Talking Points

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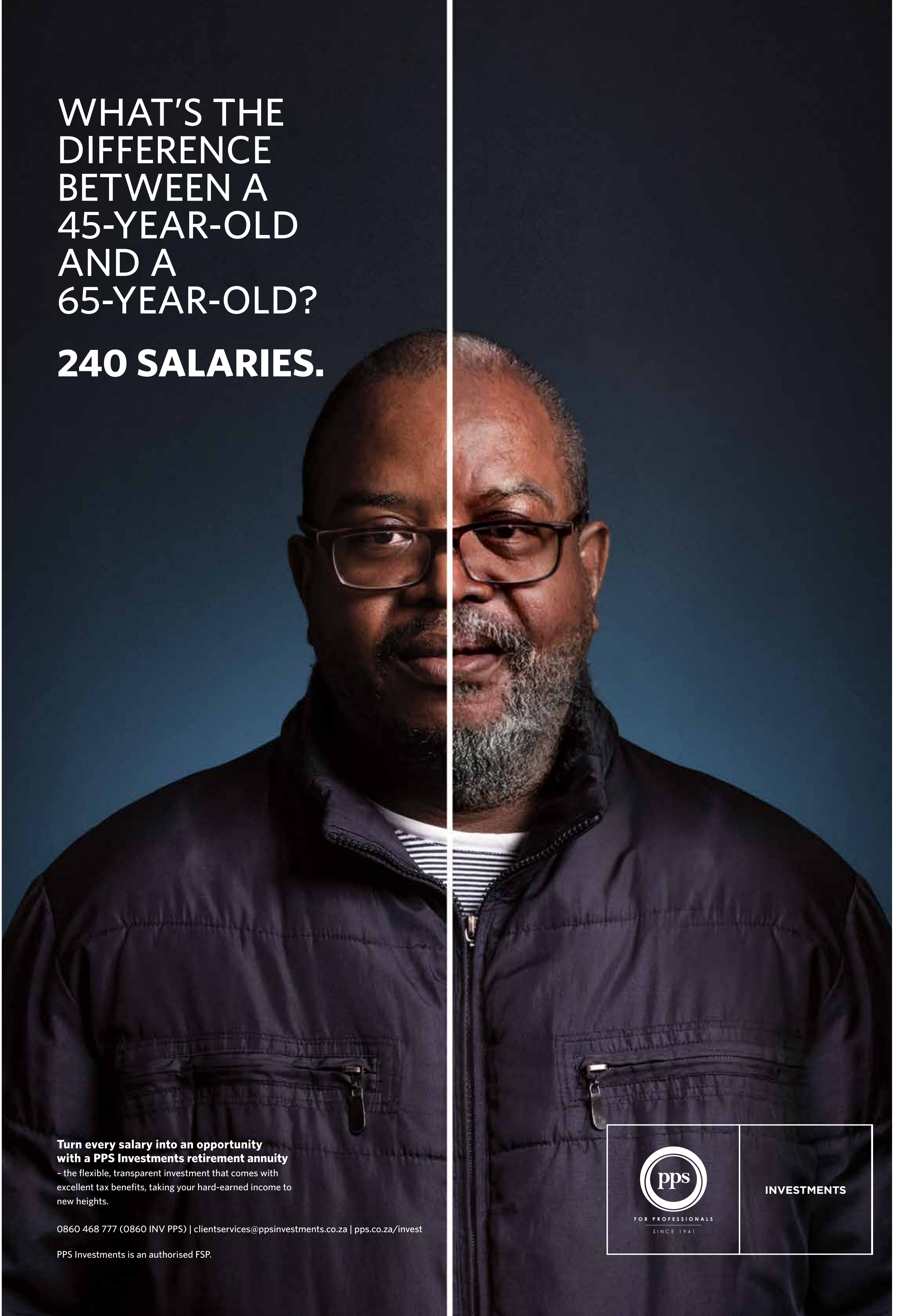
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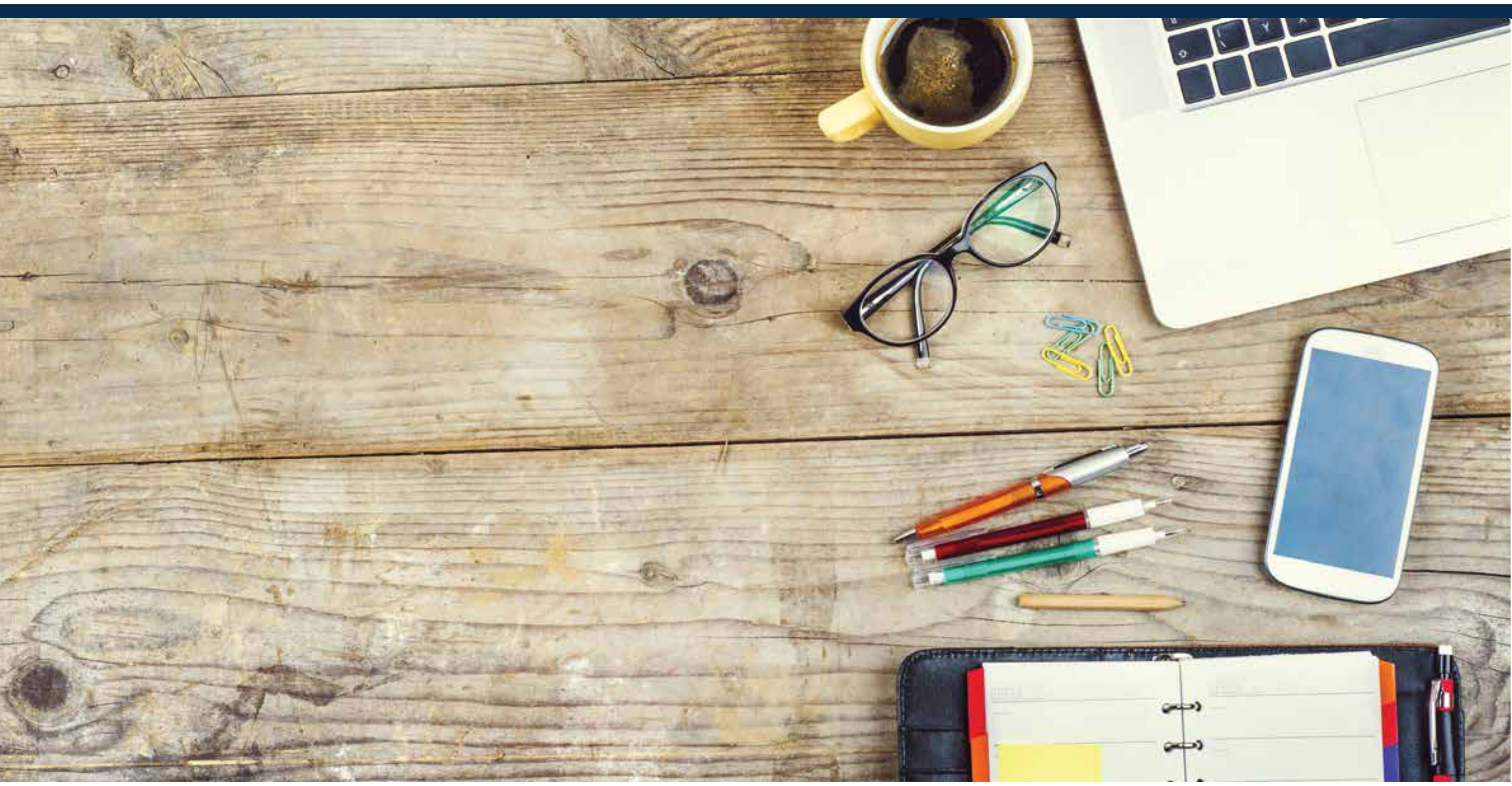


A welcome from the Chief Executive

Welcome the 54th edition, where we reflect on the events that shaped the fourth quarter.

