PSG Wealth

MONTHLY INVESTMENT INSIGHTS

APRIL 2016

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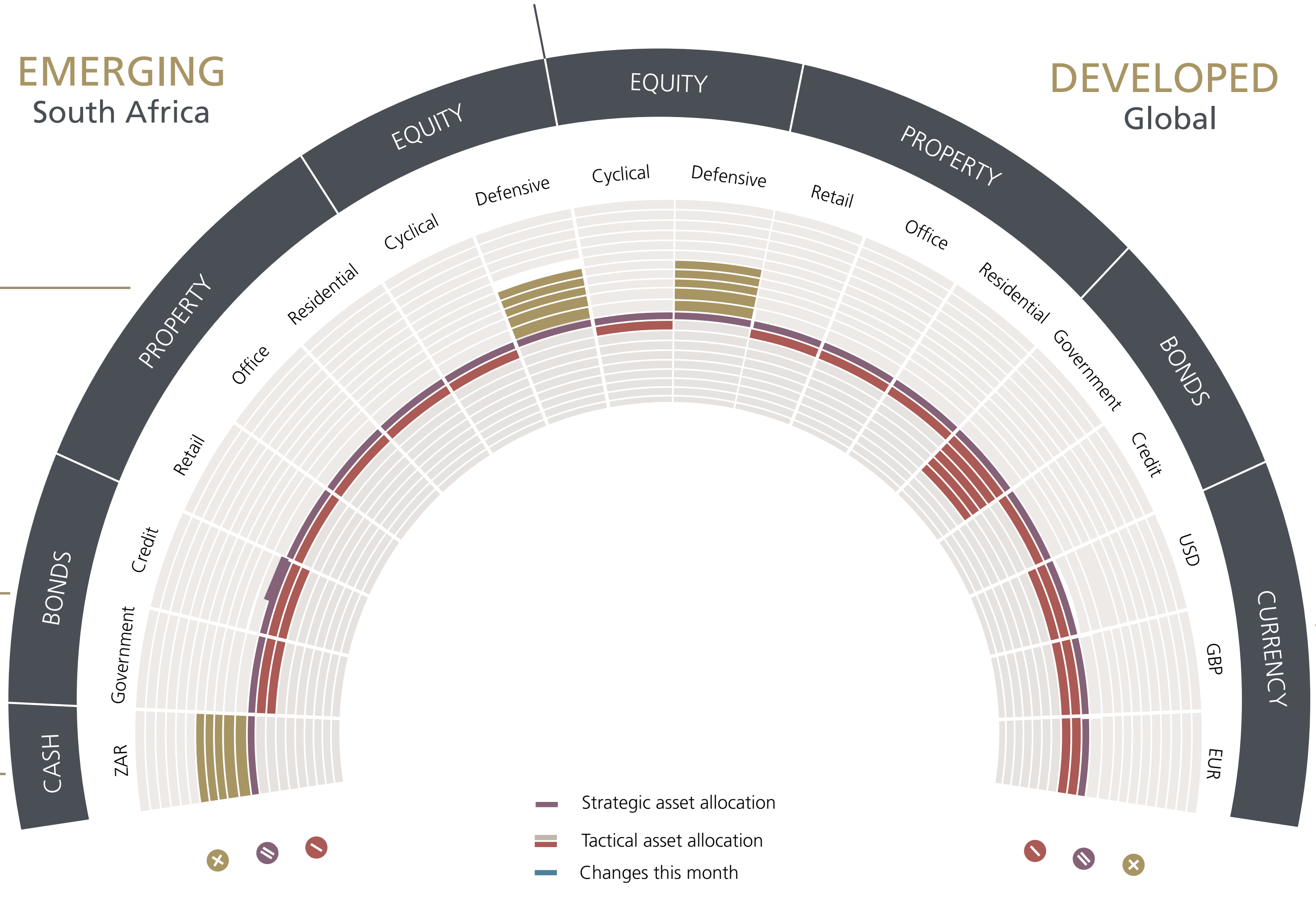
Tactical asset allocation preferences

Challenging economic conditions persists, but a lot of the negative sentiments 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.

Remain slightly under given recent downward pressure on yields.

Our view on this asset has improved as inflation continues to rise.



The rand is still undervalued against major currencies, and we believe the rand will continue to appreciate against the dollar, pound and euro.

