PSG Wealth

MONTHLY INVESTMENT INSIGHTS

SEPTEMBER 2016

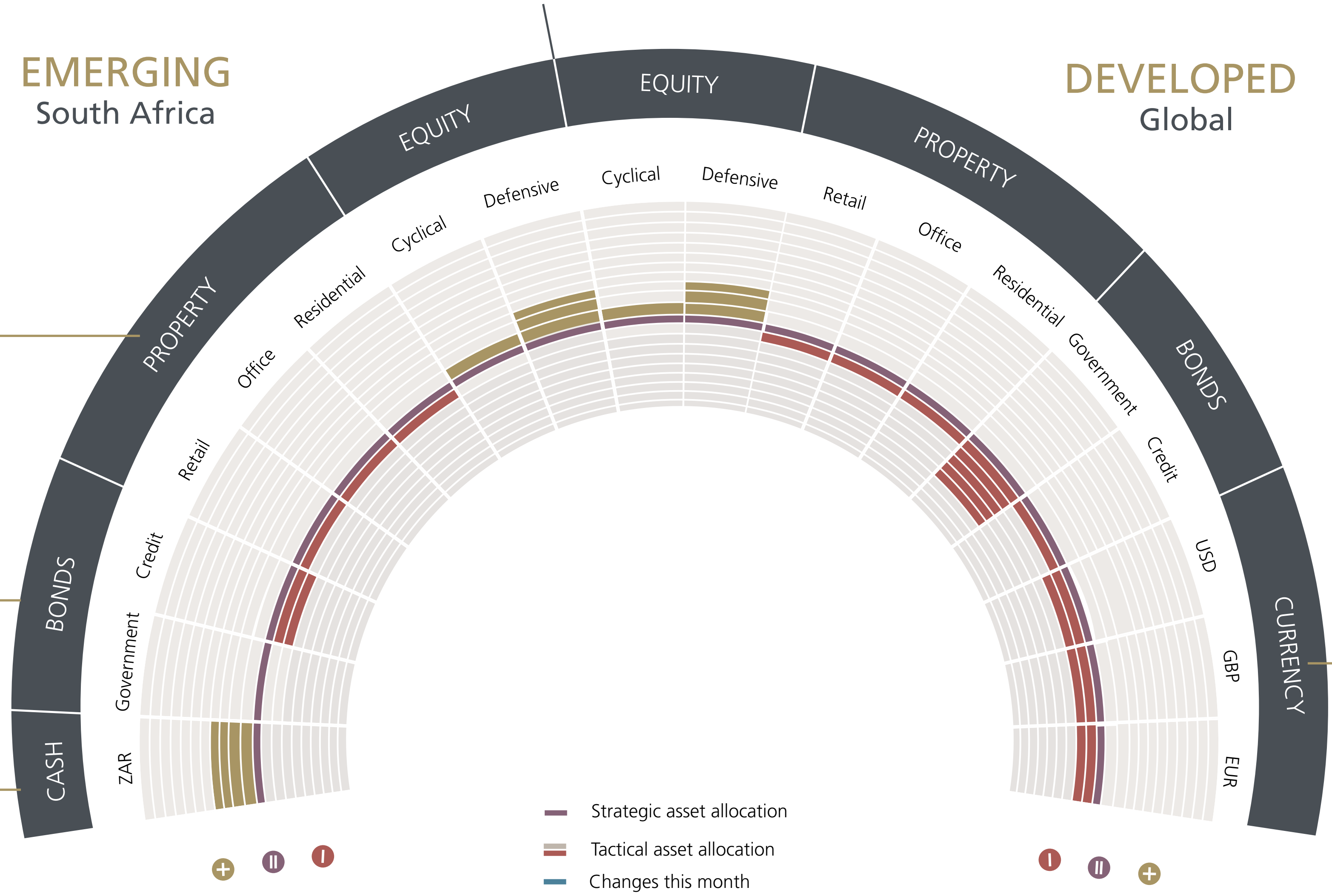
Contents

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.



The rand is still undervalued against major currencies, and we believe the rand will continue to appreciate against the dollar, pound and euro.

Overweight: Tactical recommendation to hold more of the asset class than specified in the strategic asset allocation

Neutral: Tactical recommendation to hold the asset class in line with its weight in the strategic asset allocation

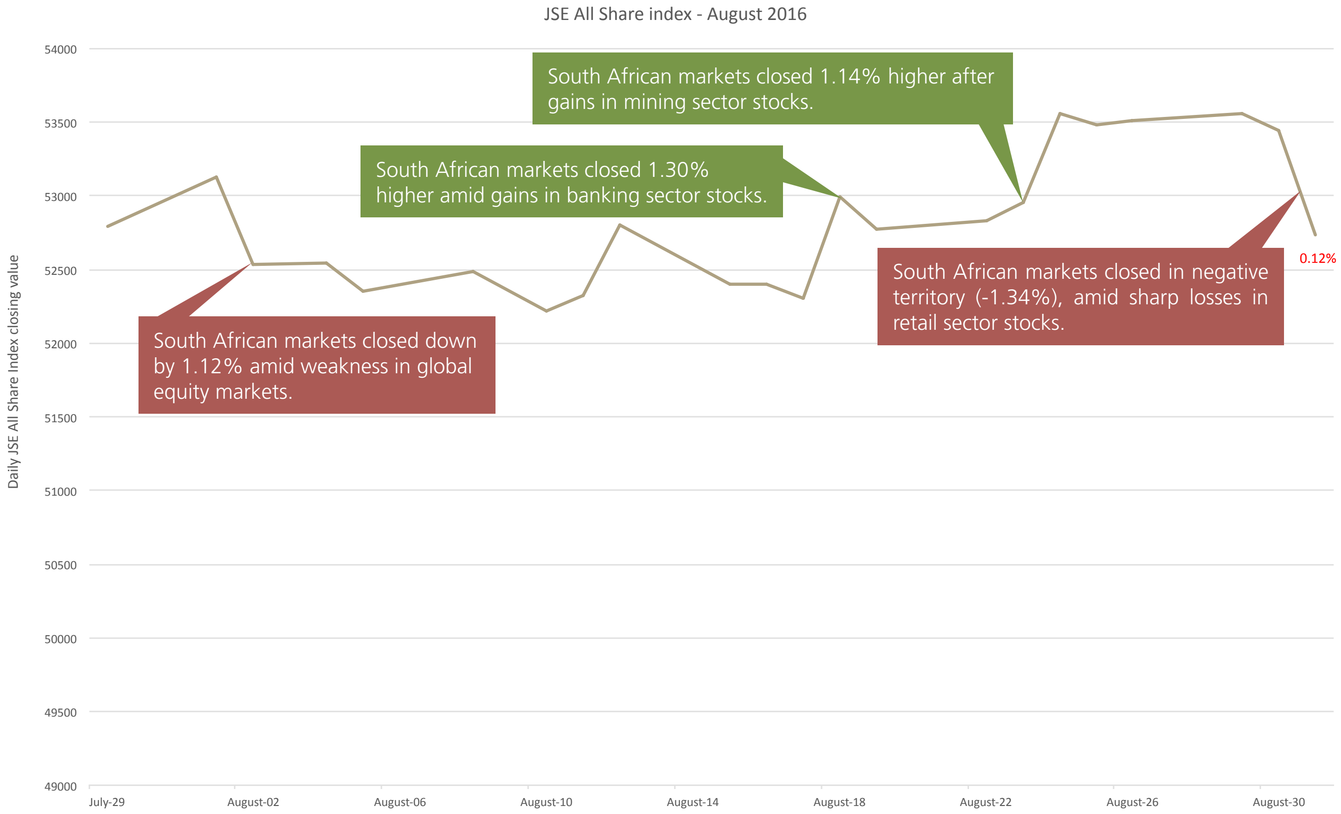
Underweight: Tactical recommendation to hold less of the asset class than specified in the strategic asset allocation

Bottom line

- Until recently the gross real yield on most short-dated money market assets was near zero. On an after-cost-after-tax basis, there was very little to be excited about in this asset class. We do however expect this to change quite drastically over the coming months, as rate hikes ensue at an increased pace.
- Our assessment shows that domestic equity is now roughly 38% overvalued relative to its historic yield. There certainly remains some expensive pockets in the market, and investors should expect continued volatility at current levels.
- With regards to domestic listed property our assessment of fair value shows that domestic property equity is now roughly 24% overvalued relative to its historic yield. In addition, we remain of the view that the interest rate cycle will impact domestic economic strength, affordability and sentiment presenting headwinds for capital growth in the property sector. We therefore expect property yields to normalise on the back of capital value pressure.
- As always however, there are some exceptions. Selected property shares are experiencing growing yields, which may present some opportunities. Although broad-based property exposure is ill-advised at this stage, we do believe there are some shares that can make a contribution to a diversified portfolio.
- Global equity, although trading at a slight premium (19.3%), remains the most attractive asset class to our mind. The underlying valuations remain sound and there are many quality firms to choose from. The biggest near-term risk for South African investors is the rand. That being said, there are many effective ways in which professional money managers can manage this risk effectively.

