PSG Wealth

MONTHLY INVESTMENT INSIGHTS

JUNE 2016

PSG Wealth

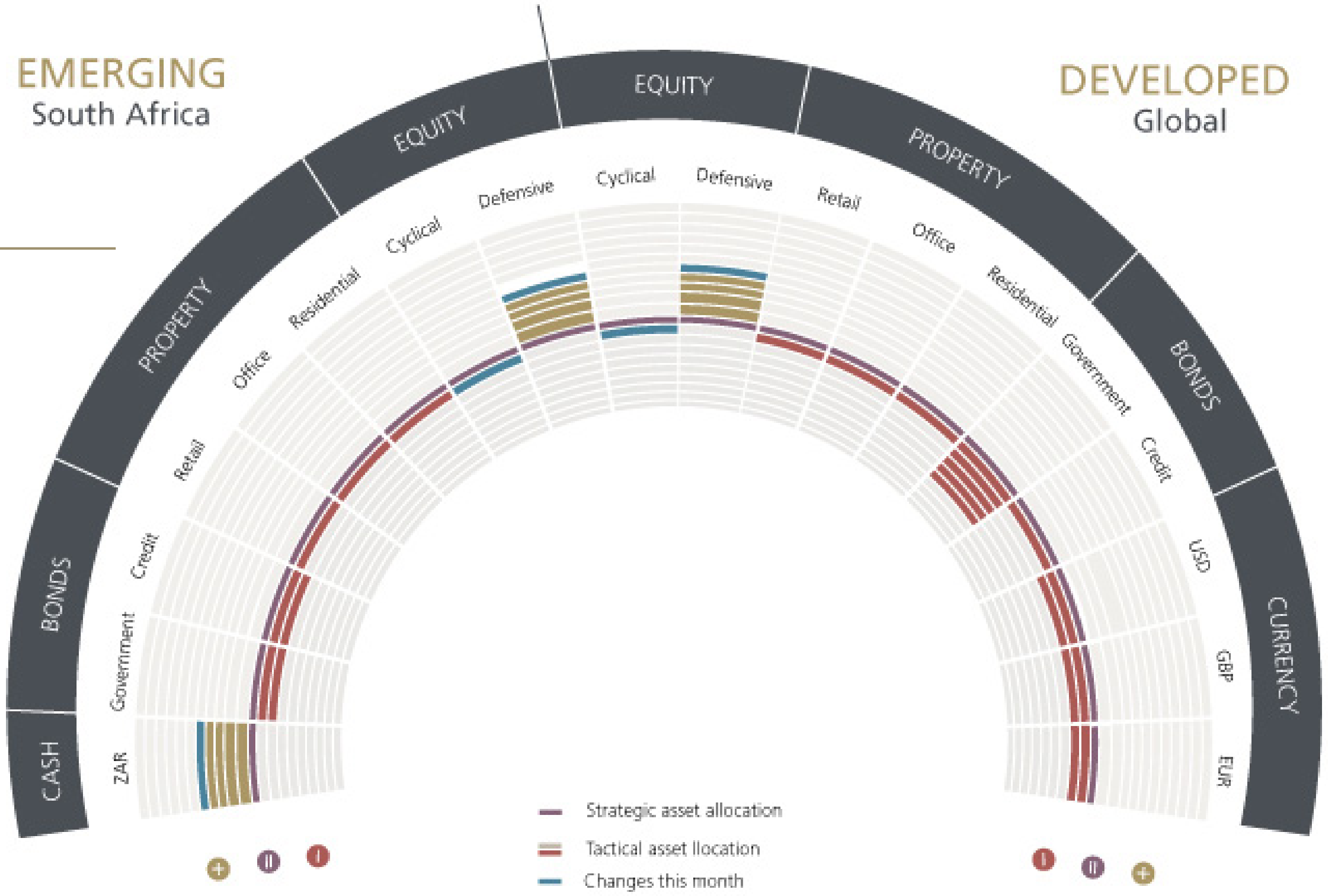
Contents

Tactical asset allocation preferences

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

Remain slightly under given cyclical downward pressure on yields.

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



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

- 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 over the coming months, as rate hikes ensue at an increased pace. Cash should form part of a diversified portfolio and even in this high interest rate cycle not be used in isolation.
- Despite a surge in yields of the All Bond Index, the index aggregate yield still implies that the asset class remains generally overvalued. With the implied premium being roughly 24%.
- Our assessment shows that domestic equity is now roughly 34% overvalued relative to its historic yield. There certainly remains some expensive pockets in the market, and investors should expect continued volatility at current levels.
- With regards to domestic listed property our assessment of fair value shows that domestic property equity is now roughly 20% overvalued relative to its historic yield. In addition, we remain of the view that the interest rate cycle will impact domestic economic strength, affordability and sentiment presenting headwinds for capital growth in the property sector. We therefore expect property yields to normalise on the back of capital value pressure.
- As always however, there are some exceptions. Selected property shares are experiencing growing yields, which may present some opportunities. Although broad-broadbased 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 (16.5%), remains the most attractive asset class to our mind. The underlying valuations remain more reasonable 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.

Special report

Bigger picture thinking

Volatility in markets and rising interest rates generally spook impatient investors. These conditions have created an environment where the majority of investors allocate too great a weighting to their cash holdings.

Although the PSG Wealth investment division may feel that cash plays a strategic role in a diversified portfolio consisting of different asset classes, it is not ideal to invest in cash in isolation. Investors should be aware of the longer-term trade-offs of allocating a significant portion of their long-term investment capital to cash.

Various risks to consider

Successfully growing one's wealth should not be based on emotional knee-jerk reactions to volatile market movements.

Market risks, which most people are generally more aware of, usually creates a migration of assets away from riskier assets such as equities to more perceived safe haven cash investments such as term deposits or money market accounts.

However, during times of volatility impatient investors are less aware of other risks which could impact their longer-term returns. These include inflation- and longevity risk. Inflation risk is the risk that long-term inflation growth will exceed the long-term investment growth of an individuals' portfolio, thereby effectively reducing the purchasing power of those savings.

Longevity risk is the risk that an individual will outlive his/her savings, because the long-term investment growth was insufficient to sustain the individuals' life expenses.

Due to medical advances the average life expectancy now far exceeds 85 years, the general age for which investors plan their investment horizons for.

However, research shows that by 2030 life expectancy will exceed 100 years – this is already the case in seven countries. Research has found that life expectancy increases by five hours every day.