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

- According to our assessment, domestic equity is now roughly 30% overvalued relative to its historic yield. There certainly remains some expensive pockets in the market, and investors should expect continued volatility at current levels.
- With regards to domestic listed property our assessment of fair value shows that domestic property equity is now roughly 20% overvalued relative to its historic yield. In addition, we remain of the view that the interest rate cycle will impact domestic economic strength, affordability and sentiment presenting headwinds for capital growth in the property sector. We therefore expect property yields to normalise on the back of capital value pressure.
- As always however, there are some exceptions. Selected property shares are experiencing growing yields, which may present some opportunities. Although broad-based property exposure is ill-advised at this stage, we do believe there are some shares that can make a contribution to a diversified portfolio.
- Until recently the gross real yield on most short-dated money market assets was near zero. On an after-cost-after-tax basis, there was very little to be excited about in this asset class. We do however expect this to change quite drastically over the coming months, as rate hikes ensue at an increased pace.
- Despite a surge in yields of the All Bond Index, the index aggregate yield still implies that the asset class remains generally overvalued. With the implied premium being roughly 24%.
- Global equity, although trading at a slight premium, remains the most attractive asset class to our mind. The underlying valuations remain sound and there are many quality firms to choose from. The biggest near term risk for South African investors is the rand. That being said, there are many effective ways in which professional money managers can manage this risk effectively.

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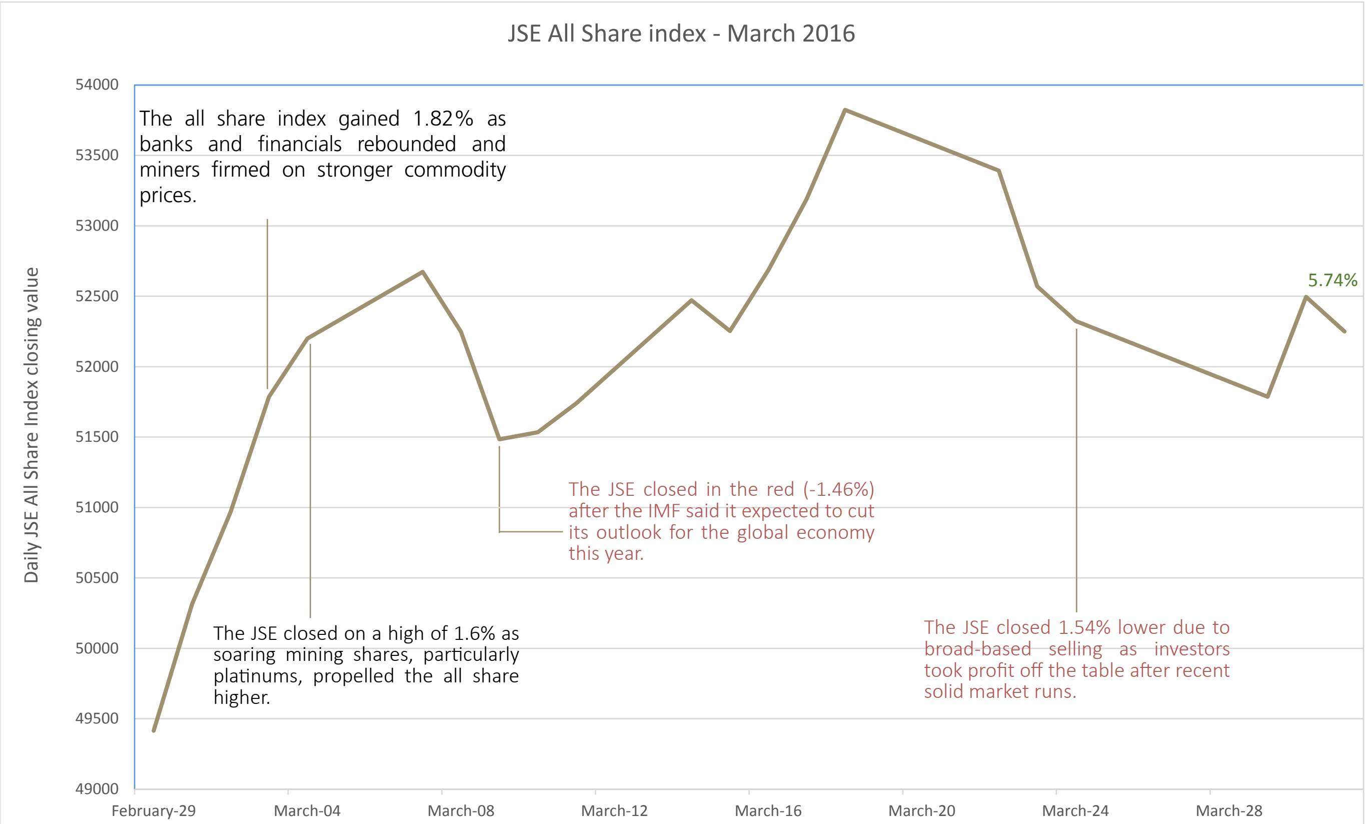
Market commentary

The ALSI recorded a strong return starting the month off at 49 415 points, rising to 53 827 points before ending the month at 52 250. This was despite a 25bp rise in the repo rate by the MPC at its March meeting.



