Local funds' performance for the quarter ended 31 December 2023

Performance and positioning

The fourth quarter of 2023 saw a glimmer of light amidst lingering shadows. The global economy continued to grapple with the same challenges that have dominated the headlines in 2023: inflation, interest rates, possible recessions, hard or soft landings, and geopolitics. Geopolitical risks only intensified with the start and continuation of the conflict in Gaza. China and its real estate sector worries are still an overhang on local sentiment. That being said, sentiment edged into positive territory in the last three months of the year as the green shoots that appeared in the third quarter continued to take hold. Global inflation, on the whole, stayed on a downward trend, interest rate hikes took a pause, and employment and economies continued to show above-expectation resilience. Oil stabilised over the quarter, which was also an added benefit to all financial inputs. While risks and uncertainties persist, the fourth quarter of 2023 offered a ray of hope for a more stable and predictable 2024.

After inflation ticked back up to 3.70% in the third quarter of 2023 in the US, inflation was meaningfully lowered to 3.10% in November 2023, with core inflation holding steady at 4%. The US workforce continued to show no signs of weakness with an unemployment rate still of 3.70%, which has led to continued economic growth ahead of consensus in 3Q23 by an annualised 4.90%. These positive signals gave the Federal Reserve (Fed) room to leave rates on hold at 5.50%, but more importantly, the Fed's tone turned slightly dovish during the quarter, a possible signal that the rate hiking cycle is over and alluding to possible rate cuts in 2024. This was viewed very positively by both equity and bond markets in the US. The S&P rose by an impressive 11.70% over the quarter, whilst the US Index returned 5.60%.

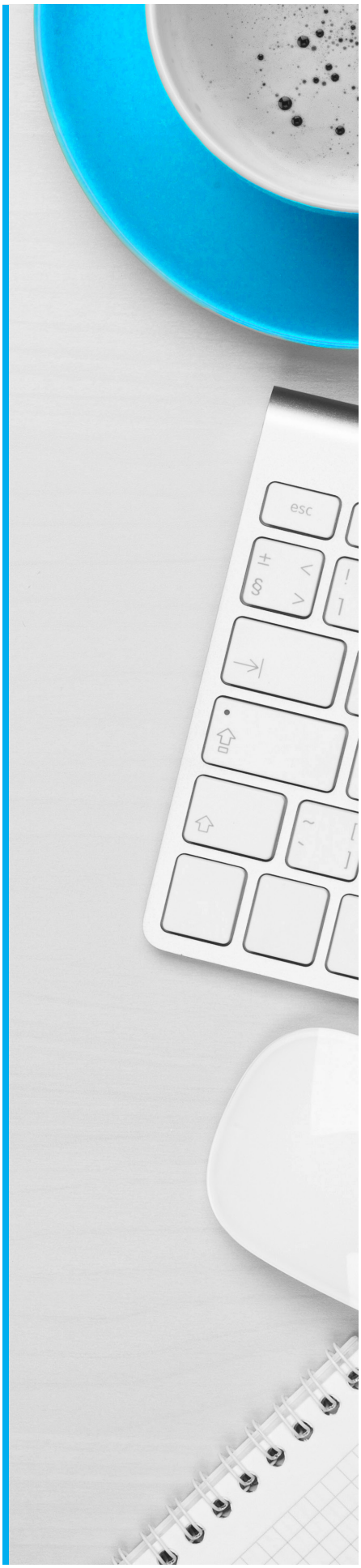
In the Eurozone, a weak inflation rate of 2.90% recorded in December 2023 sparked optimism that rates might fall in 2024. Despite this, higher rates impacted the economy, with negative GDP growth in 3Q23 of -0.10% and the possibility of 4Q23 following suit, leading to a technical recession. In the UK, inflation continued to fall, printing at 3.90% in November, down significantly from the start of the year at 10%. As such, the Bank of England (BoE) kept rates on hold at 5.25%. Both European and UK equities saw decent returns in the quarter.

Any positivity surrounding China at the start of the year has been acutely forgotten as the country continues to contend with several issues. The country is struggling to kick-start its economy again after an extended Covid lockdown. Production activity remains contractionary while consumer spending underwhelms, as does GDP growth. Added to this, their property sector and its indebtedness hangs over the leading party. As a consequence, Chinese equities continued to lag over the quarter, producing a negative return.

