M&G Unit Trust Quarterly Commentary

Income, Multi-asset, Property/Equity, Global and Target Income Fund

September 2021

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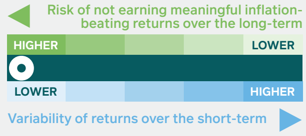
M&G Money Market Fund

Income

Q3 2021

Risk profile



Fund facts

Fund managers
Roshen Harry
Sandile Malinga

ASISA category
South African - Interest Bearing - Money Market

Benchmark
STeFI Call Deposit Index

Inception date
9 April 2002

Fund size
R1 286 043 933

Market overview

In In South Africa, economic growth for Q2 2021 surprised to the upside at 1.2% (q/q annualised) compared to the consensus of 0.7% q/q, and up from the revised 1.0% q/q recorded in the previous quarter. This amounted to 19.3% y/y growth due to the low base of the previous year. Growth was uneven across sectors, with transport, agriculture and services posting the strongest performances, while manufacturing contracted. However, news was dominated by the July riots sparked by the jailing of Jacob Zuma - National Treasury estimated the resulting damage could subtract around 0.9 percentage points from 2021 GDP growth.

Growth prospects were also hit by the higher lockdown levels imposed as a result of the spiking "third wave" of the coronavirus pandemic during the quarter, which came despite the continued rollout of the government's vaccine programme. The ebbing of the wave towards quarter-end was a positive sign that vaccinations were making progress in combatting the Delta variant of the virus, also paving the way for a further reopening of the economy.

At its September MPC meeting, the South African Reserve Bank kept its benchmark interest rate unchanged at a record low of 3.5%, but sounded more hawkish as it indicated that its first 25bp hike would be coming in the last quarter of the year, as well as further 25bp increases in each quarter of 2022 and 2023. Importantly, Governor Lesetja Kganyago floated the idea that the SARB may want to reduce its inflation target range from the current 3%-6% to below the inferred 4.5% mid-point target.

Good news came in the form of record-breaking trade surpluses on the back of the rise in commodity prices earlier in the quarter, in turn creating higher-than-expected tax receipts from mining companies. This alleviated some pressure on the government's expected budget deficit, allowing Treasury to cut some planned bond issuance. However, with commodity prices falling later in the quarter, concerns returned over the perilous state of government finances.

SA bonds still managed to eke out a 0.4% positive return during the quarter (as measured by the FTSE/JSE All Bond Index), losing 2.1% in September as US Treasuries and global bonds recorded negative returns. The local yield curve continued to flatten as longer-dated bonds outperformed, reflecting South Africa's relatively steeper curve at the beginning of the period.

Meanwhile, SA inflation-linked bonds again outperformed their nominal counterparts as inflation fears gained ground, producing 2.0% (Composite ILB Index), and cash (STeFI Composite) delivered 1.0%.

Treasury Bills (T-bills) continued to trade higher than Bank Negotiable Certificate of Deposits (NCDs), however, the spread between T-bills and NCDs narrowed over the last quarter, with the largest spread being in the nine-month tenor diminishing from around 65bps to 45bps. Fixed-rate NCDs have increased in yield over the last quarter, particularly in the 12-month space, increasing around 40bps on average, in keeping with future interest rate expectations.

Performance

For the third quarter of 2021, the fund delivered a return of 1.0% (net of fees), outperforming its benchmark, the STeFI Call Deposit Index, by 0.1%. For the 12 months ended 30 September 2021, the fund returned 3.7% (net of fees), outperforming its benchmark by 0.2% over the same period.

The average duration of the fund at quarter end was 79 days relative to the 90-day maximum average duration.

Annualised performance	A class	Benchmark	X class
1 year	3.7%	3.5%	3.8%
3 years	5.6%	5.1%	5.7%
5 years	6.4%	5.7%	6.5%
7 years	6.4%	5.9%	6.5%
10 years	6.1%	5.6%	6.2%
Since inception	7.4%	7.2%	-

[1] 12-month rolling performance figure

Sources: M&G, Morningstar & Deutsche Securities

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M&G High Interest Fund

Income

Q3 2021

Market overview

In South Africa, economic growth for Q2 2021 surprised to the upside at 1.2% (q/q annualised) compared to the consensus of 0.7% q/q, and up from the revised 1.0% q/q recorded in the previous quarter. This amounted to 19.3% y/y growth due to the low base of the previous year. Growth was uneven across sectors, with transport, agriculture and services posting the strongest performances, while manufacturing contracted. However, news was dominated by the July riots sparked by the jailing of Jacob Zuma - National Treasury estimated the resulting damage could subtract around 0.9 percentage points from 2021 GDP growth.

Growth prospects were also hit by the higher lockdown levels imposed as a result of the spiking "third wave" of the coronavirus pandemic during the quarter, which came despite the continued rollout of the government's vaccine programme. The ebbing of the wave towards quarter-end was a positive sign that vaccinations were making progress in combatting the Delta variant of the virus, also paving the way for a further reopening of the economy.

At its September MPC meeting, the South African Reserve Bank kept its benchmark interest rate unchanged at a record low of 3.5%, but sounded more hawkish as it indicated that its first 25bp hike would be coming in the last quarter of the year, as well as further 25bp increases in each quarter of 2022 and 2023. Importantly, Governor Lesetja Kganyago floated the idea that the SARB may want to reduce its inflation target range from the current 3%-6% to below the inferred 4.5% mid-point target.

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SA bonds still managed to eke out a 0.4% positive return during the quarter (as measured by the FTSE/JSE All Bond Index), losing 2.1% in September as US Treasuries and global bonds recorded negative returns. The local yield curve continued to flatten as longer-dated bonds outperformed, reflecting South Africa's relatively steeper curve at the beginning of the period.

Meanwhile, SA inflation-linked bonds again outperformed their nominal counterparts as inflation fears gained ground, producing 2.0% (Composite ILB Index), and cash (STeFI Composite) delivered 1.0%.

Performance

For the third quarter of 2021, the fund delivered a return of 1.1% (net of fees), marginally outperforming its benchmark, the STeFI Composite Index, by 0.1%. For the 12 months ended 30 September 2021, the fund returned 3.7% (net of fees), while its benchmark delivered 3.8% over the same period.

The Prudential High Interest Fund was launched in December 2010 with the aim of delivering returns in excess of money market yields without compromising the stability of the capital. Although capital protection is not guaranteed we highlight the low-risk nature of the portfolio and hence the remote prospect for capital loss over periods exceeding a few days.

The maximum term of instruments is limited to three years compared to money market funds at 13 months. The fund also has a maximum weighted average duration of 180 days as opposed to a typical money market fund targeting a maximum 90-day weighted average duration.

Relative to the 180-day maximum average duration, the quarter end duration of the fund came in at 120 days.

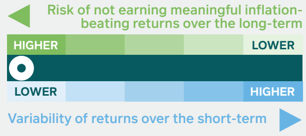
Strategy and positioning

The third quarter saw slightly reduced credit issuance (excluding government issuances) with a total of R29.7bn compared to the R37.5bn issued in the previous quarter, however, slightly higher compared to the R27.5bn issued in Q3 2020 – which at that time was still somewhat tempered due to the impact of the pandemic on market activity.

The make-up of issuance for the quarter followed established trends, with the majority being floating-rate notes and banks being the largest sector for issuance. Although auctions made up the majority of issuance over the quarter, we continue to see meaningful volume being done via private placements.

We continue to look for opportunities that will enhance the return to investors without compromising the stability of their capital.

Risk profile



Fund facts

Fund managers
Roshen Harry
Sandile Malinga

ASISA category
South African - Interest Bearing - Short Term

Benchmark
South African - Interest Bearing - Short Term

Inception date
8 December 2010

Fund size
R8 182 000 072

This fund is capped to new investors

Annualised performance	A class	Benchmark	X class	D class
1 year	3.7%	3.8%	3.8%	3.9%
3 years	5.5%	5.7%	5.6%	5.7%
5 years	6.5%	6.4%	6.7%	6.8%
7 years	6.7%	6.5%	6.8%	6.9%
10 years	6.4%	6.2%	6.5%	6.7%
Since inception	6.3%	6.2%	-	-

[1] 12-month rolling performance figure

Sources: M&G, Morningstar & Deutsche Securities

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M&G Income Fund

Income

Q3 2021

Market overview

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Meanwhile, SA inflation-linked bonds again outperformed their nominal counterparts as inflation fears gained ground, producing 2.0% (Composite ILB Index), and cash (STeFI Composite) delivered 1.0%.

Performance

For the third quarter of 2021, the fund delivered a return of 1.3% (net of fees), outperforming its benchmark, the STeFI Composite Index, by 0.4%. For the 12 months ended 30 September 2021, the fund returned 4.8% (net of fees), while its benchmark delivered 3.8% over the same period.

The Prudential Income Fund was launched in December 2016 with the aim of delivering returns in excess of money market yields by investing in longer dated liquid paper - without compromising the stability of the capital. Although capital protection is not guaranteed as the fund is exposed to spread risk, we highlight the low sensitivity to interest rate changes on the back of a low duration position.

The maximum term of instruments is not limited compared to money market funds at 13 months. The fund also has a maximum weighted average duration of 2 years as opposed to a typical money market fund targeting a maximum 90 days weighted average duration.

The quarter-end average duration of the fund came in at 295 days.

Strategy and positioning

The third quarter saw slightly reduced credit issuance (excluding government issuances) with a total of R29.7bn compared to the R37.5bn issued in the previous quarter, however, slightly higher compared to the R27.5bn issued in Q3 2020 – which at that time was still somewhat tempered due to the impact of the pandemic on market activity.

The make-up of issuance for the quarter followed established trends, with the majority being floating-rate notes and banks being the largest sector for issuance. Although auctions made up the majority of issuance over the quarter, we continue to see meaningful volume being done via private placements.

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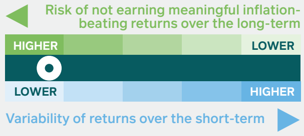
Risk profile



Fund facts

Fund managers
Roshen Harry
Sandile Malinga

ASISA category
South African - Interest Bearing - Short Term

Benchmark
STeFI Composite Index measured over a rolling 12-month period

Inception date
6 December 2016

Fund size
R770 502 404

Annualised performance	A class	Benchmark	D class
1 year	4.4%	3.8%	4.5%
2 years	5.1%	4.8%	5.2%
3 years	6.3%	5.7%	6.4%
Since inception	7.1%	6.3%	-

[1] 12-month rolling performance figure

Sources: M&G, Morningstar & Deutsche Securities

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M&G High Yield Bond Fund

Income

Q3 2021

Market overview

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The make-up of issuance for the quarter followed established trends, with the majority being floating-rate notes and banks being the largest sector for issuance. Although auctions made up the majority of issuance over the quarter, we continue to see meaningful volume being done via private placements. The largest issuer in the third quarter was Investec which raised R3.6bn via private placements – with R2.8bn being placed in July.

Performance

For the third quarter of 2021, the fund delivered a return of 0.1% (net of fees), while its benchmark, the FTSE/JSE All Bond Index, delivered 0.4%. For the 12 months ended 30 September 2021, the fund returned 14.2% (net of fees), outperforming its benchmark by 1.7%.

Strategy and positioning

We began the quarter in a slight long-duration position, with our overweight position focussed in the 12 – 20-year part of the curve. This position was offset to some extent by a slight underweight in the 3 – 7-year area. Shorter-dated bond yields sold-off to a slightly lesser extent than longer-dated bonds over the quarter, causing the yield curve to steepen slightly, which in turn resulted in the fund marginally underperforming its benchmark over the quarter.

There were no changes to duration positioning in the third quarter. We continue to have a positive view on the 12 – 20-year area of the bond curve relative to the 20-year plus. In our view, investors are not being sufficiently compensated for holding long-dated bonds maturing beyond 20 years – with the additional yield on the 30-year bond, compared to the 20-year bond, being slightly negative in fact.

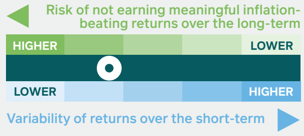
As of 30 September, 10-year government bond yields were still somewhat more elevated compared to their history, offering around 9.6% versus 9.25% at the start of the quarter, and equating to an after-inflation (real) yield of around 5.1% (assuming inflation of 4.5% over the next decade). This is substantially above our long-run fair value assumption of a 3.0% real yield. We continue to believe these yields more than compensate investors for the risks associated with holding SA government debt.

There was little opportunity to add to the fund's credit exposure during the quarter due to continuing limited fixed-rate issuance. Sanlam issued R439m worth of 7-year subordinated debt via an auction, at a spread of only 0.19% above the equivalent government bond curve. We did not participate given the insufficient compensation offered. We continue to have capacity to add to our fixed-rate credit holdings within the fund. We will continue to look for opportunities to add to our credit holdings at attractive prices. Credit spreads have for the most part continued to trend lower, towards pre-pandemic levels. The continued weighting of issuance towards floating-rate instruments, as well as the impact of swap rates trading significantly below the government bond curve, will make it challenging to find suitable opportunities.

Annualised performance	A class	Benchmark	B class
1 year	13.1%	10.9%	13.3%
3 years	8.4%	9.5%	8.5%
5 years	7.3%	8.3%	7.5%
7 years	6.7%	7.6%	7.0%
10 years	7.2%	7.9%	7.5%
Since inception	9.6%	10.0%	-

[1] 12-month rolling performance figure

Risk profile



Fund facts

Fund managers
Roshen Harry
Sandile Malinga

ASISA category
South African - Interest Bearing - Variable Term

Benchmark
FTSE/JSE All Bond Index

Inception date
27 October 2000

Fund size
R292 060 110

Sources: M&G, Morningstar & Deutsche Securities

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M&G Enhanced Income Fund

Multi-asset

Q3 2021

Market overview

The third quarter of 2021 saw a notable shift toward investor risk aversion compared to the first half of the year, as several mounting concerns around global growth took their toll on financial markets. Among the most influential were: the relentless spread of the Covid Delta variant; indications of a sooner-than-expected start to the US Fed's (and other central banks') policy tightening; and stricter Chinese regulatory policies. Global bond markets came under pressure, and many equity markets produced negative returns, with emerging markets and currencies lagging developed markets. Technology and Resources counters were among the worst performers, the latter due to the fall in commodity prices (apart from oil), especially in September.

In South Africa, the broad equity market was only marginally negative (in rand terms) over the quarter. Good gains in financial, retail and property stocks helped to largely offset losses in some Resources shares, as well as Naspers and Prosus. At the same time, SA bonds bucked the global trend with positive returns. However, the rand lost ground against the major global currencies.

In the US, the economy grew at a robust 6.7% (q/q annualised) pace in Q2 2021. Combined with an acceleration in inflation and improving employment data, the US Federal Reserve signalled that its long-standing easy monetary policy was set to be tapered. It expects to purchase fewer assets in the fourth quarter, and to start hiking interest rates gradually in 2023, somewhat sooner than expected by the market. This weighed on US Treasuries and the equity market, and prompted some analysts to scale back their growth estimates.

Both the Bank of England and the European Central Bank followed the US Fed's tighter policy forecast in September, although their monetary tightening is expected to be less aggressive. The former said that the case for modest tightening had strengthened amidst rising inflation concerns, while the latter announced it would start tapering the pace of its net asset purchases due to improved economic and financial conditions. UK GDP growth was revised higher to 5.5% (q/q annualised) for Q2 2021, while that for the Euro area came in at 2.2% (q/q annualised).

