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M&G Unit Trust Quarterly Commentary

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

Q3 2023

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Q3 2023

Market overview

After a promising start to the third quarter (Q3) of 2023 in July, it was largely downhill for investors in the following two months as the global interest rate outlook deteriorated, taking with it 2024 growth prospects and investor risk sentiment. As the prospect of "higher for longer" interest rates became increasingly likely, risk aversion took hold and global equity and bond markets sold off broadly. September saw significant sales of developed market government bonds on the back of ongoing hawkish comments from the US Federal Reserve and others, and forecasters revised downward their 2024 GDP growth outlooks, even while revising upward those for 2023.

Disappointing Chinese growth also continued to weigh on market sentiment, as did risks associated with the ongoing Russia-Ukraine war, and the sharp increase in the price of oil, which jumped to over US$97/bbl (Brent crude) in late September and sparked more inflation worries as oil producers extended their production cuts and inventories fell.

The extent of market losses was broadly similar across equities and bonds, and developed and emerging markets, with global property stocks hardest hit by the "higher for longer" outlook. For the three months ended 30 September 2023, the MSCI All Country World Index delivered -3.4%, the MSCI Emerging Markets Index produced -2.9% and global property stocks (the FTSE EPRA/NAREIT Global REIT Index) returned -6.8% (all in US$). At the same time, the Bloomberg Global Aggregate Bond Index offered no diversification for investors, delivering -3.6% (in US$).

South African markets took their cue from their global counterparts in Q3, with local concerns adding to the pessimistic tone. The elevated risks associated with SA assets brought on partly by the "Lady R" incident in May persisted, with perceptions of SA's pro-Russia stance enhanced by the hosting of the BRICS Summit and growth prospects remaining subdued (highlighted by a temporary increase to Stage 6 loadshedding in September). This kept pressure on all SA assets, including the rand.

Over the quarter the SA equity market was dragged down by Industrial counters, as well as Resources (amid fears of slower global growth and demand, particularly from China). Locally focused companies fared better. The FTSE/JSE All Share Index (ALSI) returned -3.5% in Q3 while the Capped SWIX delivered -3.8% (both in rands). Industrial counters returned -6.2% and Resources -5.3%, while Financials produced 2.2% and the All Property Index -0.6% (all in rands).

For the quarter, SA nominal bonds (the FTSE/JSE All Bond Index) delivered -0.3% in rands, as capital losses were offset to some extent by the high yields they offer in absolute terms, while inflation-linked bonds (ILBs) produced 0.8% and cash returned 2.1%. Finally, the rand lost 0.3% against the US$ for the quarter and depreciated 3.2% against the euro and 4.3% versus the UK pound as sentiment toward SA remained depressed.

Performance

In the current environment, where the repo rate is high compared to prevailing inflation, the fund continues to deliver good absolute and real return numbers. It is also consistently placing in the top half of the peer group (according to Morningstar), which is pleasing, given the conservative way in which we manage the fund's credit exposure. The fund returned 2.1% over the quarter (Class A, net of fees), compared to the benchmark's 2.0%.

Strategy and positioning

There were no interest rate hikes by the SARB over this quarter. Neither the forward rate agreement (FRA) curve nor the NCD curve changed much over the quarter, and these curves are essentially implying an unchanged repo rate over the next two to five years. There are good reasons to expect the local central bank rate to remain higher for longer, and as such, there are no obvious opportunities to exploit between short-dated fixed and floating rate paper.

One opportunity that has emerged, over the quarter, is a slight gap having opened up between the bank fixed-rate NCD curve, and the government's treasury bill curve. Six-month and nine-month treasuries look particularly attractive relative to what the banks can offer for those tenors. As such, we have added to our position in treasury bills.

The fund duration was maintained at between 80 and 90 days for most of the quarter, in an effort to take advantage of the yield enhancement available from owning longer-dated paper.

Annualised performance	A class	Benchmark	X class
1 year	7.8%	7.3%	7.8%
3 years	5.4%	5.0%	5.4%
5 years	5.9%	5.4%	5.9%
7 years	6.4%	5.8%	6.4%
10 years	6.3%	5.8%	6.4%
20 years	7.0%	6.7%	-
Since inception	7.3%	7.1%	-

Risk profile

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

HIGHER LOWER

LOWER HIGHER

Variability of returns over the short-term

Fund facts

Fund managers

Roshen Harry
René Prinsloo

ASISA category

South African - Interest Bearing - Money Market

Benchmark

STeFI Call Deposit Index

Inception date

9 April 2002

Fund size

R1 445 926 158

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G High Interest Fund

Income

This fund is capped to new investors.

Q3 2023

Market overview

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Credit trends

Total credit issuance (excluding government issuances) in Q3 2023 showed some improvement over the previous quarter, with R29.2bn issued compared to R27.2bn in the previous quarter (Q2 2023). Nonetheless a -18% decline was still evident when compared to the same quarter in the prior year (Q3 2022), when R35.6bn was issued. Rolling 12-month issuance to Q3 2023 is still robust though at R157bn compared to the 12 months to Q3 2022 of 119bn. With only one quarter left of 2023 the year-to-date gross issuance sits at 84% of the full year estimates for issuance as compiled by RMB Credit Research at the start of the year. According to ABSA's Credit Research team total outstanding issuance, excluding government debt, has grown by 3.8% year-on-year.

The make-up of issuance for the quarter followed established trends - the majority of issuance being floating-rate notes, with auctions accounting for just over 69% of placements by volume.

Data compiled by ABSA's Credit Research team indicates that banks have been the largest sector for new issuance year-to-date with around 54% of total issuance, while as at the end of September 2023 bank exposures comprised 49% of SA listed credit in issue. The largest issuers in the quarter were the big five SA banks who combined raised R12.4bn in the quarter. Absa was the largest contributor raising R5.5bn, the bulk of which was issued via an auction of three senior-ranking floating rate notes in mid-September.

The third quarter saw one new issuer in the SA debt capital market in the form of multilateral development finance institution the New Development Bank, also referred to as the BRICS Bank. Although their auction successfully placed the full R1.5bn that was on offer and achieved spreads tighter than the big five SA banks, the level of investor interest was low with only four participants in the three-year note and six in the five-year note.

Over the past quarter we were successful in our bids for new bonds issued by Vukile Property Fund.

Performance

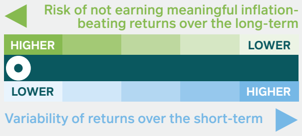
The lack of duration in the fund over the past quarter meant that it was relatively unaffected by the challenging fixed income environment. It returned 2.2% over the quarter (Class A, net of fees), compared to the benchmark's 2.1%.

Strategy and Positioning

There were no interest rate hikes by the SARB over this quarter. Neither the forward rate agreement (FRA) curve nor the NCD curve changed much over the quarter, and these curves are

Annualised performance	A class	Benchmark	X class	D class
1 year	8.0%	7.5%	8.1%	8.2%
3 years	5.5%	5.3%	5.6%	5.8%
5 years	6.0%	5.9%	6.1%	6.2%
7 years	6.6%	6.3%	6.7%	6.8%
10 years	6.5%	6.3%	6.7%	6.8%
Since inception	6.4%	6.2%	-	-

Risk profile



Fund facts

Fund managers
Roshen Harry
René Prinsloo

ASISA category
South African - Interest Bearing - Short Term

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

Inception date
8 December 2010

Fund size
R9 766 913 903

Sources: M&G, Morningstar & Deutsche Securities

essentially implying an unchanged repo rate over the next two to five years. There are good reasons to expect the local central bank rate to remain higher for longer, and as such, there are no obvious opportunities to exploit between short-dated fixed and floating rate paper.

Even though floating NCD spreads are at their lowest levels in a decade (apart from a very short period during the COVID pandemic), the relatively high JIBAR rate (8.3%) that these instruments reference, means that they are still providing an attractive yield relative to inflation. As such we maintain a fairly high exposure to floating rate assets in the fund (around 90% of the fund's exposure).

There were no major changes in the characteristics of the portfolio over the past quarter, with the fund's duration reducing slightly to 82 days.

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Quarterly Commentary

M&G Income Fund

Income

Q3 2023

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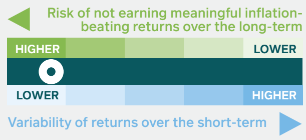
Over the past quarter we were successful in our bids for new bonds issued by Standard Bank, Vukile and Equites.

Performance

In the current environment, where the repo rate is high compared to prevailing inflation, the fund continues to put up good absolute and real return numbers, given the largely floating rate nature of its exposure (95% of fund). It is also consistently placing in the top tier of the peer group (according to Morningstar), which is pleasing. Over the past quarter the fund returned 2.6% (Class A, net of fees), compared to the benchmark's 2.1%.

Annualised performance	A class	Benchmark	D class
1 year	9.8%	7.5%	10.0%
2 years	7.5%	6.0%	7.7%
3 years	6.6%	5.3%	6.8%
5 years	6.9%	5.9%	7.0%
Since inception	7.3%	6.3%	-

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
R602 630 715

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

Strategy and Positioning

There were no interest rate hikes by the SARB over this quarter. Neither the forward rate agreement (FRA) curve nor the NCD curve changed much over the quarter, and these curves are essentially implying an unchanged repo rate over the next two to five years. There are good reasons to expect the local central bank rate to remain higher for longer, and as such, there are no obvious opportunities to exploit between short-dated fixed and floating rate paper.

Given the continued sell-off in the bond market (government bond yields rose on average by more than 50bps this quarter), longer-dated fixed rate exposure does appear attractive. The yield on the SA government 10-year bond now exceeds 12%, which is in line with the 20-year high that it reached during COVID. As such, we have been debating the merits of increasing the duration of the fund somewhat. Up to now we have deemed it unnecessary to do so, as floating rate instruments are also yielding attractive rates, due to the relatively high JIBAR rate (8.3%) that these instruments reference. Even though it is difficult to find floating rate instruments that yield anywhere near 12%, the yields and returns on offer from these instruments still compare favourably to current inflation, as well as expectations of future inflation. As such, we have not considered it justified to add more risk into the portfolio up to this point. The fund's duration therefore remained relatively unchanged over the quarter, reducing slightly from 73 days to 56 days.

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Sources: M&G, Morningstar & Deutsche Securities

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M&G Bond Fund

Income

Q3 2023

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Performance

The fund fell just short of the benchmark's return over the past quarter (-0.38% compared to -0.33% for the ALBI). It continues to deliver healthy relative returns (compared to peers), but poor absolute returns, as a result of the challenging environment for South African fixed interest. The ALBI followed Q2's -1.2% return with another down-quarter, as the sell-off in local fixed income continues. The past quarter's move, however, should be seen in the context of a very weak global bond market environment. Over this period, every single one of the 24 most liquid bond markets that we track sold off (bond yields rose), and relative to this peer group, the rise in our market's bond yields was unremarkable.

Over longer time horizons, however, SA does stand out as a market that has been particularly weak. The continued sell-off in SA bonds has pushed the yield on the government 10-year bond to over 12%, which is in line with the 20-year high that it reached during COVID.

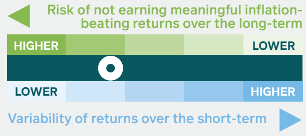
Strategy and positioning

The curve bear-steepened over the quarter, with the R186 yield rising 25bps but the 20y+ part of the curve rising by 60bps or more. We had an overweight position to the front of the curve (bonds less than 10 years) for most of the quarter, so this provided some protection against the worst of the sell-off. However, a large position in the R2037 (the weakest bond over the quarter with a 65bp increase in yield), negated most of this benefit.

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.

Annualised performance	A class	Benchmark	B class
1 year	8.3%	7.2%	8.5%
3 years	8.3%	7.0%	8.5%
5 years	6.8%	7.2%	7.0%
7 years	6.9%	7.3%	7.1%
10 years	6.6%	7.2%	6.9%
20 years	8.0%	8.2%	8.3%
Since inception	9.3%	9.6%	-

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
R833 096 203

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Sources: M&G, Morningstar & Deutsche Securities

M&G Enhanced Income Fund

Multi-asset

Q3 2023

Market overview

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For the quarter, SA nominal bonds (the FTSE/JSE All Bond Index) delivered -0.3% in rands, as capital losses were offset to some extent by the high yields they offer in absolute terms, while inflation-linked bonds (ILBs) produced 0.8% and cash returned 2.1%.

