PSG Equity Fund

Quarterly portfolio commentary as at 31 December 2020
by Shaun le Roux and Gustav Schulenburg

2020 in review

There is little doubt that 2020 will be a year to remember. The rapid emergence of Covid-19 into a full-blown global pandemic led to decisive government-mandated lockdowns and, in turn, the most extreme disruption to economic activity in living memory.

The investment backdrop was marked by some striking themes:

- Global interest rates (including South African short-term rates) fell to historic lows.
- Substantial injections of monetary (to which we've become accustomed) and fiscal stimulus (a new development), saw an unprecedented explosion in global money supply.
- The gap between the expensive and cheap areas of the market grew even further, from already wide to extreme levels.
- A massive increase in global government and corporate debt burdens (not least in South Africa).
- Record outflows from emerging markets into safe-haven developed markets.
- Emerging markets, small caps and value shares all achieved multi-decade lows relative to the market.

A common theme was a spike in uncertainty which compressed investor time horizons. We witnessed a violent and broad-based sell-off in the early phase of the pandemic which provided an opportunity to improve portfolio composition and allocate capital incrementally to high-quality opportunities.

The latter part of the year (particularly the quarter currently under review), has seen a partial recovery in portfolio performance, particularly as the announcement and approval of multiple Covid-19 vaccines increased the prospect of gradual economic normalisation and extended investor time horizons.

Looking forward

As we enter 2021, we find that the areas of the market offering the most potential remain very out of favour. The widespread capitulation out of emerging markets and economically sensitive shares by both local and foreign investors has yet to normalise in any meaningful way. Capital flows and positioning continue to suggest a remarkably degree of crowding into areas which have worked well until now (and where earnings and ratings are particularly high). South African assets (apart from the well-owned large cap shares) stand out as being particularly unloved. We believe a differentiated positioning in carefully selected companies will become an increasingly valuable component of an investor's portfolio going forward.

Despite recent strength in share prices over the last few months, we hold shares that remain very undervalued. On average, shares in the portfolio are priced at 0.65x of our assessment of fair value, and are positioned for strong growth in earnings and cashflows over the next few years. Many companies are adapting well to a challenging environment, and have the potential to defend and grow earnings through market share gains, cost-efficiency improvements and lower finance costs.

We expect the domestic economy to continue to face deep structural headwinds, but to nevertheless gradually recover from depressed levels as activity normalises and accommodative interest rates stimulate incremental demand. While we think this partial recovery is sufficient to underwrite satisfactory returns from domestic shares from current price levels, there is the possibility for a more pronounced and sustained recovery in activity and sentiment as the global economy reflates and South Africa receives a natural slice of emerging market flows. While risks remain, we see them gradually receding, and investors are currently being handsomely compensated to underwrite them.

Portfolio performance and positioning

Over the quarter the PSG Equity Fund returned 14.49% versus the benchmark return of 9.75%. The contributors over this period were industrials (5.11%), foreign equities (3.58%), financials (3.56%) and resources (2.74%). The fund is suitable for investors with an investment term of 7 years and longer. Over the short-term returns can be volatile and for this reason it is important to measure fund returns over the relevant investment term. Since inception the fund has produced an annual return of 14.11% versus the benchmark return of 12.79%.

Many companies held in the fund enjoyed a very healthy price recovery in the quarter, but it is important to point out that the companies we own remain very cheap, highly cash generative and are well-positioned for strong growth in earnings over the next few years.

During the quarter we reduced our aggregate global exposure in favour of JSE-listed companies as fundamentally, South African equities remain cheaper than emerging market peers which are, in turn, very cheap compared to developed markets. That said, we've retained exposure to higher-conviction global stocks.

Changes in portfolio positioning

Q3 2020		Q4 2020	
Domestic equity	72.2%	Domestic equity	75.3%
Domestic cash	0.1%	Domestic cash	0.0%
Foreign equity	24.0%	Foreign equity	20.1%
Foreign property	3.6%	Foreign property	4.5%
Foreign cash	0.1%	Foreign cash	0.1%

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

Number of units as at 31 December 2020 (Class A):	38 455 665
Price (net asset value per unit) as at 31 December 2020 (Class A):	R9.40
Number of units as at 31 December 2020 (Class E):	105 829 290
Price (net asset value per unit) as at 31 December 2020 (Class E):	R9.44

All data as per Bloomberg as at 31 December 2020

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. Cut-off time is determined by the platform. 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.

Redemptions

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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

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.

Trustees

The Standard Bank of South Africa Limited,
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Cnr Hertzog Boulevard,
Cape Town
8001
Tel: +27 21 401 2443
Email: Compliance-PSG@standardbank.co.za

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.

2020 in review

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The investment backdrop was marked by some striking themes:

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- Emerging markets, small caps and value shares all achieved multi-decade lows relative to the market.

A common theme was a spike in uncertainty which compressed investor time horizons. We witnessed a violent and broad-based sell-off in the early phase of the pandemic which provided an opportunity to improve portfolio composition and allocate capital incrementally to high-quality opportunities.

The latter part of the year (particularly the quarter currently under review), has seen a partial recovery in portfolio performance, particularly as the announcement and approval of multiple Covid-19 vaccines increased the prospect of gradual economic normalisation and extended investor time horizons.

