INVESTMENT RESEARCH AND STRATEGY REPORT

WINTER 2016

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Introduction

Has uncertainty become the new normal?

While advisers have learned how to cope with volatility, their clients have not. This is according to the most recent *Eaton Vance Advisor Top-of-Mind Index* survey, which shows a growing disparity between adviser and client reactions to risks and opportunities.

Findings from the quarterly survey revealed that 53% of advisers say they believe market volatility is the 'new normal'. That's not to say they're not concerned about volatility. More than half (55%) of the advisers surveyed reported that their concerns over volatility have grown in the last 12 months. While advisers have indicated that they are growing accustomed to operating in this environment (and looking for the opportunities that volatility presents), the survey finds that their clients have not adjusted as well to market swings.

This is where the *PSG Wealth Investment Research and Strategy Report* can add value.

Every season we reflect on the performances of our investments and products for the last quarter, and also discuss events that caused market volatility. Our aim is to assist you in successfully managing portfolios in this 'new normal'.

In this edition, we also discuss the results of our autumn survey in the theme spotlight article. We would appreciate if you took the time to participate in our new survey by clicking here. We'd like your thoughts on the long-standing debate on active, passive or hybrid strategies – which is best?

With concerns around volatility rising, we as wealth managers feel it is crucial, especially now, to stick to three core investment beliefs: managing expectations, adopting appropriate investment horizons and adequately diversifying.

We hope you enjoy the read. Please feel free to send us any feedback you might have – we always look forward to hearing from you.

Regards,

Adriaan Pask
Chief Investment Officer

How to navigate this document

You can navigate this document in two ways.

- **Links in table of contents:**
  Simply go to the table of contents page. Click on the headline of the article you want to read and enjoy.
- **Links on each page:**
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Economic commentary

Economic growth outlook remains weak

For the first time in six years South Africa's economy shrunk on a year-on-year basis in the second quarter of this year. Africa's second-largest economy saw a retraction of 1.2% in the first quarter of 2016, with some economists mentioning the possibility of a recession.

The larger-than-expected drop was influenced by an 18.1% contraction in the mining and quarrying sectors. According to Statistics South Africa (StatsSA) our gross domestic product (GDP) also shrank by 0.2% on an unadjusted year-on-year basis in the first quarter, compared to 0.6% growth in the previous three months.

Economic indicators as at 30 June 2016

	2016						2015					
	JUN	MAY	APR	MCH	FEB	JAN	DEC	NOV	OCT	SEP	AUG	JUL
Repo (%)	7.00	7.00	7.00	7.00	6.75	6.75	6.25	6.25	6.00	6.00	6.00	6.00
Prime (%)	10.50	10.50	10.50	10.50	10.25	10.25	9.75	9.75	9.50	9.50	9.50	9.50
FRA 9x12 (%)	7.63	8.04	7.81	7.80	8.10	7.79	8.17	7.21	7.06	7.06	7.08	7.01
Inflation (%)	*	6.10	6.20	6.30	7.00	6.20	5.20	4.80	4.60	4.60	4.60	5.00
ISM Index (%)	48.30	50.80	52.50	51.00	48.70	41.00	46.70	50.00	52.00	52.00	49.30	46.40
Unemployment (%)	*			26.7			24.5			25.5		
GDP Growth (Y/Y) (%)	-0.2			0.6			1.0			1.2		
Current Account (% of GDP)	*			-5.1			-4.3			-3.1		

Sources: iNet, Stats SA, SARB. *Data not yet released by product provider.

Weak GDP growth

The domestic economic growth outlook remains weak, with the South African Reserve Bank (SARB) revising its GDP growth forecast for 2016 down from 0.8% to 0.6% in May this year. The SARB added that while a recovery is still expected in the next two years, the forecasts for both these years (2016 and 2017) have been revised down. While its forecast for GDP growth in these quarters are barely positive, it does represent the low point of the forecast, and a slow upward trend is expected going forward.

This view is consistent with the favourable developments in the Barclays Purchasing Managers' Index (PMI), which has recovered fairly strongly, to above the neutral 50 level. The economic slowdown is also reflected in labour market trends, with the unemployment rate rising to 26.7% in the first quarter of 2016, from 26.4% a year earlier. Although employment growth was positive over the year to the first quarter, the year-on-year growth rate moderated significantly, with employment losses recorded in a number of sectors including manufacturing, agriculture and transport.

Economic commentary

Manufacturing PMI as at 30 June 2016

Manufacturing PMIs: Above 50

Country	Last	Previous	Change	Highest	Lowest
Denmark	60.40	60.90	-0.50	70.58	24.81
New Zealand	57.10	56.50	0.60	62.77	36.08
Austria	54.50	52.00	2.50	54.50	46.90
Germany	54.50	52.10	2.40	62.70	32.00
Saudi Arabia	54.40	54.80	-0.40	61.80	53.90
South Africa	53.70	51.90	1.80	64.20	34.20
Italy	53.50	52.40	1.10	55.60	48.00
Norway	53.50	51.10	2.40	64.60	34.80
United Arab Emirates	53.40	54.00	-0.60	61.20	51.70
Ireland	53.00	51.50	1.50	57.50	48.00
Sweden	53.00	54.00	-1.00	71.40	32.70
Euro Area	52.80	51.50	1.30	59.00	33.50
Vietnam	52.60	52.70	-0.10	54.80	43.60
Spain	52.20	51.80	0.40	55.80	41.10
United Kingdom	52.10	50.10	2.00	61.50	34.40
Netherlands	52.00	52.70	-0.70	57.00	48.00
Indonesia	51.90	50.60	1.30	58.50	46.40
Australia	51.80	51.00	0.80	62.13	30.86
Canada	51.80	52.10	-0.30	56.30	47.50
Czech Republic	51.80	53.30	-1.50	57.50	46.00
Poland	51.80	52.10	-0.30	55.90	46.90
India	51.70	50.70	1.00	55.00	48.50
Switzerland	51.60	55.80	-4.20	66.00	32.40
Russia	51.50	49.60	1.90	53.20	47.60
United States	51.30	50.70	0.60	57.90	50.70
Mexico	51.10	53.60	-2.50	57.10	49.70
Hungary	50.90	52.20	-1.30	58.30	37.63
South Korea	50.50	50.10	0.40	52.60	45.70
Taiwan	50.50	48.50	2.00	56.10	45.60
Greece	50.40	48.40	2.00	51.30	30.20

Large Economies

Members of the EU

BRICS countries

Source: PSG Wealth Investment Division

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Manufacturing PMI as at 30 June 2016

Manufacturing PMIs: Below 50

Country	Last	Previous	Change	Highest	Lowest
Singapore	49.60	49.80	-0.20	51.90	48.30
China	48.60	49.20	-0.60	52.30	47.20
France	48.30	48.40	-0.10	57.50	42.70
Japan	48.10	47.70	0.40	56.20	29.60
Egypt	47.50	47.60	-0.10	52.50	37.10
Turkey	47.40	47.40	-2.00	55.00	47.40
Hong Kong	45.40	47.20	-1.80	53.30	44.40
Brazil	43.20	41.60	1.60	53.20	41.60

Large Economies

Members of the EU

BRICS countries

Source: PSG Wealth Investment Division

Consumer confidence sliding

Having edged up in the first quarter of the year, the FNB/ Bureau of Economic Research (BER) Consumer Confidence Index (CCI) slumped back by 11 points in the second quarter. This decline and the exceedingly low level of the FNB/BER CCI mirrors the deterioration in the RMB/ BER business confidence index over the same period. Given that inflation is set to accelerate further on the back of the drought-induced rise in domestic grain prices and the sustained weak rand exchange rate, the purchasing power of most households will likely weaken further in coming months, weighing on consumer spending.

The SARB notes that wage growth appears to be moderating, with growth in nominal remuneration per worker in the formal non-agricultural sector declining to below 6% in the fourth quarter of 2015, mainly due to lower private sector remuneration growth. Once adjusting for labour productivity, growth in unit labour costs remained unchanged at 5% in that quarter.

Sentiment among South African retailers has also plunged to a 15-year low in the high interest rate environment, underscored by a pull-back in credit extensions. The situation is unlikely to improve in the latter part of 2016, as the outlook for the domestic economy remains bleak. The latest EY/BER Retail survey shows that business confidence among retailers fell to its lowest level in 15 years during the second quarter of 2016. The percentage of retailers that reported satisfaction with prevailing business conditions fell to 26%, down from 44% in the first quarter. This is the lowest level recorded since 2001. In addition, this is even lower than levels recorded during the global financial crisis of 2009. According to StatsSA data, growth in retail sales slowed further from 2.9% year-on-year in March to 1.5% year-on-year in April, the slowest pace of growth in almost two years.

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Normalisation of inflation slowing

Consumer prices in South Africa went up by 6.1% year-on-year in May 2016, easing from a 6.2% rise in April and below market expectations of a 6.4% increase. It was the lowest reading since December 2015, as food costs rose at a slower pace and petrol prices rose by less. The SARB's latest inflation forecast shows a moderate near-term deterioration compared to the previous forecast. The breach of the upper part of the target range is expected to persist. According to the SARB, inflation is now expected to average 6.7% in 2016, compared to 6.6% previously. In 2017 and 2018 inflation is expected to average 6.2% and 5.4% respectively, marginally down from the previous forecast. The expected peak, at 7.3% in the fourth quarter of 2016, is unchanged.

The downward revisions are partly due to the higher interest rate assumption, a slightly less depreciated exchange rate assumption, a wider output gap and a lower electricity price assumption. These pressures are counteracted to some extent by a higher near-term food price forecast, and the impact of upward revisions to the international oil price assumptions.

The SARB's Monetary Policy Committee (MPC) still faces the continuing dilemma of upside risks to the inflation forecast and a worsening growth outlook. Risks to the growth outlook are assessed to be on the downside, particularly in the short term, despite the downward revision to the forecast. Both the mining and agricultural sectors are expected to weigh heavily on economic growth, and the outlook is therefore dependent, in part, on whether these sectors rebound in the coming quarters.

Due to the subdued economic conditions in the country, we do not expect the MPC to make any changes to interest rates in the near term.

Sovereign downgrade risks

S&P Global Ratings affirmed its long- and short-term 'BBB-/A-3' foreign currency and 'BBB+/A-2' local currency sovereign credit ratings for South Africa on 3 June. Their outlook remains negative, reflecting the potential adverse consequences of low GDP growth and signalling that the agency could lower their ratings of South Africa this year or next, if policy measures do not turn the economy around.

Click here to view the full S&P report.

Economic commentary

Republic of South Africa ratings score snapshot

Key rating factors	
Institutional assessment	Neutral
Economic assessment	Weakness
External assessment	Neutral
Fiscal assessment: flexibility and performance	Weakness
Fiscal assessment: debt burden	Neutral
Monetary assessment	Strength

Source: S&P Global Ratings

At the same time, some economists believe that S&P provided South Africa with clear indications of what to focus on to prevent a downgrade in future. S&P's long-term local currency sovereign rating for South Africa is two notches above the long-term foreign currency sovereign rating.

"This is because we believe that the sovereign's flexibility in its own currency is supported by the SARB's independent monetary policy, a large and active local currency fixed-income market, and a prudent fiscal policy," S&P stated.

However, low GDP growth is putting South Africa's economic metrics at risk and could eventually weaken the government's social contract with business and labour. Rising political tensions are also accentuating vulnerabilities in the country's sovereign credit profile, S&P highlighted.

"Still, energy sector improvements will likely reduce some of the economic bottlenecks and pending finalisation of labour and mining reforms could engender a positive confidence shock. On the fiscal side, the government is showing greater resolve to reduce fiscal deficits at a faster pace than we expected."

Therefore S&P's latest rating is supported by their assumption that South Africa will experience continued broad political institutional stability and macroeconomic policy continuity.

"We also take into account our view that South Africa will maintain fairly strong and transparent political institutions and deep financial markets. The ratings are constrained by the need for further reforms, low GDP growth, volatile sources of financing, structural current account deficits, and sizable general government debt." S&P Global Ratings is expected to announce their next review of South Africa on 2 December.

Brexit, the result of more than 51% of Britons voting to exit the European Union (EU), will have limited effect on the sovereign credit ratings of South Africa and other countries in the Middle East and Africa (MEA) region, ratings agency Fitch said in a research note at the start of July.

"Short-term effects could come via market volatility, while a slowdown in British and European growth could weigh on MEA economies at a time of already heightened strains," Fitch's senior director of sovereign ratings, Jan Friederich, wrote in the note.

Ten of the 29 countries in the MEA region to which Fitch allocates sovereign credit ratings are on a negative outlook, indicating that the ratings agency may downgrade them within the next two years.

On 8 June, South Africa got a reprieve from Fitch when it maintained its sovereign credit rating at one level above junk, BBB-, and kept its outlook neutral. This indicated that Fitch will probably not downgrade South Africa in its next sovereign rating review scheduled for December.

"South Africa, which tends to experience large investment outflows during periods of 'risk-off' sentiment, saw its currency depreciate by 8% in the immediate aftermath of the Brexit vote, although the rand subsequently regained some ground. This followed hawkish comments from the South African Reserve Board and was generally in line with a recovery in global market sentiment, partly driven by the prospect of easier monetary policies in major developed economies," Fitch said.

Of the Fitch-rated MEA sovereigns covered by the International Monetary Fund, the Seychelles has the

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largest exposure to the UK, with merchandise exports to the UK accounting for 6% of GDP. None of the other MEA sovereigns have a goods exports exposure greater than 1.5% of GDP.

Many sovereigns in the region are heavily dependent on commodity exports. The effect of Brexit on commodity prices has been contained, but a downturn in the UK and Europe could still affect demand and prices.

"In the medium term, an exit from the EU might require MEA countries to negotiate trade agreements with the EU bilaterally to retain access to the UK market," Fitch said, adding that this was likely to be a lengthy process. However, for market commentators to say that we need a growing economy to avoid a downgrade is too vague a statement. We first have to look at specific measures to get the economic outlook changed to positive, or at least stable. The two most important factors are:

1. The government desperately needs to restore business confidence through more business-friendly policies.

2. We desperately need a stronger and stable exchange rate through stronger investor confidence to curb higher inflation and interest rates.

However, investors in the PSG Wealth Solutions should be assured that they are in good hands:

- Their financial planning is done by the best financial planners available in South Africa.
- The investment process allows for tailor-made solutions with investment objectives aligned to investor goals.
- The investment portfolios are managed by the best local and international portfolio managers. We actively align our portfolios to protect against current risks, and to benefit from both current and expected future conditions.

The bad news is that the outlook for the domestic economy is not great. That said, market sentiment is very low and is pricing in a lot of bad news already. This provides investors with an opportunity, especially when all the negative sentiment does not materialise. More realistically, however, prices generally seem to be compensating investors for the prevailing risks.

Global

Global growth remains hesitant following a disappointing first quarter in the US and the UK in particular. While labour market conditions in the US continue to improve, low corporate profits have constrained investments.

Divergent prospects are evident in emerging markets. Russia and Brazil remain in recession, but there are signs of some stabilisation in China, as the economy appears to be responding to government policy initiatives.

Global inflation pressures remain benign, with low energy prices still having an impact, although this effect is likely to dissipate with the recent upward trend in oil prices.

Inflation has remained relatively higher in a number of Latin American economies, particularly those experiencing currency depreciation. As a result of these trends, asynchronous monetary policies persist. While policies are generally accommodative amid subdued growth, particularly in many advanced economies, a number of emerging markets have maintained a tightening bias in response to inflation pressures. The US Federal Reserve is expected to continue with its slow pace of policy rate normalisation but there is a high degree of uncertainty about the timing of the next increase. After recent developments in the UK, these normalisations could take place much later than initially expected.

The price of Brent crude oil has remained firmly above the US$40 per barrel level since the second week of April. Demand has surprised on the upside, and, despite an increase in supply from Iran, output has declined in a number of countries. This upward price trend may, however, be contained by high levels of inventories. Domestic petrol prices have increased by nearly R2.00 per litre since March, mainly due to higher international prices and an increase in the fuel levy.

PSG Wealth

Economic commentary

Europe's ties that bind

European Union
28-nation single market of free trade and shared regulation; incldes "free movement" of goods, services, capital and people

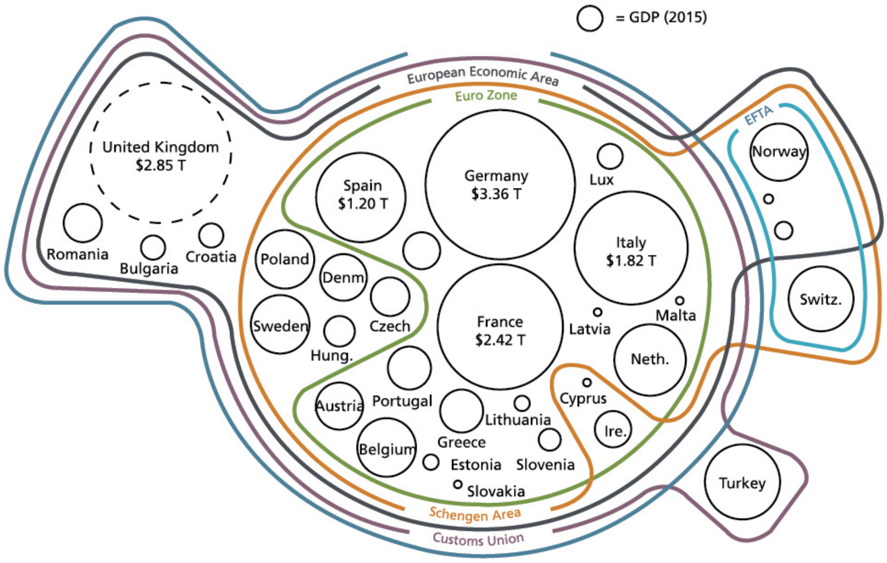
Euro Zone
19 countries using the euro currency

European Economic Area
Provides access to single market in exchange for payments; has "emergency brake" on free movement of people

European Free Trade Association
Free-trade zone and network of agreements with other countries

Customs Union
Circulates goods without duties, has uniform system for handling imports

Schengen Area
26-country passport-free travel zone



Source: Bloomberg

Periods of volatility in international economies are part and parcel of market cycles. Over the last decade investors have been exposed to the global financial crisis; material shocks in the Chinese, Japanese and broader European economies; and emerging market declines – to name a few.

