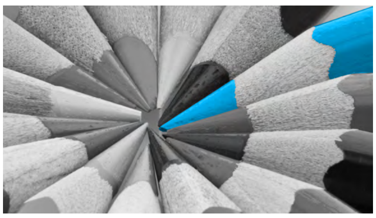
PSG Asset Management

Angles & Perspectives

Third Quarter 2023

Contents



At PSG Asset Management, we remain focused on consistently applying our 3M investment process, and finding opportunities for our investors that will help to build their wealth in the long run.

Introduction

Anet Ahern

Anet has over 37 years' experience in investment and business management. After starting her career at Allan Gray in 1986, where she fulfilled various roles in trading and investment management, she worked as a portfolio manager at Syfrets, and later BoE Asset Management, where she was CIO and CEO. She also spent six years at Sanlam, where she was the CEO of Sanlam Multi Manager International. Anet joined PSG Asset Management as CEO in 2013.

As we are hastening towards the end of another volatile year, investors may be forgiven for wishing a quieter and more predictable 2024 lies ahead. However, we have argued for some time that the environment is most likely in the process of undergoing a structural inflection after a prolonged period following on the Global Financial Crisis (GFC), during which imbalances grew and accumulated. The painful process of unwinding these imbalances is not proceeding smoothly, or quickly. Nevertheless, it is providing investors with the opportunity to digest the likely impact of the changes afoot, and adjust their portfolios to an environment where the drivers of returns in the unfolding landscape are likely to look considerably different to those of the past. A large number of market participants, however, are still underestimating how fundamental these transitions are likely to be.

The concept of 'safe haven assets' is one such foundational concept that forms a well-used cornerstone for portfolio construction. Head of Research Kevin Cousins argues in the first article, Rethinking 'safe haven' assets, there are signs that US Treasuries may not be as well poised to fulfil this role in the future – despite having been the world's go-to safe haven asset for several decades. Kevin highlights that investors should consider the impact of different assets acting as safe haven assets as the environment changes, and ask what this would mean for their portfolios.

In the second article, Global investing in a changing world, Fund Manager Philipp Wörz underscores the dangers in adopting a 'business as usual' mindset as the global investment environment shifts. He highlights the role of sound research and an appreciation of historical context when it comes to countering the recency bias, which leads investors to overweight the relevance of recent experience in their decision-making process, and which may be contributing to the concentration in positioning that we detect in many indices and portfolios. If the past is likely to be a poor predictor of future success, then investors can benefit from partnering with independent thinkers who are well positioned to find the areas of opportunity outside the popular (but increasingly challenged) and crowded areas of the market.

Lastly, Head of Fixed Income Lyle Sankar explains how we remain focused on managing the risk in our funds while constructing diversified portfolios that help clients achieve their income objectives. In South African fixed income – skewing the odds in your favour, Lyle aims to crystallise our position on investing in South African government bonds – an emotive subject, since it touches on the management of the country, something which we are all passionate about.

Throughout this edition, we aim to share with investors how we incorporate our 3M investment approach when weighing the myriad of investment options available to investors, and use our independent research and thinking to our investors' advantage when constructing our portfolios.

We trust that you will find these articles insightful, and their guidance valuable in these turbulent times.

Rethinking ‘safe haven’ assets

Kevin Cousins

Kevin has over 30 years’ experience in investment management. Kevin joined PSG Asset Management as an investment analyst in 2015. He was appointed as Head of Research in 2017.

The US long bond has long been regarded as the ‘safe haven’ asset for global portfolios. This reputation was earned from nearly 40 years of strongly positive returns when risk assets sold off. Investors have been anticipating slowing growth and a recession in the US. Their response has been to once again buy massive positions in US bonds, despite 2022 marking the worst performance from developed market bonds on record.

Our research shows the US is in a state of fiscal dominance with important implications for the effectiveness of monetary policy. We believe, under most scenarios, the US long bond will not perform its safe haven role, and the majority of global portfolios are poorly positioned for the environment that lies ahead.

“Insurance that pays you to take it”

US bond yields trended down for 40 years, from 1981 to 2021. The annualised total return over this period was some 9%, compared to a CPI averaging 2.8% per annum, so the long bond real returns were also strong. Since the equity market crash in 1987, bonds have also displayed strongly uncorrelated performance when risk assets get sold off. This is driven by the so-called ‘Greenspan Put’, as investors anticipate monetary policy easing by the US Federal Reserve (Fed) in response to economic or market stress.

Performance comparison during recent periods of market stress

Event	Period	S&P 500 Total Return	Long Bond Total Return
Global Financial Crisis	August 2008 to 6 March 2009	-27%	14%
Eurozone Debt Crisis	April to July 2010	-21%	13%
Eurozone Debt Crisis II	July to September 2011	-17%	26%
China Devaluation	July 2015 to February 2016	-17%	15%
Powell Tightening	October to December 2018	-17%	7%
Covid	February to March 2020	-20%	10%

Source: Weekly Bloomberg data, US Long Bond represented by TLT ETF

This combination of positive long-term returns and non-correlation with risk assets has made long bonds an essential part of a portfolio for nearly four decades.

Consensus positioning is once again very long bonds

When investors fear a looming recession, as has been the case since the yield curve inverted in April 2022 and again since July 2022, massive purchases of bonds take place as portfolios load up on ‘insurance’. Measures of asset manager positioning, such as the Bank of America survey, Commodity Futures Trading Commission (CFTC) net open interest for the long bond future, and the shares in issue in popular bond exchange-traded funds, all confirm a substantial overweight in bonds.

What changed in 2022?

In the first nine months of 2022, the S&P 500 Index delivered a total return of -16%. *Instead of protecting portfolios as a safe haven, by the time the equity market bottomed in September, the US long bond’s year-to-date return was a devastating -36%!* Our research focuses on what caused this first failure in nearly 40 years, and why investors’ bond purchases, despite the higher prevailing yields, have a low probability of acting as a safe haven in the years to come.

Pro-cyclical fiscal policy means trouble ahead

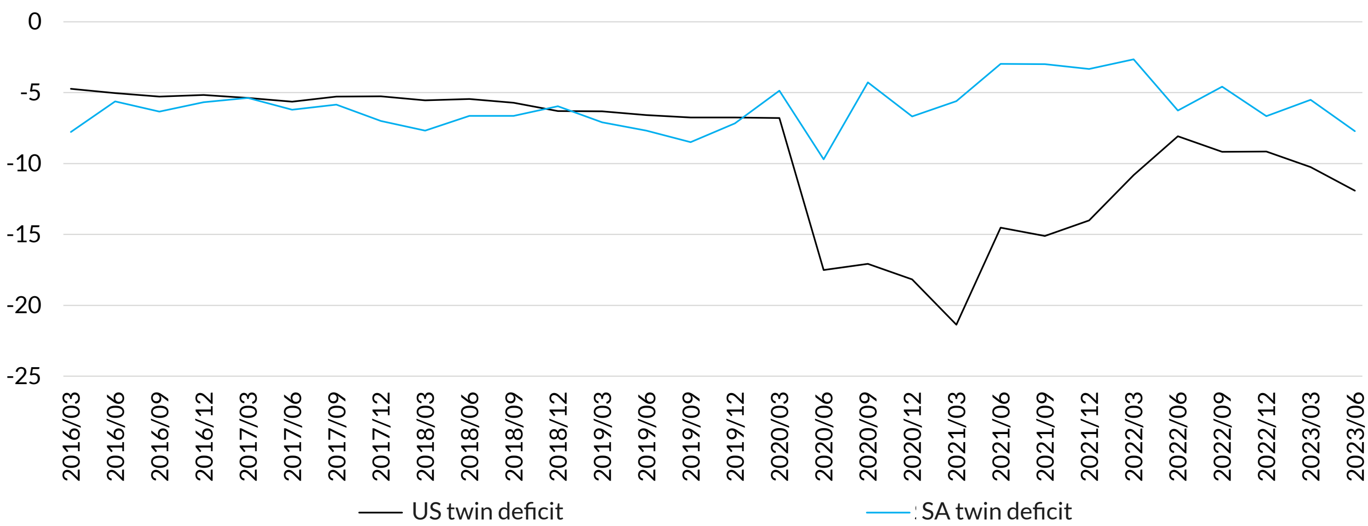
That monetary policy dominates the bond price formation process is the essence of the 'Greenspan Put'. A key assumption to this continuing is that the US maintains prudent fiscal policy. This has been sorely tested, firstly with the Trump tax cuts in 2017, which resulted in a budget deficit of some 5% at the peak of the economic cycle in 2019. This contrasts with a 2.5% budget surplus the last time unemployment was also below 4% (under Clinton). Secondly, the stimulus programmes under President Biden have pushed the current deficit to 8.5% despite an unemployment rate once again at 50-year lows.

Why is this important? When the next recession finally arrives, there is little doubt that US policymakers (of either party) will reach for fiscal stimulus spending that proved so effective in the aftermath of the Covid-19 pandemic. This, combined with the normal recessionary decline in tax revenues, will widen the deficit between 5 and 10 percentage points from the current level, i.e. deep into the teens.

US deficit now resembles an emerging market's in the 1980s

A good snapshot of a nation's macroeconomic vulnerability is captured by the so-called 'twin deficit', the budget deficit added to the current account deficit. The chart below compares the twin deficits of the US and South Africa. Despite the political upheavals and economic hardship, SA's twin deficit has been dramatically lower than that of the US.

