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M&G Unit Trust Quarterly Commentary

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

Q4 2022

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M&G Money Market Fund

Income

Q4 2022

Market overview

In the final quarter (Q4) of 2022, global financial markets recovered some of the ground lost during the past three quarters. Although the outlook remained gloomy, some light emerged: in October and November buyers were attracted by cheaper asset valuations and somewhat improved clarity on company earnings prospects, as well as falling fuel and food prices. By mid-December, a slowdown in the pace of the interest rate hiking cycle added to the better sentiment. However, caution returned in December: still causing uncertainty were unknowns such as the severity of the expected 2023 global growth slowdown, the impact of the massive new Covid wave in China, the ongoing tragedies of the Ukraine-Russia war, and the stickiness of inflation in large economies. As such, markets retraced some of their earlier gains in December.

The risk-on sentiment over the quarter saw equities outperform bonds, while emerging market returns were in line with those of developed markets. For the quarter ended 31 December 2022, the MSCI All Country World Index returned 9.8%, the MSCI World Index (developed markets) also delivered 9.8%, and the MSCI Emerging Markets Index produced 9.7% (all in US$). Bonds also posted meaningful gains: the Bloomberg Global Aggregate Bond Index delivered 4.5% (in US$). Beaten-down property stocks were among the strongest performers, with the FTSE EPRA/NAREIT Global REIT Index returning 6.6% (US$).

In the US, the US Fed hiked its Federal Funds rate by a combined 125bps in Q4 to 4.25%-4.5%, still considered an aggressive policy tightening by historic standards, even though its 50bp December hike represented a slower pace. The central bank also lifted its rate forecast for end 2023 by 0.5%, to 5%-5.25%, a more hawkish signal. This came despite falling CPI (at 7.1% y/y in November), as price increases became more widespread.

Meanwhile, after rising 3.2% y/y in Q3 on the back of surprisingly strong consumer spending, US economic growth for all of 2022 is forecast at around 1.9%, before slowing to below 1% for 2023. Data showed the US housing market is already slowing meaningfully and is expected to be a significant factor in the slowdown. However, consensus projections are for a relatively mild and brief recession lasting for the first three quarters of next year.

In South Africa, the SARB also matched the Fed's 75bp rate hike in November and is expected to follow its 50bp increase in January. Despite continued loadshedding and a spike in political risk in early December on reports that President Cyril Ramaphosa might resign, local equities and bonds benefitted from the more optimistic investor sentiment, outperforming the major global indices.

In Q4 the FTSE/JSE All Bond Index (ALBI) delivered 5.7%, outperforming global bonds yet again (-1.5% in rand terms). For the 12 months to 31 December, local bonds (ALBI) outpaced global bonds with a return of 4.3% versus -11.2%, in rands. Inflation-linked bonds (ILBs, Composite ILB Index) produced 2.0% and cash returned 1.6% for Q4. Finally, the rand posted a mixed performance, gaining 5.8% against a weaker US$ but losing 1.9% against sterling and 2.8% versus the euro over the quarter.

Also in more positive news, November CPI fell to 7.4% y/y from 7.6% in October, primarily attributable to lower energy prices: the SARB forecast it to reach the 4.5% mid-point of its target range by Q2 2024. Equally positive was that Q3 real GDP growth surprised to the upside at 1.6% (q/q annualised), led largely by higher agricultural production. By the end of the period, the size of the SA economy had finally exceeded pre-pandemic levels. However, in its Medium-Term Budget, the National Treasury lowered its growth expectations for 2022 to 1.9% (versus 2.1% previously), and for 2023 to 1.4% from 1.6%. The SARB's latest projection was for 1.8% GDP growth in 2022.

Performance

Over the quarter the fund delivered a return of 1.5% (net of fees), in line with that of its benchmark, the STeFi Call Deposit Index. For the 12 months ended 31 December 2022, the fund returned 5.3% (net of fees), outperforming its benchmark by 0.4%.

The money market curve remains steep compared to history and the fund's high duration has helped us to take advantage of this. The floating-rate instruments held in the fund also had their return boosted by the 80bp increase in JIBAR over the quarter.

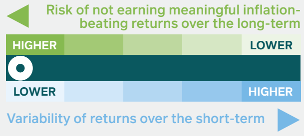
Positioning

Despite another 75bp hike in the repo rate by the Reserve Bank this quarter, the market appears to have revised lower its estimate for where interest rates will peak. At the beginning of the quarter, FRAs were suggesting a peak of around 8.6%, and this had fallen to approximately 7.9% at quarter-end. This change in the interest rate outlook was, in our opinion, at least partially driven by lower inflation prints in the US, as local inflation has yet to come down significantly from July's 7.8% peak. This lower market-implied peak rate seems more reasonable to us than where it started the quarter, and it has also moved closer to the 7.5% average of economists' forecasts. Where we had previously favoured fixed- over floating-rate exposure, this more reasonable (in our view) interest rate outlook has led us to be more indifferent between the two instrument types across most mandates.

In last quarter's commentary we mentioned that we had started building a position in R2023s in this fund. Over the course of the quarter we added to that position, and by quarter-end it had grown to the largest position the fund holds in a single instrument. We acquired this at favourable levels relative to where NCDs and treasury bills were trading at the time, and expect the fund's performance and yield to benefit from this holding. We also added short-dated treasury bills to the fund over the quarter, as these remain attractive relative to where banks are offering NCDs. The overall duration of the fund, at 86 days at quarter-end, remained roughly unchanged over the course of the quarter.

Annualised performance	A class	Benchmark	X class
1 year	5.3%	4.9%	5.2%
3 years	4.7%	4.3%	4.7%
5 years	5.8%	5.2%	5.8%
7 years	6.2%	5.7%	6.3%
10 years	6.1%	5.6%	6.1%
20 years	7.1%	6.9%	-

Risk profile



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 464 595 291

Sources: M&G, Morningstar & Deutsche Securities

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Disclaimer

M&G High Interest Fund

Income

This fund is capped to new investors.

Q4 2022

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Credit trends

Total corporate bond (credit) issuance volume (excluding government issuances) in Q4 was strong at approximately R49bn, the level being buoyed by a R7.5bn tap issue by Eskom of its EL037 inflation-linked bond in late December. The quarter's issuance volume was therefore 37% up compared to the previous quarter's R36bn in issuance, and 86% up compared to the prior year (Q4 2021)'s R26bn. Even excluding the EL037 issuance, Q4 still represented the largest quarterly issuance since Q4 2019. Full year 2022 issuance came in at R141bn (2021: 110.5bn).

The composition of issuance for the quarter followed the established trend, with the majority of issuance being floating-rate notes. Financials were the largest sector for issuance with around 48% of total issuance. Auctions made up the majority of issuance over the quarter.

Besides the Eskom EL037 tap issue, the next largest issuer during the quarter was FirstRand Bank, which raised about R2.8bn in a subordinated (Additional Tier 1) auction at the end of November, priced at 3-month JIBAR + 3.4%. The auction was well supported, with just over R7bn in bids being received across 28 bidders. The clearing level was 0.2% below the low-end of pricing guidance, another indication of a strong auction. The quarter also saw Additional Tier 1 auctions from ABSA and Standard Bank (volumes and clearing levels of R2bn, +3.58% and R2.5bn, +3.50% respectively). Nedbank joined the party last with a R500m Additional Tier 1 private placement in early December pricing at +3.4%.

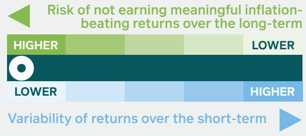
Q4 saw the entry of a new issuer into the local debt capital market in the form of listed mining group Pan African Resources, which issued Second Ranking Secured, Sustainability-Linked Bonds. The auction successfully placed the targeted volume of R700m, however, support for the auction was somewhat weak with only 7 participants providing bids totalling R1.06bn.

Data from RMB Markets show that credit spreads versus government bonds moved marginally wider over the final quarter of the year – fixed-rate spreads closing the quarter +6 basis points (bps) up on Q3, while floating-rate spreads moved higher by +3bps. The fixed-rate move was led by the Financials Senior sector, which recorded a +14bps increase, while the floating-rate move was led by SOEs (+7 bps).

Data from ABSA show that in 2022 pricing being achieved at corporate auctions was tighter than expected, though not to the same extent as in 2021 – average auction clearing spread levels have been 5.1bps below the midpoint of guidance compared to 11.0bps below in 2021.

Annualised performance	A class	Benchmark	X class	D class
1 year	5.6%	5.2%	5.7%	5.9%
3 years	4.7%	4.8%	4.8%	4.9%
5 years	5.9%	5.8%	6.0%	6.1%
7 years	6.6%	6.3%	6.7%	6.8%
10 years	6.3%	6.1%	6.4%	6.6%
Since inception	6.2%	6.1%	-	-

Risk profile



Fund facts

Fund managers
Roshen Harry
René Prinsloo

ASISA category
South African - Interest Bearing - Short Term

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

Inception date
8 December 2010

Fund size
R9 051 623 383

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

Performance

For the fourth quarter of 2022, the fund delivered a return of 1.7% while its benchmark, the STeFi Composite Index, delivered 1.6%. For the 12 months ended 31 December 2022, the fund returned 5.6% (net of fees), outperforming its benchmark by 0.4%.

The full-year return of the fund was aided by our position in the I2025 government ILB (currently 9% of the fund). According to our calculations, this was the best-performing instrument for the calendar year 2022 across both the government bond and ILB curves, with a total return of approximately 8.1% (compared to 4.3% for the ALBI and 4.3% for the CILI). The significant floating-rate exposure in the fund (currently 84% of the fund) continues to benefit from interest rate increases, and the returns from this instrument class were boosted by the 80bp rise in JIBAR over the quarter.

Strategy and Positioning

Despite another 75bp hike in the repo rate by the Reserve Bank in Q4, the market appears to have revised lower its estimate for where interest rates will peak in South Africa. At the beginning of the quarter, FRAs were suggesting a peak of around 8.6%, and this fell to around 7.9% at quarter-end. This change in the interest rate outlook was, in our opinion, at least partially driven by lower inflation prints in the US, as SA inflation has yet to come down significantly from July's 7.8% peak.

The market-implied peak rate seems more reasonable to us at 7.9% than where it started the quarter, and it has also moved closer to the 7.5% average of economists' forecasts. Where we had previously favoured fixed over floating exposure, this more reasonable (in our view) interest rate outlook by the market has led us to be more indifferent between the two instrument types across most mandates. This change in preference is reflected in the way in which the fund's duration moved over the quarter, having declined from 162 days at the start of the quarter to 124 days most recently.

This quarter we added to our overall credit exposure through successful participation in the floating-rate note auctions of Equites, Hyprop and Standard Bank.

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Disclaimer

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M&G Income Fund

Income

Q4 2022

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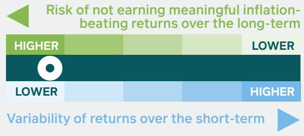
3 years	5.4%	4.8%	5.6%
5 years	6.8%	5.8%	6.9%
Since inception	7.0%	6.1%	-

Risk profile



Fund facts

Fund managers
Roshen Harry
René Prinsloo

ASISA category
South African - Interest Bearing - Short Term

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

Inception date
6 December 2016

Fund size
R597 008 979

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

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Performance

Over the quarter the fund delivered a return of 2.3% (net of fees) compared to the benchmark's 1.6%. For 2022 in total, the fund produced 6.5% (net of fees), representing a 1.3% outperformance of the benchmark.

The full-year return of the fund was aided by our position in the I2025 government ILB (currently 6% of fund). According to our calculations, this was the best performing instrument for the calendar year 2022 across both the government bond and ILB curves, with a total return of approximately 8.1% (compared to 4.3% for the ALBI and 4.3% for the CILI). The significant floating-rate exposure in the fund (currently 83% of the fund) continues to benefit from interest rate increases, and the returns from this instrument class were increased by the 80bp rise in JIBAR over the quarter.

Strategy and Positioning

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M&G Bond Fund

Income

Q4 2022

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Performance

The fund delivered 5.8% (net of fees) for the quarter ending December 2022, outperforming its benchmark (the FTSE/JSE All Bond Index) by 0.1%. For the 12 months ended 31 December 2022, the fund returned 5.3% (net of fees), outperforming its benchmark by 1.1%.

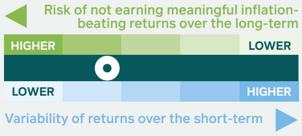
Despite a very volatile quarter, SA fixed-rate government bonds rallied across the curve, with the exception of the R2023 which experienced a small rise in yield as shorter-dated paper reflected the SARB's rate hikes. The 10-year SA government bond strengthened approximately 50bps in Q4, falling from 11.4% to 10.9% at quarter-end, still at a relatively high absolute level on a historic basis. The 5-to-10-year portion of the yield curve rallied the most. The fund was well positioned to benefit from these market moves, with a large overweight position in the 10-year area for most of the quarter.

For the calendar year 2022, the R2023 yield rose by 230bps as the SARB hiked more aggressively than the market had expected. The rest of the bond curve also weakened significantly, shifting higher in a roughly parallel fashion by approximately 100bps over the year. Even though this would be considered a disappointing year for bond investors in normal circumstances, when viewed in a global context, SA's All Bond Index return of 4.3% stands out as a relative outperformer. This is due to 2022 having been one of the worst years for global bond returns in decades.

Strategy and positioning

In the current environment where the swap curve sits well below the bond curve, fixed rate credit (corporate bond) spreads versus government bonds are very low relative to history: the fund must take significant credit risk in order to earn a higher yield in a credit instrument than a comparable government bond. In this environment we do not think that fixed-rate credit exposure

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
R767 680 618

Annualised performance

Annualised performance	A class	Benchmark	B class
1 year	5.3%	4.3%	5.6%
3 years	6.6%	7.1%	6.7%
5 years	7.2%	7.8%	7.4%
7 years	8.7%	9.2%	8.9%
10 years	6.5%	7.1%	6.7%
20 years	8.6%	8.9%	-

Sources: M&G, Morningstar & Deutsche Securities

offers sufficient compensation for the risk taken, and therefore have very little credit exposure in this fund.

There was little opportunity to add to the fund's credit exposure during the quarter due to continuing limited fixed rate corporate bond issuance. During the quarter Airports Company South Africa issued a 7.5-year bond (AIR05) at a spread of 1.5% over the R213 government bond. We did not participate in this placement given the low spread and ongoing pressure on the entity from a sluggish and uncertain recovery in air traffic post-Covid.

We continue to have capacity to add to our fixed-rate credit holdings within the fund. The continued weighting of issuance towards floating-rate instruments, as well as the impact of swap rates trading significantly below the government bond curve, makes it challenging to find suitable opportunities.