In South Africa, the SA Reserve Bank kept its repo rate steady at 8.25% at both its July and September policy meetings, as expected by the market, but still cited upside risks to the inflation outlook such as higher global energy prices and the weaker rand. Governor Lesetja Kanyago's hawkish comments left the door open for another interest rate hike in November. Headline inflation ticked up to 4.8% y/y in August from 4.7% y/y in July, and the SARB revised its CPI forecasts for 2023 to 5.9% (from 6.0%) and for 2024 to 5.1% (from 5.0%).

GDP growth for Q2 2023 surprised positively at 0.6% q/q versus 0.3% expected, helped by growth in manufacturing, finance and a turnaround in agriculture. The central bank also upwardly revised its GDP growth forecast for this year to 0.7% (from 0.4% in July), while the 2024 and 2025 forecasts remain unchanged at 1.0% and 1.1%, respectively. Consumer confidence improved slightly against the backdrop of falling inflation and a potential peak in interest rates, with the FNB/BER Q3 2023 Consumer Confidence Index registering -16 points from -25 points in Q2.

The headwinds to growth remained considerable, however, as loadshedding ramped up to Stage 6 temporarily in September, a reminder of the energy constraints facing the country, while China's slower growth presents challenges for commodity exports. Lower-than-expected tax collections have also fuelled concerns over the national budget deficit, with negative implications for the local bond market.

Performance

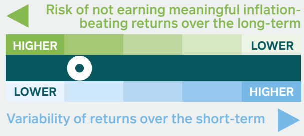
The fund delivered 2.1% (net of fees) for the quarter ending September 2023, in line with its benchmark. For the year ended 30 September 2023, the fund returned 10.1% (net of fees), healthily outperforming its benchmark which returned 7.5%. On a passive basis so far in 2023, cash has provided the best returns among domestic asset classes, with riskier assets like equities, listed property, nominal bonds and inflation-linked bonds struggling to muster positive returns.

Strategy and positioning

In keeping with being an actively managed fund, the fund tactically increases allocation toward nominal bonds when there are compelling opportunities to do so and trims them when they are no longer so attractive. This served the fund well during the "Lady R" drama in May when the fund went into the episode underweight duration (interest rate risk) and suffered a relatively mild drawdown. We did use the opportunity to increase duration at attractive levels, which benefitted from the ensuing rally in June and July. This was also the case in September, as the fund suffered a marginal drawdown but used the back-up in yields to increase duration. Considering the deteriorating fiscal trajectory, our focus has been more on the short end of the yield curve. This has served the fund well, as this area has outperformed the longer tenors.

Annualised performance	A class	Benchmark	T class	X class	D class
1 year	10.1%	7.5%	10.2%	10.0%	10.4%
3 years	7.1%	5.3%	7.3%	7.1%	7.5%
5 years	6.1%	5.9%	6.3%	6.1%	6.5%
7 years	6.3%	6.3%	6.7%	6.4%	6.8%
10 years	6.7%	6.4%	-	6.8%	7.1%
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
R767 188 956

Sources: M&G, Morningstar & Deutsche Securities

During the quarter we maintained our light positioning in SA listed property. The environment for the local property sector remains challenging given the pressure from the interest rate hiking cycle and its effect on distributions. Spreads available from offshore credit remain tight and not yet attractive enough for us to allocate offshore. Although the implied real yields from nominal bonds appear more attractive than inflation-linked bonds, we maintain some exposure to inflation-linkers. This is due to the relatively high absolute level of real yields available and the fact that they provide a form of insurance to the portfolio were the inflation outlook to deteriorate. Once again, our preference is in the short end of this yield curve.

The 4.75% increase in the SARB repurchase rate since November 2021 has made cash a much more attractive asset class than before. The rate hikes, when combined with the deceleration in the local inflation rate from its peak in July 2022, has allowed the real interest rate to turn positive. We have therefore increased our exposure to floating rate instruments in this environment.

M&G Investments

Contact us

info@mandg.co.za

mandg.co.za

0860 105 775

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Disclaimer

M&G Inflation Plus Fund

Multi-asset

Q3 2023

Market overview

After a promising start to the third quarter (Q3) of 2023 in July, it was largely downhill for investors in the following two months as the global interest rate outlook deteriorated, taking with it 2024 growth prospects and investor risk sentiment. As the prospect of "higher for longer" interest rates became increasingly likely, risk aversion took hold as global equity and bond markets sold off broadly. September saw developed market government bond yields rise substantially on the back of ongoing hawkish comments from the US Federal Reserve and others, and forecasters revised downward their 2024 GDP growth outlooks, even while revising upward those for 2023.

Disappointing Chinese growth also continued to weigh on market sentiment, as did risks associated with the ongoing Russia-Ukraine war, and the sharp increase in the price of oil, which jumped to over US$97/bbl (Brent crude) in late September.

The extent of market losses was broadly similar across equities and bonds, and developed and emerging markets, with global property stocks hardest hit by the "higher for longer" outlook. For the three months ended 30 September 2023, the MSCI All Country World Index delivered -3.4%, the MSCI Emerging Markets Index produced -2.9% and global property stocks (the FTSE EPRA/NAREIT Global REIT Index) returned -6.8% (all in US$). At the same time, the Bloomberg Global Aggregate Bond Index offered no diversification for investors, delivering -3.6% (in US$).

South African markets took their cue from their global counterparts in Q3, with local concerns adding to the pessimistic tone. The elevated risks associated with SA assets brought on partly by the "Lady R" incident in May persisted, with perceptions of SA's pro-Russia stance enhanced by the hosting of the BRICS Summit and growth prospects remaining subdued (highlighted by a temporary increase to Stage 6 loadshedding in September). This kept pressure on all SA assets, including the rand.

Over the quarter the SA equity market was dragged down by Industrial counters, as well as Resources (amid fears of slower global growth and demand, particularly from China). Locally-focused companies fared better. The FTSE/JSE All Share Index (ALSI) returned -3.5% in Q3 while the Capped SWIX delivered -3.8% (both in rands). Industrial counters returned -6.2% and Resources -5.3%, while Financials produced 2.2% and the All Property Index -0.6% (all in rands).

For the quarter, SA nominal bonds (the FTSE/JSE All Bond Index) delivered -0.3% in rands, while inflation-linked bonds (ILBs) produced 0.8% and cash returned 2.1%. Finally, the rand lost 0.3% against the US$ for the quarter, and depreciated 3.2% against the euro and 4.3% versus the UK pound as sentiment toward SA remained depressed.

United States

In the US, after hiking by 25bps in July, the Fed left interest rates unchanged in September, in line with expectations. However, the central bank subsequently surprised the market by hawkishly signalling the possibility of another rate hike before year-end, reinforced by later statements by Fed Governor Jerome Powell and other key voting members, which left little doubt that interest rates would be higher than forecast for longer. Markets have now priced in another 25bp rate hike for November. This perceived shift in the Fed's views came in the wake of still-strong US economic data, including a robust jobs market and higher August headline inflation at 3.7% y/y versus 3.2% in July, driven predominately by higher energy prices. However, Core CPI, which excludes volatile food and energy prices, fell to 4.3% y/y in August from 4.7% in July. And US GDP growth for Q2 was reported at 2.1%, revised down from the 2.4% initially estimated.

The Congressional stand-off over the national budget, which went down to the wire, prompted further weakness in bond markets, with the 10-year US Treasury yield rising to 4.75% at quarter-end compared to 3.8% at the start – a substantial upward move for the market. For the quarter, US equity returns were in the red: the Dow Jones produced -2.1%, the Nasdaq -3.9%, and the S&P 500 -3.3% (all in US$). The Nasdaq remains the top-performing developed equity market year to date with a return of 27.1%.

UK

In the UK, the Bank of England kept its main interest rate unchanged at 5.25% at its September meeting, ignoring the lower-than-expected August CPI data at 6.7% y/y (versus 7% forecast). UK inflation has been particularly high and resilient compared to other major economies, and the markets are expecting at least one further 25bp rate hike in 2023. Meanwhile, Q2 2023 growth surprised marginally on the upside at 0.2% y/y compared to the 0% consensus, still managing to avoid a recession. Similar to the US, resilient consumer demand and a tight labour market are keeping growth in positive territory. For Q3 2023, the FTSE 100 returned -1.9% in US$.

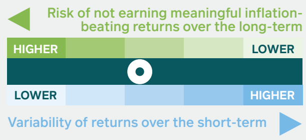
Eurozone

In the eurozone, inflation remained relatively high during the quarter, with the latest August CPI at 5.2% only slightly lower from 5.3% in July. Core inflation, which excludes volatile energy and food prices, eased to 5.3% from 5.5%. After lifting interest rates by 25bps in September to a record 4.0%, ECB President Christine Lagarde suggested further hikes may not be necessary, but upside inflation risks remained. In other news, as in the UK, the region continued to avoid a recession as GDP growth accelerated slightly to 0.3% q/q in Q2 2023 after 0.1% in Q1, but the latest ECB projections called for slow growth of 0.7% in 2023, 1.0% in 2024 and 1.5% in 2025. In European equity markets, France's CAC 40 returned -6.3% and Germany's DAX delivered -7.5% (in US$) in Q3.

Annualised performance	A class	Objective[1]	T class	X class	B class
1 year	9.6%	8.2%	9.8%	9.6%	10.1%
3 years	10.3%	9.2%	10.5%	10.3%	10.8%
5 years	5.2%	8.4%	5.5%	5.3%	5.8%
7 years	4.9%	8.3%	5.3%	5.0%	5.5%
10 years	6.3%	8.6%	-	6.5%	7.0%
20 years	10.3%	9.0%	-	-	10.9%
Since inception	10.6%	9.3%	-	-	-

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

Risk profile



Fund facts

Fund managers

David Knee
Michael Moyle
Sandile Malinga
Leonard Krüger

ASISA category

South African - Multi-Asset - Low Equity

Objective (before fees)

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

Inception date

1 June 2001

Fund size

R19 555 927 095

Awards

Raging Bull: 2013
Morningstar: 2015

Sources: M&G, Morningstar & Deutsche Securities

Japan

Japan continued to impress investors with its stronger-than-expected recovery, announcing Q2 2023 GDP growth of 6.0% y/y due to robust export growth (thanks to the weaker yen) and soundly beating forecasts of 3.1%.The BOJ maintained its ultra-low interest rates during the quarter in support of the recovery, and markets are looking for hints on when it will phase out stimulus. Meanwhile, core inflation remained above the BOJ's 2% inflation target at 3.1% in August, steady from July, but the BOJ has said they will continue policies designed to keep the country out of deflation. The Nikkei returned a disappointing -6.3% in US$ for Q3, but is still up 10% in 2023 so far.

China

During the three months, China again reported disappointing GDP growth, this time at 6.3% y/y for Q2 2023 versus 7.3% expected. The country's rebound continued to lose momentum despite new stimulus measures from the PBOC as it lowered reserve requirements for commercial banks. Five big commercial banks also cut their lending rates in September. However, the PBOC kept its benchmark lending rates unchanged, as expected. China's CPI rose 0.1% y/y in August after a 0.3% y/y decline in July. After notable losses in Q2, local equity markets were still fairly weak in Q3, with Hong Kong's Hang Seng returning -4.1 % and the MSCI China delivering -1.8%, both in US$.

Emerging markets

Larger emerging equity markets ended the quarter in the red, with the exception of the MSCI Turkey, which engineered a sharp recovery with a 32.8% return, and the MSCI India, which posted 2.9% (both in US$). The MSCI China managed to pare its large losses from the previous quarter, delivering -1.8%, while the MSCI South Africa registered a -4.4% return (in US$). Brazil's Bovespa returned -4.9% and South Korea's KOSPI -5.9% (in US$).

South Africa

In South Africa, the SA Reserve Bank kept its repo rate steady at 8.25% at both its July and September policy meetings, as expected by the market, but still cited upside risks to the inflation outlook such as higher global energy prices and the weaker rand. Governor Lesetja Kanyago's hawkish comments left the door open for another interest rate hike in November. Headline inflation ticked up to 4.8% y/y in August from 4.7% y/y in July, while the SARB revised its CPI forecasts for 2023 to 5.9% (from 6.0%) and for 2024 to 5.1% (from 5.0%).

GDP growth for Q2 2023 surprised positively at 0.6% q/q versus 0.3% expected, helped by growth in manufacturing, finance and a turnaround in agriculture. The central bank also upwardly revised its GDP growth forecast for this year to 0.7% (from 0.4% in July), while the 2024 and 2025 forecasts remained unchanged at 1.0% and 1.1%, respectively. Consumer confidence improved slightly against the backdrop of falling inflation and a potential peak in interest rates, with the FNB/BER Q3 2023 Consumer Confidence Index registering -16 points from -25 points in Q2.