Twin deficits as % of GDP



Sources: PSG Asset Management and Bloomberg

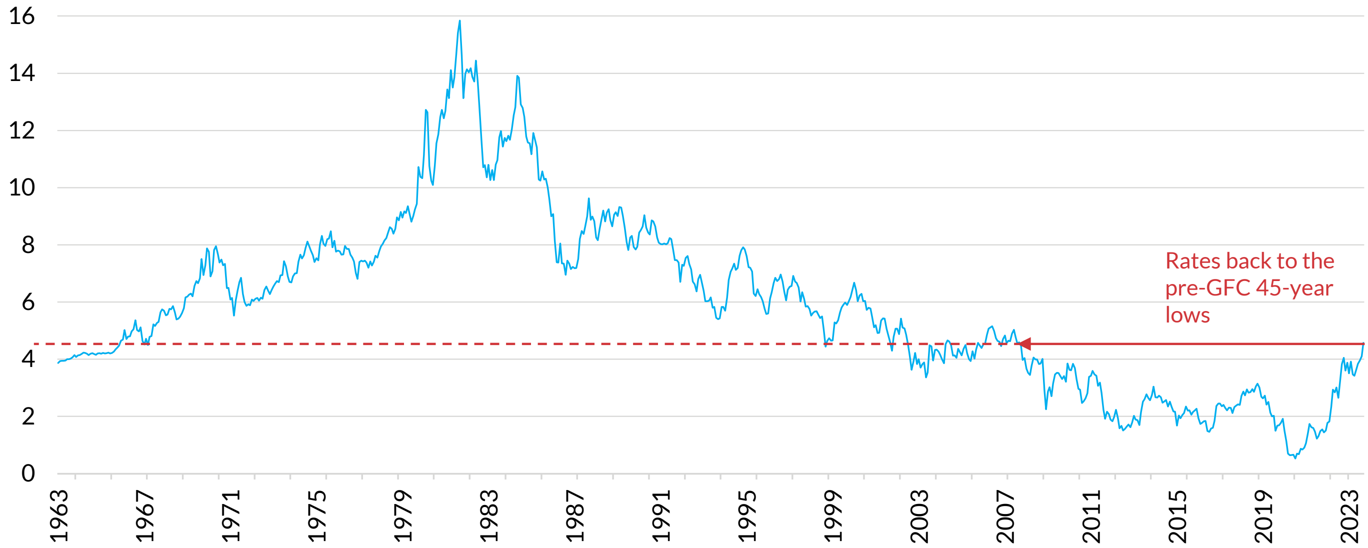
South Africans are often pessimistic about our country, so it may come as a shock to know that over the past three years, SA bonds have delivered a positive USD total return (+10%) while the US long bond has had a total return of -42% (both to end of September). SA bonds, in US dollars, outperformed by over 50 percentage points!

Are US rates now pricing in the macro fundamentals?

The record sell-off in developed market bonds in 2022 and 2023 has restored yields to levels above the current inflation rate in the US. The huge positioning in bonds also shows that the consensus view is that these yields are back at attractive levels. However, our research shows that over our investment horizon, current US bond yields do not compensate you for what we believe are significant risks.

While yields have risen, they are not high relative to history, on either a nominal or a real basis.
The recent period post the 2008 Global Financial Crisis (GFC) to 2021 is likely to be a poor frame of reference for the future environment.

US 10-year Treasury Bond Yield (%): 60 years from 1963



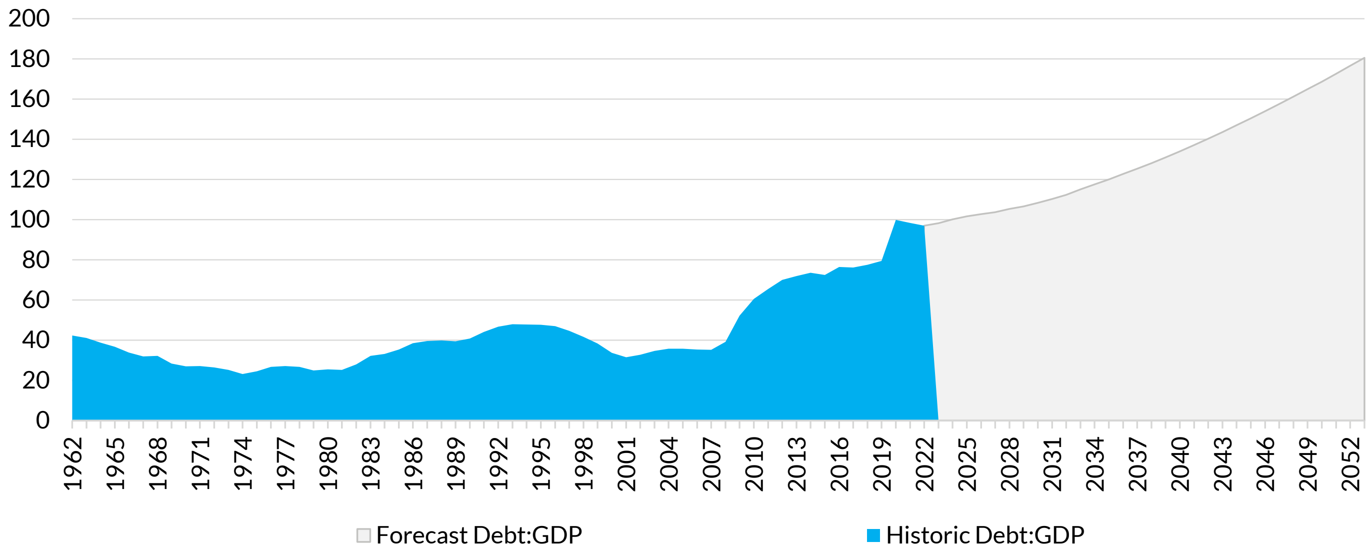
Sources: Bernstein and Bloomberg

Fiscal dominance is here

In addition, the US primary deficit is forecast to remain wide, as entitlement spending on social security and healthcare is boosted by the ageing Baby Boomers. In fact, in the current polarised political environment, it appears the only thing that the Democrats and Republicans agree on is that defence and entitlement spending cannot ever be cut.

Given their significance in the budget, this effectively means any plan to reduce the deficit is doomed to fail. *The US currently has the highest debt-to-GDP burden since the Second World War, and given these deficit constraints, debt is forecast to rapidly rise to unprecedented levels.*

US Federal Debt as a Percentage of GDP



Source: Congressional Budget Office

Furthermore, the Congressional Budget Office (CBO) forecasts assume that interest rates on government debt rise very slowly, to 3.0% in the first decade, 3.4% in the second decade and 3.75% in the third decade. The interest burden is currently growing very rapidly and the US government already spends more on debt service than defence. What the CBO forecasts appear not to take into account is how short dated the majority of US debt is.

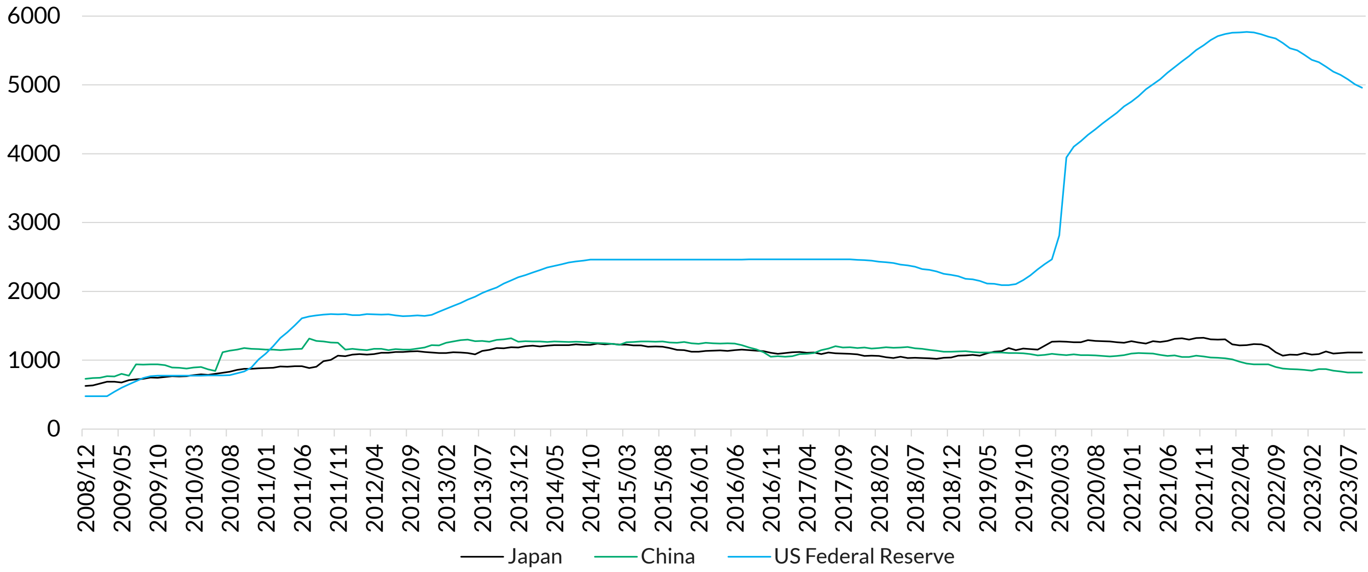
Our research shows that of the current Federal debt burden of US$26 trillion, nearly 50% needs to be rolled before the end of 2025. If we add to this the expected budget deficits, we get a funding requirement of some US$17 trillion.

This is 63% of current GDP. By comparison, South Africa's funding requirement is estimated at 15% of GDP over the same time period.

Who will buy US$17 trillion over two years, and at what rate?

The three largest holders of US debt are the Fed (after the long period of quantitative easing), and trade surplus countries Japan and China. Both of these countries have been reducing their positions, and the Fed is currently letting its debt holdings roll off as they mature in terms of their Quantitative Tightening programme.

Largest Holders of US Federal Debt (USDbn)



Sources: Bloomberg, US Treasury and US Federal

At what yield will the US find buyers for this vast issuance of debt? A market clearing yield is likely to be considerably higher than the current curve, which in turn will further increase the debt service burden. This would make the CBO debt projections look optimistic, further stressing demand for Treasuries.

