Quarterly portfolio fund commentaries

December 2022

Contents

by Shaun le Roux and Gustav Schulenburg

2022 in review

At the start of the new year, we find ourselves reflecting on 2022… a year like no other, a year of pain. To better appreciate outcomes experienced in the year gone by, it is helpful to briefly note the historical context preceding the start of 2022.

In the aftermath of the Global Financial Crisis (GFC) (which ended around midway through 2009), developed world countries adopted unprecedented, exceptional and coordinated policy actions. What followed, among other things, was an extended era of ultra-low or negative interest rates. By midway through the 2010s, it was thought that the unconventional policies would be temporary but, ultimately, they continued through the entire decade. By the end of the decade, naturally, the status quo thinking became heavily entrenched, and the asset classes and strategies that continued to be relative beneficiaries of such an environment became very crowded and expensive – they were everyone's go-to when building a portfolio.

With the arrival of the Covid-19 pandemic in early 2020 and the deflationary demand shock that followed (which again reinforced the entrenched view that low inflation and low interest rates would persist, boosting already very expensive assets even more), these 'long-in-the-tooth' policies were further extended, and even intensified with the addition of enormous developed market fiscal policy stimulus. Fuel was added to the fire, so to speak.

As 2022 began, an unexpected war started in Ukraine, resulting in shortages of agricultural commodities and an energy crisis in Europe. Chinese regulatory uncertainty and a property crisis further jangled market nerves. Global supply chains started transforming from 'just in time' to 'just in case', relocating more business processes and suppliers closer to home, ushering in a new era of reverse globalisation.

As pandemic lockdowns eased, long, dormant inflation started picking up. While inflation had initially been deemed as 'transitory', it soon became clear that high inflation was likely going to be more persistent and that policymakers would have to unwind their ultra-accommodative policies. Markets began to slide.

Mid-way through 2022, the world was wrestling with the highest inflation rates in 40 years, and central banks around the world responded with an unprecedented series of interest rate hikes, sending stocks and bonds into a correction that continued into the end of the year.

In retrospect, 2022 was indeed a stomach-churning year. Looking at the returns produced from major global asset classes: the World MSCI Equity Index lost 18% in USD terms, the fourth worst annual performance since 1970; the Bloomberg Aggregate Global Bond Index lost 16% in USD terms, easily the worst year ever, dating back to 1976; a 60:40 combination of the former lost 17.4%, and you would have to look back to 1931 during the Great Depression and the 1937 crash to see worse annual performance numbers from the magical 60:40 formula. Locally, performance numbers were more measured, as emerging and commodity-producing economies share a very different dynamic to the large, developed world economies. With the local currency depreciating by 7% versus the US dollar during the year, the FTSE/JSE SWIX All Share Index and the All Bond Index (ALBI) each returned a positive 4% in local currency terms.

Looking forward

The likely cause for most of the uncertainty experienced in 2022 is the build-up to a very important inflection point the market is in the process of assessing. We believe the market is trying to find a new equilibrium in a world where money is no longer easy to come by. The era of low inflation is likely behind us, as we start to see the effects of deglobalisation and underinvestment in the real sectors of the global economy manifesting. The period of ultra-low global interest rates is most likely also over for now, and the assets that have fared well in the low inflation environment are unlikely to be the same ones that will fare well in a high inflation world.

We believe investors need to reassess the market with a fresh mindset. The shares and sectors that are likely to fare well going forward may surprise some, and are likely to come from areas that have been deeply unpopular for a long time. It's important to note that market volatility is likely to continue, and while dislocations are never pleasant, they present attractive opportunities for patient, long-term investors.

We are encouraged by the performance we have been able to provide in our funds due to our early positioning for the big changes that have taken place in the investment environment. More importantly, we remain excited about the rich opportunity set that this adjustment period and the accompanying bouts of volatility bring, as it allows us to continue applying our proven 3M process and play a crucial part in building robust long-term portfolio strategies for our investors.

Portfolio performance and positioning*

Over the quarter the PSG Equity Fund returned 13.5% versus the benchmark return of 10.7%. The largest contributors over this period were foreign equities (4.8%), resources (3.5%) and industrials (2.7%). The fund outperformed the equity market both for the fourth quarter and for the 2022 calendar year. The fund continued to profit from its positioning in counters that benefit from supply constraints in real assets and mid-caps. Glencore plc, Grindrod Shipping Holdings Limited, Grindrod Limited and Hosken Consolidated Investments were the top contributors to performance from a stock perspective. In aggregate, the standout performance in 2022 was delivered by the fund's foreign equities holdings which considerably outperformed global indices. This performance is a testament to the integrated global process followed in our funds. We believe the foreign equities we own will be a continued positive differentiator for the fund. The fund is well positioned for the current market environment.

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. Over the 7-year time horizon, the fund and benchmark produced an annualized return of 8.7% p.a. Since inception, the fund has performed in the top quartile and produced an annual return of 15.2% versus the benchmark return of 13.0%.

*Return numbers as per the PSG Equity Fund Class A

Changes in portfolio positioning

Q3 2022		Q4 2022	
Domestic equity	67.5%	Domestic equity	64.2%
Domestic property	1.3%	Domestic property	1.9%
Offshore equity	29.6%	Offshore equity	32.7%
Offshore property	1.5%	Offshore property	0.9%
Offshore cash	0.1%	Offshore cash	0.3%

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

Number of units as at 31 December 2022 (Class A):	27 799 770
Price (net asset value per unit) as at 31 December 2022 (Class A):	R14.43
Number of units as at 31 December 2022 (Class E):	89 177 313
Price (net asset value per unit) as at 31 December 2022 (Class E):	R14.43

All data as per Bloomberg as at 31 December 2022

Total investment charge

Total Investment Charge annualised for the period 01/01/2020 to 31/12/2022

	Class A	Class E
Total expense ratio % (incl. VAT)	**1.75**	**1.54**
Annual management fee % (incl. VAT)	1.73	0.86
Other costs excluding transaction costs % (incl. VAT)	0.02	0.03
Performance fee % (incl. VAT)	0.00	0.65*
Transaction costs % (incl. VAT)	0.27	0.27
Total investment charge % (incl. VAT)	**2.02**	**1.81**

*The Performance Fee of 20% (excl. VAT) of the outperformance of Benchmark.

Total Investment Charge annualised for the period 01/01/2022 to 31/12/2022

	Class A	Class E
Total expense ratio % (incl. VAT)	**1.75**	**2.29**
Annual management fee % (incl. VAT)	1.73	0.86
Other costs excluding transaction costs % (incl. VAT)	0.02	0.02
Performance fee % (incl. VAT)	0.00	1.41*
Transaction costs % (incl. VAT)	0.18	0.18
Total investment charge % (incl. VAT)	**1.93**	**2.47**

*The Performance Fee of 20% (excl. VAT) of the outperformance of Benchmark.

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

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
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
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.

PSG Asset Management

PSG SA Equity Fund

Quarterly portfolio commentary as at 31 December 2022
by Gustav Schulenburg and Mikhail Motala

2022 in review

At the start of the new year, we find ourselves reflecting on 2022… a year like no other, a year of pain. To better appreciate outcomes experienced in the year gone by, it is helpful to briefly note the historical context preceding the start of 2022.

In the aftermath of the Global Financial Crisis (GFC) (which ended around midway through 2009), developed world countries adopted unprecedented, exceptional and coordinated policy actions. What followed, among other things, was an extended era of ultra-low or negative interest rates. By midway through the 2010s, it was thought that the unconventional policies would be temporary but, ultimately, they continued through the entire decade. By the end of the decade, naturally, the status quo thinking became heavily entrenched, and the asset classes and strategies that continued to be relative beneficiaries of such an environment became very crowded and expensive – they were everyone's go-to when building a portfolio.

