Talking Points

ISSUE 53

Quarterly client publication by PPS Investments | Quarter 3: 2021

Nurturing the green shoots

Global growth strong & SA growth better than expected

Asset Allocation – An important contributor to portfolio returns

Investing offshore: diversification over the long term beats timing the rand

Opportunity to align your profit share to your retirement plan

Considerations when changing our manager line-up

Fund showcase: PPS Managed Fund

An unrelenting passion for nurturing SA's youth

PPS FOR PROFESSIONALS SINCE 1941 | INVESTMENTS


THE DIFFERENCE
BETWEEN A
35-YEAR OLD
AND A
65-YEAR OLD IS...
360 SALARIES REMAINING.
Designed to safeguard your savings for retirement, PPS Investments offers you a tax-efficient retirement annuity that prioritises the health and security of your savings – investing your 360 salaries into golden opportunities.
Visit pps.co.za/invest, or call 0860 468 777 to find out how you can turn your salaries into opportunities.
Professional Provident Society Investments (Pty) Ltd is an authorised licensed Financial Services Provider.
pps
FOR PROFESSIONALS
SINCE 1941
INVESTMENTS

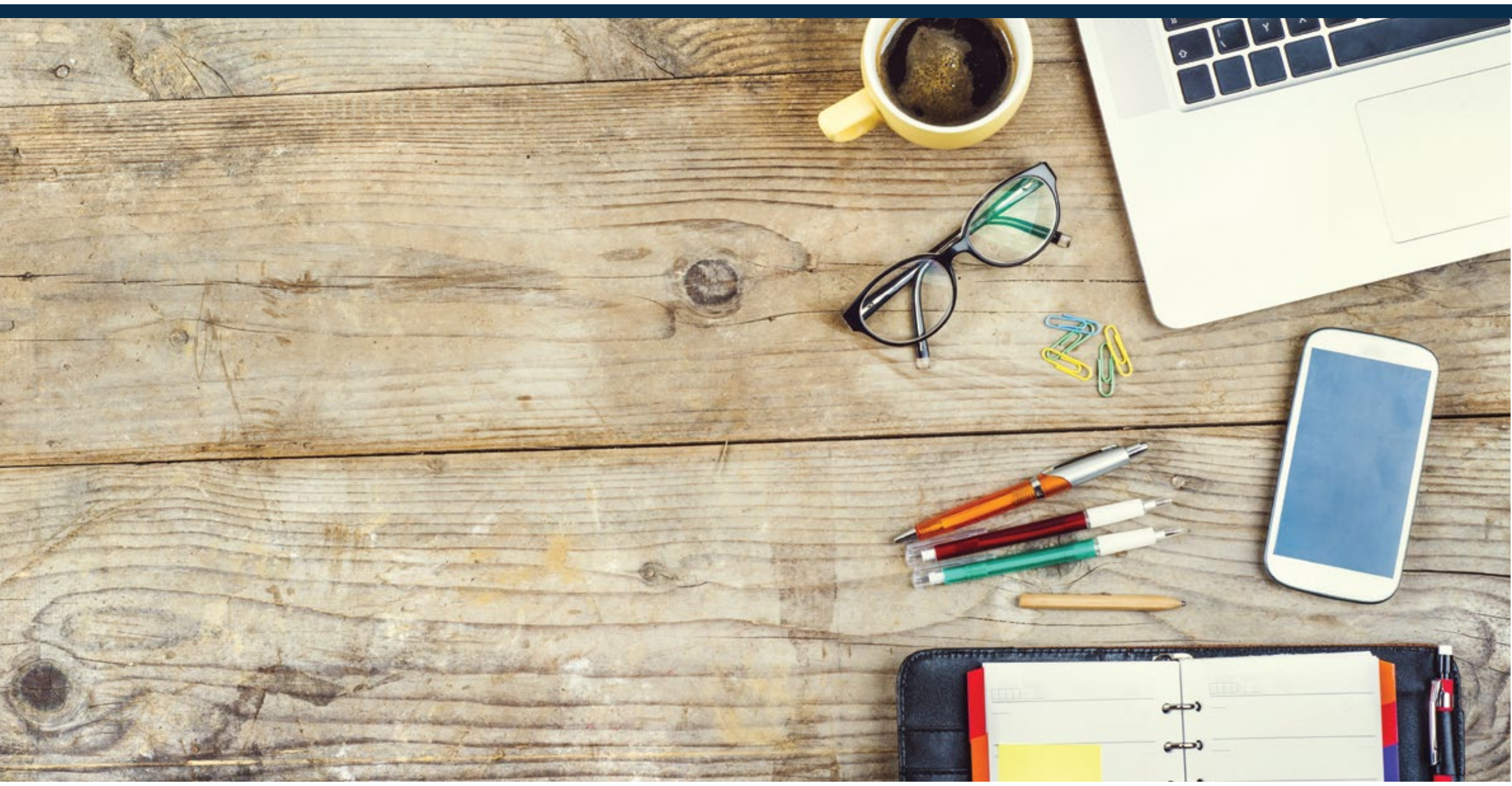
In this edition

Follow us on

Download our app

Download on the App Store

GET IT ON Google play



A welcome from the Chief Executive

Welcome to the 53rd edition of Talking Points. With the end of year fast-approaching, it is a good opportunity to reflect on the journey of the last 18 months while looking ahead to 2022 and beyond.

2020 was a watershed year. We faced enormous shifts in nearly every aspect of life. Living, socialising, shopping and working almost exclusively online for most of the year. In contrast, 2021 thus far, has shaped up to be a year of stabilising. Pandemic disruptions are moderating, the world is starting to reopen as vaccine roll-outs continue and the waves have somewhat subsided in many parts of the world. Most markets have regained some (if not all) of the losses experienced in the first part of last year. Travel is slowly reopening, spectators are re-entering sports stadiums, and hybrid working models have become the norm. Holistically, we're learning to live in the new normal. For the first time since the pandemic broke out, we start seeing light at the end of the tunnel.

Looking ahead, all indications point to the world building on the green shoots that have started to sprout. The future will certainly contain various challenges to overcome but at the same time there will be opportunities presented by the various green shoots and innovations that have and will continue to emerge. While the aftermath of the pandemic may be felt for years to come, the foundation has been put in place for fostering the new environment into fruition.

As we navigate investing in the post-pandemic future, we anticipate that most of the themes from 2021 are likely to continue into next year, but there will also be the second and third level impact of the pandemic emerging. With stimulus drying up, the global economic recovery has tapered off. Global growth continues on a steady trajectory and the outlook remains positive for 2021 and 2022.

