Talking Points

The offshore edition

Quarterly client publication by PPS Investments | Quarter 1: 2022 | EDITION 55


Grown men and women
too afraid to breathe easy,
tying masks on children
too young to tie their shoelaces.
It's 1941 when PPS starts protecting professionals' livelihoods.
Over 80 years later, nothing's changed.
Read about the R1.4 billion in COVID-19 claims and R4.4 billion in total claims paid out to our members, in the PPS 2021 Financial Results. Visit pps.co.za/2021.
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PPS is a licensed life insurer, controlling company and FSP.

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A welcome from the Chief Executive

Nick Battersby, Chief Executive

Welcome to the 55th edition where we cover events from the first quarter.

After more than two years, the National State of Disaster has finally been lifted in South Africa with only three lockdown rules remaining in place during the 30-day transition period until the end of April. COVID-19 remains a highly transmissible disease, and its impact continues to extend across all spheres of life: medical, financial, social, and more. Resurgence in China and the resultant stricter lockdown measures in some cities highlights that fact that we cannot let our guards (or masks) down just yet.

Further afield, it has been a turbulent start to the year. The Russia-Ukraine conflict continues to dominate headlines and the ripple effect is being felt globally. While these two countries have relatively smaller GDPs in the European Union context, the conflict between the two has had larger, far-reaching repercussions.

The sanctions imposed on Russia have placed upward pressure on energy and food prices, intensified inflation concerns, exacerbated the global supply chain crisis that started during the pandemic-induced lockdowns, and have driven commodity prices to rise rapidly. All of which does not bode well for the UK's economic growth trajectory anticipated at the end of 2021. In a more microscopic view, **Anil Thakersee, Executive: Marketing & Business Development,** delves deeper into what these ripple effects could be for South Africans.

Another major focal point was the escalating inflation levels globally and the debate around whether inflation will be transitory or not was finally concluded. Central banks, locally and abroad, have entered their interest rate hike cycle, which is a headwind to growth at a time when global trade disruptions and sanctions are a threat to inflation, according to **Reza Hendrickse, Portfolio Manager**, who reviews the macroeconomic climate, key events, and insights on market performance in his quarterly commentary.

What has also come to the fore is the market volatility experienced for the year thus far coupled with mounting uncertainty, particularly during March when the conflict that was building then led to a full-scale Russian invasion in Ukraine. As we move through the market cycles, it's important to acknowledge that markets recover after these events and holding diversified portfolios with the long-term view can provide a level of comfort to weather these periods of volatility while being agile enough to allow space for tactical opportunities that may present themselves.

Diversification is widely available and most commonly sought via unit trusts or Collective Investment Schemes (CIS), and for this important topic, **Andriette Theron, Head of Research**, gives a breakdown of some of the principles one should consider when seeking to use unit trusts to improve the risk-return profile of a portfolio.

Continuing the conversation of considerations for portfolio construction, we share more information on the recent prudential limit increase issued by the South African Reserve Bank (SARB) which essentially has widened the scope for more foreign exposure in South African portfolios, which is particularly significant for retirement fund investments. **Wesley Davids, Executive: Governance** unpacks the detail around these changes in his regulatory update, while **David Crosoer, Chief Investment Officer** shares our considerations, approach, and phased implementation of this into the PPS multi-managed fund range. Following on this theme of all things offshore, we invited partnership manager for the PPS Global Equity Fund, **Capital Group**, to give us an international perspective on the Russia-Ukraine conflict while sharing how the Fund is positioned to weather this storm.

Bringing it closer to home, I'm pleased to share that the latest PPS Group results have once again shown the mettle of this 80-year-old business where our priority is serving our members and lending support in their time of need. For the 12 months ended 31 December 2021, PPS allocated R5.5 billion as Profit-Share to our valued PPS members. This is a pleasing result, against a backdrop of COVID-19 where our focus was on paying valid claims. Due to the strong operating profit and solid investment performance, we are able to share the success meaningfully with our valued PPS members. For more on the results, visit our website to view the full integrated report and other supporting material.

Many members consider Profit-Share to be an important part of their financial plan. Maximising its benefit can be even more rewarding. One of the ways to do so is through investing with PPS and **Natalie Kiewitt, Executive: Operations** explains how to unlock these value-added benefits, not only as an individual, but as a family, too.

The future remains uncertain and markets unpredictable. As always, we advocate for taking the long-term view and seeking to make tactical moves only if and when there is a really compelling case. With the apparent limited conviction in the market currently, it reminds me of late-March 2020, when the sentiment was down, and we called for resilience and courage. Now, we've come full circle to another March riddled with market volatility and uncertainty. Our stance then, and our stance now, remains the same. Stay focused on the long term and remain invested. This too shall pass.

Nick

Navigating global crosscurrents

Reza Hendrickse, Portfolio Manager

What were some of the key themes shaping this quarter?

Global financial markets suffered a setback this quarter, after a strong year in 2021. The quarter began with worries about the shift in US Federal Reserve rhetoric, which implied that they no longer consider higher inflation as being transitory; the implication being that the outlook for monetary policy had become more hawkish. In a further dent to sentiment, geopolitical tension between Russia and Ukraine culminated in a full-blown invasion of Ukraine, because of Russia's strong opposition to Ukraine's wishes of joining NATO.

The rest of the world responded with economic sanctions on Russia, and energy prices skyrocketed, with Russia being a key oil producer, a major supplier of natural gas to Europe, and also an important supplier of agricultural commodities to developing nations. This further stoked inflation fears, while also denting the global economic outlook, which was later also threatened by renewed COVID-19 concerns in China. Back home, the environment was more benign, with the equity market proving resilient, the economy muddling along, and the National Budget in February instilling confidence.

How did the markets perform?

The South African (SA) equity market, as measured by the FTSE/JSE Capped SWIX, bucked the global trend by posting an impressive rise this quarter (+6.7%) despite global negativity, building on its solid 2021 performance. Financials (+20.2%), led by banks, were the best performers, followed closely by Resources stocks (+18.2%) which benefitted from strong commodity prices, while Industrial shares declined for the quarter (-13.9%), as Naspers and Prosus came under pressure. SA government bonds were up, with nominals (+1.9%) outperforming inflation-linked bonds (+0.3%), while SA listed property on the other hand declined (-1.6%).

Although most major domestic asset classes were up this quarter, foreign asset classes were mostly down, with their weakness compounded by the local currency's strength. Foreign equities fell in rands (-13.4%), with both developed markets (-13.2%) and emerging markets (-14.8%) coming under pressure. Growth stocks were among the worst performers, but even relatively cheaper European markets fell sharply, given the conflict in Ukraine. Outside of equities, global listed real estate also declined (-12.5%), while global bonds (-14.4%) provided no safety, given the steady rise in US Treasury yields over the quarter to levels last seen in 2019.