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As pandemic lockdowns eased, long, dormant inflation started picking up. While inflation had initially been deemed as 'transitory', it soon became clear that high inflation was likely going to be more persistent and that policymakers would have to unwind their ultra-accommodative policies. Markets began to slide.

Mid-way through 2022, the world was wrestling with the highest inflation rates in 40 years, and central banks around the world responded with an unprecedented series of interest rate hikes, sending stocks and bonds into a correction that continued into the end of the year.

In retrospect, 2022 was indeed a stomach-churning year. Looking at the returns produced from major global asset classes: the World MSCI Equity Index lost 18% in USD terms, the fourth worst annual performance since 1970; the Bloomberg Aggregate Global Bond Index lost 16% in USD terms, easily the worst year ever, dating back to 1976; a 60:40 combination of the former lost 17.4%, and you would have to look back to 1931 during the Great Depression and the 1937 crash to see worse annual performance numbers from the magical 60:40 formula. Locally, performance numbers were more measured, as emerging and commodity-producing economies share a very different dynamic to the large, developed world economies. With the local currency depreciating by 7% versus the US dollar during the year, the FTSE/JSE SWIX All Share Index and the All Bond Index (ALBI) each returned a positive 4% in local currency terms.

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We are encouraged by the performance we have been able to provide in our funds due to our early positioning for the big changes that have taken place in the investment environment. More importantly, we remain excited about the rich opportunity set that this adjustment period and the accompanying bouts of volatility bring, as it allows us to continue applying our proven 3M process and play a crucial part in building robust long-term portfolio strategies for our investors.

Portfolio performance and positioning*

During 2022, the PSG SA Equity Fund returned +14.4% versus its benchmark which returned +3.4%. We did not make significant changes to the portfolio during Q4 2022 as we remain comfortable with our current investments. The fund did however exit its stake in Grindrod Shipping Holdings as the price appreciated on the announcement of an offer to take over the company by TMI for an effective $26 per share (R440 per share). These proceeds were allocated across the existing portfolio into other high conviction holdings.

Pleasingly, some of the larger holdings in the fund, Anheuser-Busch Inbev, Anglogold Ashanti Ltd and Discovery Ltd outperformed during Q4 with price appreciation of 25.1%, 29.8% and 18.6% respectively.

We don't invest based on macro-economic factors, but we remain of the opinion that a likely inflection has been reached in the global economy from an inflationary, and interest rate perspective. This could add to uncertainty over the short-term, but over the long-term we believe this will lead to a more normalised environment for active managers and stock picking.

The fund continues to favour companies that provide investors with short-term cash returns such as dividends and buy-backs, rather than the promise of future cash flows at high valuation multiples.

Over the quarter the PSG SA Equity Fund returned 11.6% versus the benchmark return of 12.2%. The largest contributors were resources (4.1%) and industrials (3.8%) and financials (3.2%). 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 against the relevant investment term. Over the 7-year time horizon, the fund returned 7.8% p.a. versus the benchmark return of 6.6% p.a. Since inception, the fund has produced an annual return of 6.1% versus the benchmark return of 7.3%.

*Return numbers as per the PSG SA Equity Fund Class D

Changes in portfolio positioning

Q3 2022		Q4 2022	
Domestic equity	96.6%	Domestic equity	96.3%
Domestic property	2.4%	Domestic property	2.9%
Domestic cash	1.0%	Domestic cash	0.8%

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

Number of units as at 31 December 2022 (Class D):	151 873 163
Price (net asset value per unit) as at 31 December 2022 (Class D):	R1.43
Number of units as at 31 December 2022 (Class F):	101 663
Price (net asset value per unit) as at 31 December 2022 (Class F):	R1.45

All data as per Bloomberg as at 31 December 2022

Total investment charge

Total Investment Charge annualised for the period 01/01/2020 to 31/12/2022

	Class D	Class F
Total expense ratio % (incl. VAT)	**1.09**	**1.38**
Annual management fee % (incl. VAT)	0.98	1.27
Other costs excluding transaction costs % (incl. VAT)	0.11	0.11
Transaction costs % (incl. VAT)	0.39	0.39
Total investment charge % (incl. VAT)	**1.48**	**1.77**

Total Investment Charge annualised for the period 01/01/2022 to 31/12/2022

	Class D	Class F
Total expense ratio % (incl. VAT)	**1.00**	**1.29**
Annual management fee % (incl. VAT)	0.98	1.27
Other costs excluding transaction costs % (incl. VAT)	0.02	0.02
Transaction costs % (incl. VAT)	0.30	0.30
Total investment charge % (incl. VAT)	**1.30**	**1.59**

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With the arrival of the Covid-19 pandemic in early 2020 and the deflationary demand shock that followed (which again reinforced the entrenched view that low inflation and low interest rates would persist, boosting already very expensive assets even more), these 'long-in-the-tooth' policies were further extended, and even intensified with the addition of enormous developed market fiscal policy stimulus. Fuel was added to the fire, so to speak.

As 2022 began, an unexpected war started in Ukraine, resulting in shortages of agricultural commodities and an energy crisis in Europe. Chinese regulatory uncertainty and a property crisis further jangled market nerves. Global supply chains started transforming from 'just in time' to 'just in case', relocating more business processes and suppliers closer to home, ushering in a new era of reverse globalisation.

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Portfolio performance and positioning*

Over the quarter the PSG Flexible Fund returned 11.8% versus the benchmark return of 2.2%. The largest contributors over this period were foreign equities (5.1%), resources (2.9%) and industrials (2.7%) while foreign options detracted (-0.6%). The fund outperformed the equity market both for the fourth quarter and for the 2022 calendar year. The fund continued to profit from its positioning in counters that benefit from supply constraints in real assets and mid-caps. Glencore plc, Hosken Consolidated Investments, Grindrod Shipping Holdings Limited and Grindrod Limited were the top contributors to performance from a stock perspective. In aggregate, the standout performance in 2022 was delivered by the fund's foreign equities holdings which considerably outperformed global indices. This performance is a testament to the integrated global process followed in our funds. We believe the foreign equities we own will be a continued positive differentiator for the fund. The fund is well positioned for the current market environment.

Because of the opportunity set, the fund continues to be offensively positioned. While cash levels are low compared to long-term averages, the fund contains a number of additional portfolio defences. These defences include equity hedges, gold and oil and gas stocks. This strategy has served our clients well and we believe will continue to do so.

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. Over the 5-year time horizon, the fund returned 6.9% p.a. versus the benchmark return of 10.9% p.a. Since inception, the fund has performed in the top quartile and has produced an annual return of 13.9% versus benchmark return of 11.6%.

*Return numbers as per the PSG Flexible Fund Class A

Changes in portfolio positioning

Q3 2022		Q4 2022	
Domestic equity	62.4%	Domestic equity	58.5%
Domestic property	0.4%	Domestic property	0.4%
Domestic cash, Treasury bills and NCDs	2.1%	Domestic cash, Treasury bills and NCDs	1.8%
Offshore equity*	24.4%	Offshore equity*	28.8%
Offshore property	2.7%	Offshore property	2.6%
Offshore cash	8.0%	Offshore cash	7.9%
*Includes -7.9% effective derivative exposure		*Includes -5.3% effective derivative exposure	

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

Number of units as at 31 December 2022 (Class A):	406 622 535
Price (net asset value per unit) as at 31 December 2022 (Class A):	R7.00
Number of units as at 31 December 2022 (Class E):	814 062 382
Price (net asset value per unit) as at 31 December 2022 (Class E):	R7.01

All data as per Bloomberg as at 31 December 2022

Total investment charge

Total Investment Charge annualised for the period 01/01/2020 to 31/12/2022

	Class A	Class E
Total expense ratio % (incl. VAT)	**2.14**	**1.91**
Annual management fee % (incl. VAT)	1.15	0.86
Other costs excluding transaction costs % (incl. VAT)	0.05	0.05
Performance fee % (incl. VAT)	0.94*	1.00*
Transaction costs % (incl. VAT)	0.22	0.22
Total investment charge % (incl. VAT)	**2.36**	**2.13**

*Performance fee of 7% (excl. VAT) of the outperformance of the high water mark.

