M&G Unit Trust Quarterly Commentary

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

June 2022

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M&G Money Market Fund

Income

Q2 2022

Market overview

Investor concerns over a major slowdown in global growth, and therefore corporate earnings, escalated during the second quarter (Q2) of 2022, especially in June. This came as steep interest rate hikes in the US and strict Chinese Covid-19 lockdowns, as well as the ongoing destructive Russia-Ukraine war, led to downward revisions in economic growth expectations for the world's biggest economies. Further rises in energy and food prices also led to more speculation over extended inflationary pressures and stagflation and/or recession, even as other commodity prices lost ground. This combination of factors resulted in losses across most financial markets – equities, nominal bonds and inflation-linked bonds.

South African markets were less insulated from the global inflation and growth concerns than in the previous quarter. This was due to the fall in commodity prices, accelerating inflation, and forecasts for more aggressive local interest rate hikes in July, plus even slower growth ahead. Stage 4-6 loadshedding also weighed on growth prospects. The South African Reserve Bank (SARB) lowered its GDP growth forecast for 2022 to 1.7% from 2.0% previously.

However, local bond losses were somewhat less severe than developed markets, and more in line with those in other emerging markets. Amid growing inflationary fears, SA's All Bond Index lost 3.7%, but inflation-linked bonds (ILBs) delivered 2.9% and cash returned 1.2%.

With CPI rising to 6.5% y/y in May – the first time since January 2017 that it has broken through the upper limit of the SARB's 3%-6% target range – the SARB hiked the repo rate by 50bps at its May meeting to 4.75%. The Bank is widely expected to hike by another 100bps at a minimum this year in an effort to both fight inflation and to keep our interest rate differential versus the US as high as possible in a bid to avoid more pressure on the rand and SA bond yields.

Performance

For the second quarter of 2022, the fund delivered a return of 1.2% (net of fees), while its benchmark, the STeFi Call Deposit, delivered 1.1%. For the 12 months ended 30 June 2022, the fund returned 4.2% (net of fees), outperforming its benchmark by 0.4%.

The return generated by the fund's holdings in floating-rate instruments was boosted by the 64bps increase in the JIBAR rate over the quarter.

Strategy and positioning

We believe that the magnitude of interest rate increases currently priced into the market seems excessive. For example, the NCD market is currently pricing in a 300bp rise in the repo rate over the next year. This is the increase that is required for a one-year floating NCD to provide the same return as the 7.5% available from a fixed NCD. Given that the Reserve Bank's MPC meets six times a year, the market is therefore effectively pricing in a 50bp increase at every meeting. Although this is certainly not impossible, we believe it's unlikely, even after taking into account the acceleration in local inflation that we have seen in recent months.

We, therefore, believe it makes more sense to have exposure tilted towards fixed-rate to the extent that the fund's mandate allows. Our positioning in the fund is consistent with this view, with the duration position having been maintained at close to the maximum 90-day limit over the quarter.

Credit trends

Credit spreads have broadly come in, largely reverting to pre-pandemic levels. We believe this to be partly due to more prevalent participation from banks (either to replace maturing instruments in their high-quality liquid asset portfolios or to accumulate instruments for secondary market-making purposes), or as a result of a limited pipeline of other investable assets available to banks.

Annualised performance	A class	Benchmark	X class
1 year	4.2%	3.8%	4.2%
3 years	4.9%	4.5%	5.0%
5 years	5.9%	5.3%	6.0%
7 years	6.3%	5.7%	6.4%
10 years	6.0%	5.5%	6.1%
Since inception	7.3%	7.1%	-

Risk profile

Risk of not earning meaningful inflation-beating returns over the long-term

HIGHER LOWER

LOWER HIGHER

Variability of returns over the short-term

Fund facts

Fund managers

Roshen Harry
René Prinsloo

ASISA category

South African - Interest Bearing - Money Market

Benchmark

STeFI Call Deposit Index

Inception date

9 April 2002

Fund size

R1 237 626 256

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Sources: M&G, Morningstar & Deutsche Securities

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M&G High Interest Fund

Income

This fund is capped to new investors.

Q2 2022

Market overview

Investor concerns over a major slowdown in global growth, and therefore corporate earnings, escalated during the second quarter (Q2) of 2022, especially in June. This came as steep interest rate hikes in the US and strict Chinese Covid-19 lockdowns, as well as the ongoing destructive Russia-Ukraine war, led to downward revisions in economic growth expectations for the world's biggest economies. Further rises in energy and food prices also led to more speculation over extended inflationary pressures and stagflation and/or recession, even as other commodity prices lost ground. This combination of factors resulted in losses across most financial markets – equities, nominal bonds and inflation-linked bonds.

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Performance

For the second quarter of 2022, the fund delivered a return of 1.3% (net of fees), while its benchmark, the STeFi Composite Index, delivered 1.2%. For the 12 months ended 30 June 2022, the fund returned 4.4% (net of fees), outperforming its benchmark by 0.3%.

The return generated by the fund's holdings in floating-rate instruments was boosted by the 64bps increase in the JIBAR rate over the quarter. Our inflation-linked bond position, in the form of the I2025 government bond, performed well due to the sharp increase in inflation over the period.

Strategy and positioning

We believe that the magnitude of interest rate increases currently priced into the market seems excessive. For example, the NCD market is currently pricing in a 300bp rise in the repo rate over the next year. This is the increase that is required for a one-year floating NCD to provide the same return as the 7.5% available from a fixed NCD. Given that the Reserve Bank's MPC meets six times a year, the market is therefore effectively pricing in a 50bp increase at every meeting. Although this is certainly not impossible, we believe it's unlikely, even after taking into account the acceleration in local inflation that we have seen in recent months.

We, therefore, believe it makes more sense to have exposure tilted towards fixed-rate to the extent that the fund's mandate allows. Our positioning in the fund is consistent with this view, with a duration position of 160 days (out of a maximum allowable 180 days), which is up from 134 days at the start of the quarter.

One further change made to the fund over the quarter was to increase our holding in the I2025 government inflation-linked bond. Over the course of the quarter, we added to our 5.9% starting position to end up at a 9.6% holding in the fund at quarter-end. As mentioned in last quarter's commentary, in our view this instrument offers investors excellent prospective returns compared to what else is available on the front-end of the curve. Over the remaining life of the instrument, it will return 2.3% per year in real terms for investors. This compares favourably to cash, where current yields are around 1.8% below inflation.

Credit trends

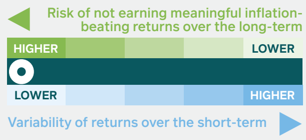
The second quarter of 2022 saw a total issuance volume (excluding government issuances) of R30bn, which was 14% above the R27bn issued in the previous quarter, but still below the R38bn issued in the second quarter of 2021.

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 during the quarter was Standard Bank, which raised R4bn in a senior unsecured issuance in April.

Credit spreads have broadly come in, largely reverting to pre-pandemic levels. We believe this to be partly due to more prevalent participation from banks (either to replace maturing instruments in their high-quality liquid asset portfolios or to accumulate instruments for secondary market-making purposes), or as a result of a limited pipeline of other investable assets available to banks.

Annualised performance	A class	Benchmark	X class	D class
1 year	4.4%	4.2%	4.6%	4.7%
3 years	4.9%	5.0%	5.0%	5.1%
5 years	6.0%	5.9%	6.1%	6.2%
7 years	6.5%	6.3%	6.7%	6.8%
10 years	6.3%	6.1%	6.4%	6.6%
Since inception	6.2%	6.1%	-	-

Risk profile



Fund facts

Fund managers

Roshen Harry

René Prinsloo

ASISA category

South African - Interest Bearing - Short Term

Benchmark

STeFI Composite Index measured over a rolling 12-month period

Inception date

8 December 2010

Fund size

R8 599 255 058

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M&G Income Fund

Income

Q2 2022

Market overview

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However, local bond losses were somewhat less severe than developed markets, and more in line with those in other emerging markets. Amid growing inflationary fears, SA's All Bond Index lost 3.7%, but inflation-linked bonds (ILBs) delivered 2.9% and cash returned 1.2%.

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Performance

For the second quarter of 2022, the fund delivered a return of 1.4% (net of fees), while its benchmark, the STeFi Composite Index, delivered 1.2%. For the 12 months ended 30 June 2022, the fund returned 5.1% (net of fees), outperforming its benchmark by 0.9%.

The return generated by the fund's holdings in floating-rate instruments was boosted by the 64bps increase in the JIBAR rate over the quarter. Our inflation-linked bond position, in the form of the I2025 government bond, performed well due to the sharp increase in inflation over the period. Our overall duration position, however, hindered performance, given the 3.7% fall in the FTSE/JSE All Bond Index over the quarter.

Strategy and positioning

We believe that the magnitude of interest rate increases currently priced into the market seems excessive. For example, the NCD market is currently pricing in a 300bp rise in the repo rate over the next year. This is the increase that is required for a one-year floating NCD to provide the same return as the 7.5% available from a fixed NCD. Given that the Reserve Bank's MPC meets six times a year, the market is therefore effectively pricing in a 50bp increase at every meeting. Although this is certainly not impossible, we believe it's unlikely, even after taking into account the acceleration in local inflation that we have seen in recent months.

We, therefore, believe it makes more sense to have exposure tilted towards fixed-rate to the extent that fund mandates allow. Our positioning in the fund is consistent with this view, with a duration position of around 291 days, which experienced little change over the quarter, and is probably on the high-end of where most category peers are positioned.

Credit trends

The second quarter of 2022 saw a total issuance volume (excluding government issuances) of R30bn, which was 14% above the R27bn issued in the previous quarter, but still below the R38bn issued in the second quarter of 2021.

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 during the quarter was Standard Bank, which raised R4bn in a senior unsecured issuance in April.

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Annualised performance	A class	Benchmark	D class
1 year	5.1%	4.2%	5.2%
2 years	5.9%	4.1%	6.0%
3 years	5.5%	5.0%	5.7%
5 years	6.8%	5.9%	7.0%
Since inception	6.9%	6.1%	-

Risk profile

Risk of not earning meaningful inflation-beating returns over the long-term

HIGHER LOWER

LOWER HIGHER

Variability of returns over the short-term

Fund facts

Fund managers
Roshen Harry
René Prinsloo

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
R605 366 448

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Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

M&G Bond Fund

Income

Q2 2022

Market overview

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However, local bond losses were somewhat less severe than developed markets, and more in line with those in other emerging markets. Amid growing inflationary fears, SA's All Bond Index lost 3.7%, but inflation-linked bonds (ILBs) delivered 2.9% and cash returned 1.2%.

With CPI rising to 6.5% y/y in May – the first time since January 2017 that it has broken through the upper limit of the SARB's 3%-6% target range – the SARB hiked the repo rate by 50bps at its May meeting to 4.75%. The Bank is widely expected to hike by another 100bps at a minimum this year in an effort to both fight inflation and to keep our interest rate differential versus the US as high as possible in a bid to avoid more pressure on the rand and SA bond yields.

Performance

For the second quarter of 2022, the fund delivered a return of -3.4% (net of fees), while its benchmark, the FTSE/JSE All Bond Index, delivered -3.7%. For the 12 months ended 30 June 2022, the fund returned 1.5% (net of fees), outperforming its benchmark by 0.2%.

Strategy and positioning

We began the quarter in a neutral duration position, having reduced our overweight duration towards the latter half of the previous quarter. The reduction in duration was on the back of increased geopolitical concerns following Russia's invasion of Ukraine and the potential spillover into both market risk appetite and inflation.

In the second quarter of 2022, bond yields sold off across the curve resulting in a parallel shift upward. Fortunately, our neutral duration position helped the fund weather the sell-off over this period.

We continue to have a positive view on the 12-to 20-year area of the bond curve, relative to the 20-year area and beyond. In our view, investors are not being sufficiently compensated for holding long-dated bonds maturing beyond 20 years. In fact, the additional yield on the 30-year bond, compared to the 20-year bond, is slightly negative.

Credit trends

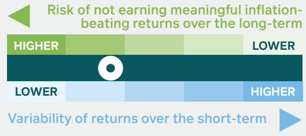
The second quarter of 2022 saw a total issuance volume (excluding government issuances) of R30bn, which was 14% above the R27bn issued in the previous quarter, but still below the R38bn issued in the second quarter of 2021.

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 during the quarter was Standard Bank, which raised R4bn in a senior unsecured issuance in April.

Credit spreads have broadly come in, largely reverting to pre-pandemic levels. We believe this to be partly due to more prevalent participation from banks (either to replace maturing instruments in their high-quality liquid asset portfolios or to accumulate instruments for secondary market-making purposes), or as a result of a limited pipeline of other investable assets available to banks.

Annualised performance	A class	Benchmark	B class
1 year	1.5%	1.3%	1.7%
3 years	4.9%	5.8%	5.1%
5 years	7.0%	7.8%	7.2%
7 years	6.7%	7.4%	6.9%
10 years	6.5%	7.2%	6.8%
Since inception	9.4%	9.8%	-

Risk profile



Fund facts

Fund managers
Roshen Harry
Gareth Bern

ASISA category
South African - Interest Bearing - Variable Term

Benchmark
FTSE/JSE All Bond Index

Inception date
27 October 2000

Fund size
R719 321 446

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Sources: M&G, Morningstar & Deutsche Securities

M&G Enhanced Income Fund

Multi-asset

Q2 2022

Market overview

Investor concerns over a major slowdown in global growth, and therefore corporate earnings, escalated during the second quarter (Q2) of 2022, especially in June. This came as steep interest rate hikes in the US and strict Chinese Covid-19 lockdowns, as well as the ongoing destructive Russia-Ukraine war, led to downward revisions in economic growth expectations for the world's biggest economies. Further rises in energy and food prices also led to more speculation over extended inflationary pressures and stagflation and/or recession, even as other commodity prices lost ground. This combination of factors resulted in losses across most financial markets – equities, nominal bonds and inflation-linked bonds. For the quarter ended 30 June 2022, the MSCI All Country World Index returned -15.7%, the MSCI Emerging Markets Index produced -11.4%, and the Bloomberg Global Aggregate Bond Index delivered -8.3% (all in US$).

In the US, inflation hit 8.6% y/y in May, the highest since 1981 and above market forecasts of 8.3% y/y. At the same time, US economic growth shrank by 1.6% y/y in Q1 2022 as consumer incomes and corporate profits were hit by higher prices for food and energy and the end of Covid-related stimulus payments. The US Federal Reserve's 75bp rate hike in June was an aggressive response to this accelerating inflation, a move which prompted more market-watchers to predict a recession ahead. Many noted that, given that inflation has largely stemmed from supply-side factors, higher interest rates were not likely to be as effective in curbing inflation as with demand-driven factors. Fed policymakers now see rates reaching 3.4% in 2022, well above the 1.9% forecast in March, as well as increased chances of recession.

