MONTHLY INVESTMENT INSIGHTS

JANUARY 2017

Contents

The monthly interview

From this month we have decided to interview experts in various fields. The opinions expressed by experts should not be considered as advice provided by PSG Wealth and its affiliates or seen as the opinions held by PSG Wealth and our affiliates. Rather we feel it is important to share their views in an effort to add value to our, and your, understanding of newsworthy events or trends.

Patrick Bond
Political economist

This month we spoke to Professor Patrick Bond, a political economist at the University of Witwatersrand. From a conference he was attending in Philadelphia, US, prof. Bond explained some of his expectations for 2017 for the so-called One-China policy, the US economy and emerging markets. His research focuses on political economy, the environment (energy, water and climate change), social policy and geopolitics. His latest books are *South Africa - The Present as History* (co-authored in 2016), *BRICS* (co-edited in 2015) and *Elite Transition* (2014, 3rd edition). The University of KwaZulu-Natal notes that, *Elite Transition*, is the most cited academic book on South Africa's democratisation.

In a recent newsletter entitled *'Will Washington's new pro-Moscow, anti-Beijing gang drive a wedge through the BRICS in 2017?'* you write about the One China policy – how do you think this policy will impact 2017?

(US President) Donald Trump may try to use it as a negotiating tactic to lower Chinese imports to the US in areas such as steel where there is a huge dumping problem. This is his threat, anyhow - but who knows what he will do, it's a very unpredictable situation.

What effect will this have on the global and domestic economy?

As the Solly Msimanga (Mayor of Pretoria) visit to Taipei showed, there is enormous symbolism at stake with plenty of political posturing. If Xi Jinping (President of the People's Republic of China) wants to punish the Taiwanese because of its leader's congratulatory phone call to (the new US president) Donald Trump in December, it's most logical that he would do so with economic sanctions. However, while there is a small chance that Beijing decides to invade Taiwan, I think the real conflicts appear to be mounting much further south, in the South China Sea where the world's most active shipping lanes may be contested in future.

What is the 'One China' policy?

It is the diplomatic acknowledgement of China's position that there is only one Chinese government. Under the policy, the US recognises and has formal ties with China rather than the island of Taiwan, which China sees as a breakaway province to be reunified with the mainland one day. The One China policy is a key cornerstone of Sino-US relations. It is also a fundamental bedrock of Chinese policy-making and diplomacy. However, it is distinct from the One China principle, whereby China insists Taiwan is an inalienable part of one China to be reunified one day. The US policy is not an endorsement of Beijing's position and indeed as part of the policy, Washington maintains a "robust unofficial" relationship with Taiwan, including continued arms sales to the island so that it can defend itself. Although Taiwan's government claims it is an independent country officially called the "Republic of China", any country that wants diplomatic relations with mainland China must break official ties with Taipei. This has resulted in Taiwan's diplomatic isolation from the international community.

How did it come about?

The policy can be traced back to 1949 and the end of the Chinese civil war. The defeated Nationalists, also known as the Kuomintang, retreated to Taiwan and made it their seat of government while the victorious Communists began ruling the mainland as the People's Republic of China. Both sides said they represented all of China. Initially, many governments including the US recognised Taiwan as they shied away from Communist China. But the diplomatic winds shifted as China and the United States saw a mutual need to develop relations beginning in the 1970s, with the US and other countries cutting ties with Taipei in favour of Beijing. After years of warming relations, the US established formal diplomatic ties with Beijing in 1979 under President Jimmy Carter. As a result the US had to sever ties with Taiwan and closed its Taipei embassy. But that same year it also passed the Taiwan Relations Act, which guarantees support for the island. Crucially, this act states that the US must help Taiwan defend itself - which is why the US continues to sell arms to Taiwan. The US has also said it insists on the peaceful resolution of differences between the two sides and encourages both sides to pursue "constructive dialogue".

Taiwan's President Tsai Ing-wen spoke to Trump in early December 2016, breaking decades of US diplomatic protocol. The One China policy is a delicate balancing act that the US has perfected over the decades. How Washington can continue doing that under Trump remains to be seen.

The monthly interview

You also write that Trump's policies could drive a wedge between BRICS nations – please explain why you say this?

Simply said, three of the BRICS country's leaders, Vladimir Putin (Russian President), Narenda Modi (Indian Prime Minister) and Michel Temer (the Brazilian President) share a lot of similarities with Trump: right-wing populist-nationalist with an appreciation for the benefits of allying with Washington. Another, (SA President) Jacob Zuma, is typically a talk-left, walk-right nationalist. The fifth is genuinely irritated with Trump: Xi Jinping (President of the People's Republic of China). Can BRICS hold together with this kind of Trump-wedge driving deep into its soul? We'll see in Xiamen in September (the next BRICS summit), and maybe at the G20 summit in July in Hamburg. But don't forget it was just a year ago, in December 2015, when the BRICS agreed with the West on liberalising WTO agriculture rules (no matter how painful to peasants). On 'reform' the IMF allowed four BRICS dramatic increases in votes (while South Africa and most other African countries lost large shares of their voting power)…So in those respects the BRICS certainly don't look anti-imperialist, they appear to act in a self-interested, sub-imperialist manner, assimilated into Western-dominated multilateralism.

How will this impact BRICS economies in 2017?

The main dilemma is that (all) emerging markets are now losing liquid funding to the US due to the shifts in asset prices (higher interest rates and a 9% rise in the Dow since November). However, Russia may benefit from relaxed sanctions and renewed projects like the ExxonMobil's $500 billion Siberian oil dig. Unless the main commodity prices miraculously continue their bump after the disastrous 2011-2015 crash, South Africa and Brazil will continue stagnation and recession, respectively. China's massive overcapacity is not being brought down as promised and instead their debt has risen to very dangerous levels. And India's leaders shot the economy in the foot with their currency reform in late 2016, with extreme suffering in rural areas where turnover has stalled due to a lack of tenders. The BRICS are not, as we were told a decade ago, the building bricks of the 21st century economy. They are all victims of a world economy characterised by the most extreme, uneven development and inequality ever recorded. The BRICS and the US share a great deal of blame for letting these contradictions get so far out of control.

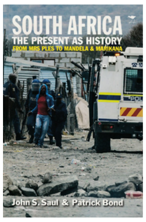
What effect do you think Trump's policies will have on the world economy in 2017?

Generally disastrous, if his threats are followed up with trade wars, imperialist bullying, potential debt default (at some stage, as he has threatened) and with Wall Street bankers guiding him to rapid deregulation, massive corporate tax cuts and investments in filthy infrastructure (pipelines, airports, highways, bridges). This may have a short-term stimulative impact on the GDP of the US, but the larger bubble of financial assets will grow more dangerous, and Trump appears incapable of putting in place any meaningful reforms of big business. We may see healthcare (and pharmaceuticals) as one target, and individual companies also targeted, but mainly in superficial media-conscious ways.

What impact do you think Trump's policies will have on the South African economy in 2017?

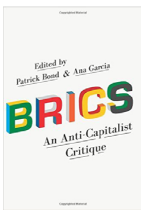
If disaster strikes, such as the 2008-type financial burst and contagion, then gold should do well (though that's only the fourth main export mineral now). The crucial question is whether the financial authorities (Treasury and Reserve Bank) will take measures to insulate South Africa from such a turbulence. All indications are that the authorities will continue their deregulatory stance.

Just a few of the books prof Patrick Bond wrote or co-authored:



2016: *South Africa - The Present as History*

This book looks at this paradox by examining the precise character of the post-apartheid state, and the roots of the hope that something better than the semi-liberation that the ANC has presided over must not be long delayed - both within the ANC itself and within the broader society of South Africa.



2015: *BRICS: An Anti-capitalist Critique*

Nearly all the discussions to date about BRICS have been uncritical…This volume aims to fill a gap in studies of BRICS. It offers a critical analysis of the rise of the BRICS countries' economies within the framework of a global capitalism that is increasingly predatory, exclusionary and unequal, no more so than in the BRICS countries themselves.

