M&G Unit Trust Quarterly Commentary

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

Q1 2023

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M&G Money Market Fund

Income

Q1 2023

Market overview

So far in 2023, global financial markets have experienced wild swings – particularly in the normally less volatile fixed income markets – dictated by the guessing game over the path of US interest rates, inflation and growth.

January's sentiment was relatively bullish, dominated by expectations of a weaker US economy going into 2023, which would have increased the likelihood of softer inflation, lower-than-expected interest rates and a relatively imminent pause to the US Federal Reserve's rate hiking cycle. This was all up ended in February by surprisingly strong economic data, including more widely embedded inflation than previously thought. With the Fed signalling its intention to continue hiking, this sent market uncertainty higher and global asset prices lower, an environment that continued well into March.

Then the emergence of banking sector turmoil sparked by the sudden failure of specialist Silicon Valley Bank and the engineered buyout of Swiss banking giant Credit Suisse by UBS shocked markets even further, with swift central bank and government interventions preventing contagion to other sectors.

Gold benefited and risk-off sentiment prevailed as global financial stocks sold off.

Central banks suddenly had an even tougher policy balancing act, having to choose between their duties of fighting inflation, safeguarding national banking systems and supporting growth and employment. Ironically, this led back to more positive expectations of lower interest rates and sooner-than-expected rate pauses.

The US Fed hiked by a measured 25bps in March, as expected, as did the Bank of England (BOE), while the European Central Bank (ECB) and SA Reserve Bank (SARB) announced relatively robust 50bp increases given their higher inflation threats. Looking back, investment managers have rarely seen such sharp changes in market views in such a short period of time. US Treasury bonds, for example, experienced high volatility of around 10%, with the 10-year UST yield falling by 50bps from around 4.0% to 3.5% between February and March – an exceptionally big move in that market.

While the growth outlook improved in several key economies, making equities more attractive, risk aversion still made itself apparent over the quarter. Global bonds posted meaningful gains: the Bloomberg Global Aggregate Bond Index delivered 3.0% (in US$). Global property stocks continued to generate among the weakest returns, with the FTSE EPRA/NAREIT Global REIT Index returning 1.4% (US$). For the quarter, SA nominal bonds (the FTSE/JSE All Bond Index) delivered 3.4% in rands, while inflation-linked bonds (ILBs) produced 0.9% and cash returned 1.7%.

Performance

Over the quarter the fund delivered a return of 1.8% (A class, net of fees) compared to the benchmark's 1.7%. Because the instruments held by the fund are predominantly floating-rate in nature, absolute returns achieved continue to improve as the repo rate moves higher.

Strategy and positioning

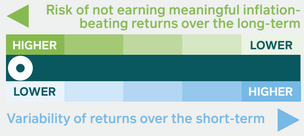
Following the bond market's strong start to the year, we took the opportunity over the past quarter to reduce duration across most of our fixed income products. Although South African bonds still appear attractive on most measures, the asset class is slowly nearing fair value. Cash is also becoming relatively more attractive, thanks to continued hiking by the SARB. Furthermore, we have concerns that continued load-shedding will negatively affect growth, which could ultimately lead to a weaker fiscal trajectory. We are already seeing signs of this happening. February's budget saw the first meaningful increase in National Treasury's debt-to-GDP projections since the 2020 MTBPS, resulting from the additional government support offered to Eskom.

For the Money Market Fund specifically, we have kept duration relatively unchanged (88 days at quarter-end), at the high-end of the 90-day mandate limit. The aforementioned fiscal concerns are less relevant over the timescale that this fund invests in. The money market curve also remains steep compared to history and the fund's high duration has helped us to take advantage of this.

The end of February saw the maturity of the R2023, which had become a core holding of this fund. We have slowly been deploying its proceeds into select opportunities and will continue to do so as and when these emerge.

Annualised performance	A class	Benchmark	X class
1 year	6.2%	5.7%	6.2%
3 years	4.8%	4.4%	4.8%
5 years	5.8%	5.2%	5.8%
7 years	6.3%	5.7%	6.4%
10 years	6.1%	5.6%	6.2%
20 years	7.1%	6.8%	-
Since inception	7.3%	7.1%	-

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 434 569 758

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Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

M&G High Interest Fund

Income

This fund is capped to new investors.

Q1 2023

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Performance

Over the quarter the fund delivered a return of 1.8% (Class A, net of fees) compared to the benchmark's 1.7%. Because the instruments held by the fund are predominantly floating rate in nature, absolute returns achieved continue to improve as the repo rate moves higher.

Strategy and Positioning

Credit trends

Total credit issuance volume (excluding government issuances) in Q1 2023 was very healthy at around R52bn. Issuance was buoyed by R15.8bn in tap issuance by Eskom over the quarter. Q1 issuance volume was thus 7% up compared to the previous quarter (Q4 2022) of R49bn, and 98% up compared to the prior year (Q1 2022) at around R26bn. Rolling 12-month issuance to Q1 2023 sits at R167bn compared to the 12 months to Q1 2022 of 120bn. It is noteworthy that 25% of the way through the year gross issuance is already just over 40% of the full-year estimates for issuance as compiled by RMB Credit Research – a good start to the year.

The make-up of issuance for the quarter followed established trends - the majority of issuance being floating-rate notes, with auctions being the predominant placement method. Financials were the largest sector for issuance with approximately 40% of total issuance. Some 72% of the volume in the Financials sector was in the form of senior bank issuance. Data compiled by ABSA's Credit Research team indicates that, at 31 March 2023, 48% of SA listed credit is comprised of bank exposures.

After the Eskom issuance, the next largest issuers were the "big five" SA banks, who combined raised R17.5bn in the quarter. Firstrand Bank Limited was the largest contributor, raising R5.5bn, with R2.3bn being in the form of Tier II subordinated debt, which priced at 3-month JIBAR + 1.9%. There were no new corporate issuers in the debt capital market in the first quarter.

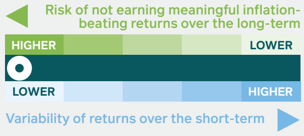
Credit spreads moved tighter over the first quarter of the year. Floating rate spreads moved lower by 5 basis points (bps) versus Q4 2022, with fixed-rate spreads closing the quarter 15 bps down.

Internationally, bank subordinated Additional Tier 1 (AT1) credit spreads were impacted by the collapse and subsequent sale of Credit Suisse to UBS. Against expectations, subordinated additional tier 1 bonds were written off in the transaction brokered by Swiss regulators, while equity holders received $3.2bn, making equity superior to AT1 debt. European regulators later came out to restore confidence to AT1 investors, stating that the normal capital structure hierarchy (with AT1 bonds ranking ahead of equity) would be respected in any bank intervention under their jurisdiction. Locally these events have appeared to have little impact on the pricing of South African AT1 bonds.

Data from RMB Credit Research shows banks continue to be active participants as buyers of corporate credit in auctions, competing alongside asset managers. In Q1 banks received 39% of final allocations compared to an average of 29% for 2022. Interestingly, the 39% of allocations received is indicative of SA banks pricing tighter in auctions than institutional fund managers, as banks only made up 20% of the bids in these auctions.

Annualised performance	A class	Benchmark	X class	D class
1 year	6.5%	6.0%	6.6%	6.7%
3 years	4.7%	4.8%	4.8%	5.0%
5 years	5.9%	5.8%	6.0%	6.1%
7 years	6.6%	6.3%	6.7%	6.8%
10 years	6.4%	6.2%	6.5%	6.7%
Since inception	6.3%	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

R11 454 942 148

Sources: M&G, Morningstar & Deutsche Securities

Following the bond market's strong start to the year, we took the opportunity over the past quarter to reduce duration across most of our fixed income products. Although South African bonds still appear attractive on most measures, the asset class is slowly nearing fair value. Cash is also becoming relatively more attractive, thanks to continued hiking by the SARB. Furthermore, we have concerns that continued load-shedding will negatively affect growth, which could ultimately lead to a weaker fiscal trajectory. We are already seeing signs of this happening. February's budget saw the first meaningful increase in National Treasury's debt-to-GDP projections since the 2020 MTBPS, resulting from the additional government support offered to Eskom.

In the High Interest Fund specifically, we reduced duration from 136 days at the beginning of the quarter to 89 days at quarter-end. Most of this duration decrease happened as a result of a reduction in our I2025 exposure. Thanks to higher-than-expected inflation, this position has performed well for clients. However, at the current level of the repo rate, the I2025's real yield on offer has become less attractive relative to what is achievable by holding cash, or short-dated floating rate instruments.

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M&G Income Fund

Income

Q1 2023

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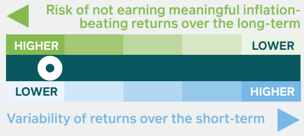
Performance

Over the quarter the fund delivered a return of 2.3% (A class, net of fees) compared to the benchmark's 1.7%. Because the instruments held by the fund are predominantly floating rate in nature, absolute returns achieved continue to improve as the repo rate moves higher.

Annualised performance	A class	Benchmark	D class
1 year	7.6%	6.0%	7.8%
2 years	6.3%	4.9%	6.4%
3 years	5.8%	4.8%	6.0%
5 years	6.7%	5.8%	6.9%
Since inception	7.1%	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
R591 708 541

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

Strategy and Positioning

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In the Income Fund specifically, we more than halved duration, from 180 days at the beginning of the quarter to 77 days at quarter-end. Most of this decrease took the form of us selling out of short-dated government bonds entirely, as well as trimming the fund's I2025 position. The proceeds of these sales were invested in lower-duration floating rate instruments.

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

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Disclaimer

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Quarterly Commentary

M&G Bond Fund
Income

Q1 2023

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In fact, the US Fed hiked by a measured 25bps in March, as expected, as did the Bank of England (BOE), while the European Central Bank (ECB) and SA Reserve Bank (SARB) announced relatively robust 50bp increases given their higher.

Looking back, investment managers have rarely seen such sharp changes in market views in such a short period of time. US Treasury bonds, for example, experienced high volatility of around 10%, with the 10-year UST yield falling by 50bps from around 4.0% to 3.5% between February and March – an exceptionally big move in that market. Global bonds also posted meaningful gains: the Bloomberg Global Aggregate Bond Index delivered 3.0% (in US$). For the quarter, SA nominal bonds (the FTSE/JSE All Bond Index) delivered 3.4% in rands, while inflation-linked bonds (ILBs) produced 0.9%.

In the US, the US Fed hiked its repo rate by 25bps at both its February at March meetings, moves that were expected by the market. However, uncertainty was created by surprisingly robust economic data, including strong retail sales data, a higher than-expected January CPI at 6.4% y/y, and a still-strong jobs market. February's core CPI, at 5.5% y/y, showed inflation was more deeply entrenched than thought. This data, combined with hawkish language from the US Fed, led investors to expect higher interest rates for longer and sparked global equity and bond sell-offs. This bearish sentiment was later reversed by the global banking turmoil, which led investors to expect central banks to move less aggressively in their rate increases in order to support the banking sector. While banking stocks did sell off, March's confirmed "small" 25bp increase by the Fed appeared to reinforce the idea that US rate hikes might be close to an end, and that therefore uncertainty had eased to an extent. February CPI came in unexpectedly high at 10.4% y/y, and financial markets are still pricing in another 25-50bps of increases by August 2023.

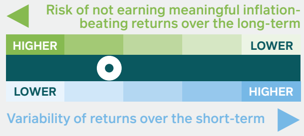
Despite banking sector weakness, the ECB continued its relatively aggressive pace of rate hikes in Q1 as it found itself faced with still high, albeit falling, levels of inflation. It hiked by 50bps in March as CPI surprised to the upside at 8.5% y/y in February versus 8.2% expected, with core CPI (excluding food and energy) at 5.6% y/y versus 5.3% expected. The bank also signalled its readiness to supply the banking system with extra liquidity should it be required. Financial markets now expect further hikes will be less aggressive going forward, having cut back their forecasts by a full 1.0%.

The South African Reserve Bank (SARB) surprised with a larger-than-expected 50bp interest rate hike on 30 March, citing strong inflationary pressures from food, administered prices and a depreciating rand. February CPI came in at 7.0% % y/y, aided by substantial increases in food, transport and medical services prices. Many had thought the Bank would follow the US and UK with a 25bp rise, especially given very weak local economic growth: Stats SA reported that Q4 2022 GDP contracted by 1.3%, more than expected, due to intensifying load-shedding. At the same time, National Treasury revised downward its projection for annual real GDP growth, now expected to average 1.4% from 2023 to 2025, versus 1.6% previously. The 50bp rate increase did help to reinforce the SARB's global credibility, while the rand reacted by strengthening below the key R18/1USD level. The SA forward rate market is now pricing in a further 50bps in interest rate hikes from the SARB this year before the central bank pauses and then starts cutting rates again.