As we usher in 2022, we approach the year with cautious optimism. There are encouraging signs that the world is paving the way towards a phase of recovery and rebuilding, despite the waves and variants that have emerged. The persistence of the pandemic continued to dominate news flow, but encouragingly economies forged ahead, shifting towards sustainable growth on the back of the vaccines, injecting hope and providing a much-needed boost to confidence levels.

2021 was the gateway to the brave new world and finding ways to navigate the shifting reality we find ourselves in. For South Africa, last year shaped up to be relatively positive. The local economy and markets managed to surprise on the upside and outperform expectations. Although we have a long journey ahead of us, as a nation, we continue to display the fortitude needed to kickstart the economy.

This year, PPS Investments concluded its 15th year in the business of serving members. Looking back, I'm encouraged by the resilience displayed by our PPS members throughout the years and different market cycles. We thank our valued members and financial advisers for trusting us to manage their investments through challenging periods, such as the 2008 Global Financial Crisis and the COVID-19 market crash in March 2020. From humble beginnings in 2007, the business has grown over the years and today we manage assets of more than R54 billion (as at 31 December 2021).

Our institutional memory is reflected in the way we construct portfolios and select and blend underlying asset managers. All efforts are geared to ensuring sensible portfolio diversification, consistent returns and taking the long-term view while remaining cognisant of market volatility.

The investment landscape is shifting, too. Environmental, Social and Governance (ESG) considerations are becoming more prevalent, particularly as the effects of climate change become increasingly visible. As a multi-manager, we are focused on asset managers who are considering ESG risks, and we continue to investigate ESG opportunities that resonate with our members.

Markets are also shifting. 2021 saw phenomenal recovery in growth assets, with equities posting strong returns. At the same time, several companies delisted from the JSE and the impact of heavyweight Naspers, weighed on local markets. But we believe that the SA equity market is compensating for these risks. Global markets also had a strong year, driven mostly by technology.

Global economic growth expectations are closer to 6% for 2021, according to the International Monetary Fund (IMF). This remains a critical year in strengthening the measures put in place to bolster and restore economies to pre-COVID-19 growth levels. Record stimulus packages injected into the global economy certainly helped put money into the system, but consumers had nothing to spend it on as services were halted due to lockdowns.

Subsequently, demand for products increased. Added to that was the disruption to the global supply chain caused by the pandemic, which is still causing shortages and driving up the price of goods, from cars to meat to furniture. This is a trend being observed across the world. These supply chain pressures coupled with high energy prices have driven inflation to record-high levels. ***Anil Thakersee, Executive of Marketing and Business Development,*** delves into the forces driving the global supply chain crisis while ***Luigi Marinus, Portfolio Manager,*** unpacks the inflation saga that is unfolding, and how it impacts on investments.

Despite hopes that inflation is merely transitory and will ease off as supply chain disruptions ease, central banks have signalled that multiple rate increases to combat inflation are likely this year. In his article, ***David Crosoer, Chief Investment Officer***, provides an outlook of themes to watch in 2022 and provides an in-depth review of the markets for the previous quarter in the Investment Perspectives.

In reviewing the year gone by ***Andriette Theron, Head of Research***, shares some investment lessons from a pandemic era. We've also featured an infographic showcasing some global and local events from 2021 and the impact on the local market. ***Reza Hendrickse, Portfolio Manager***, shares insights on navigating the narrow SA equity market and a few considerations when choosing asset managers.

As we approach the end of the tax season ***Natalie Kiewitt, Executive of Operations***, highlights the importance of taking advantage of the tax benefits available in a retirement annuity and a tax-free investment account.

In closing, while many believe that a shift from a pandemic to an endemic may bode well, it may not be simple. Long-term structural and behavioural changes are required to adjust to this shifting reality. For now, we look forward to the year ahead and the possibilities it holds.

Nick

Nick Battersby, Chief Executive

Global macro environment still broadly supportive for growth

Chief Investment Officer, David Crosoer, takes stock of the market events during the fourth quarter of 2021 and shares insights on what these global and local events could mean for investors.

How did the markets perform?

Markets continued their rally into the fourth quarter of 2021, with South African (SA) equities delivering its strongest calendar year return since 2012 (up 27.1%) and global equities since 2015 (up 28.8% in rands). These impressive short-term returns (SA equities were up 8.7% over the quarter, and foreign equities 13.2%) have materially improved the risk-return trade-off from equities, with SA equities having now compounded at close to our long-term expectation of CPI+6% p.a. over the past ten years, and global equities at CPI+15% p.a., almost three times as much.

For the year, SA inflation-linked bonds (up 15.5%) and nominal bonds (up 8.4%) also comfortably outperformed SA inflation (up 5.9%) and SA cash (up 3.6%), while SA property (up 36.9%) clawed back much of its prior year's underperformance, and foreign property (up 39.9%) comfortably outperformed foreign bonds (up just 1.1%).

What have been the drivers of performance?

The strong returns from riskier assets have been boosted by global monetary policy remaining exceptionally loose for longer than perhaps warranted, and economic growth still surprising on the upside. For much of the year, forward guidance from the US Federal Reserve indicated no interest rate increases till at least 2024, while global economic growth in 2021, at an expected 5.6%, is likely to be at a pace not seen since 2006, and remain above trend in both 2022 and 2023, according to the Organisation for Economic Cooperation and Development (OECD).

The South African Reserve Bank (SARB) has also kept short-term interest rates at unprecedentedly low levels (with just one interest rate hike in November, raising the repo rate to 3.75%), while SA growth in 2021 at above 5% has also significantly exceeded expectations from the start of the year.

Does the environment remain supportive for economic growth?
Global growth is expected to remain above trend but is expected to slow from 2021's strong rebound, with the OECD forecasting 4.5% global growth in 2022, compared to its 5.6% expectation for 2021. South Africa's anticipated slowdown is even more dramatic with just 1.7% growth expected in 2022 compared to 5.2% in 2021.

Our base view remains that the global macro environment is still broadly supportive for growth but expected US Federal Reserve interest rate tightening and a Chinese economic slowdown both provide possible headwinds.

Closer to home, the implementation of structural reforms and improvement in investor confidence would be positive surprises for South Africa, where growth expectations for the coming years remain lacklustre.

Why is the US Federal Reserve needing to hike interest rates?
The US Federal Reserve committed to keeping interest rates near zero and tolerate current inflation above its 2% target, but the recent sharp spike in US inflation has meant that it has now increased by at least 2% p.a. for an extended period.

The US Federal Reserve is now expected to raise short-term interest rates at least three times in 2022 (and possibly from as early as March 2022). Importantly, these increases come from a period where the US Federal Funds Rate has been kept at near zero levels to artificially help the economy recover from the COVID-19 lockdowns.

The market always anticipated that the US Federal Reserve would need to hike rates, but the tightening cycle is coming sooner than previously expected, because strong employment growth and high inflation make it harder to argue that the economy is still operating significantly below full capacity.

Do you anticipate that the inflation problem will go away?
It is difficult to assess how soon inflation could revert to less elevated levels, and it is possible that the US Federal Reserve will need to hike rates aggressively, but this is not our base case.