Inherent risks in cash and equity investments

Risks	Cash	Equity
Equity markets	None	High
Exchange rates	None	Low
Interest rates	Low	Moderate
Longevity risk	High	Very Low
Inflation risk	High	Very Low

Source: PSG Wealth Investment division

Lifespan can be longer than expected

Probability of reaching stated ages	65-year-old man	65-year-old woman	65-year-old couple*
50% chance	85 yrs	89 yrs	94 yrs
30% chance	91 yrs	95 yrs	99 yrs
25% chance	93 yrs	97 yrs	100 yrs
20% chance	95 yrs	99 yrs	102 yrs
10% chance	100 yrs	104 yrs	106 yrs

*At least one surviving

Source: Sanlam

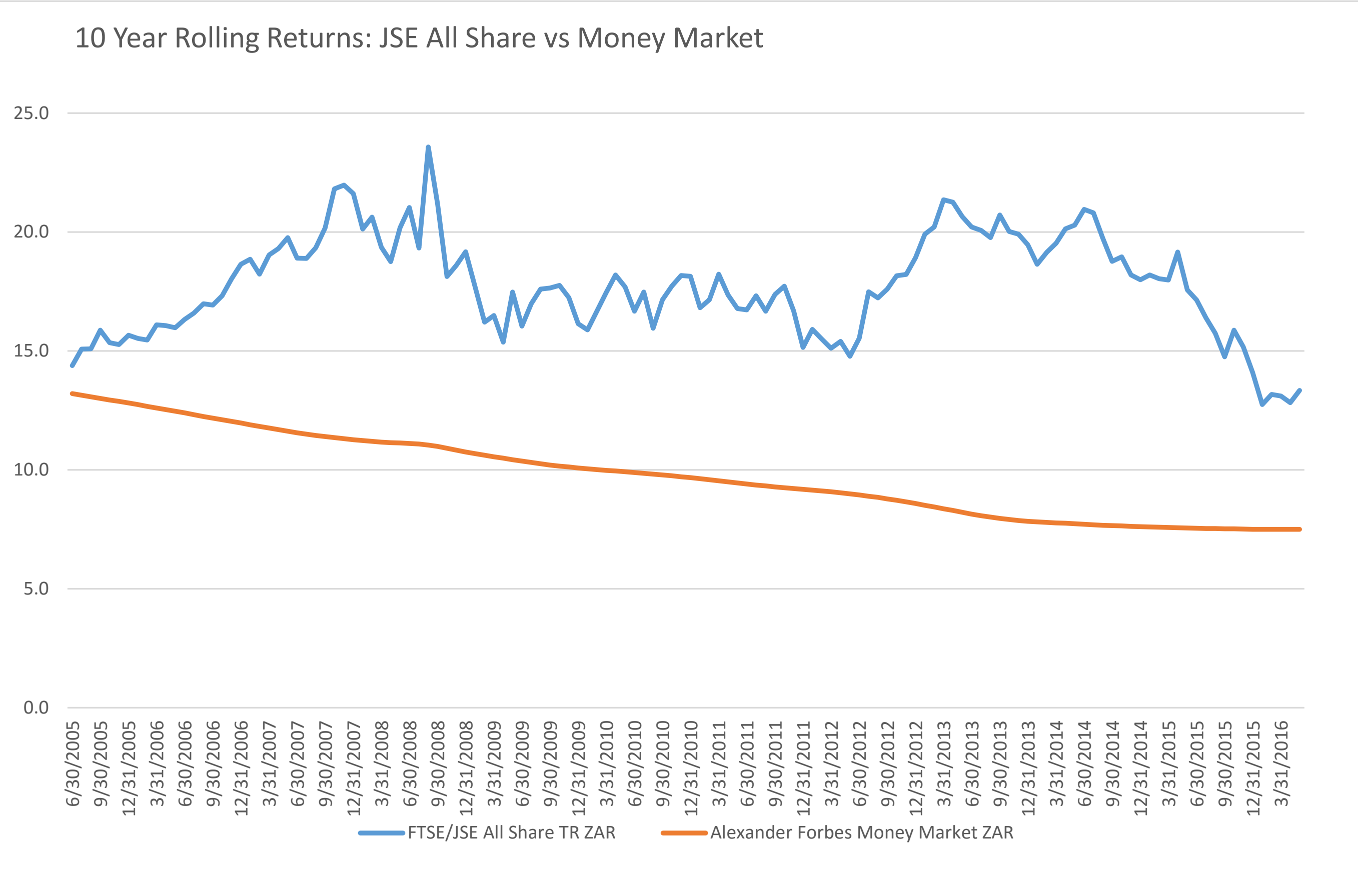
Special report

Don't bet against equities

So the good news is that most of us will probably live longer than what we expect. This means that you will probably have more time to give your investment the required time to grow. One tip however for longer term investment - Don't bet against equities.

While stock prices might suffer during periods of market volatility, research conducted by the PSG Wealth investment division shows that money market accounts usually underperform the FTSE/JSE All Share (ALSI) index over 10-year rolling periods.

The graph below shows that in the 10 years preceding 30 June 2005 the ALSI delivered an average annualised return of 14.4%, while the money market account delivered an average annualised return of 13.2%. In the 10 years preceding the heart of the financial crisis (31 March 2008), the ALSI returned 19.4% and the money market 11.2%. While in the 10 years preceding 31 May 2016, the ALSI returned 13.34% and the money market 7.5%.



Source: Morningstar, PSG Wealth Investment division

Unfortunately, there is a perception that equity is the highest risk investment. While your cash will grow at a steady pace, investments in equities managed by active managers can reduce one's longevity risk. Investors are thus rewarded with a premium for their uncertainty, where those invested in equities are compensated for tolerating the extra risk. When comparing equity and cash, the data used above shows that long-term investments in equity provide a higher premium than those in cash instruments.

PSG Wealth

Special report

Follow sound investment principles

Investors often get fixated with characteristics of investments that are beyond their control like market volatility. We, however, believe that paying careful attention to sound investment principles could be of far greater value.

Just start investing. There will always be levels of volatility in markets. The secret is to start as soon as possible and to be patient. No one can predict with certainty when a market will turn, but professional money managers have the knowledge of how to approach the different cycles in the market.

Sticking to your guns is especially important during times of uncertainty. Switching investments in an effort to chase the best performance rarely results in higher returns. Most funds, at least all PSG Wealth solutions, are geared towards long-term success. The phrase 'its time in the market that counts' may be a cliche, but it is also very true.

For the PSG Wealth investment division, three main wealth practice objectives have increased in importance this year – diversification, management of expectations and investing in the appropriate time and risk products. Although these methods have always been the cornerstones of the success of our wealth manager practices, these tough times require further emphasis of these objectives.

Risks inherent in individual cash-instrument investments

Investing in cash instruments might seem more attractive during uncertain times, but they come with their own inherent risks. The cash instrument might be exposed to credit risk, especially if the specific bank is not scrutinised by rating agencies. The risk of declining returns are also very high because you are only invested in one security versus a pool of diversified assets. See the table for other risks associated with these cash instruments.