Meanwhile, S&P Global downgraded the sovereign credit rating outlook to stable from positive, citing loadshedding and the fragile economy as the primary drivers. During the quarter, investors welcomed the 2023 National Budget's improved fiscal trajectory and the government's plans for Eskom debt relief, as markets reacted marginally favourably. Eskom remained in the spotlight for much of the period as its departing CEO reported high levels of corruption within the utility, prompting more intensive investigations from journalists and the government. Finally, South Africa was grey-listed by financial watchdog

Annualised performance	A class	Benchmark	B class
1 year	7.6%	5.8%	7.9%
3 years	11.7%	11.6%	11.8%
5 years	6.5%	6.9%	6.7%
7 years	8.4%	8.8%	8.6%
10 years	6.8%	7.3%	7.1%
20 years	8.6%	8.8%	-
Since inception	9.6%	9.9%	-

Risk profile



Fund facts

Fund managers
Roshen Harry
René Prinsloo

ASISA category
South African - Interest Bearing - Variable Term

Benchmark
FTSE/JSE All Bond Index

Inception date
27 October 2000

Fund size
R802 793 697

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

Financial Action Task Force (FATF), so that more scrutiny of the country's international transactions is necessary to root out money laundering and financing of terrorism. Higher costs and administrative hurdles will likely result, experts said, and banking shares fell 2% in reaction to the announcement. Bonds and the rand were little moved, however.

Performance

The fund delivered 4.0% (class A, net of fees) for the quarter, outperforming its benchmark by 0.6%. Most of the government bonds on the yield curve ended the quarter at stronger levels, and the curve moved significantly steeper: the front of the curve strengthened by 38 basis points over the quarter, while the ultra-long R2048s ended 19 points weaker. This steepening took place in spite of more aggressive hiking than expected by the SARB and can be partly explained by National Treasury's announcement of a new ultra-long bond, the R2053, that will be introduced into the market during the second quarter.

Although the fund failed to benefit from the move lower in the curve (due to relatively neutral duration positioning), the steepening of the curve worked in our favour. We had no exposure to the back end of the curve (over 20 years in maturity), thereby avoiding the losses suffered in those bonds.

Another interesting development over the past quarter (apart from the new R2053) was the maturity of the R2023 bond, leaving the R186 as the shortest bond on the curve. National Treasury has not indicated any other changes to its bond curve constituents, apart from the introduction of a new 7-year floating rate instrument.

The additional government support for Eskom, announced in the February budget, led to a notable compression of the credit spreads of Eskom bonds. We maintain insignificant credit exposure in this fund, and the fund therefore did not participate in these gains.

Strategy and positioning

We continue to favour fixed-rate government exposure over fixed-rate corporates and view the historically low levels of fixed-rate credit spreads as insufficient compensation for the credit and liquidity risks that such bonds come with.

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M&G Enhanced Income Fund

Multi-asset

Q1 2023

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While the growth outlook improved in several key economies, making equities more attractive, risk aversion still made itself apparent over the quarter. Global equity returns outperformed bonds, while developed equity markets outperformed emerging equity markets. For the quarter, SA nominal bonds (the FTSE/JSE All Bond Index) delivered 3.4% in rands, while inflation-linked bonds (ILBs) produced 0.9% and cash returned 1.7%.

South Africa

The South African Reserve Bank (SARB) surprised with a larger-than-expected 50bp interest rate hike on 30 March, citing strong inflationary pressures from food, administered prices and a depreciating rand. February CPI came in at 7.0% % y/y, aided by substantial increases in food, transport and medical services prices. Many had thought the Bank would follow the US and UK with a 25bp rise, especially given very weak local economic growth: Stats SA reported that Q4 2022 GDP contracted by 1.3%, more than expected, due to intensifying load-shedding. At the same time, National Treasury revised downward its projection for annual real GDP growth, now expected to average 1.4% from 2023 to 2025, versus 1.6% previously.

The 50bp rate increase did help to reinforce the SARB's inflation fighting credibility, while the rand reacted by strengthening below the key R18/1USD level. As at 31 March, the SA forward rate market was pricing in a further 30bps in interest rate hikes from the SARB this year before the central bank pauses and then starts cutting rates again. Meanwhile, S&P Global downgraded the sovereign credit rating outlook to negative from stable, citing load-shedding and the fragile economy as the primary drivers.

During the quarter, investors welcomed the 2023 National Budget's improved fiscal trajectory and the government's plans for Eskom debt relief, as markets reacted marginally favourably. Eskom remained in the spotlight for much of the period as its departing CEO reported high levels of corruption within the utility, prompting more intensive investigations from journalists and the government.

Meanwhile, South Africa was grey-listed by financial watchdog FATF, so that more scrutiny of the country's international transactions is necessary to root out money laundering and financing of terrorism. Higher costs and administrative hurdles will likely result, experts said, and banking shares fell 2% in reaction to the announcement. Bonds and the rand were little moved, however.

Performance

The fund delivered 2.2% (net of fees) for the first quarter of 2023, outperforming its benchmark by 0.4%. For the 12 months ending 31 March 2023, the fund returned 7.9% (net of fees), outperforming its benchmark by 1.9% 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.

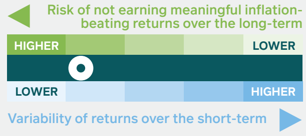
During the first quarter, exposure to SA nominal bonds made the largest contribution to absolute fund returns, with floating-rate instruments also adding further value. Inflation-linked bonds and money market assets made relatively minor contributions, while SA listed property was the only detractor from performance. The fund maintains a constructive view on short-dated nominal and inflation-linked bonds, which we believe will outperform cash returns over the medium term.

Strategy and positioning

Beginning with our view on **offshore asset allocation**, the fund continues to hold negligible offshore exposure given that we favour local fixed income assets over global assets, and spreads

Annualised performance	A class	Benchmark	T class	X class	D class
1 year	7.9%	6.0%	8.1%	7.8%	8.2%
3 years	7.2%	4.8%	7.4%	7.1%	7.5%
5 years	6.0%	5.8%	6.3%	6.1%	6.4%
7 years	6.6%	6.3%	6.9%	6.7%	7.0%
10 years	6.5%	6.2%	-	6.6%	7.0%
Since inception	7.5%	6.8%	-	-	-

Risk profile



Fund facts

Fund managers
David Knee
Roshen Harry
Bulent Badsha

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
R762 623 246

Sources: M&G, Morningstar & Deutsche Securities

on global credit are not yet wide enough. 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 very modest positioning in **SA listed property** in Q1 2023. 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 holding short-dated **SA nominal bonds**, which we believe will outperform over the medium term relative to cash. Some of the exposure was termed out a little further along the yield curve over the past quarter. 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 maintains some exposure to front-end **SA inflation-linked bonds (ILBs)**. Yields remain relatively attractive compared to their own history and our long-run fair value assumption, but compared to nominal bonds, their valuations are less attractive, and they have a lower return potential. Some of the exposure was termed out a little further along the yield curve recently.

Lastly, the cumulative impact of the SARB's interest rate increases over the cycle, has improved the relative attractiveness of cash. Although, the fund remains tilted away from **SA cash** currently, the opportunity to increase cash holdings at favourable levels over the quarter was taken.

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Disclaimer

M&G Inflation Plus Fund

Multi-asset

Q1 2023

Market overview

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Then the emergence of banking sector turmoil sparked by the sudden failure of specialist Silicon Valley Bank and the engineered buyout of Swiss banking giant Credit Suisse by UBS shocked markets even further, with swift central bank and government interventions preventing contagion to other sectors. Gold benefited and risk-off sentiment prevailed as global financial stocks sold off. Central banks suddenly had an even tougher policy balancing act, having to choose between their duties of fighting inflation, safeguarding national banking systems and supporting growth and employment. Ironically, this led back to more positive expectations of lower interest rates and sooner-than-expected rate pauses.

In fact, the US Fed hiked by a measured 25bps in March, as expected, as did the Bank of England (BOE), while the European Central Bank (ECB) and SA Reserve Bank (SARB) announced relatively robust 50bp increases given their higher inflation threats. Looking back, investment managers have rarely seen such sharp changes in market views in such a short period of time. US Treasury bonds, for example, experienced high volatility of around 10%, with the 10-year UST yield falling by 50bps from around 4.0% to 3.5% between February and March – an exceptionally big move in that market.

While the growth outlook improved in several key economies, making equities more attractive, risk aversion still made itself apparent over the quarter. Global equity returns outperformed bonds, while developed equity markets outperformed emerging equity markets. For the three months ended 31 March 2023, the MSCI All Country World Index returned 7.3%, the MSCI World Index (developed markets) delivered 7.7%, and the MSCI Emerging Markets Index produced 4.0% (all in US$). Bonds also posted meaningful gains: the Bloomberg Global Aggregate Bond Index delivered 3.0% (in US$). Global property stocks continued to generate among the weakest returns, with the FTSE EPRA/NAREIT Global REIT Index returning 1.4% (US$).

South Africa

In South Africa, the SARB surprised with a larger-than-expected 50bp interest rate hike on 30 March, citing strong inflationary pressures from food, administered prices and a depreciating rand. February CPI came in at 7.0% % y/y, aided by substantial increases in food, transport and medical services prices. Many had thought the Bank would follow the US and UK with a 25bp rise, especially given very weak local economic growth: Stats SA reported that Q4 2022 GDP contracted by 1.3%, more than expected, due to intensifying load-shedding. At the same time, National Treasury revised downward its projection for annual real GDP growth, now expected to average 1.4% from 2023 to 2025, versus 1.6% previously.

The 50bp rate increase did help to reinforce the SARB's global credibility, while the rand reacted by strengthening below the key R18/1USD level, at least temporarily. The SA forward rate market is now pricing in a further 50bps in interest rate hikes from the SARB this year before the central bank pauses and then starts cutting rates again. Meanwhile, S&P Global downgraded the sovereign credit rating outlook to stable from positive from stable, citing load-shedding and the fragile economy as the primary drivers.

Also during the quarter, investors welcomed the 2023 National Budget's improved fiscal trajectory and the government's plans for Eskom debt relief, as markets reacted marginally favourably. Eskom remained in the spotlight for much of the period as its departing CEO reported high levels of corruption within the utility, prompting more intensive investigations from journalists and the government.

Meanwhile, South Africa was grey-listed by financial watchdog FATF, so that more scrutiny of the country's international transactions is necessary to root out money laundering and financing of terrorism. Higher costs and administrative hurdles will likely result, experts said, and banking shares fell 2% in reaction to the announcement. Bonds and the rand were little moved, however.

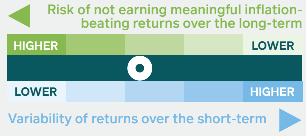
The SA equity market was dented by risk aversion and weakness in Listed Property and Resources stocks during the quarter, and the sell-off in global Financials, but buoyed by Industrial shares. The FTSE/JSE All Share Index (ALSI) returned 5.2% in Q1, while the more locally exposed Capped SWIX delivered 2.4% (both in rands). Industrial counters returned 13.6%, while Financials produced 0.4%, Resources -4.4% (Resources 10 Index) and the All Property Index -4.8% (all in rands).

For the quarter, SA nominal bonds (the FTSE/JSE All Bond Index) delivered 3.4% in rands, while inflation-linked bonds (ILBs) produced 0.9% and cash returned 1.7%. Finally, despite some

Annualised performance	A class	Objective[1]	T class	X class	B class
1 year	7.6%	10.4%	7.8%	7.6%	8.1%
3 years	14.6%	8.6%	14.8%	14.6%	15.1%
5 years	5.9%	8.3%	6.2%	6.0%	6.5%
7 years	5.3%	8.4%	5.7%	5.5%	6.0%
10 years	7.0%	8.6%	-	7.2%	7.7%
20 years	10.7%	9.0%	-	-	11.4%
Since inception	10.9%	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

R20 333 190 573

Awards

Raging Bull: 2013
Morningstar: 2015

Sources: M&G, Morningstar & Deutsche Securities

late-March gains on the back of the SARB's larger-than-expected rate hike, the rand moved weaker against the major global currencies, losing 4.8% against the broadly weaker US$, 7.3% against UK sterling and 6.5% versus the euro over the quarter.