SA inflation should remain in the target band of 3% to 6% over the foreseeable future, but the SARB has indicated a further 2.75% cumulative interest rate increase may be possible during this cycle, even if inflation remains relatively contained.

Is there anything to be positive about?
There is a possibility that central banks will not need to tighten interest rates aggressively, and global economic growth could remain relatively strong.

Despite the recent spike in developed market inflation, the gradual normalisation of global interest rates, and modest inflation, would be a positive development if it can occur in an orderly fashion. Most medium-term expectations of inflation remain contained, and it appears that the US Federal Reserve is still targeting a neutral Federal Funds Rate not much above 2%. Given how quickly the market has priced in interest rate increases in 2022, a more dovish response would be a welcome surprise.

The publication of the first instalment of the Zondo commission early in 2022, with its far-reaching recommendations on public sector procurement and other areas, could be a positive catalyst if the government can follow through. In our view, it is too early to argue that South Africa will not be able to exceed low investor expectations on implementing the required structural reforms to place the economy on a higher growth path.

There is also greater traction on transitioning the global economy to a more sustainable path. Like South African structural reforms, it is easy to argue that the pace is still far too slow, but there are indications of improved intent.

Of course, government commitments at COP26 have fallen short of what is needed to limit global warming to less than 1.5 degrees above pre-industrial levels, and most global listed companies still do not have credible net zero plans. Nevertheless, momentum has shifted, and investors and regulators are increasingly focused on transitioning the global economy towards a more sustainable path.

What shifts do you expect going forward?
The global economy should adjust better to the COVID-19 pandemic as it becomes endemic, while the transition to a greener economy could finally lead to meaningful fiscal spending and an increase in investment, plus demand for commodities. Neither transition is likely to be smooth, but investors should try to position themselves to benefit from both.

Likewise, there is scope for the SA economy to surprise positively, both from the commodities required for the transition to a greener economy (including the fossil fuels that are still needed), and the possibility of structural reforms that would boost investor confidence.

Investors are increasingly interested in how managers are considering ESG risks, including those posed by climate change, and as a multi-manager we are no exception. Here we continue to assess whether our managers are mandated appropriately and have the required skills to benefit from the opportunities the transition to a greener economy entails.

We don't think that we are now in a permanently higher inflationary world and believe that interest rates in general will remain accommodative.

Against this backdrop, what is the portfolio positioning?

The PPS portfolios were well-positioned in 2021, being overweight SA bonds (and especially SA inflation-linked bonds) and foreign equities and moving to an overweight position in SA equities over the course of the year.

While we modestly reduced foreign equities to overweight last year, our base view remains that the global and local environment should remain supportive of risk assets, and cash is likely to remain an unattractive asset class.

Despite strong returns last year, we still believe we are being compensated to take on SA-specific risk, and that local economic growth and reform could surprise on the upside. In fact, while our global managers have a much larger opportunity set to exploit, SA valuations look more compelling.

The future will always surprise us. Our process consequently forces us to remain diversified, and we deliberately target asset managers that think differently, to best take advantage of opportunities that might materialise.

David

To watch our short quarterly video in which David shares his views on the local and global economy, go to the PPS YouTube channel.

Enjoy, and let us know what you think.

Lessons from a shifting investment landscape

The past two years have been challenging for investors globally. Markets, by their very nature, are unpredictable, but some important insights emerged from this watershed period that will continue to shift the investment landscape going forward. While it's not an exhaustive list, here's what we've learnt so far in terms of how the market has surprised us, and how it framed manager selection and asset allocation decisions.

During 2021, there was a clear shift in the key drivers of portfolio returns, compared to 2020. Property and domestic equity markets delivered strong returns during 2021 compared to the muted returns delivered in 2020. Financial markets have positively rerated companies outside of the larger capitalisation stocks that had been penalised through much of 2020. There have also been signs of a reversal of the significant underperformance of value shares relative to growth shares. It's therefore not surprising that we've seen strong performance from managers that lagged their peers in 2020, given their investment approach and resulting positioning. The decision not to make changes to our mix of managers and to stick with the managers that did not benefit from the environment in 2020, added value to portfolios in 2021. This demonstrated the diversification benefit of having exposure to a broad mix of managers that think differently about the world.
As a multi-manager, we spend a substantial amount of time engaging with the asset managers in our portfolios. Two manager engagements stand out for 2021 as among some of the most interesting.

The first is with Baillie Gifford around their belief in the importance of outliers. Their global equity strategy remains completely benchmark agnostic and unconstrained, with key aspects being the long-term time horizon of the manager and a culture that focuses on finding outlier companies that generate extreme returns. This approach emphasises optimism rather than pessimism and loss aversion, while the 'hold' discipline is considered more important than the 'sell' discipline.

The second is with Capital Group, our partnership manager in the PPS Global Equity Fund, around their unique approach to portfolio construction. The approach allows for effective succession planning and smooth transitioning; they are currently on their third generation of portfolio managers in this strategy. The strategy is managed by a team of portfolio managers, who are not only given discretion in terms of stock selection and positioning but are also expected to manage their portion of the portfolio in line with their own investment style. Capital's approach allows each of the portfolio managers to play to their strengths while leveraging off their in-house research capability. The portfolio construction has been deliberately designed to achieve cognitive diversity and ensure a well-diversified portfolio.

In our view, the key characteristics displayed by asset managers during the period was collaboration and effective engagement. The competitive nature of the asset management industry does not easily lend itself to effective collaboration. But early in 2021, we witnessed an unprecedented move where about 40 asset managers acted together to raise their concerns about the proposed share exchange between Naspers and Prosus.

In addition, a collaborative effort involving asset managers, asset allocators and regulators will be required to successfully transition to a greener economy. It is becoming increasingly important for the industry to come together to deal with these material issues.

In terms of asset allocation decisions, one of the debates in our team last year was whether to increase exposure to South African equity and where to fund it from. Compared to the end of 2019, we have a higher allocation to both South African equities and South African bonds indicating a more attractive investment landscape for the South African investor. South African equities are inexpensive while South African bonds offer the prospect of higher-than-normal returns, adequately compensating investors for their associated risk.

Our portfolios have long been overweight global equities, which we believe present a much broader opportunity set compared to the investment universe available locally. A supportive economic environment and favourable valuations relative to global cash and global bonds remain tailwinds for this asset class. However, the valuation of South African equities looks compelling relative to its own history and even more so relative to global equities, which have become more stretched. Additionally, South African bonds continue to offer attractive yields in absolute terms and relative to cash. The emphasis is on finding the right balance between our exposure to growth assets given the supportive macro environment and the need to diversify some of the South African specific risks.

We have been deliberately increasing our domestic equity exposure since November 2020 and our positive view on foreign equities benefited our portfolios up to end December 2021. Within the interest-bearing composite of our portfolios, our decision to be maximum overweight bonds relative to cash and to maintain a meaningful allocation to inflation-linked bonds also contributed positively to performance over the period.