Total Investment Charge annualised for the period 01/01/2022 to 31/12/2022

	Class A	Class E
Total expense ratio % (incl. VAT)	**2.58**	**2.31**
Annual management fee % (incl. VAT)	1.15	0.86
Other costs excluding transaction costs % (incl. VAT)	0.05	0.06
Performance fee % (incl. VAT)	1.38*	1.39*
Transaction costs % (incl. VAT)	0.15	0.15
Total investment charge % (incl. VAT)	**2.73**	**2.46**

*Performance fee of 7% (excl. VAT) of the outperformance of the high water mark.

Disclaimer
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Pricing
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2022 in review

At the start of the new year, we find ourselves reflecting on 2022… a year like no other, a year of pain. To better appreciate outcomes experienced in the year gone by, it is helpful to briefly note the historical context preceding the start of 2022.

In the aftermath of the Global Financial Crisis (GFC) (which ended around midway through 2009), developed world countries adopted unprecedented, exceptional and coordinated policy actions. What followed, among other things, was an extended era of ultra-low or negative interest rates. By midway through the 2010s, it was thought that the unconventional policies would be temporary but, ultimately, they continued through the entire decade. By the end of the decade, naturally, the status quo thinking became heavily entrenched, and the asset classes and strategies that continued to be relative beneficiaries of such an environment became very crowded and expensive – they were everyone's go-to when building a portfolio.

With the arrival of the Covid-19 pandemic in early 2020 and the deflationary demand shock that followed (which again reinforced the entrenched view that low inflation and low interest rates would persist, boosting already very expensive assets even more), these 'long-in-the-tooth' policies were further extended, and even intensified with the addition of enormous developed market fiscal policy stimulus. Fuel was added to the fire, so to speak.

As 2022 began, an unexpected war started in Ukraine, resulting in shortages of agricultural commodities and an energy crisis in Europe. Chinese regulatory uncertainty and a property crisis further jangled market nerves. Global supply chains started transforming from 'just in time' to 'just in case', relocating more business processes and suppliers closer to home, ushering in a new era of reverse globalisation.

As pandemic lockdowns eased, long, dormant inflation started picking up. While inflation had initially been deemed as 'transitory', it soon became clear that high inflation was likely going to be more persistent and that policymakers would have to unwind their ultra-accommodative policies. Markets began to slide.

Mid-way through 2022, the world was wrestling with the highest inflation rates in 40 years, and central banks around the world responded with an unprecedented series of interest rate hikes, sending stocks and bonds into a correction that continued into the end of the year.

In retrospect, 2022 was indeed a stomach-churning year. Looking at the returns produced from major global asset classes: the World MSCI Equity Index lost 18% in USD terms, the fourth worst annual performance since 1970; the Bloomberg Aggregate Global Bond Index lost 16% in USD terms, easily the worst year ever, dating back to 1976; a 60:40 combination of the former lost 17.4%, and you would have to look back to 1931 during the Great Depression and the 1937 crash to see worse annual performance numbers from the magical 60:40 formula. Locally, performance numbers were more measured, as emerging and commodity-producing economies share a very different dynamic to the large, developed world economies. With the local currency depreciating by 7% versus the US dollar during the year, the FTSE/JSE SWIX All Share Index and the All Bond Index (ALBI) each returned a positive 4% in local currency terms.

Looking forward

The likely cause for most of the uncertainty experienced in 2022 is the build-up to a very important inflection point the market is in the process of assessing. We believe the market is trying to find a new equilibrium in a world where money is no longer easy to come by. The era of low inflation is likely behind us, as we start to see the effects of deglobalisation and underinvestment in the real sectors of the global economy manifesting. The period of ultra-low global interest rates is most likely also over for now, and the assets that have fared well in the low inflation environment are unlikely to be the same ones that will fare well in a high inflation world.

We believe investors need to reassess the market with a fresh mindset. The shares and sectors that are likely to fare well going forward may surprise some, and are likely to come from areas that have been deeply unpopular for a long time. It's important to note that market volatility is likely to continue, and while dislocations are never pleasant, they present attractive opportunities for patient, long-term investors.

We are encouraged by the performance we have been able to provide in our funds due to our early positioning for the big changes that have taken place in the investment environment. More importantly, we remain excited about the rich opportunity set that this adjustment period and the accompanying bouts of volatility bring, as it allows us to continue applying our proven 3M process and play a crucial part in building robust long-term portfolio strategies for our investors.

Portfolio performance and positioning*

Over the quarter the PSG Balanced Fund returned 13.0% versus the benchmark return of 2.0%. Positive contributors to the fund's return for the quarter were Prudential plc, Discovery Ltd and Hammerson plc, while put option hedges and Raubex. detracted marginally. This brings the year's return for the fund to 9.2%. All asset classes contributed positively, with notable individual contributors being Grindrod Shipping Holdings Ltd (which was sold during the year), Hosken Consolidated Investments Limited and offshore oil drilling company Noble Corp. Defensive put option hedges also contributed positively as headline equity indices were weak. Positions in Quilter plc, Liberty Global plc and Discovery Ltd were the top detractors over the year.

Notable changes to the portfolio included harvesting some of the gains from our equity and property positions and adding to fixed income opportunities that presented themselves in the quarter. The fund retains strategic put option hedging, moderating the aggregate market risk position taken in the portfolio. The fund's largest purchases over the quarter were SA government bonds, Wheaton Precious

Metals Corp and CNX Resources Corp, and Grindrod Shipping Holdings Ltd, Resilient REIT Ltd and Resona Holdings Inc were the largest sales.

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. Over the 5-year time horizon, the fund returned 6.9% p.a. versus the benchmark return of 10.0% p.a. Since inception, the fund has produced an annual return of 12.8% compared to the benchmark return of 10.4%.

*Return numbers as per the PSG Balanced Fund Class A

Changes in portfolio positioning

Q3 2022		Q4 2022	
Domestic equity*	43.8%	Domestic equity	41.8%
Domestic property	3.8%	Domestic property	3.0%
Domestic cash, Treasury bills and NCDs	3.8%	Domestic cash, Treasury bills and NCDs	1.9%
Domestic bonds	18.0%	Domestic bonds	20.5%
Offshore equity**	21.8%	Offshore equity*	24.7%
Offshore property	2.8%	Offshore property	2.2%
Offshore cash	6.0%	Offshore cash	5.2%
Offshore bonds	0.0%	Offshore bonds	0.7%
*Includes -2.2% effective derivative exposure **Includes -5.9% effective derivative exposure		*Includes -4.2% effective derivative exposure	

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

Number of units as at 31 December 2022 (Class A):	51 391 531
Price (net asset value per unit) as at 31 December 2022 (Class A):	R87.56
Number of units as at 31 December 2022 (Class E):	63 710 238
Price (net asset value per unit) as at 31 December 2022 (Class E):	R87.70

All data as per Bloomberg as at 31 December 2022.