There is only one buyer that can take this volume of issuance, and that is the Fed

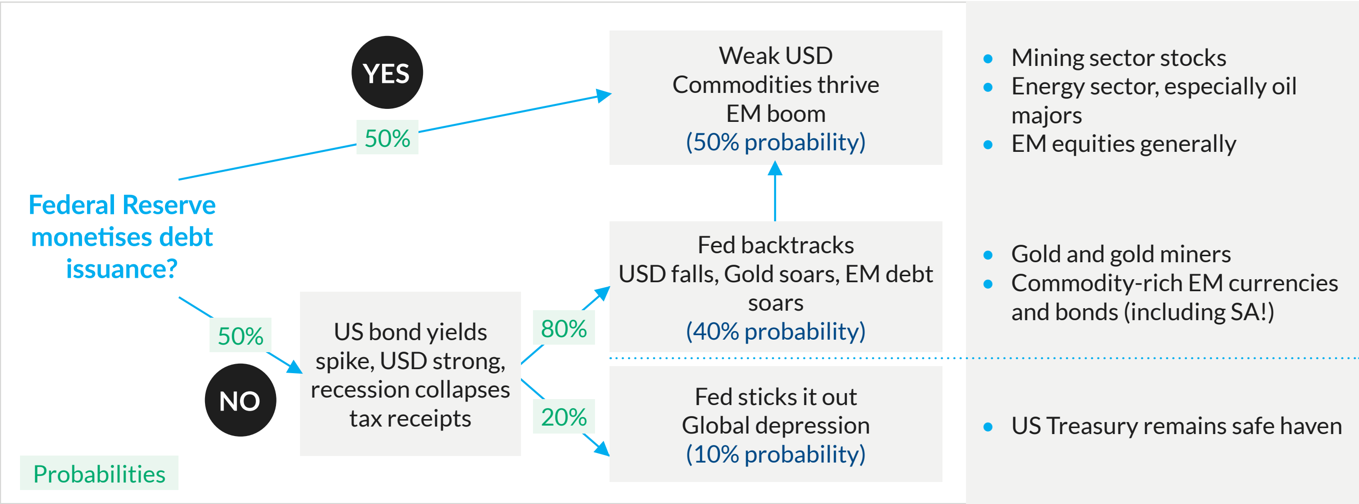
Allowing the market to set long bond yields in the face of the massive wall of supply, risks the negative feedback loop described above and hence a rapidly escalating crisis. *In a fiscally dominant world, the central bank's mandate is severely constrained by both sovereign funding needs and possible private sector credit stress. This is largely ignored by most market participants, who believe that interest rate policy is still pre-eminent and will drive future bond price formation.* We believe there is a significant probability that fears of a rapidly widening deficit (typical of recessions) will be as important in determining long bond yields as rate cut expectations. This has important implications for the safe haven asset.

Debt issuance scenarios

A consequence of the Fed 'hanging tough' and letting the market determine bond yields could be a deep global recession. This is a very unlikely scenario, however. The recent rise in bond yields has already been cited by several Fed voting members as a significant tightening of financial conditions. *The probability that the Fed will step in on a yield spike and monetise US debt is very high.* Policymakers have acted to alleviate any signs of economic and market stresses for many years now, and should the Fed initially hold out, they are likely to pivot as those stresses become visible.

The implications of debt monetisation for the safe haven asset are significant. To expect what worked when monetary policy was dominant to continue to diversify portfolios has already proved to be an expensive error. The Fed intervening to restrain bond yields is likely to result in a weak USD environment, and strong performance can be expected from commodities, emerging markets (EMs) generally and the bonds of commodity-rich EMs in particular. Gold will also play a key role as a portfolio diversifier.

US debt issuance decision tree and safe haven assets



Sources: PSG Asset Management and Gavekal

Conclusion: The new safe havens in a volatile world

The period of secular stagnation and monetary dominance is over. This will continue to be a very volatile macro environment. Investor portfolios will be well served by:

- including the safe haven assets shown against the high probability scenarios in the figure above
- avoiding long duration assets such as US long bonds and 'high growth' stocks with very high ratings
- sensibly using portfolio hedges, cash holdings and global diversification (as opposed to being US-centric)
- taking a longer-term view and accepting that historic quantitative measures of price volatility calibrated during the secular stagnation may be poor risk proxies

In addition, many of the 'new safe havens' are what we would consider short duration assets with high near-term yields and wide margins of safety. *Finally, the energy and gold sectors have embedded optionality to the price spikes that typify geopolitical upheavals. Recent events have been a sombre reminder of how important this may be for portfolios in the future.*

A thought experiment

We expect Federal debt to reach US$30 trillion by 2025. What if 1 holder in 10 seeks an alternative safe haven? This would be US$3 trillion of buying power.

Some alternative safe havens and illustrative 'market caps':

- Gold US$2.9 trillion (gold bars, ETFs and coins excluding central bank holdings)
- Commodity-rich EM bonds US$2.3 trillion
- Integrated oil majors US$1.4 trillion

What would be the clearing price for that US$3 trillion to be invested in these assets?
Contrast this with the 'clearing yield' for the US government to place US$17 trillion of debt over the next two years.

Now, what is your safe haven asset?

Global investing in a changing world

Philipp Wörz

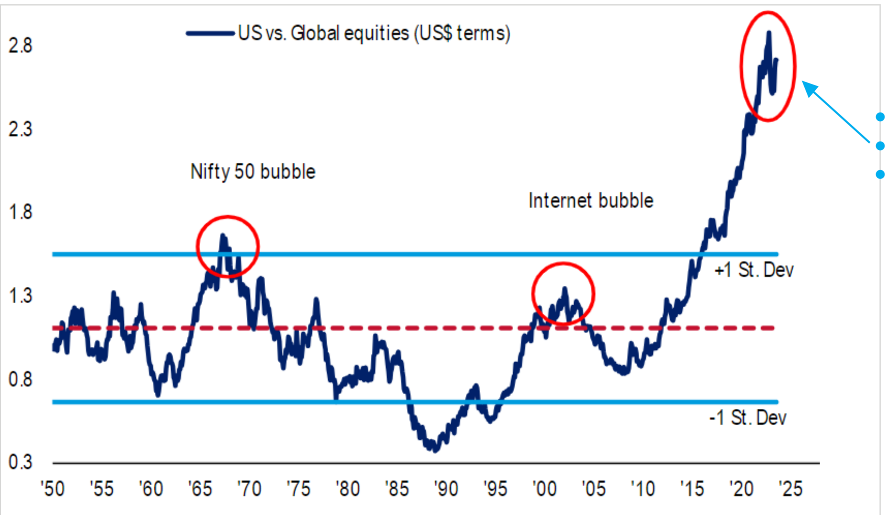
Philipp joined PSG Asset Management in 2007 and has been a fund manager on the PSG Global Equity and PSG Global Flexible Sub-Funds since 2015. He is a CFA charterholder and has over 16 years' investment experience.

Perspective is often only gained in hindsight. While many investors may not fully appreciate it, we have experienced an extraordinary period since the end of the Global Financial Crisis (GFC), marked by low inflation, low interest rates and stagnant growth. However, we believe it is probable that financial markets have been undergoing a structural inflection since 2020 and the onset of the Covid-19 pandemic, with the next decade likely to be very different to that which preceded it. However, we are concerned that, when analysing market and major investor positioning, we see a 'business as usual' approach that looks ill-equipped to weather a changing of the guard.

Recent US outperformance has been exceptional

The level of US outperformance, when compared to the rest of the global equity market since the GFC, has been extraordinary. For more than a decade, the recipe for success was simple: 'getting it right' meant selecting the US market, and technology stocks specifically. The immense outperformance of technology shares, in addition to exceptional business performance, was driven by an 'easy money', low interest rate environment that favoured long duration stocks. Furthermore, the US saw a quick recovery from the Covid-19 pandemic that boosted its economic performance. Tech-heavy US indices benefited disproportionately.

US vs Rest of World equities price relative

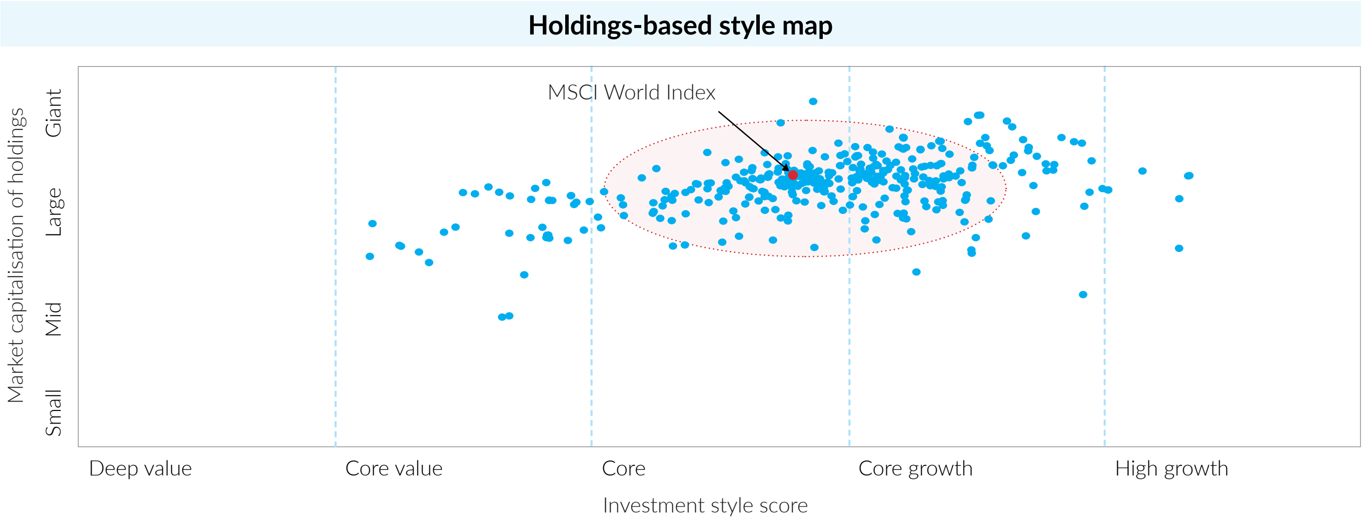


- US outperformance vs the world
- Driven very much by US tech
- At extreme levels

Sources: Bank of America Global Investment Strategy, Global Financial Data and Bloomberg

As the consensus about the recipe for success has become more entrenched, so too has manager positioning. Our investment style analysis of 350 of the largest selected global equity funds shows that most market participants have portfolios centred on positioning in large and giant market caps and close to the index, in general.

