PSG Asset Management

PSG SA Equity Fund

Quarterly portfolio commentary as at 31 March 2024

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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.

The local experience contrasted starkly with global trends. The local market faced declines, particularly dragged down by the financial sector. Economic growth remains tepid, and inflation consistently exceeded the midpoint of the South African Reserve Bank's (SARB's) target range. In turn, the central bank held interest rates steady, in line with expectations. Local market sentiment continued to be dampened by uncertainties surrounding the upcoming national elections, which cast doubts on the future direction of the economy.

Given a weak economic domestic backdrop, South African assets did not ride the global wave of strong performance delivered by developed markets. The South African rand (ZAR) weakened by 3% against the US dollar, with a total decline of 6% over one year. Domestic equities also struggled, with the JSE All Share Index (ALSI) dropping 2% in local currency terms, although it managed a slight increase of 2% over the past 12 months. Domestic bonds followed global trends, with the All Bond Index (ALBI) declining 2% in local currency terms for the quarter and achieving a 4% gain year on year.

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.

Emerging markets have underperformed during the 13-year bull run of the US dollar and US financial assets. In South Africa, amid high interest rates, elevated inflation, ongoing infrastructure failures and considerable capital outflows, we find ourselves at crisis valuations. This context allows us to identify long-term winners very selectively at exceptionally attractive valuations within a volatile environment.

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*

The world is experiencing a very volatile and uncertain time, with inflation and interest rates remaining higher than commonly expected, and conflict in the Middle East and Ukraine fuelling concern about commodity availability and tensions in the 'East vs West' narrative.

South Africa's national elections will take place in May 2024. This is likely to be the most contested election since 1994, and its outcome is the most uncertain. Load shedding continued to impact negatively on confidence and GDP growth. The weakening rand (ZAR) also stoked inflation and reduced real disposable income.

Often, the hardest and most uncertain times also present the best opportunities for investors who are able to disregard unnecessary short-term noise and focus on the inherent fundamentals of individual companies. As such, we continue to find very attractive opportunities on the JSE for patient, long term investors, and we will use the flexibility in the PSG SA Equity Fund to ensure clients remain exposed to our best ideas within appropriate limits.

The first quarter of 2024 was difficult for many sectors on the JSE, with a variety of large counters showing double digit declines. Holdings such as Discovery Ltd, Northam Platinum Ltd and Standard Bank Group Ltd fell between 11% and 19% during the three months. However, the gold miners and construction companies that we hold, outperformed materially since December 2023, and mitigated some of the fall in other stocks.

Over the quarter the PSG SA Equity Fund returned -5.6% versus the benchmark return of -2.3%. The largest detractors were industrials (-2.3%), financials (-2.0%) and resources (-0.8%). 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 5.0% p.a. versus the benchmark return of 6.3% p.a. Since inception, the fund has produced an annual return of 6.8% versus the benchmark return of 7.0%.

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

Changes in portfolio positioning

Q4 2023		Q1 2024	
Domestic equity	97.1%	Domestic equity	98.2%
Domestic property	2.5%	Domestic property	1.2%
Domestic cash	0.4%	Domestic cash	0.6%

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

Number of units as at 31 March 2024 (Class D):	338 638 854
Price (net asset value per unit) as at 31 March 2024 (Class D):	R1.45
Number of units as at 31 March 2024 (Class F):	6 998 788
Price (net asset value per unit) as at 31 March 2024 (Class F):	R1.47

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 D	Class F
Total expense ratio % (incl. VAT)	**1.03**	**1.29**
Annual management fee % (incl. VAT)	0.98	1.27
Other costs excluding transaction costs % (incl. VAT)	0.05	0.02
Transaction costs % (incl. VAT)	0.34	0.34
Total investment charge % (incl. VAT)	**1.37**	**1.63**

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

	Class D	Class F
Total expense ratio % (incl. VAT)	**1.01**	**1.30**
Annual management fee % (incl. VAT)	0.98	1.27
Other costs excluding transaction costs % (incl. VAT)	0.03	0.03
Transaction costs % (incl. VAT)	0.41	0.41
Total investment charge % (incl. VAT)	**1.42**	**1.71**

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 (RF) Limited to sell the underlying investments at a price in the market which could have a negative impact on investors. PSG Collective Investments (RF) Limited will keep all investors informed should a situation arise where such suspension is required.

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.

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.

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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.