MONTHLY INVESTMENT INSIGHTS

FEBRUARY 2017

Contents

The monthly interview

This month we spoke to Alta Odendaal, an independent professional consultant with more than 13 years experience in training, development and coaching of financial advisers. She believes in empowering individuals through training and development initiatives. She has a keen interest in behavioural finance and provides consulting services to the financial services industry by delivering critical skills and knowledge. She holds an advanced diploma in financial planning law.

Alta Odendaal
Certified Financial Planner®

What do you believe are the most important lessons from behavioural finance for advisers?

Behavioural finance uses insights from psychology to explain why people behave the way they do. Advisers need to understand the impact of human behaviour on making financial decisions. People do not always make choices in a rational and calculated way. We need to understand the impact of emotional intelligence in the decision making process. In fact, most human decision-making uses thought processes that are intuitive and automatic from the sub-conscious mind, rather than deliberative and controlled.

According to Daniel Kahneman, one of the founders of behavioural economics, there is a simple explanation of how biases arise. People have two modes of thought: intuition (fast thinking) and reasoning. Our intuition is responsible for the impressions and quick judgements that come to mind automatically and effortlessly. It has evolved over time to enable us to perform complicated functions—from recognising faces and objects to making judgements—quickly and accurately. Reasoning, on the other hand, contrasts with intuition and is much slower, more demanding and must be deliberately controlled.

What are the first three things you teach people about behavioural finance?

I think we need to understand our clients holistically and also the behaviours that you are dealing with. The three different risks that will have an impact on the outcome of financial planning are:

1. Financial behaviour risk – This includes a person's own values and beliefs about money. This is normally formed in the first five to seven years of your life. The examples you received from your parents and the influence you receive from friends and family. You can tell your children whatever you want about money, but they will learn from you by the way you act. Cultural differences and generational thinking also impacts how we think about money.
2. Relationship behaviour risk – When dealing with money and managing our own money, our decisions can also be influenced by other individuals. The outcome of a decision might be different depending on if it involves your children or spouse, or your business. The main reason is that money management can be a very emotional decision.
3. Your own natural DNA – We need to understand the individual and his or her personality type in more detail. People make decisions differently, for example some people will have more self-control than others. For some individuals money provides a sense of security and as such they would avoid taking big financial risks. For another person money can provide a sense of freedom or power, which could cause them to behave irresponsibly.

What do you think the effect of volatility has on the investor mind-set?

In times of volatility, fear will be an automatic response. When events cause us to be fearful, it is important to understand economic principles and our own human behaviour, and to avoid overreacting.

What advice do you have for financial advisers on how they should handle the psychological effects of volatility or performance-chasing during discussions with their clients?

Financial advisers need to understand why clients will make irrational decisions when it comes to money. Financial planning is not only about crunching the numbers, and analysing the critical data of a specific client. Clients will tell you one thing and when they are under pressure, they will act totally differently. We need to understand the reasons why people act the way they do. Sometimes we need to understand why a client with limited income can save money and accumulate wealth, while another person who earns a much bigger salary cannot accumulate wealth. In 90% of cases these type of decisions are made sub-consciously, according to a person's fundamental personality traits. As such it's important that financial advisers understand more about psychology, the study of behaviour and mind, embracing all aspects of conscious and unconscious experience as well as thought.

The monthly interview

What type of behaviours should investors avoid during times of volatility?

In volatile times it is important for investors to manage common reactions and decisions, which are often based on biases. It is impossible not to be biased in decision-making. It is important to identify investors' biases and to create rules to avoid them in order to prevent potentially incorrect decisions in volatile times. Behavioural biases may result in irrational financial decisions caused by faulty cognitive reasoning or influenced by feelings. There are two types of behavioural biases - cognitive errors and emotional biases.

The 2015 edition of the CFA Level III defines cognitive errors are statistical, information-processing or memory errors that will cause us to make decisions that are not rational. We experience mental conflicts between the new information and our existing beliefs and therefore we battle to make the right decisions. If we educate ourselves and our clients we can make more informed decisions. Emotional biases are more spontaneous, and stem from impulses or intuition, as a result of attitudes and feelings that can cause us to make irrational decisions and are very difficult to correct or to control.

How does sentiment (positive or negative) affect the investment strategies of investors?

Any investor wants to maximise gains and minimise losses. This is a very challenging process and also not very logical. As investors we need to understand the cycle of our own emotions and how it will impact on our decisions, so that we can act emotionally intelligent when making decisions about our investment strategies. Emotional decision-making can lead to poor investment performance.

Markets move in cycles and investor sentiment also follows a cycle that will normally repeat itself every seven years. Our own emotions will evolve as we progress along this cycle and also the decisions that we make. We need to understand this cycle of emotions and that it can actually help us to generate higher returns by investing when everyone else is fearful. Investors need to understand how to plan their investment strategies taking this emotional cycle into account to maximise returns over the long term.

It is said that even small tweaks in your behaviour can cause significant changes to your financial well-being. Can you explain some of these tweaks?

For the normal investor:

- The investor needs to understand his own limitations and emotions, in order to make more financially intelligent decisions and not to overreact in certain situations. Self-control is critical to changing human-behaviour.
- Learning is a key indicator and it is important to always assess your own past money mistakes and also learn from the mistakes of other people. Decide on your dreams and goals, and implement a proper plan with a financial coach to assist you during the process. At times we need people to assist us with keeping our financial goals on track.

For the financial planners:

- Provide your clients with financial education, in order for them to understand how their current behaviours are sabotaging their own financial success and well-being.
- Keep clients accountable for their decision-making and explain the impact of irrational decision-making and what you can observe from their current behaviour.

Habits, which form behaviours, can be very difficult to change. Some studies have suggested that it can take as long as two months before a new behaviour becomes a habit. What tips do you have for financial planners in this regard – how can they implement small daily/weekly changes to improve their interactions with investors, especially during times of volatility?

It is important for financial advisers and for clients to focus on self-control in times of volatility. Self-control is the key to success in most things in life. We need to share with clients how they need to manage their emotions. It can become very challenging for both advisers and clients to manage their emotions, but we need to make clients more aware of this. It is possible to change habits if people understand the impact of making emotional decisions.

The monthly interview

It is better to learn the right behaviours from a very early age and to increase our own emotional intelligence. We need to celebrate the smallest achievements, when we exercise self-control in our own life.

There is an old saying that states: "Good things come to those who wait." This is very similar to the difference between instant and delayed gratification. If you wait, are more patient and exercise self-control you will appreciate it more, when it arrives.

The Budget Speech will be delivered today (22 February) – do investors need to concern themselves with volatility caused by sovereign risk when it comes to their investment strategy?

Investors need to review their investment strategy on a regular basis, taking current market and economic risks into consideration. I think what we've seen over the years is that smart investors spread their risks through diversification. Portfolio diversification is widely accepted as an effective strategy for businesses and households to reduce the risk of an investment during a financial crisis. What we've seen in the market is that local businesses also start to diversify their risks by partnering with international businesses. International diversification is therefore also recommended for the individual investor, taking into account the risks, but also the potential long-term stability.

How will you summarise your advice for financial advisers?

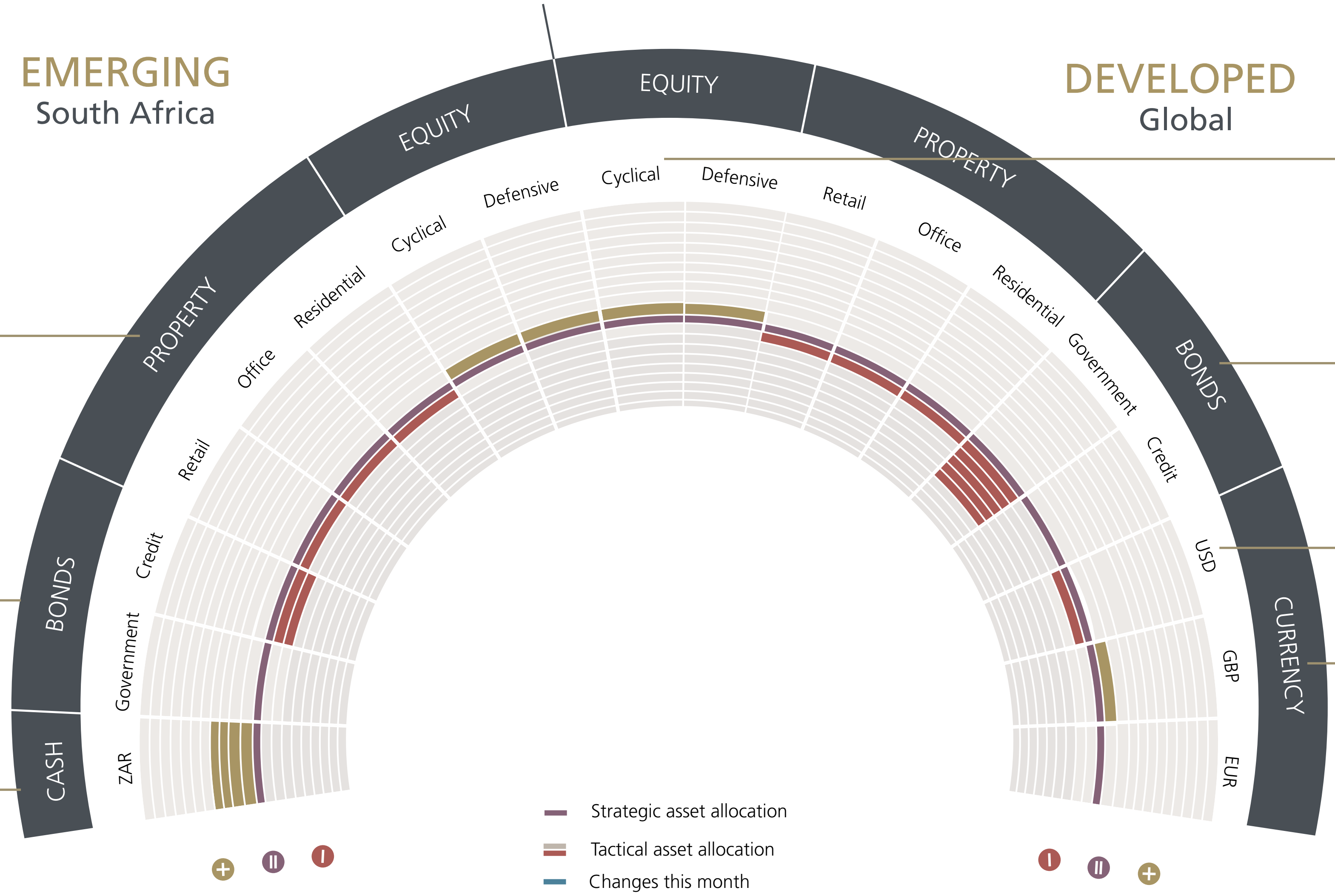
Advisers need to question the traditional way of providing advice to clients and must understand the individual they are dealing with. Financial advisers also need to understand themselves, and the way they make money decisions, much better as this will have a direct impact on the recommendations they make to their clients. Some advisers will subconsciously take more risks compared to another adviser. This can impact on the outcome of a client's financial planning and investment strategies.