Total investment charge

Total Investment Charge annualised for the period 01/01/2020 to 31/12/2022

	Class A	Class E
Total expense ratio % (incl. VAT)	**1.78**	**1.20**
Annual management fee % (incl. VAT)	1.73	1.15
Other costs excluding transaction costs % (incl. VAT)	0.05	0.05
Transaction costs % (incl. VAT)	0.22	0.22
Total investment charge % (incl. VAT)	**2.00**	**1.42**

Total Investment Charge annualised for the period 01/01/2022 to 31/12/2022

	Class A	Class E
Total expense ratio % (incl. VAT)	**1.78**	**1.20**
Annual management fee % (incl. VAT)	1.73	1.15
Other costs excluding transaction costs % (incl. VAT)	0.05	0.05
Transaction costs % (incl. VAT)	0.17	0.17
Total investment charge % (incl. VAT)	**1.95**	**1.37**

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Regulation 28

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Performance

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Pricing

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PSG Asset Management

PSG Stable Fund

Quarterly portfolio commentary as at 31 December 2022
by John Gilchrist and Dirk Jooste

2022 in review

At the start of the new year, we find ourselves reflecting on 2022… a year like no other, a year of pain. To better appreciate outcomes experienced in the year gone by, it is helpful to briefly note the historical context preceding the start of 2022.

In the aftermath of the Global Financial Crisis (GFC) (which ended around midway through 2009), developed world countries adopted unprecedented, exceptional and coordinated policy actions. What followed, among other things, was an extended era of ultra-low or negative interest rates. By midway through the 2010s, it was thought that the unconventional policies would be temporary but, ultimately, they continued through the entire decade. By the end of the decade, naturally, the status quo thinking became heavily entrenched, and the asset classes and strategies that continued to be relative beneficiaries of such an environment became very crowded and expensive – they were everyone's go-to when building a portfolio.

With the arrival of the Covid-19 pandemic in early 2020 and the deflationary demand shock that followed (which again reinforced the entrenched view that low inflation and low interest rates would persist, boosting already very expensive assets even more), these 'long-in-the-tooth' policies were further extended, and even intensified with the addition of enormous developed market fiscal policy stimulus. Fuel was added to the fire, so to speak.

As 2022 began, an unexpected war started in Ukraine, resulting in shortages of agricultural commodities and an energy crisis in Europe. Chinese regulatory uncertainty and a property crisis further jangled market nerves. Global supply chains started transforming from 'just in time' to 'just in case', relocating more business processes and suppliers closer to home, ushering in a new era of reverse globalisation.

As pandemic lockdowns eased, long, dormant inflation started picking up. While inflation had initially been deemed as 'transitory', it soon became clear that high inflation was likely going to be more persistent and that policymakers would have to unwind their ultra-accommodative policies. Markets began to slide.

Mid-way through 2022, the world was wrestling with the highest inflation rates in 40 years, and central banks around the world responded with an unprecedented series of interest rate hikes, sending stocks and bonds into a correction that continued into the end of the year.

In retrospect, 2022 was indeed a stomach-churning year. Looking at the returns produced from major global asset classes: the World MSCI Equity Index lost 18% in USD terms, the fourth worst annual performance since 1970; the Bloomberg Aggregate Global Bond Index lost 16% in USD terms, easily the worst year ever, dating back to 1976; a 60:40 combination of the former lost 17.4%, and you would have to look back to 1931 during the Great Depression and the 1937 crash to see worse annual performance numbers from the magical 60:40 formula. Locally, performance numbers were more measured, as emerging and commodity-producing economies share a very different dynamic to the large, developed world economies. With the local currency depreciating by 7% versus the US dollar during the year, the FTSE/JSE SWIX All Share Index and the All Bond Index (ALBI) each returned a positive 4% in local currency terms.

Looking forward

The likely cause for most of the uncertainty experienced in 2022 is the build-up to a very important inflection point the market is in the process of assessing. We believe the market is trying to find a new equilibrium in a world where money is no longer easy to come by. The era of low inflation is likely behind us, as we start to see the effects of deglobalisation and underinvestment in the real sectors of the global economy manifesting. The period of ultra-low global interest rates is most likely also over for now, and the assets that have fared well in the low inflation environment are unlikely to be the same ones that will fare well in a high inflation world.

We believe investors need to reassess the market with a fresh mindset. The shares and sectors that are likely to fare well going forward may surprise some, and are likely to come from areas that have been deeply unpopular for a long time. It's important to note that market volatility is likely to continue, and while dislocations are never pleasant, they present attractive opportunities for patient, long-term investors.

We are encouraged by the performance we have been able to provide in our funds due to our early positioning for the big changes that have taken place in the investment environment. More importantly, we remain excited about the rich opportunity set that this adjustment period and the accompanying bouts of volatility bring, as it allows us to continue applying our proven 3M process and play a crucial part in building robust long-term portfolio strategies for our investors.

Portfolio performance and positioning*

We increased our domestic equity exposure marginally over the quarter, with physical equity being reduced and local put options expiring. Larger trades included purchases of Anglo American plc and Discovery Ltd and sales of Remgro Ltd and Grindrod Shipping Ltd. Both domestic and offshore property were increased slightly. Offshore equity exposure was increased. Larger trades over the quarter included purchases of Bayer and Liberty Global plc and sales of Resona Holdings Inc and Japan Post Insurance Co Ltd. The rand strengthened 5.8% against the dollar over the quarter. In South African fixed income, we trimmed our position in local bonds, and added to longer-dated negotiated certificates of deposit (NCDs) with attractive yields. Within SA government bonds, we took advantage of price moves (and hence valuations) to switch some exposure from nominal to inflation-linked bonds. Overall, we increased duration marginally over the quarter, primarily through the addition of select offshore credit opportunities.

Over the quarter the PSG Stable Fund returned 7.2% versus the benchmark return of 1.5%. The contributors over this period were foreign equities (2.5%), local government bonds (1.6%) and industrials (1.1%). Foreign and local options detracted by -0.3% and -0.1% respectively. The fund is suitable for investors with an investment term of 3 years and longer. Over the 3-year time horizon, the fund returned 9.1% p.a. versus the benchmark return of 8.3% p.a. Since inception, the fund has produced annualised returns of 8.3% versus benchmark return of 8.2%.

*Return numbers as per the PSG Stable Fund Class A

Changes in portfolio positioning

Q3 2022		Q4 2022	
Domestic equity*	19.8%	Domestic equity	20.6%
Domestic property	1.7%	Domestic property	2.1%
Domestic cash, Treasury bills and NCDs	16.0%	Domestic cash, Treasury bills and NCDs	16.0%
Domestic bonds	44.2%	Domestic bonds	40.8%
Offshore equity**	10.3%	Offshore equity*	12.4%
Offshore cash	5.0%	Offshore cash	4.0%
Offshore bonds	1.0%	Offshore bonds	1.8%
Offshore property	2.0%	Offshore property	2.3%
*Includes -1.3% effective derivative exposure **Includes -4.3% effective derivative exposure		*Includes -3.4% effective derivative exposure	

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

Number of units as at 31 December 2022 (Class A):	28 852 151
Price (net asset value per unit) as at 31 December 2022 (Class A):	R1.56
Number of units as at 31 December 2022 (Class E):	345 875 492
Price (net asset value per unit) as at 31 December 2022 (Class E):	R1.57

All data as per Bloomberg as at 31 December 2022

Total investment charge

Total Investment Charge annualised for the period 01/01/2020 to 31/12/2022

	Class A	Class E
Total expense ratio % (incl. VAT)	**1.78**	**1.20**
Annual management fee % (incl. VAT)	1.73	1.15
Other costs excluding transaction costs % (incl. VAT)	0.05	0.05
Transaction costs % (incl. VAT)	0.13	0.13
Total investment charge % (incl. VAT)	**1.91**	**1.33**

Total Investment Charge annualised for the period 01/01/2022 to 31/12/2022

	Class A	Class E
Total expense ratio % (incl. VAT)	**1.77**	**1.20**
Annual management fee % (incl. VAT)	1.73	1.15
Other costs excluding transaction costs % (incl. VAT)	0.04	0.05
Transaction costs % (incl. VAT)	0.10	0.10
Total investment charge % (incl. VAT)	**1.87**	**1.30**

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PSG Diversified Income Fund

Quarterly portfolio commentary as at 31 December 2022
by Lyle Sankar, Ané Craig and John Gilchrist

2022 in review

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Mid-way through 2022, the world was wrestling with the highest inflation rates in 40 years, and central banks around the world responded with an unprecedented series of interest rate hikes, sending stocks and bonds into a correction that continued into the end of the year.