Markets were surprised again when Britain voted to exit the 28-block EU. Results showed that 51.9% of voters voted to leave the EU. A few hours after the results were announced, British Prime Minister David Cameron resigned. At the start of July, Queen Elizabeth II formally appointed Theresa May as his replacement. She becomes the second female prime minister of the UK 26 years after the first, Margaret Thatcher, resigned.

In a major shift away from the era of austerity imposed by George Osborne, the former UK Chancellor, his successor Philip Hammond suggested that his Treasury will borrow in order to invest in British infrastructure. Hammond said that May's Government will 'borrow and invest wisely' following the 'shock' to the economy caused by the Brexit vote. It came as May's new ministers began to plan for Britain's exit from the EU.

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Giving an indication of his plans, David Davis, the new Secretary of State for exiting the EU, suggested that Britain will demand full control of its borders, but will want to retain access to the European Union's single market. According to his 'Brexit blueprint', trade talks should begin immediately and Article 50 – which will trigger Britain's formal break from the EU – should start by the end of the year, despite May previously saying that the process should not begin until next year. Davis says Britain wants a relationship with the EU based on the current draft trade deal between the EU and Canada. This would give the UK access to the single market without having to accept uncontrolled numbers of immigrants. Davis suggested that prioritising trade deals with the rest of the world will focus initially on China, USA, Canada and Hong Kong. Deals with other countries such as Australia, Brazil, India, South Korea, Japan, Mexico and South Africa would follow, he told the UK Telegraph.

On 14 July the Bank of England left its benchmark lending rate unchanged at 0.5%, following its July policy meeting. The decision caught investors by surprise, as a cut to 0.25% was widely expected.

What Brexit means for investors

The largely unexpected Brexit resulted in short-term market volatility and increased market uncertainty. The British pound weakened, and we are likely to see an impact on global equity markets as the outlook for global growth deteriorates. The silver lining is that any consideration for monetary policy normalisation has likely now been placed on hold.

PSG Wealth is positioned to withstand volatility

Our Wealth Solutions are well-positioned to withstand the volatility and have maintained particularly well-diversified portfolio compositions. We continue to closely assess the potential impact on our client portfolios and will act swiftly if we deem any risk to clients to be unjustifiable. In addition, as the market tide moves out indiscriminately on the back of poor sentiment, we will undoubtedly find some opportunities. We will consider these prudently.

Financial market review

Domestic assets

Domestic equities experienced a flat quarter as a result of a strong sell-off in June. The FTSE/JSE All Share Index (ALSI) generated a 0.44% return for the quarter, and -3.02% for the month.

Domestic market indicators as at 30 June 2016

Index	Quarter-end value	1M	3M	6M	1Y	3Y	5Y
ALSI	52 217.72	-3.02%	0.44%	4.32%	3.83%	13.03%	13.81%
Industrials	78 660.21	-3.51%	0.51%	0.10%	7.52%	16.97%	22.01%
Resources	17 143.60	-2.47%	6.44%	25.73%	-16.59%	-6.18%	-7.39%
Financials	40 624.88	-2.09%	-4.34%	1.61%	-2.78%	15.36%	18.40%
Listed property	648.42	1.17%	-0.43%	9.62%	11.04%	14.32%	18.54%
ALBI	514.03	4.04%	4.40%	11.24%	5.24%	6.29%	7.90%
ALBI 1-3 Years	396.80	1.51%	2.86%	6.17%	7.51%	6.56%	6.92%
ALBI 3-7 Years	489.22	3.07%	3.82%	9.08%	7.71%	6.96%	7.89%
ALBI 7-12 Years	565.65	4.33%	4.13%	11.08%	5.71%	5.95%	8.14%
ALBI 12+ Years	560.58	4.73%	4.96%	13.01%	4.01%	6.16%	8.04%
GOVI	512.27	3.92%	4.25%	10.80%	5.59%	6.23%	7.77%
OTHI	524.28	4.34%	4.79%	12.40%	4.28%	6.66%	8.66%
STeFI 3 Month	335.53	0.57%	1.72%	3.34%	6.50%	5.89%	5.65%
Volatility Index	15.63	10.15%	12.04%	-14.17%	-14.26%	-2.49%	-1.10%

Sources: iNet BFA, JP. Morgan
*Performance reported in base currency. Returns of periods exceeding one year have been annualised.

Although the broader resources sector generated a 6.44% gain over the preceding quarter and 25.73% over the preceding six months, the longer-term returns from this sector remains bleak. Over the last year investors lost 16.59% of their capital and 7.39% per annum over the last five years. The numbers reflect the subdued outlook for growth globally, which has spilled over into emerging markets.

Industrial shares were, on average, reasonably flat for the quarter and over the last six months, generating returns of 0.51% and 0.10% respectively.

This signals that investors were willing to pay a premium for these defensive counters over the past five years, especially with annualised gains in excess of 22%. However, these counters may now have reached a plateau. In our opinion further asset price inflation is too excessive, even after considering the relatively more defensive properties of the sector.

The financial sector came under pressure over the preceding quarter, shedding 4.34% and with the one-year return now at -2.78%. If one takes a long-term view, the ALSI generated an annualised return of 13.81% over

Financial market review

the last five years. Industrials, which gained 22.01% over the same period, have been the main driver of returns. Unfortunately, as eluded to above, the resources sector was a significant detractor of returns over the past five years, recording a 7.39% annualised loss. Financials generated an 18.40% return over the same period. This is largely in line with the returns from the listed property sector, which totalled 18.54% over the last five years.

We expect emerging markets to continue to struggle over the short term as commodity prices remain lower. As recoveries in larger economies start to take place, we expect the Purchasing Managers' Indices (PMIs) in emerging markets to signal improved growth, and perhaps the potential for higher spot prices on the back of increased demand. However, it's worth noting that more than 50% of the earnings of JSE-listed companies are generated abroad, and often in developed markets. Although the macro-economic outlook for emerging markets looks grim at the moment, careful stock picking may yield very different results to what local macro-economic variables suggest.

The South African All Bond Index (ALBI) continued with its strong recovery following the poor investment sentiment witnessed in December 2015. The first three months of the year yielded in excess of 6% for the ALBI, and the most recent quarter added another 4.40%.

Global market indicators as at 30 June 2016

Index	Quarter-end value	1M	3M	6M	1Y	3Y	5Y
S&P500	2 098.86	0.26%	2.46%	3.84%	3.99%	11.66%	12.10%
Euro Stoxx	2 864.74	-6.19%	-2.63%	-10.77%	-13.89%	6.11%	3.20%
Nikkei	15 575.92	-9.63%	-7.06%	-18.17%	-23.03%	4.43%	9.67%
Hang Seng	20 794.37	-0.10%	0.09%	-5.11%	-20.78%	-0.01%	-1.47%
Dax	892.55	-5.48%	-2.42%	-8.85%	-9.44%	7.90%	6.50%
MSCI World	1 653.23	-1.28%	0.31%	-0.58%	-4.75%	5.11%	4.84%
MSCI world ex US	1 611.70	-3.25%	-2.18%	-4.81%	-12.35%	-0.76%	-1.52%
FTSE 100	6 504.33	4.39%	5.33%	4.20%	-0.26%	1.55%	1.88%

Sources: iNet BFA, JP. Morgan
*Performance reported in base currency. Returns of periods exceeding one year have been annualised.

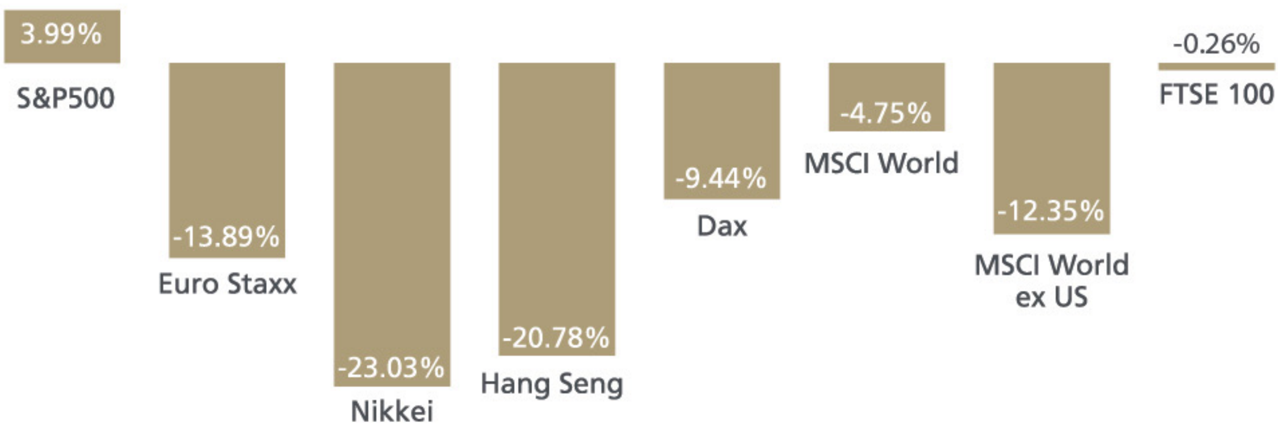
Financial market review

Global assets

On the global front, the S&P 500 generated a 2.46% gain over the quarter, and its year-to-date return stands at 3.84%. The five-year historic annualised return for the S&P500 is now at 12.10% in dollar terms. This, combined with the weakness in the rand over the period, has resulted in phenomenal returns for investors who implemented our advice to diversify offshore.

Another interesting observation on the return numbers of offshore indexes is that the Nikkei 225, Hang Seng and Dax indices were again all negative for a consecutive quarter. The Nikkei 225 and the Hang Seng have now both shed in excess of 20% over the last year. The US has been the primary driver of global stock market returns, as the S&P 500 is the only major index that is positive over the one-year period.

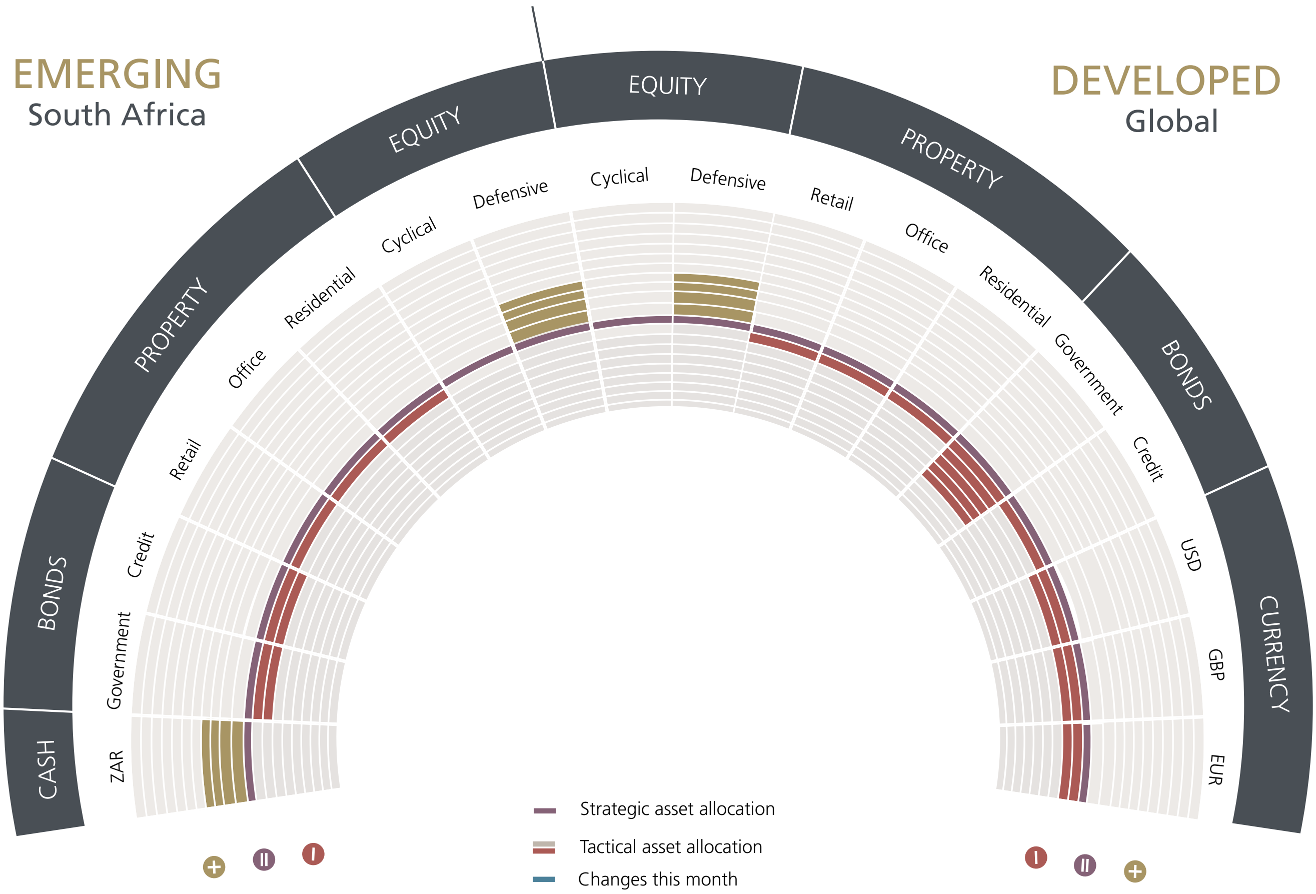
Global stock indices: one-year performance



Sources: iNet BFA

PSG Wealth

Tactical asset allocation preferences



Overweight: Tactical recommendation to hold more of the asset class than specified in the strategic asset allocation

Neutral: Tactical recommendation to hold the asset class in line with its weight in the strategic asset allocation

Underweight: Tactical recommendation to hold less of the asset class than specified in the strategic asset allocation

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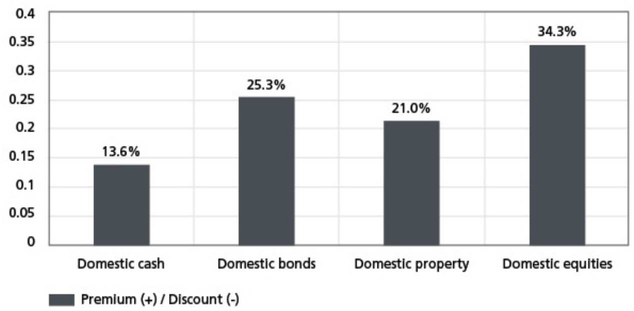
Tactical asset allocation preferences

Domestic equities

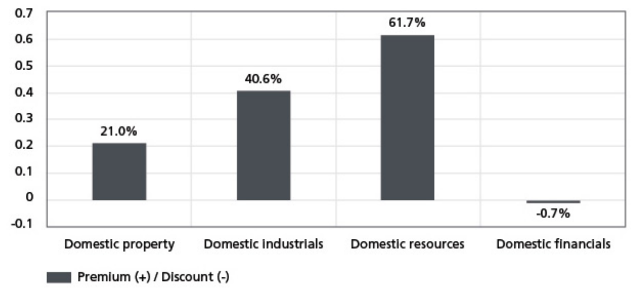
In our view, domestic equities are overvalued on an earnings basis. According to our assessment, domestic equities remain approximately 30% overvalued relative to their historic yield. There are certainly still some expensive pockets in the market, and investors should expect continued volatility at current levels. That being said, skilled stock pickers should be able to find value in selected shares.

South African asset classes: Current earnings yields vs long-term averages – premiums and discounts



Source: PSG Wealth Investment Division

South African equity sectors: Premiums and discounts



Source: PSG Wealth Investment Division

We think the financial sector probably hosts the most opportunities from a valuation perspective. This sector is currently the only broad-based sector which trades at a discount to its long-term average yield – albeit only marginally.

We are also cognisant that there are some value traps on the local exchange – some counters are trading at very low price-to-earnings multiples, but the earnings are in a cyclical decline. We feel that risks abound for the inexperienced investor, and that a fair assessment of macro-economic factors is becoming increasingly important. However, we remain of the view that vigilant and nimble investors will benefit from more frequent opportunities created by increased volatility.

Although the resource sector seems expensive from a yield perspective, we know that earnings have dropped in this cyclical part of the market. The mining sector is currently in a time of consolidation, with smaller mines closing down and mining managers focusing on cleaning balance sheets. This usually places the sector in a position to make bigger profits once spot prices recover and earnings start to flow through at greater operating margins. We will monitor this area of the market closely, even though we're not yet excited about any imminent recoveries in emerging markets in general.

