PSG Wealth

MONTHLY INVESTMENT INSIGHTS

JUNE 2019

Contents

The monthly interview

This month we bring you insights from former PSG Wealth Fund Analyst, Marcel Roos, about our domestic solutions.

Marcel Roos,
PSG Wealth Fund Analyst

Why invest in South Africa?
There's a sense of optimism over the current state of the country after Cyril Ramaphosa was elected as President and people are generally optimistic about his ability to implement pro-growth economic policies. A recent survey done by Reuters shows that local economists reflected positive projections for economic growth in 2019 ranging between 1.20% and 2.30%. Plans are also being implemented to address concerns regarding faltering state-owned enterprises (SOEs), to attract foreign investment and to make the country more investor-friendly.

What are some of the biggest investment trends currently - where are investors putting their money?
We are seeing a significant increase in indexation – globally. This is especially true with regards to the US, with almost $1 trillion flowing from active to passive management over a 10-year period. Another interesting trend is that artificial intelligence is being seen as an attractive investment with ETFs available.

Given the numerous headwinds we've faced in the past few years, how would you defend South Africa's investment landscape?
There is a sense of increased optimism, although it is cautious. The reason for this caution is due to the recent election. Consensus is that Cyril Ramaphosa will be able to implement reforms quicker. The structural issues in the country have finally been identified and the country's ruling party has been honest in announcing them and planning action.

This includes appointing a new head of SARS, reshuffling the cabinet to appoint competent ministers in key positions (for example Pravin Gordhan as minister of public enterprises).

Research suggests that South Africa might no longer be a default choice for global companies looking to enter the sub-Saharan African (SSA) market. Countries like Kenya and Nigeria, for example, are receiving significant attention, what is SA's role in growing pan-African companies and investment in specific sectors?
There is an increasing amount of research suggesting that entering SSA via South Africa is not as attractive but the success of SA-based companies at home and in the rest of Africa illustrates how a strong foundation in South Africa can play an important role in the growth of pan-African companies.

South Africa is currently putting structures in place to aid future trade and investment growth and joined the Tripartite Free Trade Area (TFTA) in July 2017. The regional structure will eventually include 26 African countries, which over a five- to eight-year period will provide tariff liberalisation on 100% of tariff lines.

What are some of the risks associated with investing in Africa?
- There are many risk factors when investing in Africa. Chief amongst these is most likely political uncertainty and corruption. SSA is widely considered among the world's most corrupt places.
- Regulation and governance changes.
- Risks pertaining to natural disasters has also increased in recent years.

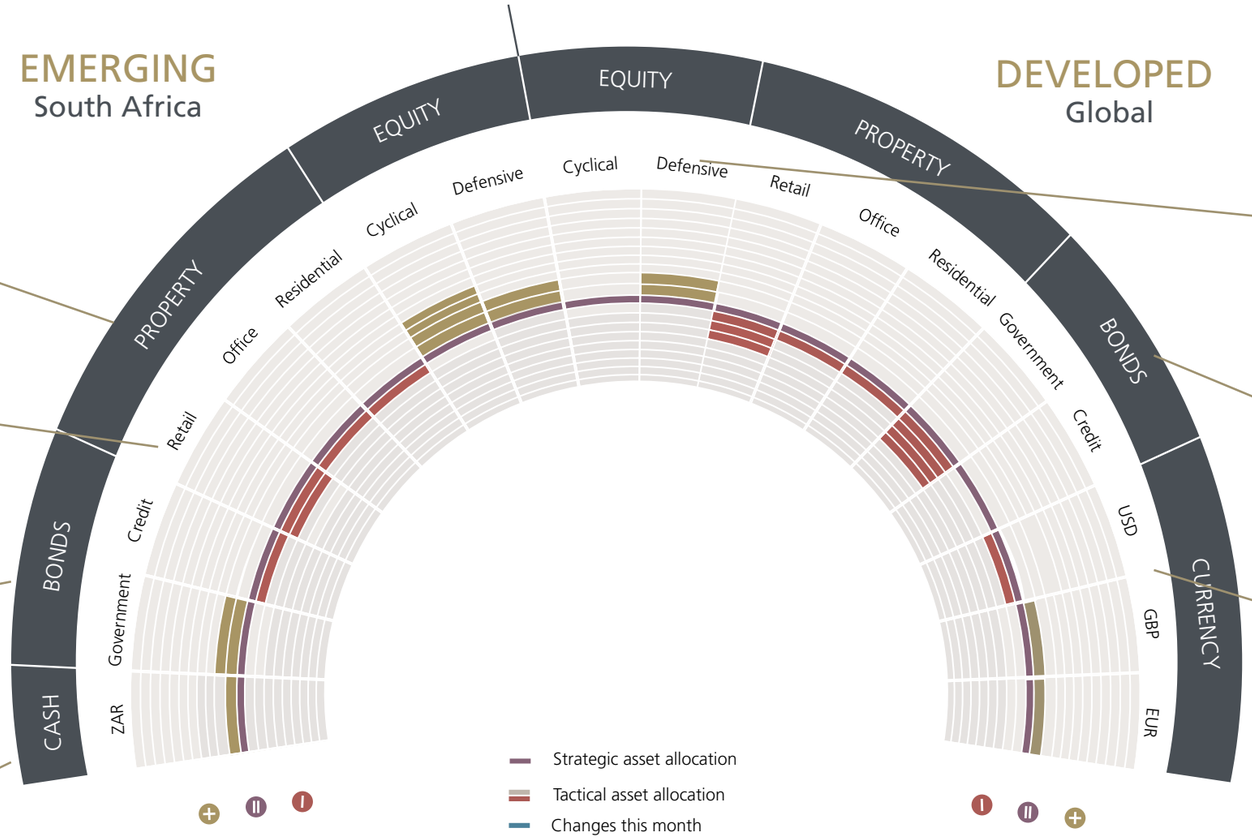
What makes our domestic funds stand out in the crowd - top two reasons?
- Despite hard economic times our funds continue to perform over the long-term. This is due to a dedicated research team who continuously reviews and monitors performance.
- Our philosophy entails using a best of breed approach which has yielded excellent results.

Foreign direct investment–led growth and export-led growth hypotheses are believed to enhance growth, employment and development in most developing economies - How do we begin to drive increased FDI into the country?
The government is on a mission to court FDI and have undertaken several initiatives to attract more FDI. President Ramaphosa led a delegation of business and political leaders to the annual WEF meeting in Davos, Switzerland in January. Media reports suggested that the message was conveyed loud and clear, and that WEF attendees were very welcoming of President Ramaphosa and his delegation.

InvestSA, a division of the Department of Trade and Industry (the dti), is in the process of launching various one stop shops (OSSs) across South Africa with the purpose of making South Africa a more investor-friendly country. The purpose of this initiative is to facilitate the increase in

both the quality and quantity of FDI into South Africa. The general feeling is that this initiative 'will fast track, unblock and reduce red tape in government'. The OSSs aim to support deals by assisting with permit approvals, licencing and registration processes. Sihle Zikalala, the KZN's Member of the Executive Council (MEC) for Economic Development, Tourism and Environmental Affairs, said: 'We want to end the red tape and roll out the red carpet', emphasising government's commitment to create an appealing investment environment.

Tactical asset allocation preferences



Challenging economic conditions persist. Liquidity in the event of a market shock remains a concern.

Oversupply and lagging demand are causing headwinds in the retail property space. Here we are very cautious with our allocations.

Our current view on government bonds has changed to neutral due to a decline in the yield curve.

Cash is the least striking local asset class as valuations across all other asset classes are generally very attractive.

The inverted yield curve in the US continues to make news headlines every other day. This is simply because it acts as a strong leading indicator, but the lead can also be relatively long.

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 USD seems too strong, while the GBP and EUR seems too weak in relation to the USD.