Performance

The Fund returned 3.5% (after fees) for the first quarter of 2023 and 7.6% for the 12-month period ending 31 March 2023. The Fund has delivered a return of 10.9% 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 nominal bond holdings added the most value to absolute performance for the quarter, while global and SA equities also added good value, as did global bonds. To a lesser extent, SA ILBs and SA cash contributed value, while SA listed property was the only (small) asset class detractor from absolute returns for Q1.

Within SA equities, the fund's Industrials exposure was a positive contributor to absolute returns during the quarter, given that sector's strong performance. Holdings like Naspers, Prosus, Richemont, AB InBev and other stocks with global earnings added value. Detractors from absolute performance stemmed largely from Resources holdings (Northam Platinum, Glencore, Exxaro and Sasol, for example) and certain bank shares to a lesser extent.

Strategy and positioning

Starting with our view on **offshore asset allocation**, during the quarter the fund's overall level of global exposure fell slightly as we lowered its hard currency exposure by selling US$ futures. We still prefer SA assets given that their valuations continued to be more attractive than their offshore counterparts.

Within our **global holdings**, we remained largely neutral in global equities and global bonds, preferring to hold global cash for liquidity purposes, to take advantage of any mis-pricing opportunities that might arise. Despite the volatility over the quarter, corporate earnings were mixed and reasonably resilient, beating expectations in developed markets. With GDP forecasts being revised upwards, equity prices rallied, but in our view it is still too soon to be taking large directional bets, since no one knows the extent and depth of any global downturn that might occur.

While **global equities** are still trading at relatively attractive levels, they became more expensive over the quarter: the MSCI ACWI forward P/E rose to 15.4X from 14.7X previously. Because there are still unresolved questions around risks to earnings going forward, we remain selective. We are still leaning away from US equities due to their relatively expensive valuations versus other markets. We prefer Japan, the UK, China and other markets that are relatively cheap.

Within **global bonds**, we stayed broadly neutral in the fund and maintained our exposure to 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. Real global bond yields are now relatively attractive and offer compensation for the risk involved – that of higher-than-expected interest rate hikes. US Treasuries are also solid diversifiers for SA equity risk.

The fund still favoured **SA equities** at the end of Q1 2023. Early in the quarter we trimmed our SA equity exposure slightly to take some profit after the roughly 20% rally in the local market in late 2022 and into January, with the proceeds going into local cash. SA equity valuations (as measured by the 12-month forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) re-rated slightly over the quarter, rising from around 9.2X to around 9.5X at quarter-end. Much of this re-rating was attributable to share price gains, as earnings estimates changed only marginally.

During the quarter, we trimmed our **SA listed property** exposure further in favour of SA cash, as cash yields became more attractive on a risk-adjusted basis, while property risks remained high. We still prefer exposure to non-property 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.

The fund also benefitted from our ongoing preference for **SA nominal bonds** in Q1 2023 due to their positive returns despite a very volatile period. The 10-year SA government bond rallied approximately 20bps during the quarter, falling to 10.7% at quarter-end, which is still at a relatively high level on a historic basis. Meanwhile, the 20-year bond lost 20bps, leading to a steepening of the yield curve in the long end, even as the curve below 10 years flattened as a result of the SARB's interest rate hikes. 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 are marginally favouring **SA inflation-linked bonds (ILBs)** in the Inflation Plus Fund after adding more to our holdings in the previous quarter. Their real yields remain relatively attractive (that of the 10-year ILB is at 4.5%) compared to both their own history and our long-run fair value assumption; however, compared to nominal bonds their valuations are less attractive and they have lower return potential.

Lastly, the SARB's interest rate hikes during the quarter made **SA cash** relatively more attractive as an asset class. However, apart from SA property, we still prefer most other local asset classes for the higher real yields available on both an absolute and relative basis.

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Sources: M&G, Morningstar & Deutsche Securities

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M&G Balanced Fund
Multi-asset

Q1 2023

Market overview
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While the growth outlook improved in several key economies, making equities more attractive, risk aversion still made itself apparent over the quarter. Global equity returns outperformed bonds, while developed equity markets outperformed emerging equity markets. For the three months ended 31 March 2023, the MSCI All Country World Index returned 7.3%, the MSCI World Index (developed markets) delivered 7.7%, and the MSCI Emerging Markets Index produced 4.0% (all in US$). Bonds also posted meaningful gains: the Bloomberg Global Aggregate Bond Index delivered 3.0% (in US$). Global property stocks continued to generate among the weakest returns, with the FTSE EPRA/NAREIT Global REIT Index returning 1.4% (US$).

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In South Africa, the SARB surprised with a larger-than-expected 50bp interest rate hike on 30 March, citing strong inflationary pressures from food, administered prices and a depreciating rand. February CPI came in at 7.0% % y/y, aided by substantial increases in food, transport and medical services prices. Many had thought the Bank would follow the US and UK with a 25bp rise, especially given very weak local economic growth: Stats SA reported that Q4 2022 GDP contracted by 1.3%, more than expected, due to intensifying load-shedding. At the same time, National Treasury revised downward its projection for annual real GDP growth, now expected to average 1.4% from 2023 to 2025, versus 1.6% previously.

The 50bp rate increase did help to reinforce the SARB's global credibility, while the rand reacted by strengthening below the key R18/1USD level, at least temporarily. The SA forward rate market is now pricing in a further 50bps in interest rate hikes from the SARB this year before the central bank pauses and then starts cutting rates again. Meanwhile, S&P Global downgraded the sovereign credit rating outlook to stable from positive, citing load-shedding and the fragile economy as the primary drivers.

Also during the quarter, investors welcomed the 2023 National Budget's improved fiscal trajectory and the government's plans for Eskom debt relief, as markets reacted marginally favourably. Eskom remained in the spotlight for much of the period as its departing CEO reported high levels of corruption within the utility, prompting more intensive investigations from journalists and the government.

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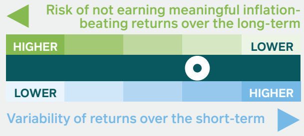
The SA equity market was dented by risk aversion and weakness in Listed Property and Resources stocks during the quarter, and impacted by the global sell-off in Financials, but buoyed by Industrial shares. The FTSE/JSE All Share Index (ALSI) returned 5.2% in Q1, while the more locally exposed Capped SWIX delivered 2.4% (both in rands). Industrial counters returned 13.6%, while Financials produced 0.4%, Resources -4.4% (Resources 10 Index) and the All Property Index -4.8% (all in rands).

For the quarter, SA nominal bonds (the FTSE/JSE All Bond Index) delivered 3.4% in rands, while inflation-linked bonds (ILBs) produced 0.9% and cash returned 1.7%. Finally, despite some late-March gains on the back of the SARB's larger-than-expected

Annualised performance	A class	Benchmark	T class	X class	B class
1 year	7.1%	5.0%	7.4%	7.1%	7.6%
3 years	18.9%	15.1%	19.2%	19.0%	19.5%
5 years	8.2%	7.6%	8.6%	8.4%	8.8%
7 years	7.3%	6.2%	7.7%	7.5%	8.0%
10 years	9.1%	7.5%	-	9.3%	9.8%
20 years	13.3%	11.6%	-	-	14.2%
Since inception	12.8%	11.1%	-	-	-

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
R22 775 423 170

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

rate hike, the rand moved weaker against the major global currencies, losing 4.8% against the broadly weaker US$, 7.3% against UK sterling and 6.5% versus the euro over the quarter.

Performance

The fund returned 4.1% (after fees) for the first quarter of 2023, while for the 12-month period ending 31 March 2023 its return was 7.1%. The Fund has delivered a return of 12.8% per annum since its inception in 1999 (after fees), compared to its benchmark of 11.1% per annum over the same period.

Looking at the fund's asset allocation, global equities added the most value to absolute performance for the quarter, while SA equities and bonds also added good value, as did global bonds to a lesser extent. SA listed property was the only (very small) asset class detractor from absolute returns for Q1.

Within SA equities, the fund's Industrials exposure was a positive contributor to absolute returns during the quarter, given that sector's strong performance. Holdings like Naspers, Prosus, Richemont, AB InBev and other stocks with global earnings added value. Detractors from absolute performance stemmed largely from our Resources holdings (Northam Platinum, Glencore, Exxaro and Sasol, for example) and certain bank shares to a lesser extent.

Strategy and positioning

Starting with our view on offshore vs local asset allocation, during the quarter we slightly increased our global exposure at the expense of our local cash exposure as a risk mitigation measure.

Within our **global holdings**, we remained largely neutral in global equities and global bonds, preferring to hold global cash for liquidity purposes, to take advantage of any mis-pricing opportunities that might arise. Despite the volatility over the quarter, corporate earnings were mixed and reasonably resilient, beating expectations in developed markets. With GDP forecasts being revised upwards, equity prices rallied, but in our view it is still too soon to be taking large directional bets, since no one knows the extent and depth of any global downturn that might occur.

While **global equities** are still trading at relatively attractive levels, they became more expensive over the quarter: the MSCI ACWI forward P/E rose to 15.4X from 14.7X previously. Because there are still unresolved questions around risks to earnings going forward, we remain selective. We are still leaning away from US equities due to their relatively expensive valuations versus other markets. We prefer Japan, the UK, China and, to a lesser extent, other markets that are relatively cheap.

Within global bonds, we stayed broadly neutral in the fund and maintained our exposure to 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. Real global bond yields are now relatively attractive and offer compensation for the risk involved – that of higher-than-expected interest rate hikes. US Treasuries are also solid diversifiers for SA equity risk.

The M&G Balanced Fund still favoured **SA equities** at the end of Q1 2023. Early in the quarter we trimmed our SA equity exposure slightly to take some profit after the roughly 20% rally in the local market in late 2022 and into January, using the profits to increase our SA bond exposure. SA equity valuations (as measured by the 12-month forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) re-rated slightly over the quarter, rising from around 9.2X to around 9.5X at quarter-end. Much of this re-rating was attributable to share price gains, as earnings estimates changed only marginally.

During the quarter, we trimmed our **SA listed property** exposure further in favour of SA cash, as cash yields became more attractive on a risk-adjusted basis, while property risks remained high. We still prefer exposure to non-property 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.

The fund also benefitted from our ongoing preference for **SA nominal bonds** in Q1 2023 due to their positive returns despite a very volatile period. During the quarter we added slightly to our SA bond holdings out of SA equity. The 10-year SA government bond rallied approximately 20bps during the quarter, falling to 10.7% at quarter-end, which is still at a relatively high level on a historic basis. Meanwhile, the 20-year bond lost 20bps, leading to a steepening of the yield curve in the long end, even as the curve below 10 years flattened as a result of the SARB's interest rate hikes. 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, the SARB's interest rate hikes during the quarter made **SA cash** relatively more attractive as an asset class. However, apart from SA property, we still prefer most other local asset classes for the higher real yields available on both an absolute and relative basis. Therefore, the fund remained tilted away from SA cash.

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Quarterly Commentary

M&G Enhanced SA Property Tracker Fund

Property

Q1 2023

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In South Africa, the equity market was dented by risk aversion and weakness in Listed Property and Resources stocks during the quarter but buoyed by Industrial shares. The FTSE/JSE All Share Index (ALSI) returned 5.2% in Q1, while the more locally exposed Capped SWIX delivered 2.4% (both in rands). Industrial counters returned 13.6%, while Financials produced 0.4%, Resources -4.4% (Resources 10 Index) and the All Property Index -4.8% (all in rands).

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Meanwhile, South Africa was grey-listed by financial watchdog FATF, so that more scrutiny of the country's international transactions is necessary to root out money laundering and financing of terrorism. Higher costs and administrative hurdles will likely result, experts said, and banking shares fell 2% in reaction to the announcement. Bonds and the rand were little moved, however.

Performance

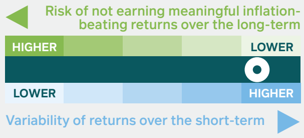
The M&G Enhanced SA Property Tracker Fund returned -5.2% for the quarter while the SA Listed Property Index was down 5.1%. For the 12 months to 31 March, the fund delivered -3.8% compared to the benchmark's -3.4%.

Top contributors to performance were underweight positions in Liberty Two Degrees, Investec Property Fund and Resilient. Underweight positions in Emira and Attacq also detracted.

Global property markets are currently being impacted by a multitude of factors, many of which are interrelated. Higher interest rates, refinancing risk and cost pressures, whether energy or municipal are conspiring to significantly depress property valuations.

