

SA Equity Portfolio

June 2022

Key information

Benchmark

- FTSE/JSE Capped SWIX (net of fees)

Minimum portfolio size

- R1 million

Top 10 holdings*
Anglo American PLC
Anheuser-Busch InBev
British American Tobacco
FirstRand Ltd
Mondi PLC
MultiChoice Group
Naspers Ltd
Remgro Ltd
Sasol Ltd
Standard Bank Group Ltd

*Sorted alphabetically

About the portfolio manager

Adriaan Pask, Chief Investment Officer

- 17 years of investment experience
- BCom (Financial Analysis)
- BCom (Hons) (Financial Management)
- MCom (Business Management)
- PhD (Economic and Management sciences)

About the lead analyst

Franco Pretorius, Head of Portfolio Management and Implementation

- 23 years of investment experience
- BCom (Economics)
- BCom (Hons) (Investment Management)

Overview

The PSG Wealth House View SA Equity Portfolio ended the month 8.21% lower, underperforming the FTSE/JSE Capped Swix, which posted a negative return of 7.48%. Six of the 19 portfolio stocks outperformed the benchmark. Since inception, the PSG Wealth House View SA Equity Portfolio had an annualised return of 3.60%, underperforming the JSE hybrid benchmark, which showed an annualised return of 5.63%.

Philosophy

We apply a disciplined, bottom-up, value-biased investment philosophy in our stock selection. The central concept underlying value investing is a margin of safety. This means that the share price should be trading at a discount to the intrinsic value of its underlying business. In our view, a company that has limited downside, contrasted with growth potential, qualifies as an attractive investment.

Accordingly, we prefer companies that currently seem undervalued in terms of fundamental analysis, while remaining cognisant of the momentum factors that drive shorter-term share price performance. In addition, we look for companies with a strong confidence rating, which means it does not have large or unmanageable debt positions. We ensure that the portfolio is diversified across multiple sectors.

Thus, investments are not only chosen on their potential value but also their quality. As such investments are screened for their profitability, the quality of their reported earnings, dividend policies as well as their financial structure. There is no guarantee that all the chosen companies will outperform; a few will more than likely underperform. However, the portfolio displays below-average risk and is fundamentally undervalued. As a group, their future investment returns should, therefore, be satisfactory.

Investment objective

In short, we strive to buy high-quality assets trading at a discount to our estimation of its intrinsic value. We expect the investment to rerate to its intrinsic value over the medium term, which if consistently applied, should lead to long-term capital growth. Through this process, we aim to grow wealth while consistently guarding clients against the risk of permanent capital loss.

Market commentary

In June 2022, the MSCI Emerging Market Index Net TR (USD) lost 6.65%, outperforming the MSCI World Index Net TR (USD), which posted a negative return of 8.66%. The ALSI TR (USD) underperformed the MSCI Emerging Market Index, losing 11.85% in the month. The 1-month return for ALSI TR (ZAR) was a negative 8.01%.

The S&P 500 posted its worst half-year returns in 50 years as it fell by 20.6% in the first half of the year and the tech-heavy Nasdaq by 29.5% over the same time. On a monthly basis, the S&P 500 dropped 8.4%, the Dow Jones 6.7%, and the Nasdaq 8.7%. The Fed raised interest rates by 75bps, and Fed Chairman Jerome Powell stated that reducing inflation might require more pain to the market in the form of more rate hikes.