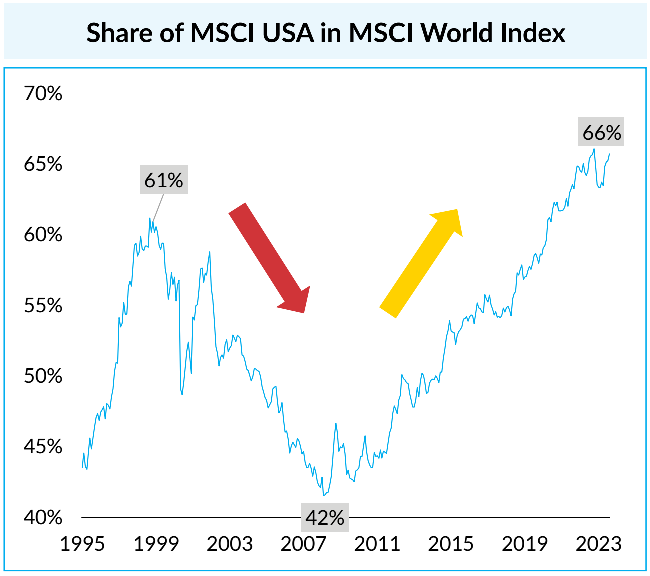
Investment style analysis of 350 of the largest and select global funds

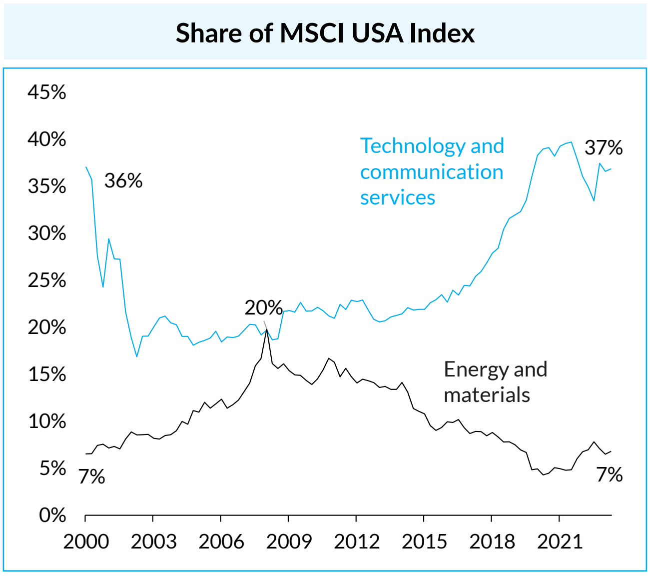


Sources: Morningstar, PSG Asset Management, fund data 30 June 2023

The positioning of passive indices also attests to this growing concentration: the share of the United States in the MSCI World Index is back to historically high levels. Interestingly, within the MSCI USA Index, information technology and communication services account for 37% of the index while energy and materials are less than 7%.

Index composition





Sources: Bloomberg and PSG Asset Management. MSCI USA market cap as % of MSCI World market cap; MSCI USA sectors as % of MSCI USA market cap, data to 31 August 2023.

But what if the future is set to look very different to the past?

The concept of recency bias in behavioural finance suggests that investors tend to overweight the relevance of recent experiences, more than is objectively warranted. We believe sound, independent research and an appreciation of historical context help to counter this innate bias.

- Long-term investors in our funds will know that we are a bottom-up research-driven house, meaning that our independent research into companies and fixed income instruments drives our portfolio decisions. However, we believe it is complementary to be macro aware. Our research into the macro environment suggests that we have reached an inflection point. This is driven by the unwinding of imbalances that have been building since the GFC, due to an artificially low interest rate environment. The likely end of the disinflationary environment and a four-decade bull market in bonds, coupled with significant under-investment in the real economy over the past decade, an energy transition and the need to build supply chain redundancy given the volatile and uncertain geopolitical environment, suggests the future is likely to look very different to the post-GFC period. Read more about our thinking on this topic, and the impact we believe it to have on various asset classes, in our previous editions of *Angles & Perspectives* (Second Quarter 2022, Fourth Quarter 2022).
- In addition, we believe an appreciation of the importance of longer-term perspectives when making decisions is invaluable. To this end, we have analysed historical cycles and we have found that 'the popular consensus' view about the assets that are likely to outperform, often turns out incorrect in hindsight. See our case study below.

A case study in how the popular narrative gets it wrong

In early 2008, looking back on the preceding decade, an investor would have seen:

- Lacklustre performance from US stocks, seeing a total return of 4.3% per annum compared to international stocks, as measured by the MSCI All Country World ex-USA Index, which handsomely outperformed the US market with an annualised return of 10.2%.
- The rise of China and other emerging markets and wildly speculative property markets.
- The materials, energy and real estate sectors dominating the decade's return tables to 2008, while communication services, information technology (still recovering from the bursting of the dotcom bubble) and healthcare were at the back of the pack.
- Poor performance from the US dollar, with the dollar index declining by 40% from 2001 to reach an all-time low in March 2008.

Unsurprisingly, the popular narrative of how to invest at the time was to shun the US and technology stocks and buy anything related to China and materials stocks, in particular.

Looking back on the past decade's returns from today, however, tells an appreciably different story:

- US markets have delivered exceptional returns compared to global markets. Since March 2008, the US stock market has outperformed international markets by over 7% per annum with information technology and healthcare the top performers, while previous high-flyers, materials and energy, languished – nearly the mirror opposite of the experience from 1998 to 2008.
- China has gone from darling to ugly duckling, as concerns around the property market and a muted post-Covid-19 economic recovery have constrained economic growth, while concerns about the country's future growth trajectory have become more pronounced.

In terms of the popular narrative today, US-focused indices and areas benefiting from the latest technology trends, such as artificial intelligence (AI), are dominating investors' portfolios and passive indices.

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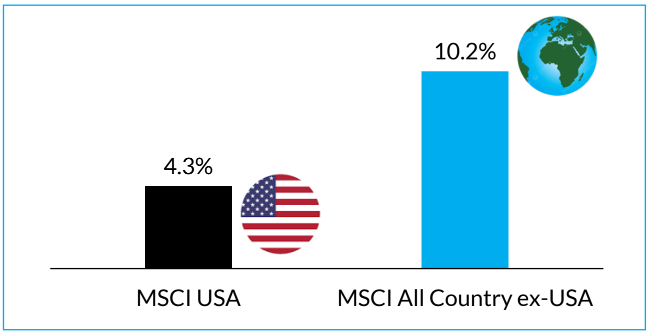
We believe an appreciation of the importance of longer-term perspectives when making decisions is invaluable.

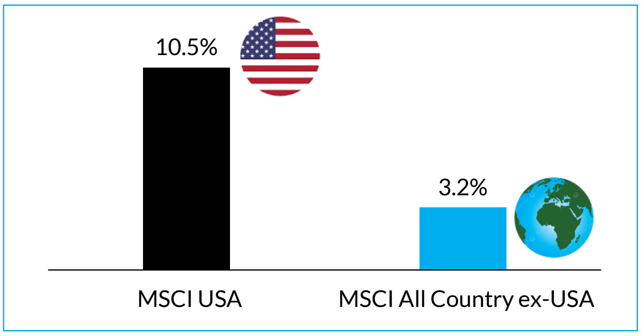
Case study continued

Popular investment narrative: 2008 vs 2023

1998 - 2008 annualised return



2008 - 2023 annualised return



Investment narrative in 2008

\+
- Value
- Materials & energy
- International investing
- Emerging markets (China)

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- United States
- Technology
- Healthcare

Investment narrative in 2023

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- Passive
- United States
- Growth
- Technology (AI)

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- International investing
- Emerging markets (China)
- Energy & materials

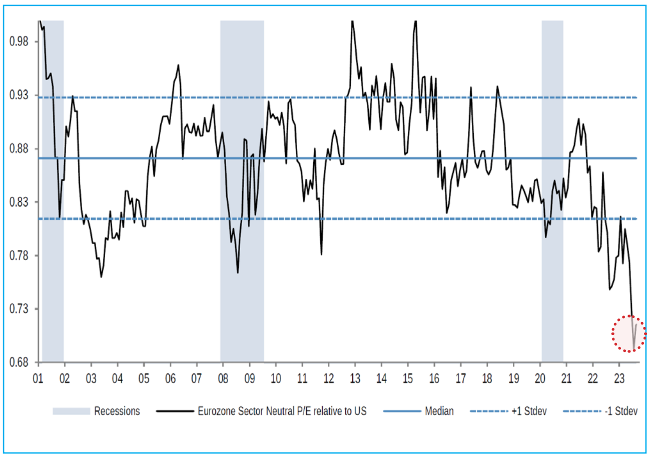
Sources: Bloomberg and PSG Asset Management, total annualised returns 30 September 1998 – 31 March 2008, 31 March 2008 – 31 August 2023

Where do the opportunities reside?

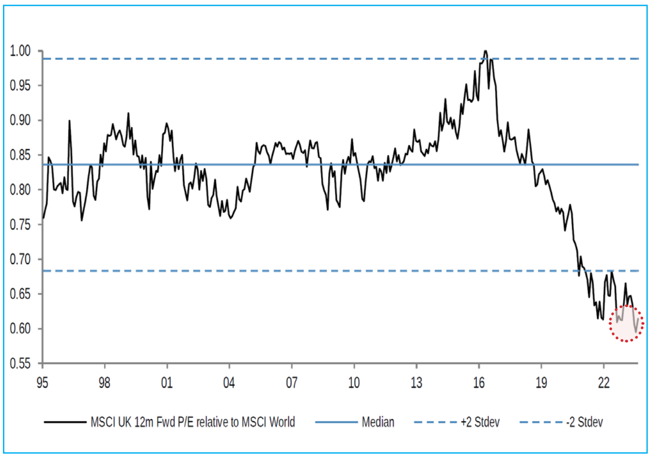
If the past is likely to be a poor predictor of future success, and if history has shown that the top performers can reverse sharply from one decade to the next, how are investors best to approach this environment, and where are the opportunities likely to be found?

Interestingly, some of the likely net beneficiaries of a changing environment – stocks outside the US – are trading at the largest valuation discount seen in decades. Many of these likely beneficiaries are also underrepresented in major indices and many popular index-hugging investment portfolios. Another important feature of today's market structure is the valuation gap between large and smaller cap companies, which is among the widest we have seen in decades.