Annualised performance	A class	Benchmark	T class	D class
1 year	-3.8%	-3.4%	-3.8%	-3.7%
3 years	17.2%	18.2%	17.2%	17.4%
5 years	-5.1%	-4.1%	-5.1%	-4.9%
7 years	-4.5%	-3.8%	-4.5%	-4.4%
10 years	1.0%	1.3%	-	1.1%
Since inception	8.3%	8.7%	-	-

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
R558 376 984

Awards
Morningstar/Standard & Poor's: 2011

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

Strategy and positioning

Interest rates impact real estate companies disproportionately when compared to general equities. Real estate companies tend to make much more extensive use of debt when compared to non-real estate companies. Debt multiples of EBITDA in the sector can range from a 'conservative' 4x for some companies in South Africa to as much as 15x for some Scandinavian companies. The debt multiples of EBITDA for South African companies are much lower because the valuation yields, or cap rates, used to value the properties are far higher than European counterparts, given the interest rate differentials. A cursory look at loan-to-value ("LTV") ratios can often paint a very different picture of a company's indebtedness especially when the 'V' in LTV is overstated. Interest rate normalisation in many European property companies will result in some companies becoming distressed and having to dispose of properties to reduce debt and refinancing on substantially less favourable terms.

Importantly for the fund, the debt metrics of core holdings such as Nepi Rockcastle and Sirius do not face likely refinance risk. In South Africa, LTV ratios and debt to EBITDA metrics are all well within covenant levels and banks have generally demonstrated appetite to refinance existing debt. To the extent that South African-listed companies have reflected discounted valuations for the aforementioned issues, we have generally seen it as an opportunity to add to positions.

Cost pressures continue to mount. Many foreign landlords either had the foresight to hedge their energy costs prior to the outbreak of the war in Ukraine, or have been able to pass on most of the higher energy costs to their tenants. The cost problem is more acute in South Africa where administered costs (rates, electricity and other municipal services) will increase at double digits. The relentless cost pressures may well offset any benefits to landlords from the post-Covid recovery in retail sales.

We see good value in the sector, albeit with some headwinds holding sector returns back. The SA 10-year bond's currently attractive yield is likely to prevent the sector from re-rating very significantly in the near-term, due to near-term cost pressures for South African companies. We see a likely outcome as low double digit returns in rands for the sector as a whole.

The fund's key overweights are Sirius, Stor-age, Fortress A and Nepi Rockcastle.

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

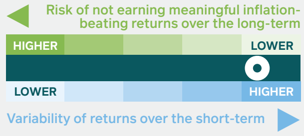
Quarterly Commentary

M&G Property Fund

Property

Q1 2023

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
R151 401 820

Market overview

So far in 2023, global financial markets have experienced wild swings – particularly in the normally less volatile fixed income markets – dictated by the guessing game over the path of US interest rates, inflation and growth.

January's sentiment was relatively bullish, dominated by expectations of a weaker US economy going into 2023, which would have increased the likelihood of softer inflation, lower-than-expected interest rates and a relatively imminent pause to the US Federal Reserve's rate hiking cycle. This was all up ended in February by surprisingly strong economic data, including more widely embedded inflation than previously thought. With the Fed signalling its intention to continue hiking, this sent market uncertainty higher and global asset prices lower, an environment that continued well into March.

Then the emergence of banking sector turmoil sparked by the sudden failure of specialist Silicon Valley Bank and the engineered buyout of Swiss banking giant Credit Suisse by UBS shocked markets even further, with swift central bank and government interventions preventing contagion to other sectors. Gold benefited and risk-off sentiment prevailed as global financial stocks sold off.

Central banks suddenly had an even tougher policy balancing act, having to choose between their duties of fighting inflation, safeguarding national banking systems and supporting growth and employment. Ironically, this led back to more positive expectations of lower interest rates and sooner-than-expected rate pauses.

The US Fed hiked by a measured 25bps in March, as expected, as did the Bank of England (BOE), while the European Central Bank (ECB) and SA Reserve Bank (SARB) announced relatively robust 50bp increases given their higher inflation threats.

Looking back, investment managers have rarely seen such sharp changes in market views in such a short period of time. US Treasury bonds, for example, experienced high volatility of around 10%, with the 10-year UST yield falling by 50bps from around 4.0% to 3.5% between February and March – an exceptionally big move in that market.

While the growth outlook improved in several key economies, making equities more attractive, risk aversion still made itself apparent over the quarter. Global property stocks continued to generate among the weakest returns, with the FTSE EPRA/NAREIT Global REIT Index returning 1.4% (US$).

South Africa

In South Africa, the equity market was dented by risk aversion and weakness in Listed Property and Resources stocks during the quarter but buoyed by Industrial shares. The FTSE/JSE All Share Index (ALSI) returned 5.2% in Q1, while the more locally exposed Capped SWIX delivered 2.4% (both in rands). Industrial counters returned 13.6%, while Financials produced 0.4%, Resources -4.4% (Resources 10 Index) and the All Property Index -4.8% (all in rands).

In South Africa, the SARB surprised with a larger-than-expected 50bp interest rate hike on 30 March, citing strong inflationary pressures from food, administered prices and a depreciating rand. February CPI came in at 7.0% % y/y, aided by substantial increases in food, transport and medical services prices. Many had thought the Bank would follow the US and UK with a 25bp rise, especially given very weak local economic growth: Stats SA reported that Q4 2022 GDP contracted by 1.3%, more than expected, due to intensifying load-shedding. At the same time, National Treasury revised downward its projection for annual real GDP growth, now expected to average 1.4% from 2023 to 2025, versus 1.6% previously.

The 50bp rate increase did help to reinforce the SARB's global credibility, while the rand reacted by strengthening below the key R18/1USD level, at least temporarily. The SA forward rate market is now pricing in a further 50bps in interest rate hikes from the SARB this year before the central bank pauses and then starts cutting rates again. Meanwhile, S&P Global downgraded the sovereign credit rating outlook to stable from positive, citing load-shedding and the fragile economy as the primary drivers.

Also during the quarter, investors welcomed the 2023 National Budget's improved fiscal trajectory and the government's plans for Eskom debt relief, as markets reacted marginally favourably. Eskom remained in the spotlight for much of the period as its departing CEO reported high levels of corruption within the utility, prompting more intensive investigations from journalists and the government.

Meanwhile, South Africa was grey-listed by financial watchdog FATF, so that more scrutiny of the country's international transactions is necessary to root out money laundering and financing of terrorism. Higher costs and administrative hurdles will likely result, experts said, and banking shares fell 2% in reaction to the announcement. Bonds and the rand were little moved, however.

Performance

The M&G Property Fund returned -3.7% for the quarter with the All Property Index down 4.8%. For the 12 months to 31 March, the Fund delivered -1.9% compared to the benchmark's -5.1%, producing outperformance of 3.2%.

Top contributors to performance for the quarter were overweight positions in Hammerson, Fortress A and Sirius, as well as underweight positions in Redefine, Resilient and Investec Property Fund. Underweight positions in Attacq and Emira detracted from performance, as did overweight positions in SA Corporate, Vukile and Stor-Age.

Annualised performance	A class	Benchmark	D class
1 year	-1.9%	-5.1%	-1.6%
2 years	12.5%	9.5%	12.8%
Since inception	15.1%	13.5%	-

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

Global property markets are currently being impacted by a multitude of factors, many of which are interrelated. Higher interest rates, refinancing risk and cost pressures, whether energy or municipal, are conspiring to significantly depress property valuations.

Strategy and positioning

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Importantly for the fund, the debt metrics of core holdings such as Nepi Rockcastle, Sirius and Shaftsbury Capital (the new entity into which Capital & Counties merged) do not face likely refinance risk. Hammerson, another holding in the fund, retains sufficient cash and facilities to repay its near-term expiring bonds up to 2025. In South Africa, LTV ratios and debt to EBITDA metrics are all well within covenant levels and banks have generally demonstrated appetite to refinance existing debt. To the extent that South African-listed companies have reflected discounted valuations for the aforementioned issues, we have generally seen it as an opportunity to add to positions.

Cost pressures continue to mount. Many foreign landlords either had the foresight to hedge their energy costs prior to the outbreak of the war in Ukraine or have been able to pass on most of the higher energy costs to their tenants. The cost problem is more acute in South Africa where administered costs (rates, electricity and other municipal services) will increase at double-digit rates. The relentless cost pressures may well offset any benefits to landlords from the post-Covid recovery in retail sales.

We see good value in the sector, albeit with some headwinds holding sector returns back. The currently attractive SA 10-year bond yield is likely to prevent the sector from significant re-rating in the near-term, due to near-term cost pressures for South African companies. It’s likely that the outcome will be low double-digit returns in rand terms for the sector as a whole.

The Property Fund’s key overweights are Sirius, Stor-age, SA Corporate and Fortress A shares.

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Sources: M&G, Morningstar & Deutsche Securities

Quarterly Commentary

M&G Investments

M&G Dividend Maximiser Fund

Equity

Q1 2023

Market overview

So far in 2023, global financial markets have experienced wild swings – particularly in the normally less volatile fixed income markets – dictated by the guessing game over the path of US interest rates, inflation and growth. January's sentiment was relatively bullish, dominated by expectations of a weaker US economy going into 2023, which would have increased the likelihood of softer inflation, lower-than-expected interest rates and a relatively imminent pause to the US Federal Reserve's rate hiking cycle. This was all up-ended in February by surprisingly strong economic data, including more widely embedded inflation than previously thought. With the Fed signalling its intention to continue hiking, this sent market uncertainty higher and global asset prices lower, an environment that continued well into March.

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The US Fed hiked by a measured 25bps in March, as expected, as did the Bank of England (BOE), while the European Central Bank (ECB) and SA Reserve Bank (SARB) announced relatively robust 50bp increases given their higher inflation threats.

While the growth outlook improved in several key economies, making equities more attractive, risk aversion still made itself apparent over the quarter. Global equity returns outperformed bonds, while developed equity markets outperformed emerging equity markets. For the three months ended 31 March 2023, the MSCI All Country World Index returned 7.3%, the MSCI World Index (developed markets) delivered 7.7%, and the MSCI Emerging Markets Index produced 4.0% (all in US$). Global property stocks continued to generate among the weakest returns, with the FTSE EPRA/NAREIT Global REIT Index returning 1.4% (US$).

While global banking stocks did sell off, March's confirmed "small" 25bp increase by the Fed appeared to reinforce the idea that US rate hikes might be close to an end, and that therefore uncertainty had eased to an extent. Upward revisions to US growth forecasts, and for other key economies, also reinforced the broadly more positive outlook by the end of the quarter. US equity returns were positive for Q1: in US$, the Dow Jones produced 0.9%, the Nasdaq delivered 17.0%, and the S&P 500 returned 7.5%.

In the UK, the Bank of England (BoE) raised its key interest rate by a total of 50bps in Q1 to 4.25%, in line with forecasts, reaching its highest level in 14 years. February CPI came in unexpectedly high at 10.4% y/y, and financial markets are still pricing in another 25-50bps of increases by August 2023. With January GDP growth reported at 0.3% m/m, the economy has so far avoided the recession that had been forecast, growing more quickly than expected and having picked up pace from the 0% recorded in the last quarter of 2022. For Q1 2023, the FTSE 100 returned 6.4% in US$.

The European Central Bank continued its relatively aggressive pace of rate hikes in the first quarter as it found itself faced with still high, albeit falling, levels of inflation. It hiked by 50bps in March as CPI surprised to the upside at 8.5% y/y in February versus 8.2% expected, with core CPI (excluding food and energy) at 5.6% y/y versus 5.3% expected. The European Commission revised upward its 2023 GDP growth forecast for the region to 0.8% from 0.3% previously, on the back of falling energy prices, government policy support and resilient household spending. In European equity markets, France's CAC 40 returned 15.4% and Germany's DAX delivered 14.3% (in US$) in Q1.

Japan continued its recovery from the pandemic during Q1, as outgoing BOJ Governor Kuroda left interest rates unchanged at a supportive -0.1% after having implemented an effective 25bp interest rate hike in December by lifting the country's fixed 10-year bond yield trading range. The market expects new Governor Eueda, who takes over in April, to also adjust the yield range wider without changing the base interest rate. Japanese GDP grew 1.1% in 2022, with a 1.3% expansion expected in 2023. The Nikkei returned 7.6% in US$ for the quarter.