Market commentary

Local markets ended the month of August in the red, with the FTSE/JSE All Share Index (ALSI) down 0.12% (up 4.02% year-to-date 'YTD') as renewed political uncertainty impacted local financial markets. Lower commodity prices also had an adverse impact on energy and material counters. However on the positive side, consumer staples and discretionary counters, which includes a number of dual-listed UK shares and other rand hedges, ended the month higher, on the back of a weaker rand.



Source: Bloomberg

Domestic key moves

- Following the results of our local municipal elections investors were net buyers of our local government bonds with the yield of the R186 bond falling as low as 8.4% during the month. However, leading up to the end of August, news broke that the Hawks were investigating finance minister, Pravin Gordhan, which further increased political uncertainty as well as the risk of a possible credit downgrade in December. The event created a sharp sell-off in the local bond market with the yield of the R186 breaching the 9%-level. The local listed property sector, especially those with a strong domestic focus, followed the bond market lower. Rand-hedged stocks, however, benefitted from the weakening of the rand.
- Consumer prices in South Africa increased 6% YoY in July, following a 6.3% rise in the previous period and lower than market expectations of 6.1%. It is the lowest inflation figure so far this year as cost of electricity and other fuels rose at a slower pace, while food inflation reached a seven-year high.
- South Africa's unemployment rate slightly decreased to 26.6% in the June quarter of 2016 from 26.7% in the three months to March. The number of unemployed fell by 1.6% and employment went down 0.8%.

Market commentary

Global key moves

Gold is doing something it's only done twice in the past decade. The price of the precious metal has historically moved in tandem with the rate of central bank balance-sheet expansions, but it is not keeping up right now. In the middle of August the yellow metal was down 0.3% near $1 319.50 an ounce. Further a research note sent out by Matthew Turner's team at Macquarie said that central banks aren't buying gold the way they used to. Their data shows that central banks bought an estimated 166 tonnes of gold in the first half of the year, down from 179 tonnes through the first half of 2015.

US

- Total nonfarm payroll employment in the United States increased by 151 000 in August, lower than an upwardly revised 275 000 in July, but below market expectations of 180 000. Employment continued to trend up in several service-providing industries, while it declined in manufacturing, mining and construction.

US Nonfarm payroll since 2011

Source: Trading Economics

- The US economy continues to expand and the case for raising the interest rate has strengthened in recent months, Fed Chair Yellen said in a speech at the Jackson Hole Symposium, suggesting a rate hike this year is still on the table. Looking ahead, the FOMC expects moderate growth in real gross domestic product (GDP), additional strengthening in the labour market, and inflation rising to 2% over the next few years. Based on this economic outlook, the FOMC continues to anticipate that gradual increases in the federal funds rate will be appropriate over time to achieve and sustain employment and inflation near their statutory objectives.

- Sales of new single-family houses in the United States surged 12.4% to a seasonally adjusted annual rate of 654 000 in July. It is the highest figure since October 2007 and much better than market expectations of 580 000. Figures for June were revised down by 10 000 to 582 000.

UK

- UK home prices jumped after Brexit. Nationwide home prices climbed 0.6% month-over-month in August, and they have yet to show any impact from the UK's 23 June vote to exit the European Union.

- Brexit is having a big impact on the UK mortgage market. The number of new mortgages given out in the UK in July was 60 912, making for the lowest total in 18 months as uncertainty took hold following the 23 June vote.

- UK GDP was better than originally thought. The UK economy expanded at a 0.6% clip in the second quarter, according to a revised estimate of the original reading of a 0.4% rise.

EU

- Eurozone inflation disappointed when data from Eurostat showed that consumer prices in the Eurozone rose 0.2% YoY in August, missing the 0.3% print that economists had forecast.

- Euro-area inflation was in line with expectations. According to Eurostat, inflation in the euro area rose 0.2% in July, up from 0.1% in June. Belgium (+2.0%) saw the hottest reading in the euro area, while Slovakia (-0.9%) saw the coolest.

China

- Consumer confidence is slowing down in China. The latest Westpac-MNI China consumer-sentiment index fell 2.2% to 111.5 and showed a notable weakness in the labour market as the employment outlook indicator sank to a six-month low of 92.2.

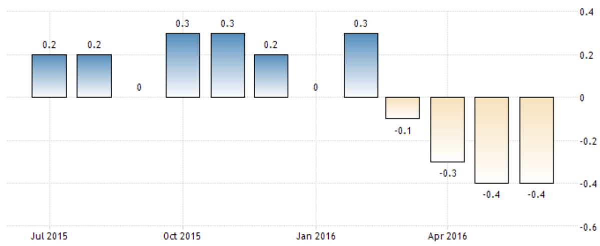
- July retail sales rose 10.2%, below the 10.5% that was expected and well short of June's reading of 10.6%. Industrial production came in at 6.0%, versus expectations of a 6.1% print. Completing the trio of disappointing figures was fixed-asset investment, which grew 8.1% compared with the 8.8% that economists had forecast.

Market commentary

Japan

- Japan's unemployment rate is at a 21-year low. Data from the Ministry of Internal Affairs and Communications showed Japan's unemployment rate slid to a seasonally adjusted 3.0% in July, its lowest since 1995.
- Japan remains trapped in deflation. Core CPI fell 0.5% in July, making for the lowest reading since March 2013.

Japan inflation rate since July 2015



Source: Trading Economics

PSG Wealth Fund of Funds Solutions

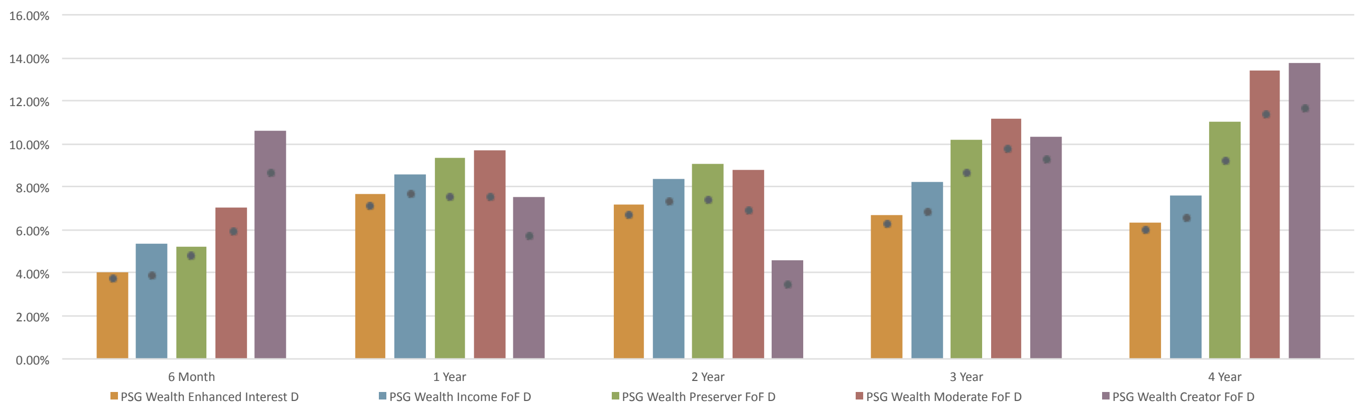
Local funds

Performance table

PSG Wealth Solutions						
Fund	6 Month	1 Year	2 Year	3 Year	4 Year	5 Year
PSG Wealth Enhanced Interest D	4.03%	7.68%	7.17%	6.66%	6.37%	N/A
PSG Wealth Income FoF D	5.38%	8.60%	8.33%	8.25%	7.61%	7.99%
PSG Wealth Preserver FoF D	5.22%	9.33%	9.09%	10.17%	11.00%	12.00%
PSG Wealth Moderate FoF D	7.04%	9.72%	8.77%	11.20%	13.43%	14.68%
PSG Wealth Creator FoF D	10.64%	7.55%	4.58%	10.31%	13.77%	14.73%