Tactical 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.

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.

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. They are attractively priced in some sectors.

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 dollar has strengthened considerably in the past few months.

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

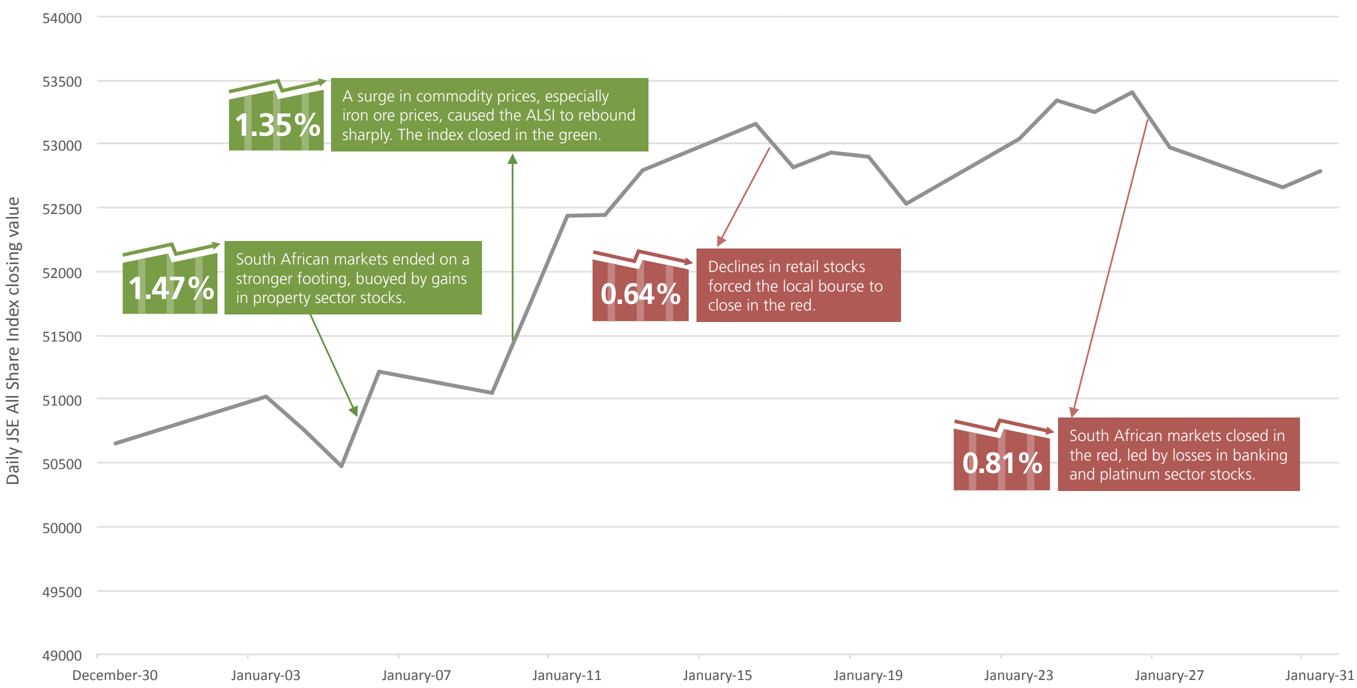
Bottom line

- Our assessment shows that domestic equity is now roughly 37.6% overvalued relative to its historic yield. Some pockets of the market are expensive and investors should expect continued volatility at current levels. That being said, skilled stock pickers should be able to find value in selected shares.
- Domestic listed property is overvalued by 20% 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, domestic bonds are, in general, also overvalued by more than 24% 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 overvalued (21.1%) 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.

Market commentary

President Donald Trump's inauguration as US president and a general sense of stronger economic growth, positively influenced markets in January 2017. The MSCI World Index (USD) delivered a return of 2.35% for the month and the JP Morgan Global Bond Index (USD) delivered a return of 0.09%. The FTSE/JSE All Share Index (ALSI) gained 4.31% for the month, while the All Bond Index (ALBI) returned 1.33% and cash 0.63%.

JSE All Share index - January 2017



Source: Bloomberg

Domestic key moves

The South African Reserve Bank left its benchmark repo rate on hold at 7% at its January 2017 meeting. SARB said the near-term outlook for inflation has deteriorated and growth remains weak. Policymakers raised inflation forecasts for 2017 to 6.2% from 5.8% due to higher international oil, domestic fuel and food prices that more than offset the more favourable exchange rate assumption.

South Africa posted a trade surplus of R12.04bn in December 2016, compared to an upwardly revised R1.68bn deficit in November. This was well above market forecasts of a R6bn surplus. Imports slumped 19.6%, mainly due to lower purchases of original equipment components, machinery and electronics.

Consumer prices rose 6.8% y/y in December 2016, following a 6.6% increase in November. It was the highest inflation rate since February 2016 as cost increased at a faster pace for food, non-alcoholic beverages, housing and utilities.

Market commentary

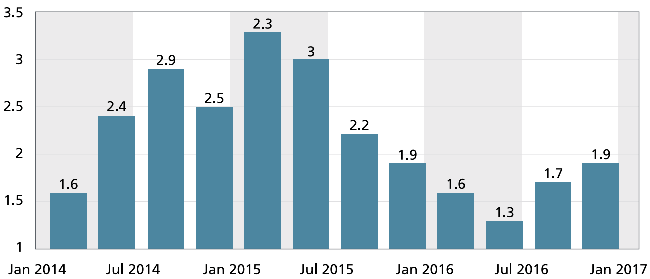
Global key moves

US

98.5 The final reading of the University of Michigan's consumer sentiment for the United States rose to 98.5 in January 2017, compared to a figure of 98.2 in December. It is the highest reading since January 2004, due to a more optimistic outlook for the economy and job growth during the year ahead, as well as more favorable economic prospects over the next five years.

1.9% US GDP growth slowed to 1.9% in the last quarter of 2016, below expectations of 2.2%. Exports slumped reversing the impact from the surge in soybean shipments in the third quarter and consumer spending slowed while investment jumped, boosted by equipment and home building. In 2016, the GDP expanded 1.6%, the lowest since 2011.

GDP growth in the US since January 2014



Source: Trading Economics

UK

2.2% The UK economy grew 2.2% y/y in the last quarter of 2016. Total production increased further, boosted by manufacturing and utilities while services and construction advanced at a slower pace. Looking at 2016 as a whole, growth slowed modestly to 2% from 2.2% in 2015 and 3.1% in 2014.

4.8% The British unemployment rate steadied at an 11-year low of 4.8% in the three months to November 2016. This was the same as in the previous period and in line with market expectations.

EU

0.5% The Eurozone economy advanced by 0.5% q/q in the three months to December 2016, better than market expectations of a 0.4% expansion. Among countries for which data is already available, GDP growth picked up in France, Belgium, Latvia and Lithuania and was unchanged in Spain and Austria.

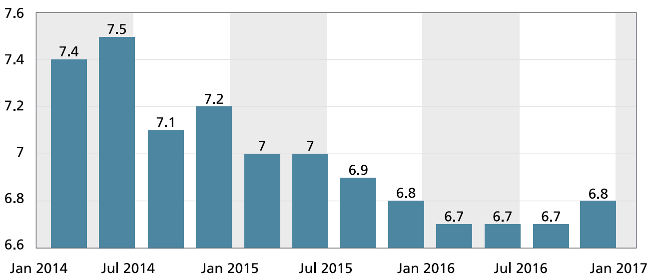
9.6% The unemployment rate in the Eurozone declined to 9.6% in December 2016, from a downwardly revised 9.7% in November and below market expectations of 9.8%. It is the lowest unemployment rate since May 2009. A year earlier, it was higher at 10.5%.

