PSG Asset Management

PSG Equity Fund

Quarterly portfolio commentary as at 31 March 2019

by Shaun le Roux, Greg Hopkins and Gustav Schulenburg

Current context

Global equity 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%. The JSE's recovery was more lacklustre: the FTSE/JSE All Share Index gained 8.0% and was dominated by rand hedges, especially resources and Naspers. Domestic counters were material underperformers. The FTSE/JSE Small Cap Index lost 3.4% and financials declined 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. Markets therefore continue to be characterised by wide valuation divergences. We are finding far more opportunities in those parts where investors are fearful, especially in the SA Inc. part of the domestic market, which has endured tough economic conditions and aggressive selling by foreigners in recent years. 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

The fund is actively harvesting the best ideas on PSG's buy lists. We have been using market conditions to acquire a portfolio of above-average quality companies at deeply discounted prices, both locally and globally.

The wide discount between share prices and our appraisals of intrinsic value suggests that favourable relative performance should be achieved over the long run.

Changes in portfolio positioning

Q4 2018		Q1 2019	
Domestic equity	72.1%	Domestic equity	69.2%
Domestic cash	0.5%	Domestic cash	0.7%
Foreign equity	25.5%	Foreign equity	27.8%
Foreign property	1.8%	Foreign property	1.9%
Foreign cash	0.1%	Foreign cash	0.4%

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

Number of units as at 31 March 2019 (Class A): 66 110 012
Price (net asset value per unit) as at 31 March 2019 (Class A): R10.96

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.

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

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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

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PSG Flexible Fund

Quarterly portfolio commentary as at 31 March 2019
by Shaun le Roux and Mikhail Motala

Current context

Global equity 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%. The JSE's recovery was more lacklustre: the FTSE/JSE All Share Index gained 8.0% and was dominated by rand hedges, especially resources and Naspers. Domestic counters were material underperformers. The FTSE/JSE Small Cap Index lost 3.4% and financials declined over the quarter.

Local fixed income assets experienced some tailwinds from Moody's decision to keep South Africa's credit rating unchanged. This has resulted in the sovereign yields reducing slightly, as local and foreign investors continue to see value in South African government bonds. Anchored inflation – well within the South African Reserve Bank's (SARB's) 3% to 6% target band – has further supported yields, as the SARB has taken a more neutral stance on interest rates and maintained the existing repurchase rate of 6.75%.

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. Markets therefore continue to be characterised by wide valuation divergences. We are finding far more opportunities in those parts where investors are fearful, especially in the SA Inc. part of the domestic market, which has endured tough economic conditions and aggressive selling by foreigners in recent years. 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

The fund has around 10% in cash. While this is low relative to the long-term average of 26.5%, it still represents healthy firepower to be deployed if opportunities arise. It also serves as a liquidity buffer in the local market, where we are finding superior opportunities in mid-cap stocks.

The relatively low levels of cash are a function of the attractiveness of individual equity opportunities, both local and global. We anticipate above-average long-term returns from the stocks held in the portfolio.

Changes in portfolio positioning

Q4 2018		Q1 2019	
Domestic equity	54.4%	Domestic equity	53.0%
Domestic cash	9.8%	Domestic cash	9.2%
Domestic gold	0.6%	Domestic gold	0.6%
Domestic bonds	6.6%	Domestic bonds	6.2%
Foreign cash and gold	0.1%	Foreign cash	0.3%
Foreign equity	25.5%	Foreign equity	27.4%
Foreign property	3.0%	Foreign property	3.3%

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

Number of units as at 31 March 2019 (Class A): 975 678 235
Price (net asset value per unit) as at 31 March 2019 (Class A): R5.29

All data as per Bloomberg to 31 March 2019.

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by Greg Hopkins, Justin Floor & Dirk Jooste

Current context

Global equity 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%. The JSE's recovery was more lacklustre: the FTSE/JSE All Share Index gained 8.0% and was dominated by rand hedges, especially resources and Naspers. Domestic counters were material underperformers. The FTSE/JSE Small Cap Index lost 3.4% and financials declined over the quarter.

Local fixed income assets experienced some tailwinds from Moody's decision to keep South Africa's credit rating unchanged. This has resulted in the sovereign yields reducing slightly, as local and foreign investors continue to see value in South African government bonds. Anchored inflation – well within the South African Reserve Bank's (SARB's) 3% to 6% target band – has further supported yields, as the SARB has taken a more neutral stance on interest rates and maintained the existing repurchase rate of 6.75%.