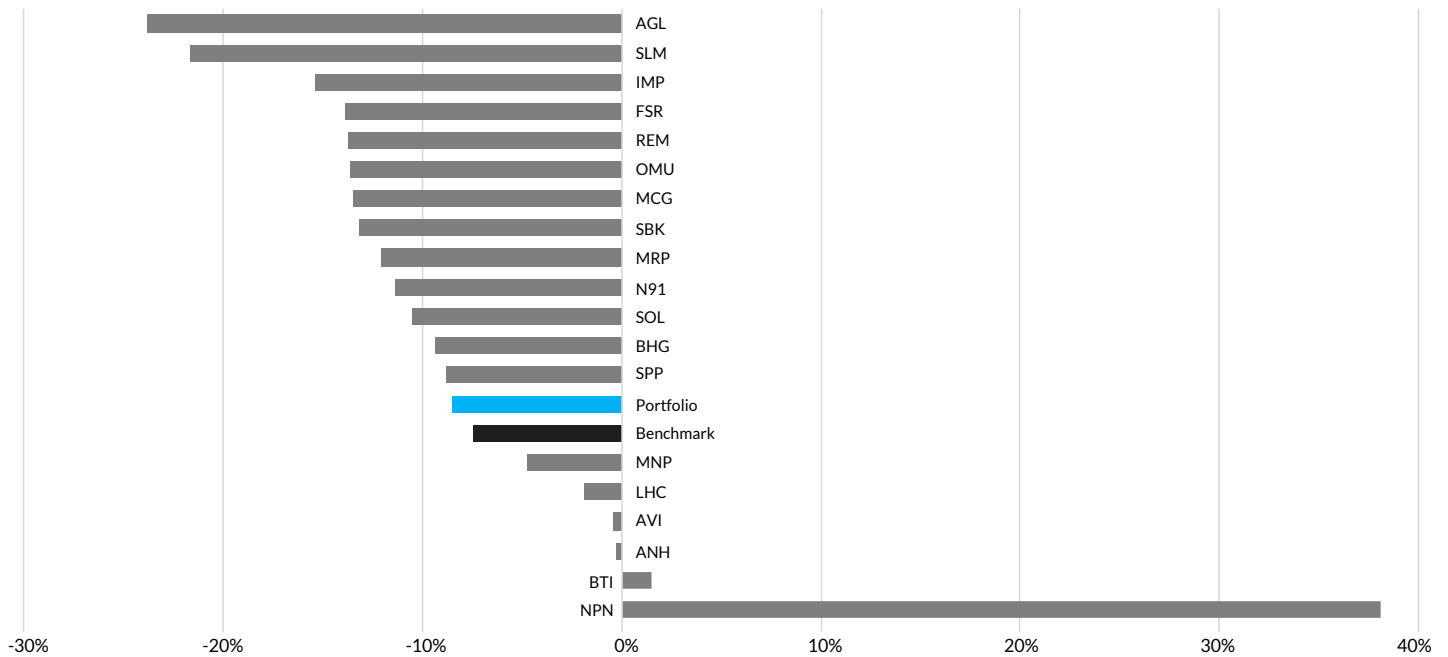
The UK FTSE 100 gained 5.8% in June 2022, while the German DAX and the French CAC fell 11.2% and 8.4%, respectively. Inflation was the dominant theme across Europe, with multiple countries posting record highs, primarily due to surging energy prices in light of the war in Ukraine.

Locally, the SARB raised interest rates by 50bps and guided to future rate increases. The JSE Capped Swix was down 7.5%; however, heavy weights Naspers and Prosus finally gained 38.1% and 30.1%, respectively, after management announced share repurchases and a sale of some of their Tencent holdings. Other big winners were Mediclinic (19.7%) and RMB holdings (14.0%), while Anglo American (-23.8%), Sibanye Stillwater (-20.4%), MTN (-21.8%), and Sanlam (-21.6%) posted significant losses.

The rand weakened by 3.91% during the month and finished June 2022 at R16.28/\$. Gold weakened by 1.63% and traded at \$1 807/oz by month-end, and Brent crude oil fell 6.51% to trade at \$114.81 a barrel.



Performance attribution



Significant contributors and detractors

Naspers: NPN increased 38% during June 2022. The FY22 results were overshadowed by an announcement on the same day that Prosus would start selling portions of its Tencent stake and use the proceeds to fund an open-ended repurchase programme of Naspers and Prosus to reduce the discount to NAV.

British American Tobacco: BTI closed up 1.52% for the month after a positive 1Q22 trading update, with New Category volumes driving growth.

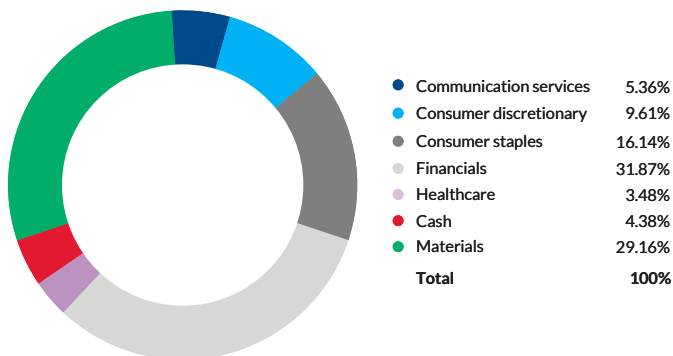
Anheuser-Busch InBev: ANH closed down 0.3% for the month amid the global market selloff as defensive stocks were less impacted than cyclicals.