Consequently, the global recovery is lifting the South African economy and local growth is proving better than expected. Revised local growth estimates remain relatively good compared to what was anticipated at the beginning of this year. ***Reza Hendrickse, Portfolio Manager***, shares an update on the macroeconomic backdrop and market events shaping the quarter.

Going into the pandemic, weak fundamentals hamstrung economic growth, but more concrete and creative solutions may be required to stimulate growth in the economy post-pandemic. This sentiment was echoed in the *Economic Freedom of the World: 2021 Annual Report* by Canadian public policy think tank, the Fraser Institute, which suggests that enhancing economic freedom in South Africa could be the catalyst to provide opportunities for economic prosperity for all. As a country, we have a long way to go, but if we shift our perspective, we could unlock and maximise those opportunities.

For now, many investors are looking beyond our borders. The appetite for offshore investments has grown in the last few years, due to the strong performance of global markets, as well as the diversification benefits of including offshore assets as part of a portfolio. However, the rationale for allocating a portion of your assets to offshore markets must be based on sound financial planning principles and not an exercise in exchange rate forecasting. ***Anil Thakersee, Executive: Marketing & Business Development***, showcases the value of sensible offshore diversification over the long-term, which beats the near impossible task of trying to time movements in the exchange rate. Diversification extends into appropriate portfolio allocations to asset classes, which sometimes may need to be adjusted to reflect the evolving economic situation. During periods of market volatility, a robust investment approach and the ability to respond quickly to changing markets provides the agility needed to take advantage of economic opportunities.

Making informed asset allocation decisions on a tactical basis can offer some reward. ***Luigi Marinus, Portfolio Manager***, unpacks the asset allocation process using the most recent house view change as an example of how this is applied in practice, and we also invited ***36ONE Asset Management***, as the partnership manager for the PPS Managed Fund, to share how its asset allocation decisions and nimble stock-picking capabilities contributed to the fund's outperformance.

As a multi-manager, when we choose and blend managers, we follow a rigorous research and strict due diligence process. On occasion, we review our manager line-up to ensure that the best outcomes are still being delivered for investors, and ***Andriette Theron, Head of Research***, unpacks some of the key considerations when changing managers in our panel.

On that note of partnering with the best, I'd like to take a moment to thank all our PPS members who have entrusted us with their financial lives, so to speak, for the past 8 decades. PPS Group celebrates 80 years of serving its members. For most of that time, we continued sharing in the profits with qualifying PPS members, through the PPS Profit-Share Account. Many PPS members consider their profit share assets to be a unique retirement benefit that can be used to help augment their retirement plans. ***Quintin Augustine, PPS Group Executive: Member Value Proposition***, gives an overview of the Portfolio Choice options available and important considerations when making this decision from the age of 55 onwards. PPS' ethos of mutuality is underpinned by making a positive contribution to the lives of professionals across their life stages. As such, the PPS Foundation was established to contribute positively to the journeys of students and young professionals, and ***Masenyane Molefe, Executive Trustee for the PPS Foundation***, shares some of the planned initiatives for 2021 and beyond.

With this being our last edition for the year, on behalf of all of us at PPS Investments, we wish you a safe and prosperous holiday season and may the new year usher in good tidings.

Nick

Nick Battersby, Chief Executive

Global growth strong & SA growth better than expected

Portfolio Manager, Reza Hendrickse, takes stock of the market events during the third quarter of 2021 and shares insights on what these global and local events could mean for investors.

What were some of the key themes shaping this quarter?

After a bullish start to the quarter, equity markets began to struggle, amid political and regulatory risks in China and the US, coupled with renewed inflation worries, slower growth concerns, and potential systemic risk from Chinese property developer Evergrande's potential default. In the US, policymakers released details of a multi-trillion-dollar spending and tax plan, with the prospect of higher taxes weighing on markets. Events in China, with The State reinforcing its power, also worried markets, causing foreign investors to question its investability. In addition, markets are becoming increasingly conscious of the US Fed's intention to scale back stimulus, at a time when inflation has some upside risk (given post-COVID-19 supply chain bottlenecks and rising energy prices) in the face of a moderation in global growth. In South Africa, economic growth received a boost from the Statistics South Africa (Stats SA) rebasing, while the commodity price drop weighed on equities, and a flattening of the third wave curve saw lockdown restrictions being eased.

How did the markets perform?

Despite volatile conditions, the South African (SA) equity market, as measured by the FTSE/JSE Capped SWIX, rose this quarter (+3.2%). Financials (+12.7%) were the best performers, in addition to small and mid-capitalisation shares, with conditions favouring stocks with larger valuation underpins. Resources stocks on the other hand fell this quarter (-3.8%), as industrial metal prices came under pressure, particularly iron ore and the platinum group metals (PGMs). Lower Chinese steel production, supply bottlenecks affecting PGM demand and general global growth fears all contributed to the weakness. Industrial shares were also down for the quarter (-5.3%), with Naspers and Prosus weighing particularly heavily, given the impact of China's increased regulatory scrutiny affecting shares, such as Tencent. Outside of local equities, SA government bonds also posted gains, with inflation-linked bonds (+2.0%) outperforming nominals (+0.4%), and SA listed property advancing further (+6.5%).

Foreign equities were up in rand terms this quarter (+4.3%), mainly due to the dollar strengthening (+5.4%), as is often the case when global growth softens. Developed markets (+5.4%) outperformed emerging markets (-3.2%), with China's regulatory intervention triggering a sell-off. This was compounded by COVID-19-related supply disruptions in the region, an electricity shortage and the tenuous debt position of Chinese property developer, Evergrande, denting sentiment. Global bonds were flat in dollar terms, but up in rands (+4.1%), with falling bond yields reversing higher during the quarter, given the hawkish Central Bank comments. Global listed real estate (+4.8%), marginally outperformed both equities and bonds this quarter, continuing its strong run.

Tell us about the economic backdrop

Although the global economy has lost some steam, growth is still strong, and the outlook remains positive for both 2021 and 2022. The G7 is expected to maintain above-trend growth over the coming quarters, and although the level of growth remains high, analysts' estimates suggest it has peaked and will continue to moderate. The combination of decelerating growth and lingering inflation worries meant that alarmists are on the lookout for stagflation, which is a problematic economic scenario reminiscent of the 1970's period of economic stagnation and high inflation. Although this seems a little far-fetched for now, it does highlight the potential risk of a policy error, should Central Banks tighten aggressively and choke growth. We are wary of placing too much trust in Central Banks' ability to anticipate economic conditions and act accordingly, but based on its forward guidance, it is likely that the Fed will begin tapering the COVID-19 stimulus this year and will begin hiking rates nearer to 2023. Measured policy normalisation is a tightrope which does need to be walked, and we expect the process to be data dependent.

