

2023 in review

At the outset of 2023, financial markets grappled with historically gloomy expectations, anticipating a global economic slowdown and the looming threat of a recession. At the same time, central banks globally undertook the challenge of combating inflation. Subsequently, the US faced a regional banking crisis, and global geopolitical tensions reached heightened levels.

However, financial markets defied these concerns, highlighting the wisdom of the adage “time in the market beats timing the market”. Recession fears shifted to confidence as central banks signalled a transition from rate hikes to cuts in 2024, accompanied by a notable easing of inflation pressures. Global economic growth exceeded expectations, creating a favourable environment for risk assets and reshaping expectations towards a ‘soft landing’ – a harmonious blend of lower inflation, reduced interest rates and moderate economic growth.

Global equities thrived, as the MSCI World Index surged 24% in US dollars, led by resilient US mega-caps (2022: -18%). The Bloomberg Aggregate Global Bond Index rebounded gaining 6% in US dollars after a challenging 2022 (-16%). Locally, performance mirrored emerging markets, trailing major developed markets. Cash produced a return of 8%, offering investors an inflation-beating return. With the local currency depreciating by 8% versus the US dollar during the year (2022: -7%), the FTSE/JSE SWIX All Share Index and the All Bond Index (ALBI) returned a positive 8% (2022: +4%) and 10% (2022: +4%) respectively. Considering the volatility experienced in global bond markets during 2023, local bonds in our view produced a commendable result.

Looking forward

Although there are tentative signs that inflation is cooling globally and rate cuts are potentially on the horizon, it is important to acknowledge that the investment landscape today has undergone a profound transformation compared with the pre-Covid-19 era. We maintain the perspective that inflation may persist longer than widely acknowledged, necessitating a supply side response through investment in the capital-starved real economy – a process that could span years before the situation is rectified. This outlook bodes well for commodity-driven emerging markets like South Africa and other beneficiaries globally. This stands in stark contrast to the current dominance of mega-cap stocks in the global indices, a concentration that raises concerns for us. The current market concentration bears resemblance to both the Nifty Fifty era and the dot-com bubble, historical periods that highlight that markets may eventually disappoint investors.

Fixed income assets remain very attractive in our view, with the rally experienced in the final quarter of 2023 an indication of the immense value embedded in our bonds. We continue to manage risk, focusing on protecting capital both over the long and short term. We believe there are few reasons to be excited about the potential for many years of attractive income returns, particularly in the government bond space as:

- SA bonds offer very low risk of capital loss.
- The high yields on offer, which are well in excess of inflation, compensate investors for prevailing risks.
- We are more likely to be closer to the end of the current rate hiking cycle, offering potential for further value in bonds.
- SA bonds will be a major beneficiary of a broader rotation towards commodity-producing markets.

We will aim to ensure the balance of assets in the fund is appropriate in what is likely to be another year of heightened uncertainty.

Portfolio performance*

Over the quarter the PSG Diversified Income Fund returned 4.5% versus the benchmark return of 1.7%. The contributors over this period were local government bonds (3.1%), local money market instruments (0.9%) and equity (0.4%). Over the 2-year investment horizon, the fund delivered an annualised return of 7.9% versus the benchmark return of 7.5%.

*Return numbers as per the PSG Diversified Income Class A

Changes in portfolio positioning

Q3 2023		Q4 2023	
Domestic equity	2.9%	Domestic equity	3.2%
Domestic preference shares	2.6%	Domestic preference shares	3.1%
Domestic property	0.5%	Domestic property	0.9%
Domestic cash, Treasury bills and NCDs	46.8%	Domestic cash, Treasury bills and NCDs	43.3%
Domestic bonds	43.3%	Domestic bonds	45.9%
Offshore equity	1.1%	Offshore equity	1.5%
Offshore bonds	2.7%	Offshore bonds	1.7%
Offshore cash	0.1%	Offshore cash	0.4%

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

Number of units as at 31 December 2023 (Class A):	1 805 092 517
Price (net asset value per unit) as at 31 December 2023 (Class A):	R1.31
Number of units as at 31 December 2023 (Class E):	1 250 169 739
Price (net asset value per unit) as at 31 December 2023 (Class E):	R1.31

All data as per Bloomberg as at 31 December 2023.

Total investment charge

PSG Diversified Income Fund Class A

Total Investment Charge annualised for the period 01/01/2021 to 31/12/2023

Total expense ratio % (incl. VAT)	1.18
Annual management fee % (incl. VAT)	1.15
Other costs excluding transaction costs % (incl. VAT)	0.03
Transaction costs % (incl. VAT)	0.05
Total investment charge % (incl. VAT)	1.23

Total Investment Charge annualised for the period 01/01/2023 to 31/12/2023

Total expense ratio % (incl. VAT)	1.18
Annual management fee % (incl. VAT)	1.15
Other costs excluding transaction costs % (incl. VAT)	0.03
Transaction costs % (incl. VAT)	0.04
Total investment charge % (incl. VAT)	1.22

PSG Diversified Income Fund Class E

Total Investment Charge annualised for the period 01/01/2021 to 31/12/2023

Total expense ratio % (incl. VAT)	0.72
Annual management fee % (incl. VAT)	0.69
Other costs excluding transaction costs % (incl. VAT)	0.03
Transaction costs % (incl. VAT)	0.05
Total investment charge % (incl. VAT)	0.77

Total Investment Charge annualised for the period 01/01/2023 to 31/12/2023.

The annual management fee changed to 0.52% from 01/06/2022.

Total expense ratio % (incl. VAT)	0.54
Annual management fee % (incl. VAT)	0.52
Other costs excluding transaction costs % (incl. VAT)	0.02
Transaction costs % (incl. VAT)	0.04
Total investment charge % (incl. VAT)	0.58

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.

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 Financial Services 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 Financial Services 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

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.