In addition, as local economic strength is waning, we look at corporate balance sheets and debt structures that will be able to weather the storms. We expect smaller businesses as well as businesses with low cash balances, weak cash flows and high levels of debt to struggle in prevailing economic conditions.

In light of the above, our positioning in domestic equity remains as follows:

- underweight in interest rate-sensitive stocks and asset classes
- underweight in companies whose earnings rely heavily on domestic drivers
- underweight in companies who rely on leverage to grow margins
- overweight in multi-national conglomerates with actively managed exposure to both developed and emerging markets
- overweight in companies with strong balance sheets and healthy cash flows

Tactical asset allocation preferences

- overweight in firms that are expanding operating margins and gaining market share

Domestic listed property

Our assessment of fair value shows that domestic listed property is now roughly 20% overvalued relative to its historic yield. In addition, we think that the interest rate cycle will impact the strength, affordability and sentiment of the sector. This will present headwinds for capital growth in the property sector. We expect property yields, which are calculated as a percentage of the capital, to normalise on the back of downward pressure on capital values.

There are, however, always some exceptions. Selected property shares are experiencing growing yields, which may present some opportunities. Although broad-based property exposure is ill-advised at this stage, we do believe there are some shares that can make a contribution to a diversified portfolio.

Where we hold listed property, we prefer to hold counters with the following characteristics:

- low price-to-book values
- low levels of debt/gearing and strong credit ratings
- globally diversified portfolios, or counters that generate earnings abroad
- utilisation of structures that offer superior liquidity and diversification properties, like REITS
- superior distribution growth track records

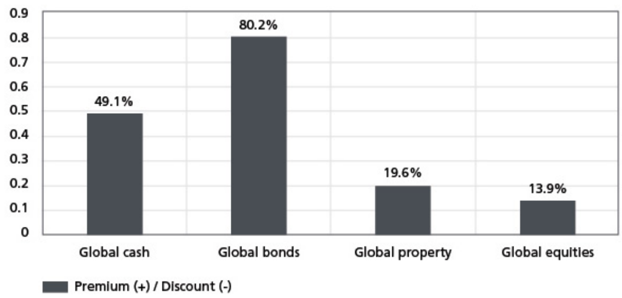
Domestic bonds

The aggregate yield of the All Bond Index still implies that this asset class remains generally overvalued. The implied premium is roughly 25%. With money market assets starting to offer some value, demand for bonds may dissipate in light of the increased risk of holding them. The relative risk-adjusted returns of bonds are also being compromised by higher interest rates on the horizon.

Until recently, the gross real yield on most short-dated money market assets was near zero, and on an after-cost, after-tax basis there was very little to be excited about. However, as further rate hikes are expected, we believe this will change over the coming months.

Global equity

Offshore asset classes: premiums and discounts



Source: PSG Wealth Investment Division

Global equity valuations present a mixed picture. The forward price-earnings (P/E) ratios of developed economies seem to indicate that developed market equities may be fairly valued to slightly overvalued. The forward P/E ratios for developing economies appear undervalued. Strong economic recoveries in developed countries could support further medium-term earnings growth. However, at this stage, poor economic growth in developing economies is not supportive of any positive outlook on earnings.

The one forewarning to this assessment is that weaker emerging market currencies have made developing market assets more appealing to foreign investors, which may underpin some demand. Therefore, currency movements are likely to be one of the largest factors influencing the success of these markets over the short term.

Global equities, although trading at a slight premium, remain the most attractive asset class in our minds. The underlying valuations remain sound and there are many quality firms to choose from. The biggest short-term risk for South African investors is the rand, which is now trading at a discount of greater than three standard deviations to purchasing power parity (PPP). Two key observations from this would be that:

- The rand is trading well above the long-term PPP benchmark, which seems excessive even if a sovereign downgrade occurs. A downgrade would obviously result in additional short-term volatility, but

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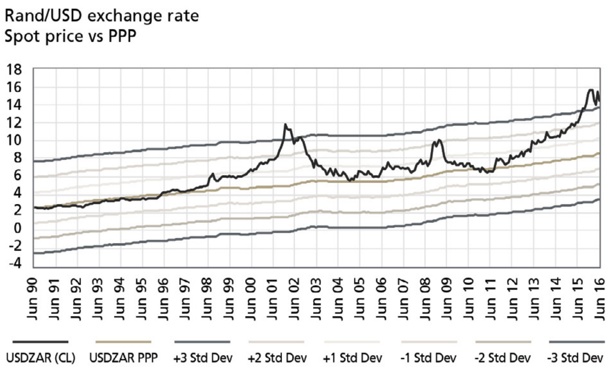
Tactical asset allocation preferences

we are referring to long-term fundamentals in this regard.
- Historically, the margin at which the rand is trading at now reduces the possibility of further weakness and we may even experience a strengthening of the currency from these levels.

Rand/USD exchange rate spot price vs PPP



Source: PSG Wealth Investment Division

Although the weakness of the rand is a risk, there are many effective ways in which professional money managers can oversee these risk effectively. We maintain the view that offshore equities remain attractive on a relative basis. Therefore, we are cautiously optimistic about defensive, developed market equity returns and remain overweight in this asset class.

Global listed property

From a valuation perspective, global listed property is still a more risk-efficient investment than global bonds. Global cash yields, although increasing, remain unattractive. Still, investors should be very cautious in this segment of the market. Extreme property price fluctuations in structures with high leverage or limited liquidity can hold severe capital consequences for investors.

Global fixed interest and cash

We are underweight in offshore fixed interest, as we believe that most of these asset classes do not sufficiently compensate investors for the inherent risks involved. Despite delays, we expect the rates and bond yields of US Treasuries to normalise during the course of the next few years.

Valuations on global bonds remain severely stretched on the back of unchartered monetary policy stimulus and subsequent capital flows into credit instruments. In the US, nominal and real 10-year treasury yields have been falling for the past 30 years, leaving both real and nominal yields historically low. Federal Open Market Committee research supports the view that current yields need to increase by roughly 3% to normalise. Although recent statements by the Fed have implied a more dovish stance, rate normalisation will have to materialise at some point in the not-too-distant future.

Global cash remains unattractive apart from its liquidity and nominal capital protection properties. For investors seeking offshore diversification, equities offer the best value over an investment horizon suitable for an offshore investment.

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Domestic unit trust positioning

Is the first indication of a sector rotation in domestic equities sustainable?

The South African equity market, as represented by the FTSE/JSE All Share Index (ALSI), reached an all-time high of 55 188.3 points on 24 April 2015. The price-earnings (P/E) ratio of the index stood at 19.4, compared to a historical average of 15.1. On the same day the earnings of the index (calculated by dividing the index by the P/E) stood at 2 840.7. The ALSI closed at 52 217.7 on 30 June 2016 with a P/E of 22.1, quite close to its all-time high. The calculated earnings of the index stood at 2 362.3 on the day. Therefore, the calculated earnings of the index fell by 16.8% between 24 April 2015 and 30 June 2016, but the index itself is only down by 5.4%. That means that prices are 13.8% stronger (or fell less) than earnings over this period.

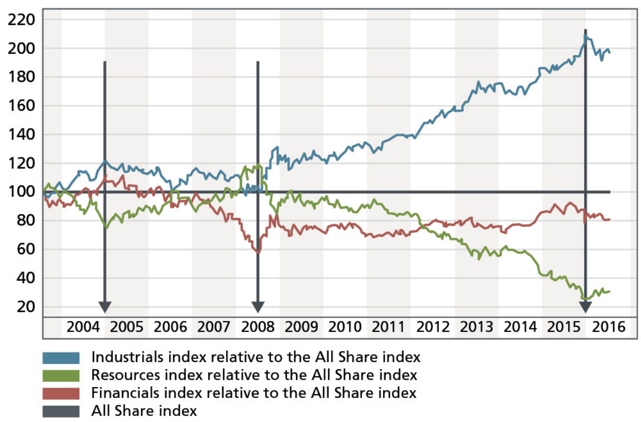
Rising prices vs declining earnings

Does it make sense that the prices of equities on the ALSI continue to rise if earnings are declining to this extent?

No, it does not. However, it is always dangerous to try and make deductions based on broad market indices, because all sectors and all companies on these indices are not equal. There will always be some sectors that offer better investment opportunities than others. Similarly there will always be some companies within the different sectors that offer better investment opportunities than other companies.

This becomes very clear when we split the ALSI up into its three broad sectors of industrial companies, financial companies and resources companies. The point is further illustrated by comparing the performance of each broad sector with that of the overall index, as shown in the graph below:

Broad sector indices relative to the FTSE/JSE All Share Index



Source: iNet BFA

Based on this measure, the Industrial Index delivered the best performance in the period up to the end of 2004. The worst performer was the Resources Index, while the Financial Index performed in line with the ALSI. From the end of 2004 until the middle of 2008, the Resource Index delivered the best performance. The Financial Index was the worst performer, while industrials performed more in line with the ALSI. In the period from mid-2008 to the end of 2015, the Industrials Index was again the best performer, while the Resources Index was again the worst performer. Early indications this year are that the Industrial Index is starting to underperform the ALSI, while the Resources Index is starting to outperform. The performance of financials is again in line with the ALSI.

Industrial Index

The period up to mid-2008 was characterised by strong world economic growth, high inflation and high interest rates. The Industrial Index slightly underperformed the ALSI due to the negative effect of high interest rates, and the P/E ratios of this index fell to very low levels. However, the tide started to turn when interest rates started to decline due to lower inflation figures. In such circumstances investors start to increase their exposure to industrials due to the low valuations and the potential of higher company earnings.

Company earnings were later enhanced by the weaker rand/US dollar exchange rate and the high rand-hedge characteristic of major industrial companies with a large international footprint. Growth in company earnings maintained momentum until index earnings reached an all-time high of 3 709.6 on 21 May 2015 (with an index value of 7 7025.0). The P/E of the index on that day was

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20.8, compared to the historical average of 15.7. From 21 May 2015, index earnings started to decline. On 30 June 2016, index earnings were at 2 988.8 – down by 19.4% since 21 May 2015.

However, the index kept its momentum and on 30 June this year it reached 78 660.2 points, up by 2.1% since 21 May 2015. This resulted in an increased P/E ratio of 26.3 on the same day. This shows that prices were 26.8% stronger than earnings over this period – a clear indication that the index was driven into overvalued territory due to negative sentiment around the latest extreme weakness of the rand.

It is difficult to see how this situation can continue, with the negative effect of a stronger rand/US dollar exchange rate putting pressure on the earnings of global industrial companies. Current levels of inflation and interest rates are not good news for economic growth and consumer spending. The high current P/E ratio of the Industrial Index does not offer downside protection against a large sell-off in equities.

Financials Index

High inflation and interest rates in the period up to mid-2008 became a big risk for banks and other institutions. The Financial Index underperformed the ALSI over this period due to borrowers and debtors with high debt-to-income ratios starting to default on their debt. The situation was further exacerbated by the financial crisis in the US, which led to a world-wide shortage in liquidity. During this time, financial shares were sold down to levels of low P/E ratios.

The index recovered when interest rates started to decline due to lower inflation rates, which reduced the interest rate burden on debtors. Investors also started to increase their exposure to financials when lower valuations and the potential of higher company earnings resurfaced.

The earnings of the Financial Index only reached a high of 3 821.6 on 14 March this year, almost a year after the Industrial Index. On 14 March 2016, the value of the index stood at 41 239.8, with a P/E ratio of 10.8, compared to its historical average of 13.2. Index earnings declined by 14.3% to 3 275.4 on 30 June 2016. The index closed only 1.5% lower at 40 624.9, with a P/E ratio of 12.4 on the same day. This shows that prices were 14.9% stronger than earnings over the same period.

The Financial Index is expected to continue performing in line with the ALSI. Inflation may be close to peaking and interest rates may already have peaked. Financials have a very small international footprint and do not have the same rand-hedge characteristics as industrial shares. Financial counters did not benefit much from the weak rand/US dollar exchange rate and will not be negatively influenced by a stronger exchange rate.

The biggest risk to financial companies is higher inflation and interest rates, weak economic growth and continued losses in job opportunities. The current low P/E ratio of the index should limit the downside during a large sell-off in equities.

Resources Index

Strong global economic growth, high infrastructure spending by China and a weak US dollar in the period up to mid-2008 led to extraordinarily high commodity prices. The Resources Index outperformed the ALSI until the financial crisis in the US brought the world economy to a standstill. It became clear that the global economy would struggle to recover from this severe recession, and commodity prices started to drop to very low levels. During this period we also saw a general flight to safety, which lead to a stronger US dollar that pushed commodity prices down even further.

The Resources Index never recovered to previous highs seen before the 2007/2008 bear market. Index earnings peaked temporarily at 3 099.2 on 22 July 2012, with an index value of 25 468.4 and a P/E ratio of only 8.2, compared to a historical average of 15.6%.

Earnings dropped again due to persistently low commodity prices, to a low of 233.7 on 23 November 2015, with an index value of 14 886.5 and a P/E ratio of 63.7. Earnings were down by 92.5%, but the index was only down by 41.5% for the period. However, earnings have recovered by 98.5% since then. Earnings closed at a value of 463.9 on 30 June 2016, but the index itself was only up by 15.2%. Earnings are still down by 85% since

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the index peaked on 22 July 2012.

The recovery in the Resources Index is partially driven by a slight recovery in commodity prices, due to expectations that the US Federal Reserve is not going to normalise interest rates quickly. A higher level of risk in international markets, such as the decision by the UK to exit the European Union (EU), sovereign risks and a risk of a downgrade in South Africa's credit rating led to a surge in the US dollar price of gold and domestic gold shares.

The Resources Index currently offers limited value on a P/E ratio of 63.7 without a sustainable increase in commodity prices. This will depend on the following:

- a weak US dollar
- stabilisation in the economic growth of China, followed by an economic recovery in those parts of the world that hover on the brink of a recession, such as the EU and Japan.

Selected dates and values of the broad JSE indices

Index	Date	Index value	Earnings value	P/E ratio
FTSE/JSE All Share Index	24/4/2015	55188.3	2840.7	19.4
	30/6/2016	52217.7	2362.3	22.1
	% change	-5.4%	-16.8%	13.8%
Industrials Index	21/5/2015	77025.0	3709.6	20.8
	30/6/2016	78660.2	2988.8	26.3
	% change	2.1%	-19.4%	26.8%
Financials Index	14/3/2016	41239.8	3821.6	10.8
	30/6/2016	40624.9	3275.4	12.4
	% change	-1.5%	-14.3%	14.9%
Resources Index	22/7/2012	25468.4	3099.2	8.2
	23/11/2015	14886.5	233.7	63.7
	% change	-41.5%	-92.5%	675.8%
	30/6/2016	17143.6	463.9	37.0
	% change	15.2%	98.5%	-42.0%

Source: PSG Wealth Investment Division, iNet BFA

We have seen the first indications of a sector rotation in domestic equities. The Industrial Index is trading on unsustainably high P/E ratios with limited potential in earnings growth. The Financial Index is trading at attractive valuations, but these depend on attractive domestic conditions for the outlook of the index to improve. The Resources Index experienced a welcome recovery from a much-oversold position and some improvement in earnings potential. This potential, however, depends largely on a sustainable recovery in commodity prices. The analysis above indicates that there is a lot of uncertainty about the sustainability of the sector rotation over the short term, and that the broad sectors will deliver lower returns with higher volatility in the near future.

The good news is that there are always individual companies in each of these broad sectors that are still trading at attractive valuations with good earnings potential. There are also some excellent active managers with the potential to identify these companies and to avoid overvalued companies with poor earnings potential.

Our PSG Wealth Solutions make exclusive use of the best active managers in the industry to manage these solutions. These managers have different investment philosophies and different processes, but the multi-manager process ensures that the portfolios will have the biggest exposure to those companies that suit most of these philosophies and processes best.

Domestic funds – performance and positioning

Performance and positioning: PSG Wealth Domestic Equity Funds of Funds (FoFs)

Equity markets are always unpredictable, but current market conditions are extremely difficult for equity fund managers. Uncertainty around a worldwide economic recovery resulted in continuous risk-on/risk-off trades, and little opportunity for consistent performances.

The PSG Wealth Creator FoF underperformed its benchmarks over both the three-month and 12-month investment periods ending June 2016. Coronation Equity Fund and Prudential Equity Fund were the worst performers over all investment periods of 12 months and less.

The PSG Wealth Moderate FoF slightly underperformed its benchmark over the three-month investment period

Domestic unit trust positioning

ending June 2016, but outperformed its benchmark over 12 months due to the excellent performance of the Investec Opportunity Fund.

The PSG Wealth Preserver FoF performed in line with its benchmark over the three-month investment period ending June 2016, but outperformed its benchmark over 12 months after the excellent performance of the Investec Cautious Fund. The Coronation Balanced Defensive Fund was the worst performer over all investment periods of 12 months and less.

Fund performance vs sector average

Fund name	3 months to 30/06/2016	Rank	1 year to 30/06/2016	Rank
PSG Wealth Creator FoF D	0.1	105	0.7	106
South African EQ General Sector Average	0.4	161	1.3	147
PSG Wealth Moderate FoF D	0.5	95	6.4	44
South African MA High Equity Sector Average	0.6	172	5.3	143
PSG Wealth Preserver FoF D	1.4	66	8.1	32
South African MA Low Equity Sector Average	1.4	140	6.7	123

Source: PSG Wealth Investment Division

The PSG Wealth equity and asset allocation funds are well diversified in terms of the broad equity sectors, and underperformance is mainly due to the stock picking preferences of the underlying managers. The underperformance is, however, not excessive given current market conditions.

