



MANAGEMENT
COMPANY

**ABRIDGED
ANNUAL REPORT
UNIT TRUSTS 2022**

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Prem Govender

CHAIRPERSON'S REPORT

The period under review marks the 11th anniversary of the PPS Management Company. In a market shrouded with complexity, the business has experienced a steady growth. Inflows into the PPS Collective Investment Schemes have grown steadily with a 18% annual compound growth rate since inception. During the year under review, the retail inflows grew by 22% bringing the assets under management to R51.6 billion, achieving a 21% increase year-on-year.

The operating environment

The global economy grew below trend in 2022 and should decelerate further in 2023, as rapid increases in (developed market) short-term interest rates start to bite, and higher (energy) prices hurt consumer budgets. According to the Organisation of Economic Cooperation and Development (OECD), 18 out of 38 OECD countries experienced double digit inflation in 2022, while global growth is forecast to halve in 2022 to just above 3% p.a. and slow even further in 2023.

Fortunately, market expectations at the start of 2023 are that the global slowdown will be relatively mild, inflation will fall rapidly, and the US Federal Reserve (Fed) could be cutting rates by the end of the year. Having said that, the consensus is often wrong, and there are several tail risks that could drive market volatility this year, including escalating geopolitical risks and central bank and government policy error.

Last year, the US Fed hiked short-term interest rates seven times, and the South African Reserve Bank six times, and market consensus is that further rate hikes are warranted to bring inflation back towards their target bands. These interest rate increases work with a lag effect and in a recessionary outcome could well drive global economic growth below 2%, especially if China unsuccessfully manages its COVID-19-exit strategy, or the war in Ukraine escalates.

Notwithstanding the deceleration in global growth, the global economy is not on track to limit global warming to 1.5 degrees above pre-industrial levels (latest modelling based on current policies suggests we are on track for almost twice that amount), while the Russian invasion of Ukraine placed increased emphasis on short-term energy security over long-term sustainability, and the COP27 Conference on Climate Change underwhelmed in terms of countries making new climate commitments.

South African assets continue to have a strong valuation underpin, although it is hard to see a domestic catalyst that could unlock growth. In 2022, South Africa only made tepid progress

in structural reform and is still overly reliant on certain individuals (rather than robust institutions) to improve investor confidence.

Moreover, recurrent shocks to the economy have sapped its strength, and highlighted its fragility. The South African Reserve Bank now expects the SA economy to grow by less than 1.5% p.a. to 2025 with recurrent loadshedding and political inertia both providing profound headwinds.

On balance, we reduced our exposure to riskier assets in 2022 into strength and would look to continue this further in 2023 should markets rally. Going into 2023, we now have a neutral allocation to SA equities relative to our strategic asset allocation, and we remain underweight foreign equities.

Fund performance

Our PPS portfolios continued to provide meaningful returns to investors. All but one of the PPS fund of funds have delivered first or second quartile performance over five, seven- and 10-year investment periods, which can be attributed to our multi-manager approach, where we combine different but complementary manager strategies, enabling us to ride out short-term reversals and perform well in various environments.

The PPS Balanced Fund of Funds, PPS Managed Fund as well as PPS Defensive Fund have a five-star rating from Morningstar, and the PPS Moderate Fund of Funds and PPS Conservative Fund of Funds received four stars.

It is worth noting that, in the particularly uncertain environment that characterised the year, we became progressively more cautious in our response to the markets, increasing our exposure to global bonds and to both local and global cash while simultaneously reducing our exposure to property and equity.

Business review

A notable positive development is that most of the PPS funds with Morningstar ratings were awarded either 3, 4 or 5 stars. Among other initiatives, we fast-tracked the development of our AI-powered engagement engine and enterprise security platform, Ushur, which enables us to engage with investors through non-web-based channels.

Vote of thanks

In closing, I would like to extend my gratitude to the management and staff for their unwavering commitment and valuable contributions to deliver on these strategic objectives.



David Crosoer

INVESTMENT PERSPECTIVES

What were some of the key themes shaping this quarter?

Equity markets rebounded this quarter, ending a particularly volatile year.

During the quarter, Central Banks hiked interest rates further, and are expected to continue, despite the loss of momentum in economic growth. Optimism is however starting to creep in given that inflation might be peaking, which would pave the way for less aggressive monetary policy action.

Markets also took comfort from China relaxing its pandemic restrictions, as well as falling gas prices in Europe, while US economic growth proved resilient, and some corporate sectors reported results which beat expectations.