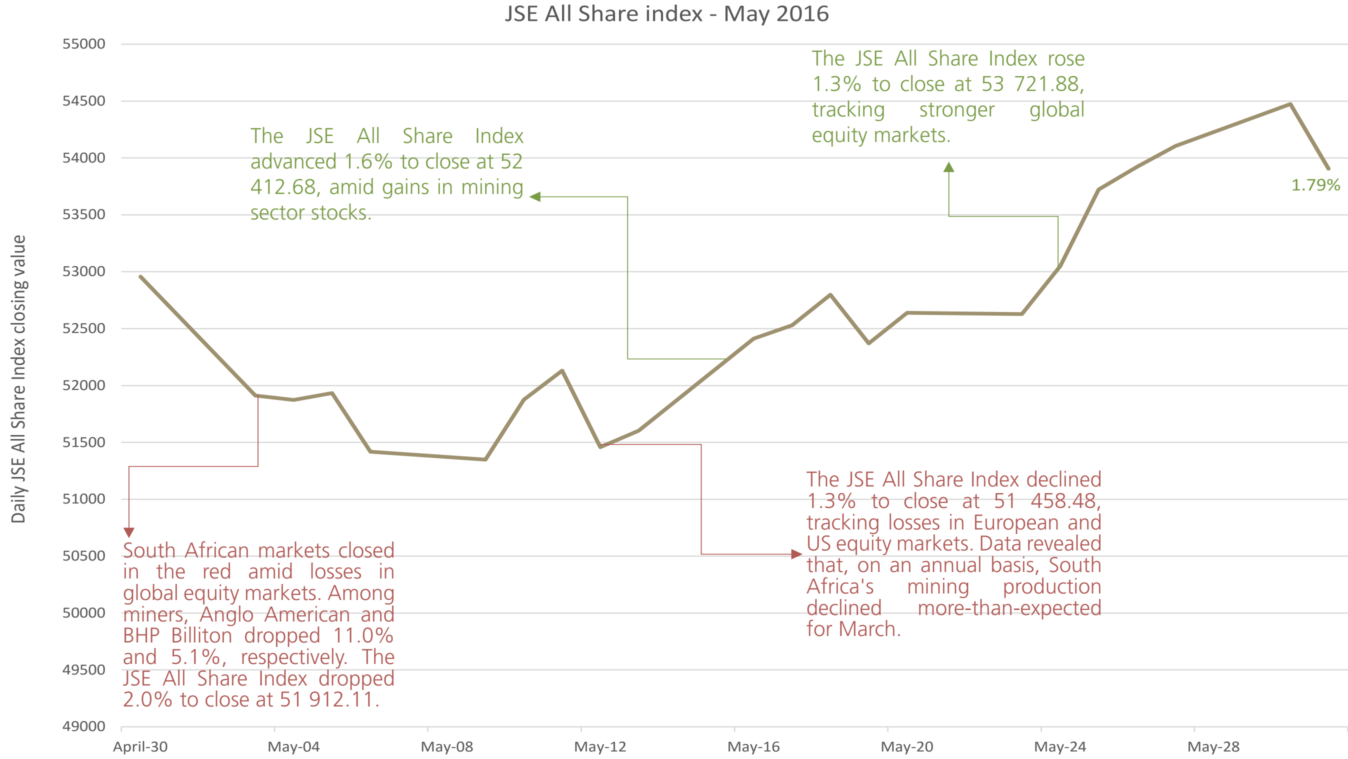
Banking product concerns

	Bank instrument	PSG Wealth Enhanced Interest Fund
Credit risk	Specific to one bank which may or may not be rated by agencies, and may or may not be investment grade credit.	Mandated to only invest in investment grade credit.
Security specific risk	Large. Only one security.	Minimal as assets are pooled within a diversified portfolio of assets.
Sector specific risk	Exposed to banking sector in isolation.	Banking credit is blended with credit form other sectors to diversify sector specific risk.
Liquidity	Usually restricts liquidity to a specific term or notice period	Readily available
Regulation	Not an explicitly FSB-approved product	Explicitly FSB-approved product
Governance	Board has to manage the bank's balance sheet risk within its operating environment	Assets monitored by independent trustees on a daily basis
Active management	None. One asset held to maturity.	Yes. Portfolio managers actively manage the assets in an effort to improve returns.

Source: PSG Wealth Investment division

Market commentary

Despite the famous trading platitude "Sell in May and go away", our local market reached an all-time high by the end of May, with the JSE All Share Total Return Index touching 54 609 points on 30 May. Since its low point on 21 January, the index has returned 18.2% in just over four months.



Source: Bloomberg

Domestic key moves

- The US dollar strengthened in May against a basket of currencies on the expectation that the US Federal Reserve may hike interest rates sooner rather than later if the US economy continues to improve. The South African rand, however, received an additional punch in the face after rumours that Minister Pravin Gordhan was at risk of an imminent arrest for espionage by the Hawks. The rand weakened by 10.4% against the USD, 9.5% against the GBP and 7.3% against the Euro.
- It should be no surprise that investment returns were heavily influenced by the weaker rand. Offshore investments (both equities, bonds and cash) delivered returns close to 10.5%, while domestic equities as measured by the JSE All Share Index returned 1.84%, the All Bond Index returned -1.49% (due to a higher risk premium in bond yields) and domestic cash delivered 0.57%.
- The high rand hedge characteristics of the industrial index led to a return of 5.9% for the index while the resources index was down by 2.7% and the financial index down by 2.2%.
- The good news, however, is that all three rating agencies eventually kept our sovereign rating unchanged for now, but the bad news is that we still run the risk of being downgraded at the next review if there are no improvements in our economic growth.
- It sounds impossible to turn an economy around in six months, but it is very important to start to change the outlook from negative to at least stable or preferable positive. This change is heavily dependent on a change in business confidence, then a change in investor confidence, followed by a change in consumer confidence.
- The South African Reserve Bank kept its benchmark repo rate on hold at 7% at its 19 May meeting, in line with expectations. Policymakers said there is some room to pause the tightening cycle as previous hikes improved the inflation expectation, while the growth outlook worsened.

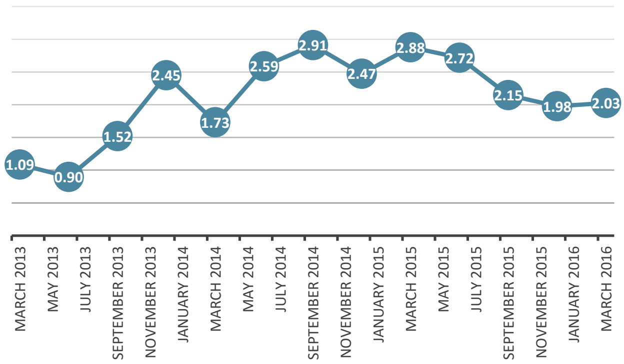
Global key moves

Reuters reports that early projections showed a resounding 78% voting against the initiative that would have guaranteed a monthly income of 2,500 Swiss francs ($2,563) per adult and 625 francs per child under 18. Daniel Haeni, a cafe owner who led the initiative, told the Swiss broadcaster SRF: "As a businessman I am a realist and had reckoned with 15% support, now it looks like more than 20% or maybe even 25%. I find that fabulous and sensational." The Swiss franc strengheted by 0.1% to 0.9752 per dollar after this announcement.

US

- The chair of the US Federal Reserve indicated that it would not raise interest rates in June, following a dissapouinting jobs report. The US added only 160 000 jobs in April below expectations. However, wage growth improved, as did hours worked. Employment should slow as the economy moves closer to full employment. US nonfarm payrolls rose by less than expected in April, while the unemployment rate remained steady at 5%. If data permits, the Fed could hike rates before the end of the year.
- The final University of Michigan's consumer sentiment for the US came in at 94.7 in May, down from 95.8 in the preliminary release, but higher than 89 in the previous month. Future expectations decreased while the current conditions index rose to its highest since January 2007.
- Moody's downgraded US growth. The credit-rating agency trimmed its 2016 US growth forecast to 2% from 2.3%, according to an emailed statement obtained by Bloomberg. The statement suggested that the slowing of the Chinese economy could have a "significant" impact on financial markets. Additionally, Moody's thinks the US Federal Reserve will raise rates at most twice this year. As for 2017, the rating agency thinks US growth will reach 2.3%, according to Bloomberg.