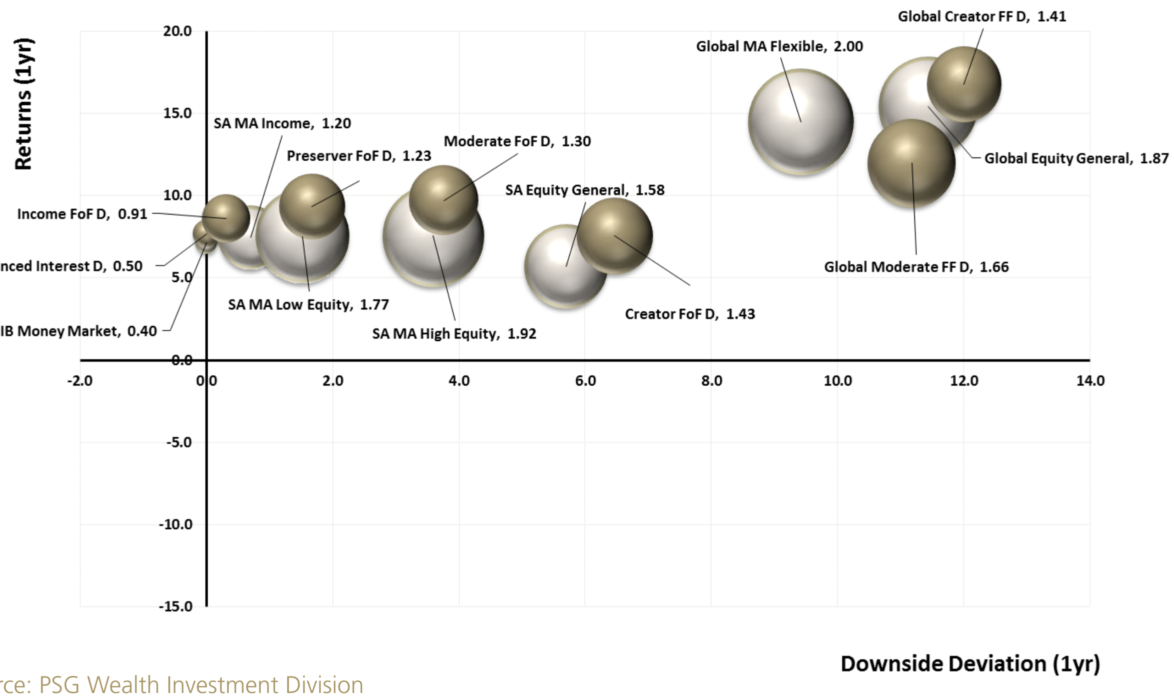
Source: PSG Wealth Investment Division

Domestic funds performance



Source: PSG Wealth Investment Division data as at 31 August 2016 *Dots represent the relevant benchmark

PSG Wealth Local Fund of Funds



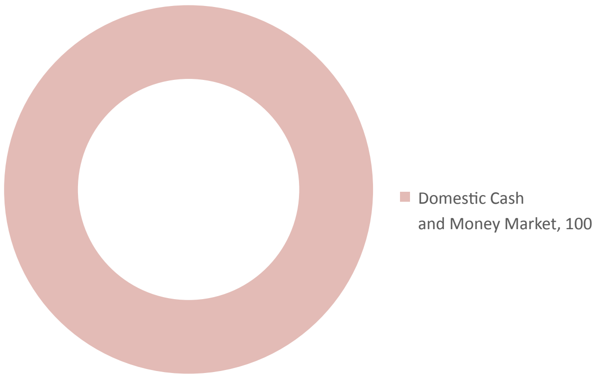
Source: PSG Wealth Investment Division

PSG Wealth Fund of Funds Solutions

PSG Wealth Enhanced Interest Fund

- The PSG Wealth Enhanced Interest fund delivered a return of 0.71% for August, compared to the 0.64% of its benchmark, the South Africa IB Money Market Sector Average.
- The fund again outperformed the benchmark over all measurement periods over four years and less.

Asset Allocation



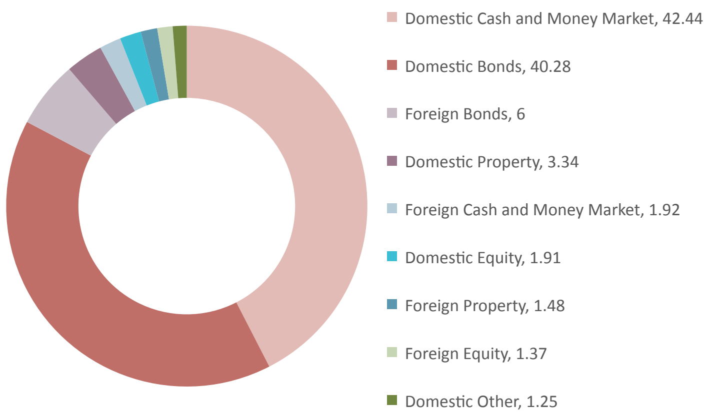
Source: PSG Wealth Investment Division

Risk & Expectations: We are confident the fund will continue to deliver returns in access of money market rates in order to offset the negative effects of high inflation on cash.

PSG Wealth Income FoF

- The PSG Wealth Income FoF delivered a return of 0.68% for August, compared to the 0.67% of its benchmark, the Stefi 12 Months NCD.
- It also outperformed the benchmark as well as the South African MA Income Sector Average over all measurement periods of seven years and less.

Asset Allocation



Source: PSG Wealth Investment Division

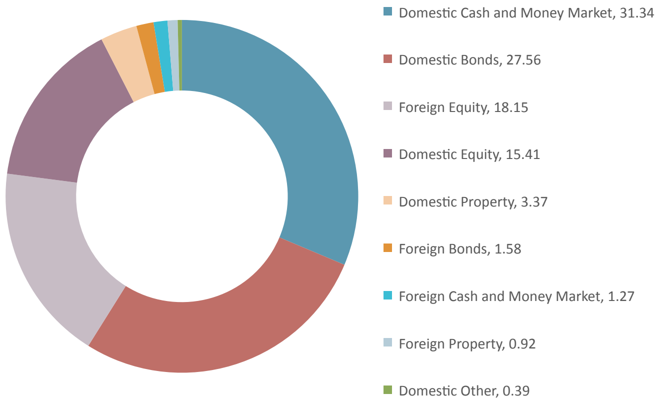
Risk & Expectations: We expected recent higher inflation and rising interest rates to be a drag on performance over the short term, but current indications are that the underlying portfolio managers were able to take advantage of the higher yields on short-term instruments to deliver attractive returns 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.

PSG Wealth Fund of Funds Solutions

PSG Wealth Preserver FoF

- The PSG Wealth Preserver FoF delivered a return of 1.4% for August, compared to the 0.9% of the South African MA Low Equity Sector Average.
- It also outperformed the sector average over all other measurement periods of seven year and less.
- This FoF outperformed its performance target of CPI plus three percent over all investment periods of one year and longer.

Asset Allocation



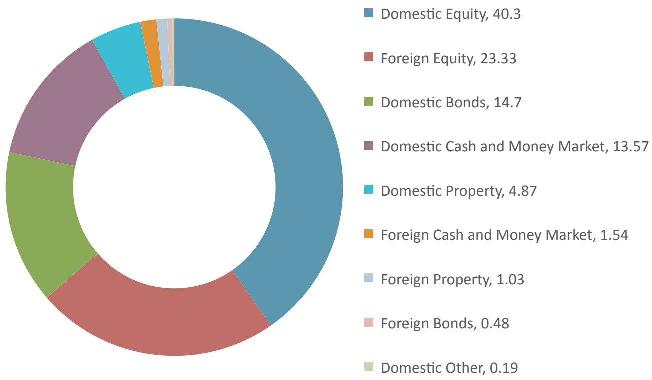
Source: PSG Wealth Investment Division

Risk & Expectations: Rising interest rates may be a drag on performance, but 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 negative markets.

PSG Wealth Moderate FoF

- The PSG Wealth Moderate FoF delivered a return of 1.6% for August, compared to the 1.0% of its benchmark, the South African MA High Equity Sector Average.
- It outperformed the sector average over all measurement periods up to seven years.