In South Africa, the JSE rallied while severe loadshedding persisted, weighting on sentiment. In a further blow, Eskom CEO, Andre de Ruyter, resigned highlighting the institution's formidable challenges. On a positive note, President Cyril Ramaphosa was re-elected as leader of the ANC, after being on the verge of stepping down in the wake of the "farmgate" scandal.

How did the markets perform?

The South African equity market (FTSE/JSE Capped SWIX) was down in December (-2.8%) but still managed to end the year positively (+4.4%), capped by a strong fourth quarter overall (+12.2%). Gains this quarter were broad based with resources (+17.6%), industrials (+17.0%) and financials (+13.9%) all rising meaningfully as global risk appetite improved.

Foreign equity (MSCI All Country Index) also ended higher this quarter, although dollar weakness dampened returns when measured in rands (+3.9%). Despite the bounce, foreign eq-

uities still ended the year sharply lower (-13.0%), negatively affected by inflation-driven, macro-economic concerns and geopolitical uncertainties.

Outside of equities, interest sensitive asset classes, such as domestic property (+18.2%) and nominal and inflation-linked bonds (+5.7% and +2.0% respectively) also rallied this quarter, unperturbed by the November interest rate hike. Foreign property and bonds were little changed (+1.2% and -1.7% respectively). Foreign bonds suffered a particularly poor calendar year performance (-12.9%), in line with equities, hurt by the significant rise in interest rates.

How have global growth forecasts changed?

One of the main concerns plaguing markets at the moment is the path of economic growth. Global growth forecasts for 2023 halved over the course of 2022, with consensus real GDP growth estimates declining from 4% a year ago, to around 2% now. This is mainly due to monetary policy tightening, aimed at combating high inflation, which is posing a headwind for growth. A further obstacle is the broader impact of Russia's invasion of Ukraine which has had ripple effects across energy markets especially.

Is a US recession likely?

Although inflation appears to be peaking, causing some investors to become optimistic that interest rates will soon come down, we remain circumspect. Indicators, such as the inverted US yield curve, the sharp decline in the Conference Board's Leading Economic Indicator and troughing US unemployment suggest to us that a recession of some sort is inevitable over the coming quarters. Fragility has also increased with financial conditions having tightened considerably, creating vulnerability towards any potential negative surprise event.

Is there anything to be positive about?

Pessimism is widespread, which is evident in sentiment readings, as well as fund manager asset allocation positioning. This suggests that a fair amount of economic weakness is now widely anticipated, and that markets may therefore already (at least partially) be pricing in a recession.

Secondly, the US economy, which is significant in the global context, appears to be growing at a reasonable pace, and for now the labour market still suggests a degree of underlying strength.

Against this backdrop, how has the local economy fared?

In the South African context, our economy appears to be muddling through surprisingly well given the challenges. The economy is expected to grow at around 2% in 2023, faster than major developed markets. Although inflation here has also risen and is currently outside of the target range, and rates are still rising, the economy has continued to grow. This is despite severe loadshedding, which remains a major constraint on output growth.

The political environment continues to be somewhat volatile, however, President Cyril Ramaphosa's re-election as leader of the ruling party should ease policy uncertainty.

What was the impact on fund performance?

The portfolios had a reasonably good year under the circumstances. Our specialist SA equity strategy, the PPS Equity Fund, performed well, and multi-asset funds with material SA equity exposure have benefitted as a result. The PPS Balanced Fund of Funds have also stood out, as have two funds from our partnership range: the PPS Managed Fund (36One) and the PPS Stable Growth Fund (Laurium).

Disappointingly, our specialist foreign equity strategy, PPS Global Equity Fund (Capital Group), lagged the foreign equity index this year and was a detractor in portfolios that hold foreign equity.

What portfolio positioning changes were implemented?

We downgraded SA equity in our tactical asset allocation houseview framework from overweight to neutral toward the end of the fourth quarter. With the SA equity market having rallied 20% off its recent lows, it was an attractive opportunity to continue along the measured path of de-risking into what we believe will be a challenging period ahead.

We also took the opportunity to slightly increase our foreign equity to "underweight". Although foreign equity valuations are now less frothy, we believe the bear case still dominates.

As a result, the portfolios are now slightly underweight growth assets, which we believe is appropriate given that major global economies are facing the high likelihood of a recession during the next year or so.

The counterargument to our view, and the main argument for a potential bull case, is premised on the consensus view of only a mild technical recession playing out. It also assumes the US Fed proactively cuts rates swiftly in response to cooling inflation. We are not convinced of either of these.