Anglo American: AGL fell 23.82% for the month on the back of a 15% and 14% decline in Anglo American and Kumba Iron Ore, respectively, as commodity prices rerated following recessionary fears.

Sanlam: SLM declined by 21.64%, however, nothing fundamentally changed during the month. The stock sold off with the rest of the market during a negative month. YTD returns show the company is slightly ahead of its peers.

Impala Platinum: IMP declined 15.37% in line with its local PGM peers on the back of recessionary fears, with palladium and rhodium falling 9.9% and 8.2%, respectively.

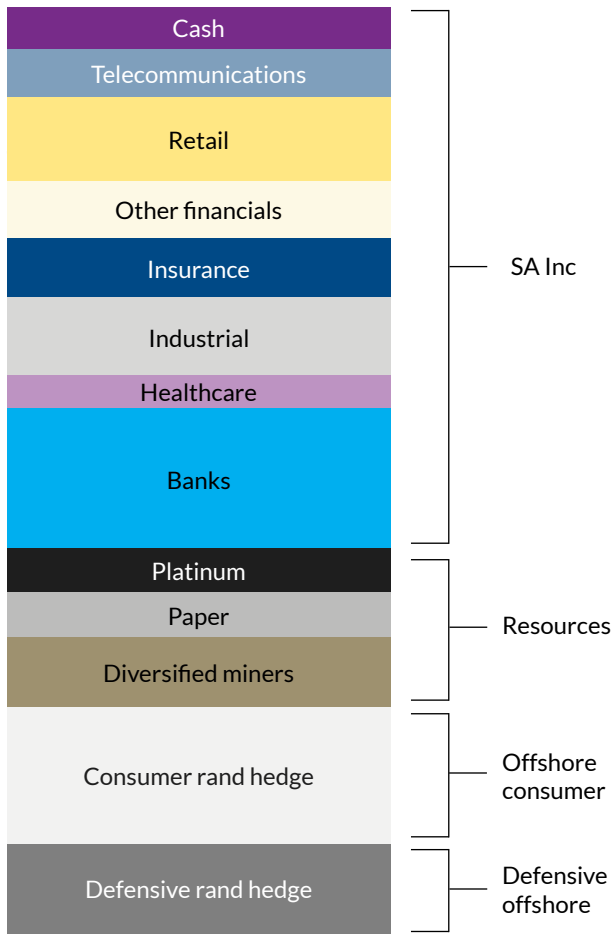
Sector allocation



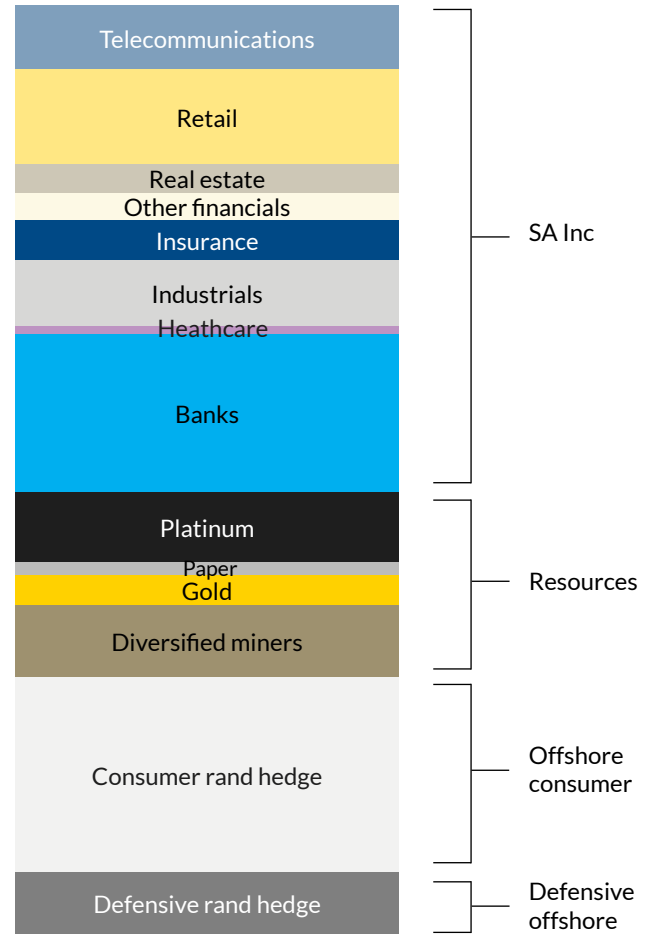
- The sector allocation in consumer staples and financials contributed the most to the portfolio's alpha.
- The sector allocation and stock selection in the consumer discretionary sector detracted the most from the portfolio's alpha.



