PSG Asset Management

PSG Global Flexible Sub-Fund

Quarterly portfolio commentary as at 31 March 2024

by Greg Hopkins, Philipp Wörz and Justin Floor

Current context

Global equity markets continued their upward climb during the first quarter of 2024, building on the strong performance of the previous year. Gains were broad-based, with the technology sector again providing outsized returns. Areas of the market poised to benefit from the boom in artificial intelligence (AI) continued to be a key theme. Several other themes also shaped the narrative of the first quarter. It is becoming more widely accepted that inflation – and consequently, interest rates – are likely to remain higher for longer. Economic growth continues to exceed expectations, with the US successfully averting a recession in the first quarter. However, the global bond markets had a much more challenging quarter due to an uptick in bond yields, driven by the outlook for higher interest rates and ongoing uncertainty about inflation.

We have seen a continued divergence between emerging and developed equity market performances over the quarter. The MSCI World Index had a strong quarter rising by 9%, and an impressive 25% over the past year. In contrast, the MSCI Emerging Markets Index saw a more modest rise of 2% for the quarter and 8% for the past year. Global bonds didn't fare well, with the Bloomberg Global Aggregate Bond Index ending the quarter down 2% and remaining mostly flat over one year. Brent crude oil saw a significant increase, surging by 14% over the quarter and 10% over the past 12 months.

Our perspective

We are witnessing a rapidly changing global landscape, where investment strategies that have worked well in the recent past may not be appropriate to effectively preserve and grow capital going forward. Escalating geopolitical risks, more persistent and volatile inflation, and extreme market concentration dominated by a few large mega-cap technology companies are reshaping the investment landscape. Additionally, there is a notable underinvestment in the real sectors of the global economy and in natural resources. To navigate these challenges, we opt for highly selective US-centric exposures, investments in real assets, and a valuation-sensitive approach to investing. The current market concentration creates a fertile environment for differentiated active management, offering substantial opportunities ahead.

Several of these opportunities are in the fund's exposure to the global energy sector with an allocation of 19% which despite the sector's systemic importance (and profitability) accounts for just 4.5% of the MSCI World Index. The global energy industry has underinvested in supply over the past 10 years, partly in response to ESG pressures, but also in response to shareholders that demanded a more disciplined approach to capital allocation. While investments into renewables such as wind and solar have been significant, these cleaner forms of energy still only contribute a small percentage to global energy supply at less than 10% of the overall mix.

The demand for global energy, which has risen 4.5x since 1960, will continue to grow given global population growth and especially as emerging market consumers' living standards keep rising. Additionally, the energy transition (including the need to power AI data centres) is resource and energy intensive, which will likely result in growth in all forms of energy demand, including fossil fuels. Natural gas and nuclear/uranium are likely to increasingly be seen as the middle ground and as a solution to drive a cleaner energy mix.

The fund's energy exposure is not homogenous, comprising of a diverse set of companies ranging from integrated energy majors such as Shell, BP and Brazil's Petrobras, US low-cost natural gas player CNX Resources, Canadian uranium and nuclear service provider Cameco and oil and gas drillers. Aligned to the energy and resource space is the shipping sector, which has been fruitful for the fund in the past and continues to offer great opportunities. The supply side for ships in the dry bulk and product tanker space is attractive in that order books are at historically low levels, unlike order books for container ships, and that ageing fleets across the industry will likely give rise to stronger than normal pricing power in coming years.

Importantly, valuations of the companies in the fund and the energy sector more generally are highly attractive, and the fund's exposure to energy and real assets stocks can play a valuable role across a multitude of scenarios including providing a valuable hedge to geopolitical and inflationary shocks going forward.

Our portfolios are diversified and well positioned to navigate these conditions, underlining the importance of a long-term view and the value that a differentiated active manager can add during these pivotal global macro inflection points.