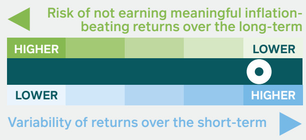
China also continued its recovery from its strict Covid-19 lockdown in Q1 2023, having posted GDP growth of only 2.0% in 2022. The government set a conservative 5% growth target for 2023. The People's Bank Of China (PBOC) left interest rates steady in Q1 to support the recovery. Hong Kong's Hang Seng produced 2.8% for the quarter while the MSCI China returned 4.7%, both in US$.

Larger emerging equity markets posted a broad range of returns over the quarter, led by South Korea's KOSPI with a 7.7% performance, and the MSCI China with 4.7% (both in US$). Other countries were in the red as the MSCI South Africa delivered -0.4%, Brazil's Bovespa -3.3%, the MSCI India -6.3% and Turkey -9.2% (all in US$).

The oil price fell during the quarter on the back of expected lower demand as global growth slowed, and improved supply. Brent crude oil lost approximately 7% in US$ terms, ending the quarter at roughly US$80 per barrel after having fallen as low as US$72 per barrel in mid-March. Other commodity prices were mixed in Q1 amid the uncertain sentiment, with gold the largest beneficiary. Nickel was the largest loser, down 24.2%, while zinc lost 3.9% and aluminium fell 1.0%, while copper gained 6.5%. Among precious metals, gold rose 8.0%, but platinum lost 7.6% and palladium was down 18.5%.

Annualised performance	A class	Benchmark	T class	B class	F class
1 year	4.5%	1.2%	5.2%	4.9%	5.5%
3 years	24.4%	20.9%	24.9%	24.8%	25.2%
5 years	9.8%	7.0%	10.2%	10.2%	10.6%
7 years	8.4%	5.9%	8.8%	8.8%	-
10 years	9.7%	7.2%	-	10.2%	-
20 years	16.6%	13.6%	-	-	-
Since inception	15.7%	12.8%	-	-	-

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 259 294 586

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

Sources: M&G, Morningstar & Deutsche Securities

Finally, despite some late-March gains on the back of the SARB's larger-than-expected rate hike, the rand moved weaker against the major global currencies, losing 4.8% against the broadly weaker US$, 7.3% against UK sterling and 6.5% versus the euro over the quarter.

South Africa

In South Africa, the equity market was dented by risk aversion and weakness in Listed Property and Resources stocks during the quarter but buoyed by Industrial shares. The FTSE/JSE All Share Index (ALSI) returned 5.2% in Q1, while the more locally exposed Capped SWIX delivered 2.4% (both in rands). The South African Reserve Bank (SARB) surprised with a larger-than-expected 50bp interest rate hike on 30 March, citing strong inflationary pressures from food, administered prices and a depreciating rand. February CPI came in at 7.0% % y/y, aided by substantial increases in food, transport and medical services prices. Many had thought the Bank would follow the US and UK with a 25bp rise, especially given very weak local economic growth: Stats SA reported that Q4 2022 GDP contracted by 1.3%, more than expected, due to intensifying load-shedding. At the same time, National Treasury revised downward its projection for annual real GDP growth, now expected to average 1.4% from 2023 to 2025, versus 1.6% previously.

During the quarter, investors welcomed the 2023 National Budget's improved fiscal trajectory and the government's plans for Eskom debt relief, as markets reacted marginally favourably. Eskom remained in the spotlight for much of the period as its departing CEO reported high levels of corruption within the utility, prompting more intensive investigations from journalists and the government.

Meanwhile, South Africa was grey-listed by financial watchdog FATF, so that more scrutiny of the country's international transactions is necessary to root out money laundering and financing of terrorism. Higher costs and administrative hurdles will likely result, experts said, and banking shares fell 2% in reaction to the announcement. Bonds and the rand were little moved, however.

Performance

The M&G Dividend Maximiser Fund delivered a return of 2.8% (net of fees) for the first quarter of 2023, outperforming its benchmark (the average of the general equity funds) by 0.6%. For the year ended 31 March 2023, the fund returned 4.5% (net of fees), outperforming its benchmark by 3.3%. It is particularly pleasing to report that over the three-year period ending 31 March 2023, both the absolute and relative performance of the Fund has been strong, with an absolute return of 24.4% per annum over this period, outperforming the benchmark by 3.5% per year.

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

The Fund's investment in Richemont was a top contributor during the quarter as its share price rose 27%. Richemont's sales were surprisingly resilient over the COVID period and have been growing well above expectations since then, especially at the watch and jewellery masons of Cartier and Van Cleef & Arpels. We think that these are exceptionally strong brands and that their brand value with consumers has never been higher.

Exceptionally strong sales of Richemont products in the United States have resulted in retail capacity expansion to meet demand. With increased travel and as the Chinese market reopens post-COVID lockdowns, we are likely to see even higher sales. Sales growth is likely to continue to lead to improving margins, earnings and dividends ahead of what we consider to be conservative market expectations. The company has an exceptionally strong balance sheet with a substantial net cash position. We think that cash flows and dividends from Richemont will be much higher in five years' time. After many years of restructuring the watch businesses inside the company, there is potential for this business to surprise the market on the upside.

During the quarter, certain commodity prices continued to be under pressure, notably coal and platinum group metals. Glencore, which has substantial exposure to coal, fell over 10% in the quarter, and as a result and was a top contributor to relative performance as we do not own this share in the Fund.

Within the platinum group metals, both rhodium and palladium prices continued to fall. This sector's fortune has rapidly improved after many years of earnings margins which on average were not sufficient to compensate the mines for the capex required for ongoing maintenance. Today, margins in the sector are at near-record highs and cash generation is very strong. We are cognisant of the high margins that companies are currently earning and remain in an underweight position in the platinum sector.

This underweight positioning continued to benefit the fund in the first quarter as our underweight to Anglo American Platinum and Impala Platinum were among the larger contributors to performance. We have strategically shifted our preference for companies within the sector towards the higher-quality platinum companies, which are likely to see production growth as a result of their investment in capacity, and we therefore continue to be overweight Northam Platinum. The recent news that Northam Platinum has withdrawn its full bid for Royal Bafokeng Platinum was welcomed. We think that given the deterioration of the rhodium and palladium prices, the risks attached to the acquisition of further shares has materially increased.

Staying in the resources sector, the largest detractor from performance for this quarter was the Fund's underweight to the gold sector and Goldfields in particular. We tend to be underweight to the gold sector over the long term in this Fund. This is due to the poor cash flows generated by gold companies and consequently, the poor dividend growth over a long period of time. The Fund holds a position in Anglogold.

One of the top five contributors to performance was the overweight position to Prosus, whose share price appreciation was 18% for the quarter. Prosus benefitted from a change in risk appetite for companies exposed to China due to the country's relaxation of its strict COVID policy in late 2022. Further to this, easing of licensing restrictions around internet games also bodes well for future revenue growth of the company after years of growing concerns around this matter.

We believe 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 believe that Naspers and Prosus are trading at a material discount relative to their underlying investments, offering a significant margin of safety for the investment. The continued share repurchase programs by Prosus, Naspers and Tencent and continued focus on unlocking value within the group (through the sale of Tencent shares and investments) are quite promising.

The M&G Dividend Maximiser Fund holds a 5% allocation to the M&G Global Dividend Fund, and this was a top contributor

Sources: M&G, Morningstar & Deutsche Securities

to performance over the quarter. The Fund returned 10.6% (in rand) over the quarter, of which approximately half was due to rand depreciation versus the US$.

While it is extremely difficult to forecast the future, we do spend a substantial amount of time discussing the economic cycles that various sectors are in, and where valuations are. In this way, we aim to add value for our clients through these cycles and continue to buy companies that we believe have proven dividend and cash flow track records, which can withstand the normal upheavals that occur in markets over time. We aim to continue building risk-cognisant portfolios that seek to add value through stock selection relative to the benchmark.

Strategy and positioning

We remain optimistic regarding South African equity market returns over the medium term due to the prevailing excessive levels of pessimism reflected in share prices and valuations. The Price-to-Book value (P/E) of the JSE has fallen to 1.7X (as at the end of March 2023) which we think is now a very attractive valuation level. 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 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 equities valuations. The hurdle rate has increased. This higher rate not only decreases equity valuations, but also increases the real financial risk to companies via a higher cost of debt.

Over the last two years, we have substantially reduced the offshore allocation of the Fund as we thought that the SA market and SA currency represented very good value. Today, we continue to think that Emerging Markets and African equities represent particularly good value, and we think the SA rand is still attractive. The Fund has approximately 21% allocated offshore, of which 9% 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 focus of the fund continues to be on finding companies that are undervalued and which are paying good dividend yields with the potential to pay growing dividends over the long run. We are confident that we have built a portfolio of attractively priced stocks that in aggregate is cheaper than owning the index, yet still capable of delivering attractive underlying growth independent of the economic cycle in which we find ourselves.

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G Equity Fund

Equity

Q1 2023

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The 50bp rate increase did help to reinforce the SARB's global credibility, while the rand reacted by strengthening below the key R18/1USD level. The SA forward rate market is now pricing in a further 50bps in interest rate hikes from the SARB this year before the central bank pauses and then starts cutting rates again. Meanwhile, S&P Global downgraded the sovereign credit rating outlook to stable from positive, citing load-shedding and the fragile economy as the primary drivers.

Also during the quarter, investors welcomed the 2023 National Budget's improved fiscal trajectory and the government's plans for Eskom debt relief, as markets reacted marginally favourably. Eskom remained in the spotlight for much of the period as its departing CEO reported high levels of corruption within the utility, prompting more intensive investigations from journalists and the government.

Meanwhile, South Africa was grey-listed by financial watchdog FATF, so that more scrutiny of the country's international transactions is necessary to root out money laundering and financing of terrorism. Higher costs and administrative hurdles will likely result, experts said, and banking shares fell 2% in reaction to the announcement. Bonds and the rand were little moved, however.

Performance

During the quarter, the fund returned -0.3% compared to its benchmark's 2.3% return, while for the 12 months to 31 March 2023 it returned 3.7%, outperforming its benchmark (the average of the ASISA General Equity category) by 2.4%.

Some of the largest contributors to performance were companies we didn't own: Anglo American Platinum, Transaction Capital and Sibanye. Overweight positions in Naspers/Prosus and Datatec also contributed to performance.

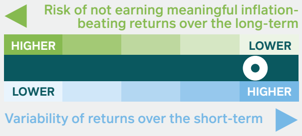
Overweight positions in Thungela and Impala Platinum, together with the underweight positions in gold companies Goldfields and Anglogold, all detracted from performance.

Strategy and positioning

Risk sentiment took a step up in the quarter, with Silicon Valley Bank and Signature Bank, both regional banks in the United States, having essentially been forced to shut operations by the Federal Deposit Insurance Corporation. In Europe, Credit Suisse was acquired by UBS under instruction from the Swiss regulators. The Credit Suisse takeover resulted in US$17.1b worth of subordinated debt being written off to nil.

Together with the potential of lower yields on the prospect of a global recession, the risk-off sentiment resulted in the gold price rising above $2,000 per ounce, having started the year at just over $1,800 per ounce. Unsurprisingly, the top four performing companies on the local market were all gold stocks. We have written in the past about our aversion to gold stocks due to the capital allocation histories of the companies, their need to 'grow' in order to replace mined reserves, short mine lives and the resultant

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 838 257 581

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

Annualised performance	A class	Benchmark	B class	F class
1 year	3.7%	1.2%	4.2%	5.1%
3 years	27.1%	20.9%	27.6%	28.3%
5 years	10.6%	7.0%	11.1%	11.7%
7 years	9.4%	5.9%	9.9%	-
10 years	10.4%	7.2%	10.9%	-
20 years	17.4%	13.6%	-	-

Sources: M&G, Morningstar & Deutsche Securities

poor free cash flow generation to shareholders. We think this time is no different and that once speculative interest in the metal wanes and fundamentals drive the share price (free cash flow and shareholder returns on capital), share prices may not be where they are currently. There are several good arguments for having an allocation to gold as a metal asset, but one has to draw a clear distinction between the metal and the miners themselves (and we are somewhat sceptical about the latter).

Closer to home, the impacts of loadshedding are manifesting, with retailers and property companies highlighting the impact on their earnings.

In terms of positioning, the fund retains a healthy exposure to miners and the energy sector in particular. These companies are cheap on free cash flow yields and attractively priced even under a scenario of downward normalisation of commodity prices.

Other key positions are an overweight in the banking sector, and underweight positions in the insurance and real estate sectors. South African banks are well-regulated, well-funded and well-capitalised. The oligopolistic nature of the South African banking industry doesn't lend itself to irrational competition. Furthermore, we are satisfied that the banks' capital is appropriately invested in such a way that it is unlikely that the events that unfolded at Silicon Valley Bank will happen in South Africa.