Looking forward

As we enter 2021, we find that the areas of the market offering the most potential remain very out of favour. The widespread capitulation out of emerging markets and economically sensitive shares by both local and foreign investors has yet to normalise in any meaningful way. Capital flows and positioning continue to suggest a remarkably degree of crowding into areas which have worked well until now (and where earnings and ratings are particularly high). South African assets (apart from the well-owned large cap shares) stand out as being particularly unloved. We believe a differentiated positioning in carefully selected companies will become an increasingly valuable component of an investor's portfolio going forward.

Despite recent strength in share prices over the last few months, we hold shares that remain very undervalued. The average prices of shares in the portfolio are around 0.65x of our assessment of fair value, as well as being positioned for strong growth in earnings and cashflows over the next few years. Many companies are adapting well to a challenging environment, and have the potential to defend and grow earnings through market share gains, cost-efficiency improvements and lower finance costs.

We expect the domestic economy to continue to face deep structural headwinds, but to nevertheless gradually recover from depressed levels as activity normalises and accommodative interest rates stimulate incremental demand. While we think this partial recovery is sufficient to underwrite satisfactory returns from domestic shares from current price levels, there is the possibility for a more pronounced and sustained recovery in activity and sentiment as the global economy reflates and South Africa receives a natural slice of emerging market flows. While risks remain, we see them gradually receding, and investors are currently being handsomely compensated to underwrite them.

Portfolio performance and positioning

Over the quarter the PSG Flexible Fund returned 13.11% versus the benchmark return of 1.18%. The contributors over this period were industrials (4.79%), financials (3.41%), foreign equities (3.28%) and resources (2.03%). The fund is suitable for investors with an investment term of 5 years and longer. Over the short-term returns can be volatile and for this reason it is important to measure fund returns over the relevant investment term. Since inception, the fund has produced an annual return of 12.66% versus benchmark return of 11.49%.

Many companies held in the fund enjoyed a very healthy price recovery during the quarter, but it is important to point out that the companies we own remain very cheap, highly cash generative and are well positioned for strong growth in earnings over the next few years. Accordingly, we have low levels of cash in the fund.

During the quarter we reduced our aggregate global exposure in favour of JSE-listed companies as fundamentally, South African equities remain cheaper than emerging market peers which are, in turn, very cheap compared to developed markets. That being said, we've retained exposure to higher conviction global stocks.

Changes in portfolio positioning

Q3 2020		Q4 2020	
Domestic equity	65.9%	Domestic equity	69.3%
Domestic cash	3.7%	Domestic cash	0.5%
Domestic gold	0.0%	Domestic gold	0.0%
Domestic bonds	0.0%	Domestic bonds	0.0%
Foreign equity	26.5%	Foreign equity	23.5%
Foreign property	3.6%	Foreign property	4.4%
Foreign cash	0.3%	Foreign cash	2.3%

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

Number of units as at 31 December 2020 (Class A):	546 568 398
Price (net asset value per unit) as at 31 December 2020 (Class A):	R4.60
Number of units as at 31 December 2020 (Class E):	914 429 316
Price (net asset value per unit) as at 31 December 2020 (Class E):	R4.61

All data as per Bloomberg as at 31 December 2020.

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Performance

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Pricing

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Redemptions

The ability of a portfolio to repurchase is dependent upon the liquidity of the securities and cash of the portfolio. To protect investors, a manager may suspend repurchases for a period, subject to regulatory approval, to await liquidity. A suspension ensures that the sale of a large number of units will not force PSG Collective Investments to sell the underlying investments at a price in the market which could have a negative impact on investors. PSG Collective Investments will keep all investors informed should a situation arise where such suspension is required.

Company details

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Conflict of interest disclosure

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Trustees

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Additional information

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PSG Balanced Fund

Quarterly portfolio commentary as at 31 December 2020
by Justin Floor and Dirk Jooste

2020 in review

There is little doubt that 2020 will be a year to remember. The rapid emergence of Covid-19 into a full-blown global pandemic led to decisive government-mandated lockdowns and, in turn, the most extreme disruption to economic activity in living memory.

The investment backdrop was marked by some striking themes:

- Global interest rates (including South African short-term rates) fell to historic lows.
- Substantial injections of monetary (to which we've become accustomed) and fiscal stimulus (a new development), saw an unprecedented explosion in global money supply.
- The gap between the expensive and cheap areas of the market grew even further, from already wide to extreme levels.
- A massive increase in global government and corporate debt burdens (not least in South Africa).
- Record outflows from emerging markets into safe-haven developed markets.
- Emerging markets, small caps and value shares all achieved multi-decade lows relative to the market.

A common theme was a spike in uncertainty which compressed investor time horizons. We witnessed a violent and broad-based sell-off in the early phase of the pandemic which provided an opportunity to improve portfolio composition and allocate capital incrementally to high-quality opportunities.

The latter part of the year (particularly the quarter currently under review), has seen a partial recovery in portfolio performance, particularly as the announcement and approval of multiple Covid-19 vaccines increased the prospect of gradual economic normalisation and extended investor time horizons.