Commodities had a tough quarter as agriculture, livestock and energy all came under pressure. Energy was the worst hit with sharply lower prices for natural gas and crude oil, despite production cuts from Opec. Only precious and industrial metals bucked the trend, increasing in price.

Unfortunately, 4Q23 was much of the same for South Africa, with the same headwinds persisting: a national power crisis, political ineptitude and slow GDP growth. While load shedding has been more contained than some feared, it remains an impediment to real economic growth. Added to this were a failing rail infrastructure and falling commodity prices. This culminated in 3Q23 GDP growth of -0.20%, which meant reduced taxes for the South African Revenue Service (SARS), placing additional pressure on the fiscus and government bond issuances. The Medium-Term Budget Speech by Finance Minister Godongwana in November was dire but honest and realistic, which was viewed as slightly positive, on the margin. After reaching a low of 4.70% in July, inflation rose for four consecutive months peaking at 5.90% in October, largely due to rand weakness and rising oil prices.

However, this negative trend was broken in November with annualised CPI falling to 5.50%. The SA Reserve Bank, although hawkish, looked through the latest round of inflation volatility and kept rates on hold over the quarter, at 8.25%. The rand, although at elevated levels, was more contained in 4Q23 trading in a band between R18 and R19 to the US dollar, largely at the whim of exogenous global forces. Even with all of these headwinds locally, global macro tailwinds as well as valuations played a role in delivering notable positive returns for all South African asset classes over the fourth quarter. But, even after the year-end rally, these assets remain attractive from a valuation point of view.



In the table below we can see the asset class returns, in rand, over various periods. Within the given context, the rally in the fourth quarter – after a tough third quarter – is plain to see. There were strong returns across the board, in base currencies. SA property had an outstanding quarter gaining 16% whilst equities and bonds were both up 8%. Offshore assets also rallied well over the period but their rand returns were muted by a weaker US dollar. Looking further out, global equities have been the stand-out performer, head and shoulders above the next best. However, if we focus on the 3-year time horizon, this is where SA assets have performed admirably, outpacing their global counterparts – even with the plethora of negative news flow surrounding the country. This is a reminder that a good story is not always required to make a good investment return – valuations do matter.

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Table 1: Asset class performance

Asset class (in rand)	3-months	6-months	1-year	3-years	5-years	7-years
SA equity	8.2	4.1	7.9	12.7	9.0	6.9
SA property	16.4	15.2	10.1	14.9	0.2	-1.7
SA bonds	8.1	7.7	9.7	7.4	8.2	8.4
SA cash	2.1	4.2	8.1	5.7	5.9	6.4
Global equity	8.2	4.1	33.0	15.4	18.4	15.4
Global bonds	4.9	0.9	13.6	1.7	4.6	4.9
USD/ZAR	-2.9	2.8	7.5	7.6	4.9	4.2

Sources: Morningstar Direct. PSG Investment Management

PSG Wealth Enhanced Interest FoF

The local cash solution's underlying managers have, in aggregate, managed the changing rate environment of the last three years very well. In 4Q23, the FoF returned 2.19% versus the peer group's 1.95%. The FoF has consistently beaten the IB Money Market sector average over all periods, doing so by an impressive 1.27% over the last year returning 8.66%, and by 49 basis points (bps) per annum (p.a.) since its inception returning 6.67% p.a. The solution is 100% invested in local cash and money market instruments.

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PSG Wealth Income FoF

The Income FoF had an improved quarter in absolute terms, returning 3.88%, but lagged the peer group slightly, by 2bps. The solution's top performer for the quarter was PSG Diversified Income, which placed 16th in the sector with 0.81% of alpha. The fund benefited from its bar-bell approach as both long duration bonds and cash added notably, contributing 3% and 1% to portfolio performance respectively. Mi-Plan Enhanced Income was the laggard of the group, in the 4th quartile. The fund espouses tight duration control. This has led to the fund defending capital well over 3Q23, but as bonds rallied in November and December this caused some marginal underperformance compared with peers. The solution's 1-year return remains robust at 9.78%, in what has been a turbulent period, and is ahead of the sector average by 34bps, placing the fund in the 2nd quartile. Over the FoF's recommended investment period of two years, it has remained ahead of its peers for over two years, seeing its advantage remain steady, currently 0.49% p.a. Over the longer term, the Income FoF remains a consistent top-half performer. Since the solution's inception, it has returned 7.92%, which equates to 0.65% of outperformance p.a. ranking the FoF 8th in the sector, in the 2nd quartile. The FoF has maintained very consistent sector-beating returns since its inception, beating the peer average on a rolling 2-year basis 78% of the time.

