

Current context

COVID-19 lockdowns across the globe will continue to have a pronounced impact on global economic output and financial markets. The already fragile South African economy will be hit hard. Locally, we have seen a sharp rise in bond yields, a steep fall in the rand and big drops on the JSE. Global policymakers and central banks are scrambling to introduce stimulus packages that compensate for the collapse in demand. Emerging markets like South Africa have fewer stimulus tools at their disposal, although we have seen unprecedented intervention in the form of steep rate cuts, bond buying and support for the banking sector.

South African investors had endured poor returns for the six years until March. Most stocks on the JSE had been in an extended bear market already and the decline in March further exacerbated an already poor investment experience for many. Over the past few years, our portfolios have been invested in cheaper and less-crowded stocks, both at home and abroad. We believe we can earn better long-term returns for our investors by focusing on quality companies that are under-appreciated by the market than by buying into expensive growth stocks. Unfortunately, a low starting point did not provide protection from the COVID-19 markets sell-off. The shock has hit most sectors hard, including already cheap stocks that are more exposed to global or domestic economic cycles. This has been further exacerbated by fragility in the domestic financial sector as a result of mounting credit losses and decreasing asset prices.

Our perspective

Our clients have always been well served by times when good companies go on sale. The unprecedented and fluid nature of the current environment, however, results in exceptional levels of uncertainty. This provides fantastic opportunity for future returns, but also introduces significant investment risks. We prefer to invest in an evidence-based fashion, using a long-established process. An extended collapse in demand can have a pronounced impact on the value of a company, particularly if it has high fixed costs and a lot of debt. In vulnerable sectors, company survival may require additional capital injections. The severity of the economic impact has necessitated a stress-test of existing holdings to identify vulnerabilities and to ensure that our portfolios are exposed to the best opportunities. The substantial impact on corporate profits in 2020 needs to be assessed in conjunction with much lower share prices. Our focus has been on assessing the impact of the COVID-19 pandemic on intrinsic value (using our 3M process). Where the intrinsic value of a security has been impaired less than the share price would indicate, we must be prepared to be bold. This has seen us allocating capital to resilient companies at wide margins of safety, while reducing our exposure to those where our conviction is lower and which we believe to be more vulnerable.

Very low share prices sow the seeds for the next bull market in global equities. Our portfolios are well positioned to capture this. Our clients own businesses of sound inherent quality and resilient intrinsic value which trade at wide margins of safety.

Portfolio positioning

The Fund was a buyer of AB Inbev, Remgro, Exxaro, Liberty Global, Discovery and AngloGold during the first quarter of 2020. We have reduced our exposure to more vulnerable companies and these buys were funded from the reduced exposure to L Brands, Quilter, Old Mutual, Resona, Absa and Nedbank.

The Fund has retained its full offshore exposure. This reflects both the desire to diversify our geographic and currency exposure as well as the excellent global equity opportunities identified by our research. We expect the economic recovery to come sooner to developed markets though assets appear cheaper in emerging markets like South Africa.

Changes in portfolio positioning

Q4 2019		Q1 2020	
Domestic equity	69.2%	Domestic equity	65.2%
Domestic cash	0.2%	Domestic cash	2.9%
Foreign equity	27.9%	Foreign equity	28.5%
Foreign property	2.6%	Foreign property	2.1%
Foreign cash	0.1%	Foreign cash	1.3%

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

Number of units as at 31 March 2020 (Class A):	47 770 247
Price (net asset value per unit) as at 31 March 2020 (Class A):	R6.71
Number of units as at 31 March 2020 (Class E):	104 408 227
Price (net asset value per unit) as at 31 March 2020 (Class E):	R6.74

All data as per Bloomberg as at 31 March 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. Income distributions are net of any applicable taxes. Actual annual figures are available to the investor on request. Prices are published daily and available on the website www.psg.co.za/asset-management and in the daily newspapers. Figures quoted are from Morningstar Inc.

Pricing

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Company details

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Conflict of interest disclosure

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Trustees

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Current context

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Portfolio positioning

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The Fund has retained exposure to long-dated domestic government bonds (8.1%). Yields rose sharply in March - as did other emerging market bonds - despite the improving outlook for domestic inflation, the sharp fall in the oil price and aggressive rate cuts by the SARB. Yields have however since come down, despite the long-awaited Moody's downgrade. We continue to believe that this asset class offers equity-like return characteristics at acceptable levels of risk.

The Fund has retained its full offshore exposure. This reflects both the desire to diversify our geographic and currency exposure as well as the excellent global equity opportunities identified by our research. We expect the economic recovery to come sooner to developed markets though assets appear cheaper in emerging markets like South Africa.

The Fund has more than 5% cash to employ into opportunities that arise. Given the uncertainty and expected volatility we view this as valuable future firepower.