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

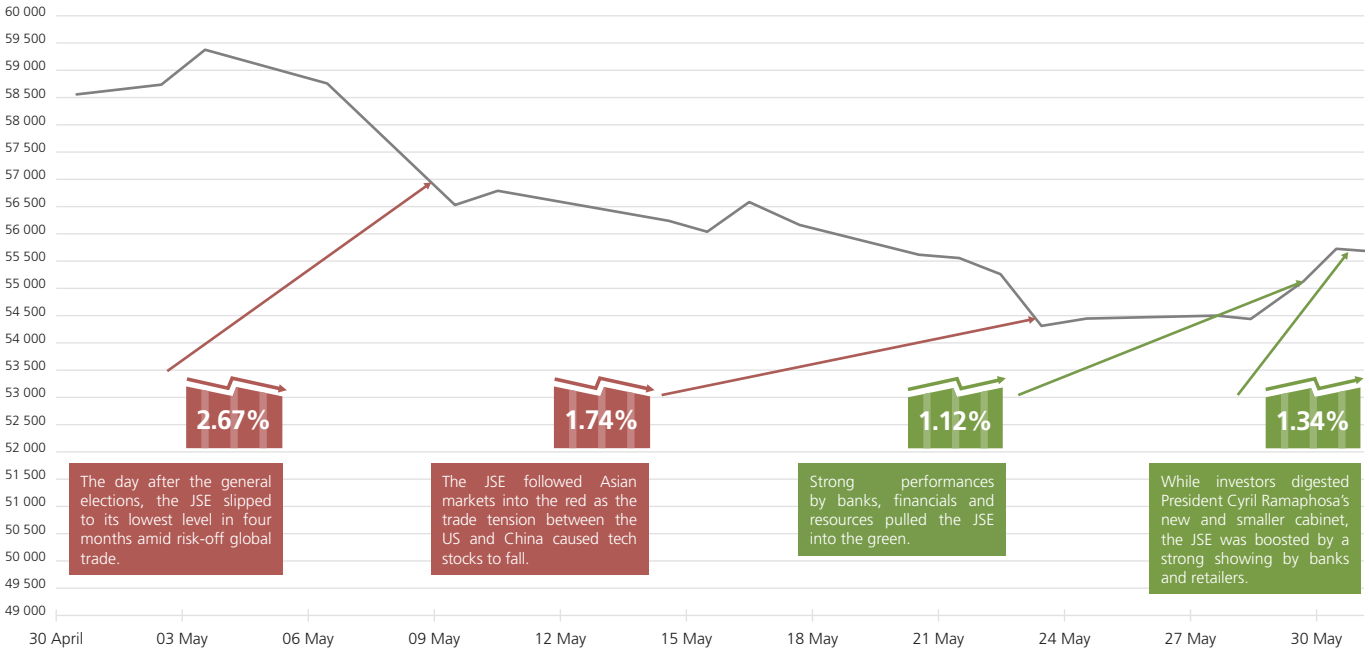
Bottom line

- Tactically, we remain bullish on equities on the domestic front. We think the market offers value, but only when you adjust valuations to remove some of the more expensive counters. We think there is value in selected small and mid-cap stocks if attended to carefully. We caution against counters which have been significant beneficiaries of severe rand weakness over preceding years, especially in cases where the outlook for earnings growth is more uncertain. Equities still offer the greatest opportunity set for longer-term investments.
- We are marginally negative on domestic property at this stage. The fundamentals truly look dire, but many counters are also trading at levels that seem to have included most of the bad news. Everything considered, we recognise the higher yields, but remain cautious about the asset class as funding pressure could well accelerate in an increasing interest rate environment.
- Our view on global property remains negative despite robust global growth, especially as the potential rate hikes could be a substantial deterrent to bond proxy investments like property.
- We are overweight on domestic government bonds because their yields are attractive.
- Domestic cash remains unattractive from a long-term wealth creation perspective, although the diversification and risk management benefits remain attractive.

Market commentary

The US-Sino trade war intensified during May, with US President Donald Trump increasing tariffs on $200 worth of Chinese goods from 10% to 25%. Bloomberg reported that this escalation cost the three biggest technology companies on the MSCI Emerging Market Index to lose a combined $170 billion in value in about a month. According to Schroders, the trade tensions created concerns over global growth, leading to global stock markets tumbling in May as investors searched for safe-haven investments. Moreover, it weighed heavily on US equities with the energy and tech sectors taking the biggest hits.

JSE All Share Index - May 2019



Source: Bloomberg

Domestic key moves

6.75% The South African Reserve Bank (SARB) kept interest rates unchanged at 6.75%, as expected. The SARB noted that "the stance of monetary policy is broadly accommodative over the forecast period as the medium-term inflation outlook has improved."

6.50% Local producer prices (PPI) rose to 6.50% in April, up 0.30% from March's 6.20% and exceeding forecasts of a 5.90% gain. This was the biggest increase since November 2018 and was boosted by petroleum, chemicals, rubber and plastic products, food, beverages, tobacco products, metals, as well as machinery and computer equipment.

Global key moves

US

0.50% Personal income in the US increased by 0.50% on a monthly basis in April 2019, which was higher than the 0.30% forecast.

72.8bn Although the market projected a 2% increase, US corporate profits fell by $72.8 billion (3.50%) to $2 003.4 billion in 1Q19. This is the sharpest decline since 4Q15 when it fell by 5.20%.

EU

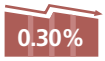
105.10 Eurozone's economic sentiment indicator grew to 105.1 index points in May; increasing from 103.9 and higher than the 104 increase expected. This marks the first rise in 11 months.

0.30% The Business Climate Indicator (BCI) in the Eurozone contracted to 0.3 points. Not only was it lower than expected, but it was also the lowest reading since August 2016.

China

49.40 Chinese business confidence fell from 50.1 to 49.4 index points in April, 0.5 points lower than anticipated.

Market commentary



China's total industrial profits beat expectations by dropping to negative 3.40% yearly to ¥1.81 trillion in April.

Japan

Although the market expected an increase to 40.6, Japan's consumer confidence index fell to 39.4 index points in May, recording the lowest number since January 2015.

Unemployment in Japan declined by 2.40% in April in line with expectations after it rose from 2.30% to 2.50% in April.

PSG Wealth Fund of Funds Solutions

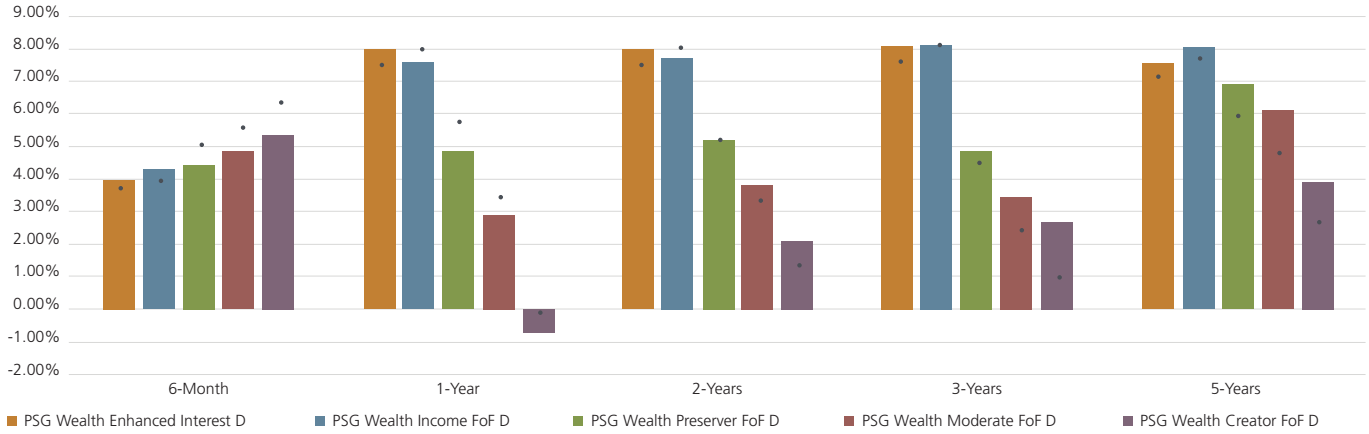
Local funds

Performance table

Fund	6-Month	1-Year	2-Years	3-Years	4-Years	5-Years
PSG Wealth Enhanced Interest D	3.95%	7.99%	8.00%	8.09%	7.90%	7.55%
PSG Wealth Income FoF D	4.30%	7.59%	7.74%	8.10%	8.11%	8.06%
PSG Wealth Preserver FoF D	4.41%	4.86%	5.20%	4.85%	5.93%	6.90%
PSG Wealth Moderate FoF D	4.88%	2.89%	3.82%	3.45%	4.63%	6.12%
PSG Wealth Creator FoF D	5.36%	-0.74%	2.08%	2.67%	2.25%	3.93%