In retrospect, 2022 was indeed a stomach-churning year. Looking at the returns produced from major global asset classes: the World MSCI Equity Index lost 18% in USD terms, the fourth worst annual performance since 1970; the Bloomberg Aggregate Global Bond Index lost 16% in USD terms, easily the worst year ever, dating back to 1976; a 60:40 combination of the former lost 17.4%, and you would have to look back to 1931 during the Great Depression and the 1937 crash to see worse annual performance numbers from the magical 60:40 formula. Locally, performance numbers were more measured, as emerging and commodity-producing economies share a very different dynamic to the large, developed world economies. With the local currency depreciating by 7% versus the US dollar during the year, the FTSE/JSE SWIX All Share Index and the All Bond Index (ALBI) each returned a positive 4% in local currency terms. Cash performed marginally better at 5.2% supported by the repo rate increasing from 3.75% to 7.00% over the year.

Looking forward

We are encouraged by the performance we have been able to provide in our funds due to our early positioning for the big changes that have taken place in the investment environment. The likely cause for most of the uncertainty experienced in 2022 is the build-up to a very important inflection point that the market is in the process of assessing. The era of low inflation and ultra-low interest rates in developed markets is likely behind us, as we start to see the effects of deglobalisation and underinvestment in the real sectors of the global economy manifesting.

We believe investors need to reassess the market with a fresh mindset, considering which assets are more likely to provide inflation protection in the years ahead. In recent years, cash rates offered very little yield for SA income investors. However, with the sharp increase in the repo rate (3.25% in 2022), we now have yields above inflation on cash, as well as extremely attractive yields on both nominal and inflation-linked bonds. From a fundamental perspective, we are fortunate in South Africa to have a few aspects in our favour that make for attractive returns for patient investors. As a commodity exporter, South Africa continues to see debt consolidate (lower debt to GDP ratio). Despite inefficiencies in exports realising its full potential, we expect this to continue to improve the fiscal outlook. From a monetary policy perspective, SA has not faced the extreme inflation pressures seen globally and has had a mild pickup in inflation that is expected to fall in the year ahead.

With a much more attractive opportunity set for income investors, we are however cognisant of the growing risk energy constraints place on the economy and we believe balancing risk and opportunity will be crucial in ensuring a reasonable income return for investors. Capital preservation and considered management of the client's investment journey will remain top of mind as we approach this market.

Portfolio performance and positioning*

Over the quarter the PSG Diversified Income Fund returned 3.3% versus the benchmark return of 1.0%. The contributors over this period were local government bonds (1.8%), local money market instruments (0.8%) and equity (0.6%). Over the 2-year investment horizon, the fund delivered an annualised return of 7.9% versus the benchmark return of 7.4%. We continue to favour government bonds and negotiated certificates of deposit (NCDs) over corporate bonds, thus offering a fund with very low risk of defaults (permanent capital loss) and attractive yields above cash and inflation. The fund continues to diversify exposure across asset classes, with attractive opportunities emerging to add marginally to offshore bonds. Considering the tough year across markets and the opportunities to lock in yields, we believe clients should be optimistic about the return potential over the years ahead.

*Return numbers as per the PSG Diversified Income Class A

Changes in portfolio positioning

Q3 2022		Q4 2022	
Domestic equity	2.1%	Domestic equity	2.5%
Domestic preference shares	1.6%	Domestic preference shares	1.6%
Domestic property	0.5%	Domestic property	0.6%
Domestic cash, Treasury bills and NCDs	56.9%	Domestic cash, Treasury bills and NCDs	52.3%
Domestic bonds	33.5%	Domestic bonds	37.6%
Offshore equity	0.6%	Offshore equity	1.0%
Offshore bonds	0.9%	Offshore bonds	1.5%
Offshore cash	3.6%	Offshore cash	2.6%
Offshore property	0.3%	Offshore property	0.3%

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

Number of units as at 31 December 2022 (Class A): 1 777 838 713
Price (net asset value per unit) as at 31 December 2022 (Class A): R1.29
Number of units as at 31 December 2022 (Class E): 904 845 017
Price (net asset value per unit) as at 31 December 2022 (Class E): R1.29

All data as per Bloomberg as at 31 December 2022.

Total investment charge

PSG Diversified Income Fund Class A

Total Investment Charge annualised for the period 01/01/2020 to 31/12/2022

	Class A	Class E
Total expense ratio % (incl. VAT)	**1.19**	**0.67**
Annual management fee % (incl. VAT)	1.15	0.52
Other costs excluding transaction costs % (incl. VAT)	0.04	0.15
Transaction costs % (incl. VAT)	0.14	0.14
Total investment charge % (incl. VAT)	**1.33**	**0.81**

Total Investment Charge annualised for the period 01/01/2022 to 31/12/2022

	Class A	Class E
Total expense ratio % (incl. VAT)	**1.17**	**0.60**
Annual management fee % (incl. VAT)	1.15	0.52
Other costs excluding transaction costs % (incl. VAT)	0.02	0.08
Transaction costs % (incl. VAT)	0.10	0.10
Total investment charge % (incl. VAT)	**1.27**	**0.70**

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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. 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
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.

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
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assetmanagement@psg.co.za.

Conflict of interest disclosure
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PSG Asset Management

PSG Income Fund

Quarterly portfolio commentary as at 31 December 2022
by Lyle Sankar and Duayne Le Roux

2022 in review

At the start of the new year, we find ourselves reflecting on 2022… a year like no other, a year of pain. To better appreciate outcomes experienced in the year gone by, it is helpful to briefly note the historical context preceding the start of 2022.

In the aftermath of the Global Financial Crisis (GFC) (which ended around midway through 2009), developed world countries adopted unprecedented, exceptional and coordinated policy actions. What followed, among other things, was an extended era of ultra-low or negative interest rates. By midway through the 2010s, it was thought that the unconventional policies would be temporary but, ultimately, they continued through the entire decade. By the end of the decade, naturally, the status quo thinking became heavily entrenched, and the asset classes and strategies that continued to be relative beneficiaries of such an environment became very crowded and expensive – they were everyone's go-to when building a portfolio.

With the arrival of the Covid-19 pandemic in early 2020 and the deflationary demand shock that followed (which again reinforced the entrenched view that low inflation and low interest rates would persist, boosting already very expensive assets even more), these 'long-in-the-tooth' policies were further extended, and even intensified with the addition of enormous developed market fiscal policy stimulus. Fuel was added to the fire, so to speak.

As 2022 began, an unexpected war started in Ukraine, resulting in shortages of agricultural commodities and an energy crisis in Europe. Chinese regulatory uncertainty and a property crisis further jangled market nerves. Global supply chains started transforming from 'just in time' to 'just in case', relocating more business processes and suppliers closer to home, ushering in a new era of reverse globalisation.

As pandemic lockdowns eased, long, dormant inflation started picking up. While inflation had initially been deemed as 'transitory', it soon became clear that high inflation was likely going to be more persistent and that policymakers would have to unwind their ultra-accommodative policies. Markets began to slide.
Mid-way through 2022, the world was wrestling with the highest inflation rates in 40 years, and central banks around the world responded with an unprecedented series of interest rate hikes, sending stocks and bonds into a correction that continued into the end of the year.