Changes in portfolio positioning

Q4 2019		Q1 2020	
Domestic equity	57.9%	Domestic equity	54.4%
Domestic cash	3.3%	Domestic cash	3.8%
Domestic gold	0.0%	Domestic gold	0.0%
Domestic bonds	7.8%	Domestic bonds	8.1%
Foreign equity	27.0%	Foreign equity	29.2%
Foreign property	3.6%	Foreign property	2.9%
Foreign cash	0.4%	Foreign cash	1.6%

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

Number of units as at 31 March 2020 (Class A):	713 265 508
Price (net asset value per unit) as at 31 March 2020 (Class A):	R3.44
Number of units as at 31 March 2020 (Class E):	1 229 653 428
Price (net asset value per unit) as at 31 March 2020 (Class E):	R3.44

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Current context

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Very low share prices sow the seeds for the next equity bull market. Our portfolios are well positioned to capture this. Our clients own businesses of sound inherent quality and resilient intrinsic value which trade at wide margins of safety.

Portfolio positioning

Total equity exposure reduced from 72.6% to 69.2% over the quarter, attributable primarily to market movement. In the period the fund was a net buyer of AB Inbev, Discovery, Exxaro and Remgro and a net seller of Nedbank, Old Mutual, Reunert and Motus.

Domestic bond exposure remains reasonably steady at 23.6%, representing a diversified mix of fixed and inflation linked bonds offering exceptional real yields (the highest globally at the time of writing).

Foreign property exposure is little changed at 2.6% and represents our holdings in US REITS with best-in-class balance sheets.

Cash levels in the fund increased to 4.4% of the fund, giving us the valuable option to take advantage of any further dislocations in attractive securities in the months ahead.

The fund remains highly liquid with negligible exposure to illiquid credit instruments.

Changes in portfolio positioning

Q4 2019		Q1 2020	
Domestic equity	46.4%	Domestic equity	43.5%
Domestic property	0%	Domestic property	0.2%
Domestic cash and NCDs	1.2%	Domestic cash and NCDs	3.4%
Domestic bonds	23.4%	Domestic bonds	23.6%
Foreign equity	26.2%	Foreign equity	25.7%
Foreign cash	0.1%	Foreign cash	1.0%
Foreign property	2.7%	Foreign property	2.6%

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

Number of units as at 31 March 2020 (Class A):	58 028 802
Price (net asset value per unit) as at 31 March 2020 (Class A):	R47.17
Number of units as at 31 March 2020 (Class E):	75 589 816
Price (net asset value per unit) as at 31 March 2020 (Class E):	R47.16

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Regulation 28

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Performance

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Portfolio positioning

Equity exposure decreased from 38.8% to 33.1% over the quarter, largely attributable to market movements. Within our equity holdings we have taken advantage of the broad-based and unprecedented volatility experienced towards the latter stages of the quarter to optimise our exposures at wide margins of safety and to enhance the future resilience of the portfolio.

Domestic cash and NCDs and Domestic Bonds exposure increased over the quarter largely by virtue of relative outperformance compared to equities. We continue to view both nominal and inflation-linked bonds as compelling components of the current portfolio mix, offering very attractive real yields.

Exposure to property decreased from 2.3% to 1.8% over the quarter.

Aggregate liquidity in the fund remains healthy.

Changes in portfolio positioning

Q4 2019		Q1 2020	
Domestic equity	23.4%	Domestic equity	20.4%
Domestic property	0.0%	Domestic property	0.1%
Domestic cash and NCDs	9.6%	Domestic cash and NCDs	12.4%
Domestic bonds	49.0%	Domestic bonds	52.6%
Foreign equity	15.4%	Foreign equity	12.7%
Foreign cash	0.3%	Foreign cash	0.1%
Foreign property	2.3%	Foreign property	1.7%

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

Number of units as at 31 March 2020 (Class A):	47 504 920
Price (net asset value per unit) as at 31 March 2020 (Class A):	R1.14
Number of units as at 31 March 2020 (Class E):	483 689 734
Price (net asset value per unit) as at 31 March 2020 (Class E):	R1.14

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South African investors had endured poor returns for the six years until March. Most stocks on the JSE had been in an extended bear market already and the decline in March further exacerbated an already poor investment experience for many. Over the past few years, our portfolios have been invested in cheaper and less-crowded stocks, both at home and abroad. We believe we can earn better long-term returns for our investors by focusing on quality companies that are under-appreciated by the market than by buying into expensive growth stocks. Unfortunately, a low starting point did not provide protection from the COVID-19 markets sell-off. The shock has hit most sectors hard, including already cheap stocks that are more exposed to global or domestic economic cycles. This has been further exacerbated by fragility in the domestic financial sector as a result of mounting credit losses and decreasing asset prices.