Tell us about the economic backdrop

At the start of the year the global economy looked poised to grow comfortably at above-trend pace once again, but after the events of this quarter, there is sufficient grounds to be more cautious on the outlook. Firstly, monetary policy looks set to tighten more aggressively than initially anticipated, in response to persistently high inflation. Secondly, the war in Ukraine is having far-reaching indirect consequences, despite Russia and Ukraine together making up only 3.5% of global GDP, and only 0.2% of G7 exports. And lastly, the recent re-introduction of lockdowns in China are once again proving disruptive to global supply chains.

The key question is "how much can we expect growth to slow?". Are we facing a stagflation scenario of slower growth, high inflation, and potentially rising unemployment, or perhaps even a recession? One of the most reliable recession indicators, being the US yield curve (specifically the difference between 10-year and 2-year bond yields) is flashing red, with the curve having inverted recently, which is adding to market worries. Fluctuations in the business cycle are normal, but what makes this time unique is that there is limited scope for policy intervention from central banks and governments, given the past decade of ultra-stimulative policy.

As a result, central banks around the world, including in SA, are hiking interest rates, and the US Federal Reserve (US Fed) is preparing to shrink its balance sheet, which has swelled through asset purchases, referred to as Quantitative Easing. This is a headwind to growth at a time when global trade disruptions, including the impact of Russian sanctions, are a risk to inflation. This is most evident in the sharp rise in energy prices, where Russia is a key player, historically providing 12% the world's oil. It is too soon to tell how all this will play out, but what is clear is that there are more downside risks than upside at this point.

While the crosscurrents in global macro conditions are strong, the macro environment in SA is proving resilient, albeit a low growth steady state. Low single digit growth is persisting, and the SARB's response to modestly higher inflation has been gradual rate hikes. The ABSA Purchasing Managers Index recently reached its highest level since COVID-19, confirming relatively lively economic activity. The mining sector is benefitting from high commodity prices, which has been positive for our trade balance and in turn for the rand. Strong commodity prices have also been helpful for the fiscus, through higher taxes on mining sector profits, with the National Budget in February showing an improvement in the sovereign debt outlook. Despite all of this, SA is dependent on the global economy, and we would not be insulated from any pronounced global economic weakness.

How are the portfolios positioned?

At the start of the year our multi-asset portfolios were positioned to benefit from expansionary economic conditions by holding a fair amount of domestic and foreign equity. This is after having altered the mix of equities across client portfolios last year, by up-weighting SA equity and down-weighting foreign equities somewhat. SA equity's value-proposition still lies in its "cheapness", however, foreign equity's attractiveness, which relied more on the strength of the global cycle, is certainly being challenged.

Our view is that we are now late-cycle and that a more cautious stance is warranted, and it is likely that we will further trim exposure to growth assets. This is being weighed up against the increase in the allowable foreign investment limits to 45% for pension funds, as announced during the National Budget Speech in February, which will allow the portfolios to hold structurally more offshore going forward, improving home-bias risk.

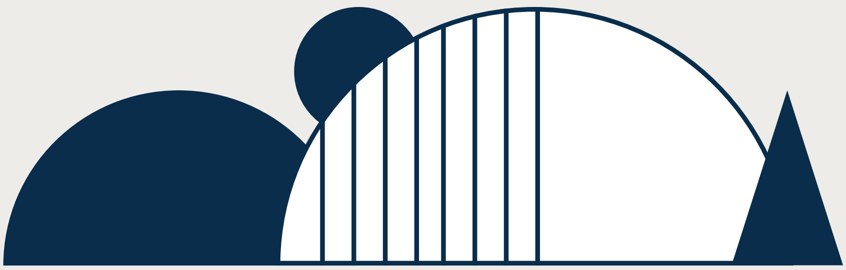
The decision to reduce equity should never be taken lightly, given its importance in delivering on the portfolios' long-term growth objectives. The intention is therefore not to be underweight total equity at this point, but rather to reduce the current tactical overweight to a neutral level compared to one's strategic asset allocation, in response to the deteriorating outlook. Global bond yields are rising to levels that are almost viable, and cash rates are also rising, and while neither are yet attractive in real terms, it is likely that the portfolios will reflect a more balanced foreign asset allocation in the future.

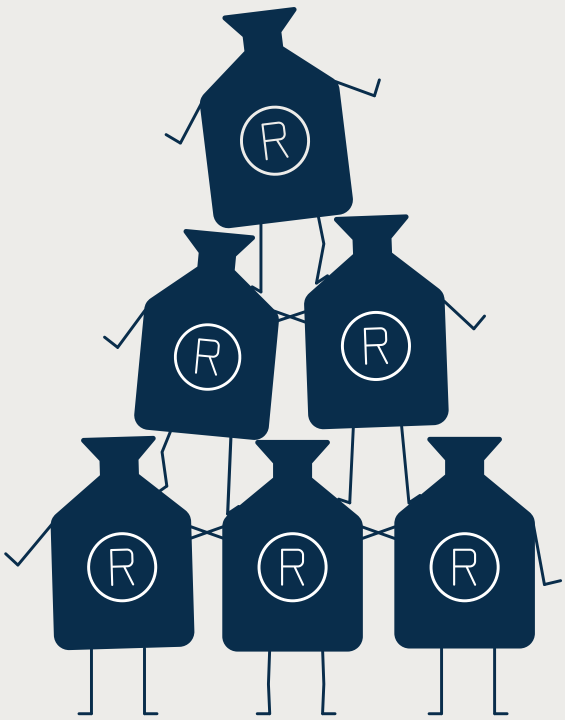
Looking ahead we acknowledge that the volatility witnessed across financial markets so far this year reflects the high degree of uncertainty and the broad range of potential outcomes we could face. In this environment where conviction is low, it makes sense to tone down any bold tactical views and to move closer to one's long-term strategic asset allocation, as the current market regime evolves. This is how we will be approaching the months ahead, while taking comfort in our diversified multi-manager approach that seeks to deliver compelling investment outcomes over the long term.

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

Enjoy, and let us know what you think.

Reza





Impact of the offshore limit increase on retirement portfolios

Wesley Davids, Executive: Governance

In South Africa, retirement fund investments are required to comply with Regulation 28 of the Pension Funds Act. Regulation 28 limits the extent to which retirement funds may invest in asset classes, particularly those asset classes which are considered to have a greater degree of market risk associated with them. The main aim is to protect the members' retirement fund investments from inadequate diversification and to ensure that it is not exposed to undue market risks. Members of the PPS Retirement Funds may invest in Collective Investment Schemes (CIS). In order to be considered Regulation 28 compliant, CIS must comply with the asset exposure limits set out in the Regulation 28 and foreign asset exposure limits as determined by the South African Reserve Bank (SARB).

Changes to these limits were first announced during the 2022 National Budget Speech on 23 February 2022. Thereafter, on 25 February 2022 the SARB published the Exchange Control Circular No. 10/2022, which detailed changes to the prudential foreign investment limits for South African institutional investors, in that foreign exposure of all retail assets, such as pension funds, may not exceed 45%.

It's important to note that the recent prudential limit increase is not directly related to the proposed amendments to the Regulation 28 of the Pension Funds Act, issued in terms of Government Gazette No. 45396 of 2021, which is focused on pension funds' ability to invest in infrastructure, hedge funds and crypto assets.

