M&G Unit Trust Quarterly Commentary

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

September 2022

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M&G Money Market Fund

Income

Q3 2022

Market overview

Global financial markets were painted in a sea of red in the third quarter (Q3) of 2022, falling more sharply in September as any remaining optimism over economic growth for the year and into 2023 was largely crushed by global central banks, led by the US Federal Reserve. Their stiff fight against persistent global inflation resulted in surprisingly aggressive interest rate hikes, with markets having to revise their forecasts for interest rates much steeper on several occasions during the period. While acknowledging the "painful" consequences felt by consumers and businesses, central bankers have been more concerned about higher inflation levels becoming embedded into the broader economy through the second-round effects of inflation expectations and wage demands.

These developments translated into greater pessimism over corporate earnings growth and weighed on bond prices, with risk-off sentiment sending most markets into negative territory. South African markets were not spared in the sell-off; growth prospects deteriorated amid rising prices, higher borrowing costs and the high frequency of electricity outages, all of which weighed on economic activity.

In the US, the US Fed hiked its Federal Funds rate by a combined 150bps in Q3, a very aggressive policy tightening move by historic standards, even as annual inflation eased to 8.3% in August from 8.5% in July. The South African Reserve Bank (SARB) followed the US with a total of 150bps of interest rate hikes during Q3, both to curb local price pressures and to ensure the interest rate differential between SA and the US did not become too wide, thereby protecting against rand weakness. More hikes are expected in the coming months, in line with the rest of the world. The Q3 rate increases came amid a contracting economy: Q2 GDP growth came in at -0.7% (q/q annualised), while markets forecasted a 0.8% fall, as the lasting impact of the devastating floods in KwaZulu-Natal and intense power outages during the period negatively impacted economic growth on top of the global slowdown. As a consequence, the SARB pencilled in growth for Q3 and Q4 at 0.4% and 0.3%, respectively, and trimmed its GDP growth forecast for 2022 to 1.9% from 2.0% previously. Looking further ahead, the central bank sees the economy expanding by only 1.4% in 2023 and 1.7% in 2024.

In more positive news, SA's annual inflation eased to 7.6% in August from an over 13-year high of 7.8% in July, marginally above market expectations of a 7.5% rise. SA bonds continued to put in a marginally positive performance: The FTSE/JSE All Bond Index (ALBI) delivered 0.6% for the quarter, cushioned largely by its high yields on both an absolute and relative level. For the 12 months to 30 September, local bonds (ALBI) outperformed global bonds with a return of 1.5% versus -5.0%, in rand terms. Inflation-linked bonds (ILBs) produced -1.0% and cash returned 1.3% for Q3.

During the third quarter, the SARB transitioned to a new Monetary Policy Implementation Framework (MPIF), where the banking system would have a surplus of banking reserves, compared to a shortage previously. This change was widely expected to have implications for the money market, however, the timing of its implementation coincided with aggressive interest rate hikes by the Reserve Bank, making it difficult to pinpoint the actual effects of the new MPIF. Certain key money market spreads did compress, as expected, but the shape of the money market curve has not been significantly altered. The overall impact of the change on the M&G Money Market Fund has been negligible so far.

Performance

For the third quarter of 2022, the fund delivered a return of 1.4% while its benchmark, the STeFi Call Deposit Index, delivered 1.3%. For the 12 months ended 30 September 2022, the fund returned 4.7% (net of fees), outperforming its benchmark by 0.5%.

Over the quarter, the fund's relatively high duration helped us take advantage of the steep money market curve, which added to fund performance. The fund's floating rate instruments also contributed to returns, boosted by the 150bp increase in JIBAR over the quarter.

Strategy and positioning

Total credit issuance volume (excluding government issuances) in Q3 2022 was approximately R36bn, 18% higher compared to the previous quarter at R30bn, and 20% higher compared to the third quarter of 2021, also at R30bn.

The make-up of issuance for the quarter followed established trends, with the majority being floating-rate notes. Corporates were the largest sector for issuance at approximately 45% of total issuance. Auctions made up the majority of issuance over the quarter, with less than 20% of issuance volumes coming from private placements – an encouraging sign of issuer confidence in being able to successfully raise funding from the debt capital market. According to ABSA's Credit Research Team, 21 corporates have raised funding via auctions so far this year, compared to the 16 in total for 2021. In addition, the pricing achieved at corporate auctions continued to be tighter than expected, though not to the same extent as in 2021. The average auction clearing spread levels in 2022 were -5.7bps below the midpoint of guidance compared to -11.4bps in 2021. FirstRand Bank Limited was the largest issuer during the quarter, raising R2.3bn in a senior unsecured auction in August, followed by a further R3.2bn issuance of Tier 2 subordinated debt in September.

As previously reported, credit spreads have largely reverted to pre-pandemic levels. Data from Standard Bank's Credit Research Team showed that spreads in the non-development finance government-guaranteed parastatal sector experienced the largest movement during Q3 (+81bps). This was, however, due to two SANRAL bonds (HWF11 and HWF12) maturing in July and consequently dropping out of the sector. Other than this, credit spreads were marginally wider over the quarter, driven by bank Subordinated Tier 2 (+8bps) as well as Additional Tier 1 (+9bps) debt.

The FRA and NCD curves are still implying a peak repo rate in this cycle of between 8% and 9%. At the same time, most sell-side forecasts suggest that inflation has already peaked. While it seems probable to us that the SARB will need to increase

Annualised performance	A class	Benchmark	X class
1 year	4.7%	4.2%	4.6%
3 years	4.8%	4.3%	4.8%
5 years	5.8%	5.3%	5.9%
7 years	6.3%	5.7%	6.3%
10 years	6.0%	5.6%	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 297 163 802

Sources: M&G, Morningstar & Deutsche Securities

the repo rate further, the market-implied path of rates still seems high in our opinion. We, therefore, continue to favour fixed-rate over floating-rate exposure, where mandates allow. Our positioning in the fund reflects this view, with the overall duration position at 81 days at quarter-end (out of a maximum allowable 90 days), which is unchanged from the position that we started the quarter with. Over the quarter the fund built up a position in the R2023 government bond. This bond's near-term maturity (February 2023) makes it eligible for inclusion in this fund, and it currently offers a more attractive yield than bank NCDs or treasury bills of similar maturity.

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

Quarterly Commentary

M&G High Interest Fund

Income

This fund is capped to new investors.

Q3 2022

Market overview

Global financial markets were painted in a sea of red in the third quarter (Q3) of 2022, falling more sharply in September as any remaining optimism over economic growth for the year and into 2023 was largely crushed by global central banks, led by the US Federal Reserve. Their stiff fight against persistent global inflation resulted in surprisingly aggressive interest rate hikes, with markets having to revise their forecasts for interest rates much steeper on several occasions during the period. While acknowledging the "painful" consequences felt by consumers and businesses, central bankers have been more concerned about higher inflation levels becoming embedded into the broader economy through the second-round effects of inflation expectations and wage demands.

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In the US, the US Fed hiked its Federal Funds rate by a combined 150bps in Q3, a very aggressive policy tightening move by historic standards, even as annual inflation eased to 8.3% in August from 8.5% in July. The South African Reserve Bank (SARB) followed the US with a total of 150bps of interest rate hikes during Q3, both to curb local price pressures and to ensure the interest rate differential between SA and the US did not become too wide, thereby protecting against rand weakness. More hikes are expected in the coming months, in line with the rest of the world. The Q3 rate increases came amid a contracting economy: Q2 GDP growth came in at -0.7% (q/q annualised), while markets forecasted a 0.8% fall, as the lasting impact of the devastating floods in KwaZulu-Natal and intense power outages during the period negatively impacted economic growth on top of the global slowdown. As a consequence, the SARB pencilled in growth for Q3 and Q4 at 0.4% and 0.3%, respectively, and trimmed its GDP growth forecast for 2022 to 1.9% from 2.0% previously. Looking further ahead, the central bank sees the economy expanding by only 1.4% in 2023 and 1.7% in 2024.

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Performance

For the third quarter of 2022, the fund delivered a return of 1.6% while its benchmark, the STeFi Composite Index, delivered 1.3%. For the 12 months ended 30 September 2022, the fund returned 4.9% (net of fees), outperforming its benchmark by 0.3%.

The fund's relatively high duration detracted from performance as the bond curve weakened over the quarter. The I2025 also weakened, with a 25bp rise in its real yield for the three months ending September 2022. Nevertheless, the position added to the performance of the fund, thanks to the high inflation that occurred during the quarter. The fund's floating rate instruments also contributed to returns, boosted by the 150bp increase in JIBAR over the quarter.

Strategy and positioning

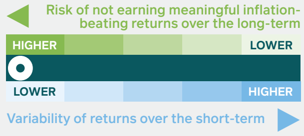
Total credit issuance volume (excluding government issuances) in Q3 2022 was approximately R36bn, 18% higher compared to the previous quarter at R30bn, and 20% higher compared to the third quarter of 2021, also at R30bn.

The make-up of issuance for the quarter followed established trends, with the majority being floating-rate notes. Corporates were the largest sector for issuance at approximately 45% of total issuance. Auctions made up the majority of issuance over the quarter, with less than 20% of issuance volumes coming from private placements – an encouraging sign of issuer confidence in being able to successfully raise funding from the debt capital market. According to ABSA's Credit Research Team, 21 corporates have raised funding via auctions so far this year, compared to the 16 in total for 2021. In addition, the pricing achieved at corporate auctions continued to be tighter than expected, though not to the same extent as in 2021. The average auction clearing spread levels in 2022 were -5.7bps below the midpoint of guidance compared to -11.4bps in 2021. FirstRand Bank Limited was the largest issuer during the quarter, raising R2.3bn in a senior unsecured auction in August, followed by a further R3.2bn issuance of Tier 2 subordinated debt in September.

As previously reported, credit spreads have largely reverted to pre-pandemic levels. Data from Standard Bank's Credit Research Team showed that spreads in the non-development finance government-guaranteed parastatal sector experienced the largest movement during Q3 (+81bps). This was, however, due to two SANRAL bonds (HWF11 and HWF12) maturing in July and consequently dropping out of the sector. Other than this, credit spreads were marginally wider over the quarter, driven by bank Subordinated Tier 2 (+8bps) as well as Additional Tier 1 (+9bps) debt.

Annualised performance	A class	Benchmark	X class	D class
1 year	4.9%	4.6%	5.1%	5.2%
3 years	4.7%	4.9%	4.8%	5.0%
5 years	5.9%	5.8%	6.0%	6.1%
7 years	6.5%	6.3%	6.6%	6.8%
10 years	6.3%	6.1%	6.4%	6.6%
Since inception	6.2%	6.0%	-	-

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
R9 051 623 383

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

The FRA and NCD curves are still implying a peak repo rate in this cycle of between 8% and 9%. At the same time, most sell-side forecasts suggest that inflation has already peaked. While it seems probable to us that the SARB will need to increase the repo rate further, the market-implied path of rates still seems high in our opinion. We, therefore, continue to favour fixed-rate over floating-rate exposure, where mandates allow. Our positioning in the fund reflects this view, with the overall duration position at 162 days at quarter-end (out of a maximum allowable 180 days), which is similar to the 168-day position that we started the quarter with. Over the quarter we were successful in adding to our credit exposure by subscribing to three-year floating rate paper in Barloworld and MTN. We will continue to look for opportunities to add to our credit holdings at attractive prices.

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M&G Income Fund

Income

Q3 2022

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Performance

For the third quarter of 2022, the fund delivered a return of 1.5% while its benchmark, the STeFi Composite Index, delivered 1.3%. For the 12 months ended 30 September 2022, the fund returned 5.3% (net of fees), outperforming its benchmark by 0.7%.

Over the quarter, the fund's relatively high duration detracted from performance, most notably through our holding in the R186, where the yield weakened by 57bps. The I2025 also weakened, with a 25bp rise in its real yield. Nevertheless, the position added to fund performance, thanks to the increase in inflation over the period. The fund's floating rate instruments also contributed to returns, boosted by the 150bp increase in JIBAR over the quarter.

Strategy and positioning

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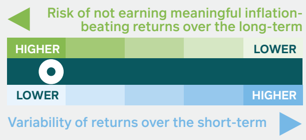
Risk profile



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

6 December 2016

Fund size

R594 784 375

Annualised performance	A class	Benchmark	D class
1 year	5.3%	4.6%	5.5%
2 years	5.1%	4.2%	5.2%
3 years	5.4%	4.9%	5.5%
5 years	6.7%	5.8%	6.8%
Since inception	6.9%	6.1%	-

Sources: M&G, Morningstar & Deutsche Securities

The FRA and NCD curves are still implying a peak repo rate in this cycle of between 8% and 9%. At the same time, most sell-side forecasts suggest that inflation has already peaked. While it seems probable to us that the SARB will need to increase the repo rate further, the market-implied path of rates still seems high in our opinion. We, therefore, continue to favour fixed-rate over floating-rate exposure, where mandates allow. Our positioning in the fund reflects this view, with the overall duration position at 291 days at quarter-end, which is relatively unchanged from the position that we started the quarter with. There were no material changes to the positioning of the fund over the quarter. □

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M&G Bond Fund

Income

Q3 2022

Market overview

Global financial markets were painted in a sea of red in the third quarter (Q3) of 2022, falling more sharply in September as any remaining optimism over economic growth for the year and into 2023 was largely crushed by global central banks, led by the US Federal Reserve. Their stiff fight against persistent global inflation resulted in surprisingly aggressive interest rate hikes, with markets having to revise their forecasts for interest rates much steeper on several occasions during the period. While acknowledging the "painful" consequences felt by consumers and businesses, central bankers have been more concerned about higher inflation levels becoming embedded into the broader economy through the second-round effects of inflation expectations and wage demands.

These developments translated into greater pessimism over corporate earnings growth and weighed on bond prices, with risk-off sentiment sending most markets into negative territory. South African markets were not spared in the sell-off; growth prospects deteriorated amid rising prices, higher borrowing costs and the high frequency of electricity outages, all of which weighed on economic activity.

In the US, the US Fed hiked its Federal Funds rate by a combined 150bps in Q3, a very aggressive policy tightening move by historic standards, even as annual inflation eased to 8.3% in August from 8.5% in July. The South African Reserve Bank (SARB) followed the US with a total of 150bps of interest rate hikes during Q3, both to curb local price pressures and to ensure the interest rate differential between SA and the US did not become too wide, thereby protecting against rand weakness. More hikes are expected in the coming months, in line with the rest of the world. The Q3 rate increases came amid a contracting economy: Q2 GDP growth came in at -0.7% (q/q annualised), as the lasting impact of the devastating floods in KwaZulu-Natal and intense power outages during the period negatively impacted economic growth on top of the global slowdown. As a consequence, the SARB pencilled in growth for Q3 and Q4 at 0.4% and 0.3%, respectively, and trimmed its GDP growth forecast for 2022 to 1.9% from 2.0% previously. Looking further ahead, the central bank sees the economy expanding by only 1.4% in 2023 and 1.7% in 2024.

In more positive news, SA's annual inflation eased to 7.6% in August from an over 13-year high of 7.8% in July, marginally above market expectations of a 7.5% rise. SA bonds continued to put in a marginally positive performance: The FTSE/JSE All Bond Index (ALBI) delivered 0.6% for the quarter, cushioned largely by its high yields on both an absolute and relative level. For the 12 months to 30 September, local bonds (ALBI) outperformed global bonds with a return of 1.5% versus -5.0%, in rand terms. Inflation-linked bonds (ILBs) produced -1.0% and cash returned 1.3% for Q3.

During the third quarter, the SARB transitioned to a new Monetary Policy Implementation Framework (MPIF), where the banking system would have a surplus of banking reserves, compared to a shortage previously. This change was widely expected to have implications for the money market, however, the timing of its implementation coincided with aggressive interest rate hikes by the Reserve Bank, making it difficult to pinpoint the actual effects of the new MPIF. Certain key money market spreads did compress, as most expected, but the shape of the money market curve has not been significantly altered. The overall impact of the change on the M&G Bond Fund has been negligible so far.

Performance

For the third quarter of 2022, the fund delivered a return of 1.2% while its benchmark, the FTSE/JSE All Bond Index, delivered 0.6%. For the 12 months ended 30 September 2022, the fund returned 2.7% (net of fees), outperforming its benchmark by 1.2%.

Over the quarter, bond yields increased at every point on the yield curve. Front-end bonds weakened more than those on the back-end, resulting in a flattening of the curve. The R2023 and R186 weakened the most, by 72bps and 57bps respectively, with the long-dated R2048 yield holding up comparatively well, at 25bps weaker over the quarter.