Growth in South Africa is proving better than expected, while a periodic GDP-rebasing exercise by Stats SA resulted in the economy being around 11% larger than previously calculated. While somewhat academic, the upward revision is broadly positive, especially to holders of South African debt. In September, the South African Reserve Bank (SARB) revised its forecast for 2021 growth higher to 5.3%, but lowered its forecast for the subsequent two years, citing the longer lasting impact of both the July unrest and the pandemic. From a policy perspective, the SARB once again kept rates unchanged at the September MPC meeting, but we could see a hike in November or more likely early next year. Risks to the inflation outlook are to the upside, but with surveyed inflation expectations remaining stable, the SARB expects inflation to remain near the midpoint of the target band.

How are the portfolios positioned?

Our multi-asset portfolios remain positioned to benefit from expansionary economic conditions by holding an appropriate amount of domestic and foreign equity. Even though global growth has probably peaked for now, the environment is still supportive of equity markets. Growth assets may not deliver the magnitude of outsized returns, such as those produced in the pandemic rebound, but we expect reasonable returns nonetheless, knowing that maintaining sufficient exposure to equity markets through the cycle increases the likelihood of clients achieving their long-term inflation objectives.

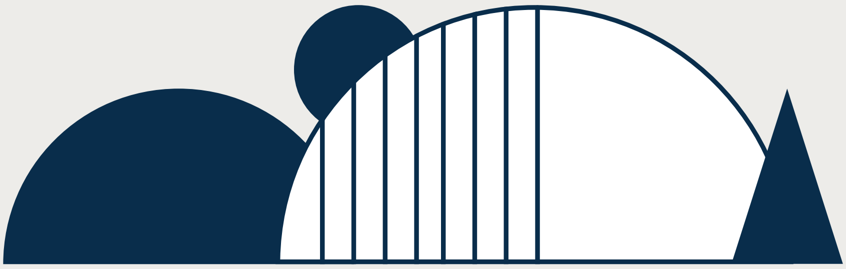
This quarter we altered the mix of equities across client portfolios by shifting from neutral to an overweight SA equity house view position, while reducing the overweight to foreign equities somewhat. Importantly, we remain positive on foreign equities and our managers' ability to continue adding value abroad, however, we no longer believe we should be as aggressively overweight relative to our long-term strategic asset allocation (SAA). Similarly, while there are still short-term risks to SA equities, we are of the view that there is sufficient medium-term visibility to warrant an overweight to this attractively priced asset class.

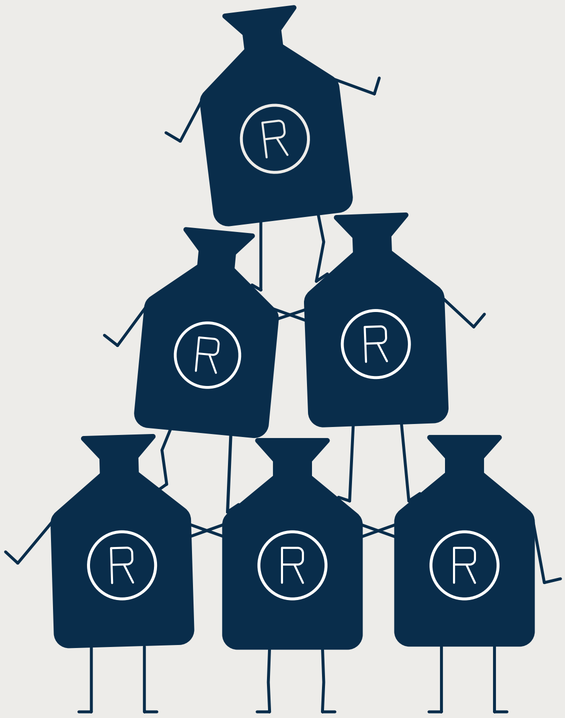
This quarter we also reduced our SA property underweight, given our view that negative rental reversions are reaching a plateau, while valuations have improved substantially. The sector still faces some challenges, however, and we await further evidence of a more durable recovery. Lastly, we continue to view the structural improvements locally as being supportive of our high conviction overweight SA bond position, and we continue to witness an improvement in SA's risk profile compared to the recent past. Clients will know that all our house view decisions are made within a robust investment framework that ensures portfolios remain sensibly diversified.

Looking ahead we remain optimistic about near-term prospects, while being mindful of the risks, which are generously covered by mainstream media. As difficult as it sometimes is, we prefer to pay less attention to the noise and stay focused on the long term. There are a host of potential regime changes underway, which could affect portfolios materially (either positively or negatively) over the long term, and these are the issues which are occupying our minds at the moment. Rather than relying too much on a single view, however, we remain deeply committed to a 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.





Investing offshore: diversification over the long term beats timing the rand

Investing offshore is an important part of any long-term investment strategy, as it offers diversification beyond the opportunity set available via South African markets. South Africa is a relatively small, open economy with around 330 investable companies listed on the local exchange with a market capitalisation of just over US$1 trillion. To put this into context, total global equity markets had a market capitalisation of just over US$94 trillion in the same period. In essence, the South African market represents around 1% of global equity markets.

In addition to the wide breadth of industries and companies available in global markets, the additional benefit is exposure to economic growth in foreign economies, which makes your portfolio less dependent on growth in the South African economy to drive overall returns.

Investing offshore remains an important tool in the asset class toolbox to build diversified portfolios. The blending of different asset classes, each occupying different co-ordinates on the risk-return spectrum, optimises the overall risk-return profile at a total portfolio level.

