PSG Equity Fund

Quarterly portfolio commentary as at 30 June 2019

by Shaun le Roux, Greg Hopkins and Gustav Schulenburg

Current context

Investment markets have become more volatile and event-driven over the last year. Trade wars and global growth fears sparked a vicious sell-off in late 2018, but expectations for rate cuts by the US Federal Reserve have seen a healthy 2019 recovery – to the extent that US markets are currently making all-time highs. It is important to highlight that this bullish sentiment is relatively narrowly confined to the US and crowded global growth stocks. In fact, we calculate that two-thirds of global stocks are in a bear market.

The JSE's recovery in 2019 has been driven by a handful of counters; primarily mining shares and large-cap rand hedges. The broader market has continued to perform poorly, and we estimate that 86% of FTSE/JSE All Share Index stocks are in a bear market.

Our perspective

A prolonged period of poor performance from the local market has left many investors anxious and frustrated. While most understand the importance of taking a long-term view, it's usually more difficult than anticipated to put this into practice. When the value of investments fall, investor gut instinct is to try and put a stop to it. The easiest way to do so often seems to be switching to cash. However, this holds a high risk of impeding investment outcomes. Indeed, we believe that current conditions warrant dialling up risk, and are reducing cash in our funds by buying attractively priced securities. We are finding exciting opportunities for long-term returns across global markets, with South Africa looking particularly attractive given the starting valuations. By applying our process consistently to ensure rational decision-making and careful risk management, we believe we can extract compelling long-term returns at lower levels of risk.

Portfolio positioning

We steadfastly believe that starting valuations matter, and in a world of startlingly different valuation levels we believe that superior long-term returns will be derived from investing in attractively priced companies in out-of-favour geographies and sectors. We are very positive on the long-term returns on offer in global markets and embedded in our portfolios. At the same time, we are cautious on the return prospects for well-owned stocks, particularly in the US. Accordingly, we have continued to recycle capital away from more expensive to cheap and unloved counters. This strategy of buying stocks where share prices are falling can weigh on short-term performance, as we tend to be early in our positions. However, the ability to buy at times when others are fearful is a very important factor for achieving good long-term client outcomes at appropriate levels of risk.

Changes in portfolio positioning

Q1 2019		Q2 2019	
Domestic equity	69.2%	Domestic equity	69.9%
Domestic cash	0.7%	Domestic cash	0.0%
Foreign equity	27.8%	Foreign equity	28.4%
Foreign property	1.9%	Foreign property	1.4%
Foreign cash	0.4%	Foreign cash	0.3%

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

Number of units as at 30 June 2019 (Class A):	62 064 211
Price (net asset value per unit) as at 30 June 2019 (Class A):	R10.50

All data as per Bloomberg as at 30 June 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.

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

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Trustees

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Additional information

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Current context

Investment markets have become more volatile and event-driven over the last year. Trade wars and global growth fears sparked a vicious sell-off in late 2018, but expectations for rate cuts by the US Federal Reserve have seen a healthy 2019 recovery – to the extent that US markets are currently making all-time highs. It is important to highlight that this bullish sentiment is relatively narrowly confined to the US and crowded global growth stocks. In fact, we calculate that two-thirds of global stocks are in a bear market.

The JSE's recovery in 2019 has been driven by a handful of counters; primarily mining shares and large-cap rand hedges. The broader market has continued to perform poorly, and we estimate that 86% of FTSE/JSE All Share Index stocks are in a bear market.

Our perspective

A prolonged period of poor performance from the local market has left many investors anxious and frustrated. While most understand the importance of taking a long-term view, it's usually more difficult than anticipated to put this into practice. When the value of investments fall, investor gut instinct is to try and put a stop to it. The easiest way to do so often seems to be switching to cash. However, this holds a high risk of impeding investment outcomes. Indeed, we believe that current conditions warrant dialling up risk, and are reducing cash in our funds by buying attractively priced securities. We are finding exciting opportunities for long-term returns across global markets, with South Africa looking particularly attractive given the starting valuations. By applying our process consistently to ensure rational decision-making and careful risk management, we believe we can extract compelling long-term returns at lower levels of risk.