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Disclaimer

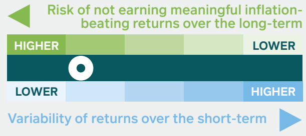
Quarterly Commentary

M&G Enhanced Income Fund

Multi-asset

Q4 2022

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
R740 041 231

Market overview

In the final quarter (Q4) of 2022, global financial markets recovered some of the ground lost during the past three quarters. Although the outlook remained gloomy, some light emerged: in October and November buyers were attracted by cheaper asset valuations and somewhat improved clarity on company earnings prospects, as well as falling fuel and food prices. By mid-December, a slowdown in the pace of the interest rate hiking cycle added to the better sentiment. However, caution returned in December: still causing uncertainty were unknowns such as the severity of the expected 2023 global growth slowdown, the impact of the massive new Covid wave in China, the ongoing tragedies of the Ukraine-Russia war, and the stickiness of inflation in large economies. As such, markets retraced some of their earlier gains in December.

The risk-on sentiment over the quarter saw equities outperform bonds, while emerging market returns were in line with those of developed markets. For the quarter ended 31 December 2022, the MSCI All Country World Index returned 9.8%, the MSCI World Index (developed markets) also delivered 9.8%, and the MSCI Emerging Markets Index produced 9.7% (all in US$). Bonds also posted meaningful gains: the Bloomberg Global Aggregate Bond Index delivered 4.5% (in US$). Beaten-down property stocks were among the strongest performers, with the FTSE EPRA/NAREIT Global REIT Index returning 6.6% (US$).

The oil price fell during the quarter on the back of expected lower demand and improved supply. Brent crude lost 2.3% in US$, ending the quarter at around US$83 per barrel. Over the past 12 months the oil price is now only 10.5% higher.

In the US, the US Fed hiked its Federal Funds rate by a combined 125bps in Q4 to 4.25%-4.5%, still considered an aggressive policy tightening by historic standards, even though its 50bp December hike represented a slower pace. The central bank also lifted its rate forecast for end 2023 by 0.5%, to 5%-5.25%, a more hawkish signal. This came despite falling CPI (at 7.1% y/y in November), as price increases became more widespread.

Meanwhile, after rising 3.2% y/y in Q3 on the back of surprisingly strong consumer spending, US economic growth for all of 2022 is forecast at around 1.9%, before slowing to below 1% for 2023. Data showed the US housing market is already slowing meaningfully and is expected to be a significant factor in the slowdown. However, consensus projections are for a relatively mild and brief recession lasting for the first three quarters of next year. US equity returns were in the black (apart from the Nasdaq) for the quarter: in US$, the Dow Jones produced 16.0%, the Nasdaq delivered – 0.8%, and the S&P 500 returned 7.6%. The S&P 500 recorded a -18.1% total return for 2022, the worst since the 2008 Global Financial Crisis.

In the UK, the Bank of England (BoE) finished off the year by raising its key interest rate by 50bps to 3.5% in December, in line with forecasts. Meanwhile, November CPI eased to 10.7% y/y vs October's 11.1%, largely due to falling energy prices. The Bank indicated more hikes are likely into 2023 in its bid to curb inflation at the expense of growth: the Office for Budget Responsibility (OBR) estimated that the U.K. economy was already in recession and that GDP will contract by 1.4% in 2023, while inflation is predicted to hit 9.1% in 2022 and 7.4% in 2023. For Q4 2022, the FTSE 100 returned 17.1% in US$, and -7.0% for 2022 as a whole.

The ECB followed the US Fed and BoE with its own 50bp hike in December, while also suggesting similar-size hikes at its next two meetings. Eurozone inflation fell to 10.1% y/y in November from a record 10.6%, as energy costs eased. However, the ECB still expects a short and shallow recession in 2023 as the energy crisis is seen weighing heavily in the shorter-term while the Ukraine-Russia war drags on. In France, the CAC 40 returned 22.6% in Q4, and -12.4% for 2022 (in US$). Meanwhile, Germany's DAX delivered 25.2% for the quarter and -17.4% for 2022 (in US$).

In Japan, the Bank of Japan (BOJ) surprised markets in mid-December with its first effective interest rate hike, raising its 10-year bond yield range by 0.25% to 0.50% after long periods of stability. The market had been pricing in no rate increases through 2023. Finally, the BOJ revised downward its real growth outlook for 2022 to 2.0% from 2.4% previously, and for 2023 to 1.9% from 2.0%, but no recession is expected. Following other global equity markets higher, the Nikkei returned 10.6% in US$ for the quarter but was down 19.1% for the year.

In China, it was a fairly chaotic end to the year as the government responded to widespread social protests against its strict zero-Covid policy by removing almost all restrictions. However, this came as a large new wave of Covid infections was spreading. Although economists welcomed the move to help free up the economy and kick-start growth, the uncertain impact of the virus weighed negatively on markets. Meanwhile, consensus forecasts for China's economy call for only 3.3% GDP growth in 2022, far below the government's 5.5% target and the slowest since the 1970s. For 2023, a new government target of 4.5%-5% is reported to be most likely, but many consider this optimistic. Hong Kong's Hang Seng produced 15.8% for the quarter and -12.6% in 2022 (in US$). The MSCI China returned 13.5% in Q4 and -21.8% in 2022, both in US$.

South Africa

Thanks to the renewed global risk-on sentiment, the final months of 2022 proved to be better ones for South African investors, despite the elevated market volatility. Our local equity and bond returns outperformed global market benchmarks in Q4. SA bonds and the rand even fully recovered their losses from the 1-2 December market sell-off prompted by reports that President Ramaphosa was considering resigning over the Phala Phala scandal. At the party's

Annualised performance	A class	Benchmark	T class	X class	D class
1 year	6.2%	5.2%	6.4%	6.2%	6.5%
3 years	5.6%	4.8%	5.8%	5.5%	5.9%
5 years	5.8%	5.8%	6.1%	5.9%	6.2%
7 years	6.7%	6.3%	7.1%	6.8%	7.2%
10 years	6.5%	6.1%	-	6.6%	7.0%
Since inception	7.5%	6.8%	-	-	-

Sources: M&G, Morningstar & Deutsche Securities

mid-December elective conference ANC members rallied behind him and he emerged even stronger than before, with more ANC Executive Committee members supporting his economic reform agenda. This helped lower political risk premia on SA assets.

Also in more positive news, November CPI fell to 7.4% y/y from 7.6% in October, primarily attributable to lower energy prices: the SARB forecast it to reach the 4.5% mid-point of its target range by Q2 2024. Equally positive was that Q3 real GDP growth surprised to the upside at 1.6% (q/q annualised), led largely by higher agricultural production. By the end of the period, the size of the SA economy had finally exceeded pre-pandemic levels.

However, in its Medium-Term Budget, the National Treasury lowered its growth expectations for 2022 to 1.9% (versus 2.1% previously), and for 2023 to 1.4% from 1.6%. The SARB's latest projection was for 1.8% GDP growth in 2022. This was due to still-elevated inflation, rising interest rates, subdued consumer demand and slower economic growth, the war in Ukraine and the impact of loadshedding: in its December Quarterly Bulletin, the SARB estimated that Q3 real GDP growth (quarterly) had likely been reduced by 2.3 percentage points due to the high intensity of power cuts. For the year to end-October, it said, loadshedding had occurred 33.4% of the time, or an average of 10.4 calendar days per month.

Performance

The fund delivered 3.9% (net of fees) for the fourth quarter of 2022, outperforming its benchmark by 2.3%. For the 12 months ending 31 December 2022, the fund returned 6.2% (net of fees), outperforming its benchmark by 1.0% over the same period. Since its inception in 2009, it has returned 7.5% per annum, or 0.7% per annum more than the benchmark's 6.8% per annum return.

For the quarter, investments in SA nominal bonds contributed the most to absolute fund returns, with floating-rate instruments also adding substantial value. SA listed property was also a meaningful contributor, while inflation-linked bonds was a relatively small contributor. 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.

How have our views and portfolio positioning changed in Q4 2022?

Starting with our view on offshore asset allocation, the fund is holding negligible offshore exposure given that we continue to favour local fixed income assets over global assets, and the former continued to outperform the latter. 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 maintained our modest positioning in SA listed property in Q4 2022. 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 still has a preference for short-dated SA nominal bonds, which we believe will deliver superior returns over the medium term relative to cash. We continue to believe SA 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.

The fund is also constructive on short-dated 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, the fund remains tilted away from SA cash as our least-preferred asset class, given the extremely low base rate off which the SARB started its hiking cycle. 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

M&G Inflation Plus Fund

Multi-asset

Q4 2022

Market overview

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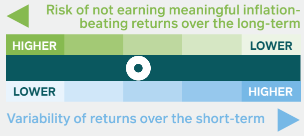
South Africa

In South Africa, the SARB also matched the Fed's 75bp rate hike in November and is expected to follow its 50bp increase in January. Despite continued loadshedding and a spike in political risk in early December on reports that President Cyril Ramaphosa might resign, local equities and bonds benefitted from the more optimistic investor sentiment, outperforming the major global indices. The FTSE/JSE All Share Index (ALSI) returned 15.2% in Q4, and the Capped SWIX 12.2% (both in rands). Listed Property shares were the strongest performers with an 18.2% return (All

Annualised performance	A class	Objective[1]	T class	X class	B class
1 year	3.2%	10.8%	3.4%	3.2%	3.6%
3 years	7.2%	8.8%	7.4%	7.2%	7.7%
5 years	4.5%	8.4%	4.8%	4.6%	5.1%
7 years	5.2%	8.6%	5.6%	5.3%	5.8%
10 years	7.2%	8.6%	-	7.4%	7.9%
20 years	10.4%	9.0%	-	-	11.0%
Since inception	10.8%	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 509 962 439

Awards
Raging Bull: 2013
Morningstar: 2015

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

Property Index), followed by Resources with 17.6% (Resources 10 Index), Industrials (15.7%) and Financials (11.9%).

For the 12 months to 31 December, it was a story of strong outperformance for SA equities, as the ALSI returned 3.6% in rands, and -2.3% in US$, outperforming the -18.4% recorded by global equities (the MSCI All Country World Index), and the -20.1% recorded by the MSCI Emerging Markets Index (both in US$).

SA bonds also significantly outperformed again in Q4: the FTSE/JSE All Bond Index (ALBI) delivered 5.7%, outperforming global bonds yet again (-1.5% in rand terms). For the 12 months to 31 December, local bonds (ALBI) outpaced global bonds with a return of 4.3% versus -11.2%, in rands. Inflation-linked bonds (ILBs) produced 2.0% and cash returned 1.6% for Q4. Finally, the rand posted a mixed performance, gaining 5.8% against a weaker US$ but losing 1.9% against sterling and 2.8% versus the euro over the quarter.

Also in more positive news, November CPI fell to 7.4% y/y from 7.6% in October, primarily attributable to lower energy prices: the SARB forecast it to reach the 4.5% mid-point of its target range by Q2 2024. Equally positive was that Q3 real GDP growth surprised to the upside at 1.6% (q/q annualised), led largely by higher agricultural production. By the end of the period, the size of the SA economy had finally exceeded pre-pandemic levels. However, in its Medium-Term Budget, the National Treasury lowered its growth expectations for 2022 to 1.9% (versus 2.1% previously), and for 2023 to 1.4% from 1.6%. The SARB's latest projection was for 1.8% GDP growth in 2022.

Performance

The Fund returned 6.8% (after fees) for the fourth quarter of 2022 and 3.2% for the 12-month period ending 31 December 2022. The Fund has delivered a return of 10.8% per annum since its inception in 1999 (after fees), compared to its objective of 9.3% per annum over the same period.

Looking at the fund's asset allocation, SA equity holdings added the most value to absolute performance for the quarter, by far, while SA nominal bonds, SA Listed Property and SA ILBs also added solid value. Global equities and global fixed income also contributed to returns.

In terms of specific equity exposure, among the strongest contributors to absolute returns for the quarter were the fund's holdings in Naspers/Prosus, Investec, Standard Bank and Richemont, with additional valuable contributions from Northam Platinum, Glencore, Anglo American and Absa. Among the largest detractors for the period were Foschini and Sasol (on the back of the drop in the global oil price).

For 2022 as a whole, SA equity exposure was the largest contributor to the fund's absolute performance, by far, and SA nominal bonds, ILBs and SA cash also added material positive returns. The fund's total global asset holdings were marginal contributors to absolute returns, as a positive contribution from global cash marginally outweighed the amount detracted by global equities and fixed interest for the year. African assets detracted slightly from total 12-month absolute performance.

In terms of specific SA equity holdings for the year, Naspers/Prosus proved to be the largest contributor to absolute returns, followed by Glencore, Absa, Standard Bank and Investec. Also posting solid contributions were British American Tobacco and Exxaro. The largest detractors from performance for the year included MTN (by far), and Foschini, PPC and Northam Platinum (all to a much lesser extent).

Strategy and positioning

Starting with our view on **offshore asset allocation**, during the quarter the fund's overall level of global exposure remained the same. We continued to prefer SA assets given that they continued to be more attractive than their offshore counterparts.

Within our **global holdings**, however, we lifted our exposure to **global bonds** and global equities out of global cash as their valuations cheapened. Within global bonds we have a preference for 30-year US Treasuries, as well as sovereign EM bond markets where the real yields are high and the currency is trading at fair-to-cheap levels.

Within **global equities**, we remain selective and somewhat cautious, and are still leaning slightly away from US equities. While global equities are trading at cheap levels relative to recent history, in our view there are still unresolved questions around the effect of rising real rates on valuations and the risks to earnings going forward.

Our **global cash** holdings reduced during the quarter after buying more global equities and bonds, but our holdings still partially cushion the fund, as well as providing some liquidity to take advantage of new market opportunities that could arise. We are mindful of the risks that exist globally in terms of slower economic growth, higher interest rates and stubborn inflation – any negative surprises present downside risks for corporate earnings and bond prices.

The M&G Inflation Plus Fund still favoured **SA equities** at the end of Q4. 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) re-rated over the quarter, rising from around 7.8X to around 9.0X at quarter-end. Almost all of this re-rating was attributable to share price gains, as earnings estimates fell only marginally.

The fund remained marginally tilted away from **SA listed property** in Q4 2022, as we prefer exposure to other shares that we believe 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.

Fund performance also benefitted from our ongoing preference for **SA nominal bonds** in the fourth quarter (on a relative basis) due to their positive returns, despite a very volatile period. The 10-year SA government bond rallied approximately 50bps, falling from 11.4% to 10.9% at quarter-end, still at a relatively high level on a historic basis. It was mid- and longer-dated bonds (seven years and beyond) that outperformed over the period as shorter dates reflected the SARB's rate hikes; this also benefitted our specific holdings.

During the quarter we took profits on a portion of the fund's **nominal bond** holdings to buy more **SA inflation-linked bonds (ILBs)** based on the latter's falling valuations relative to nominal bonds over the period. We also used the proceeds to increase cash exposure. However, we continue to prefer SA nominal bonds in the fund as their valuations remain attractive relative to both their own longer-term history and to ILBs, 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. However, In Q4 we did increase our cash holdings slightly out of our sale of nominal bonds.