MSCI Europe PE relative to MSCI US



MSCI United Kingdom PE relative to MSCI US



Sources: Datastream, IBES and JPMorgan

We believe that, rather than positioning their portfolios for the current popular narrative that sees a continued outperformance in US and technology stocks, investors need to look ahead and position their portfolios to be exposed to the beneficiaries of the changing environment. This becomes even more relevant given the significant concentration in the market in the last decade's winners. Independent thinking is more important than ever.

By consistently applying our 3M investment process and seeking out under-appreciated quality that trades at depressed valuations in uncrowded areas, we have constructed portfolios that attempt to avoid falling prey to the temptation of clustering into what is currently popular. We believe we are well placed to uncover hidden gems that help tilt the odds of long-term success in our investors' favour. Those already familiar with our thinking would not be surprised that we are currently finding opportunities in international equities largely outside the US and in real asset sectors, such as energy and materials.

> *"Investors need to look ahead and position their portfolios to be exposed to the beneficiaries of the changing environment.*

South African fixed income – skewing the odds in your favour

Lyle Sankar

Lyle joined PSG Asset Management in 2014 and currently manages the PSG Income Fund and PSG Diversified Income Fund. He was appointed as Head of Fixed Income in April 2022.

As investors in local fixed income assets, we aim to provide capital protection for clients and earn risk-adjusted yields that outpace inflation over the life of the investment. In addition, we want to be able to buy fixed income assets when there is a higher likelihood of yields subsequently moving lower (and prices rising) opening the optionality for capital returns – known as buying with sufficient margin of safety. There are few topics that engender as much debate as the case for investing in government bonds, particularly in the current environment where yields have continuously moved higher (and prices lower). The issue is highly emotive, because it is a reflection on the management of our country – something that we are all very passionate about. It can be very difficult for investors to distinguish between the emotive aspects – the obvious signs of fiscal mismanagement and frustratingly slow progress in areas of national importance – and the investment case. Here, like with any other investment, we have to consider the investment case for government bonds objectively and unemotionally.

Tilting the odds in your favour by buying with a margin of safety

South Africa's current debt is around 70% of gross domestic product (GDP) and is now forecasted to reach 80% next year. A major source of concern for investors is that interest costs are a growing portion of total spending by National Treasury. In addition, while the National Budget in February made conservative assumptions regarding commodity prices, a sharp fall in key commodity prices, combined with worsening load shedding, meant that revenue collection estimates have not been met.

Fixed income and government bonds in particular are extremely liquid, pricing quickly as new market information emerges. Investments in overcrowded parts of the market, especially those benefiting from positive sentiment, likely reflect these optimistic views in their prices. The odds are skewed against investors in these assets as, if these positive expectations are wrong, investors could lose substantial money as the asset prices plunge. If expectations are met, investors don't necessarily make much money. This highlights the importance of not overpaying for an asset.

Conversely, we believe SA government bonds fall into the category of uncrowded, unloved assets with significant pessimism built into yields (prices). In our view, this tilts the odds in patient investors' favour to achieve an excellent outcome – even in a muddle-through environment where the market continues pricing SA as a poor destination of capital. At current yields, investors earn CPI + 7% p.a. if nothing changes, but also get the optionality of significant capital gains if the environment improves marginally.

	Consensus	Uncrowded and unloved
Wrong	Lose money	Flat
Right	Lose money	Make money (A lot!)

Unpacking South Africa's debt profile

National Treasury has repositioned the National Budget to reflect the anticipated lower growth and related revenue shortfalls over the next few years. Further, they have indicated that their primary goal currently is to limit the growing interest bill on new issuances. Our current average interest bill is approximately 8% on our debt. New debt issued into the bond market ranges from 9% to 12.5%, which puts upward pressure on the interest bill. National Treasury began issuing 19% more Treasury bills every week (< 12-month securities) to cover the shortfall. These yields average between 8.5% and 9.25%, lowering the impact of new issuances on the interest bill. Money market funds and banks (for capital purposes) have significant demand for Treasury bills and the issuance has been positively received.

National Treasury decreased the weekly issuance of inflation-linked bonds and has not (yet) increased nominal bond issuance. South Africa has very limited US dollar debt and limited debt maturing in the next four years (roughly 12% of total bonds in issuance), implying a slow grind upwards in the average interest bill from the current average of around 8%. This is a very important factor, because sizeable maturities can substantially increase the interest bill.

National Treasury also continues to manage the debt maturity profile by redeeming shorter bonds and switching these further out on the curve. Switch auctions have been very well received so far and the regular weekly auctions remain well oversubscribed (more buyers than bonds available) at the current yields. Given these factors, we do not believe we will experience a debt default in the near term. Despite the deeply negative sentiment towards these bonds, the likelihood of capital preservation still remains high.

We are getting free optionality in the current high yields in South Africa

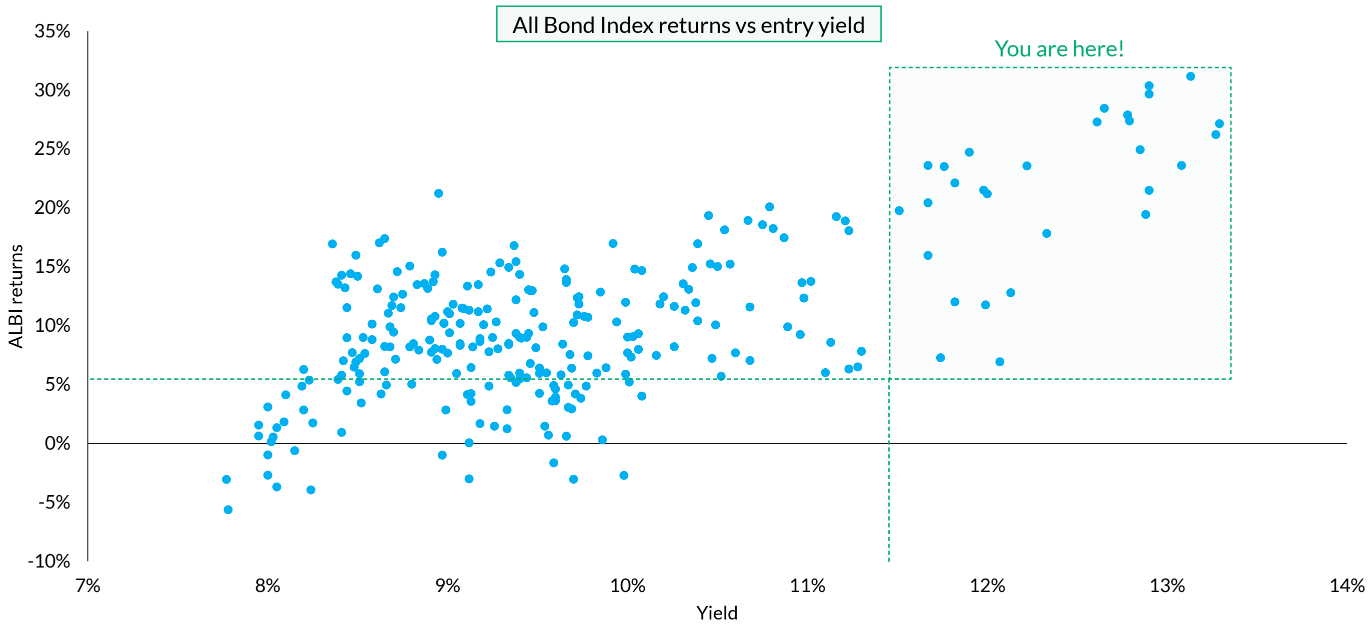
A rate cutting cycle? South Africa's inflation, similar to that of other emerging markets, sits within the target band of 3% to 6%.

A route to 1.5% real GDP growth? Load shedding is now forecast to reach sustained lower levels towards the end of 2024. This can easily lift growth to levels that can sustain the current well-structured debt levels.

A flagging commodity cycle? Commodity prices are lower this year and exports in rand terms are significantly down from 2022 levels – largely due to price declines in thermal coal and platinum group metals – which proved valuable to the fiscus last year. 2022 set the base at a very high level in terms of expectations. This year has been particularly tough due to the dumping of commodities from Russia (a flood of supply) and concerns about China (weaker auto production, less construction). Volumes in SA have also been constrained due to Transnet rail/port and road infrastructure. The market is forecasting a continued decline in prices and volumes, and this is likely to be factored into the forecasts in the November Medium Term Budget Policy Statement (MTBPS), as evidenced by very reasonable and realistic growth forecasts.

PSG Asset Management continues to find attractive ideas selectively in commodities, with significant supply constraints to key commodities underpinning long-term commodity prices. While commodity prices are well below 2022 levels, they remain (in rand terms) well above 2019 levels. Thermal coal prices have recovered from the lows experienced earlier this year (last year, coal contributed roughly 20% of the export basket) and should drive a better second half. Manganese exports exceeded coal's contribution to exports last year and continue to outperform the high 2022 level. Platinum is still likely to experience a tough year ahead, but our view is that we may be closer to a low point.

We expect very good bond returns from here



Source: Bloomberg

We remain focused on managing risk in our funds and constructing diversified portfolios that help our clients to achieve their income objectives. We are not buying these bonds on the premise that we are going to see a swift return to high economic growth, but even in a muddle-through environment, we expect bonds to deliver significant inflation-beating returns. In addition, given the deep pessimism priced into yields, the optionality of a slightly better environment skews the odds in favour of a good outcome for clients.

PSG's award-winning fixed income capability

Our thorough research and independent thinking, as outlined in this article, have contributed to our all-round investment success – with our fixed income funds also performing extremely well.

At the Raging Bull Awards hosted this year, the PSG Diversified Income Fund won Best SA Multi-Asset Income Fund for straight performance and the Raging Bull trophy for the Best South African Interest-bearing Fund over three years. The PSG Income Fund won Best SA Interest-bearing Short-term Income Fund on a risk-adjusted basis over five years. (All awards for the period ending 31 December 2022.)

