MONTHLY INVESTMENT INSIGHTS

MARCH 2017

Contents

The monthly interview

This month we spoke to S&P Global Ratings during their annual credit conference in Johannesburg. The theme of the conference was: *What is in store for South Africa for 2017?*. First, we spoke to their Chief European Economist, Jean-Michel Six on his macro-economic predictions for the world economy and the South African economy for this year. We also spoke to Gardner Rusike, a sovereign analyst in the S&P Emerging Markets Sovereign ratings team covering a number of African sovereigns, local and regional governments. Gardner is the primary credit analyst on South Africa. Prior to joining S&P Global in 2012, Gardner worked as an economist in the Western Cape Government Fiscal Policy Division for three years.

Jean-Michel Six
Chief European Economist®

What are your expectations for global economic growth this year?

Jean-Michel: In contrast with a year ago, today we see economic growth gaining momentum in developed markets. China seems to be stabalising and there are accelerations in growth within the Brics nations, especially in Brazil and Russia. At this stage things look positive, but we do need to be aware of lessons learnt in 2016 around Brexit and the US presidential elections. We believe that geopolitical changes, like policy mistakes and government issues, currently present risks which could derail this recovery.

What is your opinion on economic growth in the US under the new Trump administration?

Jean-Michel: President Donald Trump's campaign pledges promised amongst others economic growth of around 4% through major tax cuts and supply-side measures. These type of interventions seem similar to measures used by former president Ronald Reagan in the early 80s. However, there is a difference between the US economy under Reagan and the US economy today. The Reagan economy was coming out of a deep recession and inflation was extremely high. However today the new US administration is faced with an economy that is already at full capacity. It seems like the US economy is already running at full speed. Almost like a car. Now the concern would be to keep this car running at full speed without it overheating, or causing higher inflation. We expect the US economy will grow at 2.5% to 3% maximum this year, much less than in previous decades.

Is S&P concerned about any of the new economic policies proposed by President Donald Trump?

Jean-Michel: One of the proposed policies is profit repatriation, where US companies that make profits abroad will be asked to reinvest these profits back in the US and not their operating country. Currently, US companies make about $2.5 trillion outside the US, this is about 14% of the US GDP. This is not the first time that profit repatriation has been tried in the US. In 2004 under the George W. Bush administration it was implemented. It is disappointing to note that 90% of the funds which were reinvested in the US at that stage, were used for share buyback programmes. Now this explains the current euphoria on Wall Street, because this is good for equity markets, we are just not sure that it would be that good for the real economy.

What are your expectations for growth in the European Union?

Jean-Michel: We need to remember that the EU was the only economy that experienced two recessions in a row, one in 2009 and another in 2011. This explains why the EU's economic growth is lagging behind for example the US, which just experienced the first severe recession and has been recovering steadily since then. However, the recovery in the EU is still resilient and gradually broadening across the region. Strong PMI numbers have also been seen since November 2016, which indicates a consumer-led economic recovery taking place in the EU. We expect economic growth of 1% to 1.5% in the EU this year. And while Germany's economy is speeding ahead and Germans are calling for the ECB to start tapering-off their buyback of bonds each month, we believe a premature move by the ECB would jeopardise this recovery. The economic recovery in the EU still needs time to settle. We believe the ECB will only start to taper-off well into the second half of 2017 or only in 2018.

Does S&P have any concerns for economic growth in the UK, especially after the Brexit vote?

Jean-Michel: At this stage we have not seen much of an impact on the British economy. However, we need to remember that the UK exiting the EU has not started yet, and since the vote the UK has benefitted from both worlds. Their currency has become more competitive, falling about 25% against the USD since the vote and UK exporters still have full access to EU markets. Although we do not expect a recession in the UK, we do expect their GDP to slow considerably in 2017 and 2018.

The monthly interview

What is your view on growth in emerging markets?

Jean-Michel: There has been an encouraging change in sentiment towards EMs. Data suggests that net capital flows towards EMs have increased in January 2017, although at a subdued pace. However, the recovery in this region still depends heavily on what happens in developed markets and especially in the US. If higher interest rates become more apparent in the US, outflows could exceed inflows to EMs, which could deter growth in the region. The boom in commodity prices have also helped the economies of Brazil and Russia to start to emerge from the recessions they experienced. And although growth in China seems to have stabalised, we are concerned that their debt-to-GDP-ratio is starting to reach first world levels. This leaves China with little wiggle-room. Chinese leaders would need to accept that their economy is entering a period of growth which will be lower than the 6% to 7% they expect annualy.

What are your concerns about the South African economy in particular?

Jean-Michel: Our concern is that South Africa is still underperforming peers with comparable GDP-ratios. South Africa's GDP growth rate for 2015 and 2016 was disappointing compared to other emerging markets. South Africa's inflation also has an asymmetrical relationship with its exchange rate. For example when your exchange rate weakens, you see almost a 100% translation in domestic inflation. However, the reverse is not true, when domestic inflation falls, the prices do not. This, combined with political uncertainty, remain challenges for economic growth.

Government debt currently stands at R2.2 trillion, or 50.7 % of gross domestic product, while interest payments continue to rise. Interest payments in 2016/17 will be over R153 billion.

Gardner Rusike
S&P Analyst®

What sovereign credit rating risks does South Africa face?

Gardner: Weak economic growth and political interference are still some of the key concerns. Contingent liabilities associated with guarantees to state-owned companies (SoCs), such as Eskom, have also emerged as a pressure point for South Africa's sovereign rating. The combination of rising government debt and the higher utilisation of guarantees by Eskom and other SoCs have the potential, unless contained, to impact negatively on the creditworthiness of the sovereign.

What guarantees have government made to SoCs?

Gardner: The National Treasury reported in February that guarantees to public institutions are expected to increase by R7.8 billion, from R469.9 billion in 2015/16 to R477.7 billion in 2016/17. This means that government debt and utilised guarantees would total 55.9% of GDP in 2017, compared to a projection of 54.5% a year ago. Eskom is expected to use R43.6 billion of its guarantee in 2016/17 and R22 billion yearly over the subsequent three years. However, there has been deterioration, between the 2016 and 2017 budgets in the utilisation of guarantees by Eskom, which grew at a faster pace than the National Treasury had initially assumed would be the case.

Is there a specific SoCs which you are concerned with most?

Gardner: Eskom may need to draw more aggressively on guarantees in light of recent negative tariff decisions by the National Energy Regulator of South Africa (Nersa). The prevailing legal uncertainty about the electricity utility's access to the Regulatory Clearing Account (RCA) to recoup revenue that has been incurred prudently outside of that approved in the tariff is also a concern. We understand that various processes are under way to find a way to support Eskom in light of the current RCA uncertainty. But the reality is that Eskom is under pressure and they are requiring more support from government, more than what government had actually budgeted for. It is hurting Eskom for now, but it could eventually hurt government's balance sheet. In a number of other countries, including Mozambique recently, governments have been forced to step in and assume SoC obligations. It's a pressure point for us when we combine government debt, which has been rising, with these contingent liabilities.

On 23 February, Nersa approved a 2.2% Eskom tariff increase for 2017/18 and reaffirmed that any over- or under-recovery could be dealt with through the RCA mechanism. However, it acknowledged that its ability to consider RCA applications had been affected by the Gauteng High Court's 16 August ruling, which determined the most recent RCA adjustment to be 'irrational, unfair and unlawful'. Nersa is appealing the judgment, and will refrain from adjudicating further RCA applications until legal certainty is established.

The opinions expressed in this interview are the opinions of the interviewee and not necessarily those of PSG and do not constitute advice. Although the utmost care has been taken in the research and preparation of this document, no responsibility can be taken for actions taken on information in this interview.

The monthly interview

What would South Africa need to do to reverse its negative credit outlook to stable?

Gardner: S&P put South Africa's sovereign credit rating on a negative outlook in December 2015. The negative outlook reflects the potential adverse effects of persistently low growth on the public balance sheet. These outlooks are revised within two years, so this year we will have to decide whether to downgrade SA to sub-investment grade ("junk") or return it to a stable rating with publications scheduled for June and November. We could revise South Africa's outlook to 'stable' should policy implementation lead to an improvement in business confidence, which bolsters private investment and, in turn, leads to higher growth and improving fiscal dynamics.