Source: PSG Wealth research team

Local fund performance



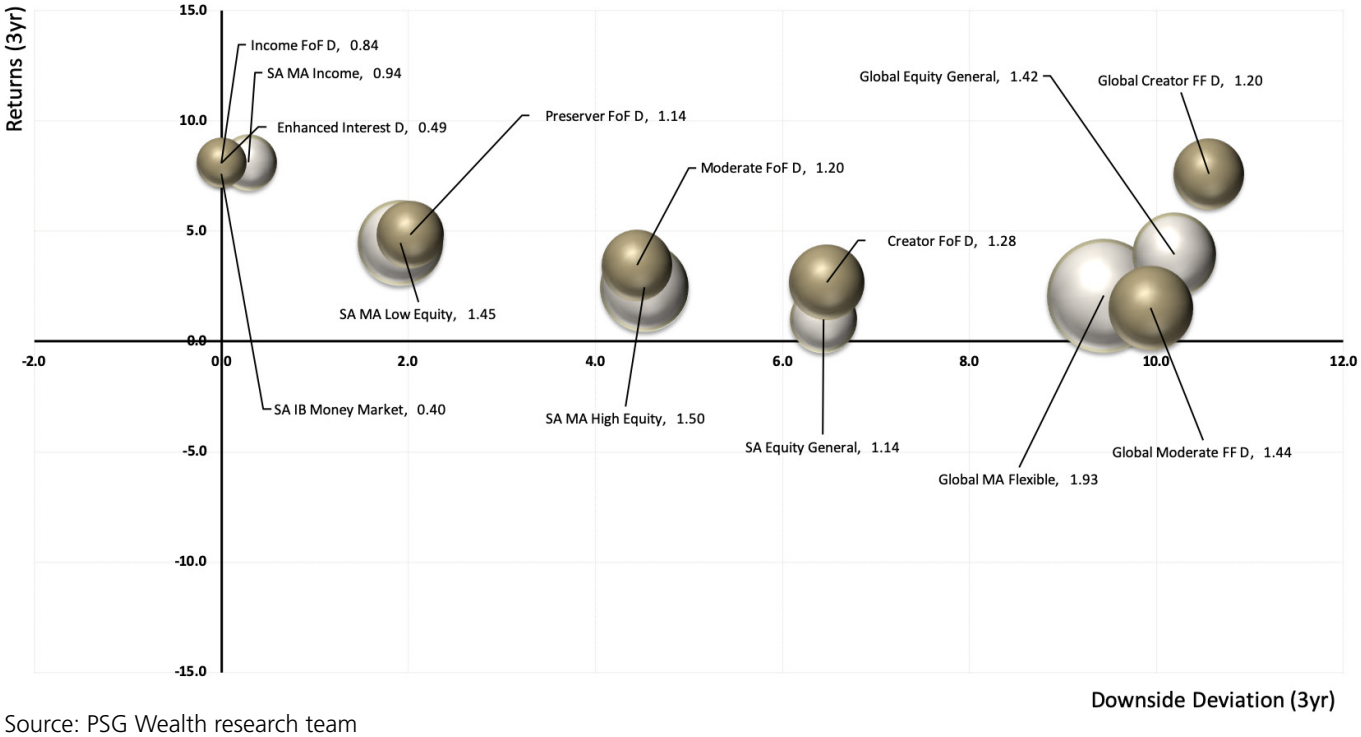
Source: PSG Wealth research team data as at 31 May 2019

*Dots represent the relevant benchmark

Disclaimer: All performance is reported in ZAR unless specified otherwise

PSG Wealth Domestic Solutions

PSG Wealth Local Fund of Funds bubble chart



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. The TERs for the fund benchmarks are assumed to be 1.14% including VAT.
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 relevant fund benchmarks
		Gold bubbles	Represent PSG Wealth EB solutions

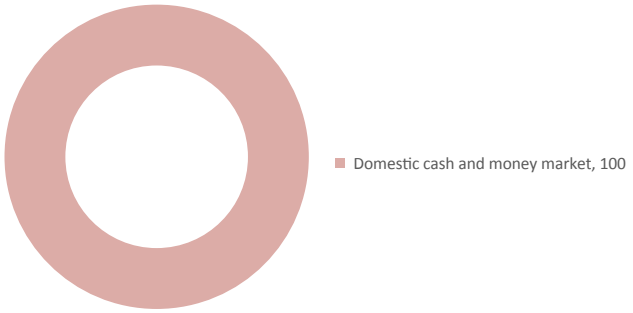
Disclaimer: All performance is reported in ZAR unless specified otherwise

PSG Wealth Domestic Solutions

PSG Wealth Enhanced Interest Fund

- The PSG Wealth Enhanced Interest Fund delivered a return of 0.67% for May 2019, outperforming the South Africa IB Money Market sector average benchmark that delivered a return of 0.63% over the same period.
- This fund has an investment horizon of one year and has outperformed its benchmark with 7.99% against 7.48% over a one-year period.
- The fund has also outperformed its benchmark over all measurement periods.

Asset allocation



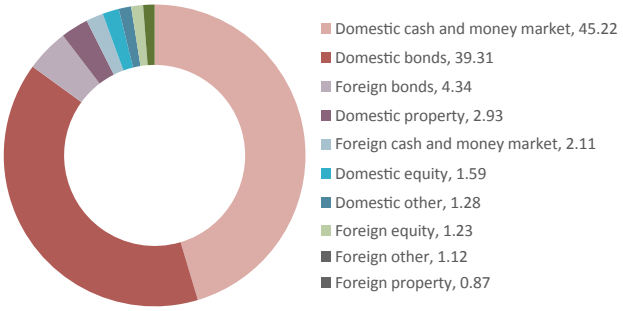
Source: PSG Wealth research team

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

PSG Wealth Income FoF

- The PSG Wealth Income FoF delivered a return of 0.43% for May 2019, compared to the 0.67% of its benchmark, the Stefi 12 Months NCD.
- The PSG Wealth Income FoF has an investment horizon of two years, and is ranked 51st out of 64 funds over this period.
- This fund also delivered first, second or third quartile performances for all measurement periods over two years.

Asset allocation



Source: PSG Wealth research team

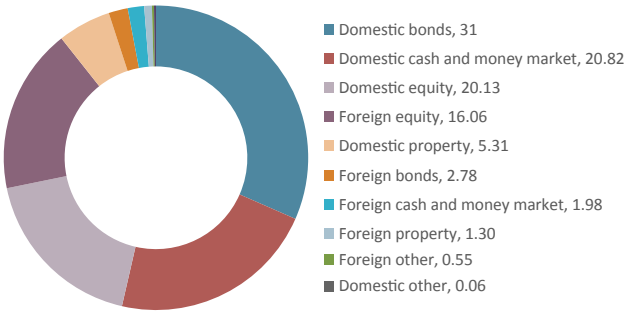
Risk and expectations: We expected that higher inflation and rising interest rates could be a drag on performance over the short-term, but current indications are that the underlying portfolio managers are able to take advantage of the higher yields on short-term instruments to deliver attractive returns 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: The Prudential Enhanced Income Fund and the PSG Diversified Income Fund were removed from the radar screen.
Changes: No changes to underlying funds.

PSG Wealth Domestic Solutions

PSG Wealth Preserver FoF

- The PSG Wealth Preserver FoF delivered a negative return of 1.56% for May 2019, compared to the 0.88% of its performance target of CPI plus three percent.
- This FoF has an investment horizon of three years and is ranked 50th out of 122 funds over this period.

Asset allocation



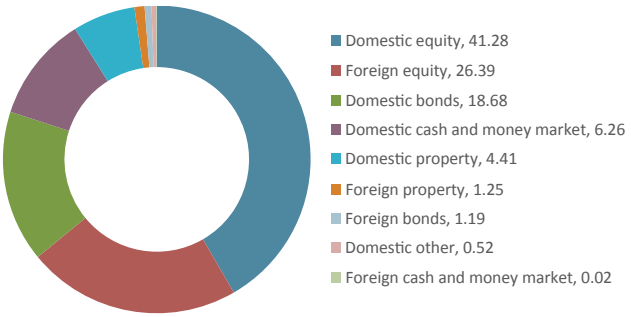
Source: PSG Wealth research team

Risk and expectations: The PSG Wealth Preserver FoF can hold up to a total of 40% in domestic equities 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 three years and longer, and that it will protect the capital of clients during severe negative market corrections.
Radar: The PSG Stable Fund remains on the radar screen.
Changes: No changes to underlying funds.

PSG Wealth Moderate FoF

- The PSG Wealth Moderate FoF delivered a negative return of 3.53% for May 2019, compared to the negative 3.25% of its benchmark, the South African MA High Equity sector average.
- This FoF has an investment horizon of five years and has outperformed its benchmark with 6.12% against 4.81% over the five-year period. It is also ranked 17th out of 100 funds over this period.
- It also delivered first or second quartile performances for all measurement periods over six months.