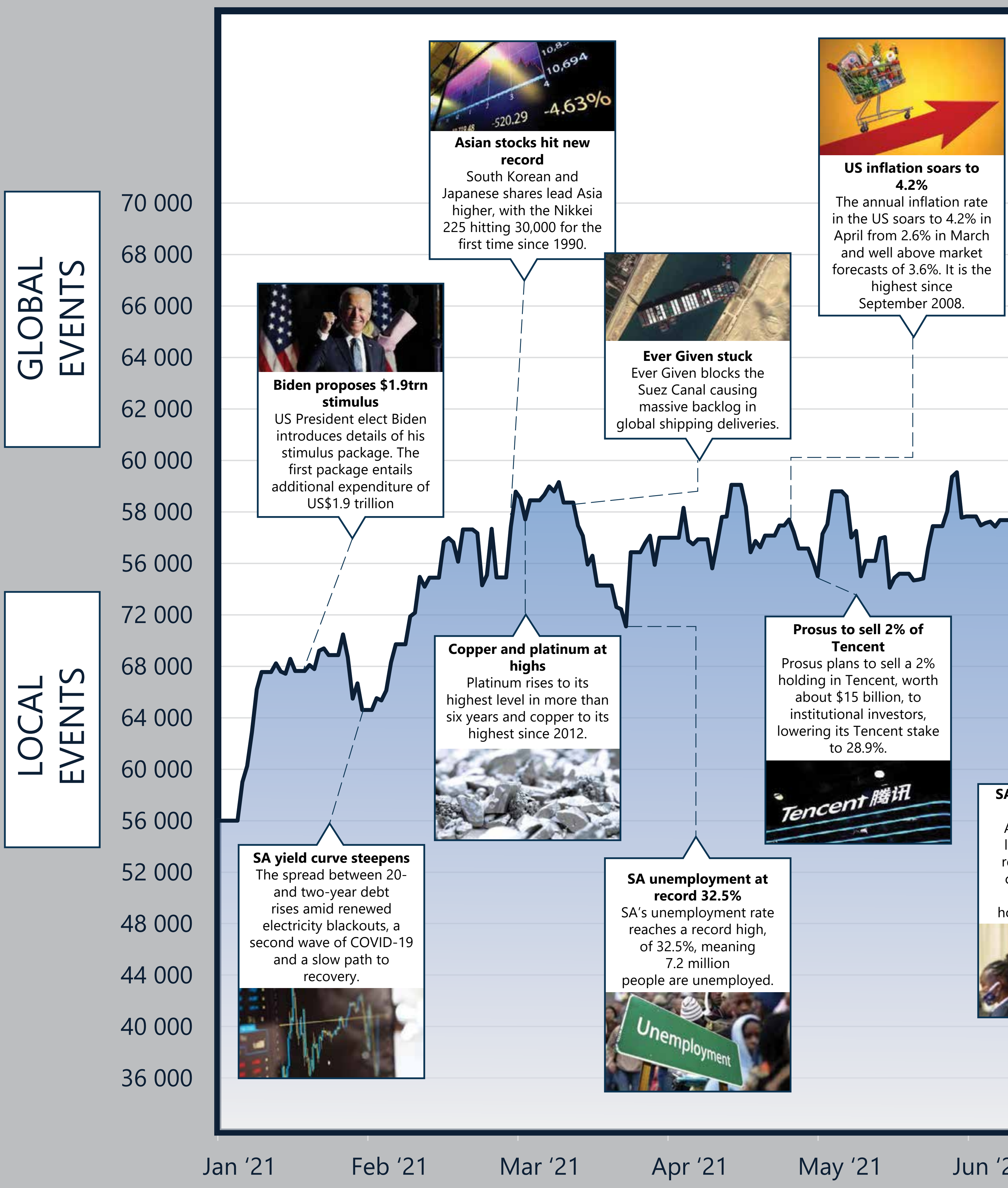
During last year, what surprised us most in markets was the continued steepness of the yield curve and no meaningful yield compression despite various encouraging developments, which we believe improves South Africa's risk profile compared to the recent past and our emerging market peers. We have also been surprised by how long it is taking for the climate transition to be reflected in asset prices despite greater urgency in dealing with climate change.

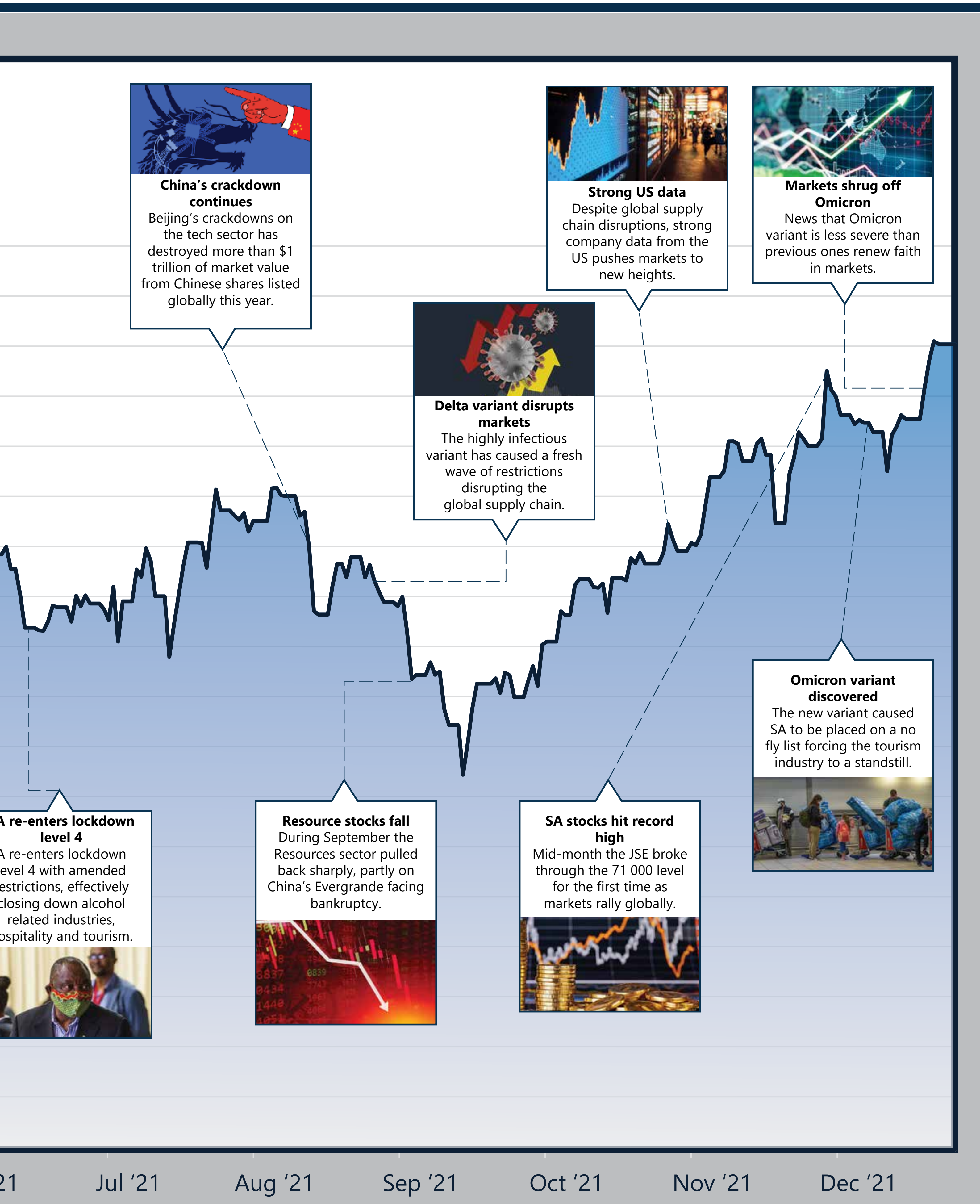
In conclusion, we believe that 2020 and 2021 have been a stark reminder of the importance and benefit of remaining invested in a well-diversified portfolio and having exposure to a broad mix of managers that think differently about the world. This combination has historically proven effective in our portfolios over the long term.

