9 QUESTIONS FOR . . .

Adrian Clayton, co-manager of PSG Balanced Fund

Out of 89 all asset variable equity funds, PSG Balanced is one of the top 10 performers over three years. Does a flexible asset allocation strategy play a key role in the fund's performance?
It does. Our exposure to SA equity, for instance, hit 75% in late-2008 when the equity sell-off created an opportunity to buy at exceptional value levels. Our SA equity exposure is now at under 40%. We now see more value generally being available in offshore equity and have increased our exposure from about 15%, where it normally is, to close to the maximum permitted 25%.

Would you increase the fund's offshore equity exposure to above 25% if it were permitted?
We would. It is a major problem having limitations like this. It is not in the best interests of investors in the fund.

What approach does PSG take when formulating its equity strategy?
The investment team's approach is bottom-up [focused on share valuations] and when assessing SA companies they also assess the offshore alternatives. You could say that when choosing between SA and offshore shares our approach is agnostic.

What criteria do you apply when assessing a share?
We have three main criteria. One is that a company's valuation level must provide a good margin of safety. We also assess the quality of its management and the strength of what is termed the moat it has around it to protect it from competition and ensure it retains its long-term competitive advantage.

You have Tesco and Microsoft in your top 10 holdings. What do you see as their strong attractions?
Tesco is the world's third-largest retailer and is trading on a p:e of only about eight, way below SA food retailers' ratings. Tesco's property alone underpins its current price. Tesco has problems in the UK but is pumping capital into rectifying them. It also has a big footprint in emerging markets.

We like Microsoft for a number of reasons. It is trading on a low p:e [10,7] and extensive use of its operating systems provides it with immense strength in the software market.

Anglo is the only mining resources share in the fund's portfolio. Are you generally averse to resources shares?
We focus on industrial shares. Other than in a few exceptional years they have been the best performers. We realise that if commodity prices implode Anglo has big downside risk. But it has already fallen hard and is trading at book value [net asset value], a level from which you normally do well. We believe Anglo offers better value than, for example, SABMiller, which is trading at three times book value.

Steinhoff is the fund's top holding. Is this because of its strong rand-hedge qualities?
We did not buy Steinhoff as a rand hedge. It offers good value and is a business involved in an evolution that is starting to come together. Its European furniture business [Conforama] is the jewel in Steinhoff and we believe it has significant growth potential.

The fund's cash holding at 28% of the portfolio is very high. Do you not see a better opportunity in bonds offering far higher yields than cash?
We are cautious on the outlook for bonds, though we do look at certain corporate bonds. At present we have a 9% exposure to bonds, of which almost two thirds is in inflation linked bonds.

You have managed the fund since its launch. Do you think management continuity is important?
I do. I have managed it for 13 years together with Neels van Schaik, who joined me 10 years ago. Since day one we have stuck to our investment approach, which is always cautious but also opportunistic at times.

An achievement of the approach has been that the fund has delivered an average annual return of 10% above inflation for 13 years and had the lowest number of down months of any balanced fund. Our top priority is to preserve investors' capital.

Stafford Thomas


Hetty Zantman