% of its market value to bridge insufficient liquidity. Where foreign securities are included in a portfolio, the portfolio is exposed to risks such as potential constraints on liquidity and the repatriation of funds, macroeconomic, political, foreign exchange, tax, settlement and potential limitations on the availability of market information. The portfolios may be capped at any time in order for them to be managed in accordance with their mandate. 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. PSG Collective Investments (RF) Limited does not provide any guarantee either with respect to the capital or the return of the portfolio. Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided.

Feeder Funds

A Feeder Fund is a portfolio which, apart from assets in liquid form, invests in a single portfolio of a collective investment scheme, which levies its own charges and which could result in a higher fee structure for the feeder fund.

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

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Trustees

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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.