The headwinds to growth remained considerable, however, as loadshedding ramped up to Stage 6 temporarily in September, a reminder of the energy constraints facing the country, while China's slower growth presents challenges for commodity exports. Lower-than-expected tax collections have also fuelled concerns over the national budget deficit, with negative implications for the local bond market.

Performance

The fund returned -2.3% (after fees) for the third quarter of 2023 and 9.6% for the 12-month period ending 30 September 2023. The fund has delivered a return of 10.6% per annum since its inception in 1999 (after fees), compared to its objective of 9.3% per annum over the same period.

Looking at the fund's asset allocation, global and SA cash added value for the quarter. SA listed property was flat. All other asset classes detracted from performance in Q3, with SA equities the largest detractor.

Within SA equities, our holdings in Sasol, Exxaro, Glencore and Sappi added value to fund performance during the quarter, as did our collective overweight exposure to SA banks like Standard Bank, Absa and Investec. China-exposed shares like Naspers/Prosus and Richemont were the largest detractors from performance, while gold and platinum shares also detracted. MTN was another detractor for the quarter as, despite resilient results reported in August, the share price declined 18% over the period.

Strategy and positioning

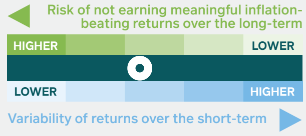
Starting with our view on offshore vs local asset allocation, during the quarter we retained our preference for South African assets, given that their valuations remained more attractive than their global counterparts.

Within our **global holdings**, during Q3 we sold a small amount of global equity. We also bought more global bonds largely out of global cash during the significant September sell-off, adding to our existing tactical overweight in 30-year US Treasuries, and opening new tactical overweights in UK gilt and German bund holdings. As of quarter-end, this has given us a small underweight in global equities in the fund, an overweight position in global bonds and duration, and a continuing underweight in global cash due partly to our forex positioning.

In **global equities**, the MSCI ACWI 12-month forward P/E fell to around 15.9X at quarter-end from 16.4X at the beginning of the quarter as stock prices slumped. We pared our position slightly as the growth outlook appeared to worsen, while we retained our ongoing concerns that earnings expectations, particularly in the US, still do not fully reflect the downside risks to corporate earnings associated with central banks' steep interest rate hikes and the increased likelihood of rates remaining elevated for longer. While we did see meaningful downward revisions to GDP forecasts for 2024 during the quarter, corporate earnings forecasts have remained remarkably resilient. As such we continue to be selective around our global equity holdings and have moved slightly underweight in the fund. In the current environment, as stressed previously, we prefer high-quality companies with pricing power, strong balance sheets and reliable cashflow generation.

Our tilt away from the US reflects that market's relatively expensive valuations (at a forward P/E of 18.9X at quarter-end), and we are also avoiding Australia and Canada. Equity markets that we prefer for their cheaper valuations include the UK, Japan, China and other emerging markets that are relatively cheap. For example, the 12-month forward P/E of the MSCI Emerging Markets Index stood at around 11.8X at quarter-end.

Risk profile



Fund facts

Fund managers

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Objective (before fees)

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

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 Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

Within **global bonds**, real yields became much more attractive over the quarter and in our view offer more-than-fair compensation for the risk involved, which primarily reflects investors' views of "higher for longer" global interest rates. We moved to an overweight position in global government bonds in Q3 from our previously broadly neutral stance, adding to our holdings of 30-year US Treasuries, 30-year UK gilts and long-dated German bunds. Duration also rose given our preference for long-dated paper. We are also holding moderate levels of local currency sovereign EM bonds where the real yields are high and the currency is trading at fair-to-cheap levels.

The fund was underweight **global corporate credit** at quarter-end, based on our view of credit spreads as unattractive for the risk involved versus their government counterparts. Despite risk-averse sentiment, US High Yield bonds have managed to record a 1.5% return for investors year to date, outperforming developed market government bonds which are substantially in the red.

The fund still favoured **SA equities** at the end of Q2 2023, with our position largely unchanged. SA equity valuations (as measured by the 12-month forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) re-rated marginally over the quarter, rising from around 9.5X to around 9.6X at quarter-end due to lower earnings expectations.

Despite its weakness in Q3, **MTN** is still up over 100% in the past three years. MTN Nigeria has been impacted by the June devaluation of the Naira, while load-shedding has placed pressure on MTN SA's profitability. However, volume growth in Nigeria, cost cutting initiatives, price increases and the implementation of additional backup power solutions are expected to help offset lost revenue.

Commenting on some of our tactical changes to the fund in Q3, over the last year we have gradually decreased our overweight to the **Banks sector** as earnings and dividends have recovered strongly post the COVID lows. We continue to be positioned in favour of the lower-rated banks, Standard Bank, ABSA and Investec, and underweight the more highly rated banks, Firstrand and Capitec. ABSA is worth mentioning as it has shown a steady improvement in operating performance and is generating a return on equity of 17%, up substantially from the high single-digit returns it was generating just a few years ago. Although its share price has performed relatively well versus the other banks, we think that it is still undervalued and it remains one of our top overweights in the banking sector. We have reduced our overweight position to Standard Bank due to its substantial re-rating. However, we continue to have an overweight position to the Banks sector as we think that the banks that we own are trading on undemanding valuations, especially given that earnings and dividend growth are exceptionally strong currently.

During the quarter we added to our overweight position in **British American Tobacco** (BAT) as we believe that the investment case remains very strong -- the company is trading with an exceptionally attractive dividend yield of 8% and we expect this dividend to continue growing for the next five years, despite the risks which tobacco companies face. We anticipate continued strong cash flows from BAT's core business in the United States to drive a repayment of debt, as well as continue to fund investment into next-generation lower-risk products. BAT is at the forefront of offering its customers alternative products which reduce harm and we expect this trend to continue. We think that BAT can continue to grow profits while helping its customers switch to much lower risk and less harmful products. BAT provides us with very stable and defensive cash flows at a very attractive valuation, especially amidst continued concerns around the risk of a global recession.

Platinum group metals (PGM) companies continued to be impacted by the fall in PGM prices – for example, the price of palladium has fallen 42.5% in the past 12 months. Rhodium, at its peak over a year ago, was contributing more than 50% of a typical platinum producer's revenue and contributed massively to their profitability. This sector's fortunes have changed rapidly over the last five years. In 2019, margins started to improve after many years where margins were not even high enough to compensate the mines for ongoing maintenance capex. In 2021 and 2022, margins in the sector were at near-record highs and cash generation was very strong. We were cognisant of the high margins that companies were earning and moved our clients' portfolios to an underweight position in 2022. We also strategically shifted our preference for companies within the sector to the higher- quality platinum companies which are likely to see production growth as a result of their investment in capacity. As such, our holdings now comprise **Northam and Impala Platinum**. In the past quarter, in order to remain underweight the platinum sector and given the relatively good performance of Northam, we reduced this position slightly, although it remains our favoured exposure within the sector.

During the quarter we remained tilted away from **SA listed property** as property sector 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.

Despite their further weakness in September, we did not increase our exposure to **SA nominal bonds**, maintaining our significant preference for these assets in the fund. From a yield of 11.4% at the start of the quarter, the 10-year SA government bond reached a high of around 12.28% on 28 September before recouping some of the losses on the last day of the quarter. This is not far from the 12.4% high reached during the height of Covid. While we acknowledge the heightened risks to the local economy, we continue to believe SA nominal bond valuations are attractive relative to other fixed income assets and to their own longer-term history, and will more than compensate investors for their associated risks over time.

We are marginally favouring **inflation-linked bonds (ILBs)** in the Inflation Plus Fund, with no meaningful change to our positioning during the quarter. Their real yields remain relatively attractive 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 fund remained tilted away from **SA cash**, given that other SA asset classes offer higher real yields on both an absolute and relative basis.

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G Balanced Fund

Multi-asset

Q3 2023

Market overview

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The extent of market losses was broadly similar across equities and bonds, and developed and emerging markets, with global property stocks hardest hit by the "higher for longer" outlook. For the three months ended 30 September 2023, the MSCI All Country World Index delivered -3.4%, the MSCI Emerging Markets Index produced -2.9% and global property stocks (the FTSE EPRA/NAREIT Global REIT Index) returned -6.8% (all in US$). At the same time, the Bloomberg Global Aggregate Bond Index offered no diversification for investors, delivering -3.6% (in US$).

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For the quarter, SA nominal bonds (the FTSE/JSE All Bond Index) delivered -0.3% in rands, while inflation-linked bonds (ILBs) produced 0.8% and cash returned 2.1%. Finally, the rand lost 0.3% against the US$ for the quarter, and depreciated 3.2% against the euro and 4.3% versus the UK pound as sentiment toward SA remained depressed.

United States

In the US, after hiking by 25bps in July, the Fed left interest rates unchanged in September, in line with expectations. However, the central bank subsequently surprised the market by hawkishly signalling the possibility of another rate hike before year-end, reinforced by later statements by Fed Governor Jerome Powell and other key voting members, which left little doubt that interest rates would be higher than forecast for longer. Markets have now priced in another 25bp rate hike for November. This perceived shift in the Fed's views came in the wake of still-strong US economic data, including a robust jobs market and higher August headline inflation at 3.7% y/y versus 3.2% in July, driven predominately by higher energy prices. However, Core CPI, which excludes volatile food and energy prices, fell to 4.3% y/y in August from 4.7% in July. And US GDP growth for Q2 was reported at 2.1%, revised down from the 2.4% initially estimated.

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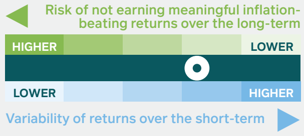
10 years	7.9%	6.8%	-	8.1%	8.6%
20 years	12.5%	10.9%	-	-	13.5%
Since inception	12.5%	10.9%	-	-	-

Risk profile



Fund facts

Fund managers
David Knee
Michael Moyle
Sandile Malinga
Leonard Krüger

ASISA category
South African - Multi-Asset - High Equity

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

Inception date
2 August 1999

Fund size
R23 197 832 115

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

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South Africa

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GDP growth for Q2 2023 surprised positively at 0.6% q/q versus 0.3% expected, helped by growth in manufacturing, finance and a turnaround in agriculture. The central bank also upwardly revised its GDP growth forecast for this year to 0.7% (from 0.4% in July), while the 2024 and 2025 forecasts remained unchanged at 1.0% and 1.1%, respectively. Consumer confidence improved slightly against the backdrop of falling inflation and a potential peak in interest rates, with the FNB/BER Q3 2023 Consumer Confidence Index registering -16 points from -25 points in Q2.

The headwinds to growth remained considerable, however, as loadshedding ramped up to Stage 6 temporarily in September, a reminder of the energy constraints facing the country, while China's slower growth presents challenges for commodity exports. Lower-than-expected tax collections have also fuelled concerns over the national budget deficit, with negative implications for the local bond market.

Performance

The fund returned -3.1% (after fees) for the third quarter of 2023, while for the 12-month period ending 30 September 2023 its return was 12.8%. The fund has delivered a return of 12.5% per annum since its inception in 1999 (after fees), compared to its benchmark of 10.9% per annum over the same period.

Looking at the fund's asset allocation, global cash added the most value to absolute performance for the quarter, while SA cash also added some value. SA listed property was flat. All other asset classes detracted from performance in Q3, with SA equities the largest detractor.

Within SA equities, our holdings in Sasol, Exxaro, Glencore and Sappi added value to fund performance during the quarter, as did our collective overweight exposure to SA banks like Standard Bank, Absa and Investec. China-exposed shares like Naspers/Prosus and Richemont were the largest detractors from performance, while gold and platinum shares also detracted. MTN was another detractor for the quarter as, despite resilient results reported in August, the share price declined 18% over the period.

Strategy and positioning

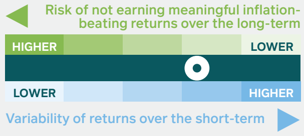
Starting with our view on offshore vs local asset allocation, during the quarter our relative exposure remained largely unchanged, as we continued to prefer more attractively valued SA assets compared to their global counterparts.

Within our **global holdings**, during Q3 we sold a small amount of global equity. We also bought more global bonds largely out of global cash during the significant September sell-off, adding to our existing tactical overweight in 30-year US Treasuries, and opening new tactical overweights in UK gilt and German bund holdings. As of quarter-end, this has given us a small underweight in global equities in the fund, an overweight position in global bonds and duration, and a continuing underweight in global cash due partly to our forex positioning.