US Treasury bonds sold off sharply as a consequence of the deteriorating inflation and interest rate outlook, resulting in an unusually volatile market: the Bloomberg Aggregate US Treasuries Index returned -9.2% in US$, after the -6.2% recorded in Q1. Meanwhile, US equity markets were deeply in the red for the quarter: in US dollars, the Nasdaq delivered – 22.3%, the Dow Jones produced -10.8% and the S&P 500 returned -16.1%. The S&P 500, the broadest benchmark for the US equity market, produced its worst performance for the first six months of any year since 1970, down 20.0%.

In the UK, the Bank of England implemented another interest rate hike in June, taking its main bank rate to 1.25%, the highest level in 13 years. This came against inflation of 9.1% y/y in May. However, the central bank remained less aggressive on its outlook for rate hikes compared to the Federal Reserve. For Q2 2022, UK equities were also deeply in the red: the FTSE 100 returned -11.2% in US dollars.

Meanwhile, the European Central Bank (ECB) largely stuck to its Q1 plans, saying it would accelerate the winding down of its bond purchases from July, and signalling an upcoming 25bp rate hike. This was largely in line with market expectations. The Bank also revised its economic growth outlook lower to 2.8% for 2022 (from 3.7%) and 2.1% for 2023 (from 2.8%). Despite an acceleration in Q1 GDP growth to 5.4% y/y in the Eurozone, market watchers are more worried about a coming recession in the region due to its less-flexible economic structure; it continues to recover more slowly from the Coronavirus crisis than the US and UK. In France, the CAC 40 returned -14.4%, while Germany's DAX delivered -16.7% for the quarter in US dollars.

In Japan, the Bank of Japan (BOJ) continued to be the only major central bank to maintain an ultra-easy monetary policy during the quarter, as it left its policy rate unchanged at -0.1%. The market continues to forecast no interest rate hikes through 2023. Japan's Q1 2022 GDP growth was reported at -0.5%, slower than the 1.0% expected, and the equity market also lost ground with the Nikkei returning -15.1% in US dollars for the quarter.

Chinese investors became more upbeat towards the end of the quarter as Covid infection rates started to slow, allowing the government to ease some of its ultra-strict lockdown conditions in Shanghai and certain other areas. The country recorded better-than-expected GDP growth of 4.8% y/y in Q1, up from 4.0% y/y the previous quarter, and the latest data showed a surge in manufacturing and non-manufacturing PMI in June, accelerating to 51.7 (up from 48.1) and 54.7 (up from 47.8) respectively. The People's Bank of China (PBOC) left interest rates unchanged at its June meeting, in line with expectations. The central bank is concerned not only about growth, but also about the widening divergence between local and US interest rates, which has put Chinese bonds and the yuan under selling pressure. For the quarter, Hong Kong's Hang Seng produced 0.7%, while the MSCI China returned 3.5%, both in US dollars.

Other large emerging equity markets were in the red for the quarter, all in US$ terms, with Brazil's Bovespa the worst performer at -25.4%. The MSCI South Africa was close behind with -22.9%, while South Korea's KOSPI was down 20.8%, the MSCI India fell 13.5% and the MSCI Turkey recorded a -10.9% return.

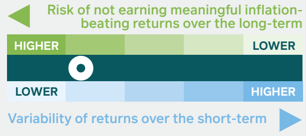
Energy prices continued their rise, but at a moderated pace: Brent crude oil gained 6.4% during the quarter after experiencing some softness in June. Year-to-date the price is up some 47% in US dollars. Looking at precious metals, gold fell 6.0% for the quarter, while platinum lost 7.7% and palladium was down 13.2%. Other industrial metals prices lost between 20-30% amid heightened worries of a global growth slowdown.

South Africa's fragile economic recovery came under increasing pressure in Q2: growth prospects took a downturn due to the renewal of national Stage 4-6 loadshedding, severe flooding in KwaZulu-Natal, rising inflation and higher-than-expected interest rate hikes, as well as the retreat in commodity prices. The South African Reserve Bank (SARB) lowered its GDP growth forecast for 2022 to 1.7% from 2.0% previously.

With CPI rising to 6.5% y/y in May – the first time since January 2017 that it has broken through the upper limit of the SARB's 3%-6% target range – the SARB hiked the repo rate by 50bps at its May meeting to 4.75%. The Bank is widely expected to hike by another 100bps at a minimum this year in an effort to both fight inflation and to keep our interest rate differential versus the US as high as possible in a bid to avoid more pressure on the rand and SA bond yields.

Annualised performance	A class	Benchmark	T class	X class	D class
1 year	4.0%	4.2%	4.2%	4.0%	4.3%
3 years	4.7%	5.0%	4.9%	4.7%	5.0%
5 years	5.5%	5.9%	5.8%	5.6%	5.9%
7 years	6.0%	6.3%	6.4%	6.2%	6.5%
10 years	6.5%	6.1%	-	6.7%	7.0%
Since inception	7.3%	6.8%	-	-	-

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
R792 532 626

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

South African markets were less insulated from the global inflation and growth concerns than in the previous quarter. This was due to the fall in commodity prices, accelerating inflation, and forecasts for more aggressive local interest rate hikes in July, plus even slower growth ahead. Stage 4-6 loadshedding also weighed on growth prospects. However, local bond and equity losses were somewhat less severe than developed markets, and more in line with those in other emerging markets. The FTSE/JSE All Share Index (ALSI) returned -11.7% for the quarter and the Capped SWIX -10.6%, dragged down by Resources with a -21.9% return, -15.8% from Financials, -12.1% from Listed Property (All Property Index) and -3.0% from Industrials. For the six months of 2022 so far, the ALSI has returned -8.3%, outperforming the -18.2% recorded by global equities (the MSCI All Country World Index), both in rand terms.

SA nominal bonds returned -3.7% over the quarter as bonds across the curve sold off. Inflation-linked bonds outperformed their nominal counterparts with a 2.9% return (FTSE/JSE Inflation-Linked Index). SA cash (as measured by the STeFI Composite Index) posted a return of 1.2% in Q2 2022.

Performance

The fund delivered -0.1% (net of fees) for the second quarter of 2022, underperforming its benchmark by 1.3%. For the 12 months ending 30 June 2022, the fund returned 4.0% (net of fees), marginally underperforming its benchmark by 0.2% over the same period.

For the quarter, investments in SA property and SA fixed-rate bonds detracted from overall fund returns, while investments in floating-rate instruments, offshore bonds and inflation-linked bonds contributed positively to some degree.

Strategy and positioning

Starting with our view on **offshore asset allocation**, early in the quarter we sold our exposure to **US high yield corporate** bonds and dollar-denominated **SA government bonds** given the risks to growth. Since then credit spreads have widened for both investment grade and high yield US credit, however, we believe that we were not being sufficiently rewarded for the recessionary risks involved.

We maintained our modest positioning in **SA listed property** in Q2 2022. We prefer to hold short-dated bonds as we believe they offer better value. Conditions in the local property sector remain uncertain given the rising local interest rate cycle (many property companies are reliant on finance to expand their portfolios) and relatively weak growth prospects, among other fundamental factors.

The portfolio has a preference for short-dated **SA nominal bonds**. We still believe nominal bonds remain attractive relative to both other income assets and their own longer-term history, and will more than compensate investors for their associated risks in the medium term.

Inflation-linked bonds (ILBs) yields remain relatively attractive compared to their own history and our long-run fair value assumption, but compared to nominal bonds, their valuations are less attractive and they have a lower return potential, however, relative to cash instruments the prospective returns on ILBs are compelling.

Lastly, despite the SARB's interest rate hikes during the quarter, we remained tilted away from **SA cash** as our least-preferred asset class, given the extremely low base rate off which the SARB has hiked. Prospective real returns on other SA assets are more attractive relative to cash.

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Sources: M&G, Morningstar & Deutsche Securities

Quarterly Commentary

M&G Investments

M&G Inflation Plus Fund

Multi-asset

Q2 2022

Market overview

Investor concerns over a major slowdown in global growth, and therefore corporate earnings, escalated during the second quarter (Q2) of 2022, especially in June. This came as steep interest rate hikes in the US and strict Chinese Covid-19 lockdowns, as well as the ongoing destructive Russia-Ukraine war, led to downward revisions in economic growth expectations for the world's biggest economies. Further rises in energy and food prices also led to more speculation over extended inflationary pressures and stagflation and/or recession, even as other commodity prices lost ground. This combination of factors resulted in losses across most financial markets – equities, nominal bonds and inflation-linked bonds. For the quarter ended 30 June 2022, the MSCI All Country World Index returned -15.7%, the MSCI Emerging Markets Index produced -11.4%, and the Bloomberg Global Aggregate Bond Index delivered -8.3% (all in US$).

In the US, inflation hit 8.6% y/y in May, the highest since 1981 and above market forecasts of 8.3% y/y. At the same time, US economic growth shrank by 1.6% y/y in Q1 2022 as consumer incomes and corporate profits were hit by higher prices for food and energy and the end of Covid-related stimulus payments. The US Federal Reserve's 75bp rate hike in June was an aggressive response to this accelerating inflation, a move which prompted more market-watchers to predict a recession ahead. Many noted that, given that inflation has largely stemmed from supply-side factors, higher interest rates were not likely to be as effective in curbing inflation as with demand-driven factors. Fed policymakers now see rates reaching 3.4% in 2022, well above the 1.9% forecast in March, as well as increased chances of recession.

US Treasury bonds sold off sharply as a consequence of the deteriorating inflation and interest rate outlook, resulting in an unusually volatile market: the Bloomberg Aggregate US Treasuries Index returned -9.2% in US$, after the -6.2% recorded in Q1. Meanwhile, US equity markets were deeply in the red for the quarter: in US dollars, the Nasdaq delivered – 22.3%, the Dow Jones produced -10.8% and the S&P 500 returned -16.1%. The S&P 500, the broadest benchmark for the US equity market, produced its worst performance for the first six months of any year since 1970, down 20.0%.

In the UK, the Bank of England implemented another interest rate hike in June, taking its main bank rate to 1.25%, the highest level in 13 years. This came against inflation of 9.1% y/y in May. However, the central bank remained less aggressive on its outlook for rate hikes compared to the Federal Reserve. For Q2 2022, UK equities were also deeply in the red: the FTSE 100 returned -11.2% in US dollars.

Meanwhile, the European Central Bank (ECB) largely stuck to its Q1 plans, saying it would accelerate the winding down of its bond purchases from July, and signalling an upcoming 25bp rate hike. This was largely in line with market expectations. The Bank also revised its economic growth outlook lower to 2.8% for 2022 (from 3.7%) and 2.1% for 2023 (from 2.8%). Despite an acceleration in Q1 GDP growth to 5.4% y/y in the Eurozone, market watchers are more worried about a coming recession in the region due to its less-flexible economic structure; it continues to recover more slowly from the Coronavirus crisis than the US and UK. In France, the CAC 40 returned -14.4%, while Germany's DAX delivered -16.7% for the quarter in US dollars.

In Japan, the Bank of Japan (BOJ) continued to be the only major central bank to maintain an ultra-easy monetary policy during the quarter, as it left its policy rate unchanged at -0.1%. The market continues to forecast no interest rate hikes through 2023. Japan's Q1 2022 GDP growth was reported at -0.5%, slower than the 1.0% expected, and the equity market also lost ground with the Nikkei returning -15.1% in US dollars for the quarter.

Chinese investors became more upbeat towards the end of the quarter as Covid infection rates started to slow, allowing the government to ease some of its ultra-strict lockdown conditions in Shanghai and certain other areas. The country recorded better-than-expected GDP growth of 4.8% y/y in Q1, up from 4.0% y/y the previous quarter, and the latest data showed a surge in manufacturing and non-manufacturing PMI in June, accelerating to 51.7 (up from 48.1) and 54.7 (up from 47.8) respectively. The People's Bank of China (PBOC) left interest rates unchanged at its June meeting, in line with expectations. The central bank is concerned not only about growth, but also about the widening divergence between local and US interest rates, which has put Chinese bonds and the yuan under selling pressure. For the quarter, Hong Kong's Hang Seng produced 0.7%, while the MSCI China returned 3.5%, both in US dollars.

Other large emerging equity markets were in the red for the quarter, all in US$ terms, with Brazil's Bovespa the worst performer at -25.4%. The MSCI South Africa was close behind with -22.9%, while South Korea's KOSPI was down 20.8%, the MSCI India fell 13.5% and the MSCI Turkey recorded a -10.9% return.

Energy prices continued their rise, but at a moderated pace: Brent crude oil gained 6.4% during the quarter after experiencing some softness in June. Year-to-date the price is up some 47% in US dollars. Looking at precious metals, gold fell 6.0% for the quarter, while platinum lost 7.7% and palladium was down 13.2%. Other industrial metals prices lost between 20-30% amid heightened worries of a global growth slowdown.

South Africa

South Africa's fragile economic recovery came under increasing pressure in Q2: growth prospects took a downturn due to the renewal of national Stage 4-6 loadshedding, severe flooding in KwaZulu-Natal, rising inflation and higher-than-expected interest rate hikes, as well as the retreat in commodity prices. The South African Reserve Bank (SARB) lowered its GDP growth forecast for 2022 to 1.7% from 2.0% previously.

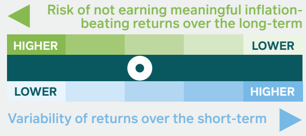
With CPI rising to 6.5% y/y in May – the first time since January 2017 that it has broken through the upper limit of the SARB's 3%-6% target range – the SARB hiked the repo rate by 50bps at its May meeting to 4.75%. The Bank is widely expected to hike by another 100bps at a minimum this year in an effort to both fight inflation and to keep our interest rate differential versus the US as high as possible in a bid to avoid more pressure on the rand and SA bond yields.