Japan's economy finally recorded positive growth, with a 0.5% (q/q annualised) GDP expansion in Q2 compared to -1.0% in Q1. The Bank of Japan left its key short-term interest rate unchanged at -0.1% at its September meeting, as expected. But unlike its counterparts, it continued to reinforce its message that the current very low levels would stay in place for as long as necessary.

In China, the economy grew at 1.3% (q/q annualised) in Q2. However, as Q3 wore on, there were increasing indications that this growth was losing steam, compounded by further concerns over the negative impact on growth of the government's regulatory crackdown.

The spot price of Brent crude oil gained 4.5% in Q3, and has risen nearly 52% for the year to date. The sharp increase has been fuelling global inflation, with the price at around US$80 per barrel at quarter-end. Other commodity prices were mostly weaker over the quarter - the main exception was aluminium, which gained 13.0%. Otherwise, gold was down 2.0%, platinum fell 11% and palladium plunged some 30%, impacted by a sharp drop in demand as automobile production was slowed by the shortage of microchips. Nickel fell 1.5% and copper lost 3.7%.

In South Africa, economic growth for Q2 2021 surprised to the upside at 1.2% (q/q annualised) compared to the consensus of 0.7% q/q. However, news was dominated by the July riots sparked by the jailing of Jacob Zuma - National Treasury estimated the resulting damage could subtract around 0.9 percentage points from 2021 GDP growth.

Growth prospects were also hit by the higher lockdown levels imposed as a result of the spiking "third wave" of the coronavirus pandemic. The ebbing of the wave towards quarter-end was a positive sign that vaccinations were making progress, paving the way for a further opening of the economy. At its September MPC meeting, the South African Reserve Bank kept its benchmark interest rate unchanged, but indicated that its first 25bp hike would be coming in Q4, as well as further 25bp increases in each quarter of 2022 and 2023. Importantly, Governor Lesetja Kganyago floated the idea that the SARB may want to reduce its inflation target range from the current 3%-6% to below the inferred 4.5% mid-point target.

Good news came in the form of record-breaking trade surpluses on the back of the rise in commodity prices earlier in the quarter, in turn creating higher-than-expected tax receipts from mining companies. This alleviated some pressure on the government's expected budget deficit, allowing Treasury to cut some planned bond issuance. However, with commodity prices falling later in the quarter, concerns returned over the perilous state of government finances.

SA bonds managed to eke out a 0.4% positive return during the quarter (as measured by the FTSE/JSE All Bond Index), losing 2.1% in September as US Treasuries and global bonds recorded negative returns. The local yield curve continued to flatten as longer-dated bonds outperformed. Meanwhile, SA inflation-linked bonds again outperformed their nominal counterparts as inflation fears gained ground, producing 2.0% (Composite ILB Index), and cash (STeFI Composite) delivered 1.0%.

Finally, the rand depreciated against the major global currencies over the quarter, retracing some of its gains seen earlier in the year amid the higher risk-off sentiment and a stronger US dollar, particularly in September. It lost 5.4% against the US dollar, 2.9% versus the pound sterling and 3.0% against the euro over the three months. This helped boost returns for SA investors with offshore exposure.

Performance

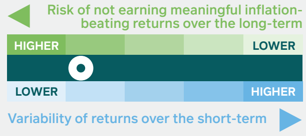
The fund delivered a return of 1.4% (net of fees) for the third quarter of 2021, outperforming its benchmark (the STeFI Composite Index) by 0.5%. For the year ended 30 September 2021, the fund returned 7.2% (net of fees), outperforming its benchmark by 3.4%.

For the quarter, investments in floating-rate instruments, fixed-rate bonds, inflation-linked bonds, SA property and international assets (hedged back into rand), contributed positively to overall fund returns.

Annualised performance	A class	Benchmark	T class	X class	D class
1 year	6.4%	3.8%	6.6%	6.3%	6.7%
3 years	5.3%	5.7%	5.6%	5.4%	5.7%
5 years	5.9%	6.4%	6.2%	6.0%	6.4%
7 years	6.3%	6.5%	-	6.4%	6.8%
10 years	6.9%	6.4%	-	7.1%	7.4%
Since inception	7.5%	6.9%	-	-	-

[1] 12-month rolling performance figure

Risk profile



Fund facts

Fund managers
David Knee
Roshen Harry

ASISA category
South African - Multi-Asset - Income

Benchmark
STeFI Composite Index measured over a rolling 36-month period

Inception date
1 July 2009

Fund size
R848 563 150

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

Strategy and positioning

In the third quarter of 2021 we maintained the fund's offshore allocation by keeping our exposure to US high yield corporate bonds and some dollar-denominated SA government bonds, which we hedged back into rand using a blend of currency futures and options.

We maintained our positioning in SA listed property, which has been the best-performing sector (and asset class) in 2021 thus far, recording a 27.9% return over the nine months to end-September. It also continues to have good long-term growth prospects and while the logistics and self-storage segments have been the most resilient and are performing well, retail is still weak and the office segment even weaker, plagued by high vacancies. We have positioned the fund to hold quality companies with strong balance sheets within our small exposure to the sector.

Our broad view based on earnings reports is that risks in the listed property sector have improved since the beginning of the year, and our holdings within the sector reflect this.

SA nominal bonds held in the fund managed to record a marginal positive return in the third quarter, and our portfolios benefitted from our continued preference for these assets. During the quarter we added to our holdings as nominal bonds' relative valuations became more favourable. We believe nominal bonds remain attractive relative to other income assets and their own longer-term history and will more than compensate investors for their associated risks.

SA Inflation-linked bonds (ILBs) outperformed their nominal counterparts during the quarter which benefitted the fund. The outperformance by ILBs led us to take some profits and purchase nominal bonds during the quarter, as the latter's relative valuation became more favorable. Although we reduced our exposure to ILBs, real yields offered in ILBs are still relatively attractive compared to their own history and our long-run fair value assumption of 2.5%.

Lastly, we remained heavily tilted away from SA cash as our least preferred asset class, since prospective real returns are negative and other SA assets are more attractive on a relative basis.

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G Inflation Plus Fund

Multi-asset

Q3 2021

Market overview

The third quarter of 2021 saw a notable shift toward investor risk aversion compared to the first half of the year, as several mounting concerns around global growth took their toll on financial markets. Among the most influential were: the relentless spread of the Covid Delta variant; indications of a sooner-than-expected start to the US Fed's (and other central banks') policy tightening; and stricter Chinese regulatory policies. Global bond markets came under pressure, and many equity markets produced negative returns, with emerging markets and currencies lagging developed markets. Technology and Resources counters were among the worst performers, the latter due to the fall in commodity prices (apart from oil), especially in September.

In South Africa, the broader equity market was only marginally negative (in rand terms) over the quarter. Good gains in financial, retail and property stocks helped to largely offset losses in some Resources shares, as well as Naspers and Prosus. At the same time, SA bonds bucked the global trend with positive returns. However, the rand lost ground against the major global currencies.

In the US, the economy grew at a robust 6.7% (q/q annualised) pace in Q2 2021, fuelled by further recoveries in manufacturing, services and consumer spending. Combined with an acceleration in inflation and improving employment data, the US Federal Reserve signalled that its long-standing easy monetary policy was set to be tapered. It expects to purchase fewer assets in the fourth quarter, and to start hiking interest rates gradually in 2023, somewhat sooner than expected by the market. This weighed on US Treasuries and the equity market, and prompted some analysts to scale back their growth estimates.

US equities delivered subdued and mixed returns for the quarter, with the main losses coming in September as sentiment deteriorated. The S&P 500 delivered 0.6%, the Dow Jones Industrial -1.5%, and the technology-heavy Nasdaq Composite -0.2% (all in US$).

Both the Bank of England and the European Central Bank followed the US Fed's tighter policy forecast in September, although their monetary tightening is expected to be less aggressive. The former said that the case for modest tightening had strengthened amidst rising inflation concerns, while the latter announced it would start tapering the pace of its net asset purchases due to improved economic and financial conditions. UK GDP growth was revised higher to 5.5% (q/q annualised) for Q2 2021, while the Euro Area's jumped to 2.2% (q/q annualised).

For the quarter, the UK and major European bourses were all in the red, as the FTSE 100 produced -0.5%, the CAC 40 delivered -1.8%, and Germany's DAX posted -4.0% (all in US$).

Japan's economy finally recorded positive growth, with a 0.5% (q/q annualised) GDP expansion in Q2 compared to -1.1% in Q1. Consumer spending, private investment and government spending all contributed to the turnaround, but the world's third-largest economy is still lagging in its recovery compared to other countries. The spread of the Delta variant, particularly in the Tokyo region, has been one of the main factors hampering progress. The Bank of Japan left its key short-term interest rate unchanged at -0.1% at its September meeting, as expected. But unlike its counterparts, it continued to reinforce its message that the current very low levels would stay in place for as long as necessary.

For the third quarter of 2021, Japan's Nikkei 225 returned 2.4% in US$.

In China, the economy grew at 1.3% (q/q annualised) in Q2, slightly above the 1.2% consensus. However, as Q3 wore on, there were increasing indications that this growth was losing steam, compounded by further concerns over the negative impact on growth of the government's regulatory crackdown, and the possibility of a liquidity crisis prompted by troubles at Evergrande, China's second largest private property developer. This in turn sparked selling in global Resources stocks. At the same time, uncertainty over Evergrande continued, as the government did not assure lenders that it would assume its debt.

After announcing a surprise cut to banks' reserve requirements in July, the People's Bank of China left its base interest rates on hold in September, while indicating that there was still room for further cuts if necessary to support the country's growth recovery. This did dampen some expectations of a further rate cut in the shorter-term, but also heightened concerns of a bigger-than-expected economic slowdown in the third and fourth quarters of the year.

For the third quarter of 2021, Japan's Nikkei 225 returned 2.4%, the MSCI China produced -18.1% and Hong Kong's Hang Seng delivered -14.1% (all in US$).

Among other large emerging equity markets, in US$ terms, Brazil's Bovespa was the worst performer with a -19.4% return, while South Korea's KOSPI delivered -13.0% and the MSCI South Africa -5.5%. The top performer was the MSCI India with a 12.7% return, followed by the MSCI Russia with 9.9% (all in US$).

The spot price of Brent crude oil gained 4.5% in Q3, and has risen nearly 52% for the year to date. The sharp increase has been fuelling global inflation, with the price at around US$80 per barrel at quarter-end. Other commodity prices were mostly weaker over the quarter - the main exception was aluminium, which gained 13.0%. Otherwise, gold was down 2.0%, platinum fell 11% and palladium plunged some 30%, impacted by a sharp drop in demand as automobile production was slowed by the shortage of microchips. Nickel fell 1.5% and copper lost 3.7%.

In South Africa, economic growth for Q2 2021 surprised to the upside at 1.2% (q/q annualised) compared to the consensus of 0.7% q/q, and up from the revised 1.0% q/q recorded in the previous quarter. This amounted to 19.3% y/y growth due to the low base of the previous year. Growth was uneven across sectors, with transport, agriculture and services posting the strongest performances, while manufacturing contracted. However, news was dominated by the July riots sparked by the jailing of Jacob Zuma - National Treasury estimated the resulting damage could subtract around 0.9 percentage points from 2021 GDP growth.

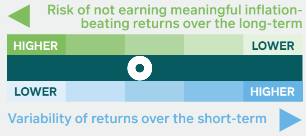
Growth prospects were also hit by the higher lockdown levels imposed as a result of the spiking "third wave" of the coronavirus pandemic during the quarter, which came despite the continued rollout of the government's vaccine programme. The ebbing of the wave towards quarter-end was a positive sign that vaccinations were making progress in combatting the Delta variant of the virus, also paving the way for a further reopening of the economy.

At its September MPC meeting, the South African Reserve Bank kept its benchmark interest rate unchanged at a record low of 3.5%, but sounded more hawkish as it indicated that its first 25bp hike would be coming in the last quarter of the year, as well as further 25bp increases in each quarter of 2022 and 2023. Importantly, Governor Lesetja Kganyago floated the idea that the SARB may want to reduce its inflation target range from the current 3%-6% to below the inferred 4.5% mid-point target.

Annualised performance	A class	Objective[1]	T class	X class	B class
1 year	22.9%	8.4%	23.2%	22.9%	23.5%
3 years	5.8%	7.5%	6.2%	6.0%	6.4%
5 years	4.9%	7.8%	5.4%	5.1%	5.6%
7 years	5.5%	8.1%	-	5.7%	6.2%
10 years	8.4%	8.4%	-	8.6%	9.1%
Since inception	11.1%	9.2%	-	-	-

[1] Objective: CPI + 5% p.a. over rolling 3 years gross of fees; less long-term TIC of applicable class. For A class objective above a TIC of -1.6% was used.

Risk profile



Fund facts

Fund managers

David Knee
Michael Moyle
Sandile Malinga
Leonard Krüger

ASISA category

South African - Multi-Asset - Low Equity

Objective (before fees)

CPI+5% p.a. over a rolling 3-year period

Inception date

1 June 2001

Fund size

R38 236 244 278

Awards

Raging Bull: 2013
Morningstar: 2015

Sources: M&G, Morningstar & Deutsche Securities

Good news came in the form of record-breaking trade surpluses on the back of the rise in commodity prices earlier in the quarter, in turn creating higher-than-expected tax receipts from mining companies. This alleviated some pressure on the government's expected budget deficit, allowing Treasury to cut some planned bond issuance. However, with commodity prices falling later in the quarter, concerns returned over the perilous state of government finances.

The FTSE/JSE ALSI returned -0.8% during Q3 (losing 3.1% in September alone on the back of the higher global investor risk aversion). However, the more locally-exposed FTSE/JSE Capped SWIX All Share Index, which we use as the equity benchmark for most of our client mandates, returned 3.2% for the quarter and -1.4% in September. The local market outperformed many of its emerging market peers in Q3, helped by its better relative value and improved company earnings prospects during the period. The standout sector was Financials, which delivered a 13.2% return, followed by Listed Property (the All Property Index) with 6.5%. The Resources 10 Index retraced some of its previous strong performance with a -3.8% return amid growing concerns over a Chinese economic slowdown, and the Industrials sector was partially impacted by its Naspers/Prosus exposure, posting a -4.3% total return.

SA bonds still managed to eke out a 0.4% positive return during the quarter (as measured by the FTSE/JSE All Bond Index), losing 2.1% in September as US Treasuries and global bonds recorded negative returns. The local yield curve continued to flatten as longer-dated bonds outperformed. Meanwhile, SA inflation-linked bonds again outperformed their nominal counterparts as inflation fears gained ground, producing 2.0% (Composite ILB Index), and cash (STeFI Composite) delivered 1.0%.

Finally, the rand depreciated against the major global currencies over the quarter, retracing some of its gains seen earlier in the year amid the higher risk-off sentiment and a stronger US dollar, particularly in September. It lost 5.4% against the US dollar, 2.9% versus the pound sterling and 3.0% against the euro over the three months. This helped boost returns for SA investors with offshore exposure.

Performance

The fund returned 3.4% (after fees) for the third quarter of 2021 and 19.0% for the 12-month period ending 30 September 2021. The fund has delivered a return of 11.0% per annum since its inception in 1999 (after fees), compared to its objective of 9.2% per annum over the same period.

The largest asset-class contributors to absolute performance for the quarter were the fund's exposure to SA equities (by far), followed by global equities, SA ILBs and global fixed income. SA listed property also added good value.

In terms of specific equity exposure, among the strongest equity contributors to absolute returns for the quarter were the fund's holdings in diverse stocks like MTN and Sasol, as well as financial counters like Investec, Absa, Standard Bank, Old Mutual and Remgro. Naspers was by far the largest equity detractor from absolute returns, while Resources holdings like Implats, Amplats and Sibanye also weighed on performance.