In **global equities**, the MSCI ACWI 12-month forward P/E fell to around 15.9X at quarter-end from 16.4X at the beginning of the quarter as stock prices slumped. We pared our position slightly as the growth outlook appeared to worsen, while we retained our ongoing concerns that earnings expectations, particularly in the US, still do not fully reflect the downside risks to corporate earnings associated with central banks' steep interest rate hikes and the increased likelihood of rates remaining elevated for longer. While we did see meaningful downward revisions to GDP forecasts for 2024 during the quarter, corporate earnings forecasts have remained remarkably resilient. As such we continue to be selective around our global equity holdings and have moved slightly underweight in the fund. In the current environment, as stressed previously, we prefer high-quality companies with pricing power, strong balance sheets and reliable cashflow generation.

Our tilt away from the US reflects that market's relatively expensive valuations (at a forward P/E of 18.9X at quarter-end), and we are also avoiding Australia and Canada. Equity markets that we prefer for their cheaper valuations include the UK, Japan, China and other emerging markets that are relatively cheap. For example, the 12-month forward P/E of the MSCI Emerging Markets Index stood at around 11.8X at quarter-end.

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
R23 197 832 115

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

Within **global bonds**, real yields became much more attractive over the quarter and in our view offer more-than-fair compensation for the risk involved, which primarily reflects investors' views of "higher for longer" global interest rates. We moved to an overweight position in global government bonds in Q3 from our previously broadly neutral stance, adding to our holdings of 30-year US Treasuries, 30-year UK gilts and long-dated German bunds. Duration also rose given our preference for long-dated paper. We are also holding moderate levels of local currency sovereign EM bonds where the real yields are high, and the currency is trading at fair-to-cheap levels.

The fund was underweight **global corporate credit** at quarter-end, based on our view of credit spreads as unattractive for the risk involved versus their government counterparts. Despite risk-averse sentiment, US High Yield bonds have managed to record a 1.5% return for investors year to date, outperforming developed market government bonds which are substantially in the red.

The M&G Balanced Fund still favoured **SA equities** at the end of Q3 2023, with our positioning largely unchanged. SA equity valuations (as measured by the 12-month forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) were also little moved over the quarter at 9.5X, experiencing similar declines in both earnings expectations and share prices.

Despite its weakness in Q3, **MTN** is still up over 100% in the past three years. MTN Nigeria has been impacted by the June devaluation of the Naira, while load-shedding has placed pressure on MTN SA's profitability. However, volume growth in Nigeria, cost cutting initiatives, price increases and the implementation of additional backup power solutions are expected to help offset lost revenue.

Commenting on some of our tactical changes to the fund in Q3, over the last year we have gradually decreased our overweight to the **Banks sector** as earnings and dividends have recovered strongly post the COVID lows. We continue to be positioned in favour of the lower-rated banks, Standard Bank, ABSA and Investec, and underweight the more highly rated banks, Firstrand and Capitec. ABSA is worth mentioning as it has shown a steady improvement in operating performance and is generating a return on equity of 17%, up substantially from the high single-digit returns it was generating just a few years ago. Although its share price has performed relatively well versus the other banks, we think that it is still undervalued and it remains one of our top overweights in the banking sector. We have reduced our overweight position to Standard Bank due to its substantial re-rating. However, we continue to have an overweight position to the Banks sector as we think that the banks that we own are trading on undemanding valuations, especially given that earnings and dividend growth are exceptionally strong currently.

During the quarter we added to our overweight position in **British American Tobacco (BAT)** as we believe that the investment case remains very strong -- the company is trading with an exceptionally attractive dividend yield of 8% and we expect this dividend to continue growing for the next five years, despite the risks which tobacco companies face. We anticipate continued strong cash flows from BAT's core business in the United States to drive a repayment of debt, as well as continue to fund investment into next-generation lower-risk products. BAT is at the forefront of offering its customers alternative products which reduce harm and we expect this trend to continue. We think that BAT can continue to grow profits while helping its customers switch to much lower risk and less harmful products. BAT provides us with very stable and defensive cash flows at a very attractive valuation, especially amidst continued concerns around the risk of a global recession.

Platinum group metals (PGM) companies continued to be impacted by the fall in PGM prices – for example, the price of palladium has fallen 42.5% in the past 12 months. Rhodium, at its peak over a year ago, was contributing more than 50% of a typical platinum producer's revenue and contributed massively to their profitability. This sector's fortunes have changed rapidly over the last five years. In 2019, margins started to improve after many years where margins were not even high enough to compensate the mines for ongoing maintenance capex. In 2021 and 2022, margins in the sector were at near-record highs and cash generation was very strong. We were cognisant of the high margins that companies were earning and moved our clients' portfolios to an underweight position in 2022. We also strategically shifted our preference for companies within the sector to the higher- quality platinum companies which are likely to see production growth as a result of their investment in capacity. In the first quarter of 2023, we sold out of **Sibanye Stillwater** in order to further increase the quality of our holdings in the platinum sector, which now only comprise **Northam and Impala Platinum**. In the past quarter, in order to remain underweight the platinum sector and given the relatively good performance of Northam, we reduced this position slightly, although it remains our favoured exposure within the sector.

During the quarter we remained tilted away from **SA listed property** as property sector risks remained high relative to other sectors. 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 expectations for "higher for longer" interest rates (many property companies are reliant on finance to expand their portfolios) and relatively weak growth prospects, among other fundamental factors.

Despite their further weakness in September, we did not increase our exposure to **SA nominal bonds**, maintaining our significant preference for these assets in the fund. From a yield of 11.4% at the start of the quarter, the 10-year SA government bond reached a high of around 12.28% on 28 September before recouping some of the losses on the last day of the quarter. This is not far from the 12.4% high reached during the height of Covid. While we acknowledge the heightened risks to the local economy, we continue to believe SA nominal bond valuations are attractive relative to other fixed income assets and to their own longer-term history and will more than compensate investors for their associated risks over time. The fund has no meaningful exposure to **SA inflation-linked bonds (ILBs)**.

Lastly, the fund remained tilted away from **SA cash**, given that other SA asset classes offer higher real yields on both an absolute and relative basis. □

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

M&G Enhanced SA Property Tracker Fund

Property

Q3 2023

Market overview

After a promising start to the third quarter (Q3) of 2023 in July, it was largely downhill for investors in the following two months as the global interest rate outlook deteriorated, taking with it 2024 growth prospects and investor risk sentiment. As the prospect of "higher for longer" interest rates became increasingly likely, risk aversion took hold and global equity and bond markets sold off broadly. September saw significant sales of developed market government bonds on the back of ongoing hawkish comments from the US Federal Reserve and others, and forecasters revised downward their 2024 GDP growth outlooks, even while revising upward those for 2023.

Disappointing Chinese growth also continued to weigh on market sentiment, as did risks associated with the ongoing Russia-Ukraine war, and the sharp increase in the price of oil, which jumped to over US$97/bbl (Brent crude) in late September and sparked more inflation worries as oil producers extended their production cuts and inventories fell.

The extent of market losses was broadly similar across equities and bonds, and developed and emerging markets, with global property stocks hardest hit by the "higher for longer" outlook. For the quarter, the FTSE EPRA/NAREIT Global REIT Index returned -6.8% (all in US$).

South African markets took their cue from their global counterparts in Q3, with local concerns adding to the pessimistic tone. The elevated risks associated with SA assets brought on partly by the "Lady R" incident in May persisted, with perceptions of SA's pro-Russia stance enhanced by the hosting of the BRICS Summit and growth prospects remaining subdued (highlighted by a temporary increase to Stage 6 loadshedding in September). This kept pressure on all SA assets, including the rand.

Over the quarter the SA equity market was dragged down by Industrial counters, as well as Resources (amid fears of slower global growth and demand, particularly from China). Locally-focused companies fared better. The FTSE/JSE All Share Index (ALSI) returned -3.5% in Q3 while the Capped SWIX delivered -3.8% (both in rands). Industrial counters returned -6.2% and Resources -5.3%, while Financials produced 2.2% and the All Property Index -0.6% (all in rands).

In South Africa, the SA Reserve Bank kept its repo rate steady at 8.25% at both its July and September policy meetings, as expected by the market, but still cited upside risks to the inflation outlook such as higher global energy prices and the weaker rand. Governor Lesetja Kanyago's hawkish comments left the door open for another interest rate hike in November. Headline inflation ticked up to 4.8% y/y in August from 4.7% y/y in July, and the SARB revised its CPI forecasts for 2023 to 5.9% (from 6.0%) and for 2024 to 5.1% (from 5.0%).

GDP growth for Q2 2023 surprised positively at 0.6% q/q versus 0.3% expected, helped by growth in manufacturing, finance and a turnaround in agriculture. The central bank also upwardly revised its GDP growth forecast for this year to 0.7% (from 0.4% in July), while the 2024 and 2025 forecasts remain unchanged at 1.0% and 1.1%, respectively. Consumer confidence improved slightly against the backdrop of falling inflation and a potential peak in interest rates, with the FNB/BER Q3 2023 Consumer Confidence Index registering -16 points from -25 points in Q2.

The headwinds to growth remained considerable, however, as loadshedding ramped up to Stage 6 temporarily in September, a reminder of the energy constraints facing the country.

Performance

The M&G Enhanced SA Property Tracker Fund returned -1.1% for the quarter compared with -1.0% for its benchmark, the SA Listed Property Index.

Overweight positions in Dipula B, SA Corporate and NEPI Rockcastle contributed to relative returns, as did the underweight position in Lighthouse Capital. Underweight positions in Liberty Two Degrees, Equites and Fortress B detracted from relative performance.

Strategy and positioning

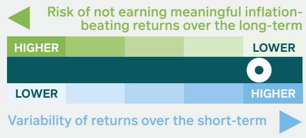
In terms of positioning, we find good value in offshore names with strong fundamentals, such as NEPI Rockcastle, Sirius Real Estate and Hammerson. In South Africa, we prefer high-yielding mid- and small-capitalisation REITs such as Dipula B, SA Corporate and Octodec. These companies are cheaper than other South African-centric REITs and have little to no exposure to offshore debt, with no mismatch between offshore debt and offshore assets. Given more stable fundamentals within some smaller REITs when compared to larger REITs, the yields are considered safer despite being higher than the larger REITs within the sector.

Recent months produced two corporate action events. The first was the take-out of Liberty Two Degrees' minority shareholders by the parent company, Liberty Life (a subsidiary of Standard Bank). The deal price was struck at 27% discount to net asset value, and 45% premium to the pre-announcement share price. The second was the scheme proposed to collapse the highly contentious Fortress A and B dual share structure, which entails a buy-out of 100% of the B shares by A shareholders whereby B shareholders will receive approximately 0.06 NEPI Rockcastle shares for each B share.

We see the property sector as being inexpensive but facing headwinds such as high SA bond yields and a high interest rate environment. South African property fundamentals vary by geography and across sectors. Coastal regions are outperforming inland regions. While we see sector-wide vacancy stabilisation,

Annualised performance	A class	Benchmark	T class	D class
1 year	12.8%	12.9%	12.8%	13.0%
3 years	16.5%	16.8%	16.5%	16.7%
5 years	-4.4%	-3.5%	-4.4%	-4.2%
7 years	-4.5%	-3.6%	-4.4%	-4.3%
10 years	1.1%	1.5%	-	1.2%
Since inception	8.1%	8.5%	-	-

Risk profile



Fund facts

Fund managers

Yusuf Mowlana
Rahgib Davids

ASISA category

South African - Real Estate - General

Benchmark

FTSE/JSE South African Listed Property Index (J253)

Inception date

2 December 2005

Fund size

R499 492 518

Awards

Morningstar/Standard & Poor's: 2011

Sources: M&G, Morningstar & Deutsche Securities

rental growth is divergent. Office rents remain under pressure due to the oversupply; retail rents are beginning to benefit from a strong post-Covid recovery in trading and a resultant improvement in affordability ratios; and Industrial rents are growing for in-demand modern logistics properties while older warehouse rental growth remains flat.

Offshore property companies have reached the tail-end of an interest-hike induced property devaluation cycle and are beginning to show signs of income-driven capital growth. While hedges ease in the impact of higher interest rates on profits, there is elevated risk in the refinancing of looming debt expiries as banks tighten lending criteria and debt capital markets remain closed.

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Disclaimer

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M&G Investments

M&G Property Fund
Property

Q3 2023

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Disappointing Chinese growth also continued to weigh on market sentiment, as did risks associated with the ongoing Russia-Ukraine war, and the sharp increase in the price of oil, which jumped to over US$97/bbl (Brent crude) in late September and sparked more inflation worries as oil producers extended their production cuts and inventories fell.

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The headwinds to growth remained considerable, however, as loadshedding ramped up to Stage 6 temporarily in September, a reminder of the energy constraints facing the country.

Performance

The M&G Property Fund returned -0.3% compared to the All Property Index return of -0.6% for the quarter.