US GDP annual growth rate



Source: PSG Wealth Investment division, I-Net Bridge

UK

- Remaining in the EU is leading in the Brexit polls. An ORB poll conducted by The Telegraph showed that 51% of respondents supported Remain while 46% supported Leave. The referendum on whether Britain will leave the European Union is set to take place on 23 June.
- The British economy expanded 2% YoY in the first three months of 2016, lower than a 2.1% initial estimate and a 2.1% rise the previous period. It is the weakest growth rate in three years, due to a slowdown in household consumption, exports and a fall in business investment.

EU

- The Eurozone is still in deflation. Consumer prices fell 0.1% YoY in May, according to Eurostat data. The reading matched economist expectations, and it marked a slight uptick from the 0.2% decline experienced in April. Stripping out the volatility from food and energy prices, the core reading climbed 0.8% YoY, in-line with estimates.

- The Eurozone economy expanded by 0.5% QoQ in the first three months of 2016, lower than a preliminary estimate of a 0.6% growth. It is still the fastest growth in a year as Germany, France and Italy accelerated, while Greece and Latvia contracted.

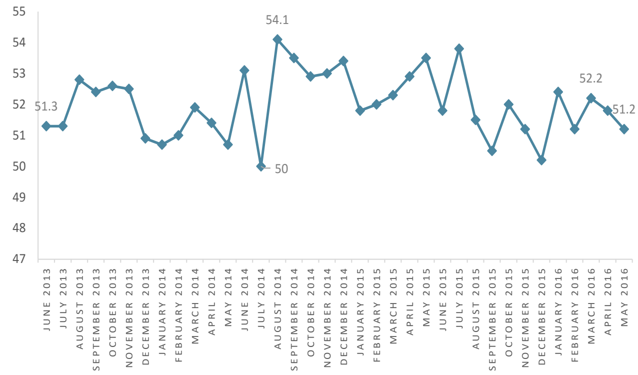
- The seasonally adjusted unemployment rate in the Eurozone was recorded at 10.2% in April, unchanged from previous month's unrevised level and down from 11% reported a year earlier. It remained at its lowest level since August 2011.

China

- A new report from Fathom Consulting, cited by Bloomberg, shows that China's unemployment rate has tripled since 2012. Fathom says the jobless rate in China is really 12.9% versus the roughly 4% that is reported by Beijing. "China has a substantial hidden unemployment problem, in our view, and that explains why the authorities have come under so much pressure to re-start the old growth engines," the report said.

- China's services sector is slowing. The Caixin-Markit services purchasing managers' index slipped to 51.2 in May, making for its lowest reading since December. Looking at the internals of the report, the pace of new orders slowed, but employment gained for a second consecutive month. "A number of companies forecast that improving client demand and planned company expansions will support higher business activity over the next year, but there were reports that an uncertain economic outlook weighed on the overall level of business confidence," Markit said.

China Caixin-Markit Services PMI



Source: PSG Wealth Investment division, Bloomberg

- Consumer prices in China rose 2.3% YoY in April, the same pace as in the previous two months and below market consensus of a 2.4% increase.

- China's trade surplus increased to $45.56 billion in April, from $34.13 billion reported a year earlier and beating market estimates. It is the largest trade surplus since February as exports and imports fell more than expected.

Japan

- The Japanese economy returned to growth in the first quarter, with government data showing that it expanded by 0.4%. The Q1 reading was ahead of the 0.1% gain that economists were anticipating and marked the strongest growth since the corresponding quarter from a year ago.

- Japanese Prime Minister Shinzo Abe said he will delay the sales-tax hike. The increase to 10% from 8% that was planned for 2017 will now take effect in October 2019. Additionally, Abe will announce a new stimulus package in the fall aimed at sparking private demand and accelerating infrastructure projects, Reuters said.

- Japan recorded an 823.47 JPY billion surplus in April, compared to a 58.34 JPY billion deficit a year earlier. It is the third straight month of surplus and the largest since March 2010 as exports dropped less than imports.

PSG Wealth Fund of Funds Solutions

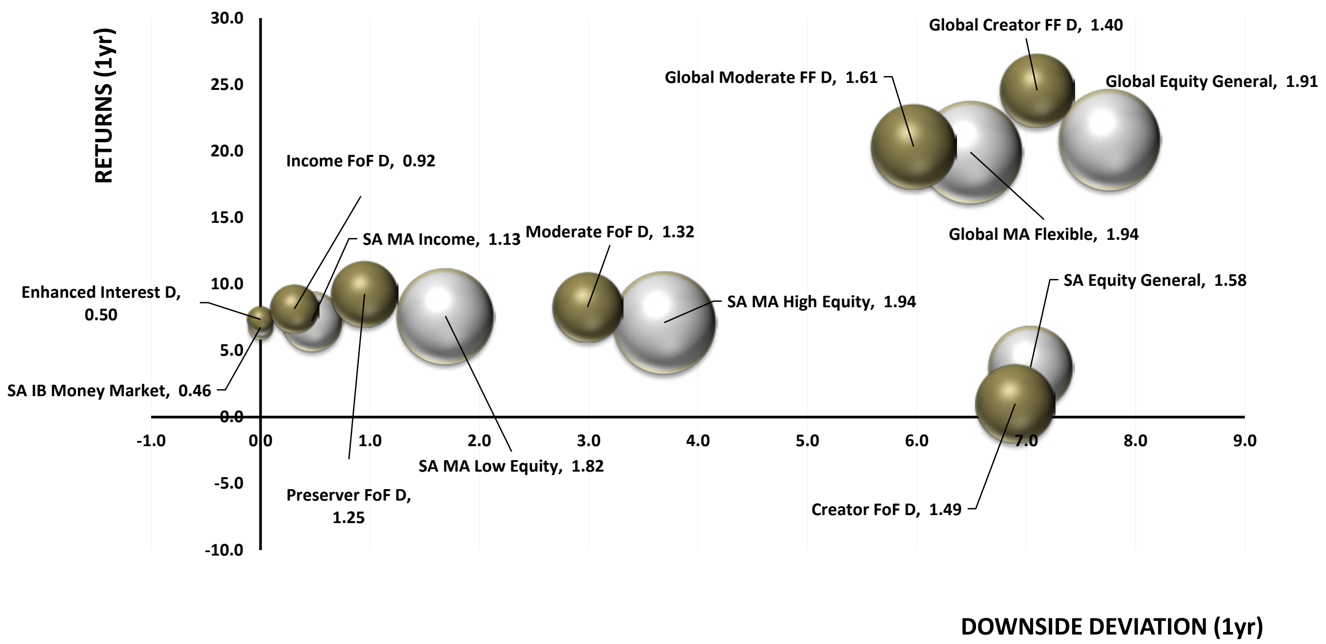
Local funds

Performance table

PSG Wealth Solutions - Local						
Fund	6 Month	1 Year Move	2 Year Move	3 Year Move	4 Year Move	5 Year Move
PSG Wealth Enhanced Interest D	3.76%	7.34%	6.75%	6.43%	6.22%	
PSG Wealth Income FoF D	3.96%	8.13%	7.99%	7.27%	7.80%	8.03%
PSG Wealth Preserver FoF D	5.17%	9.26%	10.05%	9.76%	12.14%	11.91%
PSG Wealth Moderate FoF D	6.39%	8.26%	10.25%	11.93%	15.15%	14.23%
PSG Wealth Creator FoF D	4.85%	0.99%	5.83%	11.66%	15.45%	13.48%

