PSG Asset Management

PSG Equity Fund

Quarterly portfolio commentary as at 30 September 2019
by Shaun le Roux and Gustav Schulenburg

Current context

2019 has been a challenging year for PSG Asset Management and our clients. Confidence within South Africa remains dismal, and global macro risks have risen amid trade wars and a slowing global economy. This has seen a very aggressive sell-off in parts of the global equity market, especially in the case of the out-of-favour cheaper stocks that dominate our equity portfolios. Conversely, global investors have been comfortable to allocate capital to perceived safe havens, primarily defensive and tech stocks. On the JSE, we have seen very strong performance by gold and platinum shares on the back of sharp increases in the rand prices of precious metals – the rand price of palladium has almost tripled over the past four years. We see no margin of safety in an investment in South African gold and platinum shares at these levels, and market participants appear to be speculating on further precious metal price increases.

We run a global process and offshore stocks have contributed materially to long-term client returns. After very strong price performance, we have steadily rotated our portfolios away from US blue chips over the past two years in favour of less crowded and significantly cheaper opportunities in out-of-favour sectors and geographies. These include Japan, the UK and US retail. As tends to be the case, we have been early into these positions and global equities have detracted from performance in the recent past. Furthermore, in recent times there has been a high correlation between cheap stocks on the JSE and cheap stocks abroad. The evidence is clear that this correlation is significantly lower over long time periods given the materially different economic drivers and currency exposures of our underlying holdings, and our offshore stocks remain important portfolio diversifiers over the long run.

Our perspective

The extreme divergences we are currently seeing in the valuations of popular securities compared to those investors are shying away from are rare, and present risks as well as opportunities. Investors seeking a smoother ride by switching to cash or buying high-quality counters at any cost may find that this 'fail safe' proves to be the opposite over the longer term. Missing out on the gains from a market recovery can dramatically erode an investment outcome. Similarly, buying securities at lofty valuations underpinned by high growth expectations may result in losses if expectations prove to be unsustainable.

In contrast, areas in which valuations have been driven lower due to fear and uncertainty present the potential for mispricing. Where prices fall across the board – an entire sector or geography, for example – quality securities become available cheaply, along with the rest. Tainted by pessimism, their earnings potential is easily overlooked. While it may take time for the market to realise mispriced value, investors who can ride out the storm stand to generate outsized returns from such attractive entry points. On average, our local stocks trade at a 43% discount to intrinsic value and our global stocks at a 38% discount. This implies potential upside of 75% locally and 61% globally (in US dollars). We are therefore excited about the opportunity set embedded in our portfolios.

Portfolio positioning

We always seek to diversify our portfolios without compromising on our 3 M process. This sees us seeking less correlated opportunities in different sectors and geographies to existing holdings. We do not think risk is reduced by buying perceived safe havens at very elevated prices.

Our clients are invested in good businesses that are currently trading at very attractive prices.

Changes in portfolio positioning

Q2 2019		Q3 2019	
Domestic equity	69.9%	Domestic equity	67.2%
Domestic cash	0.0%	Domestic cash	0.3%
Foreign equity	28.4%	Foreign equity	29.7%
Foreign property	1.4%	Foreign property	2.6%
Foreign cash	0.3%	Foreign cash	0.2%

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

Number of units as at 30 September 2019 (Class A):	57 884 680
Price (net asset value per unit) as at 30 September 2019 (Class A):	R9.96
Number of units as at 30 September 2019 (Class E):	108 818 638
Price (net asset value per unit) as at 30 September 2019 (Class E):	R9.99

All data as per Bloomberg as at 30 September 2019.