Off the back of these changes, a Regulation 28 compliant CIS portfolio will now be permitted to have aggregate exposure, as shown in the table alongside.

Regulation 28 limits

Asset class	Previous exposure limit	New exposure limit
Cash	100.00%	Unchanged
Equity	75.00%	Unchanged
Offshore	30.00%	45.00%
Listed property	25.00%	Unchanged
Private equity funds	15.00%	Unchanged
Africa	10.00%	Combined with offshore limit
Hedge funds	10.00%	Unchanged
Other assets [1]	2.50%	Unchanged

[1] All other assets not referred to in Table 1 of Regulation 28, and excluding hedge funds, private equity and crypto assets.

Impact of change to offshore limits

Regulation 28 compliant CIS portfolios will be permitted to invest up to 45% of the portfolio value offshore. Previously, the limit was 30% globally and an additional 10% exposure limit for investments in other African markets (outside of SA). These limits have been combined into one foreign prudential limit of 45% and the limit applies to all pension funds, insurance companies and investment funds.

SA portfolio classification updated

The Association for Savings and Investment South Africa (ASISA) Fund Classification for South African portfolios has been amended to accommodate this increase, as follows:

> "***South African Portfolios***: *These are collective investment portfolios that invest at least 55% of their assets in South African investment markets.*"

This means that SA retirement fund members, who are able to choose their underlying investments based on the rules of the particular retirement fund, may now take advantage of the opportunity to invest a greater portion of their retirement fund investment(s) offshore.

Revisit portfolios

The industry has for many years advocated for an increase in offshore limits with respect to Regulation 28 portfolios and the change has been largely welcomed. We encourage investors to consult with their financial adviser to help them make informed decisions in relation to their investment objectives and ensure that their retirement investments meet their criteria accordingly. As a platform, we have implemented the offshore limit increases across our systems, including the PPS Investments Secure Site.

> ***"The industry has for many years advocated for an increase in offshore limits with respect to Regulation 28 portfolios and the change has been largely welcomed."***

Wesley

Unlocking opportunities created by the offshore limit increase

David Crosoer, Chief Investment Officer

Investing offshore is an important part of any long-term investment strategy. It offers diversification beyond the opportunity set available via South African markets, which represents less than 1% of global equity markets.

For local investors, the scope for diversifying offshore excluding Africa was previously limited to 30% for Regulation 28 portfolios (mandated for retirement and pension fund investments) but the recent amendments announced in the National Budget Speech in February has increased the allowable foreign investment limits or offshore allocation limits to 45%. This presents an opportunity for increased offshore exposure.

Let's unpack the approach we've taken in shifting our strategic asset allocation (SAA), which is the long-term focus and considered to be the main contributor to achieving the funds' risk and return objectives. It's important to note that we are implementing this change over time in the PPS multi-managed fund range.

Approach to revised SAA

As a multi-manager, we employ both South African and global asset managers, and make use of specialist asset managers. Further relaxation of exchange controls will allow us to implement meaningful changes to our own SAA framework which will have an impact on how we access our specialist asset managers and have significant implications for our clients.

Importantly, compared to before, we will now equal-weight global equities relative to SA equities across all our SAA that have inflation targets. This is a significant change for us and imply our neutral allocation to equities will be split equally between SA and global asset managers across all our specialist mandates.

The equal weight between SA and global equities will not remove the home-bias to SA equities, but it will reduce it. We view the SA equity market as highly concentrated and reducing its weighting in our portfolios relative to foreign equities, will help mitigate both stock-specific risk and climate-transition risk over time. Of course, tactically we can still overweight SA equities relative to global equities, but our portfolios will generally be better diversified over time.

In contrast, our SAA to global fixed interest remains low, despite the relaxation of exchange controls, even at lower risk portfolios, where we will continue to significantly favour SA fixed interest over global.

"We are excited about how our SA multi-asset managers will differentiate themselves in playing in this new universe, and how we can successfully combine them across our portfolios to improve client outcomes."

There is no single right answer as to how best to incorporate the new regulations in client portfolios. Like many SA managers, we currently favour SA equities, but our preference will be tempered by our new SAA, and the opportunities our global asset managers are finding. Asset managers themselves are also likely to change their own SAA, and each may solve this in different ways, depending on their own internal capabilities and how they wish to enhance return or reduce risk.

A multi-manager aims to combine managers to achieve more consistent returns. We are excited about the greater opportunity set we can now access, especially through our specialist capabilities, but also about how our SA multi-asset managers will differentiate themselves in playing in this new universe, and how we can successfully combine them across our portfolios to improve client outcomes.

Revised SAA for PPS multi-managed funds

The material relaxation of foreign exchange controls allows for a less-constrained SAA providing us the opportunity to overweight global assets.

At PPS Multi-Managers, our new SAA increases the neutral allocation of foreign equities relative to South African (SA) equities, especially for funds at the higher end of the risk spectrum. We aim to take a carefully considered approach and transition over time, particularly as we shift from our previous SAA that favours SA equities over foreign equities.

Ripple effect of the Russia-Ukraine conflict

Anil Thakersee, Executive: Marketing and Business Development

The consequences of the war in Ukraine are profound. It's a humanitarian crisis with lives lost and many people displaced. The regional conflict is already having global ramifications, and coupled with the sanctions imposed on Russia, will continue to impact global trade and commodity markets in the months ahead. Food and energy prices are central to inflation cycles and remains a major theme for financial markets as many countries around the world are posting multi-decade inflation highs.

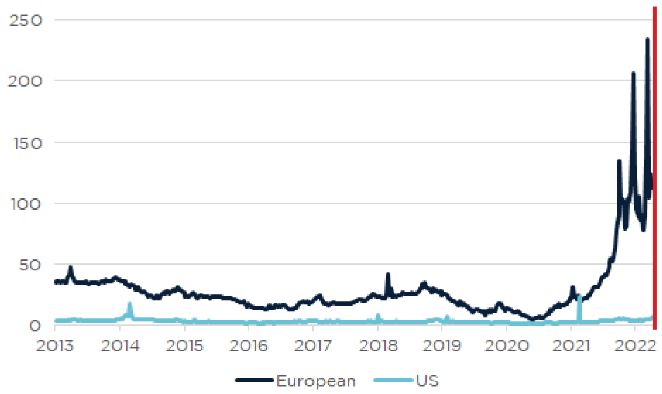
Economic impact

Global inflation was on an upward trajectory prior to the war in Ukraine. The supply side of the global economy and trade was impacted by the pandemic and ensuing lockdowns. To some extent, the war in Ukraine represents a continuation of these global economic challenges, acting as a headwind to the global recovery and placing further upward pressure on inflation. While Ukraine may not be a significant trading partner for the major economies, places such as China, Europe and South Africa represent some of the major trading partners for Russia.

The Ukrainian and Russian economies are key suppliers of commodities, including titanium, palladium, wheat, corn, gas and oil. Disruption to the supply chain of these commodities is already filtering through to prices paid by consumers, hence impacting disposable income.

