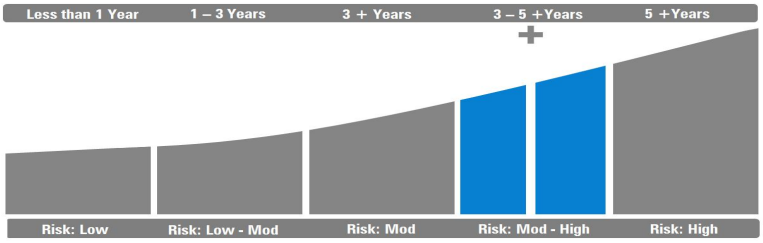
PROVIDENCE MODERATE

As of 2018/12/31

PROVIDENCE WEALTH

INVESTMENT OBJECTIVE

The objective of this multi-asset portfolio is to provide investors with long-term capital growth. The portfolio aims to generate a return of CPI + 4% p.a. over any rolling 5-year period and maintains a moderate to high risk profile as it may invest up to 60% in equities. The portfolio is compliant with Regulation 28 of the Pension Funds Act. The portfolio is suitable for compulsory or post retirement savings.



PORTFOLIO DETAILS

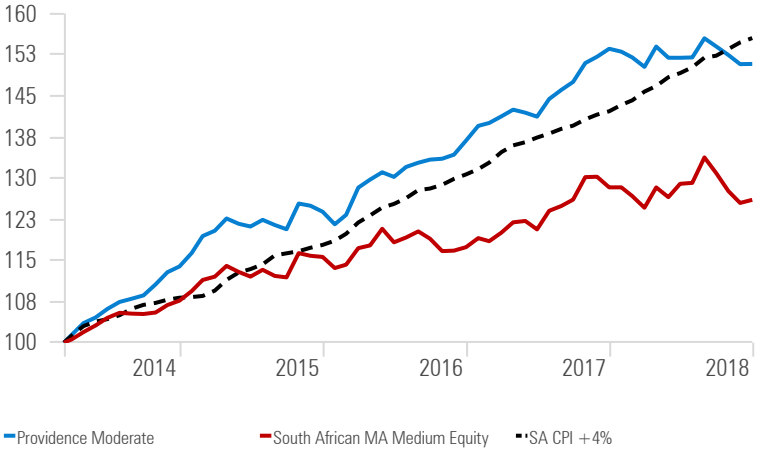
Regulation 28 compliant	Yes
Benchmark	CPI +4%
ASISA Sector	SA Multi Asset Medium Equity
Weighted Average cost of funds**	0.74 - 1.30
Discretionary Management fee	0.20

UNDERLYING HOLDINGS

PSG Equity F
BCI Income Plus C
Centaur BCI Flexible C
Coronation Strategic Income P
Investec Diversified Income H
Laurium Flexible Prescient B4
Sesfikile BCI Property B1
Nedgroup Inv Core Global FF A

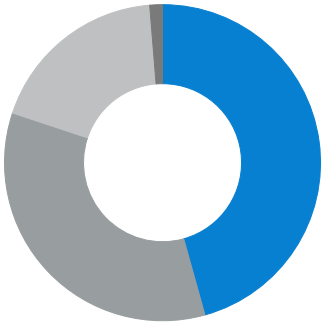
INVESTMENT RETURNS

Time Period: 2014/03/11 to 2018/12/31



ASSET ALLOCATION

Portfolio Date: 2018/12/31



	%
Equity & Property	45.7
Bond	34.4
Cash	18.6
Other	1.3
Total	**100.0**

TRAILING RETURNS

	YTD	1 YR	2 YR	3 YR	5 YR
Providence Moderate	-1.80	-1.80	4.98	6.78	
SA CPI +4%	9.39	9.39	9.09	9.70	9.60
South African MA Medium Equity	-1.77	-1.77	3.61	2.91	5.03

*The ASISA sector is used as a comparative benchmark to outperform, whereas CPI+4% is the primary objective of the fund.