Looking forward

As we enter 2021, we find that the areas of the market offering the most potential remain very out of favour. The widespread capitulation out of emerging markets and economically sensitive shares by both local and foreign investors has yet to normalise in any meaningful way. Capital flows and positioning continue to suggest a remarkable degree of crowding into areas which have worked well until now (and where earnings and ratings are particularly high). South African assets (apart from the well-owned large cap shares) stand out as being particularly unloved. We believe a differentiated positioning in carefully selected companies will become an increasingly valuable component of an investor's portfolio going forward.

Despite recent strength in share prices over the last few months, we hold shares that remain very undervalued. On average, shares in the portfolio are priced at 0.65x of our assessment of fair value, and are positioned for strong growth in earnings and cashflows over the next few years. Many companies are adapting well to a challenging environment, and have the potential to defend and grow earnings through market share gains, cost-efficiency improvements and lower finance costs.

We expect the domestic economy to continue to face deep structural headwinds, but to nevertheless gradually recover from depressed levels as activity normalises and accommodative interest rates stimulate incremental demand. While we think this partial recovery is sufficient to underwrite satisfactory returns from domestic shares from current price levels, there is the possibility for a more pronounced and sustained recovery in activity and sentiment as the global economy reflates and South Africa receives a natural slice of emerging market flows. While risks remain, we see them gradually receding, and investors are currently being handsomely compensated to underwrite them.

Portfolio performance and positioning

Over the quarter the PSG Balanced Fund returned 13% versus the benchmark return of 1.6%. Individual shares that contributed during this period were holdings in Tanger Factory Outlets, Glencore and Nordstrom. Meanwhile Remgro, Anglogold and Exxaro detracted from overall performance. The fund is suitable for investors with an investment term of 5 years and longer. Over the short-term returns can be volatile and for this reason it is important to measure fund returns over the relevant investment term. Since inception the fund has produced an annual return of 12.1% compared to a benchmark return of 10.4%.

Total net equity exposure decreased by 2.4% as the fund bought put options to control aggregate equity market risk. Total property exposure increased by 1.9% as capital was allocated to some very depressed local Real Estate Investment Trust (REIT) shares for the first time. Bonds (including inflation-linked bonds) reduced by 2.3% after a moderate rally in longer-dated government bonds. The fund remains highly liquid with negligible exposure to illiquid credit instruments.

Changes in portfolio positioning

Q3 2020		Q4 2020	
Domestic equity*	51.6%	Domestic equity*	50.5%
Domestic property	0.3%	Domestic property	1.4%
Domestic cash and NCDs	1.8%	Domestic cash and NCDs	2.5%
Domestic bonds	19.8%	Domestic bonds	17.5%
Foreign equity**	21.5%	Foreign equity**	20.2%
Foreign cash	0.6%	Foreign cash	2.7%
Foreign property	4.4%	Foreign property	5.2%
**Includes -0.7% effective derivative exposure* ***Includes -0.3% effective derivative exposure*		**Includes -1.5% effective derivative exposure* ***Includes -2.5% effective derivative exposure*	

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

Number of units as at 31 December 2020 (Class A):	60 213 644
Price (net asset value per unit) as at 31 December 2020 (Class A):	R61.94
Number of units as at 31 December 2020 (Class E):	60 108 793
Price (net asset value per unit) as at 31 December 2020 (Class E):	R62.01

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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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Despite recent strength in share prices over the last few months, we hold shares that remain very undervalued.

On average, shares in the portfolio are priced at 0.65x of our assessment of fair value, and are positioned for strong growth in earnings and cashflows over the next few years.

Many companies are adapting well to a challenging environment, and have the potential to defend and grow earnings through market share gains, cost-efficiency improvements and lower finance costs.

We expect the domestic economy to continue to face deep structural headwinds, but to nevertheless gradually recover from depressed levels as activity normalises and accommodative interest rates stimulate incremental demand. While we think this partial recovery is sufficient to underwrite satisfactory returns from domestic shares from current price levels, there is the possibility for a more pronounced and sustained recovery in activity and sentiment as the global economy reflates and South Africa receives a natural slice of emerging market flows. While risks remain, we see them gradually receding, and investors are currently being handsomely compensated to underwrite them.

Portfolio performance and positioning
Over the quarter the PSG Stable Fund returned 7.90% versus the benchmark return of 1.16%. The primary contributors over this period were local government bonds (2.44%), foreign equities (2.00%), and industrials (1.91%). The fund is suitable for investors with an investment term of 3 years and longer. Since inception, the fund has produced annualised returns of 7.22% versus benchmark return of 7.96% per annum.

The PSG Stable Fund has diversified exposure across offshore equity and property (13%), SA shares (including shares with rand-hedge-characteristics, 26%), domestic bonds (51%), and cash and negotiable certificates of deposit (7%). Domestic bonds comprise sovereign nominal bonds (16%), sovereign inflation-linked bonds (21%), fixed-rate bonds (including government guaranteed, 6%), and floating rate bonds (9%). The fund is positioned to take advantage of the attractive opportunity set across most asset classes, while still being cognisant of the risks. Cash exposure declined slightly over the quarter, as we preferred shorter-dated inflation-linked bonds which we believe offer considerably better yields than cash instruments at relatively low levels of risk. Although domestic equity exposure increased slightly, overall equity exposure declined as we selectively sold global shares that had risen to our estimates of intrinsic value. We have made use of global and local equity derivatives to manage the downside risk. Aggregate liquidity in the fund remains healthy. Cash and liquid short-dated government bonds provide ample firepower which can be used in the event of further market disruption, or if we see opportunities to deploy further into assets trading at wide margins of safety to their intrinsic value.