Brent Crude Oil ($US barrel)

European & US Natural Gas ($US/MMBtu)



Corn & Wheat ($US/bushel)

Metal Index

Source: Refinitiv Datastream / PPS Investments

Russia invades Ukraine

Strong international economic sanctions on trade imposed on Russia are another channel through which the global economy is hampered. These restrictions have caused the price of brent crude oil to increase by more than 50% since the start of 2022 with the West turning to places like Venezuela and the Middle East as alternative suppliers.

While some commodity producing countries may benefit from higher prices at a national level, such as, in the current account, consumers across the world are feeling the impact.

Impact on South Africa

Emerging economies, such as South Africa, will be impacted by these disruptions. Governments of emerging economies are limited in their ability to stimulate struggling sectors in the economy while people rarely have sufficient savings or income to handle price increases.

The impact of the conflict between Russia and Ukraine is already being felt by South Africans in a myriad of ways. With sharp increases in fuel and electricity prices already plaguing consumers, many South Africans will now need to tighten their proverbial belts further to cover rising food costs. The war has raised fears of global food insecurity as these countries are major exporters of grains, oilseeds, fertilisers and crude oil.

Russia is the world's third top producer of crude oil and oil, which is South Africa's largest import item. Hence, the sharp rise in oil prices globally has increased local fuel prices significantly. Currently hovering around record-high levels, the fuel price is anticipated to rise even further in the near future.

Cooking oil has also seen a sizeable increase in local prices. While South Africa has a healthy supply crop, it still isn't enough to satisfy local demand and as such, we remain a net importer of sunflower oil. Both Russia and Ukraine account for some 18% - 40% of global exports of sunflower oil, so it is no surprise that we are starting to feel the heat. Vegetable oil also forms the base of many other household products, shampoo, cosmetics, margarine and even paint, so we could see increases in many consumables.

Looking at the major inflation cycles in history, food and energy have typically been the main drivers of these cycles due to their broader impact on the price of all goods and services.

With Ukraine set to start planting crops during April/May, depending on how the war progresses, come September harvest season the longer-term impacts may be felt. Between Russia and Ukraine, they account for more than a quarter of the wheat exports and South Africa imports around 30%, so any disruption in supply could impact prices in wheat-based products, such as cereal and bread.

Investment landscape

It is important to note that markets are a discounting mechanism and some of these implications could already be priced into markets. While at the same time, the full effect and visibility of geopolitics, sanctions and trade implications may take some time to emerge.

Diversification remains a critical underpin to any investment strategy and blending different asset classes in a portfolio has historically shown to be effective in reducing volatility over time. In addition, the blending of different asset managers provides further diversification, as in the multi-manager offering.

While we are constantly exposed to news flow, long-term investing is about filtering out the noise, avoiding kneejerk reactions to events that shift the market and remaining focused on your strategic investment goals.

Anil

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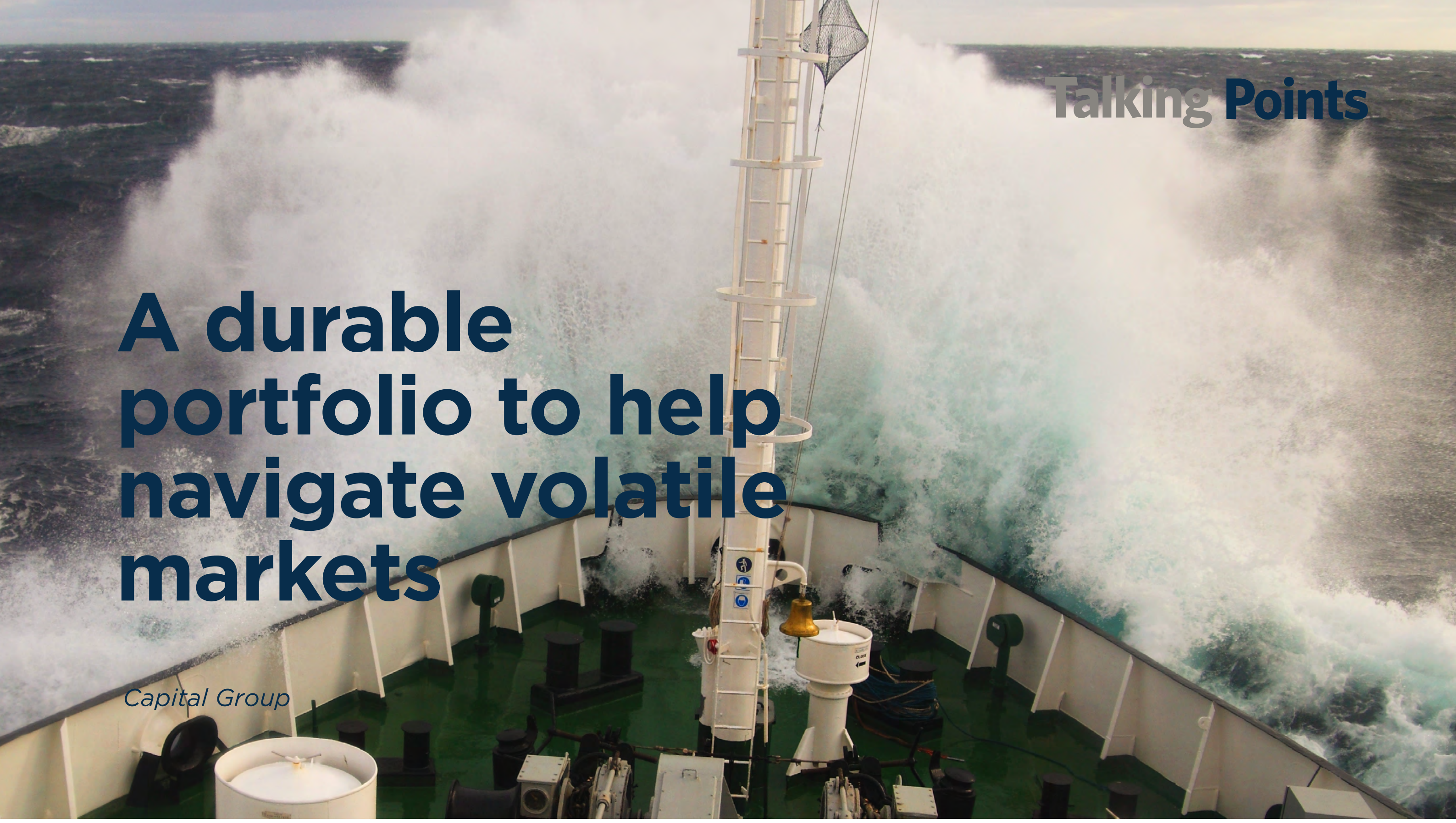


A durable portfolio to help navigate volatile markets

Capital Group

Russia's invasion of Ukraine has sent shockwaves through the world. In addition to the tragic impact on the Ukrainian people, the conflict has potentially significant economic impacts. The sanctions that have been put in place against Russia – coupled with the highly unpredictable situation – have resulted in considerable market volatility.