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M&G Investments

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Looking at the fund's asset allocation, SA equity holdings added the most value to absolute performance for the quarter, by far, while SA nominal bonds, SA Listed Property and SA ILBs also added solid value. Global equities and global fixed income also contributed to returns.

In terms of specific equity exposure, among the strongest contributors to absolute returns for the quarter were the fund's holdings in Naspers/Prosus, Investec, Standard Bank and Richemont, with additional valuable contributions from Northam Platinum, Glencore, Anglo American and Absa. Among the largest detractors for the period were Foschini and Sasol (on the back of the drop in the global oil price).

For 2022 as a whole, SA equity exposure was the largest contributor to the fund's absolute performance, by far, and SA nominal bonds, ILBs and SA cash also added material positive returns. The fund's total global asset holdings were marginal contributors to absolute returns, as a positive contribution from global cash marginally outweighed the amount detracted by global equities and fixed interest for the year. African assets detracted slightly from total 12-month absolute performance.

In terms of specific SA equity holdings for the year, Naspers/Prosus proved to be the largest contributor to absolute returns, followed by Glencore, Absa, Standard Bank and Investec. Also posting solid contributions were British American Tobacco and Exxaro. The largest detractors from performance for the year included MTN (by far), and Foschini, PPC and Northam Platinum (all to a much lesser extent).

Strategy and positioning

Starting with our view on **offshore asset allocation**, during the quarter the fund's overall level of global exposure remained the same. We continued to prefer SA assets given that they continued to be more attractive than their offshore counterparts.

Within our **global holdings**, however, we lifted our exposure to **global bonds** and global equities out of global cash as their valuations cheapened. Within global bonds we have a preference for 30-year US Treasuries, as well as sovereign EM bond markets where the real yields are high and the currency is trading at fair-to-cheap levels.

Within **global equities**, we remain selective and somewhat cautious, and are still leaning slightly away from US equities. While global equities are trading at cheap levels relative to recent history, in our view there are still unresolved questions around the effect of rising real rates on valuations and the risks to earnings going forward.

Our **global cash** holdings reduced during the quarter after buying more global equities and bonds, but our holdings still partially cushion the fund, as well as providing some liquidity to take advantage of new market opportunities that could arise. We are mindful of the risks that exist globally in terms of slower economic growth, higher interest rates and stubborn inflation – any negative surprises present downside risks for corporate earnings and bond prices.

The M&G Inflation Plus Fund still favoured **SA equities** at the end of Q4. 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) re-rated over the quarter, rising from around 7.8X to around 9.0X at quarter-end. Almost all of this re-rating was attributable to share price gains, as earnings estimates fell only marginally.

The fund remained marginally tilted away from **SA listed property** in Q4 2022, as we prefer exposure to other shares that we believe 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.

Fund performance also benefitted from our ongoing preference for **SA nominal bonds** in the fourth quarter (on a relative basis) due to their positive returns, despite a very volatile period. The 10-year SA government bond rallied approximately 50bps, falling from 11.4% to 10.9% at quarter-end, still at a relatively high level on a historic basis. It was mid- and longer-dated bonds (seven years and beyond) that outperformed over the period as shorter dates reflected the SARB's rate hikes; this also benefitted our specific holdings.

During the quarter we took profits on a portion of the fund's **nominal bond** holdings to buy more **SA inflation-linked bonds (ILBs)** based on the latter's falling valuations relative to nominal bonds over the period. We also used the proceeds to increase cash exposure. However, we continue to prefer SA nominal bonds in the fund as their valuations remain attractive relative to both their own longer-term history and to ILBs, 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. However, In Q4 we did increase our cash holdings slightly out of our sale of nominal bonds. □

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G Balanced Fund

Multi-asset

Q4 2022

Market overview

In the final quarter (Q4) of 2022, global financial markets recovered some of the ground lost during the past three quarters. Although the outlook remained gloomy, some light emerged: in October and November buyers were attracted by cheaper asset valuations and somewhat improved clarity on company earnings prospects, as well as falling fuel and food prices. By mid-December, a slowdown in the pace of the interest rate hiking cycle added to the better sentiment. However, caution returned in December: still causing uncertainty were unknowns such as the severity of the expected 2023 global growth slowdown, the impact of the massive new Covid wave in China, the ongoing tragedies of the Ukraine-Russia war, and the stickiness of inflation in large economies. As such, markets retraced some of their earlier gains in December.

The risk-on sentiment over the quarter saw equities outperform bonds, while emerging market returns were in line with those of developed markets. For the quarter ended 31 December 2022, the MSCI All Country World Index returned 9.8%, the MSCI World Index (developed markets) also delivered 9.8%, and the MSCI Emerging Markets Index produced 9.7% (all in US$). Bonds also posted meaningful gains: the Bloomberg Global Aggregate Bond Index delivered 4.5% (in US$). Beaten-down property stocks were among the strongest performers, with the FTSE EPRA/NAREIT Global REIT Index returning 6.6% (US$).

The oil price fell during the quarter on the back of expected lower demand and improved supply. Brent crude lost 2.3% in US$, ending the quarter at around US$83 per barrel. Over the past 12 months the oil price is now only 10.5% higher.

In the US, the US Fed hiked its Federal Funds rate by a combined 125bps in Q4 to 4.25%-4.5%, still considered an aggressive policy tightening by historic standards, even though its 50bp December hike represented a slower pace. The central bank also lifted its rate forecast for end 2023 by 0.5%, to 5%-5.25%, a more hawkish signal. This came despite falling CPI (at 7.1% y/y in November), as price increases became more widespread.

Meanwhile, after rising 3.2% y/y in Q3 on the back of surprisingly strong consumer spending, US economic growth for all of 2022 is forecast at around 1.9%, before slowing to below 1% for 2023. Data showed the US housing market is already slowing meaningfully and is expected to be a significant factor in the slowdown. However, consensus projections are for a relatively mild and brief recession lasting for the first three quarters of next year. US equity returns were in the black (apart from the Nasdaq) for the quarter: in US$, the Dow Jones produced 16.0%, the Nasdaq delivered – 0.8%, and the S&P 500 returned 7.6%. The S&P 500 recorded a -18.1% total return for 2022, the worst since the 2008 Global Financial Crisis.

In the UK, the Bank of England (BoE) finished off the year by raising its key interest rate by 50bps to 3.5% in December, in line with forecasts. Meanwhile, November CPI eased to 10.7% y/y vs October's 11.1%, largely due to falling energy prices. The Bank indicated more hikes are likely into 2023 in its bid to curb inflation at the expense of growth: the Office for Budget Responsibility (OBR) estimated that the U.K. economy was already in recession and that GDP will contract by 1.4% in 2023, while inflation is predicted to hit 9.1% in 2022 and 7.4% in 2023. For Q4 2022, the FTSE 100 returned 17.1% in US$, and -7.0% for 2022 as a whole.

The ECB followed the US Fed and BoE with its own 50bp hike in December, while also suggesting similar-size hikes at its next two meetings. Eurozone inflation fell to 10.1% y/y in November from a record 10.6%, as energy costs eased. However, the ECB still expects a short and shallow recession in 2023 as the energy crisis is seen weighing heavily in the shorter-term while the Ukraine-Russia war drags on. In France, the CAC 40 returned 22.6% in Q4, and -12.4% for 2022 (in US$). Meanwhile, Germany's DAX delivered 25.2% for the quarter and -17.4% for 2022 (in US$).

In Japan, the Bank of Japan (BOJ) surprised markets in mid-December with its first effective interest rate hike, raising its 10-year bond yield range by 0.25% to 0.50% after long periods of stability. The market had been pricing in no rate increases through 2023. Finally, the BOJ revised downward its real growth outlook for 2022 to 2.0% from 2.4% previously, and for 2023 to 1.9% from 2.0%, but no recession is expected. Following other global equity markets higher, the Nikkei returned 10.6% in US$ for the quarter but was down 19.1% for the year.

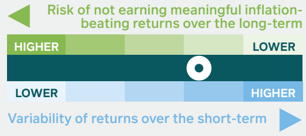
In China, it was a fairly chaotic end to the year as the government responded to widespread social protests against its strict zero-Covid policy by removing almost all restrictions. However, this came as a large new wave of Covid infections was spreading. Although economists welcomed the move to help free up the economy and kick-start growth, the uncertain impact of the virus weighed negatively on markets. Meanwhile, consensus forecasts for China's economy call for only 3.3% GDP growth in 2022, far below the government's 5.5% target and the slowest since the 1970s. For 2023, a new government target of 4.5%-5% is reported to be most likely, but many consider this optimistic. Hong Kong's Hang Seng produced 15.8% for the quarter and -12.6% in 2022 (in US$). The MSCI China returned 13.5% in Q4 and -21.8% in 2022, both in US$.

South Africa

In South Africa, the SARB also matched the Fed's 75bp rate hike in November and is expected to follow its 50bp increase in January. Despite continued loadshedding and a spike in political risk in early December on reports that President Cyril Ramaphosa

Annualised performance	A class	Benchmark	T class	X class	B class
1 year	2.7%	-0.2%	2.9%	2.7%	3.2%
3 years	9.6%	8.1%	9.9%	9.7%	10.1%
5 years	6.8%	5.9%	7.1%	6.9%	7.4%
7 years	7.1%	5.8%	7.5%	7.2%	7.7%
10 years	9.2%	7.5%	-	-	10.0%
20 years	12.4%	10.8%	-	-	13.4%

Risk profile



Fund facts

Fund managers

David Knee
Michael Moyle
Sandile Malinga
Leonard Krüger

ASISA category

South African - Multi-Asset - High Equity

Benchmark

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

Inception date

2 August 1999

Fund size

R21 433 815 442

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

might resign, local equities and bonds benefitted from the more optimistic investor sentiment, outperforming the major global indices. The FTSE/JSE All Share Index (ALSI) returned 15.2% in Q4, and the Capped SWIX 12.2% (both in rands). Listed Property shares were the strongest performers with an 18.2% return (All Property Index), followed by Resources with 17.6% (Resources 10 Index), Industrials (15.7%) and Financials (11.9%).

For the 12 months to 31 December, it was a story of strong outperformance for SA equities, as the ALSI returned 3.6% in rands, and -2.3% in US$, outperforming the -18.4% recorded by global equities (the MSCI All Country World Index), and the -20.1% recorded by the MSCI Emerging Markets Index (both in US$).

SA bonds also significantly outperformed again in Q4: the FTSE/JSE All Bond Index (ALBI) delivered 5.7%, outperforming global bonds yet again (-1.5% in rand terms). For the 12 months to 31 December, local bonds (ALBI) outpaced global bonds with a return of 4.3% versus -11.2%, in rands. Inflation-linked bonds (ILBs) produced 2.0% and cash returned 1.6% for Q4. Finally, the rand posted a mixed performance, gaining 5.8% against a weaker US$ but losing 1.9% against sterling and 2.8% versus the euro over the quarter.

Also in more positive news, November CPI fell to 7.4% y/y from 7.6% in October, primarily attributable to lower energy prices: the SARB forecast it to reach the 4.5% mid-point of its target range by Q2 2024. Equally positive was that Q3 real GDP growth surprised to the upside at 1.6% (q/q annualised), led largely by higher agricultural production. By the end of the period, the size of the SA economy had finally exceeded pre-pandemic levels. However, in its Medium-Term Budget, the National Treasury lowered its growth expectations for 2022 to 1.9% (versus 2.1% previously), and for 2023 to 1.4% from 1.6%. The SARB's latest projection was for 1.8% GDP growth in 2022.

Performance

The fund returned 8.4% (after fees) for the fourth quarter of 2022, while for the 12-month period ending 31 December 2022 its return was 2.7%. The Fund has delivered a return of 12.7% per annum since its inception in 1999 (after fees), compared to its benchmark of 11.0% per annum over the same period.

Looking at the fund's asset allocation, SA equity and nominal bond exposure added the most value to absolute performance for the quarter, while global equities and SA listed property also contributed solid returns. Cash and global fixed income also contributed to returns. Global cash was the only detractor from the fund's absolute return for Q4, and that to a small extent.

In terms of specific equity exposure, among the strongest contributors to absolute returns for the quarter were the fund's holdings in Naspers/Prosus, Investec, Standard Bank, Richemont, Glencore and Northam Platinum. Among the few detractors for the period were Foschini, Sasol (on the back of the drop in the global oil price), and Telkom.

For 2022 as a whole, SA equity exposure was the largest contributor to the fund's absolute performance, by far, while SA nominal bonds also added solid value, and SA cash also contributed a positive return. Global equities were the greatest detractor from fund performance, by far, while African assets also detracted somewhat from total 12-month absolute performance.

In terms of specific SA equity holdings for the year, the largest contributors to absolute returns included Naspers/Prosus, Standard Bank, Absa, Investec, Glencore, British American Tobacco and Exxaro. The largest detractor from performance for the year was MTN (by far), with much smaller detractors including Sasol, PPC, Foschini, Coronation and Northam Platinum.

Strategy and positioning

Starting with our view on **offshore asset allocation**, during the quarter (as in Q3) we gradually increased our global exposure across equities and bonds as their valuations became more attractive relative to SA assets. By year-end we were much less underweight offshore assets versus local assets in the M&G Balanced Fund – roughly neutral – compared to the start of 2022. We also took advantage of the rand strength versus the US$ during the quarter and reduced our forex hedges in rands.

Within our **global holdings**, we lifted our exposure to global bonds and global equities out of global cash as valuations cheapened, with bonds relatively more attractive than equities as yields continued to rise. Within **global bonds** we have a preference for 30-year US Treasuries, as well as sovereign EM bond markets where the real yields are high and the currency is trading at fair-to-cheap levels.

Within **global equities**, we remain selective and somewhat cautious, and are still leaning slightly away from US equities. While global equities are trading at cheap levels relative to recent history, in our view there are still unresolved questions around the effect of rising real rates on valuations and the risks to earnings going forward.

Our **global cash** holdings continue to partially cushion our funds, as well as providing some liquidity to take advantage of new market opportunities that could arise. We are mindful of the risks that exist globally in terms of slower economic growth, rising interest rates and embedded inflation – any negative surprises present downside risks for corporate earnings and bond prices.

The M&G Balanced Fund still favoured **SA equities** at the end of Q4. 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) re-rated over the quarter, rising from around 7.8X to around 9.0X at quarter-end. Almost all of this re-rating was attributable to share price gains, as earnings estimates fell only marginally.

The fund remained tilted away from **SA listed property** in Q4 2022, as we prefer exposure to other shares that we believe 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.

Fund performance also benefitted from our ongoing preference for **SA nominal bonds** in the fourth quarter (on a relative basis) due to their positive returns, despite a very volatile period. The 10-year SA government bond rallied approximately 50bps, falling from 11.4% to 10.9% at quarter-end, still at a relatively high level on a historic basis. It was mid- and longer-dated bonds (seven years and beyond) that outperformed over the period as shorter dates reflected the SARB's rate hikes; this also benefitted our specific holdings. We continue to 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

Q4 2022

Market overview

In the final quarter (Q4) of 2022, global financial markets recovered some of the ground lost during the past three quarters. Although the outlook remained gloomy, some light emerged: in October and November buyers were attracted by cheaper asset valuations and somewhat improved clarity on company earnings prospects, as well as falling fuel and food prices. By mid-December, a slowdown in the pace of the interest rate hiking cycle added to the better sentiment, as major central banks followed the US Federal Reserve with largely expected 50bp interest rate increases that represented a slowdown in the current hiking cycle. However, each of the banks also indicated further increases to come into 2023 to help lower the still-high levels of inflation.