Changes in portfolio positioning

Q3 2020		Q4 2020	
Domestic equity*	25.9%	Domestic equity*	26.2%
Domestic property	0.4%	Domestic property	0.7%
Domestic cash and NCDs	8.3%	Domestic cash and NCDs	6.7%
Domestic bonds	49.5%	Domestic bonds	51.0%
Foreign equity**	13.3%	Foreign equity**	10.8%
Foreign cash	0.3%	Foreign cash	2.0%
Foreign property	2.3%	Foreign property	2.6%
**Includes -0.3% effective derivative exposure* ***Includes -0.1% effective derivative exposure*		**Includes -1.0% effective derivative exposure* ***Includes -1.6% effective derivative exposure*	

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

Number of units as at 31 December 2020 (Class A):	39 383 343
Price (net asset value per unit) as at 31 December 2020 (Class A):	R1.33
Number of units as at 31 December 2020 (Class E):	329 734 933
Price (net asset value per unit) as at 31 December 2020 (Class E):	R1.33

All data as per Bloomberg as at 31 December 2020

Disclaimer

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Regulation 28

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2020 in review

There is little doubt that 2020 will be a year to remember. The rapid emergence of Covid-19 into a full-blown global pandemic led to decisive government-mandated lockdowns and in turn the most extreme disruption to economic activity in living memory.
The investment backdrop was marked by some striking themes:

- Global interest rates (including South African short-term rates) fell to historic lows.
- Substantial injections of monetary (to which we've become accustomed) and fiscal stimulus (a new development), saw an unprecedented explosion in global money supply.
- The gap between the expensive and cheap areas of the market grew even further, from already wide to extreme levels.
- A massive increase in global government and corporate debt burdens (not least in South Africa).
- Record outflows from emerging markets into safe-haven developed markets.
- Significant weakness in emerging market assets – specifically in the form of higher bond yields, a decimated property market and multi-decade low valuations on small-cap and value equities.

A common theme was a spike in uncertainty which compressed investor time horizons. We witnessed a violent and broad-based sell-off in the early phase of the pandemic which provided an opportunity to improve portfolio composition and allocate capital incrementally to high-quality opportunities.

The initial sell-off in bond markets in March was driven by fundamental risks and market liquidity drying up. Subsequently, investors who held the line were handsomely rewarded, as bond markets staged a significant recovery in the remainder of 2020. In the latter part of the year (particularly the quarter currently under review), equities drove a partial recovery in portfolio performance, particularly as the announcement and approval of multiple Covid-19 vaccines increased the prospect of gradual economic normalisation and extended investor time horizons.

Cash returned 5.39% for the year as interest rate cuts impacted very short-term instruments. Nominal bonds (ALBI) returned 8.65% for the year, despite the significant sell off in March – evidence of the benefit and protection provided by high yields. Our positioning was largely in the 3- to 7-year area of the curve which delivered a significant 16% return. Inflation-linked bonds lagged this return as inflation saw negative month-on-month movements post the crisis. Our positioning in the short end delivered commendable returns of between 7.8% to 10.6% despite this. The result was therefore a good outcome of high yields for clients at very low levels of capital risk – key objectives of our investment process.

Looking forward

As we enter 2021, we find that the areas of the market offering the most potential for income-seeking investors remain very out of favour. The widespread capitulation out of emerging markets, and specifically bond markets, by foreign investors has yet to normalise in any meaningful way. Locally, as fund flows into low-risk money market and income funds surged last year, positioning continues to suggest a remarkable degree of crowding into areas which we believe are higher risk than perceived by the market (corporate credit, bank funding curves and cash/cash-like instruments).

As a result, government bonds continue to offer significant value on a risk-adjusted basis to clients seeking income returns where real yields remain elevated relative to global bond markets and in light of an all-time low repo rate. In addition, investors seeking to reduce risks, have also provided opportunities in both real estate investment trusts (REITs) and preference share markets – offering a differentiated approach to generating satisfactory risk-adjusted income yields. In combination, despite the recent strong performance in these markets, we believe they continue to offer attractive yields for clients at very low risk, due to the depressed pricing relative to our estimates of a normalised or fair market price/yield.

The fund continues to use a diversified basket of small positions in equities from our equity buy lists, which have begun to perform well, especially during the last quarter of 2020. Despite some recent strength in share prices over the last few months, we hold shares that remain very undervalued (average prices of shares in the portfolio are around 0.65x of our assessment of fair value) and well positioned for strong growth in earnings and cashflows over the next few years as attractive dividend yields are expected. Many companies are adapting well to a challenging environment and have the potential to defend and grow earnings through market share gains, cost-efficiency improvements and lower finance costs.

We expect the domestic economy to continue to face deep structural headwinds, but to nevertheless gradually recover from depressed levels as activity normalises and accommodative interest rates stimulate incremental demand. While we think this partial recovery is sufficient to underwrite satisfactory returns from domestic assets from current yields/prices there is the possibility for a more pronounced and sustained recovery in activity and sentiment as the global economy reflates and South Africa receives a natural slice of emerging market flows. While risks remain, we see them gradually receding and investors are currently being handsomely compensated to underwrite them.