1.8% Inflation in the Eurozone are expected to increase 1.8% y/y in January 2017, following a 1.1% rise in December and beating market expectations of 1.6%. Preliminary estimated showed it is the highest inflation rate since February 2013, boosted by fuel prices. Excluding energy, food, alcohol and tobacco, core inflation is expected to remain steady at 0.9%.

China

6.7% The Chinese economy expanded by 6.7% in 2016, lower than the 6.9% growth in 2015. It was the weakest full-year expansion since 1990, but within the government's target range of 6.5% to 7%, as investment and consumption growth softened.

The Chinese GDP annual growth rate since January 2014



Source: Trading Economics

$40.8 bn China reported a $40.82bn trade surplus in December 2016, compared to a $59.63bn surplus a year earlier and below market consensus of a $46.5bn surplus. It was the smallest surplus since April, as exports fell while imports rose.

Japan

0.3% Inflation in Japan increased by 0.3% y/y in December 2016, easing from a 0.5% rise in November, but above market expectations of 0.2%. Prices rose less for food and continued to fall for housing, utilities and transport. The core index which excludes fresh food edged down 0.2%, the least in ten months.

3.1% The seasonally adjusted jobless rate in Japan was unchanged at 3.1% in December 2016, compared to the previous month and in line with market expectations. The jobs-to-applicants ratio increased to 1.43% from 1.41%, hitting a new high since July 1991, and above market estimates of 1.42%.

PSG Wealth Fund of Funds Solutions

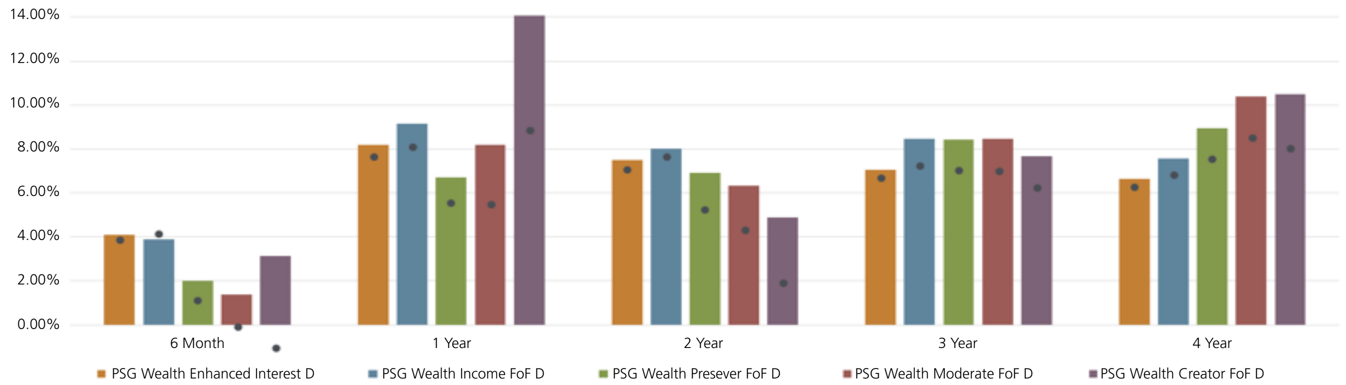
Local funds

Performance table

PSG Wealth Solutions						
Fund	6 Month	1 Year	2 Year	3 Year	4 Year	5 Year
PSG Wealth Enhanced Interest D	4.10%	8.17%	7.50%	7.04%	6.65%	6.45%
PSG Wealth Income FoF D	3.90%	9.15%	8.00%	8.46%	7.57%	7.94%
PSG Wealth Preserver FoF D	2.01%	6.69%	6.92%	8.43%	8.96%	10.51%
PSG Wealth Moderate FoF D	1.38%	8.17%	6.31%	8.47%	10.39%	12.50%
PSG Wealth Creator FoF D	3.14%	14.07%	4.89%	7.66%	10.48%	12.65%

Source: PSG Wealth research team

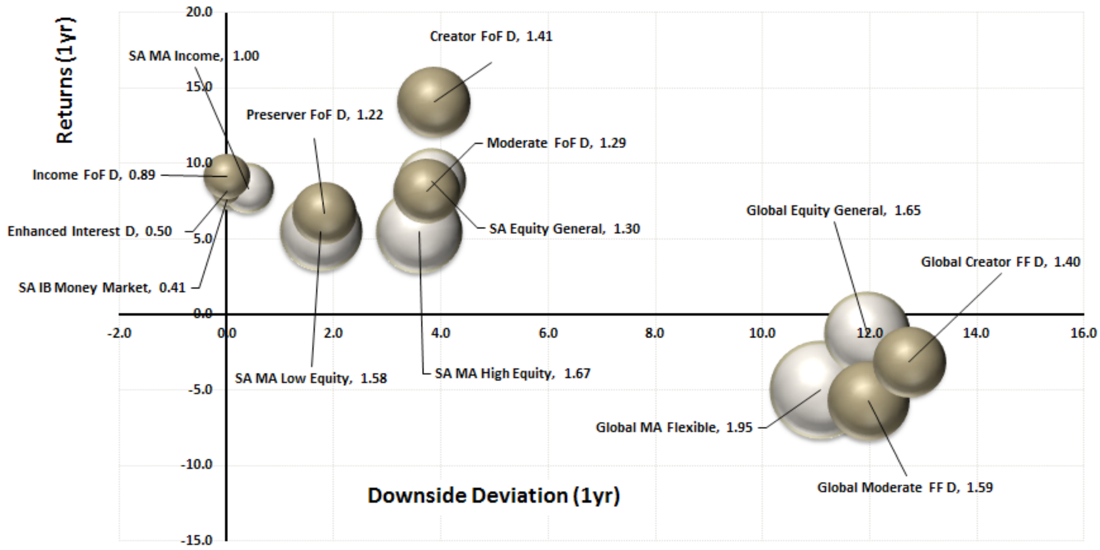
Domestic funds performance



Source: PSG Wealth research team data as at 31 January 2017

*Dots represent the relevant benchmark

PSG Wealth Local Fund of Funds



Source: PSG Wealth research team

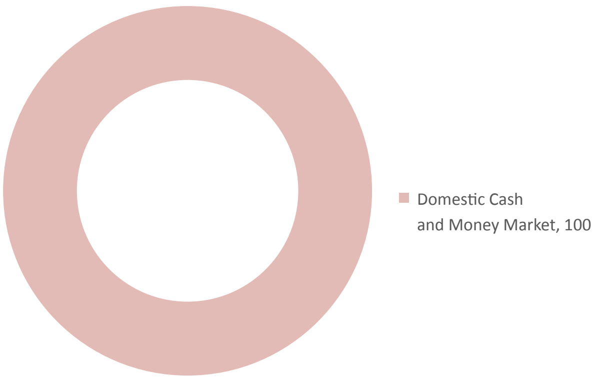
HOW TO READ THE BUBBLE CHARTS			
Vertical axis	shows the return of each fund	**Size of the bubble**	shows TER which is an indication of cost
Horizontal axis	shows the downside deviation which is a measure of downside risk that focuses on returns that fall below a minimum threshold or minimum acceptable return (MAR)	**Grey bubbles**	indicate fund peers
		Gold bubbles	represent PSG Wealth solutions

PSG Wealth Fund of Funds Solutions

PSG Wealth Enhanced Interest Fund

- The PSG Wealth Enhanced Interest Fund delivered a return of 0.69% for January, compared to the 0.63% of its benchmark, the South Africa IB Money Market Sector Average.
- This fund has an investment horizon of one-year, and the fund has outperformed its benchmark comfortably over any one-year period.
- The fund again outperformed the benchmark over all measurement periods over four years and less. The fund has also delivered first quartile performances, compared to money market funds, consistently over all measurement periods.

Asset allocation



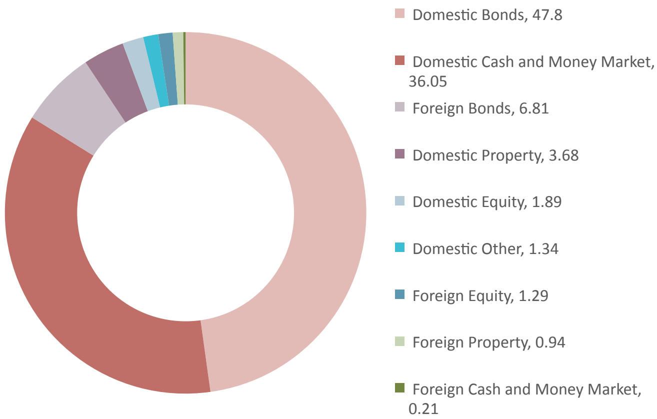
Source: PSG Wealth research team

Risk and expectations: We are confident the fund will continue to deliver returns in excess of money market rates in order to offset the negative effects of high inflation on cash.
Radar: No funds on the radar screen.
Changes: No changes to underlying funds.

PSG Wealth Income FoF

- The PSG Wealth Income FoF delivered a return of 0.86% for January, compared to the 0.71% of its benchmark, the STeFi 12 Months NCD.
- It also outperformed the benchmark as well as the South African MA Income Sector Average over all measurement periods of seven years and less. This FoF has outperformed its benchmark comfortably over any two-year period.
- The FoF has delivered first quartile performances over all measurement periods of one year and longer.