Also, investor caution returned in December: still causing uncertainty were unknowns such as the severity of the expected 2023 global growth slowdown, the impact of the massive new Covid wave in China, the ongoing tragedies of the Ukraine-Russia war, and the stickiness of inflation in large economies. As such, markets retraced some of their earlier gains in December.

The risk-on sentiment over the quarter saw equities outperform bonds, while emerging market returns were in line with those of developed markets. For the quarter ended 31 December 2022, the MSCI All Country World Index returned 9.8%, the MSCI World Index (developed markets) also delivered 9.8%, and the MSCI Emerging Markets Index produced 9.7% (all in US$). Bonds also posted meaningful gains: the Bloomberg Global Aggregate Bond Index delivered 4.5% (in US$). Beaten-down property stocks were among the strongest performers, with the FTSE EPRA/NAREIT Global REIT Index returning 6.6% (US$).

South Africa

In South Africa, the SARB also matched the Fed's 75bp rate hike in November and is expected to follow its 50bp increase in January. Despite continued loadshedding and a spike in political risk in early December on reports that President Cyril Ramaphosa might resign, local equities and bonds benefitted from the more optimistic investor sentiment, outperforming the major global indices. The FTSE/JSE All Share Index (ALSI) returned 15.2% in Q4, and the Capped SWIX 12.2% (both in rands). Listed Property shares were the strongest performers with an 18.2% return (All Property Index), followed by Resources with 17.6% (Resources 10 Index), Industrials (15.7%) and Financials (11.9%).

Also in more positive news, November CPI fell to 7.4% y/y from 7.6% in October, primarily attributable to lower energy prices: the SARB forecast it to reach the 4.5% mid-point of its target range by Q2 2024. Equally positive was that Q3 real GDP growth surprised to the upside at 1.6% (q/q annualised), led largely by higher agricultural production. By the end of the period, the size of the SA economy had finally exceeded pre-pandemic levels. However, in its Medium-Term Budget, the National Treasury lowered its growth expectations for 2022 to 1.9% (versus 2.1% previously), and for 2023 to 1.4% from 1.6%. The SARB's latest projection was for 1.8% GDP growth in 2022.

For the 12 months to 31 December, it was a story of strong outperformance for SA equities, as the ALSI returned 3.6% in rands, and -2.3% in US$, outperforming the -18.4% recorded by global equities (the MSCI All Country World Index), and the -20.1% recorded by the MSCI Emerging Markets Index (both in US$).

After a stellar recovery in 2021, 2022 proved to be a more muted year for the SA listed property sector as the All Property Index returned -1.9% for the year, while the SA Listed Property Index returned 0.5% for the year.

Performance

For Q4 2022, the M&G Enhanced SA Property Tracker Fund returned 19.2% (net of fees) compared to 19.3% from its benchmark, the FTSE/JSE SA Listed Property Index. For all of 2022 it returned -0.1% (net of fees) versus the 0.5% from the benchmark, ranking sixth in the ASISA real estate category per Morningstar.

Rising interest rates globally weighed on global property stocks due to the nature of property being priced off a yield, and also the far greater indebtedness of property companies when compared to general equities, given that they generally rely on finance to expand their portfolios. Subdued growth prospects and struggling office sectors also exacerbated the poor sentiment towards listed property investments.

Over the year, the fund held little exposure to the UK and Western Europe, which proved prescient as sharply higher interest rates and the effects of higher energy costs in those regions affected those companies' valuations more adversely. We held a strong preference for higher-yielding, mid-cap South African-centric stocks with sound balance sheets. In this respect, our overweight positions in Dipula and Octodec were strong contributors to the outperformance of the fund over the period, as was an underweight position in Investec Property Fund.

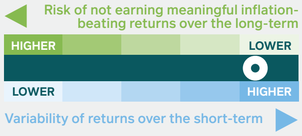
Detracting from performance was the fund's positioning in Fortress B (which we have written about previously -- refer to the Q4 2022 edition of Consider this). Underweight positions in Attacq and Emira also detracted from returns.

Strategy and positioning

The outlook for the listed property sector is weighed down by high interest rates. On the positive side, prices could find support from a stabilisation of interest rates and a slowdown in the rate of rates increases globally and locally. A slowdown in development activity will be positive for the prospects of rental growth going forward. In South Africa, office development has ground to a halt and retail property development has also diminished in the major metropolitan areas.

Annualised performance	A class	Benchmark	T class	D class
1 year	-0.1%	0.5%	-0.1%	0.0%
3 years	-4.0%	-3.4%	-4.0%	-3.8%
5 years	-7.9%	-7.2%	-7.9%	-7.8%
7 years	-2.5%	-1.7%	-2.5%	-2.4%
10 years	2.4%	2.8%	-	2.6%
Since inception	8.8%	9.2%	-	-

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
R593 118 343

Awards
Morningstar/Standard & Poor's: 2011

Sources: M&G, Morningstar & Deutsche Securities

The year that has passed was also characterised by major increases in energy costs in Europe. In offshore markets, landlords are often hedged in terms of their energy exposure for a period of a year or two, and hence are not yet having to absorb the increased cost of electricity. NEPIRockcastle aims to invest in solar panels which could generate as much as 30% of its energy needs, thus reducing its need to draw on the grid. Hammerson have also hedged their energy costs, such that tenants do not bear the full cost of higher electricity. In South Africa, the lack of availability and the recent increased frequency of loadshedding will be a headwind to landlords in terms of the higher cost of diesel needed to run their buildings.

As of the end of December 2022, the FTSE/JSE SA Listed Property Index was trading at a dividend yield of 9.6%, with low- to mid-single-digit growth in dividends expected. We see limited likelihood of earnings upgrades in the sector, and some chance of downgrades given the headwinds faced by listed property companies more recently in South Africa.

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M&G Property Fund

Property

Q4 2022

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Also, investor caution returned in December: still causing uncertainty were unknowns such as the severity of the expected 2023 global growth slowdown, the impact of the massive new Covid wave in China, the ongoing tragedies of the Ukraine-Russia war, and the stickiness of inflation in large economies. As such, markets retraced some of their earlier gains in December.

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South Africa

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Also in more positive news, November CPI fell to 7.4% y/y from 7.6% in October, primarily attributable to lower energy prices: the SARB forecast it to reach the 4.5% mid-point of its target range by Q2 2024. Equally positive was that Q3 real GDP growth surprised to the upside at 1.6% (q/q annualised), led largely by higher agricultural production. By the end of the period, the size of the SA economy had finally exceeded pre-pandemic levels. However, in its Medium-Term Budget, the National Treasury lowered its growth expectations for 2022 to 1.9% (versus 2.1% previously), and for 2023 to 1.4% from 1.6%. The SARB's latest projection was for 1.8% GDP growth in 2022.

For the 12 months to 31 December, it was a story of strong outperformance for SA equities, as the ALSI returned 3.6% in rands, and -2.3% in US$, outperforming the -18.4% recorded by global equities (the MSCI All Country World Index), and the -20.1% recorded by the MSCI Emerging Markets Index (both in US$).

After a stellar recovery in 2021, 2022 proved to be a more muted year for the SA listed property sector as it returned -1.9% for the year.

Performance

In Q4 2022, the M&G Property Fund returned a strong 19.3%, outperforming its benchmark (the All Property Index) by 1.1%. For the year, the fund returned 0.8% compared to the -1.9% recorded by the index, ranking second in the ASISA real estate category (per Morningstar).

Rising interest rates globally weighed on global property stocks due to the nature of property being priced off a yield, and also the far greater indebtedness of property companies when compared to general equities, given that they generally rely on finance to expand their portfolios. Subdued growth prospects and struggling office sectors globally also exacerbated the poor sentiment towards listed property investments.

Over the year, the fund held little exposure to the UK and Western Europe, which proved prescient as sharply higher interest rates and the effects of higher energy costs in those regions affected those companies' valuations more adversely. We held a strong preference for higher-yielding, mid-cap South African-centric stocks with sound balance sheets. In this respect, our overweight positions in Dipula, SA Corporate and Octodec were strong contributors to the outperformance of the fund over the period.

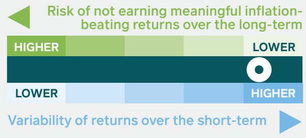
Detracting from performance was the fund's positioning in Fortress A and Fortress B shares (which we have written about previously -- refer to the Q4 2022 edition of Consider this). Underweight positions in Redefine, Emira and Vukile also detracted from the fund's performance.

Strategy and positioning

The outlook for property is weighed down by high interest rates. On the positive side, prices could find support from a stabilisation of interest rates and the slowdown in the rate of interest rate hikes globally. A slowdown in development activity will be positive for the prospects of rental growth going forward. In South Africa, office development has ground to a halt and retail property development has also diminished in the major metropolitan areas.

Annualised performance	A class	Benchmark	D class
1 year	0.8%	-1.9%	1.2%
2 years	19.3%	16.6%	19.7%
Since inception	18.6%	17.3%	-

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
R144 716 269

Sources: M&G, Morningstar & Deutsche Securities

The year that has passed was also characterised by major increases in energy costs in Europe. In offshore markets, landlords are often hedged in terms of their energy exposure for a period of a year or two, and hence are not yet having to absorb the increased cost of electricity. NEPI Rockcastle aims to invest in solar panels, which could generate as much as 30% of its energy needs, thus reducing its need to draw on the grid. Hammerson have also hedged their energy costs, such that tenants do not bear the full cost of higher electricity. In South Africa, the lack of availability and the recent increased frequency of loadshedding will be a headwind to landlords in terms of the higher cost of diesel needed to run their buildings.

As of end December 2022, the All Property Index trades at a dividend yield of 9.4%, with low- to mid- single-digit growth in dividends expected. We see a limited likelihood of earnings upgrades in the sector, and some chance of downgrades given the headwinds faced more recently by listed property companies in South Africa. □

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M&G Dividend Maximiser Fund

Equity

Q4 2022

Market overview

In the final quarter (Q4) of 2022, global financial markets recovered some of the ground lost during the past three quarters that were dominated by bearish sentiment and negative news. Although the outlook remained gloomy, some light emerged: in October and November buyers were attracted by cheaper asset valuations and somewhat improved clarity on company earnings prospects, as well as falling fuel and food prices. By mid-December, an easing in the pace of the interest rate hiking cycle added to the better sentiment. However, caution returned in December: still causing uncertainty were unknowns such as the severity of the expected 2023 global growth slowdown, the impact of the massive new Covid wave in China, the ongoing tragedies of the Ukraine-Russia war, and the stickiness of inflation in large economies. As such, markets retraced some of their earlier gains in December.

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Key central banks like the Bank of England and European Central Bank (ECB) followed the US Federal Reserve's lead during the quarter, each hiking interest rates by 75bps in November and 50bps in December – the latter a sign of some slowing in the upward trajectory. However, all of these banks also indicated rates were likely to remain higher for longer than previously expected given their tough inflation stances, and signs that inflation was becoming more pervasive, including rising services costs and wages. Each acknowledged the negative consequences for economic growth in 2023.

Global markets

In the US, the US Fed hiked its Federal Funds rate by a combined 125bps in Q4 to 4.25%-4.5%, still considered an aggressive policy tightening by historic standards, even though its 50bp December hike represented a slower pace. The central bank also lifted its rate forecast for end 2023 by 0.5%, to 5%-5.25%, a more hawkish signal. This came despite falling CPI (at 7.1% y/y in November), as price increases became more widespread.

Meanwhile, after rising 3.2% y/y in Q3 on the back of surprisingly strong consumer spending, US economic growth for all of 2022 is forecast at around 1.9%, before slowing to below 1% for 2023. Data showed the US housing market is already slowing meaningfully and is expected to be a significant factor in the slowdown. However, consensus projections are for a relatively mild and brief recession lasting for the first three quarters of next year.

US equity returns were in the black (apart from the Nasdaq) for the quarter: in US$, the Dow Jones produced 16.0%, the Nasdaq delivered – 0.8%, and the S&P 500 returned 7.6%. The S&P 500 recorded a -18.1% total return for 2022, the worst since the 2008 Global Financial Crisis.

In the UK, the Bank of England (BoE) finished off the year by raising its key interest rate by 50bps to 3.5% in December, in line with forecasts. Meanwhile, November CPI eased to 10.7% y/y vs October's 11.1%, largely due to falling energy prices. The Bank indicated more hikes are likely into 2023 in its bid to curb inflation at the expense of growth: the Office for Budget Responsibility (OBR) estimated that the U.K. economy was already in recession and that GDP will contract by 1.4% in 2023, while inflation is predicted to hit 9.1% in 2022 and 7.4% in 2023. For Q4 2022, the FTSE 100 returned 17.1% in US$, and -7.0% for 2022 as a whole.

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Meanwhile, consensus forecasts for China's economy call for only 3.3% GDP growth in 2022, far below the government's 5.5% target and the slowest since the 1970s. For 2023, a new government target of 4.5%-5% is reported to be most likely, but many consider this optimistic. Hong Kong's Hang Seng produced 15.8% for the quarter and -12.6% in 2022 (in US$). The MSCI China returned 13.5% in Q4 and -21.8% in 2022, both in US$.

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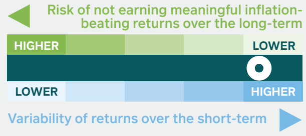
South Africa

Thanks to the renewed global risk-on sentiment, the final months of 2022 proved to be better ones for South African investors, despite the elevated market volatility. Our local equity returns

Annualised performance	A class	Benchmark	T class	B class	F class
1 year	3.9%	3.1%	4.6%	4.2%	4.9%
3 years	13.5%	10.0%	13.9%	13.8%	14.2%
5 years	8.2%	5.5%	8.6%	8.6%	8.9%
7 years	8.1%	6.2%	8.5%	8.5%	-
10 years	10.0%	7.3%	-	10.4%	-
20 years	15.8%	12.6%	-	-	-

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

R4 140 842 686

Awards

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

Sources: M&G, Morningstar & Deutsche Securities

outperformed global market benchmarks in Q4. The FTSE/JSE All Share Index (ALSI) returned 15.2% in Q4, and the Capped SWIX 12.2% (both in rands). Listed Property shares were the strongest performers with an 18.2% return (All Property Index), followed by Resources with 17.6% (Resources 10 Index), Industrials (15.7%) and Financials (11.9%).