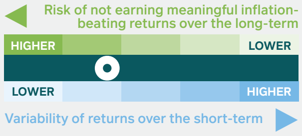
The fund's duration was broadly in line with that of the index for most of the quarter. Therefore, the rise in the yield curve level did not have much of an effect on the fund's relative performance but did decrease the absolute return delivered. The fund did, however, benefit from the flattening of the curve, with no exposure to the R2023, and very little exposure to the R186 over the quarter (despite it being the largest constituent in the benchmark).

Strategy and positioning

In the current environment, where the swap curve sits well below the bond curve, fixed-rate credit spreads are very low relative to history. As a result, significant credit risk needs to be taken in order to earn a higher yield in a credit instrument relative to that of a comparable government bond. In this environment, we don't think that fixed-rate credit exposure offers sufficient compensation for the risk taken, and therefore we currently have very little credit exposure in this fund.

Annualised performance	A class	Benchmark	B class
1 year	2.7%	1.5%	2.9%
3 years	5.1%	5.7%	5.3%
5 years	6.5%	7.1%	6.7%
7 years	6.8%	7.4%	7.0%
10 years	6.2%	6.7%	6.4%
Since inception	9.4%	9.7%	-

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
R742 012 846

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Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

M&G Enhanced Income Fund

Multi-asset

Q3 2022

Market overview

Global financial markets were painted in a sea of red in the third quarter (Q3) of 2022, falling more sharply in September as any remaining optimism over economic growth for the year and into 2023 was largely crushed by global central banks, led by the US Federal Reserve. Their stiff fight against persistent global inflation resulted in surprisingly aggressive interest rate hikes, with markets having to revise their forecasts for interest rates much steeper on several occasions during the period. While acknowledging the "painful" consequences felt by consumers and businesses, central bankers have been more concerned about higher inflation levels becoming embedded into the broader economy through the second-round effects of inflation expectations and wage demands.

Conditions were exacerbated by the ongoing Russia-Ukraine war, the energy crisis in Europe, and China's continuing economic slowdown resulting from tight Covid-related restrictions and a weak property market. For the quarter ended 30 September 2022, the MSCI All Country World Index returned -6.8%, the MSCI Emerging Markets Index produced -11.6%, and the Bloomberg Global Aggregate Bond Index delivered -6.9% (all in US$).

South African markets were not spared in the sell-off; growth prospects deteriorated amid rising prices, higher borrowing costs and the high frequency of electricity outages, all of which weighed on economic activity. All sectors of the equity market delivered negative returns for the quarter: the FTSE/JSE All Share Index (ALSI) returned -1.9% and the Capped SWIX -2.4%. Locally oriented sectors were weakest, with -4.2% from Financials and -4.1% from Listed Property (All Property Index), while globally oriented sectors delivered marginally better returns with -1.3% from Industrials and -2.1% from Resources. For the 12 months to 30 September, the ALSI has returned 3.5%, outperforming the -5.2% recorded by global equities (the MSCI All Country World Index), in rand terms.

SA bonds continued to put in a marginally positive performance: The FTSE/JSE All Bond Index (ALBI) delivered 0.6% for the quarter, cushioned largely by its high yields on both an absolute and relative level. For the 12 months to 30 September, local bonds (ALBI) outperformed global bonds with a return of 1.5% versus -5.0%, in rand terms. Inflation-linked bonds (ILBs) produced -1.0% and cash returned 1.3% for Q3. Finally, the rand depreciated significantly against the rampant US$, which reached multi-decade highs versus other global currencies like sterling and the euro. The rand lost 9.7% versus the greenback, 2.8% against the euro and 0.9% against the pound sterling over the quarter.

In the US, the US Fed hiked its Federal Funds rate by a combined 150bps in Q3, a very aggressive policy tightening move by historic standards, even as annual inflation eased to 8.3% in August from 8.5% in July. Meanwhile, US economic growth shrank by 0.6% y/y in Q2 2022 on the heels of a 1.6% contraction in Q1. The Fed's latest survey showed the median of US GDP growth forecasts was revised lower to just 0.2% for 2022 (vs 1.7% previously) and 1.2% in 2023 (vs 1.7%). And Fed Funds Futures contracts now imply US interest rates reaching approximately 4.5% in mid-2023, well above the 2.9% forecast in May.

For the third quarter in a row, US Treasury bonds sold off sharply as a consequence of the deteriorating inflation and interest rate outlooks, resulting in an unusually volatile market: the Bloomberg Aggregate US Treasuries Index returned -7.6% in US$, for a total return of -21.3% for 2022 so far.

The South African Reserve Bank (SARB) followed the US with a total of 150bps of interest rate hikes during Q3, both to curb local price pressures and to ensure the interest rate differential between SA and the US did not become too wide, thereby protecting against rand weakness. More hikes are expected in the coming months, in line with the rest of the world. The Q3 rate increases came amid a contracting economy: Q2 GDP growth came in at -0.7% (q/q annualised), as the lasting impact of the devastating floods in KwaZulu-Natal and intense power outages during the period negatively impacted economic growth on top of the global slowdown. As a consequence, the SARB pencilled in growth for Q3 and Q4 at 0.4% and 0.3%, respectively, and trimmed its GDP growth forecast for 2022 to 1.9% from 2.0% previously. Looking further ahead, the central bank sees the economy expanding by only 1.4% in 2023 and 1.7% in 2024.

In more positive news, SA's annual inflation eased to 7.6% in August from an over 13-year high of 7.8% in July, marginally above market expectations of a 7.5% rise. The Purchasing Managers' Index expanded to 52.1 points in August from 47.6 in July, following a steep fall in fuel prices at the start of August, which helped moderate cost pressures.

Performance

The fund delivered 1.7% (net of fees) for the third quarter of 2022, outperforming its benchmark by 0.3%. For the 12 months ending 30 September 2022, the fund returned 4.3% (net of fees), marginally underperforming its benchmark by 0.3% over the same period.

For the quarter, investments in SA listed-property, nominal and inflation-linked bonds as well as floating-rate instruments contributed to overall fund returns. The fund continues to be constructive on short-dated nominal and inflation-linked bonds, which we believe will deliver superior returns over the medium term relative to cash.

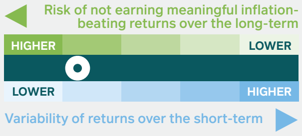
Strategy and positioning

Starting with our view on **offshore asset allocation**, we maintained our portfolio positioning favouring local fixed income assets over global assets. We are still mindful of the risks that exist globally in terms of slower economic growth, rising interest rates and persistent high inflation, which continue to represent downside risk for corporate earnings and bond prices. In addition to their more attractive valuations, the weaker rand/US$ exchange rate also supports this view.

Within **global bonds**, we bought a combination of government and corporate bonds due to the improving valuations as yields rose to more attractive levels. We still have a preference for bond markets where the real yields are high and the currency is trading at fair-to-cheap levels.

Annualised performance	A class	Benchmark	T class	X class	D class
1 year	4.3%	4.6%	4.5%	4.2%	4.6%
3 years	4.7%	4.9%	4.9%	4.7%	5.0%
5 years	5.3%	5.8%	5.6%	5.3%	5.7%
7 years	6.0%	6.3%	6.4%	6.2%	6.5%
10 years	6.3%	6.1%	-	6.5%	6.8%
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
R744 622 780

Sources: M&G, Morningstar & Deutsche Securities

We maintained our neutral positioning in **SA listed property** in Q3 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.

The portfolio has a preference for short dated **SA nominal bonds**. The 5-year SA government bond yield (as measured by Bloomberg's 5 year constant maturity index) rose from 9.15% to 9.81% at quarter-end, with the SA yield curve flattening slightly in the longer end (between 10- and 20-years) in what was a volatile market. We 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.

SA 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 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 remain tilted away from **SA cash** as our least-preferred asset class, given the extremely low base rate off which the SARB has hiked. In our view, other SA fixed-income assets remain more attractive on an absolute and relative basis and should beat cash returns over the medium term.

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Sources: M&G, Morningstar & Deutsche Securities

Quarterly Commentary

M&G Inflation Plus Fund

Multi-asset

Q3 2022

Market overview

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Conditions were exacerbated by the ongoing Russia-Ukraine war, the energy crisis in Europe, and China's continuing economic slowdown resulting from tight Covid-related restrictions and a weak property market. For the quarter ended 30 September 2022, the MSCI All Country World Index returned -6.8%, the MSCI Emerging Markets Index produced -11.6%, and the Bloomberg Global Aggregate Bond Index delivered -6.9% (all in US$). As an interest-rate-sensitive asset class, global property stocks were hurt almost as badly as emerging markets, with the FTSE EPRA/ NAREIT Global REIT Index returning -11.1% (US$ net).

South African markets were not spared in the sell-off; growth prospects deteriorated amid rising prices, higher borrowing costs and the high frequency of electricity outages, all of which weighed on economic activity. All sectors of the equity market delivered negative returns for the quarter: the FTSE/JSE All Share Index (ALSI) returned -1.9% and the Capped SWIX -2.4%. Locally oriented sectors were weakest, with -4.2% from Financials and -4.1% from Listed Property (All Property Index), while globally oriented sectors delivered marginally better returns with -1.3% from Industrials and -2.1% from Resources. For the 12 months to 30 September, the ALSI has returned 3.5%, outperforming the -5.2% recorded by global equities (the MSCI All Country World Index), in rand terms.

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In the US, the US Fed hiked its Federal Funds rate by a combined 150bps in Q3, a very aggressive policy tightening move by historic standards, even as annual inflation eased to 8.3% in August from 8.5% in July. Meanwhile, US economic growth shrank by 0.6% y/y in Q2 2022 on the heels of a 1.6% contraction in Q1. The Fed's latest survey showed the median of US GDP growth forecasts was revised lower to just 0.2% for 2022 (vs 1.7% previously) and 1.2% in 2023 (vs 1.7%). And Fed Funds Futures contracts now imply US interest rates reaching approximately 4.5% in mid-2023, well above the 2.9% forecast in May.

For the third quarter in a row, US Treasury bonds sold off sharply as a consequence of the deteriorating inflation and interest rate outlooks, resulting in an unusually volatile market: the Bloomberg Aggregate US Treasuries Index returned -7.6% in US$, for a total return of -21.3% for 2022 so far. Meanwhile, US equity returns were also negative: in US$, the Nasdaq delivered –3.9%, the Dow Jones produced -6.2% and the S&P 500 returned -4.9%, the latter now having recorded a -23.9% return for the year to date.

In the UK, new PM Liz Truss sparked protests from both financial markets and the public after unveiling a budget plan heavily reliant on unfunded deficit spending and tax cuts (especially for the well-off) to boost growth. Both government bonds and the pound promptly experienced a sharp sell-off. For Q3 2022, UK equities were also in the red: the FTSE 100 returned -10.6% in US$.

Meanwhile, the European Central Bank (ECB) raised interest rates by an unprecedented 75bps in September as annual inflation in the Euro Area jumped to 10% (from 9.1% in August). The Euro Area's Q2 2022 GDP growth came in at 4.1% (q/q annualised), slowing from 5.4% in Q1. The ECB's September forecasts showed GDP growth at 3.1% for 2022 and then slowing to only 0.9% in 2023 (cut from 2.1% previously). In France, the CAC 40 returned -8.6%, while Germany's DAX delivered -11.2% for the quarter in US$.

In Japan, the Bank of Japan (BOJ) maintained its ultra-easy monetary policy during the quarter, leaving its policy rate unchanged at -0.1%. Japan's economy expanded 0.9% q/q in Q2, the third straight quarter of positive growth, helped by the lifting of all Covid-19 curbs. Following other global equity markets lower, the Nikkei returned -6.9% in US$ for the quarter.

In China, the focus was squarely on supporting economic growth for the quarter. GDP growth for Q2 2022 disappointed at only 0.4% y/y compared to the 1.0% expected. Activity was weighed down heavily by the government's harsh crackdowns against Covid-19 and ongoing property market weakness. The central bank eased monetary policy moderately earlier in the quarter, and government contributed fiscal support, while the yuan fell to a 13-year low against the surging US$ in September. The World Bank forecast China's GDP growth at only 2.8% in 2022, far below the government's 5.5% growth target for the year, largely as a result of its much slower recovery from the pandemic. For the quarter, Hong Kong's Hang Seng produced -20.2%, while the MSCI China returned -22.4%, both in US$.

The oil price fell during the quarter on the back of expected lower demand as growth slows: Brent crude oil lost 23.4% in US$, ending the month at around US$90 per barrel. Looking at other commodity prices, palladium was the only gainer (+10.2%) largely due to supply constraints, whereas gold fell 8.5% and platinum lost 5.7%. Industrial metals prices lost between 1%-9% in Q3.

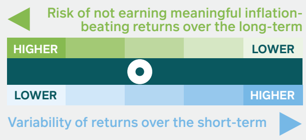
South Africa

It proved to be another difficult quarter for South Africa. The South African Reserve Bank (SARB) followed the US with a total of 150bps of interest rate hikes during Q3, both to curb local price pressures and to ensure the interest rate differential between SA and the US did not become too wide, thereby protecting against rand weakness. More hikes are expected in the coming months, in line with the rest of the world. The Q3 rate increases came amid a contracting economy: Q2 GDP growth came in at

Annualised performance	A class	Objective[1]	T class	X class	B class
1 year	2.8%	11.1%	3.1%	2.8%	3.3%
3 years	5.1%	8.6%	5.3%	5.1%	5.6%
5 years	3.8%	8.4%	4.1%	3.9%	4.4%
7 years	4.6%	8.5%	5.0%	4.8%	5.3%
10 years	7.0%	8.7%	-	7.2%	7.7%
Since inception	10.6%	9.3%	-	-	-

[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

R19 205 354 844

Awards

Raging Bull: 2013
Morningstar: 2015

Sources: M&G, Morningstar & Deutsche Securities

-0.7% (q/q annualised), as the lasting impact of the devastating floods in KwaZulu-Natal and intense power outages during the period negatively impacted economic growth on top of the global slowdown. As a consequence, the SARB pencilled in growth for Q3 and Q4 at 0.4% and 0.3%, respectively, and trimmed its GDP growth forecast for 2022 to 1.9% from 2.0% previously. Looking further ahead, the central bank sees the economy expanding by only 1.4% in 2023 and 1.7% in 2024.

In more positive news, SA's annual inflation eased to 7.6% in August from an over 13-year high of 7.8% in July, marginally above market expectations of a 7.5% rise. The Purchasing Managers' Index expanded to 52.1 points in August from 47.6 in July, following a steep fall in fuel prices at the start of August, which helped moderate cost pressures. And finally, retail trade climbed by 8.6% y/y in July following a 2.3% fall in the previous month, marking the steepest rise in retail activity since June 2021.

Performance

The fund returned -0.1% (after fees) for the third quarter of 2022 and 2.8% for the 12-month period ending 30 September 2022. The fund has delivered a return of 10.6% per annum since its inception in 1999 (after fees), compared to its objective of 9.3% per annum over the same period.

The fund's offshore asset holdings added the most value to absolute performance, as negative foreign currency-based returns were offset by rand weakness: international cash added the most value, followed by international equities and fixed-income assets. South African fixed income and cash assets also added some value on an absolute basis. Meanwhile, SA equity and listed property exposure proved to be the largest detractors from performance.

In terms of specific equity exposure, among the strongest contributors to absolute returns for the quarter were the fund's holdings in Absa and Glencore, with smaller positive value added from Exxaro, Textainer, MultiChoice and Woolworths. Among the largest detractors for the period were Sasol (on the back of the drop in the global oil price), Naspers/Prosus, MTN and Investec. Collectively, it was the Basic Materials sector that detracted the most from absolute returns, largely due to the decline in commodity prices over the period.

Strategy and positioning

Starting with our view on **offshore asset allocation**, we maintained our portfolio positioning favouring local assets over global assets. In addition to their more attractive valuations, the weaker rand/US$ exchange rate also supports this view.

Within our **global holdings**, we continued to prefer global cash over global bonds and global equities. As valuations cheapened later in the quarter we trimmed our global cash position slightly in order to buy more global equities and developed market bonds. The MSCI ACWI's valuation fell from a 12-month forward P/E of 13.9X to 13.2X during the quarter, while 10-year US Treasury yields rose from 3.0% to 3.8%, and 10-year Euro government bond yields also rose 0.8 percentage points.

As a result, we increased our allocations in both our **global equity** and **global bond** positioning out of global cash. We bought a combination of government and corporate bonds due to the improving valuations as yields rose to more attractive levels. We still have a preference for bond markets where the real yields are high and the currency is trading at fair-to-cheap levels.