Asset allocation



Source: PSG Wealth research team

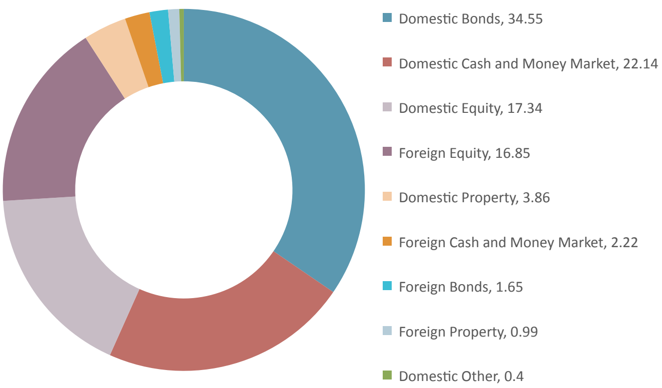
Risk and expectations: We expected recent higher inflation and rising interest rates may have been a drag on performance over the short term, but current indications are that the underlying portfolio managers were able to take advantage of the higher yields on short-term instruments to deliver attractive returns close to the top of the inflation cycle. We are confident that the underlying portfolio managers will continue to deliver attractive above-average returns until well after the interest rate cycle has peaked.
Radar: No funds on the radar screen.
Changes: No changes to underlying funds.

PSG Wealth Fund of Funds Solutions

PSG Wealth Preserver FoF

- The PSG Wealth Preserver FoF delivered a return of 1.0% for January, outperforming the 0.6% of its performance target of CPI plus 3%.
- The FoF outperformed its performance target over the one-month and three-month periods, as well as all measurement period longer than three years. It underperformed the performance target over the six-month, one-year, two-year and three-year periods.
- The return of the PSG Wealth Preserver FoF for January 2017, however, is in line with the 1.0% of the South African MA Low Equity Sector Average.

Asset allocation



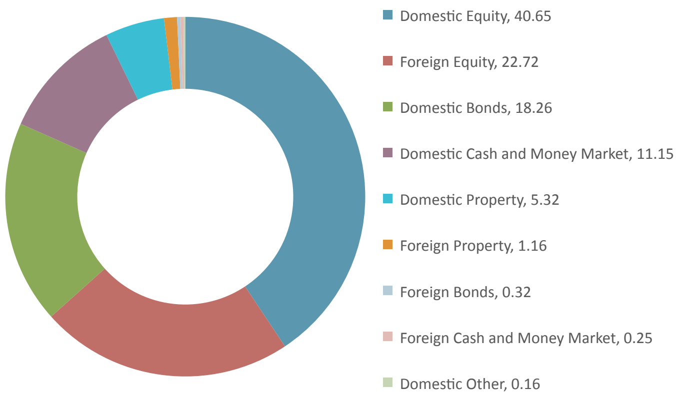
Source: PSG Wealth research team

Risk and expectations: The PSG Wealth Preserver FoF may hold up to a total of 40% in domestic- and offshore equities, and may deliver negative short-term performances in sharp equity corrections or equity bear markets. However, we are confident that the fund will continue to outperform its benchmark over the preferred investment period of three years and longer, and that it will protect the capital of clients during severe market corrections.
Radar: Investec Cautious Managed Fund was removed from the radar screen.
Changes: No changes to underlying funds.

PSG Wealth Moderate FoF

- The PSG Wealth Moderate FoF delivered a return of 1.6% for January, just underperforming its benchmark, the South African MA High Equity Sector Average, which delivered 1.7%.
- The FoF has an investment horison of five years, and it outperformed its benchmark comfortably over any five-year period. It also outperformed the sector average over all measurement periods of three months and longer.
- The FoF has delivered first quartile performances over all measurement periods of three months and longer.

Asset allocation



Source: PSG Wealth research team

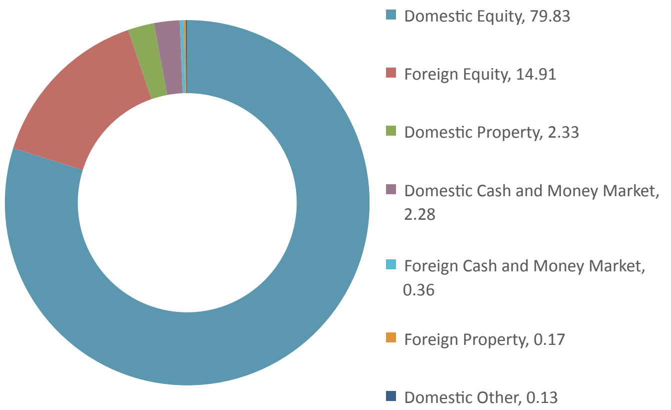
Risk and expectations: The PSG Wealth Moderate FoF may hold up to 75% in domestic- and offshore equities, which could lead to short-term negative performances in sharp equity corrections or equity bear markets. We are, however, confident that the fund will always deliver positive returns over the preferred investment period of five years and longer. We are of the opinion that it will continue to deliver above-average long-term returns with below average risk over various market cycles.
Radar: No funds on the radar screen.
Changes: No changes to underlying funds

PSG Wealth Fund of Funds Solutions

PSG Wealth Creator FoF

- The PSG Wealth Creator FoF delivered a return of 2.7% for January, compared to the 2.2% of its benchmark, the South African EQ General Sector Average.
- This FoF has an investment horison of five years and longer, and the fund has outperformed its benchmark over any period of five years and longer.
- The FoF delivered first quartile performances for the three-month, six-month, one-year and two-year periods, as well as second quartile performances for all measurement periods of three years and longer.

Asset allocation



Source: PSG Wealth research team

Risk and expectations: Although the outlook for equities has deteriorated due to higher valuations and weaker earnings growth, we are confident that the relative performance of the underlying managers in the fund will continue to improve in the near future. The managers are all active managers that have demonstrated the ability to add alpha through careful stock selection, particularly during turbulent equity markets. The PSG Creator FoF will always maintain an equity exposure of close to 100% in domestic- and offshore equities, and may deliver negative short-term performances in sharp equity corrections or equity bear markets. We are, however, confident that the fund will always deliver positive returns over the preferred investment period of five years and longer, and that it will continue to deliver above-average long-term returns with below-average risk over all market cycles.

Radar: The Old Mutual Investors Fund was removed from the radar screen.

Changes: No changes to underlying funds.

PSG Wealth Fund of Funds Solutions

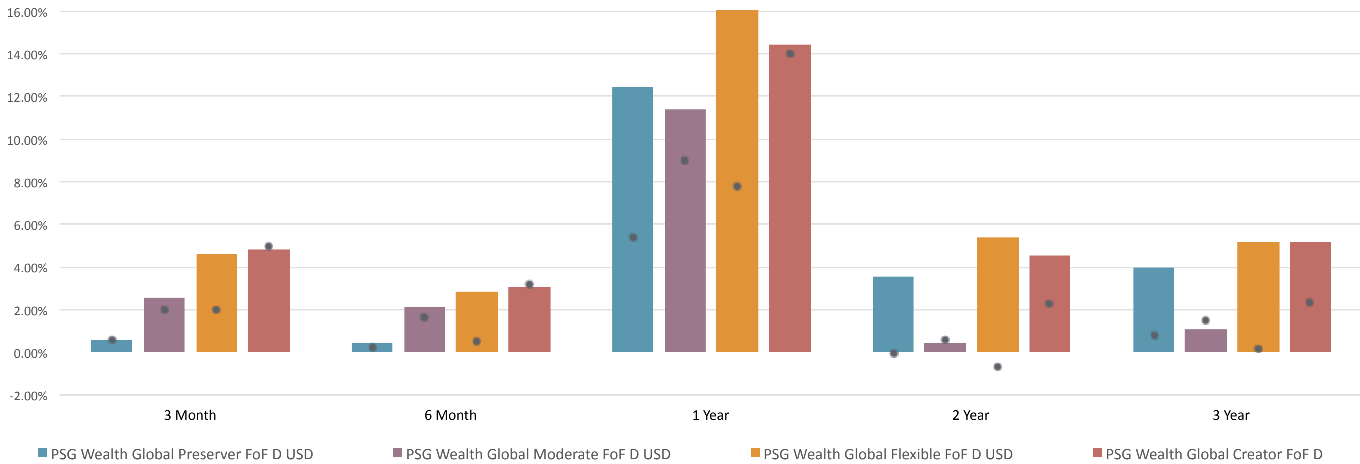
Offshore funds

Performance table

PSG Wealth Solutions - Offshore (Reported in USD)						
Fund	6 Month	1 Year	2 Year	3 Year	4 Year	5 Year
PSG Wealth Global Preserver FoF D USD	0.46%	12.47%	3.53%	3.95%	3.56%	4.04%
PSG Wealth Global Moderate FoF D USD	2.12%	11.40%	0.44%	1.07%	2.91%	N/A
PSG Wealth Global Flexible FoF D USD	2.86%	16.03%	5.36%	5.16%	6.38%	7.40%
PSG Wealth Global Creator FoF D	3.08%	14.44%	4.56%	5.15%	6.71%	N/A
PSG Wealth Solutions - Offshore (Reported in GBP)						
Fund	6 Month	1 Year	2 Year	3 Year	4 Year	5 Year
PSG Wealth Global Preserver FoF D GBP	3.61%	22.08%	9.86%	10.24%	8.20%	8.25%
PSG Wealth Global Flexible FoF D GBP	7.27%	30.28%	12.99%	14.19%	11.69%	11.82%