Portfolio performance and positioning

Over the quarter the PSG Diversified Income Fund returned 3.44% versus the benchmark return of 0.67%. The contributors over this period were local government bonds (2.80%), equity (0.68%) and preference shares (0.23%), while cash instruments detracted (-0.37). Over a 1-year period the fund delivered a return of 8.16% versus the benchmark return of 4.16%, despite the tough market environment.

Entering the 2021 year, the fund continues to focus on the areas of our sovereign bonds curve which offer best asymmetry in returns and downside protection. The domestic bond allocation of the fund was reduced during the final quarter of the year, specifically by selling inflation-linked bonds which benefitted the fund significantly during the months of October and November. The fund increased its exposure to preference shares where we believe the market is offering up very attractive risk-adjusted yields. The equity exposure of the fund in largely creased due to market movements and select additions were made to domestic property. The allocations to domestic cash and NCDs are largely of a floating nature as we believe the rate cycle is likely near a low. As noted, we believe there are areas in the fixed income space which are expensive relative to the risks and therefore prefer liquidity and cash should pricing begin to reflect underlying risks. Despite the lower rates across most of the fixed income market, we believe there remains significant value for income-seeking clients with a high priority on capital protection.

Changes in portfolio positioning

Q3 2020		Q4 2020	
Domestic equity	3.9%	Domestic equity	4.0%
Domestic preference shares	1.6%	Domestic preference shares	2.0%
Domestic property	0.1%	Domestic property	0.3%
Domestic cash and NCDs	10.0%	Domestic cash and NCDs	16.2%
Domestic bonds	79.8%	Domestic bonds	71.8%
Foreign equity	1.4%	Foreign equity	1.7%
Foreign cash	2.7%	Foreign cash	3.3%
Foreign property	0.5%	Foreign property	0.7%

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

Number of units as at 31 December 2020 (Class A): 1 085 991 170
Price (net asset value per unit) as at 31 December 2020 (Class A): R1.23
Number of units as at 31 December 2020 (Class E): 251 529 118
Price (net asset value per unit) as at 31 December 2020 (Class E): R1.23

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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.

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- Record outflows from emerging markets into safe-haven developed markets.
- Significant weakness in emerging market assets – specifically in the form of higher bond yields, a decimated property market and multi-decade low valuations on small-cap and value equities.

A common theme was a spike in uncertainty which compressed investor time horizons. We witnessed a violent and broad-based sell-off in the early phase of the pandemic which provided an opportunity to improve portfolio composition and allocate capital incrementally to high-quality opportunities.

The initial sell-off in bond markets in March was driven by fundamental risks and market liquidity drying up. Subsequently, investors who held the line were handsomely rewarded, as bond markets staged a significant recovery in the remainder of 2020. We applied a consistent process of seeking the best risk-adjusted opportunities, and the portfolio entered the year in a very liquid position and took a balanced approach when using risk. As communicated in 2019, we were early sellers of corporate bonds. Therefore, we were able to avoid drawdowns for clients at the peak of the crisis and were further able to quickly and significantly shift the fund to the best opportunities, namely nominal and inflation-linked government bonds.

Cash returned 5.39% for the year as interest rate cuts impacted very short-term instruments. Nominal bonds (ALBI) returned 8.65% for the year, despite the significant sell off in March – evidence of the benefit and protection provided by high yields. Our positioning was largely in the 3 to 7-year area of the curve which delivered a significant 16% return. Inflation-linked bonds lagged this return as inflation saw negative month-on-month movements post the crisis. Our positioning in the short end delivered commendable returns from 7.8% to 10.6% despite this. The result of a consistently applied process was therefore a good outcome of standout returns for clients at very low levels of capital risk – key objectives of our investment process.

Looking forward

As we enter 2021, we find that the areas of the market offering the most potential for income seeking investors remain very out of favour. The widespread capitulation out of emerging markets and specifically bond markets by foreign investors has yet to normalise in any meaningful way. Locally, as fund flows into low-risk money market and income funds surged last year, positioning continues to suggest a remarkable degree of crowding into areas which we believe are higher risk than perceived by the market (corporate credit, bank funding curves and cash/cash-like instruments).

As a result, government bonds continue to offer significant value on a risk-adjusted basis to clients seeking income returns, where real yields remain elevated relative to global bond markets and in light of an all-time low repo rate. We expect the domestic economy to continue to face deep structural headwinds, but to nevertheless gradually recover from depressed levels as activity normalises and accommodative interest rates stimulate incremental demand. While we think this partial recovery is sufficient to underwrite satisfactory returns from government bonds from current yields there is the possibility for a more pronounced and sustained recovery in activity and sentiment as the global economy reflates and South Africa receives a natural slice of emerging market flows. While risks remain, we see them gradually receding and investors are currently being handsomely compensated to underwrite them.

Portfolio performance and positioning

Over the quarter the PSG Income Fund returned 1.96% versus the benchmark return of 0.97%. The major contributor over this period was local government bonds (1.57%), being positioned in the short end of the curve. Over a 1-year period the fund delivered a return of 9.5% versus the benchmark return of 5.38%.