Source: PSG Wealth Investment division data as on 31 May 2016

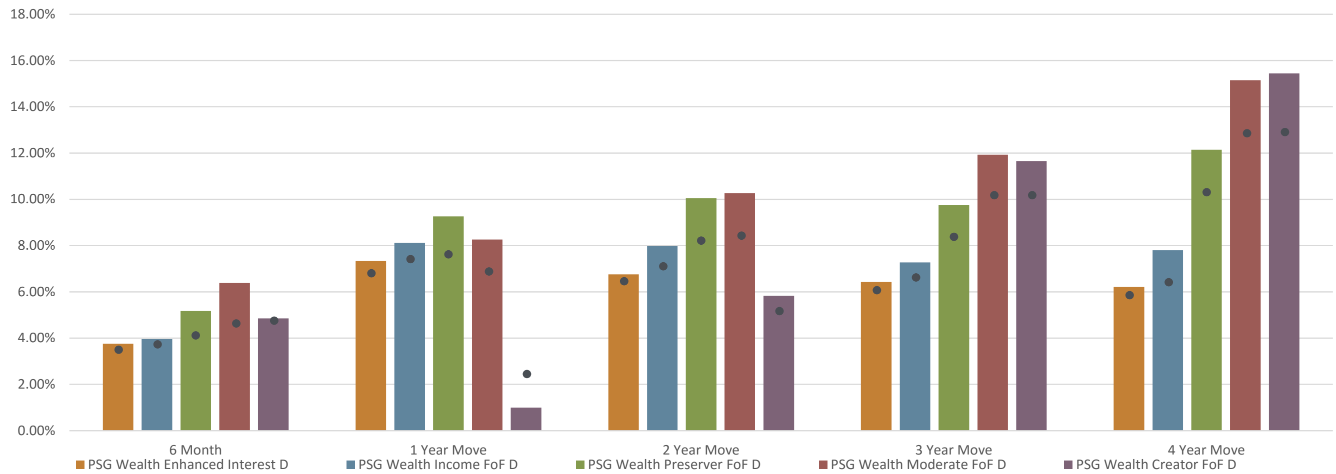
Local Funds, TERs, Illustrative fees vs peer group



Source: PSG Wealth Investment division

PSG Wealth Fund of Funds Solutions

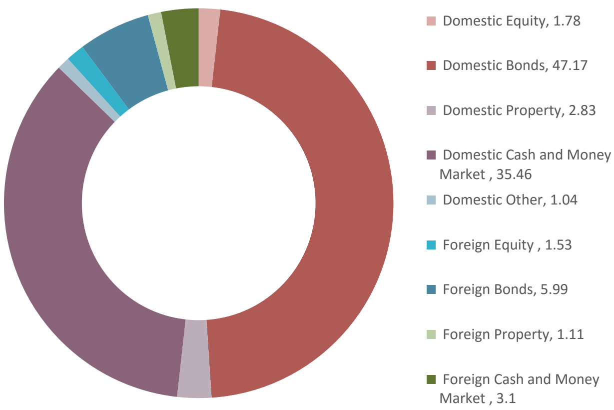
Domestic funds performance



Source: PSG Wealth investment division data as on 31 May 2016. *Dots represent the relevant benchmark

PSG Wealth Income Fund

- The PSG Wealth Income FoF delivered a return of 0.99% for May, compared to 0.64% 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 over five years and less.

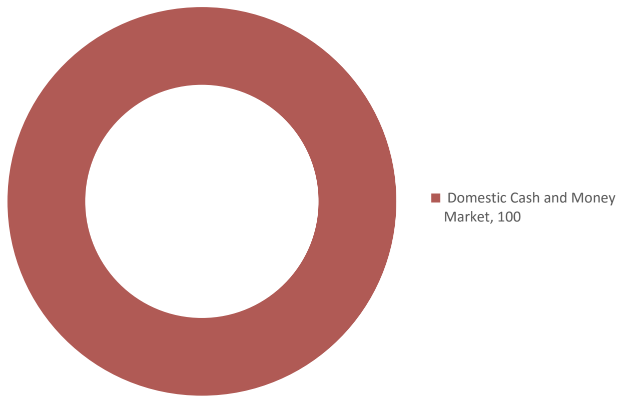


Source: PSG Wealth investment division

Risk & Expectations: Higher inflation and rising interest rates may be a drag on performance over the short term, but we are confident that the inflation cycle is near its top. We believe the underlying portfolio managers will be able to lock in the higher yields on short-term instruments in order to deliver attractive returns until well after the interest rate cycle has peaked.

PSG Wealth Enhanced Interest Fund

- The PSG Wealth Enhanced Interest fund returned 0.68% for May, compared to 0.62% of its benchmark, the South Africa IB Money Market Sector Average.
- The fund again outperformed the benchmark over all measurement periods over four years and less.



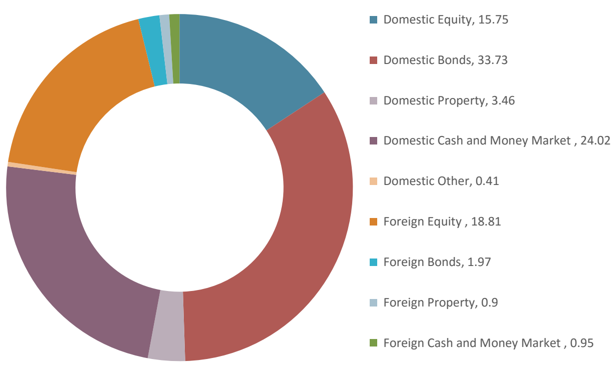
Source: PSG Wealth investment division

Risk & Expectations: We are confident the fund will continue to benefit from rising interest rates, and will continue to deliver exceptional short-term returns in order to offset the negative effects of higher inflation on cash.

PSG Wealth Fund of Funds Solutions

PSG Wealth Preserver Fund

- The PSG Wealth Preserver FoF delivered an attractive return of 2.4% for May, compared to the 2.1% of the South African MA Low Equity Sector Average.
- The fund outperformed the sector average and its performance target of CPI plus three percent over all investment periods of two years and longer.

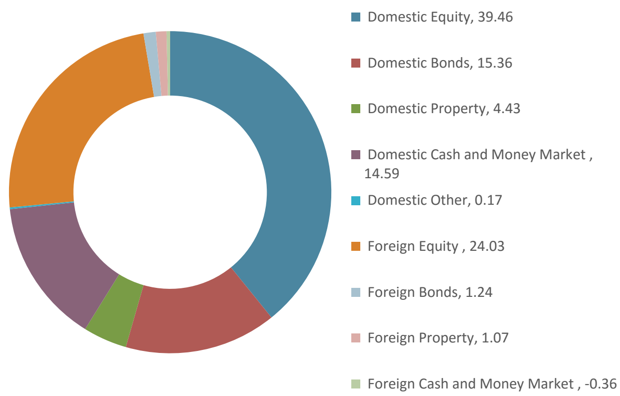


Source: PSG Wealth Investment division

Risk & Expectations: Higher inflation increases the performance hurdle of the fund, but rising interest rates, due to higher inflation, could be a drag on performance. 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 negative markets.

PSG Wealth Moderate Fund

- The PSG Wealth Moderate FoF returned 2.8% for May, compared to the 2.6% of its benchmark, the South African MA High Equity Sector Average.
- It also outperformed the sector average over all measurement periods over five years and less.