We remain optimistic on the potential for returns on the market.

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Disclaimer

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Quarterly Commentary

M&G SA Equity Fund

Equity

Q1 2023

Market overview

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Then the emergence of banking sector turmoil sparked by the sudden failure of specialist Silicon Valley Bank and the engineered buyout of Swiss banking giant Credit Suisse by UBS shocked markets even further, with swift central bank and government interventions preventing contagion to other sectors. Gold benefited and risk-off sentiment prevailed as global financial stocks sold off.

Central banks suddenly had an even tougher policy balancing act, having to choose between their duties of fighting inflation, safeguarding national banking systems and supporting growth and employment. Ironically, this led back to more positive expectations of lower interest rates and sooner-than-expected rate pauses.

The US Fed hiked by a measured 25bps in March, as expected, as did the Bank of England (BOE), while the European Central Bank (ECB) and SA Reserve Bank (SARB) announced relatively robust 50bp increases given their higher inflation threats.

Looking back, investment managers have rarely seen such sharp changes in market views in such a short period of time. US Treasury bonds, for example, experienced high volatility of around 10%, with the 10-year UST yield falling by 50bps from around 4.0% to 3.5% between February and March – an exceptionally big move in that market.

While the growth outlook improved in several key economies, making equities more attractive, risk aversion still made itself apparent over the quarter. Global equity returns outperformed bonds, while developed equity markets outperformed emerging equity markets.

South Africa

In South Africa, the equity market was dented by risk aversion and weakness in Listed Property and Resources stocks during the quarter but buoyed by Industrial shares. The FTSE/JSE All Share Index (ALSI) returned 5.2% in Q1, while the more locally exposed Capped SWIX delivered 2.4% (both in rands).

The South African Reserve Bank (SARB) surprised with a larger-than-expected 50bp interest rate hike on 30 March, citing strong inflationary pressures from food, administered prices and a depreciating rand. February CPI came in at 7.0% % y/y, aided by substantial increases in food, transport and medical services prices. Many had thought the Bank would follow the US and UK with a 25bp rise, especially given very weak local economic growth: Stats SA reported that Q4 2022 GDP contracted by 1.3%, more than expected, due to intensifying load-shedding. At the same time, National Treasury revised downward its projection for annual real GDP growth, now expected to average 1.4% from 2023 to 2025, versus 1.6% previously.

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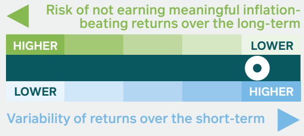
Performance

The Fund delivered a return of 1.8% (net of fees) for the first quarter of 2023, underperforming its benchmark by 0.6%. For the 12 months ended 31 March 2023, the fund returned 4.1% (net

Annualised performance	B class	Benchmark[1]	F class
1 year	5.3%	0.2%	4.1%
3 years	27.7%	23.0%	26.2%
5 years	8.3%	6.5%	7.1%
7 years	8.2%	6.2%	-
10 years	9.8%	8.1%	-
20 years	16.2%	14.6%	-
Since inception	14.9%	13.0%	-

[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
R42 852 234 921

Sources: M&G, Morningstar & Deutsche Securities

of fees), outperforming its benchmark by 3.9%. It is particularly pleasing to report that over the 3-year period ending 31 March 2023, both the absolute and relative performance of the Fund has been strong, with an absolute return of 26.2% per annum over this period, outperforming the benchmark by 3.2% per year.

The Fund's investment in Richemont was a top contributor during the quarter as its share price rose 27%. Richemont's sales were surprisingly resilient over the COVID period and have been growing well above expectations since then, especially at the watch and jewellery masons of Cartier and Van Cleef & Arpels. We think that these are exceptionally strong brands and that their brand value with consumers has never been higher.

Exceptionally strong sales of Richemont products in the United States resulted in retail capacity expansion to meet demand. With increased travel and as the Chinese market continues to grow post the COVID lockdown, we are likely to see even higher sales. Sales growth is likely to continue to lead to improving margins, earnings and dividends ahead of what we consider to be conservative market expectations. The company has an exceptionally strong balance sheet with a substantial net cash position. We think that cash flows and dividends from Richemont will be a lot higher in 5 years' time. After many years of restructuring the watch businesses inside the company, there is potential for this business to surprise the market on the upside.

The second largest contributor to performance for the quarter was our overweight position to Prosus, whose share price appreciation was 18% for the quarter. Prosus benefitted from a change in risk appetite for companies exposed to China due to the relaxation of the COVID policy. Further to this, easing of licensing restrictions around internet games also bodes well for future revenue growth after years of increased concerns around this matter. This economy appears to be reopening following strict COVID lockdowns and there seems to be a softer approach from regulators.

We believe 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 believe that Naspers and Prosus are trading at a material discount relative to their underlying investments, offering a significant margin of safety for the investment. The continued share repurchase programs by Prosus, Naspers and Tencent and continued focus on unlocking value within the group through sales of Tencent shares and investments are quite promising.

During the quarter, platinum group metals prices continued to fall, in particular rhodium and palladium. This sector's fortunes have rapidly improved after many years of earning margins which on average were not sufficient to compensate the mines for capex required for ongoing maintenance. Today, margins in the sector are at near-record highs and cash generation is very strong. We are cognisant of the high margins that companies are currently earning and remain in an underweight position in the platinum sector. This underweight positioning continued to benefit the Fund in the first quarter as our underweight to Anglo American Platinum and Impala Platinum were in the top five contributors to performance. We have strategically shifted our preference for companies within the sector, with a preference for the higher quality platinum companies which are likely to see production growth as a result of their investment in capacity. We therefore continue to be overweight Northam Platinum. The recent news that Northam has withdrawn its full bid for Royal Bafokeng Platinum was welcomed. Given the deterioration of the rhodium and palladium prices, the risks attached to the acquisition of further shares has materially increased.

Staying in the resources sector, a large detractor from performance for this quarter was the Fund's underweight to the gold sector and the underweight positions to Anglogold and Goldfields. This Fund has consistently been underweight to the gold sector mainly due to the poor cash flows generated by gold companies and consequently the poor dividend growth over a long period of time. For risk control purposes, the Fund holds positions in both Anglogold and Goldfields.

When we construct our portfolios, it is not based on a particular view or outcome. Instead, we look to construct portfolios with many different and diversified ideas, all which we think have favourable pay-off profiles. In this way, we seek to have portfolios which can deliver good returns under many different economic environments. It's impossible to consistently predict the direction of the oil prices or inflation rates.

While it's extremely difficult to forecast the future, we spend a substantial amount of time discussing the economic cycles that various sectors are in, and where valuations are. In this way, we aim to add value for our clients through these cycles and continue to buy companies that we believe have proven dividend and cash-flow track records, which can withstand the normal upheavals that occur in markets over time. We aim to continue building risk-cognisant portfolios that seek to add value through stock selection relative to the benchmark.

Strategy and positioning

We remain optimistic regarding the South African equity market returns over the medium term due to the prevailing excessive levels of pessimism reflected in share prices and valuations. The Price-to-Book value (P/E) of the JSE remains close to 1.7X (as at the end of March 2023) which we think is a very attractive valuation level. 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 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 equities valuations. The hurdle rate has increased. This higher rate not only decreases equity valuations, but also increases the real financial risk to companies via a higher cost of debt.

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

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G Global Bond Feeder Fund

Global Income ZAR-denominated

Q1 2023

Market overview

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Looking back, investment managers have rarely seen such sharp changes in market views in such a short period of time. US Treasury bonds, for example, experienced high volatility of around 10%, with the 10-year UST yield falling by 50bps from around 4.0% to 3.5% between February and March – an exceptionally big move in that market.

Central banks had an even tougher policy balancing act, having to choose between their duties of fighting inflation, safeguarding national banking systems and supporting growth and employment. Ironically, this led back to more positive expectations of lower interest rates and sooner-than-expected rate pauses.

The US Fed hiked its repo rate by 25bps at both its February at March meetings, moves that were expected by the market. February's core CPI, at 5.5% y/y, showed inflation was more deeply entrenched than thought. This data, combined with hawkish language from the US Fed, led investors to expect higher interest rates for longer and sparked global equity and bond sell-offs. Upward revisions to US growth forecasts, and for other key economies, reinforced the broadly more positive outlook by the end of the quarter.

In the UK, the Bank of England (BoE) raised its key interest rate by a total of 50bps in Q1 to 4.25%, in line with forecasts, reaching its highest level in 14 years. February CPI came in unexpectedly high at 10.4% y/y, and financial markets are still pricing in another 25-50bps of increases by August 2023. With January GDP growth reported at 0.3% m/m, the economy has so far avoided the recession that had been forecast, growing more quickly than expected and having picked up pace from the 0% recorded in the last quarter of 2022.

Meanwhile, Chancellor of the Exchequer Jeremy Hunt's three-year Spring Budget introduced higher taxes and spending, sparking labour protests on Budget day in mid-March. However, it also contained improved economic growth projections, including no recession for 2023. The UK economy is the only one of the G-7 not to have recovered to its pre-pandemic size.

The ECB continued its relatively aggressive pace of rate hikes in Q1 as it found itself faced with still high, albeit falling, levels of inflation. It hiked by 50bps in March as CPI surprised to the upside at 8.5% y/y in February versus 8.2% expected, with core CPI (excluding food and energy) at 5.6% y/y versus 5.3% expected. The bank also signalled its readiness to supply the banking system with extra liquidity should it be required. Financial markets now expect further hikes will be less aggressive going forward, having cut back their forecasts by a full 1.0%.

In February the European Commission revised upward its 2023 GDP growth forecast for the region to 0.8% from 03% previously, on the back of falling energy prices, government policy support and resilient household spending. Meanwhile, large and widespread public protests and strikes arose across France in March as a result of French President Emmanuel Macron's public pension reform, which sees the retirement age rise from 62 to 64.

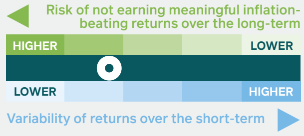
Japan continued its recovery from the pandemic during Q1, as outgoing BOJ Governor Kuroda left interest rates unchanged at a supportive -0.1% after having implemented an effective 25bp interest rate hike in December by lifting the country's fixed 10-year bond yield trading range. The market expects new Governor Eueda, who takes over in April, to also adjust the yield range wider without changing the base interest rate. Meanwhile, February CPI fell to 3.3% y/y from a 40-year high of 4.3% in March. Price increases have been driven by strong consumer demand, higher commodity prices and a weaker yen. Japanese GDP grew 1.1% in 2022, with a 1.3% expansion expected in 2023 on the back of stronger consumer demand, the government's October 2022 fiscal support package, rising tourism numbers and supply chain improvements.

China also continued its recovery from its strict Covid-19 lockdown in Q1 2023, having posted GDP growth of only 2.0% in 2022. The government set a conservative 5% growth target for 2023, with the IMF forecasting 5.2%, which would account for around 30% of global growth for the year. Pent-up consumer demand is driving the current expansion, along with consumer services, while the property sector remains weak.

Annualised performance	A class	Benchmark	B class
1 year	11.3%	11.7%	11.7%
3 years	-1.4%	-3.6%	-1.1%
5 years	6.6%	7.0%	-
7 years	2.5%	2.4%	-
10 years	6.5%	6.8%	-
20 years	7.4%	7.1%	-
Since inception	7.6%	7.7%	-

Sources: M&G, Morningstar & Deutsche Securities

Risk profile



Fund facts

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

Fund managers of the underlying fund
Jim Leaviss
Eva Sun-Wai

ASISA category
Global - Interest Beating - Variable Term

Benchmark
Bloomberg Global Aggregate Bond Index

Inception date
27 October 2000

Fund size
R634 220 039

M&G Investments

The PBOC left interest rates steady in Q1 to support the recovery, while also implementing a surprise cut to bank reserve requirements to support liquidity and steady any nervousness associated with global banks. The ongoing monetary policy divergence between China and the US has kept pressure on the yuan and caused some capital to leave the country.

Finally, despite some late-March gains on the back of the SARB's larger-than-expected rate hike, the rand moved weaker against the major global currencies, losing 4.8% against the broadly weaker US$, 7.3% against UK sterling and 6.5% versus the euro over the quarter.

While the growth outlook improved in several key economies, making equities more attractive, risk aversion still made itself apparent over the quarter.