Asset allocation



Source: PSG Wealth research team

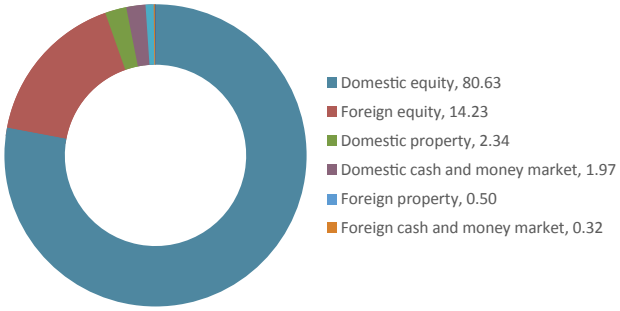
Risk and expectations: The PSG Wealth Moderate FoF may hold up to a total of 75% in domestic equities and offshore equities and could deliver negative short-term performances in sharp equity corrections or equity bear markets. We are, however, confident that the fund will always deliver positive returns 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 PSG Balanced Fund remains on the radar screen.
Changes: No changes to underlying funds.

PSG Wealth Domestic Solutions

PSG Wealth Creator FoF

- The PSG Wealth Creator FoF delivered a negative return of 5.85% for May 2019, compared to the negative 5.08% of its benchmark, the South African EQ General sector average.
- The FoF has an investment horizon of five years and longer, and has outperformed its benchmark with 3.93% against the 2.65% over the five-year period. It is also ranked 42nd out of 96 funds over this period.
- It also delivered second quartile performances for all measurement periods longer than six months.

Asset allocation



Source: PSG Wealth research team

Risk and expectations: Although the outlook for equities is still uncertain, we are confident that the relative performance of the underlying managers in the fund will continue to improve. The managers are all active managers that have demonstrated the ability to add alpha through careful share selection, particularly during turbulent equity markets. This fund will always maintain an equity exposure of close to 100% in domestic and offshore equities. It will deliver 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. It will continue to deliver above-average long-term returns with below-average risk overall market cycles.

Radar: The PSG Equity Fund remains on the radar screen.

Changes: No changes to underlying funds.

PSG Wealth Offshore Solutions

Offshore funds

Performance table

Reported in USD

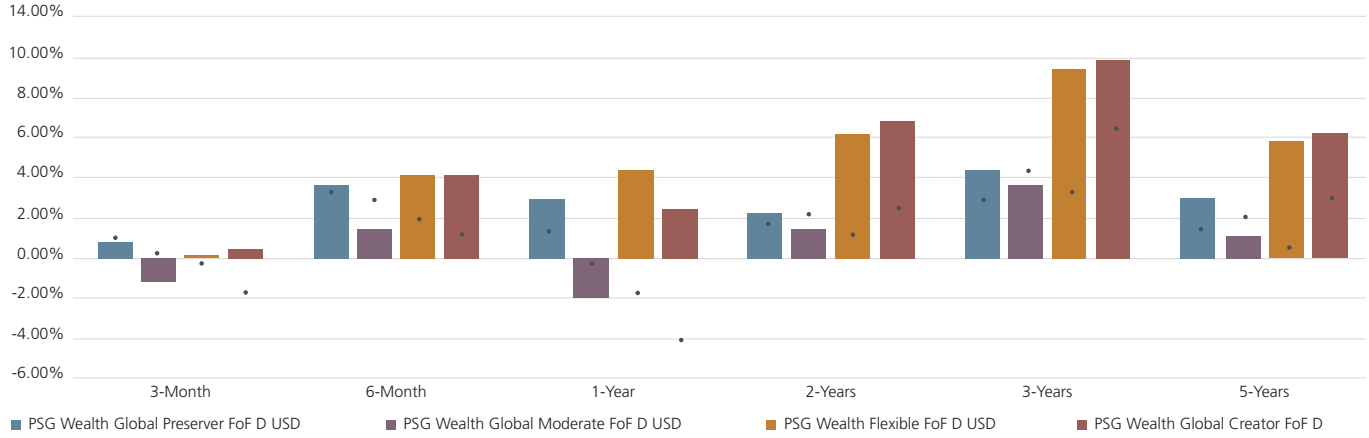
Fund	6-Month	1-Year	2-Years	3-Years	4-Years	5-Years
PSG Wealth Global Preserver FoF D USD	3.62%	2.92%	2.26%	4.34%	3.20%	3.00%
PSG Wealth Global Moderate FoF D USD	1.46%	-1.99%	1.45%	3.66%	0.91%	1.11%
PSG Wealth Global Flexible FoF D USD	4.19%	4.41%	6.17%	9.43%	6.62%	5.78%
PSG Wealth Global Creator FoF D	4.20%	2.44%	6.86%	9.82%	6.29%	6.22%

Reported in GBP

Fund	6-Month	1-Year	2-Years	3-Years	4-Years	5-Years
PSG Wealth Global Preserver FoF D GBP	4.18%	6.45%	3.09%	7.80%	6.67%	6.82%
PSG Wealth Global Flexible FoF D GBP	5.34%	9.34%	6.26%	13.35%	10.19%	10.95%

Source: PSG Wealth research team

Offshore funds performance



Source: PSG Wealth research team data as at 31 May 2019

*Dots represent the relevant benchmark

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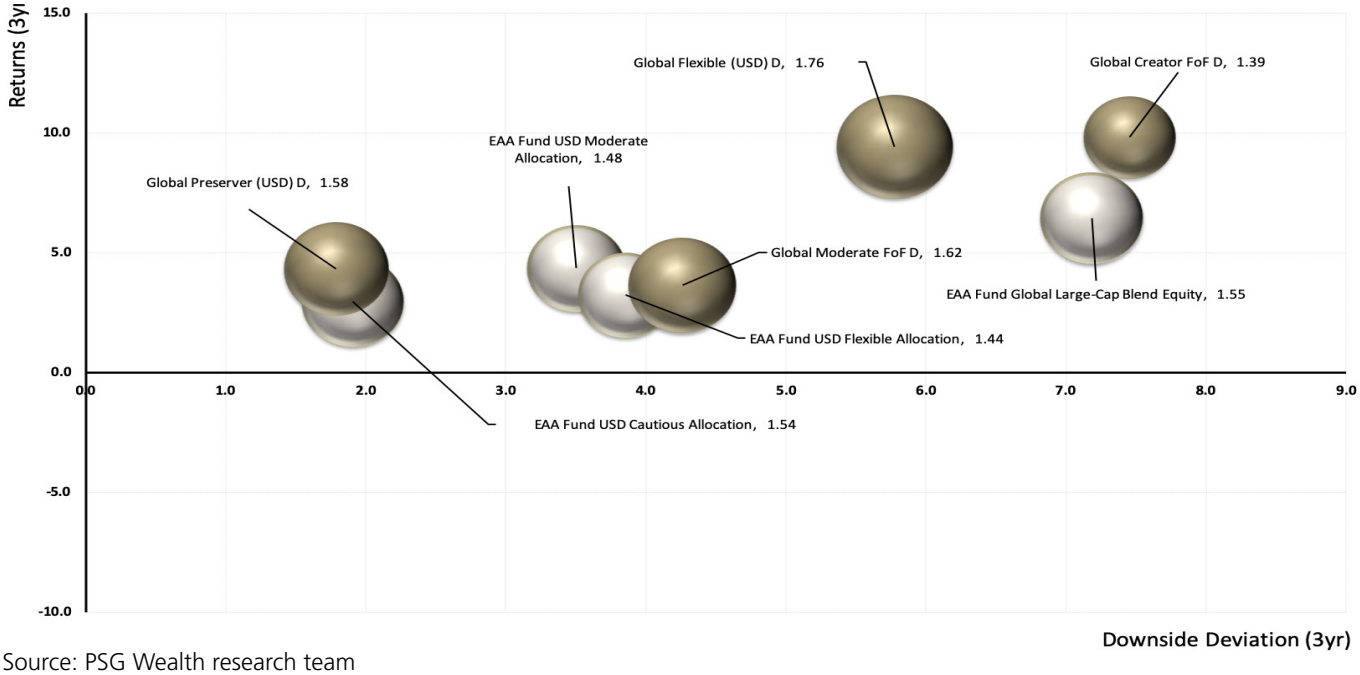
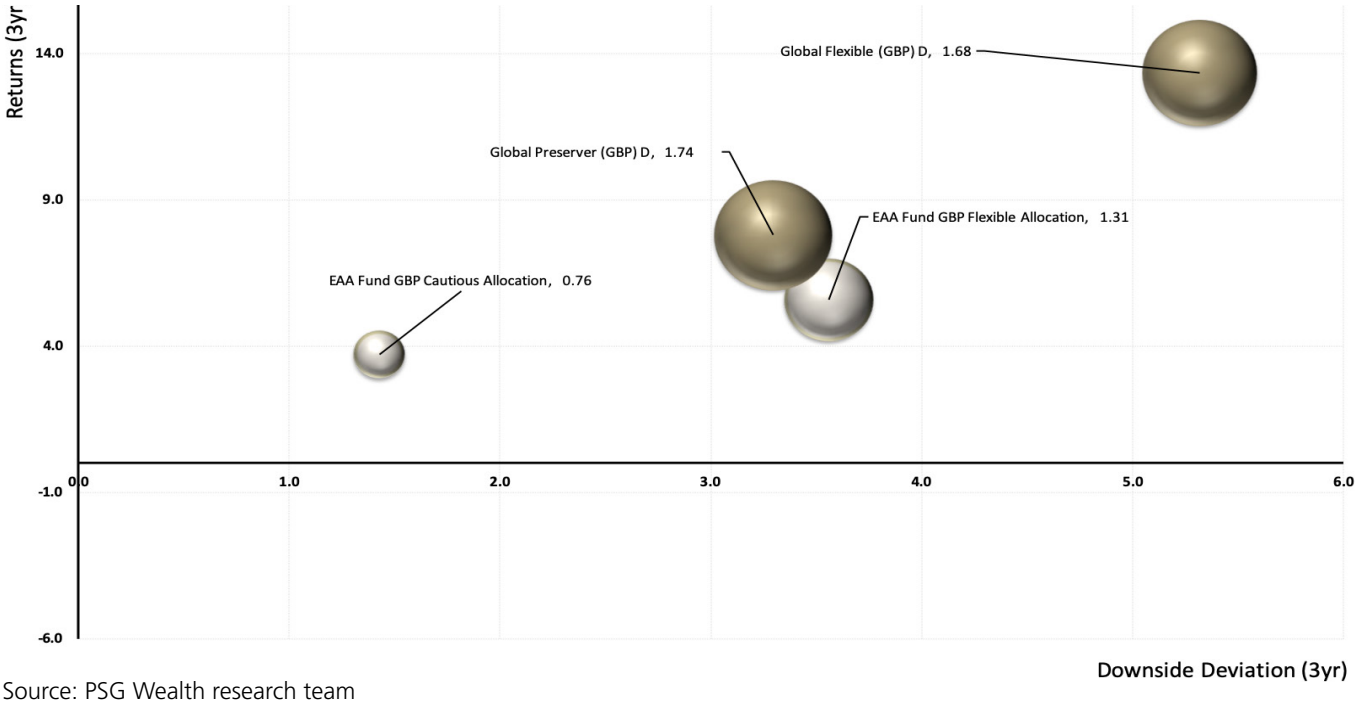
PSG Wealth Offshore Solutions