Disclaimer

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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

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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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PSG Asset Management

PSG Flexible Fund

Quarterly portfolio commentary as at 30 September 2019

by Shaun le Roux and Mikhail Motala

Current context

2019 has been a challenging year for PSG Asset Management and our clients. Confidence within South Africa remains dismal, and global macro risks have risen amid trade wars and a slowing global economy. This has seen a very aggressive sell-off in parts of the global equity market, especially in the case of the out-of-favour cheaper stocks that dominate our equity portfolios. Conversely, global investors have been comfortable to allocate capital to global bonds (despite negative-yielding debt now totaling $14.8 trillion) and perceived safe havens in equity markets, primarily defensive and tech stocks. On the JSE, we have seen very strong performance by gold and platinum shares on the back of sharp increases in the rand prices of precious metals – the rand price of palladium has almost tripled over the past four years. We see no margin of safety in an investment in South African gold and platinum shares at these levels, and market participants appear to be speculating on further precious metal price increases.

We run a global process and offshore stocks have contributed materially to long-term client returns. After very strong price performance, we have steadily rotated our portfolios away from US blue chips over the past two years in favour of less crowded and significantly cheaper opportunities in out-of-favour sectors and geographies. These include Japan, the UK and US retail. As tends to be the case, we have been early into these positions and global equities have detracted from performance in the recent past. Furthermore, in recent times there has been a high correlation between cheap stocks on the JSE and cheap stocks abroad. The evidence is clear that this correlation is significantly lower over long time periods given the materially different economic drivers and currency exposures of our underlying holdings, and our offshore stocks remain important portfolio diversifiers over the long run.

Our perspective

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In contrast, areas in which valuations have been driven lower due to fear and uncertainty present the potential for mispricing. Where prices fall across the board – an entire sector or geography, for example – quality securities become available cheaply, along with the rest. Tainted by pessimism, their earnings potential is easily overlooked. While it may take time for the market to realise mispriced value, investors who can ride out the storm stand to generate outsized returns from such attractive entry points. On average, our local stocks trade at a 43% discount to intrinsic value and our global stocks at a 38% discount. This implies potential upside of 75% locally and 61% globally (in US dollars). We are therefore excited about the opportunity set embedded in our portfolios.

Portfolio positioning

We always seek to diversify our portfolios without compromising on our 3 M process. This sees us seeking less correlated opportunities in different sectors and geographies to existing holdings. We do not think risk is reduced by buying perceived safe havens at very elevated prices.

Our clients are invested in good businesses that are currently trading at very attractive prices. In addition, the fund has 5.8% of fund value in cash and 8.4% in long-dated South African government nominal bonds. The cash is firepower to be used in the event of further opportunity in equity markets. We anticipate equity-like returns from our bond holding but also view it as a source of capital in the event of more attractive opportunities in stocks.

Changes in portfolio positioning

Q2 2019		Q3 2019	
Domestic equity	55.1%	Domestic equity	53.0%
Domestic cash	5.1%	Domestic cash	5.8%
Domestic gold	0.7%	Domestic gold	0.0%
Domestic bonds	9.2%	Domestic bonds	8.4%
Foreign cash and gold	0.2%	Foreign cash	0.8%
Foreign equity	27.0%	Foreign equity	28.2%
Foreign property	2.7%	Foreign property	3.8%

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

Number of units as at 30 September 2019 (Class A):	875 759 779
Price (net asset value per unit) as at 30 September 2019 (Class A):	R4.97
Number of units as at 30 September 2019 (Class E):	1 392 419 819
Price (net asset value per unit) as at 30 September 2019 (Class E):	R4.97

All data as per Bloomberg as at 30 September 2019.

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Trustees

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PSG Asset Management

PSG Balanced Fund

Quarterly portfolio commentary as at 30 September 2019

by Justin Floor & Dirk Jooste

Current context

2019 has been a challenging year for PSG Asset Management and our clients. Confidence within South Africa remains dismal, and global macro risks have risen amid trade wars and a slowing global economy. This has seen a very aggressive sell-off in parts of the global equity market, especially in the case of the out-of-favour stocks that dominate our equity portfolios. Conversely, global investors have been comfortable to allocate capital to global bonds (despite negative-yielding debt now totaling $14.8 trillion) and perceived safe havens in equity markets, primarily defensive and tech stocks. On the JSE, we have seen very strong performance by gold and platinum shares on the back of sharp increases in the rand prices of precious metals – the rand price of palladium has almost tripled over the past four years. We see no margin of safety in an investment in South African gold and platinum shares at these levels, and market participants appear to be speculating on further precious metal price increases.

