PSG Asset Management

PSG Money Market Fund

Quarterly portfolio commentary as at 31 March 2024
by Duayne le Roux and Lyle Sankar

Current context

The first quarter of 2024 was relatively tough for fixed income investors, particularly in contrast to the strong performance in the final quarter of 2023. South Africa is facing two key headwinds that have resulted in weakness:

- uncertainty regarding election outcomes
- rising global inflation which is exerting upward pressure on global bonds yields

These headwinds overshadowed any positive aspects in the National Budget, delivered in February 2024 by Minister of Finance Enoch Godongwana, which was generally considered to be sound and indicative of continued prudent fiscal management. In particular, we were comforted by limited support to ailing state-owned enterprises (SOEs), social grants were in line with expectations and revenue projections were considered reasonable. When viewed together with the consistent approach of the South African Reserve Bank (SARB), the country's monetary and fiscal policy outlooks seem reasonable.

Uncertain election outcomes, and the potential prospect of a coalition government, are a source of concern. In addition, the global backdrop for emerging market assets has been weaker. Higher than anticipated US inflation (upside inflation surprises), while marginal, has also resulted in markets pricing in fewer rate cuts from the US Federal Reserve (the Fed). Importantly, the market had aggressively pencilled in 6 rate cuts by the Fed during 2024 – setting high expectations. This has resulted in upward pressure on South African (and emerging market) bond yields, as well as a deteriorating rand. Cash outperformed bonds during the quarter, delivering 2.04% (STeFI). Nominal bonds performed poorly at -1.83% (ALBI), with inflation-linked bonds delivering a slightly better outcome at -0.35% (CILI). The South African rand (ZAR) weakened by 3% against the US dollar.

Our perspective

The repo rate is currently at its highest level since the Global Financial Crisis (GFC), having increased by 4.25% since late 2021. In this environment, fundamental risks are ~~higher~~ not only higher for Government who has a large funding requirement in the market, but also very difficult for cyclical and highly geared corporates, or those reliant on the SA consumer. Investors need to carefully consider their fixed income exposures so they are not unnecessarily exposed to the risk of potential capital loss. We continue to believe the corporate bond market (listed, unlisted and structured) requires very careful consideration, despite what appears to be attractive yields. Most corporate bonds are issued on a floating-rate basis and given the hiking cycle, have offered increasing yields. However, valuations and liquidity are very poor in this market, with spreads close to a decade low, and in conjunction with a weakening economic backdrop, we believe it is not the appropriate time to be increasing exposure to these assets. We therefore continue to hold very little exposure as there is an abundance of opportunity to earn inflation-beating yields elsewhere in the market.

We are less concerned at present about fiscal risks as we believe that the current debt burden does not present significant current risk of default (structure, currency and mix of debt; debt maturity profile; open currency; low growth expectations to arrive at forecasted debt profile). From a fiscal perspective, we believe that bonds are over pricing the risk of a default in SA, as well as the likely time frame for this. We are cognisant that the market has already begun to price in some of the risk of a negative election outcome, even though this is uncertain. When considering the risks that offshore fixed income poses to SA bond yields, we have for some time maintained the view that developed market inflation would be stickier, that the rate cuts priced in December 2023 (6) were overpriced, and that US bond yields should be higher. Thus, the recent inflation surprises are in line with our expectations.

Over the quarter, NCD rates have weakened alongside local bond yields, as the market repriced the expected rate cuts both locally and in the US. As a result, we've been able to incrementally buy very attractive real yields, particularly at the longer end of the NCD curve. With the repo rate at the highest level since the GFC and an increasing probability of it remaining at these levels for longer, the PSG Money Market Fund has also been participating in bank floating rate notes.

Portfolio performance*

Over the quarter the PSG Money Market Fund returned 2.1% versus the benchmark return of 1.4%. The fund is suitable for investors who need an interim investment vehicle or 'parking bay' for surplus money and a short-term investment horizon. Over the past year the fund has produced a return of 8.6% versus the benchmark of 7.2%. Over the past 5 years the annualised return was 6.1% versus the benchmark of 5.7%.

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

Changes in portfolio positioning

Q4 2023		Q1 2024	
Linked NCDs/ Floating-rate notes	19.8%	Linked NCDs/Floating-rate notes	24.4%
Step rate notes	10.7%	Step rate notes	10.0%
Promissory note	0.0%	Promissory note	3.2%
NCDs	33.5%	NCDs	26.1%
Treasury bills	21.7%	Treasury bills	13.1%
Call deposits	8.2%	Call deposits	23.2%
Listed bond	6.1%	Listed bond	0.0%

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

Number of units as at 31 March 2024 (Class A):	441 973 132
Price (net asset value per unit) as at 31 March 2024 (Class A):	R1.00
Number of units as at 31 March 2024 (Class F):	423 359 917
Price (net asset value per unit) as at 31 March 2024 (Class F):	R1.00

All data as per Bloomberg as at 31 March 2024.

Total investment charge

PSG Money Market Fund Class A

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

Total expense ratio % (incl. VAT)	**0.61**
Annual management fee % (incl. VAT)	0.58
Other costs excluding transaction costs % (incl. VAT)	0.03
Transaction costs % (incl. VAT)	0.01
Total investment charge % (incl. VAT)	**0.62**

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

Total expense ratio % (incl. VAT)	**0.60**
Annual management fee % (incl. VAT)	0.58
Other costs excluding transaction costs % (incl. VAT)	0.02
Transaction costs % (incl. VAT)	0.01
Total investment charge % (incl. VAT)	**0.61**

PSG Money Market Fund Class F

Total Investment Charge annualised for the period 01/07/2020 to 31/05/2022

Total expense ratio % (incl. VAT)	**0.36**
Annual management fee % (incl. VAT)	0.35
Other costs excluding transaction costs % (incl. VAT)	0.01
Transaction costs % (incl. VAT)	0.02
Total investment charge % (incl. VAT)	**0.38**

Total Investment Charge annualised for the period 01/04/2023 to 31/03/2024.
The annual Management fee changed to 0.29% from 01/06/2022.

Total expense ratio % (incl. VAT)	**0.31**
Annual management fee % (incl. VAT)	0.29
Other costs excluding transaction costs % (incl. VAT)	0.02
Transaction costs % (incl. VAT)	0.01
Total investment charge % (incl. VAT)	**0.32**

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.

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

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.

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 3authorized 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 manager may use the brokerage services of a related party, PSG Securities Ltd.

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.