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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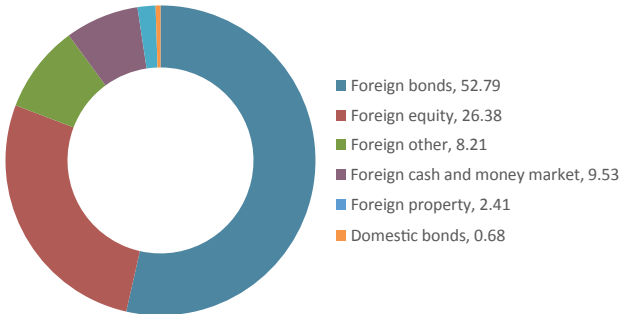
Vertical axis	Shows the return of each fund	Size of the bubble	Shows TER which is an indication of cost
Horizontal axis	Shows the downside deviation which is a measure of downside risk that focuses on returns that fall below a minimum threshold or minimum acceptable return (MAR)	Grey bubbles	Indicate fund peers
		Gold bubbles	Represent PSG Wealth solutions

PSG Wealth Offshore Solutions

PSG Wealth Global Preserver FoF (USD)

- The PSG Wealth Global Preserver FoF USD returned negative 0.93% for May below the benchmark, the Morningstar EAA Funds USD Cautious Allocation, which delivered a negative return of 0.85%.
- The PSG Wealth Global Preserver FoF USD ranked in the third quartile of its global sector over the previous month and is ranked 3rd out of 64 funds over the past five years.
- The FoF also delivered 1.63% per annum above the benchmark sector average over five years.

Asset allocation



Source: PSG Wealth research team

Risk and expectation: The portfolio has a high equity allocation relative to its peers and could underperform during periods of strong equity market declines, conversely the portfolio will perform well when equity markets outperform other asset classes. Rising global interest rates could also result in capital losses on the fixed interest and property portions of the portfolio. However, this impact is limited due to the FoF's low bond duration. Additionally, sufficient diversification through its overweight allocation to equities will provide some protection to the portfolio in the event of any unexpected interest rate increases.
Radar: There are no funds on the radar screen.
Changes: No changes were made to underlying managers.

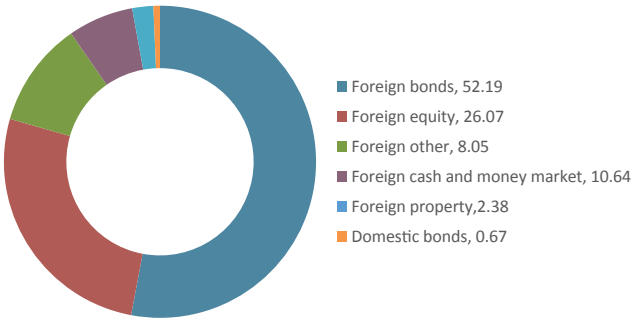
All performance is reported in USD unless specified otherwise.

PSG Wealth Offshore Solutions

PSG Wealth Global Preserver FoF (GBP)

- The PSG Wealth Global Preserver FoF GBP returned 1.55% for May in GBP, outperforming the Morningstar EAA Funds GBP Cautious Allocation sector average benchmark, which delivered a negative return of 0.05%.
- The PSG Wealth Global Preserver FoF GBP is ranked 1st out of 27 funds over the past five years.
- The FoF also delivered 3.63% per annum above-the-benchmark sector average over five years.

Asset allocation



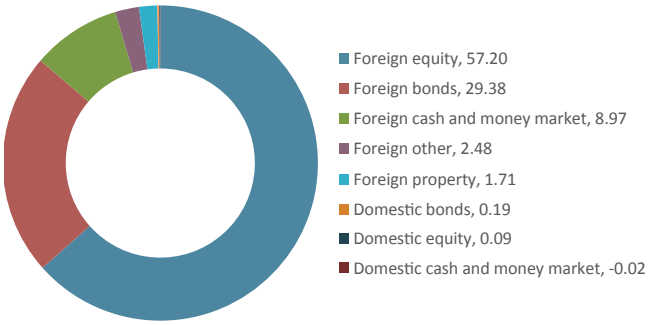
Source: PSG Wealth research team

Risk and expectation: The portfolio has a high equity allocation relative to peers and could underperform during periods of strong equity market declines, conversely the portfolio will perform well when equity markets outperform other asset classes. Rising global interest rates could also result in capital losses on the fixed interest and property portions of the portfolio. However, this impact is limited due to the FoF's low bond duration. Additionally, sufficient diversification through its overweight allocation to equities to provide some protection to the portfolio in the event of any unexpected interest rate increases.
Radar: No funds are currently on the radar screens.
Changes: No changes were made to underlying managers.

PSG Wealth Global Moderate FoF (USD)

- The PSG Wealth Global Moderate FoF returned negative 3.39% for May, underperforming the Morningstar EAA Funds USD Moderate Allocation sector average, which delivered negative 2.30%.
- The PSG Wealth Global Moderate FoF is ranked in the third quartile of Global Moderate Allocation Funds for all measurement periods over six months and is ranked 72nd out of 200 funds over the past five years.

Asset allocation



Source: PSG Wealth research team

Risk: The portfolio is defensively positioned with a developed market overweight and performance will likely be muted during periods of positive market sentiment when risky assets such as emerging markets outperform. The portfolio currently has more than 29% in bonds, which could be negatively impacted by unexpected interest rate increases. However, this risk is mitigated to an extent by relatively large equity allocation.
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: The BlackRock Global Allocation fund was removed from the quantitative risk radar.
Changes: No changes to underlying managers.

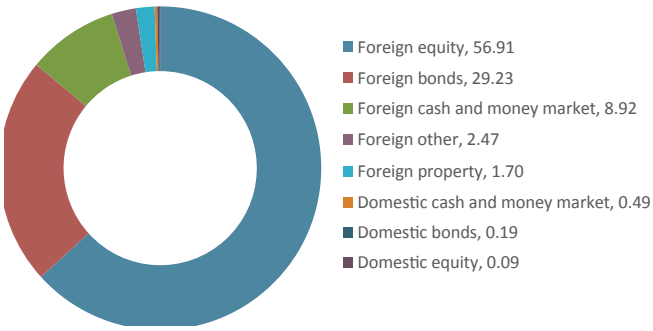
All performance is reported in USD unless specified otherwise.