Performance

For Q1 2023, the fund returned 7.8% (net of fees) versus its benchmark, the Bloomberg Global Aggregate Bond index, which returned 7.9 %. For the 12 months ending 31 March, the fund delivered 12.2% compared to the benchmark's 11.7%.

In terms of absolute performance, positive returns were generated by the fund's meaningful holdings of government bonds. The primary contributors included US government bonds, US corporate bonds and global investment grade bonds. The main detractors comprised German government bonds and emerging market bonds.

Strategy and positioning

In hard currency bonds, we added euro duration after short-term German Bund yields rose sharply in recent months. In March, we added a year of duration (sterling and euro assets) during the banking crisis following a sell-off at the short end of the yield curve. This was achieved by buying bonds from the Netherlands, Belgium, Spain and Germany.

We added Japanese index-linked bonds in January. Although inflation is trending lower, it is still nowhere near target levels. In our view, this has not been sufficiently priced in by markets. In March, we switched US inflation-linked bonds into short-dated US Treasuries after bond yields had jumped in the preceding weeks.

In local currency bonds, we switched out of 10-year Mexican bonds into shorter-term bonds as these became more attractive after yields rose in February.

As spreads tightened during the quarter, we reduced our corporate exposure by closing out of some high yield and investment grade names that had performed well. Later, we reduced our credit exposure to financials and selected sterling bonds. We added credit protection through credit default swaps towards the end of the review period.

Looking ahead, we believe that expectations around inflation and recession risk will drive market performance. Inflation is currently heading in the right direction, particularly in the US, which is positive for bonds. However, the possibility of a recession remains elevated as central banks continue to tighten financial conditions. In this environment, we will adopt a balanced and diversified approach across duration and credit. The yields available from investment grade bonds remain elevated, providing investors with a good overall cushion to further absorb any future volatility.

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Sources: M&G, Morningstar & Deutsche Securities

Quarterly Commentary

M&G Global Inflation Plus Feeder Fund

Global Multi-Asset ZAR-denominated

Q1 2023

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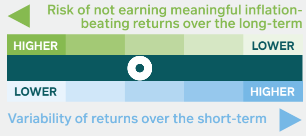
Annualised performance	A class	Benchmark[1]	B class
1 year	11.8%	29.2%	12.1%
3 years	4.7%	4.4%	5.1%
5 years	9.1%	10.9%	9.4%
7 years	5.0%	5.7%	5.3%
10 years	8.4%	9.3%	-
Since inception	7.5%	7.7%	-

[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
R225 036 412

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

The PBOC left interest rates steady in Q1 to support the recovery, while also implementing a surprise cut to bank reserve requirements to support liquidity and steady any nervousness associated with global banks. The ongoing monetary policy divergence between China and the US has kept pressure on the yuan and caused some capital to leave the country.

While the growth outlook improved in several key economies, making equities more attractive, risk aversion still made itself apparent over the quarter. Global equity returns outperformed bonds, while developed equity markets outperformed emerging equity markets. For the three months ended 31 March 2023, the MSCI All Country World Index returned 7.3%, the MSCI World Index (developed markets) delivered 7.7%, and the MSCI Emerging Markets Index produced 4.0% (all in US$). Bonds also posted meaningful gains: the Bloomberg Global Aggregate Bond Index delivered 3.0% (in US$).

Finally, despite some late-March gains on the back of the SARB's larger-than-expected rate hike, the rand moved weaker against the major global currencies, losing 4.8% against the broadly weaker US$, 7.3% against UK sterling and 6.5% versus the euro over the quarter.

Performance

For Q1 2023, the fund returned 8.1% (net of fees), ahead of global inflation (based on the OECD Major 7 CPI Total Index) measuring 5.8%. For the 12 months to 31 March, the fund produced 11.8% (net of fees) while global inflation measured 6.4%.

During the quarter, on an absolute return basis, both equities and fixed income assets contributed positively. Among equities, exposure to global equities chosen by machine learning, European and US stocks was beneficial, while in fixed income, global bonds, US corporate bonds and US Treasuries supported performance. Meanwhile, US financial stocks and global bonds with low duration were the main detractors.

Strategy and positioning

While maintaining our broad asset allocation predispositions, we made some changes over the course of the quarter. Within the equity exposure we introduced a more meaningful relative value trade favouring diversified non-US markets against the US equity market. This reflected the sizeable valuation differential between these markets and a sense of the market's increasing degree of comfort around the ownership of US equity. The aggregate equity level was unchanged. We also introduced a currency carry trade, initiating exposure to higher-yielding emerging market currencies while trimming exposure to lower yielding developed market currencies.

By the end of the period, concerns around the health of the global financial system given the earlier banking sector turmoil, had eased. Instead, investors seemed to believe that the problems were both contained and sufficient to soften the hawkishness of central banks. This fits with the 'Goldilocks' mentality of recent months - the idea that central bank policy can be eased, due to falling inflation and/or modest economic bad news, but that growth won't be too bad. Changing perceptions of whether or not economies can thread this needle could continue to drive volatility.

In these extremely volatile, narrative-driven times we remain alert to opportunities that are created by 'episodic', or sentiment-driven, changes in asset prices. We remain cautious and have adopted a neutral positioning. However, we are ready to act quickly if and when market turbulence presents attractive opportunities.

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G Global Balanced Feeder Fund

Global Multi-Asset ZAR-denominated

Q1 2023

Market overview

So far in 2023, global financial markets have experienced wild swings – particularly in the normally less volatile fixed income markets – dictated by the guessing game over the path of US interest rates, inflation and growth. January's sentiment was relatively bullish, dominated by expectations of a weaker US economy going into 2023, which would have increased the likelihood of softer inflation, lower-than-expected interest rates and a relatively imminent pause to the US Federal Reserve's rate hiking cycle.

This was all up-ended in February by surprisingly strong economic data, including more widely embedded inflation than previously thought. With the Fed signalling its intention to continue hiking, this sent market uncertainty higher and global asset prices lower, an environment that continued well into March.

Then the emergence of banking sector turmoil sparked by the sudden failure of specialist Silicon Valley Bank and the engineered buyout of Swiss banking giant Credit Suisse by UBS shocked markets even further, with swift central bank and government interventions preventing contagion to other sectors. Gold benefited and risk-off sentiment prevailed as global financial stocks sold off.

Looking back, investment managers have rarely seen such sharp changes in market views in such a short period of time. US Treasury bonds, for example, experienced high volatility of around 10%, with the 10-year UST yield falling by 50bps from around 4.0% to 3.5% between February and March – an exceptionally big move in that market.

Central banks had an even tougher policy balancing act, having to choose between their duties of fighting inflation, safeguarding national banking systems and supporting growth and employment. Ironically, this led back to more positive expectations of lower interest rates and sooner-than-expected rate pauses.

The US Fed hiked its repo rate by 25bps at both its February at March meetings, moves that were expected by the market. February's core CPI, at 5.5% y/y, showed inflation was more deeply entrenched than thought. This data, combined with hawkish language from the US Fed, led investors to expect higher interest rates for longer and sparked global equity and bond sell-offs. Upward revisions to US growth forecasts, and for other key economies, reinforced the broadly more positive outlook by the end of the quarter.

In the UK, the Bank of England (BoE) raised its key interest rate by a total of 50bps in Q1 to 4.25%, in line with forecasts, reaching its highest level in 14 years. February CPI came in unexpectedly high at 10.4% y/y, and financial markets are still pricing in another 25-50bps of increases by August 2023. With January GDP growth reported at 0.3% m/m, the economy has so far avoided the recession that had been forecast, growing more quickly than expected and having picked up pace from the 0% recorded in the last quarter of 2022.

Meanwhile, Chancellor of the Exchequer Jeremy Hunt's three-year Spring Budget introduced higher taxes and spending, sparking labour protests on Budget day in mid-March. However, it also contained improved economic growth projections, including no recession for 2023. The UK economy is the only one of the G-7 not to have recovered to its pre-pandemic size.

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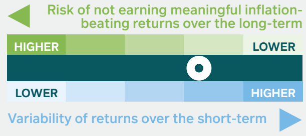
The PBOC left interest rates steady in Q1 to support the recovery, while also implementing a surprise cut to bank reserve requirements to support liquidity and steady any nervousness associated with global banks. The ongoing monetary policy divergence between China and the US has kept pressure on the yuan and caused some capital to leave the country.

Annualised performance	A class	Benchmark	B class
1 year	10.7%	12.3%	11.1%
2 years	7.7%	7.5%	8.0%
3 years	9.8%	9.4%	10.0%
Since inception	8.3%	10.8%	-

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 522 984 337

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

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Performance

For Q1 2023, the fund produced a return of 8.3% (net of fees), compared to the 10.7% recorded by its benchmark. For the 12 months to 31 March, the fund delivered 10.7% versus the benchmark's -12.3% return.

The main contributors to the fund's absolute returns over the quarter included equities, which on the whole performed well. Fixed income made a smaller contribution, although global bonds, emerging market bonds and US Treasuries all added value. The primary detractors from absolute performance were the fund's exposure to US financials, as well as an underweight position in the broader US stock market.

Strategy and positioning

While maintaining our broad asset allocation predispositions, we made some changes over the course of the quarter. Within the equity exposure we introduced a more meaningful relative value trade favouring diversified non-US markets against the US equity market. This reflected the sizeable valuation differential between these markets and a sense of the market's increasing degree of comfort around the ownership of US equity. The aggregate equity level was unchanged. We also introduced a currency carry trade, initiating exposure to higher-yielding emerging market currencies while trimming exposure to lower yielding developed market currencies.

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Sources: M&G, Morningstar & Deutsche Securities

M&G Global Property Feeder Fund

Global Property ZAR-denominated

Q1 2023

Market overview

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In the UK, the Bank of England (BoE) raised its key interest rate by a total of 50bps in Q1 to 4.25%, in line with forecasts, reaching its highest level in 14 years. February CPI came in unexpectedly high at 10.4% y/y, and financial markets are still pricing in another 25-50bps of increases by August 2023. With January GDP growth reported at 0.3% m/m, the economy has so far avoided the recession that had been forecast, growing more quickly than expected and having picked up pace from the 0% recorded in the last quarter of 2022.

Meanwhile, Chancellor of the Exchequer Jeremy Hunt's three-year Spring Budget introduced higher taxes and spending, sparking labour protests on Budget day in mid-March. However, it also contained improved economic growth projections, including no recession for 2023. The UK economy is the only one of the G-7 not to have recovered to its pre-pandemic size.

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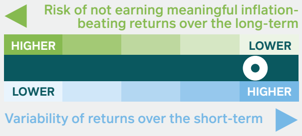
Annualised performance	A class	Benchmark	B class
1 year	-9.6%	-3.4%	-9.3%
Since inception	-9.9%	-6.5%	-

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 987 086

Sources: M&G, Morningstar & Deutsche Securities

While the growth outlook improved in several key economies, making equities more attractive, risk aversion still made itself apparent over the quarter. Global property stocks continued to generate among the weakest returns.

Finally, despite some late-March gains on the back of the SARB's larger-than-expected rate hike, the rand moved weaker against the major global currencies, losing 4.8% against the broadly weaker US$, 7.3% against UK sterling and 6.5% versus the euro over the quarter.

Performance

For Q1 2023, the fund returned 5.1%, compared to its benchmark, the FTSE EPRA/NAREIT Global REITs Net Index's 6.2% return. For the 12 months to 31 March, the fund delivered -9.6% compared to the -3.4% return from the benchmark.

The fund is managed by a machine learning algorithm similar to the M&G Global Equity Fund. This constrains active country, currency and industry risk at the portfolio construction phase, ensuring that style and individual asset risk are the main drivers of active returns.

Both style as well as stock selection contributed positively to performance over the quarter. Within style, exposures to high beta, high momentum and high earnings variability all contributed to returns, while the portfolio's exposure to smaller size companies detracted.

At the stock level active positions in Regional REIT Ltd. and Life Storage Inc. were the largest contributors to performance, while Uniti Group Inc. and Farmland Partners Inc. were the biggest detractors.

Strategy and positioning

By the end of the period, concerns around the health of the global financial system given the earlier banking sector turmoil, had eased. Instead, investors seemed to believe that the problems were both contained and sufficient to soften the hawkishness of central banks.

This fits with the 'Goldilocks' mentality of recent months - the idea that central bank policy can be eased, due to falling inflation and/or modest economic bad news, but that growth won't be too bad. Changing perceptions of whether or not economies can thread this needle could continue to drive volatility.