Asset Allocation



Source: PSG Wealth Investment Division

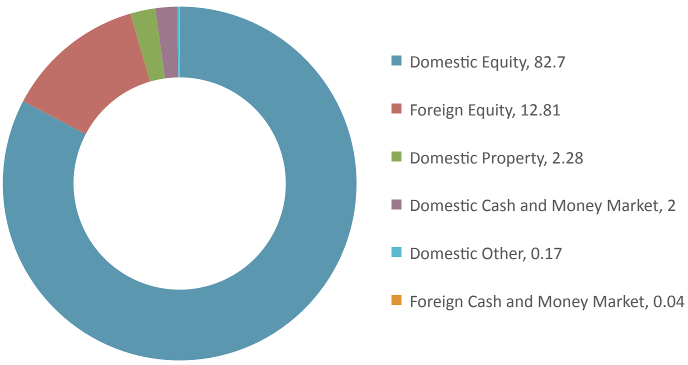
Risk & Expectations: The PSG Wealth Moderate FoF may hold up to 75% in domestic- and offshore equities, which could lead to short-term negative performances in sharp equity corrections or equity bear markets. We are, however, confident that the fund will always deliver positive returns over the preferred investment period of five years and longer. We are of the opinion that it will continue to deliver above-average long-term returns with below average risk over various market cycles.

PSG Wealth Fund of Funds Solutions

PSG Wealth Creator FoF

- The PSG Wealth Creator FoF delivered a return of 1.2% for August, compared to the -0.1% of its benchmark, the South African EQ General Sector Average.
- It outperformed the sector average over all measurement periods up to seven years.

Asset Allocation



Source: PSG Wealth Investment Division

Risk & 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.

PSG Wealth Fund of Funds Solutions

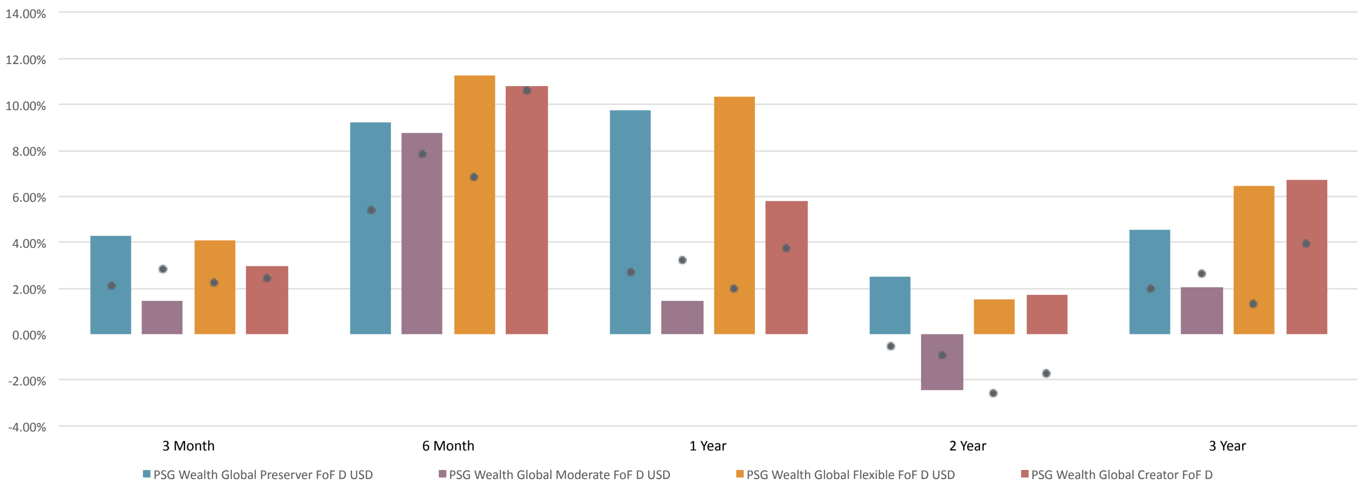
Offshore funds

Performance table

PSG Wealth Solutions - Offshore (Reported in USD)						
Fund	6 Month	1 Year	2 Year	3 Year	4 Year	5 Year
PSG Wealth Preserver FoF D USD	9.24%	9.78%	2.52%	4.52%	4.45%	4.43%
PSG Wealth Moderate FoF D	8.76%	1.42%	-2.41%	2.02%	4.64%	N/A
PSG Wealth Flexible FoF D USD	11.24%	10.32%	1.48%	6.46%	8.45%	7.98%
PSG Wealth Creator FoF D	10.82%	5.77%	1.74%	6.71%	N/A	N/A
PSG Wealth Solutions - Offshore (Reported in GBP)						
Fund	6 Month	1 Year	2 Year	3 Year	4 Year	5 Year
PSG Wealth Preserver FoF D USD GBP	13.19%	22.37%	10.50%	9.52%	8.78%	8.32%
PSG Wealth Flexible FoF D USD GBP	16.49%	24.78%	13.19%	12.13%	12.59%	12.13%

Source: PSG Wealth Investment Division.

Offshore funds performance

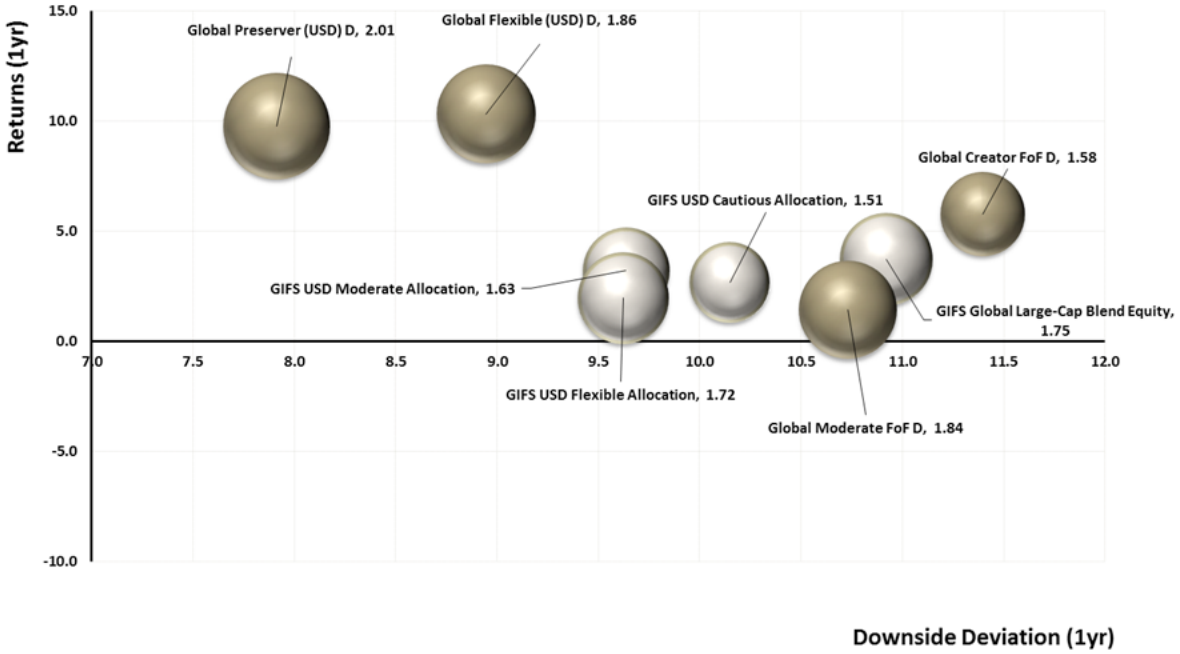


Source: PSG Wealth Investment Division data as at 31 August 2016. *Dots represent the relevant benchmark

All performance is reported in USD unless specified otherwise.