There are clear indications from the asset allocation of the PSG Wealth Creator FoF and the PSG Wealth Moderate FoF that the underlying managers are slowly adjusting exposures away from the expensive industrials sector to the less expensive financial and oversold resources sectors. We are expecting this to continue as more evidence in support of a sector rotation becomes visible.

Sector allocation

Equity exposure of the PSG Wealth domestic equity and asset allocation FoF's		Previous quarter			Current quarter		
		PSG Wealth Preserver FoF	PSG Wealth Moderate FoF	PSG Wealth Creator FoF	PSG Wealth Preserver FoF	PSG Wealth Moderate FoF	PSG Wealth Creator FoF
Domestic equity sectors	Resources	2.7	5.9	12.6	3.0	5.9	14.0
	Financials	7.8	13.0	20.6	8.2	14.2	24.3
	Industrials	9.7	20.2	48.4	10.1	19.9	44.0
	Other equities	0.2	3.8	0.0	0.3	4.7	0.0
	Equity hedges (+Long/-Short)	-0.7	-0.7	0.0	-0.6	-0.7	0.0
Total domestic equities		19.6	42.1	81.6	21.0	43.9	82.3
Total foreign equities		22.3	25.8	14.9	20.5	24.1	13.2
Total equities		41.9	67.9	96.5	41.5	68.0	95.5

Source: PSG Wealth Investment Division

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PSG Wealth

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Performance and positioning: PSG Wealth fixed interest FoFs

The PSG Wealth Income FoF and PSG Wealth Enhanced Fund outperformed their benchmarks over both the three-month and 12-month investment periods ending June 2016. The current underlying managers continue to utilise the buying opportunities that become available when interest rates change.

The underlying managers in the PSG Wealth fixed interest funds are very conservatively positioned to avoid higher volatility that may result from interest rate changes. However, we expect them to increase their exposures to longer-dated instruments when it becomes clear that inflation has peaked and interest rate will start to decline.

Fund performance vs sector average

Fund name	3 months to 30/06/2016	Rank	1 year to 30/06/2016	Rank
PSG Wealth Income FoF D	2.6	24	8.5	17
South African MA Income Sector Average	2.3	81	7.5	75
PSG Wealth Enhanced Interest D	1.9	28	7.4	21
South African IB Money Market Sector Average	1.8	28	6.9	27

Source: PSG Wealth Investment Division

Sector allocation

Non-equity exposure of the PSG Wealth domestic fixed interest FoF's		Previous quarter		Current quarter	
		PSG Wealth Enhanced Interest Fund	PSG Wealth Income FoF	PSG Wealth Enhanced Interest Fund	PSG Wealth Income FoF
Domestic Non-equities (incl. Real Estate)	Real Estate	-	2.8		2.8
	Preference shares	-	1.5		1.0
	Inflation Linked bonds	-	2.9		2.8
	Bonds 7+ yrs	-	10.5		9.8
	Bonds 3-7 yrs	-	15.2		16.1
	Bonds 1 - 3 yrs	-	21.4		18.4
	Cash, Derivatives & Money Market	100.0	31.8	100.0	35.5
	Total Domestic Non-equities (incl. Real Estate)	100.0	86.1	100.0	86.5
Foreign Non-equities (incl. Real Estate)	Real Estate	-	1.7		1.1
	Bonds	-	7.7		6.0
	Other	-	0.0		0.0
	Cash, Derivatives & Money Market	-	1.3		3.1
	Total Foreign Non-equities (incl. Real Estate)	-	10.7		10.2
Total Non-equities (incl. Real Estate)		100.0	96.9	100.0	96.7

Source: PSG Wealth Investment Division

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Offshore mutual fund positioning

Rolling returns: A better way to compare portfolio manager performance

An unfortunate fact in investing is that many investors tend to select their funds based solely on recent performance. From a behavioural finance perspective this makes sense, as past performance is an objective variable that is easily obtainable, measurable and fact-based. This recency-bias is evident when one perceives the attention certain funds and securities receive after they deliver above-average performance.

However, past performance is not a good predictor of future performance, as previously noted in the *PSG Wealth Investment Research and Strategy Report*. There are many local and global studies that have confirmed this. Our own analysis of the ASISA sectors we use in our local portfolios and the global universes we use for our global funds of funds (FoFs) supports this view.

For example, more than half (58%) of the top 50 funds in the Morningstar Global Large-Cap blend category, ranked according to five-year returns ending on 30 June 2011, delivered below-average returns over the next five years to 30 June 2016. Of these below-average funds, 19 delivered returns in the bottom quartile. Out of the original top 50 performing funds, only 10 (20%) managed to repeat their top-quartile performance for the subsequent five-year period. This indicates that the odds are definitely stacked against investors who only rely on fixed-period performance or rankings to pick managers.

So, what role, if any, should past performance play in the manager selection or fund comparison process?

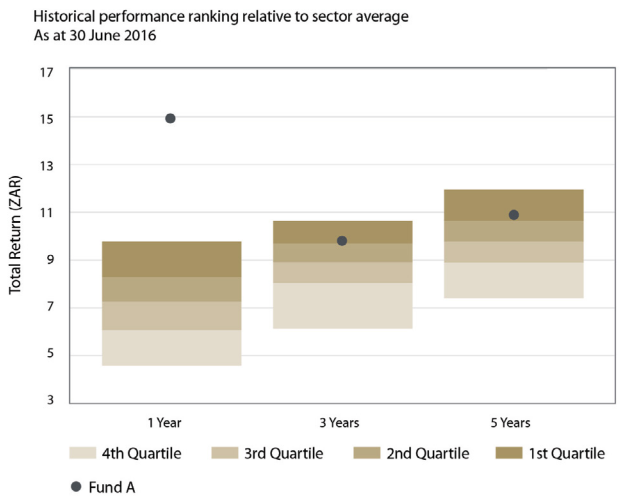
Fixed- vs rolling-period returns

Before we discuss the role of past performance in the manager selection process, it is important to consider different approaches to investment performance analysis. Specifically, the differences between fixed- and rolling-period returns.

In our experience, most investors focus on fixed-period return information such as growth charts and performance tables that cover standard periods like the last 12 months, three years and five years. These charts and tables show the investor the return from point A (e.g. five years ago) to point B (usually the latest month end). However, it is highly unlikely that all investors used these fixed dates as a single entry point when investing in portfolios. From an adviser's perspective, it is very unlikely that all your clients invested in the same portfolio (or will in the future) on exactly the same date. Investing is a constantly moving process with new funds being invested in, and withdrawn from, monthly and even daily.

In our view, it's illogical to isolate a fixed period (e.g. the last five years) as something special and to only consider this one period (or even various fixed periods of time all ending at the same point). It's far more likely that clients invest when they can, at random entry points along the period under review. We recommend that investors rather examine a portfolio manager's performance across a range of dates – not just over a fixed calendar or custom period, which generally reflects one market situation or cycle. In addition, fixed-period return analysis can be very misleading, as long-term numbers can easily be skewed by strong short-term returns. To illustrate this concept, we will look at a real-world example.

Fixed-period return analysis



Historical returns and ranking as at 30 June 2016
Source: Morningstar

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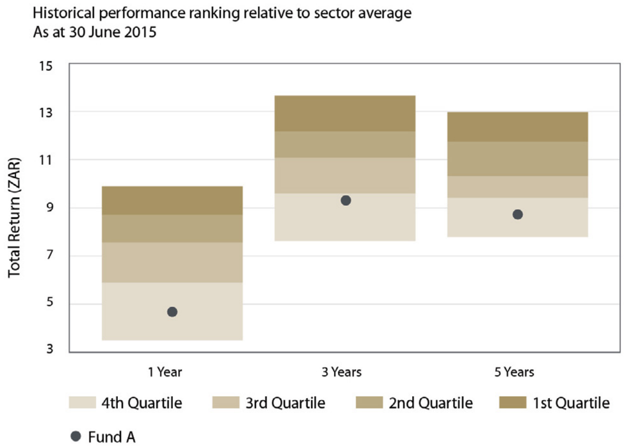
Offshore mutual fund positioning

Chart 1 indicates a fund's historical returns on a fixed basis for various periods. It also shows the fund's ranking relative to its sector. In isolation, this chart shows that Fund A has delivered top-quartile returns over all periods up to and including the five years ending 30 June 2016. However, as noted previously, this can be misleading for various reasons, which will be highlighted in the following charts.

Fixed-period returns analysis



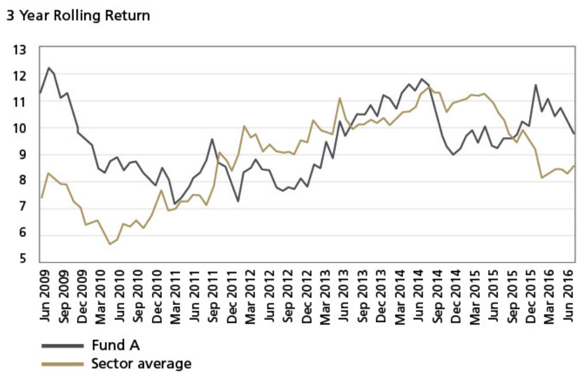
Historical returns and ranking as at 30 June 2015
Source: Morningstar

Chart 2 provides the same analysis for Fund A for the period ending 12 months earlier on 30 June 2015. In this chart, the fund's returns (even for longer periods, like five years) fall in the bottom quartile of its sector. At that stage, an investor could have concluded that the fund underperformed if they relied solely on this analysis. However, 12 months later, the whole picture changed. This example highlights a key drawback of using fixed-period analysis, which can easily be affected by short-term performance. In this example, all of Fund A's relative outperformance (or alpha) was delivered over a four-month period at the end of 2015. Before then, the fund had consistently underperformed the sector average. However, these four months completely skew the longer-term performance numbers. It potentially also gives the investor an incorrect view about the fund manager's ability to deliver alpha consistently.

This is where rolling returns come in. We prefer using rolling returns and believe they present a more thorough way of looking at investment returns. For example, a one-year rolling return shows what actually happened with your money depending on the particular amount of years you were invested. Instead of assuming you started your investment on 1 January, the one-year rolling return computes all one-year periods, not just starting with January, but also starting with February, March, April and so on. Likewise, a three-year rolling return would calculate all the returns over three-year periods starting at some inception date and continuing the calculation for every month following the inception date.

The main benefit of using rolling returns is that it can troubleshoot a manager's consistency in performance over time. In our process this is an important requirement and we use it as a potential measure of a manager's skill. The following real-world example illustrates this concept:

Rolling-period returns



Source: Morningstar Direct

Chart 3 shows rolling three-year returns relevant to Fund A's strategy and sector, and provides a view on the consistency of its performance. Within our analysis we use various rolling periods (one year, five years, etc.), which provides useful information such as whether the

Offshore mutual fund positioning

manager's stated strategy matches their return profile, which market environments are beneficial to the strategy and also which of the manager's peers have complementary return profiles. In addition to the rolling return chart, we also consider the manager's frequency of success (how frequently the manager beats the benchmark over the relevant rolling periods) and the magnitude of success (by how much the manager outperformed the benchmark). The table below shows that fund manager A's frequency and magnitude of success against the sector average is as follows:

Rolling frequency and magnitude of success

Time period: 30 June 2006 to 30 June 2016			
Fund A	1 year	3 year	5 year
Frequency of success	53.2%	60.0%	62.3%
Magnitude of succes	4.5%	1.7%	1.2%

Source: Morningstar Direct

This analysis highlights that the fund has a relatively volatile profile, with periods of significant out– and underperformance. Generally, we look for managers with an 80% or higher frequency of success over relevant periods to identify consistency. The frequency of success also shows the number of times an investor will be satisfied when looking at the portfolio's performance.
Given that both inception and end dates change within a rolling-return analysis, the impact of any one period of exceptional short-term outperformance can clearly be identified in the analysis. The focus on rolling-return analyses also provides us with an indication of whether a manager's strategy is consistent throughout varying market cycles.

Past performance in the management selection process

Past performance will never be the basis for an investment decision within the PSG Wealth FoFs. However, past performance, when analysed correctly using rolling periods, can add value to the manager selection process by assisting with:

- Idea generation – The PSG Wealth Investment Division uses a proprietary quantitative screening and ranking system to identify funds with a consistent performance history.
- Identification of skill – We have a preference for managers that have consistent return profiles above managers who deliver a few exceptional periods and many periods of underperformance. Generating consistent returns throughout market cycles is a potential identifier of a manager's skill.
- Linking stated investment philosophy and process with actual results – One of the most important aspects when selecting a manager is a thorough understanding of its process. Analysing past performance can highlight any style drift or inconsistencies between what a manager says and what they actually do.

While it is commonly accepted that past performance is not an indicator of future performance, it remains a major cause of inflows for funds. As illustrated in this article, there are various potential issues when using fixed periods in return analyses, which can mislead investors. Rolling returns provide a good alternative and have various advantages. These include identifying consistency in performance, which can help to identify a manager's investment skill.

The most important aspect within PSG Wealth's manager selection process has always been to conduct a detailed qualitative analysis that focuses on understanding a manager's investment philosophy, process and the role it will fulfil in the total portfolio context. While past performance will never be the basis for an investment decision, it can assist us in the investment decision-making process by providing insights into a manager's through-the-cycle return profile. This helps us towards the multi-manager's ultimate goal: distinguishing between luck and true investment skill.

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PSG Wealth

Offshore mutual fund positioning

Expanded global fund offering

PSG Wealth launched four additional offshore solutions in July 2016.

Our new solutions
PSG Wealth Global Flexible FoF (USD)
PSG Wealth Global Flexible FoF (GBP)
PSG Wealth Global Preserver FoF (USD)
PSG Wealth Global Preserver FoF (GBP)

The new Global Preserver and Global Flexible mandates will complement our existing Global Moderate and Global Creator mandates. This enables us to offer multi-managed offshore solutions across the risk spectrum, to cater to varying investor needs. Both US dollar and pound sterling classes are available for these new solutions. We will also be launching rand-denominated feeder funds to accommodate local investors who do not want to take hard currency offshore (further detail will follow in due course).

For more information on our new solutions, please click here.

Global funds – performance and positioning

The PSG Wealth Global Creator FoF had a strong 12 months ending June 2016, with the majority of the underlying managers contributing positively to alpha. Managers who focused on large-cap quality companies as well as those with a growth bias delivered very strong performance over this period. Managers who follow a more traditional value approach underperformed, especially during the last six months of 2015.

The PSG Wealth Global Moderate FoF underperformed the sector average over the last 12 months. Overall the portfolio is overweight US, but some of the underlying managers with emerging market currency and fixed interest exposure underperformed in the volatile market environment experienced in 2016 to date. The PSG Wealth Investment Division is currently in the process of implementing a number of changes in the portfolio, which we believe will add better value in future.

One-year performance table

One-year performance to 30 June 2016		
Fund name	%	Rank
PSG Wealth Global Creator FoF D (USD)	-3.6	81
BM: GIFS Global Large-Cap Blend Equity (USD)	-6.8	
Peer Group: Custom Investable Universe	-5.9	283
PSG Wealth Global Creator FF D (ZAR)	14.2	15
Peer Group: ASISA Global EQ General (ZAR)	11.6	38
PSG Wealth Global Moderate FoF D (USD)	-7.0	77
BM: GIFS USD Flexible Allocation (USD)	-5.5	
Peer Group: Custom Investable Universe	-9.2	227
PSG Wealth Global Moderate FF D (ZAR)	10.1	14
ASISA Global Multi Asset Flexible (ZAR)	13.3	21

Source: PSG Wealth Investment Division

Offshore mutual fund positioning

Look-through positioning of the PSG Wealth Global Moderate FoF

PSG Wealth Global Moderate FoF		
Asset allocation	Current %	Previous quarter
Foreign equities	**65.9**	**63.7**
Basic materials	2.9	2.3
Communication services	3.3	2.8
Consumer cyclical	6.7	7.0
Consumer defensive	6.0	6.2
Healthcare	6.2	6.1
Industrials	6.1	6.5
Technology	9.4	7.9
Energy	2.7	2.8
Financial services	22.0	21.7
Utilities	0.6	0.5
Foreign property	**2.6**	**2.2**
Foreign bonds	**14.5**	**10.1**
Foreign other	**3.2**	**3.2**
Foreign cash	**13.7**	**20.8**
Domestic assets	**-**	**-**
Portfolio Total	100%	100%

Source: PSG Wealth Investment Division

After a volatile second quarter, most underlying managers took the opportunity to increase their equity weighting during the recent global sell-down after Brexit. The portfolio's net equity exposure increased by 2.2% to 65.9%. Most of this increase was deployed in the technology sector where exposure increased by 1.5%. Cash was reduced significantly (-7.15%), while bonds (+4.4%) and property (+0.4%) increased along with equities as managers utilised lower security values to increase exposure in higher-yielding instruments. With regards to regional allocation, the FoF currently has 92.1% in developed markets and 7.9% in emerging markets, being slightly overweight US relative to the sector average. UK exposure is slightly below the sector average at 12.2%.