Overweight positions in Dipula B, SA Corporate and Stor-Age REIT contributed to relative returns, as did underweights in Lighthouse Capital, Growthpoint and Emira.

Underweight positions in Redefine, Liberty Two Degrees and Fortress B detracted from relative performance.

Strategy and positioning

In terms of positioning, we find good value in offshore names with strong fundamentals, such as NEPI Rockcastle, Sirius Real Estate and Hammerson. In South Africa, we maintain a preference for high-yielding mid- and small-capitalisation REITs such as Dipula B, SA Corporate and Octodec. These companies are cheaper than other South African-centric REITs and have little to no exposure to offshore debt, with no mismatch between offshore debt and offshore assets. Given more stable fundamentals within some smaller REITs when compared to larger REITs, the yields are considered safer despite being higher than the larger REITs within the sector.

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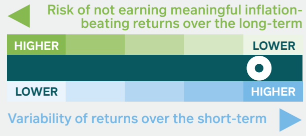
1 year	17.6%	12.9%	18.1%
2 years	4.3%	0.8%	4.7%
3 years	18.6%	17.1%	19.1%
Since inception	13.4%	11.4%	-

Risk profile



Fund facts

Fund managers
Yusuf Mowlana
Rahgib Davids

ASISA category
South African – Real Estate – General

Benchmark
FTSE/JSE All Property Index

Inception date
9 July 2020

Fund size
R263 073 159

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

contentious Fortress A and B dual share structure, which entails a buy-out of 100% of the B shares by A shareholders, whereby B shareholders will receive approximately 0.06 NEPI Rockcastle shares for each B share.

We see the property sector as being inexpensive but facing headwinds in terms of high SA bond yields and a high interest rate environment. South African property fundamentals are mixed across geography sectors. Coastal regions are outperforming inland regions. While we see sector-wide vacancy stabilisation, rental growth is divergent. Office rents remain under pressure due to the oversupply; retail rents are beginning to benefit from a strong post-Covid recovery in trading and a resultant improvement in affordability ratios; and Industrial rents are growing for in-demand modern logistics properties while older warehouse rental growth remains flat.

Offshore property companies have reached the tail-end of an interest-hike induced property devaluation cycle and are beginning to show signs of income-driven capital growth. While hedges ease in the impact of higher interest rates on profits, there is elevated risk in the refinancing of looming debt expiries as banks tighten lending criteria and debt capital markets remain closed.

At the end of September, the fund ranks number one over both the one- and two-year periods in its ASISA category, according to Morningstar.

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Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

M&G Dividend Maximiser Fund

Equity

Q3 2023

Market overview

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Disappointing Chinese growth also continued to weigh on market sentiment, as did risks associated with the ongoing Russia-Ukraine war, and the sharp increase in the price of oil, which jumped to over US$97/bbl (Brent crude) in late September and sparked more inflation worries as oil producers extended their production cuts and inventories fell.

The extent of market losses was broadly similar across equities and bonds, and developed and emerging markets, with global property stocks hardest hit by the "higher for longer" outlook. For the three months ended 30 September 2023, the MSCI All Country World Index delivered -3.4%, the MSCI Emerging Markets Index produced -2.9% and global property stocks (the FTSE EPRA/NAREIT Global REIT Index) returned -6.8% (all in US$). At the same time, the Bloomberg Global Aggregate Bond Index offered no diversification for investors, delivering -3.6% (in US$).

South African markets took their cue from their global counterparts in Q3, with local concerns adding to the pessimistic tone. The elevated risks associated with SA assets brought on partly by the "Lady R" incident in May persisted, with perceptions of SA's pro-Russia stance enhanced by the hosting of the BRICS Summit and growth prospects remaining subdued (highlighted by a temporary increase to Stage 6 loadshedding in September). This kept pressure on all SA assets, including the rand.

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Finally, the rand lost 0.3% against the US$ for the quarter and depreciated 3.2% against the euro and 4.3% versus the UK pound as sentiment toward SA remained depressed.

In the US, after hiking by 25bps at its July policy meeting, the Fed left interest rates unchanged in September, in line with expectations. However, the central bank subsequently surprised the market by hawkishly signalling the possibility of another rate hike before year-end, reinforced by later statements by Fed Governor Jerome Powell and other key voting members, which left little doubt that interest rates would be higher than forecast for longer. Markets have now priced in another 25bp rate hike for November. This perceived shift in the Fed's views came in the wake of still-strong US economic data, including a robust jobs market and higher August headline inflation at 3.7% y/y versus 3.2% in July, driven predominately by higher energy prices. However, Core CPI, which excludes volatile food and energy prices, fell to 4.3% y/y in August from 4.7% in July. And US GDP growth for Q2 was reported at 2.1%, revised down from the 2.4% initially estimated.

Adding to uncertainty was the Congressional stand-off over the national budget, which went down to the wire and could have seen the government partially shut down, with some services halted and thousands of workers going unpaid. This prompted further weakness in bond markets, with the 10-year US Treasury yield rising to 4.75% at quarter-end compared to 3.8% at the start – a substantial upward move for the market.

For the quarter, US equity returns were in the red: the Dow Jones produced -2.1%, the Nasdaq -3.9%, and the S&P 500 -3.3% (all in US$). The Nasdaq remains the top-performing developed equity market year to date with a return of 27.1%.

In the UK, the Bank of England kept its main interest rate unchanged at 5.25% at its September meeting, ignoring the lower-than-expected August CPI data at 6.7% y/y (versus 7% forecast). UK inflation has been particularly high and resilient compared to other major economies, and the markets are expecting at least one further 25bp rate hike in 2023, especially given the recent rise in global energy prices. Meanwhile, Q2 2023 growth surprised marginally on the upside at 0.2% y/y compared to the 0% consensus, and up from 0.1% in Q1, still managing to avoid a recession. Similar to the US, resilient consumer demand and a tight labour market are keeping growth in positive territory. For Q3 2023, the FTSE 100 returned -1.9% in US$.

In the eurozone, inflation remained relatively high during the quarter, with the latest August CPI at 5.2% falling only slightly from 5.3% in July. Core inflation, which excludes volatile energy and food prices, eased to 5.3% from 5.5%. After lifting interest rates by 25bps in September to a record 4.0%, in the 25 September ECB Hearing before the European Parliament, President Christine Lagarde suggested further hikes may not be necessary, but upside inflation risks remained. In other news, as in the UK, the region continued to avoid a recession as GDP growth accelerated slightly to 0.3% q/q in Q2 2023 after 0.1% in Q1, but the latest ECB projections

Annualised performance	A class	Benchmark	T class	B class	F class
1 year	14.4%	11.7%	15.3%	14.8%	15.6%
3 years	16.6%	13.1%	17.2%	17.0%	17.5%
5 years	8.5%	6.7%	9.0%	8.8%	9.3%
7 years	8.3%	5.5%	8.7%	8.7%	9.1%
10 years	8.3%	6.1%	-	8.7%	-
20 years	15.7%	12.5%	-	-	-
Since inception	15.3%	12.4%	-	-	-

Risk profile

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

HIGHER	LOWER
LOWER	HIGHER

Variability of returns over the short-term

Fund facts

Fund managers
Ross Biggs
Kaitlin Byrne

ASISA category
South African - Equity - General

Benchmark
ASISA South African – Equity - General Category Mean

Inception date
2 August 1999

Fund size
R4 100 280 553

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

Sources: M&G, Morningstar & Deutsche Securities

called for slow growth of 0.7% in 2023, 1.0% in 2024 and 1.5% in 2025. In European equity markets, France's CAC 40 returned -6.3% and Germany's DAX delivered -7.5% (in US$) in Q3.

Japan continued to impress investors with its stronger-than-expected recovery, announcing Q2 2023 GDP growth of 6.0% y/y due to robust export growth (thanks to the weaker yen) and soundly beating forecasts of 3.1%. Reflecting this, Japan saw the strongest earnings growth among large regional markets in the last earnings season. A number of Japanese companies have been improving their operational leverage (with a positive impact on earnings growth), increasing buybacks, and raising dividends.

In line with expectations, the BOJ maintained its ultra-low interest rates during the quarter in support of the recovery, and markets are looking for hints on when it will phase out stimulus. Meanwhile, core inflation remained above the BOJ's 2% inflation target at 3.1% in August, steady from July, but the BOJ has said they will continue policies designed to keep the country out of deflation. The Nikkei returned a disappointing -6.3% in US$ for Q3 but is still up 10% in 2023 so far.

During the three months, China again reported disappointing GDP growth, this time at 6.3% y/y for Q2 2023 versus 7.3% expected. The country's rebound continued to lose momentum despite new stimulus measures from the PBOC as it lowered reserve requirements for commercial banks in a bid to help them lend more. Five big banks also cut their lending rates in September. However, the PBOC kept its benchmark lending rates unchanged. China's CPI rose 0.1% y/y in August after a 0.3% y/y decline in July. On a positive note, China's industrial production rose by 4.5% y/y in August, beating the 3.9% forecast and up from 3.7% in July. Pent-up consumer demand continues to underpin the (weaker) expansion, along with consumer services, while the property sector remains weak and youth unemployment high. After notable losses in Q2, local equity markets were still fairly weak in Q3, with Hong Kong's Hang Seng returning -4.1 % and the MSCI China delivering -1.8%, both in US$.

In South Africa, the SA Reserve Bank kept its repo rate steady at 8.25% at both its July and September policy meetings, as expected by the market, but still cited upside risks to the inflation outlook such as higher global energy prices and the weaker rand. Governor Lesetja Kanyago's hawkish comments left the door open for another interest rate hike in November. Headline inflation ticked up to 4.8% y/y in August from 4.7% y/y in July, and the SARB revised its CPI forecasts for 2023 to 5.9% (from 6.0%) and for 2024 to 5.1% (from 5.0%).

GDP growth for Q2 2023 surprised positively at 0.6% q/q versus 0.3% expected, helped by growth in manufacturing, finance and a turnaround in agriculture. The central bank also upwardly revised its GDP growth forecast for this year to 0.7% (from 0.4% in July), while the 2024 and 2025 forecasts remain unchanged at 1.0% and 1.1%, respectively. Consumer confidence improved slightly against the backdrop of falling inflation and a potential peak in interest rates, with the FNB/BER Q3 2023 Consumer Confidence Index registering -16 points from -25 points in Q2.

The headwinds to growth remained considerable, however, as loadshedding ramped up to Stage 6 temporarily in September, a reminder of the energy constraints facing the country, while China's slower growth presents challenges for commodity exports. Lower-than-expected tax collections have also fuelled concerns over the national budget deficit, with negative implications for the local bond market.

Performance

The M&G Dividend Maximiser Fund delivered a return of -3.6% (net of fees) for the third quarter of 2023, underperforming its benchmark (the average of the general equity funds) by 1.6%. For the year ended 30 September 2023, the Fund returned 14.4% (net of fees), outperforming its benchmark by 2.7%. It is particularly pleasing to report that over the 3-year period ending 30 September 2023, both the absolute and relative performance of the Fund has been strong, with an absolute return of 16.6% 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.

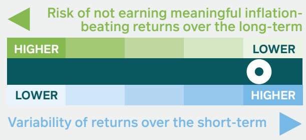
The largest contributor to performance for this quarter was the Fund's underweight to the gold sector and in particular the underweight positions to Anglogold and Goldfields. We have fairly consistently been underweight to the gold sector in this Fund mainly due to the very poor cash flows generated by gold companies and consequently the very poor dividend growth that gold companies have exhibited over a long period of time. We are of the view as well that the gold price remains elevated given the high real interest rates on offer currently. Investors, instead of buying gold which earns no return, could instead buy inflation linked bonds yielding good positive real rates. We think what might explain the current elevated gold price could be the elevated political risk around the world, together with increased gold buying by some central banks. The gold sector underweight remains one of the larger sector underweights in the Fund.

The Fund's overweight to Sappi Limited, the South African-based paper company, was also one of the largest contributors to performance for the quarter, after having been one of the largest detractors in the previous quarter. The Fund has held Sappi for several years now based on an investment case that the company would generate strong cash flows and was paying down its large debt balance. The investment case has played out well over the last year and Sappi generated the largest cash flow in its history for its financial year ended September 2022. This enabled Sappi to pay down debt and resume the payment of dividends. We think that given the work that Sappi has done to reduce debt and restructure its operations to focus on Dissolving Pulp and Packaging and away from graphic paper, it is today in a far better position than it has been for the last decade.