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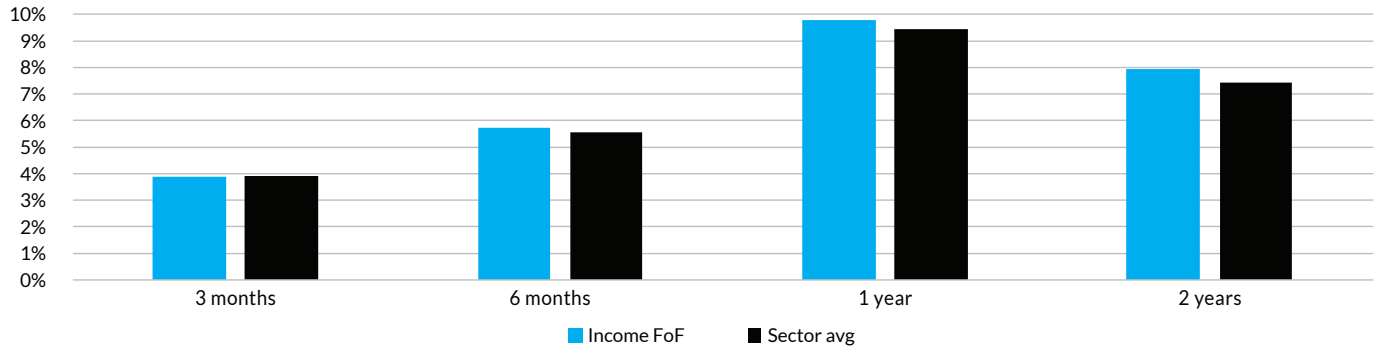
Graph1: PSG Wealth Income FoF performance



Sources: Morningstar Direct, PSG Investment Management

The underlying managers of the Income FoF in aggregate made some changes to the asset mix of the solution over the last three months. SA short duration bonds fell 3.60%, in favour of local inflation-linked bonds (ILBs) and cash, which increased by 0.50% and 2.70% respectively. Offshore bonds also rose by 0.50%.

The underlying managers of the Income FoF in aggregate made some changes to the asset mix of the solution over the last three months.

Table 2: PSG Wealth Income FoF Asset Allocation

PSG Wealth Income FoF asset allocation	Q4 2023 %	Change from previous quarter %
SA equity and property	2.6	-
SA prefs	0.9	-
SA ILBs	8.0	0.5
SA bonds 7+ yrs	14.0	0.3
SA bonds 3-7 yrs	22.7	-0.1
SA bonds 1-3 yrs	17.1	-3.6
SA cash	28.0	2.7
Global equity and property	0.2	-0.1
Global bonds	5.7	0.5
Global cash	0.8	-0.2
Total	100.0	

Sources: Morningstar Direct, PSG Investment Management

PSG Wealth Preserver FoF

The Preserver FoF had a much-improved three months returning 6.01%, which outpaced the peer group average by 0.59%, placing the solution in the 2nd quartile. The FoF's top performer for the quarter was M&G Inflation Plus, which placed 9th in the sector with 1.86% of alpha. The fund is generally more exposed to longer duration or growth assets, all of which had a good period, SA bonds added 2.70%, SA equity 1.60% and global equity 1%. SIM Inflation Plus was the straggler of the managers but was still in the 2nd quartile with 2bps of relative alpha, with all the fund's building blocks delivering positive absolute performance. In 2023, the FoF achieved an impressive return of 12.24% with over 1% of alpha, placing in the 1st quartile.

