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CREDIT RATING ANNOUNCEMENT

GCR affirms PSG Konsult Limited's rating of A⁻(ZA); Outlook Stable.

Johannesburg, 17 July 2017 -- Global Credit Ratings has today affirmed the national scale ratings assigned to PSG Konsult Limited of A⁻(ZA) and A1⁻(ZA) in the long term and short term respectively; with the outlook accorded as Stable.

SUMMARY RATING RATIONALE

Global Credit Ratings ("GCR") has accorded the above credit ratings to PSG Konsult Limited ("PSGK") based on the following key criteria:

PSGK's ratings are supported by its fairly resilient business model, with the multiplatform distribution network providing increasing product and revenue diversity across the financial services markets. As a comparatively smaller player in its targeted sectors, PSGK has been able to maintain its competitiveness, borne out by its expanding base of financial advisors, aided by improving productivity as a result of continued focus on digitalisation.

Management's ability to execute its strategy is demonstrated by its track record of profitable growth through the cycle. The synergetic nature of the divisions creates a solid platform for organic growth, with PSGK's recurring headline earnings registering a strong 5-year CAGR of 26%. PSGK is expected to continue to produce strong earnings through the benefit of economies of scale as it gains market share across existing business segments and expands its assets under management at a moderate pace.

PSGK reflects conservative financial policies, with the standalone balance sheet remaining largely debt-free at FY17. While the group has entered the debt capital markets through a maiden DTMN issue in FY18, funding has been at moderate levels, which should see PSGK's credit risk profile remain sound. Strong sustained free cash flow generation provides additional liquidity support.

The group's sound capital adequacy, strengthening risk controls and strategic importance to its ultimate parent are also positive factors. Nonetheless, weak local economic conditions and highly volatile investment markets will continue to pose as challenges, which could potentially place added pressure on investor confidence and thus net asset inflows and investment performance.

Upward rating movement over the medium to long term could be driven by consistent market share gains in all the operating units, significant assets under management and earnings growth and the continued diversification of revenue sources. Conversely, an inability to mitigate against severe market volatility, causing a sustained decline in assets under management and thus fee income could place pressure on the ratings. Additionally, any regulatory development that meaningfully weakens PSGK's business model or profitability would be negatively viewed.

NATIONAL SCALE RATINGS HISTORY

Initial Rating (September 2011)

Long term: BBB_(ZA)

Short term: A2_(ZA)

Outlook: Stable

Last rating (July 2017)

Long term: A⁻_(ZA)

Short Term: A1⁻_(ZA)

Outlook: Stable

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APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Global Master Criteria for rating corporate entities, updated February 2017

PSGK issuer rating reports, 2011-16

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GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S CORPORATE GLOSSARY

Balance Sheet	Also known as Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
Capital	The sum of money that is invested to generate proceeds.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Diversification	Spreading risk by constructing a portfolio that contains different investments, whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Economies Of Scale	Economies of scale are the cost advantages of an increase in output if the fixed costs of doing so, such as those for plant and equipment, remain the same. The marginal cost, or the cost of the last unit of production, falls as output is raised.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Long-Term Rating	A long term rating reflects an issuer's ability to meet its financial obligations over the following three to five year period, including interest payments and debt redemptions. This encompasses an evaluation of the organisation's current financial position, as well as how the position may change in the future with regard to meeting longer term financial obligations.
National Scale Rating	The national scale provides a relative measure of creditworthiness for rated entities only within the country concerned. Under this rating scale, a 'AAA' long term national scale rating will typically be assigned to the lowest relative risk within that country, which in most cases will be the sovereign state.
Risk	The possibility that an investment or venture will make a loss or not make the returns expected. There are many different types of risk including basis risk, country risk, credit risk, currency risk, economic risk, inflation risk, liquidity risk, market or systemic risk, political risk, settlement risk and translation risk.
Risk Management	Process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Short-Term Rating	A short term rating is an opinion of an issuer's ability to meet all financial obligations over the upcoming 12 month period, including interest payments and debt redemptions.



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SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the ratings is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

PSG Konsult Limited participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit ratings have been disclosed to PSG Konsult Limited with no contestation of the rating.

The information received from PSG Konsult Limited and other reliable third parties to accord the credit ratings included:

- The 2017 audited annual financial statements (plus four prior years of comparative audited numbers)
- Investor presentations
- Other public information

The ratings above were solicited by, or on behalf of, the rated client, and therefore, GCR has been compensated for the provision of the ratings.

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