Andriette Theron, Head of Research

Talking Points

Year in review





Source: PPS Investments and JSE All Share Index

Outlook for 2022

The global outlook appears particularly uncertain today. Markets are preoccupied with how quickly central banks will need to raise short-term interest rates, and remove the unprecedented monetary stimulus put in place to mitigate the impact of the COVID-19 pandemic. Closer to home, South Africans are dealing not only with monetary tightening from the South African Reserve Bank (SARB), but digesting the implications of the first instalment of the Zondo Commission, and whether this might finally be the catalyst for much needed structural reform.

As is often the case, it's worth reminding oneself that the start of 2021 was equally uncertain, and many investors could not have foreseen that the South African (SA) economy and stock market could have outperformed expectations so emphatically. So, while it's somewhat blithe to state that the future is always uncertain, it is important to remain disciplined and diversified, and stick to one's investment process.

What do we expect in 2022?

Late in 2021, the US Federal Reserve announced its intention to relax its quantitative easing programme, and start increasing short-term interest rates, perhaps as soon as March 2022. The change in policy threatens to remove a tailwind of excessively low interest rates that has been in place since the 2008 Global Financial Crisis. If sustained, it could have major implications for the pricing of most financial assets, which has been boosted by excessively low interest rates, and the policies of central banks globally.

Looking ahead, at least three interest rate increases from the US Federal Reserve are expected this year. The normalisation of short-term interest rates from unprecedently low levels, and possible need for central banks to hike more aggressively than anticipated, could introduce substantial volatility into the pricing of financial assets. In all the hype, it's easy to forget that the US Federal Reserve has deliberately been trying to get inflation back into the system, although the current spike is more substantial than it anticipated.

In fact, the market is looking through the current inflation, with consensus that neither inflation nor interest rates should settle significantly above 2% in the medium term. While such tightening may have implications for the pricing of some inflated financial assets, it's unlikely to derail the economic recovery and could in fact create opportunities for active asset managers to exploit.

It may be too soon to say that the US Federal Reserve will not pause in its tightening cycle if the market reacts poorly to further tapering or inflation fears prove overblown. While this needs to be monitored closely, we do not anticipate that the US Federal Reserve will have an aggressively tightening cycle.

The SARB indicated its intention to raise interest rates this year, with a possible 2.75% further hike, even if inflation proves to be well-contained. Such a trajectory is arguably unnecessary, especially if the US continues with negative short-term real interest rates. On balance, our view is that SA cash will remain unattractive compared to other SA asset classes.

We expect the global growth environment to remain positive for riskier asset classes and global growth to remain above trend. While consensus forecasts expect SA economic growth to revert to below 2% p.a. over the medium term, there is scope for positive surprises, particularly if some of the confidence-enhancing recommendations from the first instalment of the Zondo Commission are implemented. Moreover, the transition to a greener economy may provide an opportunity to reduce dependence on Eskom and China and attract additional investment. South Africa produces some of the commodities required for the transition, and the decarbonisation of our economy may provide a relatively quick win for far-sighted foreign investors.

In summary, we think it is too soon for investors to throw out the lessons learnt over the past decade and take substantial risk off the table. While the future is always uncertain, we believe there are still considerable opportunities for asset managers to exploit. Our disciplined multi-manager investment process is now in its fifteenth year and remains diversified across asset classes and managers to best deliver consistent outcomes to our clients.

David Crosoer, Chief Investment Officer

Forces driving the global supply chain crisis

Global supply chain concerns first emerged as COVID-19 induced lockdowns were enacted across the world during 2020. Manufacturing in many regions came to a grinding halt, at least until the necessary safety precautions could be implemented to protect against the pandemic. As we enter 2022, global supply chains are adjusting to a new normal as industries are rebuilding and managing this critical infrastructure underpinning the global economy. At the same time, the transportation industry is facing increasing pressure as consumers opt for online shopping while demanding faster delivery times. We unpack some of the factors contributing to this evolving situation.

Global manufacturing output returned to pre-pandemic levels by the end of 2020, but new challenges in 2021, including the Delta and Omicron variants and reduced access to vaccines in developing countries, further exacerbated the supply chain issues.

Three major forces are driving this crisis: COVID-19, climate, and geopolitics. Each factor has played a part in the semiconductor shortage that has deeply impacted automotive production worldwide. In addition, we have pockets of labour shortages adding to the existing strain on supply chains.

Pandemic-driven demand for consumer electronics diverted chips from car manufacturers, while extreme weather idled chip factories in Texas and threatened to do the same in Taiwan. COVID-19 restrictions interrupted production in Malaysia, while US tariffs and export bans ran down chip inventories in the US while prompting hoarding by Chinese buyers.

These same forces also contributed to Britain's energy crisis. COVID-19 and Brexit reduced the number of truckers available to deliver fuel while a lack of wind reduced renewable power at a time when natural gas reserves were low. China's economy has been tripped up by shutdowns intended to stamp out all outbreaks or meet carbon reduction goals, and coal shortages were aggravated by a punitive ban on imports from Australia for demanding an inquiry into the origins of the pandemic.

The global pandemic was a key contributor to the supply chain crisis, shutting down production, closing borders and driving workers out of the labour force. A mutating virus, vaccine hesitancy and China's zero-COVID-19 policy all mean the pandemic remains a threat to the supply chain. But it is expected to recede as natural immunity and vaccinations reduce the virus' lethality and governments concede that harsh restrictions and border closures have had a deep impact on the logistics infrastructure.

The supply chain crisis was precipitated by how integrated and efficient global production had become as businesses adopted outsourcing and offshoring, "just-in-time" inventories, and "capital-light" models that split design from production. The share of world trade accounted for by global value chains - in which a product crosses at least two borders - rose from 37% in

1970 to 52% in 2008, where it plateaued.

Today, companies and governments are waking up to the risks of dependence on far-flung suppliers and the absence of shock absorbers in vital links, from seaborne freight to electricity transmission.

Climate risks are likely to grow, because of both more frequent and extreme weather events as well as the transition to renewable energy, which lacks the capacity buffers of fossil fuels. The oil market is global, in that supply from one region can meet the demand in another. While the price of oil can be volatile, the supply almost never disappears thanks to spare OPEC capacity, private inventories, and government-maintained emergency reserves. Though less mobile than oil, natural gas can still be stored and exported in liquid form.

Protectionism has been intruding on supply chains since at least 2008 when the Doha round of global trade talks collapsed. The US-China trade war took those frictions to a new level. In its wake, the US, China and Europe are all pursuing self-sufficiency in key sectors, such as semiconductors and batteries. Other threats loom, such as green tariffs on high-carbon imports. Meanwhile, arbitrary import bans and detentions are now a routine part of China's foreign policy tool kit, as are export controls in the US.

Not all the pressures on supply chains are against globalisation. Technology continues to increase the potential to outsource, especially in services. Nonetheless, companies are likely to revisit practices they once took for granted, such as holding minimal inventories and sourcing key components from unstable regions. In a recent report, Bank of America equity strategists found companies in the S&P 500 Index had 2% more manufacturing locations in the US in 2000 compared with 2018, but 5% fewer in Asia.