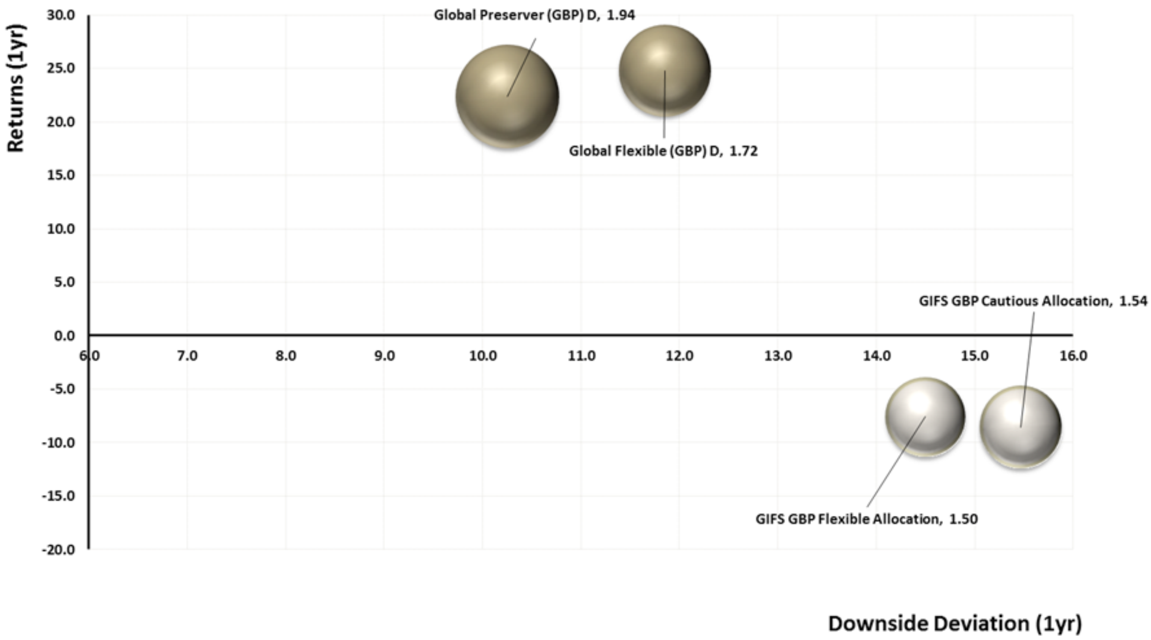
PSG Wealth Fund of Funds Solutions

PSG Wealth Offshore Fund of Funds (USD)



Source: PSG Wealth Investment Division

PSG Wealth Offshore Fund of Funds (GBP)



Source: PSG Wealth Investment Division

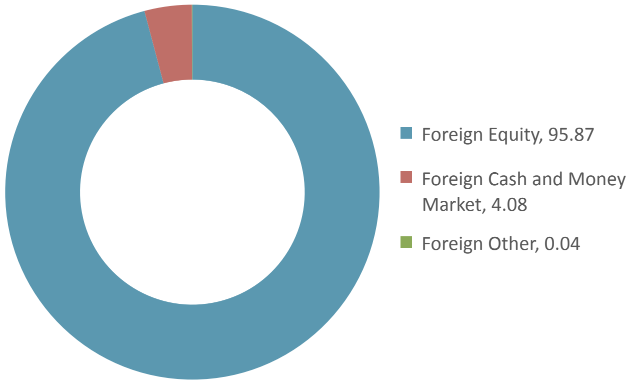
All performance is reported in USD unless specified otherwise.

PSG Wealth Fund of Funds Solutions

PSG Wealth Global Creator Fund of Funds (USD)

- The PSG Wealth Global Creator FoF returned 0.66% for August, outperforming the benchmark GIFS Global Large-Cap Blend equity sector average which delivered 0.15%. This fund also outperformed the MSCI All Country World index which returned 0.08%.
- The best performing fund for the month was the Vulcan Value Equity fund which delivered 1.33%, boosted by a strong month from their positions in global asset management and custody banks. The worst performing fund was the Nedgroup Investment Global Equity Fund (managed by Veritas Asset Management) which delivered –0.23%. In both cases security selection was the key contributor/ detractor to relative performance.
- Fundsmith Equity and Investec Global Franchise underperformed during August as their quality driven defensive strategies generally lagged the market, as investor risk sentiment improved and risk-on trade prevailed.
- In the most muted August since the global financial crisis, investors scoured the market for yield as realised and implied volatility pounded lower. Developed markets continued underperforming emerging markets, the MSCI Emerging Market Index delivering 2.49% against 0.08% by the MSCI World Index. Hong Kong markets had a strong month with the Hang Seng index delivering 5.27% in USD.

Asset Allocation



Source: PSG Wealth Investment Divison

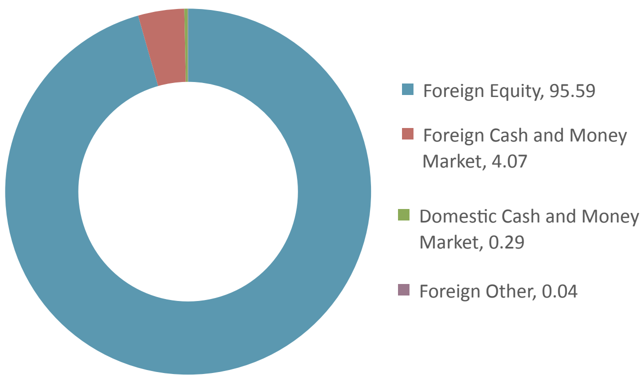
Risk: Given the overweight to developed markets in our portfolio (97%) and the general defensive positioning by most of our underlying managers, we expect to underperform global markets when sentiment is very positive and risky assets, such as emerging market equities, perform strongly.
Expectation: We are confident that our underlying managers will adjust the positioning of their portfolios (including exposure to emerging markets) as they find opportunities that offer good returns relative to the risk taken. We expect volatility to remain high in the short term with fluctuating market sentiment in global equity markets. We are comfortable with the overall defensive positioning of our fund.

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

- The PSG Wealth Global Creator FF D delivered a return of 5.95% for August in rand terms, underperforming the global sector average which returned 6.30%. The rand weakened by approximately 5% against the US Dollar over August, which increased global portfolio returns reported in ZAR.

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

Asset Allocation



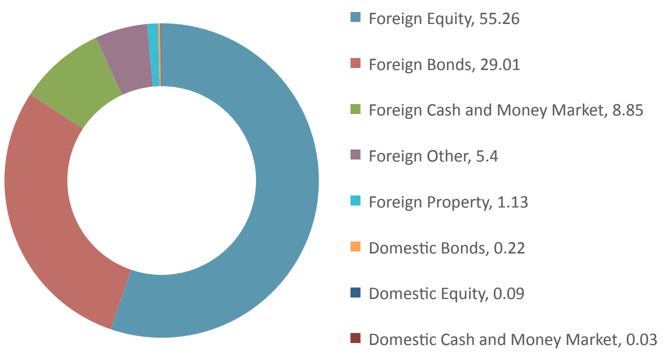
Source: PSG Wealth Investment Division

PSG Wealth Fund of Funds Solutions

PSG Wealth Global Moderate FoF (USD)

- The PSG Wealth Global Moderate FoF returned by 0.69% in August, outperforming the GIFS USD Moderate Allocation sector average, which delivered 0.54%. The fund also outperformed the ASISA Global Multi Asset Flexible sector average which returned -0.24%.
- The best performing fund for the month was the Templeton Global Balanced which returned 1.57%.
- In their monthly newsletter, JP Morgan notes that gradual increases in developed market equities, low volatility and improving economic data in the US helped drive investors to high yield US instruments during August. In general, the pattern for the year remains intact: despite impressive returns from government bonds, they remain in the shade of the dramatic returns generated by more economically sensitive parts of the fixed income universe.
- Last month was the second consecutive month that the UK was the best-performing government bond. Concerns over the impact of the Brexit referendum, and the related response from the Bank of England, caused a large rally in their prices.

Asset Allocation



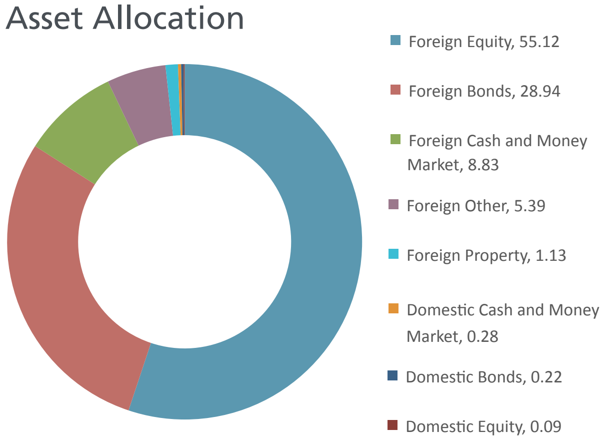
Source: PSG Wealth Investment Division

Risk: The portfolio is positioned very defensively, with an overweight in developed markets. Performance will likely be muted during periods of positive market sentiment when risky assets such as emerging markets outperform. The portfolio currently has 29% in bonds which could be negatively impacted by any unexpected interest rate increases.
Expectation: We expect volatility to remain high in the short term with fluctuating market sentiment in global equity markets. The cash position provides a buffer against market downturns. Our underlying managers are also able to deploy this cash when they find more attractive opportunities in the market. Interest rate risk is actively managed by our underlying managers, with most positioned on the shorter end of the yield curve.