Source: Bloomberg

Domestic key moves

- The significant market volatility that we have encountered since the beginning of the year slowly started to subside. The market improvement was broad-based with all of the sectors achieving positive growth.
- The financial sector was particularly strong, driven largely by the banks, while the rally in the commodity counters slowed following their exceptional returns in February.
- Investment performance during the month remained influenced by currency movements with the rand appreciating from R15.87 to R14.76 against the USD. This materially impacted the performance of the index-heavy rand-hedge counters which proved a drag on performance.
- The rand was trading at its best levels this year with the Constitutional Court's decision on President Jacob Zuma's Nkandla upgrades last week, a smaller-than-expected SA trade deficit and a weaker greenback all factors supporting rand strength.
- The manufacturing PMI in South Africa advanced to 50.50 in March, higher than market expectations of a rise to a level of 48.00. In the prior month, the manufacturing PMI had registered a level of 47.10.

Global key moves

Globally a more positive mood returned to world markets in March, boosted by expectations that the oil price was bottoming, glimmers of positive news around the Chinese economy, and investors being reassured about European markets following further stimulus measures adopted by the European Central Bank (ECB). Equity markets were also buoyed later in the month when the US Federal Reserve (Fed) Chair Janet Yellen said the Fed should proceed "cautiously" in deciding when to raise rates.

US

- The US economic recovery has stabilised with low levels of unemployment and high levels of consumer spending and consumer confidence. However, the effect of low commodity prices (including oil) that kept inflation at the lower end of expectations are starting to lose momentum. The intention of the Fed to gradually increase interest rates may be over sooner than expected.
- In March, the unemployment rate in the US rose to 5.0%. Compared to the previous month with a rate of 4.9%.
- In the US, non-farm payrolls registered a rise of 215.00k in March, compared with a revised increase of 245.00k in the previous month. Markets were expecting non-farm payrolls to advance to 205.00k.
- In March, the final Markit manufacturing PMI rose to 51.50, meeting market expectations. In February, the same PMI recorded a reading of 51.30.

UK

- The UK economy remains in solid recovery. The Bank of England also decided that it will add more money into circulation to prevent a run on the banks if the voters are in favour of an exit from the EU, regardless of the risk of a weaker Pound.
- On a monthly basis, in March, the Halifax house price index climbed 2.6% in the UK, higher than market expectations for an advance of 0.9%. In the previous month, the Halifax house price index fell to a revised 1.5%.
- In March, the manufacturing PMI rose to a level of 51.00, compared with a level of 50.80 in the previous month. Markets were expecting the manufacturing PMI to climb to a level of 51.20.

EU

- The economic outlook in the EU continues to improve. However, policy differences about the inflow of refugees into this region is still unresolved. All sentiment indices remain under pressure regardless of the recent changes in the current fiscal and monetary policies.
- The industrial confidence index dropped to -4.20 in March compared with expectations of a drop to a level of -4.30 and a revised reading of -4.10 in the previous month.
- The final manufacturing PMI recorded a rise to 51.60 in March, higher than market expectations of 51.40. The preliminary figures indicated a rise to 51.40. In the previous month, the manufacturing PMI registered a reading of 51.20.

China

- Latest economic releases from China continue to point to an economy that is weaker than previously expected. China will have to continue with additional stimulus measures to support stronger economic growth. Zhou Xiaochuan, the governor of the People's Bank of China, sounded the alarm over the rising debt in the country. These concerns came as China's corporate debt load weighs in at roughly 160 times gross domestic product and is growing faster than any of the world's 15 largest economies.
- The Chinese economy advanced an annual 6.7% in the first quarter of 2016, compared to a 6.8% expansion in the previous period. While it is the weakest growth since the first quarter of 2009, fixed-asset investment, industrial output, retail sales and new yuan loans all increased more than estimated - suggesting the economy is accelerating.
- In March, Caixin/Markit manufacturing PMI index in China rose to a level of 49.70, higher than market expectations of a rise to a level of 48.30. In the previous month a level of 48.00 was registered.

Japan

- The economy of Japan is still not responding favourable to the latest stimulus measures. The Bank of Japan (BoJ) is expected to review the current stimulus measures on a continuous basis to turn the economy around.