Firstly, consensus is usually wrong, and in this case, we believe that consensus is overly optimistic and that risks remain skewed to the downside, with the full economic impact of restrictive financial conditions not yet being felt. And secondly, even if consensus turns out right, then markets have not yet come to terms with the foreboding corporate earnings recession.

The bear case view on the other hand, is premised on the high likelihood of a full-blown recession in the US and Europe at the very least, filtering through to the rest of the globe, at a time when geopolitical risk (particularly Russia and China) remains high. Furthermore, our sense is the market might be incorrectly pricing in that policy rates will soon decline.

With corporate profit margins having only just started to compress, earnings risk casts a shadow over the potential for bond yield compression to underpin the equity market's current rating. And while we acknowledge that market sentiment may have capitulated, there is no evidence that capital market flows have, too. To make matters worse, flows no longer have the support of the "TINA" (i.e., "There Is No Alternative") undercurrent.

Looking ahead, what can we expect in 2023?

As we look ahead, one is inclined to be hopeful at the start of this new year, especially after the difficult 2022. This could indeed be rewarded over the near term given how far the pendulum has swung toward pessimism. In any event, with investors still jittery, the risk of continued heightened volatility remains high.

In this context, our somewhat cautious view attempts to look beyond the very near term and is being expressed across the portfolios by staying relatively close to strategic asset allocations across the funds, rather than making bold calls for now. In general, the portfolios currently hold enough growth assets to be able to participate should markets rally from here, and not too much in the event of further declines.

ABRIDGED FINANCIAL STATEMENTS

PPS FUNDS ABRIDGED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

	PPS Equity Fund	PPS Global Balanced Fund of Funds	PPS Worldwide Flexible Fund of Funds	PPS Balanced Fund of Funds	PPS Moderate Fund of Funds
	ZAR	ZAR	ZAR	ZAR	ZAR
Total assets	7 962 580 066	1 403 780 713	1 328 793 154	4 244 155 371	8 584 077 413
Total liabilities, excluding net assets attributable to unit holders	233 451 263	62 148 754	12 197 481	5 850 634	102 886 905
Net assets attributable to unit holders	7 729 128 803	1 341 631 959	1 316 595 673	4 238 304 737	8 481 120 508

	PPS Bond Fund	PPS Conservative Fund of Funds	PPS Flexible Income Fund
	ZAR	ZAR	ZAR
Total assets	8 122 600 010	2 184 607 798	1 352 987 224
Total liabilities, excluding net assets attributable to unit holders	542 385 354	23 025 199	31 791 719
Net assets attributable to unit holders	7 580 214 656	2 161 582 599	1 321 195 505

	PPS Global Equity Feeder Fund	PPS Balanced Index Tracker Fund	PPS Managed Fund	PPS Stable Growth Fund
	ZAR	ZAR	ZAR	ZAR
Total assets	818 108 646	1 507 584 951	3 296 808 451	1 930 865 513
Total liabilities, excluding net assets attributable to unit holders	416 065	56 799 432	91 964 412	49 062 092
Net assets attributable to unit holders	817 692 581	1 450 785 519	3 204 862 039	1 881 803 421

	PPS Defensive Fund	PPS Enhanced Yield Fund
	ZAR	ZAR
Total assets	662 840 477	4 285 792 165
Total liabilities, excluding net assets attributable to unit holders	21 922 423	28 342 856
Net assets attributable to unit holders	640 918 054	4 257 449 309

	PPS Institutional Multi-Asset Flexible Fund	PPS Institutional Multi-Asset Low Equity Fund
	ZAR	ZAR
Total assets	2 221 637 082	1 887 712 981
Total liabilities, excluding net assets attributable to unit holders	144 845 892	90 278 583
Net assets attributable to unit holders	2 076 791 190	1 797 434 398