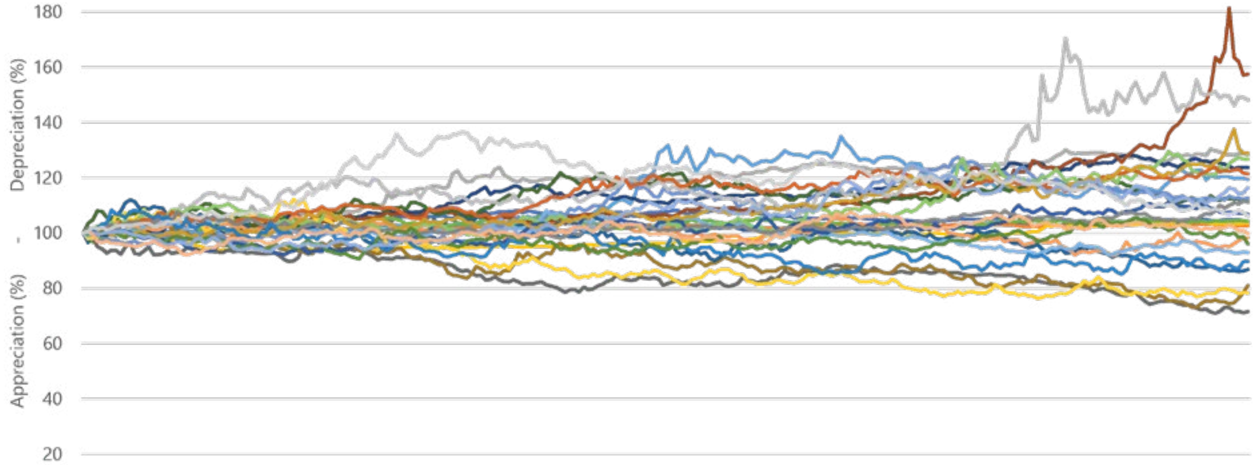
Forecasting the rand

The rand is not just the metric most South Africans use to measure their financial wealth, but is often seen as a reflection of our country's share price. As a result, fluctuations in the local currency can impact investor sentiment and at times trigger reactive decision-making. It is worth noting that the wild swings seen in the currency over the last few decades have almost all been related to global events resulting in declining global risk appetite and declining global liquidity. This is not to say we don't have social and growth challenges as an economy, however, in a system of floating exchange rates the equation is more dynamic and we have a multitude of factors impacting the exchange rate.

As one of the most liquid emerging market currencies in the world, the rand, at times, can indeed be very volatile. Several things tend to impact the rand, including commodity prices, inflation differentials, interest rates, economic growth and the impact of domestic issues. This makes it exceedingly difficult to try and predict where the rand is going to end up over the short term.

Figure 1 shows the calendar year appreciation or depreciation of the rand over 26 years, with each line representing an individual year. From year to year, it doesn't have a discernable pattern and, for the most part, trying to determine the movement of the rand over the short term is very much a guessing game.

Calendar year appreciation / depreciation 1994/2020



Source: IRESS

Historically, the rand tends to depreciate over the long term. The circled points in Figure 2 highlight periods of heightened uncertainty in markets where the rand tends to overshoot in weakness, however, the trend since 1994 has been for the rand to depreciate.

However, it is worth noting that while this depreciation has been in nominal terms, in real terms (after factoring in inflation differentials) the rand remains close to its Purchasing Power Parity (shown by the dotted line) which accounts for the inflation differential. Countries with higher rates of inflation, like South Africa, will have their currency depreciate against a country with lower inflation.

Offshore investing – navigating a world of investment opportunities

A major theme playing out in recent years has been the strong outperformance of growth stocks over value stocks and to some degree this has been a driving factor in performance for global portfolio managers.

The top 10 companies of the S&P 500 account for nearly a quarter of the total market capitalisation of the index. These giants have, in recent years, done the heavy lifting for the index and exposure, or lack of exposure, to these companies has skewed investment performance.

The rand: long-term depreciation

Source: IRESS

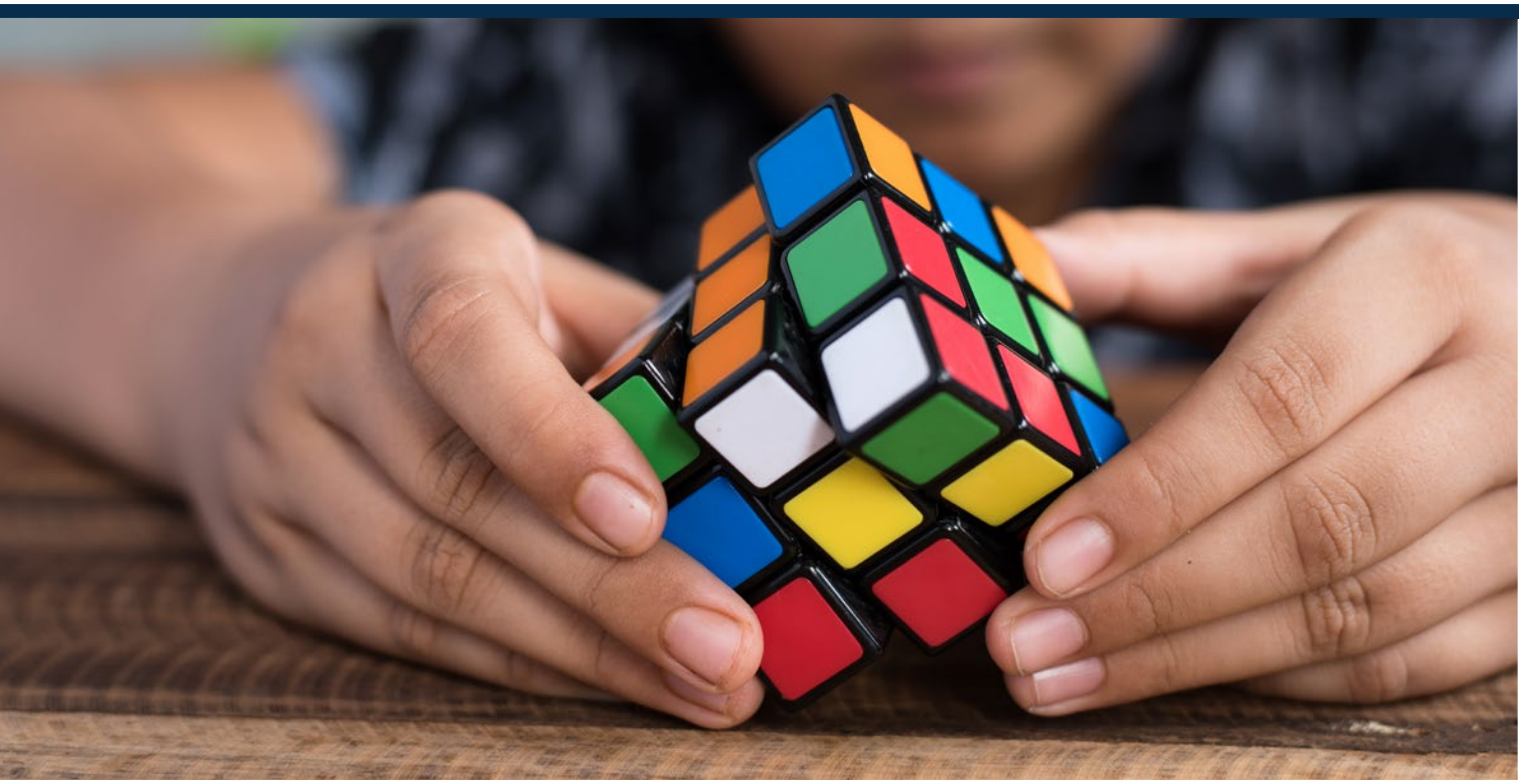
In addition, global managers have had to balance exposure to structurally faster growing emerging markets against more stable but lower growth developed markets. This has been made even more challenging in the pandemic environment where different countries are in different phases of re-opening their economies.