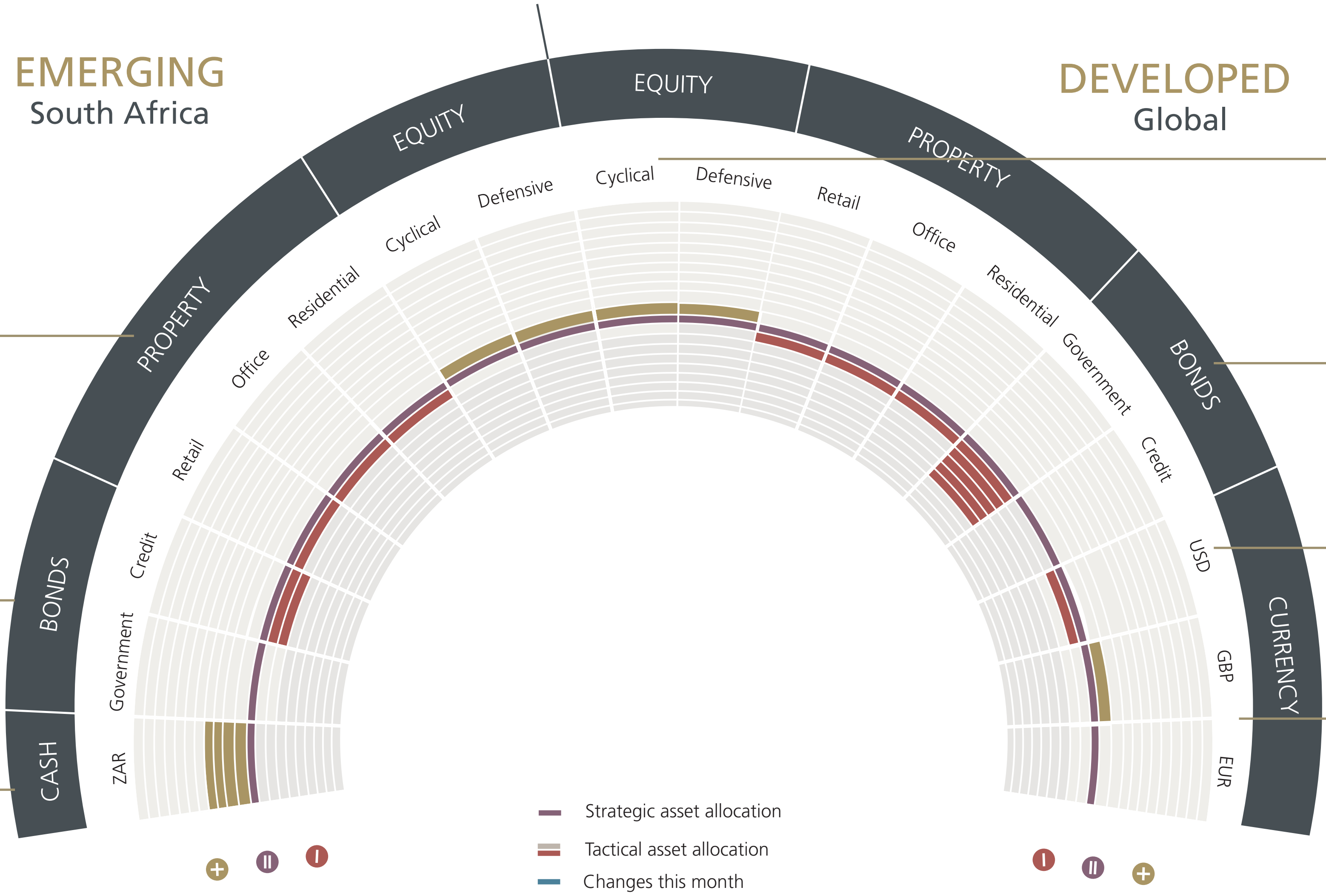
The 12 largest SOEs have R300 billion worth of bonds in issue on SA's debt capital markets, accounting for about 36% of the total nominal value of the market. In 2016, they issued more than R45 billion worth of new debt on the market. The government has made a total of R350 billion in guarantees available to Eskom, to support its ailing balance sheet and enable it to borrow in the market. Eskom has now drawn down about R240 billion of the facility.

Tactical asset allocation preferences

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

Our current view on government bonds is neutral, while we assess pockets of risk and opportunity. If the rand strengthens beyond our base view we expect bonds are likely to rally and yields could decline.

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



There has been some recovery in the earnings in this sector. Some of these sectors are attractively priced

Particularly in the US, stronger growth favours credit over government bonds, although there exists a caveat for high quality, investment grade exposure, and very selective buying.

The dollar has strengthened considerably in the past few months. Since July 2016 the USD has strengthened against the GBP by 8.64% and against the euro by 3.48%.

The sterling is still undervalued against major currencies. We believe the sterling is currently the weakest major currency.

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

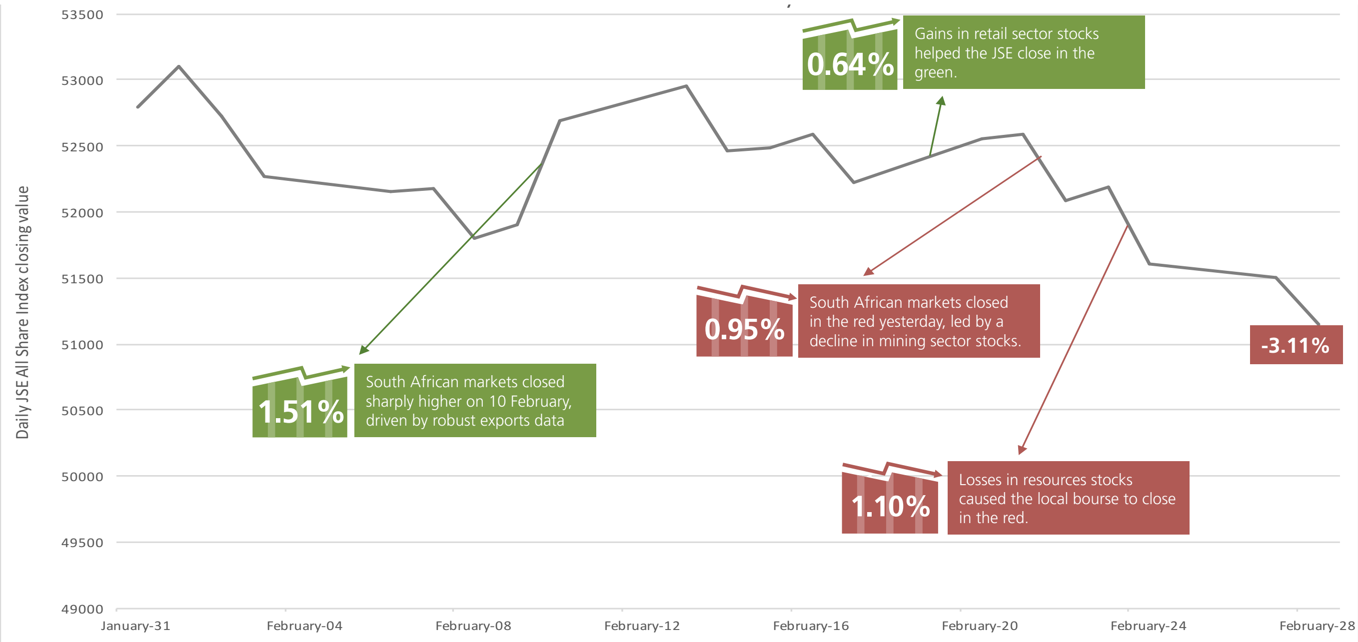
Bottom line

- Our assessment shows that domestic equity is now roughly 35.8% overvalued relative to its historic yield. Some pockets of the market are expensive and investors should expect continued volatility at current levels. That being said, skilled stock pickers should be able to find value in selected shares
- Domestic listed property is overvalued by 25.9% relative to its historic earnings yield. In addition, we remain of the opinion that the interest rate cycle will impact the strength and sentiment of the domestic economy, and the affordability of the property sector specifically. This will present headwinds for capital growth in the property sector. We expect property yields, which are calculated as a percentage of capital, to normalise on the back of downward pressure on capital values.
- Similarly, domestic bonds are, in general, also overvalued by more than 25% and will struggle if domestic interest rates normalise. There are always exceptions, but generally speaking bond yields seem stretched.
- Domestic cash is most likely generating a negative real return for investors, after fees and taxes. We remain of the view that although cash can play a strategic role in a portfolio, there is a material trade-off over the long term.
- Global equity is overvalued (23.5%) on a historic earnings basis, although the shift towards fiscal stimulus could support the asset class. In the US, further aims at deregulation will support corporate earnings, although the timing of fiscal support policies and potential deregulation is uncertain at this stage.