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. Markets therefore continue to be characterised by wide valuation divergences. We are finding far more opportunities in those parts where investors are fearful, especially in the SA Inc. part of the domestic market, which has endured tough economic conditions and aggressive selling by foreigners in recent years. 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.

Equally as encouraging is the fact that the opportunities we're finding extend across almost all asset classes – a rare position to be in. We believe that this has allowed us to build diversified portfolios with favourable odds of achieving their mandates under a range of possible outcomes. We're excited both by the opportunity set, and by the balanced nature of our funds' investments.

Portfolio positioning

Equity exposure increased from 64.5% to 66.2% over the quarter, as the fund took advantage of the opportunities presented to buy shares in above-average quality global companies at attractive margins of safety.

The fund reduced corporate bond exposures as instrument prices reached our estimates of intrinsic value. Given that these are illiquid instruments, their hurdle for inclusion in the fund is high. As real yields in long-dated government nominal and inflation-linked bonds remain compelling, the fund has been adding to existing positions.

Overall cash levels of 7.1% have not changed over the quarter. 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

Q4 2018		Q1 2019	
Domestic equity	40.9%	Domestic equity	39.6%
Domestic cash and NCDs	6.7%	Domestic cash and NCDs	6.0%
Domestic bonds	25.6%	Domestic bonds	23.7%
Foreign equity	23.6%	Foreign equity	26.6%
Foreign cash	0.4%	Foreign cash	1.1%
Foreign property	2.8%	Foreign property	3.0%

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

Number of units as at 31 March 2019 (Class A): 62 355 808
Price (net asset value per unit) as at 31 March 2019 (Class A): R67.90

All data as per Bloomberg to 31 March 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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by Dirk Jooste, Justin Floor & Greg Hopkins

Current context

Global equity 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%. The JSE's recovery was more lacklustre: the FTSE/JSE All Share Index gained 8.0% and was dominated by rand hedges, especially resources and Naspers. Domestic counters were material underperformers. The FTSE/JSE Small Cap Index lost 3.4% and financials declined over the quarter.

Local fixed income assets experienced some tailwinds from Moody's decision to keep South Africa's credit rating unchanged. This has resulted in the sovereign yields reducing slightly, as local and foreign investors continue to see value in South African government bonds. Anchored inflation – well within the South African Reserve Bank's (SARB's) 3% to 6% target band – has further supported yields, as the SARB has taken a more neutral stance on interest rates and maintained the existing repurchase rate of 6.75%.

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. Markets therefore continue to be characterised by wide valuation divergences. We are finding far more opportunities in those parts where investors are fearful, especially in the SA Inc. part of the domestic market, which has endured tough economic conditions and aggressive selling by foreigners in recent years. 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.

Equally as encouraging is the fact that the opportunities we're finding extend across almost all asset classes – a rare position to be in. We believe that this has allowed us to build diversified portfolios with favourable odds of achieving their mandates under a range of possible outcomes. We're excited both by the opportunity set, and by the balanced nature of our funds' investments.

Portfolio positioning

Equity exposure increased from 37.2% to 39.1% over the quarter, as the fund took advantage of the opportunities presented to buy shares in above-average quality global companies at attractive margins of safety. Total equity exposure comprises an allocation of 22.6% to domestic equity and 16.5% to foreign equity.

The fund's holdings in domestic cash and negotiable certificates of deposit (NCDs) decreased by 0.7% over the quarter, from 17.1% to 16.4%. The fund also reduced corporate bond exposures in segments where margin of safety has narrowed. As a result, the fund's allocation to domestic bonds reduced by 1.9% to 41.8%. Its foreign cash holding is slightly higher compared to the previous quarter end, at 0.8%. Foreign property exposure increased by 0.3% to 1.9% during the early stages of the quarter, as opportunities were presented by market weakness.