PSG Wealth Global Moderate Feeder Fund (ZAR)

- The PSG Wealth Global Moderate FF D delivered a return of 5.96% in rand terms for August, underperforming the GIFS USD Moderate allocation sector average which delivered 6.71%.
- The portfolio slightly outperformed the ASISA Global Multi Asset Flexible sector, which returned 5.89%.

Asset Allocation



Source: PSG Wealth Investment Division

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

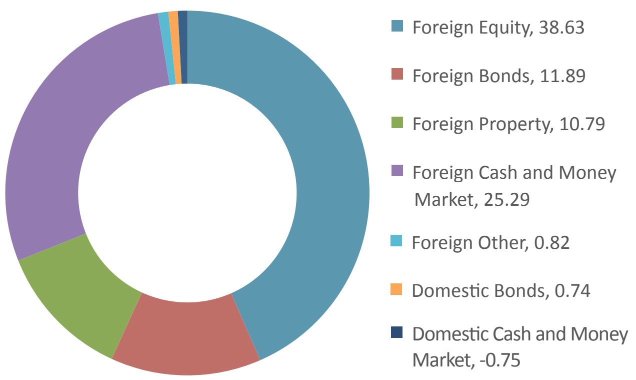
Disclaimer: All performance is reported in USD unless specified otherwise.

PSG Wealth Fund of Funds Solutions

PSG Wealth Global Preserver FoF (USD)

- The PSG Wealth Global Preserver FoF (USD) returned 0.05% for August, underperforming the benchmark GIFS USD Cautious allocation sector average, which delivered 0.35%.
- The worst performing fund was the Sarasin Real Estate fund which returned -2.79% as global property lagged behind most asset classes during August. The First State Global Infrastructure fund also underperformed, returning -1.82%.
- During August the equity exposure of the portfolio was decreased by approximately 10% after we sold out of the Nedgroup Global Equity and Orbis Global Equity funds. This change was made to reduce the overall volatility and drawdown risk of the fund and better align it with its cautious role within the global fund range.

Asset Allocation



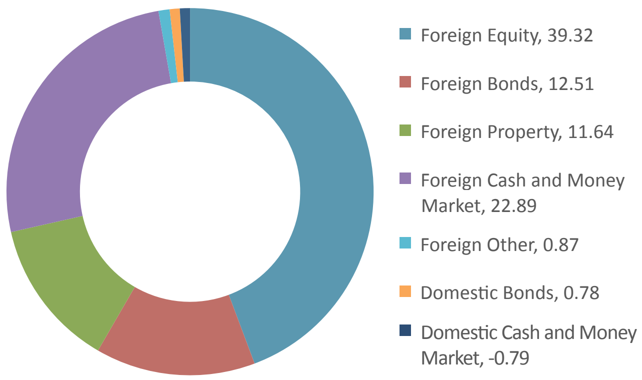
Source: PSG Wealth Investment Division

Risk & 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 which will protect the portfolio in the event of any unexpected interest rate increases.

PSG Wealth Global Preserver FoF (GBP)

- The PSG Wealth Global Preserver FoF (GBP) returned 0.25% for August in GBP, underperforming the benchmark GIFS GBP Cautious allocation sector average, which delivered 1.02%.
- The worst performing fund was the First State Global Infrastructure fund which delivered -1.51% in GBP. The Sarasin Real Estate fund returned -1.45% as global property lagged behind most asset classes during August.
- During August the equity exposure of the portfolio was decreased by approximately 10% after we sold out of the Newton Global Income and Jupiter Global Managed funds. This change was made to reduce the overall volatility and drawdown risk of the fund and better align it with its cautious role within the global fund range.

Asset Allocation



Source: PSG Wealth Investment Division

Risk & 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 which protects the portfolio in the event of any unexpected interest rate increases.

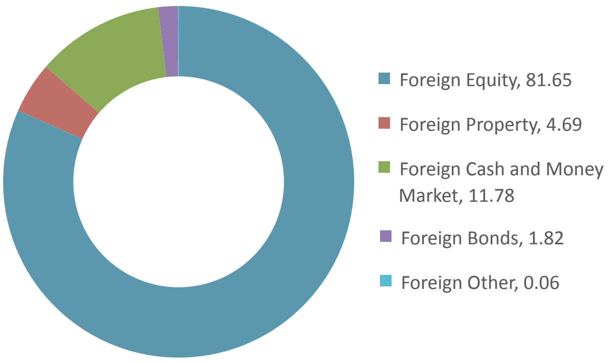
All performance is reported in USD unless specified otherwise.

PSG Wealth Fund of Funds Solutions

PSG Wealth Global Flexible FoF (USD)

- The PSG Wealth Global Flexible FoF (USD) returned 0.72% for August, outperforming the benchmark GIFS USD Flexible allocation sector average which delivered 0.05%.
- The best performing fund was the Orbis Global Equity fund which returned 1.98%, while the worst performing fund was the Sarasin Global Real Estate which returned -2.79%.
- In their monthly review JP Morgan notes that August was a good month for emerging market equities. Calling equities 'the bounce-back champion of the year' after returning 2.8% last month, taking the total return for the year-to-date to 11.1%. Developed market equities also had a decent month in aggregate, small caps included, while bonds, commodities and interest-rate-sensitive real estate investment trusts slipped slightly.

Asset Allocation



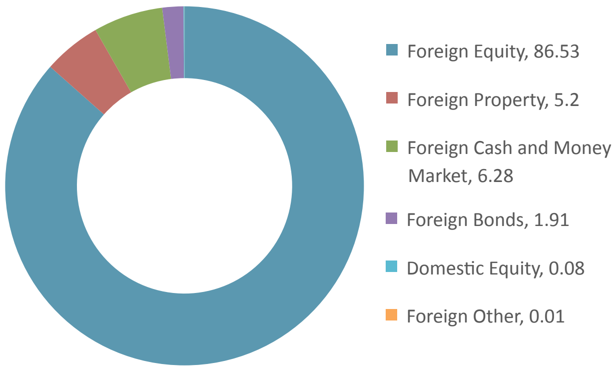
Source: PSG Wealth Investment Division

Risk & expectation: The portfolio currently has an equity allocation of 81.65% 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.

PSG Wealth Global Flexible FoF (GBP)

- The PSG Wealth Global Flexible FoF (GBP) returned 0.90% in GBP for August, slightly outperforming the benchmark GIFS GBP Flexible allocation sector average which delivered 0.84%
- The best performing fund was the Coronation Global Equity Select fund which returned 2.87% in GBP, and the worst performing fund was the Sarasin Global Real Estate fund which returned -1.45%.

Asset Allocation



Source: PSG Wealth Investment Division

Risk & expectation: The portfolio currently has an equity allocation of 86.3% 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.

All performance is reported in USD unless specified otherwise.