We run a global process and offshore stocks have contributed materially to long-term client returns. After very strong price performance, we have steadily rotated our portfolios away from US blue chips over the past two years in favour of less crowded and significantly cheaper opportunities in out-of-favour sectors and geographies. These include Japan, the UK and US retail. As tends to be the case, we have been early into these positions and global equities have detracted from performance in the recent past. Furthermore, in recent times there has been a high correlation between cheap stocks on the JSE and cheap stocks abroad. The evidence is clear that this correlation is significantly lower over long time periods given the materially different economic drivers and currency exposures of our underlying holdings, and our offshore stocks remain important portfolio diversifiers over the long run.

Our perspective

The extreme divergences we are currently seeing in the valuations of popular securities compared to those investors are shying away from are rare, and present risks as well as opportunities. Investors seeking a smoother ride by switching to cash or buying high-quality counters at any cost may find that this 'fail safe' proves to be the opposite over the longer term. Missing out on the gains from a market recovery can dramatically erode an investment outcome. Similarly, buying securities at lofty valuations underpinned by high growth expectations may result in losses if expectations prove to be unsustainable.

In contrast, areas in which valuations have been driven lower due to fear and uncertainty present the potential for mispricing. Where prices fall across the board – an entire sector or geography, for example – quality securities become available cheaply, along with the rest. Tainted by pessimism, their earnings potential is easily overlooked. While it may take time for the market to realise mispriced value, investors who can ride out the storm stand to generate outsized returns from such attractive entry points. On average, our local stocks trade at a 43% discount to intrinsic value and our global stocks at a 38% discount. This implies potential upside of 75% locally and 61% globally (in US dollars). We are therefore excited about the opportunity set embedded in our portfolios.

Portfolio positioning

Aggregate equity exposure increased moderately over the quarter from 70.1% to 71.9%, as cash was deployed into some of our best equity ideas at increased margins of safety. Fixed income exposure remained steady at 23%, diversified across a highly attractive opportunity set of longer-dated government fixed and inflation-linked bonds.

Aggregate liquidity in the fund improved further over the quarter and remains healthy.

Changes in portfolio positioning

Q2 2019		Q3 2019	
Domestic equity	44.0%	Domestic equity	45.1%
Domestic cash and NCDs	3.8%	Domestic cash and NCDs	1.9%
Domestic bonds	23.4%	Domestic bonds	23.0%
Foreign equity	26.1%	Foreign equity	26.8%
Foreign cash	0.5%	Foreign cash	0.2%
Foreign property	2.2%	Foreign property	3.0%

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

Number of units as at 30 September 2019 (Class A):	57 901 035
Price (net asset value per unit) as at 30 September 2019 (Class A):	R63.61
Number of units as at 30 September 2019 (Class E):	88 525 228
Price (net asset value per unit) as at 30 September 2019 (Class E):	R63.60

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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

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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Additional information

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PSG Asset Management

PSG Stable Fund

Quarterly portfolio commentary as at 30 September 2019

by Dirk Jooste and Justin Floor

Current context

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We run a global process and offshore stocks have contributed materially to long-term client returns. After very strong price performance, we have steadily rotated our portfolios away from US blue chips over the past two years in favour of less crowded and significantly cheaper opportunities in out-of-favour sectors and geographies. These include Japan, the UK and US retail. As tends to be the case, we have been early into these positions and global equities have detracted from performance in the recent past. Furthermore, in recent times there has been a high correlation between cheap stocks on the JSE and cheap stocks abroad. The evidence is clear that this correlation is significantly lower over long time periods given the materially different economic drivers and currency exposures of our underlying holdings, and our offshore stocks remain important portfolio diversifiers over the long run.