Portfolio positioning

We steadfastly believe that starting valuations matter, and in a world of startlingly different valuation levels we believe that superior long-term returns will be derived from investing in attractively priced companies in out-of-favour geographies and sectors. We are very positive on the long-term returns on offer in global markets and embedded in our portfolios. At the same time, we are cautious on the return prospects for well-owned stocks, particularly in the US. Accordingly, we have continued to reduce cash in the fund and recycle capital away from more expensive to cheap and unloved counters. This strategy of buying stocks where share prices are falling can weigh on short-term performance, as we tend to be early in our positions. However, the ability to buy at times when others are fearful is a very important factor for achieving good long-term client outcomes at appropriate levels of risk.

The fund increased its exposure to long-dated South African government bonds during recent weakness. We remain confident that the real yields on offer support equity-like long-term returns.

Changes in portfolio positioning

Q1 2019		Q2 2019	
Domestic equity	53.0%	Domestic equity	55.1%
Domestic cash	9.2%	Domestic cash	5.1%
Domestic gold	0.6%	Domestic gold	0.7%
Domestic bonds	6.2%	Domestic bonds	9.2%
Foreign cash and gold	0.3%	Foreign cash	0.2%
Foreign equity	27.4%	Foreign equity	27.0%
Foreign property	3.3%	Foreign property	2.7%

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

Number of units as at 30 June 2019 (Class A):	925 631 334
Price (net asset value per unit) as at 30 June 2019 (Class A):	R5.12

All data as per Bloomberg as at 30 June 2019.

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by Greg Hopkins, Justin Floor & Dirk Jooste

Current context

Investment markets have become more volatile and event-driven over the last year. Trade wars and global growth fears sparked a vicious sell-off in late 2018, but expectations for rate cuts by the US Federal Reserve have seen a healthy 2019 recovery – to the extent that US markets are currently making all-time highs. It is important to highlight that this bullish sentiment is relatively narrowly confined to the US and crowded global growth stocks. In fact, we calculate that two-thirds of global stocks are in a bear market.

The JSE's recovery in 2019 has been driven by a handful of counters; primarily mining shares and large-cap rand hedges. The broader market has continued to perform poorly, and we estimate that 86% of FTSE/JSE All Share Index stocks are in a bear market. Local bond and capital markets have delivered solid gains so far this year, starting as they did with very high real yields.

Our perspective

A prolonged period of poor performance from the local market has left many investors anxious and frustrated. While most understand the importance of taking a long-term view, it's usually more difficult than anticipated to put this into practice. When the value of investments fall, investor gut instinct is to try and put a stop to it. The easiest way to do so often seems to be switching to cash. However, this holds a high risk of impeding investment outcomes. Indeed, we believe that current conditions warrant dialling up risk, and are reducing cash in our funds by buying attractively priced securities. We are finding exciting opportunities for long-term returns across global markets, with South Africa looking particularly attractive given the starting valuations. By applying our process consistently to ensure rational decision-making and careful risk management, we believe we can extract compelling long-term returns at lower levels of risk.

Portfolio positioning

Equity exposure increased from 66.2% to 70.1% over the quarter, as we continue to find deeply undervalued securities to apply capital to.

Domestic bond exposure was trimmed slightly to 23.4%, as we continue to sell corporate bond exposures at healthy returns from cost. Government bond exposure was increased. We view longer-dated nominal and inflation-linked sovereign bonds as compelling components of the current portfolio mix. Real yields remain high, the curve is extremely steep, and pessimism abounds. While the risks are real, it is our assessment that asset prices are discounting much of the challenging macro environment, while the potential for low inflation and a more accommodative global and local monetary policy environment is not adequately reflected.