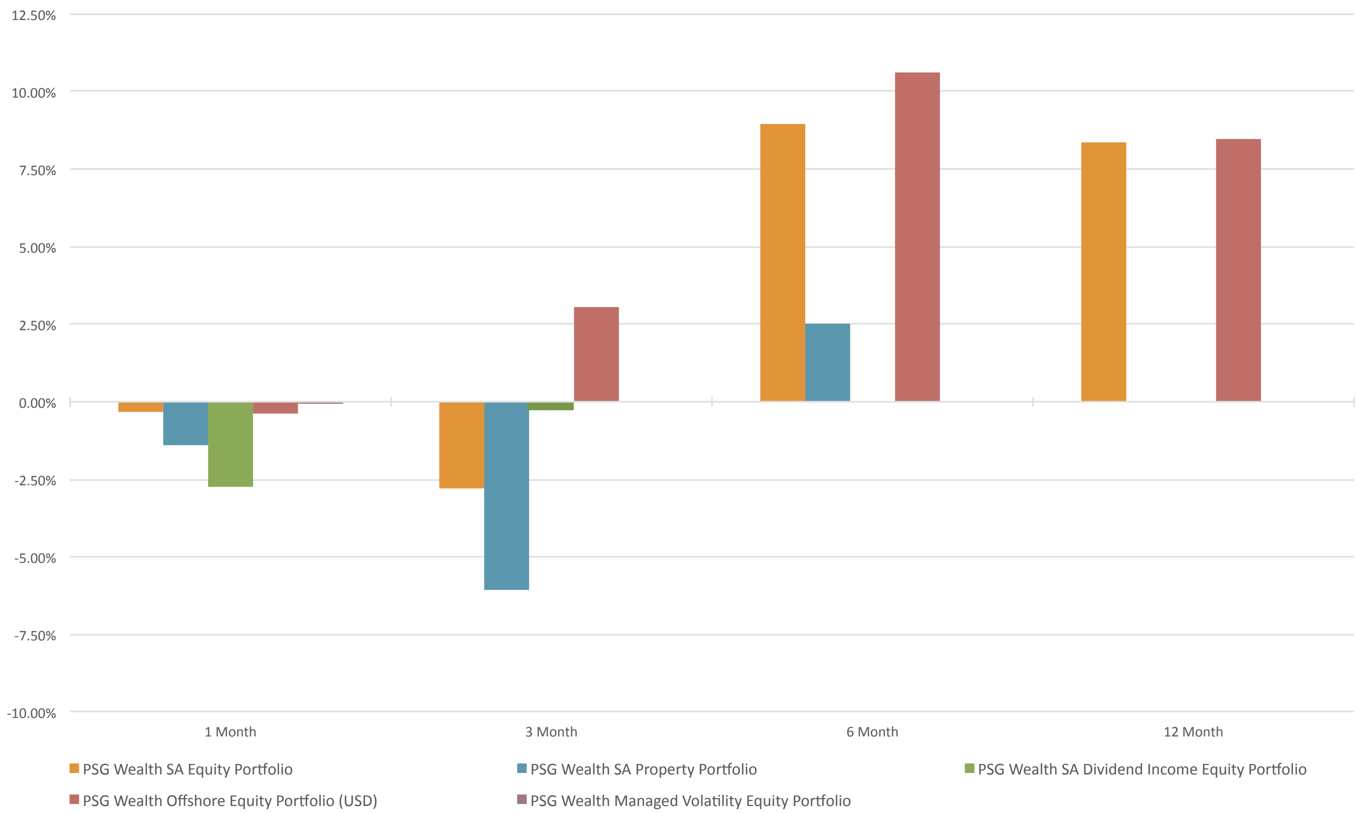
PSG Wealth Equity Portfolios

Performance table

PSG Wealth Equity portfolios					
Fund	1 Month	3 Month	6 Month	12 Month	Since inception
PSG Wealth SA Equity Portfolio	-0.32%	-2.79%	8.97%	8.35%	8.93%
PSG Wealth SA Property Portfolio	-1.39%	-6.05%	2.51%	N/A	-5.26%
PSG Wealth Offshore Equity Portfolio (USD)	-0.37%	3.04%	10.64%	8.46%	8.46%
PSG Wealth SA Dividend Income Equity Portfolio	-2.75%	-0.05%	N/A	N/A	-6.25%
PSG Wealth SA Managed Volatility Equity Portfolio	0.00%	N/A	N/A	N/A	-0.48%

Source: PSG Wealth Investment Division

Equity portfolios performance



Source: PSG Wealth Investment Division data as at 31 August 2016

PSG Wealth Equity Portfolios

PSG Wealth SA Equity Portfolio

- The PSG Wealth SA Equity Portfolio ended the month slightly ahead of its benchmark. The portfolio declined by 0.32%, while the FTSE/JSE Capped All Share TR (net of fees) ended 0.46% lower in August.
- Eight of the 19 (43%) stocks in the portfolio outperformed the benchmark.

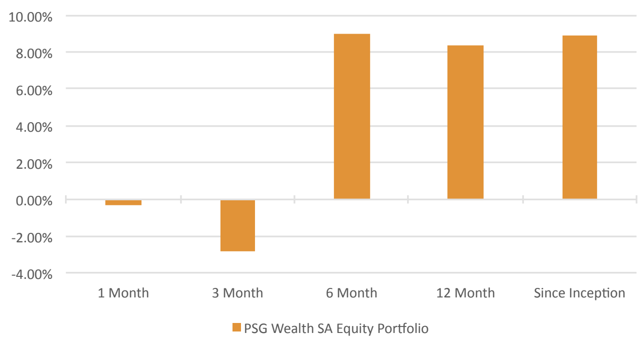
Expectations:

- Ongoing political and policy uncertainty will continue to pose downside risk.
- Exchange rate movements will remain a dominant driver of short-term equity market returns.
- Given the diversification of the portfolio and its quality investments, we believe its performance should not be fundamentally dependent on exchange rate movements.
- The portfolio is weighted towards domestic value investments and offshore growth stocks.
- Locally, value is concentrated in the financial and general retail sector, but near-term catalysts for unlocking this value is not obvious.
- 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:

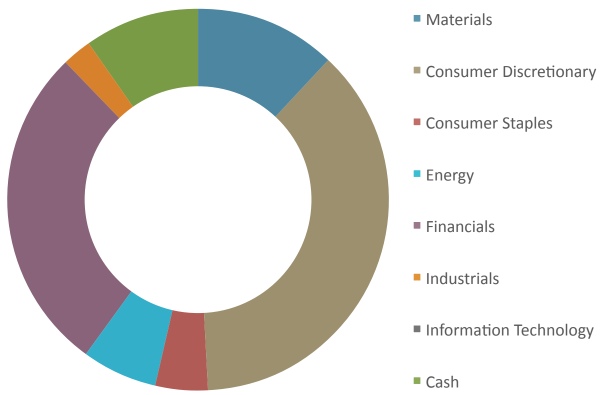
- Changes in the perception of sovereign risk (positive and negative) and its flow through to exchange rates and interest rates, can have an impact on portfolio values.
- The possibility of rating agencies downgrading the country's sovereign rating by more than one notch, could have a substantial adverse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

Performance since inception



Source: PSG Wealth Investment Division data as at 31 August 2016.
*Inception date: 30 August 2015

Asset Allocation



Source: PSG Wealth Investment Division

PSG Wealth Equity Portfolios

PSG Wealth SA Equity Portfolio

- The PSG Wealth SA Property Equity Portfolio declined by 1.39% during the month of August, outperforming the FTSE/JSE SA Listed Property Capped TR (net of fees) which delivered a negative 2.63%.
- Only four of the 17 stocks in the portfolio (24%) recorded positive returns. All these were rand-hedged stocks, while 47% of the individual investments outperformed the benchmark.

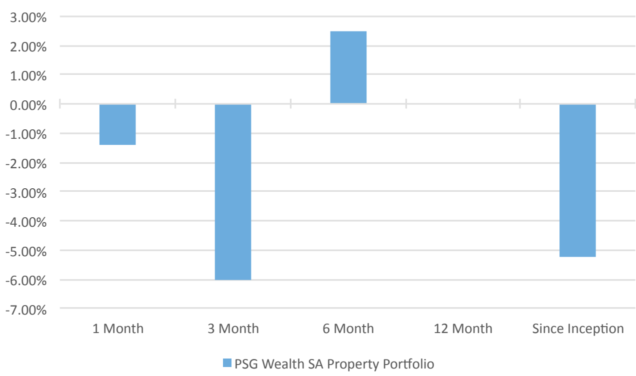
Expectations:

- New local developments could lead to a higher supply while demand is weak.
- Weak economic growth might result in higher vacancy profiles and rental reversions.
- Capital market changes generally dominate short-term returns.

Risk:

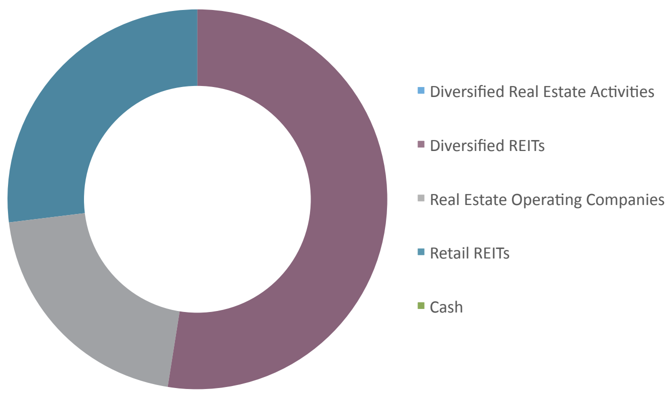
- Weaker-than-expected growth could erode dividends underpinning the current valuations.
- Low global bond yields have aided valuations – a reversal of this trend and tighter US monetary policy could impact valuations.
- Changes in sovereign risk (positive and negative) and its flow through to capital 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 Investment Division data as on 31 August 2016.
*Inception date: 1 December 2015.