Entering the 2021 year, the fund continues to focus on the areas of our sovereign bond curve which offer best assymmetry in returns and downside protection. The domestic bond allocation of the fund was reduced during the final quarter of the year – specifically in selling inflation linked bonds which benefitted the fund significantly during the months of October and November. The allocations to domestic cash and NCD's are largely of floating nature as we believe the rates cycle is likely near a low. As noted, we believe there are areas in the fixed income space which are expensive relative to risks and therefore prefer liquidity and cash should pricing begin to reflect underlying risks. Despite the lower rates across most of the fixed income market, we believe there remains significant value for income seeking clients with a high priority of capital protection.

Changes in portfolio positioning

	Q3 2020	Q4 2020
Domestic bonds	72.2%	56.4%
Domestic cash and NCDs	27.8%	43.6%

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

Number of units as at 31 December 2020 (Class A): 220 644 565
Price (net asset value per unit) as at 31 December 2020 (Class A): R1.07
Number of units as at 31 December 2020 (Class E): 1 095 203 889
Price (net asset value per unit) as at 31 December 2020 (Class E): R1.07

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Yield
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Performance
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PSG Money Market Fund

Quarterly portfolio commentary as at 31 December 2020
by Lyle Sankar and Duayne le Roux

2020 in review
There is little doubt that 2020 will be a year to remember. The rapid emergence of Covid-19 into a full-blown global pandemic led to decisive government-mandated lockdowns and in turn the most extreme disruption to economic activity in living memory.
The investment backdrop was marked by some striking themes:

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- Record outflows from emerging markets into safe-haven developed markets.
- Significant weakness in emerging market assets – specifically in the form of higher bond yields, a decimated property market and multi-decade low valuations on small-cap and value equities.

A common theme was a spike in uncertainty which compressed investor time horizons. We witnessed a violent and broad-based sell-off in the early phase of the pandemic which provided an opportunity to improve portfolio composition and allocate capital incrementally to high-quality opportunities.

The initial sell-off in bond markets in March was driven by fundamental risks and market liquidity drying up. Subsequently, investors who held the line were handsomely rewarded, as bond markets staged a significant recovery in the remainder of 2020. We applied a consistent process of seeking the best risk-adjusted opportunities, and the portfolio entered the year in a very liquid position and took a balanced approach when using risk.

Looking forward
As we enter 2021, money market rates remain at historically low levels following significant rate cuts from the SARB. That said, the 'steepness' in the NCD curve - the compensation for taking additional term risk - is starting to show signs of returning. This is a positive development for investors in terms of receiving compensation for risk. It is, however, our view, that this change is still in its early stages. More of the same will be needed for this risk compensation to be fair and adequate. In this environment, we continue to prioritise higher levels of liquidity and, as such, hold higher than normal cash levels. Allocations have been focused on the shorter-dated treasury bill curve, which offer attractive yields compared to the NCD curve, and at lower levels of credit risk. We remind investors in line with previous communication that as the low rate environment continues to persist, we expect the fund's yield to increasingly reflect this. However, the fund should outperform cash accounts over the near-term, as well as offer diversification against any individual bank risk.

Portfolio performance and positioning
Over the quarter, the PSG Money Market Fund returned 0.81% versus the benchmark return of 0.99%. The fund is suitable for investors who need an interim investment vehicle or 'parking bay' for surplus money with high liquidity and capital preservation requirements. The latter were key objectives for us during the past year.

The fund's exposure to bank NCDs has declined from the previous quarter. This is due to the fund's book of NCDs gradually maturing and the realised capital being deployed into buying treasury bills, together with a preference for higher cash holdings. The Treasury bills are of a short maturity, offering an adequate level of liquidity as well as a yield pick-up to the bank NCD curve, even as the bank NCD curve steepens. This overall move towards treasury bills and less bank NCD exposure also improves the fund's total credit risk.

Changes in portfolio positioning

Q3 2020		Q4 2020	
Linked NCDs/ Floating-rate notes	18.0%	Linked NCDs/Floating-rate notes	19.7%
Step rate notes	12.5%	Step rate notes	13.6%
NCDs	28.0%	NCDs	0.0%
Treasury bills	21.0%	Treasury bills	48.8%
Call deposits	9.8%	Call deposits	17.9%
Corporate bonds	0.0%	Corporate bonds	0.0%
Debenture	10.7%	Debenture	0.0%

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

Number of units as at 31 December 2020 (Class A):	717 413 319
Price (net asset value per unit) as at 31 December 2020 (Class A):	R1.00
Number of units as at 31 December 2020 (Class F):	370 706 382
Price (net asset value per unit) as at 31 December 2020 (Class F):	R1.00

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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.

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Conflict of Interest Disclosure

The fund manager may use the brokerage services of a related party, PSG Securities Ltd.

Trustees

The Standard Bank of South Africa Limited,
The Towers, 2 Heerengracht Street,
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Cape Town, 8001
Tel: +27 (21) 401 2443.
Email: Compliance-PSG@standardbank.co.za

Additional information

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2020 in review
There is little doubt that 2020 will be a year to remember. The rapid emergence of Covid-19 into a full-blown global pandemic led to decisive government-mandated lockdowns and, in turn, the most extreme disruption to economic activity in living memory.