Once the decision has been made to allocate to offshore based assets, there are numerous challenges in identifying and selecting the best partners.

At PPS Investments, our focus has been to partner with large established managers who have a long track record of consistently delivering excess returns through the various cycles and volatility presented by markets.

It remains critical to obtain sound financial planning advice on structuring one's investments to meet the required outcomes and this includes balancing domestic and offshore investments.

Anil Thakersee, Executive: Marketing and Business Development



Considerations when changing our manager line-up

As a multi-manager, we spend substantial resources on researching, screening, selecting and blending managers with complementary strengths into our fund range. But the process is ongoing and, on occasion, we carefully consider making a change to managers previously selected, particularly if it could enhance the return profile and improve the chances of achieving the desired outcome.

Our approach is to replace managers when we no longer think they are better than average. This means that above-average specialist managers should outperform their market benchmarks, while above-average multi-asset managers need to outperform their peers.

In manager selection, the first step is to identify the managers that would be suitable for inclusion by quantitative and qualitative assessments. This evaluates the organisation's structure, experience and expertise of the investment decision makers, the suitability of the investment approach and the consistency of performance aligned to their style over time. The second step is to effectively combine these exceptional managers with the aim to blend the different styles that deliver outperformance at different times. It is therefore not unusual, and should be expected, that not all underlying funds will outperform over all short-term periods.

Key pillars for rating managers

We employ an investment process that focuses on the internal rating of three qualitative pillars rather than only on the short-term performance. These pillars qualitatively assess whether or not managers are above average in terms of their organisational structure and stability; people and support; and their investment approach.

In the **organisational structure and stability pillar,** some of the areas that we focus on are misaligned incentives, lack of majority control, and inability to reach critical scale. This pillar also looks at whether the firm is managing its own evolution appropriately, or is ill-placed to succeed. Material issues that could also concern us include key client concentration, lack of focus, and product proliferation.

The **people and support team pillar** includes assessing the implications of staff turnover, and key-person dependency, but also diversity and inclusion and the extent to which the investment team culture can continue to generate new ideas.

A useful framing for this pillar (to assess whether it remains above average) is to ask how easy it would be for a competitor to replicate the team, and in what way the people and support pillar remains more than the sum of its parts.

Finally, **investment approach** is focused on our confidence that we have identified a manager's enduring edge that has been applied consistently. Managers that don't do what we expect of them, or arbitrarily change their approach, would get penalised in this regard. We'd also be sceptical of approaches that are easy to replicate or don't appear to have significant barriers to entry.

Reviewing ratings

As new information arises, we're astute enough to reconsider previously held views on managers and their ratings. But we follow a diligent process to ensure that we have carefully considered all the information at our disposal to make an informed decision.

Firstly, our process deliberately tries to protect us from downrating a manager simply because it is performing poorly, but rather draws our attention to whether we think the manager remains best in class. This is because, in responding to short-term underperformance, many of us terminate a manager at precisely the wrong time, to the detriment of future portfolio returns.

Secondly, we maintain a record of all our previous manager rating downgrades, which we can refer to, in framing how to approach our current decision. While it is important to view each case on its own merits and not default to uniformity simply for the sake of it, it is also important to have some consistency in how we rate managers. At the very least, we should know why we are making an exception with a particular decision. For example, a surprising launch of a new strategy from a manager could lead to a rating downgrade, if we felt it would distract the investment team. However, this would not automatically result in a rating downgrade, and the materiality would be thoroughly discussed before reaching a decision. Regardless of the decision, careful documentation helps our process evolve over time and ensure the next decision would be framed even more comprehensively.

While the decision to replace a manager is often because the manager's process has degraded, rather than the manager has been left behind by its peers, it is also important to assess whether the manager has not moved with the times. Again, there is a tension to the manager sticking to its investment process, and being agile to adapt to a changing environment, where necessary. Examples here include how the manager thinks about ESG or the return to the office in a post-COVID-19 world. In both cases we would expect the manager to have thought deeply about these issues if it is to remain best in class.

In short, replacing a manager is seldom straightforward, and may be done at the wrong time. We remain open to learning from previous termination decisions that may have been wrong, as well as the material red flags that were ignored. Carefully documented learnings and institutional memory can help to inform future decisions.

Focusing on forward-looking risks and opportunities rather than backward-looking performance, and challenging the thinking that the manager is truly exceptional, is a helpful starting point in framing the decision.

The aim with manager selection is not to predict which managers are going to perform best in the immediate future, but to invest with a combination of managers that will deliver a competitive return regardless of the economic environment. This mindset ensures that all manager selection decisions are thoroughly analysed and continually reassessed with regular meetings with these managers.

Through our multi-manager philosophy and in-depth research, you gain access to the country's top asset managers combined into one solution. We blend an appropriate combination of investment styles and asset classes that are best suited to take advantage of opportunities at different times in the cycle, thereby offering optimal diversification in your portfolio.

Andriette Theron, Head of Research

Asset Allocation – An important contributor to portfolio returns

As a multi-manager, the two most important investment decisions we face are manager selection and asset allocation. Our manager selection process is aimed at identifying managers and funds that deliver consistent long-term performance aligned with the investment philosophy of the strategy. The process entails screening, due diligence (that includes quantitative and qualitative analysis) and a manager blending exercise that identifies which strategies combine well to deliver a diversified outcome for clients.

Asset allocation as an investment strategy is based on the empirical studies focused on how each asset class performs and correlates relative to each other. It is the large lever impacting both risk and returns delivered by any portfolio.

Let's unpack the asset allocation process, using the most recent house view change, as an example of how this is applied in practice.

