Conditions are better than you think

The last three years have been tough for economies and investors. Perhaps investors' expectations were a bit high over the period 2009 to 2015.

Over this period, global economic growth slowed and politicians increasingly dictated terms on a macro level. None of these conditions were good for investors. The good news is that we expect improved conditions from here on. International politics is settling to some extent. South African politics has been less disruptive to global markets than to domestic investments. And although sentiment is poor, we think selected equities are quite cheap right now. Earnings are recovering, active managers are outperforming and fundamental research is being rewarded. All this supports a case for better investment outcomes. Against the backdrop of all these developments, our quarterly *PSG Wealth Investment Research and Strategy Report* outlines our high-level views of financial markets and our asset allocation decisions. Our analysts and contributors also reflect on some of the events that contributed to market instability in the first half of 2017. In this context, we also consider the performances of our own investment solutions. All so that you can make intelligent, unemotional investment decisions. Lastly, take part in our winter 2017 survey on your position in financial stocks by clicking here. We hope you enjoy the read. Please feel free to send us any feedback you may have – we always look forward to hearing from you.

Regards

Adriaan Pask, PhD

PSG Wealth Chief Investment Officer

How to navigate this document

You can navigate this document in two ways.

- Links on the cover page: Each tile acts as a link to the article mentioned in the specific tile.
- Link at the top of each page: Click on 'Contents' to navigate back to the cover page after you have read a specific article.
- Use the arrows on the side of the pages to flip from one page to the next.

Emerging markets expected to outperform developed markets in the medium term

International asset managers still expect emerging markets (EMs) to outperform for the remainder of this year, despite cautioning investors on expected volatility ahead.

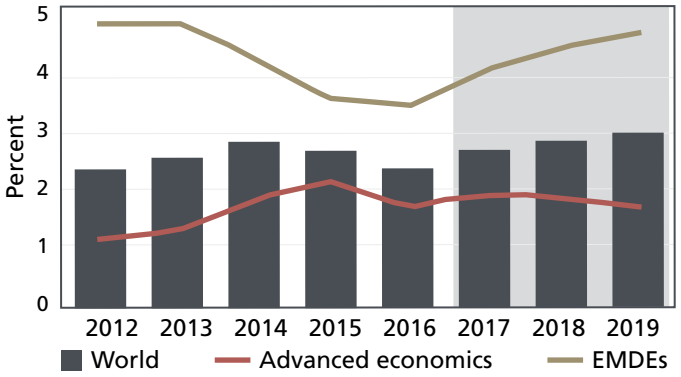
While emerging markets are showing signs of recovery, investors should expect some turbulence for EM's, but developing economies are likely to outpace developed markets over time, Goldman Sachs Asset Management recently said in a note to investors.

"(A)t this point in the cycle, a dynamic approach to allocation is important and we have moderated equity exposure in our multi-asset strategies for the summer... We think the turn in the flow of quantitative-easing purchases raises risks for assets that may benefit from demand for yield and low volatility, including US Treasuries and mortgage-backed securities, and yield-oriented assets such as corporate bonds and commercial real estate," the note from Goldman Sachs states.

On the valuation front, EM currencies appear about as undervalued as they were in the early 2000s, before the last big bull market. EM equities also appear attractively valued relative to developed market equities, with the relative ratio between price and earnings currently being at the 37th percentile of its historic distribution at the end of June, data from this international asset management company showed.

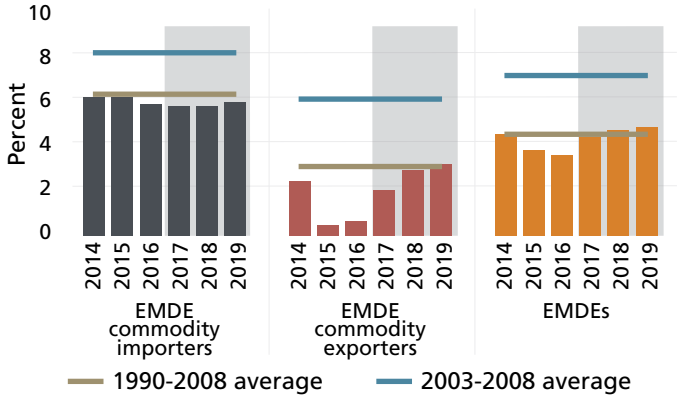
On the domestic front, commodity exporters have been the biggest beneficiaries of this upswing in emerging market sentiment.

Emerging markets outperforming developed markets



EMDEs - Emerging markets and developing economies
Source: World Bank

The expected rise in commodity prices



Source: World Bank

Over the past five to six years, EMs have underperformed developed markets (DMs). Some market commentators have said the rally witnessed in the EMs over the last six to seven months is real and comes on the back of a few drivers. Analysts feel the vulnerability in EMs have come down significantly as currencies have adjusted and oil prices have fallen. In addition, EMs have massively underperformed DMs, many believe we are seeing increasing appetite from asset allocators to reallocate some money to EMs.

In July, the International Monetary Fund (IMF) maintained its global growth forecast at 3.5% for 2017 and 3.6% for 2018. The latest World Economic Outlook shows economic activity in both emerging and developing economies accelerated to 2% and 4.6% respectively this year.

However, the IMF report highlights the fact that, while projected global growth rates for 2017/18 are higher than the 3.2% estimated for 2016, they remain below pre-crisis averages, particularly for the most advanced economies and for commodity-exporting developing economies. In sub-Saharan Africa, the outlook remains challenging, the IMF pointed out.

"The slight upward revision to 2017 growth relative to the April forecast reflects a modest upgrading of growth prospects for South Africa, which is experiencing a bumper crop due to better rainfall and an increase in mining output prompted by a moderate rebound in commodity prices…"

However, the outlook for South Africa remains difficult, with elevated political uncertainty, weak consumer and business confidence, and the country's growth forecast (which) was consequently marked down to 1.2% for 2018," the IMF outlined in the July update. The World Bank is, however, forecasting 2.0% growth for South Africa by 2019. We believe economic growth will bottom out in the third quarter of 2017.

Economic indicators as at 30 June 2017

	2017						2016					
	JUN	MAY	APR	MAR	FEB	JAN	DEC	NOV	OCT	SEP	AUG	JUL
Repo	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
Prime	10.50%	10.50%	10.50%	10.50%	10.50%	10.50%	10.50%	10.50%	10.50%	10.50%	10.50%	10.50%
FRA 9x12	7.04%	6.99%	7.07%	7.31%	7.31%	7.48%	7.46%	7.62%	7.47%	7.44%	7.79%	7.61%
Inflation	5.10%	5.40%	5.30%	6.10%	6.30%	6.60%	6.80%	6.60%	6.40%	6.10%	5.90%	6.00%
PMI	52.2	51.5	44.7	52.2	52.5	50.9	46.7	48.3	45.9	48.5	46.3	52
Unemployment	*			27.7%			26.5%			27.1%		
GDP Growth (Y/Y)	*			1%			0.7%			0.7%		
Current Account (% of GDP)	*			-2.1%			-1.7%			-4.1%		

*Data not yet released by product provider
Source: INET, Stats SA, SARB

Manufacturing PMI as at 30 June 2017: above 50

Country	Last	Previous	Change	Highest	Lowest
Sweden	62.40	58.80	3.60	71.40	32.70
Denmark	61.40	56.90	4.50	70.57	24.78
Austria	60.70	58.00	2.70	60.70	46.90
Switzerland	60.10	55.60	4.50	67.30	32.90
Germany	59.60	59.50	0.10	62.70	32.00
Netherlands	58.60	57.60	1.00	58.60	48.00
New Zealand	58.50	56.80	1.70	62.77	36.07
Euro Area	57.40	57.00	0.40	59.00	33.50
Hungary	57.20	61.90	-4.70	61.90	37.30
Czech Republic	56.40	56.40	0.00	57.60	46.00
Ireland	56.00	55.90	0.10	57.50	48.00
United Arab Emirates	55.80	54.30	1.50	61.20	51.70
Italy	55.20	55.10	0.10	56.20	48.00
Norway	55.10	54.20	0.90	64.40	34.90
Australia	55.00	54.80	0.20	62.13	30.86
France	54.80	53.80	1.00	57.50	42.70
Canada	54.70	55.10	-0.40	56.30	47.50
Spain	54.70	55.40	-0.70	55.80	41.10
Turkey	54.70	53.50	1.20	55.00	47.00
Saudi Arabia	54.30	55.30	-1.00	61.80	53.20
United Kingdom	54.30	56.30	-2.00	61.50	34.40
Taiwan	53.30	53.10	0.20	56.20	45.60
Poland	53.10	52.70	0.40	55.90	46.90
Vietnam	52.50	51.60	0.90	54.80	43.60
Japan	52.40	53.10	-0.70	56.20	29.60
Mexico	52.30	51.20	1.10	57.10	49.70
United States	52.00	52.70	-0.70	57.90	50.70
Hong Kong	51.10	50.50	0.60	53.30	44.40
India	50.90	51.60	-0.70	55.00	48.50
Singapore	50.90	50.80	0.10	51.90	48.30
Brazil	50.50	52.00	-1.50	53.20	41.60
Greece	50.50	49.60	0.90	51.30	30.20
China	50.40	49.60	0.80	52.30	47.20
Russia	50.30	52.40	-2.10	54.70	47.60
South Korea	50.10	49.20	0.90	52.60	45.70

Country	Last	Previous	Change	Highest	Lowest
Indonesia	49.50	50.60	-1.10	58.50	46.40
Egypt	47.20	47.30	-0.10	52.50	37.10
South Africa	46.70	51.50	-4.80	64.20	34.20

Large economies
Members of the EU
BRICS countries

Source: PSG Wealth research team

Since the previous meeting of the MPC the inflation outlook has improved

The South African Reserve Bank (SARB) says that food price inflation has moderated faster than expected, domestic demand pressures remain subdued and international oil prices have declined.

"Despite a degree of volatility, the rand exchange rate has been relatively resilient in the face of expected monetary policy tightening in some advanced economies, as well as domestic political risks and uncertainties. Therefore, risks to (our) inflation outlook still remain," SARB indicated in its July statement after it cut South Africa's repo rate by 25 basis points.

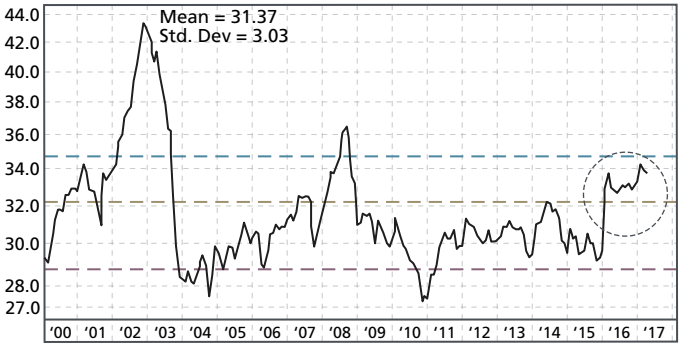
The central bank still highlights that domestic growth prospects have deteriorated further following the surprise GDP contraction in the first quarter of 2017. "The economy has now recorded two successive quarters of negative growth, and although a near-term improvement is expected, the outlook remains challenging. Several sentiment indicators and data points have reached levels last seen during the 2009 recession, at the height of the global financial crisis." The year-on-year inflation rate as measured by the consumer price index (CPI) for all urban areas measured 5.4% in May and 5.1% in June, in line with the Bank's short-term forecast. The Bank's measure of core inflation – excluding food, fuel and electricity – measured 4.8% in both months.

Inflation: contributions by groups to the annual % change in the CPI headline

Group	Contribution	
	May-17	Jun-17
Food and non-alcoholic beverages	1.2	1.2
Alcoholic beverages and tobacco	0.2	0.2
Clothing and footwear	0.2	0.1
Housing and utilities	1.4	1.4
Household contents and services	0.1	0.1
Health	0.1	0.1
Transport	0.8	0.5
Recreation and culture	0.2	0.2
Education	0.2	0.2
Restaurants and hotels	0.2	0.1
Micellaneous goods and services	1.1	1.1
Residual	-0.3	-0.1
All items	5.4	5.1

Source: StatsSA

South African Misery Index

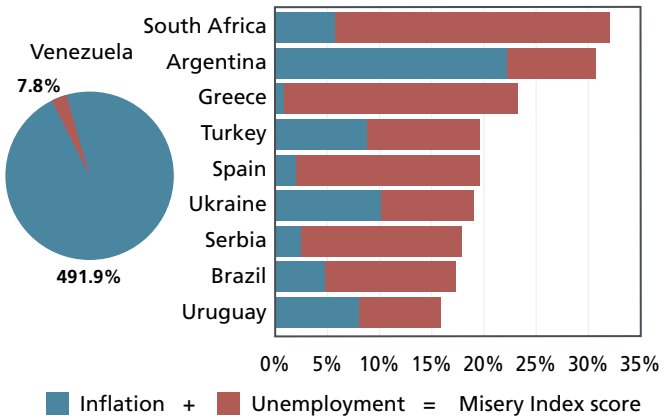


Source: Bloomberg

According to the latest Misery Index, which is calculated by adding up a country's projected rate of inflation and unemployment, South Africa is the second-most miserable country on earth. Our score improved slightly from 33.1 in 2016 to 32.2 in 2017, but it still retained its second spot.

However, the top score by a huge margin went to Venezuela (499.7), due the South American country's collapsing economy, which is expected to bring rampant unemployment and runaway inflation.

The most miserable



Source: Bloomberg

Over time markets revert to their mean

In the long run, diversified portfolios have provided the most consistent and stable investment results over time. A globally diversified portfolio should enable investors to focus on risk-adjusted returns in a challenging environment.

We believe now is exactly the wrong time to be abandoning globally diversified portfolios. Why? We see 2015/2016 as the beginning of the 'Great Rebalancing'.

A regime shift from bonds to stocks has been catalysed by:
Maturation of monetary policy globally:

- US: Fed is tightening (forecasting three hikes in 2017)
- Europe: Draghi is tapering
- Japan: Bank of Japan is yield curve targeting
- China: Rates will likely stay high to prevent outflows

Shift to fiscal policy:

- Trump will focus on pro-growth programmes (tax reform, de-regulation, infrastructure spending)

The commodity price recovery suggesting inflation:

- We are already seeing encouraging signs from emerging markets
- Going forward, we expect a convergence of global growth as the US slows and international markets pick up.

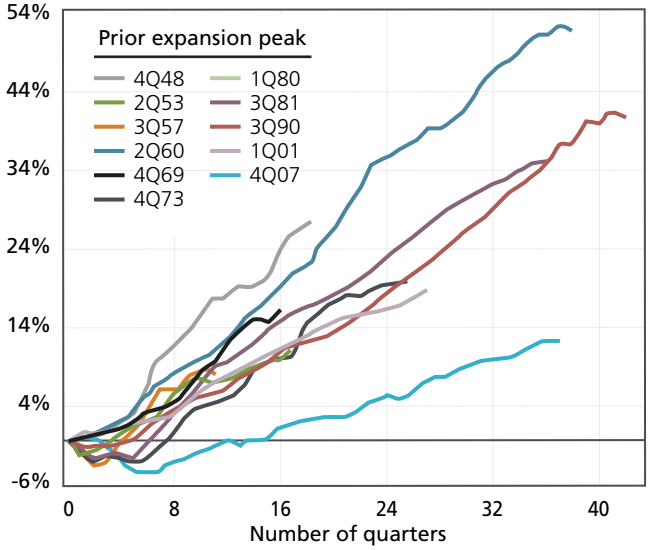
However, some market commentators warn that a key risk to current growth trajectories is the pace of credit creation in China.

BCA Research believes that countries like Brazil and Thailand have seen a substantial fall in the pace of credit creation, whereas Turkey and China have ramped up to an even higher level. Well in excess of the IMF's systemic risk threshold.

Looking at the US economy

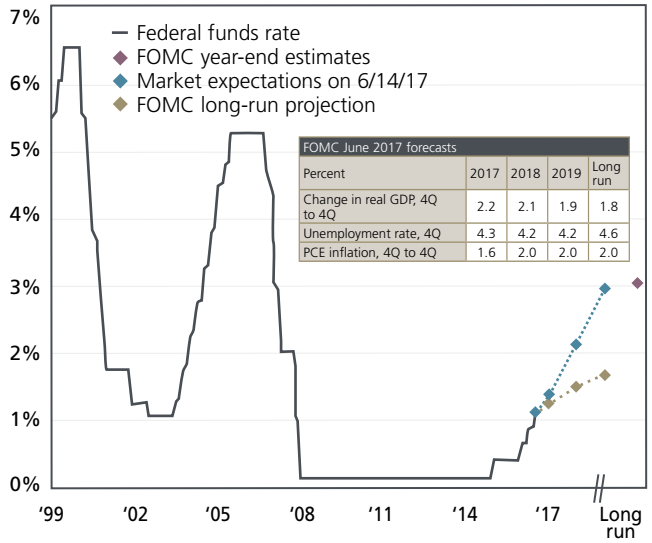
Despite facing challenges on a domestic level, along with a rapidly transforming global landscape, the US economy is still the largest and most important in the world. It represents about 20% of total global output, and is still larger than China. Moreover, according to the IMF, the US has the sixth highest per capita GDP (PPP).

US GDP is slow and steady with some legs to go



Source: JPMorgan

The Fed and interest rates



FOMC June 2017 forecasts				
Percent	2017	2018	2019	Long run
Change in real GDP, 4Q to 4Q	2.2	2.1	1.9	1.8
Unemployment rate, 4Q	4.3	4.2	4.2	4.6
PCE inflation, 4Q to 4Q	1.6	2.0	2.0	2.0

Source: JPMorgan

However, in July the IMF revised its growth forecast for the US downwards from 2.3% to 2.1% in 2017 and from 2.5% to 2.1% in 2018.

China's growth is expected to remain at 6.7% in 2017, the same level as in 2016, with a moderate decline to 6.4% in 2018. In equities the S&P 500 returned 3% in the second quarter and has risen 9% year-to-date (YTD). According to Goldman Sachs about 51% of large-cap mutual fund managers are outperforming their benchmarks YTD, a noteworthy improvement from the 19% who outperformed in 2016.

A noteworthy improvement from the 19% who outperformed in 2016. This international asset manager expects that the S&P 500 will fade to 2 400 by year-end (-1%).

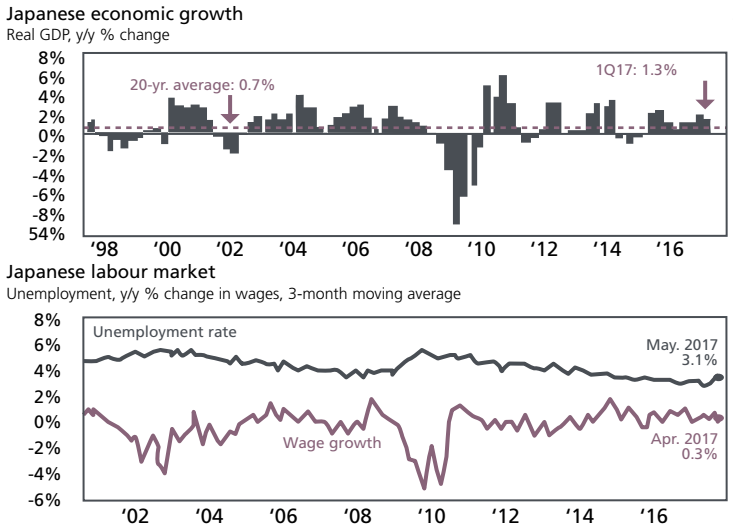
BCA Research adds that inflation expectations in the major economies have fallen too far, relative to underlying non-energy inflation pressures. With oil prices likely to begin rising again as the demand-supply balance in global energy markets tightens, both realised inflation and expectations should move higher in the latter half of the year, especially in the US.

"The Federal Reserve stuck to its guns, which lifted the US dollar despite a disastrous CPI report. We agree with the Fed's assessment and expect US inflation to pick up, clearing the way for higher interest rates and a stronger dollar."

Fed Chair Janet Yellen and her committee increased the fed funds rate by 25 basis points from 1% to 1.25% in June. On the balance sheet front, the Fed removed any doubt that it will begin reducing its asset holdings this year. Additionally, the Fed provided its new set of forecasts for growth, inflation, unemployment, and interest rates. While it increased its growth forecast for 2017 to 2.2% from 2.1%, it curtailed its core personal consumption expenditures (PCE) deflator forecast for 2017 by 0.3 percentage points to 1.6%.

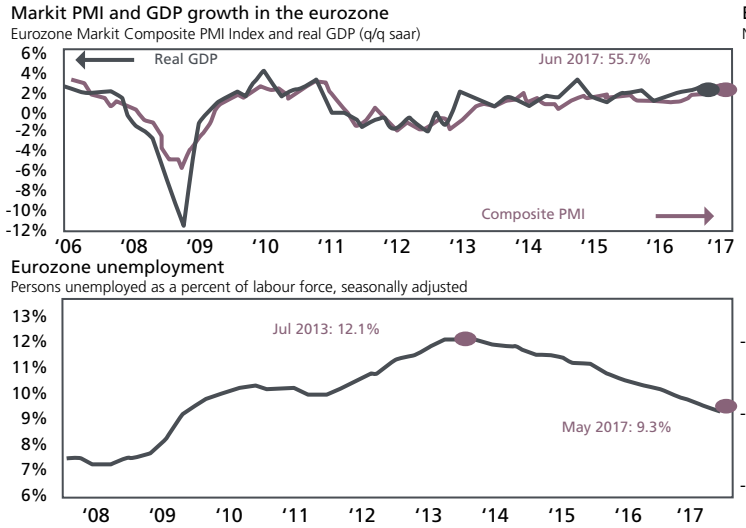
We agree with the Fed's assessment and expect US inflation to pick up, clearing the way for higher interest rates and a stronger dollar. The Fed also acknowledges that the equilibrium unemployment rate was lower than it believed in March, but still thinks the labour market is tight. The Fed still expects to hike rates once more in 2017, and three more times in both 2018 and 2019.

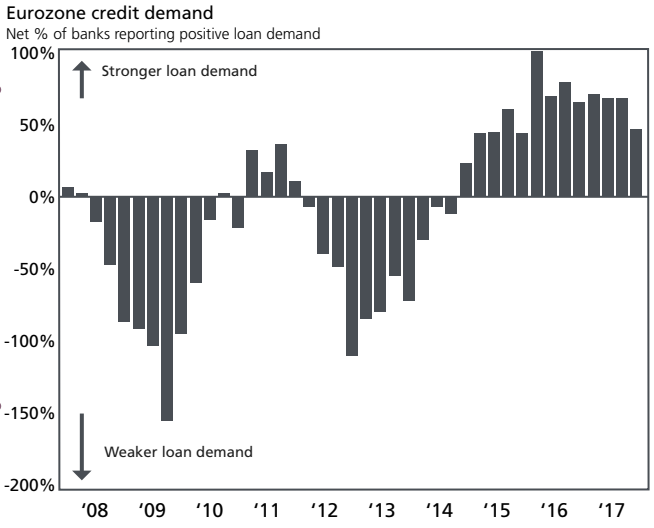
Japan: economy and markets



Source: JPMorgan

A recovery seen in Europe





Source: JPMorgan

The European economy is buzzing again

The exception is Britain, where fears about the effect of the country's exit from the European Union are taking an increasingly heavy toll on business and consumer confidence.

Factories in the Eurozone rounded off the first half of 2017 by ramping up at the fastest rate in more than six years, according to closely-watched Purchasing Manager Indices (PMI) released early July. June's manufacturing PMI for the Eurozone rose to 57.4, its highest level since April 2011 and up from May's 57.0. Suggesting the bloc's momentum will continue into the second half of this year. New orders have risen at the fastest rate since early 2011, backlogs of work increased at the fastest pace in over 13 years, raw materials were depleted and factories increased headcount at a near-record pace. The upturn was particularly strong in France and Italy, but German business confidence hit an all-time high in June.

Fears that France would elect a right-wing nationalist as president were dispelled by the crushing victory of the centrist and pro-EU Emmanuel Macron in May. By contrast, political uncertainty took a turn for the worse in the UK in June after a snap election left the country with a minority Conservative government. Further signs of the strengthening economy emerged elsewhere, as official data showed the Eurozone's jobless rate has reached its lowest level since 2009, at 9.3% of the workforce, after a decline of 5 000 cases of new jobless claims. A year ago, the jobless rate stood at 10.2%.

PMI data shows Asian markets were also boosted this past quarter Asia's tech-manufacturing economies were assisted by growing global demand for electronics products, the company recording PMI figures said. Although revised data for quarter one revealed a weaker performance than initially reported, exports expanded at the fastest pace in more than two years in May, signaling robust global demand. Healthy shipments of Japanese goods are having positive reverberations across the economy, with growth in industrial production hitting a nearly-six-year high in April. Despite May's strong export reading, the trade balance swung to a deficit in May as imports soared in the same month, underlining the strength of Japan's growth momentum. Moreover, wages appear to have embarked on a sustained growth path, which is expected to foster private consumption. In the political arena, Prime Minister Shinzo Abe's approval ratings are plunging amid claims the he used his influence to benefit a friend's business.

Financial markets during the second quarter of 2017

Long-term returns of most sectors remain well above the expectations of inflation plus 7.00%. The exception for a second consecutive quarter, is resources, which came under pressure following a shift in Chinese policy – from one led by government spending towards a consumer-led economy.

Market indicators as at 30 June 2017

	Index	Quarter-end value	1M	3M	6M	1Y	3Y	5Y
Local equities	ALSI	51 611.01	-3.49%	-0.39%	3.37%	1.69%	3.43%	12.19%
	Industrials	78 213.12	-4.18%	2.21%	8.98%	1.74%	7.65%	18.10%
	Resources	17 056.67	-3.08%	-7.05%	-4.58%	1.89%	-15.43%	-5.08%
	Financials	845.01	-2.13%	-0.01%	-1.09%	2.63%	6.44%	13.98%
	Listed property	626.87	0.29%	0.91%	2.29%	2.82%	13.18%	13.76%
Local bonds	ALBI	554.77	-0.95%	1.49%	3.99%	7.93%	7.12%	6.61%
	ALBI 1-3 years	430.60	0.31%	2.03%	4.66%	8.52%	7.52%	6.53%
	ALBI 3-7 years	538.51	-0.01%	2.44%	5.85%	10.07%	8.48%	7.12%
	ALBI 7-12 years	617.47	-0.56%	2.41%	5.08%	9.16%	7.55%	6.69%
	ALBI 12+ years	601.06	-1.40%	0.96%	3.16%	7.22%	6.75%	6.67%
	GOVI	553.45	-0.89%	1.61%	4.15%	8.04%	7.13%	6.52%
	OTHI	563.95	-1.08%	1.17%	3.58%	7.57%	7.17%	7.22%
Local cash	STeFI 3-month	359.85	0.58%	1.76%	3.53%	7.25%	6.56%	6.00%
	Volatility Index	11.18	7.40%	-11.48%	-20.37%	-28.47%	-1.14%	-8.13%
International equities	S&P500	2 423.41	0.62%	3.09%	9.34%	17.90%	9.61%	14.63%
	Euro Stoxx	3 441.88	-2.97%	-0.10%	6.71%	23.27%	4.93%	11.77%
	Nikkei	20 033.43	1.95%	5.95%	2.24%	28.62%	9.73%	17.34%
	Hang Seng	25 764.58	0.41%	6.86%	17.11%	23.90%	3.57%	5.79%
	Dax	1 132.19	-2.32%	1.02%	8.57%	26.85%	8.71%	14.76%
	MSCI World	1 916.43	0.25%	3.38%	9.43%	15.92%	3.31%	11.02%
	MSCI World ex US	1 875.65	-0.10%	4.59%	10.92%	16.38%	-1.91%	5.87%
	FTSE 100	7 312.72	-2.76%	-0.14%	2.38%	12.43%	2.81%	6.25%

Source: INET
*Performance reported in Base Currency, Total Return

One-year financials

Long-term this segment shows a strong recovery.

One-month financials

Banks and life assurers have largely been under pressure. These counters are exposed to local cyclical stocks that suffered the brunt of the recent political uncertainty.

Local bonds

Although the performance in this sector was not great, the instruments held up reasonably well despite political volatility, indicating that much was priced in already, as expected.

ALBI 3 - 7 years

Bond sectors generated in excess of 10% over the past 12 months, largely on the back of a more dovish MPC and interest rate outlook.

STeFI one-year

Those investors who opted to invest solely in cash, could have seen the real value of their capital erode after costs and taxes were subtracted. This is evident in the STeFI that barely generated inflation-beating returns.