Just as the 2008 Global Financial Crisis drove banks and regulators to prioritise resilience over efficiency, the current supply chain crisis will likely result in more resilient production networks, which are better able to withstand shocks but less able to delight consumers with more choices at lower costs.

The turmoil and uncertainty in the global supply chain is likely to have far-reaching consequences, from its effect on inflation to future production costs, and hence, profit margins of companies. However, some of these effects will be felt in the immediate future whilst others will have more enduring implications.

As investment professionals, we focus on the factors that affect performance over the longer term, while remaining cognisant of the short-termism that dominates news headlines. At PPS Multi-Managers, we remain focused on our investment process to navigate increasingly complex markets in an unbiased manner. We build sufficiently diversified portfolios backed by the skills and expertise of premium asset managers, with the aim of withstanding market volatility and are better placed to achieve investment objectives over the long term.

Anil Thakersee, Executive: Marketing and Business Development

Is inflation a sleeping giant?

The sleeping giant is a group of flat-topped hills in Ontario, Canada that looks like a giant lying on its back. Local legend says that the giant was turned into stone when the silver mine it was protecting was discovered. Sleeping giants, which can be likened to inflation, have an unrealised potential that can awaken at any time.

Inflation on the rise

Globally, inflation has started to increase for the first time in many years. The conservative argument about inflation is that it is transitory, which is what the US Federal Reserve has alluded to for much of last year. This effectively implies that current inflation is not permanent as it is coming off a low base caused by the slowdown during COVID-19 related lockdowns. In South Africa, inflation was 5.9% year-on-year as at the end of December 2021, up from the 5.5% increase recorded in the previous month. This is highest year-on-year increase since March 2017 when inflation grew at 6.1%. Like the US, South African inflation is also coming off a low base. The less benign argument is that years of low short-term interest rates and increased money supply is finally having an inflationary effect. In addition, the cheques handed out in the US during lockdown have been used by consumers on goods and not invested, as was the case previously when excess capital was mainly held by corporates.

The South African Reserve Bank (SARB) has an inflation target of 3% to 6% and inflation remains within the target band which should not normally trigger any concerns. However, the SARB has made it clear on several occasions that a point estimate at the mid-point of the target band is where long-term inflation will be aimed. Recently, the SARB governor mentioned the possibility of officially reducing the inflation target to 3% to reduce the long-term effect of a structurally high inflationary economy. While this may be commended as a noble aim, it was widely seen as too far of a stretch in expectations to be seriously considered.

Investors, including money managers, must weigh up these arguments and consider which asset classes would perform well under these possible scenarios. In an inflationary environment, it is likely that asset classes backed by tangible assets, like commodities and property, will perform well. In addition, inflation-linked bonds have a built-in inflation hedge. Asset classes that are likely to perform poorly are nominal bonds, as yields are expected to increase, and equities, as companies' above-inflation profit potential will decline. Cash becomes an important consideration as fixed cash investments real yield reduces, while floating-rate note investments will increase in tandem with any interest rate adjustments.

The key is not to be in a position where one is forced to choose between the two scenarios. There is a fair amount of uncertainty as to how inflation could play out, particularly over the short term, and the penalty for choosing the wrong direction may be material.

At PPS Investments, we aim to make asset allocation calls and construct portfolios that are adequately diversified to remain competitive regardless of the inflation (and corresponding short-term interest rate) outcome. Our portfolios hold a combination of inflation-linked bonds and nominal bonds, as well as meaningful exposure to general equities, resources, and property counters.

While we lean on the side that inflation is not likely to be permanently elevated, particularly in the medium term, and short-term interest rates should consequently remain low by historical standards, we're not making a one-sided call that this is how the scenario will play out. Experience has also taught us that sleeping giants should not be underestimated and should inflation awake, the PPS fund range will be suitably invested to manage that outcome.

Luigi Marinus, Portfolio Manager

Fund showcase: PPS Equity Fund

Studies show that most active asset managers end up underperforming the market over time. In South Africa, the job is potentially even more challenging because of the construct of the Johannesburg Stock Exchange (JSE). Firstly, the local equity market is relatively narrow, with the universe of investable shares having become considerably smaller over the years. Twenty years ago, there were over 600 companies listed on the JSE, but that number now stands at less than 300. Secondly, concentration poses another challenge, with the 50 largest JSE-listed stocks making up around 85% of its total market capitalisation. The investable universe is therefore relatively small, and the choices are limited.

Just like the structure of the JSE has changed over time, our approach to combining managers in creating a high-quality solution, like the PPS Equity Fund, has also evolved over the years, resulting in the fund outperforming its benchmark (FTSE/JSE Capped SWIX) over 3, 5 and 7 years, also ranking favourably on a peer-relative basis over these respective periods.

PPS Equity Fund	Year to date	1 year	3 years	5 years	7 years	10 years	since inception
PPS Equity Fund A	24.33%	24.33%	14.43%	8.72%	6.32%	9.65%	7.27%
PPS Equity Fund A2	24.98%	24.98%	15.03%	9.28%	6.87%		8.54%
FTSE/JSE Capped SWIX	27.08%	27.08%	10.91%	7.20%	6.26%	10.65%	1.04%
(ASISA) South African EQ General	26.73%	26.73%	11.76%	7.43%	5.87%	8.94%	0.87%

Source: PPS Investments, Performance as at 31 December 2021

Manager selection is key

As a multi-manager, our enhanced industry-leading asset manager research process gives us a distinct edge to focus our attention on finding exceptional managers with complementary strengths that meet our strict internal criteria. The domestic-only equity solution, PPS Equity Fund, is constructed from this distilled universe of asset managers, against the backdrop of the difficulties posed by the idiosyncratic SA equity market. The PPS Equity Fund is made up of a combination of active SA equity managers, each managing a segregated mandate wherein they implement their best SA equity investment view, while staying fully invested in SA equities. The manager combination is deliberate and seeks to overcome the challenges posed by the structure of the local market, with the goal of delivering more consistent returns relative to its FTSE/JSE Capped SWIX benchmark over time.

Elements of portfolio construction

From a portfolio construction perspective, we feel that that there are three important elements that need to be reflected in a fund like the PPS Equity Fund for it to succeed.

Firstly, because of the size of the SA market, we have developed a natural bias toward style-agnostic managers over highly style-biased managers, who face an even smaller investable universe and a high degree of cyclicality.

Secondly, we find that an element of benchmark awareness is useful in further improving the portfolio's overall "hit-rate" of outperformance over rolling periods, combined with proven benchmark-agnostic alpha generators.

And finally, in terms of capitalising on the opportunity set locally, our view is that managers who have both top-down and bottom-up strengths have an advantage in the SA market, which tends to be disproportionately driven by macro forces.

It is worth emphasising that highly style-biased managers are by no means less compelling in absolute terms, and that the lower tracking error characteristic, often associated with more benchmark aware managers, is by no means more desirable. The "Buy List" that we use includes managers of all types, which is implemented across the PPS portfolios. When it comes to the PPS Equity Fund specifically, we seek a specific combination of features that leads us to focus on managers with fewer constraints (e.g. style or size), and with a higher hit-rate of being able to capture more of the upside when the market is rising relative to downside participation.

Speaking to manager selection, the PPS Equity Fund is equally invested across three managers: **Ninety One, Fairtree Asset Management** and **Truffle Asset Management**.