PSG Wealth Offshore Solutions

PSG Wealth Global Moderate FF (ZAR)

- The PSG Wealth Global Moderate FF D delivered a negative return of 0.39% in rand terms for May, outperforming the Morningstar EAA Funds USD Moderate Allocation sector average, which delivered negative 0.80%.
- The rand decreased by approximately 2.97% against the US dollar over May, increasing the global portfolio returns reported in rand.

Asset allocation



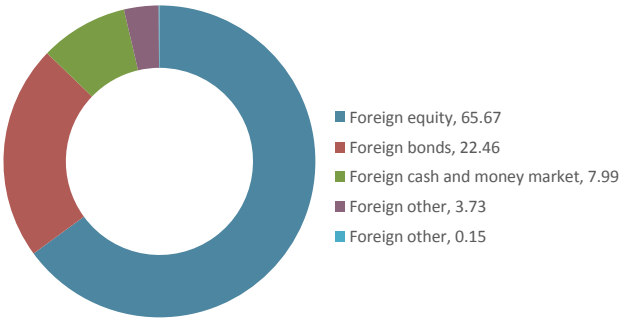
Source: PSG Wealth research team

Risk and expectation: We expect increased volatility in the rand over the short term, which could have a significant impact on rand 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 assets, especially equities, we still believe the fund offers good opportunities.

PSG Wealth Global Flexible FoF (USD)

- The PSG Wealth Global Flexible FoF USD delivered negative 3.46% for May, underperforming the Morningstar EAA Funds USD Flexible allocation sector, which returned negative 2.68%.
- The PSG Wealth Global Flexible FoF USD ranked in the third quartile of its global sector over all measurement periods and is ranked 6th out of 67 funds over the past five years.
- This fund also delivered excess returns of 5.27% per annum above the sector average over the past five years.

Asset allocation



Source: PSG Wealth research team

Risk and expectation: The portfolio currently has an equity allocation of 65.67%, thus 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: There are no funds on the radar screen.
Changes: During October 2018 the PSG Wealth fund committee accepted a proposal to align the PSG Wealth Global Flexible FoF (both USD and GBP classes) with its intended role within the PSG Wealth Global Fund range as a global multi-asset flexible fund. The main objective is to align the fund with the PGS Multi Management's split funding investment philosophy and process. Over the quarter, the following mandates were removed from the PSG Wealth Global Flexible FoF (USD and GBP): Schroders Global Multi-Asset Income, Fundsmith Equity and Veritas Global Real Return. They were replaced with HSBC Global Strategic Dynamic and Investec Global Multi-Asset Total return funds. The new funds are a better mandate fit for the FoF given their unconstrained multi asset approach.

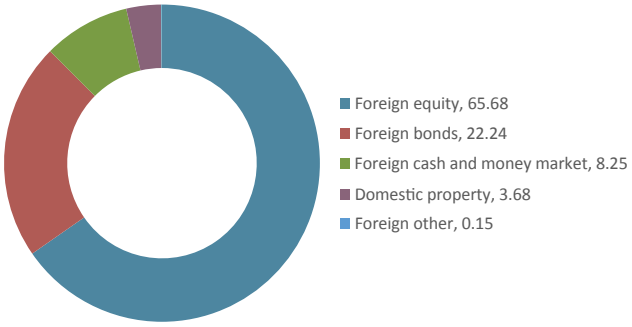
All performance is reported in USD unless specified otherwise.

PSG Wealth Offshore Solutions

PSG Wealth Global Flexible FoF (GBP)

- The PSG Wealth Global Flexible FoF GBP returned negative 0.46% in GBP for May, outperforming the benchmark Morningstar GBP Flexible Allocation sector average, which delivered negative 1.73%.
- The PSG Wealth Global Flexible FoF GBP is ranked 1st out of 70 funds over the past five years.
- This fund also delivered excess returns of 6.46% per annum above the sector average over this period.

Asset allocation



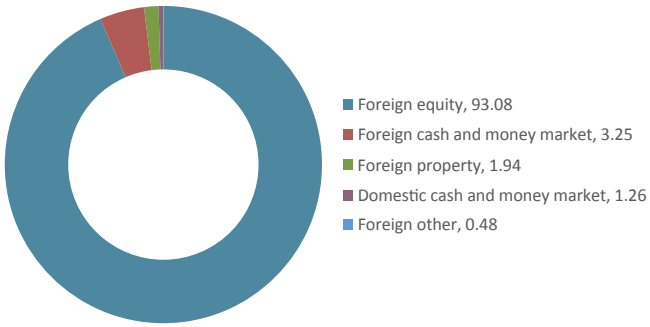
Source: PSG Wealth research team

Risk and expectation: The portfolio currently has an equity allocation of 65.68%, thus 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 radar screen.
Changes: No changes were made to underlying managers.

PSG Wealth Global Creator FF (ZAR)

- The PSG Wealth Global Creator FF D delivered a negative return of 1.76% for May in rand terms, outperforming the global sector average, which returned negative 3.96% as well as the ASISA Global Equity General sector, which returned negative 3.68%.
- The rand decreased by approximately 2.97% against the US dollar over May, increasing the global portfolio returns reported in rand.
- Over the past five years, the PSG Wealth Global Creator FF D outperformed the ASISA Global Equity General sector average by 3.98%, recording 13.86% per annum.

Asset allocation



Source: PSG Wealth research team

Risk and expectation: We expect increased volatility in the rand over the short term, which could have a significant impact on rand 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.

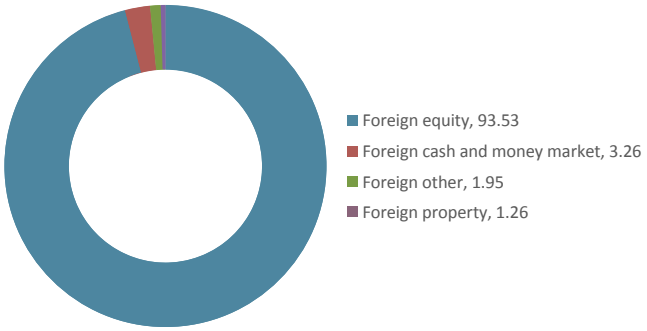
All performance is reported in USD unless specified otherwise.

PSG Wealth Offshore Solutions

PSG Wealth Global Creator FoF (USD)

- The PSG Wealth Global Creator FoF returned negative 4.72% for May, outperforming the benchmark Morningstar EAA Funds Global Large-Cap Blend equity sector, which delivered negative 5.38%.
- The PSG Wealth Global Creator FoF has delivered excess returns of 0.60% per annum above the sector average over the past five years.

Asset allocation



Source: PSG Wealth research team

Risk: Most of our underlying managers remain relatively defensively positioned, with a preference for high-quality stocks with very strong balance sheets, strong moats and steady earnings outlooks. Given the high allocation to quality large caps, mostly in developed markets, we expect to underperform global markets when sentiment is very positive and relatively risky assets, such as emerging market equities, perform strongly (risk-on trade).
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: No funds on the radar screen.
Changes: No changes to underlying managers.

All performance is reported in USD unless specified otherwise.