PPS retail funds

PPS institutional funds

PPS FUNDS ABRIDGED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022

	PPS Equity Fund	PPS Global Balanced Fund of Funds	PPS Worldwide Flexible Fund of Funds	PPS Balanced Fund of Funds	PPS Moderate Fund of Funds
	ZAR	ZAR	ZAR	ZAR	ZAR
Change in net assets attributable to unit holders	307 850 640	66 449 838	22 349 806	89 945 764	314 480 121
Distribution of income	-307 842 717	-66 448 249	-22 348 540	-90 804 360	-314 476 710
Residual to be carried forward to future period or capitalised	7 923	1 589	1 266	-858 596	3 411
	PPS Bond Fund	PPS Conservative Fund of Funds	PPS Flexible Income Fund		
		ZAR	ZAR		
Change in net assets attributable to unit holders	540 063 876	97 552 311	84 579 200		
Distribution of income	-540 629 020	-97 553 817	-84 603 621		
Residual to be carried forward to future period or capitalised	-565 144	-1 506	-24 421		
	PPS Global Equity Feeder Fund	PPS Balanced Index Tracker Fund	PPS Managed Fund	PPS Stable Growth Fund	
	ZAR	ZAR	ZAR	ZAR	
Change in net assets attributable to unit holders	-5 536 787	55 219 498	128 485 873	84 949 998	
Distribution of income	-	-55 212 012	-128 487 983	-84 947 618	
Residual to be carried forward to future period or capitalised	-5 536 787	7 486	-2 110	2 380	
	PPS Defensive Fund	PPS Enhanced Yield Fund			
	ZAR	ZAR			
Change in net assets attributable to unit holders	36 091 471	202 451 576			
Distribution of income	-36 094 901	-202 449 513			
Residual to be carried forward to future period or capitalised	-3 430	2 063			
	PPS Institutional Multi-Asset Flexible Fund	PPS Institutional Multi-Asset Low Equity Fund			
	ZAR	ZAR			
Change in net assets attributable to unit holders	125 533 179	88 942 514			
Distribution of income	-125 535 559	-88 943 817			
Residual to be carried forward to future period or capitalised	-2 380	-1 303			

PPS retail funds

PPS institutional funds

REPORT OF THE TRUSTEE

31 January 2022

Abridged Report of the Trustee Standard Chartered Bank Johannesburg Branch

We, Standard Chartered Bank, in our capacity as trustee of the

PROFESSIONAL PROVIDENT SOCIETY COLLECTIVE INVESTMENT SCHEME (THE "SCHEME")

have prepared a report in terms of Section 70(1)(f) of the Collective Investment Schemes Control Act, 45 of 2002, as amended ("the Act"), for the period 01 January 2022 up to and including 31 December 2022 ("the Report"). The Report is available from us and/or

PROFESSIONAL PROVIDENT SOCIETY MANAGEMENT COMPANY (RF) (PTY) LTD (THE "MANAGER")

This letter is an abridged version of the Report.

Having fulfilled our duties as required by the Act, we confirm that the Manager of the Scheme has in general administered the Scheme:

- (i) within the limitations on the investment and borrowing powers of the Manager imposed by the Act, and
- (ii) in accordance with the provisions of the Act and the trust deeds.

We do however wish to bring to your attention the following instances of where the Manager has not administered the Scheme in accordance with the said limitations and provisions:

Some errors and timing differences resulted in contraventions of some of the limitations and provisions referred to in (i) and (ii) above. These contraventions were in our view not material and where appropriate, the portfolios were compensated by the Manager for any losses (if any) that may have been suffered by the portfolios as a result on these contraventions.

Should any investor require a copy of the Report, kindly contact the Manager.

Yours sincerely



Chantelle Kruger
Senior Manager, Trustee Services



Charl Steyn
Manager, Trustee Services

COMPANY INFORMATION

MANAGEMENT COMPANY

Professional Provident Society (PPS)
Management Company (RF) Proprietary
Limited

Registration number 2008/017040/07

PPS House, Boundary Terraces, 1 Mariendahl
Lane, Newlands 7700

CONTACT DETAILS

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Fax: 021 680 3680
Post: PO Box 44507, Claremont, 7735
Website: www.pps.co.za/invest

DIRECTORS

Executive Directors

NJ Battersby (CEO)
AJ Fraser (COO)

Non-Executive Directors

RG Govender (Chairperson, Independent)
DP du Plessis (Independent)
SM Gerber (Independent)
S Trikamjee (Independent)
AJ Woolfson (Independent) - resigned 01/04/2022
A Gounden (PPS CFO)
I Smit (PPS CEO)

COMPANY SECRETARY

B Parker

INVESTMENT MANAGER

Professional Provident Society Multi-Managers
Proprietary Limited (28733) is an authorised
financial services provider.

TRUSTEE

Standard Chartered Bank
4 Sandown Valley Crescent, Sandton,
Johannesburg, 2196

AUDITORS

Ernst & Young Inc is the newly appointed
independent external auditor in accordance
with section 90(1) of the Companies Act, 71
of 2008 for the manager. Ernst & Young Inc
approved by the shareholders on the 24th of
June 2022

BANKERS

Nedbank Corporate Services, South Wing,
Clocktower Precinct, V&A Waterfront, Cape
Town, 8002

Collective Investment Portfolios are offered by
the Professional Provident Society Management
Company (RF) Proprietary Limited, a wholly-
owned subsidiary of Professional Provident
Society Investments Proprietary Limited.