The SARB matched the Fed's 75bp rate hike in November and is expected to follow its 50bp increase in January. Despite continued loadshedding and a spike in political risk in early December on reports that President Cyril Ramaphosa might resign, local equities benefitted from the more optimistic investor sentiment. At the ANC's mid-December elective conference, party members rallied behind Ramaphosa and he emerged even stronger than before, with more ANC Executive Committee members supporting his economic reform agenda. This helped lower political risk premia on SA assets.

Also in more positive news, November CPI fell to 7.4% y/y from 7.6% in October, primarily attributable to lower energy prices: the SARB forecast it to reach the 4.5% mid-point of its target range by Q2 2024. Equally positive was that Q3 real GDP growth surprised to the upside at 1.6% (q/q annualised), led largely by higher agricultural production. By the end of the period, the size of the SA economy had finally exceeded pre-pandemic levels.

However, in its Medium-Term Budget, the National Treasury lowered its growth expectations for 2022 to 1.9% (versus 2.1% previously), and for 2023 to 1.4% from 1.6%. The SARB's latest projection was for 1.8% GDP growth in 2022. This was due to still-elevated inflation, rising interest rates, subdued consumer demand and slower economic growth, the war in Ukraine and the impact of loadshedding: in its December Quarterly Bulletin, the SARB estimated that Q3 real GDP growth (quarterly) had likely been reduced by 2.3 percentage points due to the high intensity of power cuts. For the year to end-October, it said, loadshedding had occurred 33.4% of the time, or an average of 10.4 calendar days per month.

Performance

The M&G Dividend Maximiser Fund delivered a return of 11.6% (net of fees) for the fourth quarter of 2022, outperforming its benchmark (the average of the ASISA general equity category) by 1.0%. For the year ended 31 December 2022, the fund returned 3.9% (net of fees), outperforming its benchmark by 0.8%.

The largest contributor to performance for the quarter was the fund's overweight holding in Investec Bank. The Investec share price was up just over 52% in the quarter and is one of the largest overweight positions in the portfolio. Investec is a company that we have held for a number of years in the fund, and we continue to view it as a good-quality company, still trading on a depressed multiple. We think the management of Investec has done a good job in optimising capital allocation following the de-merger with Ninety One, and is now more focused on shareholder returns. The dividend yield of over 5% is now enhanced with the share buyback program.

It is also worth noting that for the year ended December, our overweight positioning to the banks sector in general and the stock-picking within the sector has been a large contributor to performance. We continue to be positioned in favour of the lower-rated banks -- Standard Bank, ABSA and Investec -- and underweight the more highly rated banks, Firstrand and Capitec. ABSA is worth mentioning as it was the third largest contributor to performance for the year, returning 35%. ABSA has shown a steady improvement in operating performance and is generating a return on equity (ROE) of 17%, 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 think that it is still undervalued, and it remains one of our top overweights in the banking sector.

We continue to have an overweight position to the banks sector, as we think that the banks we own are trading on undemanding valuations, especially given that earnings and dividend growth are exceptionally strong currently.

Our overweight positions to both Prosus and Richemont were also top contributors to performance for the last quarter. Both companies saw strong share price appreciation in the quarter, with Prosus up by 24% and Richemont up by 30%. We believe these companies have benefited from the change in risk appetite of investors for companies exposed to China because of the sudden change in the government's Covid policy. It appears that this economy is now being allowed to open following the strict Covid lockdowns, and there seems to be a softer approach from regulators.

We think there is a strong investment case to be made for Prosus. Tencent, the main underlying asset of the group, has a market-leading position in China, which gives it a very strong competitive advantage in terms of expanding its network of products and monetising those products. It is a high-quality company with significant growth potential which we think is trading on an undemanding valuation.

In addition to our favourable view of Tencent, we think the still-material discount at which both Naspers and Prosus trade to their underlying investments provides a significant margin of safety for the investment. We are also enthused by the continued share repurchase programmes being followed by Prosus, Naspers and Tencent, as well as the unbundling of Tencent's stakes in JD.com and Meituan.

It is also worth mentioning Oceana, the fishing company in which the fund has an overweight position. We have built up this stake at what we think are exceptionally attractive prices. We think that Oceana is a high-quality company that has demonstrated an ability to grow earnings and dividends over several decades. Over the last five years, however, the company has struggled to digest the acquisition of its US-based fishing company, Daybrook. This business was purchased at the top of the fishing cycle in 2015 and has been a drag on returns. We believe we are now in a position where not only is Oceana attractively priced, but we are seeing strong evidence of the Daybrook business benefitting from a recovering fishing cycle. The company currently has an attractive dividend yield of 5%, and we think that the dividend paid could increase sharply over the short term as the fishing cycle improves.

Our underweight position to Impala Platinum detracted over the last quarter. We have a preference in the platinum sector for Amplats and Northam Platinum.

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 value ratio of the JSE has fallen to 1.7X as at the end of December 2022, a very attractive valuation level. We also note that within the South African market, many commodity companies continue to experience elevated revenue and earnings, as the prices of platinum group metals, coal and iron ore remain at high levels.

South African assets also appear to be undervalued relative to emerging and developed markets. 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 present headwinds to equity valuations -- the hurdle rate has increased.

Over the last two years, we have substantially reduced the offshore allocation of the fund, given our belief that the SA equity market and SA currency represented particularly good value. Today, we continue to think that emerging markets and African equities represent particularly good value, and that the SA rand is still attractive, despite having appreciated by approximately 6% over the last quarter. As of end-December 2022, the fund has approximately 16% allocated offshore, of which 8% is allocated to the M&G Global Equity Fund, 5% to the M&G Global Dividend Fund and 3% to the M&G Africa Equity Fund.

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

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

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Disclaimer

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M&G Equity Fund
Equity

Q4 2022

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7 years	9.7%	6.2%	10.2%	-
10 years	11.0%	7.3%	11.5%	-
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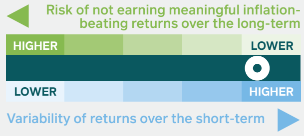
Risk profile



Fund facts

Fund managers
Chris Wood
Yusuf Mowlana

ASISA category
South African - Equity - General

Benchmark
ASISA South African - Equity - General Category Mean

Inception date
2 August 1999

Fund size
R4 696 784 883

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

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M&G Investments

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South Africa

Thanks to the renewed global risk-on sentiment, the final months of 2022 proved to be better ones for South African investors, despite the elevated market volatility. Our local equity returns outperformed global market benchmarks in Q4. The FTSE/JSE All Share Index (ALSI) returned 15.2% in Q4, and the Capped SWIX 12.2% (both in rands). Listed Property shares were the strongest performers with an 18.2% return (All Property Index), followed by Resources with 17.6% (Resources 10 Index), Industrials (15.7%) and Financials (11.9%).

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Performance

The fund returned 10.8% in Q4 2022, to end the year on a total return of 7.9%, significantly outperforming the average equity fund in South Africa, which returned 3.1% for the year. Over three years the fund earned a 7.2% annualised excess return above that of the benchmark, ranking it fourth in its category among 150 funds (according to Morningstar data).

For the year, overweight positions in energy companies, with coal exposure, proved among the largest contributors to fund performance. Thungela, Glencore and Exxaro together added 3.6% of the outperformance of the fund. The fund's positioning in Naspers and Prosus also added 1% to its relative performance. Coal prices remain elevated, and multiples for these companies very low as a result of the uncertainty over company earnings.

Investec has been among the fund's top picks in the banking sector and contributed 1.1% towards alpha for the year. As interest rates rose globally, the prospects for profit growth in the banking sector rose commensurately. Investec, due to its exposure in the UK, was among the larger beneficiaries.

Detracting from performance for the year was the fund's positioning in the telecoms sector, in particular Telkom and MTN. An overweight position in Ninety One, which derives its revenue from financial assets, was a detractor, together with the zero weighting in BHP Billiton.

Naspers and Prosus made a strong comeback in the final quarter. Chinese elections, the easing of China's zero-covid policies and the resumption of gaming approvals all improved sentiment towards their underlying holding, Tencent. In turn, the Naspers and Prosus share buyback programmes also had the desired effect of providing valuation support to the companies, such that their discount to Tencent narrowed, leading to significant outperformance.

During the quarter, the fund added to its existing holding in Impala Platinum given its inexpensive valuation. This was funded by selling some exposure to Northam Platinum, which is the fund's other PGM miner holding. □

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M&G SA Equity Fund

Equity

Q4 2022

Market overview

In the final quarter (Q4) of 2022, global financial markets recovered some of the ground lost during the past three quarters that were dominated by bearish sentiment and negative news. Although the outlook remained gloomy, some light emerged: in October and November buyers were attracted by cheaper asset valuations and somewhat improved clarity on company earnings prospects, as well as falling fuel and food prices. By mid-December, an easing in the pace of the interest rate hiking cycle added to the better sentiment. However, caution returned in December: still causing uncertainty were unknowns such as the severity of the expected 2023 global growth slowdown, the impact of the massive new Covid wave in China, the ongoing tragedies of the Ukraine-Russia war, and the stickiness of inflation in large economies. As such, markets retraced some of their earlier gains in December.

The risk-on sentiment over the quarter saw equities outperform bonds, while emerging market returns were in line with those of developed markets. For the quarter ended 31 December 2022, the MSCI All Country World Index returned 9.8%, the MSCI World Index (developed markets) also delivered 9.8%, and the MSCI Emerging Markets Index produced 9.7% (all in US$). Bonds also posted meaningful gains: the Bloomberg Global Aggregate Bond Index delivered 4.5% (in US$). Beaten-down property stocks were among the strongest performers, with the FTSE EPRA/NAREIT Global REIT Index returning 6.6% (US$).

In the US, the US Fed hiked its Federal Funds rate by a combined 125bps in Q4 to 4.25%-4.5%, still considered an aggressive policy tightening by historic standards, even though its 50bp December hike represented a slower pace. The central bank also lifted its rate forecast for end 2023 by 0.5%, to 5%-5.25%, a more hawkish signal. This came despite falling CPI (at 7.1% y/y in November), as price increases became more widespread.

Meanwhile, after rising 3.2% y/y in Q3 on the back of surprisingly strong consumer spending, US economic growth for all of 2022 is forecast at around 1.9%, before slowing to below 1% for 2023. Data showed the US housing market is already slowing meaningfully and is expected to be a significant factor in the slowdown. However, consensus projections are for a relatively mild and brief recession lasting for the first three quarters of next year.

US equity returns were in the black (apart from the Nasdaq) for the quarter: in US$, the Dow Jones produced 16.0%, the Nasdaq delivered – 0.8%, and the S&P 500 returned 7.6%. The S&P 500 recorded a -18.1% total return for 2022, the worst since the 2008 Global Financial Crisis.

For the 12 months to 31 December, it was a story of strong outperformance for SA equities, as the ALSI returned 3.6% in rands, and -2.3% in US$, outperforming the -18.4% recorded by global equities (the MSCI All Country World Index), and the -20.1% recorded by the MSCI Emerging Markets Index (both in US$).

The oil price fell during the quarter on the back of expected lower demand and improved supply, even though in December some supply cuts came from Russia. Brent crude oil lost 2.3% in US$, ending the quarter at around US$83 per barrel. Over the past 12 months the oil price is now only 10.5% higher. Other commodity prices gained ground in Q4 amid the more positive sentiment, apart from palladium, which fell 17.2% after gaining in the previous quarter. Among precious metals, gold rose 9.8% and platinum jumped 24.1%. In industrial metals, nickel was the strongest gainer at +36.5%, lead was up 23.6%, aluminium rose 8.3%, copper increased 9.7% and zinc was up only 1.3% in Q4.

South Africa

Thanks to the renewed global risk-on sentiment, the final months of 2022 proved to be better ones for South African investors, despite the elevated market volatility. Our local equity returns outperformed global market benchmarks in Q4.

The SARB matched the Fed's 75bp rate hike in November and is expected to follow its 50bp increase in January. Despite continued loadshedding and a spike in political risk in early December on reports that President Cyril Ramaphosa might resign, local equities benefitted from the more optimistic investor sentiment, outperforming the major global indices. At the ANC's mid-December elective conference, party members rallied behind Ramaphosa and he emerged even stronger than before, with more ANC Executive Committee members supporting his economic reform agenda. This helped lower political risk premia on SA assets.

The FTSE/JSE All Share Index (ALSI) returned 15.2% in Q4, and the Capped SWIX 12.2% (both in rands). Listed Property shares were the strongest performers with an 18.2% return (All Property Index), followed by Resources with 17.6% (Resources 10 Index), Industrials (15.7%) and Financials (11.9%).

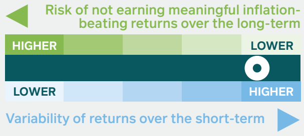
Also in more positive news, November CPI fell to 7.4% y/y from 7.6% in October, primarily attributable to lower energy prices: the SARB forecast it to reach the 4.5% mid-point of its target range by Q2 2024. Equally positive was that Q3 real GDP growth surprised to the upside at 1.6% (q/q annualised), led largely by higher agricultural production. By the end of the period, the size of the SA economy had finally exceeded pre-pandemic levels.

However, in its Medium-Term Budget, the National Treasury lowered its growth expectations for 2022 to 1.9% (versus 2.1% previously), and for 2023 to 1.4% from 1.6%. The SARB's latest projection was for 1.8% GDP growth in 2022. This was due to still-elevated inflation, rising interest rates, subdued consumer demand and slower economic growth, the war in Ukraine and the

Annualised performance	B class	Benchmark[1]	F class
1 year	9.8%	4.4%	8.6%
3 years	13.1%	10.1%	11.8%
5 years	7.0%	4.9%	5.8%
7 years	8.1%	6.4%	-
10 years	10.1%	8.2%	-
20 years	15.1%	13.4%	-

[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

R40 977 101 626

Sources: M&G, Morningstar & Deutsche Securities

impact of loadshedding: in its December Quarterly Bulletin, the SARB estimated that Q3 real GDP growth (quarterly) had likely been reduced by 2.3 percentage points due to the high intensity of power cuts. For the year to end-October, it said, loadshedding had occurred 33.4% of the time, or an average of 10.4 calendar days per month.

Performance

The fund delivered a return of 13.6% (net of fees) for the fourth quarter of 2022, outperforming its benchmark by 1.3%. For the 12 months ended 31 December 2022, the fund returned 8.6% (net of fees), outperforming its benchmark by 4.2%. It is particularly pleasing to report that over the three-year period ending 31 December 2022, both the absolute and relative performances of the fund have been strong: the fund's absolute return of 11.8% per annum has outperformed the benchmark by 1.7% per year.

The largest contributor to performance for the quarter was the fund's overweight holding in Investec Bank. The Investec share price was up just over 52% in the quarter and is the largest overweight position in the portfolio. This position contributed to the bulk of the outperformance of the fund in the quarter. Investec is a company that we have held for a number of years in the fund, and we continue to view it as a good-quality company, still trading on a depressed multiple. We think the management of Investec has done a good job in optimising capital allocation following the de-merger with Ninety One, and is now more focused on shareholder returns. The dividend yield of over 5% is now enhanced with the share buyback program.