South African markets were less insulated from the global inflation and growth concerns than in the previous quarter. This was due to the fall in commodity prices, accelerating inflation, and forecasts for more aggressive local interest rate hikes in July, plus even slower growth ahead. Stage 4-6 loadshedding also weighed on growth prospects. However, local bond and equity losses were

Annualised performance	A class	Objective[1]	T class	X class	B class
1 year	6.4%	9.9%	6.7%	6.4%	6.9%
3 years	5.1%	8.0%	5.4%	5.1%	5.6%
5 years	4.7%	7.9%	5.1%	4.9%	5.3%
7 years	4.8%	8.3%	5.2%	5.0%	5.5%
10 years	7.7%	8.5%	-	7.9%	8.4%
Since inception	10.8%	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

R20 208 705 123

Awards

Raging Bull: 2013
Morningstar: 2015

Sources: M&G, Morningstar & Deutsche Securities

somewhat less severe than developed markets, and more in line with those in other emerging markets. The FTSE/JSE All Share Index (ALSI) returned -11.7% for the quarter and the Capped SWIX -10.6%, dragged down by Resources with a -21.9% return, -15.8% from Financials, -12.1% from Listed Property (All Property Index) and -3.0% from Industrials. For the six months of 2022 so far, the ALSI has returned -8.3%, outperforming the -18.2% recorded by global equities (the MSCI All Country World Index), both in rand terms.

SA nominal bonds returned -3.7% over the quarter as bonds across the curve sold off. Inflation-linked bonds outperformed their nominal counterparts with a 2.9% return (FTSE/JSE Inflation-Linked Index). SA cash (as measured by the STeFI Composite Index) posted a return of 1.2% in Q2 2022.

Performance

The fund returned -2.6% (after fees) for the second quarter of 2022, while for the 12-month period ending 30 June 2022 its return was 6.4%. The fund has delivered a return of 10.8% per annum since its inception in 2001 (after fees), compared to its objective of 9.2% per annum over the same period.

Given the broad-based sell-off across most asset classes during the quarter, the only asset classes that contributed positively to performance were SA inflation-linked bonds, SA cash and foreign cash. The largest detractors from performance were South African equities, followed by SA bonds (excluding inflation-linked bonds), with international equity and SA property also detracting to a lesser extent. The already poor USD returns from international equities and bonds were improved by the rand's weakening against the dollar over the quarter.

In terms of specific equity exposure, among the strongest contributors to absolute returns for the quarter were the fund's holdings in Prosus, Naspers and British American Tobacco. Top detractors from absolute performance included MTN, Anglo American and Standard Bank.

Strategy and positioning

Starting with our view on offshore asset allocation, we maintained our portfolio positioning favouring local assets over global assets, which proved to be a detractor for portfolio returns as SA assets underperformed their global counterparts in rands.

Within our global holdings, we continued to prefer global cash over both global equities and bonds, this allows us to take advantage of market mis-pricing episodes that might arise. This positioning turned out to be favourable for our portfolios on a relative basis for the quarter, based on the weakness in both global equity and bond markets compared to global cash. Within our global equity positioning, we kept our active weight the same through the quarter, thus any changes in the total weight of equities reflect the drift due to market falls. Our exposure to a broad mix of equity markets with diversified return profiles has helped to partly cushion our funds against the current market downturn.

Within global bonds, we took advantage of the sharp selloff and reduced our underweight in developed market bonds, adding some US Treasury and diversified global bond exposure. We are still underweight global bonds and have a preference for bond markets where the real yields are high and the currency is trading at fair-to-cheap levels. We maintained our underweight stance on investment-grade corporate credit, holding almost no exposure despite improving valuations over the quarter as spreads widened. We continue to believe that corporate yield spreads are not sufficiently high for the risk involved.

The M&G Inflation Plus Fund still favoured SA equities at the end of Q2. During the quarter we made very few adjustments in our holdings, and none with a meaningful impact on our broad SA equity holdings. Given the large price declines across most locally listed shares during the period, SA equity valuations (as measured by the 12-month forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) de-rated over the quarter, falling from around 9.6X at the beginning of the quarter to around 8.0X at quarter-end. Corporate earnings expectations have started to roll over, but not by as much as share price losses, and are yet to reflect global recession risks.

At a stock level, the main holdings contributing to our Inflation Plus fund performance during the quarter were Naspers and Prosus, given their sharp share price rebounds in June on the back of their announcement of a new open-ended share-repurchase programme financed by Prosus' sale of Tencent shares. Along with other investors we welcomed this move, as the company signalled its willingness to exploit the valuation discounts the market has placed on its underlying assets. Another meaningful contribution came from our overweight in British American Tobacco, a traditionally defensive company that again proved its value, as well as Sasol.

Among our portfolio's largest detractors for the quarter were our active Resources and Financial holdings, as well as MTN and Foschini, against the backdrop of non-energy commodity price weakness and downgrades to economic growth expectations. As a reminder, in the previous quarter we trimmed our Retail sector exposure due to the deteriorating inflation and interest rate outlook, which now present even more significant headwinds for retail sales.

We maintained our marginally underweight positioning in SA listed property in Q2 2022, preferring to hold other shares that we consider offer better value propositions for less risk. Conditions in the local property sector remain uncertain given the rising local interest rate cycle (many property companies are reliant on finance to expand their portfolios) and relatively weak growth prospects, among other fundamental factors.

On a relative basis, our portfolios benefitted from our ongoing preference for SA nominal bonds in the second quarter thanks to their outperformance of SA equities, as well as global equities and global bonds. We did add modestly to our portfolios' nominal bond exposure out of SA cash holdings during the quarter amid market weakness, increasing our overweight position in this asset class. We still believe nominal bonds remain attractive relative to both other income assets and their own longer-term history, and will more than compensate investors for their associated risks.

We maintained our neutral positioning in inflation-linked bonds. We still believe that ILB real yields remain relatively attractive compared to their own history and our long-run fair value assumption, but compared to nominal bonds, their valuations are less attractive and they have lower return expectations.

Lastly, despite the SARB's interest rate hikes during the quarter, our Inflation Plus fund remained tilted away from SA cash as our least-preferred asset class, given the extremely low base rate off which the SARB has hiked. During the quarter we reduced our cash exposure in order to add more SA nominal bonds to the portfolios to take advantage of the even more attractive valuations on offer. In our view, other SA assets remain more attractive on a relative basis.

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

M&G Balanced Fund

Multi-asset

Q2 2022

Market overview

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South Africa

South Africa's fragile economic recovery came under increasing pressure in Q2: growth prospects took a downturn due to the renewal of national Stage 4-6 loadshedding, severe flooding in KwaZulu-Natal, rising inflation and higher-than-expected interest rate hikes, as well as the retreat in commodity prices. The South African Reserve Bank (SARB) lowered its GDP growth forecast for 2022 to 1.7% from 2.0% previously.

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South African markets were less insulated from the global inflation and growth concerns than in the previous quarter. This was due to the fall in commodity prices, accelerating inflation, and forecasts for more aggressive local interest rate hikes in July, plus even slower growth ahead. Stage 4-6 loadshedding also weighed on growth prospects. However, local bond and equity losses were

Annualised performance	A class	Benchmark	T class	X class	B class
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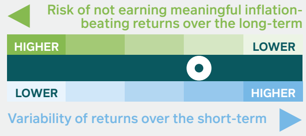
3 years	7.3%	6.6%	7.6%	7.4%	7.8%
5 years	7.0%	6.1%	7.4%	7.1%	7.6%
7 years	6.3%	5.3%	6.8%	6.5%	7.0%
10 years	9.7%	7.9%	-	-	10.5%
Since inception	12.6%	10.9%	-	-	-

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
R20 509 989 062

Sources: M&G, Morningstar & Deutsche Securities

somewhat less severe than developed markets, and more in line with those in other emerging markets. The FTSE/JSE All Share Index (ALSI) returned -11.7% for the quarter and the Capped SWIX -10.6%, dragged down by Resources with a -21.9% return, -15.8% from Financials, -12.1% from Listed Property (All Property Index) and -3.0% from Industrials. For the six months of 2022 so far, the ALSI has returned -8.3%, outperforming the -18.2% recorded by global equities (the MSCI All Country World Index), both in rand terms.

SA nominal bonds returned -3.7% over the quarter as bonds across the curve sold off. Inflation-linked bonds outperformed their nominal counterparts with a 2.9% return (FTSE/JSE Inflation-Linked Index). SA cash (as measured by the STeFI Composite Index) posted a return of 1.2% in Q2 2022.

Performance

The fund returned -4.5% (after fees) for the second quarter of 2022, while for the 12-month period ending 30 June 2022 its return was 6.9%. The fund has delivered a return of 12.6% per annum since its inception in 1999 (after fees), compared to its benchmark of 10.9% per annum over the same period.

Given the broad-based sell-off across most asset classes during the quarter, the only asset classes that contributed positively to performance were SA and foreign cash. The largest detractors from performance were South African equities, followed by SA bonds (excluding inflation-linked bonds), with international equity and SA property also detracting to a lesser extent. The already poor USD returns from international equities and bonds were improved by the rand's weakening against the dollar over the quarter.

In terms of specific equity exposure, among the strongest contributors to absolute returns for the quarter were the fund's holdings in Prosus, Naspers and British American Tobacco. Top detractors from absolute performance included MTN, ABSA and Anglo American.

Strategy and positioning

How have our views and portfolio positioning changed in Q2 2022?

Starting with our view on offshore asset allocation, we maintained our portfolio positioning favouring local assets over global assets, which proved to be a detractor for portfolio returns as SA assets underperformed their global counterparts in rands.

Within our global holdings, we continued to prefer global cash over both global equities and bonds, this allows us to take advantage of market mis-pricing episodes that might arise. This positioning turned out to be favourable for our portfolios on a relative basis for the quarter, based on the weakness in both global equity and bond markets compared to global cash. Within our global equity positioning, we kept our active weight the same through the quarter, thus any changes in the total weight of equities reflect the drift due to market falls. Our exposure to a broad mix of equity markets with diversified return profiles has helped to partly cushion our funds against the current market downturn.

Within global bonds, we took advantage of the sharp selloff and reduced our underweight in developed market bonds, adding some US Treasury and diversified global bond exposure. We are still underweight global bonds and have a preference for bond markets where the real yields are high and the currency is trading at fair-to-cheap levels. We maintained our underweight stance on investment-grade corporate credit, holding almost no exposure despite improving valuations over the quarter as spreads widened. We continue to believe that corporate yield spreads are not sufficiently high for the risk involved.

Our best investment view portfolios like the M&G Balanced Fund still favoured SA equities at the end of Q2. During the quarter we made very few adjustments in our holdings, and none with a meaningful impact on our broad SA equity holdings. Given the large price declines across most locally listed shares during the period, SA equity valuations (as measured by the 12-month forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) de-rated over the quarter, falling from around 9.6X at the beginning of the quarter to around 8.0X at quarter-end. Corporate earnings expectations have started to roll over, but not by as much as share price losses, and are yet to reflect global recession risks.

At a stock level, the main holdings contributing to our House View portfolios' performance during the quarter were Naspers and Prosus, given their sharp share price rebounds in June on the back of their announcement of a new open-ended share-repurchase programme financed by Prosus' sale of Tencent shares. Along with other investors we welcomed this move, as the company signalled its willingness to exploit the valuation discounts the market has placed on its underlying assets. Another meaningful contribution came from our overweight in British American Tobacco, a traditionally defensive company that again proved its value, as well as Sasol.

Among our portfolio's largest detractors for the quarter were our active Resources and Financial holdings, as well as MTN and Foschini, against the backdrop of non-energy commodity price weakness and downgrades to economic growth expectations. As a reminder, in the previous quarter we trimmed our Retail sector exposure due to the deteriorating inflation and interest rate outlook, which now present even more significant headwinds for retail sales.

We maintained our marginally underweight positioning in SA listed property in Q2 2022, preferring to hold other shares that we consider offer better value propositions for less risk. Conditions in the local property sector remain uncertain given the rising local interest rate cycle (many property companies are reliant on finance to expand their portfolios) and relatively weak growth prospects, among other fundamental factors.

On a relative basis, our portfolios benefitted from our ongoing preference for SA nominal bonds in the second quarter thanks to their outperformance of SA equities, as well as global equities and global bonds. We did add modestly to our portfolios' nominal bond exposure out of SA cash holdings during the quarter amid market weakness, increasing our overweight position in this asset class. We still believe nominal bonds remain attractive relative to both other income assets and their own longer-term history, and will more than compensate investors for their associated risks.

Although we are not holding inflation-linked bonds (ILBs) in our House View portfolios to a meaningful degree, we still believe that ILB real yields remain relatively attractive compared to their own history and our long-run fair value assumption, but compared to nominal bonds, their valuations are less attractive and they have lower return expectations.

Lastly, despite the SARB's interest rate hikes during the quarter, our House View portfolios remained tilted away from SA cash as our least-preferred asset class, given the extremely low base rate off which the SARB has hiked. During the quarter we reduced our cash exposure in order to add more SA nominal bonds to the portfolios to take advantage of the even more attractive valuations on offer. In our view, other SA assets remain more attractive on a relative basis.

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Disclaimer

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M&G Enhanced SA Property Tracker Fund

Property

Q2 2022

Market overview

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South Africa's fragile economic recovery came under increasing pressure in Q2: growth prospects took a downturn due to the renewal of national Stage 4-6 loadshedding, severe flooding in KwaZulu-Natal, rising inflation and higher-than-expected interest rate hikes, as well as the retreat in commodity prices. The South African Reserve Bank (SARB) lowered its GDP growth forecast for 2022 to 1.7% from 2.0% previously.

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South African markets were less insulated from the global inflation and growth concerns than in the previous quarter. This was due to the fall in commodity prices, accelerating inflation, and forecasts for more aggressive local interest rate hikes in July, plus even slower growth ahead. Stage 4-6 loadshedding also weighed on growth prospects. However, local bond and equity losses were somewhat less severe than developed markets, and more in line with those in other emerging markets.

The FTSE/JSE All Share Index (ALSI) returned -11.7% for the quarter and the Capped SWIX -10.6%, dragged down by Resources with a -21.9% return, -15.8% from Financials, -12.1% from Listed Property (All Property Index) and -3.0% from Industrials. For the six months of 2022 so far, the ALSI has returned -8.3%, outperforming the -18.2% recorded by global equities (the MSCI All Country World Index), both in rand terms. SA nominal bonds returned -3.7% over the quarter as bonds across the curve sold off. Inflation-linked bonds outperformed their nominal counterparts with a 2.9% return (FTSE/JSE Inflation-Linked Index). SA cash (as measured by the STeFI Composite Index) posted a return of 1.2% in Q2 2022.

Performance

The fund returned -11.1% (after fees) for the second quarter of 2022, outperforming its benchmark (FTSE/JSE South African Listed Property Index) by 0.5%. For the 12 months ending 30 June 2022, the fund returned 0.7% (after fees), while the benchmark returned 0.2% over the same period.

