

# M&G Equity Fund

Equity

Q3 2024

## Market overview

The third quarter of 2024 (Q3) witnessed notable fluctuations in global financial markets, driven by diverse economic signals, a shift among major central banks toward easing monetary policies and geopolitical tension. In mid-September, the US Federal Reserve (Fed) implemented a sizable interest rate cut of 50 basis points, lowering the target range to 4.75%-5.00%. This shift propelled global equity markets to new heights, while weakening the US dollar to major currencies.

In August, the Bank of England (BoE) reduced its main interest rate from 5.25% to 5%, maintaining this level through September. The BoE also announced plans to sell an additional £100 billion in bonds over the next year, thus scaling back its quantitative easing efforts.

The European Central Bank (ECB) also continued the easing trend, cutting its deposit rate by 25 basis points to 3.5% in September. Improved economic data and interest rate cuts in Europe and the US contributed to a recovery in European stocks following a selloff earlier in August.

Significant market movements were also driven by substantial stimulus measures from the Chinese central bank aimed at bolstering the economy. The Hong Kong Hang Seng Index surged, returning 22.3% for the quarter. The Chinese government's stimulus measures resulted in a notable 23.6% rally in the MSCI China Index (in US\$).

In contrast, the Bank of Japan (BOJ) raised rates by 15 basis points to 0.25% on July 31, marking the highest level since 2008. This unexpected hawkish move triggered considerable volatility in local equities and high-carry currencies, with the Nikkei 225 Index experiencing sharp declines early in August, before recovering those losses by month-end. As economic data from the US shifted expectations for the Federal Reserve, the Yen strengthened, leading to increased short-term volatility in Japanese equities and across regional Asian markets.

The International Monetary Fund (IMF) reported a stabilisation in global economic growth as the effects of previous interest rate hikes faded and falling inflation enhanced consumer disposable income. The IMF global growth forecast for 2024 is 3.2%, and its 2025 outlook is at 3.3%. Overall, global conditions have improved, although risks remain. A US 'soft landing' appears increasingly likely following the worst inflation surge in a generation, but it is not guaranteed.

Equity markets continued to perform well in the third quarter. Global equities (as measured by the MSCI All Country World Index) recorded a total return of 6.6% in Q3 compared to 2.9% in Q2, while emerging market equities (MSCI Emerging Markets Index) rallied another 8.7% in Q3 from 5.0% in Q2 (all in US\$). Emerging market equity returns were led by strong performances from China, South Africa and India. South Africa and India are still benefiting from a market-friendly election outcome while China saw a rebound amid the stimulus measures announced to aid its economy.

In South Africa, improving sentiment from a market-friendly election, better economic conditions, and easing monetary policy led to gains in asset prices and the Rand, with the FTSE/JSE All Share Index rising 9.6% in rand terms. Key contributors included Listed Property (19.1%), and Financials (13.7%) while Resources declined by 1.1%. Industrials was one of the standout performers benefitting from the month-end China rally as Naspers and Prosus prices reacted to the strong move in the Tencent share price. From a South African investor perspective, the move had beneficial implications as Tencent followed the market higher sending the share prices for Naspers and Prosus up by about 14% in September. In addition, the stimulus announcement led to higher commodity prices, which had a positive impact on the local resource sector.

South African bonds performed strongly, with the FTSE/JSE All Bond Index rising 10.5% (in Rand) over the quarter and adding more positive returns to the total for the year. Bond yields continued the downward move we have seen since the conclusion of the GNU election results.

Meanwhile, CPI decreased to 4.4% y/y in August, below the SARB's target and forecasts of 4.5%, down from 4.6% in July. This marks the third consecutive month of inflation slowdown. Following the Fed's lead, the Monetary Policy Committee (MPC) implemented a widely anticipated 25 basis point rate cut to 8%.

## Performance

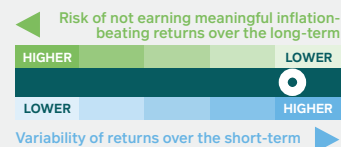
The M&G Equity Fund returned 7.7% (A class, net of fees) for the three months ending 30 September 2024, which brings the total returns for the year to date to 12.3% and 18.3% (A class, net of fees) over the one-year period. The average fund in the sector returned 8.8% for the three months, 14.7% for the year to date and 21.8% over one year.

Over the three months, the largest detractor has been the fund's investment in the M&G Global Equity Fund, which accounted for nearly all the underperformance. This is to be expected given that the rand strengthened just over 5% versus the dollar during the quarter and South African equity markets rallied given improved sentiment in South Africa post the formation of the Government of National Unity. Together with a rally in bond yields which have resulted in an upward repricing of South African equities, rand assets have been an excellent performer.

Fund holdings which have contributed to performance over the three months have been Nampak, Foschini and Motus. Not owning Sasol, Aspen, Mondi and Gold Fields have contributed to performance.

Detracting from performance have been companies the fund owned, which did not stand to benefit from the market rally and those which benefited but were not owned by the fund. These include Mr Price (not owned), Multichoice (subject to an offer which is fixed at R125 per share) and Nedbank (not owned).

## Risk profile



## Fund facts

### Fund objective

To provide broad-based exposure to shares that offer value and medium- to long-term growth. The portfolio managers seek to invest in those companies where returns can be achieved from any or all of (a) growth in earnings, (b) growth in dividends and (c) a re-rating by the market of the company's share price.

### Investor profile

Investors with a higher risk tolerance who are looking for out-performance of the average South African General Equity Fund without taking on greater risk of loss. The recommended investment horizon is 7 years or longer.

### Investment mandate

The Fund invests in companies that meet the portfolio managers' value criteria. The Fund seeks out value by attempting to capture all components of return over time, including high dividend yield, earnings growth and possible market re-rating. The intended maximum limits are Equity 100%, Listed Property 10% and Foreign 45%.