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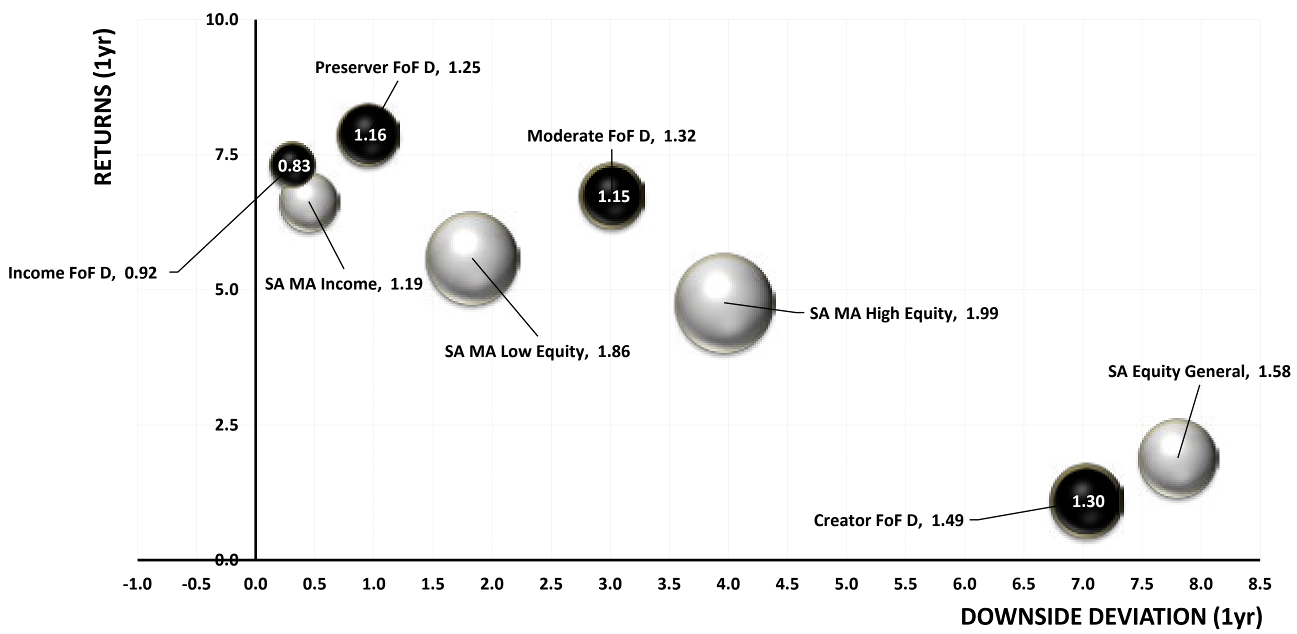
PSG Wealth Fund of Funds Solutions

Local funds

Performance table

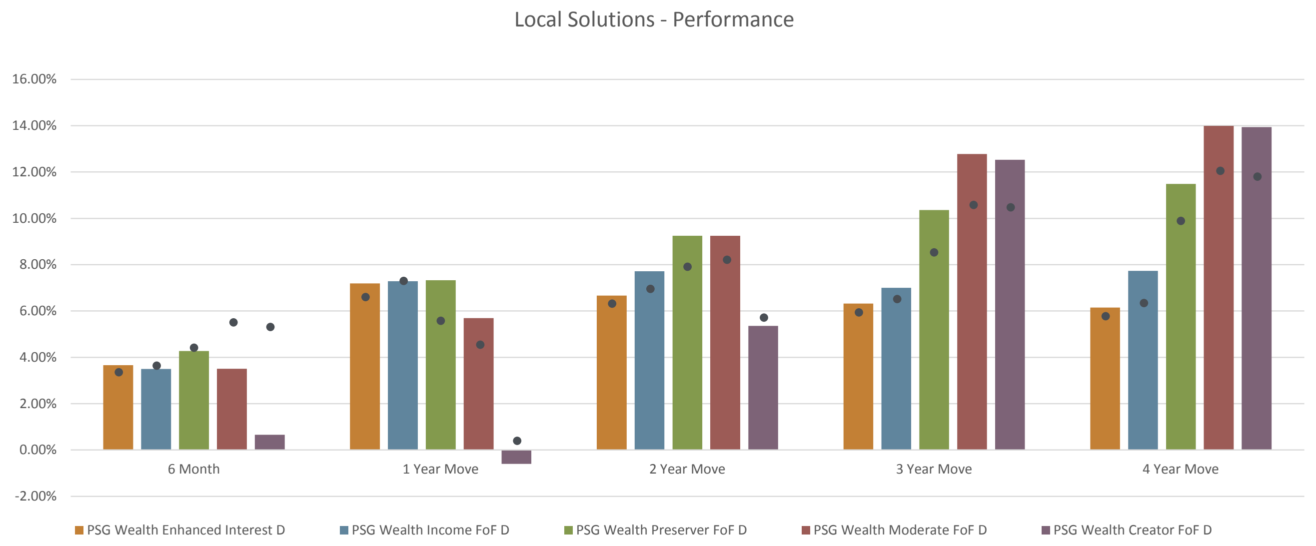
PSG Wealth Solutions						
Fund	6 Month	1 Year Move	2 Year Move	3 Year Move	4 Year Move	5 Year Move
PSG Wealth Enhanced Interest D	3.66%	7.19%	6.67%	6.32%	6.15%	
PSG Wealth Income FoF D	3.50%	7.29%	7.72%	7.00%	7.73%	7.97%
PSG Wealth Preserver FoF D	4.27%	7.33%	9.25%	10.36%	11.49%	11.58%
PSG Wealth Moderate FoF D	3.51%	5.69%	9.25%	12.78%	13.99%	13.67%
PSG Wealth Creator FoF D	0.66%	-0.60%	5.36%	12.53%	13.94%	12.65%
PSG Wealth Global Moderate FF D	8.69%	13.15%	14.80%	20.57%	21.68%	
PSG Wealth Global Creator FF D	10.54%	18.09%	19.62%			