Market commentary

The FTSE/JSE All Share Index (ALSI) dropped by 3.11% for the month. The MSCI world index rose by 3.06% over the same period. The US dollar strengthened by 2.57% against the rand in February.

JSE All Share index - February 2017



Source: Bloomberg

Domestic key moves

R10.81 bn South Africa posted a trade deficit of R10.81 billion in January 2017, compared to an upwardly revised R12.41 billion surplus in December. This was below market forecasts of a R16 billion deficit. Imports jumped 12.5%, mainly due to higher purchases of equipment components, machinery and electronics.

6.6% The inflation rate rose 6.6% y/y in January 2017, following a 6.8% gain in December and below market expectations of 6.7% rise. Data showed that prices increased at a slower pace for food and non-alcoholic beverages.

26.5% The unemployment rate fell to 26.5% in the last three months of 2016 after reaching an 18-month high of 27.1% in the previous period. Employment rose while unemployment fell and more people continued to join the labour force, bringing the participation rate up to a new high since 2002.

Market commentary

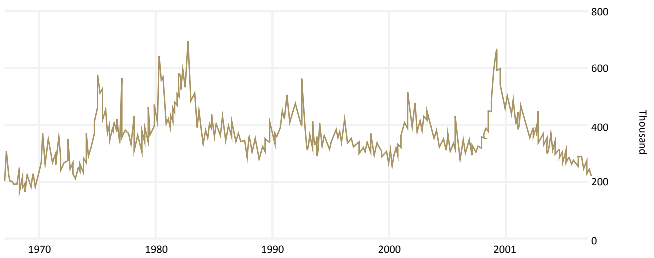
Global key moves

US

0.2% Personal spending in the United States went up by 0.2% in January 2017 from December, following a 0.5% gain in the previous period. Figures came in below market expectations of a 0.3% rise, mainly due to a fall in purchases of durable goods, namely autos, while spending on services were flat.

19 000 The number of Americans filing for unemployment benefits fell to a 44-year low. February data showed that 19 000 people filed for benefits at the end of 25 February compared to the 223 000 the previous week. The figure came in below expectations of a 243 000 figure and is the lowest level since March 1973.

US jobless claims fall to 44-year low



Source: Trading Economics

UK

0.7% The British economy advanced by 0.7% q/q in the three months to December 2016, following a 0.6% expansion in the previous period. This was above the preliminary estimate of 0.6%, due to an upward revision within the manufacturing industries.

0.25% The Monetary Policy Committee of the Bank of England voted unanimously to hold the bank rate at a record low of 0.25% and to leave the stock of purchased assets at £435 billion. The committee said inflation is likely to return to around the 2% target by February and then rise above it over the following months.

EU

0.4% GDP growth in the Eurozone was revised down to 0.4%. Among countries for which data was available, GDP growth picked up in Germany and France, was unchanged in Spain and slowed in Italy.

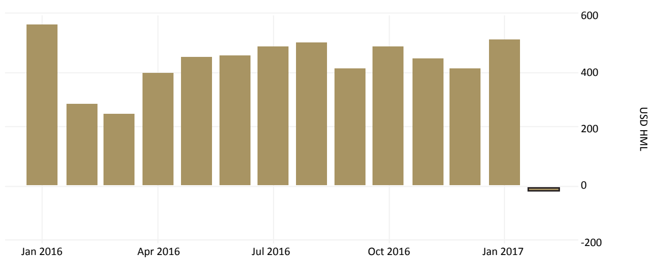
€28bn The Eurozone trade surplus widened to €28.1 billion in December 2016, from €24.4 billion in December 2015. This was above market consensus of a €22.8 billion deficit. Exports increased by 6% to €178.6 billion, while imports went up at a slower 4% to €150.5 billion.

2% Inflation in the Eurozone increased by 2% y/y in February 2017, following a 1.8% rise in the previous month and in line with market expectations. It was the highest inflation rate since January 2013, on a surge in energy prices.

China

$51bn China reported its largest trade surplus in a year. A surplus of $51.35 billion was reported in January 2017, lower than the $56.67 billion surplus a year earlier, but above market consensus of a $47.90 billion surplus. It was the largest trade surplus since January 2016, mainly driven by a 7.9% rise in exports while imports surged 16.7%.

The balance of trade in China since April 2016



Source: Trading Economics

25% The inflation rate in China reached a high of 32-months in January. Consumer prices rose 2.5% y/y, compared to a 2.1% rise in December. Markets expected a 2.4% gain. It was the highest inflation rate since May 2014, driven by a faster increase in the cost of food and non-food products.

Japan

67.8% The trade gap in Japan widened by 67.8% y/y to 1086.9 billion yen in January 2017. This was above market expectations of a 637 billion yen deficit and reaching the highest shortfall in two years.

0.4% The inflation rate in Japan increased by 0.4% y/y in January 2017, higher than the 0.3% rise in December and in line with market expectations. Transportation cost posted the first annual gain since March 2015 and prices went up faster for clothing, footwear, recreation and culture.

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	4.01%	8.20%	7.59%	7.10%	6.71%	6.49%
PSG Wealth Income FoF D	3.88%	9.47%	8.12%	8.40%	7.63%	7.99%
PSG Wealth Preserver FoF D	0.86%	6.13%	6.56%	8.19%	9.34%	10.44%
PSG Wealth Moderate FoF D	-0.25%	6.78%	5.20%	7.98%	10.87%	12.18%
PSG Wealth Creator FoF D	0.93%	11.67%	2.28%	6.51%	10.78%	11.94%

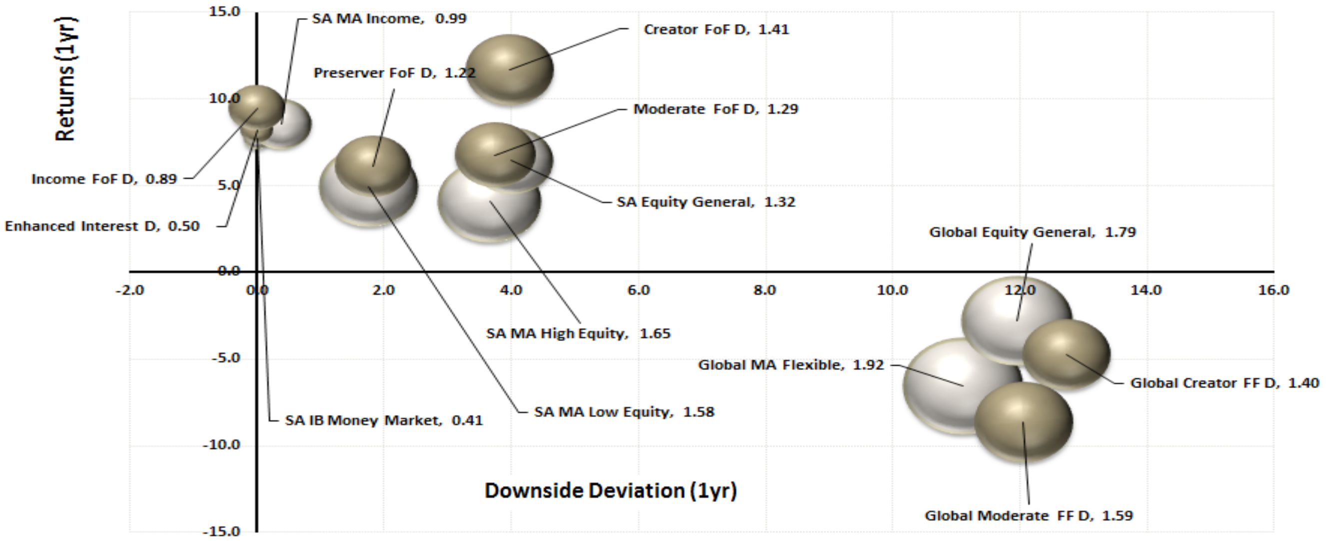
Source: PSG Wealth research team

Fund performance

Source: PSG Wealth research team data as at 28 February 2017

*Dots represent the relevant benchmark

PSG Wealth Local Fund of Funds



Source: PSG Wealth research team

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

PSG Wealth Fund of Funds Solutions

PSG Wealth Enhanced Interest Fund

- The PSG Wealth Enhanced Interest Fund delivered a return of 0.62% for February, outperforming the 0.58% 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. The fund has also delivered first quartile performances, compared to money market funds, consistently over all measurement periods.