Strategy and positioning

Starting with our view on **offshore asset allocation**, our portfolio positioning shifted during Q3 as we opted to reduce our **global equity** exposure in favour of global cash, which helped to lower risk. As such, among global asset classes we now prefer cash to equities and bonds. Within our global equity positioning, we remained cautious in our exposure to US equities, as this market continued to be expensive compared to most other countries. Instead, our portfolios favour selected European and emerging market equities. We have been aiming to position the portfolios with higher weightings of very high-returning global assets while maintaining a mix of assets that have diversified return profiles, thereby cushioning them against unforeseen shocks.

At the same time, in aggregate the fund continued to be tilted away from global bonds - both government bonds and corporate credit - at quarter-end, in favour of global cash. Cash assets are less risky, and we believe that corporate yield spreads are no longer sufficiently high for the risk involved.

Our best investment view portfolios like the M&G Balanced Fund still heavily favoured SA equities at the end of Q3. SA equity valuations (as measured by the 12-month forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) de-rated slightly over the quarter, moving from around 9.2X at the beginning of the quarter to around 9.1X at quarter-end. With investor risk concerns rising, equity price gains didn't keep pace with improvements in company earnings expectations. This improvement in valuations was too small to cause us to increase our allocation to SA equity, as competing assets also remained attractive.

Within **SA equities,** in broad terms our exposure to large global companies (in particular Resources groups) did not work in our favour over the quarter due to the relative underperformance from these shares, including Implats and Amplats, which were hit by the plunge in PGM prices. However, our continued overweight to financial stocks added to portfolio value, with contributions from Investec, Absa, Standard Bank, Remgro and Old Mutual as notable performers. Other good returns came from our overweight exposure to MTN and Sasol, and our more recent reduction in our Resources holdings also helped portfolio performance.

We have maintained our positioning in **SA listed property** in Q3 2021. We see these assets as being fairly valued based on the risk involved. Listed property remains the best-performing sector (and asset class) in 2021, recording a 27.9% return over the nine months to end-September. It also continues to have good long-term growth prospects, with the All Property Index now reflecting a 12-month forward dividend yield at around 9%, plus further growth expected on top of this. However, listed property is a lagging sector in the cycle, as earnings are usually only impacted negatively once rental contracts come to an end and new rents are set at lower levels (negative reversions) – and this is still happening. So while the logistics and self-storage segments have been the most resilient and are performing well, retail is still weak and the office segment even weaker, plagued by high vacancies. On the positive side, new speculative developments in these segments have halted during the pandemic and the retail supply-demand balance is healthier, which should lead to improving rental growth over the medium term.

Our broad view based on earnings reports is that risks in the listed property sector have improved since the beginning of the year, and our holdings within the sector reflect this. While we have not raised our overall holdings, we have shifted some exposure away from the higher-valued counters into more attractively-valued companies with higher return prospects.

SA nominal bonds managed to record a marginal positive return in Q3, and our portfolios benefitted from our continued preference for these assets. During the quarter we added to our holdings as nominal bonds' relative valuations became more favourable. We also took some profits in our longer-dated bond positions and bought somewhat shorter-dated bonds on the back of the yield curve flattening during the quarter. As such we shifted away from our previous 15+ year focus to a 10-12-year focus, where valuations have become more attractive on a relative basis. We believe nominal bonds remain attractive relative to other income assets and their own longer-term history and will more than compensate investors for their associated risks.

SA Inflation-linked bonds (ILBs) outperformed their nominal counterparts during the quarter. The outperformance by ILBs led us to take some profits in the fund and buy more nominal bonds during Q3, as the latter's relative valuation became more favorable. Although we reduced our exposure, ILB real yields are still relatively attractive compared to their own history and our long-run fair value assumption of 2.5%. In Q3 the gap between ILB and cash real yields narrowed, as cash real yields were steady.

Lastly, our best investment view portfolios remained heavily tilted away from **SA cash** as our least preferred asset class, since prospective real returns are negative and other SA assets more attractive on a relative basis. □

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M&G Investments

M&G Balanced Fund

Multi-asset

Q3 2021

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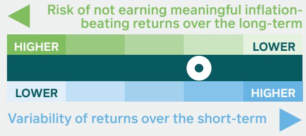
At its September MPC meeting, the South African Reserve Bank kept its benchmark interest rate unchanged at a record low of 3.5%, but sounded more hawkish as it indicated that its first 25bp hike would be coming in the last quarter of the year, as well as further 25bp increases in each quarter of 2022 and 2023. Importantly, Governor Lesetja Kganyago floated the idea that the SARB may want to reduce its inflation target range from the current 3%-6% to below the inferred 4.5% mid-point target.

Annualised performance	A class	Benchmark	T class	X class	B class
1 year	31.2%	25.1%	31.5%	31.3%	31.8%
3 years	9.1%	9.3%	9.5%	9.3%	9.7%
5 years	8.0%	7.2%	8.4%	8.8%	8.7%
7 years	7.4%	6.6%	-	7.6%	8.1%
10 years	10.5%	8.7%	-	-	11.2%
Since inception	13.0%	11.4%	-	-	-

[1] Objective: CPI + 5% p.a. over rolling 3 years gross of fees; less long-term TIC of applicable class. For A class objective above a TIC of -1.6% was used.

Risk profile



Fund facts

Fund managers

David Knee
Michael Moyle
Sandile Malinga
Leonard Krüger

ASISA category

South African - Multi-Asset - High Equity

Benchmark

ASISA South African - Multi-Asset - High Equity Category Average

Inception date

2 August 1999

Fund size

R21 199 867 404

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

Good news came in the form of record-breaking trade surpluses on the back of the rise in commodity prices earlier in the quarter, in turn creating higher-than-expected tax receipts from mining companies. This alleviated some pressure on the government's expected budget deficit, allowing Treasury to cut some planned bond issuance. However, with commodity prices falling later in the quarter, concerns returned over the perilous state of government finances.

The FTSE/JSE ALSI returned -0.8% during Q3 (losing 3.1% in September alone on the back of the higher global investor risk aversion). However, the more locally-exposed FTSE/JSE Capped SWIX All Share Index, which we use as the equity benchmark for most of our client mandates, returned 3.2% for the quarter and -1.4% in September. The local market outperformed many of its emerging market peers in Q3, helped by its better relative value and improved company earnings prospects during the period. The standout sector was Financials, which delivered a 13.2% return, followed by Listed Property (the All Property Index) with 6.5%. The Resources 10 Index retraced some of its previous strong performance with a -3.8% return amid growing concerns over a Chinese economic slowdown, and the Industrials sector was partially impacted by its Naspers/Prosus exposure, posting a -4.3% total return.

SA bonds still managed to eke out a 0.4% positive return during the quarter (as measured by the FTSE/JSE All Bond Index), losing 2.1% in September as US Treasuries and global bonds recorded negative returns. The local yield curve continued to flatten as longer-dated bonds outperformed. Meanwhile, SA inflation-linked bonds again outperformed their nominal counterparts as inflation fears gained ground, producing 2.0% (Composite ILB Index), and cash (STeFI Composite) delivered 1.0%.

Finally, the rand depreciated against the major global currencies over the quarter, retracing some of its gains seen earlier in the year amid the higher risk-off sentiment and a stronger US dollar, particularly in September. It lost 5.4% against the US dollar, 2.9% versus the pound sterling and 3.0% against the euro over the three months. This helped boost returns for SA investors with offshore exposure.

Performance

The fund returned 4.4% (after fees) for the third quarter of 2021, while for the 12-month period ending 30 September 2021 its return was 24.9%. The fund has delivered a return of 13.0% per annum since its inception in 1999 (after fees), compared to its benchmark of 11.3% per annum over the same period.

The largest asset-class contributors to absolute performance for the quarter were the fund's exposure to SA equities (by far), followed by global equities. SA listed property, global bonds, global cash and SA bonds also added value.

In terms of specific equity exposure, among the strongest contributors to absolute returns for the quarter were the fund's holdings in financial stocks including Investec, Absa, Standard Bank, Remgro and Old Mutual, plus a variety of other counters like MTN and Sasol. Top detractors from absolute performance included Naspers/Prosus, Foschini and platinum producers Anglo American Platinum and Impala Platinum.

Strategy and positioning

Starting with our view on offshore asset allocation, our portfolio positioning shifted during Q3 as we opted to reduce our global equity exposure slightly in favour of global cash, which helped to lower risk. As such, among global asset classes we now prefer cash to equities and bonds. Within our global equity positioning, we remained cautious in our exposure to US equities, as this market continued to be expensive compared to most other countries. Instead, our portfolios are tilted toward selected European and other developed market equities. We have been aiming to position the portfolios with higher weightings of very high-returning global assets while maintaining a mix of assets that have diversified return profiles, thereby cushioning them against unforeseen shocks.

At the same time, we kept a marginal preference for global government bonds in Q3, out of investment grade corporate credit, having added small selective exposure to emerging market government bonds in Q2 as yields remained particularly attractive. We believe that corporate yield spreads are no longer sufficiently high for the risk. In aggregate, our portfolios continued to be tilted slightly away from global bonds in total at quarter-end, in favour of global cash.

The M&G Balanced Fund still heavily favoured SA equities at the end of Q3. SA equity valuations (as measured by the 12-month forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) de-rated slightly over the quarter, moving from around 9.2X at the beginning of the quarter to around 9.1X at quarter-end. With investor risk concerns rising, equity price gains didn't keep pace with improvements in company earnings expectations. This improvement in valuations was too small to cause us to increase our allocation to SA equity, as competing assets also remained attractive.

Within SA equities, in broad terms our exposure to large global companies (in particular Resources groups) did not work in our favour over the quarter due to the relative underperformance from these shares, including Implats and Amplats, which were hit by the plunge in PGM prices. However, our continued overweight to financial stocks added to portfolio value, with contributions from Investec, Absa, Standard Bank, Remgro and Old Mutual as notable performers. Other good returns came from our overweight exposure to MTN and Sasol, and our more recent reduction in our Resources holdings (apart from platinum) also helped portfolio performance.

We have maintained our positioning in SA listed property in Q3 2021. We see these assets as being fairly valued based on the risk involved. Listed property remains the best-performing sector (and asset class) in 2021, recording a 27.9% return over the nine months to end-September. It also continues to have good long-term growth prospects, with the All Property Index now reflecting a 12-month forward dividend yield at around 9%, plus further growth expected on top of this. However, listed property is a lagging sector in the cycle, as earnings are usually only impacted negatively once rental contracts come to an end and new rents are set at lower levels (negative reversions) – and this is still happening. So while the logistics and self-storage segments have been the most resilient and are performing well, retail is still weak and the office segment even weaker, plagued by high vacancies. On the positive side, new speculative developments in these segments have halted during the pandemic and the retail supply-demand balance is healthier, which should lead to improving rental growth over the medium term.

Our broad view based on earnings reports is that risks in the listed property sector have improved since the beginning of the year, and our holdings within the sector reflect this. While we have not raised our overall holdings, we have shifted some exposure away from the higher-valued counters into more attractively-valued companies with higher return prospects.

SA nominal bonds managed to record a marginal positive return in Q3, and our portfolios benefitted from our continued preference for these assets. During the quarter we added to our holdings as nominal bonds' relative valuations became more favourable. We also took some profits in our longer-dated bond positions and bought somewhat shorter-dated bonds on the back of the yield curve flattening during the quarter. As such we shifted away from our previous 15+ year focus to a 10-12-year focus, where valuations have become more attractive on a relative basis. We believe nominal bonds remain attractive relative to other income assets and their own longer-term history and will more than compensate investors for their associated risks.

We are not holding SA inflation-linked bonds (ILBs) in the portfolio.

Lastly, the fund remained heavily tilted away from SA cash as our least preferred asset class, since prospective real returns are negative and other SA assets more attractive on a relative basis. In Q3 the gap between ILB and cash real yields narrowed, as cash real yields were steady.

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M&G Enhanced SA Property Tracker Fund

Equity

Q3 2021

Market overview

In South Africa, economic growth for Q2 2021 surprised to the upside at 1.2% (q/q annualised) compared to the consensus of 0.7% q/q, and up from the revised 1.0% q/q recorded in the previous quarter. This amounted to 19.3% y/y growth due to the low base of the previous year. Growth was uneven across sectors, with transport, agriculture and services posting the strongest performances, while manufacturing contracted. However, news was dominated by the July riots sparked by the jailing of Jacob Zuma - National Treasury estimated the resulting damage could subtract around 0.9 percentage points from 2021 GDP growth.

Growth prospects were also hit by the higher lockdown levels imposed as a result of the spiking "third wave" of the coronavirus pandemic during the quarter, which came despite the continued rollout of the government's vaccine programme. The ebbing of the wave towards quarter-end was a positive sign that vaccinations were making progress in combatting the Delta variant of the virus, also paving the way for a further reopening of the economy.

At its September MPC meeting, the South African Reserve Bank kept its benchmark interest rate unchanged at a record low of 3.5%, but sounded more hawkish as it indicated that its first 25bp hike would be coming in the last quarter of the year, as well as further 25bp increases in each quarter of 2022 and 2023. Importantly, Governor Lesetja Kganyago floated the idea that the SARB may want to reduce its inflation target range from the current 3%-6% to below the inferred 4.5% mid-point target.

Good news came in the form of record-breaking trade surpluses on the back of the rise in commodity prices earlier in the quarter, in turn creating higher-than-expected tax receipts from mining companies. This alleviated some pressure on the government's expected budget deficit, allowing Treasury to cut some planned bond issuance. However, with commodity prices falling later in the quarter, concerns returned over the perilous state of government finances.

The FTSE/JSE ALSI returned -0.8% during Q3 (losing 3.1% in September alone on the back of the higher global investor risk aversion). However, the more locally-exposed FTSE/JSE Capped SWIX All Share Index, which we use as the equity benchmark for most of our client mandates, returned 3.2% for the quarter and -1.4% in September The local market outperformed many of its emerging market peers in Q3, helped by its better relative value and improved company earnings prospects during the period. The standout sector was Financials, which delivered a 13.2% return, followed by Listed Property (the All Property Index) with 6.5%. The Resources 10 Index retraced some of its previous strong performance with a -3.8% return amid growing concerns over a Chinese economic slowdown, and the Industrials sector was partially impacted by its Naspers/Prosus exposure, posting a -4.3% total return.

SA bonds still managed to eke out a 0.4% positive return during the quarter (as measured by the FTSE/JSE All Bond Index), losing 2.1% in September as US Treasuries and global bonds recorded negative returns. The local yield curve continued to flatten as longer-dated bonds outperformed, reflecting South Africa's relatively steeper curve at the beginning of the period. Meanwhile, SA inflation-linked bonds again outperformed their nominal counterparts as inflation fears gained ground, producing 2.0% (Composite ILB Index), and cash (STeFI Composite) delivered 1.0%.

Finally, the rand depreciated against the major global currencies over the quarter, retracing some of its gains seen earlier in the year amid the higher risk-off sentiment and a stronger US dollar, particularly in September. It lost 5.4% against the US dollar, 2.9% versus the pound sterling and 3.0% against the euro over the three months. This helped boost returns for SA investors with offshore exposure.

Performance

The fund enjoyed pleasing performance for the second quarter of 2021, returning 6.1% (net of fees) compared to the benchmark which returned 5.9% over the same period. For the 12 months ending 30 September 2021, the fund returned 54.0% (net of fees) marginally underperforming its benchmark by 0.4%.

As a reminder, the fund makes use of quantitative inputs in order to assess the risk-and-return prospects of the fund. In addition, a fundamental overlay is applied in order to ensure the model outputs do not lead to any unintended outcomes.