Portfolio performance*

Over the quarter the PSG Global Flexible Sub-Fund returned 0.3% versus the benchmark return of 2.5%. The largest contributors over this period were industrials (1.7%), energy (1.0%) and financials (0.7%). The largest detractors over this period were consumer discretionary (-1.1%), consumer staples (-0.5%) and healthcare (-0.5%). The fund is suitable for investors with an investment term of 4 years and longer. Over the short-term, returns can be volatile and for this reason it is important to measure fund returns over the relevant investment term. Over the 4-year time horizon, the fund returned 21.4% p.a. versus the benchmark return of 10.7% p.a. Since inception, the fund produced an annual return of 6.4% versus the benchmark return of 8.7% (USD denominated returns).

*Return numbers as per the PSG Global Flexible Sub-Fund Class B

Changes in portfolio positioning

Q4 2023		Q1 2024	
Equities*	89.3%	Equities*	90.5%
Bonds	2.6%	Bonds	2.6%
Cash	8.1%	Cash	6.9%

Q4 2023		Q1 2024	
US*	27.6%	US*	29.0%
Europe	16.3%	Europe	13.4%
UK	32.2%	UK	31.7%
Japan	6.3%	Japan	6.8%
Africa	5.4%	Africa	4.4%
Brazil	1.5%	Brazil	1.7%
Hong Kong	0.0%	Hong Kong	3.6%
Cash and Bonds	10.7%	Cash and Bonds	9.4%
*Includes -3.69% effective derivative exposure		*Includes -0.66% effective derivative exposure	

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

Number of units as at 31 March 2024 (Class A):	220 580
Price (net asset value per unit) as at 31 March 2024 (Class A):	$18.84
Number of units as at 31 March 2024 (Class B):	7 047 909
Price (net asset value per unit) as at 31 March 2024 (Class B):	$19.96

All data as per Bloomberg as at 31 March 2024.

Total Investment Charge annualised for the period 01/04/2021 to 31/03/2024

	Class A	Class B
Total expense ratio %	**1.85**	**1.37**
Annual management fee %	1.00	0.50
Other costs excluding transaction costs %	0.12	0.12
Administrative fee %	0.25	0.25
Performance fee %	0.48*	0.50*
Transaction costs %	0.14	0.14
Total investment charge %	**1.99**	**1.51**

*7% of the outperformance of the high water mark.

Total Investment Charge annualised for the period 01/04/2023 to 31/03/2024

	Class A	Class B
Total expense ratio %	**1.58**	**1.11**
Annual management fee %	1.00	0.50
Other costs excluding transaction costs %	0.11	0.11
Administrative fee %	0.25	0.25
Performance fee %	0.22*	0.25*
Transaction costs %	0.12	0.12
Total investment charge %	**1.70**	**1.23**

*7% of the outperformance of the high water mark.

Disclaimer

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 https://psgkglobal.com 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.

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 net performance of 8.3% (US inflation + 6%) High Water Mark
Fee hurdle	7%
Sharing ratio	1%
Minimum fee	Uncapped, with a since inception High Water Mark. The fund's highest total
Maximum fee	TER since inception of TER was 2.11% per annum
Current Total Expense Ratio (TER)	1.37%

Frequently Asked Questions on Performance Fees are available on the website https://download.psg.co.za/files/asset-management/Performance-Fees-FAQs.pdf

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

Subscription Notice Deadline: By 3.30pm (CET) on the relevant Subscription Day provided the funds are cleared and reflecting in our bank account by 3.30pm.

Redemption Notice Deadline: By 3.30 pm (CET) one (1) Business Day prior to the relevant Redemption Day. Redemption requests will be settled within seven Business Days from the relevant Redemption Day.

Company details

PSG Fund Management (Malta) Limited as General Manager is licensed by the Malta Financial Services Authority ("MFSA") and PSG Asset Management Group Services (Pty) Limited as Administrator is licensed by the South African Financial Sector Conduct Authority. The fund is a UCITS compliant 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 Services 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 https://psgkglobal.com and may include publications, brochures, forms and annual reports.