In retrospect, 2022 was indeed a stomach-churning year. Looking at the returns produced from major global asset classes: the World MSCI Equity Index lost 18% in USD terms, the fourth worst annual performance since 1970; the Bloomberg Aggregate Global Bond Index lost 16% in USD terms, easily the worst year ever, dating back to 1976; a 60:40 combination of the former lost 17.4%, and you would have to look back to 1931 during the Great Depression and the 1937 crash to see worse annual performance numbers from the magical 60:40 formula. Locally, performance numbers were more measured, as emerging and commodity-producing economies share a very different dynamic to the large, developed world economies. With the local currency depreciating by 7% versus the US dollar during the year, the FTSE/JSE SWIX All Share Index and the All Bond Index (ALBI) each returned a positive 4% in local currency terms. Cash performed marginally better at 5.2% supported by the repo rate increasing from 3.75% to 7.00% over the year.

Looking forward

We are encouraged by the performance we have been able to provide in our funds due to our early positioning for the big changes that have taken place in the investment environment. The likely cause for most of the uncertainty experienced in 2022 is the build-up to a very important inflection point that the market is in the process of assessing. The era of low inflation and ultra-low interest rates in developed markets is likely behind us, as we start to see the effects of deglobalisation and underinvestment in the real sectors of the global economy manifesting.

We believe investors need to reassess the market with a fresh mindset, considering which assets are more likely to provide inflation protection in the years ahead. In recent years, cash rates offered very little yield for SA income investors. However, with the sharp increase in the repo rate (3.25% in 2022), we now have yields above inflation on cash, as well as extremely attractive yields on both nominal and inflation-linked bonds. From a fundamental perspective, we are fortunate in South Africa to have a few aspects in our favour that make for attractive returns for patient investors. As a commodity exporter, South Africa continues to see debt consolidate (lower debt to GDP ratio). Despite inefficiencies in exports realising its full potential, we expect this to continue to improve the fiscal outlook. From a monetary policy perspective, SA has not faced the extreme inflation pressures seen globally and has had a mild pickup in inflation that is expected to fall in the year ahead.

With a much more attractive opportunity set for income investors, we are however cognisant of the growing risk energy constraints place on the economy and we believe balancing risk and opportunity will be crucial in ensuring a reasonable income return for investors. Capital preservation and considered management of the client's investment journey will remain top of mind as we approach this market..

Portfolio performance and positioning*

Over the quarter, the PSG Income Fund returned 2.0% versus the benchmark return of 1.6%. The major contributors over this period were local money market instruments (1.1%), local government bonds (0.7%) and corporate bonds (0.2%). Over a 1-year period, the fund delivered a return of 6.2% versus the benchmark return of 5.2%. We continue to favour government bonds and NCD's over corporate bonds, thus offering a fund with very low risk of defaults (permanent capital loss) and attractive yields above cash. This is in line with our long term track record of outperforming money markets without losing clients capital. Considering the tough year across markets and the opportunities to lock in yields, we believe clients should be optimistic about the returns potential over the years ahead.

*Return numbers as per the PSG Income Fund Class A

Changes in portfolio positioning

Q3 2022		Q4 2022	
Domestic bonds	27.5%	Domestic bonds	25.9%
Domestic cash, Treasury bills and NCDs	72.5%	Domestic cash, Treasury bills and NCDs	74.1%

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

Number of units as at 31 December 2022 (Class A):	420 031 128
Price (net asset value per unit) as at 31 December 2022 (Class A):	R1.07
Number of units as at 31 December 2022 (Class E):	1 446 109 557
Price (net asset value per unit) as at 31 December 2022 (Class E):	R1.07

All data as per Bloomberg as at 31 December 2022.

Total investment charge

Total Investment Charge annualised for the period 01/01/2020 to 31/12/2022

	Class A	Class E
Total expense ratio % (incl. VAT)	**0.79**	**0.50**
Annual management fee % (incl. VAT)	0.75	0.46
Other costs excluding transaction costs % (incl. VAT)	0.04	0.04
Transaction costs % (incl. VAT)	0.12	0.12
Total investment charge % (incl. VAT)	**0.91**	**0.62**

Total Investment Charge annualised for the period 01/01/2022 to 31/12/2022

	Class A	Class E
Total expense ratio % (incl. VAT)	**0.77**	**0.49**
Annual management fee % (incl. VAT)	0.75	0.46
Other costs excluding transaction costs % (incl. VAT)	0.02	0.03
Transaction costs % (incl. VAT)	0.13	0.13
Total investment charge % (incl. VAT)	**0.90**	**0.62**

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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
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2022 in review

At the start of the new year, we find ourselves reflecting on 2022… a year like no other, a year of pain. To better appreciate outcomes experienced in the year gone by, it is helpful to briefly note the historical context preceding the start of 2022.

In the aftermath of the Global Financial Crisis (GFC) (which ended around midway through 2009), developed world countries adopted unprecedented, exceptional and coordinated policy actions. What followed, among other things, was an extended era of ultra-low or negative interest rates. By midway through the 2010s, it was thought that the unconventional policies would be temporary but, ultimately, they continued through the entire decade. By the end of the decade, naturally, the status quo thinking became heavily entrenched, and the asset classes and strategies that continued to be relative beneficiaries of such an environment became very crowded and expensive – they were everyone's go-to when building a portfolio.

With the arrival of the Covid-19 pandemic in early 2020 and the deflationary demand shock that followed (which again reinforced the entrenched view that low inflation and low interest rates would persist, boosting already very expensive assets even more), these 'long-in-the-tooth' policies were further extended, and even intensified with the addition of enormous developed market fiscal policy stimulus. Fuel was added to the fire, so to speak.

As 2022 began, an unexpected war started in Ukraine, resulting in shortages of agricultural commodities and an energy crisis in Europe. Chinese regulatory uncertainty and a property crisis further jangled market nerves. Global supply chains started transforming from 'just in time' to 'just in case', relocating more business processes and suppliers closer to home, ushering in a new era of reverse globalisation.

As pandemic lockdowns eased, long, dormant inflation started picking up. While inflation had initially been deemed as 'transitory', it soon became clear that high inflation was likely going to be more persistent and that policymakers would have to unwind their ultra-accommodative policies. Markets began to slide.

Mid-way through 2022, the world was wrestling with the highest inflation rates in 40 years, and central banks around the world responded with an unprecedented series of interest rate hikes, sending stocks and bonds into a correction that continued into the end of the year.

In retrospect, 2022 was indeed a stomach-churning year. Looking at the returns produced from major global asset classes: the World MSCI Equity Index lost 18% in USD terms, the fourth worst annual performance since 1970; the Bloomberg Aggregate Global Bond Index lost 16% in USD terms, easily the worst year ever, dating back to 1976; a 60:40 combination of the former lost 17.4%, and you would have to look back to 1931 during the Great Depression and the 1937 crash to see worse annual performance numbers from the magical 60:40 formula. Locally, performance numbers were more measured, as emerging and commodity-producing economies share a very different dynamic to the large, developed world economies. With the local currency depreciating by 7% versus the US dollar during the year, the FTSE/JSE SWIX All Share Index and the All Bond Index (ALBI) each returned a positive 4% in local currency terms.

Looking forward

The likely cause for most of the uncertainty experienced in 2022 is the build-up to a very important inflection point that the market is in the process of assessing. We believe the market is trying to find a new equilibrium in a world where money is no longer easy to come by. The era of low inflation is likely behind us, as we start to see the effects of deglobalisation and underinvestment in the real sectors of the global economy manifesting. The period of ultra-low global interest rates is most likely also over for now, and the assets that have fared well in the low inflation environment are unlikely to be the same ones that will fare well in a high inflation world.