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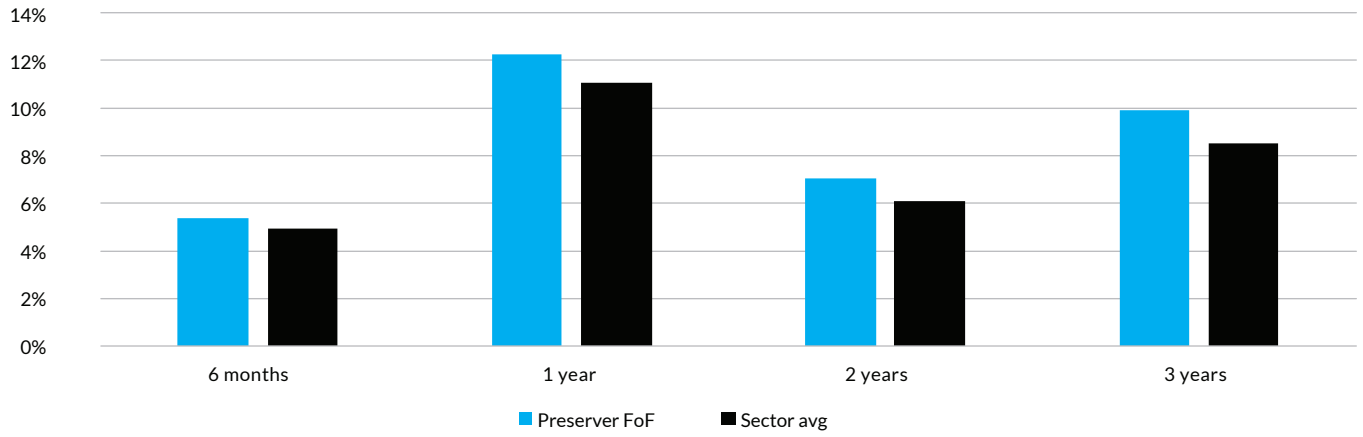
Over its recommended investment period of three years, the solution has been above the sector average for nine consecutive quarters, and pleasingly, the alpha has remained healthy, now at 1.40% p.a. Over the medium to long term, the FoF has maintained its strong track record of being a top half performer, returning 9.11% p.a. since its inception, providing 1.07% of alpha a year, placing it 7th in the sector, in the 1st quartile. The solution has also maintained its high level of return consistency, beating the sector average 84% of the time on a rolling 3-year basis since 2009.

The asset allocation of the PSG Wealth Preserver FoF saw some changes over the period. Local equities, property and bonds fell 1.30% in total, with local cash increasing by 1.80%. Offshore exposure decreased by 0.60% with equities and bonds up 0.40% whilst cash fell 1%. Total offshore exposure is now at 23.40% and the growth/fixed income split is 36% to 64%.

Graph 2: PSG Wealth Preserver FoF performance



Sources: Morningstar Direct. PSG Investment Management

Table 3: PSG Wealth Preserver FoF asset allocation

PSG Wealth Preserver FoF asset allocation	Q4 2023 %	Change from previous quarter %
SA equity	17.4	-0.9
SA property	1.7	-0.2
SA ILBs	9.7	0.1
SA bonds	31.1	-0.2
SA cash	16.7	1.8
Global equity	16.1	0.2
Global property	0.8	-
Global bonds	6.5	0.2
Global cash	-	-1.0
Total	100.0	

Sources: Morningstar Direct. PSG Investment Management

The asset allocation of the PSG Wealth Preserver FoF saw some changes over the period.