Look-through positioning of the PSG Wealth Global Creator FoF

PSG Wealth Global Creator FoF		
Asset allocation	Current %	Previous quarter
Foreign equities	**94.9**	**95.8**
Basic materials	2.6	2.5
Communication services	1.6	1.4
Consumer cyclical	11.5	11.4
Consumer defensive	13.0	13.7
Healthcare	14.6	16.7
Industrials	12.3	12.0
Technology	19.9	19.5
Energy	3.2	3.0
Financial services	15.5	15.1
Utilities	0.7	0.6
Foreign property	**-**	**-**
Foreign bonds	**-**	**-**
Foreign other	**0.0**	**0.1**
Foreign cash	**5.1**	**4.1**
Domestic assets	**-**	**-**
Portfolio Total	100%	100%

Source: PSG Wealth Investment Division

In the second quarter, underlying managers reduced equity exposure by 0.9% and increased cash by 1% as some managers took profits in quality growth counters that stood at very high valuations. Exposure to healthcare decreased significantly (-2.1%), while exposure to the consumer defensive sector was also decreased (-0.7%). Technology (+2.7%), financial services (+0.4%) and industrials (+0.3%) saw the largest increases, while all other sectors saw slight increases in allocations. Regionally, the FoF is invested mostly in developed markets (97.4%), with an overweight in the US (63.4%), a slight underweight in Europe (28.6%) and a significant underweight in Asia (7.9%). UK exposure, at 12.1%, is below the sector average of 13.1%.

Equity research

Sector valuation relative to long-term averages

There is a plethora of valuation metrics available to investors to measure the current value of an investment. Price-earnings (P/E) multiples are the most popular method to determine the level of the market. In practice, this is more difficult than it appears – especially at times when most investors get caught up in the market euphoria, or dysphoria, and refuse to admit that multiple levels are too high or low to be sustainable. They often give various reasons for why these new levels will be sustained to defend their choices: 'This time is different' or 'Traditional valuation techniques are outdated'. This is exacerbated by the market's habit of remaining over- or undervalued for long periods before we see a correction.

In this article we review the Industry Classification Benchmark (ICB) sectors on four different valuation metrics (explained below), relative to their 10-year averages. This allows us to gauge their current ratings in relation to historic multiples. This method is successful as it normalises the multiples (especially where a company has had a particularly good or bad period), assisting investors to avoid the crowd mania. If the multiple is high in relation to the past, we can assume that the share is fully valued or more expensive. Conversely, if the multiple is low in relation to its historic multiple, we can conclude that the share is offering value. The exception in this exercise is the dividend metric, where a high value is preferred.

ICB sector valuation relative to long-term averages

	PNAV	PS	PE	Dividend Yield	No. of Stocks in Universe*
Travel and leisure					4
Construction and materials					0
Forestry and paper					3
Industrial metals					1
Mining					14
General industrials					5
Electronic and electrical equipment					1
Industrial transport					3
Support services					0
Automobiles					0
Beverages					2
Food producers					6
Household goods					1
Pharmaceutical					1
Personal goods					1
Food and drug retailers					6
General retail					8
Telecommunications					4
Banks index		N/A			6
General finance					9
Equity investments instruments		N/A	N/A		3

*PSG Wealth Investment Universe

Colour scale

	PE, P/NAV, PS	Dividend yield
	Greater than 1.5	Less than -1.5
	Between 1 and 1.5	Between -1 and -1.5
	Between 0.5 and 1	Between -0.5 and -1
	Between -0.5 and 0.5	Between -0.5 and 0.5
	Between -0.5 and -1	Between 0.5 and 1
	Between -1 and -1.5	Between 1 and 1.5
	Less than -1.5	Greater than 1.5

Based on standards deviations away from the 10 year average at 30 June 2016

Source: PSG Wealth Investment Division, Bloomberg

Valuation metrics

Price-to-Net-Asset-Value ratio (P/NAV)

The historical cost of a business is not always an indication of the actual worth or replacement value of the business. This is due to depreciating policies of fixed assets, as well as the inclusion of intangible assets such as goodwill, which is extremely difficult to value. However, if a company is trading at P/NAV ratio above or below its historic average it can highlight a mispricing of the asset, since the earning power of an asset is, on average, relatively stable.

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Price-to-sales ratio (P/Sales)

The ratio of price to sales is an excellent tool to identify potential recovery situations. Unlike P/E ratios, they do not become negative or meaningless for companies with large declines in earnings. For example, the P/E ratio for a cyclical firm is more sensitive than its P/Sales ratio. On average, this ratio highlights investments that are currently achieving margins that are out of sync with long-term averages. This indicates the potential for above-average earnings growth should margins normalise.

Price-to-earnings ratio (P/E)

The P/E ratio is both the most widely used and misused of all valuation methods. Often it is thought that the use of P/E ratios eliminates the need for assumptions about risk and growth – both essential inputs for valuations. Compared to a longer-term average, however, the influence of risk and/or growth assumptions will be less pronounced, leading to a more meaningful conclusion.

Dividend yield

Dividend yields should typically be more stable than the P/E metric. A divergence from the long-term average should, to an extent, highlight instances where abnormal situations impact the sentiment around an investment, but not its cash generating ability.

By using a combined approach we aim to capitalise on the tendency of an asset's price to move from extreme levels towards long-term averages. It is, however, essential for investors to understand the advantages and limitations of these calculations, as they cannot be universally applied. While these techniques should fairly reflect the value evident in an investment (and remove investment bias), they do not reflect the quality, growth or sustainability of the underlying inputs into the valuation. As such, they should not be used in isolation. The PSG Wealth Investment Division believes it is important to consider all of these metrics on a company-specific level to test if the conclusion is sensible. It is also worthwhile to note that when applying these valuation metrics on a sector level, the weight of the constituents and significant corporate actions can skew the measures, complicating the interpretation of the results.

Real-world examples

We will use these metrics to analyse the travel and leisure sector, given the size of the investment universe and the outcomes of the metrics applied. All metrics are generally not comparable across industries, but given the similarity of operations within a sector the comparison of the multiples should make sense.

Travel and leisure sector relative to long-term averages

Share name	PNAV		Price-Sales		PE		Dividend yield (%)	
	Five-year average	SD*	Five-year average	SD*	Five-year average	SD*	Five-year average	SD*
Tsogo	3.1	-0.2	2.5	-1.1	15.4	-1.2	3.3	0.7
Sun International	5.4	-0.8	0.9	-1.2	N/A	N/A	N/A	N/A
City Lodge	11.0	-1.4	4.0	-0.1	20.9	-0.6	3.1	0.4
Famous Brands	7.9	0.6	3.1	-0.3	23.6	0.0	3.2	0.1

*SD = The number of standard deviations away from the five year average as at 30 June 2016
Source: PSG Wealth Investment Division, Bloomberg

Disclaimer: SUN International - The valuation metrics for Sun International were not considered given the impact of significant corporate restructurings on its historic averages.

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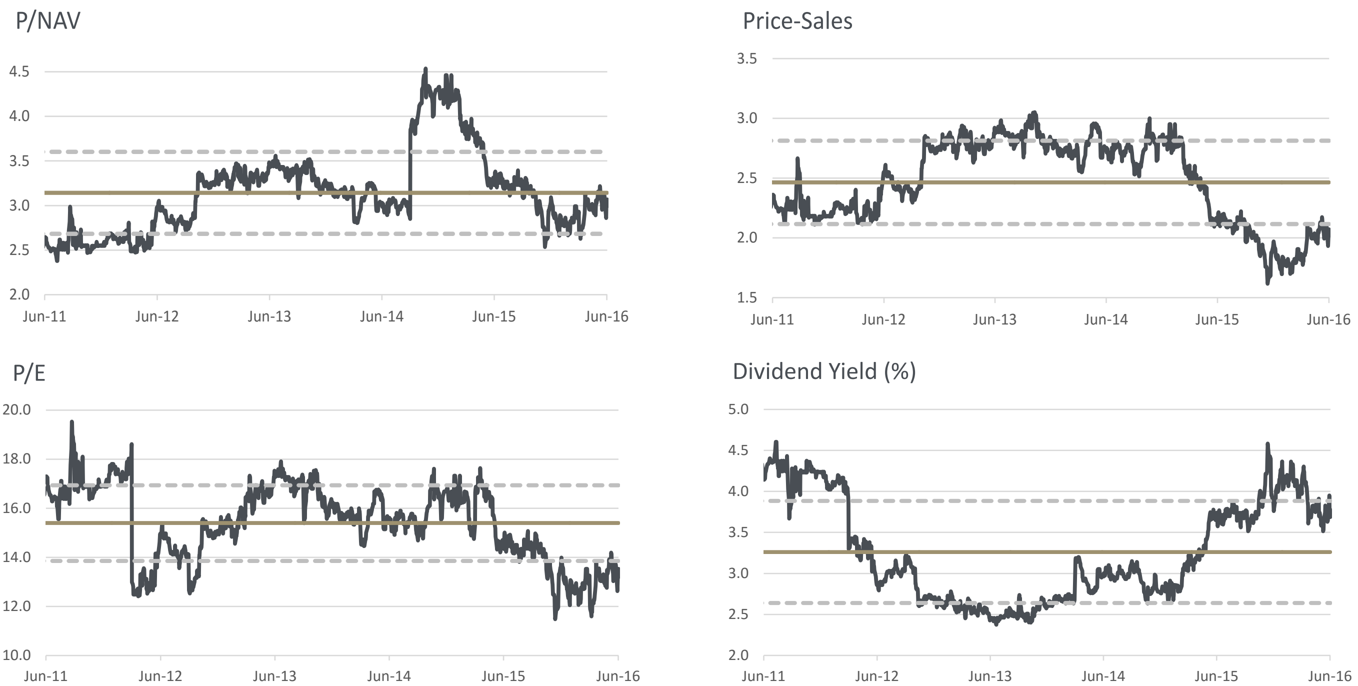
Consumers have been under pressure in recent times due to headwinds from low economic growth, a depressed commodity industry, higher administered costs, higher interest rates and the impact of the drought. Given the expectation that inflation rates might have peaked, aided by a stronger local currency, we highlight the valuation of the travel and leisure sector relative to its longer-term valuation. This sector should be a beneficiary if lower inflation rates impact the direction of interest rates, while current valuations don't seem excessive.

Value metrics: Tsogo Sun Holdings



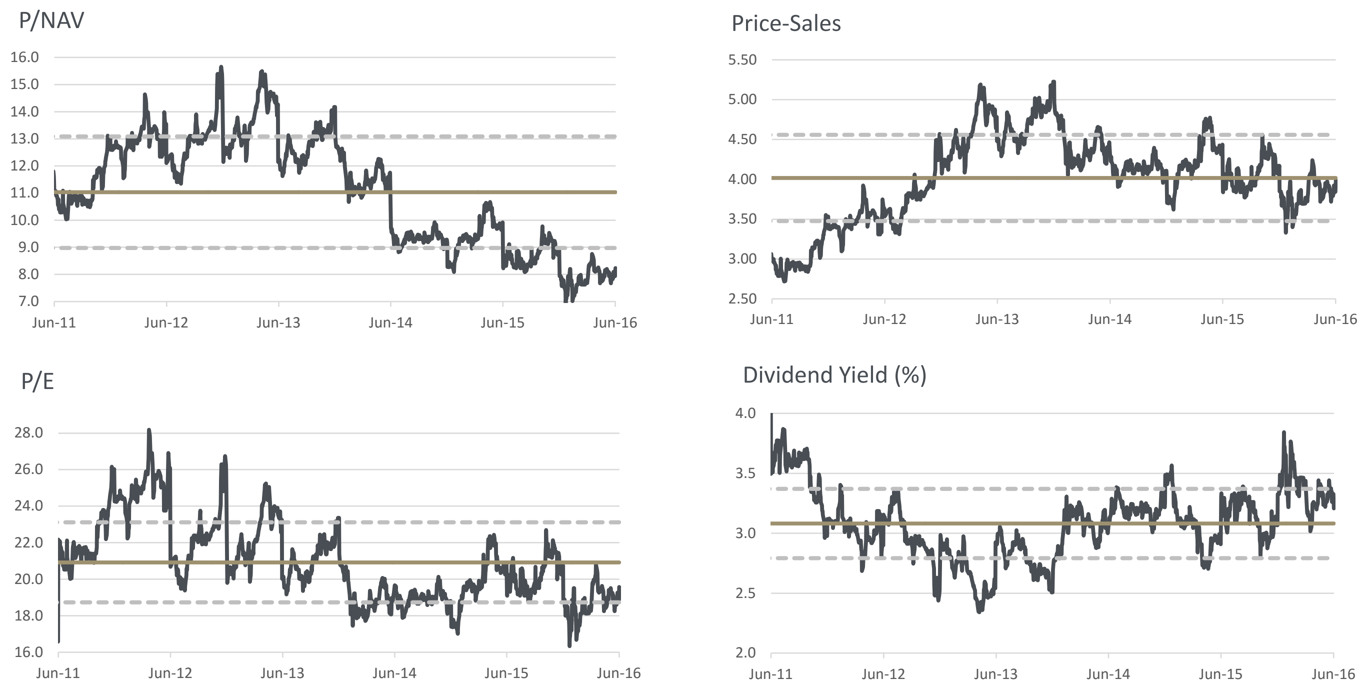
Source: PSG Wealth Investment Division, Bloomberg

On a P/Sales metric, Tsogo Sun looks attractively priced, trading 1.1 standard deviations below its five-year average. A similar trend is seen in the trailing P/E ratio of 13.3 times, being 1.2 standard deviations below the five-year average, and therefore indicating value. This is expected, given subdued gross gambling revenues in this sector in recent years and the lower-than-average travel spend by business and government, which adversely affects hotel operations. The group's P/NAV of 3.1 times, only marginally lower than the five-year average of 3.2 times, indicates that the stock is fairly priced on a historic basis. This measure should, however, be viewed in conjunction with the company's return on equity (ROE), which has been increasing steadily over the past several years. The group's dividend yield, at 3.7%, also offers value, trading at 0.7 standard deviations above its long-term average. Its payout ratio has also been maintained over the review period.

Equity research

On a qualitative basis, the high amount of debt on the balance sheet raises concerns. However, gaming operations are highly cash generative. It is also important to highlight the regulated environment in which these companies have to operate. This can be viewed as both a blessing and a curse. Strict licencing requirements and heavy capital expenditure into gambling properties protect the industry from new competitors. However, unpredictable actions by regulators, such as the proposed changes to the gambling tax regime, can have an impact on profitability.

Value metrics: City Lodge Holdings



Source: PSG Wealth Investment Division, Bloomberg

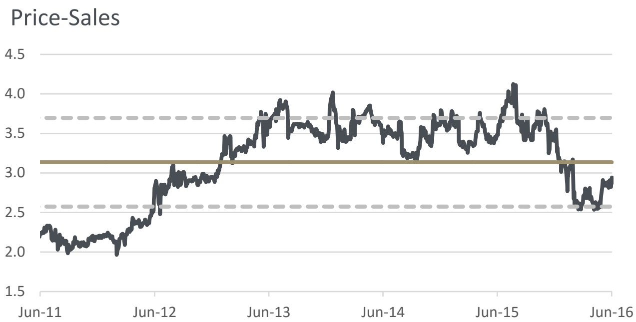
City Lodge seems attractively priced, with its P/NAV and P/E ratios currently trading 1.4 and 0.6 standard deviations below corresponding five-year averages respectively. Both these ratios has been impacted by the declining long-term ROE, but this trend has been reversed and is currently improving.

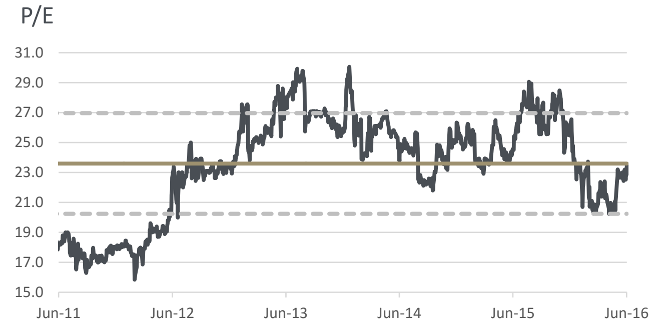
The interpretation of the P/Sales ratio is less clear, as this measure is in line with the historic average. One could argue that this is due to a reduction in occupancy rates after the whole industry invested heavily in the run-up to the 2010 FIFA World Cup, which consequently led to an oversupply of rooms. However, since then, new room growth has been minimal and occupancy rates have been steadily improving. Higher occupancy rates have had a positive effect on the group's margins, although they are still below pre-2010 levels.

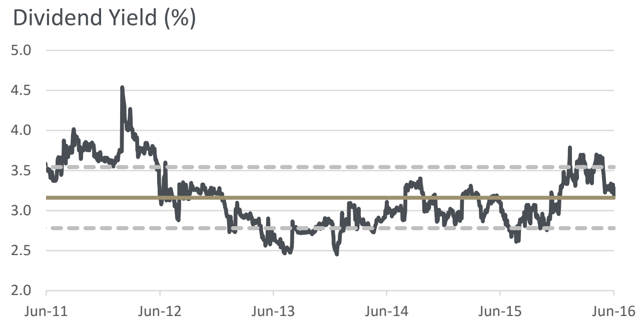
Equity research

With good cash generation, City Lodge has been able to deliver consistent dividends to its shareholders. At the end of June 2016, the share had a historic dividend yield of 3.2%, slightly ahead of its five-year average of 3.1%. Looking forward, several of the headwinds that were faced by the business have now diminished, including the restrictive visa regulations that were implemented and subsequently amended during the course of 2015. Another positive factor for the group's prospects is the weaker average rand exchange rate, which bodes well for foreign travel to South Africa. Nevertheless, the business still faces risks through its dependence on business travellers, which remains closely linked to the domestic economic environment.