Source: PSG Wealth research team

Offshore funds performance



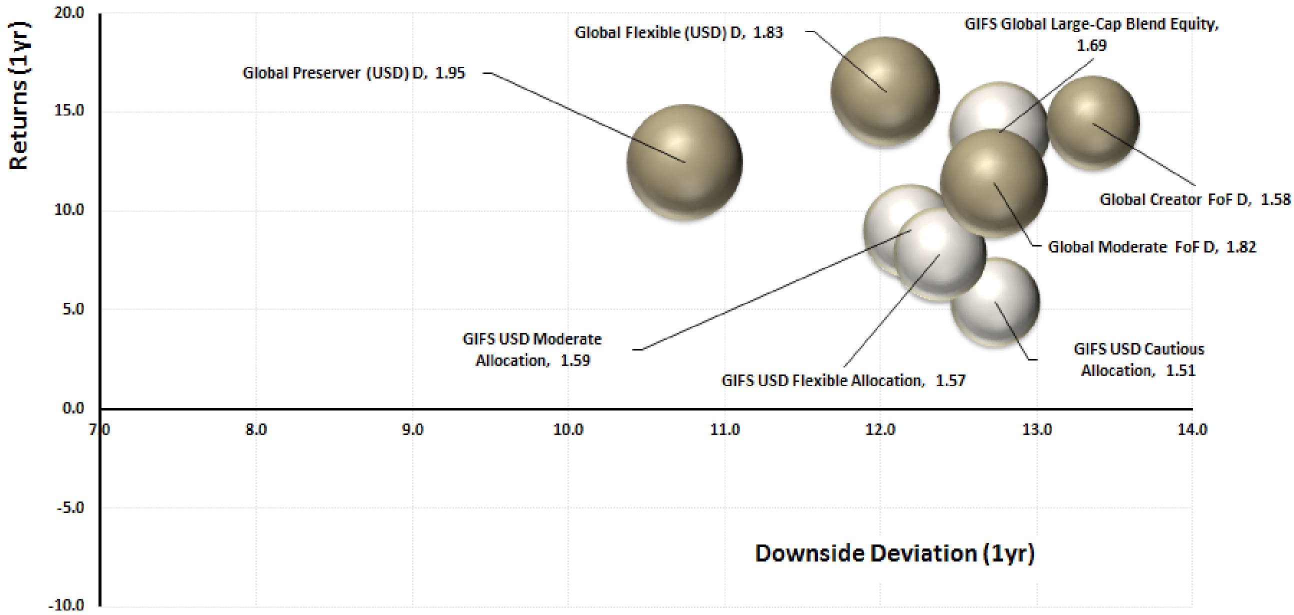
Source: PSG Wealth research team data as at 31 January 2017.

*Dots represent the relevant benchmark

All performance is reported in USD unless specified otherwise.

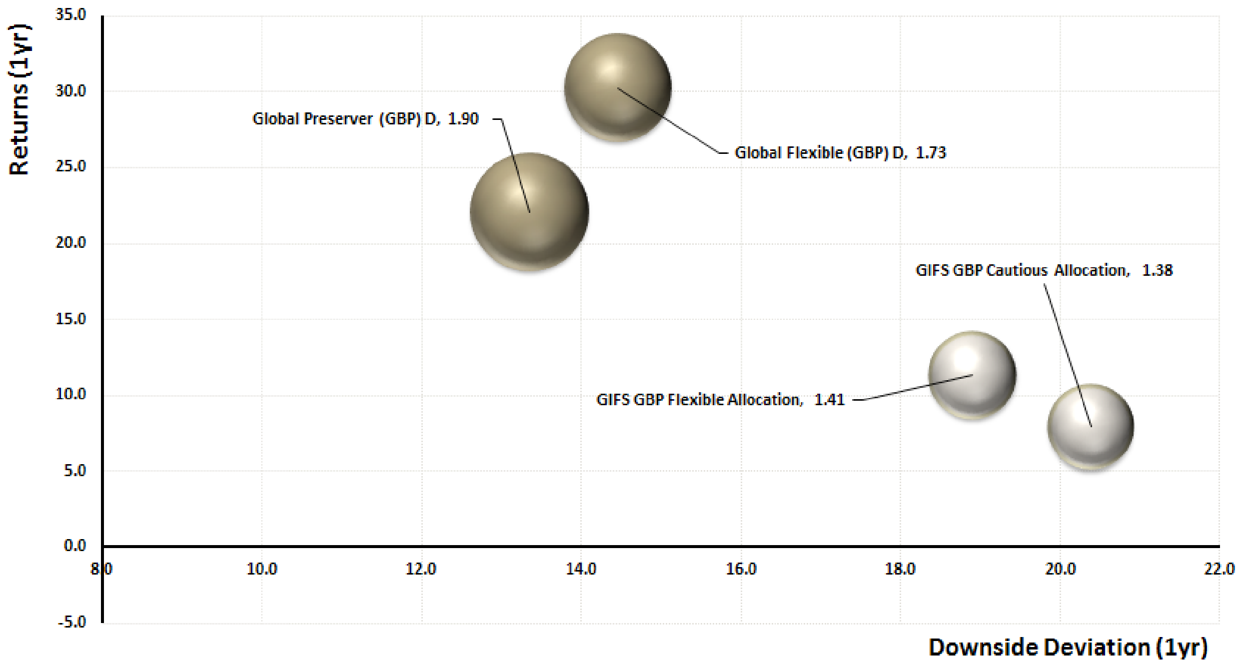
PSG Wealth Fund of Funds Solutions

PSG Wealth Offshore Fund of Funds (USD)



Source: PSG Wealth research team

PSG Wealth Offshore Fund of Funds (GBP)



Source: PSG Wealth research team

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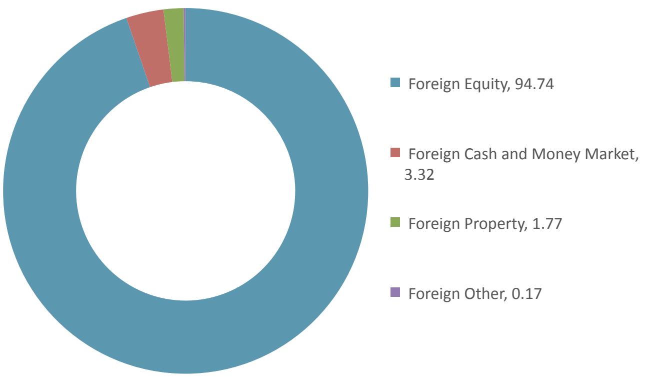
All performance is reported in USD unless specified otherwise.

PSG Wealth Fund of Funds Solutions

PSG Wealth Global Creator Fund of Funds (USD)

- The PSG Wealth Global Creator FoF returned 2.82% for January, matching the benchmark GIFS Global Large-Cap Blend equity sector average which also delivered 2.82%.
- The FoF outperformed the MSCI World index and ASISA Global Equity sector average which returned 2.41% and 1.99% respectively.
- The PSG Wealth Global Creator FoF is ranked in the second quartile of global equity funds since its inception in December 2012 and in the first quartile over the three year period ending 31 January 2017.

Asset allocation



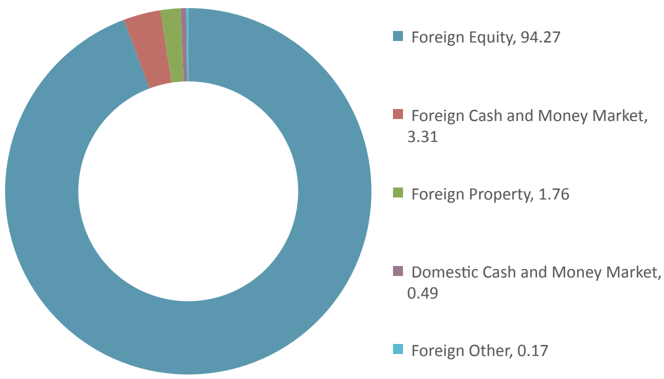
Source: PSG Wealth research team

Risk: Most of our underlying managers remain relatively defensively positioned, with a preference for quality stocks with very strong balance sheets, strong moats and steady earnings' outlooks. Given the high allocation to quality large caps, mostly in developed markets, we expect to underperform global markets when sentiment is very positive and relatively risky assets, such as emerging market equities, perform strong (risk-on trade).
Expectation: We are confident that our underlying managers will adjust the positioning of their portfolios (including exposure to emerging markets and more value focus sectors) 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.
Radar: The Goldman Sachs Global Equity Partners Fund remains on the quantitative radar.
Changes: No changes made to underlying funds.

PSG Wealth Global Creator Feeder Fund (ZAR)

- The PSG Wealth Global Creator FF D delivered a return of 0.58% for January in rand terms, underperforming the global sector average which returned 1.35%. The rand strengthened by approximately 1.93% against the US dollar over January, thus decreasing global portfolio returns reported in ZAR.
- The PSG Wealth Global Creator FF D delivered top quartile returns since inception.

Asset allocation



Source: PSG Wealth research team

Risk and expectation: We expect the rand to strengthen in the short term, which could result in depressed ZAR returns for our global funds. However, over longer periods (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.

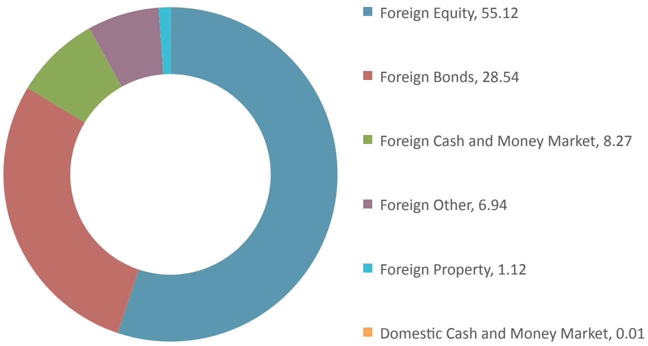
All performance is reported in USD unless specified otherwise.