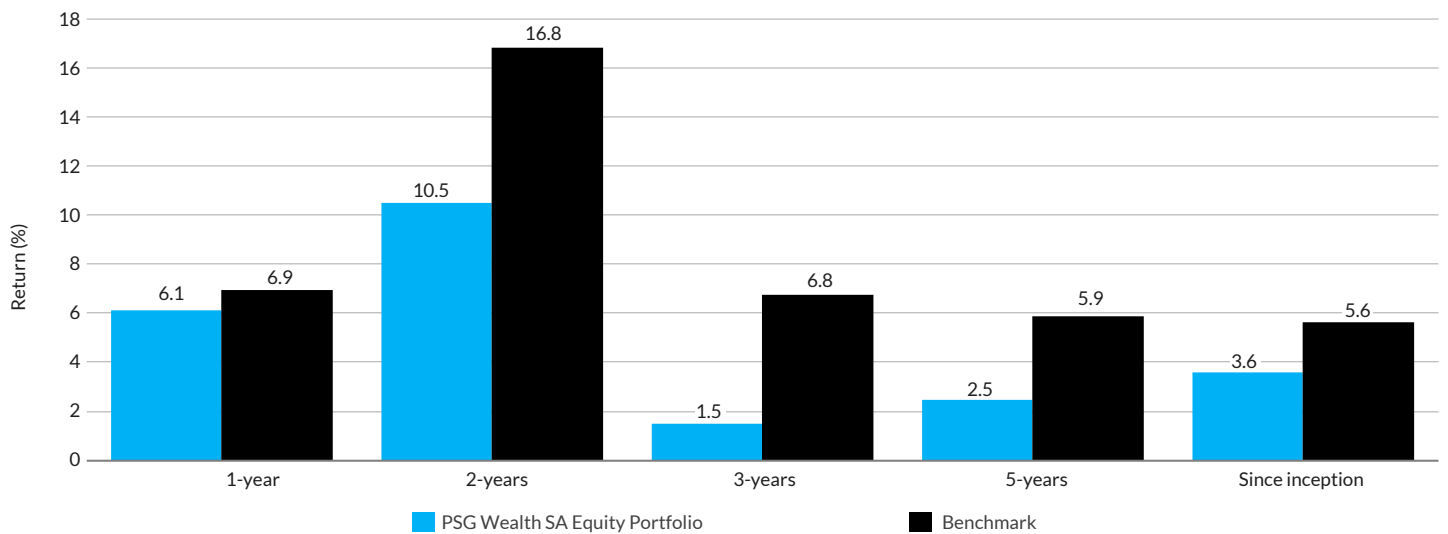
Portfolio macro exposure



Benchmark macro exposure



Annualised return percentage



*Gross fees



Notes on our reporting technique/method

1. Initial investments are always made within the specified target. Market movements may, from time-to-time results in active weights that are in excess of the target. Material deviations will be addressed through rebalancing within a 12-month period.
2. Initial allocations are always made within the specified target. Market movements may, from time-to-time results in active weights that are in excess of the target. Material deviations will be addressed through rebalancing within a 12-month period.
3. The proportion of stocks held in the portfolio that have an investment grade rating according to Bloomberg's default risk rating. Cash is added to this total.
4. Reflects the impact on the relative performance of the portfolio if the stock falls by 25%, assuming all other stocks are flat. Calculated as the active weight, multiplied by -25% for the largest active position.
5. Reflects the impact on the relative performance of the portfolio if the sector falls by 25%, assuming all other sectors are flat. Calculated as the active weight multiplied by -25% for the largest active position.
6. The percentage may occasionally rise above the specified target due to market movements, interest and dividend payments. Material deviations will be addressed through rebalancing within a 12-month period.
7. Total sales expressed as a percentage of the portfolio's market value at the end of the reporting period.
8. The JSE hybrid benchmark (net of fees) is a benchmark which includes returns from the JSE Capped All Share benchmark (from inception to 30 June 2017) and returns from the FTSE/JSE Capped Swix All Share Index thereafter.
9. Management fees are not standardised. Return calculations are based on management fees of 0.75% for illustrative purposes..

Mandatory disclosure

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