Value metrics: Famous Brands Limited







Source: PSG Wealth Investment Division, Bloomberg

The valuation metrics for Famous Brands remain in line with longer-term averages, especially considering that its P/Sales, P/E and dividend yield ratios are trading within 0.3 standard deviations from long-term averages. The only notable exception is the P/NAV, which is currently trading at a 0.6 standard deviation above its long-term average. This can be explained by the group's heavy investment in the vertical integration of its operations, and investments in new brands. Again, the higher multiple is compensated for by a higher-than-average ROE, which reduces valuation concerns.

The capital-light and highly cash generative business models of franchisors remain an attractive investment proposition from a quality perspective. The sector is aided by the demand from 'cash rich but time poor consumers', but the sustained arrival of global competitors will impact its competitive landscape.

Equity research

Conclusion

The examples above highlight how valuation metrics can be excellent screening tools, but cannot be used in isolation. For a thorough analysis, revisions for each long-term average need to be tested on an individual company level. In conclusion, these valuations are extremely useful in analysing past results, investigating industry trends and examining competitors. On a relative basis, you can then take a view on the position of each company in its industry. On a valuation basis, you can be reasonably accurate about the relative attractiveness of one company over another. Within wide parameters, these combined metrics can even forecast if a company's growth is likely to be below average, average or above average.

Fixed income

Rate normalisation is expected to continue, but at an impeded pace

Although rate normalisation has been topical for some time, South Africa's official short-term interest rate has actually only increased by 2% over the last four years. At that stage (July 2012) rates were at 30-year lows of about 8.50%.

What is interesting to note is that the repo rate is now 10.5% - the same level it was about eight years ago in August 2009. At that stage the Monetary Policy Committee (MPC) of the South African Reserve Bank followed very accommodative monetary policies, especially after the strain placed on our economy during the global financial crisis. From June 2008 to August 2009, interest rates were slashed by 5% from 15.5% to 10.5%. Although the general outlook on interest rates has been negative (especially after the MPC indicated that it intends to normalise rates as required), the absolute cost of finance in the economy remains fairly accommodative, relative to long-term averages.

Repo rate increases since 2006

Year	Day and month	Value
2016	18 March	10.50
	29 January	10.25
2015	20 November	9.75
	24 July	9.50
2014	18 July	9.25
	31 January	9.00
2012	20 July	8.50
2010	19 November	9.00
	10 September	9.50
	26 March	10.00
2009	14 August	10.50
	29 May	11.00
	4 May	12.00
	25 March	13.00
	6 February	14.00
2008	12 December	15.00
	13 June	15.50
	11 April	15.00
2007	7 December	14.50
	12 October	14.00
	17 August	13.50
	8 July	13.00
2006	8 December	12.50
	12 October	12.00
	3 August	11.50

Source: South African Reserve Bank

In this context, we believe that rate normalisation is inevitable over the medium term. Although rates are higher than what we have experienced over the recent past, they still remain unsustainably low.

We therefore expect that for as long as inflation breaches the 6% upper target limit by a material margin, the MPC will continue with small incremental rate increases. If the breaches are negligible (as is currently the case) or non-existent, we certainly expect the MPC to follow a more accommodative stance given the poor economic growth we have seen.

We expect the rising interest rate cycle to have a negative impact on more flexible, negatively correlated fixed interest instruments like bonds, preference shares and property income assets. However, given our expectations that these moves will be small, protracted and reasonably anticipated, we don't expect that the impact of these individual hikes in isolation will contribute excessive volatility to capital markets.

The cost of capital will, however, continue to rise as interest rates increase and bond yields adjust accordingly. In addition, recent profile changes to sovereign debt will also negatively impact the cost of capital. We think most of the immediate effects of a potential downgrade of sovereign debt are already reflected in asset prices. However, we are cognisant of a 'second-round effect', which may take place. What the cost of this second round may be, remains uncertain.

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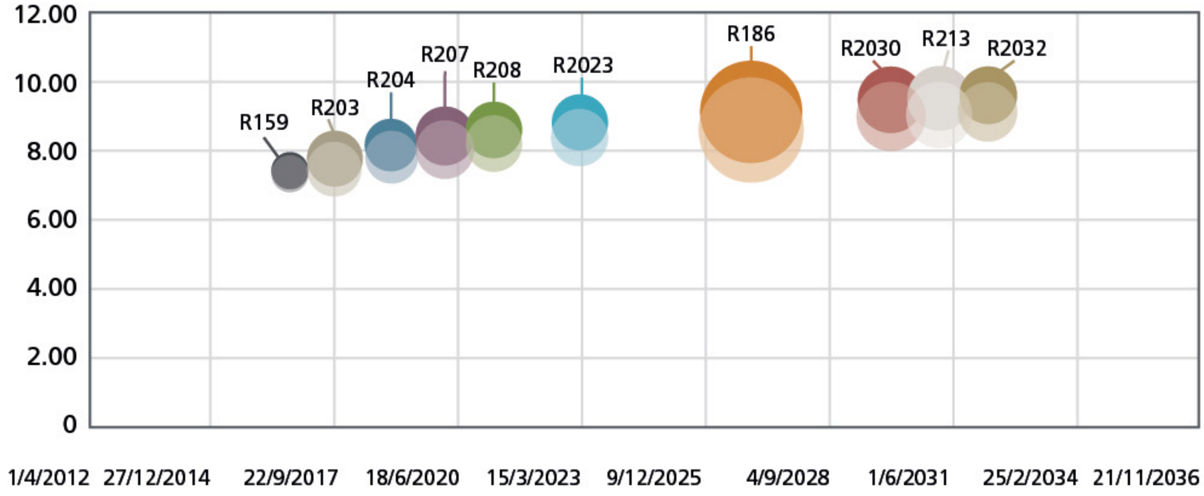
Fixed income

Market capitalisation of local bonds



Source: PSG Wealth Investment Division

Domestic

Government Bonds					
Code	**Maturity**	**Yield**	**Duration**	**Modified Duration**	**Total Price**
R159	2016-09-15	7.44	0.30	0.29	104.47
R203	2017-09-15	7.98	1.23	1.18	102.04
R204	2018-12-21	8.39	2.28	2.19	102.65
R207	2020-02-28	8.71	3.15	3.02	98.27
R208	2021-03-31	8.85	4.12	3.95	92.99
R2023	2023-02-28	9.11	5.22	4.99	95.18
R186	2026-12-21	9.36	6.49	6.20	112.18
R2030	2030-01-31	9.74	7.92	7.55	89.64
R213	2031-02-28	9.77	8.51	8.11	80.33
R2032	2032-03-31	9.85	8.50	8.10	88.65
R209	2036-03-31	9.84	9.78	9.32	70.00
R2037	2037-01-31	9.96	9.10	8.67	90.11
R214	2041-02-28	9.95	10.06	9.58	70.08
R2044	2044-01-31	10.03	9.64	9.18	91.02
R2048	2048-02-28	10.03	9.90	9.43	90.02
Inflation Linked Bonds					
Code	**Maturity**	**Yield**	**Duration**	**Modified Duration**	**Total Price**
R211	2017-01-31	0.75	0.66	0.66	139.53
R212	2022-01-31	1.70	5.25	5.21	145.47
R197	2023-12-07	1.66	6.43	6.38	294.82
I2025	2025-01-31	1.79	7.96	7.89	126.07
R210	2028-03-31	1.81	10.30	10.21	184.15
R202	2033-12-07	1.85	13.80	13.67	243.44
I2038	2038-01-31	1.89	17.31	17.14	131.96
I2046	2046-03-31	1.97	21.66	21.45	130.42
I2050	2050-12-31	1.97	23.89	23.66	140.66

Source: PSG Wealth Investment Division

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Fixed income

Position investments for uncertainty

We believe now is the time to place greater value on both liquidity and quality. There are many unknowns in prevailing market conditions. Therefore, a degree of quality and manoeuvrability are essential components to an investment strategy. We will continue to assess the value-to-risk of investment opportunities as and when they present themselves, and will make adjustments to our solutions accordingly.

Metric	Position	Direction	Reasoning
Modified duration	Underweight	-	Interest rate risk
Credit risk	Underweight	-	Deteriorating domestic economic climate
SA cash	Neutral	+	Real yields entering positive territory
SA sovereign debt	Neutral	+	Negative economic outlook by rating agencies priced in
Nominal bonds (1-3 years)	Overweight		Due to underweight positioning in longer-dated bonds
Nominal bonds (3-7 years)	Underweight		Prefer cash
Nominal bonds (7+ years)	Underweight		Reducing interest rate risk
Inflation-linked bonds	Overweight	-	Stronger rand expected over medium term

Source: PSG Wealth Investment Division

Given the conditions mentioned above, we are in favour of increasing our position in cash and short-dated sovereign debt. We maintain a somewhat more negative view on longer-dated nominal bonds.

Property commentary

Brexit ripples through property market

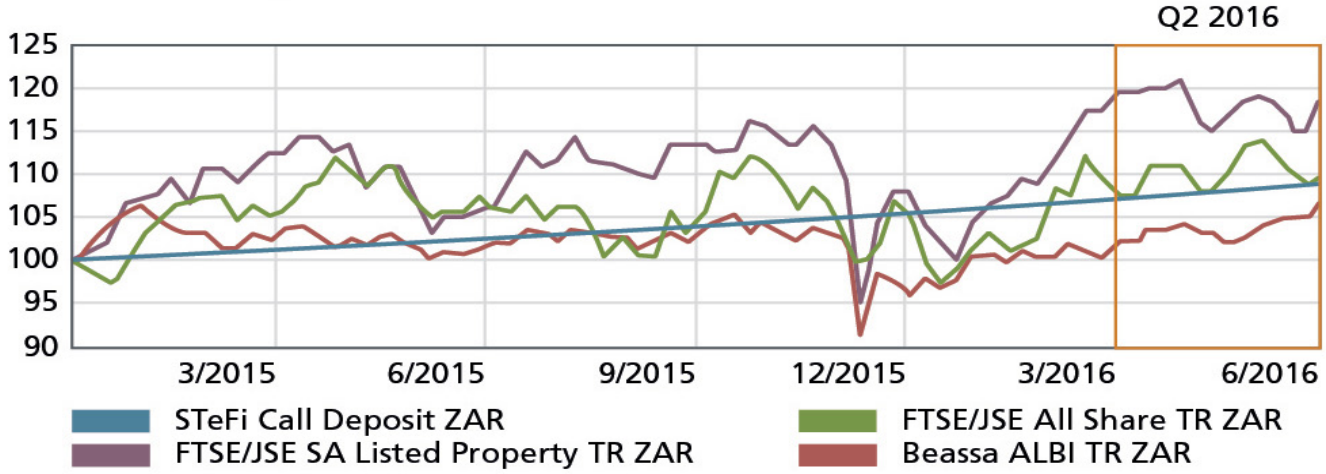
The shockwaves that hit global markets in the aftermath of the 23 June Brexit vote sent similar ripples through the global property market. Brexit was yet another reminder of how quickly the status quo can change. Before Britons voted to exit the European Union (EU), global markets continued their bull trend, pricing in a 'Remain' vote, while the US Federal Reserve (Fed) seemed set on tightening interest rates this year. However, after it became clear Britons wanted to exit the EU, markets adjusted fiercely as investors rushed towards safe-haven assets. The possibility of an interest rate hike by the Fed this year basically disappeared and, worst of all, market uncertainty returned. Over a period of only two trading days, a record amount of $3 trillion was wiped off global markets, according to data compiled by Standard & Poor's Dow Jones indices. The losses on the day after the vote alone amounted to $2.1 trillion. This is now marked as the largest loss in a single trading day, surpassing the $1.9 trillion erased on 29 September 2008 after the collapse of the Lehman Brothers.

The impact of Brexit on the local property market

Locally, listed property shares suffered an initial loss, falling 5.02% over the two trading days, but recovered strongly towards the end of June. However, rand-hedged property stocks, in particular those with UK and greater European exposures, were not so fortunate. Counters such as Capco and Intu continued to fall in the aftermath. According to Societe Generale, the timing of Brexit couldn't have been worse 'as the UK property cycle already looked set to reverse under fast-rising speculative supply'.

Investment growth

Time period: 2015/01/01 to 2016/06/30



Source: Morningstar Direct

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Property commentary

After a strong first quarter, the SA Listed Property Index (SAPY) performed the worst out of the four traditional asset classes. In the second quarter, the SAPY lost 0.43%. South African bonds were the best-performing asset class, after investors embraced the 'risk-on' environment and sought the relative safety of fixed income securities. In June, South African bonds returned 4.40%, followed by local cash (1.64%) and domestic equities (0.44%). The yield to maturity on the local R186 bond strengthened considerably, falling by 30 basis points to end the quarter lower at 8.83% (compared to 9.13% on 1 April 2016). As of 30 June, the historic rolled income yield of the SAPY stood at 5.96%.

Reporting season

The reporting season kicked off in May with most companies reporting either half- or full-year results. Here are some of the highlights:

Company	Market cap in rands	Reporting period	DPS growth
Accelerate	4 778.27	Full year	9.1%
Arrowhead	8 146.57	Interim	9.5%
IAPF	3 633.91	Full year	12.1%
Investec Property Fund	6 480.06	Full year	4.6%
Octodec	5 672.19	Interim	1.7%
Pivotal	5 454.03	Full year	N/A
Rebosis	5 535.71	Interim	8.3%
Redefine	51 717.68	Interim	6.9%
Redefine International	13 952.63	Interim	2.0%
Sirius	7 402.28	Full year	38.0%
Vukile	10 791.21	Full year	7.0%

Source: Morningstar Direct, various company results, Catalyst Fund Managers

Despite bleak domestic economic conditions, a multitude of companies reported double-digit distributions growth in the first reporting season of this year. This quarter's reporting season showcased softer growth figures. In our view, the effect of a lacklustre local economy will start to filter through in reporting seasons to come. This became evident when the local listed REIT, Emira Property Fund, became the first to forecast a negative distribution growth for its next reporting season. The lower growth environment will continue to impact vacancies, which will put downward pressure on rentals, especially in the office sector.

Corporate activity

For some time now we have written about the trend amongst local property companies to diversifying their assets offshore. This is in an attempt to mitigate local conditions, while also increasing opportunities abroad. The Accelerate Property Fund became the latest supporter of this trend, after announcing in April that it is in the process of establishing an investment platform that will provide the group with exposure to income-generating properties and development opportunities in Central and Eastern Europe. It has identified an initial portfolio equating to roughly €140 million that consists of big box retail properties located in Austria and Slovakia. The anticipated acquisition yield of this portfolio is approximately 7.1%.

In May, Rebosis released a cautionary announcement advising shareholders that it has entered into negotiations for the potential acquisition of some or all of the assets of the Billion Property Group. The potential size of this transaction will be in the region of R6 billion.

Property commentary

In June, NEPI announced that it has concluded an agreement to acquire a 79 100m² retail shopping centre in Sibiu, Romania for €100 million from the Argo Group. The group also announced that it will acquire the remaining 30% stake in its 75 500m² flagship shopping mall, Mega Mall (Bucharest), its largest development to date. In addition, it also acquired a 3.3ha land plot in Novi Sad (Serbia), which it has earmarked for the development of a 50 000m² shopping mall.

Best performers

In the second quarter, the top 10 best performing listed property companies continued to be dominated by hybrid property stocks (local and offshore exposure), as opposed to 100% rand-hedged stocks. In fact, in the aftermath of Brexit, the more you were exposed to the UK and greater European areas, the worse off you would have been. This is evident when you look at the performances of Capco (-17%), Intu (-11.8%), MAS Real Estate (-11%), Nepi (-10.6%) and Stenprop (-7.3%), which are all heavily exposed to these areas.

Top 10 best performers:

Rank	Company	Q2 Return (Cumulative)
1	Hyprop Investments Ltd	10.4%
2	Hospitality Property Fund Ltd Class A	9.1%
3	The Pivotal Fund Ltd	7.5%
4	SA Corporate Real Estate Fund	6.6%
5	Vukile Property Fund Ltd	4.9%
6	Investec Property Fund Ltd	4.9%
7	Growthpoint Properties Ltd	4.5%
8	Hospitality Property Fund Ltd Class B	2.6%
9	Investec Australia Property Fund	0.7%
10	Fortress Income Fund Ltd Class A	0.5%

Source: Morningstar Direct

Top 10 worst performers:

Rank	Company	Q2 Return (Cumulative)
1	Capital & Counties Properties PLC	-17.0%
2	Intu Properties PLC	-11.8%
3	MAS Real Estate Inc	-11.0%
4	Emira Property Fund Ltd	-10.6%
5	New Europe Property Investments PLC	-10.6%
6	Octodec Investments Ltd	-10.1%
7	Stenprop Ltd	-7.3%
8	Rockcastle Global Real Estate Co Ltd	-4.3%
9	Attacq Ltd	-3.5%
10	Resilient REIT Ltd	-2.8%

Source: Morningstar Direct

Global listed property

The FTSE EPRAN/NAREIT Developed Rental Index recorded a net total return of 4.50% (in USD) for the second quarter of 2016. North America topped the log for the best performing listed real estate market, and recorded a total return of 6.51% (in USD). The UK was the worst performing listed real estate market, returning a negative 13.37% return (in USD) over the same period.