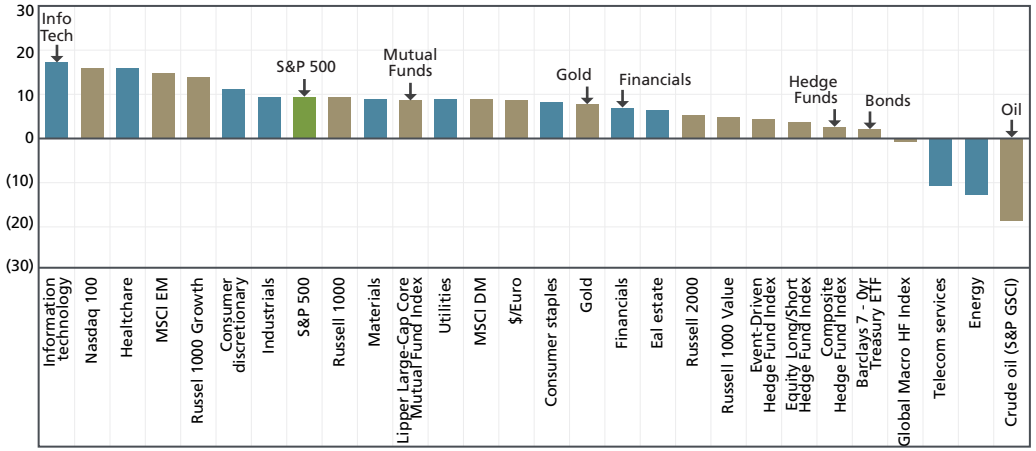
S&P 500 one-year

While the US remains one of the best performing regions for equity investments, recent political developments in this region have pushed its one-year returns behind other indices from Asia and Europe.

Euro Stoxx one-year

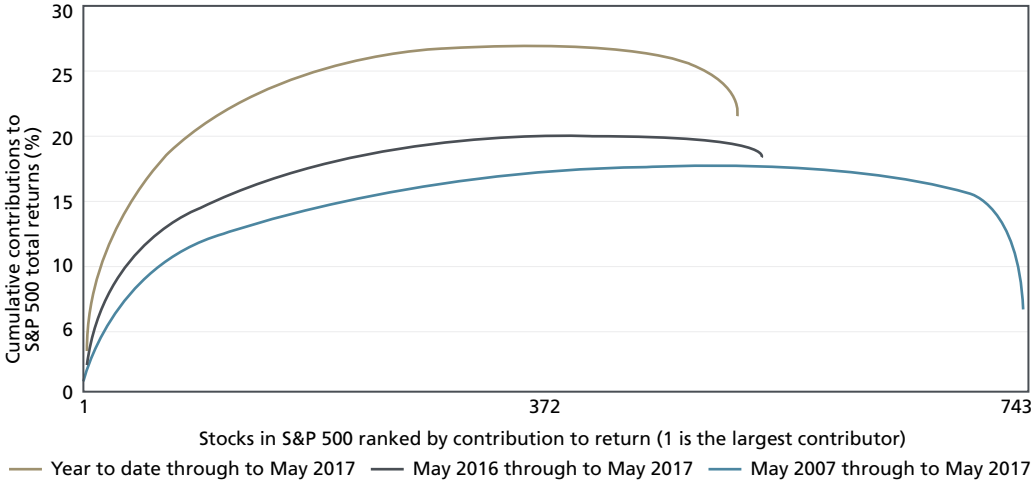
European shares showed a very strong recovery on the back of some depressed valuations.

What sectors, styles and strategies has worked in 2017 as at 30 June 2018



Source: Goldman Sachs

For the year, so far, a handful of stocks dominated the return of the S&P 500 Index



Source: FactSet

Capitalisation in sectors

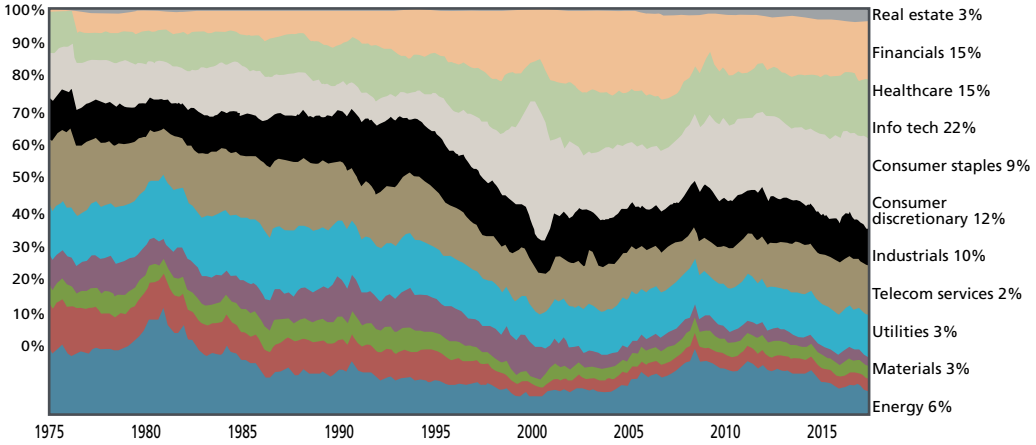
Sector capitalisation of the S&P 500 has shifted significantly over time

Financials has been only the third sector since 1975 to represent 20% of the market capitalisation of the S&P 500. However, financial shares of the S&P 500 market cap have declined from 22% to as low as 9% in early March 2009. Changes over time reflect both evolving industry fundamentals and the shifting composition of constituents on the S&P 500 Index.

Composition of the sector

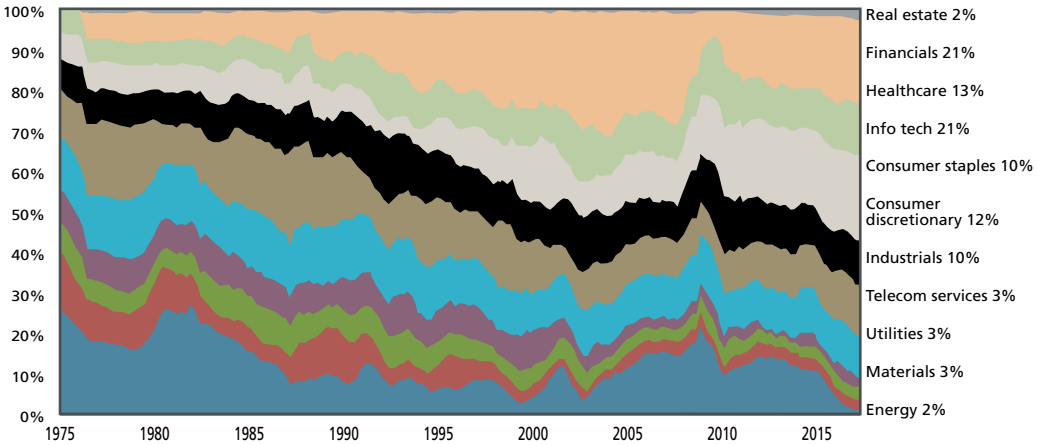
The sector composition of the S&P 500 has not always correlated with the proportionate contribution in net income. At the peak of the tech bubble, information technology never generated more than 16% of the S&P 500's earnings. The profit contribution of this sector increased over the past few years and it now accounts for 21% of the net income on the S&P 500.

Sector composition of the S&P 500 Index from 1974 to 2017



*Data as at 30 June 2017.
Source: Goldman Sachs

For the year, to date, a handful of stocks dominated the return of the S&P 500 Index



*Data as at 30 June 2017.
Source: Goldman Sachs

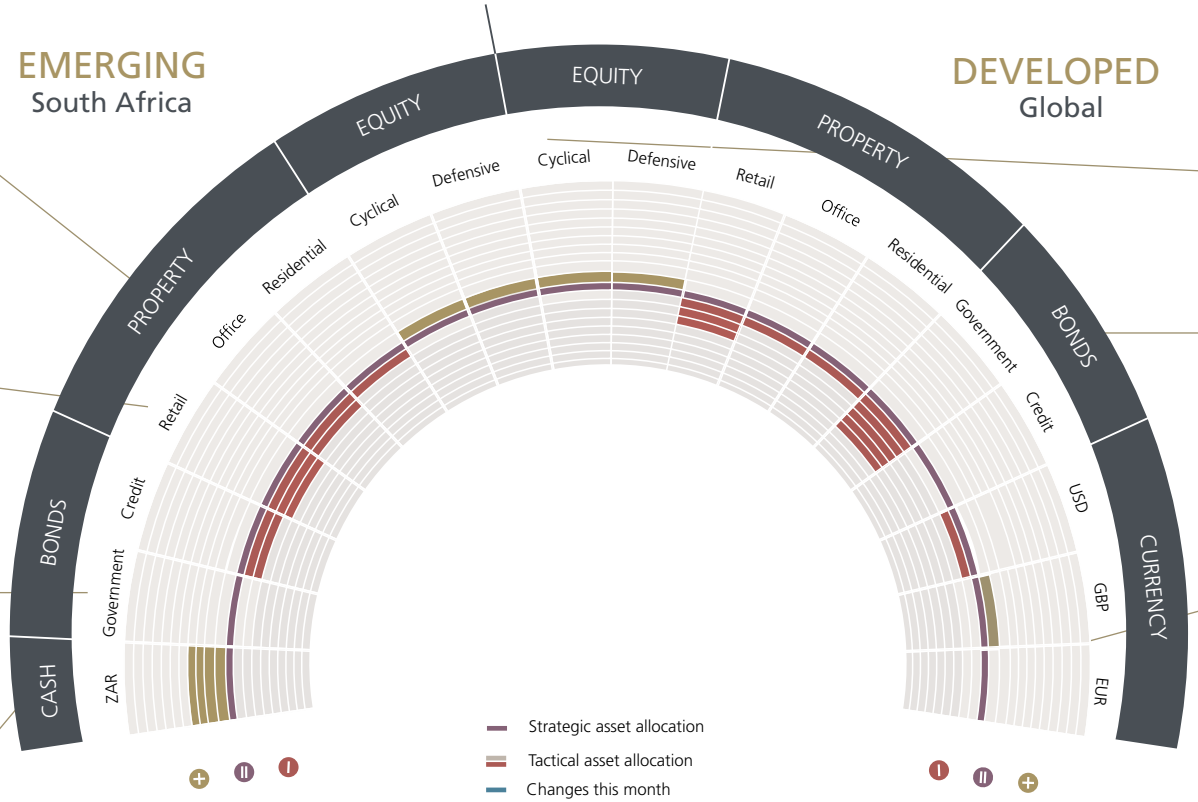
Asset allocation preferences

Challenging economic conditions persist, but a lot of the negative sentiment have already been priced into the valuations of property. Given the poor sentiment, we may view this as an attractive entry point into selected securities.

Disruptive technologies have caused headwinds in the retail property space. Given proper research we might find attractive entry points into selected counters in this sector.

Our current view on government bonds is neutral, while we assess pockets of risk and opportunity. If the rand strengthens beyond our base view we expect bonds are likely to rally and yields could decline. To us it seems as if the bond market is already pricing in a MPC rate cut.

Our view on this asset has improved as the interest rate cycle has turned. A slower pace of hikes is now expected. Cash should form part of diversified portfolio.



There has been some recovery in the earnings in this sector. Some of these sectors are attractively priced.

Particularly in the US, stronger growth favours credit over government bonds, although there exists a caveat for high quality, investment grade exposure, and very selective buying.

The sterling is still undervalued against major currencies. We believe the sterling is currently the weakest major currency.

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

Bottom line

- Our assessment shows that domestic equity is now roughly 25.3% overvalued relative to its historic yield. Some pockets of the market are expensive and investors should expect continued volatility at current levels. That said, skilled stock pickers should be able to find value in selected shares.
- Domestic listed property is 14.3% overvalued relative to its historic earnings yield. In addition, we remain of the opinion that the interest rate cycle will impact the strength and sentiment of the domestic economy, and the affordability of the property sector specifically. This will present headwinds for capital growth in the property sector. We expect property yields, which are calculated as a percentage of capital, to normalise on the back of downward pressure on capital values.
- Similarly, in general, domestic bonds are also overvalued by more than 22.8% and will struggle if domestic interest rates normalise. There are always exceptions, but generally speaking bond yields seem stretched.
- Domestic cash is most likely generating a negative real return for investors, after fees and taxes. We remain of the view that although cash can play a strategic role in a portfolio, there is a material trade-off over the long term.
- Global equity is slightly overvalued (20.5%) on a historic earnings basis, although the shift towards fiscal stimulus could support the asset class. In the US, further aims at deregulation will support corporate earnings, although the timing of fiscal support policies and potential deregulation is uncertain at this stage.

We remain cautiously optimistic about the prospects of equities

In general, we hold an overweight position in cash due to the negative outlook on most other flexible income assets. Over the short term, we believe the South African interest rate may experience small adjustments to surprise on the upside, as inflation continues to stay inside its target band.

Over the long term, we agree with various market commentators that South African and US Federal Reserve rates will need to normalise. Policymakers are concerned about the policy resources of the Monetary Policy Committee (MPC) in the event of an unforeseen crisis.

The grey line in the first graph shows the historic P/E of domestic equities currently trading at a P/E ratio of 19.73. However, since 1995, the mean P/E ratio has traded at 15.33.

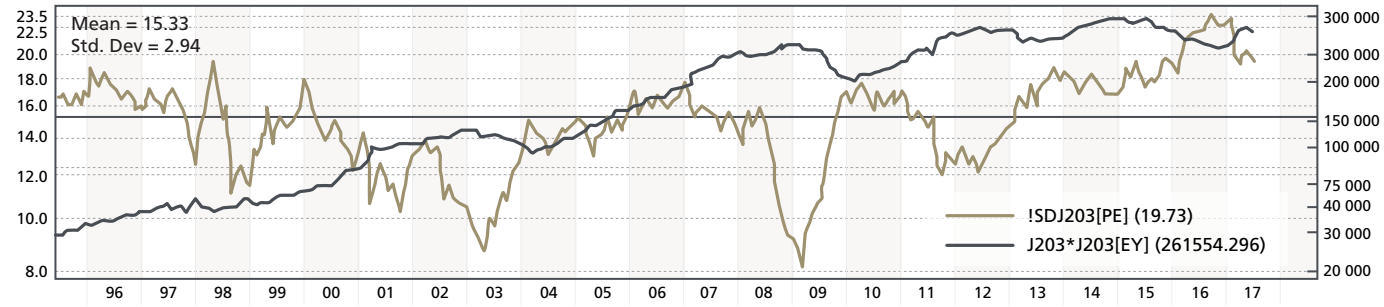
This indicates that the value of domestic equities is currently trading well above their longer-term averages. It is almost three standard deviations above the mean. This is why so many investors believe that we are in dangerous territory – and given the current economic backdrop this is easy to believe.

However, the gold line on the second graph indicates the price of the FTSE/JSE All Share Top 40 Index, and shows how the market has not really gone anywhere since early 2015. Corporate earnings, represented by the black line on this graph, shows how corporate earnings have been under severe pressure until the latter part of 2016 when it suddenly picked up. This is due to significant P/E rerating on the back of improved earnings. This further tells us that earnings are acting as the drivers for the prices of shares over the long term.

The forward P/E is, in our opinion, a more relevant measure. The third graph indicates that the one-year forward P/E is 14. This is already lower than the long-term average of 15.33 mentioned above. So it seems that some stocks are starting to look cheap.

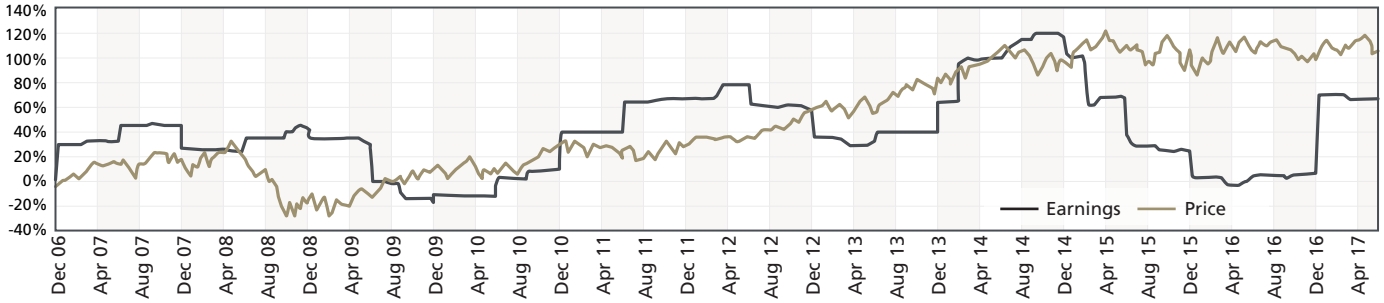
Domestic equities become even more attractive if you discount the effect of the high P/E stocks on the index. If you exclude stocks like Naspers, Richemont, BHP Billiton, British American Tobacco and Anglo American plc, which are represented by the black line, then the P/E drops to 12. This is two standard deviations below the long-term average.

SA Equities: Historic P/E ratio – 15 years



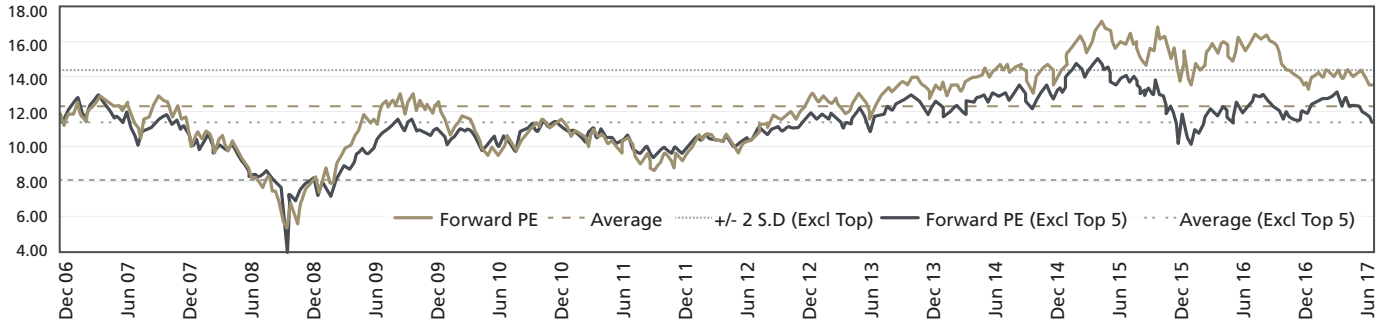
Source: I-Net Bridge

SA Equities: Earnings versus price of the Top 40 Index



Source: Bloomberg

SA Equities: Forward P/E ratio



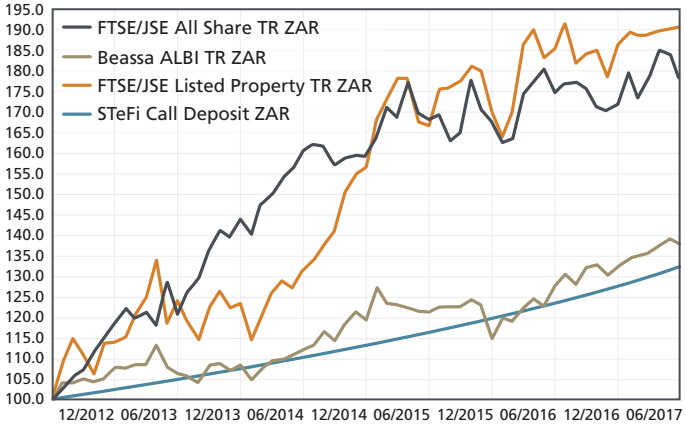
Source: Bloomberg

SA Equities: Dividend yield (15 years)

Source: I-Net Bridge

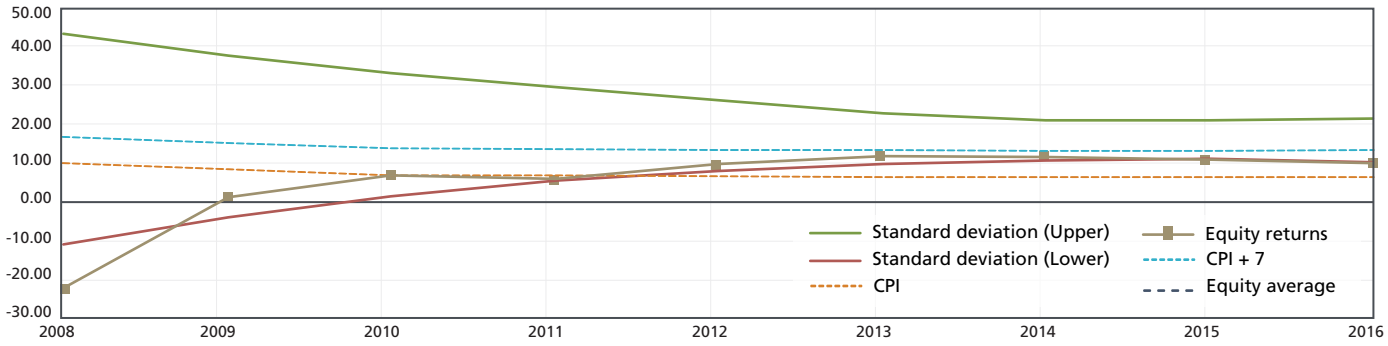
As a sanity check, we look at the dividend yield of domestic equities, another broad measure of value. The current dividend yield (2.89) is close to the longer-term average of 2.75, which indicates fair value in this asset class. However, this includes expensive counters. After an adjustment has been made for these shares, the market still looks attractive with some stocks trading at single-digit P/Es. This reflects the market pricing in a positive economic outlook, and shows that earnings are recovering. It is beneficial to look past the political landscape. We are aware that the long-term picture looks good, but remember that equity returns are not linear. The prevailing situation provides a good example.

Domestic asset class returns (5 years)



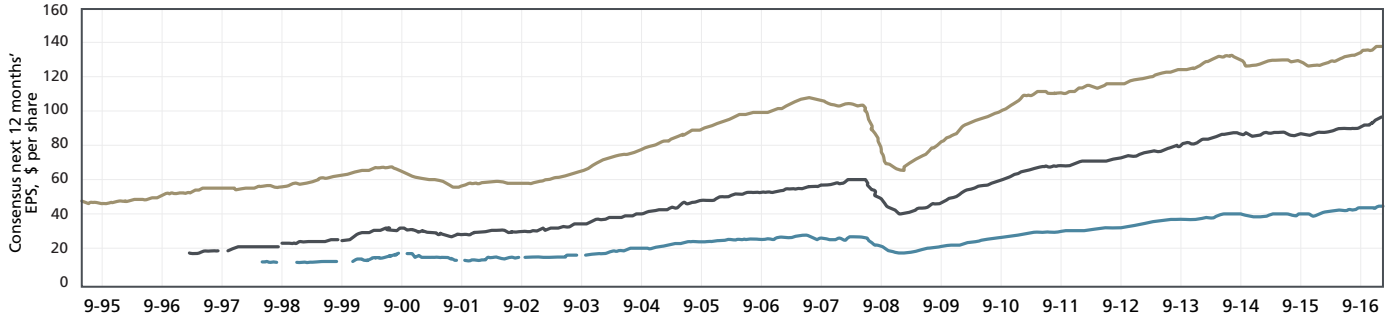
Source: Morningstar Direct

Equity roadmap: Mean reversion model



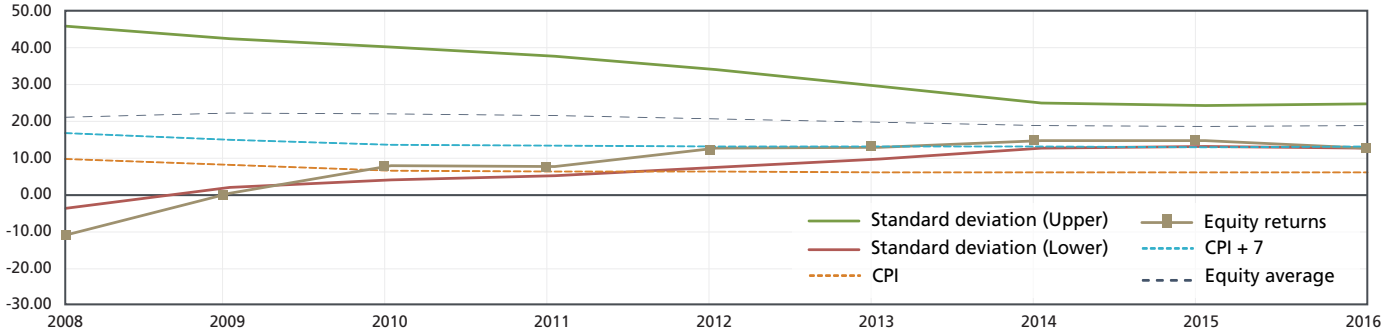
Source: PSG Wealth research team

Rising forward earnings per share usually bodes well for equity markets



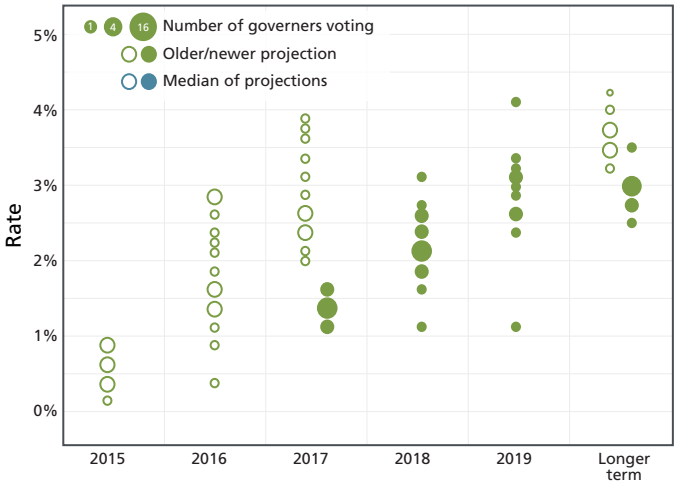
Source: FactSet

Property equity roadmap: Mean reversion model



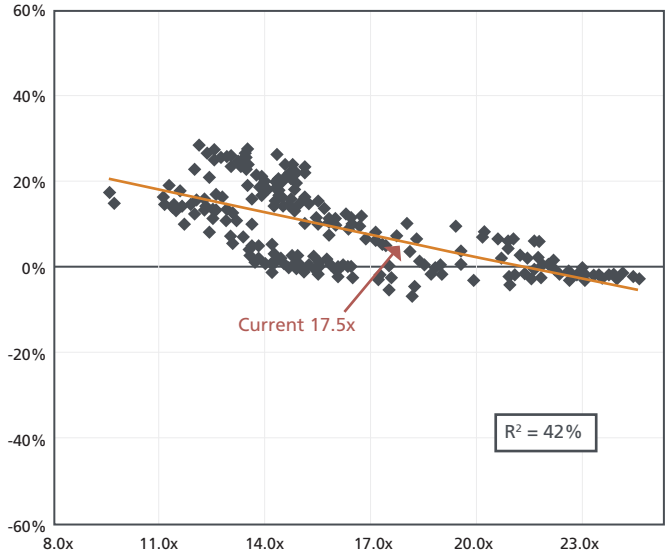
Source: FactSet

The dot plot by the US Federal Reserve



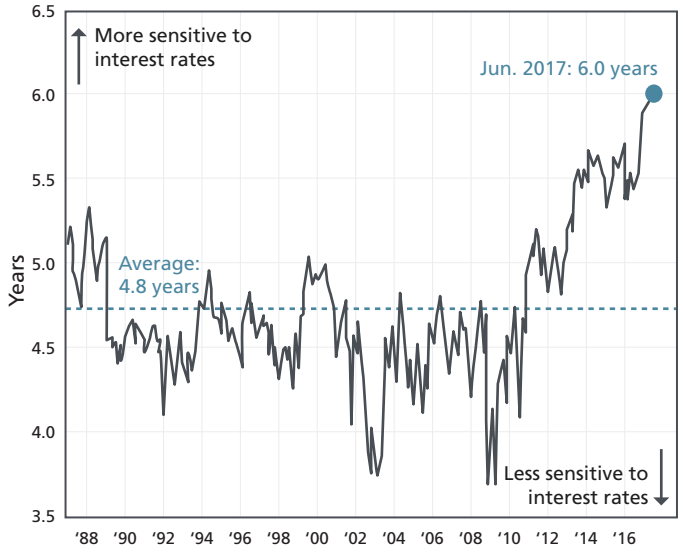
Source: I-Net Bridge

Forward P/E and subsequent 5-year annualised returns



Source: JPMorgan

Duration of Barclays US aggregate



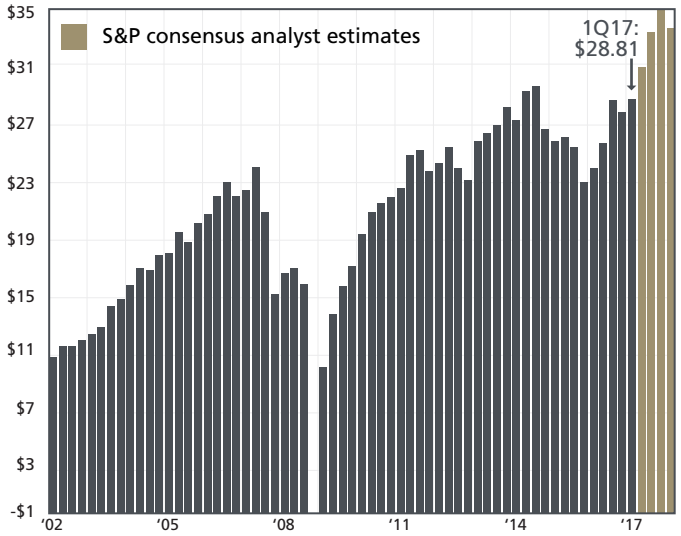
Source: PSG Wealth research team

Fed rate expected to be hiked once more in 2017

The US Federal Reserve (Fed) is on track to raise its benchmark short-term interest rate one more time this year — and there's no reason to think otherwise. The rate, now between 1% and 1.25%, helps determine the cost of borrowing in the United States for business and consumer loans. At the recent Federal Open Market Committee (FOMC) meeting held on 26 July the Fed left its federal rate unchanged. However, the Fed doesn't want to start pruning its balance sheet and raise interest rates at the same time, so it may be vague about the timing of its next rate hike. Investors are now all but certain the Fed will wait until December.