One of the top performers in the last quarter was also the Fund's position in Oceana, the fishing company in which it has an overweight position. We built up this stake at what we think were exceptionally attractive prices during a period where there was a lot of noise around management issues in the company. At its core, we think that Oceana is a high-quality company, which has demonstrated an ability to grow earnings and dividends over several decades. Over the last five years, however, the company has struggled to digest the acquisition of its US-based fishing company, Daybrook. This business was purchased at the top of the fishing cycle in 2015 and has been a drag on returns. We think that they are now in a position where not only is Oceana attractively priced, but we are seeing strong evidence of the Daybrook business benefitting from a recovering fishing cycle. The company currently has an attractive dividend yield of 5%, and we think that the dividend paid could continue to increase sharply over the short term as the fishing cycle improves.

The Fund's investment in Richemont was a top detractor during the quarter. Whilst Richemont has been one of the top contributors to the Fund over the last three years, recent concerns around

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 100 280 553

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

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

the slow economic recovery in China and concerns around the possibility of a recession have led to a sharp share price decline in recent months.

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 maisons of Cartier and Van Cleef and Arpels. We think that these are exceptionally strong brands and that their brand value with consumers has never been higher. As the Chinese market continues recovering post the COVID lockdown, we are likely to see even higher sales. The company has an exceptionally strong balance sheet with a substantial net cash position. We believe that cash flows and dividends from Richemont will be a lot higher in five years' time and it remains a key overweight in the Fund.

The Fund's overweight position in MTN was a detractor from performance over the quarter. The market has been very concerned about the risks of doing business in Nigeria, where MTN has a significant business. While we do not disagree that investing in Nigeria requires a higher risk premium, we think that MTN presents excellent value and continues to be one of the larger overweight positions in the Fund. MTN is trading on a dividend yield of over 6%, which we think should be able to grow over the next five years. MTN has been steadily reducing debt levels on its balance sheet by realising non-core assets like their tower assets. This process will not only ensure a stable and growing dividend but will also reduce any balance sheet risk.

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

Strategy and positioning

We remain optimistic regarding the South African equity market returns over the medium term due to the prevailing excessive levels of pessimism reflected in share prices and valuations. The Price to Book of the JSE remains close to 1.7X as at the end of September 2023, which is a very attractive valuation level. We also note that within the South African market, many commodity companies are starting to see material declines in their revenues and earnings from elevated levels, as the prices of platinum group metals and coal have fallen materially.

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 as well as many developed and emerging markets. While South African bond yields are already elevated and remain attractive, we think that rising bond yields in the US present headwinds to equity valuations. The hurdle rate has increased. 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 the rand remains attractive. The Fund has approximately 17% allocated offshore.

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.

Contact us

info@mandg.co.za

mandg.co.za

0860 105 775

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G Equity Fund

Equity

Q3 2023

Market overview

After a promising start to the third quarter (Q3) of 2023 in July, it was largely downhill for investors in the following two months as the global interest rate outlook deteriorated, taking with it 2024 growth prospects and investor risk sentiment. As the prospect of "higher for longer" interest rates became increasingly likely, risk aversion took hold and global equity and bond markets sold off broadly. September saw significant sales of developed market government bonds on the back of ongoing hawkish comments from the US Federal Reserve and others, and forecasters revised downward their 2024 GDP growth outlooks, even while revising upward those for 2023.

Disappointing Chinese growth also continued to weigh on market sentiment, as did risks associated with the ongoing Russia-Ukraine war, and the sharp increase in the price of oil, which jumped to over US$97/bbl (Brent crude) in late September and sparked more inflation worries as oil producers extended their production cuts and inventories fell.

The extent of market losses was broadly similar across equities and bonds, and developed and emerging markets, with global property stocks hardest hit by the "higher for longer" outlook. For the three months ended 30 September 2023, the MSCI All Country World Index delivered -3.4%, the MSCI Emerging Markets Index produced -2.9% and global property stocks (the FTSE EPRA/NAREIT Global REIT Index) returned -6.8% (all in US$).

South African markets took their cue from their global counterparts in Q3, with local concerns adding to the pessimistic tone. The elevated risks associated with SA assets brought on partly by the "Lady R" incident in May persisted, with perceptions of SA's pro-Russia stance enhanced by the hosting of the BRICS Summit and growth prospects remaining subdued (highlighted by a temporary increase to Stage 6 loadshedding in September). This kept pressure on all SA assets, including the rand.

Over the quarter the SA equity market was dragged down by Industrial counters, as well as Resources (amid fears of slower global growth and demand, particularly from China). Locally focused companies fared better. The FTSE/JSE All Share Index (ALSI) returned -3.5% in Q3 while the Capped SWIX delivered -3.8% (both in rands). Industrial counters returned -6.2% and Resources -5.3%, while Financials produced 2.2% and the All Property Index -0.6% (all in rands).

Finally, the rand lost 0.3% against the US$ for the quarter and depreciated 3.2% against the euro and 4.3% versus the UK pound as sentiment toward SA remained depressed.

In the US, after hiking by 25bps at its July policy meeting, the Fed left interest rates unchanged in September, in line with expectations. However, the central bank subsequently surprised the market by hawkishly signalling the possibility of another rate hike before year-end, reinforced by later statements by Fed Governor Jerome Powell and other key voting members, which left little doubt that interest rates would be higher than forecast for longer. Markets have now priced in another 25bp rate hike for November. This perceived shift in the Fed's views came in the wake of still-strong US economic data, including a robust jobs market and higher August headline inflation at 3.7% y/y versus 3.2% in July, driven predominately by higher energy prices. However, Core CPI, which excludes volatile food and energy prices, fell to 4.3% y/y in August from 4.7% in July. And US GDP growth for Q2 was reported at 2.1%, revised down from the 2.4% initially estimated.

For the quarter, US equity returns were in the red: the Dow Jones produced -2.1%, the Nasdaq -3.9%, and the S&P 500 -3.3% (all in US$). The Nasdaq remains the top-performing developed equity market year to date with a return of 27.1%.

In the UK, the Bank of England kept its main interest rate unchanged at 5.25% at its September meeting, ignoring the lower-than-expected August CPI data at 6.7% y/y (versus 7% forecast). UK inflation has been particularly high and resilient compared to other major economies, and the markets are expecting at least one further 25% rate hike in 2023, especially given the recent rise in global energy prices. Meanwhile, Q2 2023 growth surprised marginally on the upside at 0.2% y/y compared to the 0% consensus, and up from 0.1% in Q1, still managing to avoid a recession. Similar to the US, resilient consumer demand and a tight labour market are keeping growth in positive territory. For Q3 2023, the FTSE 100 returned -1.9% in US$.

In the eurozone, inflation remained relatively high during the quarter, with the latest August CPI at 5.2% falling only slightly from 5.3% in July. Core inflation, which excludes volatile energy and food prices, eased to 5.3% from 5.5%. After lifting interest rates by 25bps in September to a record 4.0%, in the 25 September ECB Hearing before the European Parliament, President Christine Lagarde suggested further hikes may not be necessary, but upside inflation risks remained. In other news, as in the UK, the region continued to avoid a recession as GDP growth accelerated slightly to 0.3% q/q in Q2 2023 after 0.1% in Q1, but the latest ECB projections called for slow growth of 0.7% in 2023, 1.0% in 2024 and 1.5% in 2025. In European equity markets, France's CAC 40 returned -6.3% and Germany's DAX delivered -7.5% (in US$) in Q3.

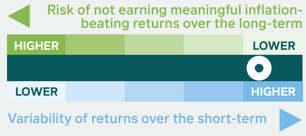
Japan continued to impress investors with its stronger-than-expected recovery, announcing Q2 2023 GDP growth of 6.0% y/y due to robust export growth (thanks to the weaker yen) and soundly beating forecasts of 3.1%. Reflecting this, Japan saw the strongest earnings growth among large regional markets in the last earnings season. A number of Japanese companies have been improving their operational leverage (with a positive impact on earnings growth), increasing buybacks, and raising dividends.

In line with expectations, the BOJ maintained its ultra-low interest rates during the quarter in support of the recovery, and markets are looking for hints on when it will phase out stimulus. Meanwhile, core inflation remained above the BOJ's 2% inflation target at 3.1% in August, steady from July, but the BOJ has said they will continue policies designed to keep the country out of deflation. The Nikkei returned a disappointing -6.3% in US$ for Q3 but is still up 10% in 2023 so far.

During the three months, China again reported disappointing GDP growth, this time at 6.3% y/y for Q2 2023 versus 7.3% expected. The country's rebound continued to lose momentum despite new

Annualised performance	A class	Benchmark	B class	F class
1 year	8.7%	11.7%	9.2%	10.2%
3 years	17.6%	13.1%	18.1%	18.9%
5 years	9.3%	6.7%	9.7%	10.4%
7 years	9.0%	5.5%	9.5%	10.0%
10 years	8.7%	6.1%	9.2%	-
20 years	16.2%	12.5%	-	-
Since inception	15.4%	12.4%	-	-

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
R5 346 973 660

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Raging Bull: 2006, 2007, 2008
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stimulus measures from the PBOC as it lowered foreign reserve requirements for commercial banks in a bid to help them lend more. Five big banks also cut their lending rates in September. However, the PBOC kept its benchmark lending rates unchanged, as expected. China's CPI rose 0.1% y/y in August after a 0.3% y/y decline in July. On a positive note, China's industrial production rose by 4.5% y/y in August, beating the 3.9% forecast and up from 3.7% in July. Pent-up consumer demand continues to underpin the (weaker) expansion, along with consumer services, while the property sector remains weak and youth unemployment high. After notable losses in Q2, local equity markets were still fairly weak in Q3, with Hong Kong's Hang Seng returning -4.1 % and the MSCI China delivering -1.8%, both in US$.

Larger emerging equity markets ended the quarter in the red, with the exception of the MSCI Turkey, which engineered a sharp recovery with a 32.8% return, and the MSCI India, which posted 2.9% (both in US$). The MSCI China managed to pare its large losses from the previous quarter, delivering -1.8%, while the MSCI South Africa registered a -4.4% return (in US$). Brazil's Bovespa returned -4.9% and South Korea's KOSPI -5.9%.

Performance

The fund returned -2.6% for the quarter compared to the average fund in the sector of -2%. Over one year the fund returned 8.7% compared to the benchmark return of 11.7%.

During the quarter, the largest contributors to returns have been its zero holdings in the gold sector as well as overweight positions in Spar, Investec and Exxaro. The largest detractors have been overweight positions in Multichoice, Telkom and HCI.

The fund has had a difficult year in terms of relative performance. Investors can take comfort from the fact that periods of underperformance in the past have occurred, most recently into March 2020, and that the consistent application of the process has led to excellent outcomes.

Strategy and positioning

The fund currently targets 20% in equity holdings outside of South Africa, with the majority of this holding held in the M&G Global Equity Fund. The fund has the ability to invest as much as 45% outside of South Africa but has not yet taken advantage of these higher limits. There are essentially three driving factors behind this decision, namely:

1. The relative valuations on offer in the SA market compared to those of global markets, on average.
2. The real rand exchange rate when compared to the US dollar and other currencies and perceived strength or weakness.
3. The valuation dispersion within and across sectors which suggest both stock-picking opportunities within sectors and for the outcomes of the portfolio to be different to that of the index.

We view the South African market as inexpensive on valuation grounds, notwithstanding the well-known domestic risks. Further, for many of the same reasons that SA equities are cheap, the rand appears weak relative to US dollar and has been a laggard against other emerging market currencies. Lastly, the valuation dispersion between 'cheap' and 'expensive' stocks[1] is at an elevated level versus history. Given these factors, the hurdle to taking money offshore is arguably quite high. Nevertheless, there are risks in the South African market and the portfolio managers retain flexibility over the offshore allocation.

During the quarter, Spar released a favourable trading update where the company indicated it would look to exit its loss-making Polish business. Perhaps more disappointingly for HCI which has an indirect exposure to a potential oil find off the coast of Namibia, an exploration well was found to be not commercially viable. This likely places a cap on the extent of the resource but is not necessarily fatal for the commerciality of the project.

Other large overweights in the fund likely to drive alpha are Textainer and British American Tobacco. Both are stable businesses and trade at single digit PE multiples with significant hard currency earnings. The fund's zero holding in the gold sector has been maintained in view of high interest rates, which make zero-yielding gold bullion a less attractive investment prospect.

[1]Measured as the difference between the earnings yields of the 25th and 75th percentile stocks

Sources: M&G, Morningstar & Deutsche Securities

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M&G SA Equity Fund

Equity

Q3 2023

Market overview

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Disappointing Chinese growth also continued to weigh on market sentiment, as did risks associated with the ongoing Russia-Ukraine war, and the sharp increase in the price of oil, which jumped to over US$97/bbl (Brent crude) in late September and sparked more inflation worries as oil producers extended their production cuts and inventories fell.