Changes in portfolio positioning

Q4 2018		Q1 2019	
Domestic equity	22.6%	Domestic equity	22.6%
Domestic cash and NCDs	17.1%	Domestic cash and NCDs	16.4%
Domestic bonds	43.7%	Domestic bonds	41.8%
Foreign equity	14.6%	Foreign equity	16.5%
Foreign cash	0.4%	Foreign cash	0.8%
Foreign property	1.6%	Foreign property	1.9%

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

Number of units as at 31 March 2019 (Class A):	80 261 958
Price (net asset value per unit) as at 31 March 2019 (Class A):	R141.59

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by Tyron Green, Lyle Sankar & Greg Hopkins

Current context

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Our perspective

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Short-term interest rates have declined over the quarter, with the rate on the 1-year negotiable certificate of deposit (NCD) reducing from 8.2% to 8.1%, and the rate on the 5-year NCD reducing from 8.8% to 8.6%. This implies that the market has built in even lower interest rate increases. Fixed income yields have declined marginally, but starting yields remain high. 20-year government bonds are offering yields of around 9.5% (down from 10%) and 5-year bonds are yielding 7.6% (down from 8.1%). We expect further market noise in the run-up to the May general elections but believe that local fixed income assets present the potential for strong returns in future.

Portfolio positioning

We continue to gradually reduce exposure to expensive corporate bonds and allocate cash to longer-dated NCDs. Over the quarter, the fund reduced its exposure to shorter-dated corporate fixed-rate bonds as spreads tightened. The 5-year government bond (the reference bond for these credits) is yielding around 7.6%, while bank 5-year NCDs offer close to 8.6%.

Cash levels remain healthy, with the fund holding 46.3% in cash and NCDs. This is dry powder that we expect to employ if the opportunities we currently see in many domestic securities become more widespread.

Changes in portfolio positioning

Q4 2018		Q1 2019	
Domestic equity	4.8%	Domestic equity	4.4%
Domestic preference shares	0.4%	Domestic preference shares	0.5%
Domestic cash and NCDs	45.0%	Domestic cash and NCDs	46.3%
Domestic bonds	45.1%	Domestic bonds	43.4%
Foreign equity	2.9%	Foreign equity	3.2%
Foreign cash	0.9%	Foreign cash	1.1%
Foreign property	0.9%	Foreign property	1.1%

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

Number of units as at 31 March 2019 (Class A): 1 123 473 058
Price (net asset value per unit) as at 31 March 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

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Trustee

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Additional information

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Current context

Local fixed income assets experienced some tailwinds from Moody's decision to keep South Africa's credit rating unchanged. This has resulted in sovereign yields reducing slightly, as local and foreign investors continue to see value in South African government bonds. Anchored inflation – well within the South African Reserve Bank's (SARB's) 3% to 6% target band – has further supported yields, as the SARB has taken a more neutral stance on interest rates and maintained the existing repurchase rate of 6.75%.

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. Markets therefore continue to be characterised by wide valuation divergences. We are finding far more opportunities in those parts 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.

Local short-term interest rates have declined over the quarter, with the rate on the 1-year negotiable certificate of deposit (NCD) reducing from 8.2% to 8.1%, and the rate on the 5-year NCD reducing from 8.8% to 8.6%. This implies that the market has built in even lower interest rate increases. Fixed income yields have declined marginally, but starting yields remain high. 20-year government bonds are offering yields of around 9.5% (down from 10%) and 5-year bonds are yielding 7.6% (down from 8.1%). We expect further market noise in the run-up to the May general elections but believe that local fixed income assets present the potential for strong returns in future.

Portfolio positioning

We continue to gradually reduce exposure to expensive corporate bonds and allocate cash to longer-dated NCDs. Over the quarter, the fund reduced its exposure to shorter-dated corporate fixed-rate bonds as spreads tightened. The 5-year government bond (the reference bond for these credits) is yielding around 7.6%, while bank 5-year NCDs offer close to 8.6%.

Cash levels remain healthy, with the fund holding 76.2% in cash and NCDs. This is dry powder that we expect to employ if the opportunities we currently see in many domestic securities become more widespread.

Changes in portfolio positioning

	Q4 2018	Q1 2019
Domestic bonds	29.1%	23.8%
Domestic cash and NCDs	70.9%	76.2%

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

Number of units as at 31 March 2019 (Class A): 36 040 745
Price (net asset value per unit) as at 31 March 2019 (Class A): R1.03

All data as per Bloomberg to 31 March 2019.

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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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PSG Money Market Fund

Quarterly portfolio commentary as at 31 March 2019
by Lyle Sankar and Duayne le Roux

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.