Asset allocation

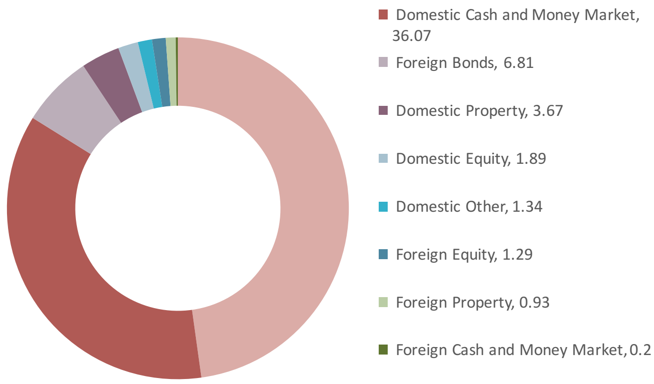
Source: PSG Wealth research team

Risk and expectations: We are confident the fund will continue to deliver returns in access of money market rates in order to reduce 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 0.66% for February, compared to the 0.62% of its benchmark, the STeFi 12 Months NCD.
- It outperformed 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 three months, and over all measurement periods of two years and longer.

Asset allocation



Source: PSG Wealth research team

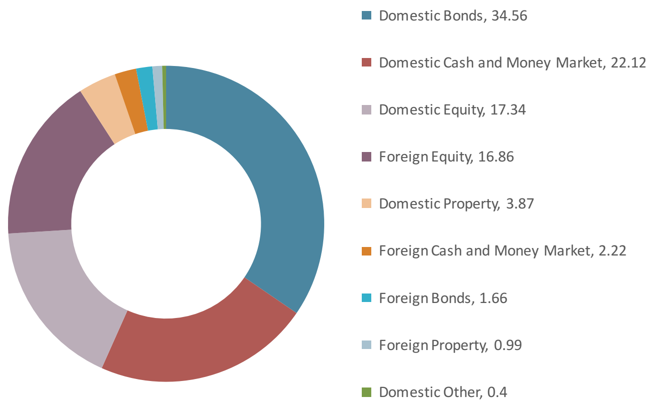
Risk and expectations: We expected recent higher inflation and rising interest rates may have been a drag on performance over the short term, but current indications are that the underlying portfolio managers were able to take advantage of the higher yields on short-term instruments to deliver attractive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

PSG Wealth Fund of Funds Solutions

PSG Wealth Preserver FoF

- The PSG Wealth Preserver FoF delivered a return of 0.3% for February, underperforming the 0.8% of its performance target of CPI plus 3%.
- The FoF outperformed its performance target over all measurement periods longer than three years.
- The return of the PSG Wealth Preserver FoF for February 2017, is however, better than the 0.0% of the South African MA Low Equity Sector Average. It also outperformed the sector average over all measurement periods from one month up to seven years.

Asset allocation



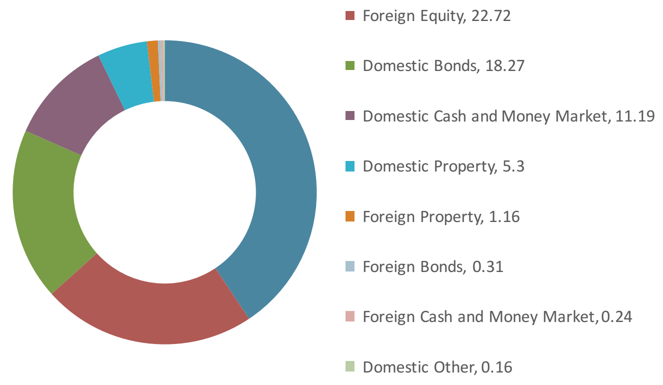
Source: PSG Wealth research team

Risk and expectations: 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. 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: The Prudential Inflation Plus Fund was added to the radar screen
Changes: No changes to underlying funds.

PSG Wealth Moderate FoF

- The PSG Wealth Moderate FoF delivered a return of 0.0% for February, just under-performing its benchmark, the South African MA High Equity Sector Average, which delivered 0.6%.
- The FoF has an investment horison of five years, and it outperformed its benchmark comfortably over any five-year period. It also outperformed the sector average over all measurement periods of one month and longer.
- The FoF has delivered first quartile performances over all measurement periods of one month and longer.

Asset allocation



Source: PSG Wealth research team

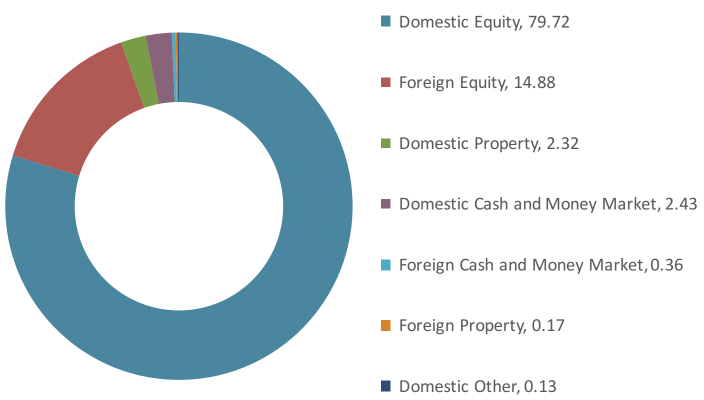
Risk and expectations: The PSG Wealth Moderate FoF may hold up to 75% in domestic- and offshore equities, which could lead to short-term negative performances in sharp equity corrections or equity bear markets. We are, however, confident that the fund will always deliver positive returns over the preferred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

PSG Wealth Fund of Funds Solutions

PSG Wealth Creator FoF

- The PSG Wealth Creator FoF delivered a negative return of 0.9% for February, outperforming the negative return of 1.2% of its benchmark, the South African EQ General Sector Average.
- This FoF has an investment horison of five years and longer, and the fund has outperformed its benchmark over any period of five years and longer.
- The FoF delivered first quartile performances for the six-month, one-year, two-year and four-year periods, as well as second quartile performances for all measurement periods.

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 Investec Equity Fund and Old Mutual Investors Fund were added to the radar screen.
Changes: No changes to underlying funds.

PSG Wealth Fund of Funds Solutions

Update on global fund range

To further align our global fund range, the PSG Wealth Global Preserver FoF (USD/GBP) and the PSG Wealth Global Flexible FoF (USD/GBP) were moved from weekly to daily pricing during February. This change now enables these funds to be available on the Allan Gray platform.

Update on the availability of PSG Wealth Global FoFs.

This table indicates on which platforms the PSG Wealth Global FoFs are available on:

Classes of offshore (USD) funds							
		Global Preserver USD	Global Preserver GBP	Global Flexible Moderate	Global Flexible USD	Global Flexible GBP	Global Creator
Available on these platforms	PSG Fund Management Guernesy	AD	AD	AD	AD	AD	AD
	Allan Gray Offshore	D	D	D	D	D	D
	Glacier International	-	-	AD	-	-	D
	OMI	-	-	D	-	-	D
	MWI	AD	AD	AD	AD	AD	AD
	Investec Global Select	D	-	D	D	-	D

All percentages indicated in this document are exclusive of VAT.

Discussions are currently underway with Old Mutual Wealth International and Glacier International to ensure that the PSG Wealth Global Flexible FoF and PSG Wealth Global Preserver FoF will also be made available on these platforms.

For more information on the PSG Wealth Global fund range please refer to the local and offshore fund overview documents. Alternatively, also refer to the product summary.

