PSG Money Market Fund

Quarterly portfolio commentary as at 31 December 2018
by Lyle Sankar

Current context

2018 was a tough year for most investors. After a 'Ramaphoric' start, the JSE experienced its worst year since the global financial crisis. Market sentiment swayed as South Africa's economic reality set in and, compounded by investor aversion towards emerging markets in general, the FTSE/JSE All Share Index ended the year 9% down in rand terms and the FTSE/JSE South Africa Listed Property Index closed 25% down. The rand, having rallied to R11.50 against the US dollar, was trading at R14.35 at year end. However, the year was more favourable to fixed income markets. The Alexander Forbes Short Term Fixed Interest (STeFI) Index delivered a total return of 7.3% and the FTSE/JSE All Bond Index yielded 7.7%, both achieving positive real returns by outperforming inflation of 5.2%.

Our perspective

While it may feel uncomfortable or even frightening, times like these – clouded by fear and uncertainty – tend to present the best investment opportunities. As Warren Buffett once said, "Every decade or so, dark clouds will fill the economic skies, and they will briefly rain gold. When downpours of that sort occur, it's imperative that we rush outdoors carrying washtubs, not teaspoons."

We believe that South Africa currently offers a standout investment opportunity. Short-term interest rates have come in since the last quarter, with the one-year negotiable certificate of deposit (NCD) reducing from 8.3% to 8.2% and the five-year NCD reducing from 9.3% to 8.8%. This implies that the market has built in lower interest rate increases since the last quarter. We still do not expect the South African Reserve Bank to embark on an aggressive hiking cycle. We anticipate further market noise around the National Budget in February and in the runup to the May general elections, but believe that local fixed income markets have created the opportunity for strong potential returns in future.

Portfolio positioning

The fund reduced its exposure to shorter-dated NCDs and added to longer-dated NCDs and RSA National Treasury Bills, which currently offer more attractive yields. This extended the fund's maturity profile and increased its overall liquidity.

Changes in portfolio positioning

Q3 2018		Q4 2018	
Linked NCDs/ Floating-rate notes	21.4%	Linked NCDs/Floating-rate notes	15.0%
Step rate notes	11.9%	Step rate notes	12.5%
NCDs	41.0%	NCDs	21.3%
Treasury bills	24.0%	Treasury bills	49.4%
Call deposits	0%	Call deposits	0.3%
Corporate bonds	1.7%	Corporate bonds	1.5%

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

All data as per Bloomberg to 31 December 2018.

Disclaimer

Collective Investment Schemes in Securities (CIS) are generally medium to long-term investments. The value of participatory interests (units) or the investment may go down as well as up and past performance is not a guide to future performance. Fluctuations or movements in the exchange rates may cause the value of underlying international investments to go up or down. CIS are traded at ruling prices and can engage in borrowing and scrip lending. The portfolio may borrow up to 10% of its market value to bridge insufficient liquidity. Where foreign securities are included in a portfolio, the portfolio is exposed to risks such as potential constraints on liquidity and the repatriation of funds, macroeconomic, political, foreign exchange, tax, settlement and potential limitations on the availability of market information. The portfolios may be capped at any time in order for them to be managed in accordance with their mandate. PSG Collective Investments (RF) Limited does not provide any guarantee either with respect to the capital or the return of the portfolio. Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided.

Money Market

The PSG Money Market Fund maintains a constant price and is targeted at a constant value. The quoted yield is calculated by annualizing the average 7 day yield. A money market portfolio is not a bank deposit account. Excessive withdrawals from the portfolio may place the portfolio under liquidity pressures and in such circumstances a process of ring-fencing of withdrawal instructions and managed payouts over time may be followed. The total return to the investor is made up of interest received and any gain or loss made on any particular instrument. In most cases the return will merely have the effect of increasing or decreasing the daily yield but in the case of abnormal losses it can have the effect of reducing the capital value of the portfolio. Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided.

Regulation 28

The fund is managed according to Regulation 28 of the Pension Funds Act. The South African retirement fund industry is governed by the Pension Funds Act No. 24 of 1956. Regulation 28 of the Pension Funds Act prescribes the maximum limits in asset classes that an approved retirement fund may invest in. Exposures in excess of the limits will be corrected immediately, except where due to a change in the fair value or characteristic of an asset, e.g. market value fluctuations, in which case they will be corrected within a reasonable time period.

Performance

All performance data for a lump sum, net of fees, include income and assumes reinvestment of income on a NAV to NAV basis. Annualised performances show longer term performance rescaled over a 12 month period. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. Performance is calculated for the portfolio and individual investor performance may differ as a result thereof. The portfolio is valued at 15h00 daily. Income distributions are net of any applicable taxes. Actual annual figures are available to the investor on request. Prices are published daily and available on the website www.psg.co.za/asset-management and in the daily newspapers. Figures quoted are from Morningstar Inc.

Pricing

Forward pricing is used. Unit trust prices are calculated on a net asset value (NAV) basis, which is the market value of all assets in the Fund including income accruals less permissible deductions divided by the number of units in issue.

Company details

PSG Collective Investments (RF) Limited is registered as a CIS Manager with the Financial Sector Conduct Authority , and a member of the Association of Savings and Investments South Africa (ASISA) through its holdings company PSG Konsult Limited. The management of the portfolio is delegated to PSG Asset Management (Pty) Ltd, an authorised Financial Services Provider under the Financial Advisory and Intermediary Services Act 2002, FSP no 29524. PSG Asset Management (Pty) Ltd and PSG Collective Investments (RF) Limited are subsidiaries of PSG Konsult Limited. PSG Collective Investments (RF) Limited can be contacted on +27(21) 799 8000; (toll free) 0800 600 168, via email assetmanagement@psg.co.za.

Conflict of Interest Disclosure

The Fund may from time to time invest in a portfolio managed by a related party. PSG Collective Investments (RF) Limited or the fund manager may negotiate a discount in fees charged by the underlying portfolio. All discounts negotiated are reinvested in the Fund for the benefit of the investors. Neither PSG Collective Investments (RF) Limited nor PSG Asset Management (Pty) Limited retains any portion of such discount for their own accounts. The fund manager may use the brokerage services of a related party, PSG Securities Ltd.

Trustees

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Additional information

Additional information is available free of charge on the website www.psg.co.za/asset-management and may include publications, brochures, forms and annual reports.