PSG Global Flexible Sub-Fund

Quarterly portfolio commentary as at 31 March 2019
by Philipp Wörz and Greg Hopkins

Current context

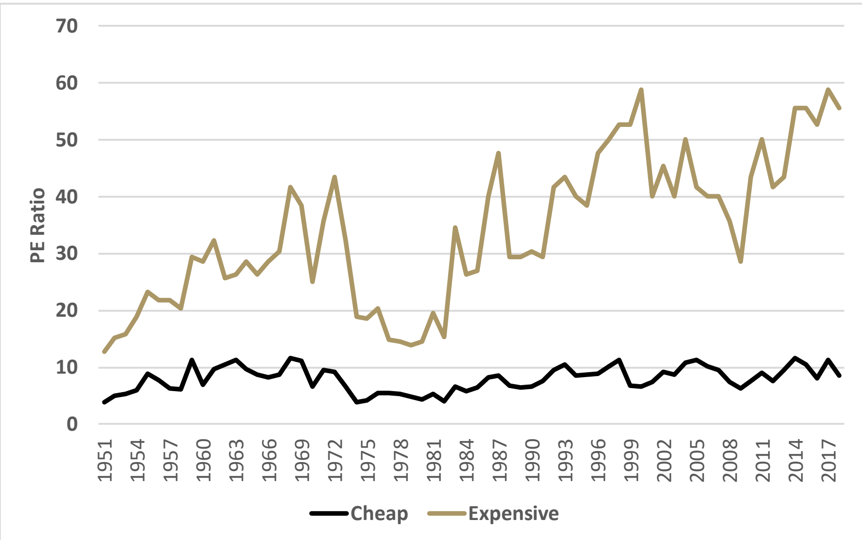
Global equity markets largely shrugged off the fears that contributed to the sell-off towards the end of 2018. Despite continued uncertainties around the health of the global economy, trade relations between the US and China, and Britain's exit from the European Union, markets recovered sharply in the 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 3.24% 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.

General information and risks

Collective Investment Schemes (CIS) in securities 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. 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. The portfolio may borrow up to 10% of its market value to bridge insufficient liquidity.

Past performance is not a reliable indicator of future results and you may get back less than you originally invested. This publication is for private circulation and information purposes only and does not constitute a personal recommendation or investment advice or an offer to buy/sell or an invitation to buy/sell securities in the fund. The information and any opinions have been obtained from or are based on sources believed to be reliable, but accuracy cannot be guaranteed. Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided.

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The Fund's risk and reward category may not capture all material risks to which the Fund may be subject, such as:

Geopolitical Risk - investments in equities issued or listed in different countries may imply the application of different standards and regulations, exposure to changes in laws or restrictions applicable to such investments, changes in exchange control regulations or price volatility.

Liquidity Risk - in extreme market conditions some equities may become hard to value or sell at a desired price.

Exchange Rate Risk - The Fund may invest in equities denominated in currencies other than US Dollars, this exposes the Fund to fluctuations in exchange rates.

Default Risk - One or more bond or other debt instrument issuers could become unwilling or unable to make their scheduled payments to the Fund.

Further information on risks may be found in the "Risk Factors" section in the Fund's Prospectus.

Performance

All performance data for a lump sum, net of fees, includes 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 23:59 (CET) on each dealing day. Actual annual figures are available to the investor on request. Figures and benchmark quoted are from Morningstar, Inc. Prices are published daily and available on the website www.psgkglobal.com/global-asset-management/funds and in the daily newspapers. PSG Fund Management (Malta) Ltd does not provide any guarantee with the respect of the capital or the return of the portfolio.

Performance Fee

7% of the net trading gain calculated on the NAV at each valuation point. The performance fee is calculated on a "High Water Mark" basis. In the event of the portfolio outperforming the High Water Mark, a performance fee of 7% of the net trading gain above the High Water Mark calculated on the NAV at each Valuation Point will be levied. The performance fee is calculated on the average NAV for the period 1/4/2016 - 31/03/2019.

Base fee	1%
Performance fee example at HWM	0.62% Assume gross performance of 8.92%. This results in a performance fee of 0.62% (8.92% x 7%) resulting in a nett performance of 8.3% (US inflation + 6%)
Fee hurdle	High Water Mark
Sharing ratio	7%
Minimum fee	1%
Maximum fee	Uncapped, with a since inception High Water Mark. The fund's highest total TER since inception of TER was 2.11% per annum
Current Total Expense Ratio (TER)	1.80%

Frequently Asked Questions on Performance Fees are available on the website www.psg.co.za/asset-management/Performance-Fee-Frequently-Asked-Questions.

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.

Cut-off times

The cut-off time for submitting investment transactions is twelve noon one business day prior to dealing day.

Company details

PSG Fund Management (Malta) Limited as General Manager is licensed by the Malta Financial Services Authority ("MFSA") and Vistra Fund Services (Guernsey) Limited as Administrator is licensed by the Guernsey Financial Services Commission ("GFSC"). The fund is a UCITS compliance fund regulated by the MFSA. The Management of the fund has been delegated to PSG Asset Management (Pty) Limited, which is registered with the South African Financial Sector Conduct Authority as a registered Financial Service Provider (FSP no. 29524) and is licensed to operate under the Financial Advisory and Intermediary Services Act, 2002.

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Additional information

Additional information is available free of charge on the website www.psgkglobal.com and may include publications, brochures, forms and annual reports.

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	76.1%
Property Equities	6.7%	Property Equities	6.3%
Cash	19.9%	Cash	17.6%

Q4 2018		Q1 2019	
US	34.6%	US	31.6%
Europe	4.5%	Europe	7.3%
UK	10.2%	UK	13.2%
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	17.6%

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

Number of units as at 31 March 2019 (Class A):	610 412
Price (net asset value per unit) as at 31 March 2019 (Class A):	$13.14
Number of units as at 31 March 2019 (Class B):	8 918 699
Price (net asset value per unit) as at 31 March 2019 (Class B):	$13.56

All data as per Bloomberg to 31 March 2019.