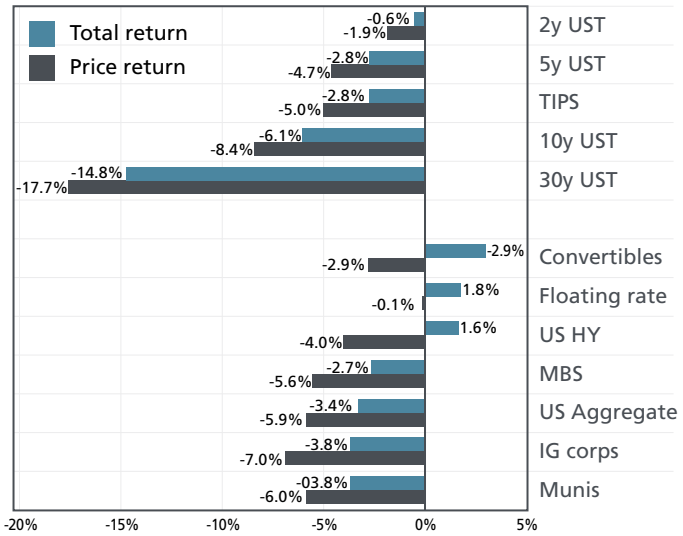
All indications are, however, that the Fed is still in hiking mode. If it keeps raising rates in line with its dot plot (as seen above), then monetary policy could move into restrictive territory by early 2019. However, by then the US unemployment rate could have fallen to a level where it has nowhere to go but up. Unfortunately, history suggests that once unemployment starts rising, it keeps on rising. On the positive side, today's economic imbalances are not as formidable as those that existed in the lead-up to the past few recessions. However, we are worried about the health of the commercial real estate sector in the biggest economy in the world. We still feel comfortable to remain overweight in global equities.

S&P 500 earnings per share



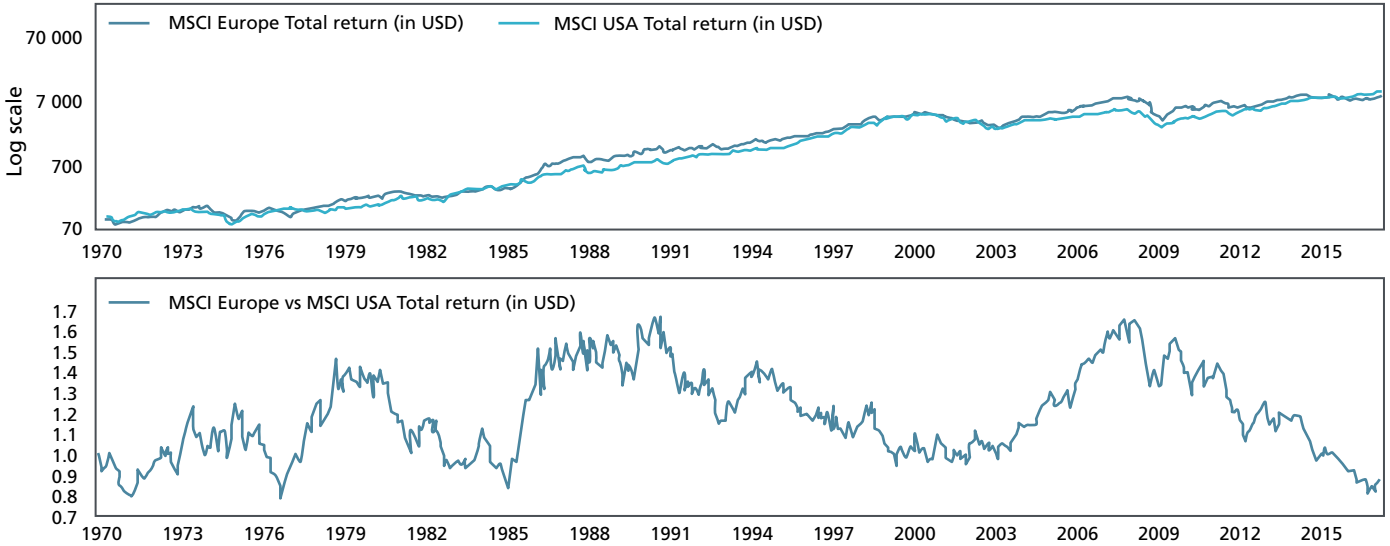
Source: FactSet

The impact of a 1% rise in interest rates



Source: FactSet

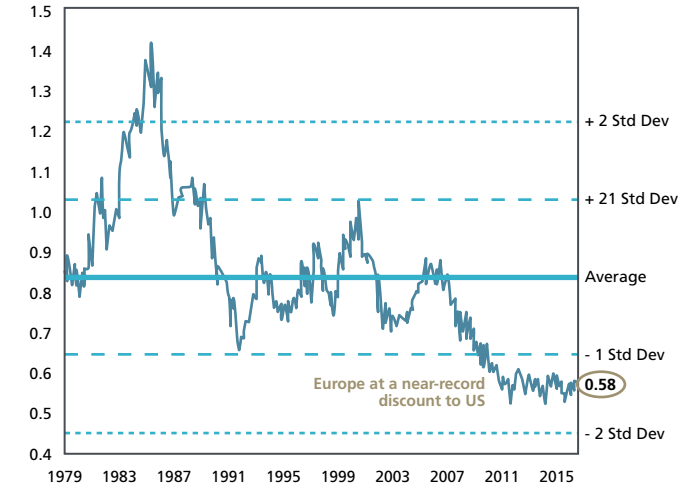
In the long run, European equities have performed in line with US equities



Source:Morgan Stanley

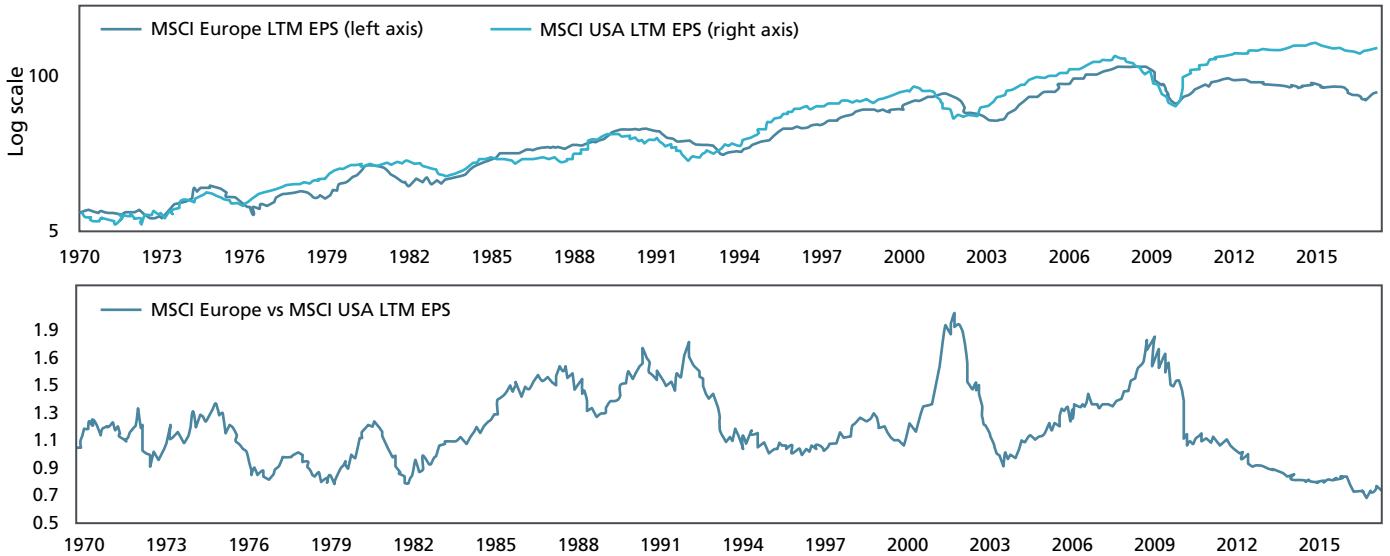
European equities appear cheap

CAPE Ratio: MSCI Europe Index relative to the S&P 500



Source: Morgan Stanley

So too did earnings, making a reversion to the mean likely



Source: Morgan Stanley

CAPE Ratio: versus the MSCI Europe Index

Source: Morgan Stanley [chart: P/E Ratio, annualised]

Market review 2Q17

Emerging markets outperformed developed markets this past quarter. Even the FTSE/JSE All Share Index (ALSI) managed to scrape together some returns in a time when political uncertainty continued to weigh on market sentiment.

The total return (TR) in USD for the ALSI continued to diverge from its emerging market counterparts and increased by only 2.26% during the quarter. The MSCI Emerging Market (EM) Index built on its first quarter momentum and increased by 6.38% in USD during the second quarter.

This was mainly driven by the improvement in emerging market risk sentiment. In local currency, the ALSI TR declined by 0.39% after the rand appreciated by 2.53% against the US dollar to end the quarter at R13.07/$. Our benchmark, the JSE Capped All Share TR Index, declined by 0.95% for the quarter.

Despite the muted decline, dispersion was notable, both on a stock level and within certain sectors. New government regulation again proved a headwind with the introduction of the new mining charter. Weakened commodity counters were the primary contributors to weak returns experienced in the last quarter.

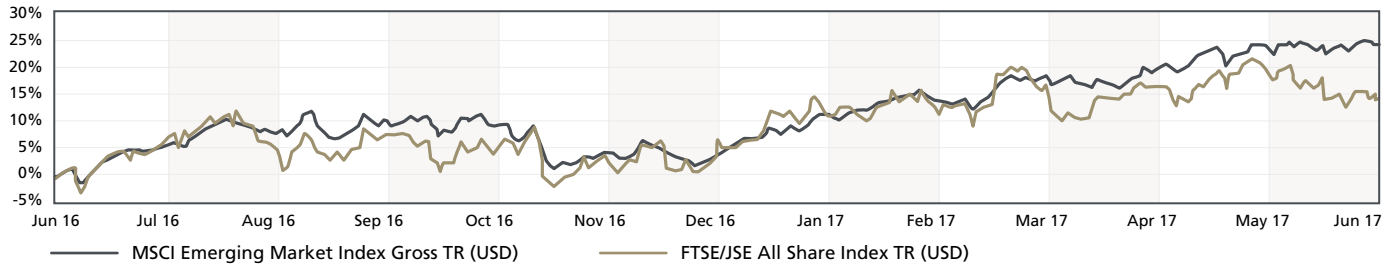
Resurgent rand hedge industrial stocks, however, contributed to growth in the local bourse despite the stronger currency. Anglo (down 13.98%), BHP Billiton (down 3.63%) and MTN (down 6.48%) were the primary detractors during the quarter. This explains the weak returns from the materials and telecommunications sectors.

Naspers (up 9.94%) and Richemont (up 2.03%) provided the impetus for the consumer discretionary sector to perform despite weak returns from Woolworths and Truworths. Bidcorp was another rand hedge stock that performed strongly, ending the quarter up 15.22%.

Our domestic equity strategy for the third quarter

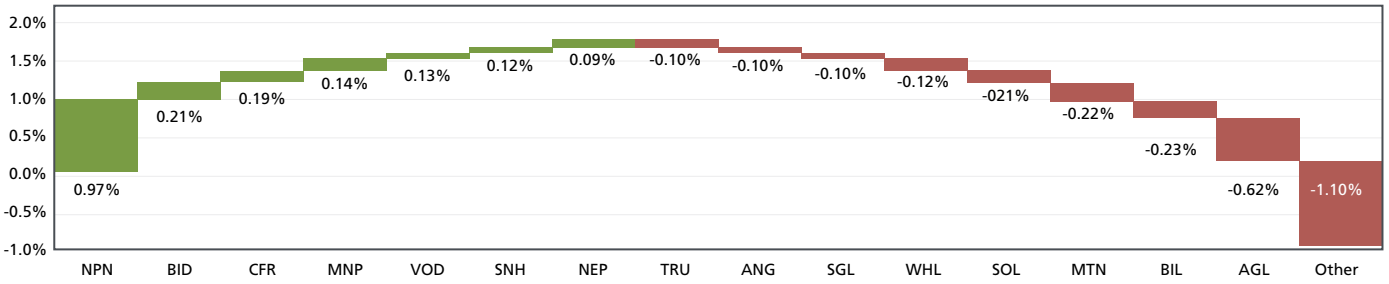
South Africa's idiosyncratic risks remain a concern, especially with Government's transformation initiatives that are creating renewed uncertainty. The new mining charter introduced recently is just one of these initiatives that affected sentiment during the quarter. Political uncertainty also increased towards the end of the quarter with some ANC members calling for a review of the central bank`s independence. Direction is likely to remain uncertain until the ANC's elective conference in December 2017. This remains a catalyst for any potential shift in policy.

FTSE/JSE All Share Index versus emerging markets



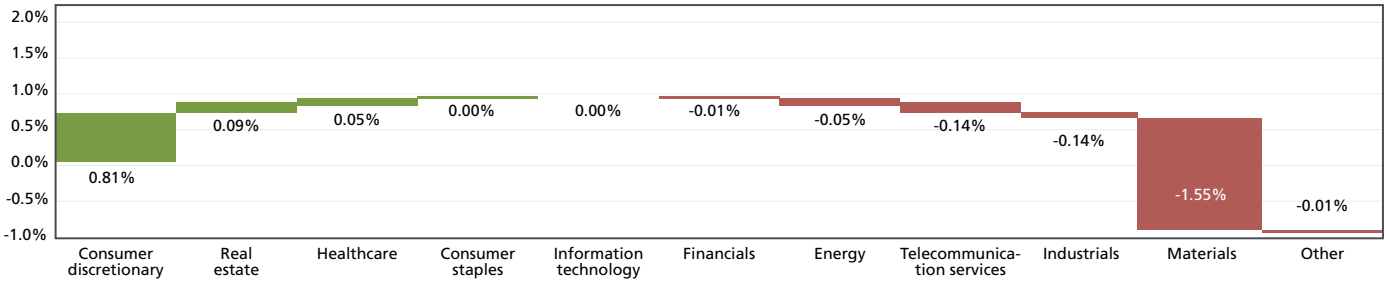
Source: PSG Wealth research team

Index movers



Source: PSG Wealth research team

Sector attribution



Source: PSG Wealth research team

The uncertainty and low confidence in the political landscape have added additional uncertainty to earnings growth forecasts. Market expectations of lower earnings growth were widely spread with lower expectations across all sectors relative to the previous quarter. These lower expectations were most pronounced in the healthcare and telecommunications sectors.

With multiples in line with their long-term averages, we expect returns to materialise primarily through growth in earnings and not through a material change in valuation multiples. Operating margins in most sectors should benefit from improved capacity utilisation and a recovery in commodity prices. This should translate into earnings growth.

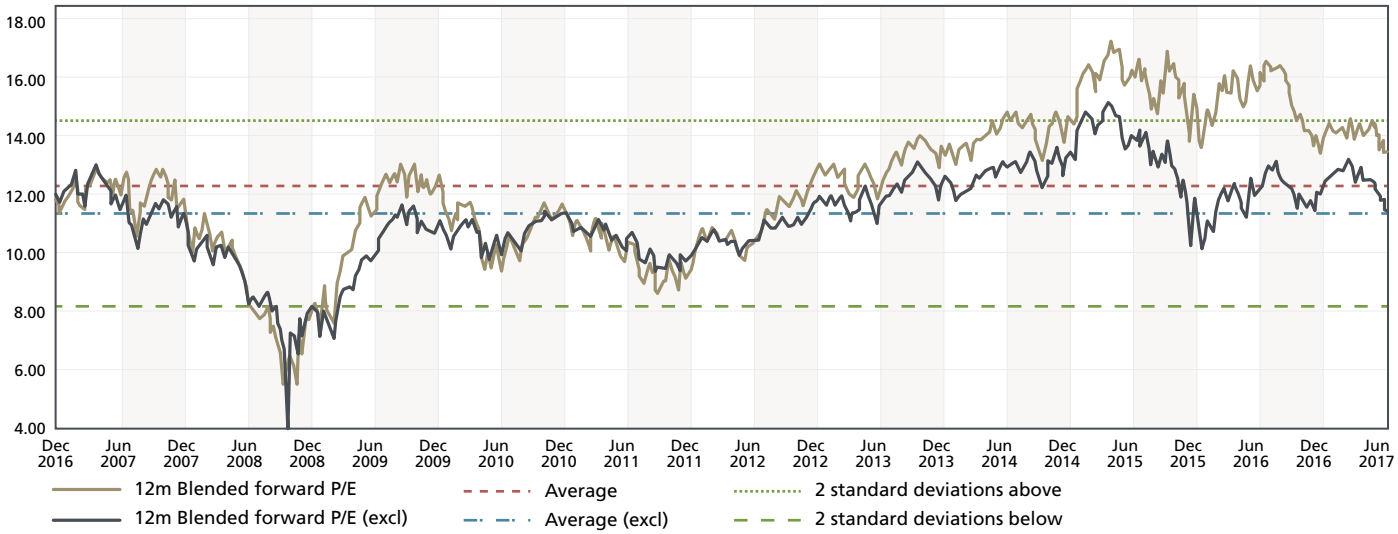
We forecast 14.46% growth in earnings per share (EPS) for the year ahead and a slight decline in the P/E multiple. Overall, our base case still targets a 13.56% return from the ALSI in the next 12 months, assuming political risks normalise and the exchange rate remains stable. The return was calculated at a sector level and consolidated taking into consideration the investments' weight in the index. The goal of this exercise is to highlight the sectors which we believe offer value and to inform the sector positioning of our portfolios.

Proposed sector allocation for Q3 2017

	Overweight	Slight OW	Neutral	Slight UW	Underweight
Top 5					
Consumer discretionary					
Consumer staples					
Financials					
Healthcare					
Industrials					
IT					
Telecoms					

Source: PSG Wealth research team

ALSI 12-month blended forward P/E



Source: Bloomberg consensus, PSG Wealth research team

On a P/E basis, the ALSI does not seem to offer value. The P/E ratio of the ALSI can be deceptive and might prove too simplistic to indicate potential return on its own. The actual valuation is concealed, given the weight and current P/E multiple of rand hedge counters which are dominant in the index. In the chart above, we illustrate the impact of large rand hedge shares.

The line chart excluding the top 5 stocks reveals a P/E multiple that is slightly ahead of its long-term average. Investors should remember that the P/E multiple of the large rand hedge investments should be considered against prevailing low market interest rates in developed markets and not relative to their domestic peers.

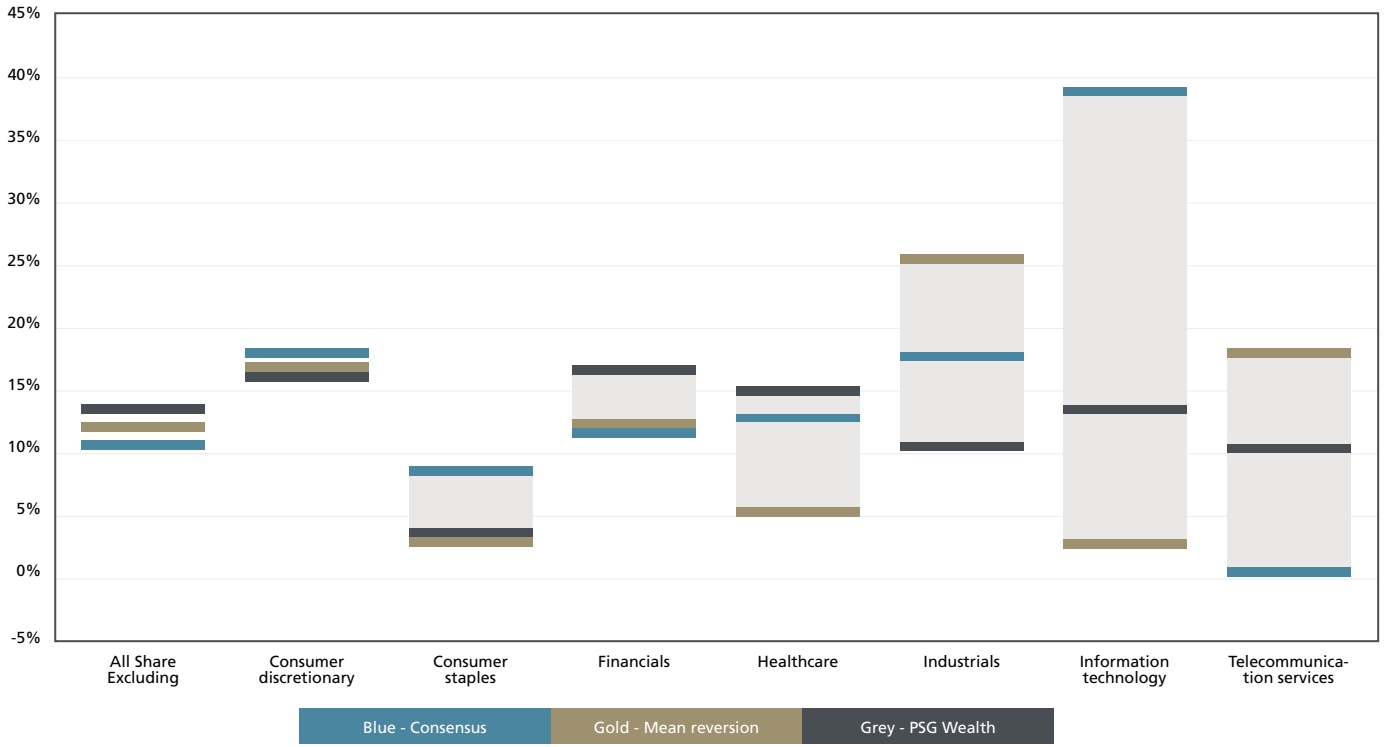
The top 5 companies consist of Naspers and Richemont in the consumer discretionary sector, British American Tobacco in the consumer staples sector and Anglo and BHP Billiton in the materials sector.

The top 5 companies currently contribute 37.8% to the value of the index and trades a forward P/E ratio of 18.63x. Removing the large rand hedges from their respective sectors reveals average P/E multiples which seem more palatable.

	Weight	Forward P/E	P/NAV	P/Sales	Div Yld (%)
Top 5	37.8%	18.63	2.65	3.66	1.48
Consumer discretionary	6.7%	12.13	1.78	0.86	4.14
Consumer staples	6.9%	17.02	4.40	0.54	2.56
Energy	0.2%	6.30	0.93	1.58	5.38
Financials	19.5%	10.37	1.56	1.29	4.18
Healthcare	3.5%	16.23	2.67	1.90	1.99
Industrials	2.3%	10.60	1.46	0.46	3.23
Information technology	0.4%	10.87	1.55	0.33	2.22
Materials	10.8%	11.39	1.30	1.00	3.25
Real estate	7.0%	11.56	1.03	7.74	6.31
Telecommunication services	4.7%	15.52	2.42	1.55	5.89

Source: PSG Wealth research team

Expected returns per sector



Source: PSG Wealth research team

Expected sector returns

As a sanity check we calculated the expected return on the metrics mentioned below to confirm our conclusion:

Sector returns based on a reversion to the long-term mean based on:

- price to net asset value ratio (P/NAV)
- price sales ratio (P/Sales)
- dividend yield
- price-earnings ratio (P/E)
- consensus target price

A quick note on methodology

The returns of large rand hedge stocks were considered separately, because their dominance within their sectors skewed the interpretation. When the sector reversion potential was calculated, the mean metrics were weighted towards the most relevant technique per sector.

The analysis was completed at a sector level. A positive or negative view on a sector will not necessarily apply to all investments within the sector. Larger investments in the sector will dominate its expected return.

Sector themes
Information Technology (IT)

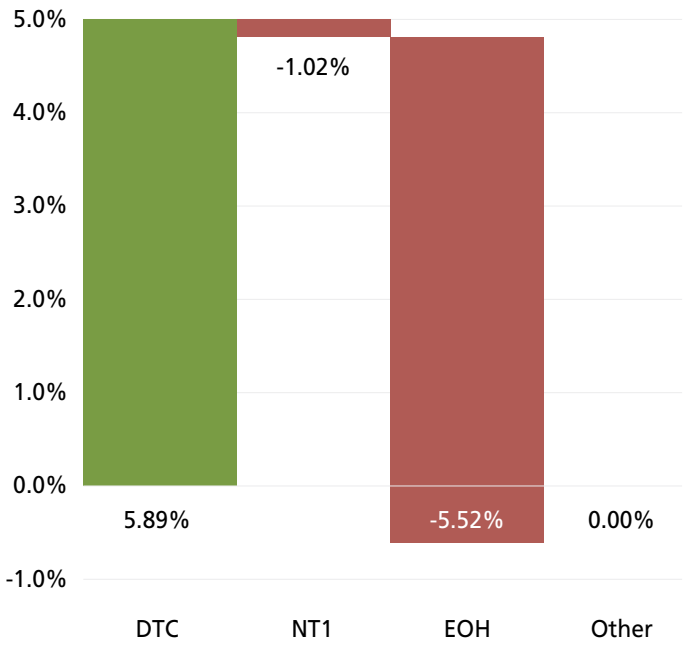
The IT sector underperformed the ALSI, with a return of -0.65% for the quarter. Datatec added 5.89% to the sector while EOH detracted 5.52%. EOH's share price ended the quarter 9.26% in the red, while Datatec's share price returned 16.74% for the quarter. Datatec released full-year results during the quarter that highlighted the poor performance of the Westcon division, which was impacted by operational challenges caused by SAP/BPO implementation. However, the favourable Westcon deal with Synnex was the driver of Datatec's share price performance.

During the quarter, EOH announced that CEO Asher Bobot would be stepping down at the end of June. The group also announced the implementation of its new leadership and board structure with each division being run by its own CEO and Executive Committee team. EOH follows an aggressive acquisition strategy, which is the primary driver of its growth. The group has focused on expanding its international footprint into the Middle East and in the rest of Africa. The shift in demand from software solutions to cloud-based computing is a prevalent theme in the IT space. Datatec recently acquired a majority stake in Nubeliu, a South American based company that specialises in cloud computing. The acquisition is aimed at strengthening Datatec's cloud offering and accelerating its global cloud computing expansion. EOH has focused on improving its cloud based solutions. This was a key driver of growth in its IT and infrastructure segments. The performance of IT companies will be impacted by their ability to offset the decline in traditional software revenues with growth in cloud revenue.

We maintain our underweight guidance and highlight corporate activity as a key risk towards our expectations for returns in this sector. Our stance towards the sector has turned less negative following the increase in our valuation of Datatec, after the Synnex deal and the reduction in EOH's share price.