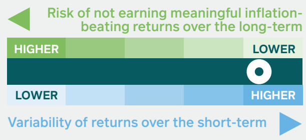
Over the quarter, overweight positions in Equites Property Fund, Fairvest Property and Hyprop contributed to relative performance, as did underweights in Liberty Two Degrees and Emira Property Fund. The main detractors from relative performance over this period were underweight positions in Sirius Real Estate, Vukile Property Fund and Resilient REIT.

Strategy and positioning

Listed property companies experienced a tumultuous past 18 months given the Coronavirus crisis, the slow rollout of the country's vaccination programme and July's social unrest and looting that impacted severely on properties in KwaZulu Natal and Gauteng. The depth of the resulting downturn was made worse by the weak fundamentals prior to the onset of the pandemic. However, it is important for investors to distinguish clearly between longer-term, secular trends (such as the growth of online retail), medium-term cyclical trends (such as fluctuating vacancies and rents) and events which are hopefully once-off and non-recurring, such as the damage to property in two of South Africa's main economic hubs and the Coronavirus pandemic.

Although we are under no illusion that many short-term events may have significant longer-term implications for the listed property sector, these developments should not result in investors abandoning a focus on asset valuations or the diversification benefits listed property offers investor portfolios over the longer term.

Risk profile



Fund facts

Fund managers
Yusuf Mowlana

ASISA category
South African - Real Estate - General

Benchmark
FTSE/JSE South African Listed Property Index (J253)

Inception date
2 December 2005

Fund size
R699 824 944

Awards
Morningstar/Standard & Poor's: 2011

Annualised performance	A class	Benchmark	T class	D class
1 year	65.7%	65.9%	65.7%	66.0%
3 years	-8.0%	-6.8%	-8.0%	-7.9%
5 years	-7.0%	-6.1%	-7.0%	-6.9%
7 years	-1.9%	-1.5%	-	-1.8%
10 years	4.5%	5.0%	-	4.7%
Since inception	8.8%	9.2%	-	-

[1] 12-month rolling performance figure

Sources: M&G, Morningstar & Deutsche Securities

Despite property's strong share price performance more recently, investors have not missed the boat: the sector continues to offer attractive long-term growth prospects, with a 12-month forward dividend yield at around 9% (8.97% for the SA Listed Property Index and 8.63% for the All Property Index) as of end-September, plus low single-digit growth expected on top of this. The sector should therefore be able to deliver a total return in the low teens over the medium term assuming no re- or de-rating of the sector.

The fund's key overweight positions include high-yielding companies such as Dipula A, SA Corporate and Hyprop. Among the fund's offshore names, we prefer the likes of MAS Real Estate over NEPI Rockastle for its superior growth prospects, and Irongate over Sirius Real Estate in terms of valuation and yield.

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Disclaimer

M&G Dividend Maximiser Fund

Equity

Q3 2021

Market overview

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In South Africa, the broader equity market was only marginally negative (in rand terms) over the quarter. Good gains in financials, retail and property stocks helped to largely offset losses in some Resources shares, as well as Naspers and Prosus. At the same time, SA bonds bucked the global trend with positive returns. However, the rand lost ground against the major global currencies.

In the US, the economy grew at a robust 6.7% (q/q annualised) pace in Q2 2021, fuelled by further recoveries in manufacturing, services and consumer spending. Combined with an acceleration in inflation and improving employment data, the US Federal Reserve signalled that its long-standing easy monetary policy was set to be tapered. It expects to purchase fewer assets in the fourth quarter, and to start hiking interest rates gradually in 2023, somewhat sooner than expected by the market. This weighed on US Treasuries and the equity market, and prompted some analysts to scale back their growth estimates.

US equities delivered subdued and mixed returns for the quarter, with the main losses coming in September as sentiment deteriorated. The S&P 500 delivered 0.6%, the Dow Jones Industrial 30 -1.5%, and the technology-heavy Nasdaq Composite -0.2% (all in US$).

Both the Bank of England and the European Central Bank followed the US Fed's tighter policy forecast in September, although their monetary tightening is expected to be less aggressive. The former said that the case for modest tightening had strengthened amidst rising inflation concerns, while the latter announced it would start tapering the pace of its net asset purchases due to improved economic and financial conditions. UK GDP growth was revised higher to 5.5% (q/q annualised) for Q2 2021, while the Euro Area's jumped to 2.2% (q/q annualised). For the quarter, the UK and major European bourses were all in the red, as the FTSE 100 produced -0.5%, the CAC 40 delivered -1.8%, and Germany's DAX posted -4.0% (all in US$).

Japan's economy finally recorded positive growth, with a 0.5% (q/q annualised) GDP expansion in Q2 compared to -1.1% in Q1. Consumer spending, private investment and government spending all contributed to the turnaround, but the world's third-largest economy is still lagging in its recovery compared to other countries. The spread of the Delta variant, particularly in the Tokyo region, has been one of the main factors hampering progress. The Bank of Japan left its key short-term interest rate unchanged at -0.1% at its September meeting, as expected. But unlike its counterparts, it continued to reinforce its message that the current very low levels would stay in place for as long as necessary.

In China, the economy grew at 1.3% (q/q annualised) in Q2, slightly above the 1.2% consensus. However, as Q3 wore on, there were increasing indications that this growth was losing steam, compounded by further concerns over the negative impact on growth of the government's regulatory crackdown, and the possibility of a liquidity crisis prompted by troubles at Evergrande, China's second largest private property developer. This in turn sparked selling in global Resources stocks. At the same time, uncertainty over Evergrande continued, as the government did not assure lenders that it would assume its debt.

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For the third quarter of 2021, Japan's Nikkei 225 returned 2.4%, the MSCI China produced -18.1% and Hong Kong's Hang Seng delivered -14.1% (all in US$).

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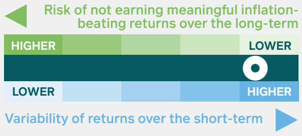
Annualised performance	A class	Benchmark	T class	B class	F class
1 year	45.2%	36.0%	45.4%	45.6%	45.8%
3 years	12.0%	9.5%	12.3%	12.3%	12.6%
5 years	9.8%	6.4%	10.1%	10.2%	10.5%
7 years	7.8%	5.2%	-	8.2%	-
10 years	11.2%	8.5%	-	11.7%	-
Since inception	16.1%	13.1%	-	-	-

[1] 12-month rolling performance figure

Risk profile



Fund facts

Fund managers
Ross Biggs
Kaitlin Byrne

ASISA category
South African - Equity - General

Benchmark
ASISA South African – Equity - General Category Mean

Inception date
2 August 1999

Fund size
R3 862 552 939

Awards
Raging Bull: 2006, 2008
Morningstar/Standard & Poor's: 2007, 2009

Sources: M&G, Morningstar & Deutsche Securities

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Finally, the rand depreciated against the major global currencies over the quarter, retracing some of its gains seen earlier in the year amid the higher risk-off sentiment and a stronger US dollar, particularly in September. It lost 5.4% against the US dollar, 2.9% versus the pound sterling and 3.0% against the euro over the three months. This helped boost returns for SA investors with offshore exposure.

Performance

The fund delivered a return of 4.9% (net of fees) for the third quarter of 2021, outperforming its benchmark (the average of the general equity funds) by 2.3%. For the year ended 30 September 2021, the fund returned 35.6% (net of fees), outperforming its benchmark by 8.7%.

The fund's dual focus of buying undervalued companies with strong cash flows and dividends remains core.

During the quarter, platinum group metals prices continued to fall, in particular rhodium and palladium. As we have commented previously, this sector's fortunes have rapidly improved after many years of earning margins, which on average were not high enough to compensate the mines for ongoing maintenance capex. Today, margins in the sector are at near-record highs and cash generation is very strong. We are cognisant of the high margins that companies are currently earning but moved to an underweight position in the platinum sector in the first quarter of the year due to rising valuations of platinum companies. This underweight positioning continued to benefit the fund in the third quarter as our underweight to Impala Platinum and Royal Bafokeng Platinum were top contributors to outperformance. We have also strategically shifted our preference for companies within the sector with a preference for the higher-quality platinum companies which are likely to see production growth as a result of their investment in capacity.

The fund's overweight position in MTN continued to be a key contributor to the outperformance over the quarter and was, in fact, the largest contributor to performance. The market has been very concerned about the risks of doing business in Nigeria, where MTN has a significant business. While we do not disagree that investing in Nigeria requires a higher risk premium, we think that MTN presents excellent value and continues to be one of the larger overweight positions in the fund. MTN is trading on a dividend yield of over 6%, which we think should be able to grow over the next five years. MTN has been steadily reducing debt levels on its balance sheet by realising non-core assets like their tower assets. We think that this process will not only ensure a stable and growing dividend but will also reduce any balance sheet risk. In the last quarter, MTN announced that it would be realising some capital as a result of the intended listing of its investment in IHS towers. We think this move will continue to reduce the risk of the business.

The fund's overweight to Textainer Group Holdings was the second-largest stock contributor to outperformance over the last quarter. Textainer is one of the world's largest container leasing companies and leases containers to shipping companies. Leading into the pandemic, the business was in a strong position to take advantage of some opportunities that arose. We have been exceptionally impressed with how the company's management has allocated capital. The company has been able to buy back a substantial number of shares at extremely attractive prices and we think this smart allocation of cash should further accelerate the improvement of returns from the company. The container leasing market's fortunes have rapidly improved over the last year and Textainer has managed to put a substantial amount of capital to work by buying a large amount of containers and leasing them out on long-term and very attractive rentals. Despite this large investment, we expect Textainer to also be able to resume the payment of dividends this year which is indeed an exciting milestone for the company and investors.

In the Financials sector, we think that South African banks are trading at very undemanding valuations, and for this reason, we have one of our larger sector overweights to banks. We continue to be overweight Standard Bank, ABSA and Investec. FirstRand, in which the fund holds an underweight position, detracted from relative performance over the last quarter. The recovery in FirstRand's share price has been very strong and is now trading above its pre-pandemic levels. While we continue to be overweight banks, we think there is also a good opportunity to generate alpha within this sector by being overweight relatively undervalued banks versus banks such as Capitec and FirstRand. While we rate FirstRand and Capitec more highly in terms of quality, we cannot ignore that that they are substantially more highly rated than other banks in the sector.

The largest detractor from performance was Aspen Pharmaceuticals which has benefitted from its tie-up with Johnson and Johnson to produce Covid-19 vaccines. We think that this business is fairly valued and see better opportunities in the market.

We continue to think that offshore equity markets look attractive but over the last year, we have seen opportunities to reduce our offshore weighting based on the relative attractiveness of the SA market. The fund is approximately 21% invested offshore, mainly through the Prudential Global Equity Fund and the M&G Global Dividend Fund. The offshore allocation to the M&G Global Dividend Fund was a large contributor to outperformance over the last quarter.

We acknowledge that while it is very difficult to forecast the future and we do not make any attempt to do this, we do spend a lot of time thinking about the economic cycles that various sectors are in, and where valuations are. In this way, we aim to make money for our clients through these cycles and continue to try and buy companies that have proven dividend and cash-flow track records, and which can withstand the normal upheavals that occur in markets over time. We aim to continue building risk-cognisant portfolios that seek to add value through stock selection relative to the benchmark.

Strategy and positioning

We remain optimistic regarding the South African equity market returns over the medium term due to the prevailing excessive levels of pessimism reflected in share prices and valuations. Going into the pandemic, the South African market in our view was already undervalued and has fallen to levels which we think are exceptionally attractive. The Price to Book of the JSE remains close to 1.8X as at the end of September 2021. We also note that within the South African market, many commodity companies continue to experience elevated revenue and earnings, as the prices of platinum group metals, coal and iron ore continue to remain at high levels. These strong commodity prices are not only helpful to the companies mining them but are also broadly helpful to the South African economy. We have therefore reallocated some capital out of the mining sector and into some South African economy focused companies.

South African assets appear to be undervalued relative to emerging and developed markets. We believe that earnings and dividends in South Africa should show a strong return to growth over the medium term. This growth in dividends is based mainly on a return to more normal dividends among the mining companies and banks, whose balance sheets are now very healthy.

On market valuations, we currently view the market in South Africa along with many other emerging markets as being very undervalued. We think that earnings and dividends should show a strong return to growth over the medium term. This growth in dividends is based mainly on a return to more normal profit margins among mining companies and related industries, which we are already witnessing as well as a resumption of dividends from banks and SA industrial companies.

The focus of the fund continues to be on finding companies that are undervalued and which are paying good dividend yields with the potential to pay growing dividends over the long run. We are confident that we have built a portfolio of attractively priced stocks that in aggregate is cheaper than owning the index, yet still capable of delivering attractive underlying growth independent of the economic cycle in which we find ourselves.

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

M&G Equity Fund

Equity

Q3 2021

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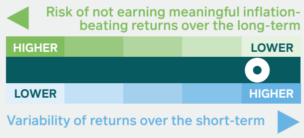
Risk profile



Fund facts

Fund managers
Chris Wood
Yusuf Mowlana

ASISA category
South African - Equity - General

Benchmark
ASISA South African - Equity - General Category Mean

Inception date
2 August 1999

Fund size
R3 649 478 315

Awards
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Morningstar/Standard & Poor's: 2007, 2008

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7 years	8.6%	5.2%	9.1%	-
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M&G Investments

but sounded more hawkish as it indicated that its first 25bp hike would be coming in the last quarter of the year, as well as further 25bp increases in each quarter of 2022 and 2023. Importantly, Governor Lesetja Kganyago floated the idea that the SARB may want to reduce its inflation target range from the current 3%-6% to below the inferred 4.5% mid-point target.

Good news came in the form of record-breaking trade surpluses on the back of the rise in commodity prices earlier in the quarter, in turn creating higher-than-expected tax receipts from mining companies. This alleviated some pressure on the government's expected budget deficit, allowing Treasury to cut some planned bond issuance. However, with commodity prices falling later in the quarter, concerns returned over the perilous state of government finances.

The FTSE/JSE ALSI returned -0.8% during Q3 (losing 3.1% in September alone on the back of the higher global investor risk aversion). However, the more locally-exposed FTSE/JSE Capped SWIX All Share Index, which we use as the equity benchmark for most of our client mandates, returned 3.2% for the quarter and -1.4% in September. The local market outperformed many of its emerging market peers in Q3, helped by its better relative value and improved company earnings prospects during the period. The standout sector was Financials, which delivered a 13.2% return, followed by Listed Property (the All Property Index) with 6.5%. The Resources 10 Index retraced some of its previous strong performance with a -3.8% return amid growing concerns over a Chinese economic slowdown, and the Industrials sector was partially impacted by its Naspers/Prosus exposure, posting a -4.3% total return.

Finally, the rand depreciated against the major global currencies over the quarter, retracing some of its gains seen earlier in the year amid the higher risk-off sentiment and a stronger US dollar, particularly in September. It lost 5.4% against the US dollar, 2.9% versus the pound sterling and 3.0% against the euro over the three months. This helped boost returns for SA investors with offshore exposure.

Performance

It was another period of pleasing absolute and relative returns from the fund. For the third quarter of 2021, the fund returned 5.0% (net of fees), outperforming its benchmark by 2.4%. Over the 12 months ending 30 September 2021, the fund generated a return of 41.6%, compared to its benchmark which returned 26.9% over the same period.

We are pleased that the fund maintains a top-quartile ranking versus its peer group over the short- and long term, continuing to achieve demonstrably better outcomes for clients than the opportunity set available in the South African equity sector.