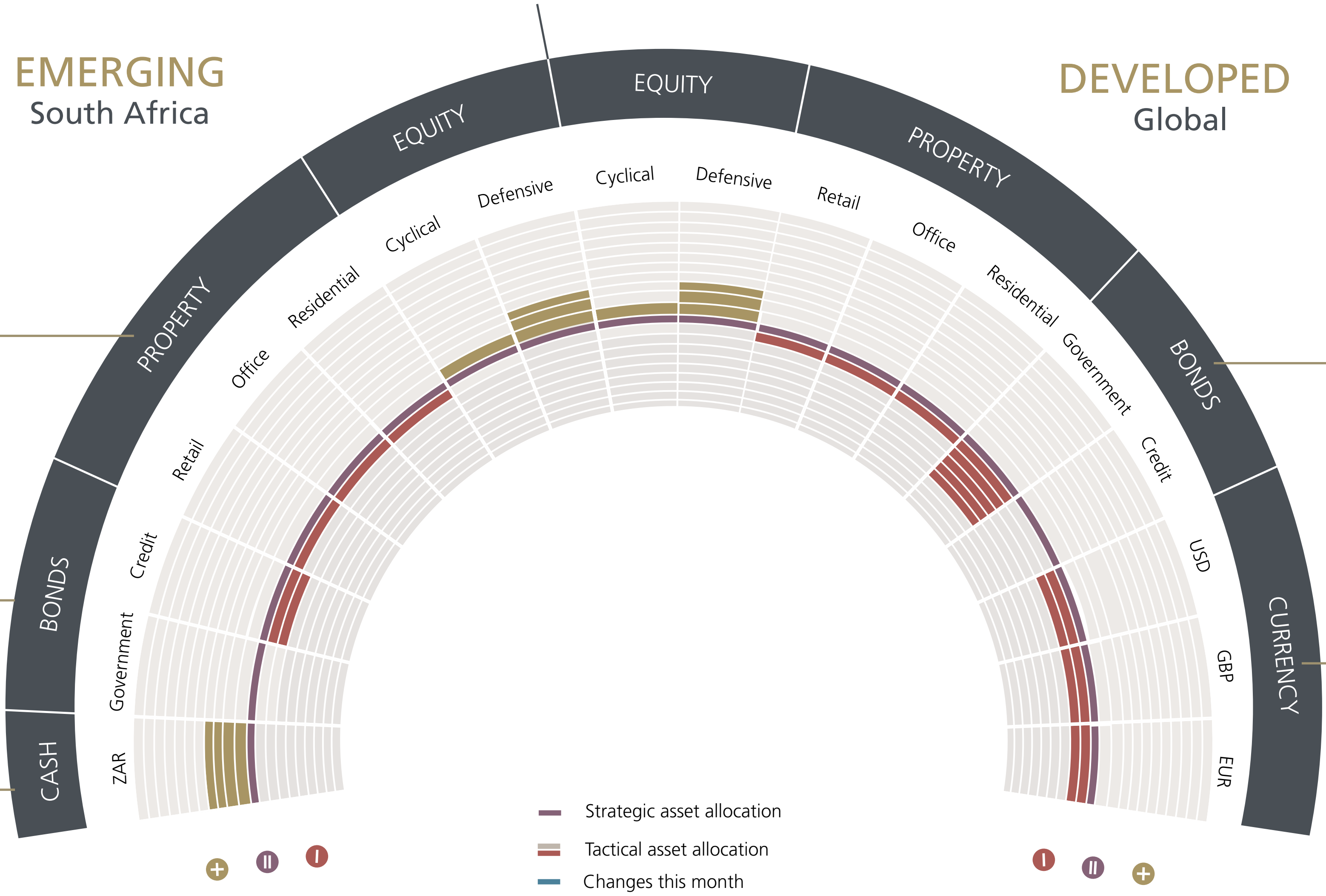
Source: GoogleBooks, Amazon, UKZNPress

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.



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 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

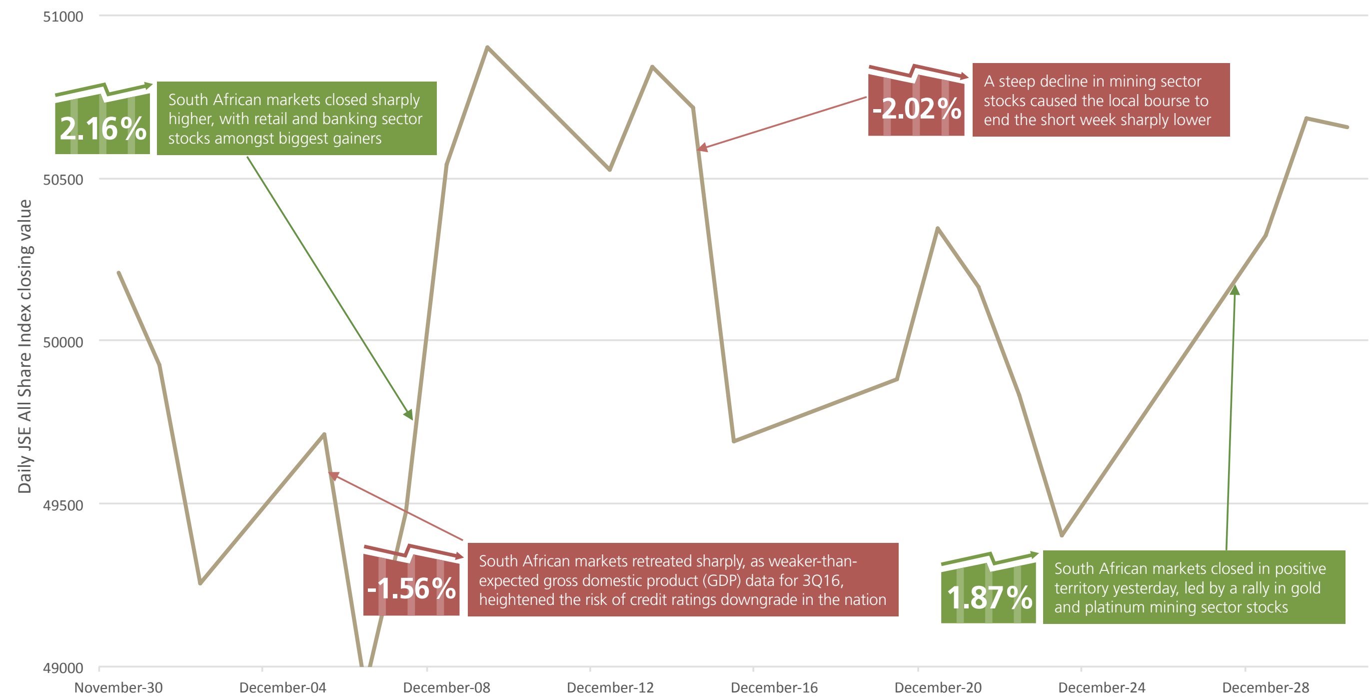
Bottom line

- Our assessment shows that domestic equity is now roughly 36.2% overvalued relative to its historic yield. There certainly remains some expensive pockets in the market, and investors should expect continued volatility at current levels.
- 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.
- With regards to domestic listed property our assessment of fair value shows that domestic property equity is now roughly 23.3% 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.
- Global equity, although trading at a slight premium (21.7%), 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.

Market commentary

The FTSE/JSE All Share Index (ALSI) gained 0.88% for the month. Cash delivered a return of 0.61% for the month and 7.37% for the calendar year. Basic materials (-3.6%) suffered the most during the month, but still managed to outperform the other sub-indices with a return of 34.2% for the year. Listed property returned 4.24% for the month and 10.2% for the year. Financials returned 3.46% for the month and 5.4% for the year, followed by industrials which rose 1.84% for the month and lost 6.6% for the year.

JSE All Share index - December 2016



Source: Bloomberg

Domestic key moves

BBB- South Africa avoided a downgrade to junk status by the credit rating's agencies, S&P Global Ratings and Moody's.