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	2.54%	12.01%	3.98%	3.79%	4.02%	4.14%
PSG Wealth Global Moderate FoF D USD	3.03%	12.05%	-0.73%	0.60%	3.48%	4.17%
PSG Wealth Global Flexible FoF D USD	5.92%	17.83%	5.26%	4.96%	7.39%	7.18%
PSG Wealth Global Creator FoF D	5.79%	17.23%	3.65%	4.58%	7.72%	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	6.05%	20.04%	11.41%	10.52%	8.49%	8.43%
PSG Wealth Global Flexible FoF D GBP	10.45%	28.67%	14.44%	14.63%	11.87%	11.80%

Source: PSG Wealth research team

Offshore funds perfomance

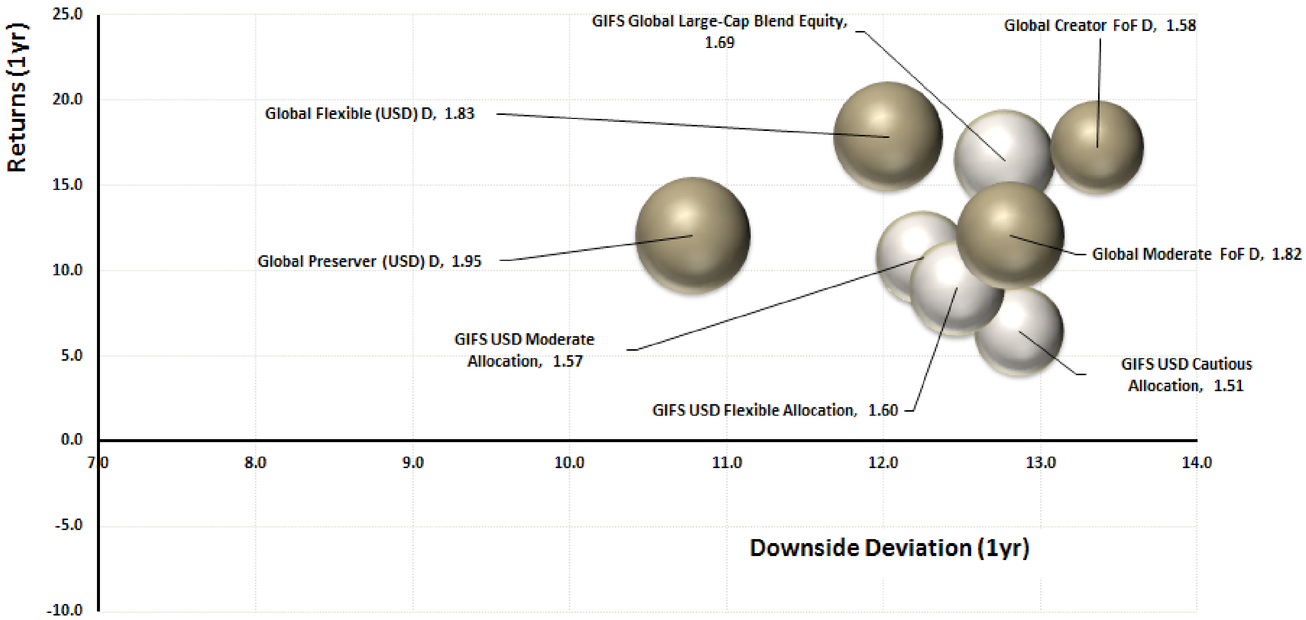
Source: PSG Wealth research team data as at 28 February 2017.

*Dots represent the relevant benchmark

All performance is reported in USD unless specified otherwise.

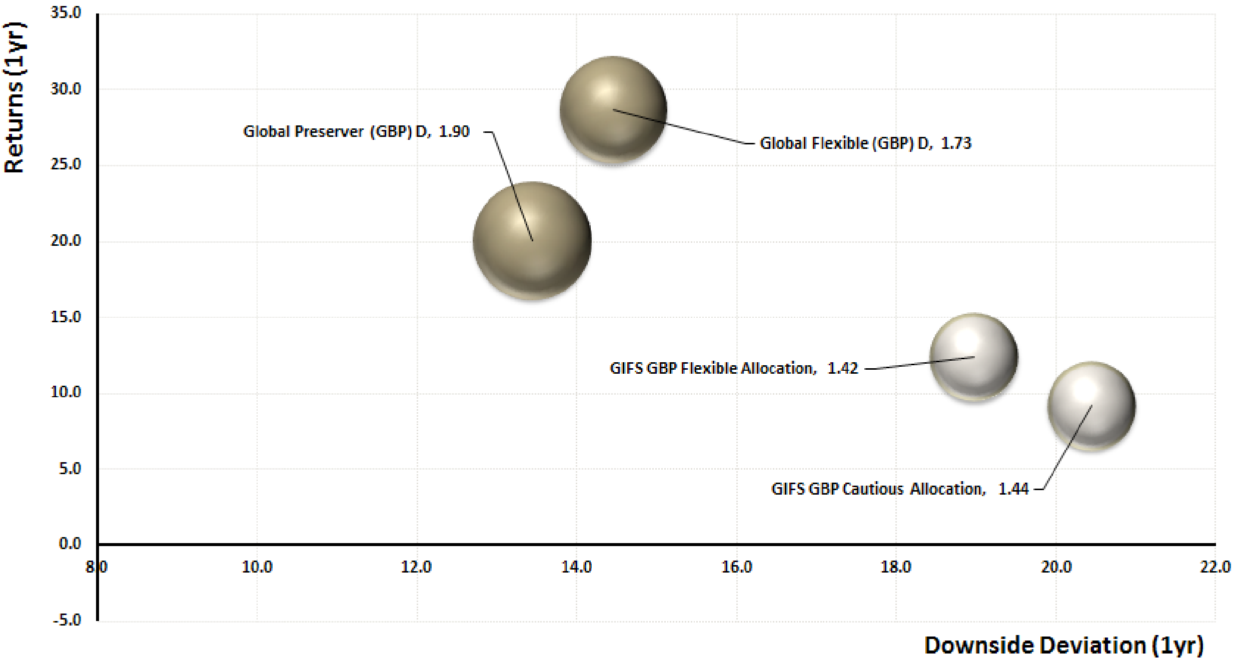
PSG Wealth Fund of Funds Solutions

PSG Wealth Offshore Fund of Funds (USD)



Source: PSG Wealth research team

PSG Wealth Offshore Fund of Funds (GBP)



Source: PSG Wealth research team

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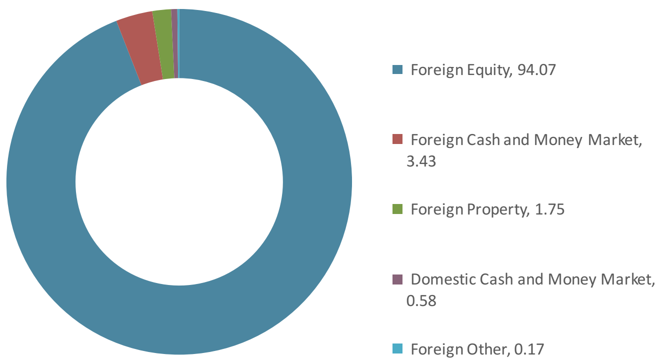
All performance is reported in USD unless specified otherwise.

PSG Wealth Fund of Funds Solutions

PSG Wealth Global Creator Fund of Funds (USD)

- The PSG Wealth Global Creator FoF returned 3.31% for February, outperforming the benchmark GIFS Global Large-Cap Blend equity sector average which delivered 2.19%.
- The FoF also outperformed the MSCI World index and ASISA Global Equity sector which returned 2.77% and 2.91% respectively.
- The PSG Wealth Global Creator FoF is ranked in the first quartile of global equity funds since its inception in December 2012.

Asset allocation



Source: PSG Wealth research team

Risk: Most of our underlying managers remain relatively defensively positioned, with a preference for quality stocks with very strong balance sheets, strong moats and steady earnings' outlooks. Given the high allocation to quality large caps, mostly in developed markets, we expect to underperform global markets when sentiment is very positive and relatively risky assets, such as emerging market equities, perform strong (risk-on trade)

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

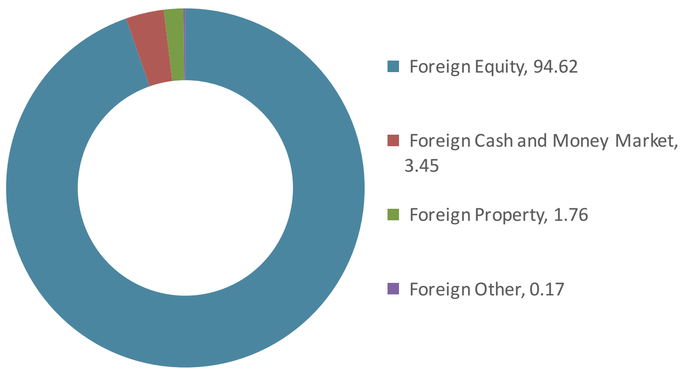
Radar: No funds on the qualitative or quantitative radar.