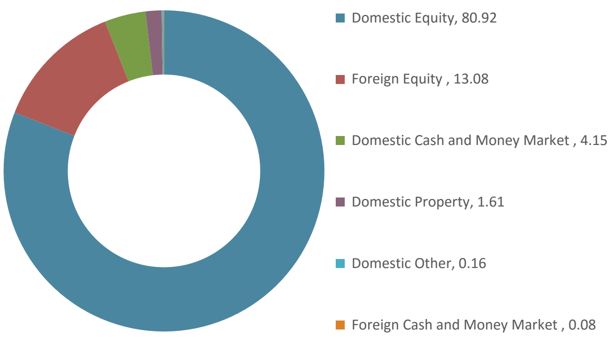
Source: PSG Wealth Investment division

Risk & 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 all market cycles.

PSG Wealth Fund of Funds Solutions

PSG Wealth Creator Fund

- The PSG Wealth Creator FoF delivered a return of 1.3% for May, in line with the 1.3% of its benchmark, the South African EQ General Sector Average.
- It outperformed the sector average over all measurement periods of two years and longer.



Source: PSG Wealth Investment division

Risk & Expectations: Although the outlook for equities have 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 equities and offshore equities, and may deliver negative short term performances in sharp equity corrections or equity bear markets. We are, however, also 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.

PSG Wealth Fund of Funds (FoF) Solutions

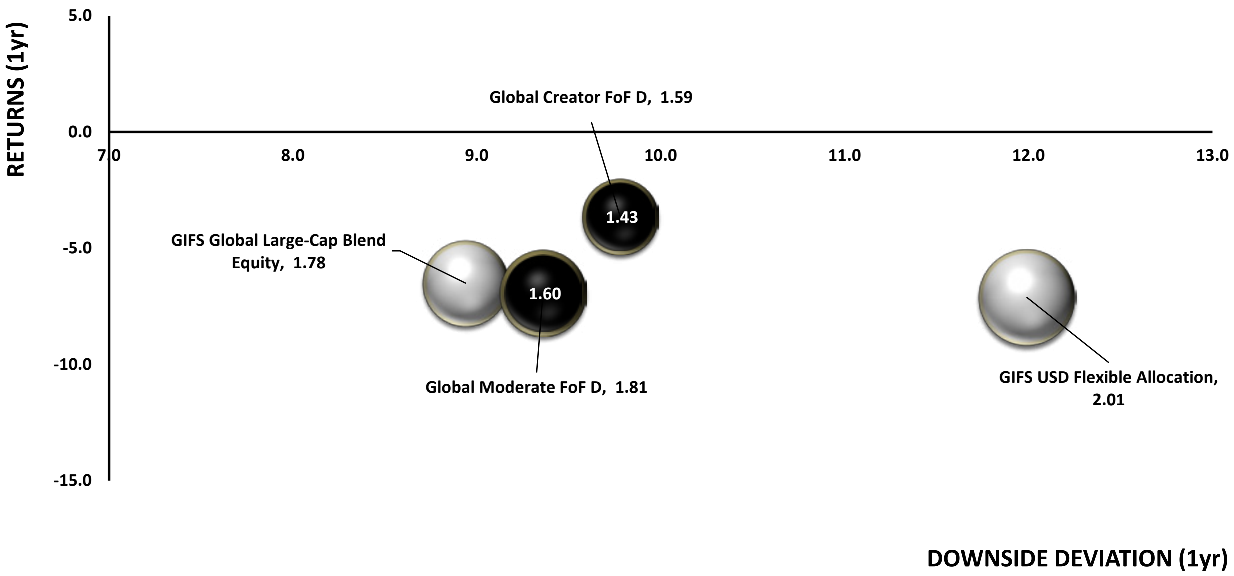
Offshore funds

Performance table

PSG Wealth Solutions - Offshore (in Rands)							
Fund	1 Month	3 Month	6 Month	1 Year Move	2 Year Move	3 Year Move	4 Year Move
PSG Wealth Global Moderate FoF D USD	10.27%	6.84%	9.09%	20.32%	18.74%	18.05%	22.66%
PSG Wealth Global Creator FoF D	11.43%	7.22%	8.51%	24.56%	23.18%	22.41%	

Source: PSG Wealth Investment division as on 31 May 2016.

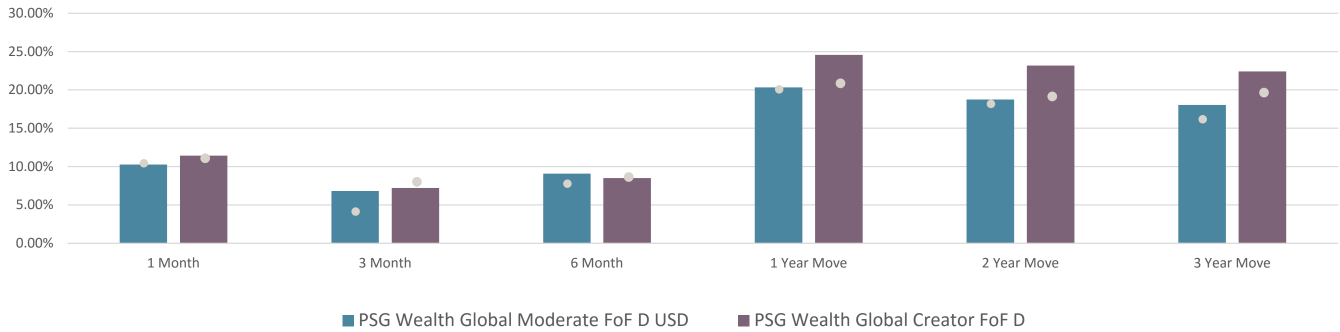
Offshore Funds, TERs, Illustrative fees vs peer group



Source: PSG Wealth Investment division

PSG Wealth Fund of Funds Solutions

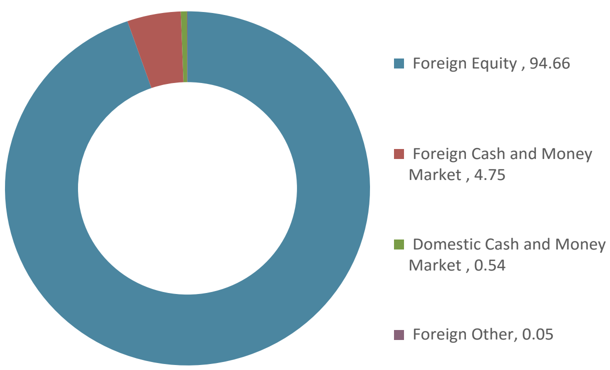
Offshore funds performance



Source: PSG Wealth Investment division as on 31 May 2016. *Dots represent the relevant benchmark

PSG Wealth Global Creator Feeder Fund (FF) (ZAR)

- The PSG Wealth Global Creator FF D delivered a return of 10.93% for May in rand terms, slightly outperforming the global sector average which returned 10.64%. The rand weakened by 10.93% against the US dollar in May, increasing returns of the global portfolios reported in ZAR.

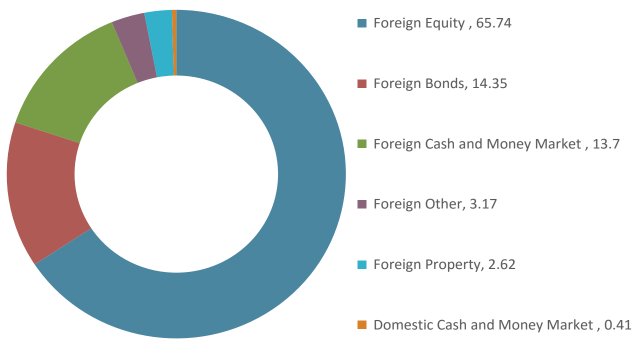


Source: PSG Wealth Investment division

Risk & 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 (seven years +) we expect the currency effect will be relatively flat. Given the relative valuation of global equities we still believe the fund offers good opportunities.