Our perspective

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Portfolio positioning

Equity exposure increased slightly over the quarter, from 38.8% to 39.3%. Exposure to domestic cash and NCDs reduced by 4.7% to 13.1%, as credit spreads on fixed-rate negotiable certificates of deposit (NCDs) from local banks narrowed (i.e. yields on these instruments are lower and closer to those offered by government bonds of the same maturities). As the proceeds from selling these instruments were largely applied to government bonds, domestic bond exposure increased from 41.1% to 44.6%. We view both nominal and inflation-linked government bonds as compelling components of the current portfolio mix as they are offering very attractive real yields.

Exposure to foreign property increased from 1.7% to 2.7%. Aggregate liquidity in the fund remains healthy.

Changes in portfolio positioning

Q2 2019		Q3 2019	
Domestic equity	23.1%	Domestic equity	22.9%
Domestic cash and NCDs	17.8%	Domestic cash and NCDs	13.1%
Domestic bonds	41.1%	Domestic bonds	44.6%
Foreign equity	15.7%	Foreign equity	16.4%
Foreign cash	0.6%	Foreign cash	0.3%
Foreign property	1.7%	Foreign property	2.7%

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

Number of units as at 30 September 2019 (Class A):	74 606 162
Price (net asset value per unit) as at 30 September 2019 (Class A):	R1.37
Number of units as at 30 September 2019 (Class E):	776 795 459
Price (net asset value per unit) as at 30 September 2019 (Class E):	R1.37

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Performance

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PSG Asset Management

PSG Diversified Income Fund

Quarterly portfolio commentary as at 30 September 2019

by Lyle Sankar, John Gilchrist & Greg Hopkins

Current context

2019 has been a challenging year for PSG Asset Management and our clients. Confidence within South Africa remains dismal, and global macro risks have risen amid trade wars and a slowing global economy. This has seen a very aggressive sell-off in parts of the global equity market, especially in the case of the out-of-favour cheaper stocks that dominate our equity portfolios. Conversely, global investors have been comfortable to allocate capital to global bonds (despite negative-yielding debt now totaling $14.8 trillion) and perceived safe havens in equity markets, primarily defensive and tech stocks.

Investment markets continue to be event-driven, with trade wars and related global growth concerns driving rate cuts by the US Federal Reserve. This has led to a sharp downward move in US bond yields and, for the first time since 2007, an inversion of the US yield curve (with 2-year bonds trading at a higher yield than 10-year bonds) in August 2019. The clear indication from the US bond market is that US growth and inflation are expected to be lower going forward. Locally, after a disappointing first-quarter GDP decline of 3.1% and stable inflation, markets were pricing in rate cuts of 0.5% over the next six to twelve months in late June 2019. The South African Reserve Bank cut rates by 0.25% in July 2019. Despite a 3.1% rebound in GDP in the second quarter of the year, a further 0.25% cut is still being priced in by the markets. South African bond yields increased marginally across the curve over the quarter, but performance year-to-date remains solid, driven by declines in bond yields relative to their elevated starting yields (cheap valuations) in late 2018.

Our perspective

The extreme divergences we are currently seeing in the valuations of popular securities compared to those investors are shying away from are rare, and present risks as well as opportunities. Investors seeking a smoother ride by switching to cash or buying high-quality counters at any cost may find that this 'fail safe' proves to be the opposite over the longer term. Missing out on the gains from a market recovery can dramatically erode an investment outcome. Similarly, buying securities at lofty valuations underpinned by high growth expectations may result in losses if expectations prove to be unsustainable.