At the start of the year, we were looking at a global economy that was recovering from the Omicron COVID-19 variant. Activity was picking up; we were seeing a recovery in consumer spending and business investment. Yet we are now facing an environment of significantly higher commodity prices, which could persist for longer than many would anticipate. It will likely raise inflation and reduce economic growth, posing a challenging problem for policy-makers.

Yet, while the short-to-medium term might seem uncertain, over longer periods of time, stocks have tended to move steadily higher. History tells us that stock market declines are an inevitable part of investing, but an important perspective to keep in mind is that market corrections (defined as a decline of 10% or more), bear markets (an extended decline of 20% or more) and other challenging patches haven't lasted forever.

Market downturns happen frequently but don't last forever

Standard & Poor's 500 Composite Index (1952 - 2021)

Size of decline	-5% or more	-10% or more	-15% or more	-20% or more
Average frequency*	About three times per year	About once per year	About once every three years	About once every six years
Average length†	43 days	110 days	251 days	370 days
Last occurrence	October 2021	September 2020	March 2020	March 2020

As at 31 December 2021. Sources: Capital Group, Standard & Poor's

** Assumes 50% recovery of lost value*

† Measure market high to market low

Using the Standard & Poor's 500 Composite Index as a representative index for the market, data from 1951-2021 shows that it has typically dipped at least 10% about once a year, and 20% or more about every six years. While past results are not predictive of future results, each downturn has been followed by a recovery and a new market high.

It's always important to maintain a long-term perspective, but especially when markets are declining. Although stocks rise and fall in the short term, they've tended to reward investors over longer periods of time.

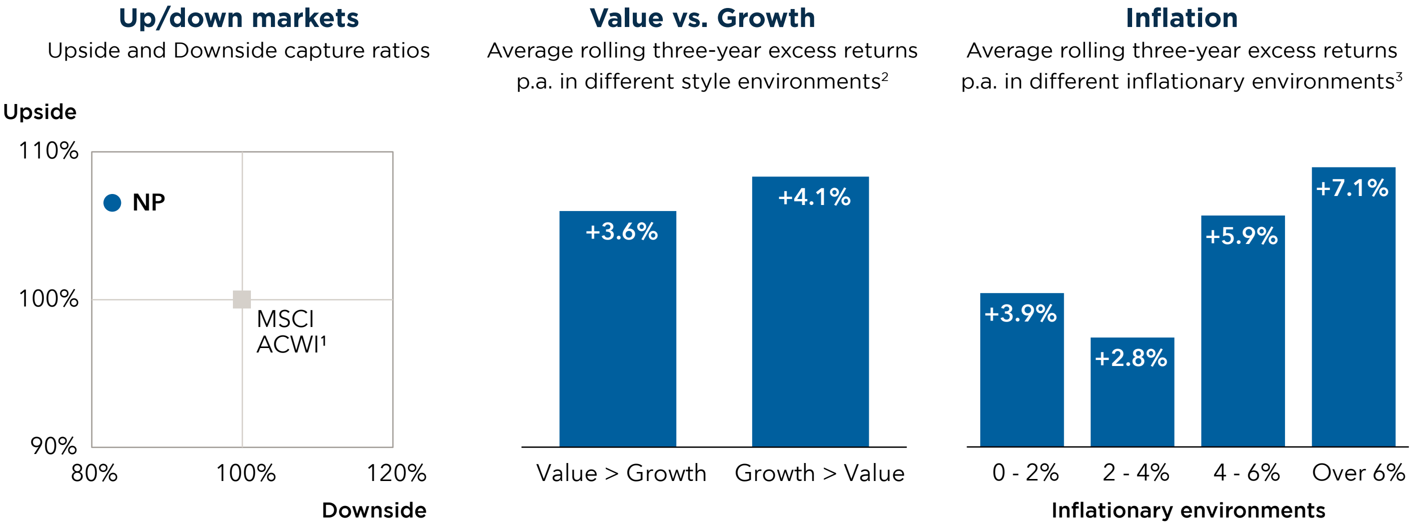
A track record of resilience

The PPS Global Equity Fund is based on the Capital Group New Perspective Strategy*, which across its 48-year history has successfully invested through change. Over its lifetime, it has navigated the 1970s energy crisis, various inflationary environments, unprecedented swings in exchange rates, seismic shifts in the structure of the global economy, multiple recessions and financial bubbles, unparalleled monetary policy experiments and the COVID-19 global health pandemic.

Throughout these periods of significant market upheaval, the portfolio has demonstrated long-term resilience and consistency in its excess return generation.

New Perspective Strategy's excess returns across a variety of market environments

Since inception in 1973



Past results are not a guarantee of future results.
As at 31 December 2021. Returns in US$ terms. Results shown for the Capital Group New Perspective Composite (NP) (inception: 31 March 1973) are asset-weighted and based on initial weights and monthly returns. Relative returns calculated geometrically for the Capital Group New Perspective Composite, compared with MSCI All Country World Index (ACWI) (with net dividends reinvested) from 30 September 2011; previously MSCI World (with net dividends reinvested). Gross of management fees and expenses. Sources: Capital Group and MSCI, unless otherwise specified.

1. MSCI ACWI (with net dividends reinvested) from 30 September 2011; previously MSCI World (with net dividends reinvested).
2. Relative return of MSCI ACWI World Growth and MSCI ACWI World Value (with net dividends reinvested) used to determine when "value outperforms growth" and "growth outperforms value" from 30 September 2011; previously MSCI World (Growth and Value).
3. Based on US inflation rates using the IA SBBI US Inflation index.

Source: CFA Institute

Chart 1 – Up/down markets: positive excess returns

Since inception, and over three-, five-, 10- and 15-year time periods, the strategy has consistently captured more than 100% of the upside when equity markets are rising. This means it has outpaced the MSCI ACWI index when markets have rallied in those periods. Importantly, it has also shown resilience in down markets, capturing less than 100% of the downside when global markets declined, offering investors some relative downside protection when markets fell in the same periods.

Chart 2 – Different style-driven environments: positive excess returns

The portfolio is a core, flexible strategy that has outpaced the global equity market during every major prolonged style-driven market cycle since 1975. The exception to this was the three-year period in the mid-1980s, which was primarily due to the portfolio being underexposed to Japanese-listed companies at the height of the Japanese equity bubble, rather than any type of style-driven market environment. Overall, the strategy has delivered attractive long-term excess returns in both value-driven and growth-driven markets.

Chart 3 – Different inflationary environments: positive excess returns

Although it has never been constructed based on a single, top-down view of inflation, the strategy has often outpaced global markets across different inflationary environments, from deflation to low inflation to high inflation.
With economic growth in 2022 likely to be slower than 2021 and inflation expected to remain at elevated levels – in part due to increasing geopolitical uncertainties – the result could be a different environment to the narrow market, (primarily driven by large-cap growth stocks,) of the past few years.

A long-term approach for uncertain markets

While the extent of the latest developments in Russia and Ukraine remains unclear, it is worth remembering the
importance of portfolio diversification and a long-term perspective.