Asset Allocation



Source: PSG Wealth Investment Division

PSG Wealth Equity Portfolios

PSG Wealth Offshore Equity Portfolio

- The PSG Wealth Offshore Equity Portfolio fell by 0.37% in August, underperforming the Dow Jones Global Titans 50 TR (net of fees) which ended the month 0.28% higher. In rand terms the portfolio was up 5.22%.
- Six of the 15 (40%) stocks in the portfolio outperformed the benchmark in August.

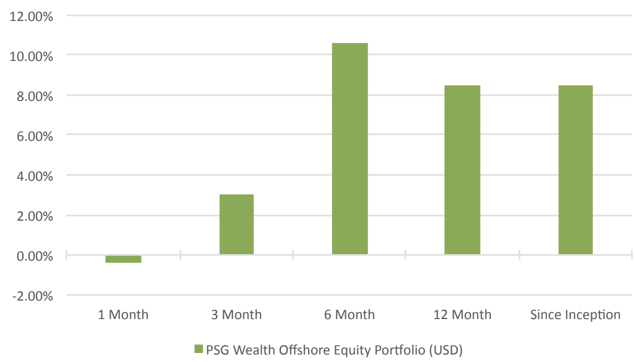
Expectations:

- 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:

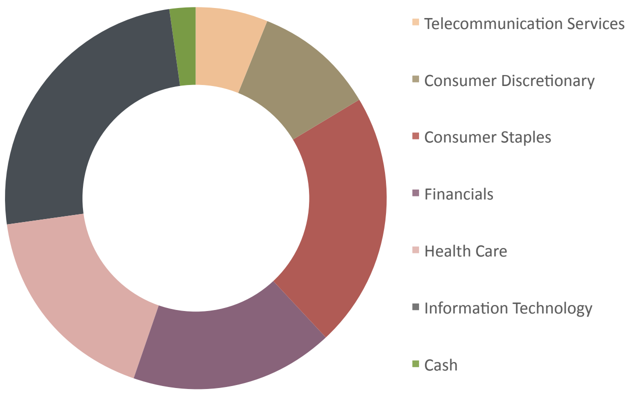
- Sustained international monetary easing creates demand for quality, stable, high yielding equities. This provides a valuation underpin to investments in the portfolio. The portfolio is likely to underperform should this diminish.

Performance since inception



Source: PSG Wealth Investment Division data as on 31 August 2016
*Inception date: 30 August 2015

Asset Allocation



Source: PSG Wealth Investment Division

PSG Wealth Equity Portfolios

PSG Wealth SA Dividend Income Equity Portfolio

- The PSG Wealth SA Dividend Income Equity Portfolio fell by 2.75% during the month. This was ahead of the benchmark, the FTSE/JSE Dividend Plus TR (net of fees), which fell by 3.16% over the same period.
- Eleven of the 20 stocks (55%) outperformed the benchmark, while only eight had positive returns in August.

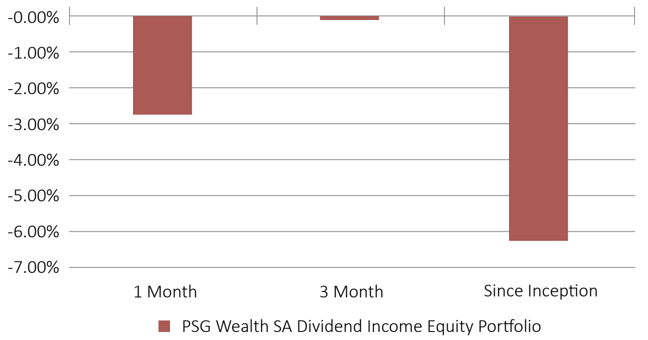
Expectations:

- Investment markets are expected to remain volatile given the difficultly 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:

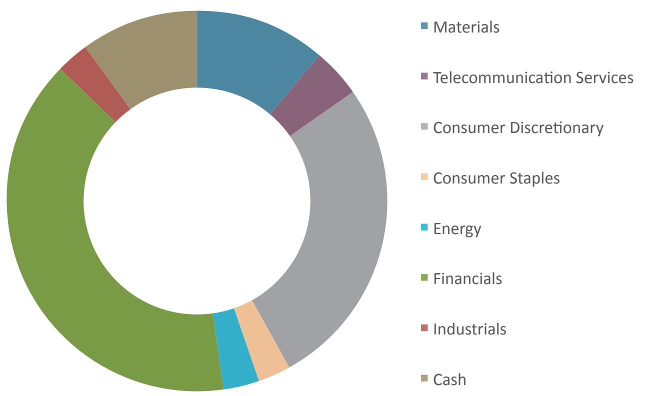
- Changes in the perception of sovereign risk (positive and negative) and its flow through to exchange rates and interest rates can have an impact on portfolio values.
- Unsustainable central bank support to developed economies creates artificial demand for high yielding emerging market securities. It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

Performance since inception



Source: PSG Wealth Investment Division data as at 31 August 2016
*Inception date: 29 April 2016

Asset Allocation



Source: PSG Wealth Investment Division

PSG Wealth Equity Portfolios

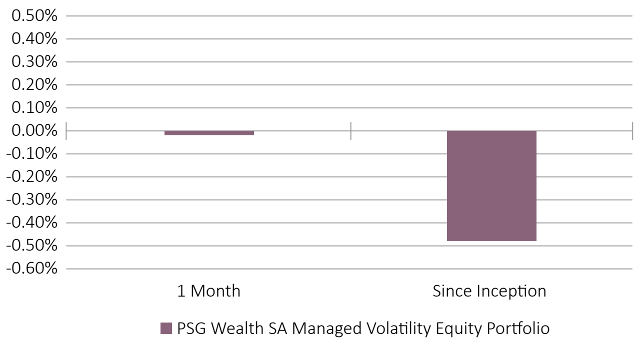
PSG Wealth SA Managed Volatility Equity Portfolio

- The PSG Wealth SA Managed Volatility Equity Portfolio remained flat during August. This was ahead of the benchmark, the PSG Wealth Custom Low Volatility Index TR (net of fees), which ended the month 0.71% lower.
- Six of the 12 (50%) individual stocks had positive returns and outperformed the benchmark over the period.

Expectations:
- Local equity market valuations currently seem elevated.
- 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.

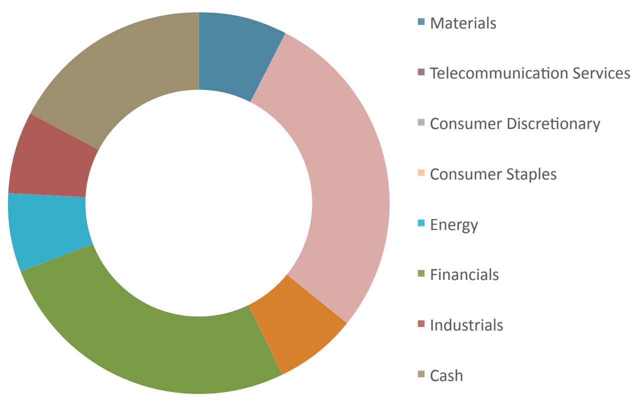
Risk:
- A negative performance relative to the local equity market during strong bull markets.

Performance since inception



Source: PSG Wealth Investment Division data as at 31 August 2016
*Inception date: 28 July 2016

Asset Allocation



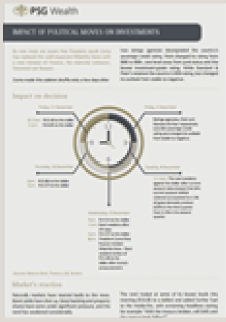
Source: PSG Wealth Investment Division

Other publications

Previous publications

Daily

22 Sep



Weekly

7 Sep
31 Aug
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10 Aug
2 Aug
27 Jul
13 Jul
6 Jul
29 June
22 June
15 June
8 June
1 June
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16 Mar
9 Mar
1 Mar
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Monthly

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May 2016
Apr 2016
Mar 2016
Feb 2016
Dec 2015
Nov 2015
Oct 2015

Research & Strategy Report

Winter 2016

Autumn 2016

Summer 2015

Spring 2015

PSG Wealth

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