For the quarter, major contributors to relative performance were our overweight positions in MTN, Sasol and Datatec, as were our underweights to Sibanye Stillwater, Royal Bafokeng Platinum and Richemont. Detracting from relative performance over the period were our underweight positions in Aspen Pharmaceuticals and FirstRand and overweight positions in Foschini and Northam.

In the Financials sector, we think that South African banks are trading at very undemanding valuations, and for this reason, we have one of our larger sector overweights to the banks sector. We continue to be overweight Standard Bank, ABSA and Investec, of which all were significant contributors to performance over the last quarter. FirstRand, in which the fund holds an underweight position, detracted from relative performance over the last quarter. The recovery in FirstRand's share price has been very strong and is now trading above its pre-pandemic levels. While we continue to be overweight banks, we think there is also good opportunity to generate alpha within this sector by being overweight relatively undervalued banks versus banks such as Capitec and FirstRand. While we rate FirstRand and Capitec more highly in terms of quality, we cannot ignore that they are substantially more highly rated than other banks in the sector.

The fund's overweight position in MTN continued to be a key contributor to the outperformance over the quarter and was, in fact, the largest contributor to performance. The market has been very concerned about the risks of doing business in Nigeria, where MTN has a significant business. While we do not disagree that investing in Nigeria requires a higher risk premium, we think that MTN presents excellent value and continues to be one of the larger overweight positions in the fund. MTN is trading on a dividend yield of over 6%, which we think should be able to grow over the next five years. MTN has been steadily reducing debt levels on its balance sheet by realising non-core assets like their tower assets. We think that this process will not only ensure a stable and growing dividend but will also reduce any balance sheet risk. In the last quarter, MTN announced that it would be realising some capital as a result of the intended listing of its investment in IHS towers. We think this move will continue to reduce the risk of the business.

The second-largest contributor to relative performance for the quarter was the fund's overweight position to Sasol. Sasol had been a significant underperformer for the last few years and its problems are now well known to the market. Sasol's underperformance has been mainly due to the uncertainty around the operational challenges in bringing the Lake Charles Chemical Project (LCCP) to successful completion. This substantial project increased the financial leverage of the business and increased the risk to the investment case of the company. The company has however made sensible decisions to reduce costs and sell off some non-core assets to reduce debt levels. This has not only reduced operational risk but also financial risk. The strength of the oil price and chemicals prices over the last year is also significantly reducing the risk to Sasol and we have witnessed a sharp re-rating of the share price.

The largest detractor from performance was Aspen Pharmaceuticals, which has benefitted from its tie-up with Johnson and Johnson to produce Covid-19 vaccines. We think that this business is fairly valued and see better opportunities in the market.

Strategy and positioning

SA equity valuations (as measured by the 12-month forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) de-rated slightly over the quarter, moving from around 9.2X at the beginning of the quarter to around 9.1X at quarter-end. With investor risk concerns rising, equity price gains didn't keep pace with improvements in company earnings expectations.

Within the Resources sector, our preferred exposures are to Glencore for its copper exposure, Northam for its low-cost operations and growing production profile, and Sasol for its inexpensive valuation and potential for earnings growth. We have retained our overweight position to the banking sector, with the fund's largest overweight positions in ABSA, Investec and Standard Bank. Within the SA Industrials sector, our top overweights are MTN, Multichoice and The Foschini Group, while Naspers/Prosus, Textainer and British American Tobacco are our preferred offshore earners. □

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G SA Equity Fund

Equity

Q3 2021

Market overview

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In South Africa, economic growth for Q2 2021 surprised to the upside at 1.2% (q/q annualised) compared to the consensus of 0.7% q/q, and up from the revised 1.0% q/q recorded in the previous quarter. This amounted to 19.3% y/y growth due to the low base of the previous year. Growth was uneven across sectors, with transport, agriculture and services posting the strongest performances, while manufacturing contracted. However, news was dominated by the July riots sparked by the jailing of Jacob Zuma - National Treasury estimated the resulting damage could subtract around 0.9 percentage points from 2021 GDP growth.

Growth prospects were also hit by the higher lockdown levels imposed as a result of the spiking "third wave" of the coronavirus pandemic during the quarter, which came despite the continued rollout of the government's vaccine programme. The ebbing of the wave towards quarter-end was a positive sign that vaccinations were making progress in combatting the Delta variant of the virus, also paving the way for a further reopening of the economy.

At its September MPC meeting, the South African Reserve Bank kept its benchmark interest rate unchanged at a record low of 3.5%, but sounded more hawkish as it indicated that its first 25bp hike would be coming in the last quarter of the year, as well as further 25bp increases in each quarter of 2022 and 2023. Importantly, Governor Lesetja Kganyago floated the idea that the SARB may want to reduce its inflation target range from the current 3%-6% to below the inferred 4.5% mid-point target.

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Performance

The fund delivered a return of 5.6% (net of fees) for the third quarter of 2021, outperforming its benchmark by 2.4%. For the 12 months ending 30 September 2021, the fund returned 39.1% (net of fees), outperforming its benchmark by 8.8%. It is particularly pleasing to report that against this period of robust market returns, post the March 2020 sell-off, our stock picking has delivered strong alpha over both the three- and twelve-month periods ending 30 September 2021.

During the quarter, platinum group metals prices continued to fall, in particular rhodium and palladium. As we have commented previously, this sector's fortunes have rapidly improved after many years of earning margins, which on average were not high enough to compensate the mines for ongoing maintenance capex. Today, margins in the sector are at near-record highs and cash generation is very strong. We are cognisant of the high margins that companies are currently earning, but moved to an underweight position in the platinum sector in the first quarter of the year due to rising valuations of platinum companies. This underweight positioning continued to benefit the fund in the third quarter, as our underweight to Impala Platinum was one of the top three contributors to performance. We have also strategically shifted our preference for companies within the sector, with a preference for the higher-quality platinum companies which are likely to see production growth as a result of their investment in capacity.

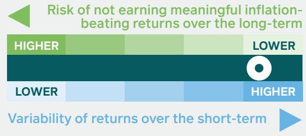
In the Financials sector, we think that South African banks are trading at very undemanding valuations, and for this reason, we have one of our larger sector overweights to the banks sector. We continue to be overweight Standard Bank, ABSA and Investec. Investec Bank and Standard Bank were significant contributors to performance over the last quarter. FirstRand, in which the fund holds an underweight position, detracted from relative performance over the last quarter. The recovery in FirstRand's share price has been very strong and is now trading above its pre-pandemic levels. While we continue to be overweight banks, we think there is also good opportunity to generate alpha within this sector by being overweight relatively undervalued banks versus banks such as Capitec and FirstRand. While we rate FirstRand and Capitec more highly in terms of quality, we cannot ignore that they are substantially more highly rated than other banks in the sector.

The fund's overweight position in MTN continued to be a key contributor to the outperformance over the quarter and was, in

Annualised performance	B class	Benchmark[1]	F class
1 year	50.8%	39.8%	49.1%
3 years	9.2%	9.1%	7.9%
5 years	8.1%	6.5%	6.9%
7 years	6.9%	5.7%	-
10 years	10.9%	9.5%	-
Since inception	15.1%	13.2%	-

[1] The Fund's benchmark changed from the FTSE/JSE All Share Index (TR) to the FTSE/JSE Capped SWIX All Share Index (TR) on 1 July 2017.

Risk profile



Fund facts

Fund managers

Ross Biggs
Chris Wood
Leonard Krüger
Aadil Omar

ASISA category

South African - Equity - General

Benchmark

FTSE/JSE Capped SWIX All Share Index

Inception date

21 September 2000

Fund size

R35 550 641 328

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

fact, the largest contributor to performance. The market has been very concerned about the risks of doing business in Nigeria, where MTN has a significant business. While we do not disagree that investing in Nigeria requires a higher risk premium, we think that MTN presents excellent value and continues to be one of the larger overweight positions in the fund. MTN is trading on a dividend yield of over 6%, which we think should be able to grow over the next five years. MTN has been steadily reducing debt levels on its balance sheet by realising non-core assets like their tower assets. We think that this process will not only ensure a stable and growing dividend but will also reduce any balance sheet risk. In the last quarter, MTN announced that it would be realising some capital as a result of the intended listing of its investment in IHS towers. We think this move will continue to reduce the risk of the business.

One of the largest contributors to relative performance for the quarter was the fund's overweight position to Sasol. Sasol had been a significant underperformer for the last few years and its problems are now well known to the market. Sasol's underperformance has been mainly due to the uncertainty around the operational challenges in bringing the Lake Charles Chemical Project (LCCP) to successful completion. This substantial project increased the financial leverage of the business and increased the risk to the investment case of the company. The company has however made sensible decisions to reduce costs and sell off some non-core assets to reduce debt levels. This has not only reduced operational risk but also financial risk. The strength of the oil price and chemicals prices over the last year is also significantly reducing the risk to Sasol and we have witnessed a sharp re-rating of the share price.

The largest detractor from performance was Aspen Pharmaceuticals, which has benefitted from its tie-up with Johnson and Johnson to produce Covid-19 vaccines. We think that this business is fairly valued and see better opportunities in the market.

We acknowledge that while it is very difficult to forecast the future and we do not make any attempt to do this, we do spend a lot of time thinking about the economic cycles that various sectors are in, and where valuations are. In this way, we aim to make money for our clients through these cycles and continue to try and buy companies that have proven dividend and cash-flow track records, and which can withstand the normal upheavals that occur in markets over time. We aim to continue building risk-cognisant portfolios that seek to add value through stock selection.

Strategy and positioning

We remain optimistic regarding the South African equity market returns over the medium term due to the prevailing excessive levels of pessimism reflected in share prices and valuations. Going into the Covid-19 virus, the South African market in our view was already undervalued and has fallen to levels which we think are exceptionally attractive. The Price to Book of the JSE remains close to 1.8X as at the end of September 2021. We also note that within the South African market, many commodity companies continue to experience elevated revenue and earnings, as the prices of platinum group metals, coal and iron ore continue to remain at high levels. These strong commodity prices are not only helpful to the companies mining them, but are also broadly helpful to the South African economy. We have therefore reallocated some capital out of the mining sector and into some South African economy focused companies.

South African assets appear to be undervalued relative to emerging and developed markets. We believe that earnings and dividends in South Africa should show a strong return to growth over the medium term. This growth in dividends is based mainly on a return to more normal dividends among the mining companies and banks, whose balance sheets are now very healthy.

The focus of the fund continues to be on finding companies that are undervalued and which can grow earnings and dividends over the long run.

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M&G Investments

M&G Global Bond Feeder Fund

Global income

Q3 2021

Market overview

The third quarter of 2021 saw a notable shift toward investor risk aversion compared to the first half of the year, as several mounting concerns around global growth took their toll on financial markets. Among the most influential were: the relentless spread of the Covid Delta variant; indications of a sooner-than-expected start to the US Fed's (and other central banks') policy tightening; and stricter Chinese regulatory policies. Global bond markets came under pressure, and many equity markets produced negative returns, with emerging markets and currencies lagging developed markets. Technology and Resources counters were among the worst performers, the latter due to the fall in commodity prices (apart from oil), especially in September.

In the US, the economy grew at a robust 6.7% (q/q annualised) pace in Q2 2021, fuelled by further recoveries in manufacturing, services and consumer spending. Combined with an acceleration in inflation and improving employment data, the US Federal Reserve signalled that its long-standing easy monetary policy was set to be tapered. It expects to purchase fewer assets in the fourth quarter, and to start hiking interest rates gradually in 2023, somewhat sooner than expected by the market. This weighed on US Treasuries and the equity market, and prompted some analysts to scale back their growth estimates.

Both the Bank of England and the European Central Bank followed the US Fed's tighter policy forecast in September, although their monetary tightening is expected to be less aggressive. The former said that the case for modest tightening had strengthened amidst rising inflation concerns, while the latter announced it would start tapering the pace of its net asset purchases due to improved economic and financial conditions. UK GDP growth was revised higher to 5.5% (q/q annualised) for Q2 2021, while the Euro Area's jumped to 2.2% (q/q annualised).

Japan's economy finally recorded positive growth, with a 0.5% (q/q annualised) GDP expansion in Q2 compared to -1.1% in Q1. Consumer spending, private investment and government spending all contributed to the turnaround, but the world's third-largest economy is still lagging in its recovery compared to other countries. The spread of the Delta variant, particularly in the Tokyo region, has been one of the main factors hampering progress. The Bank of Japan left its key short-term interest rate unchanged at -0.1% at its September meeting, as expected. But unlike its counterparts, it continued to reinforce its message that the current very low levels would stay in place for as long as necessary.

In China, the economy grew at 1.3% (q/q annualised) in Q2, slightly above the 1.2% consensus. However, as Q3 wore on, there were increasing indications that this growth was losing steam, compounded by further concerns over the negative impact on growth of the government's regulatory crackdown, and the possibility of a liquidity crisis prompted by troubles at Evergrande, China's second largest private property developer. This in turn sparked selling in global Resources stocks. At the same time, uncertainty over Evergrande continued, as the government did not assure lenders that it would assume its debt.

After announcing a surprise cut to banks' reserve requirements in July, the People's Bank of China left its base interest rates on hold in September, while indicating that there was still room for further cuts if necessary to support the country's growth recovery. This did dampen some expectations of a further rate cut in the shorter-term, but also heightened concerns of a bigger-than-expected economic slowdown in the third and fourth quarters of the year.

Finally, the rand depreciated against the major global currencies over the quarter, retracing some of its gains seen earlier in the year amid the higher risk-off sentiment and a stronger US dollar, particularly in September. It lost 5.4% against the US dollar, 2.9% versus the pound sterling and 3.0% against the euro over the three months. This helped boost returns for SA investors with offshore exposure.

Performance

The fund delivered a return of 3.9% (net of fees) for the third quarter of 2021, while the benchmark returned 4.5%. For the year ended 30 September 2021, the fund returned -8.8% (net of fees), outperforming the benchmark by 1.9%.

Contributors to absolute performance over the quarter came from the fund's exposure to Chinese government bonds, while exposure to investment-grade bonds (US dollar/euro/sterling), as well as Chilean and Brazilian government bonds, detracted from absolute performance.

Strategy and positioning

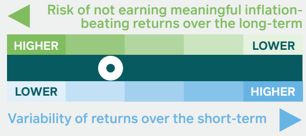
The fund's positioning continues to reflect our preference for emerging market government bonds, both local (e.g. South African bonds) and hard currency.

Near the beginning of the quarter, to neutralise the underweight to China, we bought long-dated local currency bonds, reducing our holding in Japanese government bonds. We also added to our emerging market positions (Brazilian, Mexican and Chilean). We reduced the holding of US investment-grade credit on the basis of tight spreads and meaningful duration risk. We closed our exposure to Australian government bonds after a strong rally, allocating the proceeds to US dollar-denominated Turkish government bonds, which had an attractive prospective return given their yield and spread.

Towards the end of the quarter, we switched out the long-dated Chinese government bond exposure for a shorter-dated bond in order to neutralise our duration overweight to China.

Spreads in developed market investment grade and high yield credit have become increasingly tight, leaving only emerging market hard currency and local currency debt as offering fair yields, in our view. We therefore continue to be underweight developed market government bonds versus the reference index. Our exposure to the long end of the US Treasury curve are based on diversification potential and relative value versus the long end of the other mainstream government bond curves. Emerging market bonds sold off meaningfully during the quarter on a combination of inflation fears, short-rate policy response and the fear of a repeat of the 2013 taper tantrum. However, we believe that neither the taper tantrum nor the inflation fears are justified and consider that the meaningful real yields on offer are attractive for investors with longer time horizons.