PSG Wealth Global Moderate FF (ZAR)

- The PSG Wealth Global Moderate FF D delivered a return of 9.90% in rand terms for May, underperforming the global flexible allocation sector which returned 10.45%.



Source: PSG Wealth Investment division

Risk & 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 (seven years +) we expect the currency effect will be relatively flat and given the relative valuation of global equities we still believe the fund offers good opportunities.

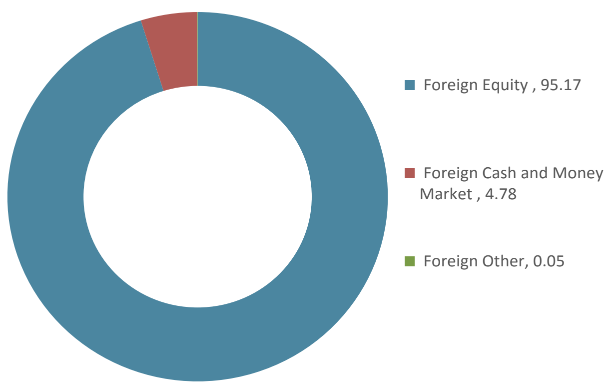
PSG Wealth Fund of Funds Solutions

PSG Wealth Global Creator FoF (USD)

- The PSG Wealth Global Creator FoF returned 0.47% for May, outperforming its benchmark, the GIFS Global sector average which delivered -0.25%.
- The best performing fund for the month was the T. Rowe Price Global Focused Growth which delivered 2.86%. While the worst performing fund was the Vulcan Value Equity which delivered -1.73%. All other underlying funds outperformed the sector average, actively contributing to overall portfolio alpha.
- Developed markets outperformed emerging markets, the MSCI World Index delivered 0.56% against the 3.73% drop in the MSCI Emerging Market Index. US equity markets had a relatively strong month, with the S&P 500 returning 1.80%. European markets had a good month (excluding the UK), the MSCI Europe ex UK index returned 2.8%.

Risk: Given the overweight to developed markets in our portfolio (97%) 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. We are comfortable with the overall defensive positioning of our fund.



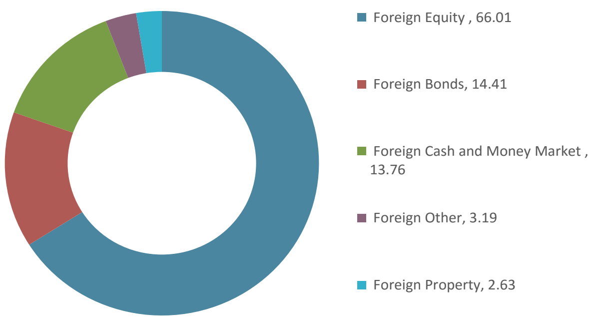
Source: PSG Wealth Investment divison

Disclaimer: All performance is reported in USD unless specified otherwise.

PSG Wealth Fund of Funds Solutions

PSG Wealth Global Moderate Fund of Fund (USD)

- The PSG Wealth Global Moderate FoF returned -0.58% for May slightly underperforming the benchmark sector average, which delivered -0.42%.
- The best performing fund was the Foord International trust which returned 0.32%, and the worst performing fund the Templeton Global Balanced which was down 1.77%. Templeton has underweight positions in both US Fixed Interest and the US dollar and thus underperformed during a month where most US instruments delivered relatively strong returns.
- In their monthly market note J.P. Morgan Asset Management stated that the month of May saw a continuation of the risk-on sentiment seen in April, with oil leading commodities higher and developed equity markets rising. The pattern of year to date returns make interesting reading. All asset classes rallied: commodities bounced from very oversold levels; government bond yields fell as inflation expectations declined and central banks expanded their efforts to support growth; and, after a difficult start to the year, equities in both the developed and emerging markets are now up for the year.



Source: PSG Wealth Investment division

Risk: The potential risk in the Global Moderate is the relatively high allocation to global cash (13.76%, down from 20.79% in April) which could be a drag on short term performance in periods of positive market sentiment when equity markets perform well.

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

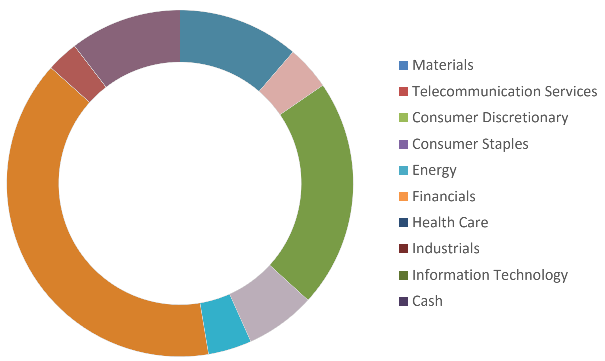
PSG Wealth

PSG Wealth Equity Portfolios

PSG Wealth SA Equity Portfolio

- The PSG Wealth SA Equity Portfolio returned 1.4% during May, outperforming its benchmark, the JSE Capped All Share Index, which returned 1.1% over the same period.
- Eight (44%) of the stocks in the portfolio outperformed the benchmark, while nine (50%) had a negative return for the month.
- The weaker rand assisted the performance of rand hedges in the period under review and was the dominant driver of return during the review period.

Asset Allocation



Source: PSG Wealth Investment division

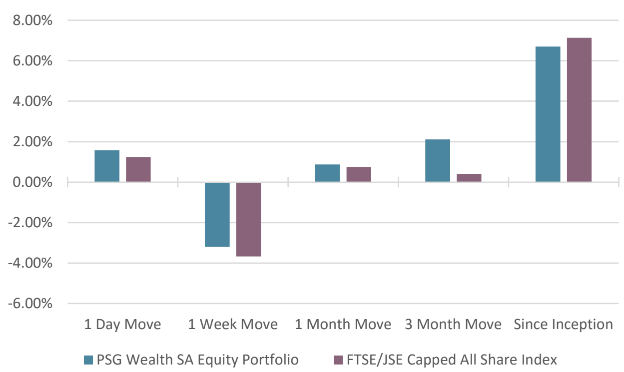
Expectations:

- We feel that the number of attractive investment opportunities have materially reduced following the strong rally in the stock market over the last three months.
- Valuation differentials between sectors are not obvious at this stage, but we maintain a slight preference for the banking sector.
- Investment markets are expected to remain volatile given the difficulty to forecast macro variables.
- Portfolio is weighted toward domestic value investments and offshore growth stocks.
- Given the diversification of the portfolio and the quality of its chosen investments we believe performance should not be fundamentally dependent on exchange rate movements.
- Our focus will remain on the underlying fundamentals of the individual companies rather than broad macro issues.

Risk:

- Changes in 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 due to valuation concerns. This could lead to portfolio underperformance.
- Overestimating the growth and operational improvements in highly rated offshore investments.