Optimising the long-term asset allocation
The asset allocation process starts by optimising a long-term strategic asset allocation (SAA). This SAA uses the historic returns and volatility of the various local and international asset classes to assign allocations based on the ability to achieve an inflation target over time. The higher the inflation target, the more risk the allocation assumes, which generally implies that more equity is required, but historic volatility is considered to ensure unnecessary risk is not onboarded. The SAA is modelled annually to keep it up to date, but seldom changes due to the long-term nature of the inputs.

Taking advantage of short-term opportunities
The shorter-term component of the process is the tactical asset allocation (TAA). Here an 18- to 24-month view is applied to tactically adjust the SAA based on three prevailing factors surrounding the asset class: the valuation, the macroeconomic aspects that are currently affecting it and the price momentum. While each of these factors are considered for each asset class, there is an additional relative assessment that compares asset classes to each other as well. The TAA decision results in a maximum underweight, underweight, neutral, overweight or maximum overweight allocation to each asset class. These allocations are relative to the SAA, with the midpoint of the neutral band for each asset class equivalent to the SAA level.

The range from maximum underweight to maximum overweight is predetermined per inflation level to guide the asset class allowance when a change to the TAA is made. It also ensures that tactical shifts are not too profound that it significantly alters the risk-return signature of a fund. The TAA that the investment team implements is the PPS Investments house view and applies across all PPS funds.

In the house view meeting held in July, it was decided to make changes to allocations to SA equities, global equities and SA property. Figure 1 below shows the current house view for each factor and the asset class changes highlighted.

Figure 1 – Latest tactical asset allocation

Asset class	Valuation	Macro	Momentum	Houseview
SA equity	+	+	+	Overweight
SA property	+/-	-	+	Underweight
SA bonds	+	+/-	+	Max Overweight
SA cash	-	-	n/a	Max Underweight
International equity	-	+	+	Overweight
International property	+/-	+	+	Overweight
International bonds	-	+/-	+/-	Max Underweight
International cash	-	-	n/a	Underweight

Changes implemented were in global equities from maximum overweight to overweight, SA equities from neutral to overweight and in SA property from maximum underweight to underweight.

The change in global equities was as a result of the valuation factors reducing, due to the high valuations of large global stocks, particularly those that benefitted from the global lockdown conditions. It is important to note that even though the allocation to global equities has reduced the strong macroeconomic factors of low global interest rates, improving US GDP and the continued price momentum meant that an overweight compared to the SAA was still applied. For SA equities, valuations improved as greater certainty around the earnings prospects of SA companies emerged and the vaccine roll-out gained momentum across the country, improving the possibility of a reduction in lockdown levels. Even though all three factors were positive, a maximum overweight position was not implemented as more evidence of these improvements need to be observed before a further strengthening of the allocation will be considered.

The third change to the TAA saw an improvement to the valuation of SA property. Although this improved, the macroeconomic conditions for SA property remains the primary concern due to the uncertainty of the asset class as SA emerges from its lockdown status. Although the allocation to SA property has increased, the TAA remains underweight in the asset class relative to the SAA.

As with all asset management disciplines, implementing a repeatable consistent process makes long-term goals achievable. At PPS Investments, we ensure that our asset allocation process is implemented and constantly monitored to ensure the most recent and relevant information is considered. Markets may not behave exactly as investors would like in the short term but having an experienced investment team implementing a consistent process can give some peace of mind.

Luigi Marinus, Portfolio Manager

Opportunity to align your profit share to your retirement plan

Research has shown that as a PPS member, you may live longer than the average South African. Therefore, your retirement plan is key to help ensure that your retirement income lasts throughout your retirement years. One of the many benefits of being a PPS member, is that you have access to a unique benefit that can be used to augment your retirement plan. Like many other PPS members, you could also consider the PPS Profit-Share Account as a fundamental component of your retirement plan.

What is the PPS Profit-Share Account?

PPS has no external shareholders and operates under the ethos of mutuality aimed at adding value to you (as a PPS member). The PPS operating profit and the investment return thereon is shared each year by means of profit allocations into the qualifying members' PPS Profit-Share Accounts. As a PPS member, you get allocation from having qualifying life products with PPS Insurance, and can then earn profits from holding products with PPS Investments, PPS Short-Term Insurance and Profmed (through allocations from PPS Health Care Administrator).

Profit allocations are distributed to the PPS Profit-Share Account and invested on your behalf before becoming accessible via the Vested PPS Profit-Share Account. This offers a unique advantage of supplementing your retirement savings with profit share assets whilst you continue receiving profits on all the qualifying products that you hold. The profit allocations from PPS Investments will reflect in the Vested PPS Profit-Share Account.

An opportunity to align your profit share with your retirement plan through Portfolio Choice

During your membership, the PPS Profit-Share Account is invested on your behalf. After the age of 55, you have the option to select the portfolio that your PPS Profit-Share Account is invested in. As you get closer to retirement, this gives you the opportunity to choose how your accumulated profits are invested and to align it to your retirement goals.

Each portfolio has a specific mandate and investment time horizon, which can be used to determine which option best aligns to your holistic investment strategy as part of your retirement savings plan. The opportunity to exercise your PPS Profit-Share Account Portfolio Choice will be provided once a year (and will be effective from 1 January) until you reach retirement.

More information on the Portfolio Choice options

You can choose to do one of the following:

1. Move to the **Enhanced Yield Portfolio** which aims to provide capital preservation for those looking for returns similar to cash with the lowest risk over the short term. The bulk of the portfolio is invested in floating rate securities and is expected to deliver a return in excess of cash over time, by investing in income-generating assets. It is suited to investors who place a greater emphasis on limiting exposure to short-term market fluctuations rather than targeting inflation-beating returns. You can consider this portfolio if you have an investment horizon of one to three years.

2. Move to the **Income Portfolio** that has a strong income bias in excess of a broad fixed income market index. The portfolio can hold no more than 10% in equities. It provides greater exposure to income-generating assets and reduced exposure to capital growth assets. It is suited to investors who place a greater emphasis on limiting exposure to short-term market fluctuations rather than on targeting inflation-beating returns. You can consider this portfolio if you have an investment horizon of one to three years.

3. Move to the **Low Equity Portfolio**. This portfolio seeks to provide a total return of 2% above inflation over the medium term. The portfolio can hold no more than 40% in equities. It primarily provides exposure to assets likely to result in stable capital growth as well as exposure to income-generating assets. It is suited to investors who place a relatively greater emphasis on targeting inflation-beating returns rather than on limiting exposure to short- term market fluctuations. You can consider this portfolio if you have an investment horizon of at least three years.