Our perspective

Our fixed income allocation has for a long period been focused on nominal and inflation-linked government bonds alongside a healthy exposure to fixed-rate NCDs in line with our views of lower inflation, and therefore higher implied real yields. We have for some time preferred exposure to these areas rather than corporate credit, where spreads have not met our required risk-adjusted returns. Our holdings in corporate credit are at long-term lows across our funds. The sell-off in yields in local fixed income markets have been significant during the month of March, largely in government bonds. The key drivers of this move have been foreign selling, as well as tighter liquidity among local holders of these bonds. Conversely, as government bonds have been indiscriminately sold during March, the SARB had cut the repo rate by 1%, forcing NCD yields lower as the market continued to price in further rate cuts. Corporate and bank credit initially remained resilient given a lack of trading, however this has begun to reprice as spreads have started to move up steadily to reflect the poorer medium-term outlook for the economy. In assessing these moves, we have focused on evidence-based research, and have looked to re-assess our views on the real returns we require in the government bond market. A normalisation from current yields to reflect lower interest rates and inflation is expected to deliver attractive returns for clients. Despite the slower move higher in yields, we believe corporate credit is likely in the initial stages of repricing.

Our clients have always been well served by times when good companies go on sale. The unprecedented and fluid nature of the current environment, however, results in exceptional levels of uncertainty. This provides fantastic opportunity for future returns, but also introduces significant investment risks. We prefer to invest in an evidence-based fashion, using a long-established process. An extended collapse in demand can have a pronounced impact on the value of a company, particularly if it has high fixed costs and a lot of debt. In vulnerable sectors, company survival may require additional capital injections. The severity of the economic impact has necessitated a stress-test of existing holdings to identify vulnerabilities and to ensure that our portfolios are exposed to the best opportunities. The substantial impact on corporate profits in 2020 needs to be assessed in conjunction with much lower share prices. Our focus has been on assessing the impact of the COVID-19 pandemic on intrinsic value (using our 3M process). Where the intrinsic value of a security has been impaired less than the share price would indicate, we must be prepared to be bold. This has seen us allocating capital to resilient companies at wide margins of safety, while reducing our exposure to those where our conviction is low and which we believe to be more vulnerable.

Very low share prices sow the seeds for the next equity bull market. Our portfolios are well positioned to capture this. Our clients own businesses of sound inherent quality and resilient intrinsic value which trade at wide margins of safety.

Portfolio positioning

We believe successfully navigating this crisis requires a focus on liquidity, and we have focused on enhancing this aspect for our clients over the period. As a result, the fund used the strength we have seen in the NCD market by selling at the prevailing lower yields and moving into cash. As at the end of the period, the fund held roughly 20% in cash with significant liquidity to be a buyer into any weakness we may see ahead. We have looked to add selectively to the R186 government bond, where the curve appears to be most mispriced. We continue to hold low risk of default in the fund. The fund has also looked to reallocate to higher conviction equity ideas, while still focusing on the high real yields we are seeing in pockets of the fixed income market.

Changes in portfolio positioning

Q4 2019		Q1 2020	
Domestic equity	4.4%	Domestic equity	3.6%
Domestic preference shares	0.1%	Domestic preference shares	0.0%
Domestic property	0.0%	Domestic property	0.1%
Domestic cash and NCDs	46.9%	Domestic cash and NCDs	51.6%
Domestic bonds	41.3%	Domestic bonds	41.3%
Foreign equity	2.0%	Foreign equity	1.6%
Foreign cash	4.7%	Foreign cash	1.4%
Foreign property	0.6%	Foreign property	0.4%

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

Number of units as at 31 March 2020 (Class A):	924 299 182
Price (net asset value per unit) as at 31 March 2020 (Class A):	R1.16
Number of units as at 31 March 2020 (Class E):	259 308 846
Price (net asset value per unit) as at 31 March 2020 (Class E):	R1.16

All data as per Bloomberg as at 31 March 2020.

Disclaimer

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Regulation 28

The fund is managed according to Regulation 28 of the Pension Funds Act. The South African retirement fund industry is governed by the Pension Funds Act No. 24 of 1956. Regulation 28 of the Pension Funds Act prescribes the maximum limits in asset classes that an approved retirement fund may invest in. Exposures in excess of the limits will be corrected immediately, except where due to a change in the fair value or characteristic of an asset, e.g. market value fluctuations, in which case they will be corrected within a reasonable time period.

Performance

All performance data for a lump sum, net of fees, include income and assumes reinvestment of income on a NAV to NAV basis. Annualised performances show longer term performance rescaled over a 12 month period. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. Performance is calculated for the portfolio and individual investor performance may differ as a result thereof. The portfolio is valued at 15h00 daily. Income distributions are net of any applicable taxes. Actual annual figures are available to the investor on request. Prices are published daily and available on the website www.psg.co.za/asset-management and in the daily newspapers. Figures quoted are from Morningstar Inc.