We believe investors need to reassess the market with a fresh mindset. The shares and sectors that are likely to fare well going forward may surprise some, and are likely to come from areas that have been deeply unpopular for a long time. It's important to note that market volatility is likely to continue, and while dislocations are never pleasant, they present attractive opportunities for patient, long-term investors.

We are encouraged by the performance we have been able to provide in our funds due to our early positioning for the big changes that have taken place in the investment environment. More importantly, we remain excited about the rich opportunity set that this adjustment period and the accompanying bouts of volatility bring, as it allows us to continue applying our proven 3M process and play a crucial part in building robust long-term portfolio strategies for our investors.

Portfolio performance and positioning*

Over the quarter the South African Reserve Bank (SARB) raised the repo rate by 0.75% to 7.00% in an effort to get inflation within its inflation target band. This had the effect of raising yields on the negotiated certificates of deposit (NCD) curve. As a result, over this quarter, the fund maintained its exposure to the NCD curve, rolling exposures to where the curve steepness had been most rewarding. Given the sustained volatility of markets, the fund also made an active decision to maintain its substantial cash balance.

Over the quarter the PSG Money Market Fund returned 1.6% versus the benchmark return of 1.5%. The fund is suitable for investors who need an interim investment vehicle or 'parking bay' for surplus money and a short-term investment horizon. Since inception the fund produced an annualised return of 7.9% versus the benchmark return of 8.0% p.a.

*Return numbers as per the PSG Money Market Fund Class A

Changes in portfolio positioning

Q3 2022		Q4 2022	
Linked NCDs/ Floating-rate notes	14.2%	Linked NCDs/Floating-rate notes	17.4%
Step rate notes	10.7%	Step rate notes	9.5%
NCDs	32.7%	NCDs	33.6%
Treasury bills	0.0%	Treasury bills	2.4%
Call deposits	34.2%	Call deposits	28.0%
Listed bond	8.2%	Listed bond	9.1%

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

Number of units as at 31 December 2022 (Class A):	607 936 822
Price (net asset value per unit) as at 31 December 2022 (Class A):	R1.00
Number of units as at 31 December 2022 (Class F):	409 541 462
Price (net asset value per unit) as at 31 December 2022 (Class F):	R1.00

All data as per Bloomberg as at 31 December 2022.

Total investment charge

Total Investment Charge annualised for the period 01/01/2020 to 31/12/2022

	Class A	Class F
Total expense ratio % (incl. VAT)	**0.59**	**0.35**
Annual management fee % (incl. VAT)	0.58	0.29
Other costs excluding transaction costs % (incl. VAT)	0.01	0.06
Transaction costs % (incl. VAT)	0.13	0.13
Total investment charge % (incl. VAT)	**0.72**	**0.48**

Total Investment Charge annualised for the period 01/01/2022 to 31/12/2022

	Class A	Class F
Total expense ratio % (incl. VAT)	**0.59**	**0.33**
Annual management fee % (incl. VAT)	0.58	0.29
Other costs excluding transaction costs % (incl. VAT)	0.01	0.04
Transaction costs % (incl. VAT)	0.19	0.19
Total investment charge % (incl. VAT)	**0.78**	**0.52**

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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
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Performance
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Pricing
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Redemptions
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PSG Asset Management

PSG Global Equity Feeder Fund

Quarterly portfolio commentary as at 31 December 2022
by Greg Hopkins, Philipp Wörz and Justin Floor

2022 in review

At the start of the new year, we find ourselves reflecting on 2022… a year like no other, a year of pain. To better appreciate outcomes experienced in the year gone by, it is helpful to briefly note the historical context preceding the start of 2022.

In the aftermath of the Global Financial Crisis (GFC) (which ended around midway through 2009), developed world countries adopted unprecedented, exceptional and coordinated policy actions. What followed, among other things, was an extended era of ultra-low or negative interest rates. By midway through the 2010s, it was thought that the unconventional policies would be temporary but, ultimately, they continued through the entire decade. By the end of the decade, naturally, the status quo thinking became heavily entrenched, and the asset classes and strategies that continued to be relative beneficiaries of such an environment became very crowded and expensive – they were everyone's go-to when building a portfolio.

With the arrival of the Covid-19 pandemic in early 2020 and the deflationary demand shock that followed (which again reinforced the entrenched view that low inflation and low interest rates would persist, boosting already very expensive assets even more), these 'long-in-the-tooth' policies were further extended, and even intensified with the addition of enormous developed market fiscal policy stimulus. Fuel was added to the fire, so to speak.

As 2022 began, an unexpected war started in Ukraine, resulting in shortages of agricultural commodities and an energy crisis in Europe. Chinese regulatory uncertainty and a property crisis further jangled market nerves. Global supply chains started transforming from 'just in time' to 'just in case', relocating more business processes and suppliers closer to home, ushering in a new era of reverse globalisation.

As pandemic lockdowns eased, long, dormant inflation started picking up. While inflation had initially been deemed as 'transitory', it soon became clear that high inflation was likely going to be more persistent and that policymakers would have to unwind their ultra-accommodative policies. Markets began to slide.

Mid-way through 2022, the world was wrestling with the highest inflation rates in 40 years, and central banks around the world responded with an unprecedented series of interest rate hikes, sending stocks and bonds into a correction that continued into the end of the year.

In retrospect, 2022 was indeed a stomach-churning year. Looking at the returns produced from major global asset classes: the US Stock market (S&P 500 Index) lost 18%, its seventh worst year in history, the World MSCI Equity Index declined 18%, its fourth worst annual performance since its inception in 1970; and the Bloomberg Aggregate Global Bond Index lost 16% in USD terms, its worst annual performance ever, dating back to 1976; a 60:40 global stock:bond combination lost 17.4%, and one would have to look back to 1931 during the Great Depression and the 1937 crash to see worse annual performance numbers from the magical 60:40 formula.

Emerging markets as a group continued to underperform (MSCI Emerging Markets Index -20%). The weakness was however largely driven by China (-22% MSCI China Index), while select emerging markets such as Turkey (+90% MSCI Turkey Index), Brazil (+10% Bovespa) and South Africa (-3% JSE All-Share Index) delivered outstanding to respectable performances.

High starting valuations coupled with rising risk-free rates resulted in growth stocks and particularly technology related shares selling off sharply during the year. The MSCI World Growth Index declined 29%, while the Nasdaq Index lost 1/3 of its value in 2022.

The energy sector was the standout performer gaining 48% in 2022 (MSCI World Energy Index), while all other global sectors posted negative returns. Information technology (-31%), consumer discretionary (-33%) and communication services (-37%) fared worst.

Looking forward

The likely cause for most of the uncertainty experienced in 2022 is the build-up to a very important inflection point the market is in the process of assessing. We believe markets are trying to find a new equilibrium in a world where money is no longer easy to come by. The era of low inflation is likely behind us, as we start to see the effects of deglobalisation and underinvestment in the real sectors of the global economy manifesting. The period of ultra-low global interest rates is also most likely over for now, and the assets that have fared well in the low inflation environment of the past are unlikely outperform in a world of persistently higher inflation.

We believe investors need to reassess the market with a fresh mindset. The shares and sectors that are likely to fare well going forward may surprise some, and are likely to come from areas that have been deeply unpopular for a long time and are therefore underrepresented in major indices and passive portfolios. It is important to note that market volatility is likely to continue, and while dislocations are never pleasant, they present attractive opportunities for patient, long-term investors.

We are encouraged by the performance we have been able to provide in the fund due to our early positioning for the big changes that have taken place in the investment environment. More importantly, we remain highly constructive about the rich opportunity set that this adjustment period and the accompanying bouts of volatility bring, as it allows us to continue applying our proven 3M process and play a crucial part in building robust long-term portfolio strategies for our investors. Even though the fund generated positive returns in 2022, many of our large holdings' share prices performed poorly during the year and remain highly attractive going forward.