Sector sentiment (q/q)	Q2 2017
Sector EPS change	=
Consensus target price change	+
PSG Wealth sector guidance	+
Sector performance	+
Change in sector perception	+

IT sector movers (q/q)



Source: PSG Wealth research team

Telecommunications

The telecoms sector underperformed the ALSI this past quarter, with a negative return of 2.81%. Vodacom added 2.60% to the sector, while Telkom and MTN detracted 1.04% and 4.37% respectively. Telkom was the biggest mover during the quarter with its share price declining by 14.04%.

Vodacom released full-year results during the quarter, which were impacted by the South African political climate and tough macro-economic conditions. Its international operations were impacted by customer registration processes and exchange rate movements. Volatile regulatory environments, forex volatility and weak economic conditions are expected to persist as headwinds for this sector.

Demand for data and fibre-to-the-home (FFTH) remains high, while the fixed-line business and voice revenue continue to be placed under pressure. A key revenue stream and focus for the telecom providers remains data. However, competition remains fierce with providers competing to provide affordable data bundle packages and out-of-bundle rates. Government has placed further pressure on the sector around the affordability of offerings. Vodacom reduced voice and data prices by 14.3% and 16.0% respectively. The White Paper policy that the South African government intends to implement may undermine historical investments, and lead to lower barriers to entry.

Capital expenditure is expected to remain high for networks due to their focused spend on LTE rollouts, fibre infrastructure and the maintenance of existing structures. Vodacom's capex spend declined from the previous period as it reached the peak of its capex acceleration. In-market consolidation, or changes of ownership of major players, could have a positive impact on the price dynamics of the sector.

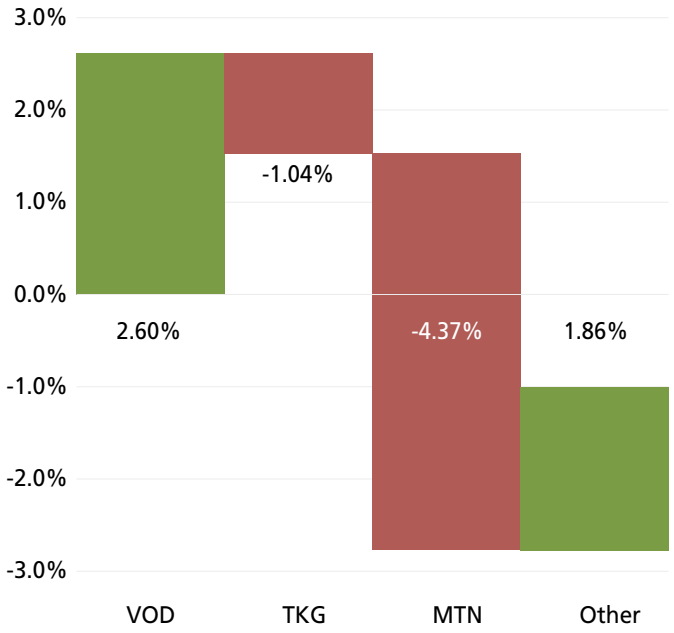
Given the status quo, cost management will continue to be a key focus area for network providers, which will help mitigate the impact of competitive pricing strategies on operating margins. Because of the highly competitive market and tough trading environment, churn management, competitive rates and value-added services will remain key factors in maintaining market share.

Our dispersion of expected returns in the sector remains large. Sentiment towards the sector was negative with consensus estimates downgraded for all telecom providers during the quarter. From a valuation point of view, we think Vodacom is expensive with earnings multiples trading at 1.5 standard deviations above its five-year average.

We have reduced our return expectations for MTN given the weak Nigerian economy and depressed oil prices. We highlight that a stabilisation of the Nigerian economy, which depends on improved oil prices, remains a key risk to our valuation.

Sector sentiment (q/q)	Q2 2017
Sector EPS change	-
Consensus target price change	-
PSG Wealth sector guidance	-
Sector performance	-
Change in sector perception	-

Telecommunications sector movers



Source: PSG Wealth research team

Consumer discretionary

This sector outperformed the Capped All Share Index, returning 3.28%, with Naspers and Richemont acting as the main drivers for outperformance. The share price of Naspers increased by 9.9% for the quarter on the back of an improved earnings outlook. Tencent's released results for the quarter were ahead of expectations, and showed record sales and profits, supported by strong performance in their digital content subscriptions, gaming and payment related services. The market still assigns a negative value to the rump investments in Naspers, despite lower development spend and recent transactions to unlock value, which support an improved return on invested capital (ROIC) profile.

Richemont released full-year results, which were impacted by exceptional inventory buy-backs. These buy-backs were mostly related to the repurchase of slow-moving watches from multi-brand retail partners. The majority of the inventory buy-backs took place in the first half of the year. However, management has indicated that the

inventory buy-back was completed for the time being. The group also flagged the jewellery product category as a major growth prospect and indicated that resources will be allocated towards research and innovation, digital marketing and online sales platforms.

Clothing retailers Woolworths, Truworths and the Foschini Group were the main detractors from the sector's performance. The Foschini Group and its peer, Mr Price, reported retail sales which fell short of market expectations, highlighting the tough retail trading environment.

The general retail sector remains highly competitive, with retailers having to compromise margins to maintain market share. As consumer spending remains constrained, consumers become more cost conscious, making less impulsive decisions, deferring purchasing, and waiting for promotional activities. Promotions continue to impact sales and margins across retailers.

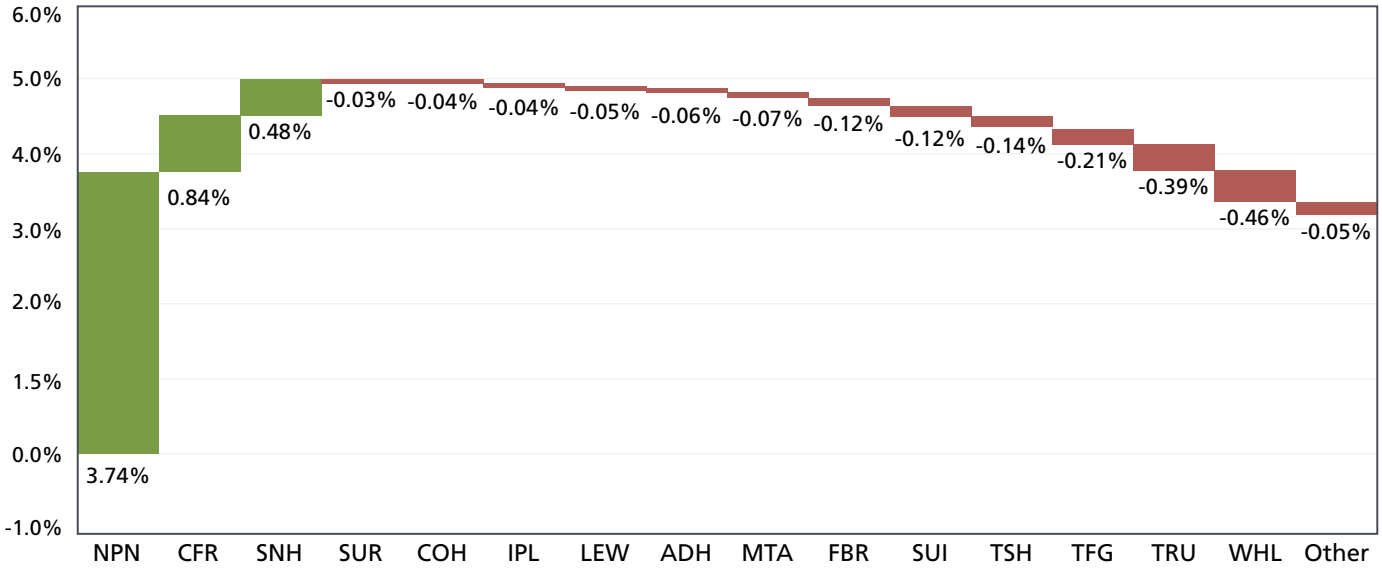
Muted local growth led to retailers increasingly focusing offshore for growth. The Foschini Group was the most recent retailer to enter the Australian market with its announcement of the acquisition of the Retail Apparel Group (RAG), a menswear retailer in Australia and New Zealand.

Robust growth in online retail has led to retailers paying closer attention to their online retail offerings. Several retailers re-platformed their online sites, to improve customers' journey online and enhance online performance. Regulations around credit affordability continue to weigh on credit sales. Foschini, Truworths and Mr Price have initiated legal action against the National Credit Regulator (NCR) and the Department of Trade and Industry (DTI) in connection with the affordability regulations. The matter is set to be heard in the High Court on 7 August 2017. Retailers could only benefit from amendments to affordability regulations.

Other proposed changes to legislation remain a risk. A portfolio committee bill will also be drafted to address the proposed debt forgiveness programme and the extension of the NCR's powers (which will allow the NCR to investigate credit retailers without probable course and impose fines as they see fit).

Volatile exchange rates will continue to impact the profits of retailers, due to the high percentage of imported merchandise. We expect an improvement in real wages as drought conditions dissipate. This could offer some relief through lower inflation, which in turn could translate into more discretionary spending by consumers.

Consumer discretionary



Source: PSG Wealth research team

Travel and leisure counters underperformed significantly over the past three months, as consumer sentiment remains poor. The gaming operations in this sector are good quality investments with strong margins and healthy cash generation. This can be attributed to the defensive nature of their operations and the regulatory environment limiting competition. Gaming revenues, although resilient, are not immune to economic cycles. Gaming revenue in South Africa is expected to remain under pressure until economic conditions improve. However, demand for hotel rooms continued to grow, with little growth in hotel supply the last few years. Overall industry occupancies improved to 65.2%, up from 63.8% in 2016, which still presents room for improvement in the medium term.

Industrial transportation

The cyclical nature of businesses in this sector means that profitability is highly dependent on economic activity. Deterioration in global economic activity remains a key risk, with dominant players having diversified offshore.

A weak rand constrained new vehicle sales, but supported profits from their after-market sales (parts division). A weak rand will have a greater impact on Imperial, due to its exposure to its vehicle import and distribution business. Given the outperformance of Richemont and Naspers over the quarter, we believe prospects are fairly reflected in their share prices and would guide towards a neutral exposure.

For domestics, we feel that most of the sector's challenges are cyclical and not structural. The poor sentiment has created attractive entry points for longer-term investors. This sector has many high-quality companies with attractive valuations currently being supported by very attractive dividend yields.

Sector sentiment (q/q)	Q2 2017
Sector EPS change	-
Consensus target price change	-
PSG Wealth sector guidance	+
Sector performance	+
Change in sector perception	
travel and leisure	-
industrial transportation	-
general retailers	-

Consumer staples

This sector outperformed the Capped All Share Index, with a return of 0.09%, following a renewed focus on quality income investments relative to value counters. Bidcorp's share price rose 15.22% during the quarter and contributed 193 basis points to the overall sector performance. Clicks's share price increased by 9.99% this quarter. Clicks released results that indicated it was on track to meet full-year consensus forecasts. Once again, the group's value offering and unique product ranges supported volumes growth and increased market share across all core merchandise categories.

British American Tobacco (BAT) contributed 44 basis points to the sector's performance. BAT's vapour business grew to become the world's largest outside of the US. The group also successfully launched its first tobacco heating product – named 'glo' – in Japan. It continues to exceed expectations and is on track for further rollout in Japan and internationally. BAT continued to grow its market share in Western Europe, with good progress made on the rollout of the Vype Pebble. BAT also made significant progress with the acquisition of the remaining 57.8% in Reynolds American Inc, which is expected to be completed and become effective on 25 July 2017.

Food producers Pioneer and Tiger Brands were the largest detractors to this sector's performance, detracting 85 and 67 basis points respectively. Pioneer's share price fell 22.69% for the quarter and Tiger Brands' share price fell 7.18%.
The earnings of food producers remain dependent on the relationship between the prices of raw materials and the prices of products. Food producers are typically geared to the commodity inputs in their operations. Thus, any changes in items like maize, sugar and wheat would impact their profitability.

Tiger Brands and Pioneer have the highest sensitivity to soft commodity prices. Producers with strong brands should have the necessary pricing power to recover higher input costs through price increases. Local consumer staples, however, struggle with a constrained consumer environment, which to some extent, negated the benefit of higher food inflation.

Food producers' results should benefit from the recovery in the South African maize crop. Normal weather patterns should further alleviate cost pressures of raw materials. The International Trade Admin Commission is currently reviewing import duty regimes, which is likely to result in a meaningful decrease in wheat prices. This will be favourable for the Tiger Brands milling business and AVI's biscuit business.

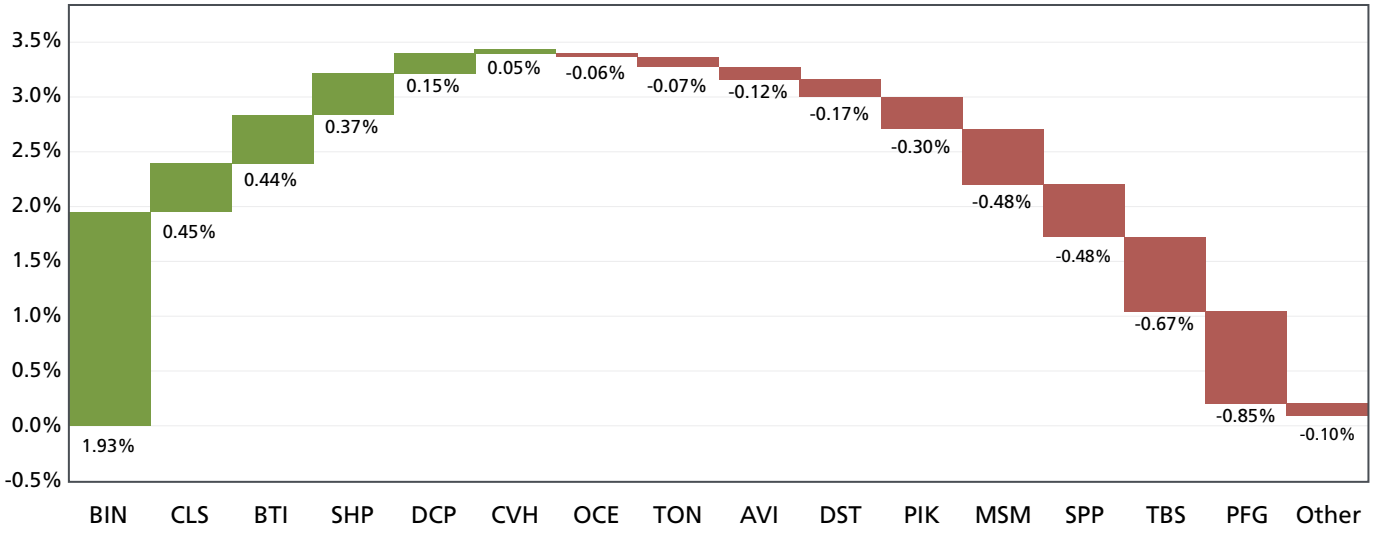
Elements of commoditisation are also present in the food distribution industry. As such, weak demand typically leads to an increase in competitive pressures and the erosion of margins.

The food services market is a highly competitive and fragmented industry. Distributors in food services primarily redistribute other people's products, leading to a limited scope for product differentiation. Increasing urbanisation, the rise of single-person households, the search for convenience and the increase in global tourism, should all provide a structural underpinning to the demand for food services.

We see value in selected food producers within the consumer staples sector, but feel that food retailers are fully valued. Despite the sector's low risk characteristics, we maintain our underweight recommendation on the sector.

Sector sentiment (q/q)	Q2 2017
Sector EPS change	-
Consensus target price change	+
PSG Wealth sector guidance	-
Sector performance	+
Change in sector perception	-

Consumer staples



Source: PSG Wealth research team

Healthcare

A larger than expected slowdown in the South African economy and an increase in active case management by medical aids away from hospital admissions, translated into below-consensus growth in paid patient days (PPD). This highlights the structural constraints to revenue growth for the local operations of healthcare providers.

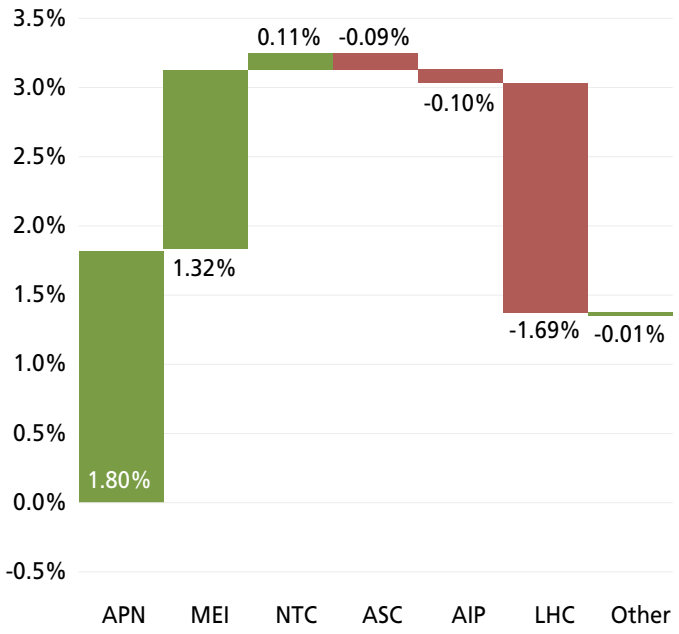
Still, the healthcare sector outperformed the Capped All Share Index, with a return of 1.34%. Aspen was the biggest contributor to the sector's outperformance, despite recent scrutiny following the €5.2 million fine imposed on it by the Italian Competition Authority (ITC) for anti-competitive conduct in Europe. This drew attention to Aspen's competitive conduct, which led to the Competition Commission (CC) and the Medicines Control Council (MCC) investigating Aspen's competitive conduct locally. However, Aspen was absolved from anti-competitive conduct locally, which saw Aspen's share price rise by 4.51% for the quarter.

Mediclinic contributed 132 basis points to the sector's performance. Mediclinic's share price rose 6.8% for the quarter as markets reacted favourably to recent regulatory updates. The Zurich Cantonal Parliament voted not to approve the proposed VVG levy on the proportion of privately insured patients treated in listed hospitals. In addition, the Thiqa co-payment, which was the major contributor to underperformance of the Abu Dhabi business, was recently waived. Management guided that lost volumes due to regulation will only be recovered in the longer term. Two major regulatory risks to flag are revision of the Swiss national outpatient tariff (TARMED) and the pending market inquiry into competition in the private healthcare sector in South Africa.

Investments in the healthcare industry are normally lower risk investments, due to the sector's defensive nature and high barriers to entry. Positive structural drivers include an ageing population and increasing rates of diagnosis, particularly for lifestyle diseases. This, combined with capacity constraints in most government-funded healthcare systems, should drive demand for private healthcare. However, over the past two years, healthcare counters have come under significant pressure. Static medical aid scheme memberships have led to slow growth in job opportunities in both the private and public sectors. The shift in the popularity of low-cost medical aid packages (Discovery KeyCare) and ongoing regulatory pressure also provided headwinds to this sector. Competition in the global pharmaceutical market remains fierce. Growth in this industry is underpinned by strong demand for healthcare and drugs in emerging markets (EMs). Legislative and regulatory changes introduced by the Department of Health (DoH), the South African Pharmacy Council (SAPC) and Medicines Control Council (MCC) could impact the turnover and margins of pharmaceutical companies. This could also impact their ability to obtain licences and to launch private labels, exclusively scheduled and complementary medicines. Pharmaceutical regulations and the use of increasingly strict quality standards have led to higher compliance costs across all territories.

Low-cost Asian pharmaceutical companies are active in all major territories with many competing generics launched once the patent of a molecule has expired. Shifts toward generic medicines could also erode margins (the level of discount to that of the originator molecule sold in the market). Exchange rate volatility remains a risk, because most active pharmaceutical ingredients (API) are priced in US dollars. For Aspen, a weak rand presents an attractive opportunity for exports of API and finished dosage formulations (FDF), which could offset some of the cost pressures experienced in other product categories, given the investments made in this arena.

Healthcare sector movers



Source: PSG Wealth research team

Sector sentiment (q/q)	Q2 2017
Sector EPS change	-
Consensus target price change	-
PSG Wealth sector guidance	+
Sector performance	+
Change in sector perception	-

Financials

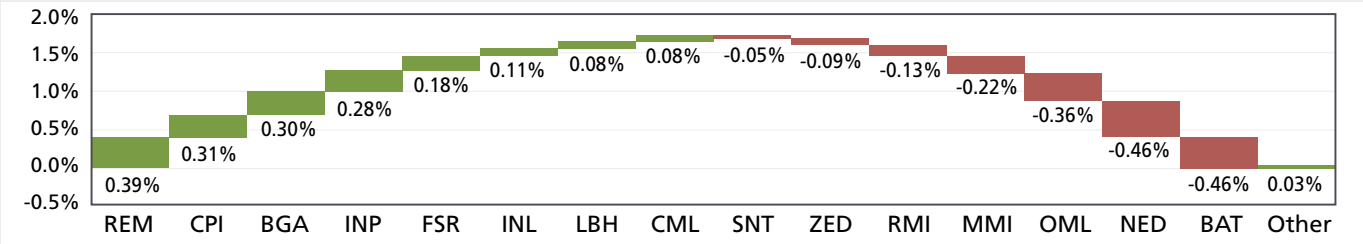
The financial sector outperformed the Capped All Share Index, with a return of -0.01% this quarter, aided by the 39 basis point contribution from Remgro. Remgro remains attractive as a cheap entry point to its underlying investments, which currently seem fairly valued. Barclays Africa rose 7% after Barclays PLC concluded the disposal of its shares, alleviating the overhang on the share that had kept the price at depressed levels. Liberty was another strong performer, up 8%. Liberty reported decent sales results in its first quarter update and announced that the CEO of Standard Bank's Corporate and Investment Banking division will take over as Group CEO for Liberty. This was interpreted as positive, as the company has been experiencing operational challenges in recent times. Its competitor, MMI, lost 12% over the three months due to a weak operational update with a poor sales performance, particularly in its single premium business, and pressures on new business profitability.

Nedbank fell 11% after deteriorating revenue trends were seen in the group's quarter one results. Its associate, Ecobank (ETI), also reported a large loss in its results. The attributable loss from ETI was $427 million compared to a profit of $150 million in the previous quarter. ETI is facing a challenged Nigerian economy, making up a material portion of its loan book. However, Nedbank's management believes the conditions will begin to improve in 2018. ETI returned to a quarterly profit in the first quarter of the year. Brait fell 22.61% during the quarter, impacted by New Look's performance coming in worse than expected due to not capturing seasonal fashion trends in time, lagging lead times and the impact of unanticipated weather changes that affected sales. Forex volatility (especially versus the GBP, given that the majority of the assets are concentrated in the UK) was a significant headwind for Brait.

Sentiment in the banking sector has been largely unchanged for the quarter. Expectations for stable, or lower interest rates on the horizon, remain intact with improving CPI numbers and a stronger exchange rate after the political events that transpired at the end of the first quarter. As seen with Nedbank, the muted economic environment should put pressure on revenue generation for the banks. Sentiment for the life insurance sector deteriorated with weaker top line results in operational updates by two insurers. Lower volumes in single premium savings products were a large component of the decline.

The performance of equity markets, which has been subdued over the last few years, is an important determinant of demand for these products. Competition for both sectors is increasing with banks pursuing strategies in insurance and insurers pursuing banking aspirations. The more recently announced are Investec Life and MMI's partnership with African Bank. Despite several headwinds, we still believe that valuations in the sector are attractive and remain overweight. The sector also provides several opportunities for investors seeking high dividend yielding shares.

Financial sector movers (q/q)



Source: PSG Wealth research team

Sector sentiment (q/q)	Q2 2017
Sector EPS change	-
Consensus target price change	-
PSG Wealth sector guidance	=
Sector performance	+
Change in sector perception	-

Industrials

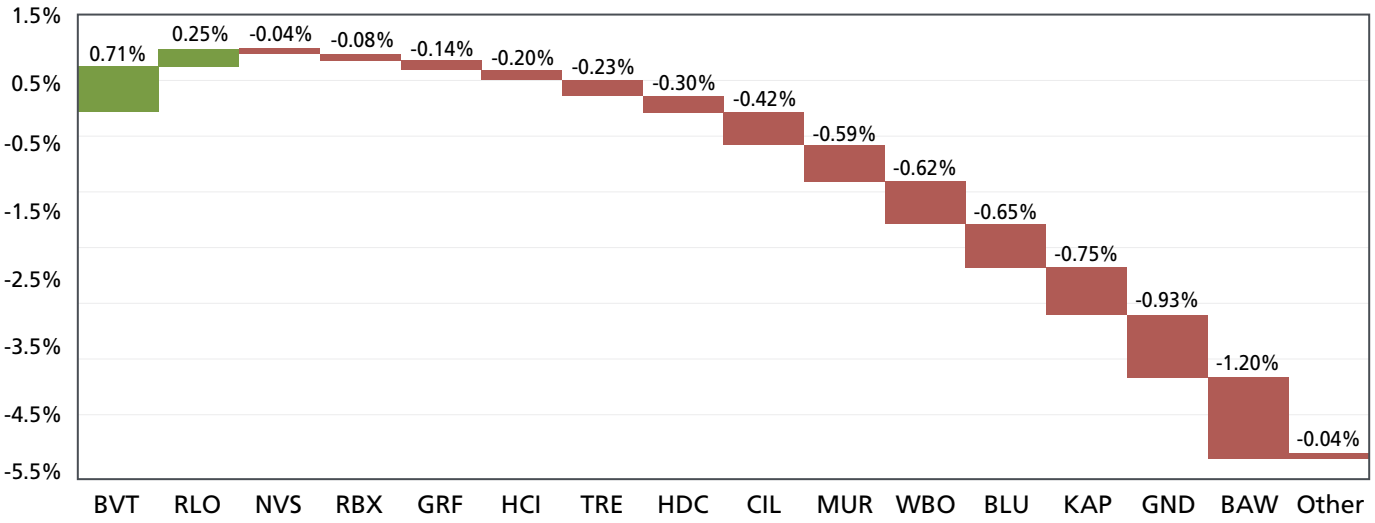
The industrial sector underperformed the JSE Capped All Share Index, with a negative return of 5.23%. Most industrial tickers ended in negative territory except for Reunert and Bidvest, which gained 3.50% and 2.41% respectively.

This was on the back of Reunert's interim results, which indicated turnover from continuing operations had grown 10% to R4.4 billion driven by a 31% increase in revenue in its Electrical Engineering segment. This segment was supported by acquisitions, improved production volumes in the circuit breaker business and a strong demand for optic fibre due to FTTH rollouts.

Bidvest was a large detractor last quarter and currently constitutes a weighting of 34.75% in the sector. Several challenges plagued the industry over the quarter. First and foremost, macro-economic challenges relating to muted GDP growth, which is a significant driver for the sector, weighed negatively. Consumer confidence and disposable income came under pressure.

Aggressive pricing pressure due to strong competition and the tough environment prevailed. In addition, business confidence was lower.

Industrial sector movers (q/q)



Source: PSG Wealth research team

Hudaco and KAP Industrials Holdings declined 10.98% and 9.06% respectively. The supply and demand balance in shipping remains fragile with the Baltic Dry Index, indicative of shipping rates, decreasing 29.72% over the period.

This resulted in Grindrod suffering the sharpest decline in the sector of 22.66%. The value of the rand plus the associated volatility has weighed on exports. Barloworld, with the second largest weighting in the sector of 15.64%, decreased 7.78% in return.

Local building markets are showing signs of tapering, particularly within the retail and commercial office sectors. Additionally, various high value projects have either reached completion or are nearing completion. This, together with a lower order intake, has affected building and civil engineering.

Consolidated Infrastructure Group, Murray & Roberts, Wilson Bayly Holmes-Ovcon Ltd and Group Five decreased 19.90%, 15.13%, 12.20% and 10.52% respectively. Corporate action remains a key focus area for the majority of industrial players.

Sector sentiment (q/q)	Q2 2017
Sector EPS change	-
Consensus target price change	+
PSG Wealth sector guidance	-
Sector performance	-
Change in sector perception	-

There has been a shift in the exposure to the mining sector where the likes of Hudaco have reduced their exposure, while construction companies' exposure increased (mainly Aveng and Murray & Roberts) after their decision to cut their SA construction businesses following the Voluntary Rebuild Programme agreement.