However, our cash holdings are still partly cushioning our funds against the current market downturn, and leave some liquidity to take advantage of market opportunities that could arise. We are still mindful of the risks that exist globally in terms of slower economic growth, rising interest rates and persistent high inflation, which continue to represent downside risk for corporate earnings and bond prices.

We still favoured **SA equities** at the end of Q3. During the quarter, the fund's overall weight in this asset class rose slightly as we took advantage of cheaper valuations to add to our SA equity holdings out of SA listed property. 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 8.5X at the beginning of the quarter to around 7.8X at quarter-end, and we saw more opportunities here than in the listed property sector.

During the quarter we sold some **SA listed property** exposure in favour of SA equities, where we saw more return potential as valuations cheapened. Conditions in the local property sector are currently relatively more risky than other sectors, in our view, 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 third quarter thanks to their outperformance of SA equities, although they did underperform SA cash. The 10-year SA government bond yield rose modestly from 11.0% to 11.4% at quarter-end, with the SA yield curve flattening slightly in the longer end (between 10- and 20-years) in what was a volatile market. We still believe SA nominal bond valuations 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 Q3 we retained our holdings in **SA inflation-linked bonds (ILBs)** in the fund. 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 has hiked. In our view, other SA assets remain more attractive on an absolute and relative basis.

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

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

M&G Balanced Fund

Multi-asset

Q3 2022

Market overview

Global financial markets were painted in a sea of red in the third quarter (Q3) of 2022, falling more sharply in September as any remaining optimism over economic growth for the year and into 2023 was largely crushed by global central banks, led by the US Federal Reserve. Their stiff fight against persistent global inflation resulted in surprisingly aggressive interest rate hikes, with markets having to revise their forecasts for interest rates much steeper on several occasions during the period. While acknowledging the "painful" consequences felt by consumers and businesses, central bankers have been more concerned about higher inflation levels becoming embedded into the broader economy through the second-round effects of inflation expectations and wage demands.

Conditions were exacerbated by the ongoing Russia-Ukraine war, the energy crisis in Europe, and China's continuing economic slowdown resulting from tight Covid-related restrictions and a weak property market. For the quarter ended 30 September 2022, the MSCI All Country World Index returned -6.8%, the MSCI Emerging Markets Index produced -11.6%, and the Bloomberg Global Aggregate Bond Index delivered -6.9% (all in US$). As an interest-rate-sensitive asset class, global property stocks were hurt almost as badly as emerging markets, with the FTSE EPRA/NAREIT Global REIT Index returning -11.1% (US$ net).

South African markets were not spared in the sell-off; growth prospects deteriorated amid rising prices, higher borrowing costs and the high frequency of electricity outages, all of which weighed on economic activity. All sectors of the equity market delivered negative returns for the quarter: the FTSE/JSE All Share Index (ALSI) returned -1.9% and the Capped SWIX -2.4%. Locally oriented sectors were weakest, with -4.2% from Financials and -4.1% from Listed Property (All Property Index), while globally oriented sectors delivered marginally better returns with -1.3% from Industrials and -2.1% from Resources. For the 12 months to 30 September, the ALSI has returned 3.5%, outperforming the -5.2% recorded by global equities (the MSCI All Country World Index), in rand terms.

SA bonds continued to put in a marginally positive performance: The FTSE/JSE All Bond Index (ALBI) delivered 0.6% for the quarter, cushioned largely by its high yields on both an absolute and relative level. For the 12 months to 30 September, local bonds (ALBI) outperformed global bonds with a return of 1.5% versus -5.0%, in rand terms. Inflation-linked bonds (ILBs) produced -1.0% and cash returned 1.3% for Q3. Finally, the rand depreciated significantly against the rampant US$, which reached multi-decade highs versus other global currencies like sterling and the euro. The rand lost 9.7% versus the greenback, 2.8% against the euro and 0.9% against the pound sterling over the quarter.

In the US, the US Fed hiked its Federal Funds rate by a combined 150bps in Q3, a very aggressive policy tightening move by historic standards, even as annual inflation eased to 8.3% in August from 8.5% in July. Meanwhile, US economic growth shrank by 0.6% y/y in Q2 2022 on the heels of a 1.6% contraction in Q1. The Fed's latest survey showed the median of US GDP growth forecasts was revised lower to just 0.2% for 2022 (vs 1.7% previously) and 1.2% in 2023 (vs 1.7%). And Fed Funds Futures contracts now imply US interest rates reaching approximately 4.5% in mid-2023, well above the 2.9% forecast in May.

For the third quarter in a row, US Treasury bonds sold off sharply as a consequence of the deteriorating inflation and interest rate outlooks, resulting in an unusually volatile market: the Bloomberg Aggregate US Treasuries Index returned -7.6% in US$, for a total return of -21.3% for 2022 so far. Meanwhile, US equity returns were also negative: in US$, the Nasdaq delivered –3.9%, the Dow Jones produced -6.2% and the S&P 500 returned -4.9%, the latter now having recorded a -23.9% return for the year to date.

In the UK, new PM Liz Truss sparked protests from both financial markets and the public after unveiling a budget plan heavily reliant on unfunded deficit spending and tax cuts (especially for the well-off) to boost growth. Both government bonds and the pound promptly experienced a sharp sell-off. For Q3 2022, UK equities were also in the red: the FTSE 100 returned -10.6% in US$.

Meanwhile, the European Central Bank (ECB) raised interest rates by an unprecedented 75bps in September as annual inflation in the Euro Area jumped to 10% (from 9.1% in August). The Euro Area's Q2 2022 GDP growth came in at 4.1% (q/q annualised), slowing from 5.4% in Q1. The ECB's September forecasts showed GDP growth at 3.1% for 2022 and then slowing to only 0.9% in 2023 (cut from 2.1% previously). In France, the CAC 40 returned -8.6%, while Germany's DAX delivered -11.2% for the quarter in US$.

In Japan, the Bank of Japan (BOJ) maintained its ultra-easy monetary policy during the quarter, leaving its policy rate unchanged at -0.1%. Japan's economy expanded 0.9% q/q in Q2, the third straight quarter of positive growth, helped by the lifting of all Covid-19 curbs. Following other global equity markets lower, the Nikkei returned -6.9% in US$ for the quarter.

In China, the focus was squarely on supporting economic growth for the quarter. GDP growth for Q2 2022 disappointed at only 0.4% y/y compared to the 1.0% expected. Activity was weighed down heavily by the government's harsh crackdowns against Covid-19 and ongoing property market weakness. The central bank eased monetary policy moderately earlier in the quarter, and government contributed fiscal support, while the yuan fell to a 13-year low against the surging US$ in September. The World Bank forecast China's GDP growth at only 2.8% in 2022, far below the government's 5.5% growth target for the year, largely as a result of its much slower recovery from the pandemic. For the quarter, Hong Kong's Hang Seng produced -20.2%, while the MSCI China returned -22.4%, both in US$.

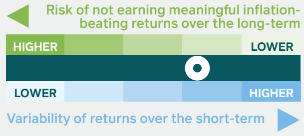
The oil price fell during the quarter on the back of expected lower demand as growth slows: Brent crude oil lost 23.4% in US$, ending the month at around US$90 per barrel. Looking at other commodity prices, palladium was the only gainer (+10.2%) largely due to supply constraints, whereas gold fell 8.5% and platinum lost 5.7%. Industrial metals prices lost between 1%-9% in Q3.

South Africa

It proved to be another difficult quarter for South Africa. The South African Reserve Bank (SARB) followed the US with a total of 150bps of interest rate hikes during Q3, both to curb local price pressures and to ensure the interest rate differential between SA and the US did not become too wide, thereby protecting against rand weakness. More hikes are expected in the coming months, in line with the rest of the world. The Q3 rate increases came amid a contracting economy: Q2 GDP growth came in at

Annualised performance	A class	Benchmark	T class	X class	B class
1 year	1.8%	0.2%	2.1%	1.8%	2.3%
3 years	7.5%	6.6%	7.8%	7.6%	8.0%
5 years	5.7%	5.0%	6.1%	5.9%	6.3%
7 years	6.3%	5.4%	6.8%	6.5%	7.0%
10 years	9.0%	7.4%	-	-	9.7%
Since inception	12.5%	10.8%	-	-	-

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 218 585 612

Sources: M&G, Morningstar & Deutsche Securities

-0.7% (q/q annualised), as the lasting impact of the devastating floods in KwaZulu-Natal and intense power outages during the period negatively impacted economic growth on top of the global slowdown. As a consequence, the SARB pencilled in growth for Q3 and Q4 at 0.4% and 0.3%, respectively, and trimmed its GDP growth forecast for 2022 to 1.9% from 2.0% previously. Looking further ahead, the central bank sees the economy expanding by only 1.4% in 2023 and 1.7% in 2024.

In more positive news, SA's annual inflation eased to 7.6% in August from an over 13-year high of 7.8% in July, marginally above market expectations of a 7.5% rise. The Purchasing Managers' Index expanded to 52.1 points in August from 47.6 in July, following a steep fall in fuel prices at the start of August, which helped moderate cost pressures. And finally, retail trade climbed by 8.6% y/y in July following a 2.3% fall in the previous month, marking the steepest rise in retail activity since June 2021.

Performance

The fund returned -0.6% (after fees) for the third quarter of 2022, while for the 12-month period ending 30 September 2022 its return was 1.8%. The fund has delivered a return of 12.5% per annum since its inception in 1999 (after fees), compared to its benchmark of 10.8% per annum over the same period.

The fund's offshore asset holdings added the most value to absolute performance for the quarter, as negative foreign currency-based returns were more than offset by rand weakness: international equities added the most value, followed by international cash and fixed-income assets. South African fixed income and cash assets also added some value on an absolute basis. Meanwhile, SA equity and listed property exposure proved to be the largest detractors from performance.

In terms of specific equity exposure, among the strongest contributors to absolute returns for the quarter were the fund's holdings in Absa and Glencore, with smaller positive value added from Exxaro, Textainer, MultiChoice and Woolworths. Among the largest detractors for the period were Sasol (on the back of the drop in the global oil price), Naspers/Prosus, MTN and Investec. Collectively, it was the Basic Materials sector that detracted the most from absolute returns, largely due to the decline in commodity prices over the period.

Strategy and positioning

Starting with our view on **offshore asset allocation**, we maintained our portfolio positioning favouring local assets over global assets. In addition to their more attractive valuations, the weaker rand/US$ exchange rate also supports this view.

Within our **global holdings**, we continued to prefer global cash over global bonds and global equities. As valuations cheapened later in the quarter we trimmed our global cash position slightly in order to buy more global equities and developed market bonds. The MSCI ACWI's valuation fell from a 12-month forward P/E of 13.9X to 13.2X during the quarter, while 10-year US Treasury yields rose from 3.0% to 3.8%, and 10-year Euro government bond yields also rose 0.8 percentage points.

As a result, we increased our allocations in both our **global equity** and **global bond** positioning out of global cash. We bought a combination of government and corporate bonds due to the improving valuations as yields rose to more attractive levels. We still have a preference for bond markets where the real yields are high and the currency is trading at fair-to-cheap levels.

However, our cash holdings are still partly cushioning our funds against the current market downturn, and leave some liquidity to take advantage of market opportunities that could arise. We are still mindful of the risks that exist globally in terms of slower economic growth, rising interest rates and persistent high inflation, which continue to represent downside risk for corporate earnings and bond prices.

The M&G Balanced Fund still favoured **SA equities** at the end of Q3. During the quarter, our overall weight in this asset class changed little. 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 8.5X at the beginning of the quarter to around 7.8X at quarter-end. Although risks to earnings have risen, the weaker rand/stronger US$ have given a lift to JSE-listed companies with rand-based costs and US$-based earnings.

We maintained our exposure to **SA listed property** in Q3 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 third quarter thanks to their outperformance of SA equities, although they did underperform SA cash. The 10-year SA government bond yield rose modestly from 11.0% to 11.4% at quarter-end, with the SA yield curve flattening slightly in the longer end (between 10- and 20-years) in what was a volatile market. We still believe SA nominal bond valuations remain attractive relative to both other income assets and their own longer-term history, and will more than compensate investors for their associated risks.

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. In our view, other SA assets remain more attractive on an absolute and relative basis.

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Sources: M&G, Morningstar & Deutsche Securities

Quarterly Commentary

M&G Enhanced SA Property Tracker Fund

Property

Q3 2022

Market overview

Global financial markets were painted in a sea of red in the third quarter (Q3) of 2022, falling more sharply in September as any remaining optimism over economic growth for the year and into 2023 was largely crushed by global central banks, led by the US Federal Reserve. Their stiff fight against persistent global inflation resulted in surprisingly aggressive interest rate hikes, with markets having to revise their forecasts for interest rates much steeper on several occasions during the period. While acknowledging the "painful" consequences felt by consumers and businesses, central bankers have been more concerned about higher inflation levels becoming embedded into the broader economy through the second-round effects of inflation expectations and wage demands.

These developments translated into greater pessimism over corporate earnings growth and weighed on bond prices, with risk-off sentiment sending most markets into negative territory -- particularly emerging market equities. Conditions were exacerbated by the ongoing Russia-Ukraine war, the energy crisis in Europe, and China's continuing economic slowdown resulting from tight Covid-related restrictions and a weak property market. With a more limited geographical impact, but still of note, was the September meltdown in UK bonds and the pound on the back of new PM Liz Truss's surprise introduction of plans for a much higher government budget deficit on the back of proposed unfunded tax cuts (broadly favouring the rich), among other measures.

For the quarter ended 30 September 2022, the MSCI All Country World Index returned -6.8%, the MSCI Emerging Markets Index produced -11.6%, and the Bloomberg Global Aggregate Bond Index delivered -6.9% (all in US$). As an interest-rate-sensitive asset class, global property stocks were hurt almost as badly as emerging markets, with the FTSE EPRA/NAREIT Global REIT Index returning -11.1% (US$ net).

In the US, the US Fed hiked its Federal Funds rate by a combined 150bps in Q3, a very aggressive policy tightening move by historic standards, even as annual inflation eased to 8.3% in August from 8.5% in July. Meanwhile, US economic growth shrank by 0.6% y/y in Q2 2022 on the heels of a 1.6% contraction in Q1, as consumer incomes and corporate profits were hit by higher debt costs and rising prices for food and energy, despite a fall in the latter in September. The Fed's latest survey showed the median of US GDP growth forecasts was revised lower to just 0.2% for 2022 (vs 1.7% previously) and 1.2% in 2023 (vs 1.7%). And Fed Funds Futures contracts now imply US interest rates reaching approximately 4.5% in mid-2023, well above the 2.9% forecast in May. Meanwhile, US equity returns were also negative for the quarter: in US$, the Nasdaq delivered –3.9%, the Dow Jones produced -6.2% and the S&P 500 returned -4.9%, the latter now having recorded a -23.9% return for the year to date.

In the UK, new PM Liz Truss sparked protests from both financial markets and the public after unveiling a budget plan heavily reliant on deficit spending and tax cuts (especially for the well-off) to boost growth. Both government bonds and the pound promptly experienced a sharp sell-off. The new PM also proposed an Energy Price Guarantee to limit energy cost increases for the coming winter, which is expected to help lower inflationary pressure on consumers. The Bank of England raised its key interest rate by a total of 100bps to 2.25% for the quarter, pushing borrowing costs to the highest level since 2008. This came against consumer inflation of 9.9% y/y in August, down from 10.1% in July. For Q3 2022, UK equities were also in the red: the FTSE 100 returned -10.6% in US$.

Meanwhile, the European Central Bank (ECB) raised interest rates by an unprecedented 75bps in September as annual inflation in the Euro Area jumped to 10% (from 9.1% in August), the first time on record that inflation reached double-digits. The Euro Area's Q2 2022 GDP growth came in at 4.1% (q/q annualised), slowing from 5.4% in Q1. Dominating the news were stories of an expected energy crisis in the region in the coming months, amid gas and oil shortages on the back of sanctions against Russia and the imposition of Russian oil price caps. Meanwhile, inflation was expected to remain high, consumer spending to come under pressure and growth to slow sharply in 2023. The ECB's September forecasts showed GDP growth at 3.1% for 2022 (revised up from 2.8% following positive surprises in the first half of the year), and then slowing to only 0.9% in 2023 (cut from 2.1% previously). In France, the CAC 40 returned -8.6%, while Germany's DAX delivered -11.2% for the quarter in US$.

In Japan, the Bank of Japan (BOJ) maintained its ultra-easy monetary policy during the quarter, leaving its policy rate unchanged at -0.1%. The market continues to forecast no interest rate hikes through 2023. Japan's economy expanded 0.9% q/q in Q2, the third straight quarter of positive growth and above market consensus of a 0.7% rise, helped by the lifting of all Covid-19 curbs. Following other global equity markets lower, the Nikkei returned -6.9% in US$ for the quarter.