The UK real estate market suffered a negative 21% return from 23 to 30 June, in the aftermath of Brexit. According to Societe Generale, the London office sector is expected to suffer the most, with London office rentals estimated to fall by 24%. Concerns around office rentals declining are not only due to lower demand for space as a result of Brexit, but also due to the amount of new office supply currently under construction.

Positioning

We anticipate seeing the effect of a lacklustre local economy start to filter through in reporting results going forward – especially as sluggish demand for vacant space continues to put pressure on rentals. Regarding Brexit,

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Property commentary

our concerns mainly revolve around property companies with exposure to office space in London. However, the full impact on UK property values remains uncertain. We will continue to monitor the risks of illiquidity in the South African listed property sector, which remains a general concern. We remain of the view that the interest rate cycle will impact domestic economic strength, affordability and sentiment. Where we are required by mandate to hold listed property, we prefer to hold counters with the following characteristics:

- low price-to-book values
- low levels of debt/gearing and strong credit ratings
- globally diversified portfolios, or counters that generate earnings abroad (like New Europe)
- utilisation of structures that offer superior liquidity, like REITs
- superior distribution growth track records

Preference shares

The FTSE/JSE Preference Share Index generated a gain of 9.0% (total return) in the second quarter of 2016. This strong recovery in prices brings the total six-month return to 14% and the 12-month return to 11.7%. The recent push is surely welcomed by preference share investors, given that the total return for 2015 came in at a meager 2.6%.

Returns on income orientated asset classes

	1 month	3 months	6 months	1 year
Beassa 1-3 Year TR ZAR	1.5	2.9	6.2	7.5
Beassa 7-12 Year TR ZAR	4.3	4.1	11.1	5.7
FTSE/JSE Preference Share TR ZAR	1.6	9.0	14.0	11.7
FTSE/JSE SA Listed Property TR ZAR	1.2	-0.4	9.6	11.0
STeFI 6 Month NCD ZAR	0.5	1.6	3.2	6.2

Source: i-Net BFA

Issued yields expressed as a percentage of prime are generally below the prime rate. However, some current effective yields (yield over clean price) are generally above prime at 10.50%, due to lower prevailing clean prices.

23 June 2016	Standard	ABSA	Firstrand	Nedbank	Inv-Ltd	Inv-Bank	Inv-Pref	Capitec	Sasfin
Value	SBPP	ABSP	FSRP	NBKP	INPR	INLP	INPPR	CPIP	SFNP
Price (R)	R 86.50	R 775.01	R 81.85	R 9.15	R 78.90	R 84.00	R 100.50	R 90.50	R 81.00
Yield as % of prime	77.00%	70.00%	75.56%	83.33%	77.78%	83.33%	95.00%	83.33%	82.50%
Dividends	Non-cum	Non-cum	Non-cum	Non-cum	Non-cum	Non-cum	Non-cum	Non-cum	Non-cum
Accrued dividends	R 1.62	R 16.11	R 2.49	R 0.22	R 0.38	R 0.41	R 0.46	R 2.35	R 1.73
Clean price	R84.88	R 758.90	R 79.36	R 8.93	R 78.52	R 83.59	R 100.04	R 88.15	R 79.27
Liquidity	SBPP	ABSP	FSRP	NBKP	INPR	INLP	INPPR	CPIP	SFNP
Market cap (Rm)	R 4.583m	R 3.832m	R 3.683m	R 3.279 m	R 2.542m	R 1.298m	R 229m	R 182m	R 150m
Avg monthly trade (Rm)	R 67.41m	R 47.90m	R 53.52m	R 102.28m	R 31.48m	R 24.61m	R 3.08m	R 2.76m	R 6.56m
% of market cap traded monthly	1.47%	1.25%	1.45%	3.12%	1.24%	1.90%	1.34%	1.52%	4.36%
Effective yield as a % of prime	90.71%	92.24%	95.21%	93.30%	99.06%	99.69%	94.97%	94.53%	104.08%
Effective yield	9.52%	9.69%	10.00%	9.80%	10.40%	10.47%	9.97%	9.93%	10.93%

Source: Grindrod Bank

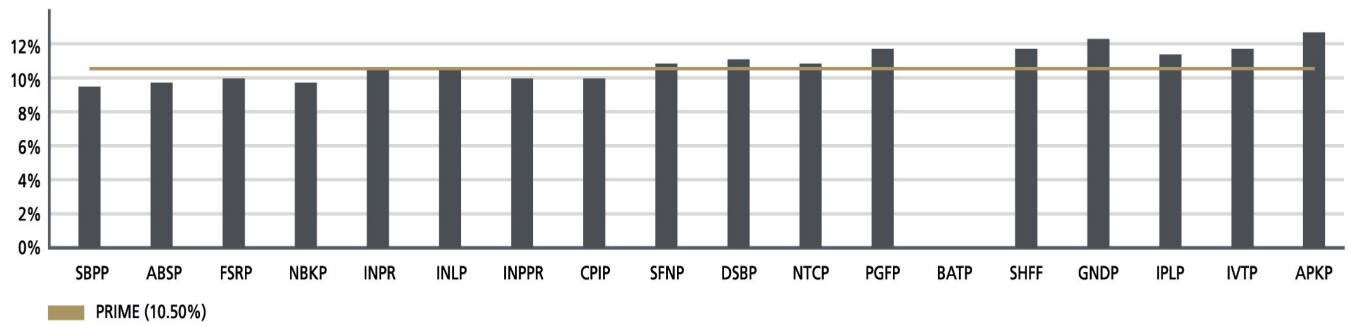
Preference shares

Domestic preference shares characteristics (continued)

23 June 2016	Discovery	Netcare	PSG	Brait	Steinhoff	Grindrod	Imperial	Invicta	Astrapak
Value	DSBP	NTCP	PGFP	BATP	SHFF	GNDP	IPLP	IVTP	APKP
Price (R)	R 98.20	R 81.00	R 77.51	R -	R 75.50	R 77.00	R 78.00	R 96.85	R 75.75
Yield as % of prime	100.00%	82.50%	83.33%	104.00%	82.50%	88.00%	82.50%	102.00%	88.89%
Dividends	Non-cum	Cum	Cum	Cum	Cum	Cum	Cum	Cum	Cum
Accrued dividends	R 3.10	R 1.07	R 2.35	Redeemed	R 1.73	R 2.48	R 2.33	R 6.26	R 2.51
Clean price	R 95.10	R 79.93	R 75.16	R -	R 73.77	R 74.52	R 75.67	R 90.59	R 73.24
Liquidity	DSBP	NTCP	PGFP	BATP	SHFF	GNDP	IPLP	IVTP	APKP
Market cap (Rm)	R 786m	R 527m	R 1.350m	R m	R 1.133m	R 570m	R 354m	R 726m	R 114m
Avg monthly trade (Rm)	R 7.96m	R 2.95m	R 13.41m	R 2.03m	R18.19m	R 10.52m	R 3.88m	R 6.48m	R 1.80m
% of market cap traded monthly	1.01%	0.56%	0.99%	0.00%	1.61%	1.85%	1.10%	0.89%	1.59%
Effective yield as a % of prime	105.15%	103.21%	110.87%	0.00%	111.84%	118.09%	109.02%	112.60%	121.36%
Effective yield	11.04%	10.84%	11.64%	0.00%	11.74%	12.40%	11.45%	11.82%	12.74%

Source: Grindrod Bank

Effective yield



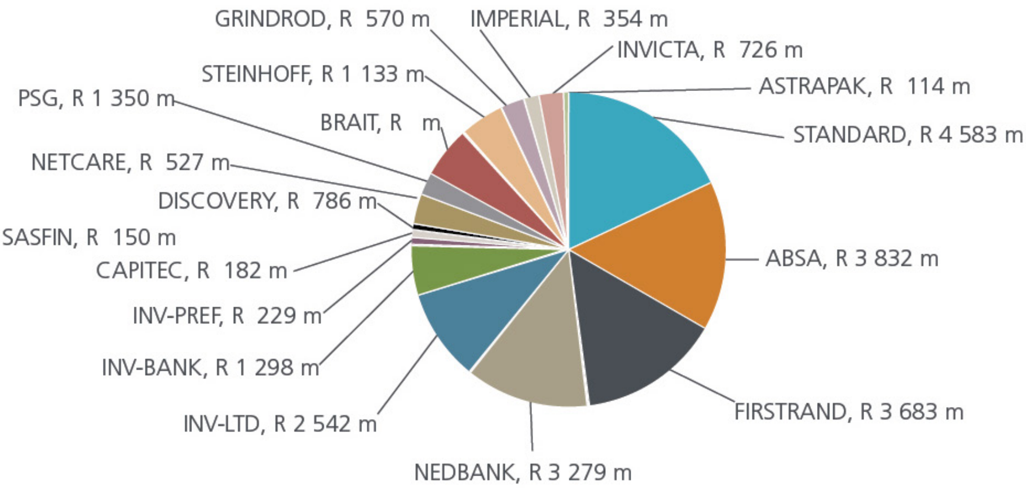
Source: PSG Wealth Investment Division

Some market capitalisations are well below R1 billion, and some trading volumes remain very low in absolute terms. Investors should be mindful of potential liquidity constraints on certain preference shares. In many cases it is more sensible to consider a unitised product consisting of a diversified selection of preference shares. These collective investment scheme structures also offer additional peace of mind in terms of approval from the Financial Services Board, improved liquidity and ongoing portfolio management.

The first announcement by one of the big domestic banks (Nedbank Group Limited) was on 14 April. Nedbank announced that they intend to start a buy-back programme, but did not indicate the size of the buy-back. This is substantial, because Nedbank is the fourth-biggest issue (R3.28bn) on the FTSE/JSE Preference Share Index.

Preference shares

Market capitalisation



Source: Grindrod Bank

Current risks for preferences shares

Although preferences shares can be seen as suitable income-generating investments for some high-net-worth investors, and although prime-linked yields are set to increase as interest rates eventually normalise, we feel that there are some significant capital risks in this asset class.

With the domestic economy struggling, any further downgrades to South African sovereign ratings, local banks or state-owned enterprises that are guaranteed by the South African government become increasingly likely.

If this happens, large international institutional investors and passive investment funds may be compelled to exit these markets. This will drive yields higher and will put capital values of preference shares under pressure.

In addition, liquidity is an investment characteristic that we don't easily sacrifice, as it often places an investor in the position of price-taker when fundamental asset values are skewed disproportionally to what can be obtained in the open market.

Banking preferences and Basel III

Basel III capital adequacy requirements stipulate that banks must hold specified minimum amounts of capital in their tier 1 common equity, as set out by the South African Reserve Bank (SARB). Existing preference share listing documents of South African banks currently do not satisfy the requirements under Basel III. However, the SARB has allowed a 'grandfathering' period during which preference shares allocated towards tier 1 capital will be reduced by 10% per annum (currently 70%).

Over the last year we have communicated that we expect some banks to repurchase their preference shares in the open market, or incentivise investors to accommodate any changes to the legal risks in the listing documents.

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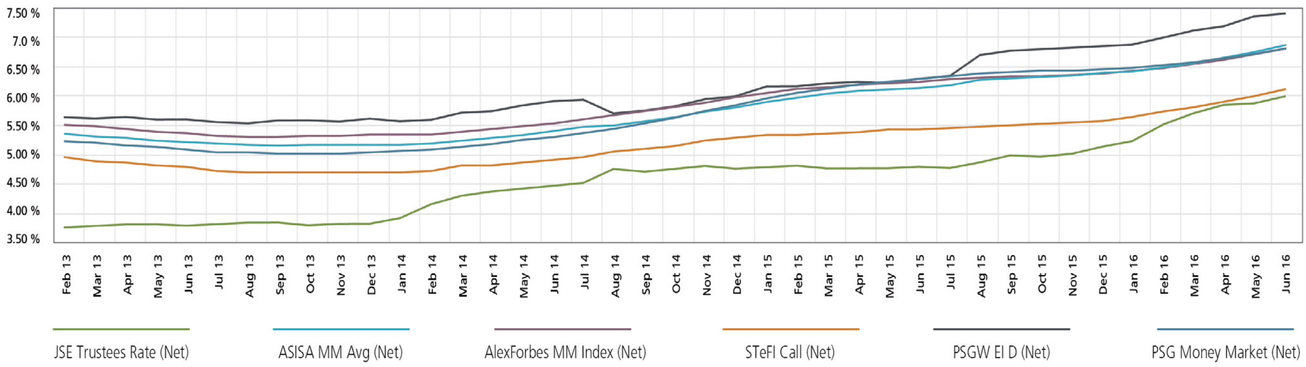
Cash management options

The effective after-cost yields for both the PSG Wealth Enhanced Interest Fund (7.38%) and the PSG Money Market Fund (6.86%) are currently well above the SteFI call rate (6.16%). The average yield of the ASISA Money Market Fund peer group is 6.91%.

Rate comparison (net of fees)



Source: PSG Wealth Investment Division, Morningstar, JSE, Investec

Both these funds invest only in investment-grade instruments and are Regulation 28 compliant. The PSG Money Market Fund retains a slightly shorter duration as required by its fund classification and mandate. The mandate of the PSG Wealth Enhanced Interest Fund maintains a slightly higher duration profile to enhance yield. The JSE Trustees rate (net 6.04%) offers a reasonable yield for investors who wish to keep cash in their stockbroking accounts. This will enable swift action if and when equity investment opportunities present themselves.

Interest rate hikes probably delayed for now

On 30 June, the South African forward rate curve was pricing in rate hikes totalling 0.50% over the next three meetings by the South African Reserve Bank's Monetary Policy Committee (MPC) (scheduled for July, September and November).

In our view, these hikes are unlikely to materialise given prevailing weak economic conditions and the fact that inflation has only moderately breached its upper target limit. Currently, inflation only breaches the upper target by 10 basis points, while economic growth is negative.

Cash plays a strategic role in the portfolio management process

Although cash rates are only marginally positive in real terms, we feel that cash is playing an increasingly important role in the portfolio management process. Cash helps to reduce overall portfolio volatility. It also gives active managers access to funds so that they can take advantage of investment opportunities in equity markets as volatility increases.

That being said, we strongly discourage clients from investing solely in cash in an attempt to time markets. By adopting such a strategy a whole range of other unintended risks are introduced to longer-term wealth creation prospects. Both longevity risk and inflation risk could increase to excessive levels. Please refer to our special report on the topic on page 4 of our June edition of the *PSG Wealth Monthly Insights* by clicking here.

Theme spotlight

Opportunities in fintech abound

Technology is drastically changing established workflows and processes in the financial services industry. Tasks once handled with paper money, a bulky computer and human interaction are increasingly being completed entirely via digital interfaces. Given how pervasive financial services are across the globe, the disruption opportunities for fintech start-ups are massive. Such start-ups, some of which have gathered enormous investments, are re-imagining almost every type of financial activity. Meanwhile, traditional industry players are trying to understand the threats and opportunities the fintech revolution presents — how can the rise of digital improve their value proposition?

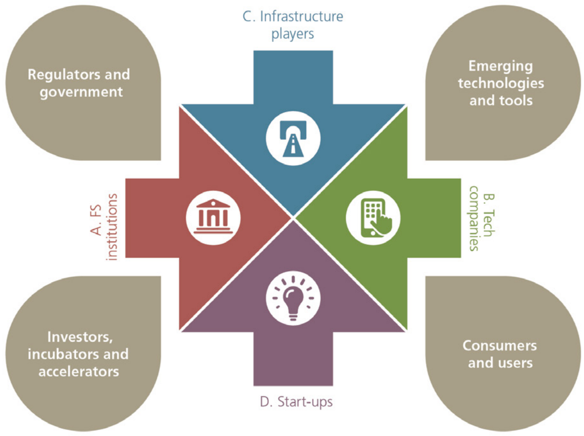
What is Fintech?

Fintech is a dynamic segment at the juncture of the financial services and technology sectors, where technology-focused start-ups and new entrants reinvent the products and services currently provided by the traditional financial services industry. Of which robo-advisers are just one part. The PwC Fintech Global Report released in March 2016 found that fintech is gaining significant momentum and causing disruptions to the traditional value chain.

The PwC Fintech Global Report March 2016 found that:

- more than 20% of financial services are at risk of being replaced by fintech alternatives by 2020
- up to 28% of banking and payments businesses will be at risk by 2020
- up to 22% of insurance, asset management and wealth management businesses will be at risk by 2020
- 74% of insurance companies identified their own industry as being most at risk, while only 26% of players from other sectors agreed
- 51% of asset managers said their industry will be disrupted, while only 31% of other players agreed

Fintech is a complex ecosystem



Source: PwC Fintech Global Report March 2016

Fintech companies are characterise by the following:

- online solutions rather than a personal touch
- use software to make their investment decisions
- fees lower than many traditional firms
- lower minimum investments
- improved simplicity
- make wealth management fun
- disappearing barriers to entry

Source: PwC Fintech Global Report March 2016

PSG Wealth

Theme spotlight

Fintech funding

According to the research conducted by PwC, funding for fintech start-ups keep rising.