In contrast, areas in which valuations have been driven lower due to fear and uncertainty present the potential for mispricing. Where prices fall across the board – an entire sector or geography, for example – quality securities become available cheaply, along with the rest. Tainted by pessimism, their earnings potential is easily overlooked. While it may take time for the market to realise mispriced value, investors who can ride out the storm stand to generate outsized returns from such attractive entry points.

Portfolio positioning

While the fund's allocation to domestic bonds declined over the quarter, we continue to view nominal and inflation-linked government bonds – both of which offer very attractive real yields – as compelling components of the current portfolio mix. The steep yield curve has presented opportunities to move exposures further out on the curve (to higher-duration bonds), which has increased duration. Long-dated inflation-linked bonds offer particularly attractive potential but, given their high-duration exposure, we have balanced allocations to these instruments with allocations to cash and negotiable certificates of deposit (NCDs).

From highs of around 9.5%, five-year NCDs are now yielding around 8.1%. 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 returns more attractive. Credit spreads have continued to contract as market participants search for yield, and we believe many credit instruments no longer offer a sufficient margin of safety.

Changes in portfolio positioning

Q2 2019		Q3 2019	
Domestic equity	4.5%	Domestic equity	4.2%
Domestic preference shares	0.5%	Domestic preference shares	0.1%
Domestic cash and NCDs	46.6%	Domestic cash and NCDs	51.0%
Domestic bonds	43.9%	Domestic bonds	41.0%
Foreign equity	2.4%	Foreign equity	2.2%
Foreign cash	1.3%	Foreign cash	0.9%
Foreign property	0.8%	Foreign property	0.6%

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

Number of units as at 30 September 2019 (Class A):	932 033 089
Price (net asset value per unit) as at 30 September 2019 (Class A):	R1.22
Number of units as at 30 September 2019 (Class E):	339 805 869
Price (net asset value per unit) as at 30 September 2019 (Class E):	R1.22

All data as per Bloomberg as at 30 September 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.

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.

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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PSG Income Fund

Quarterly portfolio commentary as at 30 September 2019
by Lyle Sankar, Duayne Le Roux & Greg Hopkins

Current context

Investment markets continue to be event-driven, with trade wars and related global growth concerns driving rate cuts by the US Federal Reserve. This has led to a sharp downward move in US bond yields and, for the first time since 2007, an inversion of the US yield curve (with 2-year bonds trading at a higher yield than 10-year bonds) in August 2019. The clear indication from the US bond market is that US growth and inflation are expected to be lower going forward. Locally, after a disappointing first-quarter GDP decline of 3.1% and stable inflation, markets were pricing in rate cuts of 0.5% over the next six to twelve months in late June 2019. The South African Reserve Bank cut rates by 0.25% in July 2019. Despite a 3.1% rebound in GDP in the second quarter of the year, a further 0.25% cut is still being priced in by the markets. South African bond yields increased marginally across the curve over the quarter, but performance year-to-date remains solid, driven by declines in bond yields relative to their elevated starting yields (cheap valuations) in late 2018.

Our perspective

The extreme divergences we are currently seeing in the valuations of popular securities compared to those investors are shying away from are rare, and present risks as well as opportunities. Investors seeking a smoother ride by switching to cash or buying high-quality counters at any cost may find that this 'fail safe' proves to be the opposite over the longer term. Missing out on the gains from a market recovery can dramatically erode an investment outcome. Similarly, buying securities at lofty valuations underpinned by high growth expectations may result in losses if expectations prove to be unsustainable.

In contrast, areas in which valuations have been driven lower due to fear and uncertainty present the potential for mispricing. Where prices fall across the board – an entire sector or geography, for example – quality securities become available cheaply, along with the rest. Tainted by pessimism, their earnings potential is easily overlooked. While it may take time for the market to realise mispriced value, investors who can ride out the storm stand to generate outsized returns from such attractive entry points.

Portfolio positioning

We have used the opportunity presented by the steep yield curve and the high real yields available to add to bond holdings and move exposures further out on the yield curve (to higher-duration bonds).