MORNINGSTAR EQUITY STYLE BOX

Portfolio Date: 2018/12/31

	Value	Blend	Growth
Large	10.3	15.1	10.2
Mid	15.5	8.0	8.5
Small	19.1	9.3	4.2

Market Cap	%
Market Cap Giant	15.5
Market Cap Large	18.6
Market Cap Mid	32.0
Market Cap Small	18.5
Market Cap Micro	15.4

RISK STATISTICS

Time Period: 2016/03/01 to 2018/12/31

	Providence Moderate	MA Medium Equity	All Share Index
Max Drawdown	**-3.03**	**-6.21**	**-12.56**
# of Periods	3.00	3.00	3.00
Recovery # of Periods			
% Positive Months	67.65	64.71	52.94
Best Quarter	4.48	4.50	8.91
Worst Quarter	-2.15	-3.72	-5.97
Annualised Return	7.36	3.54	5.49

MONTHLY RETURNS %

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	**Year**
2018	-0.3	-0.7	-1.1	2.5	-1.3	0.0	0.0	2.3	-1.0	-1.0	-1.1	0.0	**-1.8**
2017	2.0	0.4	0.9	0.9	-0.4	-0.5	2.3	1.1	1.0	2.3	0.8	1.0	**12.2**
2016	-1.9	1.4	4.0	1.1	1.0	-0.6	1.4	0.6	0.4	0.1	0.6	1.9	**10.5**

*Returns are simulated and based on the underlying funds at the initial weightings and are net of published asset manager fees. Returns greater than a year have been annualised.

**Please note: the average weighted cost of the underlying funds is merely an indication as the underlying fund fees may vary from one platform to another. The average weighted cost varies daily as the weightings of the funds vary. The weighted average cost shown is not the same as the Total Investment Charge (TIC). Where applicable, performance fees are included at benchmark. The abovementioned fees exclude Financial Advisor fees, platform fees and VAT.

MORNINGSTAR®

PORTFOLIO COMMENTARY

Providence Moderate Portfolio Update

Investors who had any equity exposure had a disappointing end to the year as both local and global risk assets produced poor returns during the fourth quarter.

The Providence Moderate Portfolio returned -2.1% for the quarter, bringing the calendar year return to -1.8%.

Concerns around slowing global growth, tightening monetary policy in the U.S. and trade tensions weighed on markets in the quarter and December saw a sharp fall in global markets, led by U.S. equities. Despite a strong end to the year, South African equities detracted from portfolio performance over the quarter in line with most global equity markets. In fact, 2018 marks the worst year for the SA equity market since the global financial crisis in 2008. Local listed property continued to face headwinds and finished a tumultuous 2018, declining over 25% for the year. Local bonds and cash had a decent quarter and were the best performing South African asset classes in Q4 and for the calendar year.

Asset Allocation

Despite the Portfolio's meaningful exposure to cash and bonds which helped cushion the impact of falling equity markets, the Portfolio's negative return can be attributed to the holding in both domestic and global equities. Global equities have been a solid contributor to performance for many years but the drawdowns in the past quarter have impacted the short- term returns. We have been underweight local listed property for some time and therefore avoided the full impact of the sector's decline. At a portfolio level, asset allocation remains defensive, with large cash holdings and equity exposure predominantly allocated to areas of the market where we have the highest conviction and where valuations are the most attractive.

Fund Selection

Most of the managers in the Portfolio struggled during the quarter due to poor returns from local and global risk assets. Investec Diversified Income was one of the largest contributors to performance over the quarter. PSG Equity was a notable detractor in the Portfolio.

Investec Diversified Income has produced a comfortable inflation plus return over the past year, thanks in part to the fund's exposure to government bonds and high allocation to quality credit. The fund remains defensively positioned with a healthy exposure to short dated credit and cash while funds limited duration comes from the allocation to SA government bonds.

PSG Equity performance over the quarter was disappointing as it ended behind its benchmark and peer group. The fund had a very difficult December producing negative returns despite the positive returns from local markets. The main detractors on the local side was their exposure to mid-cap companies, Supergroup, AECI and Tongaat Hulett, all were negative over the quarter and December. Their global stocks, Colfax, Brookfield and Japan Post Insurance, was also major detractor to returns.

In the fourth quarter some changes were made to the Portfolio. Prescient Income Provider was replaced by Investec Diversified Income. We also took the opportunity in December to increase the Portfolio's allocation to global asset with the inclusion of Nedgroup Inv Core Global FF in the Portfolio.

Summary

2018 was a disappointing year for moderately aggressive investors, as individuals were not compensated for taking on risk during the year. We remain confident in the Portfolio's balanced exposure to local and global markets, which provides investors with exposure to a diverse range of businesses and industries. We would encourage investors to take a long-term view when employing capital. While short term returns from equities have been disappointing, a meaningful allocation to this asset class is necessary for investors to meet their financial goals. We remain diversified at an asset allocation level, with a healthy allocation to equities which we expect to generate inflation beating returns for the Portfolio over the long term.

*Returns are simulated and based on the underlying funds at the initial weightings and are net of published asset manager fees. Returns greater than a year have been annualised.