Contributors to relative performance over the quarter included an underweight position in Attacq, as well as overweight positions in Fairvest A and B, Dipula B and Octodec. Detractors from relative performance included an overweight position in SA Corporate Real Estate and an underweight position in Fortress B.

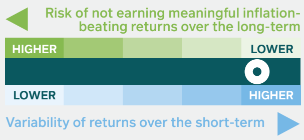
Strategy and positioning

After a strong 2021 for the property sector, the first six months of 2022 have been challenging. Rising bond yields globally have resulted in global property companies trading at discounts to their appraised values, notwithstanding the ability of some companies to pass on inflationary rental increases and costs to their tenants. In South Africa, the South Africa 10-year bond yield stands at 11%. This is a major obstacle in the re-rating of the sector over the near term, as SA property forecast returns would need to be in the region of around 14% on a sustainable total return basis to be as attractive as bonds, adjusting for risks within the property company.

The 12-month forward yield for the All Property Index of 9.9% and the SA Listed Property Index of 10.2% appears attractive on this basis, especially given the uncertain growth prospects for South African-centric companies. Loadshedding, municipal rates and vacancies will continue to exert cost pressures on companies. Rentals are growing only in niches such as non-discretionary retail, self-storage and certain regions of the country. Offshore names will need to withstand the headwind from rates normalisation with some companies, such as Nepi Rockcastle, far better positioned than others.

Annualised performance	A class	Benchmark	T class	D class
1 year	0.7%	0.2%	0.7%	0.9%
3 years	-9.2%	-9.0%	-9.2%	-9.1%
5 years	-8.3%	-7.3%	-8.2%	-8.2%
7 years	-3.9%	-3.5%	-3.9%	-3.8%
10 years	2.4%	2.7%	-	2.5%
Since inception	8.2%	8.6%	-	-

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
R612 777 622

Awards
Morningstar/Standard & Poor's: 2011

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Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

M&G Property Fund

Property

Q2 2022

Market overview

Investor concerns over a major slowdown in global growth, and therefore corporate earnings, escalated during the second quarter (Q2) of 2022, especially in June. This came as steep interest rate hikes in the US and strict Chinese Covid-19 lockdowns, as well as the ongoing destructive Russia-Ukraine war, led to downward revisions in economic growth expectations for the world's biggest economies. Further rises in energy and food prices also led to more speculation over extended inflationary pressures and stagflation and/or recession, even as other commodity prices lost ground. This combination of factors resulted in losses across most financial markets – equities, nominal bonds and inflation-linked bonds.

South Africa's fragile economic recovery came under increasing pressure in Q2: growth prospects took a downturn due to the renewal of national Stage 4-6 loadshedding, severe flooding in KwaZulu-Natal, rising inflation and higher-than-expected interest rate hikes, as well as the retreat in commodity prices. The South African Reserve Bank (SARB) lowered its GDP growth forecast for 2022 to 1.7% from 2.0% previously.

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South African markets were less insulated from the global inflation and growth concerns than in the previous quarter. This was due to the fall in commodity prices, accelerating inflation, and forecasts for more aggressive local interest rate hikes in July, plus even slower growth ahead. Stage 4-6 loadshedding also weighed on growth prospects. However, local bond and equity losses were somewhat less severe than developed markets, and more in line with those in other emerging markets.

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Performance

The fund returned -10.7% (after fees) for the second quarter of 2022, outperforming its benchmark (FTSE/JSE All Property Index) by 1.3%. For the 12 months ending 30 June 2022, the fund returned 2.9% (after fees), while the benchmark returned -0.1% over the same period.

Contributors to relative performance over the quarter included underweight positions in Hammerson and Attacq (the fund did not hold either stock), as well as overweight positions in MAS and Stor-Age. Detractors from relative performance included overweight positions in SA Corporate Real Estate and Fortress A, as well as an underweight position in Resilient.

Strategy and positioning

After a strong 2021 for the property sector, the first six months of 2022 have been challenging. Rising bond yields globally have resulted in global property companies trading at discounts to their appraised values, notwithstanding the ability of some companies to pass on inflationary rental increases and costs to their tenants. In South Africa, the South Africa 10-year bond yield stands at 11%. This is a major obstacle in the re-rating of the sector over the near term, as SA property forecast returns would need to be in the region of around 14% on a sustainable total return basis to be as attractive as bonds, adjusting for risks within the property company.

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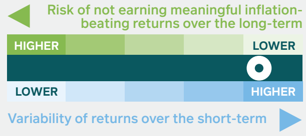
Risk profile



Fund facts

Fund managers
Yusuf Mowlana

ASISA category
South African – Real Estate – General

Benchmark
FTSE/JSE All Property Index

Inception date
9 July 2020

Fund size
R127 656 544

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Annualised performance	A class	Benchmark	D class
1 year	2.9%	-0.1%	3.2%
Since inception	15.7%	14.6%	-

Disclaimer

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Quarterly Commentary

M&G Investments

M&G Dividend Maximiser Fund

Equity

Q2 2022

Market overview

Investor concerns over a major slowdown in global growth, and therefore corporate earnings, escalated during the second quarter (Q2) of 2022, especially in June. This came as steep interest rate hikes in the US and strict Chinese Covid-19 lockdowns, as well as the ongoing destructive Russia-Ukraine war, led to downward revisions in economic growth expectations for the world's biggest economies. Further rises in energy and food prices also led to more speculation over extended inflationary pressures and stagflation and/or recession, even as other commodity prices lost ground. This combination of factors resulted in losses across most financial markets – equities, nominal bonds and inflation-linked bonds. For the quarter ended 30 June 2022, the MSCI All Country World Index returned -15.7%, the MSCI Emerging Markets Index produced -11.4%, and the Bloomberg Global Aggregate Bond Index delivered -8.3% (all in US$).

In the US, inflation hit 8.6% y/y in May, the highest since 1981 and above market forecasts of 8.3% y/y. At the same time, US economic growth shrank by 1.6% y/y in Q1 2022 as consumer incomes and corporate profits were hit by higher prices for food and energy and the end of Covid-related stimulus payments. The US Federal Reserve's 75bp rate hike in June was an aggressive response to this accelerating inflation, a move which prompted more market-watchers to predict a recession ahead. Many noted that, given that inflation has largely stemmed from supply-side factors, higher interest rates were not likely to be as effective in curbing inflation as with demand-driven factors. Fed policymakers now see rates reaching 3.4% in 2022, well above the 1.9% forecast in March, as well as increased chances of recession.

US equity markets were deeply in the red for the quarter: in US dollars, the Nasdaq delivered –22.3%, the Dow Jones produced -10.8% and the S&P 500 returned -16.1%. The S&P 500, the broadest benchmark for the US equity market, produced its worst performance for the first six months of any year since 1970, down 20.0%.

In the UK, the Bank of England implemented another interest rate hike in June, taking its main bank rate to 1.25%, the highest level in 13 years. This came against inflation of 9.1% y/y in May. However, the central bank remained less aggressive on its outlook for rate hikes compared to the Federal Reserve. For Q2 2022, UK equities were also deeply in the red: the FTSE 100 returned -11.2% in US dollars.

Meanwhile, the European Central Bank (ECB) largely stuck to its Q1 plans, saying it would accelerate the winding down of its bond purchases from July, and signalling an upcoming 25bp rate hike. This was largely in line with market expectations. The Bank also revised its economic growth outlook lower to 2.8% for 2022 (from 3.7%) and 2.1% for 2023 (from 2.8%). Despite an acceleration in Q1 GDP growth to 5.4% y/y in the Eurozone, market watchers are more worried about a coming recession in the region due to its less-flexible economic structure; it continues to recover more slowly from the Coronavirus crisis than the US and UK. In France, the CAC 40 returned -14.4%, while Germany's DAX delivered -16.7% for the quarter in US dollars.

In Japan, the Bank of Japan (BOJ) continued to be the only major central bank to maintain an ultra-easy monetary policy during the quarter, as it left its policy rate unchanged at -0.1%. The market continues to forecast no interest rate hikes through 2023. Japan's Q1 2022 GDP growth was reported at -0.5%, slower than the 1.0% expected, and the equity market also lost ground with the Nikkei returning -15.1% in US dollars for the quarter.

Chinese investors became more upbeat towards the end of the quarter as Covid infection rates started to slow, allowing the government to ease some of its ultra-strict lockdown conditions in Shanghai and certain other areas. The country recorded better-than-expected GDP growth of 4.8% y/y in Q1, up from 4.0% y/y the previous quarter, and the latest data showed a surge in manufacturing and non-manufacturing PMI in June, accelerating to 51.7 (up from 48.1) and 54.7 (up from 47.8) respectively. The People's Bank of China (PBOC) left interest rates unchanged at its June meeting, in line with expectations. The central bank is concerned not only about growth, but also about the widening divergence between local and US interest rates, which has put Chinese bonds and the yuan under selling pressure. For the quarter, Hong Kong's Hang Seng produced 0.7%, while the MSCI China returned 3.5%, both in US dollars.

Other large emerging equity markets were in the red for the quarter, all in US$ terms, with Brazil's Bovespa the worst performer at -25.4%. The MSCI South Africa was close behind with -22.9%, while South Korea's KOSPI was down 20.8%, the MSCI India fell 13.5% and the MSCI Turkey recorded a -10.9% return.

Energy prices continued their rise, but at a moderated pace: Brent crude oil gained 6.4% during the quarter after experiencing some softness in June. Year-to-date the price is up some 47% in US dollars. Looking at precious metals, gold fell 6.0% for the quarter, while platinum lost 7.7% and palladium was down 13.2%. Other industrial metals prices lost between 20-30% amid heightened worries of a global growth slowdown.

South Africa's fragile economic recovery came under increasing pressure in Q2: growth prospects took a downturn due to the renewal of national Stage 4-6 loadshedding, severe flooding in KwaZulu-Natal, rising inflation and higher-than-expected interest rate hikes, as well as the retreat in commodity prices. The South African Reserve Bank (SARB) lowered its GDP growth forecast for 2022 to 1.7% from 2.0% previously.

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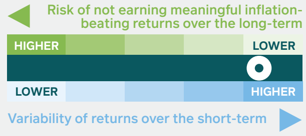
Performance

The M&G Dividend Maximiser Fund delivered a return of -7.5% (net of fees) for the second quarter of 2022, outperforming its benchmark (the average of the general equity funds) by 1.6%.

Annualised performance	A class	Benchmark	T class	B class	F class
1 year	8.8%	6.4%	9.3%	9.1%	9.6%
3 years	10.8%	7.1%	11.1%	11.1%	11.4%
5 years	8.7%	6.1%	9.1%	9.0%	9.4%
7 years	6.9%	4.4%	7.3%	7.3%	-
10 years	10.4%	7.8%	-	10.9%	-
Since inception	15.6%	12.7%	-	-	-

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 791 702 796

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

Sources: M&G, Morningstar & Deutsche Securities

For the year ended 30 June 2022, the fund returned 8.8% (net of fees), outperforming its benchmark by 2.4%.

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

During the last quarter, the largest contributor to performance was the fund's allocation to offshore markets. The fund is invested in the M&G Global Equity Fund (8.2%), M&G Global Dividend Fund (5.1%) and the M&G Africa Equity Fund (3.5%) which together represent an offshore allocation of approximately 16.8%. This offshore allocation contributed over 1% to performance for the quarter, mainly because of the weakening of the rand. The rand weakened by over 10% versus the US dollar over the quarter.

Over the last two years, we have substantially reduced the offshore allocation of the fund as we believe that the SA market and SA currency represents very good value. Today, we continue to think that emerging markets and African equities represent particularly good value, and we now think the SA rand represents fair value given how well it has performed relative to other emerging market currencies.

The largest stock contributor to performance for the quarter was our underweight position to the BHP Group. Today, margins in the Resources sector are near record highs and cash generation is very strong. Once indebted companies have been able to substantially pay down or pay off all the debt they had accumulated. At this point in the cycle, we think that it is important to acknowledge that we are near the top of the commodity cycle. While it is difficult to forecast how long profitability could remain elevated, we need to weigh up the quality of a commodity company with its valuation. We think that BHP Group, which is mainly exposed to iron ore, is a good quality company but trading at a fair valuation and are therefore underweight the stock within the portfolio. While we are cautious in the Mining sector given that profitability levels remain elevated, we think that Anglo American remains a more attractive asset relative to BHP. We also remain cautious on the Platinum sector but think that Northam Platinum has a combination of attractive features in that it is a high-quality asset, with an increasing production profile at a very attractive valuation. Northam is our preferred holding in the Platinum sector.

Our overweight position in British American Tobacco (BAT) was the third largest relative contributor to performance for the quarter. We believe that the investment case remains very strong as the company is trading with an exceptionally attractive dividend yield of 7% and we expect this dividend to grow in the region of 10% per year for the next five years, despite the risks which tobacco companies face. We anticipate continued strong cash flows from BAT's core business in the United States to drive a repayment of debt, enable significant share repurchases, as well as continue to fund investment into next generation low-risk products. BAT is at the forefront of offering its customers alternative products that reduce harm, and we expect this trend to continue. We think that BAT can continue to grow profits while helping its customers switch to much lower risk and less harmful products. BAT has been a strong relative performer over the last year as the market has appreciated its defensive cash flows amidst concerns around the risk of a global recession.

The fund's overweight to Textainer Group Holdings was the largest detractor from performance over the last quarter. Textainer is one of the world's largest container leasing companies and leases containers to shipping companies. The container leasing market has been exceptionally strong over the last two years, as shipping lines have been scrambling to lease containers to satisfy their needs. The profitability of shipping lines currently is extremely high and the opportunity cost to not have containers to supply customers is substantial. We have been exceptionally impressed with how the company's management has allocated capital over this period. To ensure that cash flows are more stable going forward, the company has leveraged their strong position by signing much longer leases than under normal conditions. The company has also 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.

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. The Price-to-Book of the JSE remains close to 1.8X as at the end of June 2022. 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.

South African assets appear to be undervalued relative to emerging and developed markets. We believe that earnings and dividends in South Africa should continue to show strong return to growth over the medium term. We do however highlight the risk of rising interest rates and bond yields in the United States and many developed markets. While South African bond yields are already elevated and remain attractive, we think that rising bond yields in the US may start to present; and are already presenting headwinds to equity valuations.

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 amongst the 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.

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 try make money for our clients through these cycles and continue to try 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.