4. Move to the **Medium Equity Portfolio** that seeks to provide a total return of 4% above inflation over the long term. The portfolio can hold no more than 60% of its assets in equities. It provides considerable exposure to capital growth assets and reduced exposure to income-generating assets. It is suited to investors who place a significantly greater emphasis on targeting inflation-beating returns rather than on limiting exposure to short-term market fluctuations. You can consider this portfolio if you have an expected investment horizon of at least five years.

5. Remain in the **Pooled PPS Profit-Share Account (High Equity)** which is the default portfolio for PPS Profit-Share Account, and seeks to provide a return of 5.3% above inflation over the long term. The portfolio can hold no more than 90% in equity. It provides a high degree of capital growth over the medium to long term. You can consider this portfolio if you have a capital growth objective and you have an expected investment horizon of at least seven years.

6. Move to the **South Africa Domestic-Only Equity Portfolio** which seeks to outperform the South African listed equity market. It can be fully invested in domestic equity, providing maximum exposure to the South African equity market. It is suited to investors who place an emphasis on domestic growth assets and long-term capital growth. You can consider this portfolio if you have an investment horizon of at least seven years.

7. Move to the **Worldwide Flexible Portfolio** that seeks to provide a return of 6% above inflation over the long term. The portfolio can hold approximately 90% in equity, and between 30% and 60% offshore. It provides aggressive exposure to growth assets, combining both local and offshore. It is suited to investors who place an emphasis on offshore diversification and long-term capital growth. You can consider this portfolio if you have an investment horizon of at least seven years.

What happens after Portfolio Choice?

Once you retire or cancel your PPS Provider Policies, your accumulated profits vest and become accessible through the Vested PPS Profit-Share Account. Your Portfolio Choice selection continues into your Vested PPS Profit-Share Account.

After retirement, your Vested PPS Profit-Share Account can be used to supplement your retirement income and can be used as an asset alongside your PPS Living Annuity.

Unique retirement benefit for PPS members

As a valued PPS member, we encourage you to make the most of your profit share assets accumulated over the duration of your membership. They can be used to augment your retirement savings and could help to ensure that your retirement income lasts throughout your retirement years. Take this opportunity to align how your profit share assets are invested and turn it into a valuable retirement asset. If you are eligible to select a Portfolio Choice option, you would have received an email or SMS with a personalised URL to make your choice, or notify your financial adviser to contact you in this regard.

For more information or assistance, contact PPS Member Services on 0860 123 777 or send an email to memberservices@pps.co.za

Quintin

Quintin Augustine, PPS Group Executive: Member Value Proposition

Fund showcase: PPS Managed Fund

During periods of market volatility, a robust investment approach and the ability to respond quickly to changing markets provides the agility needed to take advantage of economic opportunities. As part of our partnership fund range, the PPS Managed Fund's approach employed by 36ONE Asset Management is to identify these opportunities through an aggressive portfolio construction methodology and explicit focus on growing capital over time. 36ONE's investment approach, asset allocation decisions and nimble stock-picking capabilities contributed to the Fund's outperformance of peers and inflation target since inception.

The PPS Managed Fund (the Fund) forms part of the South African Multi-Asset High Equity ASISA category and complies with Regulation 28 of the Pension Funds Act. It is a great option for investors looking for long-term growth, but with less risk than a traditional equity fund. One of its key characteristics is that it aims to protect investors' capital when markets are falling.

Beating peers and inflation

The Fund has outperformed the average of its peers in its ASISA category by 5% per year since inception in November 2018. Additionally, investors require returns that beat inflation. The Fund aims to outperform inflation + 5%, as measured by the Consumer Price Index (CPI). Since inception, the Fund has delivered an annualised return of 15.2% per year compared to CPI + 5% which equalled 9.2%.

Style agnostic and flexible approach

36ONE's approach to investing is its key differentiator. The manager is style agnostic, meaning they combine their best ideas irrespective of market definitions of growth, value or quality. This flexible approach means their portfolio is well-diversified and enables them to succeed in market environments which favour either growth or value investment styles. 36ONE's assets under management are small in comparison to traditional South African asset managers and their size enables them to implement a wider range of ideas with faster execution.

This flexible approach proved to be valuable during 2020 and 2021 given the extreme levels of volatility. While volatility can be troubling for investors, it presents the opportunity to switch between, as well as within, asset classes.

The Fund's equity exposure to SA banks over the last 18 months is one example which highlights the manager's flexible approach to allocating capital between asset classes and sectors. During the COVID-19 induced sell-off in March of 2020, they had no exposure to banking stocks. 36ONE was concerned about the quality of the loan book and commensurate rise in bad debt given the uncertain impact lockdowns would have on the SA economy. However, as it became clear that government support in the form of additional grants and TERS would significantly protect consumers from the financial fallout associated with COVID-19, and that loan books were adequately provided for, the manager increased exposure to banking shares and reduced their allocation to cash. Additionally, since banks had provided for a significantly worse scenario than what transpired, going forward their loan book provisions will unwind providing a tailwind to earnings. Subsequently, the banking sector re-rated as earnings estimates were upgraded.

Asset allocation is active and dynamic

The Fund deploys an absolute mindset given its objective to outperform CPI + 5%. The Fund invests in a wide selection of assets such as shares, bonds, cash as well as property and can invest a maximum of 30% in offshore assets.