The extent of market losses was broadly similar across equities and bonds, and developed and emerging markets, with global property stocks hardest hit by the "higher for longer" outlook. For the three months ended 30 September 2023, the MSCI All Country World Index delivered -3.4%, the MSCI Emerging Markets Index produced -2.9% and global property stocks (the FTSE EPRA/NAREIT Global REIT Index) returned -6.8% (all in US$). At the same time, the Bloomberg Global Aggregate Bond Index offered no diversification for investors, delivering -3.6% (in US$).

South African markets took their cue from their global counterparts in Q3, with local concerns adding to the pessimistic tone. The elevated risks associated with SA assets brought on partly by the "Lady R" incident in May persisted, with perceptions of SA's pro-Russia stance enhanced by the hosting of the BRICS Summit and growth prospects remaining subdued (highlighted by a temporary increase to Stage 6 loadshedding in September). This kept pressure on all SA assets, including the rand.

Over the quarter the SA equity market was dragged down by Industrial counters, as well as Resources (amid fears of slower global growth and demand, particularly from China). Locally-focused companies fared better. The FTSE/JSE All Share Index (ALSI) returned -3.5% in Q3 while the Capped SWIX delivered -3.8% (both in rands). Industrial counters returned -6.2% and Resources -5.3%, while Financials produced 2.2% and the All Property Index -0.6% (all in rands).

For the quarter, SA nominal bonds (the FTSE/JSE All Bond Index) delivered -0.3% in rands, as capital losses were offset to some extent by the high yields they offer in absolute terms, while inflation-linked bonds (ILBs) produced 0.8% and cash returned 2.1%. Finally, the rand lost 0.3% against the US$ for the quarter, and depreciated 3.2% against the euro and 4.3% versus the UK pound as sentiment toward SA remained depressed.

In South Africa, the SA Reserve Bank kept its repo rate steady at 8.25% at both its July and September policy meetings, as expected by the market, but still cited upside risks to the inflation outlook such as higher global energy prices and the weaker rand. Governor Lesetja Kanyago's hawkish comments left the door open for another interest rate hike in November. Headline inflation ticked up to 4.8% y/y in August from 4.7% y/y in July, and the SARB revised its CPI forecasts for 2023 to 5.9% (from 6.0%) and for 2024 to 5.1% (from 5.0%).

GDP growth for Q2 2023 surprised positively at 0.6% q/q versus 0.3% expected, helped by growth in manufacturing, finance and a turnaround in agriculture. The central bank also upwardly revised its GDP growth forecast for this year to 0.7% (from 0.4% in July), while the 2024 and 2025 forecasts remain unchanged at 1.0% and 1.1%, respectively. Consumer confidence improved slightly against the backdrop of falling inflation and a potential peak in interest rates, with the FNB/BER Q3 2023 Consumer Confidence Index registering -16 points from -25 points in Q2.

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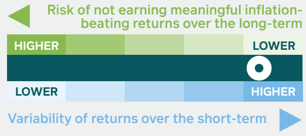
Performance

The Fund delivered a return of -4.1% (net of fees) for the third quarter of 2023, slightly underperforming its benchmark which delivered a return of -3.8%. For the 12 months ended 30 September 2023, the Fund returned 11.6% (net of fees), underperforming its benchmark by 0.3%. It is particularly pleasing to report that over the 3-year period ending 30 September 2023, both the absolute and relative performance of the Fund has been strong, with an absolute return of 17.1% per annum over this period, outperforming the benchmark by 3.3% per year.

Annualised performance	B class	Benchmark[1]	F class
1 year	12.9%	11.9%	11.6%
3 years	18.4%	13.8%	17.1%
5 years	7.3%	6.4%	6.0%
7 years	7.5%	5.7%	6.3%
10 years	8.0%	6.6%	-
20 years	15.0%	13.4%	-
Since inception	14.4%	12.5%	-

[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
R47 815 079 112

Sources: M&G, Morningstar & Deutsche Securities

In the financials sector, we think that South African banks continue to trade at undemanding valuations, despite the recent sharp increase in share prices. We therefore continue to be overweight in the banks sector but have reduced our overweight position due to the share price increases.

While we rate FirstRand and Capitec more highly in terms of quality banks, we cannot ignore that they are substantially more highly rated than other banks in the sector. For this reason, we continue to be overweight Standard Bank, ABSA and Investec and underweight FirstRand and Capitec. In fact our overweights to ABSA and Investec were significant contributors to performance over the last quarter.

ABSA has shown a steady improvement in operating performance and is generating a Return on Equity of 17%, up substantially from the high single-digit returns it was generating just a few years ago. Although its share price has performed relatively well versus the other banks, we think that it is still undervalued and remains one of the top overweights in the banking sector. Investec has been a strong contributor to performance over the last year and continued to outperform over the last quarter. Investec is a company that we have held for a number of years in the Fund and we continue to view it as a good quality company, still trading on a depressed multiple. The management of Investec have done a good job in optimising capital allocation post the demerger with Ninety One Asset Management and are now more focused on shareholder returns.

The banks that we own are trading on undemanding valuations, especially given that earnings and dividend growth are exceptionally strong currently. There is also a good opportunity to generate alpha within this sector by being overweight relatively undervalued banks versus the banks such as Capitec and FirstRand.

The Fund's overweight investment in Sasol was a top three contributor during the quarter. Sasol's problems have been well known to the market. Their substantial investment in the Lake Charles Chemical Project (LCCP) in the US led to a significant amount of debt being added onto its balance sheet. This combination of financial leverage together with the natural operating leverage of an oil company meant that the risk to the business increased. The company made some sensible decisions to reduce costs and sell-off some non-core assets to reduce debt levels. However, in retrospect, the pressure applied by banks and shareholders to sell a part of the Lake Charles Project to reduce the financial risk further appears to have turned out to be a mistake. Unfortunately, the combination of an over-leveraged business at the point when the economic cycle turns down can dramatically reduce the options that a company has, or force decisions to be made that would not ordinarily be made. The economic cycle has, however, turned in Sasol's favour over the last year and the strength of the oil price and chemicals prices caused a re-rating of the share price. The relatively strong energy prices post the Ukraine crisis has enabled Sasol to generate strong cashflows and pay down debt. We think Sasol continues to be significantly undervalued, but we are cognisant of the significant transition process that Sasol needs to go through over the next decade to transition to a cleaner fuels company. This transition will naturally increase the capital investment required by the business and will also mean that the market discount rate applied to the company will likely remain very elevated.

Our overweight position to Exxaro was also a contributor to performance over the quarter. Coal prices have also been fairly elevated since the war in Ukraine and have enabled significant cash flows, which have enabled outsized dividends paid to shareholders. On the ESG front, we have been very engaged with Exxaro to understand their coal transitions and how they are utilising the cash flows from thermal coal to invest in renewable energy and the potential opportunities and risks to invest in battery commodities.

The Fund's investment in Richemont was a top detractor during the quarter. Whilst Richemont has been one of the top contributors to the Fund over the last three years, recent concerns around the slow economic recovery in China and concerns around the possibility of a recession have led to a sharp share price decline in recent months.

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 maisons of Cartier and Van Cleef and Arpels. We think that these are exceptionally strong brands and that their brand value with consumers has never been higher. As the Chinese market continues recovering post the COVID lockdown, we are likely to see even higher sales. 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 five years' time and it remains a key overweight in the Fund.

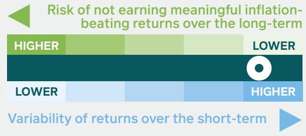
The Fund's overweight position in MTN was a detractor from performance over the quarter. The market has been very concerned about the risks of doing business in Nigeria, where MTN has a significant business. While we do not disagree that investing in Nigeria requires a higher risk premium, we think that MTN presents excellent value and continues to be one of the larger overweight positions in the Fund. MTN is trading on a dividend yield of over 6%, which we believe should be able to grow over the next five years. MTN has been steadily reducing debt levels on its balance sheet by realising non-core assets like their tower assets. In our view, this process will not only ensure a stable and growing dividend but will also reduce any balance sheet risk.

The overweight position to the Multichoice Group was a detractor from performance for the quarter. The company has been struggling with the weaker consumer environment, particularly in South Africa, where some customers have been more likely to cancel their DSTV subscriptions due to the excessive power failures in the first half of the year. The company is very attractively valued and has also caught the attention of Canal Plus, which operates a similar business in French-speaking Africa. Canal Plus have acquired over 30% of the company.

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

We acknowledge that while it is very difficult to forecast the future and we do not make any attempt to do this, we do spend a lot of time thinking about the economic cycles that various sectors are in, and where valuations are. In this way, we aim to make money for our clients through these cycles and continue to try and buy companies that have proven dividend and cash-flow track records, 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.

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
R47 815 079 112

 Sources: M&G, Morningstar & Deutsche Securities

Strategy and positioning

We remain optimistic regarding the South African equity market returns over the medium term due to the prevailing excessive levels of pessimism reflected in share prices and valuations. The Price to Book of the JSE remains close to 1.7X as at the end of September 2023, which we think is a very attractive valuation level. We also note that within the South African market, many commodity companies are starting to see material declines in their revenues and earnings from elevated levels, as the prices of platinum group metals and coal have fallen materially.

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 as well as many developed and emerging markets. While South African bond yields are already elevated and remain attractive, we think that rising bond yields in the US present headwinds to equity valuations. The hurdle rate has increased. 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

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M&G Global Bond Feeder Fund

Global Income ZAR-denominated

Q3 2023

Market overview

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Disappointing Chinese growth also continued to weigh on market sentiment, as did risks associated with the ongoing Russia-Ukraine war, and the sharp increase in the price of oil, which jumped to over US$97/bbl (Brent crude) in late September. The Bloomberg Global Aggregate Bond Index offered no diversification for investors, delivering -3.6% (in US$).

United States

In the US, after hiking by 25bps in July, the Fed left interest rates unchanged in September, in line with expectations. However, the central bank subsequently surprised the market by hawkishly signalling the possibility of another rate hike before year-end, reinforced by later statements by Fed Governor Jerome Powell and other key voting members, which left little doubt that interest rates would be higher than forecast for longer. Markets have now priced in another 25bp rate hike for November. This perceived shift in the Fed's views came in the wake of still-strong US economic data, including a robust jobs market and higher August headline inflation at 3.7% y/y versus 3.2% in July, driven predominately by higher energy prices. However, Core CPI, which excludes volatile food and energy prices, fell to 4.3% y/y in August from 4.7% in July. And US GDP growth for Q2 was reported at 2.1%, revised down from the 2.4% initially estimated.

The Congressional stand-off over the national budget, which went down to the wire, prompted further weakness in bond markets, with the 10-year US Treasury yield rising to 4.75% at quarter-end compared to 3.8% at the start – a substantial upward move for the market.

UK

In the UK, the Bank of England kept its main interest rate unchanged at 5.25% at its September meeting, ignoring the lower-than-expected August CPI data at 6.7% y/y (versus 7% forecast). UK inflation has been particularly high and resilient compared to other major economies, and the markets are expecting at least one further 25bp rate hike in 2023. Meanwhile, Q2 2023 growth surprised marginally on the upside at 0.2% y/y compared to the 0% consensus, still managing to avoid a recession. Similar to the US, resilient consumer demand and a tight labour market are keeping growth in positive territory.

Eurozone

In the eurozone, inflation remained relatively high during the quarter, with the latest August CPI at 5.2% only slightly lower from 5.3% in July. Core inflation, which excludes volatile energy and food prices, eased to 5.3% from 5.5%. After lifting interest rates by 25bps in September to a record 4.0%, ECB President Christine Lagarde suggested further hikes may not be necessary, but upside inflation risks remained. In other news, as in the UK, the region continued to avoid a recession as GDP growth accelerated slightly to 0.3% q/q in Q2 2023 after 0.1% in Q1, but the latest ECB projections called for slow growth of 0.7% in 2023, 1.0% in 2024 and 1.5% in 2025.

Japan

Japan continued to impress investors with its stronger-than-expected recovery, announcing Q2 2023 GDP growth of 6.0% y/y due to robust export growth (thanks to the weaker yen) and soundly beating forecasts of 3.1%.The BOJ maintained its ultra-low interest rates during the quarter in support of the recovery, and markets are looking for hints on when it will phase out stimulus. Meanwhile, core inflation remained above the BOJ's 2% inflation target at 3.1% in August, steady from July, but the BOJ has said they will continue policies designed to keep the country out of deflation.

