PSG Wealth

PSG Wealth Preserver FoF: A well-diversified fund with a defensive positioning to withstand market turmoil

INVESTMENT INSIGHTS

Adriaan Pask
CIO PSG Wealth

Market turmoil

August turned out to be the most brutal month for financial markets in the year to date. To try and find the number one culprit would be futile because the reasons for the turmoil of last week came a long way.

Although the US is on the brink of starting to normalise their interest rates, most other countries are still fighting to curb deflation and to turn their economies around towards a positive growth cycle.

Emerging markets in particular received a heavy blow from lower commodity prices on the back of a strong US dollar and unexpected weaker economic growth from China. Emerging market currencies weakened to such an extent that South Africa and Brazil had to raise interest rates to address expectations of higher imported inflation.

Most asset classes are at high valuations, with lower future return expectations. Add to that inflation and interest rates that are expected to rise over the medium term, and the table is set for even lower return expectations and higher volatility.

Multi-level diversification

The PSG Wealth Preserver Fund of Fund is a well-diversified fund, positioned to lower volatility and to benefit from higher inflation and interest rates.

The first level of diversification is vested in the fund's fund manager composition. Assets are divided between funds from five of the most respected conservative asset managers, namely the Coronation Balanced Defensive, Investec Cautious Managed, Nedgroup Investments Stable, Prudential Inflation Plus and PSG Stable funds.

The second level of diversification is in the asset allocation of the fund:

- Its largest exposure is its 30.4% holding in equities, which consists of 16% domestic equities and 14.6% foreign equities. This is lower than the fund's maximum limit of 40% and reflects both the defensive positioning of the managers and the view that equities have the highest return potential of all asset classes over the medium to long term.

- The second-largest exposure of the fund is its holding of 29.1% in cash and money market instruments. Cash has virtually no volatility; the yield increases with rising interest rates. This holding increases managers' ability to participate in new opportunities when they arise.

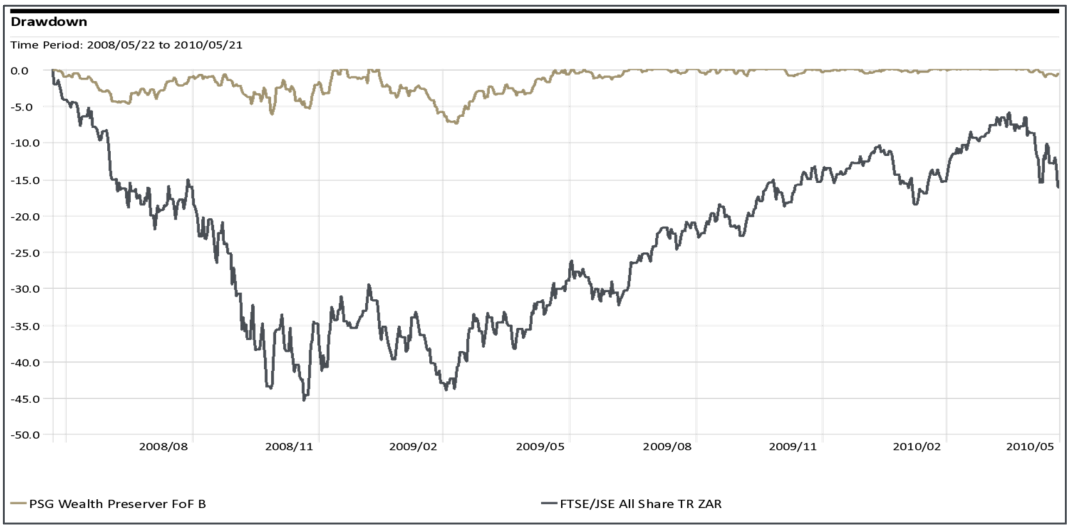
- The fund's third-largest exposure is its 13.3% holding in short-dated bonds. These bonds consist mainly of floating rate bonds, which offer higher yields than money market rates without a significant increase in volatility.

- The rest of the fund's exposure consists of a 9.1% exposure to global non-equity assets. This brings the total offshore exposure to 23.4%: an 8.7% exposure to long-dated bonds to participate in higher yields, a 6.1% exposure to inflation-linked bonds to benefit from rising inflation and a 3.0% exposure to real estate to benefit from the asset class's ability to produce inflation-beating returns.

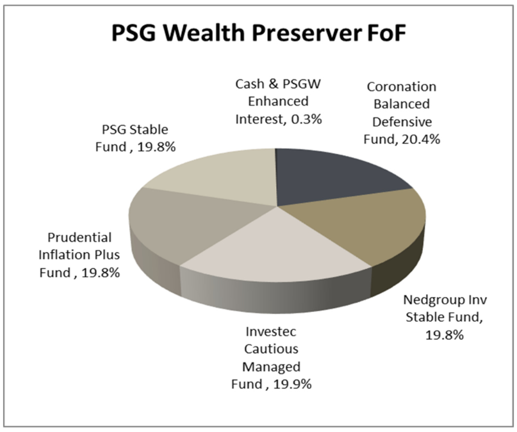
Defensive positioning

The PSG Wealth Preserver FoF has demonstrated its defensive ability during the 2008/2009 bear market, when the fund had a maximum drawdown of -7,5% compared to the maximum drawdown of -45,4% of the FTSE/JSE All Share Total Return Index.

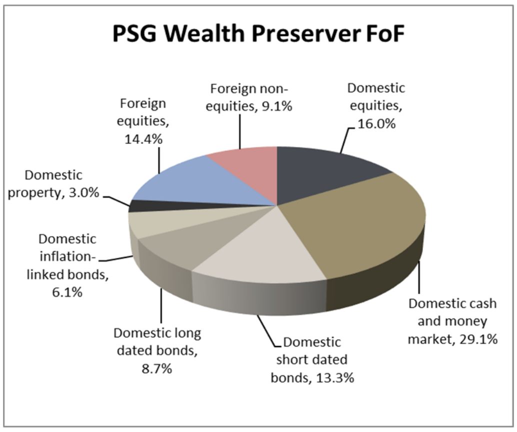
Current economic conditions and instability in financial markets are expected to continue over the medium term. Investors can consider investing a portion of their assets in the PSG Wealth Preserver Fund of Funds to preserve the purchasing power of their future income and to reduce the effects of the current market turmoil on their investments.



Maximum drawdown graph
Source: Morningstar Direct



Pie chart with manager exposure



Pie chart with look-through asset allocation