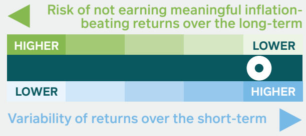
In China, the focus was squarely on supporting economic growth for the quarter. GDP growth for Q2 2022 disappointed at only 0.4% y/y compared to the 1.0% expected. Activity was weighed down heavily by the government's harsh crackdowns against Covid-19 as the country suffered its worst outbreak of the virus since the peak of the pandemic in early 2020. Large cities such as Shanghai, Chengdu and Wuhan fell under strict containment measures, severely denting consumer demand and business activity. Ongoing property market weakness also undercut consumer and business sentiment. As a result, the central bank left its benchmark lending rates unchanged in September, after having implemented some credit easing measures earlier in the quarter, while the government also contributed fiscal support. This ongoing monetary policy divergence between China and the US increased the risk of further yuan depreciation and capital outflows, with the yuan falling to a 13-year low against the surging US$ in September. In its September outlook, the World Bank forecast China's GDP growth at only 2.8% in 2022, far below the government's 5.5% growth target for the year. This is the first year in decades that the country is lagging the rest of the Asian region (seen at 5.3% growth in 2022), largely as a result of its much slower recovery from the pandemic. For the quarter, Hong Kong's Hang Seng produced -20.2%, while the MSCI China returned -22.4%, both in US$.

South African markets were not spared in the sell-off; growth prospects deteriorated amid rising prices, higher borrowing costs and the high frequency of electricity outages, all of which

Annualised performance

Annualised performance	A class	Benchmark	T class	D class
1 year	-9.1%	-8.7%	-9.1%	-9.0%
3 years	-9.3%	-8.7%	-9.3%	-9.1%
5 years	-10.0%	-9.0%	-10.0%	-9.9%
7 years	-5.3%	-4.8%	-5.3%	-5.2%
10 years	0.9%	1.2%	-	1.0%
Since inception	7.8%	8.2%	-	-

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
R565 814 327

Awards
Morningstar/Standard & Poor's: 2011

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

weighed on economic activity. All sectors of the equity market delivered negative returns for the quarter: the FTSE/JSE All Share Index (ALSI) returned -1.9% and the Capped SWIX -2.4%. Locally oriented sectors were weakest, with -4.2% from Financials and -4.1% from Listed Property (All Property Index), while globally oriented sectors delivered marginally better returns with -1.3% from Industrials and -2.1% from Resources. For the 12 months to 30 September, the ALSI has returned 3.5%, outperforming the -5.2% recorded by global equities (the MSCI All Country World Index), in rand terms.

The South African Reserve Bank (SARB) followed the US with a total of 150bps of interest rate hikes during Q3, both to curb local price pressures and to ensure the interest rate differential between SA and the US did not become too wide, thereby protecting against rand weakness. More hikes are expected in the coming months, in line with the rest of the world. The Q3 rate increases came amid a contracting economy: Q2 GDP growth came in at -0.7% (q/q annualised), while markets forecasted a 0.8% fall, as the lasting impact of the devastating floods in KwaZulu-Natal and intense power outages during the period negatively impacted economic growth on top of the global slowdown. As a consequence, the SARB pencilled in growth for Q3 and Q4 at 0.4% and 0.3%, respectively, and trimmed its GDP growth forecast for 2022 to 1.9% from 2.0% previously. Looking further ahead, the central bank sees the economy expanding by only 1.4% in 2023 and 1.7% in 2024.

In more positive news, SA's annual inflation eased to 7.6% in August from an over 13-year high of 7.8% in July, marginally above market expectations of a 7.5% rise. The Purchasing Managers' Index expanded to 52.1 points in August from 47.6 in July, following a steep fall in fuel prices at the start of August, which helped moderate cost pressures. And finally, retail trade climbed by 8.6% y/y in July following a 2.3% fall in the previous month, marking the steepest rise in retail activity since June 2021.

Finally, the rand depreciated significantly against the rampant US$, which reached multi-decade highs versus other global currencies like sterling and the euro. The rand lost 9.7% versus the greenback, 2.8% against the euro and 0.9% against the pound sterling over the quarter.

Performance

The fund returned -4.3% (net of fees) for the third quarter of 2022, marginally underperforming its benchmark (the FTSE/JSE SA Listed Property Index) by 0.8%. For the 12 months ending 30 September 2022, the fund returned -9.1% (net of fees), while the benchmark declined by 8.7% over the same period. As a reminder, the fund aims to provide a total return equal to or better than the benchmark (after fees), while providing long-term capital growth.

The fund's overweight positions in higher-yielding, mid-cap stocks paid off. Among the largest contributors to relative performance over the quarter have been overweight positions in Dipula B, Fairvest B and Octodec. Meanwhile, underweight positions in leveraged names like Fortress B, Emira Property Fund, and Attacq detracted from performance.

Strategy and positioning

Where to for the sector? Rising rates will impact earnings adversely over the medium term, although most companies are hedged to a large extent over the short term. Companies that were poorly prepared for the downturn leading up to the Covid crisis, have since become much more conservative. Hammerson, for example, has sufficient liquidity to repay their expiring bonds as they become due over the next three years.

In the UK, we see the potential for valuations to move adversely given higher gilts and the threat of recession but would point out that this may already be discounted in share prices. We have seen market darlings in the logistics space trading from large premiums to large discounts, highlighting the risk to property values perceived by the market.

The fund has reduced its position in long-standing core holding Equites Property Fund, as we believe net asset value declines in the UK will be a headwind to the company. Profits on its UK development joint venture may also have become more long dated.

In South Africa, retail companies have recovered well from their Covid lows, with centres achieving trading density growth in the high single digits or low teens. Landlords, for the most part, are cautious given the impact of loadshedding, higher interest rates and the cost of living on disposable income. The office sector appears to have achieved a modicum of stability in occupancies, even if not in rents, which are in freefall in areas with overcapacity. The industrial sector is well priced relative to the stability of its income, even if rental growth remains weak.

The dividend of the sector trades at 10.6% one year ahead. We are circumspect on near-term returns given the economic headwinds and rising rates. Looking through the cycle, we view property as attractive once rental growth returns.

Contact us

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0860 105 775

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Application forms

An electronic copy of this document is available at www.mandg.co.za

Disclaimer

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

Sources: M&G, Morningstar & Deutsche Securities

M&G Property Fund

Property

Q3 2022

Market overview

Global financial markets were painted in a sea of red in the third quarter (Q3) of 2022, falling more sharply in September as any remaining optimism over economic growth for the year and into 2023 was largely crushed by global central banks, led by the US Federal Reserve. Their stiff fight against persistent global inflation resulted in surprisingly aggressive interest rate hikes, with markets having to revise their forecasts for interest rates much steeper on several occasions during the period. While acknowledging the "painful" consequences felt by consumers and businesses, central bankers have been more concerned about higher inflation levels becoming embedded into the broader economy through the second-round effects of inflation expectations and wage demands.

These developments translated into greater pessimism over corporate earnings growth and weighed on bond prices, with risk-off sentiment sending most markets into negative territory -- particularly emerging market equities. Conditions were exacerbated by the ongoing Russia-Ukraine war, the energy crisis in Europe, and China's continuing economic slowdown resulting from tight Covid-related restrictions and a weak property market. With a more limited geographical impact, but still of note, was the September meltdown in UK bonds and the pound on the back of new PM Liz Truss's surprise introduction of plans for a much higher government budget deficit on the back of proposed unfunded tax cuts (broadly favouring the rich), among other measures.

For the quarter ended 30 September 2022, the MSCI All Country World Index returned -6.8%, the MSCI Emerging Markets Index produced -11.6%, and the Bloomberg Global Aggregate Bond Index delivered -6.9% (all in US$). As an interest-rate-sensitive asset class, global property stocks were hurt almost as badly as emerging markets, with the FTSE EPRA/NAREIT Global REIT Index returning -11.1% (US$ net).

In the US, the US Fed hiked its Federal Funds rate by a combined 150bps in Q3, a very aggressive policy tightening move by historic standards, even as annual inflation eased to 8.3% in August from 8.5% in July. Meanwhile, US economic growth shrank by 0.6% y/y in Q2 2022 on the heels of a 1.6% contraction in Q1, as consumer incomes and corporate profits were hit by higher debt costs and rising prices for food and energy, despite a fall in the latter in September. The Fed's latest survey showed the median of US GDP growth forecasts was revised lower to just 0.2% for 2022 (vs 1.7% previously) and 1.2% in 2023 (vs 1.7%). And Fed Funds Futures contracts now imply US interest rates reaching approximately 4.5% in mid-2023, well above the 2.9% forecast in May. Meanwhile, US equity returns were also negative for the quarter: in US$, the Nasdaq delivered –3.9%, the Dow Jones produced -6.2% and the S&P 500 returned -4.9%, the latter now having recorded a -23.9% return for the year to date.

In the UK, new PM Liz Truss sparked protests from both financial markets and the public after unveiling a budget plan heavily reliant on deficit spending and tax cuts (especially for the well-off) to boost growth. Both government bonds and the pound promptly experienced a sharp sell-off. The new PM also proposed an Energy Price Guarantee to limit energy cost increases for the coming winter, which is expected to help lower inflationary pressure on consumers. The Bank of England raised its key interest rate by a total of 100bps to 2.25% for the quarter, pushing borrowing costs to the highest level since 2008. This came against consumer inflation of 9.9% y/y in August, down from 10.1% in July. For Q3 2022, UK equities were also in the red: the FTSE 100 returned -10.6% in US$.

Meanwhile, the European Central Bank (ECB) raised interest rates by an unprecedented 75bps in September as annual inflation in the Euro Area jumped to 10% (from 9.1% in August), the first time on record that inflation reached double-digits. The Euro Area's Q2 2022 GDP growth came in at 4.1% (q/q annualised), slowing from 5.4% in Q1. Dominating the news were stories of an expected energy crisis in the region in the coming months, amid gas and oil shortages on the back of sanctions against Russia and the imposition of Russian oil price caps. Meanwhile, inflation was expected to remain high, consumer spending to come under pressure and growth to slow sharply in 2023. The ECB's September forecasts showed GDP growth at 3.1% for 2022 (revised up from 2.8% following positive surprises in the first half of the year), and then slowing to only 0.9% in 2023 (cut from 2.1% previously). In France, the CAC 40 returned -8.6%, while Germany's DAX delivered -11.2% for the quarter in US$.

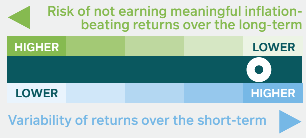
In Japan, the Bank of Japan (BOJ) maintained its ultra-easy monetary policy during the quarter, leaving its policy rate unchanged at -0.1%. The market continues to forecast no interest rate hikes through 2023. Japan's economy expanded 0.9% q/q in Q2, the third straight quarter of positive growth and above market consensus of a 0.7% rise, helped by the lifting of all Covid-19 curbs. Following other global equity markets lower, the Nikkei returned -6.9% in US$ for the quarter.

In China, the focus was squarely on supporting economic growth for the quarter. GDP growth for Q2 2022 disappointed at only 0.4% y/y compared to the 1.0% expected. Activity was weighed down heavily by the government's harsh crackdowns against Covid-19 as the country suffered its worst outbreak of the virus since the peak of the pandemic in early 2020. Large cities such as Shanghai, Chengdu and Wuhan fell under strict containment measures, severely denting consumer demand and business activity. Ongoing property market weakness also undercut consumer and business sentiment. As a result, the central bank left its benchmark lending rates unchanged in September, after having implemented some credit easing measures earlier in the quarter, while the government also contributed fiscal support. This ongoing monetary policy divergence between China and the US increased the risk of further yuan depreciation and capital outflows, with the yuan falling to a 13-year low against the surging US$ in September. In its September outlook, the World Bank forecast China's GDP growth at only 2.8% in 2022, far below the government's 5.5% growth target for the year. This is the first year in decades that the country is lagging the rest of the Asian region (seen at 5.3% growth in 2022), largely as a result of its much slower recovery from the pandemic. For the quarter, Hong Kong's Hang Seng produced -20.2%, while the MSCI China returned -22.4%, both in US$.

South African markets were not spared in the sell-off; growth prospects deteriorated amid rising prices, higher borrowing costs and the high frequency of electricity outages, all of which weighed on economic activity. All sectors of the equity market delivered negative returns for the quarter: the FTSE/JSE All Share Index (ALSI) returned -1.9% and the Capped SWIX -2.4%. Locally oriented sectors were weakest, with -4.2% from Financials and -4.1% from Listed Property (All Property Index), while globally oriented sectors delivered marginally better returns with -1.3% from Industrials and -2.1% from Resources. For the 12 months to 30 September, the ALSI has returned 3.5%, outperforming the -5.2% recorded by global equities (the MSCI All Country World Index), in rand terms.

Annualised performance	A class	Benchmark	D class
1 year	-7.4%	-10.0%	-7.2%
2 years	19.2%	19.3%	19.6%
Since inception	11.6%	10.7%	-

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

Sources: M&G, Morningstar & Deutsche Securities

Quarterly Commentary

M&G Dividend Maximiser Fund

Equity

Q3 2022

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These developments translated into greater pessimism over corporate earnings growth and weighed on bond prices, with risk-off sentiment sending most markets into negative territory -- particularly emerging market equities. Conditions were exacerbated by the ongoing Russia-Ukraine war, the energy crisis in Europe, and China's continuing economic slowdown resulting from tight Covid-related restrictions and a weak property market. With a more limited geographical impact, but still of note, was the September meltdown in UK bonds and the pound on the back of new PM Liz Truss's surprise introduction of plans for a much higher government budget deficit on the back of proposed unfunded tax cuts (broadly favouring the rich), among other measures.

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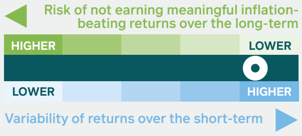
Annualised performance	A class	Benchmark	T class	B class	F class
1 year	2.1%	2.1%	2.8%	2.5%	3.1%
3 years	10.8%	7.9%	11.2%	11.2%	11.5%
5 years	6.9%	4.6%	7.4%	7.3%	7.7%
7 years	7.1%	4.8%	7.5%	7.5%	-
10 years	9.6%	7.1%	-	10.0%	-
Since inception	15.4%	12.5%	-	-	-

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 766 730 095

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

Sources: M&G, Morningstar & Deutsche Securities

annualised), while markets forecasted a 0.8% fall, as the lasting impact of the devastating floods in KwaZulu-Natal and intense power outages during the period negatively impacted economic growth on top of the global slowdown. As a consequence, the SARB pencilled in growth for Q3 and Q4 at 0.4% and 0.3%, respectively, and trimmed its GDP growth forecast for 2022 to 1.9% from 2.0% previously. Looking further ahead, the central bank sees the economy expanding by only 1.4% in 2023 and 1.7% in 2024.

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Finally, the rand depreciated significantly against the rampant US$, which reached multi-decade highs versus other global currencies like sterling and the euro. The rand lost 9.7% versus the greenback, 2.8% against the euro and 0.9% against the pound sterling over the quarter.

Performance

The M&G Dividend Maximiser Fund delivered a return of -1.5% (net of fees) for the third quarter of 2022, in line with its benchmark (the average of the general equity funds). For the year ended 30 September 2022, the fund returned 2.1% (net of fees), in line with its benchmark.

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 came from the fund's allocation to the M&G Global Equity Fund, which makes up approximately 8.7% of the portfolio. Together with the M&G Global Dividend Fund (5.2%) and the M&G Africa Equity Fund (3.5%), the fund has approximately 20.8% allocated offshore (including Textainer, discussed in more detail below). This offshore allocation contributed almost 1% to performance for the quarter, mainly due to the weaker rand relative to the US dollar, which depreciated 9.7% over the quarter and 23% over the past six months.

Over the past two years, we have substantially reduced the fund's offshore allocation as we believed the SA market and the rand offered better value, a view that we still hold today. We believe that emerging markets and African equities in particular continue to represent good value, as does the rand given the extent to which it has depreciated over the last six months, following a similar path as many other emerging market currencies over this period.

The fund's overweight position to Textainer Group Holdings was the second largest contributor to performance for the last quarter. The company benefitted from the weaker rand as its operations are mainly in US dollar. 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 of not having 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 believe this smart allocation of cash should further accelerate the improvement of returns from the company.

