

Current context

Global equity markets recovered sharply in the first quarter of 2019. The MSCI World Index delivered a total return of 12.6% and the MSCI Emerging Markets Index returned 9.9%. The JSE's recovery was more lacklustre: the FTSE/JSE All Share Index gained 8.0% and was dominated by rand hedges, especially resources and Naspers. Domestic counters were material underperformers. The FTSE/JSE Small Cap Index lost 3.4% and financials declined over the quarter.

Local fixed income assets experienced some tailwinds from Moody's decision to keep South Africa's credit rating unchanged. This has resulted in the sovereign yields reducing slightly, as local and foreign investors continue to see value in South African government bonds. Anchored inflation – well within the South African Reserve Bank's (SARB's) 3% to 6% target band – has further supported yields, as the SARB has taken a more neutral stance on interest rates and maintained the existing repurchase rate of 6.75%.

Our perspective

As we have noted for some time, there is pervasive fear in certain parts of investment markets. This is in complete contrast to other areas that are well owned and in which investors are inclined to be complacent. Markets therefore continue to be characterised by wide valuation divergences. We are finding far more opportunities in those parts where investors are fearful, especially in the SA Inc. part of the domestic market, which has endured tough economic conditions and aggressive selling by foreigners in recent years. In fact, our bottom-up analysis is indicating valuations usually seen in deep bear markets. For longer-term investors who can ride out the storm, the return profile from carefully selected securities at such low valuation levels is promising.

Equally as encouraging is the fact that the opportunities we're finding extend across almost all asset classes – a rare position to be in. We believe that this has allowed us to build diversified portfolios with favourable odds of achieving their mandates under a range of possible outcomes. We're excited both by the opportunity set, and by the balanced nature of our funds' investments.

Portfolio positioning

Equity exposure increased from 64.5% to 66.2% over the quarter, as the fund took advantage of the opportunities presented to buy shares in above-average quality global companies at attractive margins of safety.

The fund reduced corporate bond exposures as instrument prices reached our estimates of intrinsic value. Given that these are illiquid instruments, their hurdle for inclusion in the fund is high. As real yields in long-dated government nominal and inflation-linked bonds remain compelling, the fund has been adding to existing positions.

Overall cash levels of 7.1% have not changed over the quarter. The fund retains the valuable option to be a liquidity provider at attractive asset price levels if episodes of market disruption occur in the future.

Changes in portfolio positioning

Q4 2018		Q1 2019	
Domestic equity	40.9%	Domestic equity	39.6%
Domestic cash and NCDs	6.7%	Domestic cash and NCDs	6.0%
Domestic bonds	25.6%	Domestic bonds	23.7%
Foreign equity	23.6%	Foreign equity	26.6%
Foreign cash	0.4%	Foreign cash	1.1%
Foreign property	2.8%	Foreign property	3.0%

There may be slight differences in the totals due to rounding.

Number of units as at 31 March 2019 (Class A): 62 355 808
Price (net asset value per unit) as at 31 March 2019 (Class A): R67.90

All data as per Bloomberg to 31 March 2019.

Disclaimer

Collective Investment Schemes in Securities (CIS) are generally medium to long-term investments. The value of participatory interests (units) or the investment may go down as well as up and past performance is not a guide to future performance. Fluctuations or movements in the exchange rates may cause the value of underlying international investments to go up or down. CIS are traded at ruling prices and can engage in borrowing and scrip lending. The portfolio may borrow up to 10% of its market value to bridge insufficient liquidity. Where foreign securities are included in a portfolio, the portfolio is exposed to risks such as potential constraints on liquidity and the repatriation of funds, macroeconomic, political, foreign exchange, tax, settlement and potential limitations on the availability of market information. The portfolios may be capped at any time in order for them to be managed in accordance with their mandate. Excessive withdrawals from the portfolio may place the portfolio under liquidity pressures and in such circumstances a process of ring-fencing of withdrawal instructions and managed payouts over time may be followed. PSG Collective Investments (RF) Limited does not provide any guarantee either with respect to the capital or the return of the portfolio. Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided.

Regulation 28

The fund is managed according to Regulation 28 of the Pension Funds Act. The South African retirement fund industry is governed by the Pension Funds Act No. 24 of 1956. Regulation 28 of the Pension Funds Act prescribes the maximum limits in asset classes that an approved retirement fund may invest in. Exposures in excess of the limits 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.

Performance

All performance data for a lump sum, net of fees, include income and assumes reinvestment of income on a NAV to NAV basis. Annualised performances show longer term performance rescaled over a 12 month period. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. Performance is calculated for the portfolio and individual investor performance may differ as a result thereof. The portfolio is valued at 15h00 daily. Income distributions are net of any applicable taxes. Actual annual figures are available to the investor on request. Prices are published daily and available on the website www.psg.co.za/asset-management and in the daily newspapers. Figures quoted are from Morningstar Inc.

Pricing

Forward pricing is used. Unit trust prices are calculated on a net asset value (NAV) basis, which is the market value of all assets in the Fund including income accruals less permissible deductions divided by the number of units in issue.

Company details

PSG Collective Investments (RF) Limited is registered as a CIS Manager with the Financial Sector Conduct Authority, and a member of the Association of Savings and Investments South Africa (ASISA) through its holdings company PSG Konsult Limited. The management of the portfolio is delegated to PSG Asset Management (Pty) Ltd, an authorised Financial Services Provider under the Financial Advisory and Intermediary Services Act 2002, FSP no 29524. PSG Asset Management (Pty) Ltd and PSG Collective Investments (RF) Limited are subsidiaries of PSG Konsult Limited. PSG Collective Investments (RF) Limited can be contacted on +27(21) 799 8000; (toll free) 0800 600 168, via email assetmanagement@psg.co.za.

Conflict of interest disclosure

The Fund may from time to time invest in a portfolio managed by a related party. PSG Collective Investments (RF) Limited or the fund manager may negotiate a discount in fees charged by the underlying portfolio. All discounts negotiated are reinvested in the Fund for the benefit of the investors. Neither PSG Collective Investments (RF) Limited nor PSG Asset Management (Pty) Ltd retains any portion of such discount for their own accounts. The fund manager may use the brokerage services of a related party, PSG Securities Ltd.

Trustee

The Standard Bank of South Africa Limited,
Main Tower, Standard Bank Centre,
2 Hertzog Boulevard,
Cape Town, 8001
Tel: +27 21 401 2443
Email: Compliance-PSG@standardbank.co.za

Additional information

Additional information is available free of charge on the website www.psg.co.za/asset-management and may include publications, brochures, forms and annual reports.