From highs of around 9.5%, five-year negotiable certificates of deposit (NCDs) are now yielding around 8.1%. 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. We have been more selective in extending current positions in fixed-rate NCDs, however wider spreads in floating-rate NCDs have offered an interesting opportunity.

Credit spreads have continued to contract as market participants search for yield, and we believe many credit instruments no longer offer a sufficient margin of safety. Where we have seen credit spreads 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

	Q2 2019	Q3 2019
Domestic bonds	21.7%	27.6%
Domestic cash and NCDs	78.3%	72.4%

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

Number of units as at 30 September 2019 (Class A):	36 629 830
Price (net asset value per unit) as at 30 September 2019 (Class A):	R1.03
Number of units as at 30 September 2019 (Class E):	233 603 263
Price (net asset value per unit) as at 30 September 2019 (Class E):	R1.03

All data as per Bloomberg as at 30 September 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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Company details

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Trustee

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PSG Asset Management

PSG Money Market Fund

Quarterly portfolio commentary as at 30 September 2019

by Lyle Sankar and Duayne le Roux

Current context

South African rates markets have delivered solid returns for the year to date. Investment markets generally continue to be event-driven, with trade wars and related global growth concerns driving rate cuts by the US Federal Reserve. This has led to a sharp downward move in US bond yields and, for the first time since 2007, an inversion of the US yield curve (with 2-year bonds trading at a higher yield than 10-year bonds) in August 2019. The clear indication from the US bond market is that US growth and inflation are expected to be lower going forward. Locally, after a disappointing first-quarter GDP decline of 3.1% and stable inflation, markets were pricing in rate cuts of 0.5% over the next six to twelve months in late June 2019. The South African Reserve Bank cut rates by 0.25% in July 2019. Despite a 3.1% rebound in GDP in the second quarter of the year, a further 0.25% cut is still being priced in by the markets. Over the past quarter, the rand weakened by 7.5% against the US dollar. While a weak currency has historically been a precursor to higher inflation and higher money market rates, this is no longer a foregone conclusion.

Our perspective

The extreme divergences we are currently seeing in the valuations of popular securities compared to those investors are shying away from are rare, and present risks as well as opportunities. Investors seeking a smoother ride by switching to cash or buying high-quality counters at any cost may find that this 'fail safe' proves to be the opposite over the longer term. Missing out on the gains from a market recovery can dramatically erode an investment outcome. Similarly, buying securities at lofty valuations underpinned by high growth expectations may result in losses if expectations prove to be unsustainable.

In contrast, areas in which valuations have been driven lower due to fear and uncertainty present the potential for mispricing. Where prices fall across the board – an entire sector or geography, for example – quality securities become available cheaply, along with the rest. Tainted by pessimism, their earnings potential is easily overlooked. While it may take time for the market to realise mispriced value, investors who can ride out the storm stand to generate outsized returns from such attractive entry points.

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. From highs of around 9.5%, five-year negotiable certificates of deposit (NCDs) are now yielding around 8.1%. The fund has therefore benefited from locking in the higher rates on offer earlier this year. Credit spreads have also continued to contract as market participants search for yield. 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

Q2 2019		Q3 2019	
Linked NCDs/ Floating-rate notes	23.1%	Linked NCDs/Floating-rate notes	24.4%
Step rate notes	13.5%	Step rate notes	13.3%
NCDs	53.4%	NCDs	48.0%
Treasury bills	8.5%	Treasury bills	6.1%
Call deposits	0.4%	Call deposits	6.9%
Corporate bonds	1.1%	Corporate bonds	1.3%

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

Number of units as at 30 September 2019 (Class A): 1 002 054 038
Price (net asset value per unit) as at 30 September 2019 (Class A): R1.00
Number of units as at 30 September 2019 (Class F): 325 191 538
Price (net asset value per unit) as at 30 September 2019 (Class F): R1.00