Another large contributor to performance came from the fund not holding Capitec Bank. While we rate FirstRand and Capitec more highly in terms of quality, we cannot ignore that they are substantially more highly rated than other banks in the sector. For this reason, we have remained overweight Standard Bank, ABSA and Investec and underweight FirstRand and Capitec. We continue to have an overweight position to the banks sector as we believe that the banks that we own are trading on undemanding valuations, especially given that earnings and dividend growth are exceptionally strong currently. We think there is also a good opportunity to generate alpha within this sector by being overweight relatively undervalued banks versus the banks such as Capitec and FirstRand.

The largest detractor from performance for the quarter came from the fund's underweight exposure to the coal sector. Glencore and Thungela performed exceptionally well over the last quarter, supported by higher coal prices. Coal prices continue to be supported by elevated gas and oil prices largely due to the war in Ukraine. Our preference is Anglo American, which has investments in coking coal (as opposed to thermal coal) as well as Sasol and Omnia, both of which also benefitted from the energy cycle and are attractively valued.

The fund's overweight position to Sappi Limited, the South African-based paper company, was the second largest detractor from performance for the quarter. The fund has held Sappi for several years now, based on the investment case that the company would generate strong cash flows and was paying down its large debt which it had accumulated during the financial crisis. We recognised that Sappi was aggressively allocating capital away from its declining paper business and investing heavily in its dissolving pulp and packaging businesses. Dissolving pulp is a product mainly used in the production of clothing and this product has been growing quickly as a cheaper and more environmentally-friendly alternative to cotton (which uses valuable arable land and water resources). The investment case has played out well over the last year and Sappi will generate the largest cash flow in its history for its financial year ending September 2022. This has enabled Sappi to pay down debt and we expect a resumption of dividends and potentially share buybacks in the year ahead. We think that despite Sappi's underperformance in the last quarter, it is today in a far better position than it has been for the last decade. Sappi has also recently announced the sale of some paper mills in Europe at what we believe are fair valuations, enabling the further paydown of debt. We believe Sappi represents excellent value where it is currently trading.

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 look to 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 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 has fallen to 1.5X as at the end of September 2022, which we think is now a very attractive valuation level. Within the South African market, many commodity companies have experienced elevated revenue and earnings, as the prices of platinum group metals, coal and iron ore 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 returns 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 and emerging 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 hurdle rate has increased.

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

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

Sources: M&G, Morningstar & Deutsche Securities

M&G Equity Fund

Equity

Q3 2022

Market overview

Global financial markets were painted in a sea of red in the third quarter (Q3) of 2022, falling more sharply in September as any remaining optimism over economic growth for the year and into 2023 was largely crushed by global central banks, led by the US Federal Reserve. Their stiff fight against persistent global inflation resulted in surprisingly aggressive interest rate hikes, with markets having to revise their forecasts for interest rates much steeper on several occasions during the period. While acknowledging the "painful" consequences felt by consumers and businesses, central bankers have been more concerned about higher inflation levels becoming embedded into the broader economy through the second-round effects of inflation expectations and wage demands.

These developments translated into greater pessimism over corporate earnings growth and weighed on bond prices, with risk-off sentiment sending most markets into negative territory -- particularly emerging market equities. Conditions were exacerbated by the ongoing Russia-Ukraine war, the energy crisis in Europe, and China's continuing economic slowdown resulting from tight Covid-related restrictions and a weak property market. With a more limited geographical impact, but still of note, was the September meltdown in UK bonds and the pound on the back of new PM Liz Truss's surprise introduction of plans for a much higher government budget deficit on the back of proposed unfunded tax cuts (broadly favouring the rich), among other measures.

For the quarter ended 30 September 2022, the MSCI All Country World Index returned -6.8%, the MSCI Emerging Markets Index produced -11.6%, and the Bloomberg Global Aggregate Bond Index delivered -6.9% (all in US$). As an interest-rate-sensitive asset class, global property stocks were hurt almost as badly as emerging markets, with the FTSE EPRA/NAREIT Global REIT Index returning -11.1% (US$ net).

In the US, the US Fed hiked its Federal Funds rate by a combined 150bps in Q3, a very aggressive policy tightening move by historic standards, even as annual inflation eased to 8.3% in August from 8.5% in July. Meanwhile, US economic growth shrank by 0.6% y/y in Q2 2022 on the heels of a 1.6% contraction in Q1, as consumer incomes and corporate profits were hit by higher debt costs and rising prices for food and energy, despite a fall in the latter in September. The Fed's latest survey showed the median of US GDP growth forecasts was revised lower to just 0.2% for 2022 (vs 1.7% previously) and 1.2% in 2023 (vs 1.7%). And Fed Funds Futures contracts now imply US interest rates reaching approximately 4.5% in mid-2023, well above the 2.9% forecast in May. Meanwhile, US equity returns were also negative for the quarter: in US$, the Nasdaq delivered –3.9%, the Dow Jones produced -6.2% and the S&P 500 returned -4.9%, the latter now having recorded a -23.9% return for the year to date.

In the UK, new PM Liz Truss sparked protests from both financial markets and the public after unveiling a budget plan heavily reliant on deficit spending and tax cuts (especially for the well-off) to boost growth. Both government bonds and the pound promptly experienced a sharp sell-off. The new PM also proposed an Energy Price Guarantee to limit energy cost increases for the coming winter, which is expected to help lower inflationary pressure on consumers. The Bank of England raised its key interest rate by a total of 100bps to 2.25% for the quarter, pushing borrowing costs to the highest level since 2008. This came against consumer inflation of 9.9% y/y in August, down from 10.1% in July. For Q3 2022, UK equities were also in the red: the FTSE 100 returned -10.6% in US$.

Meanwhile, the European Central Bank (ECB) raised interest rates by an unprecedented 75bps in September as annual inflation in the Euro Area jumped to 10% (from 9.1% in August), the first time on record that inflation reached double-digits. The Euro Area's Q2 2022 GDP growth came in at 4.1% (q/q annualised), slowing from 5.4% in Q1. Dominating the news were stories of an expected energy crisis in the region in the coming months, amid gas and oil shortages on the back of sanctions against Russia and the imposition of Russian oil price caps. Meanwhile, inflation was expected to remain high, consumer spending to come under pressure and growth to slow sharply in 2023. The ECB's September forecasts showed GDP growth at 3.1% for 2022 (revised up from 2.8% following positive surprises in the first half of the year), and then slowing to only 0.9% in 2023 (cut from 2.1% previously). In France, the CAC 40 returned -8.6%, while Germany's DAX delivered -11.2% for the quarter in US$.

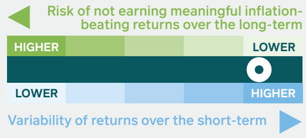
In Japan, the Bank of Japan (BOJ) maintained its ultra-easy monetary policy during the quarter, leaving its policy rate unchanged at -0.1%. The market continues to forecast no interest rate hikes through 2023. Japan's economy expanded 0.9% q/q in Q2, the third straight quarter of positive growth and above market consensus of a 0.7% rise, helped by the lifting of all Covid-19 curbs. Following other global equity markets lower, the Nikkei returned -6.9% in US$ for the quarter.

In China, the focus was squarely on supporting economic growth for the quarter. GDP growth for Q2 2022 disappointed at only 0.4% y/y compared to the 1.0% expected. Activity was weighed down heavily by the government's harsh crackdowns against Covid-19 as the country suffered its worst outbreak of the virus since the peak of the pandemic in early 2020. Large cities such as Shanghai, Chengdu and Wuhan fell under strict containment measures, severely denting consumer demand and business activity. Ongoing property market weakness also undercut consumer and business sentiment. As a result, the central bank left its benchmark lending rates unchanged in September, after having implemented some credit easing measures earlier in the quarter, while the government also contributed fiscal support. This ongoing monetary policy divergence between China and the US increased the risk of further yuan depreciation and capital outflows, with the yuan falling to a 13-year low against the surging US$ in September. In its September outlook, the World Bank forecast China's GDP growth at only 2.8% in 2022, far below the government's 5.5% growth target for the year. This is the first year in decades that the country is lagging the rest of the Asian region (seen at 5.3% growth in 2022), largely as a result of its much slower recovery from the pandemic. For the quarter, Hong Kong's Hang Seng produced -20.2%, while the MSCI China returned -22.4%, both in US$.

South African markets were not spared in the sell-off; growth prospects deteriorated amid rising prices, higher borrowing costs and the high frequency of electricity outages, all of which weighed on economic activity. All sectors of the equity market delivered negative returns for the quarter: the FTSE/JSE All Share

Annualised performance	A class	Benchmark	B class	F class
1 year	5.7%	2.1%	6.3%	7.1%
3 years	14.1%	7.9%	14.5%	15.0%
5 years	8.7%	4.6%	9.2%	9.7%
7 years	8.6%	4.8%	9.0%	-
10 years	10.7%	7.1%	11.1%	-
Since inception	15.7%	12.5%	-	-

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 241 191 220

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

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

Index (ALSI) returned -1.9% and the Capped SWIX -2.4%. Locally oriented sectors were weakest, with -4.2% from Financials and -4.1% from Listed Property (All Property Index), while globally oriented sectors delivered marginally better returns with -1.3% from Industrials and -2.1% from Resources. For the 12 months to 30 September, the ALSI has returned 3.5%, outperforming the -5.2% recorded by global equities (the MSCI All Country World Index), in rand terms.

The South African Reserve Bank (SARB) followed the US with a total of 150bps of interest rate hikes during Q3, both to curb local price pressures and to ensure the interest rate differential between SA and the US did not become too wide, thereby protecting against rand weakness. More hikes are expected in the coming months, in line with the rest of the world. The Q3 rate increases came amid a contracting economy: Q2 GDP growth came in at -0.7% (q/q annualised), while markets forecasted a 0.8% fall, as the lasting impact of the devastating floods in KwaZulu-Natal and intense power outages during the period negatively impacted economic growth on top of the global slowdown. As a consequence, the SARB pencilled in growth for Q3 and Q4 at 0.4% and 0.3%, respectively, and trimmed its GDP growth forecast for 2022 to 1.9% from 2.0% previously. Looking further ahead, the central bank sees the economy expanding by only 1.4% in 2023 and 1.7% in 2024.

In more positive news, SA's annual inflation eased to 7.6% in August from an over 13-year high of 7.8% in July, marginally above market expectations of a 7.5% rise. The Purchasing Managers' Index expanded to 52.1 points in August from 47.6 in July, following a steep fall in fuel prices at the start of August, which helped moderate cost pressures. And finally, retail trade climbed by 8.6% y/y in July following a 2.3% fall in the previous month, marking the steepest rise in retail activity since June 2021.

Finally, the rand depreciated significantly against the rampant US$, which reached multi-decade highs versus other global currencies like sterling and the euro. The rand lost 9.7% versus the greenback, 2.8% against the euro and 0.9% against the pound sterling over the quarter.

Performance

The M&G Equity Fund managed to tread water for the third quarter of 2022, delivering a flat return of 0% while still outperforming the average SA Equity General Fund, which lost 1.5% over the same period. For the 12 months ending 30 September 2022, the fund returned 5.7% compared to the benchmark's return of 2.1%.

Most pleasing for long-standing investors was the news that the fund had reached the top of the Morningstar rankings over twenty years, as at the end of September 2022. What is perhaps more interesting, however, is that the fund had not ranked first in any of the intervening periods during which performance was measured. This meant that the relative consistency of having earned top-decile performance, when compared to competing funds, resulted in long-term investors being rewarded with the best equity investment across South African Equity General Funds that they could have chosen twenty years ago. Investors who invested more recently in the fund, however, would have nevertheless also largely enjoyed top-decile performance.

Top of mind for our investors no doubt is what the future holds. The headwinds to equity returns appear numerous, namely rising global interest rates, the food, energy and climate crises, the war in Ukraine and the threat of a global recession. In South Africa, the 10-year bond yield which is in excess of 11%, represents a material headwind to the equity market re-rating from current levels.

Despite the above headwinds, we are constructive on the fund's prospective returns. The fund's South Africa component, which accounts for approximately 90% of the portfolio, trades on a PE of 6.3X forward earnings and a 7.4% dividend yield. We have a preference for South African assets compared to global assets given the large valuation differential observed, and the fact that domestic interest rates may compensate investors appropriately for risks and inflation, especially when compared to global developed markets which may yet need further adjustments, to the detriment of equity returns.

The events in Ukraine are sad and concerning. The result of the war is that Europeans have banned the import of Russian coal, which has benefited South African, Colombian, Australian and Indonesian coal exporters, among others. The fund has been invested in coal-exporting companies Thungela, Glencore and Exxaro, which added significant outperformance over the last year. On normalised, lower commodity prices, these companies remain attractive even if coal prices were to halve.

Strategy and positioning

In terms of positioning, the fund retains its overweight position in the energy sector and a neutral position in general mining. Gold tends to have a high correlation with US real rates, and as such, we are underweight the sector. Further, gold companies themselves have tended to be poor investments due to their capital requirements.

The fund remains overweight banks because of their ability to benefit significantly from rising interest rates. Insurers are least preferred within the financials sector, largely because of the perceived poor growth prospects and weaker financial markets which impact their earnings.

Cyclical domestic companies, like apparel retailers, are preferred to expensive defensive companies given the wide valuation differentials. In general, we don't perceive good value to be had in defensives, largely due to the poor growth prospects on offer.

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M&G SA Equity Fund

Equity

Q3 2022

Market overview

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In the US, the US Fed hiked its Federal Funds rate by a combined 150bps in Q3, a very aggressive policy tightening move by historic standards, even as annual inflation eased to 8.3% in August from 8.5% in July. Meanwhile, US economic growth shrank by 0.6% y/y in Q2 2022 on the heels of a 1.6% contraction in Q1, as consumer incomes and corporate profits were hit by higher debt costs and rising prices for food and energy, despite a fall in the latter in September. The Fed's latest survey showed the median of US GDP growth forecasts was revised lower to just 0.2% for 2022 (vs 1.7% previously) and 1.2% in 2023 (vs 1.7%). And Fed Funds Futures contracts now imply US interest rates reaching approximately 4.5% in mid-2023, well above the 2.9% forecast in May. Meanwhile, US equity returns were also negative for the quarter: in US$, the Nasdaq delivered –3.9%, the Dow Jones produced -6.2% and the S&P 500 returned -4.9%, the latter now having recorded a -23.9% return for the year to date.

South African markets were not spared in the sell-off; growth prospects deteriorated amid rising prices, higher borrowing costs and the high frequency of electricity outages, all of which weighed on economic activity. All sectors of the equity market delivered negative returns for the quarter: the FTSE/JSE All Share Index (ALSI) returned -1.9% and the Capped SWIX -2.4%. Locally oriented sectors were weakest, with -4.2% from Financials and -4.1% from Listed Property (All Property Index), while globally oriented sectors delivered marginally better returns with -1.3% from Industrials and -2.1% from Resources. For the 12 months to 30 September, the ALSI has returned 3.5%, outperforming the -5.2% recorded by global equities (the MSCI All Country World Index), in rand terms.

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Performance

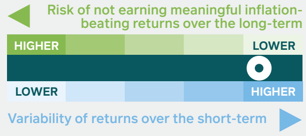
The fund delivered a return of -3.0% (net of fees) for the third quarter of 2022, underperforming its benchmark by 0.5%. For the 12 months ended 30 September 2022, the fund returned 3.4% (net of fees), outperforming its benchmark by 2.3%. It is particularly pleasing to report that against this period of robust market returns, post the March 2020 sell-off, our stock picking has delivered strong alpha over the period ending 30 September 2022.

The largest contributor to performance came from the fund not holding Capitec Bank. While we rate FirstRand and Capitec more highly in terms of quality, we cannot ignore that they are substantially more highly rated than other banks in the sector. For this reason, we have remained overweight Standard Bank, ABSA and Investec and underweight FirstRand and Capitec. In fact, our overweight to ABSA was the second-largest contributor to performance. ABSA has shown a steady improvement in operating performance and is generating a Return on Equity of 17%, which is up substantially from the high single-digit returns it was generating just a few years ago. Although its share price has performed relatively well versus the other banks, we believe that it is still undervalued and it remains one of the fund's top overweights in the banking sector. Investec has been a strong contributor to performance over the last year, but was one of the larger detractors over the last quarter. Investec is a company that we have held in the fund for a number of years and we continue to view it is a good quality company, still trading on a depressed multiple. We believe that the management of Investec have done a good job in optimising capital allocation post the demerger with Ninety One Asset Management and are now more focused on shareholder returns.