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Disclaimer

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M&G Investments

M&G Equity Fund

Equity

Q2 2022

Market overview

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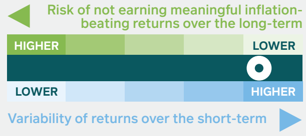
South African markets were less insulated from the global inflation and growth concerns than in the previous quarter. This was due to the fall in commodity prices, accelerating inflation, and forecasts for more aggressive local interest rate hikes in July, plus even slower growth ahead. Stage 4-6 loadshedding also weighed on

Annualised performance	A class	Benchmark	B class	F class
1 year	11.0%	6.4%	11.4%	12.2%
3 years	12.5%	7.1%	12.9%	13.3%
5 years	10.2%	6.1%	10.6%	11.1%
7 years	8.0%	4.4%	8.4%	-
10 years	11.4%	7.8%	11.9%	-
Since inception	15.9%	12.7%	-	-

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
R4 290 983 019

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

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

growth prospects. However, local bond and equity losses were somewhat less severe than developed markets, and more in line with those in other emerging markets. The FTSE/JSE All Share Index (ALSI) returned -11.7% for the quarter and the Capped SWIX -10.6%, dragged down by Resources with a -21.9% return, -15.8% from Financials, -12.1% from Listed Property (All Property Index) and -3.0% from Industrials. For the six months of 2022 so far, the ALSI has returned -8.3%, outperforming the -18.2% recorded by global equities (the MSCI All Country World Index), both in rand terms.

Performance

For the second quarter of 2022, the fund returned -6.1% (net of fees), outperforming its benchmark by 3.0%. For the 12 months ending 30 June 2022, the fund generated a return of 11.0% (net of fees), outperforming its benchmark by 4.6% over the same period.

The fund has continued to add demonstrable value for investors in South African equities, with it recently being awarded 5 PlexCrowns for its risk-adjusted returns over three and five years.

Among the main contributors to performance over the quarter was the fund's holdings in Naspers and Prosus. During the last week of the quarter, Naspers and Prosus announced that they would commence a share repurchase programme, whereby they would aim to take advantage of the large discount at which the Group trades to its net asset value, by buying up shares in both companies, funded by sales of shares in their largest investment, Tencent. It was announced that this would be an open-ended repurchase programme. We think that this is an excellent strategy as the group would be able to effectively buy itself back at a substantial discount, thus creating more value for shareholders. The market agreed and in the last week of June, the share prices of Naspers and Prosus were up over 30%.

It was pleasing to see some of the fund's mid- and- small-cap stocks continue to contribute to performance. During the quarter Datatec announced the sale of their Analysys Mason business on a 14x EBITDA multiple, whereas the group had traded on a multiple of just 3x EBITDA prior to the sale. The subsequent re-rating of the company only accounts for the sale price of Analysys Mason, with the remainder of the business remaining as inexpensive as it was before.

Rising bond yields globally and the spectre of stagflation have placed pressure on the gold price and gold mining stocks. During the quarter, Gold Fields announced an all-stock acquisition of Yamana Gold, which saw the share price decline significantly. The fund's underweight position in Gold Fields contributed to relative performance over the quarter.

Strategy and positioning

The fund retains clear preferences within sectors. Key differentiators within the Resources sector include a preference for Glencore (coal, base metals) over Billiton (iron ore) and Anglo American (diversified). Exxaro is preferred to Kumba, while Northam is preferred to Anglo American Platinum. The fund retains and overweight to the Energy sector, including Sasol and Thungela. Within the SA Industrials sector, the fund holds some well-priced stocks, such as Motus, Altron, Mpact and Oceana, which all trade on single digit multiples of spot or normalised earnings. In the Financials sector, Investec, Standard Bank and ABSA are our preferred banks. The fund retains no exposure to the Life Insurance sector, with a preference for capital-light asset gatherers, such as Ninety One.

We believe that the fund's holdings are attractively priced and well-positioned to deliver inflation-beating returns over the long term.

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Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

M&G SA Equity Fund

Equity

Q2 2022

Market overview

Investor concerns over a major slowdown in global growth, and therefore corporate earnings, escalated during the second quarter (Q2) of 2022, especially in June. This came as steep interest rate hikes in the US and strict Chinese Covid-19 lockdowns, as well as the ongoing destructive Russia-Ukraine war, led to downward revisions in economic growth expectations for the world's biggest economies. Further rises in energy and food prices also led to more speculation over extended inflationary pressures and stagflation and/or recession, even as other commodity prices lost ground. This combination of factors resulted in losses across most financial markets – equities, nominal bonds and inflation-linked bonds.

South Africa's fragile economic recovery came under increasing pressure in Q2: growth prospects took a downturn due to the renewal of national Stage 4-6 loadshedding, severe flooding in KwaZulu-Natal, rising inflation and higher-than-expected interest rate hikes, as well as the retreat in commodity prices. The South African Reserve Bank (SARB) lowered its GDP growth forecast for 2022 to 1.7% from 2.0% previously.

With CPI rising to 6.5% y/y in May – the first time since January 2017 that it has broken through the upper limit of the SARB's 3%-6% target range – the SARB hiked the repo rate by 50bps at its May meeting to 4.75%. The Bank is widely expected to hike by another 100bps at a minimum this year in an effort to both fight inflation and to keep our interest rate differential versus the US as high as possible in a bid to avoid more pressure on the rand and SA bond yields.

South African markets were less insulated from the global inflation and growth concerns than in the previous quarter. This was due to the fall in commodity prices, accelerating inflation, and forecasts for more aggressive local interest rate hikes in July, plus even slower growth ahead. Stage 4-6 loadshedding also weighed on growth prospects. However, local bond and equity losses were somewhat less severe than developed markets, and more in line with those in other emerging markets.

The FTSE/JSE All Share Index (ALSI) returned -11.7% for the quarter and the Capped SWIX -10.6%, dragged down by Resources with a -21.9% return, -15.8% from Financials, -12.1% from Listed Property (All Property Index) and -3.0% from Industrials. For the six months of 2022 so far, the ALSI has returned -8.3%, outperforming the -18.2% recorded by global equities (the MSCI All Country World Index).

Performance

The fund delivered a return of -7.2% (net of fees) for the second quarter of 2022, outperforming its benchmark by 3.4%. For the 12 months ended 30 June 2022, the fund returned 12.5% (net of fees), outperforming its benchmark by 5.6%.

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 the period ending 30 June 2022.

The standout contributor to performance over the last quarter was the fund's overweight position to Naspers and Prosus. This holding represents one of the larger overweight holdings that we have in the fund. We think that there is a strong investment case to be made for the Group. Tencent, which is the main underlying asset of the Group, has a market-leading position in China, which gives it a very strong competitive advantage in terms of expanding its network of products and monetising those products. It is a high-quality company with significant growth potential, which we think is trading on an undemanding valuation. In addition to our favourable view of Tencent, we think that the very substantial discount at which both Naspers and Prosus trade to their underlying investments provides a significant margin of safety for the investment. During the last week of the quarter, Naspers and Prosus announced that they would commence a share repurchase programme, whereby they would aim to take advantage of the large discount at which the Group trades to its net asset value, by buying up shares in both companies, funded by sales of shares in their largest investment, Tencent. It was announced that this would be an open-ended repurchase programme. We think that this is an excellent strategy as the group would be able to effectively buy itself back at a substantial discount, thus creating more value for shareholders. The market agreed and in the last week of June, the share prices of Naspers and Prosus were up over 30%.

The fund's overweight position in British American Tobacco (BAT) was the second-largest relative contributor to performance for the quarter. We believe that the investment case remains very strong as the company is trading with an exceptionally attractive dividend yield of 7% and we expect this dividend to grow in the region of 10% per year for the next five years, despite the risks that tobacco companies face. We anticipate continued strong cash flows from BAT's core business in the United States to drive a repayment of debt, enable significant share repurchases, as well as continue to fund investment into next-generation low-risk products. BAT is at the forefront of offering its customers alternative products which reduce harm and we expect this trend to continue. We think that BAT can continue to grow profits while helping its customers switch to much lower risk and less harmful products. BAT has been a strong relative performer over the last year as the market has appreciated its defensive cash flows amidst concerns around the risk of a global recession.

The fund's overweight investment in Sasol was the third largest contributor to performance during the quarter. Sasol's problems have been well known to the market. Their substantial investment in the Lake Charles Chemical Project (LCCP) led to a significant amount of debt being added onto the balance sheet of the company. This combination of financial leverage together with the natural operating leverage of an oil company meant that the risk to the business increased. The company made some sensible decisions to reduce costs and sell off some non-core assets to reduce debt levels. However, in retrospect, the pressure applied by banks and shareholders to sell a part of the Like Charles Project to reduce the financial risk further appears to have turned out to be a mistake. Unfortunately, the combination of an over-

Annualised performance	B class	Benchmark[1]	F class
1 year	13.8%	6.9%	12.5%
3 years	8.1%	6.8%	6.9%
5 years	8.1%	5.9%	6.8%
7 years	6.7%	5.0%	-
10 years	10.7%	9.0%	-
Since inception	14.8%	12.8%	-

[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

Risk of not earning meaningful inflation-beating returns over the long-term

HIGHER LOWER

LOWER HIGHER

Variability of returns over the short-term

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
R37 985 261 675

Sources: M&G, Morningstar & Deutsche Securities

leveraged business at the point when the economic cycle turns down can dramatically reduce the options that a company has, or force decisions to be made that would not ordinarily be made. The economic cycle has however turned firmly in Sasol's favour over the last year and the strength of the oil price and chemicals prices has caused a sharp re-rating of the share price. The Ukraine crisis has led to further increases in energy prices, which should generate exceptionally strong cash flows for Sasol. We think Sasol continues to be significantly undervalued given its ability to now quickly pay down debt.

In the Financials sector, we think that South African banks continue to trade at undemanding valuations, despite the recent sharp increase in share prices. We, therefore, continue to have one of our larger sector overweights to the Banks sector, although we have reduced this overweight somewhat. We continue to be overweight Standard Bank, ABSA and Investec. All these banks have been significant contributors to performance over the last year, with Investec being a strong contributor to performance over the last quarter. Investec is a company that we have held for a number of years in the fund and we have always been of the view that is a good quality company trading on a depressed multiple. We do not own Capitec and are underweight to FirstRand. While we would rate these banks 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 was the largest detractor from performance for the quarter, although it remains a top-three contributor to outperformance over the last year. 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.

During the last quarter, one of the largest detractors from performance was the fund's overweight position to Northam platinum. Northam Platinum is our preferred investment within the platinum sector. Although we are underweight the sector as a whole, we think that Northam has a combination of attractive features in that it is a high-quality asset with an increasing production profile at a very attractive valuation. During the quarter, platinum group metals prices fell, 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 even compensate the mines for ongoing maintenance capex. Today, margins in the sector are near record highs and cash generation is very strong. Once indebted companies have been able to substantially pay down or pay off all the debt they had accumulated. We are cognisant of the high margins that companies are currently earning and have an underweight position in the Platinum sector.

It is worth mentioning that when we construct our portfolios, we do not do so based on a particular view or outcome as we think it is not possible to consistently predict what oil prices or inflation rates might do… or when and where countries may go to war for instance. We rather look to construct portfolios with many different and diversified ideas, all of which we think have favourable pay-off profiles. In this way, we hopefully have portfolios which can deliver good returns under many different economic environments.

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. The Price-to-Book of the JSE remains close to 1.8X as at the end of June 2022. 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.

South African assets appear to be undervalued relative to emerging and developed markets. We believe that earnings and dividends in South Africa should continue to show a strong return to growth over the medium term. We do however highlight the risk of rising interest rates and bond yields in the United States and many developed markets. While South African bond yields are already elevated and remain attractive, we think that rising bond yields in the US may start to present; and are already presenting headwinds to equity valuations.

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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Sources: M&G, Morningstar & Deutsche Securities

M&G Global Bond Feeder Fund

Global Income ZAR-denominated

Q2 2022

Market overview

Investor concerns over a major slowdown in global growth, and therefore corporate earnings, escalated during the second quarter (Q2) of 2022, especially in June. This came as steep interest rate hikes in the US and strict Chinese Covid-19 lockdowns, as well as the ongoing destructive Russia-Ukraine war, led to downward revisions in economic growth expectations for the world's biggest economies. Further rises in energy and food prices also led to more speculation over extended inflationary pressures and stagflation and/or recession, even as other commodity prices lost ground. This combination of factors resulted in losses across most financial markets – with the Bloomberg Global Aggregate Bond Index delivering -8.3% (in US$).

In the US, inflation hit 8.6% y/y in May, the highest since 1981 and above market forecasts of 8.3% y/y. At the same time, US economic growth shrank by 1.6% y/y in Q1 2022 as consumer incomes and corporate profits were hit by higher prices for food and energy and the end of Covid-related stimulus payments. The US Federal Reserve's 75bp rate hike in June was an aggressive response to this accelerating inflation, a move which prompted more market-watchers to predict a recession ahead. Many noted that, given that inflation has largely stemmed from supply-side factors, higher interest rates were not likely to be as effective in curbing inflation as with demand-driven factors. Fed policymakers now see rates reaching 3.4% in 2022, well above the 1.9% forecast in March, as well as increased chances of recession.

US Treasury bonds sold off sharply as a consequence of the deteriorating inflation and interest rate outlook, resulting in an unusually volatile market: the Bloomberg Aggregate US Treasuries Index returned -9.2% in US$, after the -6.2% recorded in Q1.

In the UK, the Bank of England implemented another interest rate hike in June, taking its main bank rate to 1.25%, the highest level in 13 years. This came against inflation of 9.1% y/y in May. However, the central bank remained less aggressive on its outlook for rate hikes compared to the Federal Reserve.

Meanwhile, the European Central Bank (ECB) largely stuck to its Q1 plans, saying it would accelerate the winding down of its bond purchases from July, and signalling an upcoming 25bp rate hike. This was largely in line with market expectations. The Bank also revised its economic growth outlook lower to 2.8% for 2022 (from 3.7%) and 2.1% for 2023 (from 2.8%). Despite an acceleration in Q1 GDP growth to 5.4% y/y in the Eurozone, market watchers are more worried about a coming recession in the region due to its less-flexible economic structure; it continues to recover more slowly from the Coronavirus crisis than the US and UK.

In Japan, the Bank of Japan (BOJ) continued to be the only major central bank to maintain an ultra-easy monetary policy during the quarter, as it left its policy rate unchanged at -0.1%. The market continues to forecast no interest rate hikes through 2023. Japan's Q1 2022 GDP growth was reported at -0.5%, slower than the 1.0% expected.