- **Ninety One** combines both bottom-up and top-down elements in their process, which focuses on investing in reasonably valued shares where expectations of future profits are being revised upwards. For them, analyst earnings "upgrades" are a critical factor in share price trajectory. To get a more consistent return profile, the manager blends valuation (a longer-term, mean reverting fundamental factor) with earnings revisions (a shorter term, trending or behavioural factor). This allows the manager, at times, to have a momentum component to its portfolio. The manager is, however, willing to shift the portfolio fairly aggressively as circumstances change.

- **Fairtree** also utilises both bottom-up fundamental equity analysis, as well as top-down macroeconomic analysis, to construct a portfolio with a positive bias to reasonably priced leading companies in industries that are benefitting from prevailing economic conditions and a negative bias to companies that participate in industries that are adversely affected. Fairtree's ability to decisively reallocate capital to companies that benefit from changing economic conditions, has allowed them to perform through the cycle by moving between value and growth styles, as and when it becomes appropriate.

- **Truffle** is a valuation-based manager that constructs somewhat benchmark cognisant portfolios and benefits from a clear understanding of the macroeconomy and its effect on companies when positioning the portfolio. Although Truffle follows a valuation-based approach, they are unique in their ability to dial this either up or down as is appropriate. They are also willing to consider momentum in their stock selection decisions when necessary. Their overarching view is that the intrinsic value of a company is a function of the companies' normalised earnings, and they are willing to trade around intrinsic value for incremental gains. The manager seeks independent sources of return in the portfolio to improve diversification by not relying on one economic or company outcome.

Together these three managers combine well to incorporate all the elements which we consider important for a market-beating multi-managed solution. There is an appropriate balance of diversification and aggression, which is critical in creating a solution that is competitive and adds value.

Performance has been particularly strong since the equity market sell-off in early 2020, with Fairtree having been a key contributor.

Looking ahead, we are excited about the continued strong prospects for the PPS Equity Fund given the calibre of its underlying managers, as well as the prospects for the asset class, thanks to attractive starting valuations in SA.

Fund facts

The PPS Equity Fund is a carefully constructed multi-managed domestic-only equity solution. The portfolio is ideal as a stand-alone choice for investors with at least a 7-year investment horizon, seeking long-term capital growth, and who wish to be invested in the South Africa equity market. Alternatively, it can also be used as a South African equity building block in a multi-asset portfolio.

Visit www.pps.co.za/invest or click here to access the latest fund fact sheet and brochure.

Disclaimer: Ninety One, Fairtree Asset Management and Truffle Asset Management are authorised Financial Services Providers.

Reza

Reza Hendrickse, Portfolio Manager

Rewarding tax benefits

Investing for retirement through a retirement annuity (RA) is an effective and rewarding way to save for retirement because of the unique benefits offered. The most significant benefit is the fact that you can enjoy unparalleled tax savings, which you can use to boost your retirement savings.

Maximising the tax benefit

With an RA, you can contribute monthly or as a lump sum before the end of each tax year up to the limits set by SARS . The current tax year ends on 28 February 2022 and you can contribute up to 27.5% of your annual taxable income, subject to a maximum tax deduction limit of R350 000 per annum. The tax deduction limit applies to the cumulative annual retirement contributions, regardless of whether you saved in an RA, a pension fund or a provident fund.

Furthermore, SARS will not penalise individuals for contributions that exceed the allowable limits. The tax benefit can be carried forward to reduce tax liability in future tax years if you exceed the 27.5% maximum contribution limit. Ultimately, the more you top up your RA contribution for the tax year, the higher the tax benefit.

In addition to the tax-deductible premiums, RAs are exempt from tax on dividends and interest, and no Capital Gains Tax is payable on growth earned in the investment.

The tax benefits extend to when you reach retirement, where you can make a withdrawal, which can be up to one-third of your investment as a lump sum and where the first R500 000 is tax-free. Any lump sum withdrawal exceeding the R500 000 tax-free portion will be taxed according to the retirement tax tables. If you have more than one RA or retirement savings vehicle, the withdrawal limit applies to your total retirement savings amount.

Further benefits of a retirement annuity

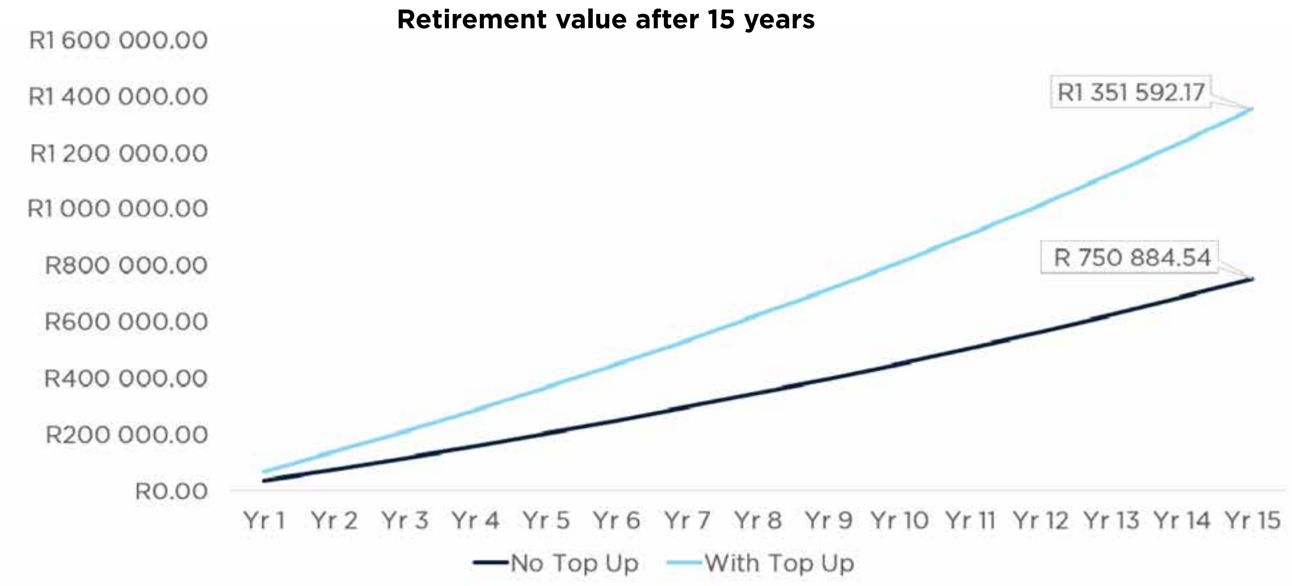
Not only does an RA offer tax benefits, but it is designed to provide a structured approach to saving towards retirement over time, along with features to help safeguard retirement savings.

One of the features of an RA is that your retirement savings are protected from creditors. This means that if you are declared insolvent, creditors are not allowed to access your retirement funding. Furthermore, your RA benefit is not subject to estate duty, allowing you to support your dependents and provide for those you leave behind.

Proof that RA top up pays

The biggest advantage of topping up your RA is that you will have boosted your retirement savings over the long-term, and the power of compound interest really takes full effect over time. You can further boost your retirement savings by reinvesting the tax rebate received from SARS, when you include your RA contributions in your tax return.

To show the impact of topping up, let's look at the graph. An investor earns an annual salary of R500 000 and contributes 7.5% of taxable income into her



Source: PPS Investments

For illustrative purposes only. Performance is not guaranteed. Growth at CPI+4%.

retirement annuity. She earns an annual bonus of R100 000. In one scenario, she does not top up her RA and in the other, she uses 30% of her bonus for the RA top up. The result is that after 15 years, her retirement savings grew by 80% more when compared to the scenario where she did not top up.