0.2% The South African economy expanded an annualised 0.2% on quarter in the three months to September 2016, compared to an upwardly revised 3.5% growth in the June quarter and below market estimates of a 0.5% expansion.

6.6% The inflation rate rose 6.6% y/y in November 2016, following a 6.4% increase in October. It was the highest inflation rate since February as the cost of transport increased at a faster pace.

R4.41 bn South Africa posted a trade deficit of R4.41 billion in October 2016 from an upwardly revised R6.95 billion surplus in September, but better than market expectations of a R10.5 billion gap.

Market commentary

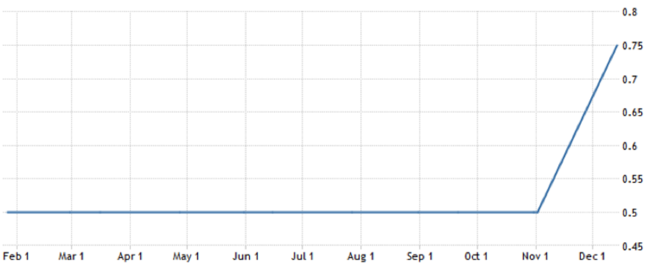
Global key moves

US

13.4% After three straight days of losses, Wall Street finished the last trading session of the year in the red. However, on the year, the Dow Jones gained 13.4%, the biggest advance since 2013, the S&P 500 went up 9.5% and the Nasdaq added 7.5%. Most gains came in the second half of the year amid higher corporate earnings, stronger GDP growth and a recovery in oil prices. Yet, the rally accelerated after Trump's victory on expectations of a fiscal boost under the new presidency.

0.75% The Federal Reserve might need to raise rates faster than previously anticipated as the 'undershooting' of the unemployment rate might help return inflation to the 2% target. Policymakers emphasised their uncertainty about the timing, size and composition of any future fiscal and other economic policy initiatives, minutes from FOMC meeting held on 13 to 14 December showed. The Fed last hiked the target for the federal funds rate by 25 basis points to 0.75% in December.

US Fed fund rate



Source: Trading Economics

UK

14.4% In 2016, UK shares rose 14.4%, compared to a 4.7% drop in 2015. It is the biggest yearly increase since 2013, boosted by the mining sector and a weaker pound and despite political turbulence caused by Brexit and US elections.

0.6% The British economy advanced 0.6% on quarter in the three months to September 2016, the same as in the previous period and better than the second estimate of a 0.5% expansion. Household expenditure continued to grow while fixed investment rose at a slower pace and net external demand contributed negatively. Compared with the same period of 2015, the economy advanced 2.2%.

EU

1.9% Loans to households in the EU increased by 1.9% y/y in November 2016, the sharpest rise since July 2011, following a 1.8% gain in the previous month. Credit to non-financial corporations went up 2.2%, higher than the 2.1% in October, leading to a private sector credit growth of 2.2%, unchanged from the previous month. Meanwhile, credit to governments rose at a faster 10.7% from 10.6% in October.

6.9% Germany's Dax ended the year with 6.9% gain. Exporters shares were the best performers supported by a weaker euro, boosted by Sap (+15%), Siemens (+35%), Adidas (+70%) and Linde (+20%). In contrast, banking and automakers shares dragged gains down: Commerzbank (-23%), Deutsche Bank (-23%), Volkswagen (-4%) and BMW (-5%).

AA- Fitch Ratings downgraded Belgium's long-term foreign sovereign credit rating by one notch to 'AA-' from 'AA' on 23 December, due to the government's high public debt burden and fiscal slippage in recent years. The outlook was changed from negative to stable.

China

54.5 The official Non-Manufacturing PMI in China stood at 54.5 in December 2016, down from 54.7 in November. While business expectations moderated and employment stabilised, new export orders contracted for the first time since September.

Chinese Non-manufacturing PMI

Source: Trading Economics

12.3% The Shanghai Composite lost 12.3% in 2016, compared to a 9.4% gain in 2015 as unclear attempts from the regulators to reduce volatility and a weaker yuan hurt investors' mood. The Chinese currency was one of Asia's worst-performing currency in 2016, down nearly 7% against the USD.

Japan

0.4% The Nikkei 225 gained 0.4% for the year.

1.7% Retail sales in Japan increased 1.7% y/y in November 2016, following an upwardly revised 0.2% drop in October and above market expectations of 0.9% rise. It is the first increase after eight straight annual falls and the biggest since October 2015.

PSG Wealth Fund of Funds Solutions

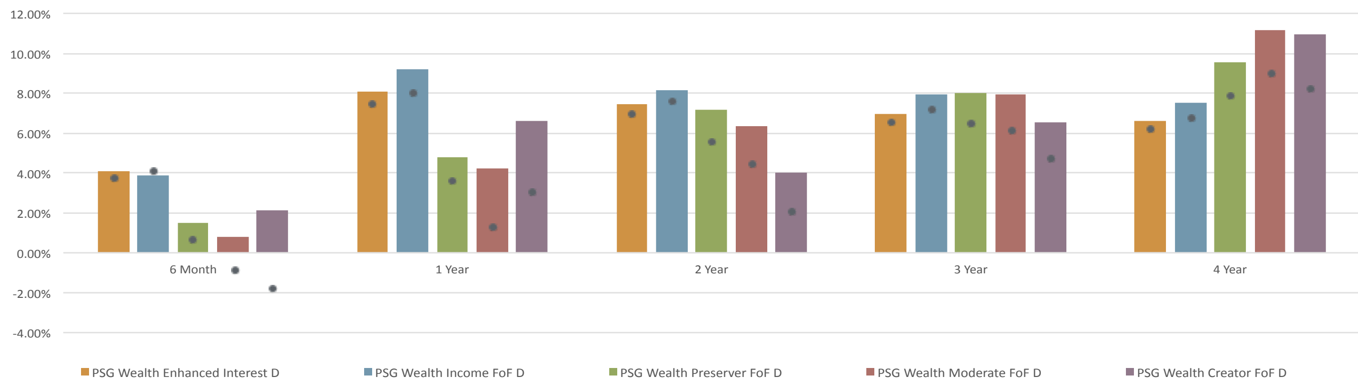
Local funds

Performance table

PSG Wealth Solutions						
Fund	6 Month	1 Year	2 Year	3 Year	4 Year	5 Year
PSG Wealth Enhanced Interest D	4.09%	8.05%	7.43%	6.93%	6.59%	6.40%
PSG Wealth Income FoF D	3.87%	9.22%	8.15%	7.97%	7.51%	7.95%
PSG Wealth Preserver FoF D	1.53%	4.79%	7.20%	7.98%	9.53%	10.63%
PSG Wealth Moderate FoF D	0.77%	4.25%	6.33%	7.93%	11.16%	12.69%
PSG Wealth Creator FoF D	2.15%	6.60%	4.03%	6.56%	10.95%	12.90%