Pricing

Forward pricing is used. Unit trust prices are calculated on a net asset value (NAV) basis, which is the market value of all assets in the Fund including income accruals less permissible deductions divided by the number of units in issue.

Yield

The yield for the portion attributable to fixed income instruments is calculated daily on an annualised basis and is based on the historic yield of the fixed income instruments. The fund returns include returns from property and equity instruments.

Company details

PSG Collective Investments (RF) Limited is registered as a CIS Manager with the Financial Sector Conduct Authority, and a member of the Association of Savings and Investments South Africa (ASISA) through its holdings company PSG Konsult Limited. The management of the portfolio is delegated to PSG Asset Management (Pty) Ltd, an authorised Financial Services Provider under the Financial Advisory and Intermediary Services Act 2002, FSP no 29524. PSG Asset Management (Pty) Ltd and PSG Collective Investments (RF) Limited are subsidiaries of PSG Konsult Limited. PSG Collective Investments (RF) Limited can be contacted on +27(21) 799 8000; (toll free) 0800 600 168, via email assetmanagement@psg.co.za.

Conflict of interest disclosure

The Fund may from time to time invest in a portfolio managed by a related party. PSG Collective Investments (RF) Limited or the fund manager may negotiate a discount in fees charged by the underlying portfolio. All discounts negotiated are reinvested in the Fund for the benefit of the investors. Neither PSG Collective Investments (RF) Limited nor PSG Asset Management (Pty) Ltd retains any portion of such discount for their own accounts. The fund manager may use the brokerage services of a related party, PSG Securities Ltd.

Trustee

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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.

Current context

COVID-19 lockdowns across the globe had a pronounced impact on global economic output and financial markets. The already fragile South African economy will be hit hard. Locally, we have seen a sharp rise in bond yields, a steep fall in the rand and big drops on the JSE. Global policymakers and central banks are scrambling to introduce stimulus packages that compensate for the collapse in demand. Emerging markets like South Africa have fewer stimulus tools at their disposal, although we have seen unprecedented intervention in the form of steep rate cuts, bond buying and support for the banking sector.

South African investors had endured poor returns for the six years until March. Most stocks on the JSE had been in an extended bear market already and the decline in March further exacerbated an already poor investment experience for many. Over the past few years, our portfolios have been invested in cheaper and less-crowded stocks, both at home and abroad. We believe we can earn better long-term returns for our investors by focusing on quality companies that are under-appreciated by the market than by buying into expensive growth stocks. Unfortunately, a low starting point did not provide protection from the COVID-19 markets sell-off. The shock has hit most sectors hard, including already cheap stocks that are more exposed to global or domestic economic cycles. This has been further exacerbated by fragility in the domestic financial sector as a result of mounting credit losses and decreasing asset prices.

Our perspective

Our approach to managing the fund has always been to offer a risk-adjusted yields, limiting the potential for permanent capital loss. Our allocations in the fund have therefore for long been focused on a healthy diversified exposure to fixed rate bank NCDs, alongside nominal and inflation-linked government bonds in line with our views of lower inflation and therefore higher implied real yields. We have for some time preferred exposure to these areas rather than corporate credit, as the available spreads have not met our required risk-adjusted returns. Our holdings in corporate credit are at long term lows across our funds. The sell-off in yields in local fixed income markets have been significant during the month of March, largely in government bonds. The key drivers of this move have been foreign selling, as well as tighter liquidity among local holders of these bonds. Conversely, as government bonds have been indiscriminately sold during March, the SARB had cut the repo rate by 1%, forcing NCD yields lower as the market continued to price in further rate cuts. The implication for our allocation to fixed rate NCDs is that the fund continues to earn the high real yields as we have locked these in for an extended period. Importantly, in addition to the high earnings yield, these instruments now offer the potential to unlock significant value as the current market rates are significantly lower than when we had purchased these assets. Corporate and bank credit initially remained resilient given a lack of trading, however this has begun to reprice as spreads have started to move up steadily to reflect the poorer medium-term outlook for the economy. In assessing these moves, we have focused on evidence-based research, and have looked to re-assess our views on the real returns we require in the government bond market. A normalisation from current yields to reflect lower interest rates and inflation is expected to deliver attractive returns for clients. Despite the slower move higher in yields, we believe corporate credit is likely in the initial stages of repricing,

Portfolio positioning

We believe successfully navigating this crisis requires a focus on liquidity, and we have focused on enhancing this aspect for our clients over the period. As a result, the fund used the strength we have seen in the NCD market by selling at the prevailing lower yields and moving into cash. This has largely helped the fund to avoid much of the volatility we have seen recently in areas of the market, resulting in stability of income distributions. As at the end of the period, the fund held roughly 30% in cash, providing significant liquidity to be a selective buyer into any weakness we may see ahead, while still offering an attractive income yield significantly above money markets at low levels of risk. We have looked to add selectively to the R186 government bond, where the curve appears to be most mispriced. We continue to hold instruments which carry low risk of default in the fund as well as the exposure to longer-dated fixed NCDs which should continue to deliver value for the fund.