The investment backdrop was marked by some striking themes:
- Global interest rates fell to 500-year lows.
- Substantial injections of monetary (to which we've become accustomed) and fiscal stimulus (a new development), saw an unprecedented explosion in global money supply.
- The gap between the expensive and cheap areas of the market grew even further, from already wide to extreme levels.
- The global technology sector has presented the most crowded trade in 20 years.
- The highest level of passive index investing on record, and extremely high concentration in indices.
- A massive increase in global government and corporate debt burdens.
- Record outflows from emerging markets into safe-haven developed markets.
- Emerging markets, small caps and value shares all achieved multi-decade lows relative to the market.

A common theme was a spike in uncertainty which compressed investor time horizons. We witnessed a violent and broad-based sell-off in the early phase of the pandemic which provided an opportunity to improve portfolio composition and allocate capital incrementally to high-quality opportunities.

After a disappointing first quarter when the fund experienced a significant drawdown during the market crash, the latter part of the year (particularly the quarter currently under review) has seen a sharp recovery in portfolio performance. With uncertainty around the US presidential election lifting, coupled with positive news on the vaccine front, global markets witnessed a major rotation away from what has worked most recently to what has been out of favour. Cyclical stocks, emerging markets and companies particularly hard hit by Covid-19 related lockdowns, staged a remarkable recovery in November and December.

Looking forward
As we enter 2021, we find that the areas of the market offering the most potential remain largely out of favour. The widespread capitulation out of emerging markets and economically sensitive shares has yet to normalise in any meaningful way. Capital flows and positioning continue to suggest a remarkable degree of crowding into areas which have worked well until now (and where earnings and ratings are particularly high).

Despite recent strength in share prices, we hold shares that remain significantly undervalued (average prices of shares in the portfolio are around 0.7x of our assessment of fair value), as well as being positioned for strong growth in earnings and cashflows over the next few years. Many companies are adapting well to a challenging environment and have the potential to defend and grow earnings through market share gains, cost-efficiency improvements and lower finance costs.

While several sectors or geographies will likely continue to display longer-term structural headwinds (such as bricks and mortar retail and emerging markets such as South Africa), we nevertheless expect conditions to gradually recover from depressed levels as activity normalises and accommodative interest rates stimulate incremental demand. While we think this partial recovery is enough to underwrite satisfactory returns from current prices, there is the possibility for a more pronounced and sustained recovery in activity and sentiment as the global economy reflates and businesses adapt to the 'new normal'. While risks remain, we see them gradually receding and investors are being handsomely compensated to underwrite them.

As mentioned in our previous commentaries, we take the strong but measured view that the prospects for differentiated investing have been enhanced, even as most investors have given up on these investments. In reality, we believe they are now most sorely needed in their portfolios.

Portfolio performance and positioning
We used market dislocations in late October to add to existing positions such as Exor NV, Simon Property Group, Tanger Factory Outlets, Philip Morris, Brookfield Asset Management, Nordstrom and Asahi Group.

New positions introduced into the fund were Centene Corporation, the US's largest managed-care provider to mainly underinsured and low-income individuals and Tesco Plc, the UK's largest supermarket and grocery e-commerce operator. While the fund sold Aflac in mid-2019 at around US$55 per share, the sharp price correction to the mid-US$30 level provided us with an attractive buying opportunity.

While gold prices have remained relatively strong, the prices of selected gold equities have retreated to pre-Covid-19 levels. We view gold, or gold equities, in this instance as an alternative form of currency and a negatively correlated asset in the portfolio. With these attributes in mind, the fund purchased a position in Anglogold Ashanti and added to Wheaton Precious Metals, in which we had previously reduced holdings at higher prices. While we do not predict future macro events, the unprecedented money supply growth in developed countries coupled with fiscal stimulus, should provide inflationary support in years to come.

The fund exited its holding in Pandora as a result of strong share price performance beyond intrinsic value (the shares rose 3.5x from the March 2020 lows) and reduced its holdings in Berkshire Hathaway and Du Pont.

The attractive opportunity set and price to value ratios currently available bode well for future returns.

Over the quarter the PSG Global Equity Feeder Fund returned 14.11% versus the benchmark return of 0.36%. The contributors over this period were financials (10.84%), consumer discretionary instruments (5.66%) and energy (3.85%). The contributors are that of the main fund (PSG Global Equity Sub-Fund). The fund is suitable for investors with an investment term of 5 years and longer. Over the short-term returns can be volatile and for this reason it is important to measure fund returns over the relevant investment term. Since inception the fund produced an annual return of 10.22% versus the benchmark return of 18.65%.

Changes in portfolio positioning

Q3 2020		Q4 2020	
Equities	98.7%	Equities	99.4%
Cash	1.3%	Cash	0.6%

Q3 2020		Q4 2020	
US	39.8%	US	41.2%
Europe	18.2%	Europe	15.4%
UK	20.0%	UK	22.5%
Asia ex Japan	0.4%	Asia ex Japan	0.0%
Japan	13.7%	Japan	13.5%
Canada	3.0%	Canada	2.9%
Africa	3.6%	Africa	3.9%
Cash	1.3%	Cash	0.6%

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 31 December 2020 (Class A):	5 159 069
Price (net asset value per unit) as at 31 December 2020 (Class A):	R2.56
Number of units as at 31 December 2020 (Class E):	27 365 400
Price (net asset value per unit) as at 31 December 2020 (Class E):	R2.63

All data as per Bloomberg as at 31 December 2020.