Source: PSG Wealth research team

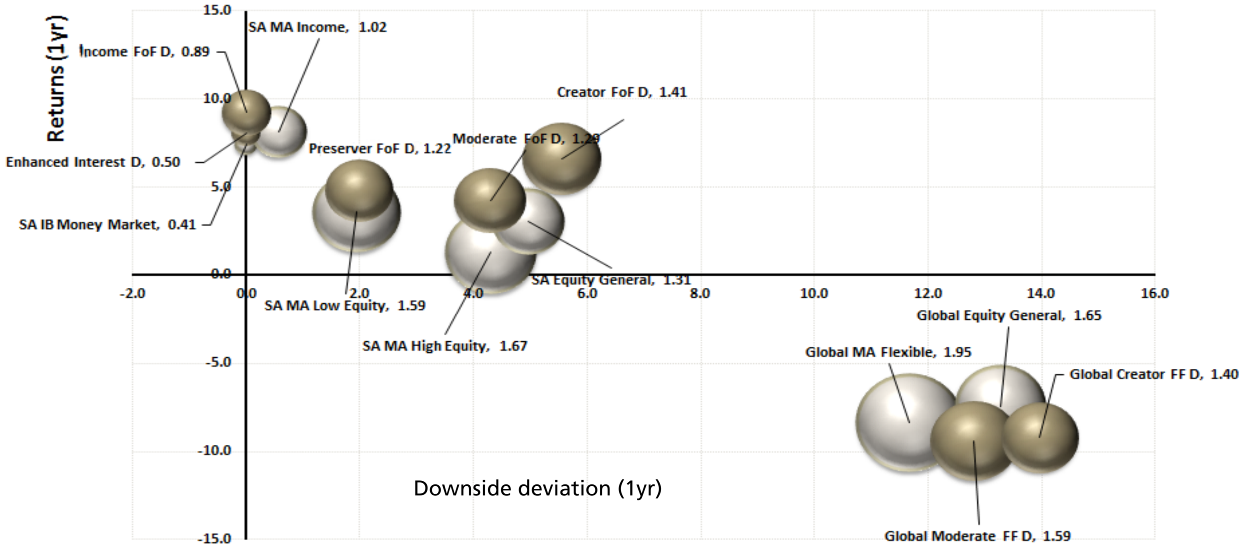
Domestic funds performance



Source: PSG Wealth research team data as at 31 December 2016

*Dots represent the relevant benchmark

PSG Wealth Local Fund of Funds



Source: PSG Wealth research team

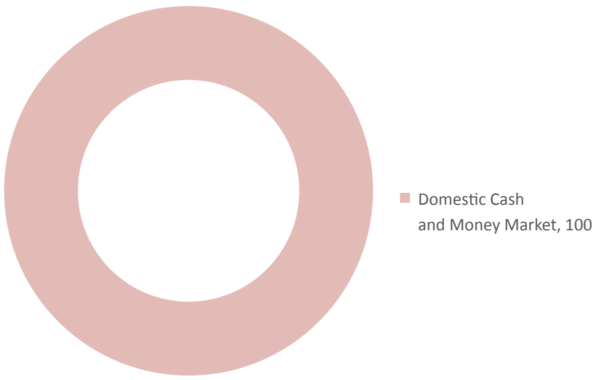
HOW TO READ THE BUBBLE CHARTS			
Vertical axis	shows the return of each fund	**Size of the bubble**	shows TER which is an indication of cost
Horizontal axis	shows the downside deviation which is a measure of downside risk that focuses on returns that fall below a minimum threshold or minimum acceptable 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 0.65% for December, compared to the 0.55% 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 five years and less.

Asset allocation



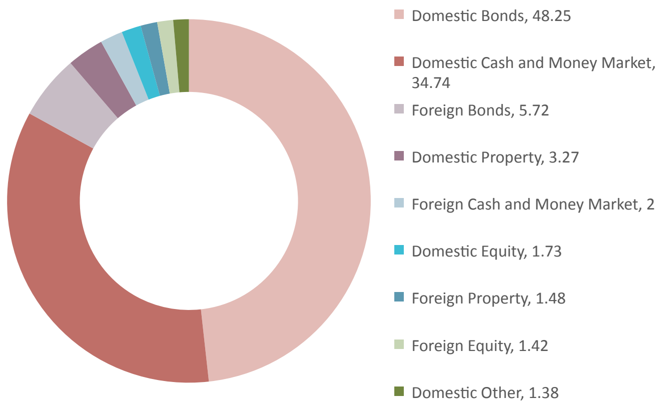
Source: PSG Wealth research team

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 0.8% for December, compared to the 0.65% 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

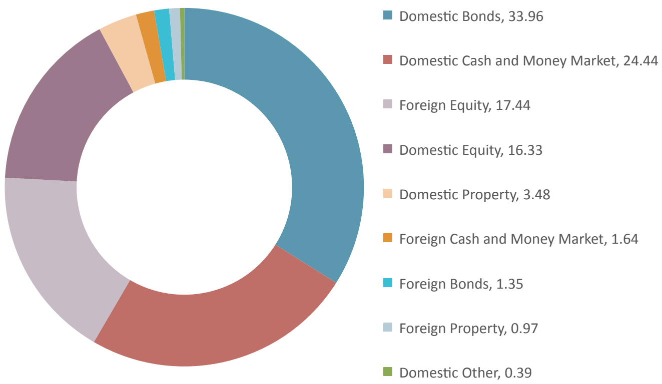
Risk and expectations: We had expected recent higher inflation and rising interest rates to have been a drag on performance over the short term, but current indications are that the underlying portfolio managers were able to take advantage of the higher yields on short-term instruments to deliver attractive 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 0.6% for December, in line with the 0.6% of the South African MA Low Equity Sector Average.
- The FoF underperformed its performance target over all investment periods of three years and less. Rising or high interest rates will be a drag on the FoF's performance, and the coinciding higher inflation target itself will make the consistent outperformance of the performance target almost impossible.
- However the FoF's monthly performance was also in line with the 0.6% of its performance target of CPI plus 3%. The Wealth Preserver has also delivered first quartile performances over all measurement periods of one year and longer.

Asset allocation



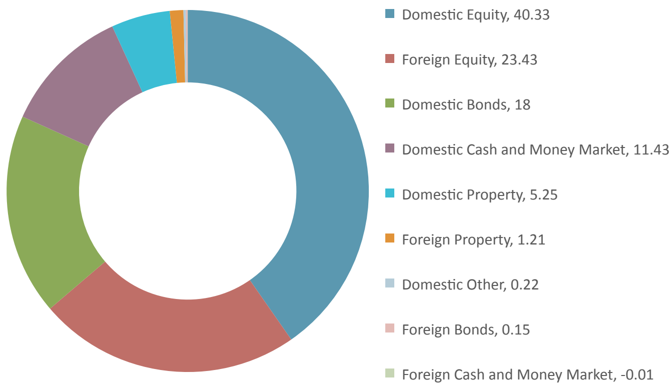
Source: PSG Wealth research team

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 is on the radar screen.
Changes: No changes to underlying funds.

PSG Wealth Moderate FoF

- The PSG Wealth Moderate FoF delivered a return of 0.9% for December, just outperforming its benchmark, the South African MA High Equity Sector Average, which delivered 0.7%.
- This fund has outperformed the sector average over all measurement periods up to seven years. The PSG Wealth Moderate FoF has an investment horizon of five-years, and it has outperformed its benchmark comfortably over any five-year period.
- The FoF has delivered first quartile performances over all measurement periods of three months and longer.

Asset allocation



Source: PSG Wealth research team

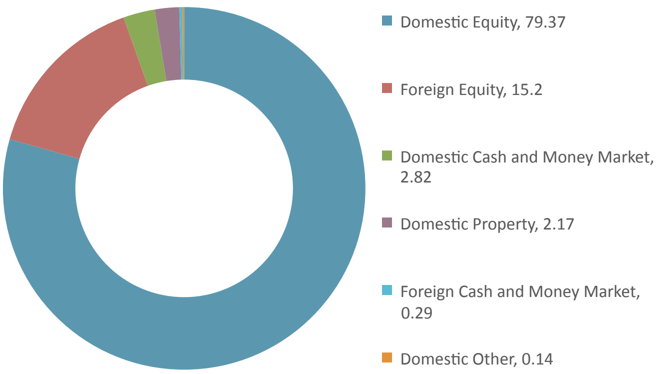
Risk and expectations: The PSG Wealth Moderate FoF may hold up to 75% in domestic- and offshore equities, which could lead to short-term negative performances in sharp equity corrections or equity bear markets. We are, however, confident that the fund will always deliver positive returns over the preferred 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: Investec Opportunity Fund is on the radar screen.
Changes: The FoF disinvested from the Foord Balanced Fund in October 2016 and reinvested the proceeds into the remaining underlying funds.