Performance vs ALSI Capped TR ZAR



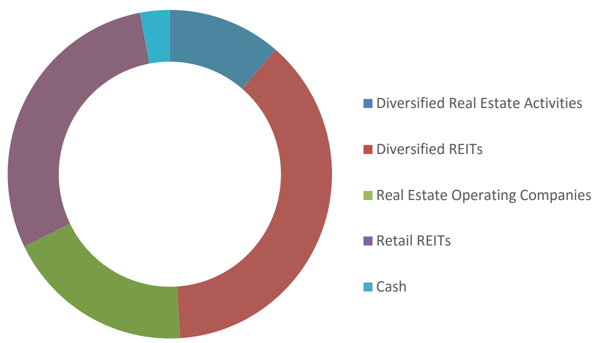
Source: PSG Wealth Investment division data as on 17 June 2016

PSG Wealth Equity Portfolios

PSG Wealth SA Property Portfolio

- May was a relatively quiet month in the local listed property sector with only a few property counters reporting their results.
- The PSG Wealth SA Property Portfolio fell by 0.13%, outperforming the FTSE/JSE SA Listed Property Capped Index which declined by 0.95%.
- Four out of the 10 stocks in the portfolio recorded positive returns over the period, while 50% of the individual investments outperformed the benchmark.

Asset Allocation

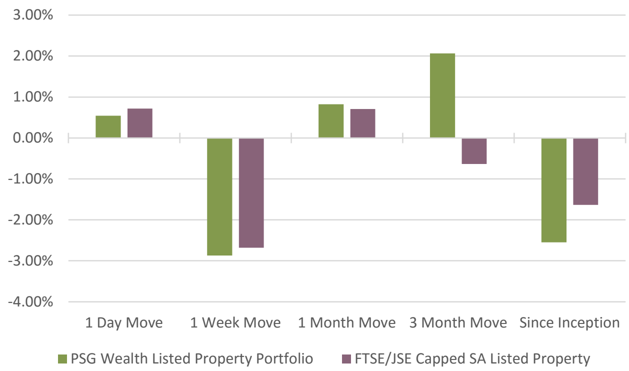


Source: PSG Wealth Investment division

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

Risk:
- Weaker than expected growth eroding dividends underpinning current valuations.
- Changes in sovereign risk (positive and negative) and its flow through to exchange rates and interest rates can have a significant impact on valuations.
- 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.
- Value destructive acquisitions

Performance vs FTSE/JSE Capped SA Listed Property



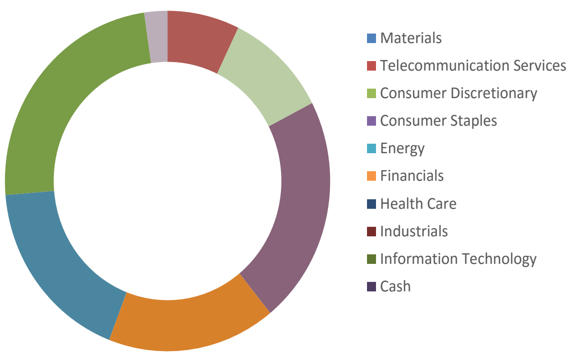
Source: PSG Wealth Investment division data as on 17 June 2016

PSG Wealth Equity Portfolios

PSG Wealth Offshore Equity Portfolio

- The PSG Wealth Offshore Equity Portfolio gained 1.86% for the month, slightly outperforming its benchmark, the Dow Jones Global Titans 50, which only returned 1.81%.
- In rand terms the portfolio was up 12.03%, reflecting the significant weakness in the rand over the period.
- Eight out of the 15 (53%) stocks outperformed the benchmark.

Asset Allocation



Source: PSG Wealth Investment division

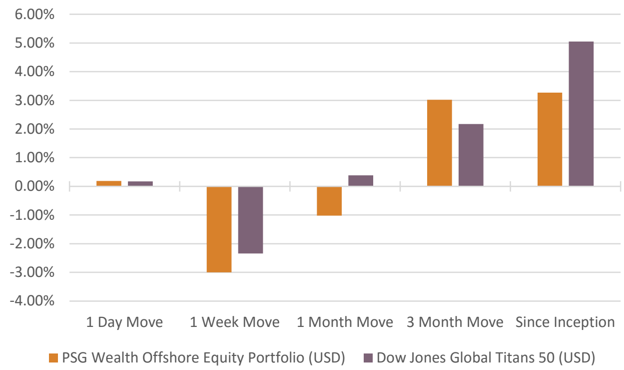
Expectations:

- Investment markets are expected to remain volatile given the high amount of uncertainty surrounding macro variables which are difficult to forecast.
- 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 artificial demand for high yielding equities to which the portfolio is exposed.

Performance vs Dow Jones Global Titans 50



Source: PSG Wealth Investment division data as on 17 June 2016

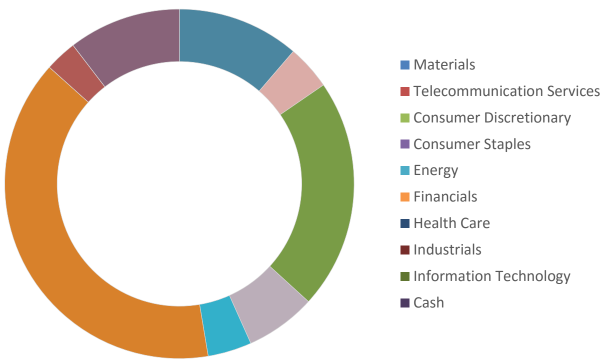
PSG Wealth

PSG Wealth Equity Portfolios

PSG Wealth SA Dividend Income Equity Portfolio

- Both the JSE Dividend Plus Index and the PSG Wealth SA Dividend Income Equity Portfolio ended the month in negative territory.
- The benchmark, the JSE Dividend Plus, declined by 6.45% for the month under review. The PSG Wealth SA Dividend Portfolio was slightly ahead of the benchmark declining by 6.21%.
- Twelve out of the 20 (60%) stocks outperformed the benchmark. Six companies recorded positive returns.
- The estimated gross forward yield of the portfolio for May was 5.38%, compared to its benchmark, the Divi Plus Index at 5.3%.
- The portfolio reflects no sector bias, with the exception of the underweight position in telecommunications.
- The portfolio holds its full position in cash.

Asset Allocation



Source: PSG Wealth Investment division

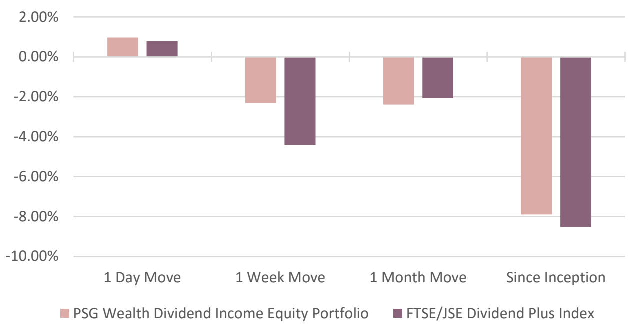
Expectations:

- Investment markets are expected to remain volatile given the difficulty to forecast macro variables
- A shift from highly rated high quality defensive stocks towards more reasonably priced consumer cyclicals and financial stocks
- A weak exchange rate should be a headwind given the portfolio's positioning towards local counters.

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.

Performance vs FTSE/JSE Dividend Plus Index



Source: PSG Wealth Investment division data as on 17 June 2016

PSG Wealth

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Published on a daily basis

Weekly

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