

Weak local PMI supports foreign diversification in funds

South Africa's manufacturing economy declined during the month of October. The seasonally adjusted Barclays Purchasing Managers' Index (PMI) dropped to 48.10 points at the end of October, compared to 49 points in September. A reading above 50% indicates that the manufacturing economy is generally expanding; below 50% indicates that it is generally declining. Manufacturing PMI in South Africa, which is reported by the Bureau for Economic Research (BER), averaged 51.73 from 1999 until 2015, reaching an all-time high of 64.20 in July of 2006 and a record low of 34.20 in April of 2009.

The drop in the local rating is indicative of the challenging conditions the local manufacturing sector faces. Even though there was a drop in the PMI, the BER notes that manufacturing business confidence edged up to 34 index points in the third quarter of 2015 from 29 previously. The BER states, however, that despite the slight improvement, more than six out of 10 manufacturers are unsatisfied with prevailing business conditions.

Manufacturers could also be increasingly concerned about possible adverse spill-overs from the slowdown in China's economy and its impact on commodity prices and producers, including the local mining sector. All this points to a further deterioration in manufacturing production, which has a

negative impact on general economic activity.

Diversification to foreign pastures

While local economic activity is undergoing a downward trend, the grass is starting to look greener on some foreign pastures.

In the United States, the Markit US Manufacturing PMI came in at 54.1 in October, higher than 53.1 in September. Output and new orders grew the most since March. Employment also rose at a faster pace, while input costs continued their downward trend.

What does this mean?

Over the last four years our view has been that offshore developed markets are better positioned to outperform emerging markets – and in particular, South Africa. Although many JSE-listed entities derive earnings abroad, we remain of the opinion that developed economies currently offer better risk-adjusted returns.

In addition to our assessment of valuations, the PMI analysis presented above supports our preference for offshore diversification and our product positioning reflects this view.

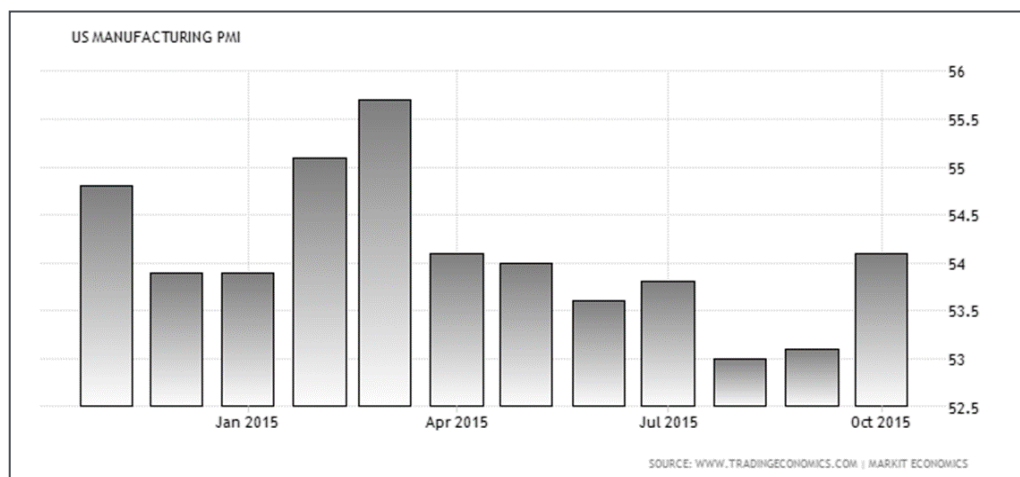
SPECIAL REPORT



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Source: www.tradingeconomics.com; Bureau for Economic Research (BER)*
Barclays Purchasing Managers' Index (PMI) dropped to 48.10 points at the end of October. Barclays Manufacturing PMI is a monthly survey of purchasing managers in South Africa's manufacturing sector. The index provides leading indications of business conditions in the sector. A reading above 50% indicates that the manufacturing economy is generally expanding; below 50% indicates that it is generally declining.



Source: www.tradingeconomics.com; Markit Economics

In the United States, the Markit Manufacturing Purchasing Managers' Index measures the performance of the manufacturing sector and is derived from a survey of 600 industrial companies. The Manufacturing Purchasing Managers Index is based on five individual indexes with the following weights: New Orders (30 percent), Output (25 percent), Employment (20 percent), Suppliers' Delivery Times (15 percent) and Stock of Items Purchased (10 percent), with the Delivery Times index inverted so that it moves in a comparable direction. A reading above 50 indicates an expansion of the manufacturing sector compared to the previous month, below 50 represents a contraction and 50 indicates no change.

An array to choose from

In our domestic funds, legislation allows only 25% of a fund to be invested offshore. From the table on the next page you can see that the PSG Wealth Moderate Fund of Funds and the PSG Wealth Preserver Fund of Funds maximises this strategy. Supporting our view that offshore diversification is a healthy inclusion in our domestic product ranges.