Chinese investors became more upbeat towards the end of the quarter as Covid infection rates started to slow, allowing the government to ease some of its ultra-strict lockdown conditions in Shanghai and certain other areas. The country recorded better-than-expected GDP growth of 4.8% y/y in Q1, up from 4.0% y/y the previous quarter, and the latest data showed a surge in manufacturing and non-manufacturing PMI in June, accelerating to 51.7 (up from 48.1) and 54.7 (up from 47.8) respectively. The People's Bank of China (PBOC) left interest rates unchanged at its June meeting, in line with expectations. The central bank is concerned not only about growth, but also about the widening divergence between local and US interest rates, which has put Chinese bonds and the yuan under selling pressure.

Finally, the rand depreciated significantly against the three largest global currencies: it was 12.1% weaker vs the US dollar, 3.4% lower versus the UK pound sterling and 5.4% down against the euro in Q2 2022. This would have helped boost local investors' offshore foreign currency returns.

Performance

For the second quarter of 2022, the fund returned 0.9% (net of fees), underperforming its benchmark by 2.0%. Over the 12 months ending 30 June 2022, the fund generated a return of -5.4%, underperforming its benchmark by 2.7% over the same period.

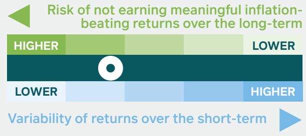
Main detractors from absolute performance over this period came as a result of the fund's exposure to global and US investment grade bonds and emerging market hard currency government bonds.

Strategy and positioning

During the period we started a new position in 30-year US Treasuries after a sell-off which saw their yields rise to levels that we think somewhat reflect the nature of the inflation issue. This had the effect of reducing the fund's underweight duration position. In our view, these long-dated bonds may help in the event of an economic growth shock or equity market panic.

We also slightly reduced our exposure to emerging market hard currency bonds and started a position in a US corporate bonds ETF. We think that emerging market hard currency bonds are no longer offering levels of value that justify a large overweight in the asset class. We also think investment-grade corporate bonds look more attractive as credit spreads have widened. The purchase

Risk profile



Fund facts

Investment manager of the underlying fund

M&G Investment Management Limited (UK)

Fund managers of the underlying fund

Craig Simpson

ASISA category

Global - Interest Beating - Variable Term

Benchmark

Bloomberg Global Aggregate Bond Index

Inception date

27 October 2000

Fund size

R610 112 749

Annualised performance	A class	Benchmark	B class
1 year	-5.4%	-2.7%	-5.1%
3 years	1.4%	1.7%	1.7%
5 years	3.0%	4.0%	-
7 years	4.1%	4.9%	-
10 years	7.2%	7.4%	-
Since inception	7.4%	7.6%	-

Sources: M&G, Morningstar & Deutsche Securities

reduced the underweight in this area to a more neutral position relative to the benchmark.

We remain highly active within the global bond asset class, responding to the significant price movements we have seen this year. The upward movement of interest rates and rate expectations remains a key issue for investors. Developed market government bond yields have risen sharply, with meaningful policy tightening now priced in. Policymakers appeared determined to bring inflation under control and it remains to be seen whether it will be possible to raise interest rates aggressively without causing an economic slowdown.

Given the wide range of potential outcomes in this challenging environment, we generally remain cautious, while recognising that pockets of value may appear. We continue to hold an elevated level of cash, providing scope to respond to future volatility as it arises.

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Disclaimer

Quarterly Commentary

M&G Global Inflation Plus Feeder Fund

Global Multi-Asset ZAR-denominated

Q2 2022

Market overview

Investor concerns over a major slowdown in global growth, and therefore corporate earnings, escalated during the second quarter (Q2) of 2022, especially in June. This came as steep interest rate hikes in the US and strict Chinese Covid-19 lockdowns, as well as the ongoing destructive Russia-Ukraine war, led to downward revisions in economic growth expectations for the world's biggest economies. Further rises in energy and food prices also led to more speculation over extended inflationary pressures and stagflation and/or recession, even as other commodity prices lost ground. This combination of factors resulted in losses across most financial markets – equities, nominal bonds and inflation-linked bonds. For the quarter ended 30 June 2022, the MSCI All Country World Index returned -15.7%, the MSCI Emerging Markets Index produced -11.4%, and the Bloomberg Global Aggregate Bond Index delivered -8.3% (all in US$).

In the US, inflation hit 8.6% y/y in May, the highest since 1981 and above market forecasts of 8.3% y/y. At the same time, US economic growth shrank by 1.6% y/y in Q1 2022 as consumer incomes and corporate profits were hit by higher prices for food and energy and the end of Covid-related stimulus payments. The US Federal Reserve's 75bp rate hike in June was an aggressive response to this accelerating inflation, a move which prompted more market-watchers to predict a recession ahead. Many noted that, given that inflation has largely stemmed from supply-side factors, higher interest rates were not likely to be as effective in curbing inflation as with demand-driven factors. Fed policymakers now see rates reaching 3.4% in 2022, well above the 1.9% forecast in March, as well as increased chances of recession.

US Treasury bonds sold off sharply as a consequence of the deteriorating inflation and interest rate outlook, resulting in an unusually volatile market: the Bloomberg Aggregate US Treasuries Index returned -9.2% in US$, after the -6.2% recorded in Q1. Meanwhile, US equity markets were deeply in the red for the quarter: in US dollars, the Nasdaq delivered -22.3%, the Dow Jones produced -10.8% and the S&P 500 returned -16.1%. The S&P 500, the broadest benchmark for the US equity market, produced its worst performance for the first six months of any year since 1970, down 20.0%.

In the UK, the Bank of England implemented another interest rate hike in June, taking its main bank rate to 1.25%, the highest level in 13 years. This came against inflation of 9.1% y/y in May. However, the central bank remained less aggressive on its outlook for rate hikes compared to the Federal Reserve. For Q2 2022, UK equities were also deeply in the red: the FTSE 100 returned -11.2% in US dollars.

Meanwhile, the European Central Bank (ECB) largely stuck to its Q1 plans, saying it would accelerate the winding down of its bond purchases from July, and signalling an upcoming 25bp rate hike. This was largely in line with market expectations. The Bank also revised its economic growth outlook lower to 2.8% for 2022 (from 3.7%) and 2.1% for 2023 (from 2.8%). Despite an acceleration in Q1 GDP growth to 5.4% y/y in the Eurozone, market watchers are more worried about a coming recession in the region due to its less-flexible economic structure; it continues to recover more slowly from the Coronavirus crisis than the US and UK. In France, the CAC 40 returned -14.4%, while Germany's DAX delivered -16.7% for the quarter in US dollars.

In Japan, the Bank of Japan (BOJ) continued to be the only major central bank to maintain an ultra-easy monetary policy during the quarter, as it left its policy rate unchanged at -0.1%. The market continues to forecast no interest rate hikes through 2023. Japan's Q1 2022 GDP growth was reported at -0.5%, slower than the 1.0% expected, and the equity market also lost ground with the Nikkei returning -15.1% in US dollars for the quarter.

Chinese investors became more upbeat towards the end of the quarter as Covid infection rates started to slow, allowing the government to ease some of its ultra-strict lockdown conditions in Shanghai and certain other areas. The country recorded better-than-expected GDP growth of 4.8% y/y in Q1, up from 4.0% y/y the previous quarter, and the latest data showed a surge in manufacturing and non-manufacturing PMI in June, accelerating to 51.7 (up from 48.1) and 54.7 (up from 47.8) respectively. The People's Bank of China (PBOC) left interest rates unchanged at its June meeting, in line with expectations. The central bank is concerned not only about growth, but also about the widening divergence between local and US interest rates, which has put Chinese bonds and the yuan under selling pressure. For the quarter, Hong Kong's Hang Seng produced 0.7%, while the MSCI China returned 3.5%, both in US dollars.

Other large emerging equity markets were in the red for the quarter, all in US$ terms, with Brazil's Bovespa the worst performer at -25.4%. The MSCI South Africa was close behind with -22.9%, while South Korea's KOSPI was down 20.8%, the MSCI India fell 13.5% and the MSCI Turkey recorded a -10.9% return.

Energy prices continued their rise, but at a moderated pace: Brent crude oil gained 6.4% during the quarter after experiencing some softness in June. Year-to-date the price is up some 47% in US dollars. Looking at precious metals, gold fell 6.0% for the quarter, while platinum lost 7.7% and palladium was down 13.2%. Other industrial metals prices lost between 20-30% amid heightened worries of a global growth slowdown.

Finally, the rand depreciated significantly against the three largest global currencies: it was 12.1% weaker vs the US dollar, 3.4% lower versus the UK pound sterling and 5.4% down against the euro in Q2 2022. This would have helped boost local investors' offshore foreign currency returns.

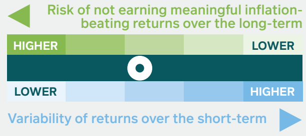
Performance

For the second quarter of 2022, the fund returned -0.2% (net of fees), while global inflation measured 14.9%. Over the 12 months ending 30 June 2022, the fund generated a return of -2.1%, while global inflation measured 24.6% over the same period.

Annualised performance	A class	Benchmark[1]	B class
1 year	-2.1%	24.6%	-1.7%
3 years	4.8%	9.7%	5.2%
5 years	5.5%	7.3%	5.8%
7 years	5.8%	7.0%	6.2%
10 years	8.8%	9.6%	-
Since inception	7.2%	7.5%	-

[1] The Fund's benchmark changed from the ASISA Global - Multi Asset - Low Equity Category Mean to Global Inflation on 1 November 2018.

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

R225 315 651

Sources: M&G, Morningstar & Deutsche Securities

Contributing to absolute performance over the quarter was the fund's exposure to Chinese equities. Main detractors from absolute performance over this period came from exposure to European corporate bonds, US investment grade bonds, emerging market hard currency government bonds, US and broad global equity exposure.

Strategy and positioning

During the period we started a new position in 30-year US Treasuries after a sell-off which saw their yields rise to levels that we think somewhat reflect the nature of the inflation issue. This had the effect of reducing the fund's underweight duration position. In our view, these long-dated bonds may help in the event of an economic growth shock or equity market panic.

In light of the high levels of uncertainty at present, the fund has an elevated cash weighting, which also provides the scope to respond to opportunities that may arise in turbulent markets.

The upward movement of interest rates and rate expectations remains a key issue for investors. Developed market government bond yields have risen sharply, with meaningful policy tightening now priced in. Policymakers appeared determined to bring inflation under control and it remains to be seen whether it will be possible to raise interest rates aggressively without causing an economic slowdown.

At present, we have a relatively neutral view on bonds. They have fallen in value considerably since the start of the year when we thought they were unattractive. However, given the wide range of potential outcomes in this challenging environment, we generally remain cautious, while recognising that pockets of value may appear.

Global equities have retreated too as recession risks have increased. In this uncertain environment, we will continue to look for opportunities to add equities where we feel investors have become too pessimistic about the economic outlook and prices look attractive.

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Quarterly Commentary

M&G Global Balanced Feeder Fund

Global Multi-Asset ZAR-denominated

Q2 2022

Market overview

Investor concerns over a major slowdown in global growth, and therefore corporate earnings, escalated during the second quarter (Q2) of 2022, especially in June. This came as steep interest rate hikes in the US and strict Chinese Covid-19 lockdowns, as well as the ongoing destructive Russia-Ukraine war, led to downward revisions in economic growth expectations for the world's biggest economies. Further rises in energy and food prices also led to more speculation over extended inflationary pressures and stagflation and/or recession, even as other commodity prices lost ground. This combination of factors resulted in losses across most financial markets – equities, nominal bonds and inflation-linked bonds. For the quarter ended 30 June 2022, the MSCI All Country World Index returned -15.7%, the MSCI Emerging Markets Index produced -11.4%, and the Bloomberg Global Aggregate Bond Index delivered -8.3% (all in US$).

In the US, inflation hit 8.6% y/y in May, the highest since 1981 and above market forecasts of 8.3% y/y. At the same time, US economic growth shrank by 1.6% y/y in Q1 2022 as consumer incomes and corporate profits were hit by higher prices for food and energy and the end of Covid-related stimulus payments. The US Federal Reserve's 75bp rate hike in June was an aggressive response to this accelerating inflation, a move which prompted more market-watchers to predict a recession ahead. Many noted that, given that inflation has largely stemmed from supply-side factors, higher interest rates were not likely to be as effective in curbing inflation as with demand-driven factors. Fed policymakers now see rates reaching 3.4% in 2022, well above the 1.9% forecast in March, as well as increased chances of recession.

US Treasury bonds sold off sharply as a consequence of the deteriorating inflation and interest rate outlook, resulting in an unusually volatile market: the Bloomberg Aggregate US Treasuries Index returned -9.2% in US$, after the -6.2% recorded in Q1. Meanwhile, US equity markets were deeply in the red for the quarter: in US dollars, the Nasdaq delivered -22.3%, the Dow Jones produced -10.8% and the S&P 500 returned -16.1%. The S&P 500, the broadest benchmark for the US equity market, produced its worst performance for the first six months of any year since 1970, down 20.0%.

In the UK, the Bank of England implemented another interest rate hike in June, taking its main bank rate to 1.25%, the highest level in 13 years. This came against inflation of 9.1% y/y in May. However, the central bank remained less aggressive on its outlook for rate hikes compared to the Federal Reserve. For Q2 2022, UK equities were also deeply in the red: the FTSE 100 returned -11.2% in US dollars.

Meanwhile, the European Central Bank (ECB) largely stuck to its Q1 plans, saying it would accelerate the winding down of its bond purchases from July, and signalling an upcoming 25bp rate hike. This was largely in line with market expectations. The Bank also revised its economic growth outlook lower to 2.8% for 2022 (from 3.7%) and 2.1% for 2023 (from 2.8%). Despite an acceleration in Q1 GDP growth to 5.4% y/y in the Eurozone, market watchers are more worried about a coming recession in the region due to its less-flexible economic structure; it continues to recover more slowly from the Coronavirus crisis than the US and UK. In France, the CAC 40 returned -14.4%, while Germany's DAX delivered -16.7% for the quarter in US dollars.

In Japan, the Bank of Japan (BOJ) continued to be the only major central bank to maintain an ultra-easy monetary policy during the quarter, as it left its policy rate unchanged at -0.1%. The market continues to forecast no interest rate hikes through 2023. Japan's Q1 2022 GDP growth was reported at -0.5%, slower than the 1.0% expected, and the equity market also lost ground with the Nikkei returning -15.1% in US dollars for the quarter.