Changes in portfolio positioning

	Q4 2019	Q1 2020
Domestic bonds	25.0%	26.4%
Domestic cash and NCDs	75.0%	73.6%

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

Number of units as at 31 March 2020 (Class A):	21 677 805
Price (net asset value per unit) as at 31 March 2020 (Class A):	R1.03
Number of units as at 31 March 2020 (Class E):	273 319 975
Price (net asset value per unit) as at 31 March 2020 (Class E):	R1.03

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Yield

The yield is calculated daily on an annualised basis. The calculation is based on the historic yield of fixed income instruments.

Performance

All performance data for a lump sum, net of fees, include income and assumes reinvestment of income on a NAV to NAV basis. Annualised performances show longer term performance rescaled over a 12 month period. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. Performance is calculated for the portfolio and individual investor performance may differ as a result thereof. The portfolio is valued at 15h00 daily. Income distributions are net of any applicable taxes. Actual annual figures are available to the investor on request. Prices are published daily and available on the website www.psg.co.za/asset-management and in the daily newspapers. Figures quoted are from Morningstar Inc.

Pricing

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Company details

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Conflict of interest disclosure

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Current context

COVID-19 lockdowns across the globe had a pronounced impact on global economic output and financial markets. The already fragile South African economy will be hit hard. Locally, we have seen a sharp rise in bond yields, a steep fall in the rand and big drops on the JSE. Global policymakers and central banks are scrambling to introduce stimulus packages that compensate for the collapse in demand. Emerging markets like South Africa have fewer stimulus tools at their disposal, although we have seen unprecedented intervention in the form of steep rate cuts, bond buying and support for the banking sector.

South African investors had endured poor returns for the six years until March. Most stocks on the JSE had been in an extended bear market already and the decline in March further exacerbated an already poor investment experience for many. Over the past few years, our portfolios have been invested in cheaper and less-crowded stocks, both at home and abroad. We believe we can earn better long-term returns for our investors by focusing on quality companies that are under-appreciated by the market than by buying into expensive growth stocks. Unfortunately, a low starting point did not provide protection from the COVID-19 markets sell-off. The shock has hit most sectors hard, including already cheap stocks that are more exposed to global or domestic economic cycles. This has been further exacerbated by fragility in the domestic financial sector as a result of mounting credit losses and decreasing asset prices.

Our perspective

Our approach to managing the fund has always been to offer a risk-adjusted yields, limiting the potential for permanent capital loss and, importantly, maintaining high levels of liquidity in the fund. Our allocation in the fund have therefore for long been focused on a healthy diversified exposure to fixed- and floating-rate bank NCDs, with relatively high liquidity and attractive real yields in line with our views of lower inflation. We have for some time preferred exposure to NCDs rather than corporate credit, as the available spreads have not met our required risk-adjusted returns. Our holdings in corporate credit are at long-term lows across our funds. Specifically, for money market funds, an allocation to corporate has been conservatively viewed as an allocation to less liquid assets, requiring a high hurdle for inclusion.

During the past year, we have seen inflation consistently anchored within the SARB's inflation targeting band and due to the recent downward shock to oil prices, inflation is likely to be skewed to the lower end of this band over the coming year. This had enabled the SARB to cut rates by 0.25% in January 2020, but also importantly, by an additional 2% since the start of this crisis. The sell-off in yields in local fixed income markets have been significant during the month of March, largely in government bonds. The key drivers of this move have been foreign selling, as well as tighter liquidity among local holders of these bonds. Conversely, as government bonds have been indiscriminately sold, the SARB had cut the repo rate, forcing NCD yields lower as the market continued to price in further rate cuts. The implication for our allocation to fixed rate NCDs is that the fund continues to earn high real yields where we have been buyers of fixed rate NCDs. Corporate and bank credit initially remained resilient given a lack of trading, however this has begun to reprice as spreads have started to move up steadily to reflect the poorer medium-term outlook for the economy. In assessing these moves, we have focused on evidence-based research, and have looked to re-assess our views on the real returns we require from the instruments we buy.

Portfolio positioning

The fund continues to hold a diversified book of bank NCDs earning yields above the cash rates offered by the banks, as well as above the near-term expected inflation rate. Ensuring additional liquidity in the fund during the crisis is a sensible measure to support any additional liquidity needs from our clients. As such, we hold a higher cash allocation than in a normal cycle, as well as conservatively holding a low allocation to corporate bonds. While we have allocated significant holdings to fixed rate NCDs, which should continue to offer higher income yields over the near term, we expect that the fall in rates will eventually translate into lower income distributions for clients. Importantly, we are comfortable that the risk of default is low.