All data as per Bloomberg as at 30 September 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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Company details

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Conflict of Interest Disclosure

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 Asset Management

PSG Global Equity Feeder Fund

Quarterly portfolio commentary as at 30 September 2019

by Philipp Wörz and Greg Hopkins

Current context

Global macro risks have risen amid trade wars and a slowing global economy. This has seen a very aggressive sell-off in parts of the global equity market, especially in the case of the out-of-favour cheaper stocks that dominate our equity portfolios. Conversely, global investors have been comfortable to allocate capital to global bonds (despite negative-yielding debt now totaling $14.8 trillion) and perceived safe havens in equity markets, primarily defensive and tech stocks.

After very strong price performance, we have steadily rotated our portfolios away from US blue chips over the past two years in favour of less crowded and significantly cheaper opportunities in out-of-favour sectors and geographies. These include Japan, the UK and US retail. As tends to be the case, we have been early into these positions and they have detracted from performance in the recent past.

Our perspective

The extreme divergences we are currently seeing in the valuations of popular securities compared to those investors are shying away from are rare, and present risks as well as opportunities. Investors seeking a smoother ride by switching to cash or buying high-quality counters at any cost may find that this 'fail safe' proves to be the opposite over the longer term. Missing out on the gains from a market recovery can dramatically erode an investment outcome. Similarly, buying securities at lofty valuations underpinned by high growth expectations may result in losses if expectations prove to be unsustainable.

In contrast, areas in which valuations have been driven lower due to fear and uncertainty present the potential for mispricing. Where prices fall across the board – an entire sector or geography, for example – quality securities become available cheaply, along with the rest. Tainted by pessimism, their earnings potential is easily overlooked. While it may take time for the market to realise mispriced value, investors who can ride out the storm stand to generate outsized returns from such attractive entry points. On average, our global stocks trade at a 38% discount to intrinsic value. This implies potential upside of 61% (in US dollars). We are therefore excited about the opportunity set embedded in our portfolios.

Portfolio positioning

Valuation divergences have provided good opportunities both to reduce holdings where rising share prices have narrowed our required margin of safety, and to add to existing holdings in periods of market stress. Over the third quarter we exited the fund's long-held position in Aflac Inc. as it approached our estimate of intrinsic value and, due to rising share prices, reduced exposures to Brookfield Asset Management, Anheuser-Busch InBev, Babcock International and Wheaton Precious Metals. The fund significantly added to its holdings in Resona Holdings, The Mosaic Company and Prudential plc.

While we are disappointed with the fund's performance over the past year, we maintain the view that the holdings in the portfolio are of above-average quality and trade at wide margins of safety. Low share prices, wide discounts to intrinsic values and a cheap portfolio valuation of below 10 times earnings bode well for attractive long-term returns.

Changes in portfolio positioning

Q2 2019		Q3 2019	
Equities	97.5%	Equities	95.5%
Cash	2.5%	Cash	4.5%

Q2 2019		Q3 2019	
US	37.4%	US	36.9%
Europe	10.1%	Europe	9.7%
UK	17.2%	UK	19.6%
Asia ex Japan	0.8%	Asia ex Japan	0.8%
Japan	18.4%	Japan	19.6%
Canada	9.5%	Canada	5.7%
Africa	4.1%	Africa	3.2%
Cash	2.5%	Cash	4.5%

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

Please note that the above commentary and portfolio positioning 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 be small short-term valuation, trading and translation differences between the two funds.

Number of units as at 30 September 2019 (Class A):	6 441 499
Price (net asset value per unit) as at 30 September 2019 (Class A):	R2.46
Number of units as at 30 September 2019 (Class E):	49 110 866
Price (net asset value per unit) as at 30 September 2019 (Class E):	R2.52

All data as per Bloomberg as at 30 September 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.