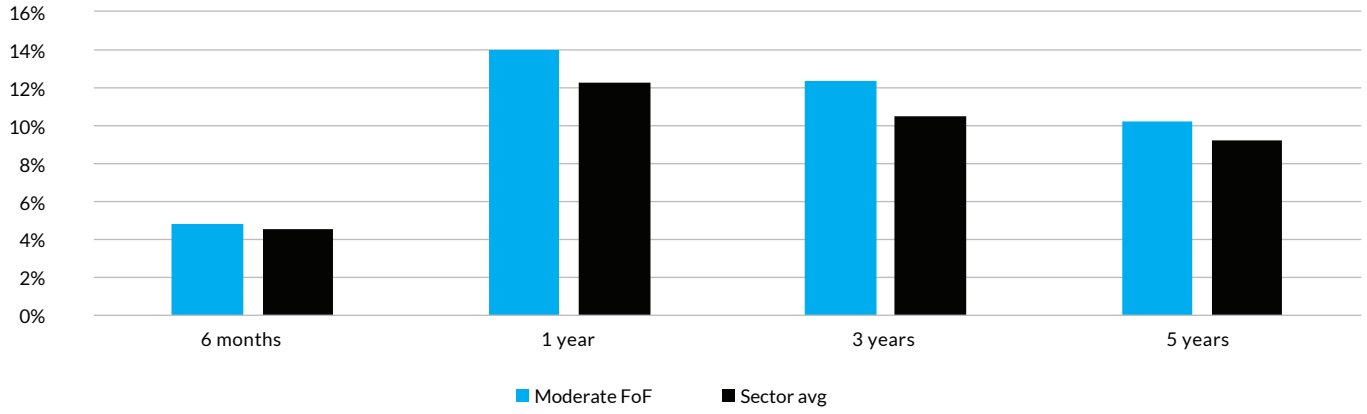
PSG Wealth Moderate FoF

The Moderate FoF had a much-needed strong fourth quarter. Returning 6.75%, beating the peer group by 0.58%, ranked in the 2nd quartile. The FoF's top performer for the quarter was Coronation Balanced Plus, which placed 15th in the sector with 1.84% of outperformance. The biggest contributors to the fund's stellar performance were the Coronation Global Equity Fund (1.50%), FirstRand (0.50%), SA bond R2032 (0.30%), Standard Bank (0.30%) and Dis-Chem (0.30%). Ninety One Managed was the laggard of the managers, in the 4th quartile. The fund is defensively positioned, at 45% offshore with a low allocation to both equities and bonds and a very large weighting to cash. This positioning was a drag on performance in a quarter where both equities and bonds outperformed cash, and the rand strengthened. Over the last 12 months, the FoF managed a praiseworthy return of 13.98% beating the sector average by 1.73%, ranking it in the 1st quartile. Over its minimum recommended investment period of five years, the solution has returned 10.23% p.a. compared with its peer group's 9.21%. All in all, the FoF is now in the top half of its sector over all periods. The Moderate FoF has returned 10.70% p.a. since its inception, providing 1.71% of alpha, which ranks it in the 1st quartile. The solution has also maintained its unblemished level of return consistency, beating the sector average 100% of the time on a rolling 5-year basis since its inception.

The Moderate FoF had a strong fourth quarter. The solution delivered a return of -6.75% and beat the peer group by 0.58%, placing in the 2nd quartile.

The asset allocation of the PSG Wealth Moderate FoF experienced some tactical tilts in the three months of Q4. Local bonds were reduced by 0.60% and SA cash increased by 1%. The offshore allocation reduced by 0.80% with equities and property reducing by 1.90% while global cash increased by 1.20%. Total offshore exposure in the solution is now 37% and the growth/fixed income split is 68.50% to 31.50%.

Graph 3 PSG Wealth Moderate FoF performance



Sources: Morningstar Direct. PSG Investment Management

Table 4: PSG Wealth Moderate FoF asset allocation

PSG Wealth Moderate FoF asset allocation	Q4 2023 %	Change from previous quarter %
SA equity	36.3	0.3
SA property	2.2	0.1
SA ILBS	1.5	-
SA bonds	14.6	-0.6
SA cash	8.4	1.0
Global equity	29.2	-1.7
Global property	0.8	-0.2
Global bonds	3.6	-0.1
Global cash	3.4	1.2
Total	100.0	