"Funding of fintech start-ups more than doubled in 2015 reaching $12.2 billion, up from $5.6 billion in 2014 based on the companies included on our DeNovo platform. Cutting-edge fintech companies and new market activities are redrawing the competitive landscape, blurring the lines that define players in the financial services sector," the PwC report states.

In an earlier study, KPMG found that global investments in fintech have more than tripled to $3 billion in 2013 from $930 million in 2008.

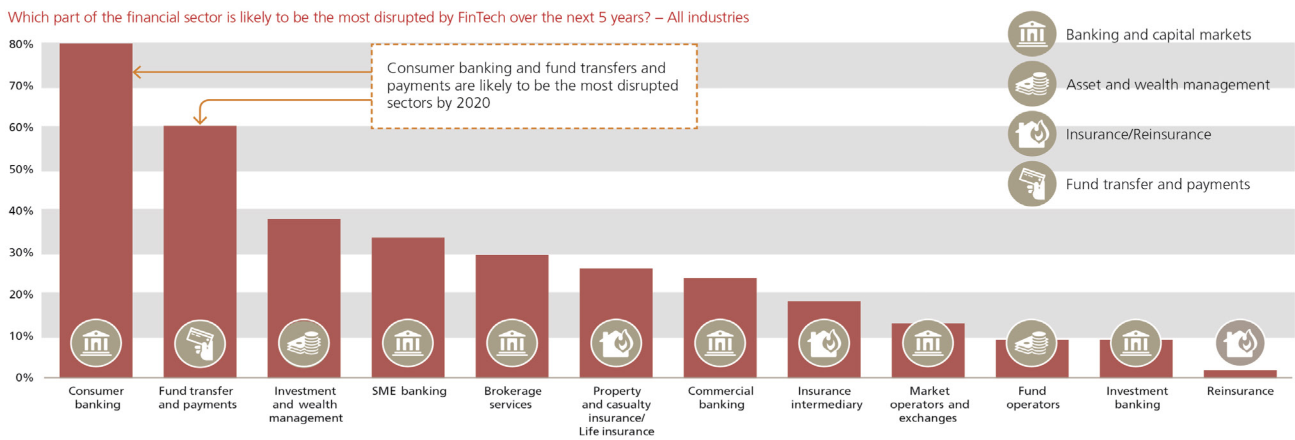
Patterns of disruption

These new tech partnerships mainly offer a mass market approach to financial planning and wealth management. However, shifting patterns of disruption are pushing these start-ups deeper into traditional wealth management territory. According to a study by KPMG, challenges traditional wealth management firms may need to contend with include disruptions in regions around client engagement, margin pressure and market share.

PwC found that the majority of their survey participants see fund transfers, payments and consumer banking as the sectors most likely to be disrupted over the next five years (see the graph below).

"In consumer and commercial lending, for example, the emergence of online platforms allows individuals and businesses to lend and borrow between each other. Lending innovation also manifests itself in alternative credit models, use of non-traditional data sources and powerful data analytics to price risks, rapid customer centric lending processes, and lower operating costs. In recent years, the payments industry has also experienced a high level of disruption with the surge of new technology-driven payments processes, new digital applications that facilitate easier payments, alternative processing networks and the increased use of electronic devices to transfer money between accounts."

Areas of disruption



Source: PwC Fintech Global Report March 2016

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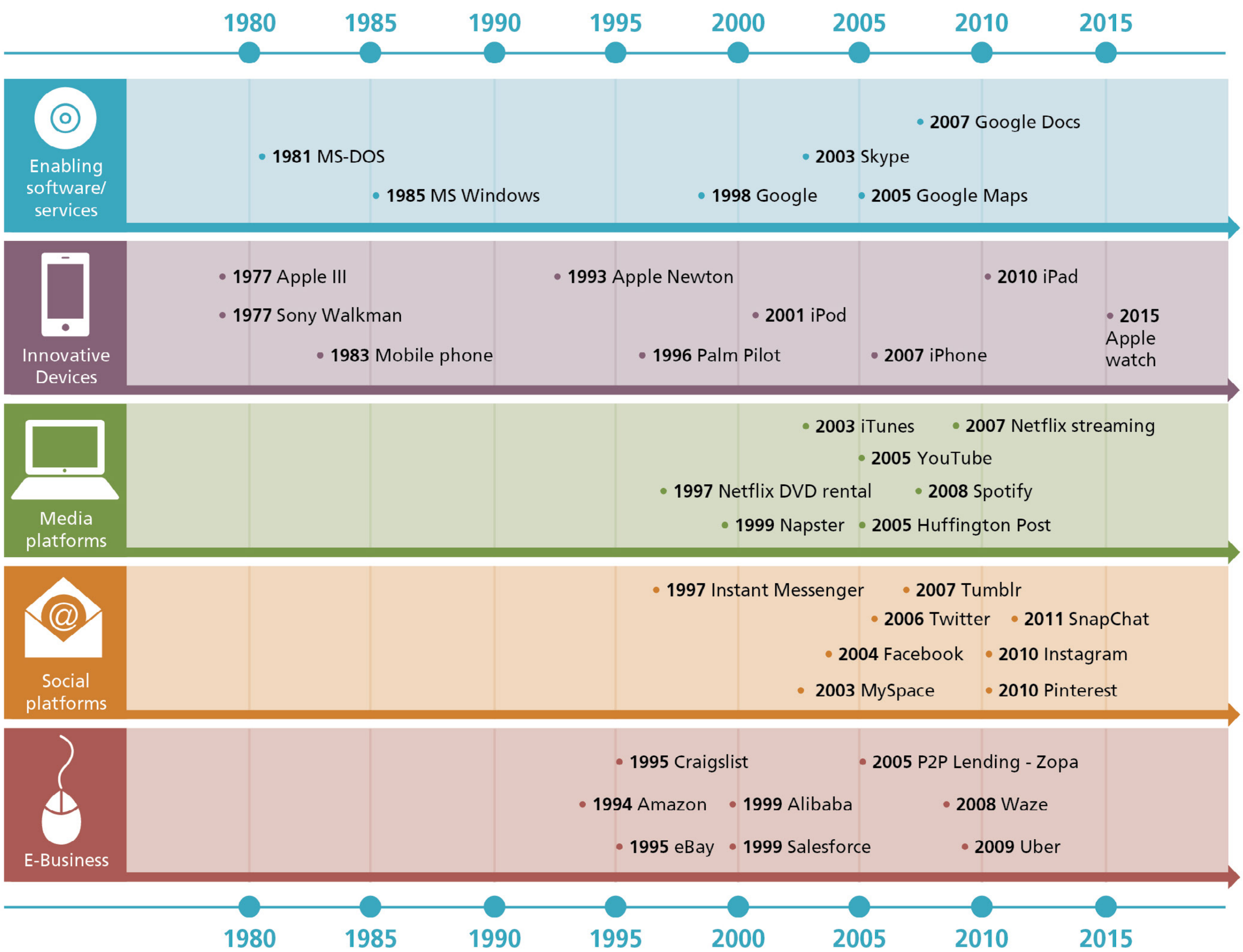
Although fintech is already reshaping certain parts of the financial services value chain, PwC found that a second flood of disruption is making inroads in the asset management and insurance sectors.

"Our survey found that this perception is confirmed by insiders. Nearly half of insurers, as well as asset and wealth managers, consider their respective industries to be the most disrupted, when asked which part of the FS (financial services) sector is the most likely to be disrupted by fintech over the next five years."

Technology timeline



Source: KPMG International 2014

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Theme spotlight

Technology can't always replace the value of human interaction, but does offer some benefits

The rise of robo-advice has sparked debates about its impact on the future of traditional financial advice. In this context, traditional advice is where investors have a personal relationship with a financial adviser who understands their goals, preferences, fears and family circumstances and manages their wealth accordingly.

Robo-advisers are creating low-cost, personalised investment advice and automated portfolio management to mimic smarter investor behaviour at scale. By implementing extremely low marginal cost solutions for advice and investment management, automated investing enables advisers to profitably offer services to a wider spectrum of clients than ever before. This is central to the 'robo' business model and the essence of democratising investing.

Although digital investment technology can be a helpful investment tool for some investors, personal advice is crucial to interpret the results delivered by the technology. In other words, robo-advice cannot completely replace the value of human interaction and engaging with an adviser who knows you personally and who can suggest the most appropriate products for your situation and needs. For investors who need advice on their wealth portfolio or certain aspects thereof, it would be prudent to view robo-advice as complementary to face-to-face advice, not as a replacement for it.

It is also important to be aware of the limitations of technology – the output is only as good as the input. A digital system cannot take into account your attitude towards money (beyond a basic evaluation of your risk appetite), your personality, your family situation and any other temporary or permanent circumstantial factors. It will only process the information you can (and do) provide.

At PSG Wealth, we believe personal advice is crucial to interpret the results delivered by the technology. It is therefore important to understand that digital investment services are complementary to face-to-face advice, not a replacement for it, and it's crucial that you use the technology appropriately.

Participants in the PSG Wealth Investment Division's autumn survey on digital disruptions largely agreed. The majority were positive about what these technologies could offer the industry. In fact, over 51% feel that digital changes in the financial services industry will be more productive than disruptive to wealth managers. This compares to just over 2% of respondents who feel that it will be more disruptive than productive in the life of a wealth manager. (See survey results in the box on the next page).

Turning potential challenges into opportunities

An emerging trend is how technology is creating and enabling digital experiences with human support through the use of innovation. According to KMPG, wealth managers are increasingly using analytics solutions at every stage of the customer relationship to increase client retention and reduce operational costs. Smaller firms who do not adapt to these technological advances, could see these technological developments as threats. However, PSG Wealth spends lots of time and money to ensure that measures of effectiveness, efficiency and reliability are achieved. Digitisation is part of this strategy. It ensures that systems are reliable and constantly improved, and that clients are serviced in the most efficient and cost-effective manner.

PwC notes that many investment firms have already started to leverage the fintech ecosystem to their advantage. Mobile applications like 22Seven, Nutmeg and Betterment are just a few of these ventures already in the market. These applications employ traditional algorithm-based portfolio management to create low-cost online portfolios that appeal to tech-savvy investors, with minimal involvement by a human adviser.

While banks are responding to the challenge by providing a renewed digital customer experience, the PwC survey shows that major trends for fund transfer and payments

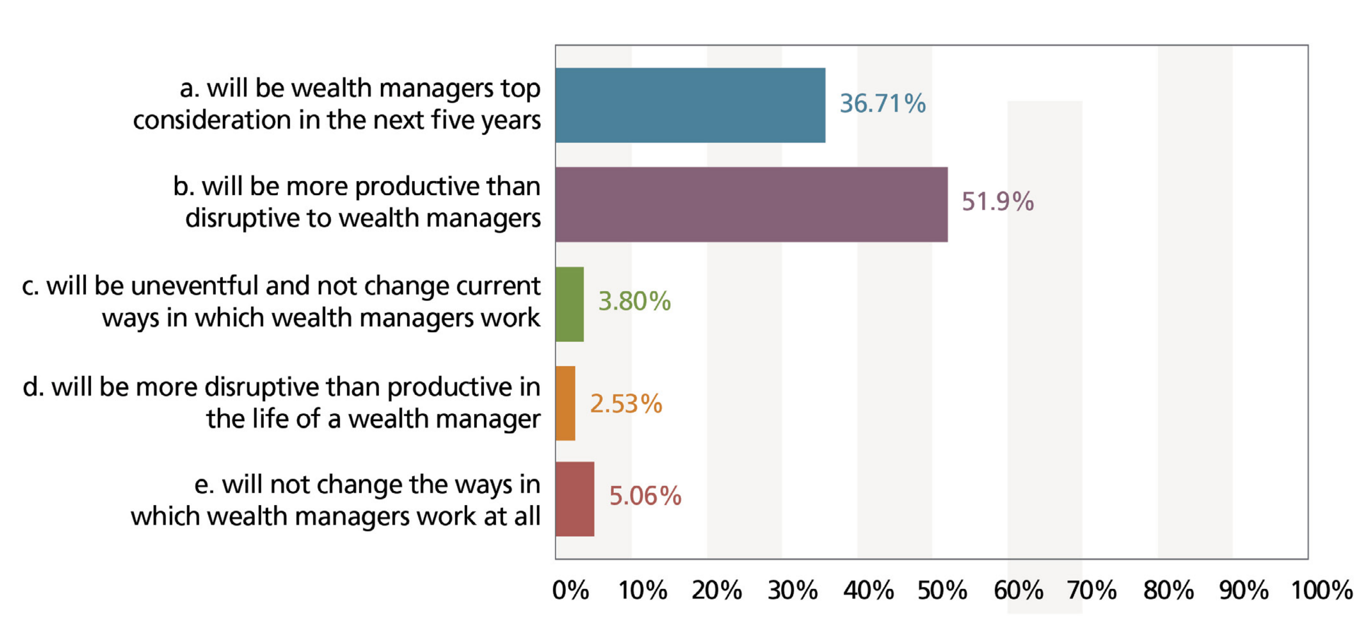
Theme spotlight

companies are related to increased ease and security of payments. In the asset and wealth management industries, shifts are being seen from technology-enabled human advice to human-supported technology-driven advice. However, technology in this space is not new. The emergence of data analytics in the investment space has enabled firms to hone in on investor needs and deliver tailored products and automated investing functionality. Additionally, innovations in lending and equity crowdfunding are providing access to asset classes formerly unavailable to individual investors, such as commercial real estate.

John Heggestuen, a managing analyst at *Business Insider* who has been studying the fintech phenomena for the last few years, adds that the market is moving toward partnerships with start-ups to maintain their competitive advantage.

"What fintechs are finding is that customer acquisition and compliance are expensive, and with pressure from investors to scale, partnering makes sense. It provides an opportunity to gain access to a large customer portfolio without needing a banking license. For legacy players it's an opportunity to give their customers the option of a

Autumn survey results: Digital disruptions in the financial services industry



Source: PSG Wealth Investment Division survey introduced in the autumn edition of the *PSG Wealth Investment Research and Strategy Report.*

Winter 2016 survey: passive vs active

Take part in our new survey on passive vs active by clicking here.

The results from each quarter's question will be discussed in the next edition of the report.

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better user experience without having to build it themselves."

According to Heggestuen, these partnerships could turn into acquisitions, but he advises that the 'try before you buy' model is key.

"Legacy institutions tend to be risk averse, and there are also huge barriers that must be overcome in order to make a partnership work. For example, banks and fintech start-ups have very different cultures, and it takes time to figure how to work together effectively and build trust. Once it becomes clear that these barriers can be overcome, then an acquisition becomes more likely. The best implementation of this model is for legacy institutions to set up an accelerator. That way, partnerships start at inception, and fintech business models can be developed specifically for partnerships."

He adds that wealth management has so far been relatively insulated from the retail fintech disruption due to barriers around technology and regulation. However, technology is catching up and he adds that changes to regulation could be next.

The way forward

Industry players need to be aware that it is not just technological advances driving the fintech ecosystem, but also the change in demographics around the globe. Younger tech-savvy investors are demanding a different type of service and price. KPMG adds that wealth management is no longer reserved for the wealthy.

"By applying 'customer-friendly' technologies, robo advisers reach an under-served segment of younger and smaller investors who are largely ignored by traditional wealth firms. As such, robo-advisers are well-positioned to win their share of the anticipated wealth transfer to Millennials from their Baby Boomer parents. Their recent growth is impressive (estimated at $5 billion in assets under management). However, this is barely a fraction of the $18 trillion retail investment market. Most adopters of robo-advisers are younger and enjoy the ability to do their own research. They want to be informed and to be in control. (They also) feel more self-confident online than their Baby Boomer parents."

Those industry players surveyed by PwC are positive about the way forward. Their survey found that 78% of CEOs support the integration of fintech at the top levels of management. A total of 61% also believes that over the next five years, more than 60% of their clients will be using mobile applications (at least once a month) to access financial services. And most believe that whether financial services adopt digital or mobile strategies, integrating fintech into their business model is essential.

This will ensure that fintech does not just become about cutting costs. Rather, it becomes a way to deliver a differentiated offering to a broader range of clients, improve customer retention and bring in additional revenues.

Winter 2016 survey: Active, passive or gamma?

There has been a plethora of opinions and pieces on which funds are best - passive or actively managed funds. However, do these discussions truly lead to investor success? According to one author from Morningstar "active versus passive has been an overhyped sideshow. Disciplining investors to hold out-of-favour assets, to not chase hot products, to rebalance and to maintain contributions in tough times -- the things a good advisor does -- these are the things that ultimately determine investor success. We are all in the behaviour-modification business. Which types of funds we use to enact that behaviour should be a secondary concern, not the centrepiece of the debate, as it has been for far too long."

Take part in our new poll question by clicking here.

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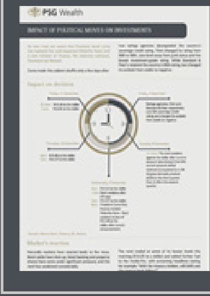
Published on a daily basis

Weekly



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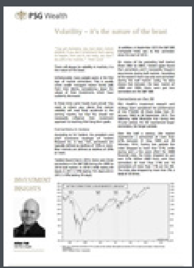

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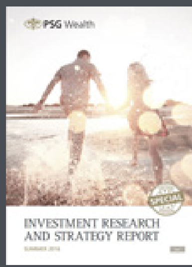

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