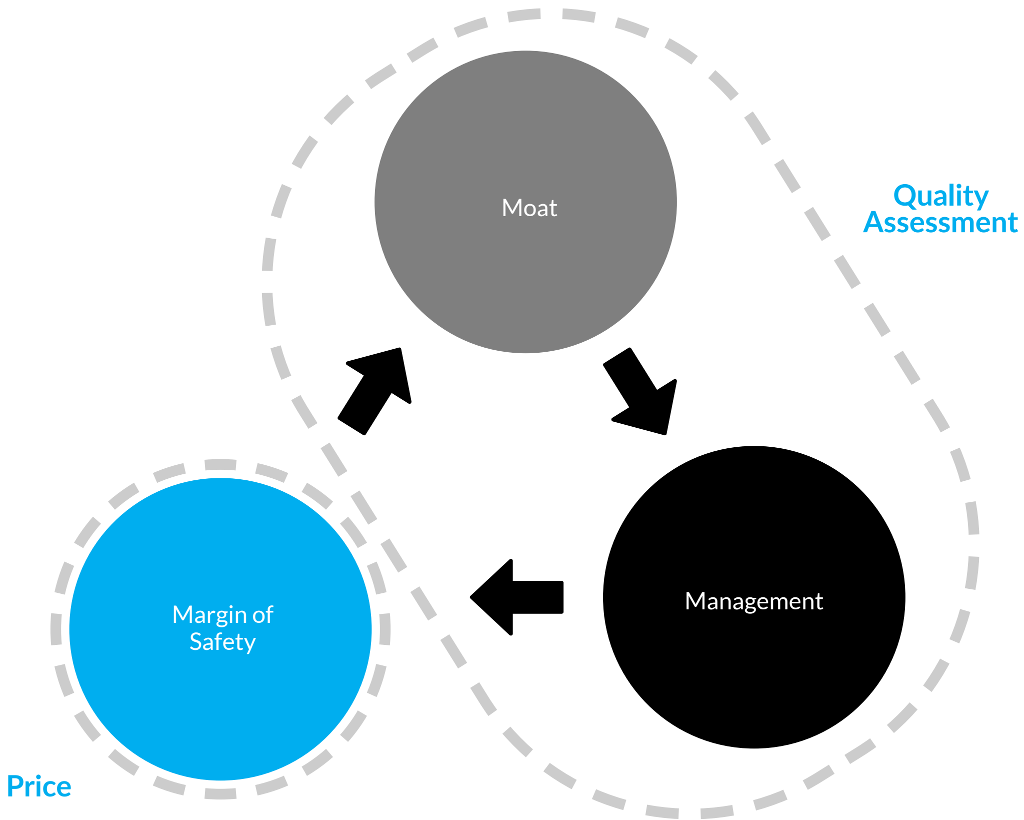
> *"We remain focused on managing risk in our funds and constructing diversified portfolios that help our clients to achieve their income objectives.*

A quick reminder of our 3M process

As investment professionals, we seek to generate consistent long-term returns for our clients. A robust and proven investment process is at the heart of our ability to do so consistently over time, even as market cycles come and go and stocks fall in and out of favour. We understand that generating strong long-term returns for our clients rests on the ability to buy low, invest for the long run and sell high.

To find the most attractive opportunities, we look in the uncrowded areas of the market that offer the best chance of mispricing (generally those characterised by fear, uncertainty or neglect). We further improve our chances of success by applying our 3M process.

The first two M's help us evaluate the quality of companies. These are the strength of 'management' and evidence of a competitive advantage that serves as a 'moat', setting the company apart from its peers. Our third M is the 'margin of safety', reflected in how far a security is trading from its fair value (or, viewed differently, whether its current price is setting us up to 'buy low'). Essentially, we are looking for some inherent quality that the market might be missing. As a result, we tend to invest in companies that are as good as the market or better, but trading at a discount. We believe that if we apply this methodology consistently, we will tend to buy quality companies at affordable valuations, helping our clients in growing their investments over time.



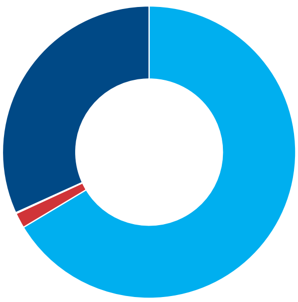
Portfolio holdings as at 30 September 2023

PSG Equity Fund

Top 10 equities

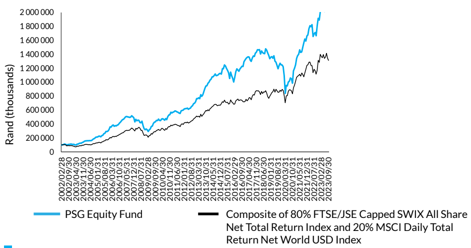
Glencore plc
Discovery Ltd
AECI Ltd
Anheuser-Busch InBev SA/NV
Shell plc
Anglo American plc
Northam Platinum Holdings Ltd
Standard Bank Group Ltd
Babcock International Group plc
Sun International

Asset allocation



Domestic equity	66.4%
Domestic property	1.7%
Domestic cash	0.1%
Offshore equity	31.8%
Total	**100%**

Performance

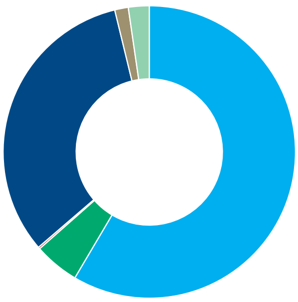


PSG Flexible Fund

Top 10 equities

Glencore plc
Shell plc
Discovery Ltd
Anheuser-Busch InBev SA/NV
AECI Ltd
Wheaton Precious Metals Corp
Babcock International Group plc
Standard Bank Group Ltd
Anglo American plc
Sun International

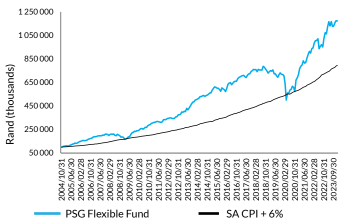
Asset allocation



Domestic equity*	58.5%
Domestic cash, Treasury bills and NCDs	5.0%
Domestic property	0.2%
Offshore equity**	32.5%
Offshore property	1.5%
Offshore cash	2.3%
Total	**100%**

*Includes -1.6% effective derivative exposure
**Includes -2.2% effective derivative exposure

Performance

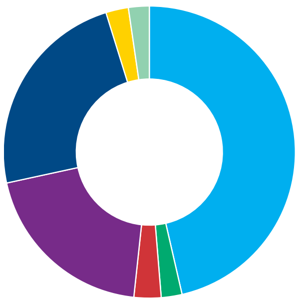


PSG Balanced Fund

Top 10 equities

Discovery Ltd
Shell plc
Anheuser-Busch InBev SA/NV
Prudential plc
Hiscox Ltd
AECI Ltd
Northam Platinum Holdings Ltd
Wheaton Precious Metals Corp
Glencore plc
Noble Corp

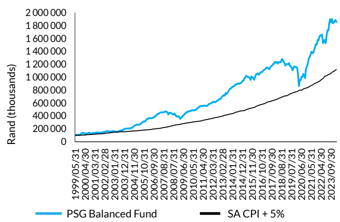
Asset allocation



Domestic equity*	46.4%
Domestic cash, Treasury bills and NCDs	2.3%
Domestic property	3.0%
Domestic bonds	19.9%
Offshore equity**	23.6%
Offshore bonds	2.5%
Offshore cash	2.3%
Total	**100%**

*Includes -1.3% effective derivative exposure
**Includes -2.2% effective derivative exposure

Performance



PSG Stable Fund

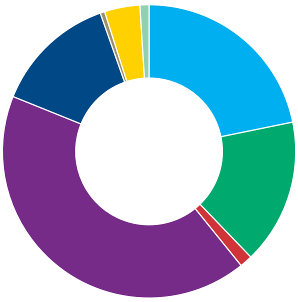
Top 5 equities

Anheuser-Busch InBev SA/NV
Discovery Ltd
AECI Ltd
Shell plc
Prudential plc

Top 5 issuer exposures

The Republic of South Africa
Eskom Holdings SOC Ltd
Absa Bank Ltd
FirstRand Bank Ltd
Nedbank Ltd

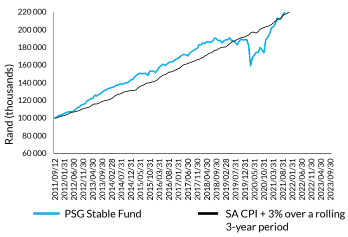
Asset allocation



Domestic equity*	21.8%
Domestic cash, Treasury bills and NCDs	16.0%
Domestic property	1.4%
Domestic bonds	41.9%
Offshore equity**	13.5%
Offshore property	0.5%
Offshore bonds	3.9%
Offshore cash	1.0%
Total	**100%**

*Includes -1.8% effective derivative exposure
**Includes -0.9% effective derivative exposure

Performance



PSG Diversified Income Fund

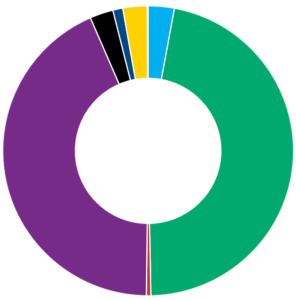
Top 5 equities

Discovery Ltd preference shares
Grindrod Ltd preference shares
Network Healthcare preference shares
Shell plc
Attacq Ltd

Top 5 issuer exposures

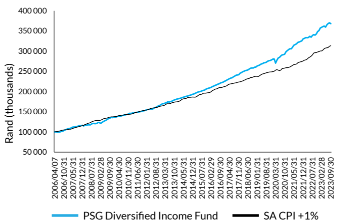
The Republic of South Africa
Nedbank Ltd
Standard Bank of SA Ltd
FirstRand Bank Ltd
Eskom Holdings SOC Ltd

Asset allocation



Domestic equity	2.9%
Domestic cash, Treasury bills and NCDs	46.8%
Domestic property	0.5%
Domestic bonds	43.3%
Domestic preference shares	2.6%
Offshore equity	1.1%
Offshore bonds	2.7%
Offshore cash	0.1%
Total	**100%**

Performance



PSG Income Fund

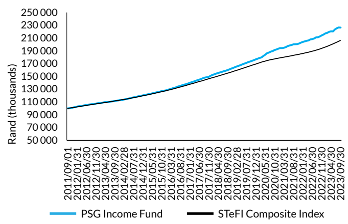
Top 10 issuer exposures

The Republic of South Africa
Nedbank Ltd
FirstRand Bank Ltd
Standard Bank of SA Ltd
Absa Bank Ltd
Investec Bank Ltd
Sanlam Life Insurance Ltd
The Thekwini Fund 16 (RF) Ltd
Eskom Holdings SOC Ltd
Old Mutual Life Assurance Company