Aggregate cash levels reduced from 7.1% to 4.3% as the fund continued to gradually increase conviction in equities. Despite being lower than before, 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

Q1 2019		Q2 2019	
Domestic equity	39.6%	Domestic equity	44.0%
Domestic cash and NCDs	6.0%	Domestic cash and NCDs	3.8%
Domestic bonds	23.7%	Domestic bonds	23.4%
Foreign equity	26.6%	Foreign equity	26.1%
Foreign cash	1.1%	Foreign cash	0.5%
Foreign property	3.0%	Foreign property	2.2%

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

Number of units as at 30 June 2019 (Class A): 62 159 960
Price (net asset value per unit) as at 30 June 2019 (Class A): R66.21

All data as per Bloomberg as at 30 June 2019.

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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

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The JSE's recovery in 2019 has been driven by a handful of counters; primarily mining shares and large-cap rand hedges. The broader market has continued to perform poorly, and we estimate that 86% of FTSE/JSE All Share Index stocks are in a bear market. Local bond and capital markets have delivered solid gains so far this year, starting as they did with very high real yields.

Our perspective

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Portfolio positioning

Equity exposure decreased slightly from 39.1% to 38.8% over the quarter, largely driven by market movements.

Domestic bond exposure was trimmed slightly from 41.8% to 41.1%, as we continue to sell corporate bond exposures at healthy returns from cost. Government bond exposure was increased. We view longer-dated nominal and inflation-linked sovereign bonds as compelling components of the current portfolio mix. Real yields remain high, the curve is extremely steep, and pessimism abounds. While the risks are real, it is our assessment that asset prices are discounting much of the challenging macro environment, while the potential for low inflation and a more accommodative global and local monetary policy environment is not adequately reflected.

Aggregate cash levels increased from 16.4% to 17.8%. 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

Q1 2019		Q2 2019	
Domestic equity	22.6%	Domestic equity	23.1%
Domestic cash and NCDs	16.4%	Domestic cash and NCDs	17.8%
Domestic bonds	41.8%	Domestic bonds	41.1%
Foreign equity	16.5%	Foreign equity	15.7%
Foreign cash	0.8%	Foreign cash	0.6%
Foreign property	1.9%	Foreign property	1.7%

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

Number of units as at 30 June 2019 (Class A): 77 166 272
Price (net asset value per unit) as at 30 June 2019 (Class A): R1.41

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The JSE's recovery in 2019 has been driven by a handful of counters; primarily mining shares and large-cap rand hedges. The broader market has continued to perform poorly, and we estimate that 86% of FTSE/JSE All Share Index stocks are in a bear market. South African bonds have performed well over the year to 30 June 2019, as bond yields fell further from their highs in 2018.

Our perspective

A prolonged period of poor performance from the local market has left many investors anxious and frustrated. While most understand the importance of taking a long-term view, it's usually more difficult than anticipated to put this into practice. When the value of investments fall, investor gut instinct is to try and put a stop to it. The easiest way to do so often seems to be switching to cash. However, this holds a high risk of impeding investment outcomes. Indeed, we believe that current conditions warrant dialling up risk, and are reducing cash in our funds by buying attractively priced securities. We are finding exciting opportunities for long-term returns across global markets, with South Africa looking particularly attractive given the starting valuations. By applying our process consistently to ensure rational decision-making and careful risk management, we believe we can extract compelling long-term returns at lower levels of risk.

Portfolio positioning

The South African bond yield curve steepened significantly over the quarter, as shorter rates fell due to rate cut expectations and longer rates rose due to poor global sentiment. For the most part, the curve was the steepest it has been. We have therefore increased our conviction in sovereign nominal bonds and have used this opportunity to add to these holdings and move exposures further out on the yield curve (to higher-duration bonds). In contrast, as bank negotiable certificate of deposit (NCD) rates have fallen and credit spreads have tightened, we have been selective sellers. We continue to hold credit where we see low probability of default risk and where spreads are above our estimates of fair value. In addition, the fund remains invested in quality equity counters from our equity buy lists.