Annualised performance	B class	Benchmark[1]	F class
1 year	4.6%	1.1%	3.4%
3 years	9.8%	7.8%	8.6%
5 years	6.0%	4.2%	4.8%
7 years	6.6%	4.9%	-
10 years	9.7%	8.0%	-
Since inception	14.5%	12.6%	-

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

Risk profile



Fund facts

Fund managers

Ross Biggs
Chris Wood
Leonard Krüger
Aadil Omar

ASISA category

South African - Equity - General

Benchmark

FTSE/JSE Capped SWIX All Share Index

Inception date

21 September 2000

Fund size

R36 923 157 437

Sources: M&G, Morningstar & Deutsche Securities

We continue to have an overweight position to the banks sector as we think that holdings within the sector are trading on undemanding valuations, especially given that earnings and dividend growth is exceptionally strong currently. We think there is also good opportunity to generate alpha within this sector by being overweight relatively undervalued banks versus banks such as Capitec and FirstRand.

Our overweight positions in Exxaro and Glencore were also contributors to performance over the quarter. These companies have been significantly supported by continued high coal prices. Coal prices remain elevated, as too are gas and oil prices mainly as a result of the war in Ukraine. The outperformance from Exxaro and Glencore was partly offset by the fund not holding Thungela, which is wholly exposed to thermal coal. On the ESG front, we have been very engaged with both Exxaro and Glencore to better understand their coal transitions and how they are utilising the cash flows generated from thermal coal to invest in renewable energy. At Glencore, we have engaged with management on their coal policy objectives and climate policy timelines.

The fund's overweight position in Sasol was the largest detractor from performance during the quarter, after having been a strong contributor in the previous quarter. We believe that Sasol continues to be significantly undervalued given its ability to generate significant cash flows in the current high energy price environment. This is resulting in a quick paydown of debt.

The fund's overweight position in Sappi Limited, the South African-based paper company, was among the largest detractors from performance for the quarter. The fund has held Sappi for several years now, based on the investment case that the company would generate strong cash flows and was paying down its large debt which it had accumulated during the financial crisis. We recognised that Sappi was aggressively allocating capital away from its declining paper business and investing heavily in its dissolving pulp and packaging businesses. Dissolving pulp is a product mainly used in the production of clothing and this product has been growing quickly as a cheaper and more environmentally-friendly alternative to cotton (which uses valuable arable land and water resources). The investment case has played out well over the last year and Sappi will generate the largest cash flow in its history for its financial year ending September 2022. This has enabled Sappi to pay down debt and we expect a resumption of dividends and potentially share buybacks in the year ahead. We think that despite Sappi's underperformance in the last quarter, it is today in a far better position than it has been for the last decade. Sappi has also recently announced the sale of some paper mills in Europe at what we believe are fair valuations, enabling the further paydown of debt. We believe Sappi represents excellent value where it is currently trading.

It is worth mentioning 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 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 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 has fallen to 1.5X as at the end of September 2022, which we think is now a very attractive valuation level. Within the South African market, many commodity companies have experienced elevated revenue and earnings, as the prices of platinum group metals, coal and iron ore 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 returns 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 and emerging 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 hurdle rate has increased.

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

Quarterly Commentary

M&G Global Bond Feeder Fund

Global Income ZAR-denominated

Q3 2022

Market overview

Global financial markets were painted in a sea of red in the third quarter (Q3) of 2022, falling more sharply in September as any remaining optimism over economic growth for the year and into 2023 was largely crushed by global central banks, led by the US Federal Reserve. Their stiff fight against persistent global inflation resulted in surprisingly aggressive interest rate hikes, with markets having to revise their forecasts for interest rates much steeper on several occasions during the period. While acknowledging the "painful" consequences felt by consumers and businesses, central bankers have been more concerned about higher inflation levels becoming embedded into the broader economy through the second-round effects of inflation expectations and wage demands. Conditions were exacerbated by the ongoing Russia-Ukraine war, the energy crisis in Europe, and China's continuing economic slowdown resulting from tight Covid-related restrictions and a weak property market.

In the US, the US Fed hiked its Federal Funds rate by a combined 150bps in Q3, a very aggressive policy tightening move by historic standards, even as annual inflation eased to 8.3% in August from 8.5% in July. Meanwhile, US economic growth shrank by 0.6% y/y in Q2 2022 on the heels of a 1.6% contraction in Q1. The Fed's latest survey showed the median of US GDP growth forecasts was revised lower to just 0.2% for 2022 (vs 1.7% previously) and 1.2% in 2023 (vs 1.7%). And Fed Funds Futures contracts now imply US interest rates reaching approximately 4.5% in mid-2023, well above the 2.9% forecast in May. For the third quarter in a row, US Treasury bonds sold off sharply as a consequence of the deteriorating inflation and interest rate outlooks, resulting in an unusually volatile market: the Bloomberg Aggregate US Treasuries Index returned -7.6% in US$, for a total return of -21.3% for 2022 so far.

In the UK, new PM Liz Truss sparked protests from both financial markets and the public after unveiling a budget plan heavily reliant on unfunded deficit spending and tax cuts (especially for the well-off) to boost growth. Both government bonds and the pound promptly experienced a sharp sell-off.

Meanwhile, the European Central Bank (ECB) raised interest rates by an unprecedented 75bps in September as annual inflation in the Euro Area jumped to 10% (from 9.1% in August). The Euro Area's Q2 2022 GDP growth came in at 4.1% (q/q annualised), slowing from 5.4% in Q1. The ECB's September forecasts showed GDP growth at 3.1% for 2022 and then slowing to only 0.9% in 2023 (cut from 2.1% previously).

In Japan, the Bank of Japan (BOJ) maintained its ultra-easy monetary policy during the quarter, leaving its policy rate unchanged at -0.1%. Japan's economy expanded 0.9% q/q in Q2, the third straight quarter of positive growth, helped by the lifting of all Covid-19 curbs.

In China, the focus was squarely on supporting economic growth for the quarter. GDP growth for Q2 2022 disappointed at only 0.4% y/y compared to the 1.0% expected. Activity was weighed down heavily by the government's harsh crackdowns against Covid-19 and ongoing property market weakness. The central bank eased monetary policy moderately earlier in the quarter, and government contributed fiscal support, while the yuan fell to a 13-year low against the surging US$ in September. The World Bank forecast China's GDP growth at only 2.8% in 2022, far below the government's 5.5% growth target for the year, largely as a result of its much slower recovery from the pandemic.

Finally, the rand depreciated significantly against the rampant US$, which reached multi-decade highs versus other global currencies like the pound sterling and euro. The rand lost 9.7% versus the greenback, 2.8% against the euro and 0.9% against the pound sterling over the quarter. This would have helped boost local investors' offshore foreign currency returns.

Performance

For the third quarter of 2022, the fund returned 1.4% (net of fees), underperforming its benchmark by 0.7%. Over the 12 months ending 30 September 2022, the fund generated a return of -7.6%, underperforming its benchmark by 2.6% over the same period.

Main detractors from absolute performance over the quarter came from the fund's exposure to global and US investment grade bonds; US and European corporate bonds, as well as broad exposure to emerging market government bonds, denominated in hard and local currencies.

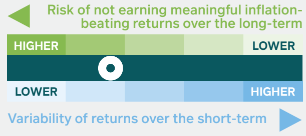
Strategy and positioning

Following the sharp decline in UK government bond prices at the end of September, triggered by the government's mini-budget, we started a new position in 10-year gilts. In our view, this extreme price move provided an interesting tactical opportunity to invest some of our cash in response to the rapid changes in asset prices. This purchase brought the fund's duration to roughly neutral relative to the benchmark.

The fund continues to hold a relatively high level of cash, as we believe it is a valuable asset in the current environment of heightened volatility.

Annualised performance	A class	Benchmark	B class
1 year	-7.6%	-5.0%	-7.3%
3 years	-0.6%	-0.2%	-0.3%
5 years	2.4%	3.4%	-
7 years	2.5%	3.2%	-
10 years	6.8%	7.0%	-
Since inception	7.4%	7.6%	-

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
R542 417 124

Sources: M&G, Morningstar & Deutsche Securities

We remain highly active within the global bond asset class, responding to the significant price movements we have seen this year. Price behaviour remains consistent with that of market participants, being sharply focused on the direction of interest rates: markets are changing direction at every inflation data release or FED governor's statement.

As highlighted above, in these extremely volatile, narrative-driven times we remain alert to opportunities that are created by 'episodic', or sentiment-driven, changes in asset prices.

The effect of recent asset price weakness has been to restore valuations to more interesting levels in certain areas, in our view. However, the assumptions behind these valuation signals appear even more vulnerable than usual to shifting economic conditions. We believe the economic and policy background we are facing now is very different from the last decade and risks today are much more established.

As the likelihood of an economic downturn has increased, particularly in Europe, we remain cautious and continue to hold an elevated level of cash, providing scope to respond to future volatility as it arises.

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Quarterly Commentary

M&G Global Inflation Plus Feeder Fund

Global Multi-Asset ZAR-denominated

Q3 2022

Market overview

Global financial markets were painted in a sea of red in the third quarter (Q3) of 2022, falling more sharply in September as any remaining optimism over economic growth for the year and into 2023 was largely crushed by global central banks, led by the US Federal Reserve. Their stiff fight against persistent global inflation resulted in surprisingly aggressive interest rate hikes, with markets having to revise their forecasts for interest rates much steeper on several occasions during the period. While acknowledging the “painful” consequences felt by consumers and businesses, central bankers have been more concerned about higher inflation levels becoming embedded into the broader economy through the second-round effects of inflation expectations and wage demands.

Conditions were exacerbated by the ongoing Russia-Ukraine war, the energy crisis in Europe, and China’s continuing economic slowdown resulting from tight Covid-related restrictions and a weak property market. For the quarter ended 30 September 2022, the MSCI All Country World Index returned -6.8%, the MSCI Emerging Markets Index produced -11.6%, and the Bloomberg Global Aggregate Bond Index delivered -6.9% (all in US$). As an interest-rate-sensitive asset class, global property stocks were hurt almost as badly as emerging markets, with the FTSE EPRA/NAREIT Global REIT Index returning -11.1% (US$ net).

In the US, the US Fed hiked its Federal Funds rate by a combined 150bps in Q3, a very aggressive policy tightening move by historic standards, even as annual inflation eased to 8.3% in August from 8.5% in July. Meanwhile, US economic growth shrank by 0.6% y/y in Q2 2022 on the heels of a 1.6% contraction in Q1. The Fed’s latest survey showed the median of US GDP growth forecasts was revised lower to just 0.2% for 2022 (vs 1.7% previously) and 1.2% in 2023 (vs 1.7%). And Fed Funds Futures contracts now imply US interest rates reaching approximately 4.5% in mid-2023, well above the 2.9% forecast in May.

For the third quarter in a row, US Treasury bonds sold off sharply as a consequence of the deteriorating inflation and interest rate outlooks, resulting in an unusually volatile market: the Bloomberg Aggregate US Treasuries Index returned -7.6% in US$, for a total return of -21.3% for 2022 so far. Meanwhile, US equity returns were also negative: in US$, the Nasdaq delivered -3.9%, the Dow Jones produced -6.2% and the S&P 500 returned -4.9%, the latter now having recorded a -23.9% return for the year to date.

In the UK, new PM Liz Truss sparked protests from both financial markets and the public after unveiling a budget plan heavily reliant on unfunded deficit spending and tax cuts (especially for the well-off) to boost growth. Both government bonds and the pound promptly experienced a sharp sell-off. For Q3 2022, UK equities were also in the red: the FTSE 100 returned -10.6% in US$.

Meanwhile, the European Central Bank (ECB) raised interest rates by an unprecedented 75bps in September as annual inflation in the Euro Area jumped to 10% (from 9.1% in August). The Euro Area’s Q2 2022 GDP growth came in at 4.1% (q/q annualised), slowing from 5.4% in Q1. The ECB’s September forecasts showed GDP growth at 3.1% for 2022 and then slowing to only 0.9% in 2023 (cut from 2.1% previously). In France, the CAC 40 returned -8.6%, while Germany’s DAX delivered -11.2% for the quarter in US$.

In Japan, the Bank of Japan (BOJ) maintained its ultra-easy monetary policy during the quarter, leaving its policy rate unchanged at -0.1%. Japan’s economy expanded 0.9% q/q in Q2, the third straight quarter of positive growth, helped by the lifting of all Covid-19 curbs. Following other global equity markets lower, the Nikkei returned -6.9% in US$ for the quarter.

In China, the focus was squarely on supporting economic growth for the quarter. GDP growth for Q2 2022 disappointed at only 0.4% y/y compared to the 1.0% expected. Activity was weighed down heavily by the government’s harsh crackdowns against Covid-19 and ongoing property market weakness. The central bank eased monetary policy moderately earlier in the quarter, and government contributed fiscal support, while the yuan fell to a 13-year low against the surging US$ in September. The World Bank forecast China’s GDP growth at only 2.8% in 2022, far below the government’s 5.5% growth target for the year, largely as a result of its much slower recovery from the pandemic. For the quarter, Hong Kong’s Hang Seng produced -20.2%, while the MSCI China returned -22.4%, both in US$.

Finally, the rand depreciated significantly against the rampant US$, which reached multi-decade highs versus other global currencies like the pound sterling and euro. The rand lost 9.7% versus the greenback, 2.8% against the euro and 0.9% against the pound sterling over the quarter. This would have helped boost local investors’ offshore foreign currency returns.

Performance

For the third quarter of 2022, the fund returned 1.9% (net of fees) while global inflation measured 11.2%. Over the 12 months ending 30 September 2022, the fund generated a return of -4.5%, while global inflation measured 28.4% over the same period.

Detracting from absolute performance over the quarter was the fund’s exposure to global investment grade bonds and European corporate bonds; global, US and European equities as well as global property shares.

Strategy and positioning

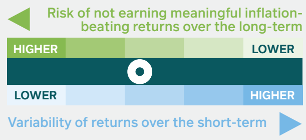
Following the sharp decline in UK government bond prices at the end of September, triggered by the government’s mini-budget, we started a new position in 10-year gilts. In our view, this extreme price move provided an interesting tactical opportunity to invest some of our cash in response to the rapid changes in asset prices. This purchase brought the fund’s duration to roughly neutral relative to the benchmark. It also brought the fund’s cash weighting down to a more typical level, although it remains slightly above the index level.

The volatility in financial markets remains consistent with that of market participants, being sharply focused on the direction of interest rates: markets are changing direction at every inflation data release or FED governor’s statement.

Annualised performance	A class	Benchmark[1]	B class
1 year	-4.5%	28.4%	-4.1%
3 years	2.7%	10.1%	3.1%
5 years	4.7%	8.2%	5.1%
7 years	4.9%	7.1%	5.3%
10 years	8.5%	10.1%	-
Since inception	7.2%	7.9%	-

[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
Craig Simpson

ASISA category:
Global - Multi-Asset - Low Equity

Benchmark
Global inflation

Inception date
1 March 2004

Fund size
R226 584 596

Sources: M&G, Morningstar & Deutsche Securities

As highlighted above, in these extremely volatile, narrative-driven times we remain alert to opportunities that are created by 'episodic', or sentiment-driven, changes in asset prices.

The effect of recent asset price weakness has been to restore valuations to more interesting levels in certain areas, in our view. However, the assumptions behind these valuation signals appear even more vulnerable than usual to shifting economic conditions. We believe the economic and policy background we are facing now is very different from the last decade and risks today are much more established.

As the likelihood of an economic downturn has increased, particularly in Europe, we remain cautious and continue to hold an elevated level of cash, providing scope to respond to future volatility as it arises.

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M&G Investments

M&G Global Balanced Feeder Fund

Global Multi-Asset ZAR-denominated

Q3 2022

Market overview

Global financial markets were painted in a sea of red in the third quarter (Q3) of 2022, falling more sharply in September as any remaining optimism over economic growth for the year and into 2023 was largely crushed by global central banks, led by the US Federal Reserve. Their stiff fight against persistent global inflation resulted in surprisingly aggressive interest rate hikes, with markets having to revise their forecasts for interest rates much steeper on several occasions during the period. While acknowledging the "painful" consequences felt by consumers and businesses, central bankers have been more concerned about higher inflation levels becoming embedded into the broader economy through the second-round effects of inflation expectations and wage demands.

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For the third quarter in a row, US Treasury bonds sold off sharply as a consequence of the deteriorating inflation and interest rate outlooks, resulting in an unusually volatile market: the Bloomberg Aggregate US Treasuries Index returned -7.6% in US$, for a total return of -21.3% for 2022 so far. Meanwhile, US equity returns were also negative: in US$, the Nasdaq delivered -3.9%, the Dow Jones produced -6.2% and the S&P 500 returned -4.9%, the latter now having recorded a -23.9% return for the year to date.

