PSG Asset Management

# PSG Global Flexible Feeder Fund

Quarterly portfolio commentary as at 31 March 2019

by Philipp Wörz and Greg Hopkins

**Current context**

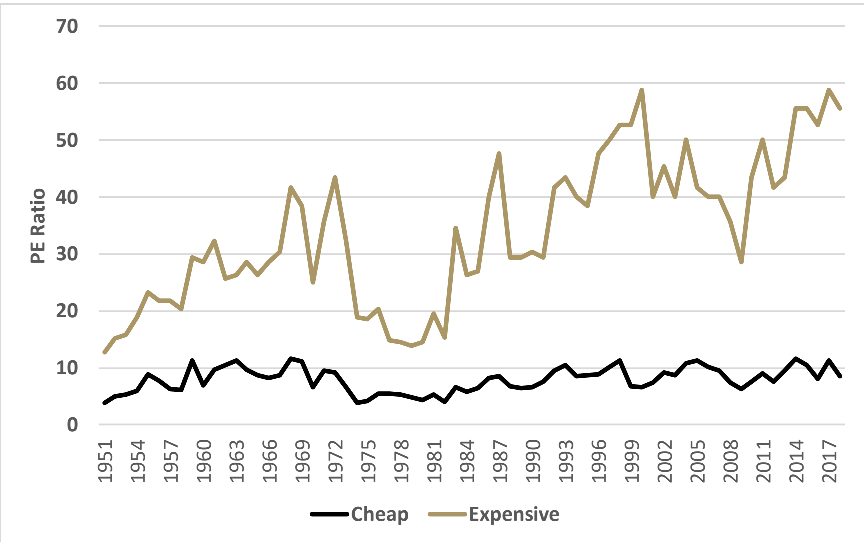
Global equity markets largely shrugged off the fears that contributed to the sell-off towards the end of 2018. Despite continued uncertainties around the health of the global economy, trade relations between the US and China, and Britain's exit from the European Union, markets recovered sharply in the first quarter of 2019. The MSCI World Index delivered a total return of 12.6% and the MSCI Emerging Markets Index returned 9.9%.

In fixed income, the US market experienced its first yield curve inversion since before the financial crisis: in late March, the US 10-year government bond yielded less than the 3-month US Treasury. The 10-year government bond yield was 2.4% as at quarter end, compared to a recent high of 3.2% in November 2018. German and Japanese 10-year government bond yields traded in negative territory over the quarter.

**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. While the December sell-off turned out to be an excellent buying opportunity, global markets continue to be characterised by wide valuation divergences across geographies and sectors. Graph 1 shows the price/earnings ratio of the cheapest quintile (20%) of stocks in the US market compared to the most expensive, indicating a valuation gap as extreme as it was in the late 1990s.

**Graph 1: Cheap versus expensive US equities**




*Source: Ken French data, Bernstein analysis*

Many higher-quality, defensive companies continue to trade at valuations that require sustained favourable economic conditions and growth rates. We are finding far more opportunities in those parts of the markets where investors are fearful. 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.

**Portfolio positioning**

As we seek to identify quality companies on sale, we often buy what we believe to be good companies that are out of favour. But it is impossible to predict when the market will start to recognise mispriced quality, and we are often early in our positioning, which we believe has been the case with several of our holdings. While the fund has largely recovered its December drawdown, it has underperformed our expectations over the past year. Although this is disappointing, investors may remember similar conditions at the end of 2015 and in early 2016. We experienced short-term pain then, but that was part of the reason the fund was subsequently able to outperform. Similarly, a cheap portfolio valuation, wide discounts to intrinsic values and compelling bottom-up investment opportunities inform our conviction in the fund's current positioning.

Price moves over the last 12 months have widened our opportunity set, with some high-quality businesses going on sale. We have deployed cash into these sell-offs and the fund's equity exposure (including property) increased to 82.4% as at end March, compared to a record-low exposure of 61.98% in January 2018. Over the quarter, we initiated new positions in UK-listed life insurer and financial services firm Prudential plc, oil and gas major Royal Dutch Shell, brewing giant Anheuser-Busch InBev, and Japanese-listed beer and soft drinks company Asahi Holdings.

**Changes in portfolio positioning**

| Q4 2018 | | Q1 2019 | |
|---|---|---|---|
| Equity | 73.4% | Equity | 76.2% |
| Property Equities | 6.7% | Property Equities | 6.3% |
| Cash | 19.9% | Cash | 17.5% |

| Q4 2018 | | Q1 2019 | |
|---|---|---|---|
| US | 34.6% | US | 31.6% |
| Europe | 4.5% | Europe | 7.3% |
| UK | 10.2% | UK | 13.3% |
| Asia ex Japan | 5.8% | Asia ex Japan | 2.7% |
| Japan | 11.7% | Japan | 14.7% |
| Canada | 8.2% | Canada | 9.0% |
| Africa | 4.7% | Africa | 3.9% |
| Other | 0.4% | Other | 0.0% |
| Cash | 19.9% | Cash | 17.5% |

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

*Please note that the above commentary is for the US dollar-denominated PSG Global Flexible Sub-Fund. The PSG Global Flexible Feeder Fund is 100% invested in the underlying US dollar fund. However, there may small short-term valuation, trading and translation differences between the two funds.*

**Number of units as at 31 March 2019 (Class A):** 24 416 871
**Price (net asset value per unit) as at 31 March 2019 (Class A):** R2.02

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.

**Feeder Funds**

A Feeder Fund is a portfolio which, apart from assets in liquid form, 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.

**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 portolio 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.

**Trustees**

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**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.