Changes in portfolio positioning

Q1 2019		Q2 2019	
Domestic equity	4.4%	Domestic equity	4.5%
Domestic preference shares	0.5%	Domestic preference shares	0.5%
Domestic cash and NCDs	46.3%	Domestic cash and NCDs	46.6%
Domestic bonds	43.4%	Domestic bonds	43.9%
Foreign equity	3.2%	Foreign equity	2.4%
Foreign cash	1.1%	Foreign cash	1.3%
Foreign property	1.1%	Foreign property	0.8%

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Number of units as at 30 June 2019 (Class A): 1 082 217 875
Price (net asset value per unit) as at 30 June 2019 (Class A): R1.22

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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.

Yield

The yield for the portion attributable to fixed income instruments is calculated daily on an annualised basis and is based on the historic yield of the fixed income instruments. The fund returns include returns from property and equity instruments.

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

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Additional information

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by Lyle Sankar, Duayne Le Roux & Greg Hopkins

Current context

Investment markets have become more volatile and event-driven over the last year. Trade wars and global growth fears sparked a vicious sell-off in late 2018, but expectations for rate cuts by the US Federal Reserve have seen a healthy 2019 recovery. US bond yields have moved sharply downwards in response to expected rate cuts, with the 10-year bond yield falling to levels last seen in 2016. Furthermore, the US yield curve has flattened, and the indication from the US bond market is that US growth and inflation are likely to be lower going forward.

Despite this, South African bonds have performed well over the year to 30 June 2019, as bond yields fell further from their highs in 2018. We attribute much of this performance to the high starting yields (cheap valuations) we saw in 2018.

Our perspective

Over the past two years, South Africa has experienced consistently lower inflation outcomes, often below market consensus. Significantly, in late 2017, the South African Reserve Bank (SARB) stated its intention to target a CPI rate of 4.5%; the midpoint of its 3% to 6% target band. In addition, growth has disappointed: the latest GDP figure of -3.2% for the first quarter of 2019 signalled the need for significant economic support to address the prevailing low-growth environment. Following the release of inflation data in May (with headline CPI at 4.5% and core CPI at 4.1%), the SARB indicated that its models show room for interest rate cuts as the inflation rate circles its 4.5% target. As a result, markets now expect cuts of close to 0.5% over the next six to twelve months.

From highs of around 9.5%, five-year negotiable certificates of deposit (NCDs) are now yielding around 8.3%. Given that rates are highly correlated across the local market, we have seen a similar trend in corporate credit spreads, shorter-dated nominal and inflation-linked bonds, and general money market rates. As yields fall, security prices rise, implying that the shorter-term instruments held in the funds offer significant embedded value. However, consistent with our approach, lower real yields have made us more cautious, and have prompted us to look for opportunities to switch to higher-yielding instruments where we deem the risk-adjusted return more attractive.

Portfolio positioning

The South African bond yield curve steepened significantly over the quarter, as shorter rates fell due to rate cut expectations and longer rates rose due to poor global sentiment. For the most part, the curve was the steepest it has been. We have therefore increased our conviction in sovereign nominal bonds and have used this opportunity to add to these holdings and move exposures further out on the yield curve (to higher-duration bonds). With the fall in bank NCD rates and credit spread tightening, we have been selective sellers. We continue to hold credit where we see low probability of default risk and where spreads are above our estimates of fair value.

Changes in portfolio positioning

	Q1 2019	Q2 2019
Domestic bonds	23.8%	21.7%
Domestic cash and NCDs	76.2%	78.3%

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

Number of units as at 30 June 2019 (Class A):	34 709 165
Price (net asset value per unit) as at 30 June 2019 (Class A):	R1.03

All data as per Bloomberg as at 30 June 2019.