PSG Wealth offshore fund of funds

You can also get full exposure to offshore assets when you invest in one of our four offshore Fund of Funds (FoF's). From the last table on page 4 you can see that almost all the funds are a 100% invested in offshore assets. The PSG Wealth investment research and strategy team has advocated offshore diversification for a prolonged period. Although this position has resulted in some strong relative performance numbers, we feel that the strategy still offers value and will continue to provide superior risk-adjusted returns over the medium term.

PSG Wealth domestic fund of funds

SUMMARY OF PSG WEALTH DOMESTIC FOF's		PSG Wealth Enhanced Interest	PSG Wealth Income FoF	PSG Wealth Preserver FoF	PSG Wealth Moderate FoF	PSG Wealth Creator FoF	
Weight		100.0%	100.0%	100.0%	100.0%	100.0%	
Domestic	Resources			2.0	6.0	13.5	
	Financials (excl. Real Estate)		0.2	4.1	9.2	21.8	
	Industrials		0.4	9.4	23.2	50.9	
	Other Equities		0.9	0.8	1.4	0.1	
	Equity Hedges(+ Long/ - Short)			-0.8	-1.0	0.3	
	Total Equities (excl. Real Estate)		1.5	15.6	38.8	86.7	
	Real Estate			2.4	3.4	3.9	2.5
	Preference shares			1.3	0.5	0.2	0.2
	Inflation Linked bonds			2.9	5.9	1.1	
	Bonds 7+ yrs			11.3	10.1	7.5	
	Bonds 3-7 yrs			12.3	4.4	2.5	
	Bonds 1 - 3 yrs		3.2	19.3	8.8	1.9	
	Cash, Derivatives & Money Market		96.8	39.0	28.3	17.9	2.3
	Total Non-equities (incl. Real Estate)		100.0	88.6	61.3	35.1	5.0
	Foreign	Equities		1.4	16.7	23.3	8.2
		Real Estate		1.6	0.5	0.9	
Bonds			6.4	1.4	0.5		
Other				2.9	0.0	0.1	
Cash, Derivatives & Money Market				0.5	1.7	1.4	0.0
Total foreign				9.9	23.1	26.1	8.3
Total		100.0	100.0	100.0	100.0	100.0	
Total Equities			2.9	32.3	62.1	94.8	
Domestic			1.5	15.6	38.8	86.7	
Foreign			1.4	16.7	23.3	8.2	
Total Non-equities		100.0	97.1	67.7	37.9	5.2	
Domestic		100.0	88.6	61.3	35.1	5.0	
Foreign			8.5	6.4	2.8	0.1	
Total Domestic		100.0	90.1	76.9	73.9	91.7	
Total Foreign			9.9	23.1	26.1	8.3	

Source: PSG Wealth end September 2015

PSG Wealth offshore fund of funds

SUMMARY OF PSG WEALTH OFFSHORE FOF's		PSG Wealth Global Moderate FF	PSG Wealth Global Moderate FoF	PSG Wealth Global Creator FF	PSG Wealth Global Creator FoF
Weight		100.0%	100.0%	100.0%	100.0%
Domestic	Equities				
	Real Estate				
	Bonds	0.0	0.0		
	Other				
	Cash, Derivatives & Money Market	0.3	0.0	0.8	
	Total Domestic	0.4	0.0	0.8	
Foreign	Basic Materials	2.5	2.5	3.1	3.1
	Communication Services	2.5	2.5	1.9	1.9
	Consumer Cyclical	7.1	7.1	12.1	12.2
	Consumer Defensive	5.8	5.9	13.5	13.7
	Healthcare	6.7	6.7	17.0	17.1
	Industrials	8.2	8.3	11.0	11.1
	Technology	8.0	8.0	16.8	16.9
	Energy	2.8	2.8	3.5	3.5
	Financial Services	22.6	22.7	14.7	14.8
	Utilities	0.5	0.5	0.9	0.9
	Total Equities (Excl. Real Estate)	66.6	66.9	94.4	95.2
	Real Estate	1.7	1.7		
	Bonds	10.3	10.3		
	Other	1.2	1.2	0.0	0.0
	Cash, Derivatives & Money Market	19.9	20.0	4.7	4.7
	Total Non-equities (incl. Real Estate)	33.0	33.1	4.7	4.8
Total	100.0	100.0	100.0	100.0	
Total Equities		66.6	66.9	94.4	95.2
Domestic					
Foreign		66.6	66.9	94.4	95.2
Total Non-equities		33.4	33.1	5.6	4.8
Domestic		0.4	0.0	0.8	
Foreign		33.0	33.1	4.7	4.8
Total Domestic		0.4	0.0	0.8	
Total Foreign		99.6	100.0	99.2	100.0

Source: PSG Wealth end September 2015