New investments into the rest of Africa have lost prevalence given more uncertain commodity economies and volatile exchange rates. We maintain our underweight stance on the sector but highlight that there is a material valuation differential between sector constituents, and recommend that investments be considered individually. Given the cyclical nature of the sector revenue and the number of low quality names, we believe investments in the sector should be thoroughly monitored.

Conclusion

At the start of the year, our expectations were influenced by the expectation that the worst of the employment contraction is behind us, and that inflationary pressures were abating given the strength in the rand. We also expected economic growth and corporate earnings could potentially improve. However, the political indecision around mainly the regulation of the economy translated into much weaker sentiment, resulting in a deferral of our expectations.

Given the uncertain trajectory of political progress, the changes of SA risk premiums are likely to dominate investment decisions until business/consumer confidence is restored. Changes in the perception of sovereign risk (positive and negative) and its flow-through to exchange rates and interest rates, can have a material impact on investment returns.

We do believe that the rand could come under pressure should sovereign risks increase or in an emerging market sell-off. Conversely, an improvement in public governance or a sustained improvement in commodity prices could support a stronger currency.

With multiples, slightly ahead of their long-term averages we expect returns to materialise primarily through growth in earnings and not through a material changes in valuation multiples. We forecast 14.5% growth in earnings for the year ahead with a slight decline in the exit P/E multiple.

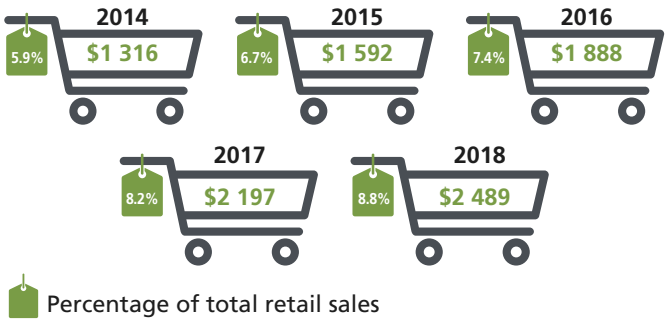
We remain cautious on the premium valuations that 'bond proxy' investments demand given the rising global bond yield environment. We recognise more value in domestically focused investments relative to expensive defensives and rand hedge counters where we remain neutral. More specifically, we highlight value in the financial and consumer discretionary sector and to a lesser extent in selected healthcare stocks. Improved sentiment in favour of our preferred sector allocation is unlikely, as long as economic growth remains anaemic. They are however supported by high and stable dividend yields which should support investment returns. We remain underweight consumer staples which we feel are fully priced, but recognise that sentiment towards these are likely to remain favourable should stimulus packages by systemically important central banks prove sustainable.

Bricks versus clicks

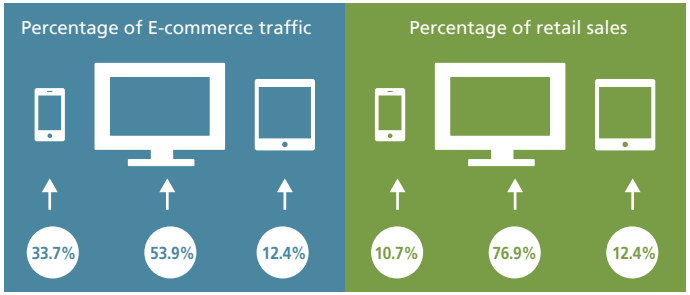
The face of retail is changing quickly, with online shopping growing at a much faster pace than in-store shopping globally

The numbers of global online retail spending

Estimated online retail sales worldwide (in Trillion)



Percentage of E-commerce traffic and sales by device



Nearly one in four online shoppers shop online at least once a week

Source: Invesp Conversion Optimization

Online shopping has created more price-savvy consumers. Mobile applications (apps) and related technologies enable consumers to engage with each other while making decisions, to check information online and to confirm product availability with retailers directly.

This affects every part of the customer journey, from researching products and comparing prices to the actual purchase and post-purchase feedback.

Today's consumers expect the in-store experience to add value and be relevant, personalised and entertaining.

Online retail in South Africa is still developing

Historically, online retail was constrained by a lack of infrastructure, a lack of choice and security concerns around online payments. Recent research by PwC suggests that about two-thirds of shoppers worldwide are still concerned that their personal information could be hacked while they use their mobile phones.

In South Africa, approximately 80% of shoppers are concerned about safety when using their smartphones.

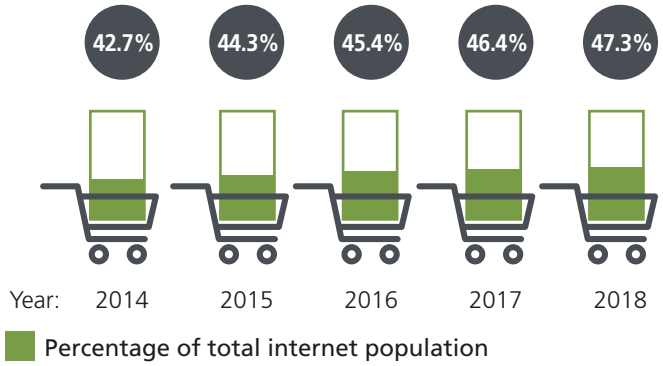
However, the increasing penetration of smartphones, improving broadband accessibility and continued strong online sales growth have signalled a shift in consumer behaviour and market dynamics.

The role of the physical store is also changing as online shopping continues to grow, shifting the physical space towards unique, brand-defining experiences that seamlessly include other channels.

Today, successful retailers give their consumers new reasons to visit stores. These include innovative and appealing formats, in-store displays and experiences such as tastings, demonstrations, advice and personalised services.

In today's technological world the physical store must engage and entertain.

Digital buyers penetration worldwide

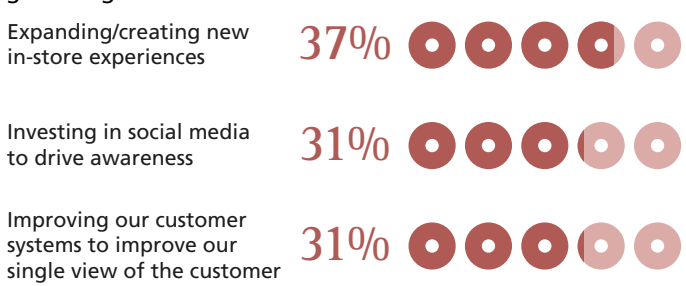


Top 10 countries with retail E-commerce sales as a percentage of total retail sales

Country	2015	2016	2017	2018
UK	14.4%	15.6%	16.9%	18.0%
China	12.0%	13.8%	15.5%	16.6%
Norway	10.7%	11.5%	12.1%	12.7%
Finland	10.4%	10.8%	11.2%	11.5%
South Korea	9.8%	10.5%	11.3%	12.0%
Denmark	9.3%	9.9%	10.4%	10.8%
Germany	8.4%	9.4%	10.4%	11.2%
US	7.1%	7.7%	8.3%	8.9%
Canada	5.9%	6.6%	7.4%	8.2%
Japan	5.4%	5.8%	6.2%	6.7%

It's all about the customer

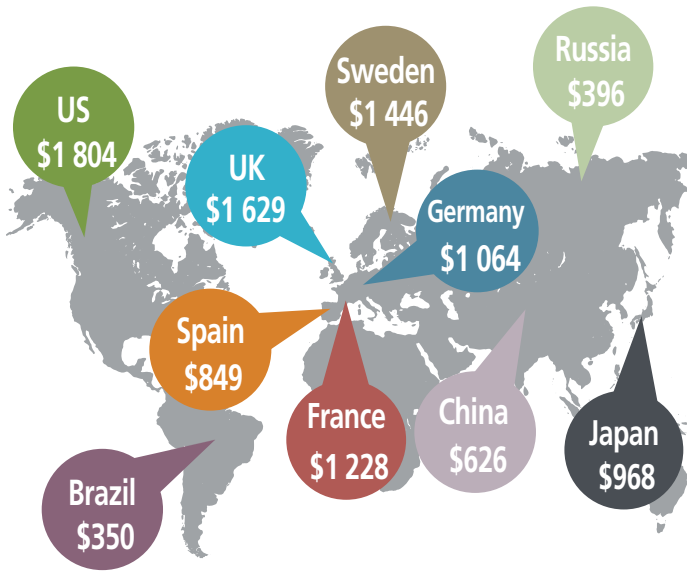
Retailers are focusing investment on in-store experiences and social media campaigns while improving their ability to get a single view of the customer



Sources: PwC, PSG Wealth research team

Online Shopping: Top country by average e-commerce revenue

Top countries by average E-commerce revenue by online shopper



Source: Invesp Conversion Optimization

Retailers need to find a balance between offering exceptional customer service and experiences while maintaining profitability. While the consumer has the benefit of more choice, the sector is challenged by static or declining store volumes and over-saturation. This intensifies the profit pressures of operating in an omni-channel world.

Property and e-commerce

E-commerce poses a prevalent risk for property companies that have significant exposure to the retail sector. Retail property used to be a highly defensive property type. However, the growth of e-commerce, together with an already constrained consumer, has placed retail space providers under immense pressure. Hyprop was particularly impacted by the recent closure of Stuttaford stores in three of its malls, leaving about 11 000 m² of vacant space in these retail properties.

South African super regional centres have also taken a knock, as large international retailers like Mango and Nine West started to exit the market. Because rentals are a function of retailer turnover, providers of retail space have become more focused on the performance of their tenants.

Premium retail parks are expected to be least impacted by e-commerce, as they include high-end retailers, a selection of quality restaurants and entertainment options. This is a trickle-down effect of consumers becoming more concerned with the quality of their shopping experience and demanding the inclusion of leisure activities along with traditional shopping experiences. To survive this new trend, landlords will need to optimise their tenant mix with key anchor tenants. Cannibalisation is another key issue, with large newly developed malls detracting from the performance of smaller retail establishments. Prime retail destinations are expected to withstand the effects of cannibalisation better.

Despite e-commerce continuing to experience double-digit growth on the local front, it still constitutes a small portion of total domestic retail sales, making up less than 1% of total local sales of clothing retailers like Woolworths and Mr Price. However, e-commerce plays a more dominant role globally, with the UK leading the charts in online retailing. Online retail is expected to make up about 17% of total retail sales in the UK in 2017. The PSG Wealth research team expects UK-focused REITs, like Capco and Intu, to be impacted the most by e-commerce, as retail assets constitute the largest portion of their portfolio.

Retail shoppers in the UK

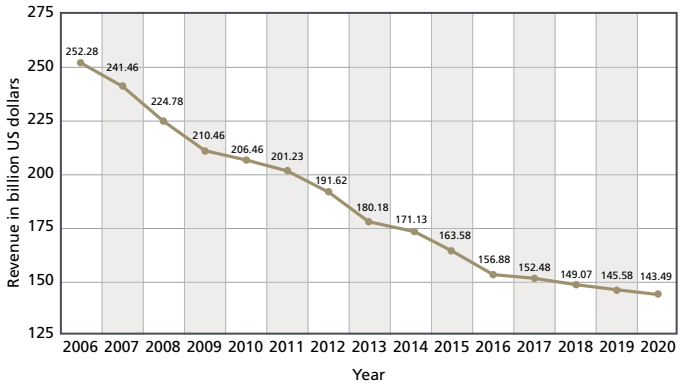
Source: PwC, PSG Wealth research team

The disruptive power of Amazon

Ten years ago, the future of brick-and-mortar retail looked bright. Retailers were worth a collective US$400 billion, and Amazon was only valued at US$17.5 billion. But disruption often comes without warning. And if there were warning signs, they went unheeded.

Big box and department store sales plummeted in the US, as consumers increasingly went online to do their shopping. This year, it is estimated that revenues from such sales total just 62% of 2006 revenues.

Big box and department store sales (US$ billion)



Source: Visual Capitalist

Big box and department store sales ($ Billion)

Today, Amazon is bigger than most brick-and-mortar retailers in the US put together. Add together the market caps of Walmart, Target, Best Buy, Nordstrom, Kohl's, JCPenney, Sears and Macy's and they amount to a significant US$297.8 billion (as at the end of December 2016).

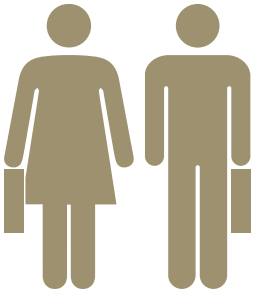
However, it's not enough to beat the Amazon machine. This online retailer alone is worth US$356 billion, making it one of the largest companies by market capitalisation in the world.

Research conducted by the PSG Wealth research team shows that Amazon continues with its disruptive innovations, aimed at making online shopping more fun, convenient and easy. According to a study conducted by PwC, Amazon has impacted shopping behaviour in the following ways:

- Shoppers use Amazon as a research site for prices (47%) and products (39%).
- Amazon cannibalises other retailers, including both pure online players and traditional retailers.
- 28% of respondents said they shop less often at retail stores because of Amazon. In the US, the figure was 37%.

When it comes to China's Amazon equivalent, Tmall.com, a subsidiary of Alibaba.com, 24% of respondents from China said they now shop less often at retail stores because of Tmall.com.

How has shopping with Amazon influenced your shopping behaviour?



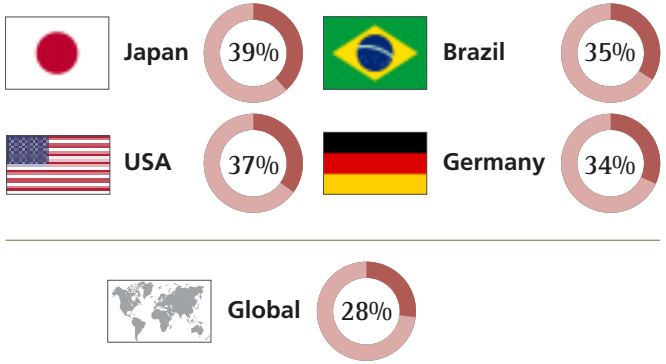
28% | shop less often at retail stores

18% | shop less often at other retailer websites

10% | only shop on Amazon

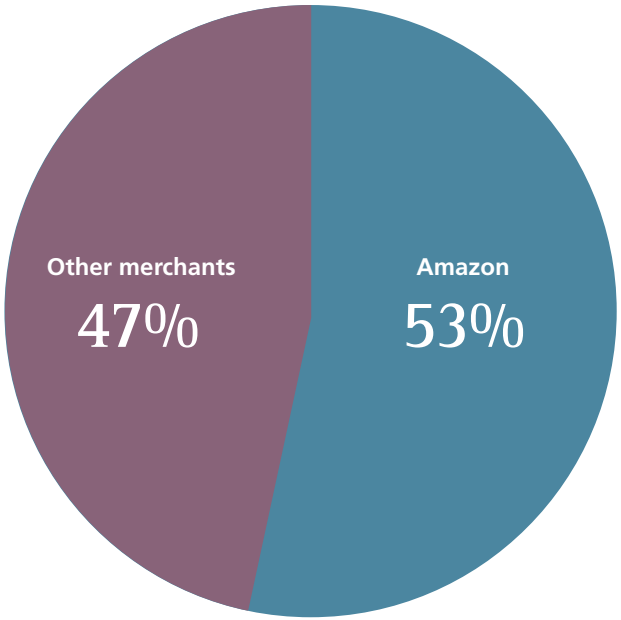
Source: PwC, PSG Wealth research team

The top four countries where consumers 'shop less often' at retail stores due to Amazon



Source: PwC, PSG Wealth research team

Amazon accounted for most of the e-commerce growth in 2016



Source: PwC, PSG Wealth research team

Property performance this past quarter

Domestic commercial property remained weak throughout the past quarter. The challenging macro-economic environment forced property companies to supplement distribution payments with the payment of capital profits to meet management guidance and achieve distribution growth.

The lack of local growth has led local property companies to expand offshore, particularly in the Eastern European region. The retail space in the European market has displayed attractive investment fundamentals with low vacancy rates, positive rental renewals and escalations in growth. Despite volatile economic conditions in the UK, office construction in London remains above historic levels. Prime UK-focused retailers continue to experience stable footfall, healthy renewals and steady occupancy rates.

Recovery of the office sector is becoming increasingly fragile with high vacancy rates, weak rental renewals and a slowdown in rental escalations. This sector is faced with excessive supply, while large development projects are still on the rise.

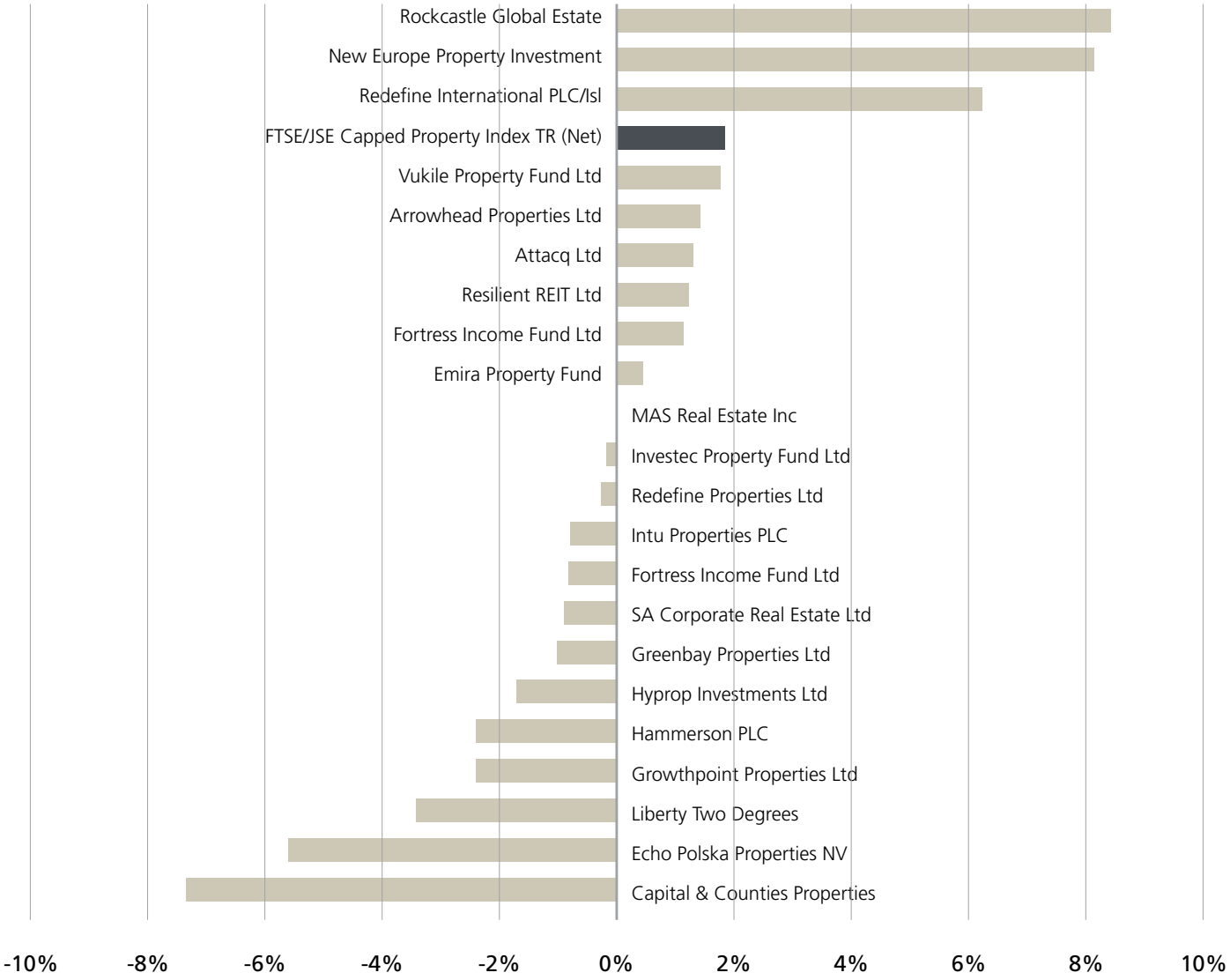
P-grade (prime) office space has been the most resilient office type, with steady demand. Improvement in the sector will be dependent on the growth of economic activity in the business and financial industries.

The PSG Wealth research team anticipates current lacklustre economic conditions to persist across all sectors. Muted demand, due to depressed confidence, is expected to place further pressure on rentals, while retaining and attracting new rentals will continue to come at a price. Economic conditions and changes in sovereign risk and capital markets are expected to be the main drivers of performance in the property sector over the short term.

Rockcastle and NEPI topped the charts in the second quarter of 2017, with Rockcastle returning 8.45% and NEPI returning 8.14% for the quarter.

The two companies will merge into a newly incorporated entity on the Isle of Man, which will be named NEPI Rockcastle Plc. NEPI Rockcastle is expected to become the largest real estate company in Central Eastern Europe. Capco fell 7.39% for the quarter and came in as the worst performer.

FTSE/JSE Capped Property Index Portfolio Underlying Returns (1.86%)



Source: PSG Wealth research team

The FTSE/JSE Preference Share Index gained 1.60% in the second quarter of 2017

Generally speaking, the turnover for most preference shares hovers around the 1.00% to 2.00% mark per month. This illustrates that these assets are generally not actively traded in the market.

Trade volumes remain thin, with the average monthly trades fluctuating between zero (Brait) and R102.11 million (Absa). Effective yields are trading in a range of between 88.51% (Capitec) and 125.10% (Grindrod). Effective yields are higher than those of longer-dated bonds, although the price reflects both a higher expected duration and default risk than what are inherent to bank and corporate credit. Over the last 12 months the FTSE/JSE Preference Share TR ZAR gained 6.90% compared to the FTSE/JSE SA Listed Property TR ZAR that gained 5.40%. We do not like this asset class from a liquidity perspective, and investors are often unaware of the liquidity they compromise by investing in this part of the market. Please look out for our next quarterly in which we will discuss our liquidity concern in more detail.

Domestic preferences share characteristics: Banks and corporates

Instrument summary	STANDARD	ABSA	FIRSTRAND	NEDBANK	INV-LTD	INV-BANK	INV-PREF	CAPITEC	SASFIN
Value	SBPP	ABSP	FSRP	NBKP	INPR	INLP	INPPR	CPIP	SFNP
Price	R 82.90	R 742.95	R 82.00	R 9.10	R 73.75	R 81.50	R 87.00	R 97.00	R 76.50
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 2.48	R 19.73	R 2.93	R 0.25	R 0.78	R 0.84	R 0.96	R 2.85	R 2.33
Clean price	R 80.42	R 723.22	R 79.07	R 8.85	R 72.97	R 80.66	R 86.04	R 94.15	R 74.17
Liquidity	SBPP	ABSP	FSRP	NBKP	INPR	INLP	INPPR	CPIP	SFNP
Market cap (Rm)	R 4 392 m	R 3 674 m	R 3 690 m	R 3 260 m	R 2 376 m	R 1 259 m	R 11 m	R 162 m	R 137 m
Avg monthly trade (Rm)	R 89.72 m	R102.11m	R 58.62 m	R 48.57 m	R 26.92 m	R 13.05 m	R 0.09 m	R 4.32 m	R 2.14 m
% of Market cap traded monthly	2.04%	2.78%	1.59%	1.49%	1.13%	1.04%	0.82%	2.66%	1.56%
Maximum recorded bid/ Ask spread	6.97%	82.25%	51.01%	9.89%	*	21.95%	88.52%	51.63%	16.67%
Average bid/Ask spread	0.68%	0.82%	0.77%	1.01%	*	1.25%	5.49%	2.86%	2.42%
Effective yield as a % of prime	95.75%	96.79%	95.56%	94.18%	106.59%	103.31%	110.41%	88.51%	111.22%
Effective yield	10.05%	10.16%	10.03%	9.89%	11.19%	10.85%	11.59%	9.29%	11.68%

Instrument summary	DISCOVERY	NETCARE	PSG	BRAIT	STEINHOFF	GRINDROD	IMPERIAL	INVICTA	ASTRAPAK
Value	DSBP	NTCP	PGFP	BATP	SHFF	GNDP	IPLP	IVTP	APKP
Price	R 97.00	R 81.00	R 78.00	R 100.00	R 77.00	R 73.00	R 75.00	R 92.05	R 100.00
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 3.62	R 1.50	R 2.85	Redeemed	R 2.18	R 2.66	R 2.66	R 0.21	Redeemed
Clean price	R 93.38	R 79.50	R 75.15	R 0.00	R 74.82	R 70.34	R 72.34	R 91.84	R 0.00
Liquidity	DSBP	NTCP	PGFP	BATP	SHFF	GNDP	IPLP	IVTP	APKP
Market cap (Rm)	R 776 m	R 527 m	R 1 358 m	R m	R 1 155 m	R 540 m	R 341 m	R 690 m	R 0 m
Avg monthly trade (Rm)	R 10.72 m	R 11.83 m	R 30.70 m	R 0 m	R 18.54 m	R 14.09 m	R 7.93 m	R 8.81 m	R 0.00 m
% of Market cap traded monthly	1.38%	2.25%	2.26%		1.60%	2.61%	2.33%	1.28%	
Maximum recorded bid/ Ask spread	27.90%	45.77%	14.09%	6.68%	10.53%	13.27%	16.71%	18.03%	98.83%
Average bid/Ask spread	2.10%	2.12%	1.12%	1.04%	0.96%	1.26%	2.16%	1.53%	3.08%
Effective yield as a % of prime	107.09%	103.77%	110.89%	0.00%	110.27%	125.10%	114.04%	111.06%	0.00%
Effective yield	11.24%	10.90%	11.64%	0.00%	11.58%	13.14%	11.97%	11.66%	0.00%

*Data not available at time of publication. Sources: Grindrod Bank, Bloomberg, JSE

The possibility of rising yields and declining inflation

Various recent data sets point to the possibility that global bond yields will rise in the months again, while inflation is expected to continue its downward trend.

Our view supports that of BCA Research who found that the balance of risks points to global yields rising again in the months ahead, led by US Treasuries.

"Global bond yields have fallen in a coordinated fashion among the major economies, even with only a modest cooling of growth momentum and realised inflation outcomes. With little sign of an imminent downturn in growth on the horizon, government bonds now look a bit expensive," a note from BCA Research said recently. Their data shows that while the economic outlook remains bright, there is a huge bull-flattening bond rally in the major government bonds of most developed economies. Their charts show a decline in basis points for the 10-year US, UK, German and Canadian government bonds for the second half of this year. The benchmark 10-year yield has fallen since mid-March by -43bps in the US, -21bps in Germany, -24bps in the UK, -45bps in Canada and -54bps in Australia.

"Global leading economic indicators are still pointing to faster growth over the latter half of the year, led by easing financial conditions given booming equity and credit markets. With most major economies either at full employment (US, UK, Japan, Australia) or approaching full employment (Euro Area, Canada), accelerating growth will ensure that the recent downtick in global inflation will not persist for long – especially if oil prices begin to move higher again as our commodity strategists expect," BCA Research noted.

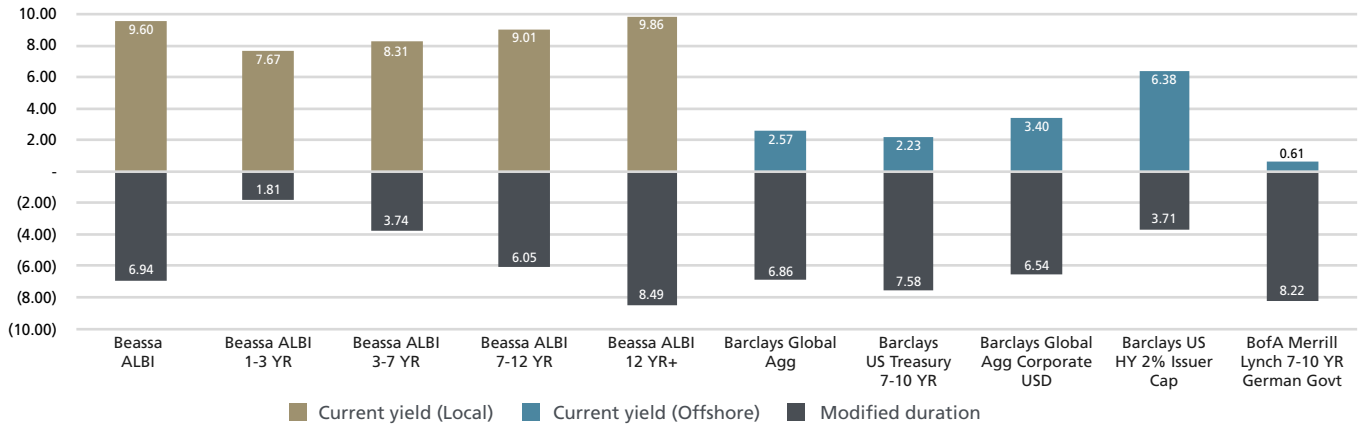
The South Africa 10-year bond decreased by 0.07% to 8.52 on 21 July, from 8.55 in the previous trading session. Historically, the South Africa government bond 10-year yield reached an all-time high of 20.69 in August 1998 and a record low of 5.77 in May 2013.

