

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. 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 in local currency terms.

The global equity rally was notably concentrated in the ‘Magnificent 7’ – comprising mega-cap US-based companies Apple, Microsoft, Amazon, Google, Nvidia, Tesla and Meta (Facebook). Dominating global indices, these companies collectively surged by 74%, overshadowing the 12% gain for the rest of the world’s companies.

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.

We find encouragement in the performance we have achieved in our funds, despite not benefiting from the outsized performance of the large market constituents. Our excitement stems from the current opportunity set embedded in our funds, as we believe that the longer-term winners of the future are currently unloved and offer exceptional value. We are confident that we can play a crucial role in building long-term portfolio strategies for our investors, leveraging our proven, active 3M investment approach to identify and capitalise on undervalued opportunities in the market.

Portfolio performance*

Over the quarter the PSG Balanced Fund (A-class) returned 6.8% versus the benchmark return of 2.6%. This takes the return for the 2023 calendar year to 14.8%, comparing favourably against both the CPI + 5% benchmark (10.5%) and the average competitor fund (12.3%). Top contributors for the quarter were Pepco Group NV (recovering 36% after a tough year), Jackson Financial Inc (up 36%) and the fund’s holding in South African government bonds, which rallied strongly. Detractors to performance were Bayer AG, Thungela Resources Ltd and Anglo American plc. The fund’s index put option hedges also dragged on overall performance a bit (a cost of insurance we are happy to pay). 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 5-year time horizon, the fund returned 10.9% p.a. versus the benchmark return of 10.0% p.a. Since inception, the fund has produced an annual return of 12.9% compared to the benchmark return of 10.4%.

Positioning in the portfolio changed little over the quarter, other than some profit taking on our offshore bond holdings. Notable purchases in the fund over the three months were Beazley plc, Whitehaven Coal Ltd and Petrolio Brasil (Petrobras). The fund was a seller of Shell plc, Jackson Financial Inc and Euronav NV on the back of strong share price performance.

*Return numbers as per the PSG Balanced Fund Class A

Changes in portfolio positioning

Q3 2023		Q4 2023	
Domestic equity*	46.4%	Domestic equity*	46.2%
Domestic property	3.0%	Domestic property	3.7%
Domestic cash, Treasury bills and NCDs	2.3%	Domestic cash, Treasury bills and NCDs	2.8%
Domestic bonds	19.9%	Domestic bonds	18.9%
Offshore equity**	23.6%	Offshore equity**	25.8%
Offshore cash	2.3%	Offshore cash	2.1%
Offshore bonds	2.5%	Offshore bonds	0.5%
*Includes -1.3% effective derivative exposure		*Includes -1.4% effective derivative exposure	
**Includes -2.2% effective derivative exposure		**Includes -1.6% effective derivative exposure	

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

Number of units as at 31 December 2023 (Class A):	52 990 710
Price (net asset value per unit) as at 31 December 2023 (Class A):	R97.28
Number of units as at 31 December 2023 (Class E):	69 504 286
Price (net asset value per unit) as at 31 December 2023 (Class E):	R97.46

All data as per Bloomberg as at 31 December 2023.

Total investment charge

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

	Class A	Class E
Total expense ratio % (incl. VAT)	1.77	1.20
Annual management fee % (incl. VAT)	1.73	1.15
Other costs excluding transaction costs % (incl. VAT)	0.04	0.05
Transaction costs % (incl. VAT)	0.19	0.19
Total investment charge % (incl. VAT)	1.96	1.39

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

	Class A	Class E
Total expense ratio % (incl. VAT)	1.76	1.19
Annual management fee % (incl. VAT)	1.73	1.15
Other costs excluding transaction costs % (incl. VAT)	0.03	0.04
Transaction costs % (incl. VAT)	0.17	0.17
Total investment charge % (incl. VAT)	1.93	1.36

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.

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.