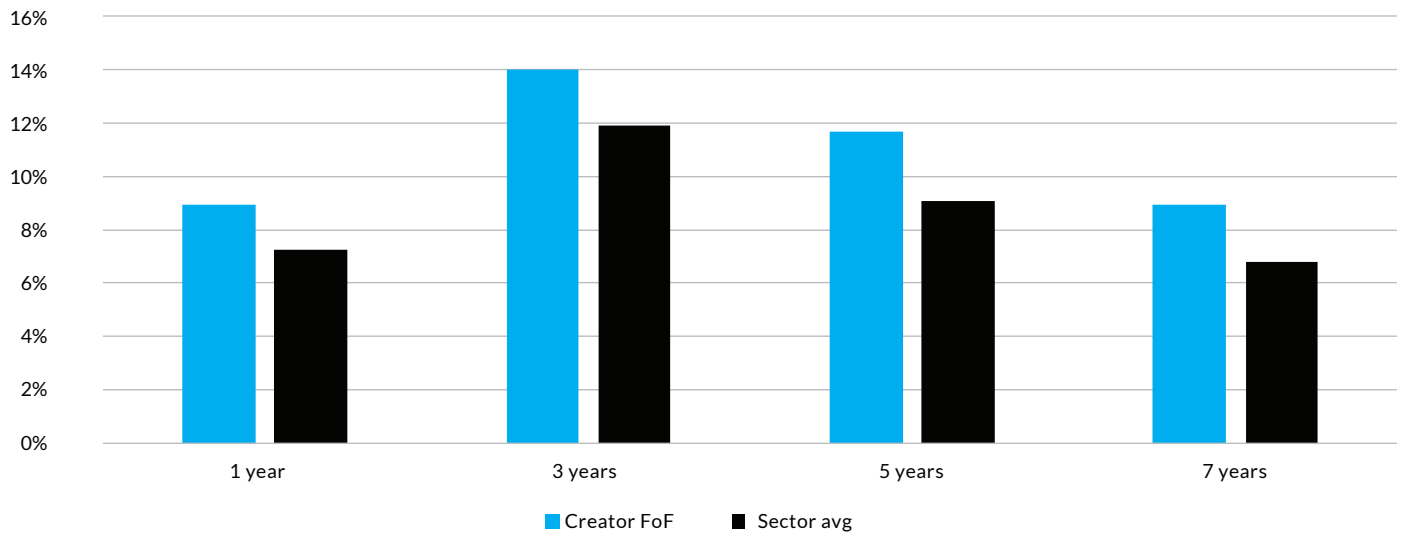
Sources: Morningstar Direct and PSG Investment Management

PSG Wealth Creator FoF

The Creator FoF, with the aid of some market tailwinds, produced noteworthy positive returns in the final quarter of 2024, returning 6.08%. The solution lagged the sector average slightly, by 9bps, but still placed in the 2nd quartile. The FoF's stand-out performer for the last three months was Coronation Equity with an outperformance of 3% , which placed it 9th in the sector. The stocks that added the most to the quarter's performance were FirstRand (0.80%), Uber (0.70%), Expedia (0.50%), Standard Bank (0.50%) and Dis-Chem (0.50%). PSG Equity had a tough relative period in the fourth quarter, largely driven by positions in Noble Corp, BP, Thungela, Anglo American, Bayer and MultiChoice. In what has been a tempestuous 12 months, the FoF earned a modest but respectable return of 8.93% with an impressive 1.68% of alpha, in the 2nd quartile. The solution's impressive track record persists across all meaningful periods, with the FoF ranking in the top half of the sector over all periods. The Creator FoF has returned 11.97% p.a. since its inception, achieving 2.14% of alpha, which ranked the FoF 8th in the sector, in the 1st quartile. The solution has also maintained its flawless level of return consistency, beating the sector average 100% of the time on a rolling 7-year basis since 2009.

The composition of the Creator FoF experienced some notable changes over the last three months. Locally, exposure to resources and industrials contracted by 0.80% and 1.70% each, whilst exposure to financials expanded by 0.60%. Global equities increased by 1.20%. Cash also increased in relevance, up by 0.50% to 4.90%. The total offshore exposure rose by 1.60%, now at 29.60%. The solution's top 10 holdings changed slightly over the period, as Richemont and MTN gave way to FirstRand and Anglo American. The concentration of the top 10 decreased by 0.80% to 27.70%.

Graph 4: PSG Wealth Creator FoF performance



Sources: Morningstar Direct and PSG Investment Management

Table 5: PSG Wealth Creator FoF asset allocation

PSG Wealth Creator FoF asset allocation	Q4 2023	Change from previous quarter %
SA resources	15.4	-0.8
SA financials	15.7	0.6
SA industrials	35.1	-1.7
SA property	1.8	0.2
Global equity	26.9	1.2
Global property	0.2	-
Local cash	2.4	0.1
Global cash	2.5	0.4
Total	100.0	

Sources: Morningstar Direct, PSG Investment Management

Table 6:PSG Wealth Creator FoF top 10 counters

Top 10	%	Top 10	%
Naspers	6.18	Absa	2.26
British American Tobacco	3.53	Sasol	2.23
Glencore	3.23	FirstRand	1.99
Standard Bank	2.69	Anglo American	1.47
Prosus	2.67	Anheuser-Busch InBev	1.42

Sources: Morningstar Direct. PSG Investment Management

The composition of the Creator FoF experienced some notable changes over the last three months.