Chinese investors became more upbeat towards the end of the quarter as Covid infection rates started to slow, allowing the government to ease some of its ultra-strict lockdown conditions in Shanghai and certain other areas. The country recorded better-than-expected GDP growth of 4.8% y/y in Q1, up from 4.0% y/y the previous quarter, and the latest data showed a surge in manufacturing and non-manufacturing PMI in June, accelerating to 51.7 (up from 48.1) and 54.7 (up from 47.8) respectively. The People's Bank of China (PBOC) left interest rates unchanged at its June meeting, in line with expectations. The central bank is concerned not only about growth, but also about the widening divergence between local and US interest rates, which has put Chinese bonds and the yuan under selling pressure. For the quarter, Hong Kong's Hang Seng produced 0.7%, while the MSCI China returned 3.5%, both in US dollars.

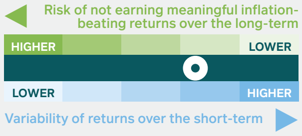
Other large emerging equity markets were in the red for the quarter, all in US$ terms, with Brazil's Bovespa the worst performer at -25.4%. The MSCI South Africa was close behind with -22.9%, while South Korea's KOSPI was down 20.8%, the MSCI India fell 13.5% and the MSCI Turkey recorded a -10.9% return.

Energy prices continued their rise, but at a moderated pace: Brent crude oil gained 6.4% during the quarter after experiencing some softness in June. Year-to-date the price is up some 47% in US dollars. Looking at precious metals, gold fell 6.0% for the quarter, while platinum lost 7.7% and palladium was down 13.2%. Other industrial metals prices lost between 20-30% amid heightened worries of a global growth slowdown.

Finally, the rand depreciated significantly against the three largest global currencies: it was 12.1% weaker vs the US dollar, 3.4% lower versus the UK pound sterling and 5.4% down against the euro in Q2 2022. This would have helped boost local investors' offshore foreign currency returns.

Annualised performance	A class	Benchmark	B class
1 year	-0.1%	-1.8%	0.1%
2 years	3.1%	1.3%	3.2%
3 years	7.9%	8.9%	7.9%
Since inception	6.7%	9.0%	-

Risk profile



Fund facts

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

Fund managers of the underlying fund
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% US 1m Treasury Bill

Inception date
28 June 2018

Fund size
R48 258 272

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

Performance

For the second quarter of 2022, the fund returned -1.6% (net of fees), outperforming its benchmark by 0.9%. Over the 12 months ending 30 June 2022, the fund generated a return of -0.1%, outperforming its benchmark by 1.7% over the same period.

Contributing to absolute performance over the quarter was the fund's exposure to Chinese equities. Main detractors from absolute performance over this period came from US and broad global equity exposure, European corporate bonds and emerging market hard currency government bonds.

Strategy and positioning

During the period we started a new position in 30-year US Treasuries after a sell-off which saw their yields rise to levels that we think somewhat reflect the nature of the inflation issue. This had the effect of reducing the fund's underweight duration position. In our view, these long-dated bonds may help in the event of an economic growth shock or equity market panic.

In light of the high levels of uncertainty at present, the fund has an elevated cash weighting, which also provides the scope to respond to opportunities that may arise in turbulent markets.

The upward movement of interest rates and rate expectations remains a key issue for investors. Developed market government bond yields have risen sharply, with meaningful policy tightening now priced in. Policymakers appeared determined to bring inflation under control and it remains to be seen whether it will be possible to raise interest rates aggressively without causing an economic slowdown.

At present, we have a relatively neutral view on bonds. They have fallen in value considerably since the start of the year when we thought they were unattractive. However, given the wide range of potential outcomes in this challenging environment, we generally remain cautious, while recognising that pockets of value may appear.

Global equities have retreated too as recession risks have increased. In this uncertain environment, we will continue to look for opportunities to add equities where we feel investors have become too pessimistic about the economic outlook and prices look attractive.

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M&G Investments

M&G Global Equity Feeder Fund

Global Equity ZAR-denominated

Q2 2022

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Annualised performance	A class	Benchmark	B class
1 year	-10.0%	-3.3%	-9.7%
3 years	10.4%	11.6%	10.7%
5 years	9.4%	11.9%	-
7 years	9.7%	11.7%	-
10 years	14.8%	16.6%	-
Since inception	7.4%	8.9%	-

Risk profile

Risk of not earning meaningful inflation-beating returns over the long-term

HIGHER LOWER

LOWER HIGHER

Variability of returns over the short-term

Fund facts

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

Fund managers of the underlying fund
Gautam Samarth

ASISA category
Global - Equity - General

Benchmark
MSCI All Country World Index TR Net

Inception date
18 February 2000

Fund size
R434 757 305

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

Performance

For the second quarter of 2022, the fund returned -7.4% (net of fees), underperforming its benchmark by 2.0%. Over the 12 months ending 30 June 2022, the fund generated a return of -10.0%, underperforming its benchmark by 6.7% over the same period.

The fund outperformed on 32 of 65 days, offering a hit rate for the entire quarter of just under 50%. The fund generated a negative skew over the quarter, which was a key driver of underperformance. Style had a negative contribution over the quarter, with exposure to high beta and high residual volatility detracting, partly offset by a positive contribution from the fund's small size exposure.

Strategy and positioning

The portion of the fund managed using its proprietary machine learning model is approximately 90%, with the balance of approximately 10% remaining in strategic ETFs. The ETF allocation is primarily used for liquidity purposes. At the factor level, the fund currently exhibits positive active exposure to small size, high trading activity and companies with low profitability, with modest positive tilts to both value and growth.

Global equities have retreated this year as recession risks have increased. In this uncertain environment, we will continue to look for opportunities to add equities where we feel investors have become too pessimistic about the economic outlook and prices look attractive.

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Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

M&G 2.5% Target Income Fund

Target Income

Q2 2022

Market overview

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South African markets were less insulated from the global inflation and growth concerns than in the previous quarter. This was due to the fall in commodity prices, accelerating inflation, and forecasts for more aggressive local interest rate hikes in July, plus even slower growth ahead. Stage 4-6 loadshedding also weighed on growth prospects. However, local bond and equity losses were somewhat less severe than developed markets, and more in line with those in other emerging markets. The FTSE/JSE All Share Index (ALSI) returned -11.7% for the quarter and the Capped SWIX -10.6%, dragged down by Resources with a -21.9% return, -15.8% from Financials, -12.1% from Listed Property (All Property Index) and -3.0% from Industrials. For the six months of 2022 so far, the ALSI has returned -8.3%, outperforming the -18.2% recorded by global equities (the MSCI All Country World Index), both in rand terms.

Amid growing inflationary fears, SA's All Bond Index lost 3.7%, but inflation-linked bonds (ILBs) delivered 2.9% and cash returned 1.2%. Finally, the rand weakened significantly against the US dollar and other major global currencies during Q2, losing 12.1% versus the greenback, 3.4% versus the UK pound sterling and 5.4% against the euro. This depreciation would have bolstered SA investors' foreign currency returns.

In the US, inflation hit 8.6% y/y in May, the highest since 1981. At the same time, US economic growth fell by 1.6% y/y in Q1 2022 and was on track to slow further in Q2 as consumer incomes and corporate profits have been hit by higher prices for food and energy and the end of Covid-related stimulus payments. The US Federal Reserve's 75bp rate hike in June prompted more market-watchers to predict a recession ahead. Fed policymakers now see rates reaching 3.4% in 2022, well above the 1.9% forecast in March.

US Treasury bonds sold off sharply, resulting in an unusually volatile market: the Bloomberg Aggregate US Treasuries Index returned -9.2% in US$, after the -6.2% recorded in Q1. Meanwhile, US equity markets were deeply in the red for the quarter: in US dollars, the Nasdaq delivered –22.3%, the Dow Jones produced -10.8% and the S&P 500 returned -16.1%. The S&P 500 produced its worst performance for the first six months of any year since 1970, down 20%.

In the UK, the Bank of England implemented another interest rate hike in June, with inflation hitting 9.1% y/y in May. For Q2 2022, UK equities were also deeply in the red: the FTSE 100 returned -11.2% in US dollars. Meanwhile, the European Central Bank (ECB) largely stuck to its Q1 plans for an accelerated monetary tightening, including an upcoming 25bp rate hike. The Bank also revised its economic growth outlook lower to 2.8% for 2022 (from 3.7%) and 2.1% for 2023 (from 2.8%) as the region continues to recover more slowly from the Coronavirus crisis than the US and UK. In France, the CAC 40 returned -14.4%, while Germany's DAX delivered -16.7% for the quarter in US dollars.

In Japan, the Bank of Japan (BOJ) continued to be the only major central bank to maintain an ultra-easy monetary policy, as it left its policy rate unchanged at -0.1%. The market continues to forecast no interest rate hikes through 2023. The local Nikkei equity index returned -15.1% in US dollars for the quarter.

Chinese investors became more upbeat towards the end of the quarter as Covid infection rates started to slow, allowing the government to ease some of its ultra-strict lockdown conditions. The country recorded better-than-expected GDP growth of 4.8% y/y in Q1, and the latest data showed a surge in manufacturing and non-manufacturing production in June. The People's Bank of China (PBOC) left interest rates unchanged at its June meeting, in line with expectations. For the quarter, Hong Kong's Hang Seng produced 0.7%, while the MSCI China returned 3.5%, both in US dollars.

Energy prices continued their rise, but at a moderated pace: Brent crude oil gained 6.4% during the quarter after experiencing some softness in June. Year-to-date the price is up some 47% in US dollars. Both precious and industrial metals prices fell, the latter losing between 20-30% amid heightened worries of a global growth slowdown.

South Africa

South Africa's fragile economic recovery came under increasing pressure in Q2: growth prospects took a downturn due to the renewal of national Stage 4-6 loadshedding, severe flooding in KwaZulu--Natal, rising inflation and higher-than-expected interest rate hikes, as well as the retreat in non-energy commodity prices. The South African Reserve Bank (SARB) lowered its GDP growth forecast for 2022 to 1.7% from 2.0% previously.

With CPI rising to 6.5% y/y in May, the SARB hiked the repo rate by 50bps at its May meeting to 4.75%. The Bank is widely expected to hike by another 100bps at a minimum this year in an effort to both fight inflation and keep the interest rate differential versus the US as high as possible in a bid to avoid more pressure on the rand and SA bond yields.

Performance

The M&G 2.5% Target Income Fund returned -4.5% (after fees) for the second quarter of 2022 and 8.5% for the 12-month period ending 30 June 2022.

Over Q2 the Fund's positioning continued to protect clients from the market downturn to a certain extent. The largest asset-class detractors from absolute (negative) performance for the quarter were the Fund's exposure to SA equities, followed by SA listed property and SA bonds. International assets had a largely neutral impact, as negative returns were broadly offset by gains stemming from rand weakness over the period.

In terms of specific equity exposure, among the strongest positive

Fund facts

Fund managers
David Knee
Michael Moyle
Sandile Malinga
Leonard Krüger

ASISA category
Worldwide - Multi Asset - Unclassified

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

Inception date
2 April 2019

Fund size
R97 752 012

Annualised performance	A class	CPI	B class
1 year	8.5%	6.5%	8.9%
2 years	14.6%	5.8%	15.0%
3 years	6.3%	4.6%	6.7%
Since inception	5.2%	4.6%	-

Sources: M&G, Morningstar & Deutsche Securities

contributors to absolute returns for the quarter were the Fund's increased holdings in Naspers/Prosus, as well as British American Tobacco and Sasol. Naspers and Prosus share prices were sent soaring (Naspers up approximately 40%) just before quarter-end on the back of their announcement of share buybacks. Top detractors from absolute performance were MTN, Anglo American, Northam Platinum, and our exposure to banking shares.

Strategy and positioning

Starting with our view on offshore asset allocation, we maintained our portfolio positioning favouring local assets over global assets, which proved to be a detractor for portfolio returns as SA assets underperformed their global counterparts in rands.

Within our **global holdings**, we continued to prefer **global cash** over both **global equities and bonds**, this allows us to take advantage of market mis-pricing episodes that might arise. This positioning turned out to be favourable for our portfolios on a relative basis for the quarter, based on the weakness in both global equity and bond markets compared to global cash. Within our global equity positioning, we kept our active weight the same through the quarter, thus any changes in the total weight of equities reflect the drift due to market falls. Our exposure to a broad mix of equity markets with diversified return profiles has helped to partly cushion our funds against the current market downturn.

Within **global bonds**, we took advantage of the sharp selloff and reduced our underweight in developed market bonds, adding some US Treasury and diversified global bond exposure. We are still underweight global bonds and have a preference for bond markets where the real yields are high and the currency is trading at fair-to-cheap levels. We maintained our underweight stance on investment-grade corporate credit, holding almost no exposure despite improving valuations over the quarter as spreads widened. We continue to believe that corporate yield spreads are not sufficiently high for the risk involved.

We still favoured **SA equities** at the end of Q2. During the quarter we made very few adjustments in our holdings, and none with a meaningful impact on our broad SA equity holdings. Given the large price declines across most locally listed shares during the period, SA equity valuations (as measured by the 12-month forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) de-rated over the quarter, falling from around 9.6X at the beginning of the quarter to around 8.0X at quarter-end. Corporate earnings expectations have started to roll over, but not by as much as share price losses, and are yet to reflect global recession risks.

At a stock level, the main holdings contributing to Fund performance during the quarter were Naspers and Prosus, given their sharp share price rebounds in June on the back of their announcement of a new open-ended share-repurchase programme financed by Prosus' sale of Tencent shares. Along with other investors we welcomed this move, as the company signalled its willingness to exploit the valuation discounts the market has placed on its underlying assets. Another meaningful contribution came from our overweight in British American Tobacco, a traditionally defensive company that again proved its value, as well as Sasol.

Among our portfolio's largest detractors for the quarter were our active Resources and Financial holdings, as well as MTN and Foschini, against the backdrop of non-energy commodity price weakness and downgrades to economic growth expectations. As a reminder, in the previous quarter we trimmed our Retail sector exposure due to the deteriorating inflation and interest rate outlook, which now present even more significant headwinds for retail sales.

We maintained our marginally underweight positioning in **SA listed property** in Q2 2022, preferring to hold other shares that we consider offer better value propositions for less risk. Conditions in the local property sector remain uncertain given the rising local interest rate cycle (many property companies are reliant on finance to expand their portfolios) and relatively weak growth prospects, among other fundamental factors.