PSG Wealth Fund of Funds Solutions

PSG Wealth Creator FoF

- The PSG Wealth Creator FoF delivered a return of 1.1% for December, compared to the 1.2% of its benchmark, the South African EQ General Sector Average.
- It also outperformed the sector average over all measurement periods of three-months up to seven years.
- The FoF delivered first quartile performances for the three, six and twelve month periods, as well as second quartile performances for all measurement periods of two 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 is on the radar screen..
Changes: No changes to underlying funds.

PSG Wealth Fund of Funds Solutions

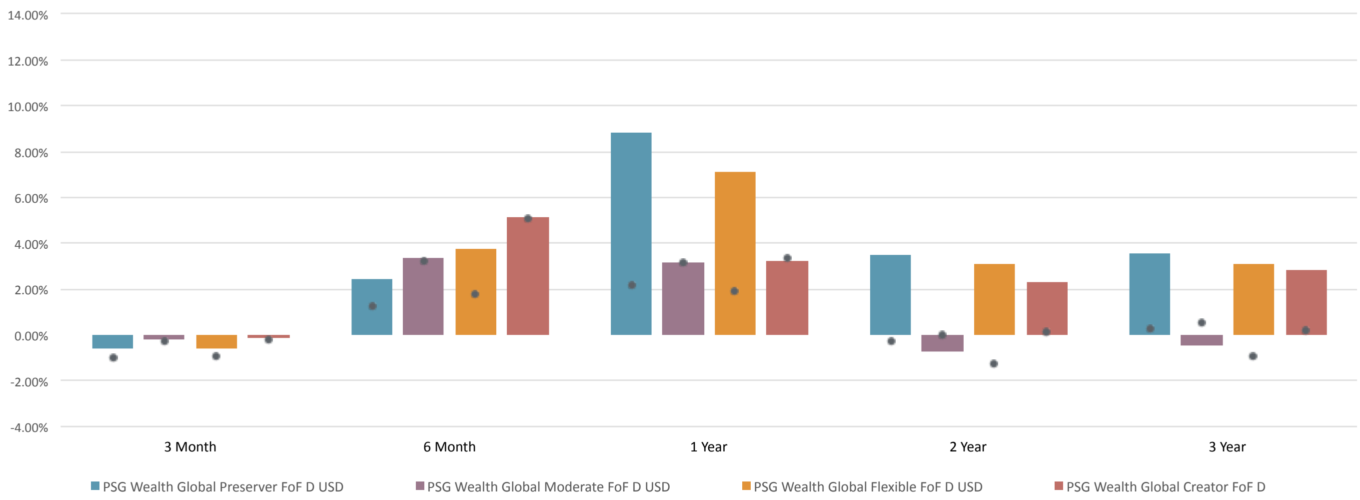
Offshore funds

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	2.42%	8.84%	3.52%	3.54%	3.83%	4.39%
PSG Wealth Global Moderate FoF D USD	3.37%	3.14%	-0.74%	-0.46%	3.56%	N/A
PSG Wealth Global Flexible FoF D USD	3.74%	7.10%	3.07%	3.11%	6.91%	7.86%
PSG Wealth Global Creator FoF D	5.16%	3.24%	2.29%	2.81%	7.07%	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	7.64%	22.67%	11.57%	10.19%	8.99%	8.83%
PSG Wealth Global Flexible FoF D GBP	12.82%	25.06%	13.45%	12.59%	13.13%	12.25%

Source: PSG Wealth research team

Offshore funds performance



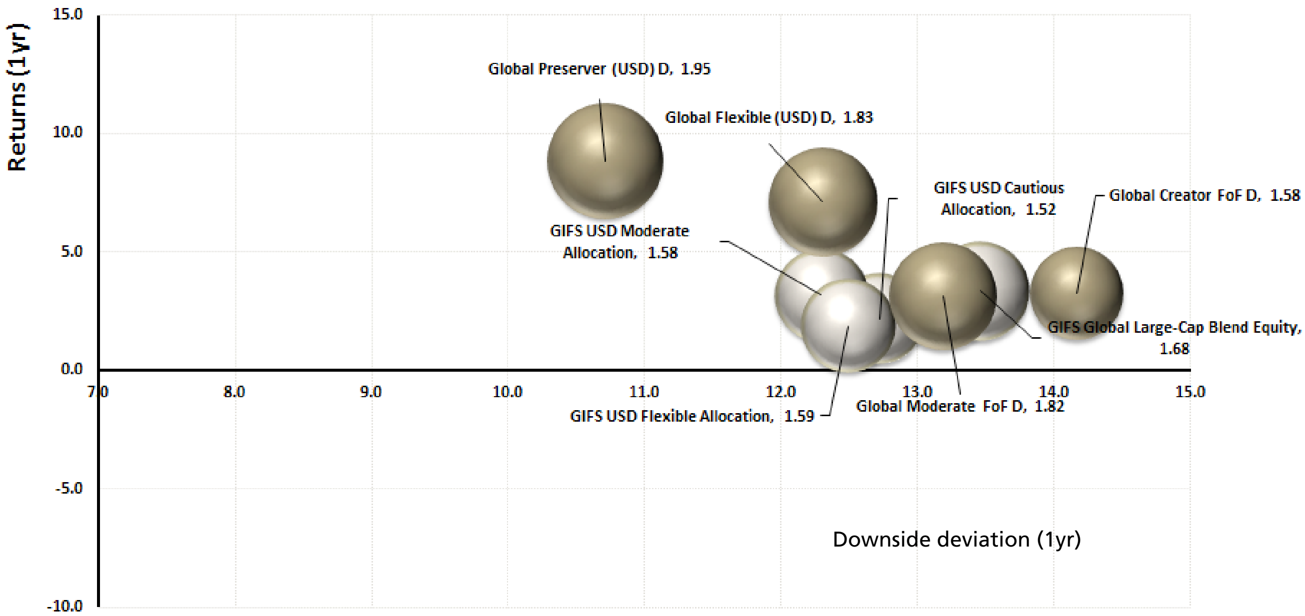
Source: PSG Wealth research team data as at 31 December 2016.

*Dots represent the relevant benchmark

All performance is reported in USD unless specified otherwise.

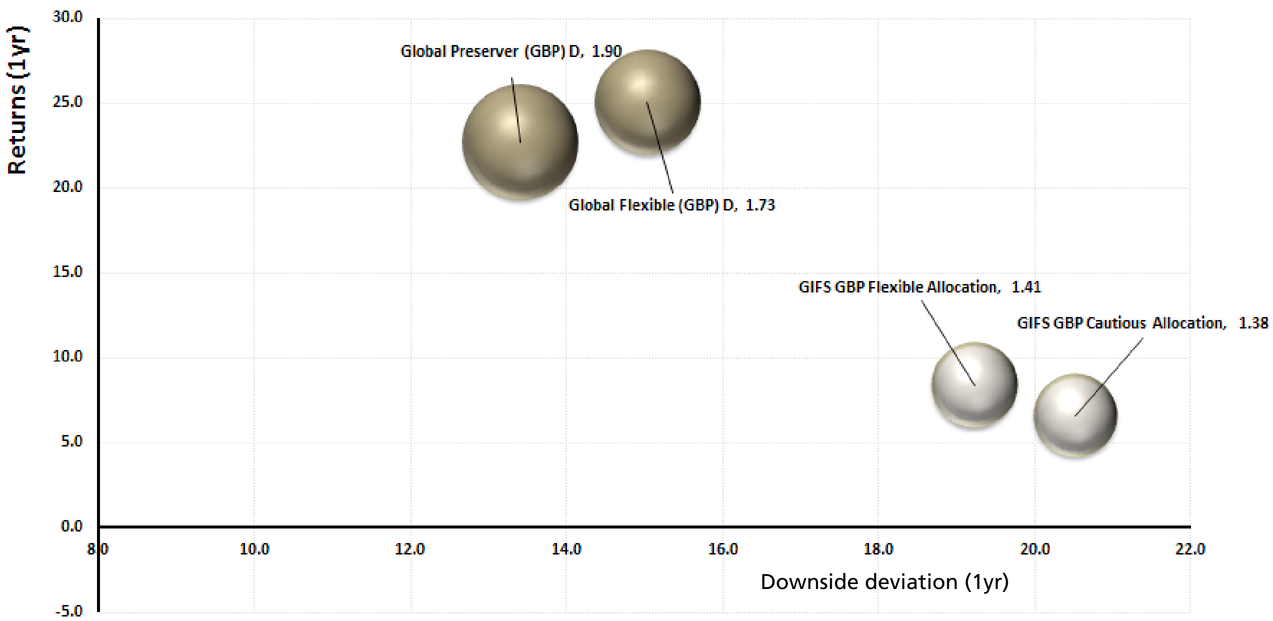
PSG Wealth Fund of Funds Solutions

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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		Gold bubbles	represent PSG Wealth solutions