Local Funds, TERs, Illustrative fees vs peer group



PSG Wealth Fund of Funds Solutions

Domestic funds performance



PSG Wealth Income Fund

- The PSG Wealth Income FoF delivered a return of 1.17% for March and 2.47% over the first quarter of 2016.
- Also comparing favourably to the the Stefi 12-months NCD of 0.631% for the month and 1.83% for the quarter.
- This fund also performed better than the 1.03% and 2.25% of the South African MA Income Sector Average over the same measurement periods.

Asset Allocation Data	Domestic	Offshore	Total
Equity	1.58	1.59	3.17
Bonds	55.60	7.68	63.27
Property	2.83	1.74	4.58
Cash and Money Market	26.11	1.32	27.43
Other	1.53	0.03	1.55
Total	87.66	12.34	100.00

Risk & Expectations: Higher inflation and rising interest rates may be a drag on performance over the short term, but we are confident that the underlying portfolio managers will lock the benefits of higher interest rates in to deliver attractive relative returns after the interest rate cycle has peaked.

PSG Wealth Enhanced Interest Fund

- The PSG Wealth Enhanced Interest fund delivered a return of 0.68% for March and 1.87% over the first quarter of 2016.
- This compares favourably to the South Africa IB Money Market Sector Average of 0.61% for the month and 1.71% for the quarter.
- The fund also outperformed the benchmark over all measurement periods of four years and less.

Asset Allocation Data	Domestic	Offshore	Total
Equity	-	-	-
Bonds	-	-	-
Property	-	-	-
Cash and Money Market	100.00	-	100.00
Other	-	-	-
Total	100.00	-	100.00

Risk & Expectations: We are confident that the fund will continue to benefit from higher inflation and rising interest rates and will continue to deliver exceptional short-term returns.

PSG Wealth Fund of Funds Solutions

PSG Wealth Preserver Fund

- The PSG Wealth Preserver FoF delivered a return of 1.7% for March and 1.8% over the first quarter of 2016.
- It is slightly under the sector average for the month (1.9%), but above the average for the quarter (1.5%) as measured by the South African MA Low Equity Sector Average.
- The FoF outperformed its performance target of CPI plus three over all investment periods of two years and longer.

Asset Allocation Data	Domestic	Offshore	Total
Equity	15.76	22.24	38.01
Bonds	35.66	1.53	37.18
Property	3.79	0.27	4.06
Cash and Money Market	18.79	1.48	20.27
Other	0.48	-	0.48
Total	74.48	25.52	100.00

Risk & Expectations: Higher inflation is going to increase the performance hurdle of the fund in coming months while rising interest rates will continue to be a drag on performance. However, the PSG Wealth Preserver FoF is a well-diversified portfolio that will protect the capital of clients during negative markets.

PSG Wealth Moderate Fund

- The PSG Wealth Moderate FoF delivered a monthly return of 3.9% and 3.0% over the first quarter of 2016.
- Favourably returns compared to the South African MA High Equity Sector Average of 3.4% for the month and 1.6% for the quarter.
- The strong performance was due to the 5.4% of Coronation Balanced Plus for March and the 5.4% return of the PSG Balanced Fund over the first quarter of 2016.

Asset Allocation Data	Domestic	Offshore	Total
Equity	37.78	25.85	63.62
Bonds	16.57	0.56	17.13
Property	4.30	1.15	5.45
Cash and Money Market	13.35	0.20	13.55
Other	0.17	0.08	0.25
Total	72.16	27.84	100.00

Risk & Expectations: The PSG Wealth Moderate FoF is a well-diversified portfolio and we are confident that the fund will continue to deliver above average long-term returns over all market cycles.

PSG Wealth Creator Fund

- The PSG Wealth Creator FoF delivered a return of 7.3% for March and 4.3% over the first quarter of 2016 compared to the respective returns of 6.7% and 4.5% of the South African EQ General Sector Average.
- The noticeable improvement of the first quarter performance was due to the 9.1% return of the PSG Equity Fund. The performance of Prudential Equity, on the other hand, is starting to lag and will be monitored according to our investment process.