In an unexpected but welcome move, the Monetary Policy Committee (MPC) of the South African Reserve Bank (SARB) cut the repo rate by 25 basis points to 6.75%, after sharp downward revisions to its growth and inflation forecasts. The global backdrop to the MPC meeting in July is one of fairly robust economic growth and stubbornly low inflation (global equity markets also hit fresh record-highs last week).

Chinese growth picked up to 6.9% in the second quarter, showing resilience despite the government's efforts to clamp down on excessive credit. While these numbers are often viewed as suspiciously smooth by some, other credible data points (like exports and imports) also show robust growth.

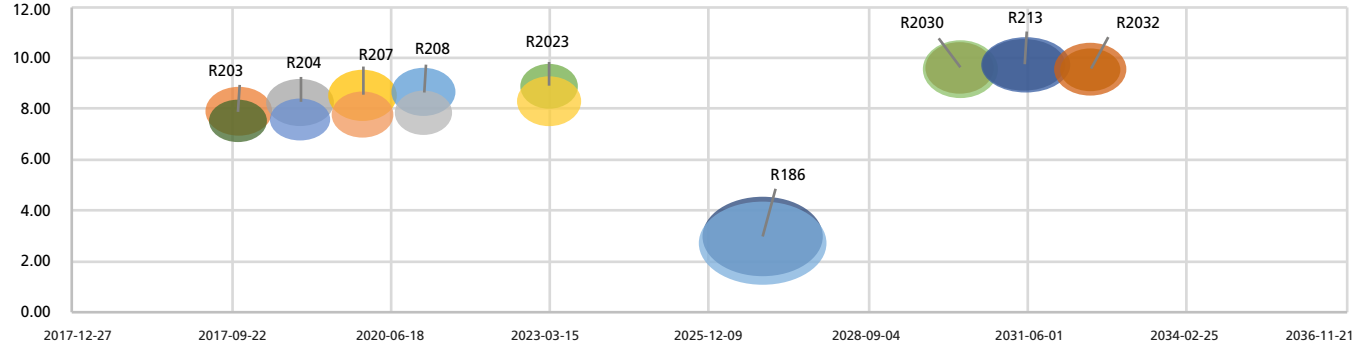
After the MPC decision long-bonds predictably rallied and yields declined, but long-bond yields of around 8.50% are still attractive relative to expected inflation. More so if further rate cuts are forthcoming. In a global context, South African yields are still among the highest of major emerging economies.

Bond yield versus modified duration



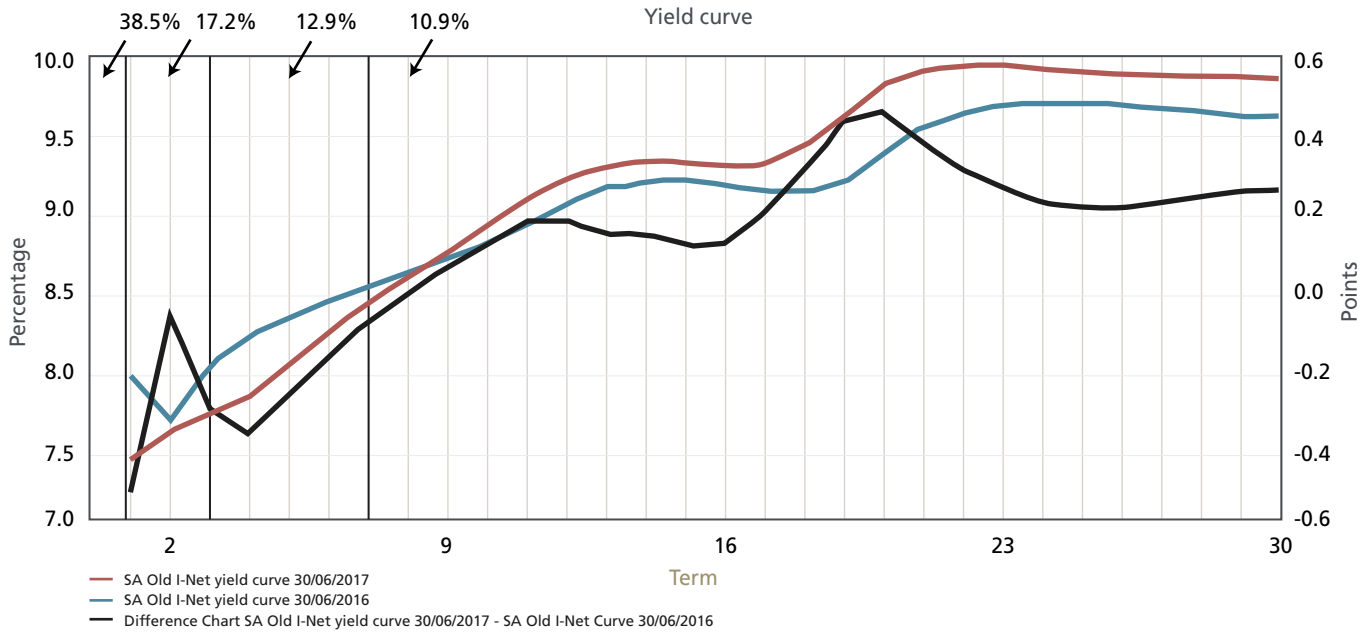
Source: PSG Wealth research team

South African bonds (30 September 2015)



Source: PSG Wealth research team

PSG Wealth Income FOF: yield curve positioning



Source: I-Net Bridge

This combination of robust growth and low inflation is creating some confusion in central banking circles.

Especially as one would normally expect stronger growth to push up inflation as the economy runs out of resources (workers, factories, machines). In mid-July, the Bank of Japan had to delay the window for achieving its 2% inflation target for the sixth time to 2019, despite unemployment at a 20-year low of 2.8%.

]The divergence between growth and inflation is also causing uncertainty in terms of market expectations of central bank actions, particularly the European Central Bank (ECB) and the US Federal Reserve (Fed). Global bond yields jumped and then receded somewhat as investors re-price central bank policy. Generally speaking though, bond yields in the US, Europe and Japan are still lower today than their average post-2008 crisis level.

The ECB left rates unchanged at its July meeting and also did not change its guidance in terms of how it expects policy to evolve over time. Some market participants expected it to signal a tapering of its €80 billion monthly bond buying programme, and given the surging euro, clearly still expect a taper announcement soon. Its policy interest rate is expected to remain negative well into 2018, but despite this and large-scale quantitative easing, core inflation is only 1.2%.

Meanwhile, the Fed is on a stated course to continue gradually hiking interest rates and eventually reduce the size of its balance sheet. But how gradually it does this is the issue. The Fed expected to hike three times this year but has consistently overestimated its own hiking cycle. As recently as June 2015 it expected core inflation to be 2% (currently 1.5%) this year and the Fed funds rate 3% (currently 1.25%).

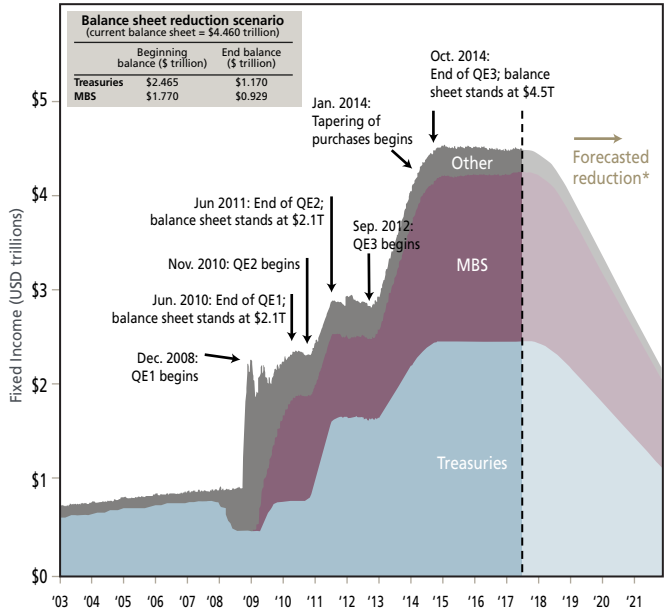
The Fed is expected to leave interest rates unchanged at its 26 July meeting, while the market is now only pricing in a 40% probability of a third rate increase this year, as inflation remains stubbornly low.

While this combination of stronger global growth and below target inflation may create headaches for central bankers, it is generally seen as a benign backdrop for financial markets.

BCA Research found that some of the decline in inflation expectations can be attributed to softer readings on realised inflation over the past few months. They also believe that the stability of non-energy inflation, masks many of the cross-currents seen across countries and within countries.

"Our Central Bank Monitors continue to point to the need for tighter monetary policy in every major developed market excluding Japan. We envision moving to underweight Europe over the summer if the growth and inflation data continue to point to an eventual ECB taper."

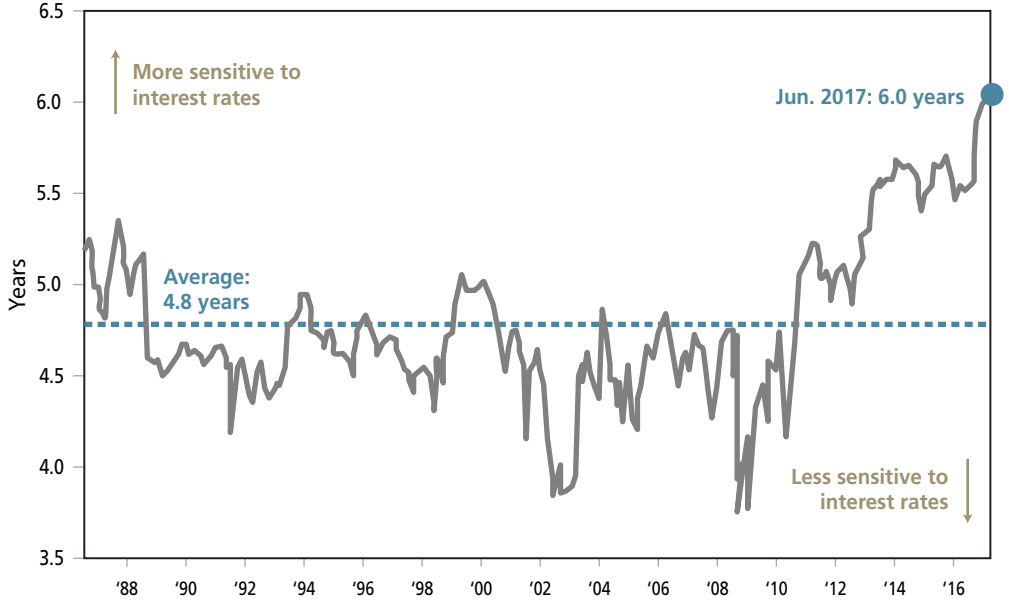
US Fed looking to firm up the balance sheet
Supply-side deflation for treasuries



Source: JPMorgan

Risk: US aggregate bond is heavily exposed to the inevitable rate normalisation

Duration of Barclays US aggregate

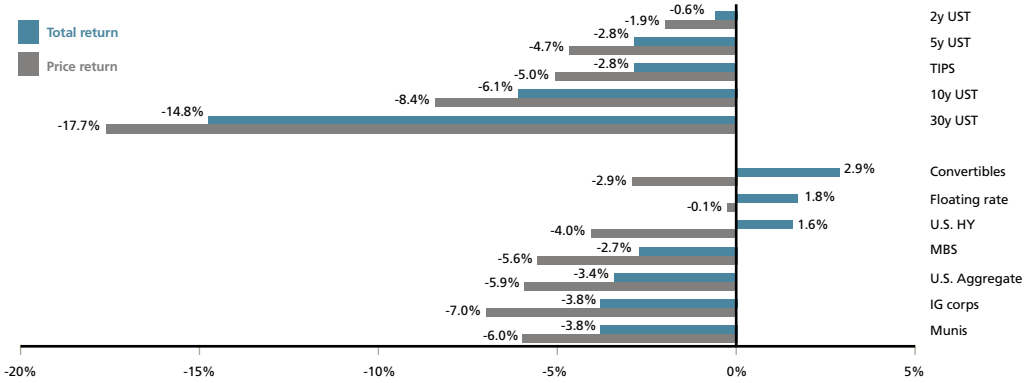


Source: JPMorgan

Risk: US aggregate bond is heavily exposed to the inevitable rate normalisation

Impact of a 1% rise in interest rates

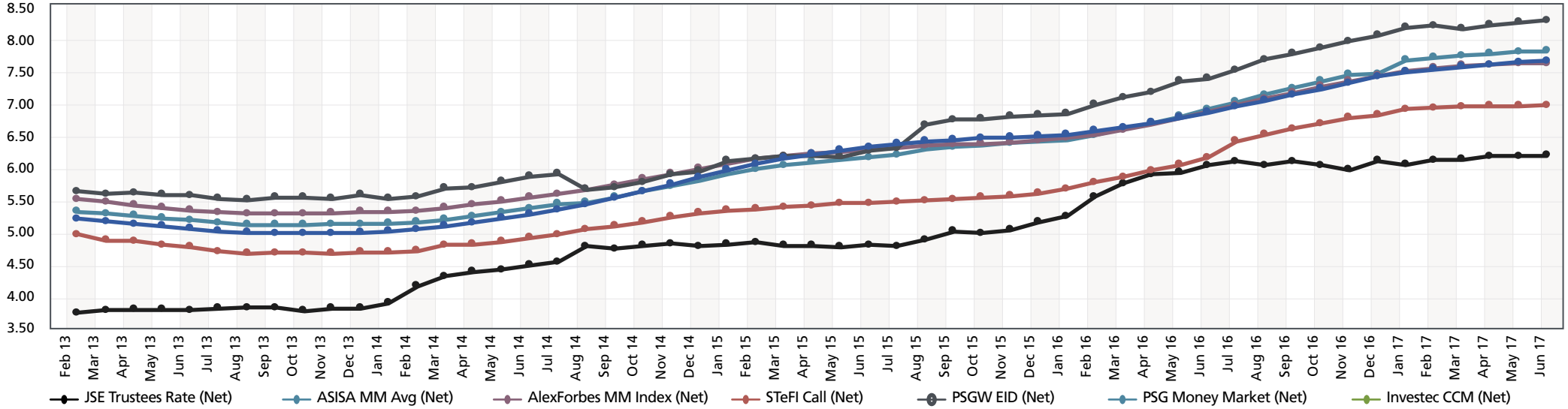
Assumes a parallel shift in the yield curve and steady spreads



Source: JPMorgan

Options for your cash investments

We offer clients various cash management options, from investing in money market linked unit trusts (single- and multi-managed) to custody cash accounts in securities portfolios.



	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17
JSE Trustees Rate (Net)	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06
ASISA MM Avg (Net)	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.08	0.08	0.08	0.08	0.08	0.08
AlexForbes MM Indes (Net)	0.06	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.08	0.08	0.08	0.08	0.08	0.08
STeFI Call (Net)	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07
PSGW EI D (Net)	0.06	0.06	0.06	0.06	0.06	0.06	0.05	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08
PSG Money Market (Net)	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.08	0.08	0.08	0.08	0.08	0.08
Investec CCM (Net)																							0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07

Source: PSG Wealth research team

Our multi-managed unit trust offering, the PSG Wealth Enhanced Interest Fund, has been a consistent performer. The yield on the portfolio as at the end of June was 8.76%. The portfolio offers a term deposit-type yield without comprising liquidity. The effective after-cost yields for both the PSG Wealth Enhanced Interest Fund (8.28%) and the PSG Money Market Fund (7.66%) are currently well above the STeFI call rate (6.97%), even though this rate accelerated from the previous quarter's number of 6.95%. The average yield of the ASISA Money Market Fund peer group currently stands at 7.81%, while the JSE Custody cash yields are at 6.19%. This is a reasonable yield for investors who want to keep cash in their stockbroking accounts.

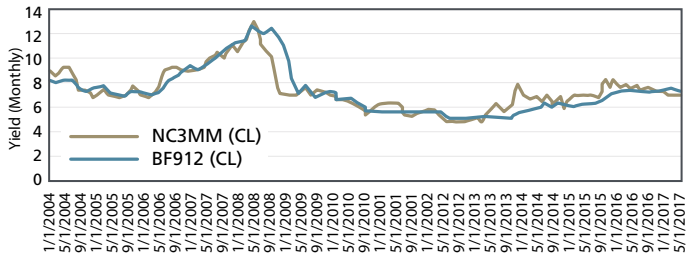
Cash rates

FRA* 9 x 12 and 3-month NCD as at 27 June 2017:**

- Repo rate – 7.00%
- Current 9 x 12 FRA rate – 6.91%
- Current 3-month NCD – 7.43%
- Average 9 x 12 FRA rate over last 12 months – 7.14%

*Forward rate agreement (FRA)
**Negotiable certificates of deposit (NCDs)

The 9x12 FRA of the rand and 3-month NCD



Source: PSG Wealth research team

What about the rand and investing offshore?

A year ago, we communicated our view that the local currency was too weak. At that stage, early 2016, the rand was trading at three standard deviations above purchasing power parity (PPP).

Since then the rand has recovered, despite a bleak backdrop both politically and economically. The good news is that the current levels the rand is trading at pose far less risk. As such, currency 'timing' is far less material.

On the global front, the sell-off in the US dollar has been halted for now. Some researchers feel this can be attributed to US Federal Reserve (Fed) Chairperson Janet Yellen. Following the Fed's June press conference, the greenback stood 1.20% above the lows seen before the Fed's policy meeting. We share the Fed's view and expect markets to converge over time towards the Fed's forecasts. In additional, Yellen confirmed that there is still one more hike on the table this year. We think the market continues to underprice these factors, concentrating too much on what amounts to a temporary soft patch.

Generally, the EUR/USD has remained reasonably static as the weakness in the euro was muted by an equal weakness in the dollar. However, recent hawkish comments by the Fed broke this trend. BCA Research thinks that Draghi's hawkishness is tepid at best, while Yellen's reiterating that another hike will be seen later this year will continue to help US policy anticipations relative to Europe.

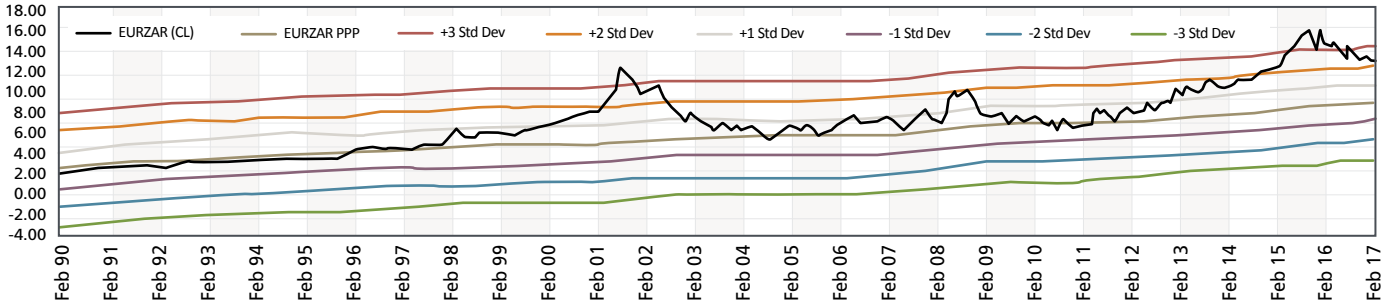
Recent data in Japan has been negative and, ultimately, economic activity in Japan will largely depend on its currency. With the yen appreciating for most of 2017, it will be difficult for the Japanese economy to improve sustainably.

Data out of the UK has been mixed. While the Bank of England (BoE) became more hawkish in June with members of their committee advocating a rate hike, their monetary policy summary stated that inflation would stay above target for an 'extended period'. Following this report, the EUR/GBP plunged by about 0.8%.

We are not positive on the British pound, as core inflation is now outpacing wage growth, a development that should weigh on demand due to the decline in real income.

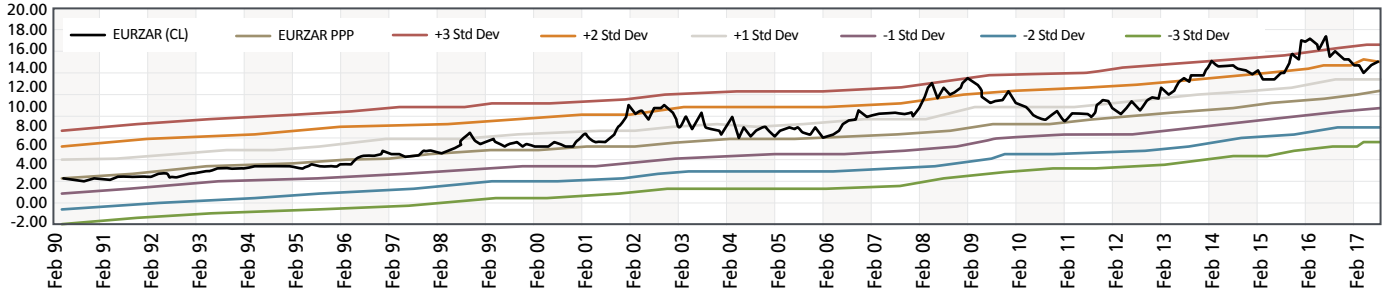
Spot prices versus PPP

Rand/USD exchange rate



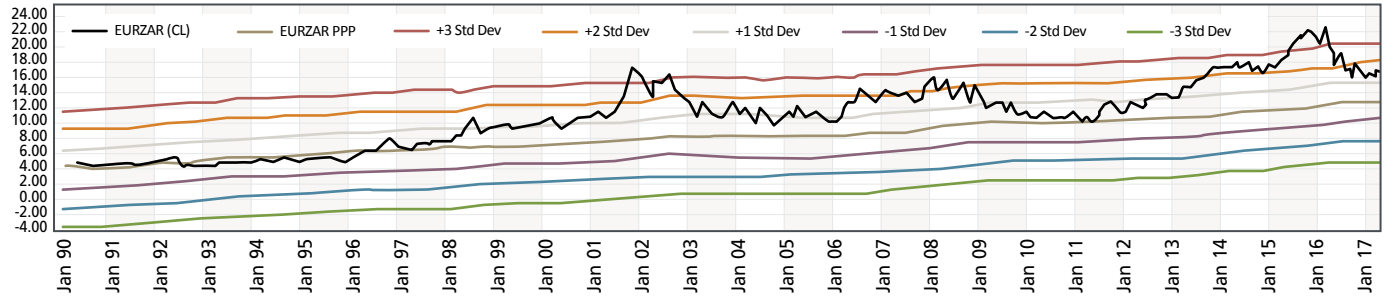
Source: PSG Wealth research team

Rand/Euro exchange rate



Source: PSG Wealth research team

Rand/GBP exchange rate



Source: PSG Wealth research team

Absolute return funds: a balancing act

Inflation is indiscriminate and hits everyone's pocket. It is something investors must bear in mind when they want to preserve their capital and grow their wealth in real terms.

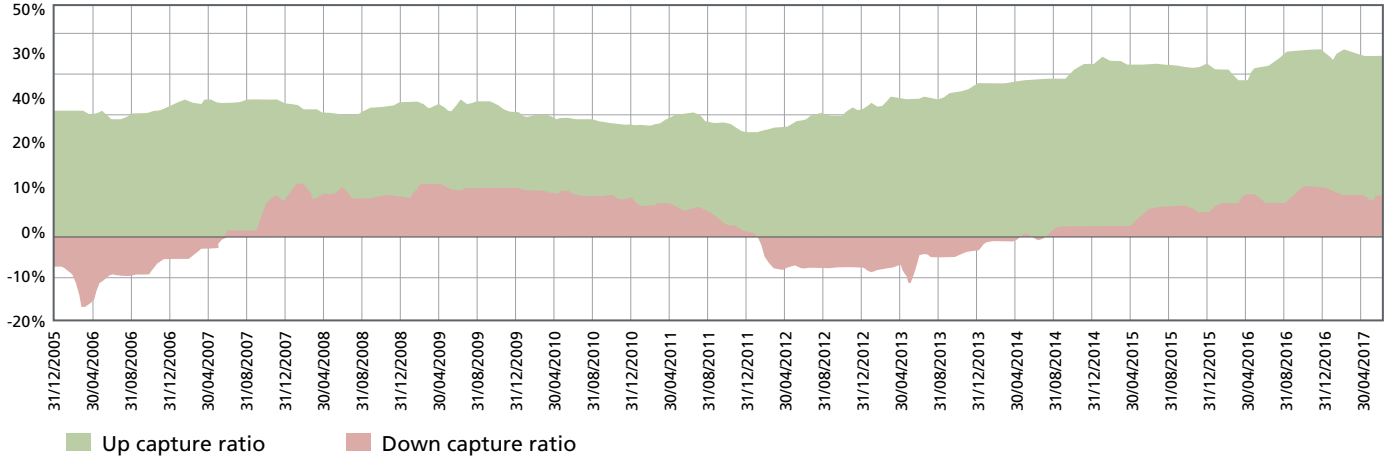
To achieve the above goals, many investors turn to absolute return funds. These funds typically have a dual objective. The first is not to lose money over relatively shorter periods (12 months, for example). The second is to target inflation-beating returns over the medium to longer term, typically longer than three years. These funds aim to limit downside while participating in market upside, so returns are positively skewed with an asymmetric risk profile.

Towards the more cautious side of the absolute return fund spectrum are the ASISA SA Multi-Asset Low Equity sector funds, like the PSG Wealth Preserver Fund of Funds. These are typically cautious and stable funds that tend to display less short-term volatility and aim for real long-term capital growth. Up-market capture and down-market capture ratios indicate how much market upside and downside a fund captures. Higher up-market capture ratios and lower or negative down-market capture ratios are favourable. Graph 1 shows how absolute return funds in this sector can achieve a favourable asymmetric risk profile with higher up-market capture ratios and lower or negative down-market capture ratios over time. This is compared to the FTSE/JSE All Share Index's returns.

Low-equity funds typically have two investment objectives. Firstly, to outperform CPI by a margin of typically between 3% and 5%. Secondly, to reduce the risk of capital loss over any 12-month period. A volatile local currency, heightened local and global political instability, and muted equity market returns have caused significant headwinds for absolute return funds. In addition, inflation numbers have breached the South African Reserve Bank (SARB)'s upper limit in recent years. This has made it increasingly difficult for active managers to find attractively valued assets that deliver inflation-targeted returns. The South African inflation rate has averaged 5.40% over the last three years. As Graph 2 illustrates, most cautious funds have found it challenging to achieve their inflation-targeted return objectives over the last few years.

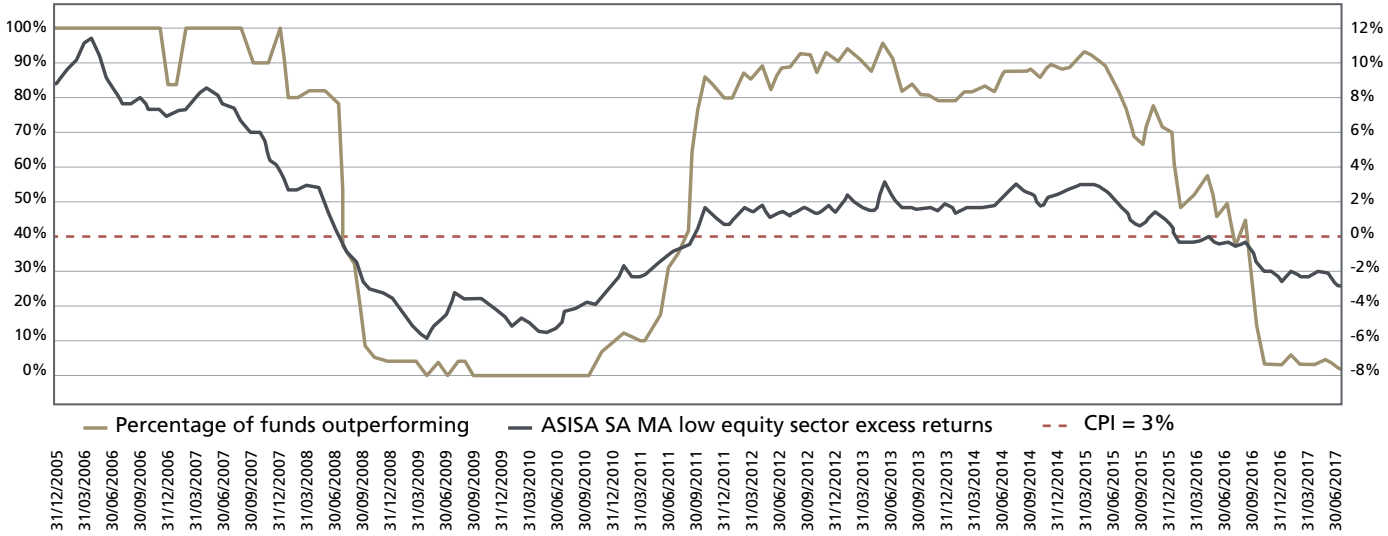
Similarly, over the last 12 years, sector-wide underperformance relative to this objective only occurred during the global financial crisis, when most asset classes suffered severe drawdowns. When considering primary retail classes, only two out of 94 funds in the sector managed to outperform the CPI + 3% objective of 8.57% over the last three years.