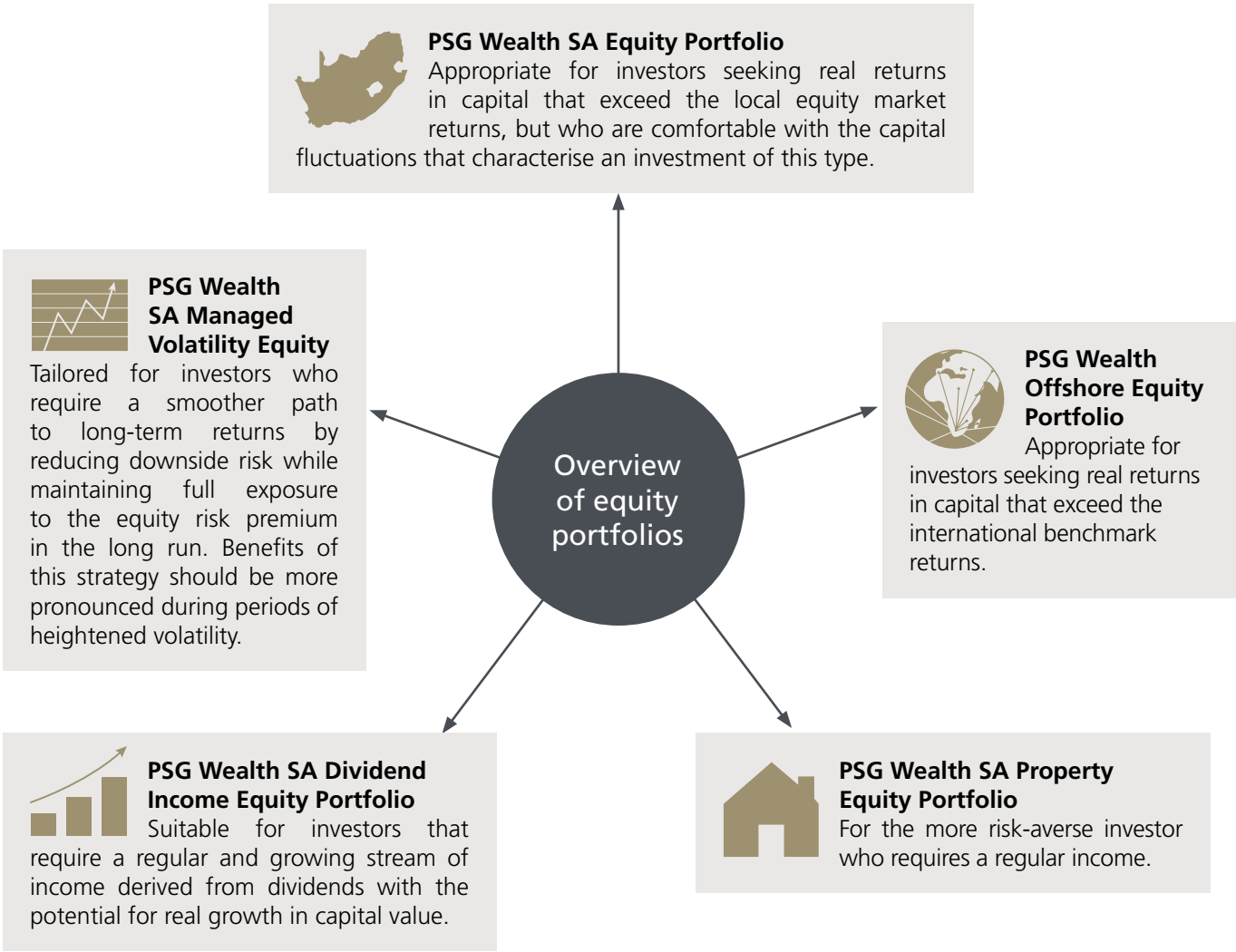
PSG Wealth Equity Portfolios

Performance table

PSG Wealth equity portfolios

Fund	1-Month	3-Months	6-Months	12-Months	2-Years	Since inception
PSG Wealth SA Equity Portfolio	-5.18%	-1.44%	1.52%	-5.46%	1.21%	4.99%
PSG Wealth SA Property Portfolio	-3.60%	-4.22%	-3.01%	-12.09%	-5.94%	-4.86%
PSG Wealth Offshore Equity Portfolio (USD)	-4.66%	0.43%	0.99%	7.59%	9.92%	11.67%
PSG Wealth SA Dividend Income Equity Portfolio	-3.21%	-1.29%	3.70%	-3.55%	4.84%	3.21%
PSG Wealth Managed Volatility Equity Portfolio	-3.02%	-3.21%	-1.10%	-11.10%	-3.98%	-2.36%

Source: PSG Wealth research team

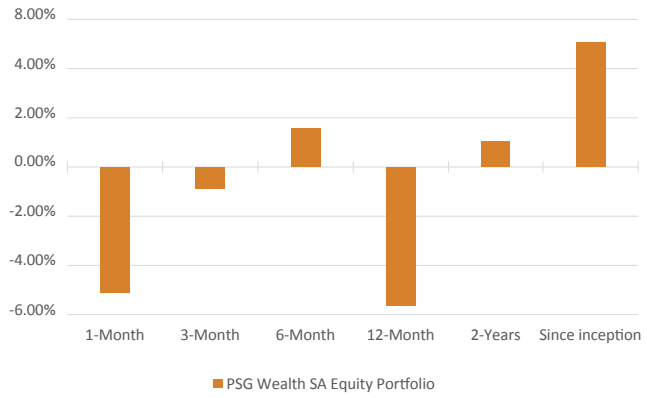


PSG Wealth Equity Portfolios

PSG Wealth SA Equity Portfolio

- The PSG Wealth SA Equity Portfolio made a negative return of 5.18%, while the FTSE/JSE Capped All Share TR returned negative 4.75% for May.
- Twelve (60%) of the 20 stocks in this portfolio ended above its benchmark last month.

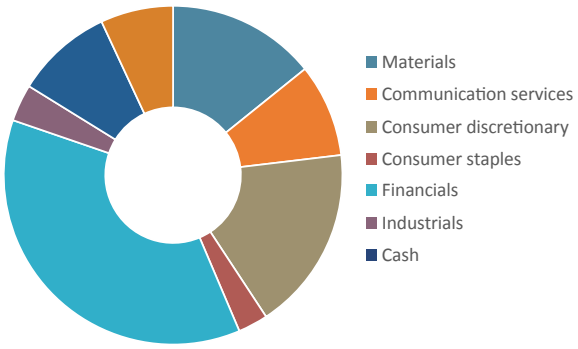
Performance since inception



Disclaimer: Annualised for periods greater than one year

Source: PSG Wealth research team data as at 31 May 2019
*Inception date: 30 August 2015

Asset allocation



Source: PSG Wealth research team

Expectations:

- We expect returns to materialise primarily through growth in earnings and not through a material change in valuation multiples.
- We expect value to outperform growth and have tilted the portfolio's exposure accordingly.
- Our foreign exposure is through domestic investments with international exposure rather than through pure rand hedges which we feel offer less value.
- Selected large rand hedges, however, continue to hold value on a relative basis.
- Exchange rate movements will remain a dominant driver of short-term equity market returns.
- Sensible policy changes by a new administration could become a tailwind.
- A weaker exchange rate is likely to be a headwind to relative returns, however, given the diversification of the portfolio and the quality of its 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.

Risk:

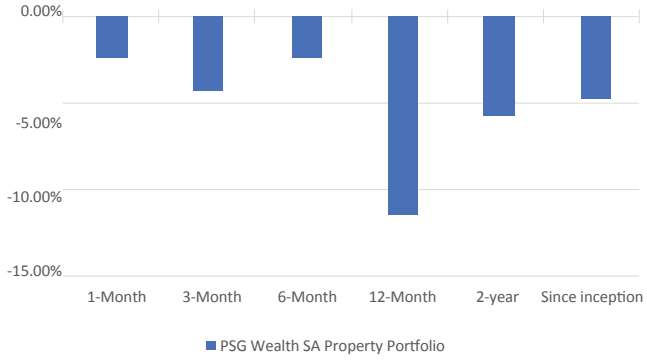
- Changes in the perception of sovereign risk (positive and negative) and its flow through to exchange- and interest rates can have an impact on portfolio values.
- Accommodative monetary policy continues to provide support to developed economies and creates artificial demand for high-yielding emerging market securities. Should foreign capital inflows from these markets end abruptly, 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 underexposed to due to our valuation concerns. This could lead to portfolio underperformance.
- Overestimating growth and operational improvements in highly-rated and large benchmark constituents.

PSG Wealth Equity Portfolios

PSG Wealth SA Property Portfolio

- The PSG Wealth SA Property Equity Portfolio made a negative return of 3.60% during May, underperforming the FTSE/JSE SA Listed Property Capped TR which returned negative 1.75%
- Sixteen (80%) of the 20 stocks in the portfolio performed above its benchmark.

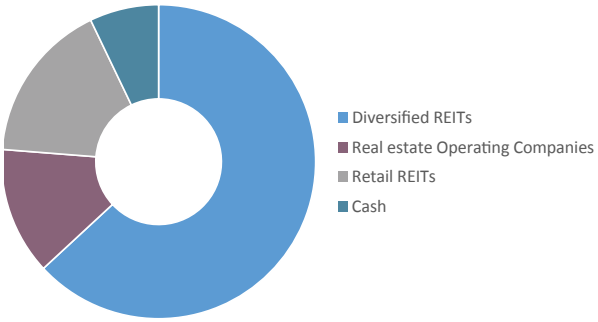
Performance since inception



Disclaimer: Annualised for periods greater than one year

Source: PSG Wealth research team data as at 31 May 2019
*Inception date: 1 December 2015

Asset allocation



Source: PSG Wealth research team

Expectations:

- The sluggish economic environment will continue to place pressure on the real estate sector.
- 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.
- Due to the highly competitive and weak market dynamics, attracting and retaining tenants has become costlier with retail companies increasing incentives for tenants.
- Improving tenant retention rates have come at the expense of lower escalations.

Risk:

- Weaker-than-expected growth could erode dividends underpinning the current valuations.
- Cannibalisation is a risk in the retail segment.
- Changes in sovereign risk (positive and negative) and its flow through to capital markets can have a significant impact on valuations.
- Liquidity risk which could lead to the inability to sell underperforming assets quickly.