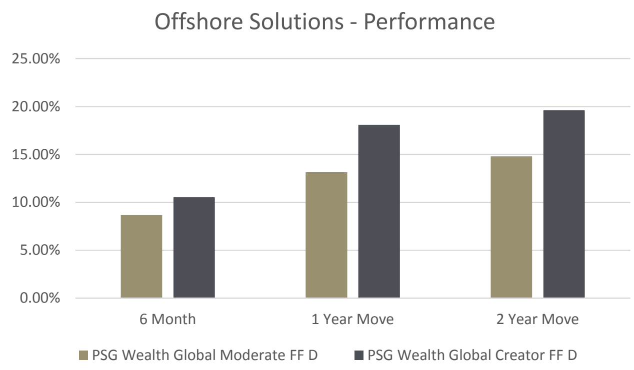
Asset Allocation Data	Domestic	Offshore	Total
Equity	79.15	15.15	94.30
Bonds	-	-	-
Property	2.09	-	2.09
Cash and Money Market	3.21	0.16	3.37
Other	0.16	0.09	0.24
Total	84.61	15.39	100.00

Risk & Expectations: The outlook for equities have deteriorated due to higher valuations and weaker earnings growth, but we are confident that the relative performance of the underlying managers in the fund will improve in the near future. The fund will continue to deliver above average long-term returns over all market cycles.

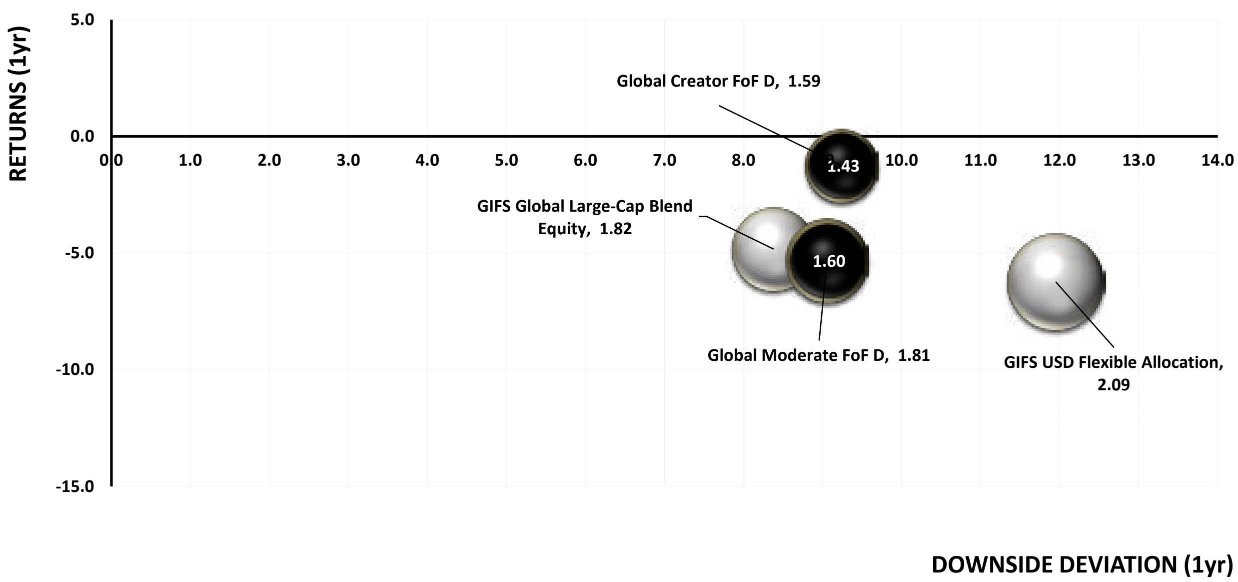
PSG Wealth Fund of Funds (FoF) Solutions

Offshore funds

Offshore funds performance



Offshore Funds, TERs, Illustrative fees vs peer group



PSG Wealth Fund of Funds Solutions

PSG Wealth Global Creator FoF (USD)

- The PSG Wealth Global Creator FoF returned 6.2% for March and -0.7% for Q1 2016, slightly underperforming the benchmark sector average, which delivered 6.8% for March and -0.4% for the quarter.
- Underperformance in March was mainly due to underlying managers with a strong focus on high-quality developed market companies, such as Investec Global Franchise (5.7%) and Fundsmith Equity (5.2%). However, these funds delivered excess returns well above 10% in 2015 and we expected some pull-back in these strategies as global market sentiment becomes more positive.
- The MSCI World Index returned 6.8% for March, and -0.4% for the quarter.
- Following a challenging start to the quarter, emerging markets rebounded strongly, with several markets supported by a deferral in expectations of monetary tightening in the US and an easing in US dollar strength. Emerging markets significantly outperformed developed markets, the MSCI Emerging Market Index returning 13.2% in March and 5.7% for the quarter.

Asset Allocation Data	Domestic	Offshore	Total
Equity	-	95.77	95.77
Bonds	-	-	-
Property	-	-	-
Cash and Money Market	-	4.17	4.17
Other	-	0.05	0.05
Total	-	100.00	100.00

Risk: Given the overweight to developed markets in our portfolio (98%) and the general defensive positioning by most of our underlying managers, we expect to underperform global markets when sentiment is very positive and risky assets, such as emerging market equities perform strongly.