Disclaimer

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Yield

The yield is calculated daily on an annualised basis. The calculation is based on the historic yield of fixed income instruments.

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

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Company details

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by Lyle Sankar and Duayne le Roux

Current context

Investment markets have become more volatile and event-driven over the last year. Trade wars and global growth fears sparked a vicious sell-off in late 2018, but expectations for rate cuts by the US Federal Reserve have seen a healthy 2019 recovery. US bond yields have moved sharply downwards in response to expected rate cuts, with the 10-year bond yield falling to levels last seen in 2016. Furthermore, the yield curve has flattened, and the indication from the US bond market is that US growth and inflation are likely to be lower going forward. This placed pressure on the rand/dollar exchange rate over the period, which has historically been a precursor to higher inflation and higher money market rates in South Africa. Year to date, South African rates markets have performed well.

Our perspective

Over the past two years, South Africa has experienced consistently lower inflation outcomes, often below market consensus. Significantly, in late 2017, the South African Reserve Bank (SARB) stated its intention to target a CPI rate of 4.5%; the midpoint of its 3% to 6% target band. In addition, growth has disappointed: the latest GDP figure of -3.2% for the first quarter of 2019 signalled the need for significant economic support to address the prevailing low-growth environment. Following the release of inflation data in May (with headline CPI at 4.5% and core CPI at 4.1%), the SARB indicated that its models show room for interest rate cuts as the inflation rate circles its 4.5% target. As a result, markets now expect cuts of close to 0.5% over the next six to twelve months.

Portfolio positioning

Real yields in the local money market have been very attractive. The fund has therefore consistently had a bias for fixed-rate paper. As a repo rate cut has been priced into negotiable certificate of deposit (NCD) rates (i.e., rates have fallen), we have benefited where we locked in higher rates on offer earlier this year. We prefer to avoid tighter credit spreads in the commercial paper market and are comfortable that the fund holds assets with low credit risk. The fund remains highly liquid.

Changes in portfolio positioning

Q1 2019		Q2 2019	
Linked NCDs/ Floating-rate notes	19.7%	Linked NCDs/Floating-rate notes	23,1%
Step rate notes	11.3%	Step rate notes	13,5%
NCDs	54.6%	NCDs	53,4%
Treasury bills	10.8%	Treasury bills	8,5%
Call deposits	3.0%	Call deposits	0.4%
Corporate bonds	0.6%	Corporate bonds	1.1%

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

Number of units as at 30 June 2019 (Class A):	1 038 323 287
Price (net asset value per unit) as at 30 June 2019 (Class A):	R1.00

All data as per Bloomberg as at 30 June 2019.

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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

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Trustees

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Additional information

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Current context

Investment markets have become more volatile and event-driven over the last year. Trade wars and global growth fears sparked a vicious sell-off in late 2018, but expectations for rate cuts by the US Federal Reserve have seen a healthy 2019 recovery – to the extent that US markets are currently making all-time highs.