Changes: No changes made to underlying funds.

PSG Wealth Global Creator Feeder Fund (ZAR)

- The PSG Wealth Global Creator FF D delivered a return of 0.18% for February in rand terms, outperforming the global sector average which returned -0.84%
- The rand strengthened by approximately 2.57% against the US dollar over February, thus decreasing global portfolio returns reported in ZAR.
- The PSG Wealth Global Creator FF D delivered top quartile returns since its inception.

Asset allocation



Source: PSG Wealth research team

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

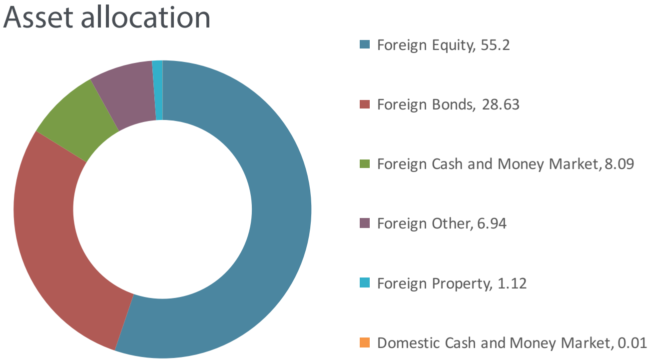
All performance is reported in USD unless specified otherwise.

PSG Wealth Fund of Funds Solutions

PSG Wealth Global Moderate FoF (USD)

- The PSG Wealth Global Moderate FoF returned 1.59% for February, slightly underperforming the GIFS USD Moderate Allocation sector average, which delivered 1.63%.
- Since its inception, the PSG Wealth Global Moderate FoF D has consistently outperformed the sector average, delivering over 2% in alpha per annum and is ranked in the second quartile of Global Moderate Allocation funds.
- In their monthly market review, Schroders notes that during February investors were again encouraged by widespread improvement in global economic data while expectations rose that US interest rates would soon increase. In the Eurozone, encouraging macro-economic data supported equity gains with all sectors aside from financials registering positive returns. February proved positive for global sovereign and corporate bonds, however the most notable exception was shorter-dated US Treasuries, which were relatively weak, though the 10-year index gained.

Asset allocation



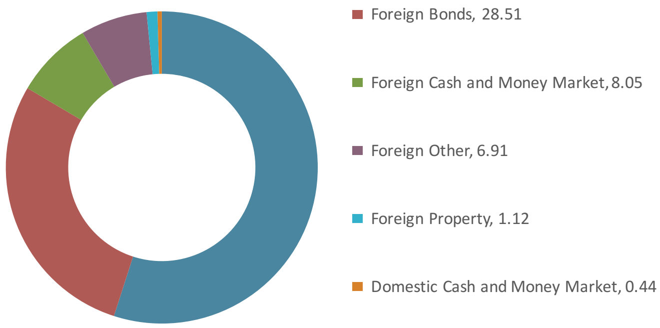
Source: PSG Wealth research team

Risk: The portfolio is very defensively positioned with a developed market overweight. Performance will likely be muted during periods of positive market sentiment when risky assets such as emerging markets outperform. The portfolio currently has 28.5% in bonds which could be negatively impacted by any unexpected interest rate increases.
Expectation: We expect volatility to remain high in the short term with fluctuating market sentiment in global equity markets. The cash position provides a buffer against market downturns. Our underlying managers are also able to deploy this cash when they find more attractive opportunities in the market. Interest rate risks are actively managed by our underlying managers, with most positioned on the shorter end of the yield curve.
Radar: At the end of February 2017, the Schroder Global Multi Asset Flexible Fund was added to the 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 negative return of 1.38% in rand terms for February, in line with the GIFS USD Moderate allocation sector average which delivered a negative 1.38%.
- The rand strengthened by approximately 2.57% against the US dollar over February, thus decreasing global portfolio returns reported in ZAR.
- The PSG Wealth Global Moderate FF D delivered top quartile returns since its inception.

Asset allocation



Source: PSG Wealth research team

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

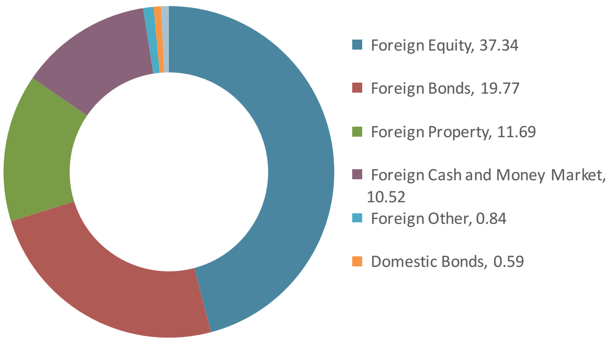
All performance is reported in USD unless specified otherwise.

PSG Wealth Fund of Funds Solutions

PSG Wealth Global Preserver FoF (USD)

- The PSG Wealth Global Preserver FoF USD returned 2.12% for February, outperforming the benchmark GIFS USD Cautious allocation sector average, which delivered 1.14%.
- The PSG Wealth Global Preserver FoF USD ranked in the top quartile of its global sector over all periods and is ranked first out of 58 funds over the last five years.
- The FoF has delivered 1.55% returns per annum above the benchmark sector average since its inception.

Asset allocation



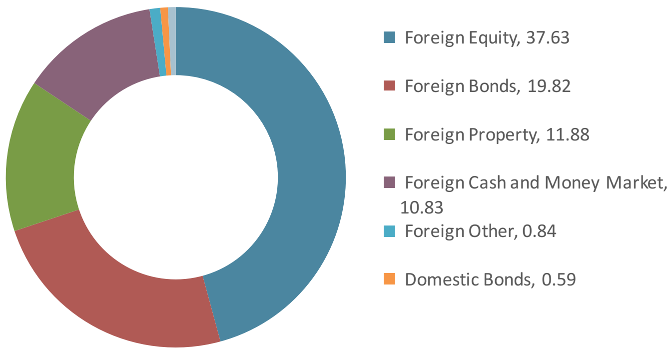
Source: PSG Wealth research team

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

PSG Wealth Global Preserver FoF (GBP)

- The PSG Wealth Global Preserver FoF (GBP) returned 2.62% for February in sterling, outperforming the benchmark GIFS GBP Cautious allocation sector average, which delivered 1.47%.
- The PSG Wealth Global Preserver FoF (GBP) ranked in the top quartile of its global sector over all periods and is ranked third out of a 107 funds over the last five years.
- The FoF has delivered 2.29% returns per annum above the benchmark sector average since its inception.

Asset allocation



Source: PSG Wealth research team

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

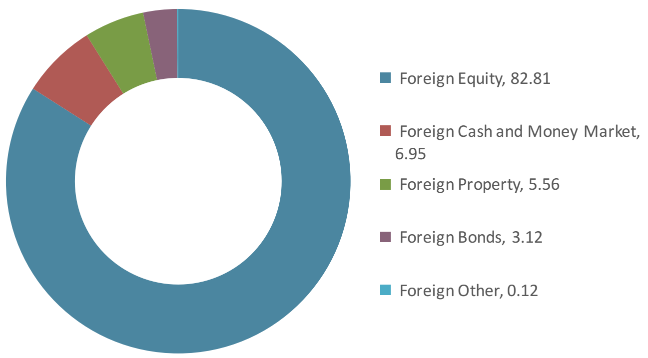
All performance is reported in USD unless specified otherwise.

PSG Wealth Fund of Funds Solutions

PSG Wealth Global Flexible FoF (USD)

- The PSG Wealth Global Flexible FoF (USD) returned 3.73% for February, significantly outperforming the benchmark GIFS USD Flexible allocation sector average which delivered 1.53%.
- The PSG Wealth Global Flexible FoF (USD) is ranked in the top quartile of its global sector over all periods and is ranked fifth out of 48 funds over the last five years.
- The FoF has delivered 5.6% returns per annum above the benchmark sector average since inception.