Expectation: We are confident that our underlying managers will adjust the positioning of their portfolios (including exposure to emerging markets) as they find opportunities that offer good returns relative to the risk taken. We expect volatility to remain high in the short term with fluctuating market sentiment in global equity markets, thus we are comfortable with the overall defensive positioning of our fund.

PSG Wealth Global Creator Feeder Fund (ZAR)

- The PSG Wealth Global Creator FF D delivered a return of -2.8% for March and -6.7% for the quarter in rand terms, underperforming the global sector average which was down -0.4% in March and -5.4% for the quarter. The rand strengthened over March, thus reducing returns of the global portfolios reported in ZAR.

Asset Allocation Data	Domestic	Offshore	Total
Equity	-	94.83	94.83
Bonds	-	-	-
Property	-	-	-
Cash and Money Market	0.99	4.13	5.12
Other	-	0.05	0.05
Total	0.99	99.01	100.00

Risk & expectation: We expect the rand will continue to strengthening in the short-term, which could result in depressed ZAR returns for our global funds. However, over longer periods relevant to the strategy (7 years +) we expect the currency effect will be relatively flat and given the relative valuation of global equities we still believe the fund offers good opportunities.

PSG Wealth Fund of Funds Solutions

PSG Wealth Global Moderate FoF (USD)

- The PSG Wealth Global Moderate FoF returned 6.3% for March and 0.9% for Q1 2016, significantly outperforming the benchmark sector average, which delivered 3.7% for March and -0.2% for the quarter.
- Outperformance was driven mostly by strong returns in March from the Coronation Global Managed and PSG Global Flexible funds, which delivered returns of 8.5% and 8.4% respectively. Both funds started the year under pressure due mostly to emerging market exposure and some stock specific factors, but have recovered well as market sentiment turned positive and some of these oversold positions came back strongly over February and March. All our underlying managers contributed positively in March, with every fund outperforming the benchmark average.
- The JPM GBI Global Bond index returned 2.2% in March and 6.7% for the quarter. Both global government and corporate indices were positive. The 10-year Treasury yield fell from 2.27% at the end of December to 1.77% at the end of March.

Asset Allocation Data	Domestic	Offshore	Total
Equity	-	63.74	63.74
Bonds	-	10.09	10.09
Property	-	2.22	2.22
Cash and Money Market	-	20.79	20.79
Other	-	3.16	3.16
Total	-	100.00	100.00

Risk: Potential risk in the Global Moderate is the relatively high allocation to Global Cash (20.79%) which could be a drag on short-term performance in periods of positive market sentiment when equity markets perform well.

Expectation: We expect volatility to remain high in the short-term with fluctuating market sentiment in global equity markets, but the cash position provides a buffer against market downturns. Our underlying managers are also able to deploy this cash when they find more attractive opportunities in the market.

PSG Wealth Global Moderate Feeder Fund (ZAR)

- The PSG Wealth Global Moderate FF D delivered a return of -2.8% in rand terms for March and -5.6% for the quarter, outperforming the global allocation sector in March (-3.4%) but slightly underperforming for the quarter (-5.3%).

Asset Allocation Data	Domestic	Offshore	Total
Equity	-	63.55	63.55
Bonds	-	10.06	10.06
Property	-	2.22	2.22
Cash and Money Market	0.29	20.73	21.02
Other	-	3.15	3.15
Total	0.29	99.71	100.00

Risk & expectation: We expect the rand to continue strengthening in the short-term, which could result in depressed ZAR returns for our global funds. However, over longer periods relevant to the strategy (5 years +) we expect the currency effect will be relatively flat and given the relative valuation of global equities we still believe the fund offers good opportunities.

PSG Wealth Equity Portfolios

PSG Wealth SA Equity Portfolio

- March was a good month for the equity markets around the world fueled primarily by more dovish FED comments during the month. Local equity markets did not disappoint with the JSE Capped ALSI returning 6.71%.
- The PSG Wealth SA Equity Portfolio outperformed its benchmark by 1.05% with a return of 7.76% for the month.
- Only one of the 18 companies in the portfolio had a negative return for the month and 11 (61%) outperformed the benchmark.

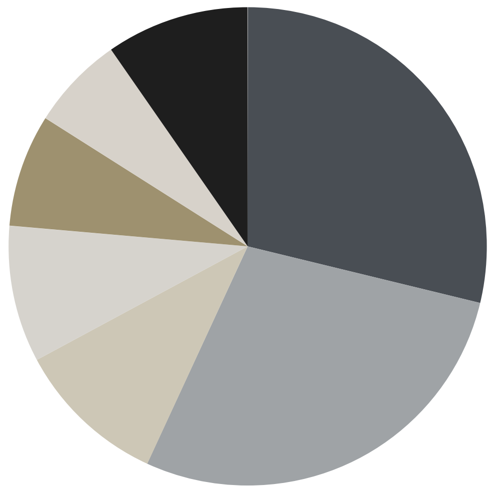
Expectations:

- We feel that the number of attractive investment opportunities have materially reduced following the strong rally in the stock market over the last month.
- Valuation differentials between sectors are not evident.
- Current valuations, in our view, now fairly reflect the lower- to medium-term growth expectations.