Graph1: ASISA SA Multi-Asset Low Equity sector up-market and down-market capture ratios



Source: PSG Wealth research team

Graph 2: % of ASISA SA Multi-Asset Low Equity Funds beating the CPI + 3% benchmark over rolling three-year



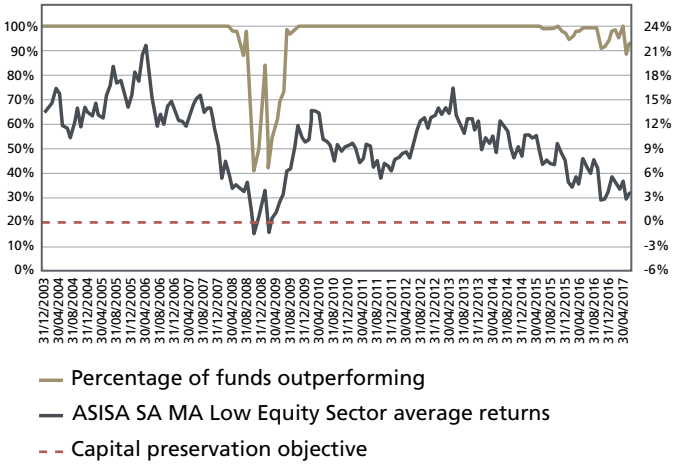
Source: PSG Wealth research team

Managers use active risk control strategies to limit potential losses

As Graph 3 illustrates, managers have historically been largely successful in achieving the short-term capital preservation objective of not losing money over any 12-month period. The inherent use of more defensive assets, like cash and bonds, also contributes to the more stable nature of these funds. Some managers tend to become less risk averse during strong bull markets in order to capture high equity market returns.

The financial crisis in 2007 exposed the more aggressive funds in this sector. At the time, up to 60% of funds delivered negative 12-month returns. Over the last few years, 5% to 10% of the funds in this sector also delivered negative 12-month rolling returns. This shows that managers recognised that they had to adopt greater exposure to growth assets to boost returns in the low-return environment. The PSG Wealth Preserver Fund of Funds' lowest 12-month return is 4.14%. So it has never failed to preserve capital over any 12-month period since inception.

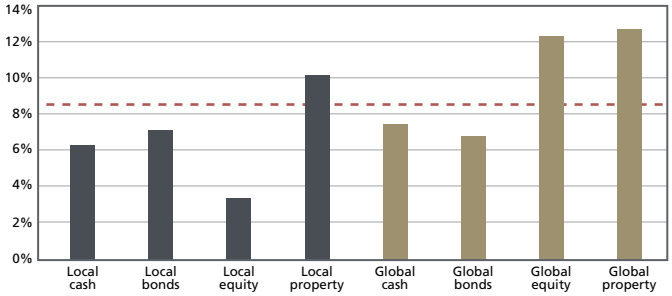
Graph 3: Percentage of ASISA SA Multi-Asset Low Equity Funds achieving positive returns over 12-month rolling periods



Source: PSG Wealth research team

These funds follow a multi-asset approach by investing in a variety of securities in the equity, bond, money and property markets, both locally and offshore. A look at asset returns across the globe explains why absolute return managers in South Africa found it so difficult to beat inflation substantially. Not only has global growth slowed, but many assets remain expensive compared to their long-term averages. Sources of attractive real returns have been elusive, while investment managers have also had to remain cognisant of the risk involved in their multi-asset portfolios.

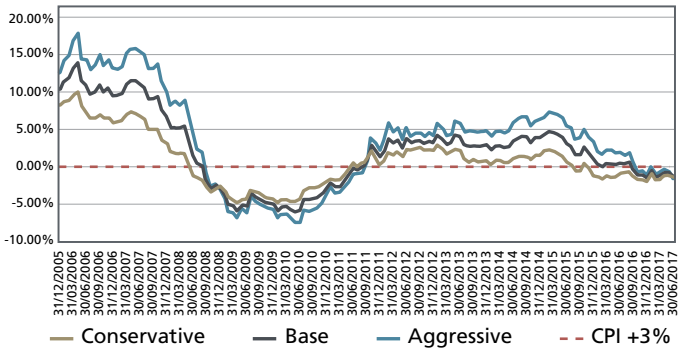
Graph 4: 3-year asset class returns



Source: PSG Wealth research team

By using the building blocks above and staying within the sector's asset allocation limits, the PSG Wealth research team constructed three hypothetical portfolios of varying risk profiles. They show that even with a relatively aggressive asset allocation of 50% in growth assets, one would not have been able to beat the CPI + 3% objective.

Graph 5: Simulated portfolios 3-year rolling excess returns versus CPI +3%

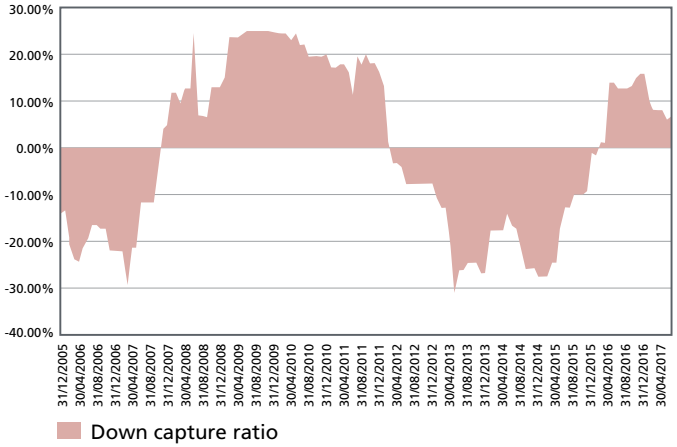


Source: PSG Wealth research team

With perfect hindsight bias, the most favourable allocation of the maximum to local property (25%), global equity (25%) and local bonds (50%) would have outperformed CPI + 3% only by 0.61%. Most fund managers are not willing to completely ignore local equity and cash, as these act as important diversifiers in a multi-asset portfolio (to ensure exposure to equity market upside and limit downside). It is worth noting that the excessively aggressive allocation above would expose investors to undue risk and would fall outside the allocation most managers are willing to implement, regardless of their level of conviction.

Graph 6 illustrates how the perfect hindsight bias portfolio displayed significantly more downside risk. During most of the rolling three-year periods it captured around double the downside of the market, compared to the sector average.

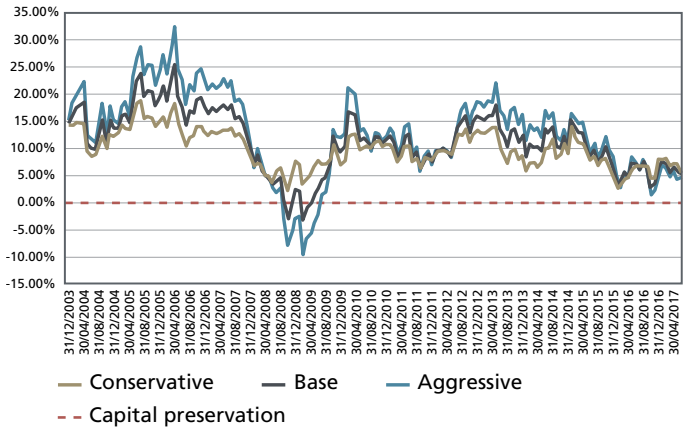
Graph 6: Perfect hindsight bias portfolio down-market capture ratios



Source: PSG Wealth research team

Graph 7 shows that the more conservative nature of this sector – and its inherent reliance on defensive assets – allows it to meet its capital preservation objective comfortably. The fact that some managers have achieved negative returns over the last few years may indicate a reach for yield, where managers assume higher risk to achieve their CPI + 3% objective.

Graph 7: Simulated portfolios 12-month rolling returns



Source: PSG Wealth research team

This all illustrates the immense headwinds this sector faced over the last few years

It begs the question: 'How strong is the value proposition of the low-equity fund?' We would argue that the value proposition is quite strong. In these solutions, investors who are concerned about volatility are provided with a far more appropriate avenue than cash.

Make no mistake, cash is conservative and does not build long-term wealth. On the other hand, low-equity funds manage to fight the feared downside risk without compromising too much on the wealth creation side.

The outlook for absolute return funds is improving

Inflation is surprising on the downside and is once again within the target band of 3% to 6% set by the SARB. If you exclude the top five stocks from the FTSE/JSE All Share Index's (ALSI) 12-month forward P/E ratio, then the local bourse is trading only slightly ahead of its long-term average.

Continued volatility should enable skilled stock pickers, like those used in the PSG Wealth Funds of Funds, to find value. Our view on local government bonds is neutral, but yields on the R186 of around 8.8% offer returns that are relatively attractive.

Defensive assets that offer real returns could potentially increase the likelihood of reaching and outperforming the CPI + 3% benchmark going forward. We therefore believe that while this sector is down, it is certainly not out. These solutions should continue to play a vital role in client portfolios to promote capital preservation and achieve real returns over the relevant investment horizon of no less than three years.

The PSG Wealth Preserver Fund of Funds uses a robust and proven methodology. Through qualitative and quantitative screening, we select top managers and implement split funding to ensure our managers complement each other. This results in consistent peer group outperformance at reduced levels of risk by smoothing returns. We also make use of our scale to negotiate low fees with our underlying managers, and pass this saving on to our clients. This enables investors to preserve their capital and grow their wealth in a fund that offers excellent value for money.

Domestic funds – performance and positioning

Performance and positioning: PSG Wealth Domestic Equity Fund of Funds and PSG Wealth Domestic Multi-Asset Funds of Funds (FoFs)

Current market conditions, both global and domestic, remain extremely difficult for equity managers. Uncertainty around a worldwide economic recovery and rising global interest rates resulted in a continuous risk-on/risk-off trade. It seems to be even worse locally, as domestic markets are plagued by political risk, credit rating downgrades and a technical recession.

Fund performance versus sector average

Name	3 Months to 2017/03/31	Rank	1 Year to 2017/03/31	Rank	3 Years to 2017/03/31	Rank
PSG Wealth Creator FoF D	-1.6	94	3.8	16	3.7	40
South African EQ General Sector Average	**-1.7**	**177**	**-0.8**	**158**	**2.3**	**125**
PSG Wealth Moderate FoF D	0.0	98	4.1	19	6.6	18
South African MA High Equity Sector Average	**-0.2**	**192**	**1.5**	**174**	**4.9**	**112**
PSG Wealth Preserver FoF D	0.7	92	4.9	33	7.4	12
South African MA Low Equity Sector Average	**0.8**	**148**	**3.6**	**138**	**6.0**	**93**

Source: PSG Wealth research team

All three equity and asset allocation FoFs managed to outperform their benchmarks over the three-month, one-year and three-year investment periods ending June 2017, apart from the PSG Wealth Preserver FoF D over the last three-month period.

The PSG Wealth equity and asset allocation FoFs are well diversified in terms of investment styles, asset classes and asset class sectors.

Prevailing market conditions, however, are never favourable to all investment styles at all times. It is therefore not uncommon to see an underlying manager underperforming the benchmark over shorter measurement periods.

Sector allocation

The composition of the PSG Wealth Creator FoF has changed slightly over the quarter, as the underlying managers reduced their exposure to resources and financials in favour of higher exposure to industrial shares.

Equity exposure of the PSG Wealth Creator FoF		Previous quarter	Current quarter
		PSG Wealth Creator FoF	PSG Wealth Creator FoF
Domestic equity resources	Resources	15.7	14.5
	Financials	22.4	20.8
	Industrials	41.3	43.2
	Other equities	0.4	0.5
	Equity hedges (+ Long/- Short)	-	-
Total domestic equities		**79.8**	**79.0**
Total foreign equities		**14.9**	**15.6**
Total equities		**94.7**	**94.6**

Source: PSG Wealth research team

The underlying managers of the PSG Wealth asset allocation FoFs have increased their exposures to industrials, offshore equities and offshore cash. They reduced their exposures to financials slightly.

The underlying managers also have sizeable exposures to non-equity asset classes. The biggest change in these assets was a reduction in cash and money market instruments in favour of long-term bonds (7+ years).

Performance and positioning: PSG Wealth Fixed Interest Funds

The PSG Wealth fixed interest funds outperformed their benchmarks over the three-month, one-year and three-year investment periods ending June 2017.

Fund performance versus sector average

Name:	3 Months to 2017/03/31	Rank	1 Year to 2017/03/31	Rank	3 Years to 2017/03/31	Rank
PSG Wealth Income FoF D	1.9	45	8.3	24	8.2	6
South African MA Income Sector Average	**1.8**	**80**	**7.5**	**72**	**7.0**	**58**
PSG Wealth Enhanced Interest D	2.0	1	8.3	2	7.3	2
South African IB Money Market Sector Average	**1.9**	**32**	**7.8**	**29**	**7.0**	**25**

Source: PSG Wealth research team

The managers in the PSG Wealth Income FoF have decreased their exposure to local and offshore bonds in favour of cash and money market instruments. The higher cash levels will add some price stability to the funds and give the managers the ability to buy securities that offer good value when the opportunities arise.

Sector allocation

Non-equity exposure of the PSG Wealth domestic fixed interest FoFs		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	-	3.7	-	3.3
	Preference shares	-	1.3	-	1.4
	Inflation linked bonds	-	3.1	-	3.4
	Bonds 7+ yrs	-	13.0	-	10.9
	Bonds 3 - 7 yrs	-	13.5	-	12.9
	Bonds 1 - 3 yrs	-	18.2	-	17.2
	Cash, derivatives and money market	100.0	36.1	100.0	38.5
	Total domestic non-equities (incl. Real estate)	**100.0**	**88.9**	**100.0**	**87.6**
Foreign non-equities (incl real estate)	Real estate	-	0.9	-	1.1
	Bonds	-	6.8	-	4.8
	Other	-	-	-	-
	Cash, derivatives and money market	-	0.2	-	3.4
	Total foreign non-equities (incl. Real estate)	**-**	**7.9**	**-**	**9.3**
Total non-equities (incl. real estate)		**100.0**	**96.8**	**100.0**	**96.9**

Source: PSG Wealth Investment division

Asset allocation

Exposure of the PSG Wealth domestic asset allocation FoFs		Previous quarter		Current quarter	
		PSG Wealth Preserver FoF	PSG Wealth Moderate FoF	PSG Wealth Preserver FoF	PSG Wealth Moderate FoF
Domestic	Weight	100%	100%	100%	100%
	Resources	2.4	7.5	2.5	6.7
	Financials (excl. real estate)	5.5	11.6	5.0	10.6
	Industrials	9.8	22.1	10.3	23.7
	Other equities	0.3	0.1	0.3	0.2
	Equity hedges (+ Long/- Short)	-0.6	-0.7	-0.6	-0.8
	Total equities (excl. real estate)	17.3	40.7	17.4	40.3
	Real estate	3.9	5.3	4.0	5.5
	Preference shares	0.4	0.2	0.4	0.1
	Inflation linked bonds	5.4	1.4	5.1	1.4
	Bonds 7+ yrs	13.0	10.5	15.4	12.1
	Bonds 3 - 7 yrs	9.5	4.5	10.0	4.1
	Bonds 1 - 3 yrs	6.5	1.9	5.3	2.4
	Cash, derivatives and money market	22.2	11.2	18.7	8.5
	Total non-equities (incl. real estate)	61.0	34.9	58.8	34.2
Foreign	Equities	16.9	22.7	17.6	23.1
	Real estate	1.0	1.2	1.0	1.2
	Bonds	1.7	0.3	1.3	0.3
	Cash, derivatives and money market	2.2	0.3	3.9	0.8
	Total foreign	21.7	24.5	23.8	25.5
Total	Total	100.0	100.0	100.0	100.0
	Total equities	34.2	63.4	35.0	63.5
	Total foreign	21.7	24.5	23.8	25.5

Source: PSG Wealth research team

A focus on a global fund: PSG Wealth Global Creator FoF

"It amazes me how people are often more willing to act based on little or no data, than to use data that is a challenge to assemble." - Robert J. Shiller

Recent corporate earnings results continue to support our view of a synchronised global recovery in profitability, especially after several years of stagnation in reported earnings. Corporations in the US have delivered solid earnings growth. This is expected to continue given the low risk of a recession in this economy, even if the US economy is entering the last stages of an economic cycle.

Company profits have improved worldwide, resulting in a supportive environment for equity investing, particularly for European and emerging market (EM) equities, where valuations are more attractive than in the US. Today global equity managers have significantly more opportunities across countries, sectors and investing styles, than they have had in the recent past. The PSG Wealth Global Creator Fund of Funds (FoF) provides investors with a broadly diversified portfolio of highly skilled global equity managers. Some of the frequent questions we get on this portfolio relate to the number of funds within the portfolio, whether the portfolio differs from a broad global equity index, and the differences between our underlying managers and their roles within the portfolio.

For this quarter's article we will take a closer look at the PSG Wealth Global Creator FoF, aiming to answer these questions. This should provide our investors with insights into our thinking about portfolio construction, managing active risk and delivering alpha.

Views on the optimum number of underlying funds

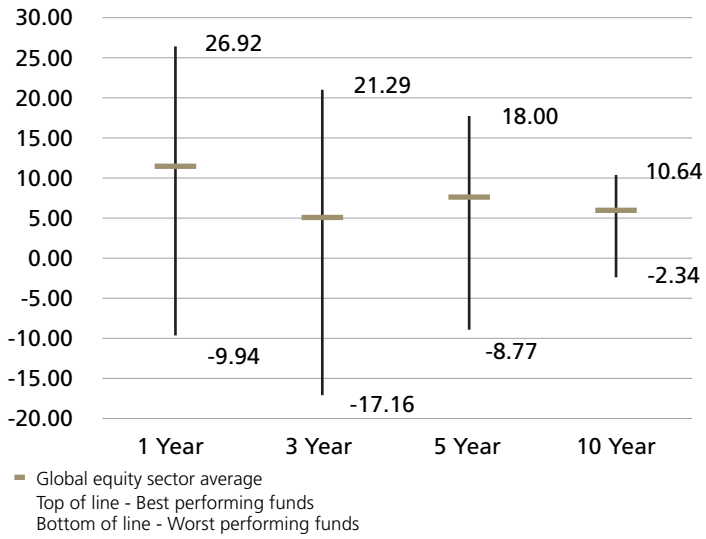
Our research into the dispersion of fund returns indicates that there is a significantly larger spread in fund returns for global fund sectors, compared to domestic fund sectors – this indicates there is a higher 'selection' risk in global fund sectors.

Selection risk in this context refers to the probability of selecting underperforming funds. In our view the higher selection risk for global fund sectors requires a broader selection of managers, to offset the potential for having underperforming funds (specifically in the short term). Given that one of our key objectives is to deliver consistent above-average returns, managing selection risk is a key part our process. In our research into the optimum number of funds, we consider a number of scenarios, centred on determining how many funds are required to offset two bottom quartile (25th percentile) performing funds.

This is to ensure the portfolio still achieves above-average (50th percentile) or top quartile (75th percentile) performance. Additionally, we also conducted stress tests to determine how many additional funds would be required to still achieve the above-average return target – especially if two of our underlying funds are the worst performing funds in the sector.

This research then helps us to determine how many funds there should be in specific funds of funds. According to our research, the optimum number of funds for domestic income funds is between four and six funds, and between five and eight for domestic multi-asset low equity, multi-asset high equity and general equity funds. Global equity funds should be between seven and 14.

Return dispersion global equity sector



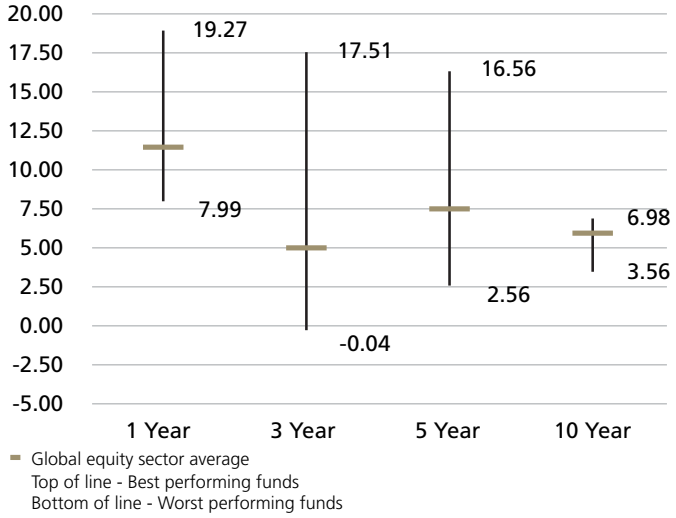
Source: PSG Wealth research team

PSG Wealth Global Creator: Dispersion of returns

The large dispersion of fund returns is also a fundamental reason for using split funding. We understand that no manager performs all of the time.

Our experience has shown that all managers tend to go through performance cycles, with strong periods of performance followed by periods of lower or negative excess returns. The graph below shows the dispersion of returns for the current nine funds held within the PSG Wealth Global Creator FoF over various periods.

Return dispersion underlying funds



Source: PSG Wealth research team

We believe these nine managers are some of the best global equity managers available. However, our data also indicates that even between our underlying managers, there can be significant dispersions in portfolio returns over various periods.

Manager performance is impacted by various factors including the stage of the economic cycle, market conditions and the activity within the research team. Some managers will have periods of low portfolio activity, followed by brief bursts in portfolio activity when they implement long-term trade ideas. Other managers are constantly making small adjustments to their portfolios to achieve their alpha targets. By selecting managers with different performance profiles, investment philosophies and styles, we can provide a return profile which is smoothed out and delivers a more consistent alpha.

Global Creator FoF versus the MSCI ACWI: holdings analysis

Some investors have raised concerns over the number of funds held in the portfolio, as well as exposure to passive strategies within the portfolio, questioning whether the FoF is 'overdiversified' and whether it provides enough active share to deliver outperformance against the relevant market indices. Active share is a measure of the percentage of stock holdings in a manager's portfolio that differ from the benchmark index.

While the PSG Wealth Global Creator FoF is a broadly diversified global equity portfolio, the majority of our underlying funds are managed with high active share. This results in the FoF differing significantly from the MSCI World Index in terms of regional allocation, sector allocation and top 10 holdings. The current fund allocation results in a portfolio with a relatively high active share, compared to both the MSCI World and MSCI ACWI Indices. The MSCI ACWI includes some emerging market exposure, while the MSCI World only includes developed markets.

The majority of our underlying managers have highly concentrated portfolios (between 20 and 80 stocks). While the MSCI World consists of 1 656 constituents – which cover approximately 85% of the free float adjusted market capitalisation in each country within the index (23 developed markets). The following tables clearly show that the PSG Wealth Global Creator FoF differs significantly from the MSCI World Index:

Regional allocation

- The FoF currently has overweight positions in the US and European equities and an underweight position in Asian equities, specifically in Japanese stocks, which accounts for only 3.9% of the FoF compared to 8.7% for the index.

Sector allocation

- The FoF differs significantly from the MSCI World Index with material overweight positions in technology (+6.1%), healthcare (+4.6%) and consumer defensives (+3.3%).
- The FoF's largest underweight positions are in financials (-5.2%), basic materials (-3.1%) and energy (-3.1%).

Holdings (Top 10)

- The top 10 for the FoF include a number of stocks which fall well outside the largest positions of the index.

Regional allocation as at 30 June 2017			
	PSG Wealth Global Creator FoF	MSCI World Index	Difference (Overweight / Underweight)
Americas	65.4	62.7	2.7
North America	64.7	62.7	2.1
Latin America	0.7	0.0	0.6
Greater Europe	26.2	23.7	2.5
United Kingdom	11.4	6.5	4.9
Europe Developed	14.2	17.0	-2.8
Europe Emerging	0.1	0.0	0.1
Africa/Middle East	0.5	0.2	0.3
Greater Asia	8.4	13.6	-5.2
Japan	3.9	8.7	-4.9
Australasia	1.0	2.7	-1.6
Asia Developed	1.4	1.7	-0.4
Asia Emerging	2.1	0.5	1.6
Market classification	100.0	100.0	
% Developed markets	97.1	99.5	-2.4
% Emerging markets	2.9	0.5	2.4

Source: Morningstar

Asset and sector allocation as at 30 June 2017			
	PSG Wealth Global Creator FoF	MSCI World Index	Difference (Overweight / Underweight)
Foreign equities	93.9	96.8	-2.9
Basic materials	1.8	4.9	-3.1
Communication services	2.0	3.0	-1.0
Consumer cyclical	10.4	12.3	-2.0
Consumer defensive	13.0	9.7	3.3
Healthcare	17.2	12.6	4.6
Industrials	11.3	11.5	-0.2
Technology	21.8	15.7	6.1
Energy	2.9	6.0	-3.1
Financial services	12.8	18.0	-5.2
Utilities	0.7	3.2	-2.5
Other/Undisclosed	-	-	-
Foreign property	1.5	3.2	-1.7
Foreign bonds	-	-	-
Foreign other	-	-	-
Foreign cash	4.6	-	4.6
Domestic assets	-	-	-
Portfolio total	100.0	100.0	

Source: PSG Multi Management, Morningstar

PSG Wealth Global Creator FoF Top 10 versus MSCI World Index Top 10			
PSG Wealth Gloabl Creator FoF		MSCI World Index	
Top 10	Weight	Top 10	Weight
Alphabet	1.96%	Apple	2.09%
Microsoft	1.47%	Microsoft	1.35%
Oracle	1.42%	Amazon	0.97%
Philip Morris International	0.96%	Exxon Mobil	0.97%
Johnson & Johnson	0.91%	Johnson & Johnson	0.95%
Visa	0.85%	JPMorgan Chase	0.94%
Charter Communications	0.76%	Facebook	0.90%
Apple	0.73%	Wells Fargo	0.80%
Comcast	0.71%	General Electric	0.75%
National Oilwell Varco	0.68%	Alphabet	0.73%
	10.45%		10.45%

Source: PSG Multi Management, Morningstar

PSG Wealth Global Creator FoF: underlying fund focus

The following tables and chart provide some insight into our underlying fund managers relative to the MSCI World Index with regard to their holdings, active share and sector positioning. Active share is an important concept as it indicates to what extent a fund differs from the market index – high active share is seen as a requirement for active funds to outperform the index. The active share measure takes each individual stock in the fund and the benchmark, and compares the weight between the two. For each stock, the weight in the benchmark is subtracted from the weight in the fund. If this value is negative, it is converted into a positive number (or its 'absolute value').

The end result is a value for active share, which can range between 0% and 100%. The fund's position on the continuum from 0% to 100% describes how different the fund is to the benchmark. A fund that has an active share of 100% would not contain any benchmark stocks at all. A fund that has an active share of 0% would only contain benchmark stocks in exactly the same proportions as the benchmark and its performance would track the index.