Risk profile



Fund facts

Investment manager of the underlying fund
M&G Investment Management Limited (UK)

Fund managers of the underlying fund
Marc Beckenstrater
Craig Simpson

ASISA category
Global - Interest Beating - Variable Term

Benchmark
Bloomberg Global Aggregate Bond Index

Inception date
27 October 2000

Fund size
R560 219 892

Annualised performance	A class	Benchmark	B class
1 year	-5.7%	-7.8%	-5.4%
3 years	5.7%	5.5%	6.0%
5 years	4.8%	4.9%	-
7 years	6.2%	6.9%	-
10 years	9.1%	8.7%	-
Since inception	8.2%	8.3%	-

Sources: M&G, Morningstar & Deutsche Securities

M&G Global Bond Feeder Fund

Global income

Q3 2021

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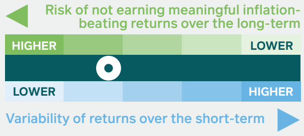

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Quarterly Commentary

M&G Global Inflation Plus Feeder Fund

Global multi-asset

Q3 2021

Market overview

The third quarter of 2021 saw a notable shift toward investor risk aversion compared to the first half of the year, as several mounting concerns around global growth took their toll on financial markets. Among the most influential were: the relentless spread of the Covid Delta variant; indications of a sooner-than-expected start to the US Fed's (and other central banks') policy tightening; and stricter Chinese regulatory policies. Global bond markets came under pressure, and many equity markets produced negative returns, with emerging markets and currencies lagging developed markets. Technology and Resources counters were among the worst performers, the latter due to the fall in commodity prices (apart from oil), especially in September.

In the US, the economy grew at a robust 6.7% (q/q annualised) pace in Q2 2021, fuelled by further recoveries in manufacturing, services and consumer spending. Combined with an acceleration in inflation and improving employment data, the US Federal Reserve signalled that its long-standing easy monetary policy was set to be tapered. It expects to purchase fewer assets in the fourth quarter, and to start hiking interest rates gradually in 2023, somewhat sooner than expected by the market. This weighed on US Treasuries and the equity market, and prompted some analysts to scale back their growth estimates.

US equities delivered subdued and mixed returns for the quarter, with the main losses coming in September as sentiment deteriorated. The S&P 500 delivered 0.6%, the Dow Jones Industrial -1.5%, and the technology-heavy Nasdaq Composite -0.2% (all in US$).

Both the Bank of England and the European Central Bank followed the US Fed's tighter policy forecast in September, although their monetary tightening is expected to be less aggressive. The former said that the case for modest tightening had strengthened amidst rising inflation concerns, while the latter announced it would start tapering the pace of its net asset purchases due to improved economic and financial conditions. UK GDP growth was revised higher to 5.5% (q/q annualised) for Q2 2021, while the Euro Area's jumped to 2.2% (q/q annualised).

For the quarter, the UK and major European bourses were all in the red, as the FTSE 100 produced -0.5%, the CAC 40 delivered -1.8%, and Germany's DAX posted -4.0% (all in US$).

Japan's economy finally recorded positive growth, with a 0.5% (q/q annualised) GDP expansion in Q2 compared to -1.1% in Q1. Consumer spending, private investment and government spending all contributed to the turnaround, but the world's third-largest economy is still lagging in its recovery compared to other countries. The spread of the Delta variant, particularly in the Tokyo region, has been one of the main factors hampering progress. The Bank of Japan left its key short-term interest rate unchanged at -0.1% at its September meeting, as expected. But unlike its counterparts, it continued to reinforce its message that the current very low levels would stay in place for as long as necessary.

In China, the economy grew at 1.3% (q/q annualised) in Q2, slightly above the 1.2% consensus. However, as Q3 wore on, there were increasing indications that this growth was losing steam, compounded by further concerns over the negative impact on growth of the government's regulatory crackdown, and the possibility of a liquidity crisis prompted by troubles at Evergrande, China's second largest private property developer. This in turn sparked selling in global Resources stocks. At the same time, uncertainty over Evergrande continued, as the government did not assure lenders that it would assume its debt.

After announcing a surprise cut to banks' reserve requirements in July, the People's Bank of China left its base interest rates on hold in September, while indicating that there was still room for further cuts if necessary to support the country's growth recovery. This did dampen some expectations of a further rate cut in the shorter-term, but also heightened concerns of a bigger-than-expected economic slowdown in the third and fourth quarters of the year.

For the third quarter of 2021, Japan's Nikkei 225 returned 2.4%, the MSCI China produced -18.1% and Hong Kong's Hang Seng delivered -14.1% (all in US$).

Among other large emerging equity markets, in US$ terms, Brazil's Bovespa was the worst performer with a -19.4% return, while South Korea's KOSPI delivered -13.0% and the MSCI South Africa -5.5%. The top performer was the MSCI India with a 12.7% return, followed by the MSCI Russia with 9.9% (all in US$).

Finally, the rand depreciated against the major global currencies over the quarter, retracing some of its gains seen earlier in the year amid the higher risk-off sentiment and a stronger US dollar, particularly in September. It lost 5.4% against the US dollar, 2.9% versus the pound sterling and 3.0% against the euro over the three months. This helped boost returns for SA investors with offshore exposure.

Performance

The fund delivered a return of 4.5% (net of fees) for the third quarter of 2021, while global inflation measured 6.8%. For the year ended 30 September 2021, the fund returned 1.3% (net of fees), while global inflation measured -6.4%.

Contributors to absolute performance over the quarter came from the fund's exposure to Chinese government bonds and Japanese equities. This was in partly offset by negative contributions from euro and US dollar investment-grade corporate bonds and Chilean government bonds.

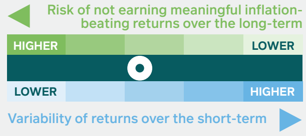
Strategy and positioning

We now have a more muted preference for equities than previously, although we retain a preference for those from Japan, Europe and the UK. However, we still favour equities over government bonds. We are constructive on emerging market hard currency and local debt.

Near the beginning of the quarter, to neutralise the underweight in Chinese fixed income exposure, we bought long-dated local currency bonds, sold our holding in Japanese government bonds and reduced exposure to global fixed income held via an ETF. We also reduced the holding of US investment-grade credit on the basis of tight spreads and meaningful duration risk. We added to emerging market government bonds (Brazilian, Mexican and Chilean), which had experienced rapid price action. In equities we added to China on the basis of the very rapid sell-off.

Annualised performance	A class	Benchmark[1]	B class
1 year	7.1%	-2.8%	7.4%
3 years	8.8%	3.0%	9.1%
5 years	8.2%	4.2%	8.6%
7 years	8.5%	6.1%	8.8%
10 years	9.9%	7.8%	-
Since inception	8.0%	6.9%	-

Risk profile



Fund facts

Investment manager of the underlying fund
M&G Investment Management Limited (UK)

Fund managers of the underlying fund
Marc Beckenstrater
Craig Simpson

ASISA category:
Global - Multi-Asset - Low Equity

Benchmark
Global inflation

Inception date
1 March 2004

Fund size
R224 339 540

Sources: M&G, Morningstar & Deutsche Securities

We closed our exposure to Australian government bonds after a strong rally, allocating the proceeds to US-dollar-denominated Turkish government bonds, which had an attractive prospective return given their yield and spread.

Towards the end of the quarter, we switched out the long-dated Chinese government bond exposure for a shorter-dated bond in order to neutralise our duration overweight to China.

The valuation of equities is such that long-run potential returns are substantially lower than those available in 2020. The tailwinds that have delivered exceptional earnings delivery since the start of the pandemic are fading, and equities are now challenged on a number of fronts. While the interest rate environment has remained benign, potential interest rate increases and rising discount rates, pressurised margins from cost increases, and potential tax increases all contribute to a more challenging earnings and return outlook for the asset class.

Spreads in developed market investment grade and high yield credit have become increasingly tight, leaving only emerging market hard currency and local currency debt as offering fair yields, in our view. We therefore continue to be underweight developed market government bonds versus the reference index. Our exposure to the long end of the US Treasury curve are based on diversification potential and relative value versus the long end of the other mainstream government bond curves.

Emerging market bonds sold off meaningfully during the quarter on a combination of inflation fears, short-rate policy response and the fear of a repeat of the 2013 taper tantrum. However, we believe that neither the taper tantrum nor the inflation fears are justified and consider that the meaningful real yields on offer are attractive for investors with longer time horizons.

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Sources: M&G, Morningstar & Deutsche Securities

Quarterly Commentary

M&G Investments

M&G Global Balanced Feeder Fund

Global multi-asset

Q3 2021

Market overview

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In the US, the economy grew at a robust 6.7% (q/q annualised) pace in Q2 2021, fuelled by further recoveries in manufacturing, services and consumer spending. Combined with an acceleration in inflation and improving employment data, the US Federal Reserve signalled that its long-standing easy monetary policy was set to be tapered. It expects to purchase fewer assets in the fourth quarter, and to start hiking interest rates gradually in 2023, somewhat sooner than expected by the market. This weighed on US Treasuries and the equity market, and prompted some analysts to scale back their growth estimates.

US equities delivered subdued and mixed returns for the quarter, with the main losses coming in September as sentiment deteriorated. The S&P 500 delivered 0.6%, the Dow Jones Industrial -1.5%, and the technology-heavy Nasdaq Composite -0.2% (all in US$).

Both the Bank of England and the European Central Bank followed the US Fed's tighter policy forecast in September, although their monetary tightening is expected to be less aggressive. The former said that the case for modest tightening had strengthened amidst rising inflation concerns, while the latter announced it would start tapering the pace of its net asset purchases due to improved economic and financial conditions. UK GDP growth was revised higher to 5.5% (q/q annualised) for Q2 2021, while the Euro Area's jumped to 2.2% (q/q annualised).

For the quarter, the UK and major European bourses were all in the red, as the FTSE 100 produced -0.5%, the CAC 40 delivered -1.8%, and Germany's DAX posted -4.0% (all in US$).

Japan's economy finally recorded positive growth, with a 0.5% (q/q annualised) GDP expansion in Q2 compared to -1.1% in Q1. Consumer spending, private investment and government spending all contributed to the turnaround, but the world's third-largest economy is still lagging in its recovery compared to other countries. The spread of the Delta variant, particularly in the Tokyo region, has been one of the main factors hampering progress. The Bank of Japan left its key short-term interest rate unchanged at -0.1% at its September meeting, as expected. But unlike its counterparts, it continued to reinforce its message that the current very low levels would stay in place for as long as necessary.

In China, the economy grew at 1.3% (q/q annualised) in Q2, slightly above the 1.2% consensus. However, as Q3 wore on, there were increasing indications that this growth was losing steam, compounded by further concerns over the negative impact on growth of the government's regulatory crackdown, and the possibility of a liquidity crisis prompted by troubles at Evergrande, China's second largest private property developer. This in turn sparked selling in global Resources stocks. At the same time, uncertainty over Evergrande continued, as the government did not assure lenders that it would assume its debt.

After announcing a surprise cut to banks' reserve requirements in July, the People's Bank of China left its base interest rates on hold in September, while indicating that there was still room for further cuts if necessary to support the country's growth recovery. This did dampen some expectations of a further rate cut in the shorter-term, but also heightened concerns of a bigger-than-expected economic slowdown in the third and fourth quarters of the year.

For the third quarter of 2021, Japan's Nikkei 225 returned 2.4%, the MSCI China produced -18.1% and Hong Kong's Hang Seng delivered -14.1% (all in US$).

Among other large emerging equity markets, in US$ terms, Brazil's Bovespa was the worst performer with a -19.4% return, while South Korea's KOSPI delivered -13.0% and the MSCI South Africa -5.5%. The top performer was the MSCI India with a 12.7% return, followed by the MSCI Russia with 9.9% (all in US$).

Performance

The fund delivered a return of -0.4% (net of fees) for the third quarter of 2021, outperforming its benchmark by 0.5%. For the year ended 30 September 2021, the fund returned 22.7% (net of fees), outperforming its benchmark by 4.0%.

Contributors to absolute performance over the quarter came from the fund's exposure to US and Japanese equities and Chinese government bonds. This positive performance was in part offset by exposure to Chinese and global emerging-market equities, emerging-market government bonds (particularly from Chile) as well as European corporate bonds detracted from absolute performance.

Strategy and positioning

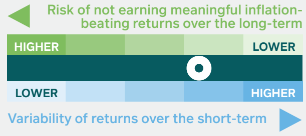
We now have a more muted preference for equities than previously, although we retain a preference for those from Japan, Europe and the UK. However, we still favour equities over government bonds. We are constructive on emerging market hard currency and local debt.

Near the beginning of the quarter, to neutralise the underweight in Chinese fixed income exposure, we bought long-dated local currency bonds, while reducing exposure to global fixed income held via an ETF. We also reduced the holding of US investment-grade credit on the basis of tight spreads and meaningful duration risk. We added to emerging market government bonds (Brazilian, Mexican and Chilean), which had experienced rapid price action. In equities, we added to China on the basis of the very rapid sell-off.

We closed our exposure to Australian government bonds after a strong rally, allocating the proceeds to US-dollar-denominated Turkish government bonds, which had an attractive prospective return given their yield and spread. Mid quarter, we switched our emerging market equity exposure from the M&G Global Emerging

Annualised performance	A class	Benchmark	B class
1 year	19.0%	16.7%	19.0%
2 years	11.2%	14.4%	11.2%
3 years	11.4%	14.3%	11.4%
Since inception	10.9%	14.4%	-

Risk profile



Fund facts

Investment manager of the underlying fund

M&G Investment Management Limited (UK)

Fund managers of the underlying fund

Marc Beckenstrater
Craig Simpson

ASISA category

Global - Multi Asset - High Equity

Benchmark

65% MSCI All Country World Index TR (Net), 5% FTSE EPRA/NAREIT Global REIT Index, 25% Bloomberg Global Aggregate Bond Index, 5% USD 1m LIBOR

Inception date

28 June 2018

Fund size

R45 410 305

Sources: M&G, Morningstar & Deutsche Securities

Markets Fund to an emerging markets ETF to take advantage of the relative underperformance of the latter, as we believed that the Chinese technology sector was suffering only temporary weakness.

Towards the end of the quarter, we switched out the long-dated Chinese government bond exposure for a shorter-dated bond in order to neutralise our duration overweight to China.

The valuation of equities is such that long-run potential returns are substantially lower than those available in 2020. The tailwinds that have delivered exceptional earnings delivery since the start of the pandemic are fading, and equities are now challenged on a number of fronts. While the interest rate environment has remained benign, potential interest rate increases and rising discount rates, pressurised margins from cost increases, and potential tax increases all contribute to a more challenging earnings and return outlook for the asset class.

Spreads in developed market investment grade and high yield credit have become increasingly tight, leaving only emerging market hard currency and local currency debt as offering fair yields, in our view. We therefore continue to be underweight developed market government bonds versus the reference index. Our exposure to the long end of the US Treasury curve are based on diversification potential and relative value versus the long end of the other mainstream government bond curves.

Emerging market bonds sold off meaningfully during the quarter on a combination of inflation fears, short-rate policy response and the fear of a repeat of the 2013 taper tantrum. However, we believe that neither the taper tantrum nor the inflation fears are justified and consider that the meaningful real yields on offer are attractive for investors with longer time horizons.

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M&G Global Equity Feeder Fund

Global equity

Q3 2021

Market overview

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In the US, the economy grew at a robust 6.7% (q/q annualised) pace in Q2 2021, fuelled by further recoveries in manufacturing, services and consumer spending. Combined with an acceleration in inflation and improving employment data, the US Federal Reserve signalled that its long-standing easy monetary policy was set to be tapered. It expects to purchase fewer assets in the fourth quarter, and to start hiking interest rates gradually in 2023, somewhat sooner than expected by the market. This weighed on US Treasuries and the equity market, and prompted some analysts to scale back their growth estimates.