PSG Wealth Fund of Funds Solutions

PSG Wealth Global Moderate FoF (USD)

- The PSG Wealth Global Moderate FoF returned 1.51% for January, outperforming the GIFS USD Moderate Allocation sector average, which delivered 1.25% and the ASISA Global Multi Asset Flexible sector which returned 1.30%.
- Since its inception, the PSG Wealth Global Moderate FoF D has consistently outperformed the sector average, delivering over 2% in alpha per annum.
- In their monthly market review, Schroders notes that in the Eurozone, macro-economic data was encouraging, but most equities posted negative returns in base currencies. The MSCI Emerging Markets Index recorded a strong gain, supported by a weakness in the US dollar. Regional bond markets diverged in January - an expected theme for 2017. A steady and stable US Treasuries market contrasted with higher yields in Europe, where a combination of political developments and another jump in Eurozone inflation which drove bonds.

Asset allocation



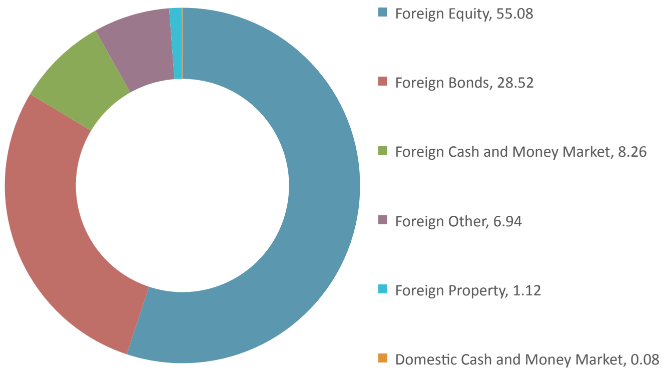
Source: PSG Wealth research team

Risk: The portfolio is very defensively positioned with a developed market overweight. Performance will likely be muted during periods of positive market sentiment when risky assets such as emerging markets outperform. The portfolio currently has 28.5% in bonds which could be negatively impacted by any unexpected interest rate increases.
Expectation: We expect volatility to remain high in the short term with fluctuating market sentiment in global equity markets. 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. Interest rate risks are actively managed by our underlying managers, with most positioned on the shorter end of the yield curve.
Radar: No funds currently on quantitative radar.
Changes: No changes made to underlying funds.

PSG Wealth Global Moderate Feeder Fund (ZAR)

- The PSG Wealth Global Moderate FF D delivered a return of -0.71% in rand terms for January, underperforming the GIFS USD Moderate allocation sector average which delivered -0.19%.
- The rand strengthened by approximately 1.93% against the US dollar over January, thus decreasing global portfolio returns reported in ZAR.
- The PSG Wealth Global Moderate FF D delivered top quartile returns since its inception.

Asset allocation



Source: PSG Wealth research team

Risk and expectation: We expect the rand to strengthen in the short term, which could result in depressed ZAR returns for our global funds. However, over longer periods (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.

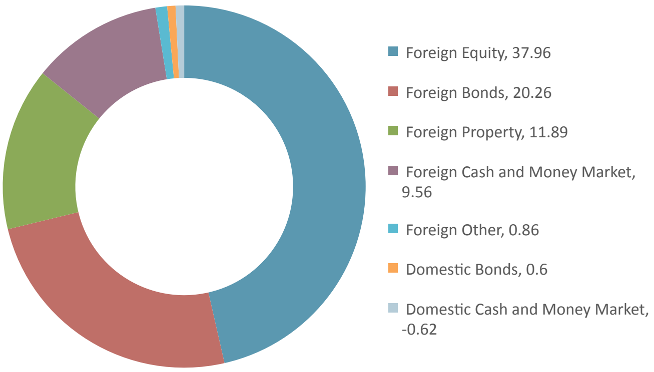
All performance is reported in USD unless specified otherwise.

PSG Wealth Fund of Funds Solutions

PSG Wealth Global Preserver FoF (USD)

- The PSG Wealth Global Preserver FoF USD returned 0.58% for January underperforming the benchmark GIFS USD Cautious allocation sector average, which delivered 0.82%.
- The PSG Wealth Global Preserver FoF USD ranked in the top quartile of its global sector over all periods from one year to since its inception. It also ranked first out of 58 funds over the last five years.
- The FoF delivered a 1.55% return per annum above the benchmark sector average since its inception.

Asset allocation



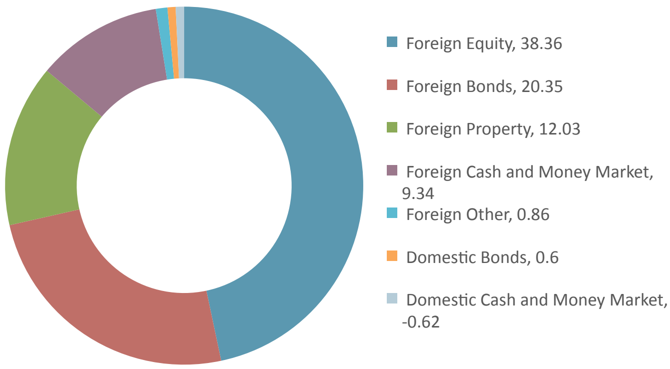
Source: PSG Wealth research team

Risk and expectation: Rising global interest rates could result in capital losses on the fixed interest and property portions of the portfolio. However the portfolio has sufficient diversification through its overweight allocation to equities to protect the portfolio in the event of any unexpected interest rate increases.
Radar: The Sarasin Global Real Estate and First State Listed Infrastructure funds are on the qualitative radar.
Changes: No changes made to underlying funds.

PSG Wealth Global Preserver FoF (GBP)

- The PSG Wealth Global Preserver FoF GBP returned -0.43% for January in GBP, underperforming the benchmark GIFS GBP Cautious allocation sector average which delivered 0.15%.
- The PSG Wealth Global Preserver FoF GBP ranked in the top quartile of its global sector over all periods from six months to since its inception. It also ranked third out of 105 funds over the last five years.
- The FoF has delivered a 2.29% return per annum above the benchmark sector average since its inception.

Asset allocation



Source: PSG Wealth research team

Risk and expectation: Rising global interest rates could result in capital losses on the fixed interest portion of the portfolio. However the portfolio has sufficient diversification through its overweight allocation to equities to protect the portfolio in the event of any unexpected interest rate increases.
Radar: The Sarasin Global Real Estate and First State Listed Infrastructure funds are on the qualitative radar.
Changes: No changes made to underlying funds.

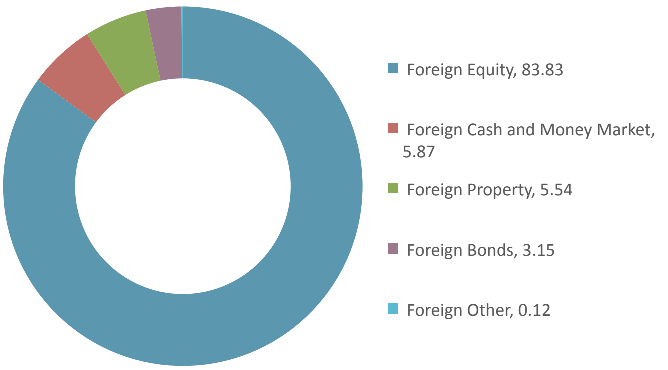
All performance is reported in USD unless specified otherwise.

PSG Wealth Fund of Funds Solutions

PSG Wealth Global Flexible FoF (USD)

- The PSG Wealth Global Flexible FoF USD returned 2.79% for January significantly outperforming the benchmark GIFS USD Flexible allocation sector average which delivered 1.36%.
- The PSG Wealth Global Flexible FoF USD ranked in the top quartile of its global sector over all periods from one month to since its inception.
- The fund is ranked fourth out of 47 funds over the last five years. The FoF has delivered a 5.6% return per annum above the benchmark sector average since inception.

Asset allocation



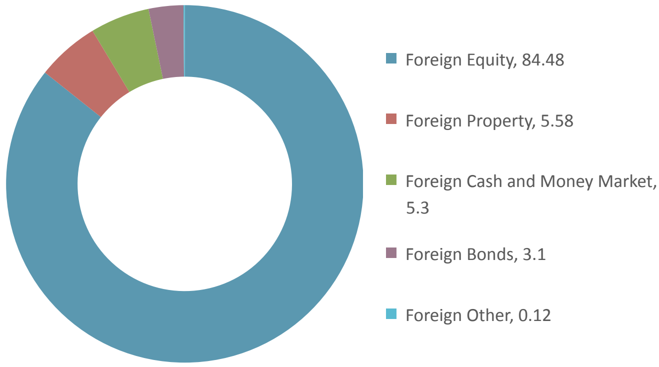
Source: PSG Wealth research team

Risk and expectation: The portfolio currently has an equity allocation of 83.8% which is above the average in the global flexible sector. As such the portfolio will likely underperform should there be a significant correction in global equity markets. We expect volatility to remain high in the short term with fluctuating market sentiment in global equity markets. However we are confident that our underlying managers will adjust the positioning of their portfolios as they find opportunities that offer good returns relative to the risk taken.
Radar: No funds on the quantitative or qualitative radar.
Changes: No changes made to underlying funds.