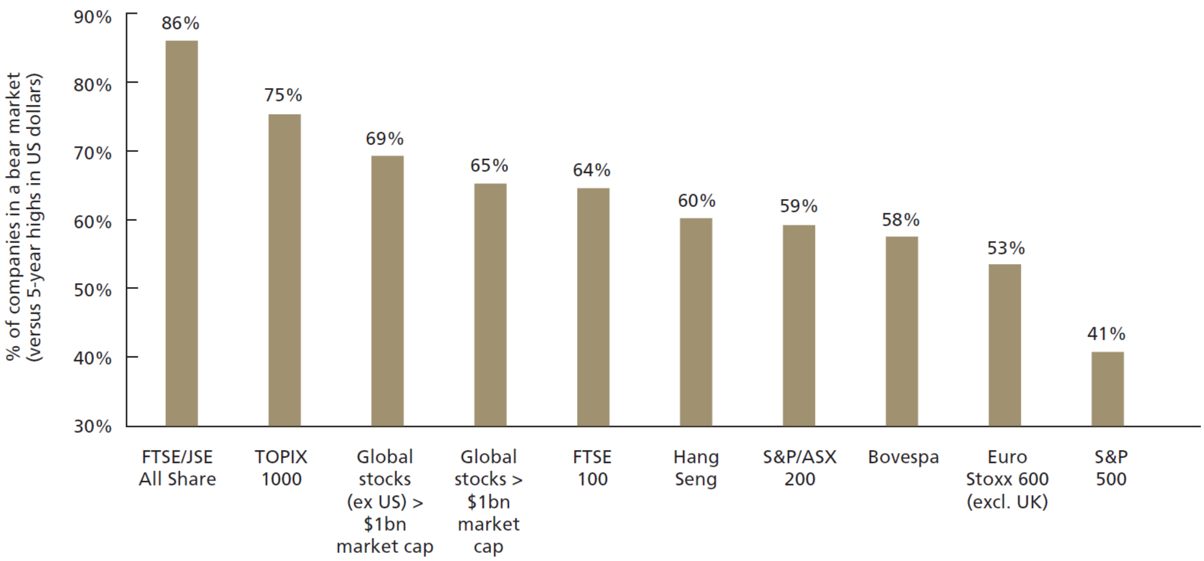
Over the first six months of 2019, the MSCI World Index returned 17.38% (recovering its 2018 drawdown) and the MSCI Emerging Markets Index returned 10.76%. US stocks continue to be the standout performers, with the S&P 500 delivering a total return of 18.54% year to date. Against this backdrop, we have been disappointed with fund's return of 2.6% over the first six months of the year. It is, however, important to highlight that bullish sentiment is relatively narrowly confined to the US and crowded global growth stocks.

Our perspective

While US and global markets are trading near record highs, around two-thirds of global stocks are in a bear market, with their prices having fallen by more than 20% from their five-year highs.

Graph 1 shows the proportion of companies in some major global markets that are in a bear market. It is interesting to note that with the exception of the S&P 500, this applies to more than 50% of each individual market's companies. Just over 75% of Japan's TOPIX 1000, a little more than 64% of the FTSE 100 and a whopping 86% of FTSE/JSE All Share Index (ALSI) companies are trading in their own bear market. The average 'bear market stock' in each index has declined by 41.6% (TOPIX), 41% (FTSE) and 52.4% (ALSI) respectively.

Graph 1: Most shares in global markets are in their own bear market



Sources: PSG Asset Management, Bloomberg (prices as at 24 June 2019)

While lower share prices in isolation do not determine value, they do indicate that the current environment is conducive to finding mispriced securities in parts of the markets that are out of favour. Understandably, the prolonged period of poor performance from markets such as Japan, the UK and South Africa has left many investors anxious and frustrated. However, while investor gut instinct may be to switch to markets such as the US that are performing better – or even to cash – we believe this holds a high risk of impeding investment outcomes. By applying our process consistently to ensure rational decision-making and careful risk management, we believe we can extract compelling long-term returns at lower levels of risk.

Portfolio positioning

Divergent price moves over the past 12 months have widened our opportunity set, both to acquire good-quality businesses at cheap valuations and to reduce exposure to securities when their margins of safety narrow. Over the past quarter, we exited AIA Group, Lam Research and Colfax. We added to several existing holdings, most notably Mosaic & Co, Asahi Group, Prudential Plc, Resona Holdings and Royal Dutch Shell.

We believe many investors are currently overpaying for perceived quality in several market areas, while ignoring valuations. The fund therefore has limited direct exposure to areas such as the US economy, companies with highly visible growth prospects and technology counters. While 37% of the fund is invested in US listed equities, it is important to note that the bulk of this exposure is either to companies that have no direct exposure to the US economy (such as Liberty Global, which has all its operations in Europe) or in areas that are hugely out of favour (such as apparel and personal care retailer Lbrands). We are also increasingly of the view that select companies in the Japanese market are an attractive proposition for longer-term investors, where cheap valuations, strong balance sheets and improving corporate governance bode well for future returns.

