PSG Asset Management

PSG Global Equity Feeder Fund

Quarterly portfolio commentary as at 31 March 2024
by Greg Hopkins, Philipp Wörz and Justin Floor

Current context

Global equity markets continued their upward climb during the first quarter of 2024, building on the strong performance of the previous year. Gains were broad-based, with the technology sector again providing outsized returns. Areas of the market poised to benefit from the boom in artificial intelligence (AI) continued to be a key theme. Several other themes also shaped the narrative of the first quarter. It is becoming more widely accepted that inflation – and consequently, interest rates – are likely to remain higher for longer. Economic growth continues to exceed expectations, with the US successfully averting a recession in the first quarter. However, the global bond markets had a much more challenging quarter due to an uptick in bond yields, driven by the outlook for higher interest rates and ongoing uncertainty about inflation.

We have seen a continued divergence between emerging and developed equity market performances over the quarter. The MSCI World Index had a strong quarter rising by 9%, and an impressive 25% over the past year. In contrast, the MSCI Emerging Markets Index saw a more modest rise of 2% for the quarter and 8% for the past year. Global bonds didn't fare well, with the Bloomberg Global Aggregate Bond Index ending the quarter down 2% and remaining mostly flat over one year. Brent crude oil saw a significant increase, surging by 14% over the quarter and 10% over the past 12 months.

Our perspective

We are witnessing a rapidly changing global landscape, where investment strategies that have worked well in the recent past may not be appropriate to effectively preserve and grow capital going forward. Escalating geopolitical risks, more persistent and volatile inflation, and extreme market concentration dominated by a few large mega-cap technology companies are reshaping the investment landscape. Additionally, there is a notable underinvestment in the real sectors of the global economy and in natural resources. To navigate these challenges, we opt for highly selective US-centric exposures, investments in real assets, and a valuation-sensitive approach to investing. The current market concentration creates a fertile environment for differentiated active management, offering substantial opportunities ahead.

Several of these opportunities are in the fund's exposure to the global energy sector with an allocation of 21 % which despite the sector's systemic importance (and profitability) accounts for just 4.5% of the MSCI World Index. The global energy industry has underinvested in supply over the past 10 years, partly in response to ESG pressures, but also in response to shareholders that demanded a more disciplined approach to capital allocation. While investments into renewables such as wind and solar have been significant, these cleaner forms of energy still only contribute a small percentage to global energy supply at less than 10% of the overall mix.

The demand for global energy, which has risen 4.5x since 1960, will continue to grow given global population growth and especially as emerging market consumers' living standards keep rising. Additionally, the energy transition (including the need to power AI data centres) is resource and energy intensive, which will likely result in growth in all forms of energy demand, including fossil fuels. Natural gas and nuclear/uranium are likely to increasingly be seen as the middle ground and as a solution to drive a cleaner energy mix.

The fund's energy exposure is not homogenous, comprising of a diverse set of companies ranging from integrated energy majors such as Shell, BP and Brazil's Petrobras, US low-cost natural gas player CNX Resources, Canadian uranium and nuclear service provider Cameco and oil and gas drillers. Aligned to the energy and resource space is the shipping sector, which has been fruitful for the fund in the past and continues to offer great opportunities. The supply side for ships in the dry bulk and product tanker space is attractive in that order books are at historically low levels, unlike order books for container ships, and that ageing fleets across the industry will likely give rise to stronger than normal pricing power in coming years.

Importantly, valuations of the companies in the fund and the energy sector more generally are highly attractive, and the fund's exposure to energy and real assets stocks can play a valuable role across a multitude of scenarios including providing a valuable hedge to geopolitical and inflationary shocks going forward.

Our portfolios are diversified and well positioned to navigate these conditions, underlining the importance of a long-term view and the value that a differentiated active manager can add during these pivotal global macro inflection points.

Portfolio performance*

Over the quarter the PSG Global Equity Feeder Fund returned 3.2% versus the benchmark return of 12.7%. The largest contributors over this period were industrials (1.9%), energy (0.8%) and financials (0.7%). Consumer discretionary (-1.2%), healthcare (-0.6%) and materials (-0.5%) detracted from performance. The contributors and detractors 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 12.0% p.a. versus the benchmark return of 16.7% p.a. Since inception, the fund produced an annual return of 12.6% versus the benchmark return of 16.7%.

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

Changes in portfolio positioning

Q4 2023		Q1 2024	
Equities	98.2%	Equities	99.4%
Cash	1.8%	Cash	0.6%

Q4 2023		Q1 2024	
US	32.9%	US	31.5%
Europe	19.0%	Europe	15.0%
UK	33.3%	UK	33.8%
Japan	6.7%	Japan	7.3%
Africa	6.3%	Africa	5.8%
Brazil	0.0%	Brazil	2.1%
Hong Kong	0.0%	Hong Kong	3.9%
Cash	1.8%	Cash	0.6%

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

Please note that the above commentary and portfolio positioning is for the US dollar-denominated PSG Global Equity Sub-Fund. The PSG Global Equity Feeder Fund is 100% invested in the underlying US dollar fund. However, there may be small short-term valuation, trading and translation differences between the two funds.

Number of units as at 31 March 2024 (Class A):	4 452 413
Price (net asset value per unit) as at 31 March 2024 (Class A):	R4.88
Number of units as at 31 March 2024 (Class E):	67 166 606
Price (net asset value per unit) as at 31 March 2024 (Class E):	R5.05

All data as per Bloomberg as at 31 March 2024.

Total investment charge

Total Investment Charge annualised for the period 01/04/2021 to 31/03/2024

	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)	0.39	**0.39**
Total investment charge % (incl. VAT)	**3.03**	**2.45**

Total Investment Charge annualised for the period 01/04/2023 to 31/03/2024

	Class A	Class E
Total expense ratio % (incl. VAT)	**2.82**	**2.25**
Annual management fee % (incl. VAT)	0.86	0.29
Other costs excluding transaction costs % (incl. VAT)	1.96	1.96
Transaction costs % (incl. VAT)	0.29	**0.29**
Total investment charge % (incl. VAT)	**3.11**	**2.54**

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 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.

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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.