Changes in portfolio positioning

Q4 2019		Q1 2020	
Linked NCDs/ Floating-rate notes	22.8%	Linked NCDs/Floating-rate notes	18.9%
Step rate notes	13.3%	Step rate notes	22.0%
NCDs	34.9%	NCDs	23.7%
Treasury bills	13.8%	Treasury bills	10.8%
Call deposits	13.3%	Call deposits	16.3%
Corporate bonds	1.9%	Corporate bonds	8.3%

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

Number of units as at 31 March 2020 (Class A):	817 814 867
Price (net asset value per unit) as at 31 March 2020 (Class A):	R1.00
Number of units as at 31 March 2020 (Class F):	433 700 436
Price (net asset value per unit) as at 31 March 2020 (Class F):	R1.00

All data as per Bloomberg as at 31 March 2020.

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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

All performance data for a lump sum, net of fees, include income and assumes reinvestment of income on a NAV to NAV basis. Annualised performances show longer term performance rescaled over a 12 month period. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. Performance is calculated for the portfolio and individual investor performance may differ as a result thereof. The portfolio is valued at 15h00 daily. Income distributions are net of any applicable taxes. Actual annual figures are available to the investor on request. Prices are published daily and available on the website www.psg.co.za/asset-management and in the daily newspapers. Figures quoted are from Morningstar Inc.

Pricing

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Company details

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Conflict of Interest Disclosure

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

Trustees

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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.

Current context

COVID-19 lockdowns across the globe had a pronounced impact on global economic output and financial markets. Coming off record high levels during the middle of February, global markets experienced one of their quickest sell-offs in history, with the MSCI World Index dropping 34% from its high to the most recent market low on 23 March 2020. US bonds recorded their lowest ever yields during the turmoil, with the 10-year yield falling to 0.54% in early March compared to 1.92% at the beginning of the year. Many emerging markets, whose economies had already been fragile for some time, experienced significant capital outflows, sharp rises in bond yields and currency devaluations. Global policymakers and central banks are scrambling to introduce stimulus packages that compensate for the collapse in demand. Indeed, the global fiscal measures we are currently witnessing are set to far exceed those during the global financial crisis.

While global and US returns specifically had been particularly strong up to February, these returns masked the reality of a narrow market, in which few sectors and stocks drove outperformance, most notably technology and high quality defensive industrial companies, while large parts of the market underperformed. Over the past few years, our portfolios have been invested in cheaper and less-crowded stocks. We believe we can earn better long-term returns for our investors by focusing on quality companies that are under-appreciated by the market than by buying into expensive growth stocks. Unfortunately, a low starting point did not provide protection from the COVID-19 markets sell-off. The shock has hit most sectors hard, including already cheap stocks that are more exposed to global economic cycles.

Our perspective

Our clients have always been well served by times when good companies go on sale. The unprecedented and fluid nature of the current environment, however, results in exceptional levels of uncertainty. This provides fantastic opportunity for future returns, but also introduces significant investment risks. We prefer to invest in an evidence-based fashion, using a long-established process. An extended collapse in demand can have a pronounced impact on the value of a company, particularly if it has high fixed costs and a lot of debt. In vulnerable sectors, company survival may require additional capital injections. The severity of the economic impact has necessitated a stress-test of existing holdings to identify vulnerabilities and to ensure that our portfolios are exposed to the best opportunities. The substantial impact on corporate profits in 2020 needs to be assessed in conjunction with much lower share prices. Our focus has been on assessing the impact of the COVID-19 pandemic on intrinsic value (using our 3M process). Where the intrinsic value of a security has been impaired less than the share price would indicate, we must be prepared to be bold. This has seen us allocating capital to resilient companies at wide margins of safety, while reducing our exposure to those where our conviction is lower and which we believe to be more vulnerable. Very low share prices sow the seeds for the next equity bull market. Our portfolios are well positioned to capture this. Our clients own businesses of sound inherent quality and resilient intrinsic value which trade at wide margins of safety.

Portfolio positioning

The quarter was a tale of two halves, the first being the continuation of the global bull market in momentum stocks specifically, while the second saw the most vicious sell-off since the financial crisis in 2008 and 2009. Portfolio adjustments need to be seen in this context.

In January and the early parts of February we took advantage of sharply rising share prices and significantly reduced our holdings in Brookfield Asset Management, Nordstrom, Babcock, Pandora and L Brands as their margins of safety narrowed. New additions into the fund were Du Pont de Nemours, The Kroger Company and Ardmore Shipping, while we also added to our existing positions in Royal Dutch Shell and Tanger Factory Outlets during periods of falling share prices.