One of the New Perspective strategy's most distinguishing and enduring features is the consistency and resilience of return generation in different market environments over the longer term. The strategy has historically outpaced global equity markets through up and down markets, during prolonged style-driven cycles and in different inflationary environments. This has been achieved by a deliberately well-balanced portfolio rather than one based on a small number of top-down binary outcomes. The portfolio maintains a long-term investment horizon and a structurally flexible approach.

We believe these characteristics will be particularly relevant for investors looking for guidance through volatile markets, such as those we have witnessed so far in 2022.

***Please note the strategy performance does not in any way reflect the performance of the PPS Global Equity Fund.**

CAPITAL GROUP℠

Talking Points

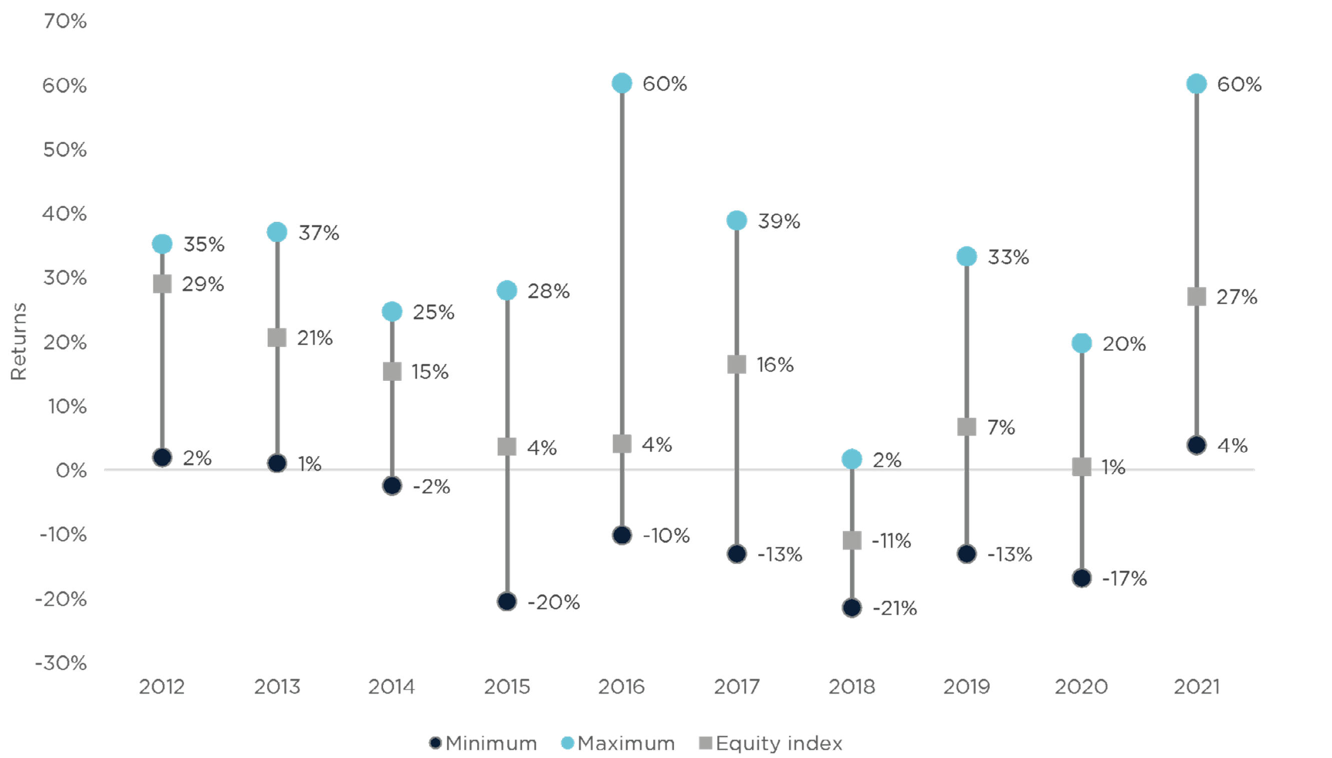
How unit trusts help reduce risk

Andriette Theron, Head of Research

Diversification within the asset management industry can be applied on different levels and can take many forms within an investment solution. With close to R3 trillion invested in collective investment schemes in South Africa, investors are already taking advantage of the diversification benefit on offer by unit trusts. Single-managed funds add value by spreading risk across a broad portfolio of instruments. However, the key market drivers of a fund's performance result and time horizon of those drivers differ significantly and are often not broadly understood.

The chart below shows all the funds included in the ASISA (South Africa) General Equity category for each of the past 10 calendar years. Even though most funds included in this category aim to outperform some version of a market capitalisation-weighted index consisting of a limited number of stocks listed on the JSE, the range of returns delivered by these funds is very wide for each of the calendar years under review.

(ASISA) South African equity general category



Source: PPS Investments, Morningstar, at 31 March 2022.

For illustrative purposes only. Past performance is not indicative of future performance.

Despite investing in a diversified fund, the investor could still be exposed to manager specific risk due to the underlying manager's investment style, their approach to portfolio construction and/or their views on how best to take advantage of the prevailing investment environment.

From the relative ranking table alongside, it is also clear that it is unrealistic to expect a fund to perform well all the time. Each colour represents one of the 15 largest equity funds currently available in South Africa, while each column represents the relative ranking of the fund in a calendar year.

We can see from the random distribution of colours, that it is indeed impossible to predict with any confidence who the best performing manager will be over the next 12-month period purely by looking at recent performance.

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Fund A	Fund N	Fund A	Fund N	Fund M	Fund A	Fund K	Fund M	Fund A	Fund M
Fund B	Fund E	Fund O	Fund G	Fund C	Fund D	Fund O	Fund A	Fund N	Fund D
Fund C	Fund C	Fund G	Fund O	Fund L	Fund C	Fund M	Fund N	Fund E	Fund I
Fund D	Fund D	Fund I	Fund F	Fund A	Fund E	Fund N	Fund E	Fund O	Fund N
Fund E	Fund H	Fund L	Fund B	Fund K	Fund F	Fund A	Fund H	Fund G	Fund H
Fund F	Fund F	Fund F	Fund J	Fund E	Fund J	Fund B	Fund C	Fund C	Fund G
Fund G	Fund I	Fund J	Fund D	Fund D	Fund L	Fund G	Fund O	Fund B	Fund O
Fund H	Fund O	Fund N	Fund A	Fund G	Fund H	Fund L	Fund G	Fund H	Fund F
Fund I	Fund B	Fund H	Fund L	Fund H	Fund O	Fund D	Fund B	Fund K	Fund K
Fund J	Fund A	Fund D	Fund I	Fund I	Fund B	Fund I	Fund K	Fund L	Fund L
Fund K	Fund L	Fund B	Fund E	Fund J	Fund G	Fund H	Fund I	Fund F	Fund C
Fund L	Fund G	Fund E	Fund H	Fund F	Fund N	Fund C	Fund L	Fund D	Fund J
Fund M	Fund K	Fund M	Fund K	Fund O	Fund I	Fund F	Fund F	Fund J	Fund E
	Fund J	Fund C	Fund C	Fund B	Fund K	Fund E	Fund J	Fund M	Fund A
	Fund M	Fund K	Fund M	Fund N	Fund M	Fund J	Fund D	Fund I	Fund B

Source: PPS Investments, Morningstar, at 31 March 2022.