Pricing

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PSG Asset Management

PSG Global Flexible Feeder Fund

Quarterly portfolio commentary as at 30 September 2019

by Philipp Wörz and Greg Hopkins

Current context

Global macro risks have risen amid trade wars and a slowing global economy. This has seen a very aggressive sell-off in parts of the global equity market, especially in the case of the out-of-favour cheaper stocks that dominate our equity portfolios. Conversely, global investors have been comfortable to allocate capital to global bonds (despite negative-yielding debt now totaling $14.8 trillion) and perceived safe havens in equity markets, primarily defensive and tech stocks.

After very strong price performance, we have steadily rotated our portfolios away from US blue chips over the past two years in favour of less crowded and significantly cheaper opportunities in out-of-favour sectors and geographies. These include Japan, the UK and US retail. As tends to be the case, we have been early into these positions and they have detracted from performance in the recent past.

Our perspective

The extreme divergences we are currently seeing in the valuations of popular securities compared to those investors are shying away from are rare, and present risks as well as opportunities. Investors seeking a smoother ride by switching to cash or buying high-quality counters at any cost may find that this 'fail safe' proves to be the opposite over the longer term. Missing out on the gains from a market recovery can dramatically erode an investment outcome. Similarly, buying securities at lofty valuations underpinned by high growth expectations may result in losses if expectations prove to be unsustainable.

In contrast, areas in which valuations have been driven lower due to fear and uncertainty present the potential for mispricing. Where prices fall across the board – an entire sector or geography, for example – quality securities become available cheaply, along with the rest. Tainted by pessimism, their earnings potential is easily overlooked. While it may take time for the market to realise mispriced value, investors who can ride out the storm stand to generate outsized returns from such attractive entry points. On average, our global stocks trade at a 38% discount to intrinsic value. This implies potential upside of 61% (in US dollars). We are therefore excited about the opportunity set embedded in our portfolios.

Portfolio positioning

Valuation divergences have provided good opportunities both to reduce holdings where rising share prices have narrowed our required margin of safety, and to add to existing holdings in periods of market stress. Over the third quarter we exited the fund's long-held position in Aflac Inc. as it approached our estimate of intrinsic value and, due to rising share prices, reduced exposures to Brookfield Asset Management, Anheuser-Busch InBev, Babcock International and Wheaton Precious Metals. The fund significantly added to its holdings in Resona Holdings, The Mosaic Company and Prudential plc.

While we are disappointed with the fund's performance over the past year, we maintain the view that the holdings in the portfolio are of above-average quality and trade at wide margins of safety. Low share prices, wide discounts to intrinsic values and a cheap portfolio valuation of below 10 times earnings bode well for attractive long-term returns.

At the end of September, the fund had 19% of its assets in cash, which serves as valuable firepower to be employed if we see further market disruption or as high-quality opportunities go on sale.

Changes in portfolio positioning

Q2 2019		Q3 2019	
Equities	83.4%	Equity	81.0%
Bonds	0.9%	Bonds	0.8%
Cash	15.7%	Cash	18.2%

Q2 2019		Q3 2019	
US	32.2%	US	31.0%
Europe	8.2%	Europe	7.7%
UK	14.2%	UK	16.7%
Asia ex Japan	0.8%	Asia ex Japan	0.8%
Japan	15.9%	Japan	17.2%

Canada	8.9%	Canada	5.3%
Africa	3.2%	Africa	2.3%
Cash and Bonds	16.6%	Cash and Bonds	19.0%

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

Please note that the above commentary and portfolio positioning 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 be small short-term valuation, trading and translation differences between the two funds.

Number of units as at 30 September 2019 (Class A):	23 842 101
Price (net asset value per unit) as at 30 September 2019 (Class A):	R1.97
Number of units as at 30 September 2019 (Class E):	238 372 531
Price (net asset value per unit) as at 30 September 2019 (Class E):	R2.03

All data as per Bloomberg as at 30 September 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.