Asset allocation



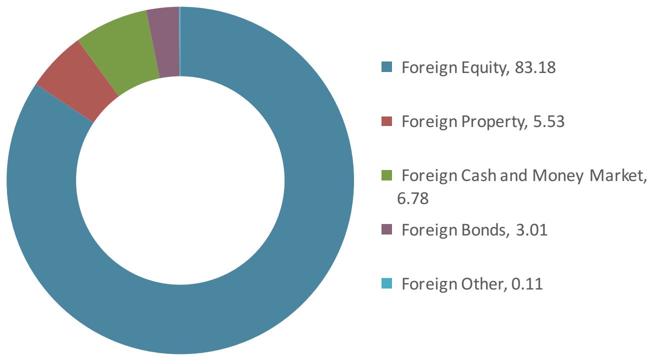
Source: PSG Wealth research team

Risk and expectation: The portfolio currently has an equity allocation of 82.8% which is above the average in the global flexible sector. As such the portfolio will likely underperform should there be a significant correction in global equity markets. We expect volatility to remain high in the short term with fluctuating market sentiment in global equity markets. However we are confident that our underlying managers will adjust the positioning of their portfolios as they find opportunities that offer good returns relative to the risk taken.
Radar: No funds on the quantitative or qualitative radar.
Changes: No changes made to underlying funds.

PSG Wealth Global Flexible FoF (GBP)

- The PSG Wealth Global Flexible FoF (GBP) returned 3.89% in GBP for February, outperforming the benchmark GIFS GBP Flexible allocation sector average which delivered 1.78%.
- The PSG Wealth Global Flexible FoF (GBP) ranked in the top quartile of its global sector over all periods and is ranked 15th out of 171 funds over the last five years.
- The FoF has delivered 7.4% returns per annum above the benchmark sector average since its inception.

Asset allocation



Source: PSG Wealth research team

Risk and expectation: The portfolio currently has an equity allocation of about 83.2% 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	-2.85%	1.91%	2.18%	11.35%	11.31%
PSG Wealth SA Property Portfolio	0.03%	4.10%	-2.16%	0.29%	-7.31%
PSG Wealth Offshore Equity Portfolio (USD)	3.99%	7.98%	3.56%	14.58%	12.32%
PSG Wealth SA Dividend Income Equity Portfolio	-0.64%	4.82%	6.06%	N/A	-0.57%
PSG Wealth Managed Volatility Equity Portfolio	-0.27%	2.26%	0.69%	N/A	0.21%

Source: PSG Wealth research team

Overview of equity portfolios

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

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

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

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

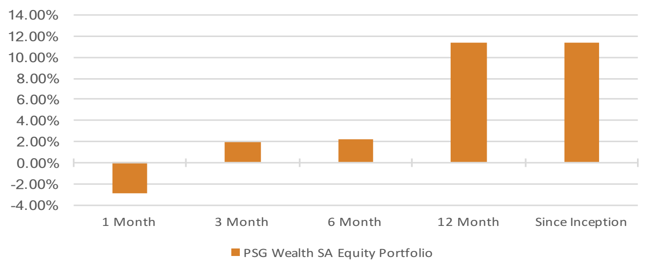
PSG Wealth SA Property Equity Portfolio
For the more risk adverse investor who requires a regular income with a high degree of capital stability.

PSG Wealth Equity Portfolios

PSG Wealth SA Equity Portfolio

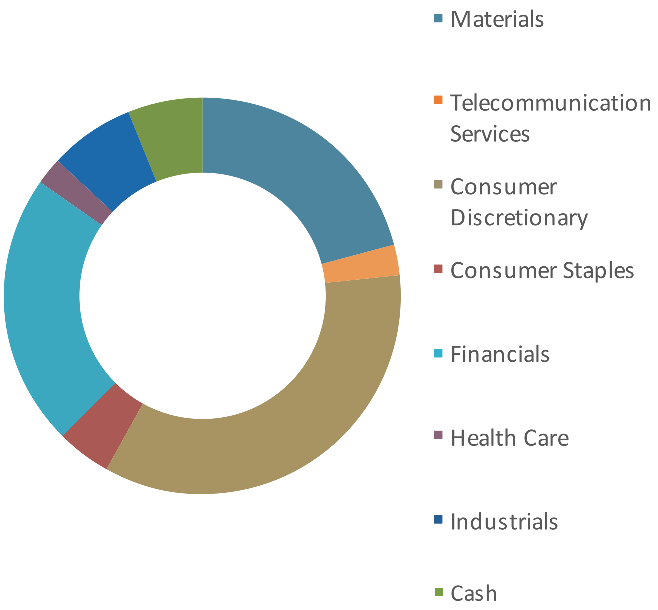
- The PSG Wealth SA Equity Portfolio outperformed its benchmark in February. The portfolio lost 2.85%, while the FTSE/JSE Capped All Share TR (net of fees) dropped 3.30%.
- Since its inception the fund has outperformed its benchmark.

Performance since inception



Source: PSG Wealth research team data as on 28 February 2017
*Inception date: 30 August 2015

Asset allocation



Source: PSG Wealth research team

Expectations:

- Equity markets are likely to perform in line with its long-term average.
- With multiples in line with their long-term averages we expect returns to materialise primarily through growth in earnings and not through a material change in valuation multiples.
- We continue to see value in the general retail sector and have recently increased our exposure to the sector.
- Our largest underweight position is towards the consumer stable sector primarily due to concerns regarding the valuation of food and drug retailers.
- The portfolio has a healthy balance between value and growth investments.
- Our non-rand exposure is through local investments with international exposure rather than through dual-listed investments 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.
- 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.

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 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 our 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 was flat (0.03%) during February, outperforming the FTSE/JSE SA Listed Property Capped TR (net of fees) which delivered a negative 0.16%.
- A total of 13 (72%) of the 18 counters in this portfolio performed above the benchmark.

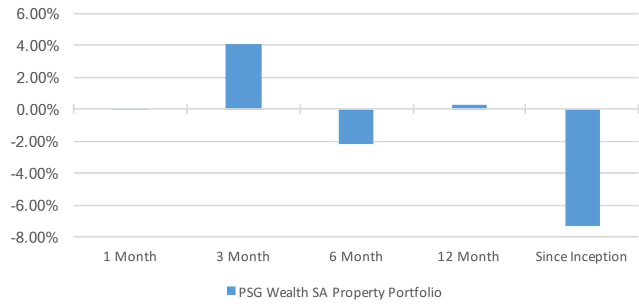
Expectations:

- 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:

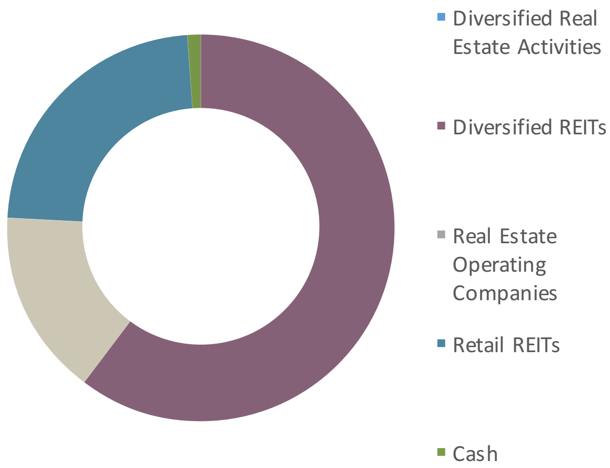
- Weaker-than-expected growth could erode dividends underpinning the current valuations.
- Low global bond yields have aided valuations – a reversal of this trend and tighter US monetary policy could impact valuations.
- Changes in sovereign risk (positive and negative) and its flow through to capital 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 28 February 2017
*Inception date: 1 December 2015.

Asset allocation



Source: PSG Wealth research team

PSG Wealth Equity Portfolios

PSG Wealth Offshore Equity Portfolio

- The PSG Wealth Offshore Equity Portfolio returned 3.99% in February, outperforming the Dow Jones Global Titans 50 TR (net of fees) which ended the month 3.55% higher.
- Seven (47%) of the 15 stocks in the portfolio ended in positive territory, while four (27%) closed below that of the benchmark.