For illustrative purposes only. Past performance is not indicative of future performance.

Even with this in mind there have been numerous studies showing that investors often react irrationally and make poor investment decisions when disappointed by their own short-term returns.

A study was conducted by Fidelity Investments on its Magellan Fund which was managed by the well-respected Peter Lynch from 1977 to 1990. Over this 13-year period, the Fund delivered an average return of 29% per year. The study found that the average investor over this period lost money despite the phenomenal returns delivered by the fund. They concluded that the main reason for poor returns achieved by the average investor in the Fund was the tendency to withdraw from the fund during periods of poor performance only to reallocate capital to the Fund after periods of success.

Instead of trying to time the market by actively trading in and out of funds, we take a long-term, through-the-cycle view and construct solutions that have meaningful exposure to a combination of exceptional managers with distinct return drivers.

Investors can fully extract the diversification benefit by investing in a solution where manager blending is done by combining different but complementary manager strategies.

With more than 1500 unit trusts available in South Africa, diversification is readily available. However, extracting the full diversification benefit that is available is not a straight-forward task and requires extensive resources and a deep understanding of the underlying strategy.

At PPS Investments, we offer a range of single- and multi-managed funds that are carefully researched and constructed to suit most investment needs, risk appetite and time horizon. Through our multi-manager philosophy and in-depth research, investors gain access to exceptional asset managers combined into one solution. We blend an appropriate combination of investment styles and asset classes, which are best suited to take advantage of opportunities at different times in the cycle, thereby offering optimal diversification in portfolios.

Andriette

Talking Points

Benefits of family investing

Natalie Kiewitt, Executive: Operations

The financial challenges due to the current economic climate have underscored the importance of investing towards financial sustainability – as an individual and as a family. Investing as a family offers the opportunity to build wealth collectively for posterity, allowing intergenerational wealth and wisdom transfer.

At PPS Investments, we've looked at some of the ways to help you and your family make the most of your investments through value-added benefits.

Investing as a family could afford access to reduced fees

Investing as a family through the PPS Investments Family Network, means that the more you and your family invest with us, the more you could save on ongoing administration fees. This fosters a culture of saving by encouraging your family to invest as part of a Family Network to qualify for reduced administration fees.

Even if you invest by yourself (and not alongside any family members) by consolidating your investments on our platform, your total investments will determine the administration fee applicable as shown below.

Investment amount	Ongoing administration fee (excl. VAT)
First R1 500 000	0.50%
Next R3 500 000	0.20%
Above R5 000 000	0.10%

1. The Allan Gray Money Market Fund and PPS Enhanced Yield Fund both charge a fixed administration fee of 0.4% (excl. VAT). Investments into both these unit trusts are excluded when applying the sliding scale.
2. An additional administration fee of 0.15% (excl. VAT) p.a. is applicable to amounts invested in the PPS Managed Share Portfolio.

A PPS Investments Family Network in action

Family members	Investment	Individual administration fee*
John (Core Investor)	R3 900 000	0.32%
Spouse	R2 200 000	0.40%
Daughter	R36 000	0.50%
Son	R36 000	0.50%
Father-in-law	R5 000 000	0.29%
Mother-in-law	R1 200 000	0.50%

*all administration fees are excluding VAT

John's Family Network	
Family market value	**Reduced administration fee for family****
R 12 372 000	0.18%

**reduced administration fee that will apply to each family member

The more you and your family invest with us, the more *everyone* benefits.

Family investing could add to profit allocation for PPS members

Under the ethos of mutuality, PPS shares 100% of its profits with you, as a qualifying PPS member, and you have an opportunity to get more Profit-Share:

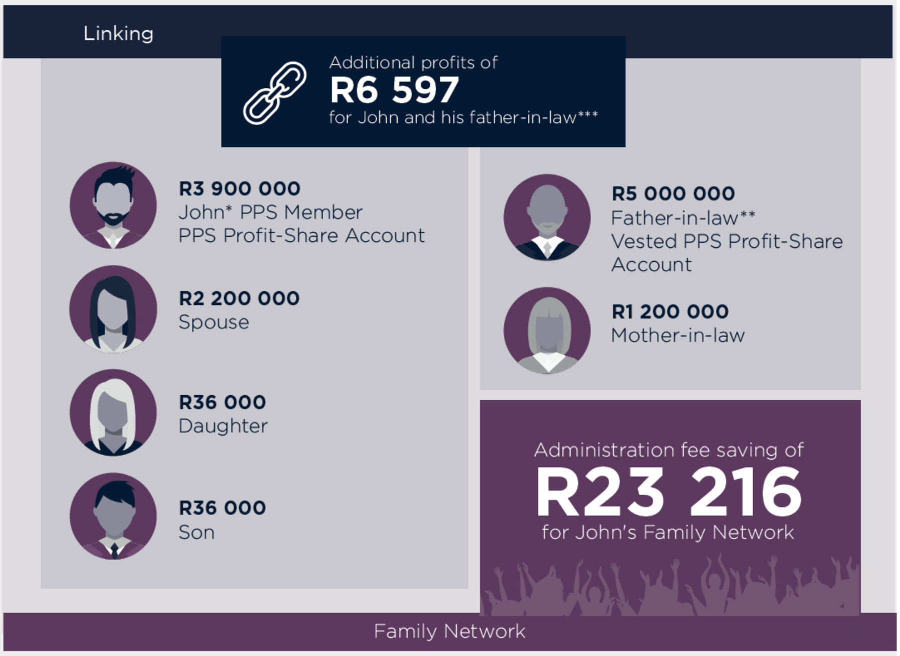
- By Linking family members' investments to increase your Profit-Share allocation.
- When choosing PPS funds and retirement and savings solutions (allocations will be received on both).
- From products held across the PPS Group through the PPS Profit-Share Cross-Holdings Booster. The more products you hold, the more Profit-Share you could get.

The benefit of investing as a family with PPS

To illustrate the effect of maximising these benefits available to you and your family, we've shared an example below.

John receives a PPS Profit-Share Cross-Holdings Booster from holding a qualifying life product and other products from across the PPS Group.

John gets profit share allocation from PPS Investments product and funds from all the Linked family members' investments.



Assumptions

** Core member of PPS Investments Family Network and Linking. Assume everyone is 100% invested in PPS funds. Based on Profit-Share declarations for the 12 months ending 31 December 2021. Source: PPS Investments.*

Meet John, who is a qualifying PPS member. By linking his spouse, son and daughter, parents-in-law's investments, he earns more Profit-Share allocation.

John also creates a PPS Investments Family Network and connects the same family members. Because of this, all the family members benefit from a reduced administration fee.

Collectively, the benefit of family investing means that the family members will save **R23 216** in administration fees due to Family Network, and John will get additional profits of **R22 451**.