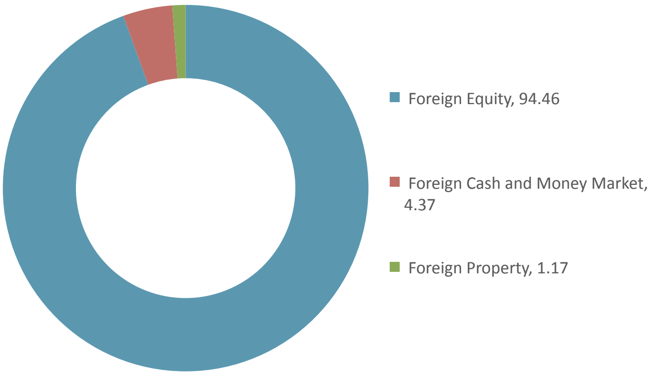
All performance is reported in USD unless specified otherwise.

PSG Wealth Fund of Funds Solutions

PSG Wealth Global Creator Fund of Funds (USD)

- The PSG Wealth Global Creator FoF returned 1.15% for December, underperforming the benchmark GIFS Global Large-Cap Blend equity sector average which delivered 1.92%.
- The PSG Wealth Global Creator FoF is ranked in the top quartile of global equity funds since inception in December 2012 and in the second quartile over the three year period ending 31 December 2016.

Asset allocation



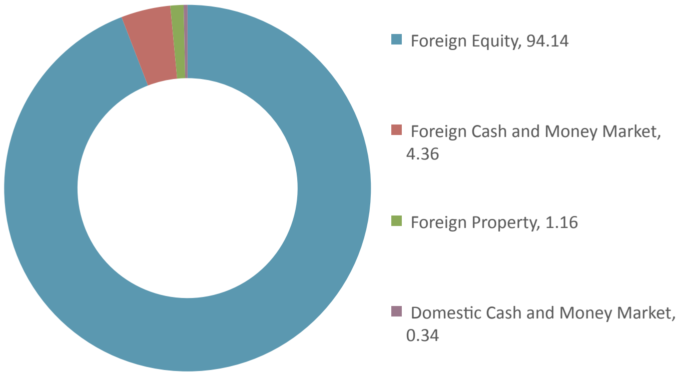
Source: PSG Wealth research team

Risk: Given the overweight position to developed markets in our portfolio (94.46%) 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.
Radar: The Threadneedle Global Select, Goldman Sachs Global Equity Partners, Nedgroup Investments Global Equity and Investec Global Franchise funds are on the quantitative radar. Funds are placed on the quantitative radar if they underperform the FoFs benchmark over one, three, six and twelve months. No new flows are allocated to managers on the quantitative radar, the team evaluates the causes of underperformance and discussions are held with the relevant managers.
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 -0.50% for December in rand terms, outperforming the global sector average which returned -0.63%. The rand strengthened by approximately 2.58% against the US dollar over December, 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.

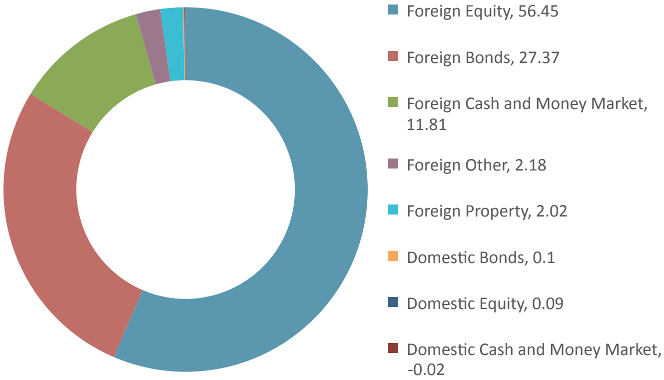
All performance is reported in USD unless specified otherwise.

PSG Wealth Fund of Funds Solutions

PSG Wealth Global Moderate FoF (USD)

- The PSG Wealth Global Moderate FoF returned 1.24% for December slightly underperforming the GIFS USD Moderate Allocation sector average, which delivered 1.29%.
- 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 the fourth quarter saw US government bond yields rise amid expectations for higher inflation after the US election victory of Donald Trump. Equity markets generally gained, with financial stocks performing well amid higher bond yields. The ECB extended its quantitative easing programme. Emerging market equities underperformed, posting a negative return due to uncertainty over US trade and foreign policy, as well as the prospect of tighter US dollar liquidity.

Asset allocation



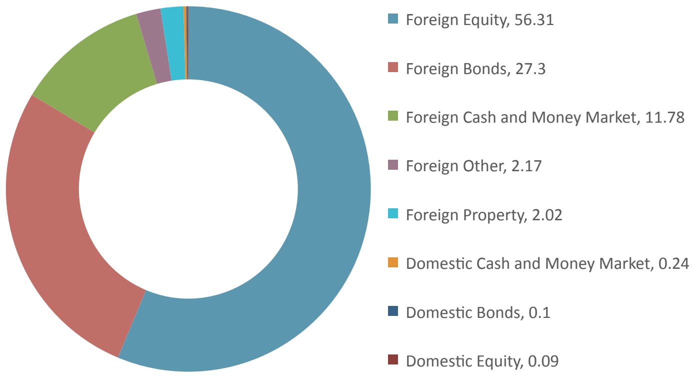
Source: PSG Wealth research team

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 27.37% 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 risk is 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 -0.44% in rand terms for December, outperforming the GIFS USD Moderate allocation sector average which delivered -1.25%. The portfolio outperformed the ASISA Global Multi Asset Flexible sector, which returned -1.10%.
- The rand strengthened by approximately 2.58% against the US dollar over December, thus decreasing global portfolio returns reported in ZAR.
- The PSG Wealth Global Moderate FF D delivered top quartile returns over four years and 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.

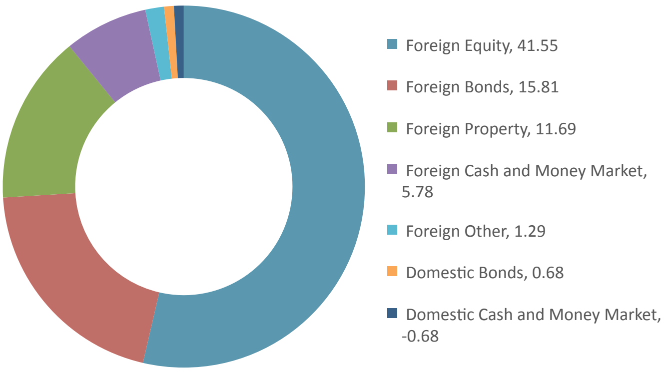
All performance is reported in USD unless specified otherwise.

PSG Wealth Fund of Funds Solutions

PSG Wealth Global Preserver FoF (USD)

- The PSG Wealth Global Preserver FoF USD returned 1.13% for December outperforming the benchmark GIFS USD Cautious allocation sector average, which delivered 0.79%.
- The PSG Wealth Global Preserver FoF USD ranked in the top quartile of its global sector over all periods from three months to since its inception.
- This fund has been ranked first out of 68 funds over the last five years.
- The FoF has delivered 1.55% returns per annum above the benchmark sector average since inception.