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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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by Philipp Wörz and Greg Hopkins

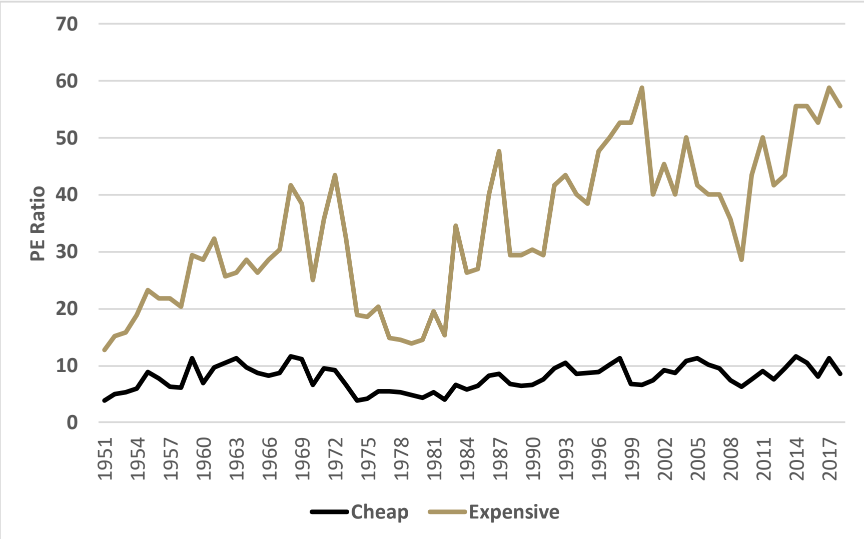
Current context

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%.

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. 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	91.2%	Equity	89.8%
Property Equities	7.6%	Property Equities	7.0%
Cash	1.2%	Cash	3.2%

Q4 2018		Q1 2019	
US	42.4%	US	36.9%
Europe	5.6%	Europe	8.9%
UK	12.7%	UK	15.9%
Asia ex Japan	7.2%	Asia ex Japan	3.1%
Japan	13.9%	Japan	16.9%
Canada	10.0%	Canada	10.2%
Africa	6.1%	Africa	4.9%
Other	0.5%	Other	0.0%
Cash	1.6%	Cash	3.2%

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 31 March 2019 (Class A):	7 274 890
Price (net asset value per unit) as at 31 March 2019 (Class A):	R2.55

All data as per Bloomberg to 31 March 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

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.

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Current context

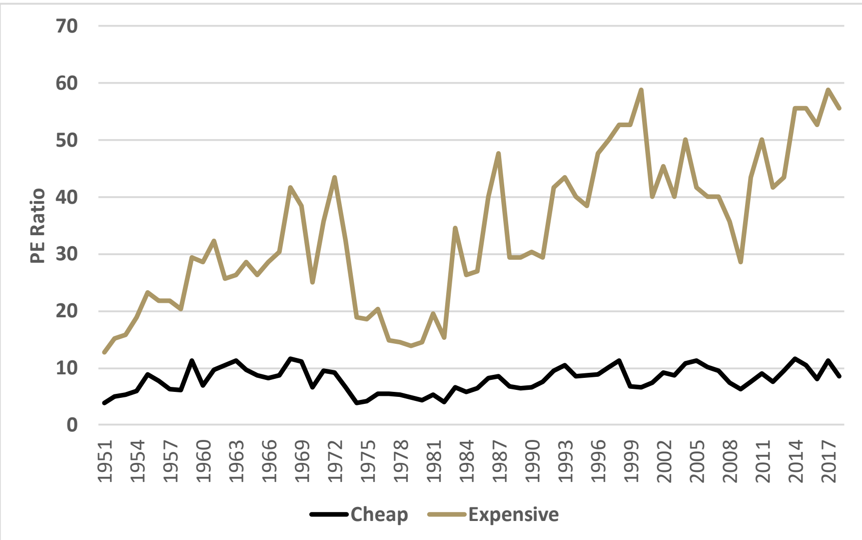
Global equity markets largely shrugged off the fears that contributed to the sell-off towards the end of 2018. Despite continued uncertainties around the health of the global economy, trade relations between the US and China, and Britain's exit from the European Union, markets recovered sharply in the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

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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.

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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.

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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.