On a relative basis, our portfolios benefitted from our ongoing preference for **SA nominal bonds** in the second quarter thanks to their outperformance of SA equities, as well as global equities and global bonds. We did add modestly to our portfolios' nominal bond exposure out of SA cash holdings during the quarter amid market weakness, increasing our overweight position in this asset class. We still believe nominal bonds remain attractive relative to both other income assets and their own longer-term history, and will more than compensate investors for their associated risks. The fund holds no inflation-linked bonds.

Despite the SARB's interest rate hikes during the quarter, the fund remained tilted away from **SA cash** as our least-preferred asset class, given the extremely low base rate off which the SARB has hiked. During the quarter we reduced our cash exposure in order to add more SA nominal bonds to the portfolios to take advantage of the even more attractive valuations on offer. In our view, other SA assets remain 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, while also protecting the downside.

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M&G 5% Target Income Fund

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ASISA category
Worldwide - Multi Asset - Unclassified

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

Inception date
2 April 2019

Fund size
R195 948 656

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In the US, inflation hit 8.6% y/y in May, the highest since 1981. At the same time, US economic growth fell by 1.6% y/y in Q1 2022 and was on track to slow further in Q2 as consumer incomes and corporate profits have been hit by higher prices for food and energy and the end of Covid-related stimulus payments. The US Federal Reserve's 75bp rate hike in June prompted more market-watchers to predict a recession ahead. Fed policymakers now see rates reaching 3.4% in 2022, well above the 1.9% forecast in March.

US Treasury bonds sold off sharply, resulting in an unusually volatile market: the Bloomberg Aggregate US Treasuries Index returned -9.2% in US$, after the -6.2% recorded in Q1. Meanwhile, US equity markets were deeply in the red for the quarter: in US dollars, the Nasdaq delivered –22.3%, the Dow Jones produced -10.8% and the S&P 500 returned -16.1%. The S&P 500 produced its worst performance for the first six months of any year since 1970, down 20%.

In the UK, the Bank of England implemented another interest rate hike in June, with inflation hitting 9.1% y/y in May. For Q2 2022, UK equities were also deeply in the red: the FTSE 100 returned -11.2% in US dollars. Meanwhile, the European Central Bank (ECB) largely stuck to its Q1 plans for an accelerated monetary tightening, including an upcoming 25bp rate hike. The Bank also revised its economic growth outlook lower to 2.8% for 2022 (from 3.7%) and 2.1% for 2023 (from 2.8%) as the region continues to recover more slowly from the Coronavirus crisis than the US and UK. In France, the CAC 40 returned -14.4%, while Germany's DAX delivered -16.7% for the quarter in US dollars.

In Japan, the Bank of Japan (BOJ) continued to be the only major central bank to maintain an ultra-easy monetary policy, as it left its policy rate unchanged at -0.1%. The market continues to forecast no interest rate hikes through 2023. The local Nikkei equity index returned -15.1% in US dollars for the quarter.

Chinese investors became more upbeat towards the end of the quarter as Covid infection rates started to slow, allowing the government to ease some of its ultra-strict lockdown conditions. The country recorded better-than-expected GDP growth of 4.8% y/y in Q1, and the latest data showed a surge in manufacturing and non-manufacturing production in June. The People's Bank of China (PBOC) left interest rates unchanged at its June meeting, in line with expectations. For the quarter, Hong Kong's Hang Seng produced 0.7%, while the MSCI China returned 3.5%, both in US dollars.

Energy prices continued their rise, but at a moderated pace: Brent crude oil gained 6.4% during the quarter after experiencing some softness in June. Year-to-date the price is up some 47% in US dollars. Both precious and industrial metals prices fell, the latter losing between 20-30% amid heightened worries of a global growth slowdown.

South Africa

South Africa's fragile economic recovery came under increasing pressure in Q2: growth prospects took a downturn due to the renewal of national Stage 4-6 loadshedding, severe flooding in KwaZulu-Natal, rising inflation and higher-than-expected interest rate hikes, as well as the retreat in commodity prices. The South African Reserve Bank (SARB) lowered its GDP growth forecast for 2022 to 1.7% from 2.0% previously.

With CPI rising to 6.5% y/y in May, the SARB hiked the repo rate by 50bps at its May meeting to 4.75%. The Bank is widely expected to hike by another 100bps at a minimum this year in an effort to both fight inflation and keep the interest rate differential versus the US as high as possible in a bid to avoid more pressure on the rand and SA bond yields.

Performance

The M&G 5% Target Income Fund returned -4.2% (after fees) for the second quarter of 2022 and 3.4% for the 12-month period ending 30 June 2022.

Over Q2 the fund's positioning continued to protect clients from the market downturn to a certain extent. The largest asset-class detractors from absolute (negative) performance for the quarter were the fund's exposure to SA equities, followed by SA bonds and SA listed property. International assets had a largely neutral impact, as negative returns were broadly offset by gains stemming from rand weakness over the period.

Annualised performance	A class	CPI	B class
1 year	3.4%	6.5%	3.8%
2 years	8.4%	5.8%	8.7%
3 years	4.6%	4.6%	5.0%
Since inception	4.3%	4.6%	-

Sources: M&G, Morningstar & Deutsche Securities

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In terms of specific equity exposure, among the strongest positive contributors to absolute returns for the quarter were the fund's increased holdings in Naspers/Prosus, as well as British American Tobacco. Naspers and Prosus share prices were sent soaring (Naspers up approximately 40%) just before quarter-end on the back of their announcement of share buybacks. Top detractors from absolute performance were MTN, Anglo American, Northam Platinum, and our exposure to banking shares.

Strategy and positioning

Starting with our view on offshore asset allocation, we maintained our portfolio positioning favouring local assets over global assets, which proved to be a detractor for portfolio returns as SA assets underperformed their global counterparts in rands.

Within our **global holdings**, we continued to prefer global cash over both global equities and bonds, this allows us to take advantage of market mis-pricing episodes that might arise. This positioning turned out to be favourable for our portfolios on a relative basis for the quarter, based on the weakness in both global equity and bond markets compared to global cash. Within our global equity positioning, we kept our active weight the same through the quarter, thus any changes in the total weight of equities reflect the drift due to market falls. Our exposure to a broad mix of equity markets with diversified return profiles has helped to partly cushion our funds against the current market downturn.

Within **global bonds**, we took advantage of the sharp selloff and reduced our underweight in developed market bonds, adding some US Treasury and diversified global bond exposure. We are still underweight global bonds and have a preference for bond markets where the real yields are high and the currency is trading at fair-to-cheap levels. We maintained our underweight stance on investment-grade corporate credit, holding almost no exposure despite improving valuations over the quarter as spreads widened. We continue to believe that corporate yield spreads are not sufficiently high for the risk involved.

The fund still favoured **SA equities** at the end of Q2. During the quarter we made very few adjustments in our holdings, and none with a meaningful impact on our broad SA equity holdings. Given the large price declines across most locally listed shares during the period, SA equity valuations (as measured by the 12-month forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) de-rated over the quarter, falling from around 9.6X at the beginning of the quarter to around 8.0X at quarter-end. Corporate earnings expectations have started to roll over, but not by as much as share price losses, and are yet to reflect global recession risks.

At a stock level, the main holdings contributing to fund performance during the quarter were Naspers and Prosus, given their sharp share price rebounds in June on the back of their announcement of a new open-ended share-repurchase programme financed by Prosus' sale of Tencent shares. Along with other investors we welcomed this move, as the company signalled its willingness to exploit the valuation discounts the market has placed on its underlying assets. Another meaningful contribution came from our overweight in British American Tobacco, a traditionally defensive company that again proved its value, as well as Sasol.

Among our portfolio's largest detractors for the quarter were our active Resources and Financial holdings, as well as MTN and Foschini, against the backdrop of non-energy commodity price weakness and downgrades to economic growth expectations. As a reminder, in the previous quarter we trimmed our Retail sector exposure due to the deteriorating inflation and interest rate outlook, which now present even more significant headwinds for retail sales.

We maintained our marginally underweight positioning in SA listed property in Q2 2022, preferring to hold other shares that we consider offer better value propositions for less risk. Conditions in the local property sector remain uncertain given the rising local interest rate cycle (many property companies are reliant on finance to expand their portfolios) and relatively weak growth prospects, among other fundamental factors.

On a relative basis, our portfolios benefitted from our ongoing preference for **SA nominal bonds** in the second quarter thanks to their outperformance of SA equities, as well as global equities and global bonds. We did add modestly to our portfolios' nominal bond exposure out of SA cash holdings during the quarter amid market weakness, increasing our overweight position in this asset class. We still believe nominal bonds remain attractive relative to both other income assets and their own longer-term history, and will more than compensate investors for their associated risks.

We maintained our neutral positioning in **inflation-linked bonds**. We still believe that ILB real yields remain relatively attractive compared to their own history and our long-run fair value assumption, but compared to nominal bonds, their valuations are less attractive and they have lower return expectations.

Lastly, despite the SARB's interest rate hikes during the quarter the fund remained tilted away from **SA cash** as our least-preferred asset class, given the extremely low base rate off which the SARB has hiked. During the quarter we reduced our cash exposure in order to add more SA nominal bonds to the portfolios to take advantage of the even more attractive valuations on offer. In our view, other SA assets remain more attractive on a relative basis.

Although market volatility remains high in the short term, we believe the fund remains 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, while also protecting the downside.

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Sources: M&G, Morningstar & Deutsche Securities

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M&G 7% Target Income Fund

Target Income

Q2 2022

Fund facts

Fund managers
David Knee
Michael Moyle
Sandile Malinga
Leonard Krüger

ASISA category
Worldwide - Multi Asset - Unclassified

Objective (before fees)
7% Income return p.a.

Inception date
2 April 2019

Fund size
R376 632 894

Market overview

Investor concerns over a major slowdown in global growth, and therefore corporate earnings, escalated during the second quarter (Q2) of 2022, especially in June. This came as steep interest rate hikes in the US and strict Chinese Covid-19 lockdowns, as well as the ongoing destructive Russia-Ukraine war, led to downward revisions in economic growth expectations for the world's biggest economies. Further rises in energy and food prices also led to more speculation over extended inflationary pressures and stagflation and/or recession, even as other commodity prices lost ground. This combination of factors resulted in losses across most financial markets – equities, nominal bonds and inflation-linked bonds.

South African markets were less insulated from the global inflation and growth concerns than in the previous quarter. This was due to the fall in commodity prices, accelerating inflation, and forecasts for more aggressive local interest rate hikes in July, plus even slower growth ahead. Stage 4-6 loadshedding also weighed on growth prospects. However, local bond and equity losses were somewhat less severe than developed markets, and more in line with those in other emerging markets. The FTSE/JSE All Share Index (ALSI) returned -11.7% for the quarter and the Capped SWIX -10.6%, dragged down by Resources with a -21.9% return, -15.8% from Financials, -12.1% from Listed Property (All Property Index) and -3.0% from Industrials. For the six months of 2022 so far, the ALSI has returned -8.3%, outperforming the -18.2% recorded by global equities (the MSCI All Country World Index), both in rand terms.

Amid growing inflationary fears, SA's All Bond Index lost 3.7%, but inflation-linked bonds (ILBs) delivered 2.9% and cash returned 1.2%. Finally, the rand weakened significantly against the US dollar and other major global currencies during Q2, losing 12.1% versus the greenback, 3.4% versus the UK pound sterling and 5.4% against the euro. This depreciation would have bolstered SA investors' foreign currency returns.

South Africa's fragile economic recovery came under increasing pressure in Q2: growth prospects took a downturn due to the renewal of national Stage 4-6 loadshedding, severe flooding in KwaZulu Natal, rising inflation and higher-than-expected interest rate hikes, as well as the retreat in non-energy commodity prices. The South African Reserve Bank (SARB) lowered its GDP growth forecast for 2022 to 1.7% from 2.0% previously.

With CPI rising to 6.5% y/y in May, the SARB hiked the repo rate by 50bps at its May meeting to 4.75%. The Bank is widely expected to hike by another 100bps at a minimum this year in an effort to both fight inflation and keep the interest rate differential versus the US as high as possible in a bid to avoid more pressure on the rand and SA bond yields.

Performance

The M&G 7% Target Income Fund returned -4.0% (after fees) for the quarter and 3.0% for the 12-month period ending 30 June 2022.

Over Q2 the fund's positioning continued to protect clients from the market downturn to a certain extent. The largest asset-class detractors from absolute (negative) performance for the quarter were the fund's exposure to SA equities, followed by SA bonds and SA listed property.

In terms of specific equity exposure, among the strongest positive contributors to absolute returns for the quarter were the fund's holdings in Naspers/Prosus, as well as British American Tobacco. Naspers and Prosus share prices were sent soaring just before quarter-end on the back of their announcement of share buybacks. Top detractors from absolute performance were MTN, Anglo American, Northam Platinum, and our exposure to banking shares.

Strategy and positioning

The fund still favoured **SA equities** at the end of Q2. Fund performance benefitted from our equity positioning tilting away from metals (both precious and industrial) miners and toward oil and chemical producers. During the quarter we made very few adjustments in our holdings, and none with a meaningful impact. Given the large price declines across most locally listed shares during the period, SA equity valuations (as measured by the 12-month forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) de-rated over the quarter, falling from around 9.6X at the beginning of the quarter to around 8.0X at quarter-end. Corporate earnings expectations have started to roll over, but not by as much as share price losses, and are yet to reflect global recession risks.

We maintained our neutral positioning in **SA listed property** in Q2 2022, preferring to hold other shares that we consider offer better value propositions for less risk. Conditions in the local property sector remain uncertain given the rising local interest rate cycle (many property companies are reliant on finance to expand their portfolios) and relatively weak growth prospects, among other fundamental factors.

On a relative basis, the fund benefitted from our ongoing preference for **SA nominal bonds** in the second quarter thanks to their outperformance of SA equities, as well as global equities and global bonds. We did add modestly to the fund's nominal bond exposure out of SA cash holdings during the quarter amid market weakness, increasing our overweight position in this asset class. We still believe nominal bonds remain attractive relative to both other income assets and their own longer-term history, and will more than compensate investors for their associated risks.

We continued to have a neutral view on **inflation-linked bonds (ILBs)**. We still believe that ILB real yields remain relatively attractive compared to their own history and our long-run fair value assumption, but compared to nominal bonds, their valuations are less attractive and they have lower return potential.

Lastly, despite the SARB's interest rate hikes during the quarter, the fund remained tilted away from **SA cash** as our least-preferred asset class, given the extremely low base rate off which the SARB

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