Asset allocation

Domestic cash, Treasury bills and NCDs	61.9%
Domestic bonds	38.1%
Total	**100%**

Performance

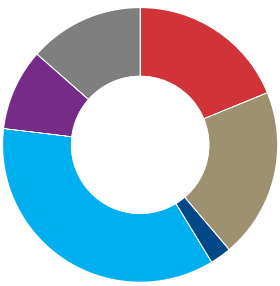


PSG Money Market Fund

Top 5 issuer exposures

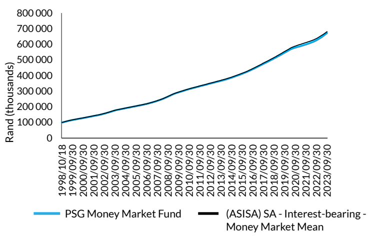
Absa Bank Ltd
Nedbank Ltd
Standard Bank of SA Ltd
FirstRand Bank Ltd
The Republic of South Africa

Asset allocation



Call	18.8%
Linked NCD/ Floating rate notes	20.0%
Listed bonds	2.5%
NCDs	35.6%
Step rate notes	9.6%
Treasury bills	13.5%
Total	**100%**

Performance

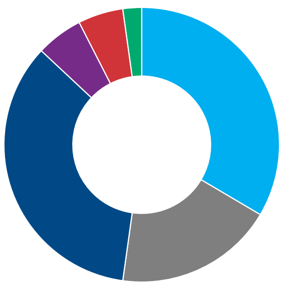


PSG Global Equity Sub-Fund

Top 10 equities

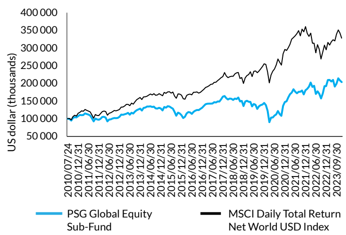
Anheuser-Busch InBev SA/NV
Prudential plc
Babcock International Group plc
Glencore plc
Shell plc
Asahi Group Holdings Ltd
Bayer AG
Wheaton Precious Metals Corp
Hiscox Ltd
Liberty Global Inc - A

Regional allocation



US	33.5%
Europe	18.7%
UK	34.8%
Japan	5.5%
Africa	5.3%
Cash	2.2%
Total	**100%**

Performance

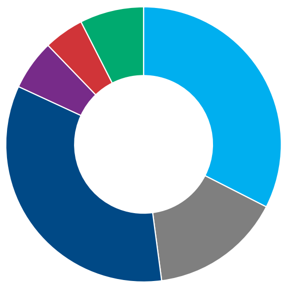


PSG Global Flexible Sub-Fund

Top 10 equities

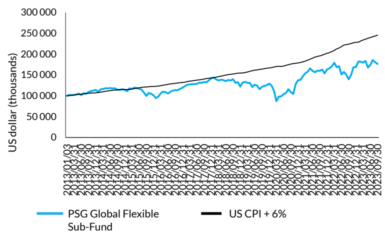
Anheuser-Busch InBev SA/NV
Shell plc
Glencore plc
Prudential plc
Asahi Group Holdings Ltd
Babcock International Group plc
Wheaton Precious Metals Corp
Liberty Global Inc - A
Bayer AG
Noble Corp

Regional allocation



US	32.5%
Europe	15.4%
UK	34%
Japan	5.9%
Africa	4.7%
Cash and bonds	7.5%
Total	**100%**

Performance



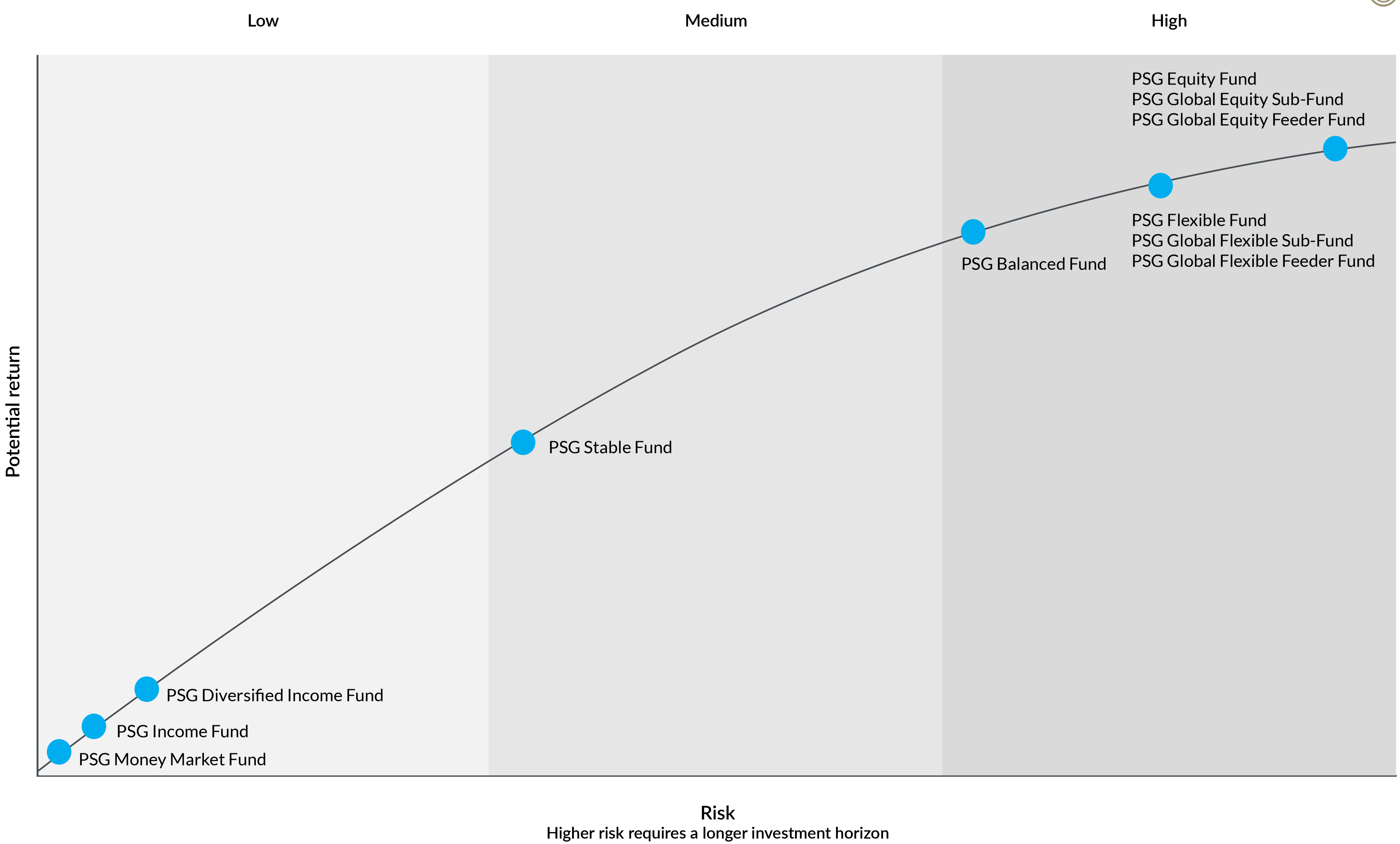
Percentage annualised performance to 30 September 2023 (net of fees)

Local funds						
	1 Year	3 Years	5 Years	10 Years	Inception	Fund inception date
PSG Equity Fund A	26.13	26.13	7.59	8.72	15.16*	31/12/1997
Composite of 80% FTSE/JSE Capped SWIX All Share Net Total Return Index and 20% MSCI Daily Total Return Net World USD Index	15.36	14.50	9.30	8.64	12.70	
PSG Flexible Fund A	23.25	24.43	8.53	9.64	13.89 **	02/11/1998
SA Inflation + 6%	10.82	11.78	10.93	11.13	11.59	
PSG Balanced Fund A	21.45	21.58	7.86	8.77	12.75	01/06/1999
SA Inflation + 5%	9.81	10.78	9.95	10.14	10.44	
PSG Stable Fund A	13.40	13.54	6.44	7.21	8.24	13/09/2011
SA Inflation + 3% over a rolling 3-year period	7.81	8.78	7.95	8.14	8.23	
PSG Diversified Income Fund A	8.42	8.11	7.34	7.56	7.74	07/04/2006
SA Inflation + 1%	5.81	6.77	5.95	6.13	6.75	
PSG Income Fund A	7.21	6.07	7.19	7.34	7.00	01/09/2011
STeFI Composite Index	7.52	5.29	5.88	6.34	6.18	
PSG Money Market Fund A	7.45	5.12	5.72	6.26	7.94	19/10/1998
(ASISA) South African - Interest-bearing - Money Market Mean	6.90	4.98	5.74	6.30	7.99	
PSG Global Equity Feeder Fund A ^	36.06	26.37	10.73	11.78	12.95	03/05/2011
MSCI Daily Total Return Net World USD Index (in ZAR)	27.84	12.56	13.57	15.27	17.52	
PSG Global Flexible Feeder Fund A ^^	32.53	21.70	10.70	11.44	12.75	11/04/2013
US Inflation + 6% (in ZAR)	14.96	16.34	16.50	15.80	16.82	

International funds						
	1 Year	3 Years	5 Years	10 Years	Inception	Fund inception date
PSG Global Equity Sub-Fund A	29.60	21.60	4.94	5.41	5.54	24/07/2010
MSCI Daily Total Return Net World USD Index	21.95	8.08	7.26	8.26	9.42	
PSG Global Flexible Sub-Fund A	26.27	17.49	4.75	4.95	5.43	03/01/2013
US Inflation + 6%	9.67	11.72	10.02	8.76	8.73	

* Fund manager inception date 01/03/2002
** Current benchmark inception date 01/11/2004
^ The PSG Global Equity Feeder Fund feeds into the PSG Global Equity Sub-Fund.
^^ The PSG Global Flexible Feeder Fund feeds into the PSG Global Flexible Sub-Fund.
Source: 2023 Morningstar Inc. All rights reserved as at end of September 2023.
Annualised performances show longer-term performance rescaled over a 12-month period.
Annualised performance is the average return per year over the period.
Past performance is not necessarily a guide to future performance.