Go tax-free as a family

Tax-free investing has been around for about seven years. It offers the opportunity for individuals to invest up to R36 00 per tax year, and R500 000 during their lifetime.

When investing as a family, the limits can be considered from a family perspective. As an example, a family of four can invest up to R144 000 (R36 000 x 4) and the lifetime limit as a family is R2 million (R500 000 x 4). Added to that is the tax-free growth and compounding effect over the long term that could maximise the benefits available. Once the lifetime limit is breached for minor children, they will not be able to make further use of this tax-free benefit. The limits apply to all tax-free investments across product providers. For those considering consolidating their family's investments with one provider, the great news is that full or partial transfers between providers do not have an impact on the contribution limits.

Start investing as a family today

Building financial sustainability starts with fostering a culture of saving as a family, especially during these times as many are looking for solutions that will make the money that they have invested work harder for them.

For more information, contact your financial adviser to find out how to maximise family investing with PPS Investments.

Visit www.pps.co.za/invest for more information or click on the links below.

FUND PERFORMANCE

as at 31 MARCH 2022

PPS Funds	Assets under management	Morningstar Rating	Cumulative		Annualised			
			QTD	YTD	1 Year	3 Years	5 Years	7 Years
PPS Enhanced Yield Fund A2	R2.01Bn	****	1.2%	1.2%	4.9%	6.2%	7.2%	7.4%
(ASISA) South African Interest Bearing Short Term			1.2%	1.2%	5.0%	6.2%	7.0%	7.2%
PPS Flexible Income Fund A2	R1.35Bn	**	1.1%	1.1%	7.0%	6.2%	7.0%	7.4%
(ASISA) South African Multi Asset Income			1.1%	1.1%	6.8%	6.5%	7.1%	7.1%
PPS Conservative Fund of Funds A2	R2.22Bn	*****	-1.4%	-1.4%	10.4%	8.5%	8.2%	7.5%
PPS Defensive Fund A2	R0.59Bn	****	-0.7%	-0.7%	13.4%	8.9%	-	-
(ASISA) South African Multi Asset Low Equity			-0.9%	-0.9%	8.7%	7.3%	6.7%	6.1%
PPS Moderate Fund of Funds A2	R8.51Bn	****	-0.6%	-0.6%	10.2%	9.2%	8.2%	7.3%
PPS Stable Growth Fund A2	R1.89Bn	***	-1.7%	-1.7%	7.4%	7.7%	-	-
(ASISA) South African Multi Asset Medium Equity			-1.2%	-1.2%	9.9%	8.3%	7.0%	6.0%
PPS Managed Fund A2	R2.92Bn	*****	1.8%	1.8%	14.2%	14.2%	-	-
PPS Balanced Fund of Funds A2	R3.76Bn	****	-0.6%	-0.6%	13.9%	10.2%	8.7%	7.2%
PPS Balanced Index Tracker Fund A2	R1.38Bn	***	-0.1%	-0.1%	15.0%	10.3%	7.9%	-
(ASISA) South African Multi Asset High Equity			-1.2%	-1.2%	10.7%	9.0%	7.2%	6.1%
PPS Equity Fund A2	R6.72Bn	***	7.1%	7.1%	16.6%	15.2%	10.1%	7.3%
(ASISA) South African Equity General			4.1%	4.1%	17.6%	11.2%	7.8%	5.7%
PPS Global Balanced Fund of Funds A2	R1.13Bn	*****	-14.2%	-14.2%	-1.4%	6.8%	9.0%	-
(ASISA) Global Multi Asset High Equity			-12.3%	-12.3%	0.2%	7.7%	7.6%	7.8%
PPS Global Equity Feeder Fund A2	R0.59Bn		-16.4%	-16.4%	4.5%	-	-	-
(ASISA) Global Equity General			-14.1%	-14.1%	-0.2%	11.1%	10.5%	9.8%
PPS Global Equity Fund A USD	$0.34Bn		-17.5%	-17.5%	2.2%	-	-	-
MSCI All Country World Index USD			-5.4%	-5.4%	7.3%	13.8%	11.6%	9.7%
PPS Worldwide Flexible Fund of Funds A2	R1.25Bn	****	-6.4%	-6.4%	3.4%	10.6%	9.8%	7.8%
(ASISA) Worldwide Multi Asset Flexible			-8.6%	-8.6%	4.0%	8.2%	7.4%	6.6%

Significant period

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

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.

KEY PERFORMANCE INDICATORS

as at 31 MARCH 2022

	Cumulative		Annualised			
Domestic Indices	**QTD**	**YTD**	**1 Year**	**3 Years**	**5 Years**	**7 Years**
FTSE/JSE Capped SWIX All Share Index	6.7%	6.7%	20.4%	11.9%	8.1%	6.3%
FTSE/JSE All Share Index	3.8%	3.8%	18.6%	14.2%	11.4%	8.9%
FTSE/JSE Basic Materials	*18.4%*	*18.4%*	*31.6%*	*27.3%*	*26.4%*	*19.3%*
FTSE/JSE Financials	*20.3%*	*20.3%*	*50.1%*	*8.2%*	*7.0%*	*4.6%*
FTSE/JSE Industrials	*-11.4%*	*-11.4%*	*2.1%*	*-4.5%*	*-3.4%*	*-1.8%*
FTSE/JSE All Property	-1.6%	-1.6%	26.3%	-4.7%	-5.7%	-3.8%
FTSE/JSE All Bond Index	1.9%	1.9%	12.4%	8.4%	8.9%	7.8%
FTSE/JSE Inflation Linked Bond Index	0.3%	0.3%	10.8%	7.2%	5.1%	4.9%
SteFI Composite ZAR	1.0%	1.0%	3.9%	5.2%	6.1%	6.4%
CPI	1.4%	1.4%	5.6%	4.4%	4.2%	4.9%
International Indices	**QTD**	**YTD**	**1 Year**	**3 Years**	**5 Years**	**7 Years**
MSCI All Country World Index USD	-5.4%	-5.4%	7.3%	13.8%	11.6%	9.7%
MSCI World (Developed Markets) USD	-5.2%	-5.2%	10.1%	15.0%	12.4%	10.3%
MSCI Emerging Markets USD	-7.0%	-7.0%	-11.4%	4.9%	6.0%	4.7%
S&P 500 USD	-4.6%	-4.6%	15.6%	18.9%	16.0%	14.0%
FTSE World Government Bond Index USD	-6.5%	-6.5%	-7.7%	-0.1%	1.3%	1.2%
FTSE EPRA Nareit Developed Rental USD	-4.5%	-4.5%	16.7%	6.5%	6.8%	5.2%
ICE U.S. Treasury Short Bond USD	-0.1%	-0.1%	-0.1%	0.9%	1.2%	1.0%

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.

Get in touch

If you need more information or would like to make an investment, please consult your PPS Investments accredited financial adviser.

Alternatively, feel free to contact us directly. We are ready to assist with any queries you may have.

Contact us on 0860 468 777
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or at clientservices@ppsinvestments.co.za.

www.pps.co.za/invest