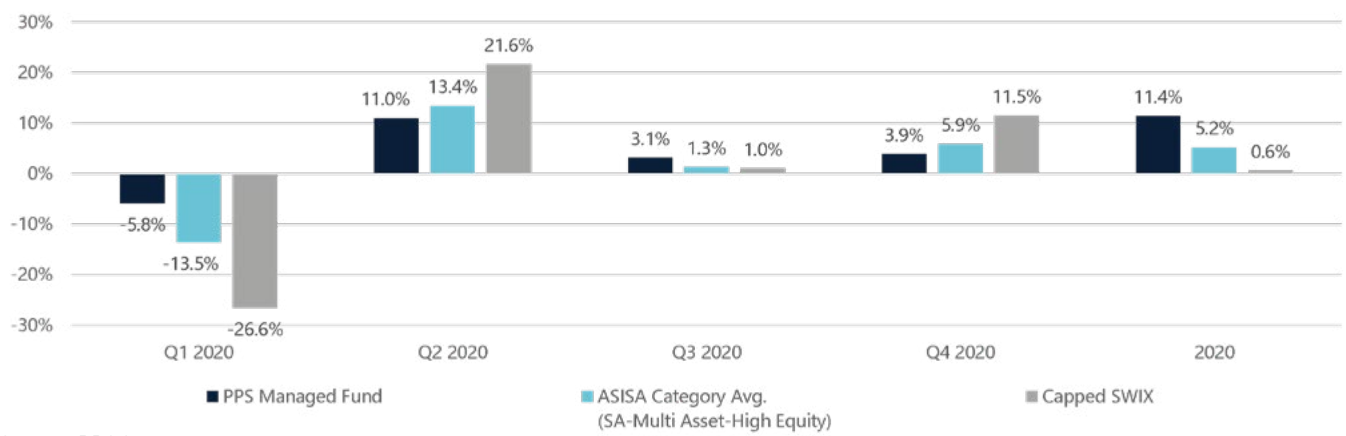
The Fund's asset allocation is actively and dynamically managed. By examining the asset allocation over the last two years, one can gain insight into how the manager responded to the market crash during the first quarter of 2020. As news flow regarding COVID-19 worsened, they increased their exposure to cash and bonds, while their equity exposure remained low. The large cash allocation was a useful tool in a falling equity market as it provided the "dry powder" needed to take advantage of opportunities when they arose. Their conservative positioning assisted in fulfilling the objective of protecting and growing clients' capital over the long term. Figure 1 illustrates how the PPS Managed Fund performed during each quarter of 2020 showcasing how the fund tends to provide more downside protection than the average balanced fund without compromising on the upside.

Ability to miss most landmines

Another defining aspect of the manager's approach has been avoiding shares with a permanent capital loss. In the context of South Africa, identifying the next loser (or landmine) is just as important as picking the next winner. The recipe for avoiding disasters comes from adhering to a rigorous, tried and tested investment process. 36ONE has avoided most of the landmines in the South African market over the last fifteen years, given the firm's hedge fund mentality. For the manager, an important source of alpha generation is finding and avoiding companies which destroy shareholder capital.

36ONE Asset Management

Figure 1



Source: PPS Investments

PPS Managed Fund Class A2. Inception Date: 1 November 2018. Highest and lowest calendar year performance since inception (as 31 July 2021): High 15.8 Low 1.0. Investment performance is calculated by taking actual initial fees and ongoing fees into account for performance shown with income reinvested on reinvestment dates.

An unrelenting passion for nurturing SA's youth

2021 marks the fifth year of the PPS Foundation's existence. This milestone was reached after an eventful year that prompted organisations worldwide to shift the delivery of their initiatives and programmes to continue catering to their beneficiaries' needs amid the COVID-19 pandemic.

As PPS Insurance celebrates its 80th anniversary this year – signifying the resilience and longevity of the organisation – the same can be said about the PPS Foundation. While in its infancy, the public benefit organisation (PBO) has managed to impact the lives of students and the environment it operates in.

The primary purpose of the Foundation is to improve teaching and learning experiences in universities and universities of technology in South Africa. In addition to this, it strives to support students in obtaining academic qualifications, with a significant focus on Science, Technology, Engineering and Mathematics (STEM) fields. The organisation's work has been underpinned by its slogan of nurturing potential and the continued vision to contribute measurably to the sustainable development of South African communities. Over the years, the PPS Foundation has established itself as a reliable partner that cultivates relationships and seeks to work with like-minded individuals and organisations to develop and contribute to the journeys of students and young professionals across the country.

We understand that the work we do cannot be done without partnering with other organisations and members of the public. We operate under PPS' ethos of mutuality and shared success and this further solidifies our strong belief in the concept of power in numbers – especially when it concerns the advancement of our country and its people.

Sharing the success stories of 2020

The PPS Foundation shared its successes and documented the activities that are aligned to its strategic objectives in its 2020 Annual Report. The organisation states that it is proud of the continued work to improve access to quality education, even in times of crisis. The report confirms the importance of a skilled nation. Skills in STEM fields are not only critical in driving South Africa's economic reconstruction and recovery but are vital in sustaining it. This is emphasised in the Economic Reconstruction and Recovery Plan, aimed at resetting the economy to recover from the devastation caused by the COVID-19 pandemic.

The PPS Foundation runs several programmes and initiatives, namely: University Support, Bursaries, the Learned, Engaged, Accelerated Professionals (LEAP) Work-Readiness Programme, the Graduate Internship Development Programme, as well as, Professionals Connect – all aimed at aiding students and young professionals with the necessary skills, tools, and mechanisms to develop themselves and shape a better and stronger South Africa.

Weathering the COVID-19 storm

In 2020, when society was yearning for positive news to restore hope for a better future, the PPS Foundation continued with its mission to invest in the potential of South African youth. The PPS Foundation provided, among other things, personal protective equipment for recently trained doctors and other medical practitioners who were on the frontline in the fight against the COVID-19 pandemic. This formed part of the University Support Programme, which aims to improve students' and educators' learning and teaching experiences. The Foundation also assisted 11 tertiary institutions across the country to procure and provide laptops and data to help students transitioning from on-campus learning to remote learning.

The Foundation awarded bursaries in 2020 to 54 students and, of those, 22 completed their degrees and graduated.

As the pipeline of graduates grows, students need to prepare for their transition from tertiary to the workplace as entry-level employees. Through the LEAP Work-Readiness Programme sessions, participants get to learn from subject-matter experts who present on topics like CV writing, interview skills, personal brand management and financial education.

Overall, our programmes are aimed at developing the next wave of economically empowered graduate professionals by providing beneficiaries with resources that will help them obtain their qualifications and thrive as they go into the world. We walk the journey with our beneficiaries by supporting them in the transition from secondary to tertiary education, as well as from tertiary to the workplace.

The value of donating to the PPS Foundation

As a PBO, the PPS Foundation also relies on receiving funds donated by individuals and companies to drive its programmes. When donors pay it forward, they can also derive tax benefits as donations to a PBO recognised by the South African Revenue Service – such as the PPS Foundation – qualify them to receive a Section 18A certificate. This is a document that can be used for tax-deduction purposes in the relevant financial year.

The PPS Foundation's programmes are coordinated for the benefit of the public. Our mandate compels us to coordinate programmes that positively impact the lives of young South Africans, particularly future graduating professionals. The support garnered will indeed help us fulfil our vision and take South Africa forward.

Donations to the PPS Foundation can be made on a safe and easy-to-use portal, accessible at https://pps-foundation.pps.co.za. Companies and individuals that donate will immediately receive a Section 18A certificate from the PPS Foundation.

Masenyane Molefe, Executive Trustee for the PPS Foundation

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
(0860 INV PPS)
or at clientservices@ppsinvestments.co.za.

www.pps.co.za/invest