Deciding not to top up your retirement annuity in favour of having more disposable income can be tempting, but in the long run the benefits of topping up your retirement annuity far outweigh the decision not to.

More opportunity for tax savings

If you've taken advantage of all the tax benefits available through retirement annuity contributions, consider a tax-free investment that can help you reap even more tax benefits and bolster retirement savings.

Offering an investment option with zero tax on investment income or growth and no Dividend Withholding Tax (DWT), you can invest up to R36 000 per tax year until you reach the lifetime limit of R500 000.

While a tax-free investment is not designed to be your sole source of retirement savings, it presents an opportunity to boost your nest egg with a lump sum. The tax-free investment is not subject to Regulation 28 (part of the Pension Funds Act) which limits the percentage allocated across assets or asset classes offering more freedom around choosing investment options. It's important to note that if you exceed the annual or lifetime limit there are significant tax penalties that could erode the value of your investment.

As we approach the end of the tax year, you have a few weeks left to take advantage of the tax benefits available through your retirement annuity (RA) and tax-free investment account. Essentially, you can pay less tax while boosting your retirement nest egg or simply investing tax-free towards your goals.

Last chance to top up for tax benefits

Top up your retirement annuity or tax-free investment account before 28 February 2022 to enjoy rewarding tax benefits. As a PPS Investments client, register for or log in to our Secure Site (www.ppsisecure.co.za) to complete your top up securely online.

Speak to your accredited financial adviser for more information or contact us on 0860 468 777 or clientservices@ppsinvestments.co.za

Natalie Kiewitt, Executive: Operations

FUND PERFORMANCE

as at 31 DECEMBER 2021

			Cumulative		Annualised			
PPS Funds	**Assets under management**	**Morningstar Rating**	**QTD**	**YTD**	**1 Year**	**3 Years**	**5 Years**	**7 Years**
PPS Enhanced Yield Fund A2	R1,90Bn	****	1.20%	4.87%	4.87%	6.49%	7.36%	7.47%
(ASISA) South African Interest Bearing Short Term			1.18%	4.70%	4.70%	6.45%	7.26%	7.29%
PPS Flexible Income Fund A2	R1,47Bn	**	2.10%	6.75%	6.75%	6.57%	7.25%	7.51%
(ASISA) South African Multi Asset Income			1.87%	6.66%	6.66%	6.95%	7.27%	7.22%
PPS Conservative Fund of Funds A2	R2,30Bn	*****	5.98%	15.51%	15.51%	10.62%	8.85%	8.17%
PPS Defensive Fund A2	R0,59Bn	****	6.98%	19.89%	19.89%	10.16%	-	-
(ASISA) South African Multi Asset Low Equity			5.00%	13.53%	13.53%	9.04%	7.30%	6.81%
PPS Moderate Fund of Funds A2	R8,56Bn	****	5.94%	17.12%	17.12%	11.57%	8.78%	7.92%
PPS Stable Growth Fund A2	R1,91Bn	***	5.58%	17.12%	17.12%	10.13%	-	-
(ASISA) South African Multi Asset Medium Equity			6.67%	17.31%	17.31%	10.61%	7.75%	6.79%
PPS Managed Fund A2	R2,90Bn	*****	5.77%	21.31%	21.31%	15.40%	-	-
PPS Balanced Fund of Funds A2	R3,59Bn	****	7.81%	24.28%	24.28%	12.96%	9.22%	7.86%
PPS Balanced Index Tracker Fund A2	R1,30Bn	***	8.42%	23.82%	23.82%	12.03%	8.45%	-
(ASISA) South African Multi Asset High Equity			7.29%	20.31%	20.31%	11.49%	8.00%	6.97%
PPS Equity Fund A2	R4,57Bn	***	8.47%	24.98%	24.98%	15.03%	9.28%	6.87%
(ASISA) South African Equity General			9.46%	26.72%	26.72%	11.75%	7.44%	5.87%
PPS Global Balanced Fund of Funds A2	R1,03Bn	*****	8.54%	17.24%	17.24%	16.36%	12.77%	-
(ASISA) Global Multi Asset High Equity			8.51%	17.38%	17.38%	15.77%	10.99%	10.70%
PPS Global Equity Feeder Fund A2	R0,59Bn		12.54%	27.03%	27.03%	-	-	-
(ASISA) Global Equity General			9.41%	22.85%	22.85%	21.68%	14.86%	13.25%
PPS Global Equity Fund A USD	$0,29Bn		6.16%	16.66%	16.66%	-	-	-
MSCI All Country World Index USD			6.68%	18.54%	18.54%	20.38%	14.40%	10.90%
PPS Worldwide Flexible Fund of Funds A2	R0,51Bn	****	6.56%	17.53%	17.53%	16.35%	11.62%	9.43%
(ASISA) Worldwide Multi Asset Flexible			8.13%	19.78%	19.78%	14.52%	9.83%	8.89%

Significant period

Visit www.pps.co.za/invest or click on the fund name to access the latest fund fact sheet.

Talking Points

KEY PERFORMANCE INDICATORS

as at 31 DECEMBER 2021

	Cumulative		Annualised			
Domestic Indices	**QTD**	**YTD**	**1 Year**	**3 Years**	**5 Years**	**7 Years**
FTSE/JSE Capped SWIX All Share Index	8.68%	27.08%	27.08%	10.91%	7.20%	6.26%
FTSE/JSE All Share Index	15.13%	29.23%	29.23%	15.71%	11.38%	9.18%
FTSE/JSE Basic Materials	*22.29%*	*31.90%*	*31.90%*	*27.19%*	*22.87%*	*16.89%*
FTSE/JSE Financials	*2.50%*	*29.59%*	*29.59%*	*1.56%*	*2.88%*	*3.39%*
FTSE/JSE Industrials	*5.20%*	*30.72%*	*30.72%*	*-1.88%*	*-1.76%*	*0.01%*
FTSE/JSE All Property	8.42%	38.63%	38.63%	-3.80%	-5.21%	-2.01%
FTSE/JSE All Bond Index	2.87%	8.40%	8.40%	9.12%	9.06%	7.97%
FTSE/JSE Inflation Linked Bond Index	5.09%	15.45%	15.45%	7.27%	4.96%	4.93%
SteFI Composite ZAR	0.98%	3.81%	3.81%	5.49%	6.25%	6.44%
CPI	0.98%	5.47%	5.47%	4.06%	4.40%	4.76%
International Indices	**QTD**	**YTD**	**1 Year**	**3 Years**	**5 Years**	**7 Years**
MSCI All Country World Index USD	6.68%	18.54%	18.54%	20.38%	14.40%	10.90%
MSCI World (Developed Markets) USD	7.77%	21.82%	21.82%	21.70%	15.03%	11.53%
MSCI Emerging Markets USD	-1.31%	-2.54%	-2.54%	10.94%	9.87%	6.11%
S&P 500 USD	11.03%	28.71%	28.71%	26.07%	18.47%	14.93%
FTSE World Government Bond Index USD	-1.10%	-6.97%	-6.97%	2.75%	2.94%	1.80%
FTSE EPRA Nareit Developed Rental USD	11.71%	28.74%	28.74%	12.96%	8.02%	6.51%
ICE U.S. Treasury Short Bond USD	-0.01%	0.05%	0.05%	1.16%	1.24%	0.98%

Notes:

1) All performance reported in ZAR unless otherwise specified

2) Performance longer than one year is annualised. Annualised performance is average return earned on an investment each year over a given time period.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