Asset allocation



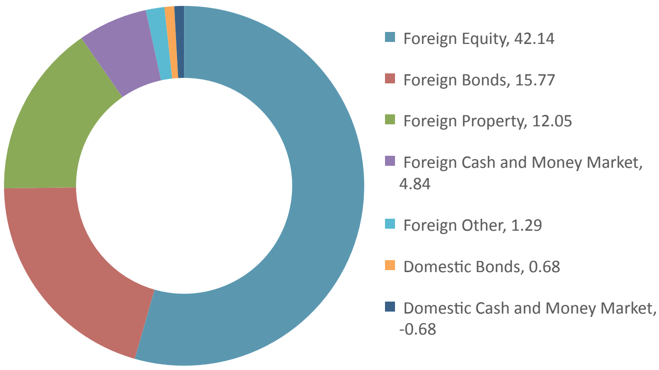
Source: PSG Wealth research team

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: No funds on the quantitative or qualitative radar.
Changes: No changes made to underlying funds.

PSG Wealth Global Preserver FoF (GBP)

- The PSG Wealth Global Preserver FoF GBP returned 1.86% for December in GBP, outperforming the benchmark GIFS GBP Cautious allocation sector average, which delivered 1.43%.
- The PSG Wealth Global Preserver FoF GBP ranked in the top quartile of its global sector over all periods from three months to since its inception.
- This fund also ranked sixth amongst 105 funds over the last five years. The FoF has delivered 2.29% returns per annum above the benchmark sector average since 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: No funds on the quantitative or qualitative radar.
Changes: No changes made to underlying funds.

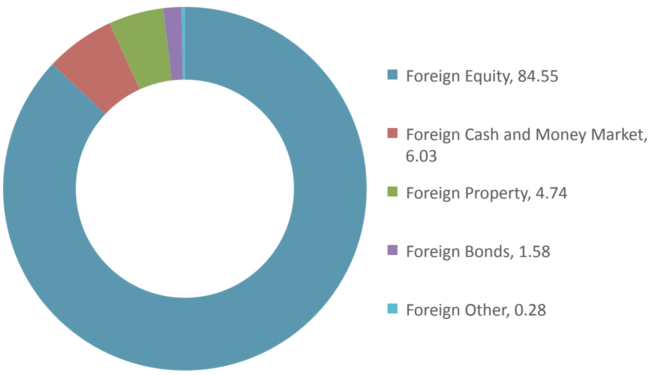
All performance is reported in USD unless specified otherwise.

PSG Wealth Fund of Funds Solutions

PSG Wealth Global Flexible FoF (USD)

- The PSG Wealth Global Flexible FoF USD returned 0.93% for December slightly underperforming the benchmark GIFS USD Flexible allocation sector average which delivered 0.97%.
- The PSG Wealth Global Flexible FoF USD ranked in the top quartile of its global sector over all periods from 12 months to since its inception.
- This fund also ranked fifth amongst 49 funds over the last five years. The FoF has delivered 5.6% returns per annum above the benchmark sector average since inception.

Asset allocation



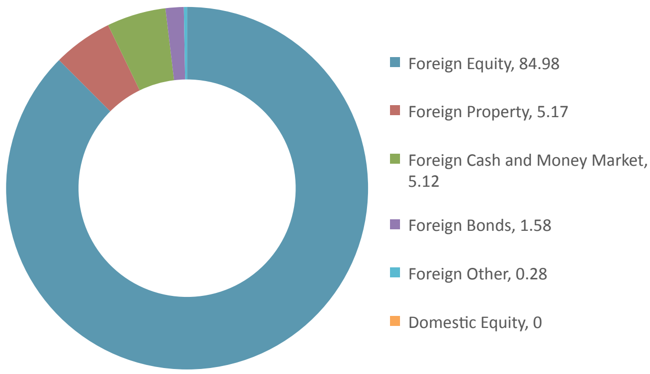
Source: PSG Wealth research team

Risk and expectation: The portfolio currently has an equity allocation of 84.55% 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.

PSG Wealth Global Flexible FoF (GBP)

- The PSG Wealth Global Flexible FoF GBP returned 2.11% in GBP for December, outperforming the benchmark GIFS GBP Flexible allocation sector average which delivered 1.47%.
- The PSG Wealth Global Flexible FoF (GBP) ranked in the top quartile of its global sector over all periods from three months to since its inception.
- This FoF is ranked 15 out of 168 funds over the last five years. The FoF has delivered 7.4% returns 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 about 85% 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	1.68%	0.93%	2.21%	9.48%	11.06%
PSG Wealth SA Property Portfolio	3.98%	-0.67%	-2.01%	-2.01%	-7.41%
PSG Wealth Offshore Equity Portfolio (USD)	2.56%	-0.98%	1.69%	5.15%	6.68%
PSG Wealth SA Dividend Income Equity Portfolio	4.10%	2.75%	6.06%	N/A	-1.26%
PSG Wealth Managed Volatility Equity Portfolio	-0.06%	-1.97%	N/A	N/A	-2.07%

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 for 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.

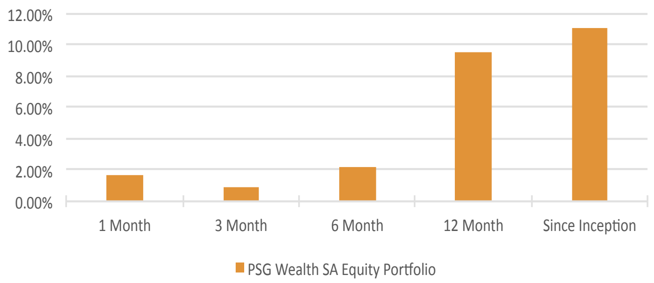
PSG Wealth SA Property Equity Portfolio
For the more risk adverse investor who requires a regular income with a high degree of capital stability.

PSG Wealth Equity Portfolios

PSG Wealth SA Equity Portfolio

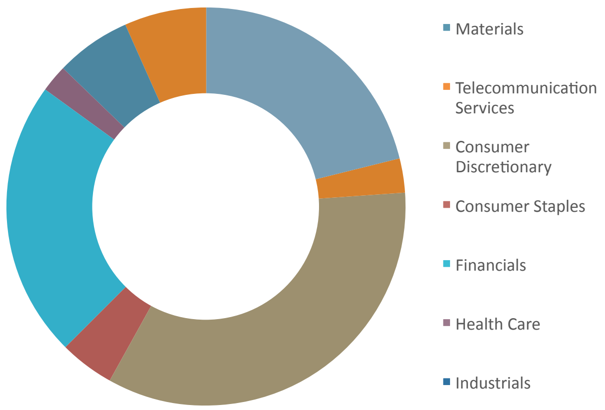
- The PSG Wealth SA Equity Portfolio outperformed its benchmark in December. The portfolio gained 1.68%, while the FTSE/JSE Capped All Share TR (net of fees) rose 0.98%.
- Since its inception the fund has outperformed its benchmark.

Performance since inception



Source: PSG Wealth research team data as on 31 December 2016
*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 rosy by 3.98% during December, outperforming the FTSE/ JSE SA Listed Property Capped TR (net of fees) which delivered 3.23%.
- This fund outperformed its benchmark over three months and since inception.