It is also worth noting that for the year ended December, our overweight positioning to the banks sector in general and the stock picking within sector has been the largest contributor to performance. We continue to be positioned in favour of the lower-rated banks -- Standard Bank, ABSA and Investec -- and underweight the more highly rated banks, Firstrand and Capitec. ABSA in particular is worth mentioning as it was the third largest contributor to performance for the year, returning 35%. ABSA has shown a steady improvement in operating performance and is generating a return on (ROE) equity of 17%, 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 think that it is still undervalued; it remains one of our top bank overweights.

We continue to have an overweight position to the banks sector as we think that the banking shares we own are trading on undemanding valuations, especially given that earnings and dividend growth are exceptionally strong currently.

Our overweight positions to both Prosus and Richemont were also top contributors to performance for the last quarter. Both of these companies saw strong share price appreciation in the quarter, with Prosus up by 24% and Richemont up by 30%. We believe these companies have benefited from the change in risk appetite of investors for companies exposed to China as a result of the sudden change in the Covid policy. It appears that this economy is now being allowed to open up post the strict Covid lockdowns, and there seems to be a softer approach from regulators.

We think there is a strong investment case to be made for Prosus. Tencent, which is the main underlying asset of the group, has a market-leading position in China, which gives it a very strong competitive advantage in terms of expanding its network of products and monetising those products. It is a high-quality company with significant growth potential which we think is trading on an undemanding valuation. In addition to our favourable view of Tencent, we think the still-material discount at which both Naspers and Prosus trade to their underlying investments provides a significant margin of safety for the investment. We are also enthused by the continued share repurchase programmes being followed by Prosus, Naspers and Tencent, as well as the unbundling of Tencent's stakes in JD.com and Meituan.

The fund's overweight investment in Sasol was one of the largest detractors from performance during the quarter as energy prices fell globally. We think 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 pay down of debt and improves the optionality that the business has.

Staying in the resources sector, a large detractor from performance for this quarter was the fund's underweight to the gold sector, and in particular the underweight position to Anglogold. We have fairly consistently been underweight to the gold sector in this fund, mainly due to the very poor cash flows generated by gold companies and consequently the very poor dividend growth that gold companies have exhibited over a long period of time. For risk-control purposes, the fund does hold small positions in both Anglogold and Goldfields.

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 value ratio of the JSE remains close to 1.7X as at the end of December 2022, which we see as a very attractive valuation level. We also note that within the South African market, many commodity companies continue to experience elevated revenues and earnings, as the prices of platinum group metals, coal and iron ore remain at high levels.

South African assets appear to be undervalued relative to emerging and developed markets as well. 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 present 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. It is worth mentioning that when we construct our portfolios, we do not do so based on one particular view or outcome, as we think it is not possible to consistently predict what oil prices or inflation rates might do… or when and where countries may go to war, for instance. We rather look to construct portfolios with many different and diversified ideas, all of which we think have favourable pay-off profiles. In this way, we hopefully have portfolios which can deliver good client returns in 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 so, 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.

Sources: M&G, Morningstar & Deutsche Securities

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M&G Global Bond Feeder Fund

Global Income ZAR-denominated

Q4 2022

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The risk-on sentiment over the quarter saw equities outperform bonds, while emerging market returns were in line with those of developed markets. Bonds posted meaningful gains: the Bloomberg Global Aggregate Bond Index delivered 4.5% (in US$).

Hopes of fewer interest rate increases helped bond markets, although bunds were hit by a new hawkishness from the European Central Bank. Corporate bonds performed well, with high yield and emerging market bonds doing even better.

In the US, the US Fed hiked its Federal Funds rate by a combined 125bps in Q4 to 4.25%-4.5%, still considered an aggressive policy tightening by historic standards, even though its 50bp December hike represented a slower pace. The central bank also lifted its rate forecast for end 2023 by 0.5%, to 5%-5.25%, a more hawkish signal. This came despite falling CPI (at 7.1% y/y in November), as price increases became more widespread.

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In the UK, the Bank of England (BoE) finished off the year by raising its key interest rate by 50bps to 3.5% in December, in line with forecasts. Meanwhile, November CPI eased to 10.7% y/y vs October's 11.1%, largely due to falling energy prices. The Bank indicated more hikes are likely into 2023 in its bid to curb inflation at the expense of growth: the Office for Budget Responsibility (OBR) estimated that the U.K. economy was already in recession and that GDP will contract by 1.4% in 2023, while inflation is predicted to hit 9.1% in 2022 and 7.4% in 2023.

The ECB followed the US Fed and BoE with its own 50bp hike in December, while also suggesting similar-size hikes at its next two meetings. Eurozone inflation fell to 10.1% y/y in November from a record 10.6%, as energy costs eased. However, the ECB still expects a short and shallow recession in 2023 as the energy crisis is seen weighing heavily in the shorter-term while the Ukraine-Russia war drags on.

In Japan, the Bank of Japan (BOJ) surprised markets in mid-December with its first effective interest rate hike, raising its 10-year bond yield range by 0.25% to 0.50% after long periods of stability. The market had been pricing in no rate increases through 2023. Finally, the BOJ revised downward its real growth outlook for 2022 to 2.0% from 2.4% previously, and for 2023 to 1.9% from 2.0%, but no recession is expected.

In China, it was a fairly chaotic end to the year as the government responded to widespread social protests against its strict zero-Covid policy by removing almost all restrictions. However, this came as a large new wave of Covid infections was spreading. Although economists welcomed the move to help free up the economy and kick-start growth, the uncertain impact of the virus weighed negatively on markets. Meanwhile, consensus forecasts for China's economy call for only 3.3% GDP growth in 2022, far below the government's 5.5% target and the slowest since the 1970s. For 2023, a new government target of 4.5%-5% is reported to be most likely, but many consider this optimistic.

Finally, the rand appreciated against the US$, gaining 5.8% versus the greenback over the quarter. However, the rand lost ground against the euro and the pound sterling by 2.8% and 1.9% respectively. The appreciation of the rand against US$ detracted from local investors' offshore foreign currency returns

Performance

For Q4 2022, the fund returned 1.1% (net of fees), outperforming its benchmark, the Bloomberg Global Aggregate Bond index, which returned -1.5 %. For the 12 months ending 31 December, the fund delivered -10.2% compared to the benchmark's -11.2%.

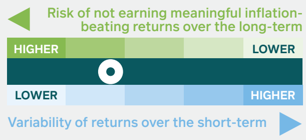
For absolute performance, the fund's holdings in US government and corporate bonds, as well as global investment-grade bonds, added value to returns. The main detractors were its exposure to German and French government bonds.

Strategy and positioning

During the quarter we took profits on the fund's tactical position in UK gilts that was initiated at the end of Q3, closing the position. We also sold emerging market hard currency government bonds to add to our position of 30-year US Treasuries after yields rose

Annualised performance	A class	Benchmark	B class
1 year	-10.2%	-11.2%	-10.0%
3 years	1.6%	1.8%	2.0%
5 years	4.3%	4.8%	-
7 years	1.3%	1.4%	-
10 years	6.5%	6.7%	-
20 years	6.8%	6.4%	-

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
R553 504 154

Sources: M&G, Morningstar & Deutsche Securities

above 4.3%. This took the fund long of duration temporarily, since following the subsequent rapid rise in US government bond prices, we again reduced our exposure, returning the fund to a neutral duration stance 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. Within currencies, we have started to add again to the US dollar, while cutting EM local currencies in order to reduce risk.

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

Q4 2022

Market overview

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The risk-on sentiment over the quarter saw equities outperform bonds, while emerging market returns were in line with those of developed markets. Hong Kong and European equities were among the best performers for the quarter, while the technology-dominated Nasdaq in the US, as well as Japan and the broader US market, were among the weakest.

Hopes of fewer interest rate increases helped bond markets, although bunds were hit by a new hawkishness from the European Central Bank. Corporate bonds performed well, with high yield and emerging market bonds doing even better.

For the quarter ended 31 December 2022, the MSCI All Country World Index returned 9.8%, the MSCI World Index (developed markets) also delivered 9.8%, and the MSCI Emerging Markets Index produced 9.7% (all in US$). Bonds also posted meaningful gains: the Bloomberg Global Aggregate Bond Index delivered 4.5% (in US$). Beaten-down property stocks were among the strongest performers, with the FTSE EPRA/NAREIT Global REIT Index returning 6.6% (US$).

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In the US, the US Fed hiked its Federal Funds rate by a combined 125bps in Q4 to 4.25%-4.5%, still considered an aggressive policy tightening by historic standards, even though its 50bp December hike represented a slower pace. The central bank also lifted its rate forecast for end 2023 by 0.5%, to 5%-5.25%, a more hawkish signal. This came despite falling CPI (at 7.1% y/y in November), as price increases became more widespread.

Meanwhile, after rising 3.2% y/y in Q3 on the back of surprisingly strong consumer spending, US economic growth for all of 2022 is forecast at around 1.9%, before slowing to below 1% for 2023. Data showed the US housing market is already slowing meaningfully and is expected to be a significant factor in the slowdown. However, consensus projections are for a relatively mild and brief recession lasting for the first three quarters of next year. US equity returns were in the black (apart from the Nasdaq) for the quarter: in US$, the Dow Jones produced 16.0%, the Nasdaq delivered – 0.8%, and the S&P 500 returned 7.6%. The S&P 500 recorded a -18.1% total return for 2022, the worst since the 2008 Global Financial Crisis.

In the UK, the Bank of England (BoE) finished off the year by raising its key interest rate by 50bps to 3.5% in December, in line with forecasts. Meanwhile, November CPI eased to 10.7% y/y vs October's 11.1%, largely due to falling energy prices. The Bank indicated more hikes are likely into 2023 in its bid to curb inflation at the expense of growth: the Office for Budget Responsibility (OBR) estimated that the U.K. economy was already in recession and that GDP will contract by 1.4% in 2023, while inflation is predicted to hit 9.1% in 2022 and 7.4% in 2023. For Q4 2022, the FTSE 100 returned 17.1% in US$, and -7.0% for 2022 as a whole.

The ECB followed the US Fed and BoE with its own 50bp hike in December, while also suggesting similar-size hikes at its next two meetings. Eurozone inflation fell to 10.1% y/y in November from a record 10.6%, as energy costs eased. However, the ECB still expects a short and shallow recession in 2023 as the energy crisis is seen weighing heavily in the shorter-term while the Ukraine-Russia war drags on. In France, the CAC 40 returned 22.6% in Q4, and -12.4% for 2022 (in US$). Meanwhile, Germany's DAX delivered 25.2% for the quarter and -17.4% for 2022 (in US$).

In Japan, the Bank of Japan (BOJ) surprised markets in mid-December with its first effective interest rate hike, raising its 10-year bond yield range by 0.25% to 0.50% after long periods of stability. The market had been pricing in no rate increases through 2023. Finally, the BOJ revised downward its real growth outlook for 2022 to 2.0% from 2.4% previously, and for 2023 to 1.9% from 2.0%, but no recession is expected. Following other global equity markets higher, the Nikkei returned 10.6% in US$ for the quarter but was down 19.1% for the year.

In China, it was a fairly chaotic end to the year as the government responded to widespread social protests against its strict zero-Covid policy by removing almost all restrictions. However, this came as a large new wave of Covid infections was spreading. Although economists welcomed the move to help free up the economy and kick-start growth, the uncertain impact of the virus weighed negatively on markets. Meanwhile, consensus forecasts for China's economy call for only 3.3% GDP growth in 2022, far below the government's 5.5% target and the slowest since the 1970s. For 2023, a new government target of 4.5%-5% is reported to be most likely, but many consider this optimistic. Hong Kong's Hang Seng produced 15.8% for the quarter and -12.6% in 2022 (in US$). The MSCI China returned 13.5% in Q4 and -21.8% in 2022, both in US$.

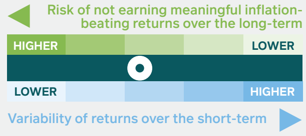
Finally, the rand appreciated against the US$, gaining 5.8% versus the greenback over the quarter. However, the rand lost ground against the euro and the pound sterling by 2.8% and 1.9% respectively. The appreciation of the rand against US$ detracted from local investors' offshore foreign currency returns.

Annualised performance

	A class	Benchmark[1]	B class
1 year	-9.4%	13.8%	-9.1%
3 years	4.5%	11.2%	4.8%
5 years	6.3%	8.7%	6.7%
7 years	3.3%	4.3%	3.6%
10 years	8.4%	9.2%	-
Since inception	7.2%	7.5%	-

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

Risk profile



Fund facts

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

Fund managers of the underlying fund
Craig Simpson

ASISA category:
Global - Multi-Asset - Low Equity

Benchmark
Global inflation

Inception date
1 March 2004

Fund size
R224 351 647

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

Performance

For Q4 2022, the fund returned 1.6% (net of fees), ahead of global inflation (based on the OECD Major 7 CPI Total Index) measuring -4.7%. For the 12 months to 31 December, the fund produced -9.4% (net of fees) whilst global inflation measured 13.8%.

On an absolute basis both equity and fixed income assets contributed to performance. Among equities, exposure to global, European and Japanese stocks was beneficial, while in fixed income, global bonds, European and US corporate bonds and US Treasuries supported performance.

The main detractors, meanwhile, were emerging market hard-currency bonds. Infrastructure stocks and bonds from Brazil also lagged.

Strategy and positioning

While there is a lot of negativity about the prospects for growth, there are few signs of capitulation in asset markets. At the same time, there is a strong consensus that inflation has peaked, which has been supportive of asset prices recently.

Valuations have improved almost everywhere but, as always, are dependent on the path for cash interest rates and the extent of optimism in profit forecasts. In these extremely volatile, narrative-driven times we remain alert to opportunities that are created by 'episodic', or sentiment-driven, changes in asset prices. As the likelihood of economic downturn has increased, we remain cautious and have adopted a more neutral positioning. However, we continue to hold a reasonable level of cash, enabling us to act quickly if and when market turbulence presents attractive opportunities.

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 US Federal Reserve governor's statement.

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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 Global Balanced Feeder Fund

Global Multi-Asset ZAR-denominated

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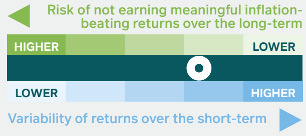
Annualised performance	A class	Benchmark	B class
1 year	-9.6%	-12.0%	-9.3%
2 years	5.2%	3.7%	5.4%
3 years	6.9%	8.4%	7.0%
Since inception	6.9%	8.9%	-

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
R1 425 584 786

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

Performance

For Q4 2022, the fund produced a return of 1.5% (net of fees), compared to the 1.7% recorded by its benchmark. For the 12 months to 31 December, the fund delivered -9.6%, outperforming the benchmark's -12.0% return.

On an absolute return basis, the main contributors to performance were the fund's holdings in global and European equity, global fixed income, US Treasuries, and US and European corporate bonds. The main detractors were emerging markets government bonds, notably Brazil.