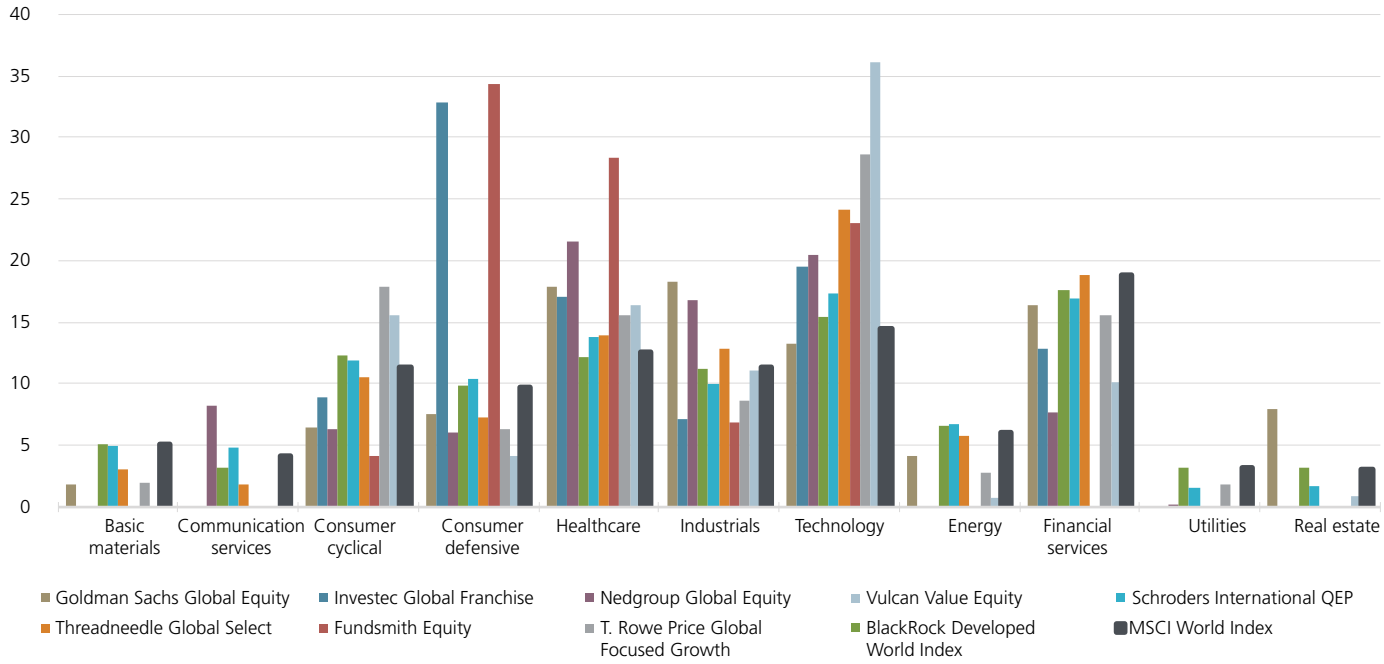
PSG Wealth Global Creator FoF - Underlying funds		
Name	# of Holdings	Active Share
BlackRock ISF Dev Wld Idx Sub $ Inst Acc	1 688	2.83
Fundsmith Equity I Acc	31	93.11
GS Glbl Equity Partners I USD Acc	41	92.39
Investec GSF Glb Franchise A Acc USD	71	95.05
Nedgroup Inv Funds Global Equity A Acc	30	93.87
Schroder ISF QEP Global Core C Acc	659	59.92
T. Rowe Price Global Focused Gr Eq I USD	78	87.68
Threadneedle Global Select Inst Acc USD	88	86.49
Vulcan Value Equity USD Acc	39	95.12
PSG Wealth Global Creator FoF		78.50
MSCI World Index	1 656	N/A

Source: Morningstar

The above table reflects the highly active nature of the majority of our underlying managers. With the exception of the BlackRock Developed World Index and Schroder QEP Global Core (which is an index-relative low cost fund), all our funds have active share well above 85%. Research presented in 2006 by Martijn Cremers and Antti Petajisto of the Yale School of Management, introduced 'active share' as a new method of determining the extent of active management employed by mutual fund managers and as a tool for finding those that do outperform.

The researchers concluded that managers with high active share outperform their benchmark indices and that active share significantly predicts fund performance. Examining 2 650 funds from 1980 to 2003, Cremers and Petajisto found that the highest ranking active funds, those with an active share of 80% or higher, beat their benchmark indices by 2% to 2.71% before fees, and by 1.49% to 1.59% after fees.

Global equity sector allocation versus MSCI World Index



Source: PSG Wealth research team

The above chart reflects the diversification in equity sector allocation between our underlying funds, and the difference between our portfolio and the MSCI World Index.

Portfolio construction

PSG Multi-Management follows a split-funding approach, and the core focus is on combining what we consider to be the best managers into a portfolio that will deliver consistent above-average returns, at below-average risk and at a competitive fee.

In the case of the PSG Wealth Global Creator FoF, we prefer global managers with very strong security selection skills and a proven ability to generate alpha. However, we understand that all managers go through periods of underperformance, and the prevailing stage of the global market and economic cycle plays a big role in the success of most investment strategies. Therefore, to achieve the three objectives mentioned above, specifically the consistency of returns, we do not construct portfolios out of managers that all follow the same investment philosophy or style. To achieve success with a split-funding approach we actively diversify between different investment philosophies, styles and strategies.

As an example, in the case of the BlackRock and Schroder Funds, they have been included not for their ability to generate excess returns, but rather due to their contribution to the risk and cost objectives of our FoF.

These portfolios mitigate some of the active risk within our FoF, which assists us in achieving the 'consistent above-average return' part of our objective, while also reducing the overall portfolio fee to keep our portfolio competitively priced. We conduct various scenario analyses and stress tests when we consider replacing or adding funds to the portfolio. These tests focus on whether the combined portfolio will achieve our objectives. During this phase we also look at how funds complement each other, and form a view on the 'fit' of a fund within the portfolio.

Role of underlying funds

Each of our underlying funds has an assigned role within the portfolio. We select managers based on our view of the probability that they will add value to the FoF within this assigned role. The next tables provide a summary of the investment philosophy of the current underlying funds in the PSG Wealth Global Creator FoF, their broad investment style and role within the FoF.

One of the most difficult aspects of manager selection and portfolio construction is tying a manager's stated philosophy and process to their actual investment activity and results. Style drift, which is the divergence of a fund from its stated investment style or objective, is one of the biggest risks for a multi-manager, especially in a split-funding model.

It has to be closely monitored, both when initially researching a fund (where we confirm whether a manager's past performance was due to its stated style and process) and after the fund has been included in the portfolio (where we have to confirm that the manager is still investing according to this style and process). One of the ways we monitor style drift is to look at the sources of alpha on a regular basis. For example, the first table on this pageshows an attribution analysis of the underlying funds within the PSG Wealth Global Creator FoF over the last quarter. If you read this table along with the table next to it, you can match the stated objective and style with the results.

The allocation effect measures how well the manager weighted equity sectors relative to the benchmark while the selection effect deals with how well the manager picked stocks versus the benchmark.

The table confirms that all of our active managers are focused on security selection, with the majority of our outperformance coming from picking the correct stocks. Compare this to the passive and index-relative funds and you can see the difference and also confirm that our managers are fulfilling the roles assigned to them.

In addition, this table supports our stance that the PSG Wealth Global Creator FoF does differ significantly from a broad global equity index. It is positioned to deliver outperformance through high active share, while also providing the required below-average risk and competitive fee through disciplined portfolio construction.

Attribution analysis		Attribution - 2nd quarter 2017		
Name	Active share	Allocation effect %	Selection effect %	Active return %
BlackRock ISF Dev Wld Idx Sub $ Inst Acc	2.83	-0.07	0.01	-0.07
Fundsmith Equity I Acc	93.11	1.02	2.82	3.84
GS Glbl Equity Partners I USD Acc	92.39	0.25	3.93	4.18
Investec GSF Glb Franchise A Acc USD	95.05	1.09	0.92	2.01
Nedgroup Inv Funds Global Equity A Acc	93.87	0.23	4.89	5.11
Schroder ISF QEP Global Core C Acc	59.92	-0.20	-1.15	-1.35
T. Rowe Price Global Focused Gr Eq I USD	87.68	0.51	3.64	4.15
Threadneedle Global Select Inst Acc USD	86.49	0.11	3.36	3.47
Vulcan Value Equity USD Acc	95.12	0.37	-1.74	-1.37

Source: Morningstar

PSG Wealth Global Creator FoF - Underlying fund breakdown			
Qualitative summary			
Fund name	Summary of investment style and process	Broad investment style	Role in FoF
BlackRock Developed World Index	Low cost passive index fund aiming to track the MSCI World Index. The fund is fully replicated and no leverage is involved in managing the fund.	Tracker / Passive	Active risk management and reduction of costs
Fundsmith Equity	The manager's focus is on high-quality businesses that will compound in value over time. The first stage of the process is to identify resilient quality companies by looking at various 'quality criteria'. For example they require high returns on operating capital employed in cash throughout the cycle and consistent sustainable growth (conversion of majority of net income into free cash flow). They basically follow a buy-and-hold strategy with very low turnover. The result of the process is a fund with a highly concentrated portfolio of between 20 and 30 stocks, which are focussed on high-quality resilient companies, selected through a distinctive disciplined approach that the manager wants to own 'forever'.	Quality / Active	Security selection alpha
Goldman Sach Global Equity Partners	Concentrated portfolio consisting of 25 to 40 companies which they believe have the strongest potential to generate consistent and repeatable returns over the long term. They seek to invest in world class franchises which have, amongst other characteristics, sustainable competitive advantages, robust balanced sheets and are led by strong management teams. However, these attributes need to be underpinned by an attractive valuation which they define as 50% upside potential over three years.	Quality at attractive valuation / Active	Security selection alpha
Investec Global Franchise	The Fund is built from the bottom up with a long-term focus, targeting cash generating companies able to sustain high returns on invested capital. Stocks typically have low sensitivity to the economic and market cycle. It is a high-conviction stock portfolio of primarily investment grade companies, which typically have high customer loyalty, strong brands, no debt and are more resilient in times of economic uncertainty.	Quality / Active	Security selection alpha
Nedgroup Investments Global Equity	The investment process utilises a number of methods, including themes, to help identify industries and companies that are well positioned to benefit from medium-term growth, regardless of where they are located. Their process focuses on bottom-up analysis culminating in detailed absolute valuations and where applicable, an assessment of the level and sustainability of dividend yield. The aim of investment at Veritas is to generate excellent total real returns, with minimal risk of permanent capital loss.	Real return / Active	Security selection alpha and downside protection
Schroder QEP Global	The strategy aims to deliver consistent outperformance of the MSCI World Index, with limited index-relative risk. It is designed to offer investors the benefits of index-based investing from a risk and cost perspective, with the advantage of relative outperformance. Top-down risks are managed in the portfolio construction process by applying index-relative limits to region, sector and stock weightings. This results in a low tracking error, but the team maintains flexibility to invest a controlled amount in the best opportunities beyond the index.	Value / Index relative	Sector allocation alpha, active risk management and reduction of costs
T. Rowe Price Global Focused Growth	The strategy is a best ideas portfolio which leverages the manager's global structure to construct a concentrated portfolio of 70 to 80 stocks. The manager's view is that markets underestimate the return potential of market share gains, innovation and that identifying what is being missed by the rest of the market is key to delivering alpha. The philosophy of the portfolio is focused on identifying, through a fundamental bottom-up approach, companies with superior and sustainable growth prospects, and improving fundamentals (e.g. attractive industry structure, sustainable competitive advantage, market share gains, favourable business cycle, shareholder focused management team, etc.). Macro-economic and local market factors are integrated in stock selection decisions.	Growth / Active	Security selection alpha
Threadneedle Global Select	The investment process is designed to identify attractive opportunities (defined as companies with high or rising returns on capital) based on their core view that the market underappreciates the value of competitive advantages, and the potential for change. The manager selectively invests in those companies which offer attractive growth, while the valuation still shows significant upside. Dynamic sector and regional weightings reflect bottom-up opportunities, rather than a top down view. The portfolio style is that of growth at a reasonable price.	Growth / Active	Sector allocation and security selection alpha
Vulcan Value Equity	Vulcan focuses on identifying businesses that generate high levels of relatively predictable free cash flow, which are priced at a discount to their intrinsic value. Vulcan's primary objective is to minimise the risk of permanent loss of capital by demanding a substantial margin of safety, through value identification in companies that have a sustainable competitive advantage.	Value / Active	Security selection alpha

Source: PSG Wealth research team

Global funds – performance and positioning

For the second quarter of 2017 the PSG Wealth Global Preserver FoF USD outperformed the GIFS USD Cautious allocation sector by 0.60%. Over the 12-month period ending 30 June 2017 the portfolio outperformed the sector average by 4.05%.

The PSG Wealth Global Preserver FoF GBP also delivered top quartile returns over the last 12 months, outperforming the GIFS GBP Cautious allocation sector average by 10.84% in GBP. For the second quarter of 2017, the portfolio underperformed the sector by 1.01% in GBP. Both Global Preserver FoFs have been ranked in the top quartile of their respective global sectors since inception.

Over the second quarter of 2017, the PSG Wealth Global Moderate FoF outperformed the global sector average by 0.75% in USD. For the five years ending 30 June 2017, the portfolio outperformed the GIFS USD Moderate Allocation sector average by 1.1% per annum and it has been ranked in the second quartile of global peers since its inception. The PSG Wealth Global Flexible FoF USD achieved strong returns for the 12 months ending 30 June 2017, delivering excess returns of 10.7% in USD above the GIFS USD Flexible allocation sector average. For the second quarter of 2017, the fund outperformed the sector by 3.55%.

The PSG Wealth Global Flexible FoF GBP also delivered top quartile returns over the last 12 months, outperforming the GIFS GBP Flexible allocation sector by 18.74% in GBP. For the second quarter of 2017, the portfolio outperformed the sector by 0.59% in GBP. Both Global Flexible FoFs have been ranked in the top quartile of their global sectors since inception.

For the second quarter of 2017, the PSG Wealth Global Creator FoF outperformed the GIFS USD Global Large-Cap Blend sector average by 0.74% in USD. For the four years ending 30 June 2017, the portfolio outperformed the sector average by 3.16% per annum and it has been ranked in the top quartile of global peers since its inception. There were no changes to any of the underlying funds within any of our global funds of funds during the second quartile of 2017

Offshore solution quarterly performance in USD

Source: PSG Wealth research team

PSG Wealth Global Fund Range Regional allocation as at 30 June 2017						
	PSG Wealth Global Preserver FoF USD	PSG Wealth Global Preserver FoF GBP	PSG Wealth Global Moderate FoF	PSG Wealth Global Flexible FoF USD	PSG Wealth Global Flexible FoF GBP	PSG Wealth Global Creator FoF
Americas	40.1	40.1	47.5	64.2	65.1	65.4
North America	39.0	39.0	46.1	63.4	64.2	64.7
Latin America	1.2	1.2	1.4	0.8	0.9	0.7
Greater Europe	41.2	41.2	32.2	24.5	25.8	26.2
United Kingdom	5.5	5.5	13.0	12.3	12.2	11.4
Europe Developed	34.0	34.0	17.2	10.8	13.4	14.2
Europe Emerging	0.6	0.6	0.7	1.0	0.1	0.1
Africa/Middle East	1.1	1.1	1.2	0.5	0.2	0.5
Greater Asia	18.7	18.7	20.4	11.3	9.1	8.4
Japan	8.2	8.2	9.5	3.3	2.2	3.9
Australasia	3.5	3.5	1.2	1.7	2.1	1.0
Asia developed	4.2	4.2	5.1	3.8	2.5	1.4
Asia emerging	2.9	2.9	4.5	2.6	2.3	2.1
Market classification	100.0	100.0	100.0	100.0	100.0	100.0
% Developed markets	94.4	94.4	93.2	95.5	96.6	97.1
% Emerging markets	5.6	5.6	6.8	4.5	3.5	2.9

Source: Morningstar

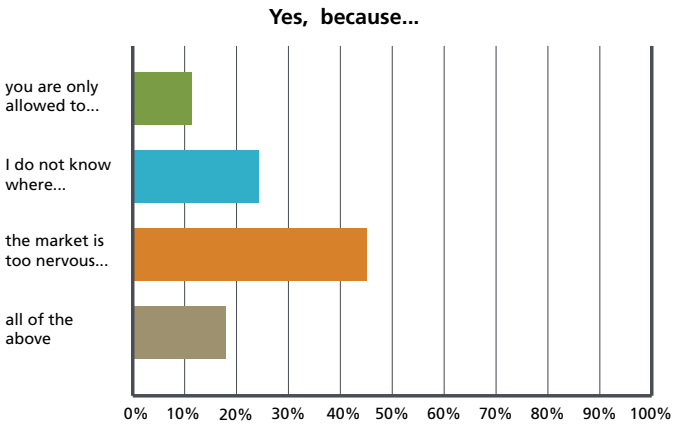
Political uncertainty and investing

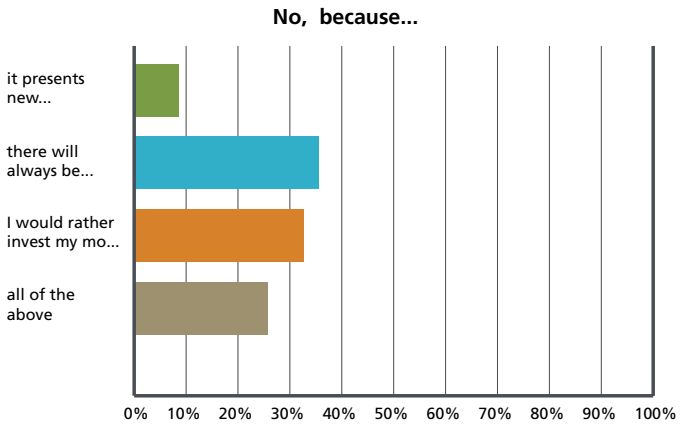
South Africa has faced many challenges in the past, both externally and internally induced. In various ways, these challenges may be perceived as having hindered the country from reaching its true potential. Growth may appear sub-par, especially when compared to our emerging market (EM) peers. The reasons offered for this are numerous – political uncertainty, restrictive labour legislation, a sovereign credit downgrade, a market dependent on commodity prices, and a generally distrustful relationship between Government and business.

Despite this, some South African citizens are still wealthy and a few companies are performing well despite challenging conditions. Challenging conditions are not stopping these individuals and companies from investing and growing their wealth, so why should it deter you?

In the last edition of this report we asked our readers to take part in the seasonal survey, probing whether political uncertainty and a sovereign downgrade will keep them from investing.

Survey question: Will political uncertainty and a sovereign downgrade keep you from investing?





Answer choices	Responses
you are only allowed to invest in investment grade products	11.88%
I do know where investment opportunities could come from now	24.52%
the market is too nervous which causes unexpected reults	45.59%
all of the above	18.01%
Total	

Answer choices	Responses
it presents new opportunities for active stock pickers	8.43%
there will always be political uncertainty; one needs to think long term	34.87%
I would rather invest my money abroad than in South Africa	31.8%
all of the above	29.0%
Total	

Source: PSG Wealth research team

Results from our autumn survey

Almost half (45.59%) of those who participated in last season's survey said political uncertainty and a sovereign downgrade might stop them from investing, because the market was too nervous, which caused unexpected results.

Less than a quarter (24.52%) of participants said political uncertainty and the sovereign downgrade made them feel unsure about where investment opportunities would now come from.

About 34% of participants said this would not stop them from investing because there would always be political uncertainty; one should take a long-term view. About 31% of participants said they would rather invest their money abroad.

Market reactions were much more positive than expected

The market reaction following President Jacob Zuma's cabinet reshuffle at the end of March, and the sovereign downgrade, was muted compared to Nenegate in December 2015 (when former Finance Minister Nhlanhla Nene was fired and replaced by Des van Rooyen).

Until South Africa exits the World Government Bond Index (WGBI) or there is another external shock, the rand is expected to trade at around R14/US$ towards the end of 2017, said Peter Attard Montalto, emerging markets economist at Japanese bank Nomura, in an investor notice.

Montalto is of the view that there is a strong 'asymmetry' in the market, which currently hangs on to every possible positive event as a turning juncture, resulting in the rand trading better against the dollar than expected.

"We still fundamentally disagree with this notion (of market optimism) as we expect the status quo to continue through the ANC elective conference in December, almost regardless of who wins," he said, adding that it was likely that Nkosazana Dlamini-Zuma would become the next ANC leader.

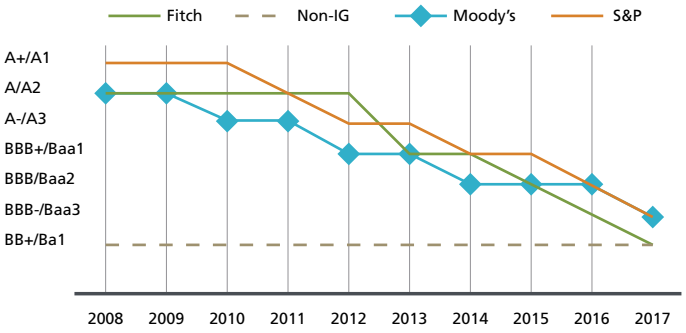
Foreign capital flows into South African bonds remain strong, but less so on the equity side.

"The spike in net foreign inflows around the time of the (cabinet) reshuffle meant the market reaction was particularly muted and allowed the rand to continue appreciating shortly thereafter."

Nomura expects the emerging market asset classes and local debt to continue their strong performance, having risen nearly 11% year to date in US dollar terms, with prospects for a further five percentage points increase. On the back of concerns about growth in developing markets, the lack of global inflation and the possibility of an economic crisis in China, prospects for passive funds in South Africa are positive, Montalto says, even though he thinks South Africa will eventually lose its position on the World Government Bond Index (WGBI).

South Africa was downgraded to sub-investment grade, or achieved 'junk status', on its debt denominated in foreign currency earlier this year. It is important to stress that it is only South African bonds denominated in foreign currency that are sub-investment – this class accounts for only 10% of debt issued by the South African government. Of more importance is the status of local currency bonds, which account for 90% of the country's debt stock pile. Thus far, these bonds have managed to maintain investment-grade status.

A notch away from sub-investment grade on local currency debt



Source: Bloomberg, Merrill Lynch Global Research

Expectations of a downgrade to sub-investment grade (IG)

Some economists expect ratings agencies will downgrade South Africa to sub-investment grade in the middle of June 2018, especially if the economy continues its downward trend and if Government is unable to deal with its debt.

"All ratings agencies continue to be directionally negative as economic fundamentals deteriorate. S&P will likely be the next one to move to sub-IG by June 2018," said Ferhan Salman, an economist with Bank of America Merrill Lynch Global Research. Downgrades from both S&P and Moody's would trigger exclusion from the Citi WGBI. "Together with exclusions from other local and hard currency indices, we estimate potential outflows to reach USD14bn," said Salman.

Such outflows would have a negative impact on the rand, as the currency is put on offer on global foreign exchange markets to fund the outflows.

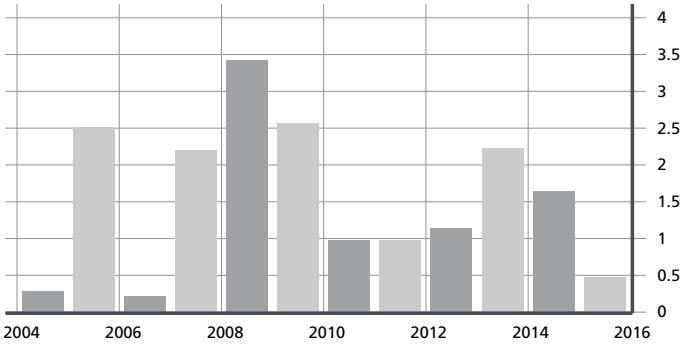
Why debt ratings matter

South Africa's financial system and economy have large external funding requirements as the country is a net importer, and ongoing portfolio inflows are critical to financing South Africa's current account deficit.

This requires that investors continue to see value in South Africa's large stock of debt and equity assets. Notably, this year's inflows into South Africa have largely been into sovereign bonds – otherwise known as debt markets.

South Africa's ability to issue debt in local currency means that South Africa's share of hard currency in its external sovereign debt is relatively small at 10%. According to the International Monetary Fund (IMF), US$2bn of outflows would result from the downgrade to junk status of the foreign currency rating, but a more sizeable 2.5% of GDP (around US$8bn) of outflows should be realised were the local currency rating cut to junk.

Foreign direct investment net inflows (% of GDP)*



* Foreign direct investment net inflows (% of GDP) in South Africa were reported at 0.48356% in 2015, according to the World Bank collection of development indicators, compiled from officially recognised sources.

Source: Trading Economics

Most economists don't believe South Africa will suffer a further downgrade in 2017, as the mid-term budget in October will fix issues surrounding revenue shortfalls.

However, "continued political noise around radical economic transformation in the run-up to the ANC elective conference is the next thing that ratings agencies will watch," said Salman.

The analyst argues any deterioration in institutional capacities undermining policy implementation and discussions around the mining charter, land expropriation and the South African Reserve Bank (SARB) mandate would score negatively on the rating card. The next big event would be the National Budget for 2018/19 due in February 2018, which could also fall short of stabilising debt and allow slow deterioration in the fiscal. Materialisation of contingent liabilities will also be a rating negative. According to the IMF, a realisation of contingent liabilities on state-owned enterprises could add up to 18% to the debt-to-GDP ratio.

Economists warn of shocks to come

Montalto is of the view that the market will finally see the very real threats to South Africa's economy in the growing political noise in favour of a win for Dlamini-Zuma at the ANC's December elective conference. He also expects another GDP growth shock announcement for the second quarter of 2017 (due in September) and further debates on the independence of the SARB and land reform. "The market habit of looking at everything as an optimistic turning point, we think, can only last until a further downgrade comes and then a Team NDZ (Dlamini-Zuma) victory at the end of the year."

Montalto points out that markets will also realise that a Dlamini-Zuma presidency is not necessarily more positive compared to a Jacob Zuma presidency. Conversely, a win by (current Deputy President) Cyril Ramaphosa at the ANC's elective conference in December could see the rand break through the R12/$ level. Montalto, however, points out that a Ramaphosa presidency won't result in significant reform and economic growth.

The bottom line from an investment perspective

No matter what the local political situation or credit rating scenario, investors should steer clear of emotional investment decisions. The best thing to do is to review your financial plan and your risk appetite. If your financial plan makes sense and your investments are allocated to reflect your risk appetite and long-term objectives, leave the rest to professional investors or portfolio managers who work with markets daily.

Clients should take comfort in the fact that:

- Their financial planning is taken care by the best financial planners available in South Africa
- We have award-winning processes and products
- Our investment experts are rated amongst the top – nationally and internationally

PSG Wealth solutions performance: Quartile ranking overview

Funds of Funds	6-month rank	1-year rank	4-year rank	5-year rank	6-year rank	7-year rank	8-year rank	Inception rank
PSG Wealth Income	38	34	13	14	12	11	11	9
PSG Wealth Preserver	70	41	11	13	8	16	12	11
PSG Wealth Moderate	45	24	20	22	10	15	13	12
PSG Wealth Creator	96	23	37	40	40	36	34	26
PSG Wealth Global Preserver FoF	41	23	3	2	2	3	7	6
PSG Wealth Global Moderate FoF	69	56	56	30				34
PSG Wealth Global Flexible FoF	6	9	7	3	5	3	3	4
PSG Wealth Global Creator FoF	366	520	264					255

Key	
1st Quartile	
2nd Quartile	
3rd Quartile	
4th Quartile	

Source: PSG Wealth research team data as at 30 June 2017

Please note numbers inside each block represents the rank of the specific fund of fund as measured against its universe.

Daily

10 August

Weekly

3 Aug
19 July
13 July
21 June
14 June
7 June
31 May
17 May
10 May
3 May
19 April
12 April
5 April
22 Mar
15 Mar
8 Mar
1 Mar
15 Feb
6 Feb
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14 Dec
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16 Nov
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8 Jun
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25 May
18 May
11 May
4 May
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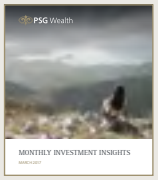
20 Nov
16 Nov

Monthly



Jul 2017
Jun 2017
May 2017
Apr 2017
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Feb 2017
Jan 2017
Nov 2016
Oct 2016
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May 2016
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Mar 2016
Feb 2016
Dec 2015
Nov 2015
Oct 2015

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Summer 2016
Spring 2015

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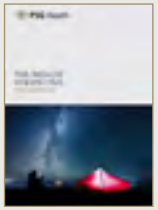
UK snap election
Berkshire 2017 AGM
Distributions explained
S&P junk status
Research provided
Fed hike inevitable?
S&P 2 Dec review
US election
Market PE's
Local government elections
Brexit vote
Cash vs Long-term instruments
S&P June 2016 rating
Fed Dec 2015 interest rate hike
Impact of political moves on investments
FoF fees small compared to gains
SARB hikes rates
Weak PMI supports foreign diversification

Wealth Perspective



Jun 2017
March 2017
December 2016
September 2016
July 2016
April 2016
January 2016
October 2015
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