PSG Wealth Global Flexible FoF (GBP)

- The PSG Wealth Global Flexible FoF GBP returned 1.17% in GBP for January, outperforming the benchmark GIFS GBP Flexible allocation sector average which delivered 0.38%.
- The PSG Wealth Global Flexible FoF GBP ranked in the top quartile of its global sector over all periods from 12 months to since its inception. It also ranked 15th out of 170 funds over the past five years.
- The FoF delivered a 7.4% return per annum above the benchmark sector average since its inception.

Asset allocation



Source: PSG Wealth research team

Risk and expectation: The portfolio currently has an equity allocation of about 84.5% which is above the average in the global flexible sector. The portfolio will likely underperform should there be a significant correction in global equity markets. We expect volatility to remain high in the short term with fluctuating market sentiment in global equity markets. However we are confident that our underlying managers will adjust the positioning of their portfolios as they find opportunities that offer good returns relative to the risk taken.
Radar: No funds on the quantitative or qualitative radar.
Changes: No changes made to underlying funds.

All performance is reported in USD unless specified otherwise.

PSG Wealth Equity Portfolios

Performance table

PSG Wealth Equity portfolios					
Fund	1 Month	3 Month	6 Month	12 Month	Since Inception
PSG Wealth SA Equity Portfolio	3.17%	5.24%	4.85%	16.19%	14.57%
PSG Wealth SA Property Portfolio	0.08%	1.88%	-3.56%	1.01%	-7.34%
PSG Wealth Offshore Equity Portfolio (USD)	1.24%	2.63%	-0.79%	7.71%	8.01%
PSG Wealth SA Dividend Income Equity Portfolio	1.34%	4.46%	3.80%	N/A	0.07%
PSG Wealth Managed Volatility Equity Portfolio	2.60%	1.98%	0.96%	N/A	0.48%

Source: PSG Wealth research team

Overview of equity portfolios

PSG Wealth SA Equity Portfolio
Appropriate for investors seeking real returns in capital that exceed the local equity market returns, but who are comfortable with the capital fluctuations that characterizes an investment of this type.

PSG Wealth SA Managed Volatility Equity
Tailored for investors who require a smoother path to long-term returns by reducing downside risk while maintaining full exposure to the equity risk premium in the long run. Benefits of this strategy should be more pronounced during periods of heightened volatility.

PSG Wealth Offshore Equity Portfolio
Appropriate or investors seeking real returns in capital that exceed the international benchmark returns.

PSG Wealth SA Dividend Income Equity Portfolio
Suitable to the investor that requires a regular and growing stream of income derived from dividends with the potential of a real growth in capital value.

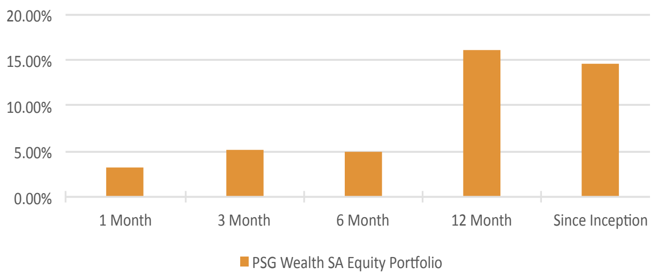
PSG Wealth SA Property Equity Portfolio
For the more risk adverse investor who requires a regular income with a high degree of capital stability.

PSG Wealth Equity Portfolios

PSG Wealth SA Equity Portfolio

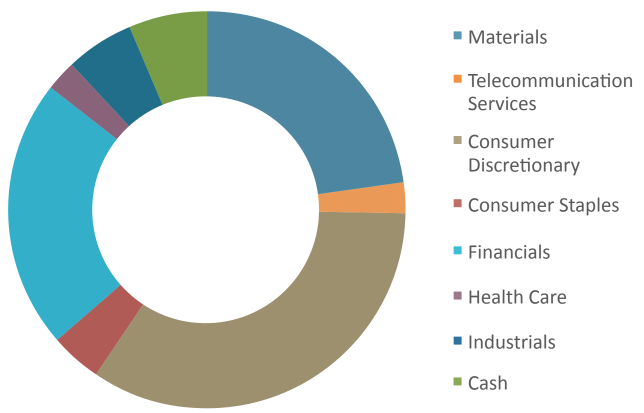
- The PSG Wealth SA Equity Portfolio underperformed its benchmark in January. The portfolio returned 3.17%, while the FTSE/JSE Capped All Share TR (net of fees) ended the month 4.09% higher.
- Since its inception the fund has outperformed its benchmark.

Performance since inception



Source: PSG Wealth research team data as on 31 January 2017
*Inception date: 30 August 2015

Asset allocation



Source: PSG Wealth research team

Expectations:

- Equity market returns in line with its long-term average.
- With multiples in line with their long averages we expect returns to materialise primarily through growth in earnings and not through a material change in valuation multiples.
- We see value in the general retail sector and to a lesser extent in the general financial sector.
- We remain underweight food and drug retailers which we feel are fully priced.
- The portfolio is weighted towards domestic value investments and offshore growth stocks.
- Selected large rand hedges hold value on a relative valuation basis.
- Exchange rate movements will remain a dominant driver of short-term equity market returns.
- Ongoing political and policy uncertainty will continue to create volatility.
- Given the diversification of the portfolio and its quality investments, we believe its performance should not be fundamentally dependent on exchange rate movements.
- Global investment markets are expected to remain volatile given the difficulty to forecast macro-variables.
- Our focus will remain on the underlying fundamentals of the individual companies rather, than on broad macro issues.
- The cash portion in the portfolio will be drawn upon should broad macro issues create attractive investment opportunities.

Risk:

- Changes in the perception of sovereign risk (positive and negative) and its flow through to exchange rates and interest rates, can have an impact on portfolio values.
- Unsustainable central bank support to developed economies creates artificial demand for high yielding emerging market securities. Should foreign capital inflows from these markets come to an abrupt end, it will have an adverse impact on market valuations.
- The portfolio is likely to underperform should international monetary easing prove sustainable. An environment of sustained monetary easing should support 'bond-proxy stocks' to which the portfolio is under exposed to due to valuation concerns. This could lead to portfolio underperformance.
- Overestimating growth and operational improvements in highly-rated international counters.

PSG Wealth Equity Portfolios

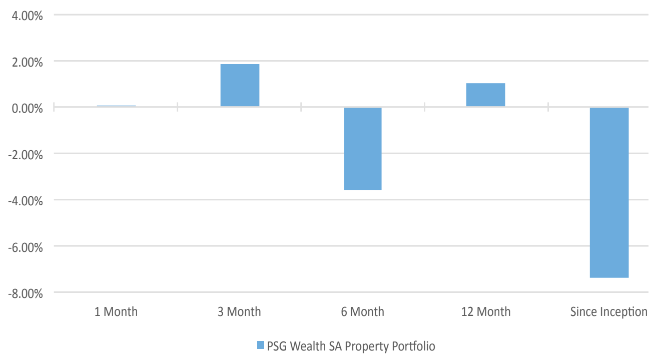
PSG Wealth SA Property Portfolio

- The PSG Wealth SA Property Equity Portfolio gained 0.08% for the month, which was behind the benchmark return. The FTSE/JSE SA Listed Property Capped TR (net of fees) rose 0.30%.
- This fund outperformed its benchmark over three months and since inception.

Expectations:
- There is generally an oversupply of office space. New local developments could lead to a higher supply while demand is weak.
- Demand for vacant space will remain muted, placing further pressure on rentals. Weak economic growth might result in higher vacancy profiles and rental reversions.
- Improving tenant retention rates have come at the expense of lower escalations.
- Capital market changes generally dominate short-term returns.

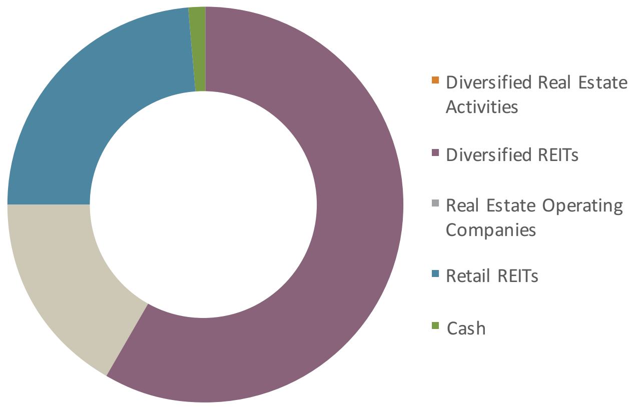
Risk:
- Weaker-than-expected growth could erode dividends underpinning the current valuations.
- Low global bond yields have aided valuations – a reversal of this trend and tighter US monetary policy could impact valuations.
- Changes in sovereign risk (positive and negative) and its flow through to capital markets can have a significant impact on valuations.
- Value-destructive acquisitions, especially in offshore territories where management has less experience, could impact the portfolio.
- Liquidity risk which could lead to the inability to sell underperforming assets quickly.

Performance since inception



Source: PSG Wealth research team data as on 31 January 2017.
*Inception date: 1 December 2015.

Asset allocation



Source: PSG Wealth research team

PSG Wealth Equity Portfolios

PSG Wealth Offshore Equity Portfolio

- The PSG Wealth Offshore Equity Portfolio was marginally behind its benchmark in January with a negative return of 0.45%, compared to the Dow Jones Global Titans 50 TR (net of fees) which fell 0.41%.
- Ten (63%) of the 16 stocks in the portfolio ended in positive territory, while nine (56%) closed ahead of the benchmark.