Within equities, holdings of European, global and Japanese stocks added value. On the other hand, the overweight US stocks cost some performance.

Strategy and positioning

While there is a lot of negativity about the prospects for growth, there are few signs of capitulation in asset markets. At the same time, there is a strong consensus that inflation has peaked, which has been supportive of asset prices recently.

Valuations have improved almost everywhere but, as always, are dependent on the path for cash interest rates and the extent of optimism in profit forecasts. In these extremely volatile, narrative-driven times we remain alert to opportunities that are created by 'episodic', or sentiment-driven, changes in asset prices. As the likelihood of economic downturn has increased, we remain cautious and have adopted a more neutral positioning. However, we continue to hold a reasonable level of cash, enabling us to act quickly if and when market turbulence presents attractive opportunities.

We remain highly active within the global bond asset class, responding to the significant price movements we have seen during 2022. 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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M&G Global Property Feeder Fund

Global Property ZAR-denominated

Q4 2022

Market overview

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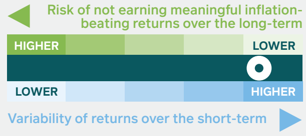
Performance

For Q4 2022, the fund returned 2.1%, outperforming its benchmark, the FTSE EPRA/NAREIT Global REITs Net Index's 0.4% return. For the 12 months to 31 December, the fund delivered -22.3% compared to the -19.9% return from the benchmark.

Like the M&G Global Equity Fund, quantitative analysis of individual companies, proprietary data analysis and machine learning are used to identify securities for potential inclusion in the fund. Active country, currency and industry risk are constrained at the portfolio construction phase, ensuring that style and individual asset risk are the main drivers of active returns.

Annualised performance	A class	Benchmark	B class
1 year	-22.3%	-19.9%	-22.0%
Since inception	-15.9%	-12.9%	-

Risk profile



Fund facts

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

Fund managers of the underlying fund
Gautam Samarth
Egidijus Bertulis

ASISA category
Global - Real Estate - General

Benchmark
FTSE EPRA NAREIT Global REIT Index (Net)

Inception date
24 November 2021

Fund size
R14 172 543

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

Style was the main driver of outperformance over the quarter, whereas exposure to poor momentum, high growth and high beta stocks all proved to be detractors from performance.

Stock selection was also negative, detracting from performance over the quarter. At individual stock level, active positions in SBA Communications Corp and Apple Hospitality REIT were the largest contributors to performance, while Manulife US REIT and Diversified Healthcare Trust were the biggest detractors.

Strategy and positioning

While there is a lot of negativity about the prospects for growth, there are few signs of capitulation in asset markets. At the same time, there is a strong consensus that inflation has peaked, which has been supportive of asset prices recently.

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M&G Global Equity Feeder Fund

Global Equity ZAR-denominated

Q4 2022

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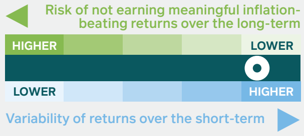
Performance

For Q4 2022, the fund returned 2.8% (net of fees), compared to the benchmark's 3.4%. For the 12 months ending 31 December, the fund delivered -11.2% (net of fees) compared to the benchmark's -13.5%.

A key attribute of portfolio construction within the fund is that active country, currency and industry exposures are constrained to ensure that style and individual stock risk are the main drivers of active returns. The portfolio's style exposure was a modest positive contributor to its relative performance over the quarter, primarily driven by positive exposures to high beta and cheap value stocks.

Annualised performance	A class	Benchmark	B class
1 year	-11.2%	-13.5%	-10.9%
3 years	10.9%	10.8%	11.3%
5 years	10.4%	12.2%	-
7 years	8.2%	9.5%	-
10 years	14.3%	15.7%	-
20 years	9.6%	11.8%	-

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

R922 524 294

Sources: M&G, Morningstar & Deutsche Securities

On a stock level, selection detracted from performance over the quarter. Bombardier Inc., a manufacturer of business jets, and Perion Inc., a digital marketing company, were the biggest contributors to performance. Both companies benefitted from positive earnings that were ahead of consensus expectations. Meanwhile, the largest detractors from performance were Proto Labs Inc, a contract manufacturing company focused on rapid prototyping, and Migros Ticaret A.S, a Turkish supermarket chain.

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.

While there is a lot of negativity about the prospects for growth, there are few signs of capitulation in asset markets. At the same time, there is a strong consensus that inflation has peaked, which has been supportive of asset prices recently.

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M&G 2.5% Target Income Fund

Target Income

Q4 2022

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South Africa

In South Africa, the SARB also matched the Fed's 75bp rate hike in November and is expected to follow its 50bp increase in January. Despite continued loadshedding and a spike in political risk in early December on reports that President Cyril Ramaphosa might resign, local equities and bonds benefitted from the more optimistic investor sentiment, outperforming the major global indices. The FTSE/JSE All Share Index (ALSI) returned 15.2% in Q4, and the Capped SWIX 12.2% (both in rands). Listed Property shares were the strongest performers with an 18.2% return (All Property Index), followed by Resources with 17.6% (Resources 10 Index), Industrials (15.7%) and Financials (11.9%).

For the 12 months to 31 December, it was a story of strong outperformance for SA equities, as the ALSI returned 3.6% in

Annualised performance	A class	CPI	B class
1 year	3.3%	7.4%	3.7%
2 years	14.4%	6.4%	14.8%
3 years	8.9%	5.3%	9.3%
Since inception	6.6%	5.0%	-

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
R98 234 043

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

rands, and -2.3% in US$, outperforming the -18.4% recorded by global equities (the MSCI All Country World Index), and the -20.1% recorded by the MSCI Emerging Markets Index (both in US$).

SA bonds also significantly outperformed again in Q4: the FTSE/JSE All Bond Index (ALBI) delivered 5.7%, outperforming global bonds yet again (-1.5% in rand terms). For the 12 months to 31 December, local bonds (ALBI) outpaced global bonds with a return of 4.3% versus -11.2%, in rands. Inflation-linked bonds (ILBs) produced 2.0% and cash returned 1.6% for Q4. Finally, the rand posted a mixed performance, gaining 5.8% against a weaker US$ but losing 1.9% against sterling and 2.8% versus the euro over the quarter.

Also in more positive news, November CPI fell to 7.4% y/y from 7.6% in October, primarily attributable to lower energy prices: the SARB forecast it to reach the 4.5% mid-point of its target range by Q2 2024. Equally positive was that Q3 real GDP growth surprised to the upside at 1.6% (q/q annualised), led largely by higher agricultural production. By the end of the period, the size of the SA economy had finally exceeded pre-pandemic levels. However, in its Medium-Term Budget, the National Treasury lowered its growth expectations for 2022 to 1.9% (versus 2.1% previously), and for 2023 to 1.4% from 1.6%. The SARB's latest projection was for 1.8% GDP growth in 2022.

Performance

The M&G 2.5% Target Income Fund returned 7.8% (after fees) for the fourth quarter of 2022 and 3.3% for the 12-month period ending 31 December 2022.

The fund's SA equity exposure added the most value to its absolute return for Q4, by far, followed by SA bond and listed property holdings, and then global equities. There were no significant asset class detractors for the quarter.

In terms of specific equity exposure for the quarter, among the strongest contributors to absolute returns were the fund's holdings in Naspers/Prosus, Investec, Standard Bank, Richemont, Glencore, Northam Platinum and Anglo American. Smaller positive value was added by Absa, Reinet and Implats. Detractors from performance (in minor values) were the fund's holdings in Foschini, Telkom Group and Sasol (on the back of the drop in the global oil price).

Strategy and positioning

Starting with our view on **offshore asset allocation**, during the quarter we gradually increased our global exposure across equities as their valuations became more attractive relative to SA assets. By year-end we were much less underweight offshore assets versus local assets in the fund compared to the start of 2022. We also took advantage of the rand strength versus the US$ during the quarter and reduced our forex hedges in rands.

Within **global bonds** we have a preference for 30-year US Treasuries, as well as sovereign EM bond markets where the real yields are high and the currency is trading at fair-to-cheap levels.

Within **global equities**, we remain selective and somewhat cautious, and are still leaning slightly away from US equities. While global equities are trading at cheap levels relative to recent history, in our view there are still unresolved questions around the effect of rising real rates on valuations and the risks to earnings going forward.

Our **global cash** holdings continue to partially cushion our funds, as well as providing some liquidity to take advantage of new market opportunities that could arise. We are mindful of the risks that exist globally in terms of slower economic growth, rising interest rates and embedded inflation – any negative surprises present downside risks for corporate earnings and bond prices.

The fund still favoured **SA equities** at the end of Q4. 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) re-rated over the quarter, rising from around 7.8X to around 9.0X at quarter-end. Almost all of this re-rating was attributable to share price gains, as earnings estimates fell only marginally.

The fund remained marginally tilted away from **SA listed property** in Q4 2022, as we prefer exposure to other shares that we believe 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.

Fund performance also benefitted from our ongoing preference for **SA nominal bonds** in the fourth quarter (on a relative basis) due to their positive returns, despite a very volatile period. The 10-year SA government bond rallied approximately 50bps, falling from 11.4% to 10.9% at quarter-end, still at a relatively high level on a historic basis. It was mid- and longer-dated bonds (seven years and beyond) that outperformed over the period as shorter dates reflected the SARB's rate hikes; this also benefitted our specific holdings. We continue to 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 remain more attractive on an absolute and relative basis.

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

M&G 5% Target Income Fund

Target Income

Q4 2022

Market overview

In the final quarter (Q4) of 2022, global financial markets recovered some of the ground lost during the past three quarters. Although the outlook remained gloomy, some light emerged: in October and November buyers were attracted by cheaper asset valuations and somewhat improved clarity on company earnings prospects, as well as falling fuel and food prices. By mid-December, a slowdown in the pace of the interest rate hiking cycle added to the better sentiment. However, caution returned in December: still causing uncertainty were unknowns such as the severity of the expected 2023 global growth slowdown, the impact of the massive new Covid wave in China, the ongoing tragedies of the Ukraine-Russia war, and the stickiness of inflation in large economies. As such, markets retraced some of their earlier gains in December.

The risk-on sentiment over the quarter saw equities outperform bonds, while emerging market returns were in line with those of developed markets. For the quarter ended 31 December 2022, the MSCI All Country World Index returned 9.8%, the MSCI World Index (developed markets) also delivered 9.8%, and the MSCI Emerging Markets Index produced 9.7% (all in US$). Bonds also posted meaningful gains: the Bloomberg Global Aggregate Bond Index delivered 4.5% (in US$). Beaten-down property stocks were among the strongest performers, with the FTSE EPRA/NAREIT Global REIT Index returning 6.6% (US$).

The oil price fell during the quarter on the back of expected lower demand and improved supply. Brent crude lost 2.3% in US$, ending the quarter at around US$83 per barrel. Over the past 12 months the oil price is now only 10.5% higher.

In the US, the US Fed hiked its Federal Funds rate by a combined 125bps in Q4 to 4.25%-4.5%, still considered an aggressive policy tightening by historic standards, even though its 50bp December hike represented a slower pace. The central bank also lifted its rate forecast for end 2023 by 0.5%, to 5%-5.25%, a more hawkish signal. This came despite falling CPI (at 7.1% y/y in November), as price increases became more widespread.

Meanwhile, after rising 3.2% y/y in Q3 on the back of surprisingly strong consumer spending, US economic growth for all of 2022 is forecast at around 1.9%, before slowing to below 1% for 2023. Data showed the US housing market is already slowing meaningfully and is expected to be a significant factor in the slowdown. However, consensus projections are for a relatively mild and brief recession lasting for the first three quarters of next year. US equity returns were in the black (apart from the Nasdaq) for the quarter: in US$, the Dow Jones produced 16.0%, the Nasdaq delivered – 0.8%, and the S&P 500 returned 7.6%. The S&P 500 recorded a -18.1% total return for 2022, the worst since the 2008 Global Financial Crisis.

In the UK, the Bank of England (BoE) finished off the year by raising its key interest rate by 50bps to 3.5% in December, in line with forecasts. Meanwhile, November CPI eased to 10.7% y/y vs October's 11.1%, largely due to falling energy prices. The Bank indicated more hikes are likely into 2023 in its bid to curb inflation at the expense of growth: the Office for Budget Responsibility (OBR) estimated that the U.K. economy was already in recession and that GDP will contract by 1.4% in 2023, while inflation is predicted to hit 9.1% in 2022 and 7.4% in 2023. For Q4 2022, the FTSE 100 returned 17.1% in US$, and -7.0% for 2022 as a whole.

The ECB followed the US Fed and BoE with its own 50bp hike in December, while also suggesting similar-size hikes at its next two meetings. Eurozone inflation fell to 10.1% y/y in November from a record 10.6%, as energy costs eased. However, the ECB still expects a short and shallow recession in 2023 as the energy crisis is seen weighing heavily in the shorter-term while the Ukraine-Russia war drags on. In France, the CAC 40 returned 22.6% in Q4, and -12.4% for 2022 (in US$). Meanwhile, Germany's DAX delivered 25.2% for the quarter and -17.4% for 2022 (in US$).

In Japan, the Bank of Japan (BOJ) surprised markets in mid-December with its first effective interest rate hike, raising its 10-year bond yield range by 0.25% to 0.50% after long periods of stability. The market had been pricing in no rate increases through 2023. Finally, the BOJ revised downward its real growth outlook for 2022 to 2.0% from 2.4% previously, and for 2023 to 1.9% from 2.0%, but no recession is expected. Following other global equity markets higher, the Nikkei returned 10.6% in US$ for the quarter but was down 19.1% for the year.

In China, it was a fairly chaotic end to the year as the government responded to widespread social protests against its strict zero-Covid policy by removing almost all restrictions. However, this came as a large new wave of Covid infections was spreading. Although economists welcomed the move to help free up the economy and kick-start growth, the uncertain impact of the virus weighed negatively on markets. Meanwhile, consensus forecasts for China's economy call for only 3.3% GDP growth in 2022, far below the government's 5.5% target and the slowest since the 1970s. For 2023, a new government target of 4.5%-5% is reported to be most likely, but many consider this optimistic. Hong Kong's Hang Seng produced 15.8% for the quarter and -12.6% in 2022 (in US$). The MSCI China returned 13.5% in Q4 and -21.8% in 2022, both in US$.

South Africa

In South Africa, the SARB also matched the Fed's 75bp rate hike in November and is expected to follow its 50bp increase in January. Despite continued loadshedding and a spike in political risk in early December on reports that President Cyril Ramaphosa might resign, local equities and bonds benefitted from the more optimistic investor sentiment, outperforming the major global indices. The FTSE/JSE All Share Index (ALSI) returned 15.2% in Q4, and the Capped SWIX 12.2% (both in rands). Listed Property shares were the strongest performers with an 18.2% return (All Property Index), followed by Resources with 17.6% (Resources 10 Index), Industrials (15.7%) and Financials (11.9%).