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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. Cut-off time is determined by the platform. 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.

Redemptions

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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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- A massive increase in global government and corporate debt burdens.
- Record outflows from emerging markets into safe-haven developed markets.
- Emerging markets, small caps and value shares all achieved multi-decade lows relative to the market.

A common theme was a spike in uncertainty which compressed investor time horizons. We witnessed a violent and broad-based sell-off in the early phase of the pandemic which provided an opportunity to improve portfolio composition and allocate capital incrementally to high-quality opportunities.

After a disappointing first quarter when the fund experienced a significant drawdown during the market crash, the latter part of the year (particularly the quarter currently under review) has seen a sharp recovery in portfolio performance. With uncertainty around the US presidential election lifting, coupled with positive news on the vaccine front, global markets witnessed a major rotation away from what has worked most recently to what has been out of favour. Cyclical stocks, emerging markets and companies particularly hard hit by Covid-19 related lockdowns, staged a remarkable recovery in November and December.

Looking forward
As we enter 2021, we find that the areas of the market offering the most potential remain largely out of favour. The widespread capitulation out of emerging markets and economically sensitive shares has yet to normalise in any meaningful way. Capital flows and positioning continue to suggest a remarkable degree of crowding into areas which have worked well until now (and where earnings and ratings are particularly high).

Despite recent strength in share prices, we hold shares that remain significantly undervalued (average prices of shares in the portfolio are around 0.7x of our assessment of fair value), as well as being positioned for strong growth in earnings and cashflows over the next few years. Many companies are adapting well to a challenging environment and have the potential to defend and grow earnings through market share gains, cost-efficiency improvements and lower finance costs.

While several sectors or geographies will likely continue to display longer-term structural headwinds (such as bricks and mortar retail and emerging markets such as South Africa), we nevertheless expect conditions to gradually recover from depressed levels as activity normalises and accommodative interest rates stimulate incremental demand. While we think this partial recovery is enough to underwrite satisfactory returns from current prices, there is the possibility for a more pronounced and sustained recovery in activity and sentiment as the global economy reflates and businesses adapt to the 'new normal'. While risks remain, we see them gradually receding and investors are being handsomely compensated to underwrite them.

As mentioned in our previous commentaries, we take the strong but measured view that the prospects for differentiated investing have been enhanced, even as most investors have given up on these investments. In reality, we believe they are now most sorely needed in their portfolios.

Portfolio performance and positioning
We used market dislocations in late October to significantly increase equity exposure and added to existing positions such as Exor NV, Simon Property Group, Tanger Factory Outlets, Philip Morris, Brookfield Asset Management, Nordstrom and Asahi Group.

New positions introduced into the fund were Centene Corporation, the US's largest managed-care provider to mainly underinsured and low-income individuals and Tesco Plc, the UK's largest supermarket and grocery e-commerce operator. While the fund sold Aflac in mid-2019 at around US$55 per share, the sharp price correction to the mid-US$30 level provided us with an attractive buying opportunity.

While gold prices have remained relatively strong, the prices of selected gold equities have retreated to pre-Covid-19 levels. We view gold, or gold equities, in this instance as an alternative form of currency and a negatively correlated asset in the portfolio. With these attributes in mind, the fund purchased a position in Anglogold Ashanti and added to Wheaton Precious Metals, in which we had previously reduced holdings at higher prices. While we do not predict future macro events, the unprecedented money supply growth in developed countries coupled with fiscal stimulus, should provide inflationary support in years to come.

The fund exited its holding in Pandora as a result of strong share price performance beyond intrinsic value (the shares rose 3.5x from the March 2020 lows) and reduced its holdings in Berkshire Hathaway and Du Pont.

Cash and bonds at 9.1% are one of the lowest in the fund's history and comparable to early 2016. High equity exposure is informed by the attractive opportunity set and price to value ratios currently available, which bode well for future returns.

Over the quarter the PSG Global Flexible Feeder Fund returned 10.90% versus the benchmark return of -10.54%. The contributors over this period were financials (9.61%), consumer discretionary instruments (4.92%) and industrials (2.88%). The contributors are that of the main fund (PSG Global flexible sub-fund). The fund is suitable for investors with an investment term of 5 years and longer. Over the short-term returns can be volatile and for this reason it is important to measure fund returns against the relevant investment term. Since inception the fund produced an annual return of 10.50% versus the benchmark return of 14.74%.

Changes in portfolio positioning

Q3 2020		Q4 2020	
Equities	85.5%	Equities	90.9%
Bonds	0.9%	Bonds	8.2%
Cash	13.6%	Cash	0.9%

Q3 2020		Q4 2020	
US	33.9%	US	37.4%
Europe	15.8%	Europe	14.9%
UK	16.8%	UK	20.5%
Asia ex Japan	0.4%	Asia ex Japan	0.0%
Japan	13.2%	Japan	12.4%
Canada	2.7%	Canada	2.7%
Africa	2.7%	Africa	3.0%
Cash and Bonds	14.5%	Cash and Bonds	9.1%

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Number of units as at 31 December 2020 (Class A): 18 124 803
Price (net asset value per unit) as at 31 December 2020 (Class A): R2.16
Number of units as at 31 December 2020 (Class B): 133 933 375
Price (net asset value per unit) as at 31 December 2020 (Class B): R2.24

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