Even though we cannot time the market or predict the bottom, we are using the turmoil in markets to optimise the portfolio. These actions should be seen in various buckets.

1. We significantly increased our conviction in Anheuser-Busch and Prudential plc as these high-quality companies went on sale. Anheuser-Busch's share price dropped 67% from its most recent high in August 2019 while Prudential plc declined 58% within the space of one month (both in US Dollars). We also responded to excessive share price movements by significantly adding to M&G plc, Simon Property Group, Tanger Factory Outlets, Royal Dutch Shell and Brookfield Asset Management. While several of these businesses face shorter term uncertainties as a result of the COVID-19 shutdown, we are of the strong view that their moats, business models and balance sheets will remain intact until conditions start to normalise. Additionally, once the initial demand shock starts to dissipate, the odds of inflationary pressures emanating are more than negligible given the unprecedented global fiscal stimuli referred to above. We therefore added to the fund's position in Wheaton Precious Metals which derives the majority of its earnings from the price of gold.
2. The fund reduced exposure to areas which held up relatively better and we sold Japan Post Bank and reduced Japan Post Insurance and Resona Holdings.
3. We had previously stress-tested the earnings and balance sheets of all holdings in the portfolio and were of the view they would survive a recession. However, as lockdowns became more widespread and the effect of the virus more pronounced, the probability increased that some companies carrying too much leverage may require significantly more equity capital at distressed prices, which may be highly dilutive to shareholders. The fund therefore sold its holdings in Transocean and Washington Prime. In both instances we switched the proceeds into higher conviction opportunities at share prices that are similarly affected by the sell-off, yet at lower levels of balance sheet risk.

Global markets have recovered some of their drawdowns since the recent March lows and the future range of economic and health outcomes remains wide. We are of the view that the fund's holdings are deeply undervalued, offering strong embedded returns and are comfortable that they will be able to deal with these uncertainties. We also remain highly focused on finding new opportunities that this environment inevitably brings.

Changes in portfolio positioning

Q4 2019		Q1 2020	
Equities	94.1%	Equities	98.1%
Cash	5.9%	Cash	1.9%

Q4 2019		Q1 2020	
US	35.8%	US	36.0%
Europe	8.9%	Europe	15.5%
UK	21.5%	UK	21.9%
Asia ex Japan	0.0%	Asia ex Japan	0.0%
Japan	18.8%	Japan	17.0%
Canada	5.6%	Canada	4.4%
Africa	3.5%	Africa	3.3%
Cash	5.9%	Cash	1.9%

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 March 2020 (Class A):	5 529 839
Price (net asset value per unit) as at 31 March 2020 (Class A):	R1.87
Number of units as at 31 March 2020 (Class E):	40 301 240
Price (net asset value per unit) as at 31 March 2020 (Class E):	R1.92

All data as per Bloomberg as at 31 March 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. Income distributions are net of any applicable taxes. Actual annual figures are available to the investor on request. Prices are published daily and available on the website www.psg.co.za/asset-management and in the daily newspapers. Figures quoted are from Morningstar Inc.

Pricing

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Company details

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Conflict of interest disclosure

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Trustees

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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.

Current context

COVID-19 lockdowns across the globe had a pronounced impact on global economic output and financial markets. Coming off record high levels during the middle of February, global markets experienced one of their quickest sell-offs in history, with the MSCI World Index dropping 34% from its high to the most recent market low on 23 March 2020. US bonds recorded their lowest ever yields during the turmoil, with the 10-year yield falling to 0.54% in early March compared to 1.92% at the beginning of the year. Many emerging markets, whose economies had already been fragile for some time, experienced significant capital outflows, sharp rises in bond yields and currency devaluations. Global policymakers and central banks are scrambling to introduce stimulus packages that compensate for the collapse in demand. Indeed, the global fiscal measures we are currently witnessing are set to far exceed those during the global financial crisis.

While global and US returns specifically had been particularly strong up to February, these returns masked the reality of a narrow market, in which few sectors and stocks drove outperformance, most notably technology and high quality defensive industrial companies, while large parts of the market underperformed. Over the past few years, our portfolios have been invested in cheaper and less-crowded stocks. We believe we can earn better long-term returns for our investors by focusing on quality companies that are under-appreciated by the market than by buying into expensive growth stocks. Unfortunately, a low starting point did not provide protection from the COVID-19 markets sell-off. The shock has hit most sectors hard, including already cheap stocks that are more exposed to global economic cycles.