In the UK, new PM Liz Truss sparked protests from both financial markets and the public after unveiling a budget plan heavily reliant on unfunded deficit spending and tax cuts (especially for the well-off) to boost growth. Both government bonds and the pound promptly experienced a sharp sell-off. For Q3 2022, UK equities were also in the red: the FTSE 100 returned -10.6% in US$.

Meanwhile, the European Central Bank (ECB) raised interest rates by an unprecedented 75bps in September as annual inflation in the Euro Area jumped to 10% (from 9.1% in August). The Euro Area's Q2 2022 GDP growth came in at 4.1% (q/q annualised), slowing from 5.4% in Q1. The ECB's September forecasts showed GDP growth at 3.1% for 2022 and then slowing to only 0.9% in 2023 (cut from 2.1% previously). In France, the CAC 40 returned -8.6%, while Germany's DAX delivered -11.2% for the quarter in US$.

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Performance

For the third quarter of 2022, the fund's performance was on par with its benchmark, returning 2.4% (net of fees). Over the 12 months ending 30 September 2022, the fund generated a return of -2.3%, outperforming its benchmark by 1.4% over the same period.

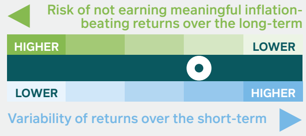
Detracting from absolute performance over the quarter was the fund's exposure to equities particularly exposure to China, Europe and the US, as well as global property. Global investment grade bonds, developed market corporate bonds and a holding in US Treasuries also detracted from absolute performance.

Strategy and positioning

Following the sharp decline in UK government bond prices at the end of September, triggered by the government's mini-budget, we started a new position in 10-year gilts. In our view, this extreme

Annualised performance	A class	Benchmark	B class
1 year	-2.3%	-3.7%	-2.1%
2 years	3.9%	1.5%	4.0%
3 years	5.8%	7.0%	5.9%
Since inception	6.9%	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 564 587

Sources: M&G, Morningstar & Deutsche Securities

price move provided an interesting tactical opportunity to invest some of our cash in response to the rapid changes in asset prices. This purchase brought the fund's duration to roughly neutral relative to the benchmark.

The fund continues to hold a relatively high level of cash, as we believe it is a valuable asset in the current environment of heightened volatility.

The volatility in financial markets remains consistent with that of market participants, being sharply focused on the direction of interest rates: markets are changing direction at every inflation data release or FED governor's statement.

As highlighted above, in these extremely volatile, narrative-driven times we remain alert to opportunities that are created by 'episodic', or sentiment-driven, changes in asset prices.

The effect of recent asset price weakness has been to restore valuations to more interesting levels in certain areas, in our view. However, the assumptions behind these valuation signals appear even more vulnerable than usual to shifting economic conditions. We believe the economic and policy background we are facing now is very different from the last decade and risks today are much more established.

As the likelihood of an economic downturn has increased, particularly in Europe, we remain cautious and continue to hold an elevated level of cash, providing scope to respond to future volatility as it arises.

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Disclaimer

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

Quarterly Commentary

M&G Investments

M&G Global Equity Feeder Fund

Global Equity ZAR-denominated

Q3 2022

Market overview

Global financial markets were painted in a sea of red in the third quarter (Q3) of 2022, falling more sharply in September as any remaining optimism over economic growth for the year and into 2023 was largely crushed by global central banks, led by the US Federal Reserve. Their stiff fight against persistent global inflation resulted in surprisingly aggressive interest rate hikes, with markets having to revise their forecasts for interest rates much steeper on several occasions during the period. While acknowledging the "painful" consequences felt by consumers and businesses, central bankers have been more concerned about higher inflation levels becoming embedded into the broader economy through the second-round effects of inflation expectations and wage demands.

Conditions were exacerbated by the ongoing Russia-Ukraine war, the energy crisis in Europe, and China's continuing economic slowdown resulting from tight Covid-related restrictions and a weak property market. For the quarter ended 30 September 2022, the MSCI All Country World Index returned -6.8%, the MSCI Emerging Markets Index produced -11.6%, and the Bloomberg Global Aggregate Bond Index delivered -6.9% (all in US$). As an interest-rate-sensitive asset class, global property stocks were hurt almost as badly as emerging markets, with the FTSE EPRA/NAREIT Global REIT Index returning -11.1% (US$ net).

In the US, the US Fed hiked its Federal Funds rate by a combined 150bps in Q3, a very aggressive policy tightening move by historic standards, even as annual inflation eased to 8.3% in August from 8.5% in July. Meanwhile, US economic growth shrank by 0.6% y/y in Q2 2022 on the heels of a 1.6% contraction in Q1. The Fed's latest survey showed the median of US GDP growth forecasts was revised lower to just 0.2% for 2022 (vs 1.7% previously) and 1.2% in 2023 (vs 1.7%). And Fed Funds Futures contracts now imply US interest rates reaching approximately 4.5% in mid-2023, well above the 2.9% forecast in May.

For the third quarter in a row, US Treasury bonds sold off sharply as a consequence of the deteriorating inflation and interest rate outlooks, resulting in an unusually volatile market. Meanwhile, US equity returns were also negative: in US$, the Nasdaq delivered -3.9%, the Dow Jones produced -6.2% and the S&P 500 returned -4.9%, the latter now having recorded a -23.9% return for the year to date.

In the UK, new PM Liz Truss sparked protests from both financial markets and the public after unveiling a budget plan heavily reliant on unfunded deficit spending and tax cuts (especially for the well-off) to boost growth. Both government bonds and the pound promptly experienced a sharp sell-off. For Q3 2022, UK equities were also in the red: the FTSE 100 returned -10.6% in US$.

Meanwhile, the European Central Bank (ECB) raised interest rates by an unprecedented 75bps in September as annual inflation in the Euro Area jumped to 10% (from 9.1% in August). The Euro Area's Q2 2022 GDP growth came in at 4.1% (q/q annualised), slowing from 5.4% in Q1. The ECB's September forecasts showed GDP growth at 3.1% for 2022 and then slowing to only 0.9% in 2023 (cut from 2.1% previously). In France, the CAC 40 returned -8.6%, while Germany's DAX delivered -11.2% for the quarter in US$.

In Japan, the Bank of Japan (BOJ) maintained its ultra-easy monetary policy during the quarter, leaving its policy rate unchanged at -0.1%. Japan's economy expanded 0.9% q/q in Q2, the third straight quarter of positive growth, helped by the lifting of all Covid-19 curbs. Following other global equity markets lower, the Nikkei returned -6.9% in US$ for the quarter.

In China, the focus was squarely on supporting economic growth for the quarter. GDP growth for Q2 2022 disappointed at only 0.4% y/y compared to the 1.0% expected. Activity was weighed down heavily by the government's harsh crackdowns against Covid-19 and ongoing property market weakness. The central bank eased monetary policy moderately earlier in the quarter, and government contributed fiscal support, while the yuan fell to a 13-year low against the surging US$ in September. The World Bank forecast China's GDP growth at only 2.8% in 2022, far below the government's 5.5% growth target for the year, largely as a result of its much slower recovery from the pandemic. For the quarter, Hong Kong's Hang Seng produced -20.2%, while the MSCI China returned -22.4%, both in US$.

Finally, the rand depreciated significantly against the rampant US$, which reached multi-decade highs versus other global currencies like the pound sterling and euro. The rand lost 9.7% versus the greenback, 2.8% against the euro and 0.9% against the pound sterling over the quarter. This would have helped boost local investors' offshore foreign currency returns.

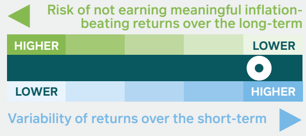
Performance

For the third quarter of 2022, the fund returned 5.8% (net of fees), outperforming its benchmark by 3.5%. Over the 12 months ending 30 September 2022, the fund generated a return of -6.6%, while its benchmark returned -5.2% over the same period.

A key attribute of portfolio construction within the fund is that active country, currency and industry exposures are constrained to ensure that style and idiosyncratic stock risk are the main drivers of active returns. The portfolio's style exposure had a negligible impact over the quarter as the positive contribution from the portfolio's exposure to smaller size companies was offset by exposure to high residual volatility and earnings variability, which underperformed. Stock selection was the main driver of outperformance over the quarter.

Annualised performance	A class	Benchmark	B class
1 year	-6.6%	-5.2%	-6.3%
3 years	10.1%	9.8%	10.5%
5 years	9.1%	10.6%	-
7 years	10.3%	11.5%	-
10 years	14.5%	15.9%	-
Since inception	7.6%	8.9%	-

Risk profile



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

R442 558 928

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

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 momentum, high volatility and smaller cap companies, with modest positive exposures to both value and growth.

The volatility in financial markets remains consistent with that of market participants, being sharply focused on the direction of interest rates: markets are changing direction at every inflation data release or FED governor's statement.

The effect of recent asset price weakness has been to restore valuations to more interesting levels in certain areas, in our view. However, the assumptions behind these valuation signals appear even more vulnerable than usual to shifting economic conditions. We believe the economic and policy background we are facing now is very different from the last decade and risks today are much more established.

In these extremely volatile, narrative-driven times we remain alert to opportunities that are created by 'episodic', or sentiment-driven, changes in asset prices. □

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M&G Investments

M&G 2.5% Target Income Fund

Target Income

Q3 2022

Market overview

Global financial markets were painted in a sea of red in the third quarter (Q3) of 2022, falling more sharply in September as any remaining optimism over economic growth for the year and into 2023 was largely crushed by global central banks, led by the US Federal Reserve. Their stiff fight against persistent global inflation resulted in surprisingly aggressive interest rate hikes, with markets having to revise their forecasts for interest rates much steeper on several occasions during the period. While acknowledging the "painful" consequences felt by consumers and businesses, central bankers have been more concerned about higher inflation levels becoming embedded into the broader economy through the second-round effects of inflation expectations and wage demands.

Conditions were exacerbated by the ongoing Russia-Ukraine war, the energy crisis in Europe, and China's continuing economic slowdown resulting from tight Covid-related restrictions and a weak property market. For the quarter ended 30 September 2022, the MSCI All Country World Index returned -6.8%, the MSCI Emerging Markets Index produced -11.6%, and the Bloomberg Global Aggregate Bond Index delivered -6.9% (all in US$). As an interest-rate-sensitive asset class, global property stocks were hurt almost as badly as emerging markets, with the FTSE EPRA/NAREIT Global REIT Index returning -11.1% (US$ net).

South African markets were not spared in the sell-off; growth prospects deteriorated amid rising prices, higher borrowing costs and the high frequency of electricity outages, all of which weighed on economic activity. All sectors of the equity market delivered negative returns for the quarter: the FTSE/JSE All Share Index (ALSI) returned -1.9% and the Capped SWIX -2.4%. Locally oriented sectors were weakest, with -4.2% from Financials and -4.1% from Listed Property (All Property Index), while globally oriented sectors delivered marginally better returns with -1.3% from Industrials and -2.1% from Resources. For the 12 months to 30 September, the ALSI has returned 3.5%, outperforming the -5.2% recorded by global equities (the MSCI All Country World Index), in rand terms.

SA bonds continued to put in a marginally positive performance: The FTSE/JSE All Bond Index (ALBI) delivered 0.6% for the quarter, cushioned largely by its high yields on both an absolute and relative level. For the 12 months to 30 September, local bonds (ALBI) outperformed global bonds with a return of 1.5% versus -5.0%, in rand terms. Inflation-linked bonds (ILBs) produced -1.0% and cash returned 1.3% for Q3. Finally, the rand depreciated significantly against the rampant US$, which reached multi-decade highs versus other global currencies like sterling and the euro. The rand lost 9.7% versus the greenback, 2.8% against the euro and 0.9% against the pound sterling over the quarter.

In the US, the US Fed hiked its Fed Funds rate by a combined 150bps in Q3, a very aggressive policy tightening move by historic standards, even as annual inflation eased to 8.3% in August from 8.5% in July. Meanwhile, US economic growth shrank by 0.6% y/y in Q2 2022 on the heels of a 1.6% contraction in Q1. The Fed's latest survey showed the median of US GDP growth forecasts was revised lower to just 0.2% for 2022 (vs 1.7% previously) and 1.2% in 2023 (vs 1.7%). And Fed Funds Futures contracts now imply US interest rates reaching approximately 4.5% in mid-2023, well above the 2.9% forecast in May.

For the third quarter in a row, US Treasury bonds sold off sharply as a consequence of the deteriorating inflation and interest rate outlooks, resulting in an unusually volatile market: the Bloomberg Aggregate US Treasuries Index returned -7.6% in US$, for a total return of -21.3% for 2022 so far. Meanwhile, US equity returns were also negative: in US$, the Nasdaq delivered – 3.9%, the Dow Jones produced -6.2% and the S&P 500 returned -4.9%, the latter now having recorded a -23.9% return for the year to date.

In the UK, new PM Liz Truss sparked protests from both financial markets and the public after unveiling a budget plan heavily reliant on unfunded deficit spending and tax cuts (especially for the well-off) to boost growth. Both government bonds and the pound promptly experienced a sharp sell-off. For Q3 2022, UK equities were also in the red: the FTSE 100 returned -10.6% in US$.

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In China, the focus was squarely on supporting economic growth for the quarter. GDP growth for Q2 2022 disappointed at only 0.4% y/y compared to the 1.0% expected. Activity was weighed down heavily by the government's harsh crackdowns against Covid-19 and ongoing property market weakness. The central bank eased monetary policy moderately earlier in the quarter, and the government contributed fiscal support, while the yuan fell to a 13-year low against the surging US$ in September. The World Bank forecast China's GDP growth at only 2.8% in 2022, far below the government's 5.5% growth target for the year, largely as a result of its much slower recovery from the pandemic. For the quarter, Hong Kong's Hang Seng produced -20.2%, while the MSCI China returned -22.4%, both in US$.

The oil price fell during the quarter on the back of expected lower demand as growth slows: Brent crude oil lost 23.4% in US$, ending the month at around US$90 per barrel. Looking at other commodity prices, palladium was the only gainer (+10.2%) largely due to supply constraints, whereas gold fell 8.5% and platinum lost 5.7%. Industrial metals prices lost between 1%-9% in Q3.

South Africa

It proved to be another difficult quarter for South Africa. The South African Reserve Bank (SARB) followed the US with a total of 150bps of interest rate hikes during Q3, both to curb local price pressures and to ensure the interest rate differential between SA and the US did not become too wide, thereby protecting against rand weakness. More hikes are expected in the coming months, in line with the rest of the world. The Q3 rate increases

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
R93 663 691

Annualised performance	A class	CPI	B class
1 year	2.9%	7.6%	3.3%
2 years	14.4%	6.3%	14.8%
3 years	7.0%	5.2%	7.4%
Since inception	4.7%	5.1%	-

Sources: M&G, Morningstar & Deutsche Securities

came amid a contracting economy: Q2 GDP growth came in at -0.7% (q/q annualised), as the lasting impact of the devastating floods in KwaZulu-Natal and intense power outages during the period negatively impacted economic growth on top of the global slowdown. As a consequence, the SARB pencilled in growth for Q3 and Q4 at 0.4% and 0.3%, respectively, and trimmed its GDP growth forecast for 2022 to 1.9% from 2.0% previously. Looking further ahead, the central bank sees the economy expanding by only 1.4% in 2023 and 1.7% in 2024.

In more positive news, SA's annual inflation eased to 7.6% in August from an over 13-year high of 7.8% in July, marginally above market expectations of a 7.5% rise. The Purchasing Managers' Index expanded to 52.1 points in August from 47.6 in July, following a steep fall in fuel prices at the start of August, which helped moderate cost pressures. And finally, retail trade climbed by 8.6% y/y in July following a 2.3% fall in the previous month, marking the steepest rise in retail activity since June 2021.

Performance

The M&G 2.5% Target Income Fund returned -0.3% (after fees) for the third quarter of 2022 and 2.9% for the 12-month period ending 30 September 2022.

The fund's offshore asset holdings added the most value to performance, as negative foreign currency-based returns were more than offset by rand weakness: international equities added the most value, followed by international fixed income assets and cash. South African cash assets also added some value on an absolute basis. Meanwhile, SA equities proved to be the largest detractor from performance, with listed property exposure also detracting to a much lesser extent.

In terms of specific equity exposure, among the strongest contributors to absolute returns for the quarter were the fund's holdings in Absa and Glencore, with smaller positive value added from Exxaro, Textainer, MultiChoice and Woolworths. Among the largest detractors for the period were Sasol (on the back of the drop in the global oil price), Naspers/Prosus, MTN and Investec. Collectively, it was the Basic Materials sector that detracted the most from absolute returns, largely due to the decline in commodity prices over the period.

Strategy and positioning

Starting with our view on **offshore asset allocation**, our portfolio positioning favoured local assets over global assets, as in the previous quarter. In addition to their more attractive valuations, the weaker rand/US$ exchange rate also supports this view.