PSG Wealth Equity Portfolios

PSG Wealth Offshore Equity Portfolio

- The PSG Wealth Offshore Equity Portfolio returned negative 4.66% (USD) in May, outforming the Dow Jones Global Titans 50 TR that delivered negative 6.24%.
- Thirteen (65%) of the 20 stocks in this portfolio ended above its benchmark.
-

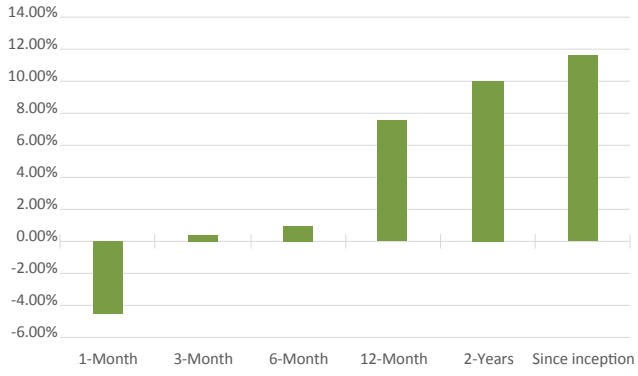
Expectations:

- 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 to underpin investments in the portfolio. The portfolio is likely to underperform should this deteriorate.

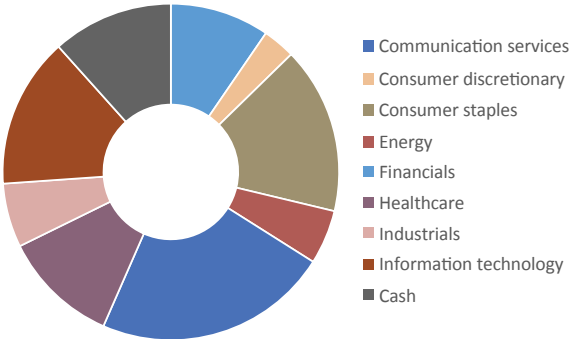
Performance since inception



Disclaimer: Annualised for periods greater than one year

Source: PSG Wealth research team data as at 31 May 2019
*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 made a negative return of 3.21% during May, outperforming its benchmark, the FTSE/JSE Dividend Plus TR, which made a negative return of 4.75% over the same period.
- Fourteen (64%) of the 22 stocks in this portfolio came in above the benchmark.

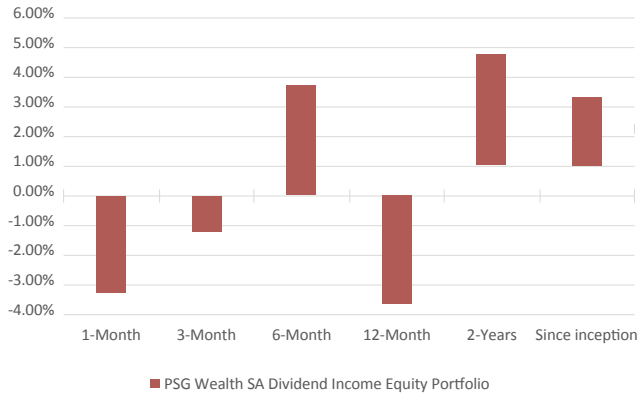
Expectations:

- Investment markets are expected to remain volatile given the difficulty to forecast macro variables.
- A shift from highly-valued, high-quality defensive stocks toward more reasonable priced consumer cyclical 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 underexposed to due to valuation concerns.

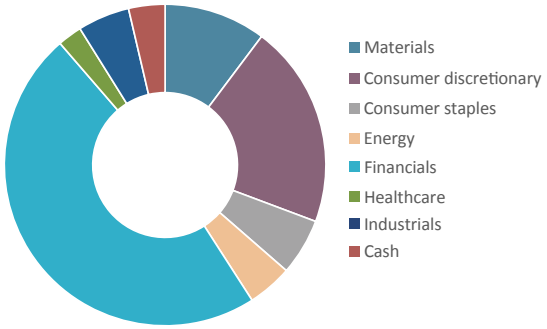
Performance since inception



Disclaimer: Annualised for periods greater than one year (since inception)

Source: PSG Wealth research team data as at 31 May 2019
*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 recorded a negative return of 3.02% for May outperforming its benchmark, the PSG Wealth Custom Low Volatility Index TR, which ended the month with a negative return of 3.45%.
- Ten (48%) of the 21 stocks in this portfolio came in above the benchmark.

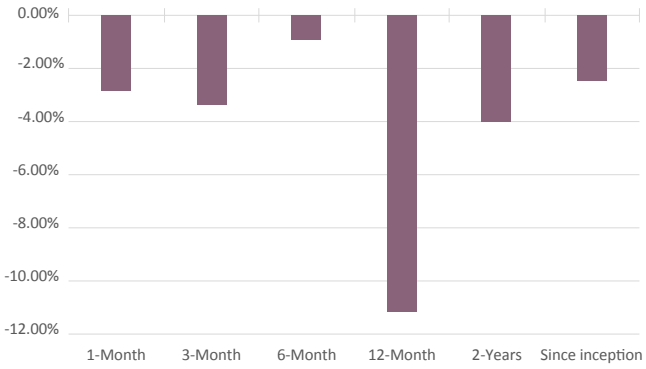
Expectations:

- 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.

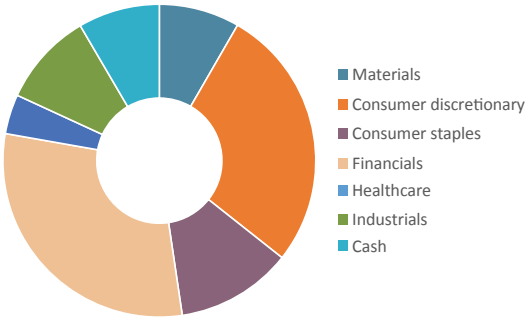
Performance since inception



Disclaimer: Returns annualised since inception

Source: PSG Wealth research team data as at 31 May 2019
*Inception date: 28 July 2016

Asset allocation

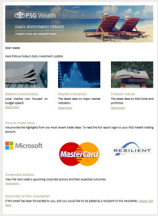


Source: PSG Wealth research team

Other publications

Previous publications

Daily

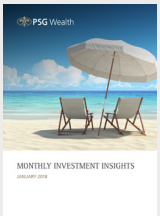


26 June

Weekly

19 June	21 Nov	06 Jun	18 Oct	03 May
12 June	14 Nov	23 May	11 Oct	19 April
05 June	07 Nov	16 May	04 Oct	12 April
22 May	17 Oct	09 May	20 Sept	05 April
07 May	10 Oct	18 Apr	13 Sep	22 Mar
17 Apr	03 Oct	11 Apr	06 Sep	15 Mar
10 Apr	19 Sept	04 Apr	23 Aug	08 Mar
03 Apr	12 Sept	22 Mar	16 Aug	01 Mar
20 Mar	05 Sept	14 Mar	03 Aug	15 Feb
13 Mar	22 Aug	07 Mar	19 July	06 Feb
06 Mar	15 Aug	21 Feb	12 July	18 Jan
27 Feb	08 Aug	07 Feb	21 June	11 Jan
13 Feb	18 Jul	17 Jan	14 June	14 Dec
06 Feb	11 Jul	06 Dec	07 June	07 Dec
16 Jan	04 Jul	22 Nov	31 May	30 Nov
12 Dec	20 Jun	15 Nov	17 May	16 Nov
05 Dec	13 Jun	08 Nov	10 May	09 Nov

Monthly



May	2019	Jun	2018	July	2017
Apr	2019	May	2018	Jun	2017
Mar	2019	Apr	2018	May	2017
Feb	2019	Mar	2018	Apr	2017
Jan	2019	Feb	2018	Mar	2017
Nov	2018	Jan	2018	Feb	2017
Oct	2018	Nov	2017	Jan	2017
Sep	2018	Oct	2017	Nov	2016
Aug	2018	Sep	2017	Oct	2016
Jul	2018	Aug	2017	Sep	2016

Research and Strategy Report

Autumn	2019	Summer	2018
Summer	2019	Spring	2017
Spring	2018	Winter	2017
Winter	2018	Autumn	2017
Autumn	2018	Summer	2017

Special report

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Our view on Tito Mboweni as new Minister of Finance
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New ANC leader, too close to call
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Blockchains and Bitcoins
UK snap election
Berkshire 2017 AGM
Distributions explained
S&P junk status

Wealth Perspective

Mar	2019
Dec	2018
Sep	2018
Jun	2018
Mar	2018
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Sept	2017
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Sep	2016
Jul	2016
Apr	2016

Disclaimer