While the fund's more recent underperformance is extremely disappointing, we are encouraged by the valuation opportunity across the portfolio. The fund's equity holdings are among the cheapest they have been since inception, and at similar levels to early 2016 – a period after which we delivered strong subsequent outperformance. These valuations and the significant upside potential they present inform our confidence in our global opportunity set going forward.

Changes in portfolio positioning

Q1 2019		Q2 2019	
Equity	89.8%	Equity	91.4%
Property Equities	7.0%	Property Equities	6.1%
Cash	3.2%	Cash	2.5%

Q1 2019		Q2 2019	
US	36.9%	US	37.4%
Europe	8.9%	Europe	10.1%
UK	15.9%	UK	17.2%
Asia ex Japan	3.1%	Asia ex Japan	0.8%
Japan	16.9%	Japan	18.4%
Canada	10.2%	Canada	9.5%
Africa	4.9%	Africa	4.1%
Cash	3.2%	Cash	2.5%

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 Equity Sub-Fund. The PSG Global Equity 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 30 June 2019 (Class A): 6 641 645
Price (net asset value per unit) as at 30 June 2019 (Class A): R2.38

All data as per Bloomberg as at 30 June 2019.

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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

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Pricing

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by Philipp Wörz and Greg Hopkins

Current context

Investment markets have become more volatile and event-driven over the last year. Trade wars and global growth fears sparked a vicious sell-off in late 2018, but expectations for rate cuts by the US Federal Reserve have seen a healthy 2019 recovery – to the extent that US markets are currently making all-time highs.

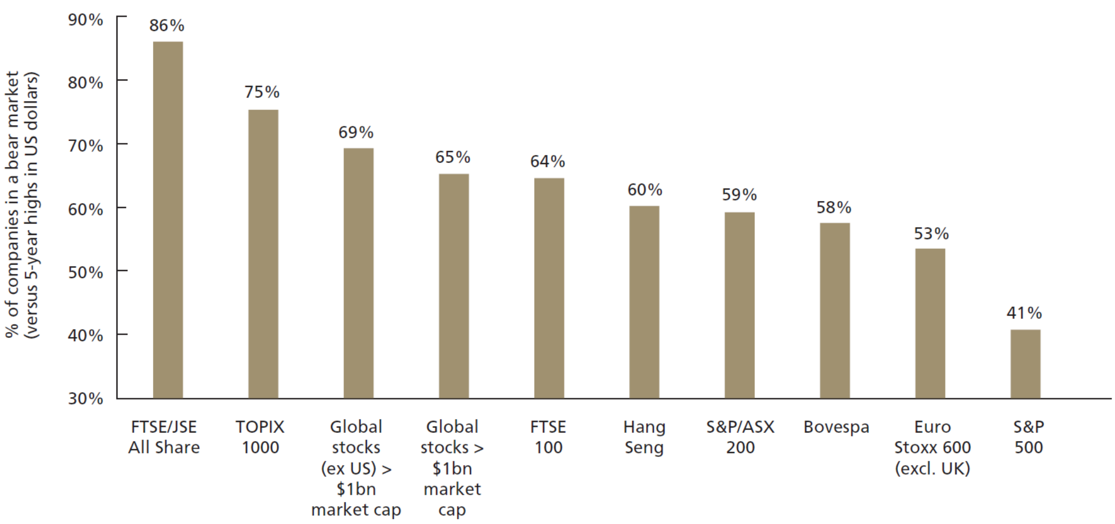
Over the first six months of 2019, the MSCI World Index returned 17.38% (recovering its 2018 drawdown) and the MSCI Emerging Markets Index returned 10.76%. US stocks continue to be the standout performers, with the S&P 500 delivering a total return of 18.54% year to date. Against this backdrop, we have been disappointed with fund's return of 2.0% over the first six months of the year. It is, however, important to highlight that bullish sentiment is relatively narrowly confined to the US and crowded global growth stocks.

