

Current context

Negotiable certificate of deposit (NCD) rates fell over the quarter: 6-month NCDs are now yielding 7.63% (down 7.5 basis points) while 1-year rates are 8.10% (down 17.5 basis points). Inflation remains comfortably within the South African Reserve Bank's (SARB's) 3% to 6% target band, printing at 4.1% as at end February. The SARB expects inflation to average just below 5% for the period to 2021. However, growth continues to disappoint. The outlook from both the World Bank and the SARB is for a slow economic recovery locally, with the SARB expecting South Africa to reach 2% real GDP growth by 2021. The rand continues to be volatile over the short term, starting the quarter off at R14.35 to the US dollar and trading all the way down to R13.20 at the end of January, before ending March at R14.60.

Our perspective

As we have noted for some time, there is pervasive fear in certain parts of investment markets. In local fixed income, we are finding opportunities to earn attractive risk-adjusted returns.

The SARB continues to revise growth and inflation expectations downwards. Historically, such low inflation prints and growth expectations would likely have given rise to a rate cut. However, the SARB has kept the repurchase (repo) rate unchanged at 6.75% (equating to a real rate of over 2.50%), as it looks to anchor inflation closer to 4.50% (the middle of the target band) over the long term. The SARB's view remains that without policy reform, interest rates alone cannot stimulate growth. For investors looking to protect capital and earn a steady income yield, the real rates currently on offer are very compelling.

Portfolio positioning

In December 2018, we noted increased exposure to RSA Treasury Bills, which were for a short period yielding above-NCD rates. This exposure has declined as treasury bill rates have fallen, generating attractive returns for the fund. The fund continues to buy on the longer end of the fixed NCD curve (6 and 12-month notes), where we see the most value.

Changes in portfolio positioning

Q4 2018		Q1 2019	
Linked NCDs/ Floating-rate notes	15.0%	Linked NCDs/Floating-rate notes	19.7%
Step rate notes	12.5%	Step rate notes	11.3%
NCDs	21.3%	NCDs	54.6%
Treasury bills	49.4%	Treasury bills	10.8%
Call deposits	0.3%	Call deposits	3.0%
Corporate bonds	1.5%	Corporate bonds	0.6%

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

Number of units as at 31 March 2019 (Class A): 1 047 762 173

Price (net asset value per unit) as at 31 March 2019 (Class A): R1.00

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. 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.

Money Market

The PSG Money Market Fund maintains a constant price and is targeted at a constant value. The quoted yield is calculated by annualizing the average 7 day yield. A money market portfolio is not a bank deposit account. 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 total return to the investor is made up of interest received and any gain or loss made on any particular instrument. In most cases the return will merely have the effect of increasing or decreasing the daily yield but in the case of abnormal losses it can have the effect of reducing the capital value of the portfolio.

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) Limited 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.