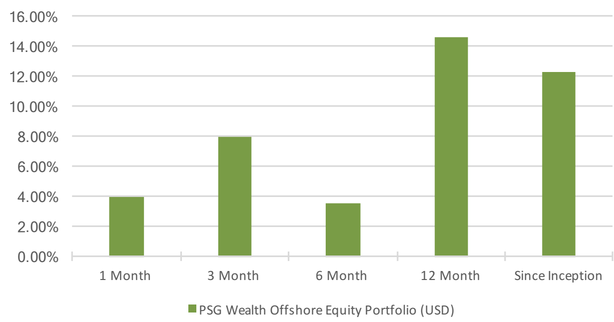
Expectations:

- 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:

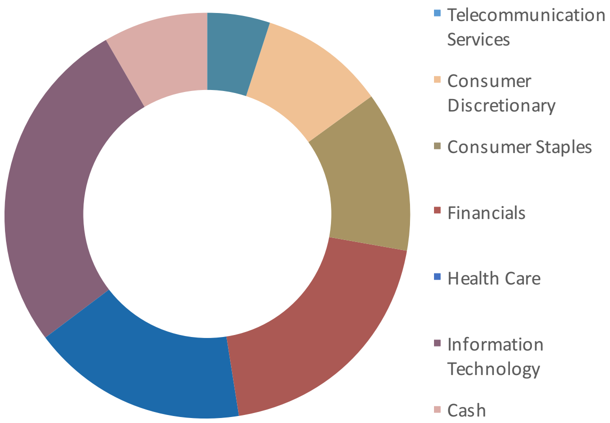
- Sustained international monetary easing creates demand for quality, stable, high yielding equities. This provides a valuation underpin to investments in the portfolio. The portfolio is likely to underperform should this deteriorate.

Performance since inception



Source: PSG Wealth research team data as at 28 February 2017.
*Inception date: 30 August 2015

Asset allocation



Source: PSG Wealth research team

PSG Wealth Equity Portfolios

PSG Wealth SA Dividend Income Equity Portfolio

- The PSG Wealth SA Dividend Income Equity Portfolio returned a negative 0.64% during the month. Outperforming the benchmark, the FTSE/JSE Dividend Plus TR (net of fees), which delivered a negative 0.86% over the same period.
- Twelve (60%) of the 20 stocks in the portfolio ended ahead of the benchmark.

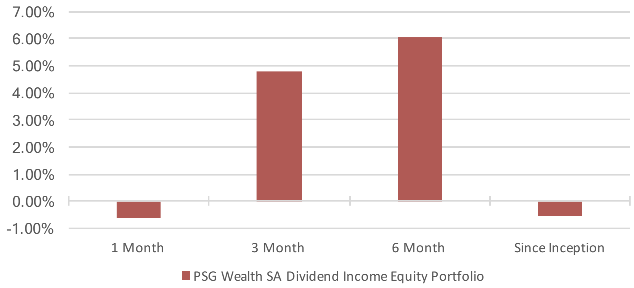
Expectations:

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

Risk:

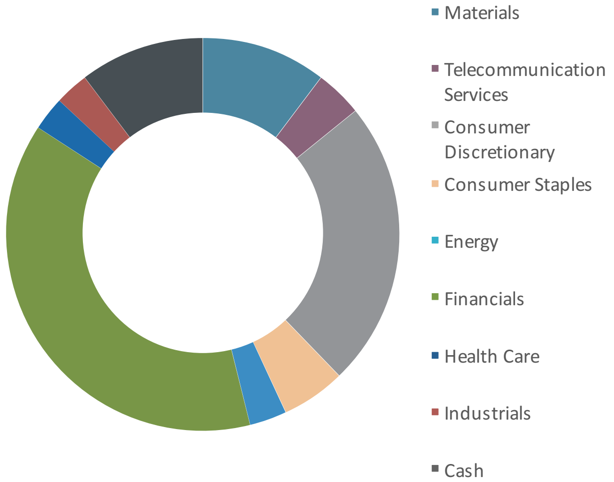
- Changes in the perception of sovereign risk (positive and negative) and its flow through to exchange rates and interest rates can have an impact on portfolio values.
- The portfolio is likely to underperform should international monetary easing prove sustainable. An environment of sustained monetary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

Performance since inception



Source: PSG Wealth research team data as at 28 February 2017
*Inception date: 29 April 2016

Asset allocation



Source: PSG Wealth research team

PSG Wealth Equity Portfolios

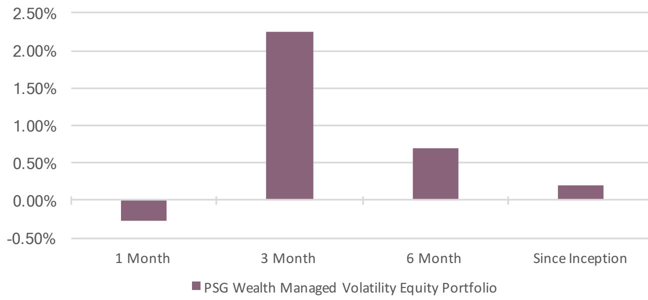
PSG Wealth SA Managed Volatility Equity Portfolio

- The PSG Wealth SA Managed Volatility Equity Portfolio delivered a negative return of 0.27% for February, underperforming the benchmark, the PSG Wealth Custom Low Volatility Index TR (net of fees), which ended the month 0.82% higher.
- Ten (63%) of the 16 counters in this portfolio closed above the benchmark.

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

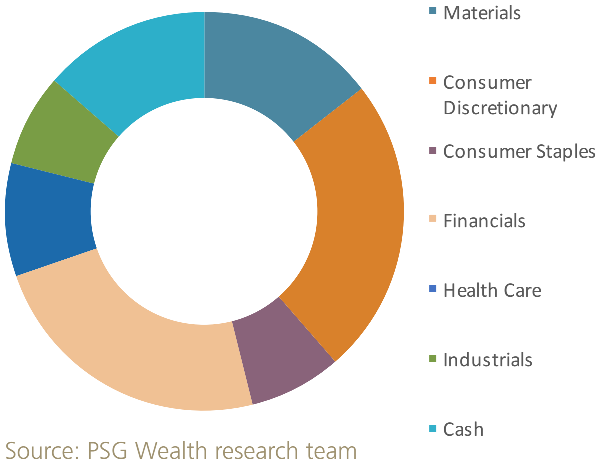
Risk:
- A negative performance relative to the local equity market during strong bull markets.

Performance since inception



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

Asset allocation

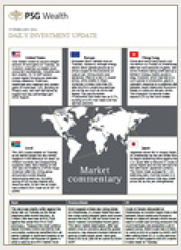


Source: PSG Wealth research team

Other publications

Previous publications

Daily

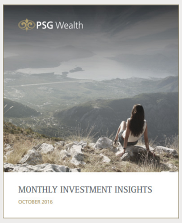


29 March 2017

Weekly

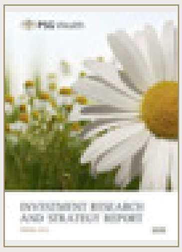
22 Mar	16 Nov	10 Aug	18 May
15 Mar	09 Nov	02 Aug	11 May
8 Mar	02 Nov	27 Jul	04 May
1 Mar	26 Oct	13 Jul	26 Apr
15 Feb	12 Oct	06 Jul	20 Apr
06 Feb	05 Oct	29 Jun	12 Apr
18 Jan	28 Sep	22 Jun	05 Apr
11 Jan	14 Sep	15 Jun	30 Mar
14 Dec	07 Sep	08 Jun	23 Mar
07 Dec	31 Aug	01 Jun	16 Mar
30 Nov	17 Aug	25 May	09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

Monthly



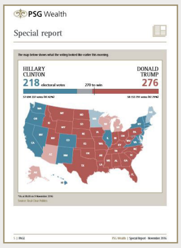
Feb 2017	Feb 2016
Jan 2017	Dec 2015
Nov 2016	Nov 2015
Oct 2016	Oct 2015
Sep 2016	Sep 2015
Aug 2016	Aug 2015
Jul 2016	July 2015
Jun 2016	Jun 2015
May 2016	May 2015
Apr 2016	
Mar 2016	

Quarterly



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

Special Reports



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

Wealth Perspective

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

PSG Wealth

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