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M&G Global Equity Feeder Fund

Global Equity ZAR-denominated

Q1 2023

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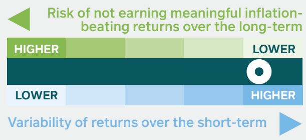
Annualised performance	A class	Benchmark	B class
1 year	11.1%	12.4%	11.4%
3 years	16.1%	15.1%	16.5%
5 years	14.0%	15.9%	-
7 years	10.5%	12.1%	-
10 years	13.8%	15.4%	-
20 years	10.8%	13.2%	-
Since inception	8.0%	9.4%	-

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 - Equity - General

Benchmark
MSCI All Country World Index TR Net

Inception date
18 February 2000

Fund size
R997 753 972

Sources: M&G, Morningstar & Deutsche Securities

While the growth outlook improved in several key economies, making equities more attractive, risk aversion still made itself apparent over the quarter. Global equity returns outperformed bonds, while developed equity markets outperformed emerging equity markets. For the three months ended 31 March 2023, the MSCI All Country World Index returned 7.3%, the MSCI World Index (developed markets) delivered 7.7%, and the MSCI Emerging Markets Index produced 4.0% (all in US$). US equity returns were positive for Q1: in US$, the Dow Jones produced 0.9%, the Nasdaq delivered 17.0%, and the S&P 500 returned 7.5%.

Finally, despite some late-March gains on the back of the SARB's larger-than-expected rate hike, the rand moved weaker against the major global currencies, losing 4.8% against the broadly weaker US$, 7.3% against UK sterling and 6.5% versus the euro over the quarter.

Performance

For Q1 2023, the fund returned 10.4% (net of fees), compared to the benchmark's 12.4%. For the 12 months ending 31 March, the fund delivered 11.1% (net of fees) compared to the benchmark's 12.4%.

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 had a muted impact on performance over the quarter with positive contribution from high beta stocks offset by the portfolio's exposure to high residual volatility and smaller size companies.

Despite stock selection, at a portfolio level, detracting from performance over the quarter, Bombardier Inc. and Aima Technology Group Ltd added meaningfully to portfolio returns. Bombardier Inc., a manufacturer of business jets, benefited from positive earnings news during the quarter which was accompanied by positive analyst earnings revisions. Nabors Industries Ltd, an oil and gas drilling company and Ameris Bancorp., a US regional bank, were the biggest detractors to performance.

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.

By the end of the period, concerns around the health of the global financial system given the earlier banking sector turmoil, had eased. Instead, investors seemed to believe that the problems were both contained and sufficient to soften the hawkishness of central banks.

This fits with the 'Goldilocks' mentality of recent months - the idea that central bank policy can be eased, due to falling inflation and/or modest economic bad news, but that growth won't be too bad. Changing perceptions of whether or not economies can thread this needle could continue to drive volatility.

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M&G Investments

M&G 2.5% Target Income Fund

Target Income

Q1 2023

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In fact, the US Fed hiked by a measured 25bps in March, as expected, as did the Bank of England (BOE), while the European Central Bank (ECB) and SA Reserve Bank (SARB) announced relatively robust 50bp increases given their higher inflation threats. Looking back, investment managers have rarely seen such sharp changes in market views in such a short period of time. US Treasury bonds, for example, experienced high volatility of around 10%, with the 10-year UST yield falling by 50bps from around 4.0% to 3.5% between February and March – an exceptionally big move in that market.

While the growth outlook improved in several key economies, making equities more attractive, risk aversion still made itself apparent over the quarter. Global equity returns outperformed bonds, while developed equity markets outperformed emerging equity markets. For the three months ended 31 March 2023, the MSCI All Country World Index returned 7.3%, the MSCI World Index (developed markets) delivered 7.7%, and the MSCI Emerging Markets Index produced 4.0% (all in US$). Bonds also posted meaningful gains: the Bloomberg Global Aggregate Bond Index delivered 3.0% (in US$). Global property stocks continued to generate among the weakest returns, with the FTSE EPRA/NAREIT Global REIT Index returning 1.4% (US$).

South Africa

In South Africa, the SARB surprised with a larger-than-expected 50bp interest rate hike on 30 March, citing strong inflationary pressures from food, administered prices and a depreciating rand. February CPI came in at 7.0% % y/y, aided by substantial increases in food, transport and medical services prices. Many had thought the Bank would follow the US and UK with a 25bp rise, especially given very weak local economic growth: Stats SA reported that Q4 2022 GDP contracted by 1.3%, more than expected, due to intensifying load-shedding. At the same time, National Treasury revised downward its projection for annual real GDP growth, now expected to average 1.4% from 2023 to 2025, versus 1.6% previously.

The 50bp rate increase did help to reinforce the SARB's global credibility, while the rand reacted by strengthening below the key R18/1USD level, at least temporarily. The SA forward rate market is now pricing in a further 50bps in interest rate hikes from the SARB this year before the central bank pauses and then starts cutting rates again. Meanwhile, S&P Global downgraded the sovereign credit rating outlook to negative from stable, citing load-shedding and the fragile economy as the primary drivers.

Also during the quarter, investors welcomed the 2023 National Budget's improved fiscal trajectory and the government's plans for Eskom debt relief, as markets reacted marginally favourably. Eskom remained in the spotlight for much of the period as its departing CEO reported high levels of corruption within the utility, prompting more intensive investigations from journalists and the government.

Meanwhile, South Africa was grey-listed by financial watchdog FATF, so that more scrutiny of the country's international transactions is necessary to root out money laundering and financing of terrorism. Higher costs and administrative hurdles will likely result, experts said, and banking shares fell 2% in reaction to the announcement. Bonds and the rand were little moved, however.

The SA equity market was dented by risk aversion and weakness in Listed Property and Resources stocks during the quarter, and impacted by the global sell-off in Financials, but buoyed by Industrial shares. The FTSE/JSE All Share Index (ALSI) returned 5.2% in Q1, while the more locally exposed Capped SWIX delivered 2.4% (both in rands). Industrial counters returned 13.6%, while Financials produced 0.4%, Resources -4.4% (Resources 10 Index) and the All Property Index -4.8% (all in rands).

For the quarter, SA nominal bonds (the FTSE/JSE All Bond Index) delivered 3.4% in rands, while inflation-linked bonds (ILBs) produced 0.9% and cash returned 1.7%. Finally, despite some late-March gains on the back of the SARB's larger-than-expected

Annualised performance	A class	CPI	B class
1 year	7.2%	7.0%	7.6%
2 years	11.6%	6.3%	12.0%
3 years	20.1%	5.2%	20.5%
Since inception	7.3%	4.9%	-

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
R102 966 886

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

rate hike, the rand moved weaker against the major global currencies, losing 4.8% against the broadly weaker US$, 7.3% against UK sterling and 6.5% versus the euro over the quarter.

Performance

The M&G 2.5% Target Income Fund returned 4.5% (after fees) for the first quarter of 2023 and 7.2% for the 12-month period ending 31 March 2023.

The fund's global and SA equity exposure added the most value to its absolute return for Q1, by far, followed by its global and SA bond holdings. SA listed property was the only small asset class detractor for the quarter.

In terms of specific equity exposure for the quarter, the fund's Industrial holdings were a positive contributor to absolute returns, given that sector's strong performance. Holdings like Naspers, Prosus, Richemont, AB InBev and other stocks with global earnings added value. Detractors from absolute performance stemmed largely from Resources holdings (Northam Platinum, Glencore, Implats, Exxaro and Sasol, for example) and certain bank shares to a lesser extent.

Strategy and positioning

Starting with our view on **offshore asset allocation**, during the quarter our global holdings remained largely unchanged versus South African holdings.

Within **global bonds**, we stayed broadly neutral in the fund and maintained our exposure to 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. Real global bond yields are now relatively attractive and offer compensation for the risk involved – that of higher-than-expected interest rate hikes. US Treasuries are also solid diversifiers for SA equity risk.

Within **global equities**, we remain selective and we are still leaning 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 Q1. Early in the quarter we trimmed our SA equity exposure slightly to take some profit after the roughly 20% rally in the local market in late 2022 and into January, using the profits to increase our SA bond exposure. SA equity valuations (as measured by the 12-month forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) re-rated slightly over the quarter, rising from around 9.2X to around 9.5X at quarter-end. Much of this re-rating was attributable to share price gains, as earnings estimates changed only marginally.

During the quarter, we trimmed our **SA listed property** exposure in favour of SA cash, as cash yields became more attractive on a risk-adjusted basis, while property risks remained high. We still prefer exposure to non-property 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.

The fund also benefitted from our ongoing preference for **SA nominal bonds** in Q1 2023 due to their positive returns despite a very volatile period. During the quarter we added slightly to our SA bond holdings out of SA property. The 10-year SA government bond rallied approximately 20bps during the quarter, falling to 10.7% at quarter-end, which is still at a relatively high level on a historic basis. Meanwhile, the 20-year bond lost 20bps, leading to a steepening of the yield curve in the long end, even as the curve below 10 years flattened as a result of the SARB's interest rate hikes. 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 inflation-linked bonds (ILBs)** in the fund.

Lastly, the SARB's interest rate hikes during the quarter made **SA cash** relatively more attractive as an asset class. However, apart from SA property, we still prefer most other local asset classes for the higher real yields available on both an absolute and relative basis. Therefore, the fund remained tilted away from SA cash. □

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Sources: M&G, Morningstar & Deutsche Securities

M&G 5% Target Income Fund

Target Income

Q1 2023

Market overview

So far in 2023, global financial markets have experienced wild swings – particularly in the normally less volatile fixed income markets – dictated by the guessing game over the path of US interest rates, inflation and growth. January's sentiment was relatively bullish, dominated by expectations of a weaker US economy going into 2023, which would have increased the likelihood of softer inflation, lower-than-expected interest rates and a relatively imminent pause to the US Federal Reserve's rate hiking cycle. This was all up-ended in February by surprisingly strong economic data, including more widely embedded inflation than previously thought. With the Fed signalling its intention to continue hiking, this sent market uncertainty higher and global asset prices lower, an environment that continued well into March.

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Performance

The M&G 5% Target Income Fund returned 3.0% (after fees) for the first quarter of 2023 and 6.5% (after fees) for the 12-month period ending 31 March 2023.

Annualised performance	A class	CPI	B class
1 year	6.5%	7.0%	6.9%
2 years	9.6%	6.3%	10.0%
3 years	13.3%	5.2%	13.7%
Since inception	6.3%	4.9%	-

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
R196 219 569

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

The fund's SA nominal bond exposure added the most value to its absolute return for Q1, by far, followed by its SA and global equity holdings. Global bonds also added value. SA listed property was the only asset class to detract from its absolute return for the quarter, to a small extent.

In terms of specific equity exposure for the quarter, the fund's Industrial holdings were a positive contributor to absolute returns, given that sector's strong performance. Holdings like Naspers, Prosus, Richemont, AB InBev and other stocks with global earnings added value. Detractors from absolute performance stemmed largely from Resources holdings (Northam Platinum, Glencore, Implats, Exxaro and Sasol, for example) and certain bank shares to a lesser extent.

Strategy and positioning

Starting with our view on **offshore asset allocation**, during the quarter our global holdings remained largely unchanged versus South African holdings.

Within **global bonds**, we stayed broadly neutral in the fund and maintained our exposure to 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. Real global bond yields are now relatively attractive and offer compensation for the risk involved – that of higher-than-expected interest rate hikes. US Treasuries are also solid diversifiers for SA equity risk.

Within **global equities**, we remain selective and we are still leaning 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.

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The fund also benefitted from our ongoing preference for **SA nominal bonds** in Q1 2023 due to their positive returns despite a very volatile period. The 10-year SA government bond rallied approximately 20bps during the quarter, falling to 10.7% at quarter-end, which is still at a high level on a historic basis. Meanwhile, the 20-year bond lost 20bps, leading to a steepening of the yield curve in the long end, even as the curve below 10 years flattened as a result of the SARB's interest rate hikes. 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. The fund held no **SA inflation-linked bonds (ILBs)** at the end of Q1.

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M&G 7% Target Income Fund

Target Income

Q1 2023

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3 years	12.2%	5.2%	12.6%
Since inception	6.1%	4.9%	-

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
R378 147 572

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

Performance

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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 **offshore versus SA asset allocation** remained the same. We continued to prefer SA assets given that they remained more attractive than their offshore counterparts.

Within **global bonds**, we stayed broadly neutral in the fund and maintained our exposure to 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. Real global bond yields are now relatively attractive and offer compensation for the risk involved – that of higher-than-expected interest rate hikes. US Treasuries are also solid diversifiers for SA equity risk.

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