Within our **global holdings**, we continued to prefer global cash over global bonds and global equities. As valuations cheapened later in the quarter we trimmed our global cash position slightly in order to buy more global equities and developed market bonds. The MSCI ACWI's valuation fell from a 12-month forward P/E of 13.9X to 13.2X during the quarter, while 10-year US Treasury yields rose from 3.0% to 3.8%, and 10-year Euro government bond yields also rose 0.8 percentage points.

As a result, we increased our allocations in both our **global equity** and **global bond** positioning out of global cash. We bought a combination of government and corporate bonds due to the improving valuations as yields rose to more attractive levels. We still have a preference for bond markets where the real yields are high and the currency is trading at fair-to-cheap levels.

However, our cash holdings are still partly cushioning our funds against the current market downturn, and leave some liquidity to take advantage of market opportunities that could arise. We are still mindful of the risks that exist globally in terms of slower economic growth, rising interest rates and persistent high inflation, which continue to represent downside risk for corporate earnings and bond prices.

The fund still favoured **SA equities** at the end of Q3. During the quarter, our overall weight in this asset class changed little. 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 8.5X at the beginning of the quarter to around 7.8X at quarter-end. Although risks to earnings have risen, the weaker rand/stronger US$ have given a lift to JSE-listed companies with rand-based costs and US$-based earnings.

We maintained our positioning in **SA listed property** in Q3 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 third quarter thanks to their outperformance of SA equities, although they did underperform SA cash. The 10-year SA government bond yield rose modestly from 11.0% to 11.4% at quarter-end, with the SA yield curve flattening slightly in the longer end (between 10- and 20-years) in what was a volatile market. We still believe SA nominal bond valuations 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 hold no **SA ILB's** in the fund.

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. In our view, other SA assets Fremain more attractive on an absolute and relative basis.

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M&G 5% Target Income Fund

Target Income

Q3 2022

Fund facts

Fund managers
David Knee
Michael Moyle
Sandile Malinga
Leonard Krüger

ASISA category
Worldwide - Multi Asset - Unclassified

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

Inception date
2 April 2019

Fund size
R190 162 257

Market overview

Global financial markets were painted in a sea of red in the third quarter (Q3) of 2022, falling more sharply in September as any remaining optimism over economic growth for the year and into 2023 was largely crushed by global central banks, led by the US Federal Reserve. Their stiff fight against persistent global inflation resulted in surprisingly aggressive interest rate hikes, with markets having to revise their forecasts for interest rates much steeper on several occasions during the period. While acknowledging the "painful" consequences felt by consumers and businesses, central bankers have been more concerned about higher inflation levels becoming embedded into the broader economy through the second-round effects of inflation expectations and wage demands.

Conditions were exacerbated by the ongoing Russia-Ukraine war, the energy crisis in Europe, and China's continuing economic slowdown resulting from tight Covid-related restrictions and a weak property market. For the quarter ended 30 September 2022, the MSCI All Country World Index returned -6.8%, the MSCI Emerging Markets Index produced -11.6%, and the Bloomberg Global Aggregate Bond Index delivered -6.9% (all in US$). As an interest-rate-sensitive asset class, global property stocks were hurt almost as badly as emerging markets, with the FTSE EPRA/NAREIT Global REIT Index returning -11.1% (US$ net).

South African markets were not spared in the sell-off; growth prospects deteriorated amid rising prices, higher borrowing costs and the high frequency of electricity outages, all of which weighed on economic activity. All sectors of the equity market delivered negative returns for the quarter: the FTSE/JSE All Share Index (ALSI) returned -1.9% and the Capped SWIX -2.4%. Locally oriented sectors were weakest, with -4.2% from Financials and -4.1% from Listed Property (All Property Index), while globally oriented sectors delivered marginally better returns with -1.3% from Industrials and -2.1% from Resources. For the 12 months to 30 September, the ALSI has returned 3.5%, outperforming the -5.2% recorded by global equities (the MSCI All Country World Index), in rand terms.

SA bonds continued to put in a marginally positive performance: The FTSE/JSE All Bond Index (ALBI) delivered 0.6% for the quarter, cushioned largely by its high yields on both an absolute and relative level. For the 12 months to 30 September, local bonds (ALBI) outperformed global bonds with a return of 1.5% versus -5.0%, in rand terms. Inflation-linked bonds (ILBs) produced -1.0% and cash returned 1.4% for Q3. Finally, the rand depreciated significantly against the rampant US$, which reached multi-decade highs versus other global currencies like sterling and the euro. The rand lost 9.7% versus the greenback, 2.8% against the euro and 0.9% against the pound sterling over the quarter.

In the US, the US Fed hiked its Fed Funds rate by a combined 150bps in Q3, a very aggressive policy tightening move by historic standards, even as annual inflation eased to 8.3% in August from 8.5% in July. Meanwhile, US economic growth shrank by 0.6% y/y in Q2 2022 on the heels of a 1.6% contraction in Q1. The Fed's latest survey showed the median of US GDP growth forecasts was revised lower to just 0.2% for 2022 (vs 1.7% previously) and 1.2% in 2023 (vs 1.7%). And Fed Funds Futures contracts now imply US interest rates reaching approximately 4.5% in mid-2023, well above the 2.9% forecast in May.

For the third quarter in a row, US Treasury bonds sold off sharply as a consequence of the deteriorating inflation and interest rate outlooks, resulting in an unusually volatile market: the Bloomberg Aggregate US Treasuries Index returned -7.6% in US$, for a total return of -21.3% for 2022 so far. Meanwhile, US equity returns were also negative: in US$, the Nasdaq delivered – 3.9%, the Dow Jones produced -6.2% and the S&P 500 returned -4.9%, the latter now having recorded a -23.9% return for the year to date.

In the UK, new PM Liz Truss sparked protests from both financial markets and the public after unveiling a budget plan heavily reliant on unfunded deficit spending and tax cuts (especially for the well-off) to boost growth. Both government bonds and the pound promptly experienced a sharp sell-off. For Q3 2022, UK equities were also in the red: the FTSE 100 returned -10.6% in US$.

Meanwhile, the European Central Bank (ECB) raised interest rates by an unprecedented 75bps in September as annual inflation in the Euro Area jumped to 10% (from 9.1% in August). The Euro Area's Q2 2022 GDP growth came in at 4.1% (q/q annualised), slowing from 5.4% in Q1. The ECB's September forecasts showed GDP growth at 3.1% for 2022 and then slowing to only 0.9% in 2023 (cut from 2.1% previously). In France, the CAC 40 returned -8.6%, while Germany's DAX delivered -11.2% for the quarter in US$.

In Japan, the Bank of Japan (BOJ) maintained its ultra-easy monetary policy during the quarter, leaving its policy rate unchanged at -0.1%. Japan's economy expanded 0.9% q/q in Q2, the third straight quarter of positive growth, helped by the lifting of all Covid-19 curbs. Following other global equity markets lower, the Nikkei returned -6.9% in US$ for the quarter.

In China, the focus was squarely on supporting economic growth for the quarter. GDP growth for Q2 2022 disappointed at only 0.4% y/y compared to the 1.0% expected. Activity was weighed down heavily by the government's harsh crackdowns against Covid-19 and ongoing property market weakness. The central bank eased monetary policy moderately earlier in the quarter, and the government contributed fiscal support, while the yuan fell to a 13-year low against the surging US$ in September. The World Bank forecast China's GDP growth at only 2.8% in 2022, far below the government's 5.5% growth target for the year, largely as a result of its much slower recovery from the pandemic. For the quarter, Hong Kong's Hang Seng produced -20.2%, while the MSCI China returned -22.4%, both in US$.

The oil price fell during the quarter on the back of expected lower demand as growth slows: Brent crude oil lost 23.4% in US$, ending the month at around US$90 per barrel. Looking at other commodity prices, palladium was the only gainer (+10.2%) largely due to supply constraints, whereas gold fell 8.5% and platinum lost 5.7%. Industrial metals prices lost between 1%-9% in Q3.

South Africa

It proved to be another difficult quarter for South Africa. The South African Reserve Bank (SARB) followed the US with a total of 150bps of interest rate hikes during Q3, both to curb local price pressures and to ensure the interest rate differential between SA and the US did not become too wide, thereby protecting against rand weakness. More hikes are expected in the coming months, in line with the rest of the world. The Q3 rate increases came amid a contracting economy: Q2 GDP growth came in at

Annualised performance	A class	CPI	B class
1 year	-0.5%	7.6%	-0.1%
2 years	7.8%	6.3%	8.1%
3 years	4.0%	5.2%	4.4%
Since inception	3.7%	5.1%	-

Sources: M&G, Morningstar & Deutsche Securities

-0.7% (q/q annualised), as the lasting impact of the devastating floods in KwaZulu-Natal and intense power outages during the period negatively impacted economic growth on top of the global slowdown. As a consequence, the SARB pencilled in growth for Q3 and Q4 at 0.4% and 0.3%, respectively, and trimmed its GDP growth forecast for 2022 to 1.9% from 2.0% previously. Looking further ahead, the central bank sees the economy expanding by only 1.4% in 2023 and 1.7% in 2024.

In more positive news, SA's annual inflation eased to 7.6% in August from an over 13-year high of 7.8% in July, marginally above market expectations of a 7.5% rise. The Purchasing Managers' Index expanded to 52.1 points in August from 47.6 in July, following a steep fall in fuel prices at the start of August, which helped moderate cost pressures. And finally, retail trade climbed by 8.6% y/y in July following a 2.3% fall in the previous month, marking the steepest rise in retail activity since June 2021.

Performance

The M&G 5% Target Income Fund returned -0.9% (after fees) for the third quarter of 2022 and -0.5% for the 12-month period ending 30 September 2022.

The fund's offshore asset holdings added the most value to performance, as negative foreign currency-based returns were more than offset by rand weakness: international equities added the most value, followed by international fixed income assets. South African nominal bonds, ILBs and cash assets also added value on an absolute basis. Meanwhile, SA equity and listed property exposure proved to be the largest detractors from performance.

In terms of specific equity exposure, among the strongest contributors to absolute returns for the quarter were the fund's holdings in Absa and Glencore, with smaller positive value added from Exxaro, Textainer, MultiChoice and Woolworths. Among the largest detractors for the period were Sasol (on the back of the drop in the global oil price), Naspers/Prosus, MTN and Investec. Collectively, it was the Basic Materials sector that detracted the most from absolute returns, largely due to the decline in commodity prices over the period.

Strategy and positioning

Starting with our view on **offshore asset allocation**, we maintained our portfolio positioning favouring local assets over global assets. In addition to their more attractive valuations, the weaker rand/US$ exchange rate also supports this view.

Within our **global holdings**, we continued to prefer global cash over global bonds and global equities. As valuations cheapened later in the quarter we trimmed our global cash position slightly in order to buy more global equities and developed market bonds. The MSCI ACWI's valuation fell from a 12-month forward P/E of 13.9X to 13.2X during the quarter, while 10-year US Treasury yields rose from 3.0% to 3.8%, and 10-year Euro government bond yields also rose 0.8 percentage points.

As a result, we increased our allocations in both our **global equity** and **global bond** positioning out of global cash. We bought a combination of government and corporate bonds due to the improving valuations as yields rose to more attractive levels. We still have a preference for bond markets where the real yields are high and the currency is trading at fair-to-cheap levels.

However, our cash holdings are still partly cushioning our funds against the current market downturn, and leave some liquidity to take advantage of market opportunities that could arise. We are still mindful of the risks that exist globally in terms of slower economic growth, rising interest rates and persistent high inflation, which continue to represent downside risk for corporate earnings and bond prices.

We still favoured **SA equities** at the end of Q3 over SA listed property. 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 8.5X at the beginning of the quarter to around 7.8X at quarter-end, and we saw more opportunities here than in the listed property sector.

Within SA equities, there were few shares contributing positively to absolute returns during the quarter, given the broad nature of the Q3 sell-off. Leading contributors included Absa and Glencore, with smaller positive value added from Exxaro, Textainer, MultiChoice and Woolworths. Among the largest detractors for the period were Sasol (on the back of the drop in the global oil price), Naspers/Prosus, MTN and Investec. Collectively, it was the Basic Materials sector that detracted the most from absolute returns, largely due to the decline in commodity prices over the period.

We maintained our positioning in **SA listed property**, as we continue to see more opportunities and diversification benefits in other equity sectors. Conditions in the local property sector are currently relatively more risky than other sectors, in our view, 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 third quarter thanks to their outperformance of SA equities, although they did underperform SA cash. The 10-year SA government bond yield rose modestly from 11.0% to 11.4% at quarter-end, with the SA yield curve flattening slightly in the longer end (between 10- and 20-years) in what was a volatile market. We still believe SA nominal bond valuations remain attractive relative to both other income assets and their own longer-term history, and will more than compensate investors for their associated risks.

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. In our view, other SA assets remain more attractive on an absolute and relative basis. □

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

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

M&G 7% Target Income Fund

Target Income

Q3 2022

Market overview

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Annualised performance	A class	CPI	B class
1 year	1.2%	7.6%	1.6%
2 years	8.4%	6.3%	8.7%
3 years	4.1%	5.2%	4.5%
Since inception	3.9%	5.1%	-

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
R365 954 521

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

South Africa

It proved to be another difficult quarter for South Africa. The South African Reserve Bank (SARB) followed the US with a total of 150bps of interest rate hikes during Q3, both to curb local price pressures and to ensure the interest rate differential between SA and the US did not become too wide, thereby protecting against rand weakness. More hikes are expected in the coming months, in line with the rest of the world. The Q3 rate increases came amid a contracting economy: Q2 GDP growth came in at -0.7% (q/q annualised), as the lasting impact of the devastating floods in KwaZulu-Natal and intense power outages during the period negatively impacted economic growth on top of the global slowdown. As a consequence, the SARB pencilled in growth for Q3 and Q4 at 0.4% and 0.3%, respectively, and trimmed its GDP growth forecast for 2022 to 1.9% from 2.0% previously. Looking further ahead, the central bank sees the economy expanding by only 1.4% in 2023 and 1.7% in 2024.

In more positive news, SA's annual inflation eased to 7.6% in August from an over 13-year high of 7.8% in July, marginally above market expectations of a 7.5% rise. The Purchasing Managers' Index expanded to 52.1 points in August from 47.6 in July, following a steep fall in fuel prices at the start of August, which helped moderate cost pressures. And finally, retail trade climbed by 8.6% y/y in July following a 2.3% fall in the previous month, marking the steepest rise in retail activity since June 2021.

Performance

The M&G 7% Target Income Fund returned -0.4% (after fees) for the quarter and 1.2% for the 12-month period ending 30 September 2022.

The fund's exposure to SA nominal bonds added the most value to its performance for the quarter, with SA ILBs and cash also contributing to a lesser extent. The fund's small international equity, bond and cash holdings also each added value on the back of rand weakness during the period. Meanwhile, SA equity and listed property exposure proved to be the largest detractors from performance.

In terms of specific equity exposure, among the strongest contributors to absolute returns for the quarter were the fund's holdings in Absa and Glencore, with smaller positive value added from Exxaro, Textainer, MultiChoice and Woolworths. Among the largest detractors for the period were Sasol (on the back of the drop in the global oil price), Naspers/Prosus, MTN and Investec. Collectively, it was the Basic Materials sector that detracted the most from absolute returns, largely due to the decline in commodity prices over the period.

Strategy and positioning

To improve diversification, the fund includes a small exposure to global assets across equities, bonds and cash. These all contributed positively to performance in Q3, helped by the depreciation of the rand against global currencies – especially the US dollar. During the quarter we preferred global cash versus global bonds and global equities.

We still favoured **SA equities** in the Fund at the end of Q3. SA equity valuations (as measured by the 12-month forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) de-rated over the quarter, falling from around 8.5X at the beginning of the quarter to around 7.8X at quarter-end, and we saw more opportunities here than in the listed property sector.

We maintained our positioning in **SA listed property** in Q3 2022 as we prefer the diversification benefits and greater return potential in other local equity sectors. Conditions in the local property sector are currently relatively more risky than other sectors, in our view, 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 third quarter thanks to their outperformance of SA equities, although they did underperform SA cash. The 10-year SA government bond yield rose modestly from 11.0% to 11.4% at quarter-end, with the SA yield curve flattening slightly in the longer end (between 10- and 20-years) in what was a volatile market. We still believe SA nominal bond valuations 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 Q3 we retained our exposure to **SA inflation-linked bonds (ILBs)** for the Fund. 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 has hiked. In our view, other SA assets remain more attractive on an absolute and relative basis.

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