Portfolio performance and positioning

Macro uncertainty has caused a sharp decline in investor sentiment in recent months which resulted in especially attractive valuations within a portion of global equity markets. Importantly, we are finding good opportunities to buy stocks that are cheap, out of favour and that we believe will be the beneficiaries of the probable economic conditions over the next decade.

Consequently, our buy lists are full of high-conviction ideas that should provide excellent long-run returns. These include resilient global businesses and producers of scarce energy resources and materials.

When we contrast the valuations of our portfolio holdings with market indices, especially in the US, we note that the difference remains extremely wide - our clients own stocks that are much cheaper than the widely owned growth stocks (the winners of the past) and those dominating passive investment strategies. We believe that most of our equity investments will enjoy robust future profit growth and many will deliver extremely attractive cash returns to shareholders in the form of dividends or buybacks.

During the fourth quarter, the fund took advantage of market volatility (both up- and downside) to reduce exposure to Japanese financials after the Bank of Japan's yield curve control adjustment. We materially reduced the fund's long-term conviction holding in Resona Bank in response to a sharply higher share price and reduced margin of safety.

Weak markets allowed us to materially add to existing positions in European industrial companies Bayer AG, Pepco Group and Continental AG, UK-listed but Asia exposed Prudential plc and UK defence contractor Babcock International.

Over the quarter the PSG Global Equity Feeder Fund returned 16.5% versus the benchmark return of 3.9%. The largest contributors over this period were financials (7.5%), energy (4.3%) and real estate (3.3%). The contributors are that of the main fund (PSG Global Equity Sub-Fund). 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. Over the 7-year time horizon, the fund returned 9.2% p.a. versus the benchmark return of 10.0% p.a. Since inception, the fund produced an annual return of 12.3% versus the benchmark return of 16.7%.

*Return numbers as per the PSG Global Equity Feeder Fund Class A

Changes in portfolio positioning

Q3 2022		Q4 2022	
Equities	99.6%	Equities	96.2%
Cash	0.4%	Cash	3.8%

Q3 2022		Q4 2022	
US	37.3%	US	37.8%
Europe	16.4%	Europe	18.6%
UK	29.7%	UK	28.2%
Japan	11.6%	Japan	7.3%
Africa	4.1%	Africa	4.3%
Other	0.5%	Other	0.0%
Cash	0.4%	Cash	3.8%

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 2022 (Class A):	4 661 956
Price (net asset value per unit) as at 31 December 2022 (Class A):	R3.88
Number of units as at 31 December 2022 (Class E):	59 895 070
Price (net asset value per unit) as at 31 December 2022 (Class E):	R4.01

All data as per Bloomberg as at 31 December 2022.

Total investment charge

Total Investment Charge annualised for the period 01/01/2020 to 31/12/2022

	Class A	Class E
Total expense ratio % (incl. VAT)	**2.64**	**2.06**
Annual management fee % (incl. VAT)	0.86	0.29
Other costs excluding transaction costs % (incl. VAT)	1.78	1.77
Transaction costs % (incl. VAT)	0.37	**0.37**
Total investment charge % (incl. VAT)	**3.01**	**2.43**

Total Investment Charge annualised for the period 01/01/2022 to 31/12/2022

	Class A	Class E
Total expense ratio % (incl. VAT)	**2.46**	**1.88**
Annual management fee % (incl. VAT)	0.86	0.29
Other costs excluding transaction costs % (incl. VAT)	1.60	1.59
Transaction costs % (incl. VAT)	0.36	**0.36**
Total investment charge % (incl. VAT)	**2.82**	**2.24**

Disclaimer

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

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

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

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 Providerunder 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,
The Towers, 2 Heerengracht Street,
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.

PSG Asset Management

PSG Global Flexible Feeder Fund

Quarterly portfolio commentary as at 31 December 2022

by Greg Hopkins, Philipp Wörz and Justin Floor

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Looking forward

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We are encouraged by the performance we have been able to provide in the fund due to our early positioning for the big changes that have taken place in the investment environment. More importantly, we remain highly constructive about the rich opportunity set that this adjustment period and the accompanying bouts of volatility bring, as it allows us to continue applying our proven 3M process and play a crucial part in building robust long-term portfolio strategies for our investors. Even though the fund generated positive returns in 2022, many of our large holdings' share prices performed poorly during the year and remain highly attractive going forward.

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Consequently, our buy lists are full of high-conviction ideas (which inform relatively low levels of cash in the PSG Global Flexible Fund) that should provide excellent long-run returns. These include resilient global businesses and producers of scarce energy resources and materials.

When we contrast the valuations of our portfolio holdings with market indices, especially in the US, we note that the difference remains extremely wide - our clients own stocks that are much cheaper than the widely owned growth stocks (the winners of the past) and those dominating passive investment strategies. We believe that most of our equity investments will enjoy robust future profit growth and many will deliver extremely attractive cash returns to shareholders in the form of dividends or buybacks.

During the fourth quarter, the fund took advantage of market volatility (both up- and downside) to reduce exposure to Japanese financials after the Bank of Japan's yield curve control adjustment. We materially reduced the fund's long-term conviction holding in Resona Bank in response to a sharply higher share price and reduced margin of safety.

Weak markets allowed us to materially add to existing positions in European industrial companies Bayer AG, Pepco Group and Continental AG, UK-listed but Asia exposed Prudential plc and UK defence contractor Babcock International.

Over the quarter the PSG Global Flexible Feeder Fund returned 15.4% versus the benchmark return of -3.5%. The largest contributors over this period were financials (7.0%), energy (3.5%) and real estate (2.9%). 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. Over the 5-year time horizon, the fund returned 10.4% p.a. versus the benchmark return of 17.1% p.a. Since inception the fund produced an annual return of 12.2% versus the benchmark return of 16.1%.

*Return numbers as per the PSG Global Flexible Feeder Fund Class A

Changes in portfolio positioning

Q3 2022		Q4 2022	
Equities	91.9%	Equities	89.7%
Bonds	0.7%	Bonds	0.6%
Cash	7.4%	Cash	9.7%

Q3 2022		Q4 2022	
US	34.4%	US	35.9%
Europe	14.1%	Europe	15.2%
UK	27.9%	UK	27.6%
Japan	11.4%	Japan	7.2%
Africa	3.5%	Africa	3.8%
Other	0.7%	Other	0.0%
Cash and Bonds	8.0%	Cash and Bonds	10.3%

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Number of units as at 31 December 2022 (Class A): 12 772 016
Price (net asset value per unit) as at 31 December 2022 (Class A): R3.06
Number of units as at 31 December 2022 (Class B): 130 212 654
Price (net asset value per unit) as at 31 December 2022 (Class B): R3.19

All data as per Bloomberg as at 31 December 2022.

Total investment charge

Total Investment Charge annualised for the period 01/01/2020 to 31/12/2022

	Class A	Class B
Total expense ratio % (incl. VAT)	**2.44**	**1.87**
Annual management fee % (incl. VAT)	0.86	0.29
Other costs excluding transaction costs % (incl. VAT)	1.58	1.58
Transaction costs % (incl. VAT)	0.19	0.19
Total investment charge % (incl. VAT)	**2.63**	**2.06**

Total Investment Charge annualised for the period 01/01/2022 to 31/12/2022

	Class A	Class B
Total expense ratio % (incl. VAT)	**2.26**	**1.68**
Annual management fee % (incl. VAT)	0.86	0.29
Other costs excluding transaction costs % (incl. VAT)	1.40	1.39
Transaction costs % (incl. VAT)	0.13	0.13
Total investment charge % (incl. VAT)	**2.39**	**1.81**

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Performance

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Pricing

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Trustees

The Standard Bank of South Africa Limited,
The Towers, 2 Heerengracht Street,
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.