### Fund managers

Chris Wood  
Yusuf Mowlana

### ASISA category

South African - Equity - General

### Benchmark

ASISA South African - Equity - General Category Average

### Inception date

2 August 1999

### Fund size

R6 472 127 561

### Awards

Raging Bull: 2006, 2007, 2008  
Morningstar/Standard & Poor's: 2007, 2008

## Annualised performance

	A class	Benchmark	B class	F class
1 year	18.3%	21.8%	18.7%	19.0%
3 years	10.8%	11.6%	11.2%	12.0%
5 years	13.8%	11.3%	14.2%	14.8%
7 years	10.0%	7.9%	10.5%	11.0%
10 years	8.9%	6.8%	9.3%	-
20 years	14.9%	11.8%	-	-
Since inception	15.5%	12.8%	-	-

### Strategy & positioning

The M&G Equity Fund has maintained an overweight to the bank sector which has been one of the stand-out performers for the year. The banks remain inexpensive versus their own history and have a depressed earnings base, on balance, given high levels of provisions taken against bad loans. The potential release of these provisions, or simply the fact that they do not increase, should provide earnings support to these companies. Although not especially bullish on the near-term prospects for the value of loans to grow aggressively, loan growth in line with nominal GDP coupled with attractive dividend yields offer the likelihood of market-beating returns.

Within the property sector, the fund has retained its exposure to companies with strong fundamentals and sound balance sheets, being SA Corporate and Nepi Rockcastle. Within the domestic consumer names, Spar and Foschini are held in overweight positions as is Pick 'n Pay. All three companies are regarded as inexpensive versus their intrinsic values and in the case of Spar and Pick 'n Pay, both trade on undemanding valuations given the potential turnarounds in both companies and the non-repeat of previous headwinds. The fund has limited exposure to the insurance sector, with Reinet providing indirect exposure to Pension Investment Corporation in the United Kingdom.

During the quarter, the Peoples Bank of China announced several interventions aimed at supporting the housing and stock markets, including a reduction in the Reserve Requirement Ratio and cuts to mortgage and policy rates. The initial reaction was very positive for companies with exposure to China, including the large mining companies as well as Richemont and Naspers. It remains to be seen as to whether the interventions will have a lasting impact on the housing market or whether it can achieve its intention of boosting consumer and stock market investor sentiment. Naspers and Prosus are among the preferred names of the offshore holdings as we regard the Tencent share price to be attractively valued. Richemont and British American Tobacco remain top offshore picks.

### Outlook

The formation of the South African Government of National Unity is cause for cautious optimism. Investors would need to pay careful attention to the concrete steps and achievements made by the government. This has improved the outlook for the rand and government bonds. An element of stability in the business environment, including the abatement of loadshedding, may provide a better environment for companies to grow. What happens in China has major implications for commodity markets and several companies listed on the JSE, not limited to the mining companies. This may be a headwind to the market in the near-term if stimulus measures fail to achieve their objectives. With declining interest rates on the cards globally, the pressure on asset values has dissipated absent a recession. We are optimistic on the continued potential for the fund to produce real, inflation-adjusted returns. □

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**Invest now**

**Application forms**

**An electronic copy of this document is available at [www.mandg.co.za](http://www.mandg.co.za)**

### Disclaimer

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Collective Investment Schemes (unit trusts) are generally medium- to long-term investments. Past performance is not necessarily a guide to future investment performance. Unit trust prices are calculated on a net asset value basis. This means the price is the total net market value of all assets of the unit trust fund divided by the total number of units of the fund. Any market movements – for example in share prices, bond prices, money market prices or currency fluctuations – relevant to the underlying assets of the fund may cause the value of the underlying assets to go up or down. As a result, the price of your units may go up or down. Unit trusts are traded at the ruling forward price of the day, meaning that transactions are processed during the day before you or the Manager know what the price at the end of the day will be. The price and therefore the number of units involved in the transaction are only known on the following day. The unit trust fund may borrow up to 10% of the fund value, and it may also lend any scrip (proof of ownership of an investment instrument) that it holds to earn additional income. A M&G unit trust fund may consist of different fund classes that are subject to different fees and charges. Where applicable, the Manager will pay your financial adviser an agreed standard ongoing adviser fee, which is included in the overall costs of the fund. A unit trust summary with all fees and maximum initial and ongoing adviser fees is available on our website. One can also obtain additional information on M&G products on the M&G website. The Fund may hold foreign securities including foreign CIS funds. As a result, the fund may face material risks. The volatility of the fund may be higher and the liquidity of the underlying securities may be restricted due to relative market sizes and market conditions. The fund's ability to settle securities and to repatriate investment income, capital or the proceeds of sales of securities may be adversely affected for multiple reasons including market conditions, macro-economic and political circumstances. Further, the return on the security may be affected (positively or negatively) by the difference in tax regimes between the domestic and foreign tax jurisdictions. The availability of market information and information on any underlying sub-funds may be delayed. The Manager may, at its discretion, close your chosen unit trust fund to new investors and additional investments by existing investors to make sure that it is managed in accordance with its mandate. It may also stop your existing debit order investment. The Manager makes no guarantees as to the capital invested in the fund or the returns of the fund. Excessive withdrawals from the fund may place the fund under liquidity pressure and, in certain circumstances, a process of ring-fencing withdrawal instructions may be followed. Fund prices are published daily on the M&G website. These are also available upon request. The performance is calculated for the portfolio. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. Purchase and repurchase requests must be received by the Manager by 13h30 (11h30 for the Money Market Fund) SA time each business day. All online purchase and repurchase transactions must be received by the Manager by 10h30 (for all Funds) SA time each business day.