Risk:

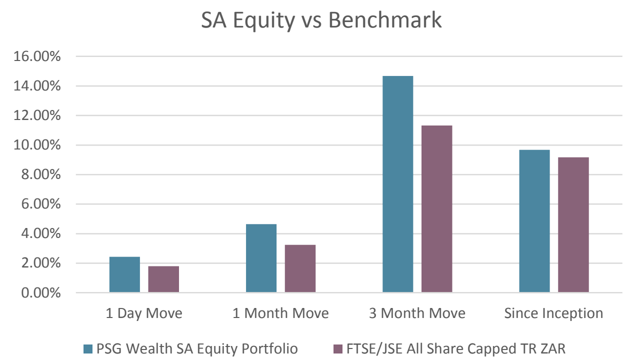
- Changes in Sovereign risk (positive and negative) and its flow through to exchange rates and interest rates can have a significant impact on portfolio values.
- Sustained international monetary easing which should support bond-proxy stocks to which the portfolio is under exposed due to valuation concerns.
- Overwhelming build-up of leverage in the International Markets coming to an abrupt end.

Asset Allocation



•	Consumer Cyclical	28.8
•	Financial Services	28.1
•	Basic Materials	10.2
•	Technology	9.2
•	Energy	7.6
•	Industrials	6.3
•	Communication Services	0.0
•	Consumer Defensive	0.0
•	Other	0.0
•	Utilities	0.0
•	Healthcare	0.0
•	Cash	9.7
	Total	**100.0**

Performance vs ALSI Capped TR ZAR



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PSG Wealth Equity Portfolios

PSG Wealth SA Property Portfolio

- March showcased strong returns amongst local listed property shares with the FTSE/JSE SA Listed Property Index advancing by 9.48%, outperforming the PSG Wealth Property portfolio which recorded returns of 7.99% for the month.
- Nine of the 10 stocks in the portfolio recorded positive returns over the period while 40% of the individual investments outperformed the benchmark.
- Our exposure to UK real estate assets had a significant impact on the portfolio performance during the month mainly due to the appreciation of the rand.

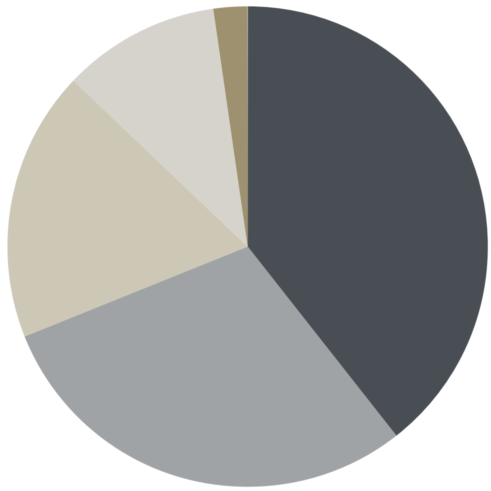
Expectations:

- Weaker local fundamentals due to weak and slowing economic growth.
- Weakness due to Brexit concerns priced into UK exposed investments.

Risk:

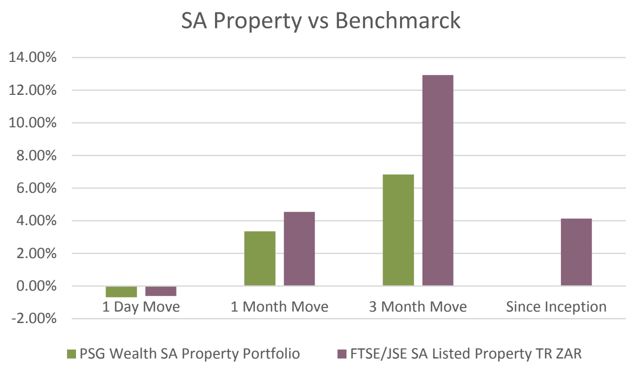
- Weaker than expected growth eroding dividends underpinning current valuations.
- Changes in Sovereign risk (positive and negative) and its flow through to exchange rates and interest rates can have a significant impact on portfolio values.
- Overwhelming build-up of leverage in the International Markets coming to an abrupt end.

Asset Allocation



•	Diversified Real Estate Activities	10.6
•	Diversified REITs	39.4
•	Real Estate Operating Companies	18.2
•	Retail REITs	29.5
•	Cash	2.3
	Total	**100**

Performance vs FTSE/JSE SA Listed Property



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