Our perspective

While US and global markets are trading near record highs, around two-thirds of global stocks are in a bear market, with their prices having fallen by more than 20% from their five-year highs.

Graph 1 shows the proportion of companies in some major global markets that are in a bear market. It is interesting to note that with the exception of the S&P 500, this applies to more than 50% of each individual market's companies. Just over 75% of Japan's TOPIX 1000, a little more than 64% of the FTSE 100 and a whopping 86% of FTSE/JSE All Share Index (ALSI) companies are trading in their own bear market. The average 'bear market stock' in each index has declined by 41.6% (TOPIX), 41% (FTSE) and 52.4% (ALSI) respectively.

Graph 1: Most shares in global markets are in their own bear market



Sources: PSG Asset Management, Bloomberg (prices as at 24 June 2019)

While lower share prices in isolation do not determine value, they do indicate that the current environment is conducive to finding mispriced securities in parts of the markets that are out of favour. Understandably, the prolonged period of poor performance from markets such as Japan, the UK and South Africa has left many investors anxious and frustrated. However, while investor gut instinct may be to switch to markets such as the US that are performing better – or even to cash – we believe this holds a high risk of impeding investment outcomes. Indeed, after having raised cash in the fund to record levels in early 2018, we have reduced cash holdings over the past 12 months by buying attractive securities in areas where underlying valuations have become extremely compelling. By applying our process consistently to ensure rational decision-making and careful risk management, we believe we can extract compelling long-term returns at lower levels of risk.

Portfolio positioning

Divergent price moves over the past 12 months have widened our opportunity set, both to acquire good-quality businesses at cheap valuations and to reduce exposure to securities when their margins of safety narrow. Over the past quarter, we exited AIA Group, Lam Research and Colfax. We added to several existing holdings, most notably Mosaic & Co, Asahi Group, Prudential Plc, Resona Holdings and Royal Dutch Shell.

We believe many investors are currently overpaying for perceived quality in several market areas, while ignoring valuations. The fund therefore has limited direct exposure to areas such as the US economy, companies with highly visible growth prospects and technology counters. While 32% of the fund is invested in US listed equities, it is important to note that the bulk of this exposure is either to companies that have no direct exposure to the US economy (such as Liberty Global, which has all its operations in Europe) or in areas that are hugely out of favour (such as apparel and personal care retailer Lbrands). We are also increasingly of the view that select companies in the Japanese market are an attractive proposition for longer-term investors, where cheap valuations, strong balance sheets and improving corporate governance bode well for future returns.

While the fund's more recent underperformance is extremely disappointing, we are encouraged by the valuation opportunity across the portfolio. The fund's equity holdings are among the cheapest they have been since inception, and at similar levels to early 2016 – a period after which we delivered strong subsequent outperformance. These valuations and the significant upside potential they present inform our confidence in our global opportunity set going forward.

Changes in portfolio positioning

Q1 2019		Q2 2019	
Equity	76.2%	Equity	78.0%
Property Equities	6.3%	Property Equities	5.4%
Cash	17.5%	Cash	16.6%

Q1 2019		Q2 2019	
US	31.6%	US	32.2%
Europe	7.3%	Europe	8.2%
UK	13.3%	UK	14.2%
Asia ex Japan	2.7%	Asia ex Japan	0.8%
Japan	14.7%	Japan	15.9%
Canada	9.0%	Canada	8.9%
Africa	3.9%	Africa	3.2%
Cash	17.5%	Cash	16.6%

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 30 June 2019 (Class A):	24 083 192
Price (net asset value per unit) as at 30 June 2019 (Class A):	R1.90

All data as per Bloomberg as at 30 June 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 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.

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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.