Professional Provident Society Insurance
Company Limited and its subsidiaries is an
ordinary member of the Association for Savings
& Investment SA (ASISA).

Copies of the relevant audited annual financial
statements are available, free of charge, on
request by any investor.

PPS RANGE OF COLLECTIVE INVESTMENT SCHEMES

- PPS EQUITY FUND
- PPS GLOBAL BALANCED FUND OF FUNDS
- PPS WORLDWIDE FLEXIBLE FUND OF FUNDS
- PPS BALANCED FUND OF FUNDS
- PPS MODERATE FUND OF FUNDS
- PPS BOND FUND
- PPS CONSERVATIVE FUND OF FUNDS
- PPS FLEXIBLE INCOME FUND
- PPS GLOBAL EQUITY FEEDER FUND (ZAR)
- PPS BALANCED INDEX TRACKER FUND
- PPS MANAGED FUND
- PPS STABLE GROWTH FUND
- PPS DEFENSIVE FUND
- PPS ENHANCED YIELD FUND
- PPS INSTITUTIONAL MULTI-ASSET LOW EQUITY FUND

DISCLAIMER:

The information, opinions and any communication from PPS Investments Group, whether written, oral or implied are expressed in good faith and not intended as investment advice, neither does it constitute an offer or solicitation in any manner. Furthermore, all information provided is of a general nature with no regard to the specific investment objectives, financial situation or particular needs of any person. It is recommended that investors first obtain appropriate legal, tax, investment or other professional advice prior to acting upon such information.

Collective Investment Schemes in Securities (CIS) are generally medium-to long-term investments. The value of participatory interests (units) may go down as well as up, and past performance is not necessarily a guide to future performance. CIS are traded at ruling prices and can engage in borrowing and scrip lending up to 10% of the market value of the portfolio to bridge insufficient liquidity. A schedule of fees and charges and maximum commissions is available on request from the manager. A CIS may be closed to new investors in order for it to be managed more efficiently in accordance with its mandate. The manager does not provide any guarantee either in respect of the capital or the return of a portfolio. Certain funds may be exposed to foreign securities and as such, may be subject to additional risks brought about by this exposure.

Performance has been calculated using net NAV to NAV numbers with income reinvested. Annualised performance is the average return earned on an investment each year over a given time period. Income is reinvested on the ex-dividend date. Actual investment performance will differ based on the initial fees applicable, the actual investment date and the date of the reinvestment of income and dividend withholding tax.

A feeder fund is a portfolio that invests in a single portfolio of a collective investment scheme, which levies its own charges, and which could result in a higher fee structure for the feeder fund.

A fund of funds is a portfolio that invests in portfolios of collective investment schemes that levy their own charges, which could result in a higher fee structure for the fund of funds.

CIS portfolios that are managed in line with Regulation 28 of the Pension Funds Act with exposures in excess of the limits as set out in table 1 of the Act, will be corrected immediately, except where due to a change in the fair value or characteristic of an asset, e.g. market value fluctuations, in which case they will be corrected within a reasonable time period. CIS, which are managed to comply with the guidelines as set out in Regulation 28 of the Pension Funds Act, are considered to be suitable for retirement savings. ASISA regards a prudential fund with foreign exposure up to the maximum limit as set by the Reserve Bank as conforming to Regulation 28 for fund classification purposes.

TER & TC

A Transaction Cost (TC) is a measure of the total costs incurred in buying and selling assets underlying the CIS. TER's and TC's are expressed as a percentage of the daily net asset value of the CIS calculated over a period of three years on an annualised basis. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER may not necessarily be an accurate indication of future TER's. TC's are a necessary cost in administering the CIS and impact CIS's returns. It should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of CIS, the investment decisions of the investment manager and the TER. (The MDD'S incorporating the updated Total Expense Ratio (TER) and Transaction Cost (TC) shall be published in line with the ASISA standard).

PPS Investments Group is a subsidiary of Professional Provident Society Insurance Company Limited, a Licensed Insurer and Financial Services Provider. PPS Investments Group consists of the following authorised Financial Services Providers: PPS Investments (Pty) Ltd ("PPSI"), PPS Multi-Managers (Pty) Ltd ("PPSMM") and PPS Investment Administrators (Pty) Ltd ("PPSIA"); and includes the following approved Management Company under the Collective Investment Schemes Control Act: PPS Management Company (RF) (Pty) Ltd ("PPS Manco"). Financial services may be provided by representative(s) rendering financial services under supervision. www.pps.co.za/invest

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