US equities delivered subdued and mixed returns for the quarter, with the main losses coming in September as sentiment deteriorated. The S&P 500 delivered 0.6%, the Dow Jones Industrial -1.5%, and the technology-heavy Nasdaq Composite -0.2% (all in US$).

Both the Bank of England and the European Central Bank followed the US Fed's tighter policy forecast in September, although their monetary tightening is expected to be less aggressive. The former said that the case for modest tightening had strengthened amidst rising inflation concerns, while the latter announced it would start tapering the pace of its net asset purchases due to improved economic and financial conditions. UK GDP growth was revised higher to 5.5% (q/q annualised) for Q2 2021, while the Euro Area's jumped to 2.2% (q/q annualised).

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Japan's economy finally recorded positive growth, with a 0.5% (q/q annualised) GDP expansion in Q2 compared to -1.1% in Q1. Consumer spending, private investment and government spending all contributed to the turnaround, but the world's third-largest economy is still lagging in its recovery compared to other countries. The spread of the Delta variant, particularly in the Tokyo region, has been one of the main factors hampering progress. The Bank of Japan left its key short-term interest rate unchanged at -0.1% at its September meeting, as expected. But unlike its counterparts, it continued to reinforce its message that the current very low levels would stay in place for as long as necessary.

In China, the economy grew at 1.3% (q/q annualised) in Q2, slightly above the 1.2% consensus. However, as Q3 wore on, there were increasing indications that this growth was losing steam, compounded by further concerns over the negative impact on growth of the government's regulatory crackdown, and the possibility of a liquidity crisis prompted by troubles at Evergrande, China's second largest private property developer. This in turn sparked selling in global Resources stocks. At the same time, uncertainty over Evergrande continued, as the government did not assure lenders that it would assume its debt.

After announcing a surprise cut to banks' reserve requirements in July, the People's Bank of China left its base interest rates on hold in September, while indicating that there was still room for further cuts if necessary to support the country's growth recovery. This did dampen some expectations of a further rate cut in the shorter-term, but also heightened concerns of a bigger-than-expected economic slowdown in the third and fourth quarters of the year.

For the third quarter of 2021, Japan's Nikkei 225 returned 2.4%, the MSCI China produced -18.1% and Hong Kong's Hang Seng delivered -14.1% (all in US$).

Among other large emerging equity markets, in US$ terms, Brazil's Bovespa was the worst performer with a -19.4% return, while South Korea's KOSPI delivered -13.0% and the MSCI South Africa -5.5%. The top performer was the MSCI India with a 12.7% return, followed by the MSCI Russia with 9.9% (all in US$).

Performance

The fund delivered a return of -4.0% (net of fees) for the third quarter of 2021, while the benchmark returned -1.1%. For the year ended 30 September 2021, the fund returned 37.4% (net of fees), outperforming its benchmark by 10.0%.

The fund outperformed on 29 of 66 days, offering a hit rate for the entire quarter of around 44%, which resulted in the fund underperforming its benchmark over the period. Style had a negative contribution over the quarter, with exposure to small size, high earnings variability and high volatility stocks detracting from performance.

Strategy and positioning

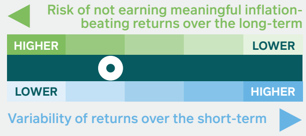
The portion of the fund managed using its proprietary machine learning model is approximately 85% of which 3% is allocated to Prudential Global Property Fund and the remaining 15% is invested in strategic ETFs. The ETF allocation is primarily used for liquidity purposes and is expected to fall over time. At the factor level, the fund currently exhibits positive active exposure to momentum, high volatility and smaller cap companies, while being relative neutral to value.

Our valuation of equities is such that long-run potential returns are substantially lower than those available in 2020. The tailwinds that have delivered exceptional earnings delivery since the pandemic are fading, and equities are now challenged on a number of fronts.

While the interest rate environment has remained benign, potential interest rate increases and rising discount rates, pressurised margins from cost increases, and potential tax increases, all contribute to a more challenging earnings and return outlook for the asset class.

Annualised performance	A class	Benchmark	B class
1 year	31.7%	28.1%	32.2%
3 years	17.7%	18.5%	18.1%
5 years	15.5%	17.4%	-
7 years	14.3%	15.8%	-
10 years	16.8%	18.9%	-
Since inception	8.4%	9.9%	-

Risk profile



Fund facts

Investment manager of the underlying fund

M&G Investment Management Limited (UK)

Fund managers of the underlying fund

Marc Beckenstrater
Craig Simpson

ASISA category

Global - Equity - General

Benchmark

MSCI All Country World Index TR Net

Inception date

18 February 2000

Fund size

R488 968 542

Sources: M&G, Morningstar & Deutsche Securities

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M&G 2.5% Target Income Fund

Target Income

Q3 2021

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In South Africa, the broader equity market was only marginally negative (in rand terms) over the quarter. Good gains in financial, retail and property stocks helped to largely offset losses in some Resources shares, as well as Naspers and Prosus. At the same time, SA bonds bucked the global trend with positive returns. However, the rand lost ground against the major global currencies.

In the US, the economy grew at a robust 6.7% (q/q annualised) pace in Q2 2021, fuelled by further recoveries in manufacturing, services and consumer spending. Combined with an acceleration in inflation and improving employment data, the US Federal Reserve signalled that its long-standing easy monetary policy was set to be tapered. It expects to purchase fewer assets in the fourth quarter, and to start hiking interest rates gradually in 2023, somewhat sooner than expected by the market. This weighed on US Treasuries and the equity market, and prompted some analysts to scale back their growth estimates.

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Among other large emerging equity markets, in US$ terms, Brazil's Bovespa was the worst performer with a -19.4% return, while South Korea's KOSPI delivered -13.0% and the MSCI South Africa -5.5%. The top performer was the MSCI India with a 12.7% return, followed by the MSCI Russia with 9.9% (all in US$).

The spot price of Brent crude oil gained 4.5% in Q3, and has risen nearly 52% for the year to date. The sharp increase has been fuelling global inflation, with the price at around US$80 per barrel at quarter-end. Other commodity prices were mostly weaker over the quarter - the main exception was aluminium, which gained 13.0%. Otherwise, gold was down 2.0%, platinum fell 11% and palladium plunged some 30%, impacted by a sharp drop in demand as automobile production was slowed by the shortage of microchips. Nickel fell 1.5% and copper lost 3.7%.

In South Africa, economic growth for Q2 2021 surprised to the upside at 1.2% (q/q annualised) compared to the consensus of 0.7% q/q, and up from the revised 1.0% q/q recorded in the previous quarter. This amounted to 19.3% y/y growth due to the low base of the previous year. Growth was uneven across sectors, with transport, agriculture and services posting the strongest performances, while manufacturing contracted. However, news was dominated by the July riots sparked by the jailing of Jacob Zuma - National Treasury estimated the resulting damage could subtract around 0.9 percentage points from 2021 GDP growth.

Growth prospects were also hit by the higher lockdown levels imposed as a result of the spiking "third wave" of the coronavirus pandemic during the quarter, which came despite the continued rollout of the government's vaccine programme. The ebbing of the wave towards quarter-end was a positive sign that vaccinations were making progress in combatting the Delta variant of the virus, also paving the way for a further reopening of the economy.

At its September MPC meeting, the South African Reserve Bank kept its benchmark interest rate unchanged at a record low of 3.5%, but sounded more hawkish as it indicated that its first 25bp hike would be coming in the last quarter of the year, as well as further 25bp increases in each quarter of 2022 and 2023. Importantly, Governor Lesetja Kganyago floated the idea that the SARB may

Annualised performance	A class	CPI	B class
1 year	34.6%	5.0%	35.0%
2 years	9.2%	4.0%	9.6%
Since inception	6.2%	4.1%	-

Fund facts

Fund managers
David Knee
Michael Moyle
Sandile Malinga
Leonard Krüger

ASISA category
The Fund is unclassified given its unique investment objective.

Objective (before fees)
2.5% Income return p.a.

Inception date
2 April 2019

Fund size
R104 070 124

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

want to reduce its inflation target range from the current 3%-6% to below the inferred 4.5% mid-point target.

Good news came in the form of record-breaking trade surpluses on the back of the rise in commodity prices earlier in the quarter, in turn creating higher-than-expected tax receipts from mining companies. This alleviated some pressure on the government's expected budget deficit, allowing Treasury to cut some planned bond issuance. However, with commodity prices falling later in the quarter, concerns returned over the perilous state of government finances.

The FTSE/JSE ALSI returned -0.8% during Q3 (losing 3.1% in September alone on the back of the higher global investor risk aversion). However, the more locally-exposed FTSE/JSE Capped SWIX All Share Index, which we use as the equity benchmark for most of our client mandates, returned 3.2% for the quarter and -1.4% in September. The local market outperformed many of its emerging market peers in Q3, helped by its better relative value and improved company earnings prospects during the period. The standout sector was Financials, which delivered a 13.2% return, followed by Listed Property (the All Property Index) with 6.5%. The Resources 10 Index retraced some of its previous strong performance with a -3.8% return amid growing concerns over a Chinese economic slowdown, and the Industrials sector was partially impacted by its Naspers/Prosus exposure, posting a -4.3% total return.

SA bonds still managed to eke out a 0.4% positive return during the quarter (as measured by the FTSE/JSE All Bond Index), losing 2.1% in September as US Treasuries and global bonds recorded negative returns. The local yield curve continued to flatten as longer-dated bonds outperformed. Meanwhile, SA inflation-linked bonds again outperformed their nominal counterparts as inflation fears gained ground, producing 2.0% (Composite ILB Index), and cash (STeFI Composite) delivered 1.0%.

Finally, the rand depreciated against the major global currencies over the quarter, retracing some of its gains seen earlier in the year amid the higher risk-off sentiment and a stronger US dollar, particularly in September. It lost 5.4% against the US dollar, 2.9% versus the pound sterling and 3.0% against the euro over the three months. This helped boost returns for SA investors with offshore exposure.

Performance

The M&G 2.5% Target Income Fund returned 5.1% (after fees) for the third quarter of 2021 and 27.3% for the 12-month period ending 30 September 2021. The largest asset-class contributor to the fund's absolute performance for the quarter was its exposure to SA equities, followed by international equities and international fixed income. SA listed property added value, while SA nominal bond holdings were minimal in their contribution for the quarter. The fund holds no SA ILBs.

In terms of specific equity exposure, among the strongest equity contributors to absolute returns for the quarter were MTN and Sasol, and the fund's exposure to financial counters including Investec, Absa, Standard Bank and Remgro also added good value. Glencore was also a notable contributor during the period. Top detractors from absolute performance included Naspers/Prosus (by far) followed by Foschini and then Resources counters like Sibanye, Anglo American Platinum, Impala Platinum and Northam.

Strategy and positioning

Starting with our view on offshore asset allocation, the fund maintained its slight preference for global equities versus global bonds and global cash during the quarter. It also continued to be tilted away from global bonds in favour of SA nominal bonds due to the latter's better value. Within our global equity positioning, we remained cautious in our exposure to US equities, as this market continued to be expensive compared to most other countries. Instead, our portfolios favour selected European and other developed market equities, and some emerging market equities. We have been aiming to position the portfolios with higher weightings of very high-returning global assets while maintaining a mix of assets that have diversified return profiles, thereby cushioning them against unforeseen shocks.

The fund still heavily favoured SA equities at the end of Q3. SA equity valuations (as measured by the 12-month forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) de-rated slightly over the quarter, moving from around 9.2X at the beginning of the quarter to around 9.1X at quarter-end. With investor risk concerns rising, equity price gains didn't keep pace with improvements in company earnings expectations. This improvement in valuations was too small to cause us to increase our allocation to SA equity, as competing assets also remained attractive.

Within SA equities, in broad terms our exposure to large global companies (in particular Resources groups) did not work in our favour over the quarter due to the relative underperformance from these shares, including Implats and Amplats, which were hit by the plunge in PGM prices. However, our continued overweight to financial stocks added to portfolio value, with contributions from Investec, Absa, Standard Bank, Remgro and Old Mutual as notable performers. Other stand-out returns came from our overweight exposure to MTN and Sasol.

We have maintained our positioning in SA listed property in Q3 2021. We see these assets as being fairly valued based on the risk involved. Listed property remains the best-performing sector (and asset class) in 2021, recording a 27.9% return over the nine months to end-September. It also continues to have good long-term growth prospects, with the All Property Index now reflecting a 12-month forward dividend yield at around 9%, plus further growth expected on top of this. However, listed property is a lagging sector in the cycle, as earnings are usually only impacted negatively once rental contracts come to an end and new rents are set at lower levels (negative reversions) – and this is still happening. So while the logistics and self-storage segments have been the most resilient and are performing well, retail is still weak and the office segment even weaker, plagued by high vacancies. On the positive side, new speculative developments in these segments have halted during the pandemic and the retail supply-demand balance is healthier, which should lead to improving rental growth over the medium term.

SA nominal bonds managed to record a marginal positive return in Q3, and the portfolio benefitted from our continued preference for these assets compared to offshore bonds and SA ILBs. We believe nominal bonds remain attractive relative to other income assets and their own longer-term history and will more than compensate investors for their associated risks. The portfolio holds no ILBs.

Lastly, the fund remained heavily tilted away from SA cash as our least preferred asset class, since prospective real returns are negative and other SA assets more attractive on a relative basis.

Although market volatility remains high in the short term, we believe the fund is well-positioned to meet its objectives over the next three to five years, and we continue to take advantage of opportunities to enhance long-term returns.

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G 5% Target Income Fund

Target Income

Q3 2021

Market overview

The third quarter of 2021 saw a notable shift toward investor risk aversion compared to the first half of the year, as several mounting concerns around global growth took their toll on financial markets. Among the most influential were: the relentless spread of the Covid Delta variant; indications of a sooner-than-expected start to the US Fed's (and other central banks') policy tightening; and stricter Chinese regulatory policies. Global bond markets came under pressure, and many equity markets produced negative returns, with emerging markets and currencies lagging developed markets. Technology and Resources counters were among the worst performers, the latter due to the fall in commodity prices (apart from oil), especially in September.

In South Africa, the broader equity market was only marginally negative (in rand terms) over the quarter. Good gains in financial, retail and property stocks helped to largely offset losses in some Resources shares, as well as Naspers and Prosus. At the same time, SA bonds bucked the global trend with positive returns. However, the rand lost ground against the major global currencies.

In the US, the economy grew at a robust 6.7% (q/q annualised) pace in Q2 2021, fuelled by further recoveries in manufacturing, services and consumer spending. Combined with an acceleration in inflation and improving employment data, the US Federal Reserve signalled that its long-standing easy monetary policy was set to be tapered. It expects to purchase fewer assets in the fourth quarter, and to start hiking interest rates gradually in 2023, somewhat sooner than expected by the market. This weighed on US Treasuries and the equity market, and prompted some analysts to scale back their growth estimates.

US equities delivered subdued and mixed returns for the quarter, with the main losses coming in September as sentiment deteriorated. The S&P 500 delivered 0.6%, the Dow Jones Industrial -1.5%, and the technology-heavy Nasdaq Composite -0.2% (all in US$).