For the 12 months to 31 December, it was a story of strong outperformance for SA equities, as the ALSI returned 3.6% in

Annualised performance	A class	CPI	B class
1 year	2.9%	7.4%	3.3%
2 years	9.5%	6.4%	9.9%
3 years	6.5%	5.3%	6.9%
Since inception	5.9%	5.0%	-

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
R195 903 424

Sources: M&G, Morningstar & Deutsche Securities

rands, and -2.3% in US$, outperforming the -18.4% recorded by global equities (the MSCI All Country World Index), and the -20.1% recorded by the MSCI Emerging Markets Index (both in US$).

SA bonds also significantly outperformed again in Q4: the FTSE/JSE All Bond Index (ALBI) delivered 5.7%, outperforming global bonds yet again (-1.5% in rand terms). For the 12 months to 31 December, local bonds (ALBI) outpaced global bonds with a return of 4.3% versus -11.2%, in rands. Inflation-linked bonds (ILBs) produced 2.0% and cash returned 1.6% for Q4. Finally, the rand posted a mixed performance, gaining 5.8% against a weaker US$ but losing 1.9% against sterling and 2.8% versus the euro over the quarter.

Also in more positive news, November CPI fell to 7.4% y/y from 7.6% in October, primarily attributable to lower energy prices: the SARB forecast it to reach the 4.5% mid-point of its target range by Q2 2024. Equally positive was that Q3 real GDP growth surprised to the upside at 1.6% (q/q annualised), led largely by higher agricultural production. By the end of the period, the size of the SA economy had finally exceeded pre-pandemic levels. However, in its Medium-Term Budget, the National Treasury lowered its growth expectations for 2022 to 1.9% (versus 2.1% previously), and for 2023 to 1.4% from 1.6%. The SARB's latest projection was for 1.8% GDP growth in 2022.

Performance

The M&G 5% Target Income Fund returned 8.8% (after fees) for the fourth quarter of 2022 and 2.9% (after fees) for the 12-month period ending 31 December 2022.

The fund's SA equity exposure added the most value to its absolute return for Q4, by far, followed by its SA bond and listed property holdings, and then global equities. There were no significant asset class detractors for the quarter.

In terms of specific equity exposure for the quarter, among the strongest contributors to absolute returns were the fund's holdings in Naspers/Prosus, Investec, Richemont, Standard Bank, Glencore, Northam Platinum and Anglo American. Smaller positive value was added by Absa, Reinet, MTN and Implats. Minor detractors from performance were the fund's holdings in Foschini, Telkom Group and Sasol (on the back of the drop in the global oil price).

Strategy and positioning

Starting with our view on **offshore asset allocation**, during the quarter the fund's overall level of global exposure remained the same. We continued to prefer SA assets given that they remained more attractive than their offshore counterparts, despite the latter becoming somewhat cheaper in Q4.

Within our **global holdings**, however, we lifted our exposure to **global bonds** and global equities out of global cash as their valuations cheapened. Within global bonds we have a preference for 30-year US Treasuries, as well as sovereign EM bond markets where the real yields are high and the currency is trading at fair-to-cheap levels.

Within **global equities**, we remain selective and somewhat cautious, and are still leaning slightly away from US equities. While global equities are trading at cheap levels relative to recent history, in our view there are still unresolved questions around the effect of rising real rates on valuations and the risks to earnings going forward.

Our **global cash** holdings reduced during the quarter after buying more global equities and bonds, but our holdings still partially cushion the fund, as well as providing some liquidity to take advantage of new market opportunities that could arise. We are mindful of the risks that exist globally in terms of slower economic growth, higher interest rates and stubborn inflation – any negative surprises present downside risks for corporate earnings and bond prices.

The fund still favoured **SA equities** at the end of Q4. During the quarter, our overall weight in this asset class rose slightly. We increased our SA equity exposure slightly by taking profits on a portion of our SA nominal bond holdings as the former's relative valuation became more attractive. SA equity valuations (as measured by the 12-month forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) re-rated over the quarter, rising from around 7.8X to around 9.0X at quarter-end. Almost all of this re-rating was attributable to share price gains, as earnings estimates fell only marginally.

The fund remained marginally tilted away from **SA listed property** in Q4 2022, as we prefer exposure to other shares that we believe offer better value propositions and greater diversification 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.

Fund performance also benefitted from our ongoing preference for **SA nominal bonds** in the fourth quarter (on a relative basis) due to their positive returns, despite a very volatile period. The 10-year SA government bond rallied approximately 50bps, falling from 11.4% to 10.9% at quarter-end, still at a relatively high level on a historic basis. It was mid- and longer-dated bonds (seven years and beyond) that outperformed over the period as shorter dates reflected the SARB's rate hikes; this also benefitted our specific holdings.

During the quarter we took profits on a portion of the fund's **nominal bond** holdings to buy more SA equities based on the outperformance of the former versus the latter over the period. We continue to prefer SA nominal bonds in the fund as their valuations remain attractive relative to both their own longer-term history and to **SA inflation-linked bonds (ILBs)**, and will more than compensate investors for their associated risks. The fund held no ILBs at the end of Q4.

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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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G 7% Target Income Fund

Target Income

Q4 2022

Market overview

In the final quarter (Q4) of 2022, global financial markets recovered some of the ground lost during the past three quarters. Although the outlook remained gloomy, some light emerged: in October and November buyers were attracted by cheaper asset valuations and somewhat improved clarity on company earnings prospects, as well as falling fuel and food prices. By mid-December, a slowdown in the pace of the interest rate hiking cycle added to the better sentiment. However, caution returned in December: still causing uncertainty were unknowns such as the severity of the expected 2023 global growth slowdown, the impact of the massive new Covid wave in China, the ongoing tragedies of the Ukraine-Russia war, and the stickiness of inflation in large economies. As such, markets retraced some of their earlier gains in December.

The risk-on sentiment over the quarter saw equities outperform bonds, while emerging market returns were in line with those of developed markets. For the quarter ended 31 December 2022, the MSCI All Country World Index returned 9.8%, the MSCI World Index (developed markets) also delivered 9.8%, and the MSCI Emerging Markets Index produced 9.7% (all in US$). Bonds also posted meaningful gains: the Bloomberg Global Aggregate Bond Index delivered 4.5% (in US$). Beaten-down property stocks were among the strongest performers, with the FTSE EPRA/NAREIT Global REIT Index returning 6.6% (US$).

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In the US, the US Fed hiked its Federal Funds rate by a combined 125bps in Q4 to 4.25%-4.5%, still considered an aggressive policy tightening by historic standards, even though its 50bp December hike represented a slower pace. The central bank also lifted its rate forecast for end 2023 by 0.5%, to 5%-5.25%, a more hawkish signal. This came despite falling CPI (at 7.1% y/y in November), as price increases became more widespread.

Meanwhile, after rising 3.2% y/y in Q3 on the back of surprisingly strong consumer spending, US economic growth for all of 2022 is forecast at around 1.9%, before slowing to below 1% for 2023. Data showed the US housing market is already slowing meaningfully and is expected to be a significant factor in the slowdown. However, consensus projections are for a relatively mild and brief recession lasting for the first three quarters of next year. US equity returns were in the black (apart from the Nasdaq) for the quarter: in US$, the Dow Jones produced 16.0%, the Nasdaq delivered – 0.8%, and the S&P 500 returned 7.6%. The S&P 500 recorded a -18.1% total return for 2022, the worst since the 2008 Global Financial Crisis.

In the UK, the Bank of England (BoE) finished off the year by raising its key interest rate by 50bps to 3.5% in December, in line with forecasts. Meanwhile, November CPI eased to 10.7% y/y vs October's 11.1%, largely due to falling energy prices. The Bank indicated more hikes are likely into 2023 in its bid to curb inflation at the expense of growth: the Office for Budget Responsibility (OBR) estimated that the U.K. economy was already in recession and that GDP will contract by 1.4% in 2023, while inflation is predicted to hit 9.1% in 2022 and 7.4% in 2023. For Q4 2022, the FTSE 100 returned 17.1% in US$, and -7.0% for 2022 as a whole.

The ECB followed the US Fed and BoE with its own 50bp hike in December, while also suggesting similar-size hikes at its next two meetings. Eurozone inflation fell to 10.1% y/y in November from a record 10.6%, as energy costs eased. However, the ECB still expects a short and shallow recession in 2023 as the energy crisis is seen weighing heavily in the shorter-term while the Ukraine-Russia war drags on. In France, the CAC 40 returned 22.6% in Q4, and -12.4% for 2022 (in US$). Meanwhile, Germany's DAX delivered 25.2% for the quarter and -17.4% for 2022 (in US$).

In Japan, the Bank of Japan (BOJ) surprised markets in mid-December with its first effective interest rate hike, raising its 10-year bond yield range by 0.25% to 0.50% after long periods of stability. The market had been pricing in no rate increases through 2023. Finally, the BOJ revised downward its real growth outlook for 2022 to 2.0% from 2.4% previously, and for 2023 to 1.9% from 2.0%, but no recession is expected. Following other global equity markets higher, the Nikkei returned 10.6% in US$ for the quarter but was down 19.1% for the year.

In China, it was a fairly chaotic end to the year as the government responded to widespread social protests against its strict zero-Covid policy by removing almost all restrictions. However, this came as a large new wave of Covid infections was spreading. Although economists welcomed the move to help free up the economy and kick-start growth, the uncertain impact of the virus weighed negatively on markets. Meanwhile, consensus forecasts for China's economy call for only 3.3% GDP growth in 2022, far below the government's 5.5% target and the slowest since the 1970s. For 2023, a new government target of 4.5%-5% is reported to be most likely, but many consider this optimistic. Hong Kong's Hang Seng produced 15.8% for the quarter and -12.6% in 2022 (in US$). The MSCI China returned 13.5% in Q4 and -21.8% in 2022, both in US$.

South Africa

In South Africa, the SARB also matched the Fed's 75bp rate hike in November and is expected to follow its 50bp increase in January. Despite continued loadshedding and a spike in political risk in early December on reports that President Cyril Ramaphosa might resign, local equities and bonds benefitted from the more optimistic investor sentiment, outperforming the major global indices. The FTSE/JSE All Share Index (ALSI) returned 15.2% in Q4, and the Capped SWIX 12.2% (both in rands). Listed Property shares were the strongest performers with an 18.2% return (All Property Index), followed by Resources with 17.6% (Resources 10 Index), Industrials (15.7%) and Financials (11.9%).

Annualised performance	A class	CPI	B class
1 year	5.0%	7.4%	5.3%
2 years	8.6%	6.4%	8.9%
3 years	5.9%	5.3%	6.3%
Since inception	5.7%	5.0%	-

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
R369 775 020

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

For the 12 months to 31 December, it was a story of strong outperformance for SA equities, as the ALSI returned 3.6% in rands, and -2.3% in US$, outperforming the -18.4% recorded by global equities (the MSCI All Country World Index), and the -20.1% recorded by the MSCI Emerging Markets Index (both in US$).

SA bonds also significantly outperformed again in Q4: the FTSE/JSE All Bond Index (ALBI) delivered 5.7%, outperforming global bonds yet again (-1.5% in rand terms). For the 12 months to 31 December, local bonds (ALBI) outpaced global bonds with a return of 4.3% versus -11.2%, in rands. Inflation-linked bonds (ILBs) produced 2.0% and cash returned 1.6% for Q4. Finally, the rand posted a mixed performance, gaining 5.8% against a weaker US$ but losing 1.9% against sterling and 2.8% versus the euro over the quarter.

Also in more positive news, November CPI fell to 7.4% y/y from 7.6% in October, primarily attributable to lower energy prices: the SARB forecast it to reach the 4.5% mid-point of its target range by Q2 2024. Equally positive was that Q3 real GDP growth surprised to the upside at 1.6% (q/q annualised), led largely by higher agricultural production. By the end of the period, the size of the SA economy had finally exceeded pre-pandemic levels. However, in its Medium-Term Budget, the National Treasury lowered its growth expectations for 2022 to 1.9% (versus 2.1% previously), and for 2023 to 1.4% from 1.6%. The SARB's latest projection was for 1.8% GDP growth in 2022.

Performance

The M&G 7% Target Income Fund returned 7.3% (after fees) for the quarter and 5.0% for the 12-month period ending 31 December 2022.

SA nominal bond exposure added the most value to the fund's absolute return for Q4, followed by SA equities, and a somewhat lower contribution from SA listed property holdings. Global assets added marginal value for the quarter on an absolute basis, and there were no significant asset class detractors for the quarter.

In terms of specific equity exposure for the quarter, among the strongest contributors to absolute returns were the fund's holdings in Naspers/Prosus, Investec, Richemont and Standard Bank. Somewhat smaller contributions were added by Glencore, NEPI Rockcastle, Growthpoint, Northam Platinum and Anglo American. Minor detractors from absolute performance were the fund's holdings in Foschini, Telkom Group and Sasol (on the back of the drop in the global oil price).

Strategy and positioning

To improve diversification, the fund includes a small exposure to global assets across equities, bonds and cash. During the quarter, the fund's overall level of global exposure remained the same. We continued to prefer SA assets given that they remained more attractive than their offshore counterparts.

Within our **global holdings**, however, we lifted our exposure to global bonds and global equities out of global cash as their valuations cheapened. Within global bonds we have a preference for 30-year US Treasuries, as well as sovereign EM bond markets where the real yields are high and the currency is trading at fair-to-cheap levels.

Within **global equities**, we remain selective and somewhat cautious, and are still leaning slightly away from US equities. While global equities are trading at cheap levels relative to recent history, in our view there are still unresolved questions around the effect of rising real rates on valuations and the risks to earnings going forward.

Our **global cash** holdings reduced during the quarter after buying more global equities and bonds, but our holdings still partially cushion the fund, as well as providing some liquidity to take advantage of new market opportunities that could arise. We are mindful of the risks that exist globally in terms of slower economic growth, higher interest rates and stubborn inflation – any negative surprises present downside risks for corporate earnings and bond prices.

The fund still favoured **SA equities** at the end of Q4. 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) re-rated over the quarter, rising from around 7.8X to around 9.0X at quarter-end. Almost all of this re-rating was attributable to share price gains, as earnings estimates fell only marginally.

The fund remained marginally tilted away from **SA listed property** in Q4 2022, as we prefer exposure to other shares that we believe 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.

Fund performance also benefitted from our ongoing preference for **SA nominal bonds** in the fourth quarter (on a relative basis) due to their positive returns, despite a very volatile period. The 10-year SA government bond rallied approximately 50bps, falling from 11.4% to 10.9% at quarter-end, still at a relatively high level on a historic basis. It was mid- and longer-dated bonds (seven years and beyond) that outperformed over the period as shorter dates reflected the SARB's rate hikes; this also benefitted our specific holdings. We continue to prefer SA nominal bonds in the fund as their valuations remain attractive relative to both their own longer-term history and to **SA inflation-linked bonds (ILBs)**, and will more than compensate investors for their associated risks. As of the end of Q4, the fund held no ILB exposure.

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 started hiking.

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Sources: M&G, Morningstar & Deutsche Securities