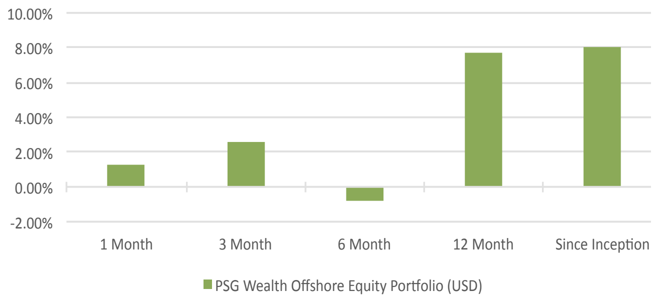
Expectations:

- Investment markets are expected to remain volatile given the high amount of uncertainty in forecasting macro variables.
- Given the diversification of the portfolio and the quality of its chosen investments, we believe that the impact of macro variables should be reduced.
- Our focus will remain on the underlying fundamentals of the individual companies rather than on broad macro issues.

Risk:

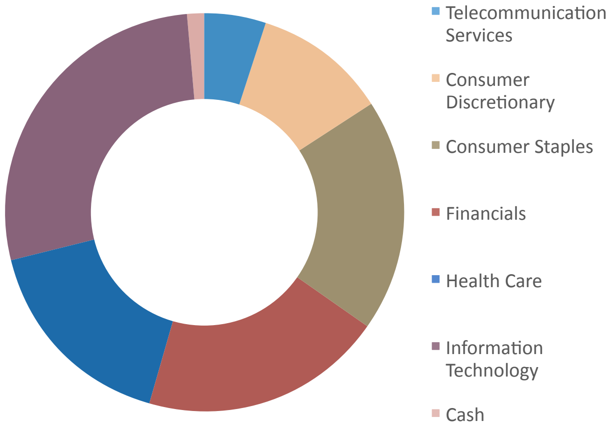
- Sustained international monetary easing creates demand for quality, stable, high yielding equities. This provides a valuation underpin to investments in the portfolio. The portfolio is likely to underperform should this deteriorate.

Performance since inception



Source: PSG Wealth research team data as at 31 January 2017.
*Inception date: 30 August 2015

Asset allocation



Source: PSG Wealth research team

PSG Wealth Equity Portfolios

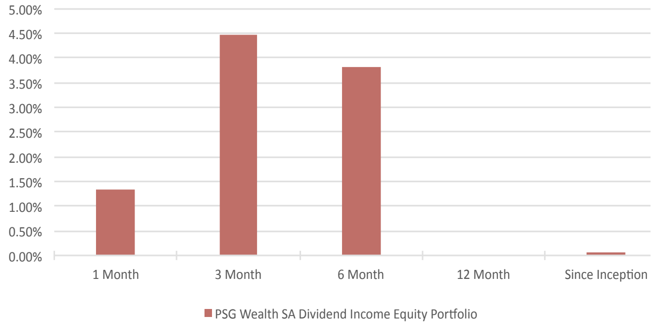
PSG Wealth SA Dividend Income Equity Portfolio

- The PSG Wealth SA Dividend Income Equity Portfolio returned 1.34% during the month. This was ahead of the benchmark, the FTSE/JSE Dividend Plus TR (net of fees), which gained 0.43% over the same period.
- Fourteen (70%) of the 20 stocks in the portfolio ended in positive territory, of which 13 (65%) were ahead of the benchmark.

Expectations:
- Investment markets are expected to remain volatile given the difficulty to forecast macro variables.
- A shift from highly-valued, high-quality defensive stocks towards more reasonable priced consumer cyclicals and financial stocks in the medium term.

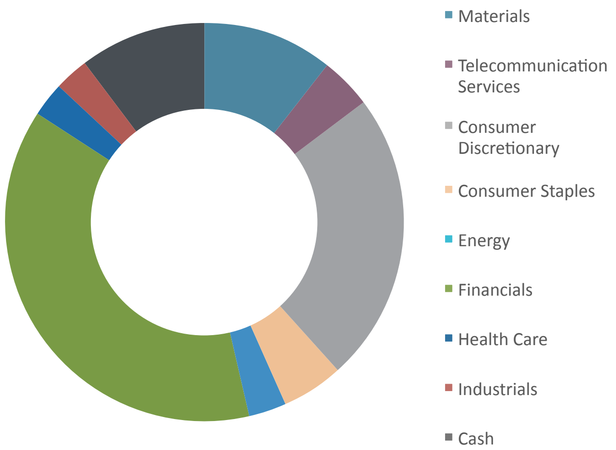
Risk:
- Changes in the perception of sovereign risk (positive and negative) and its flow through to exchange rates and interest rates can have an impact on portfolio values.
- The portfolio is likely to underperform should international monetary easing prove sustainable. An environment of sustained monetary easing should support 'bond-proxy stocks' to which the portfolio is under exposed to due to valuation concerns.

Performance since inception



Source: PSG Wealth research team data as at 31 January 2017.
*Inception date: 29 April 2016

Asset allocation



Source: PSG Wealth research team

PSG Wealth Equity Portfolios

PSG Wealth SA Managed Volatility Equity Portfolio

- The PSG Wealth SA Managed Volatility Equity Portfolio delivered 2.60% for January, outperforming the benchmark, the PSG Wealth Custom Low Volatility Index TR (net of fees), which returned 0.67% for the same period.
- Since its inception this portfolio has outperformed its benchmark.

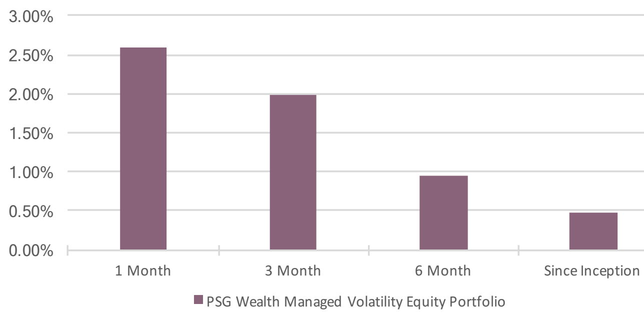
Expectations:

- The valuation of most benchmark constituents currently seem elevated.
- Relative outperformance against the benchmark through not owning the most expensive pockets of shares.
- Lower portfolio drawdown, while still participating in equity market returns.
- Low volatility investing in a defensive way to take risks.
- Portfolio outperformance relative to local equity markets during periods of stress.
- Positive relative performance over the longer term.

Risk:

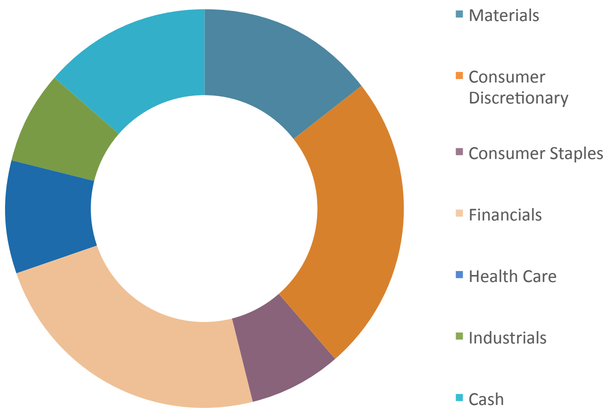
- A negative performance relative to the local equity market during strong bull markets.

Performance since inception



Source: PSG Wealth research team data as at 31 January 2017.
*Inception date: 28 July 2016

Asset allocation

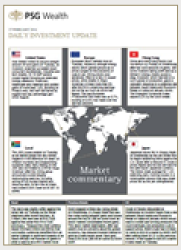


Source: PSG Wealth research team

Other publications

Previous publications

Daily

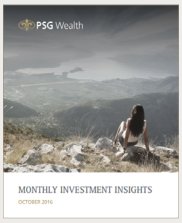


22 February 2017

Weekly

06 Feb	05 Oct	29 Jun	12 Apr
18 Jan	28 Sep	22 Jun	05 Apr
11 Jan	14 Sep	15 Jun	30 Mar
14 Dec	07 Sep	08 Jun	23 Mar
07 Dec	31 Aug	01 Jun	16 Mar
30 Nov	17 Aug	25 May	09 Mar
16 Nov	10 Aug	18 May	01 Mar
09 Nov	02 Aug	11 May	23 Feb
02 Nov	27 Jul	04 May	11 Dec
26 Oct	13 Jul	26 Apr	20 Nov
12 Oct	06 Jul	20 Apr	16 Nov

Monthly

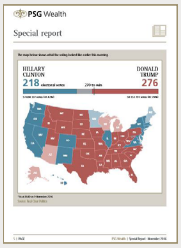


Jan	2017	Feb	2016
Nov	2016	Dec	2015
Oct	2016	Nov	2015
Sep	2016	Oct	2015
Aug	2016	Sep	2015
Jul	2016	Aug	2015
Jun	2016	July	2015
May	2016	Jun	2015
Apr	2016	May	2015
Mar	2016		

Quarterly

Summer 2017
Spring 2016
Winter 2016
Autumn 2016
Summer 2015
Spring 2015

Special Reports



Research provided
Fed hike inevitable?
S&P 2 Dec review
US election
Market PE's
Domestic local government elections
Brexit vote
Cash vs Long-term instruments
S&P June 2016 rating decision explained
Fed Dec 2015 interest rate hike
Impact of political moves on investments
FoF fees small compared to actual gains
SARB hikes rates
Weak PMI support foreign diversification

Wealth Perspective

December 2016
September 2016
July 2016
April 2016
January 2016
October 2015
July 2015

PSG Wealth

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