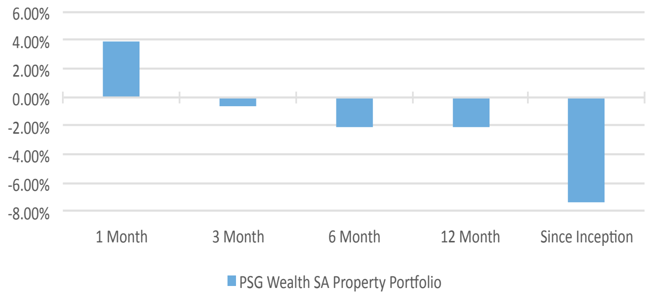
Expectations:

- 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:

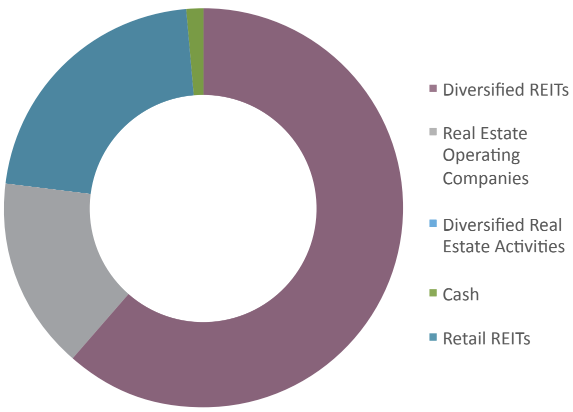
- Weaker-than-expected growth could erode dividends underpinning the current valuations.
- Low global bond yields have aided valuations – a reversal of this trend and tighter US monetary policy could impact valuations.
- Changes in sovereign risk (positive and negative) and its flow through to capital 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 December 2016.
*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 returned 2.56% in December, underperforming the Dow Jones Global Titans 50 TR (net of fees) which ended the month 3.09% higher.
- Fourteen (88%) of the 16 stocks in the portfolio ended in positive territory in December, while six (38%) closed ahead of the benchmark.

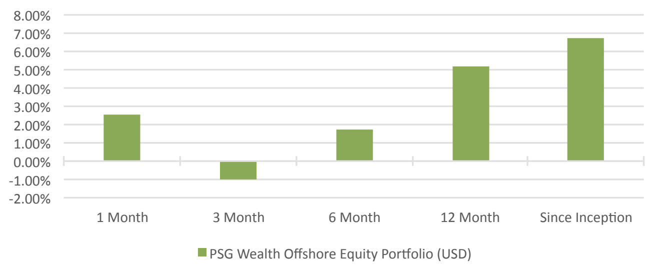
Expectations:

- 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:

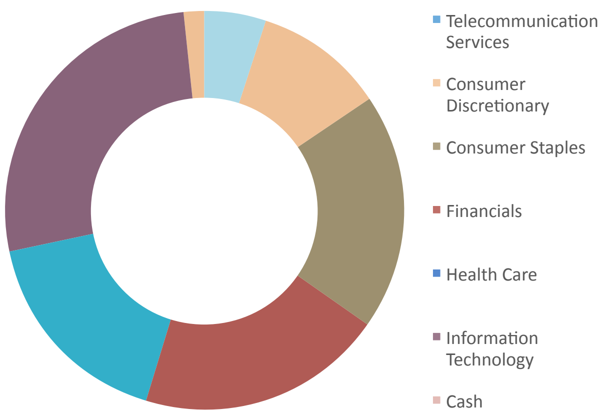
- Sustained international monetary easing creates demand for quality, stable, high yielding equities. This provides a valuation underpin to investments in the portfolio. The portfolio is likely to underperform should this deteriorate.

Performance since inception



Source: PSG Wealth research team data as at 31 December 2016.
*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 4.10% during the month. Underperforming the benchmark, the FTSE/JSE Dividend Plus TR (net of fees), which delivered 4.89% over the same period.
- Fifteen (75%) of the 20 stocks in the portfolio ended in positive territory and nine (45%) ahead of the benchmark for December.

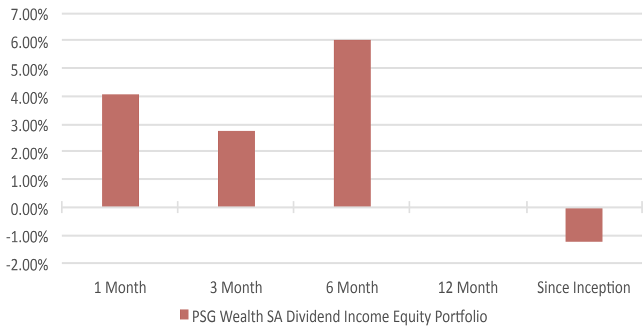
Expectations:

- 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:

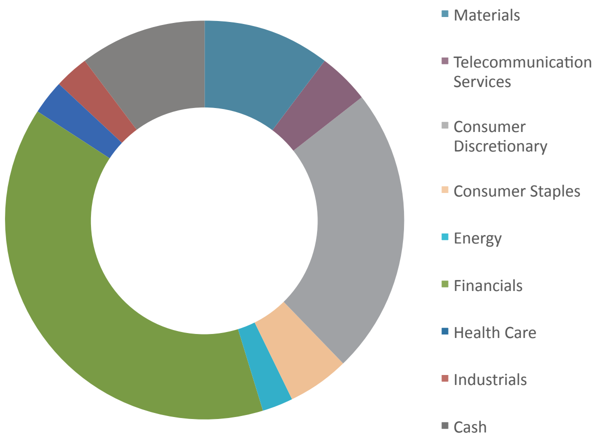
- Changes in the perception of sovereign risk (positive and negative) and its flow through to exchange rates and interest rates can have an impact on portfolio values.
- The portfolio is likely to underperform should international monetary easing prove sustainable. An environment of sustained monetary 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 December 2016.
*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 a negative return of -0.06% for December, underperforming the benchmark, the PSG Wealth Custom Low Volatility Index TR (net of fees), which ended the month 1.3% higher.
- Seven (47%) of the 15 stocks in the portfolio ended in positive territory and four (27%) ahead of the benchmark for December.

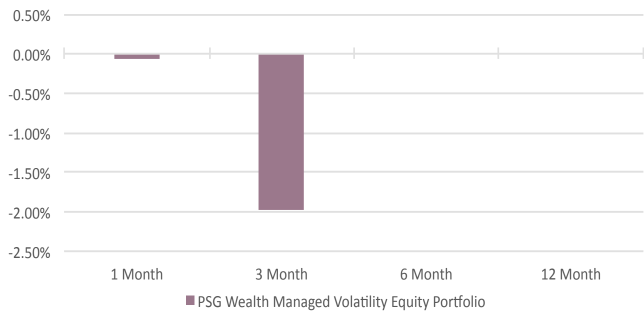
Expectations:

- 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:

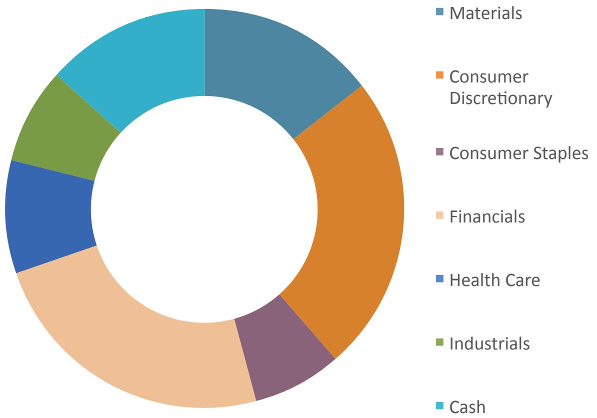
- A negative performance relative to the local equity market during strong bull markets.

Performance since inception



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

Asset allocation

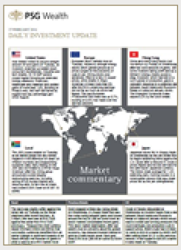


Source: PSG Wealth research team

Other publications

Previous publications

Daily

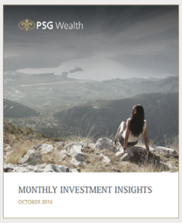


25 January 2017

Weekly

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
05 Oct	29 Jun	12 Apr	

Monthly

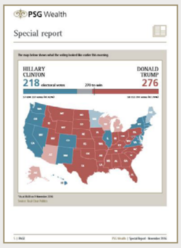


Nov 2016	Dec 2015
Oct 2016	Nov 2015
Sep 2016	Oct 2015
Aug 2016	Sep 2015
Jul 2016	Aug 2015
Jun 2016	July 2015
May 2016	Jun 2015
Apr 2016	May 2015
Mar 2016	
Feb 2016	

Quarterly

Spring 2016
Winter 2016
Autumn 2016
Summer 2015
Spring 2015

Special Reports



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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