Both the Bank of England and the European Central Bank followed the US Fed's tighter policy forecast in September, although their monetary tightening is expected to be less aggressive. The former said that the case for modest tightening had strengthened amidst rising inflation concerns, while the latter announced it would start tapering the pace of its net asset purchases due to improved economic and financial conditions. UK GDP growth was revised higher to 5.5% (q/q annualised) for Q2 2021, while the Euro Area's jumped to 2.2% (q/q annualised).

For the quarter, the UK and major European bourses were all in the red, as the FTSE 100 produced -0.5%, the CAC 40 delivered -1.8%, and Germany's DAX posted -4.0% (all in US$).

Japan's economy finally recorded positive growth, with a 0.5% (q/q annualised) GDP expansion in Q2 compared to -1.1% in Q1. Consumer spending, private investment and government spending all contributed to the turnaround, but the world's third-largest economy is still lagging in its recovery compared to other countries. The spread of the Delta variant, particularly in the Tokyo region, has been one of the main factors hampering progress. The Bank of Japan left its key short-term interest rate unchanged at -0.1% at its September meeting, as expected. But unlike its counterparts, it continued to reinforce its message that the current very low levels would stay in place for as long as necessary.

For the third quarter of 2021, Japan's Nikkei 225 returned 2.4% in US$.

In China, the economy grew at 1.3% (q/q annualised) in Q2, slightly above the 1.2% consensus. However, as Q3 wore on, there were increasing indications that this growth was losing steam, compounded by further concerns over the negative impact on growth of the government's regulatory crackdown, and the possibility of a liquidity crisis prompted by troubles at Evergrande, China's second largest private property developer. This in turn sparked selling in global Resources stocks. At the same time, uncertainty over Evergrande continued, as the government did not assure lenders that it would assume its debt.

After announcing a surprise cut to banks' reserve requirements in July, the People's Bank of China left its base interest rates on hold in September, while indicating that there was still room for further cuts if necessary to support the country's growth recovery. This did dampen some expectations of a further rate cut in the shorter-term, but also heightened concerns of a bigger-than-expected economic slowdown in the third and fourth quarters of the year.

For the third quarter of 2021, Japan's Nikkei 225 returned 2.4%, the MSCI China produced -18.1% and Hong Kong's Hang Seng delivered -14.1% (all in US$).

Among other large emerging equity markets, in US$ terms, Brazil's Bovespa was the worst performer with a -19.4% return, while South Korea's KOSPI delivered -13.0% and the MSCI South Africa -5.5%. The top performer was the MSCI India with a 12.7% return, followed by the MSCI Russia with 9.9% (all in US$).

The spot price of Brent crude oil gained 4.5% in Q3, and has risen nearly 52% for the year to date. The sharp increase has been fuelling global inflation, with the price at around US$80 per barrel at quarter-end. Other commodity prices were mostly weaker over the quarter - the main exception was aluminium, which gained 13.0%. Otherwise, gold was down 2.0%, platinum fell 11% and palladium plunged some 30%, impacted by a sharp drop in demand as automobile production was slowed by the shortage of microchips. Nickel fell 1.5% and copper lost 3.7%.

In South Africa, economic growth for Q2 2021 surprised to the upside at 1.2% (q/q annualised) compared to the consensus of 0.7% q/q, and up from the revised 1.0% q/q recorded in the previous quarter. This amounted to 19.3% y/y growth due to the low base of the previous year. Growth was uneven across sectors, with transport, agriculture and services posting the strongest performances, while manufacturing contracted. However, news was dominated by the July riots sparked by the jailing of Jacob Zuma - National Treasury estimated the resulting damage could subtract around 0.9 percentage points from 2021 GDP growth.

Growth prospects were also hit by the higher lockdown levels imposed as a result of the spiking "third wave" of the coronavirus pandemic during the quarter, which came despite the continued rollout of the government's vaccine programme. The ebbing of the wave towards quarter-end was a positive sign that vaccinations were making progress in combatting the Delta variant of the virus, also paving the way for a further reopening of the economy.

At its September MPC meeting, the South African Reserve Bank kept its benchmark interest rate unchanged at a record low of 3.5%, but sounded more hawkish as it indicated that its first 25bp hike would be coming in the last quarter of the year, as well as further 25bp increases in each quarter of 2022 and 2023. Importantly, Governor Lesetja Kganyago floated the idea that the SARB may

Annualised performance	A class	CPI	B class
1 year	19.7%	5.0%	20.1%
2 years	6.2%	4.0%	6.6%
Since inception	5.7%	4.1%	-

Fund facts

Fund managers
David Knee
Michael Moyle
Sandile Malinga
Leonard Krüger

ASISA category
The Fund is unclassified given its unique investment objective.

Objective (before fees)
5% Income return p.a.

Inception date
2 April 2019

Fund size
R202 863 012

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

want to reduce its inflation target range from the current 3%-6% to below the inferred 4.5% mid-point target.

Good news came in the form of record-breaking trade surpluses on the back of the rise in commodity prices earlier in the quarter, in turn creating higher-than-expected tax receipts from mining companies. This alleviated some pressure on the government's expected budget deficit, allowing Treasury to cut some planned bond issuance. However, with commodity prices falling later in the quarter, concerns returned over the perilous state of government finances.

The FTSE/JSE ALSI returned -0.8% during Q3 (losing 3.1% in September alone on the back of the higher global investor risk aversion). However, the more locally-exposed FTSE/JSE Capped SWIX All Share Index, which we use as the equity benchmark for most of our client mandates, returned 3.2% for the quarter and -1.4% in September. The local market outperformed many of its emerging market peers in Q3, helped by its better relative value and improved company earnings prospects during the period. The standout sector was Financials, which delivered a 13.2% return, followed by Listed Property (the All Property Index) with 6.5%. The Resources 10 Index retraced some of its previous strong performance with a -3.8% return amid growing concerns over a Chinese economic slowdown, and the Industrials sector was partially impacted by its Naspers/Prosus exposure, posting a -4.3% total return.

SA bonds still managed to eke out a 0.4% positive return during the quarter (as measured by the FTSE/JSE All Bond Index), losing 2.1% in September as US Treasuries and global bonds recorded negative returns. The local yield curve continued to flatten as longer-dated bonds outperformed. Meanwhile, SA inflation-linked bonds again outperformed their nominal counterparts as inflation fears gained ground, producing 2.0% (Composite ILB Index), and cash (STeFI Composite) delivered 1.0%.

Finally, the rand depreciated against the major global currencies over the quarter, retracing some of its gains seen earlier in the year amid the higher risk-off sentiment and a stronger US dollar, particularly in September. It lost 5.4% against the US dollar, 2.9% versus the pound sterling and 3.0% against the euro over the three months. This helped boost returns for SA investors with offshore exposure.

Performance

The M&G 5% Target Income Fund returned 3.0% (after fees) for the third quarter of 2021 and 16.7% for the 12-month period ending 30 September 2021. The largest asset-class contributors to absolute performance for the quarter were the fund's exposure to SA equities (by far), followed by global equities and global bonds. SA listed property also added respectable returns. There were few detractors to the fund's absolute returns on an asset class basis, although SA nominal bonds and ILBs contributed relatively marginally.

In terms of specific equity exposure, among the strongest equity contributors to absolute returns for the quarter were the fund's holdings in MTN and Sasol, as well as a range of financial counters including Absa, Standard Bank, FirstRand and Remgro. Naspers/Prosus was by far the largest equity detractor from absolute returns, while Resources holdings like Sibanye, Implats and Amplats also weighed on performance.

Strategy and positioning

Starting with our view on offshore asset allocation, the fund maintained its slight preference for global equities versus global bonds and global cash during the quarter. It also continued to be tilted away from global bonds in favour of SA nominal bonds due to the latter's better value. Within our global equity positioning, we remained cautious in our exposure to US equities, as this market continued to be expensive compared to most other countries. Instead, our portfolios favour selected European and other developed market equities, and some emerging market equities. We have been aiming to position the portfolios with higher weightings of very high-returning global assets while maintaining a mix of assets that have diversified return profiles, thereby cushioning them against unforeseen shocks.

The fund still heavily favoured SA equities at the end of Q3. SA equity valuations (as measured by the 12-month forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) de-rated slightly over the quarter, moving from around 9.2X at the beginning of the quarter to around 9.1X at quarter-end. With investor risk concerns rising, equity price gains didn't keep pace with improvements in company earnings expectations. This improvement in valuations was too small to cause us to increase our allocation to SA equity, as competing assets also remained attractive.

Within SA equities, in broad terms our exposure to large global companies (in particular Resources groups) did not work in our favour over the quarter due to the relative underperformance from these shares, including Implats and Amplats, which were hit by the plunge in PGM prices. However, our continued overweight to financial stocks added to portfolio value, with contributions from Investec, Absa, Standard Bank, Remgro and Old Mutual as notable performers. Other good returns came from our overweight exposure to MTN and Sasol, and our more recent reduction in our Resources holdings also helped portfolio performance.

We have maintained our positioning in SA listed property in Q3 2021. We see these assets as being fairly valued based on the risk involved. Listed property remains the best-performing sector (and asset class) in 2021, recording a 27.9% return over the nine months to end-September. It also continues to have good long-term growth prospects, with the All Property Index now reflecting a 12-month forward dividend yield at around 9%, plus further growth expected on top of this. However, listed property is a lagging sector in the cycle, as earnings are usually only impacted negatively once rental contracts come to an end and new rents are set at lower levels (negative reversions) – and this is still happening. So while the logistics and self-storage segments have been the most resilient and are performing well, retail is still weak and the office segment even weaker, plagued by high vacancies. On the positive side, new speculative developments in these segments have halted during the pandemic and the retail supply-demand balance is healthier, which should lead to improving rental growth over the medium term. Our broad view based on earnings reports is that risks in the listed property sector have improved since the beginning of the year, and our holdings within the sector reflect this.

SA nominal bonds managed to record a marginal positive return in Q3, and the portfolio benefitted from our continued preference for these assets compared to offshore bonds and SA ILBs. We believe nominal bonds remain attractive relative to other income assets and their own longer-term history and will more than compensate investors for their associated risks.

Inflation-linked bonds (ILBs) outperformed their nominal counterparts during the quarter, but the fund's positioning was unchanged in this asset class given its income target. ILB real yields are still relatively attractive compared to their own history and our long-run fair value assumption of 2.5%. In Q3 the gap between ILB and cash real yields narrowed, as cash real yields were steady. However, the fund remained heavily tilted away from SA cash as our least preferred asset class, since prospective real returns are negative and other SA assets more attractive on a relative basis.

Although market volatility remains high in the short term, we believe the fund is well-positioned to meet its objectives over the next three to five years, and we continue to take advantage of opportunities to enhance long-term returns.

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G 7% Target Income Fund

Target Income

Q3 2021

Fund facts

Fund managers

David Knee
Michael Moyle
Sandile Malinga
Leonard Krüger

ASISA category

The Fund is unclassified given its unique investment objective.

Objective (before fees)

7% Income return p.a.

Inception date

2 April 2019

Fund size

R396 511 334

Market overview

The third quarter of 2021 saw a notable shift toward investor risk aversion compared to the first half of the year, as several mounting concerns around global growth took their toll on financial markets. Among the most influential were: the relentless spread of the Covid Delta variant; indications of a sooner-than-expected start to the US Fed's (and other central banks') policy tightening; and stricter Chinese regulatory policies. Global bond markets came under pressure, and many equity markets produced negative returns, with emerging markets and currencies lagging developed markets. Technology and Resources counters were among the worst performers, the latter due to the fall in commodity prices (apart from oil), especially in September.

The spot price of Brent crude oil gained 4.5% in Q3, and has risen nearly 52% for the year to date. The sharp increase has been fuelling global inflation, with the price at around US$80 per barrel at quarter-end. Other commodity prices were mostly weaker over the quarter - the main exception was aluminium, which gained 13.0%. Otherwise, gold was down 2.0%, platinum fell 11% and palladium plunged some 30%, impacted by a sharp drop in demand as automobile production was slowed by the shortage of microchips. Nickel fell 1.5% and copper lost 3.7%.

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Growth prospects were also hit by the higher lockdown levels imposed as a result of the spiking "third wave" of the coronavirus pandemic during the quarter, which came despite the continued rollout of the government's vaccine programme. The ebbing of the wave towards quarter-end was a positive sign that vaccinations were making progress in combatting the Delta variant of the virus, also paving the way for a further reopening of the economy.

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Performance

The M&G 7% Target Income Fund returned 1.4% (after fees) for the quarter and 16.0% for the 12-month period ending 30 September 2021.

The largest asset-class contributors to absolute performance for the quarter were the fund's exposure to SA equities (by far), followed by SA listed property and SA nominal bonds. SA cash and ILBs also added value. There were no detractors from the fund's absolute returns on an asset class basis.

In terms of specific equity exposure, among the strongest equity contributors to absolute returns for the quarter were the fund's holdings in MTN, Sasol, and financials including Standard Bank, FirstRand Remgro, Investec and Absa. Listed property stocks like Resilient, Hyprop and Vukile also added value. Naspers/Prosus was by far the largest equity detractor from absolute returns, while Resources holdings like Sibanye, Implats and Amplats also weighed on performance.

Strategy and positioning

The fund still heavily favoured SA equities at the end of Q3. SA equity valuations (as measured by the 12-month forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) de-rated slightly over the quarter, moving from around 9.2X at the beginning of the quarter to around 9.1X at quarter-end. With investor risk concerns rising, equity price gains didn't keep pace with improvements in company earnings expectations. This improvement in valuations was too small to cause us to increase our allocation to SA equity, as competing assets also remained attractive.

Within SA equities, in broad terms our exposure to large global companies (in particular Resources groups) did not work in our favour over the quarter due to the relative underperformance from these shares, including Implats and Amplats, which were hit by the plunge in PGM prices. However, our continued overweight

Annualised performance	A class	CPI	B class
1 year	16.3%	5.0%	16.7%
2 years	5.3%	4.0%	5.7%
Since inception	4.9%	4.1%	-

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

to financial stocks added to portfolio value, with contributions from Investec, Absa, Standard Bank, Remgro and Old Mutual as notable performers. Other good returns came from our overweight exposure to MTN and Sasol, and our more recent reduction in our Resources holdings also helped portfolio performance.

We have maintained our positioning in SA listed property in Q3 2021. We see these assets as being fairly valued based on the risk involved. Listed property remains the best-performing sector (and asset class) in 2021, recording a 27.9% return over the nine months to end-September. It also continues to have good long-term growth prospects, with the All Property Index now reflecting a 12-month forward dividend yield at around 9%, plus further growth expected on top of this. However, listed property is a lagging sector in the cycle, as earnings are usually only impacted negatively once rental contracts come to an end and new rents are set at lower levels (negative reversions) – and this is still happening. So while the logistics and self-storage segments have been the most resilient and are performing well, retail is still weak and the office segment even weaker, plagued by high vacancies. On the positive side, new speculative developments in these segments have halted during the pandemic and the retail supply-demand balance is healthier, which should lead to improving rental growth over the medium term. Our broad view based on earnings reports is that risks in the listed property sector have improved since the beginning of the year, and our holdings within the sector reflect this.

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Inflation-linked bonds (ILBs) outperformed their nominal counterparts during the quarter, but the fund's positioning was unchanged in this asset class given its high income target. ILB real yields are still relatively attractive compared to their own history and our long-run fair value assumption of 2.5%. In Q3 the gap between ILB and cash real yields narrowed, as cash real yields were steady. However, fund remained heavily tilted away from SA cash as our least preferred asset class, since prospective real returns are negative and other SA assets more attractive on a relative basis.

Although market volatility remains high in the short term, we believe the fund is well-positioned to meet its objectives over the next three to five years, and we continue to take advantage of opportunities to enhance long-term returns.

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