Risk/reward profile



Local unit trust summary

	South African portfolios								Rand-denominated offshore	
	PSG Equity Fund	PSG SA Equity Fund	PSG Flexible Fund	PSG Balanced Fund	PSG Stable Fund	PSG Diversified Income Fund	PSG Income Fund	PSG Money Market Fund	PSG Global Equity Feeder Fund	PSG Global Flexible Feeder Fund
Fund category (ASISA classification)	South African - Equity - General	South African - Equity - General	South African - Multi-asset - Flexible	South African - Multi-asset - High Equity	South African - Multi-asset - Low Equity	South African - Multi-asset - Income	South African - Interest-bearing - Short-term	South African - Interest-bearing - Money Market	Global - Equity - General	Global - Multi-asset - Flexible
Investment objective	Aims to offer investors long-term capital growth without assuming a greater risk, and earn a higher rate of return than that of the South African equity market as presented by the composite of 80% FTSE/JSE Capped SWIX All Share Net Total Return Index and 20% MSCI Daily Total Return Net World USD Index (including income).	Aims to provide long-term capital growth (highest returns above inflation) and outperform the FTSE/JSE Capped SWIX All Share Net Total Return Index by investing mainly in South African shares. The investment policy provides for investment in domestic listed securities and assets in liquid form, including shares, participatory interests in listed property shares, loan stock and derivative instruments.	Aims to achieve superior medium- to long-term capital growth by investing in selected sectors of the equity, gilt and money markets, both locally and abroad. The fund has a flexible asset allocation mandate and equity exposure will vary based on opportunity.	Aims to achieve long-term capital growth and a reasonable level of income for investors. The investment policy provides for the active management of the portfolio assets that include equities, bonds, property and cash, both domestically and in foreign markets.	Aims to achieve capital appreciation and to generate a performance return of CPI + 3% over a rolling three-year period, with low volatility and low correlation to equity markets through all market cycles.	Aims to preserve capital while maximising income returns for investors. The portfolio comprises a mix of high-yielding securities, property, bonds, preference shares and assets in liquid form (both local and foreign).	Aims to maximise income while achieving as much long-term capital appreciation as interest rate cycles allow.	Aims to provide capital security, a steady income and easy access to your money.	Aims to achieve capital growth over the long term, with the generation of income not being the main objective of the portfolio. It is a rand-denominated equity feeder fund with an investment policy providing for investment solely in the PSG Global Equity Sub-Fund.	Aims to achieve superior medium- to long-term capital growth through exposure to selected sectors of the global equity, bond and money markets. It is a rand-denominated feeder fund with an investment policy providing for investment solely in the PSG Global Flexible Sub-Fund.
Benchmark	Composite of 80% FTSE/JSE Capped SWIX All Share Net Total Return Index and 20% MSCI Daily Total Return Net World USD Index	FTSE/JSE Capped SWIX All Share Net Total Return Index	SA CPI + 6%	SA CPI + 5%	SA CPI + 3% over a rolling 3-year period	SA CPI + 1%	STeFI Composite Index	(ASISA) South African - Interest-bearing - Money Market Mean	MSCI Daily Total Return Net World USD Index (in ZAR)	US CPI + 6% (in ZAR)
Risk rating	High	High	Moderate - High	Moderate - High	Moderate	Low - Moderate	Low - Moderate	Low	High	Moderate - High
Time horizon	7 years and longer	7 years and longer	5 years and longer	5 years and longer	3 years and longer	2 years and longer	1 year and longer	Minimum of 1 day	7 years and longer	5 years and longer
The fund is suitable for investors who:	• want an equity-focused portfolio that should produce high real returns above inflation and capital appreciation over the long term • are comfortable with significant stock market fluctuations • are willing to accept potential capital loss • have a long-term investment horizon of seven years and longer	• want exposure to local shares • are comfortable with stock market (equity market) fluctuations • have a long-term investment horizon of seven years and longer	• want exposure to the equity market, but with managed risk levels • aim to build wealth • are willing to accept potential capital loss • have a medium- to long-term investment horizon of five years and longer	• aim to build wealth with a balanced portfolio that diversifies the risk over the various asset classes • are comfortable with market fluctuation risk • are willing to accept potential capital loss • would prefer the fund manager to make the asset allocation decisions • have an investment horizon of five years and longer	• have a moderate risk appetite but require capital growth in real terms • have a medium-term investment horizon of three years and longer • are comfortable with fluctuations in markets	• have a low risk appetite • want to earn an income, but need to try and beat inflation • have a short- to medium-term investment horizon of two years and longer	• have a low risk appetite • require an income • have an investment horizon of one year and longer	• seek capital stability, interest income and easy access to their money through a low-risk investment • need an interim investment vehicle or 'parking bay' for surplus money • have a short-term investment horizon	• want exposure to global equities without personally expatriating rands • are comfortable with international equity market and currency fluctuations • have a long-term investment horizon of seven years and longer	• want exposure to global equities without personally expatriating rands • are comfortable with international equity market and currency fluctuations • have a long-term investment horizon of five years and longer
Net equity exposure	80% - 100%	80% - 100%	0% - 100%	0% - 75%	0% - 40%	0% - 10%	0%	0%	80% - 100%	0% - 100%
Income distribution	Bi-annually	Bi-annually	Bi-annually	Bi-annually	Bi-annually	Quarterly	Quarterly	Monthly	Annually	Annually
Minimum investment	As per the platform minimum	R20 000 000	As per the platform minimum	As per the platform minimum	As per the platform minimum	As per the platform minimum	As per the platform minimum	R25 000 lump sum	As per the platform minimum	As per the platform minimum
Fees (excl. VAT)	Annual management fee: Class A: 1.50% Class E: 0.75% + 20.00% performance fee on outperformance of the benchmark	Annual management fee: Class D: 0.85% Class F: 1.1%	Annual management fee: Class A: 1.00% + 7.00% performance fee on outperformance of the high-water mark Class E: 0.75% + 7.00% performance fee on outperformance of the high-water mark	Annual management fee: Class A: 1.50% Class E: 1.00%	Annual management fee: Class A: 1.50% Class E: 1.00%	Annual management fee: Class A: 1.00% Class E: 0.45%	Annual management fee: Class A: 0.65% Class E: 0.40%	Annual management fee: Class A: 0.50% Class F: 0.25%	Annual management fee: Class A: 0.75% Class E: 0.25%	Annual management fee: Class A: 0.75% Class B: 0.25%
Compliance with Prudential Investment Guidelines (Regulation 28)	No	No	No	Yes	Yes	Yes	No	Yes	No	No

For full disclosure on all risks, costs and fees, as well as performance fee FAQs, refer to the fund fact sheets on our website: https://www.psg.co.za/about-us/psg-asset-management. The A classes have been closed to new investors.

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The information and content of this publication is provided by PSG Asset Management (Pty) Ltd as general information about its products. The information does not constitute any advice and we recommend that you consult with a qualified financial adviser before making investment decisions. For further information on the funds and full disclosure of costs and fees refer to the fund fact sheets on our website.

Disclaimer: Collective Investment Schemes in Securities (CIS) are generally medium- to long-term investments. The value of participatory interests (units) or the investment may go down as well as up and past performance is not a guide to future performance. Where foreign securities are included in a portfolio, the portfolio is exposed to risks such as potential constraints on liquidity and the repatriation of funds, macroeconomic, political, foreign exchange, tax, settlement and potential limitations on the availability of market information. Fluctuations or movements in the exchange rates may cause the value of underlying international investments to go up or down. CIS are traded at ruling prices and can engage in borrowing and scrip lending. The portfolio may borrow up to 10% of the market value to bridge insufficient liquidity. The portfolios may be capped at any time in order for them to be managed in accordance with their mandate. **Pricing:** Forward pricing is used. Prices are published daily and available on the website www.psg.co.za/asset-management and in the daily newspapers. Unit trust prices are calculated on a net asset value (NAV) basis, which is the total market value of all assets in the fund, including income accruals less permissible deductions, divided by the number of units in issue. **Redemptions:** The ability of a portfolio to repurchase is dependent upon the liquidity of the securities and cash of the portfolio. To protect investors, a manager may suspend repurchases for a period, subject to regulatory approval, to await liquidity. A suspension ensures that the sale of a large number of units will not force PSG Collective Investments to sell the underlying investments at a price in the market which could have a negative impact on investors. 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Trustee: The Standard Bank of South Africa Limited, The Towers, 2 Heerengracht Street, Cnr Hertzog Boulevard, Cape Town 8001. Tel: +27 (21) 401 2443. Email: Compliance-PSG@standardbank.co.za. **Conflict of Interest disclosure:** The funds may from time to time invest in a portfolio managed by a related party. PSG Collective Investments (RF) Limited or the Fund Manager may negotiate a discount in fees charged by the underlying portfolio. All discounts negotiated are reinvested in the fund for the benefit of the investor. Neither PSG Collective Investments (RF) Limited nor PSG Asset Management (Pty) Limited retains any portion of such discount for their own accounts. The Fund Manager may use the brokerage services of a related party, PSG Securities Limited. Details of the Raging Bull Awards can be obtained from PSG Collective Investments (RF) Limited.

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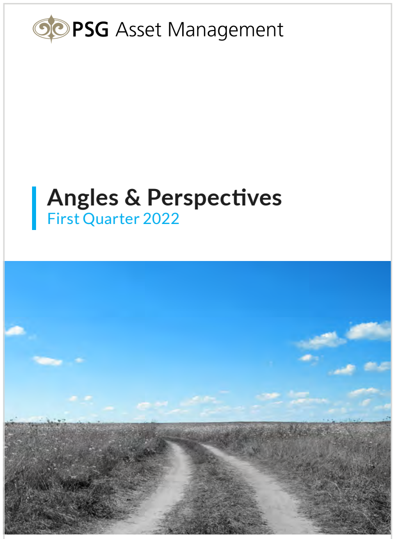
Second quarter 2023

First quarter 2023

Fourth quarter 2022

Third quarter 2022

Second quarter 2022



First quarter 2022