Our perspective

Our clients have always been well served by times when good companies go on sale. The unprecedented and fluid nature of the current environment, however, results in exceptional levels of uncertainty. This provides fantastic opportunity for future returns, but also introduces significant investment risks. We prefer to invest in an evidence-based fashion, using a long-established process. An extended collapse in demand can have a pronounced impact on the value of a company, particularly if it has high fixed costs and a lot of debt. In vulnerable sectors, company survival may require additional capital injections. The severity of the economic impact has necessitated a stress-test of existing holdings to identify vulnerabilities and to ensure that our portfolios are exposed to the best opportunities. The substantial impact on corporate profits in 2020 needs to be assessed in conjunction with much lower share prices. Our focus has been on assessing the impact of the COVID-19 pandemic on intrinsic value (using our 3M process). Where the intrinsic value of a security has been impaired less than the share price would indicate, we must be prepared to be bold. This has seen us allocating capital to resilient companies at wide margins of safety, while reducing our exposure to those where our conviction is lower and which we believe to be more vulnerable. Very low share prices sow the seeds for the next equity bull market. Our portfolios are well positioned to capture this. Our clients own businesses of sound inherent quality and resilient intrinsic value which trade at wide margins of safety.

Portfolio positioning

The quarter was a tale of two halves, the first being the continuation of the global bull market in momentum stocks specifically, while the second saw the most vicious sell-off since the financial crisis in 2008 and 2009. Portfolio adjustments need to be seen in this context.

In January and the early parts of February we took advantage of sharply rising share prices and significantly reduced our holdings in Brookfield Asset Management, Nordstrom, Babcock, Pandora and L Brands as their margins of safety narrowed. New additions into the fund were Du Pont de Nemours, The Kroger Company and Ardmore Shipping, while we also added to our existing positions in Royal Dutch Shell and Tanger Factory Outlets during periods of falling share prices.

Even though we cannot time the market or predict the bottom, we are using the turmoil in markets to optimise the portfolio. These actions should be seen in various buckets.

1. We significantly increased our conviction in Anheuser-Busch and Prudential plc as these high-quality companies went on sale. Anheuser-Busch's share price dropped 67% from its most recent high in August 2019 while Prudential plc declined 58% within the space of one month (both in US Dollars). We also responded to excessive share price movements by significantly adding to M&G plc, Simon Property Group, Tanger Factory Outlets, Royal Dutch Shell and Brookfield Asset Management. While several of these businesses face shorter term uncertainties as a result of the COVID-19 shutdown, we are of the strong view that their moats, business models and balance sheets will remain intact until conditions start to normalise. Additionally, once the initial demand shock starts to dissipate, the odds of inflationary pressures emanating are more than negligible given the unprecedented global fiscal stimuli referred to above. We therefore added to the fund's position in Wheaton Precious Metals which derives the majority of its earnings from the price of gold.
2. The fund reduced exposure to areas which held up relatively better and we sold Japan Post Bank and reduced Japan Post Insurance and Resona Holdings.
3. We had previously stress-tested the earnings and balance sheets of all holdings in the portfolio and were of the view they would survive a recession. However, as lockdowns became more widespread and the effect of the virus more pronounced, the probability increased that some companies carrying too much leverage may require significantly more equity capital at distressed prices, which may be highly dilutive to shareholders. The fund therefore sold its holdings in Transocean and Washington Prime. In both instances we switched the proceeds into higher conviction opportunities at share prices that are similarly affected by the sell-off, yet at lower levels of balance sheet risk.

Global markets have recovered some of their drawdowns since the recent March lows and the future range of economic and health outcomes remains wide. We are of the view that the fund's holdings are deeply undervalued, offering strong embedded returns and are comfortable that they will be able to deal with these uncertainties. We also remain highly focused on finding new opportunities that this environment inevitably brings. While we have been large buyers of stocks during the sell-off, given the large drawdown experienced across most of the funds' holdings, percentage cash levels in the PSG Global Flexible Fund only reduced from 23% in mid-February to 19% at the end of March, providing the fund with valuable firepower in the event of further market dislocations.

Changes in portfolio positioning

Q4 2019		Q1 2020	
Equities	80.6%	Equities	81.1%
Bonds	0.9%	Bonds	0.9%
Cash	18.5%	Cash	18.0%

Q4 2019		Q1 2020	
US	30.5%	US	28.9%
Europe	7.1%	Europe	12.5%
UK	18.5%	UK	18.5%
Asia ex Japan	0.0%	Asia ex Japan	0.0%
Japan	16.6%	Japan	15.2%
Canada	5.4%	Canada	3.8%
Africa	2.5%	Africa	2.2%
Cash and Bonds	19.4%	Cash and Bonds	18.9%

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

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Number of units as at 31 March 2020 (Class A):	23 326 656
Price (net asset value per unit) as at 31 March 2020 (Class A):	R1.65
Number of units as at 31 March 2020 (Class B):	193 138 918
Price (net asset value per unit) as at 31 March 2020 (Class B):	R1.71

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