China

During the three months, China again reported disappointing GDP growth, this time at 6.3% y/y for Q2 2023 versus 7.3% expected. The country's rebound continued to lose momentum despite new stimulus measures from the PBOC as it lowered reserve requirements for commercial banks. Five big commercial banks also cut their lending rates in September. However, the PBOC kept its benchmark lending rates unchanged, as expected. China's CPI rose 0.1% y/y in August after a 0.3% y/y decline in July.

Currency

The rand lost 0.3% against the US$ for the quarter, and depreciated 3.2% against the euro and 4.3% versus the UK pound as sentiment toward SA remained depressed.

Performance

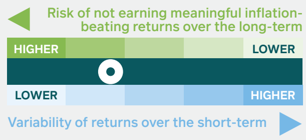
For Q3 2023, the fund returned -4.9% (net of fees) versus its benchmark, the Bloomberg Global Aggregate Bond Index, which returned -3.9%. For the 12 months ending 30 September, the fund delivered 7.1%, in line with the benchmark.

In terms of absolute performance, the vast majority of the fund's holdings declined over the quarter. The primary detractors from

Annualised performance	A class	Benchmark	B class
1 year	7.1%	7.1%	7.5%
3 years	-3.4%	-3.1%	-3.0%
5 years	3.7%	4.2%	4.0%
7 years	2.5%	3.0%	-
10 years	5.3%	6.0%	-
20 years	7.4%	7.5%	-
Since inception	7.4%	7.6%	-

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
Robert Burrows

ASISA category

Global - Interest Beating - Variable Term

Benchmark

Bloomberg Global Aggregate Bond Index

Inception date

27 October 2000

Fund size

R707 268 877

M&G Investments

returns were government bonds from the US, both conventional and inflation-linked, and Canada. Another detractor was the weakness of the Japanese yen and euro relative to the US dollar.

Strategy and positioning

We took advantage of the sell-off in global government bonds in September to selectively add duration via our yield curve steepener given the inverted yield curve. We also rotated into longer-dated UK inflation-linked bonds and added to 20-year US Treasuries as these weakened to attractive levels. Earlier in the quarter, we trimmed our Japanese inflation-linked bond position.

In July, we de-risked in by selling some investment-grade corporate bonds, including Italian energy utility Enel. Similarly, we reduced credit risk in our high-yield holdings by buying credit protection. We have remained underweight credit as we felt the tight spreads offer little upside in the uncertain environment. That said, we participated in what we felt were attractive new issues as the primary market opened up in September.

Within our emerging market exposure, we hold a position in Uruguayan inflation-linked bonds which we prefer vs conventional government bonds. Within currencies, the euro's rally earlier in the summer prompted us to reduce exposure and rotate into the US dollar. Given the ECB's hikes of late, this move also reflects our view on less convincing rate differentials between the two economies. Also, if global interest rates remain higher for longer, this should lead to US dollar strength, in our view. This strategy has been helpful to performance of late as the dollar has strengthened against the euro and most other currencies.

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G Global Inflation Plus Feeder Fund

Global Multi-Asset ZAR-denominated

Q3 2023

Market overview

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Disappointing Chinese growth also continued to weigh on market sentiment, as did risks associated with the ongoing Russia-Ukraine war, and the sharp increase in the price of oil, which jumped to over US$97/bbl (Brent crude) in late September.

The extent of market losses was broadly similar across equities and bonds, and developed and emerging markets, with global property stocks hardest hit by the "higher for longer" outlook. For the three months ended 30 September 2023, the MSCI All Country World Index delivered -3.4%, the MSCI Emerging Markets Index produced -2.9% and global property stocks (the FTSE EPRA/NAREIT Global REIT Index) returned -6.8% (all in US$). At the same time, the Bloomberg Global Aggregate Bond Index offered no diversification for investors, delivering -3.6% (in US$).

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In the US, after hiking by 25bps in July, the Fed left interest rates unchanged in September, in line with expectations. However, the central bank subsequently surprised the market by hawkishly signalling the possibility of another rate hike before year-end, reinforced by later statements by Fed Governor Jerome Powell and other key voting members, which left little doubt that interest rates would be higher than forecast for longer. Markets have now priced in another 25bp rate hike for November. This perceived shift in the Fed's views came in the wake of still-strong US economic data, including a robust jobs market and higher August headline inflation at 3.7% y/y versus 3.2% in July, driven predominately by higher energy prices. However, Core CPI, which excludes volatile food and energy prices, fell to 4.3% y/y in August from 4.7% in July. And US GDP growth for Q2 was reported at 2.1%, revised down from the 2.4% initially estimated.

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In the UK, the Bank of England kept its main interest rate unchanged at 5.25% at its September meeting, ignoring the lower-than-expected August CPI data at 6.7% y/y (versus 7% forecast). UK inflation has been particularly high and resilient compared to other major economies, and the markets are expecting at least one further 25bp rate hike in 2023. Meanwhile, Q2 2023 growth surprised marginally on the upside at 0.2% y/y compared to the 0% consensus, still managing to avoid a recession. Similar to the US, resilient consumer demand and a tight labour market are keeping growth in positive territory. For Q3 2023, the FTSE 100 returned -1.9% in US$.

Eurozone

In the eurozone, inflation remained relatively high during the quarter, with the latest August CPI at 5.2% only slightly lower from 5.3% in July. Core inflation, which excludes volatile energy and food prices, eased to 5.3% from 5.5%. After lifting interest rates by 25bps in September to a record 4.0%, ECB President Christine Lagarde suggested further hikes may not be necessary, but upside inflation risks remained. In other news, as in the UK, the region continued to avoid a recession as GDP growth accelerated slightly to 0.3% q/q in Q2 2023 after 0.1% in Q1, but the latest ECB projections called for slow growth of 0.7% in 2023, 1.0% in 2024 and 1.5% in 2025. In European equity markets, France's CAC 40 returned -6.3% and Germany's DAX delivered -7.5% (in US$) in Q3.

Japan

Japan continued to impress investors with its stronger-than-expected recovery, announcing Q2 2023 GDP growth of 6.0% y/y due to robust export growth (thanks to the weaker yen) and soundly beating forecasts of 3.1%.The BOJ maintained its ultra-low interest rates during the quarter in support of the recovery, and markets are looking for hints on when it will phase out stimulus. Meanwhile, core inflation remained above the BOJ's 2% inflation target at 3.1% in August, steady from July, but the BOJ has said they will continue policies designed to keep the country out of deflation. The Nikkei returned a disappointing -6.3% in US$ for Q3, but is still up 10% in 2023 so far.

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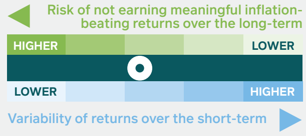
Annualised performance	A class	Benchmark[1]	B class
1 year	12.3%	9.2%	12.6%
3 years	2.8%	9.5%	3.2%
5 years	6.1%	9.0%	6.5%
7 years	5.9%	7.4%	6.3%
10 years	7.4%	8.7%	7.7%
Since inception	7.4%	8.0%	-

[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
Aaron Powell

ASISA category:
Global - Multi-Asset - Low Equity

Benchmark
Global inflation

Inception date
1 March 2004

Fund size
R226 769 988

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

banks also cut their lending rates in September. However, the PBOC kept its benchmark lending rates unchanged, as expected. China's CPI rose 0.1% y/y in August after a 0.3% y/y decline in July. After notable losses in Q2, local equity markets were still fairly weak in Q3, with Hong Kong's Hang Seng returning -4.1 % and the MSCI China delivering -1.8%, both in US$.

Emerging markets

Larger emerging equity markets ended the quarter in the red, with the exception of the MSCI Turkey, which engineered a sharp recovery with a 32.8% return, and the MSCI India, which posted 2.9% (both in US$). The MSCI China managed to pare its large losses from the previous quarter, delivering -1.8%, while the MSCI South Africa registered a -4.4% return (in US$). Brazil's Bovespa returned -4.9% and South Korea's KOSPI -5.9% (in US$).

Currency

The rand lost 0.3% against the US$ for the quarter, and depreciated 3.2% against the euro and 4.3% versus the UK pound as sentiment toward SA remained depressed.

Performance

For Q3 2023, the fund returned -4.9% (net of fees), compared to global inflation (based on the OECD Major 7 CPI Total Index) measuring 0.6%. For the 12 months to 30 September, the fund produced 12.3% (net of fees) while global inflation measured 9.2%.

The main contributors to the fund's absolute performance in Q3 were its underweight exposure to the US stock market and its cash holdings.

The allocation to fixed income assets was the largest detractor to absolute fund returns, while global equities and property,. In fixed income, the core holding of global bonds was adversely affected by our long duration positioning and the fund's underweight exposure to corporate credit, while US Treasuries also weighed on performance.

Within the portfolio's "core" equity allocation, managed according to M&G's AI-driven model, style exposure had a muted net impact on performance over the quarter, with a positive contribution from cheap value stocks offset by the portfolio's exposure to high beta stocks. Stock selection had a negative impact over the quarter, while emerging market stocks in Asia also detracted.

Strategy and positioning

During the quarter we saw "episodic" opportunities opening up among developed government bonds in September as yields rose and valuations reached the most attractive levels seen since the mid-2000s for the US and UK, and for nearly a decade in Germany. The sell-offs were extreme versus the history of the asset class, posting amongst the worse phases for returns across the three geographies.

We consequently tactically added 30-year US Treasuries, German bunds and UK gilts to the portfolio, lengthening duration and broadening its geographic exposure to cover much of the western developed bond universe. This reflects the view that these positions offer an attractive opportunity to deliver higher prospective returns in the period ahead than were on offer earlier in the year. The fund ended the quarter overweight in global bonds and duration.

Behaviorally, the speed of bond moves suggests a degree of panic selling. Commentators who were previously extremely positive on the prospects for fixed income assets, are now concerned about the short-term path of return, while many who had confidently forecast recessions in the developed world have capitulated on those predictions. Price moves of late have also been somewhat inconsistent with the path of macro data, such as, for example, US bonds selling off against a backdrop of US inflation pressure easing. Investors have seemingly given up (for now) on the view that a recession is imminent or that the tightening of conditions will have a damaging impact on economic growth. We do not seek to base our positions on forecasting the cyclical future, but would observe that there has been little of the way of evidence of hugely improving conditions from economic data. Indeed, Europe and the UK continue to show signs of weakness, and it is partly for this reason that long duration exposure was further diversified.

During the quarter we also tactically reduced our exposure to yen bonds and to emerging market debt as a partial offset to the increase in developed market debt, as part of our overall bond positioning. The portfolio does have some exposure to investment-grade corporate bonds, but we are avoiding high-yield bonds based on our view that spreads are inadequate on a risk-adjusted basis.

In global equities we reduced our overall exposure to the asset class by trimming some European holdings, while maintaining our underweight in the US market and overweight in non-US equities. As such we remain modestly underweight global equities in our overall portfolio positioning, which reflects our caution on the global outlook – in our view global equity valuations are not adequately pricing in the risks of worse-than-expected global growth.

It is notable how much market beliefs have changed in the last twelve months. In October last year there was almost full confidence that a recession was inevitable, while today there seems to be equal confidence that growth will prove resilient. It remains to be seen whether the consensus will be disappointed once again, but at the moment volatility seems to be caused less by a considered assessment of what data indicates about growth or inflation, and more about fear of short-term loss. We will continue to respond to market volatility where valuation, price action and sentiment suggest it is appropriate to do so.

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M&G Global Balanced Feeder Fund

Global Multi-Asset ZAR-denominated

Q3 2023

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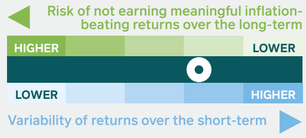
Annualised performance	A class	Benchmark	B class
1 year	16.4%	19.7%	16.8%
2 years	6.7%	7.4%	7.0%
3 years	7.9%	7.2%	8.1%
5 years	7.9%	10.3%	8.1%
Since inception	8.7%	11.0%	-

Risk profile



Fund facts

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

Fund managers of the underlying fund
Craig Simpson
Aaron Powell

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 565 769 778

Sources: M&G, Morningstar & Deutsche Securities

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Larger emerging equity markets ended the quarter in the red, with the exception of the MSCI Turkey, which engineered a sharp recovery with a 32.8% return, and the MSCI India, which posted 2.9% (both in US$). The MSCI China managed to pare its large losses from the previous quarter, delivering -1.8%, while the MSCI South Africa registered a -4.4% return (in US$). Brazil's Bovespa returned -4.9% and South Korea's KOSPI -5.9% (in US$).

Currency

The rand lost 0.3% against the US$ for the quarter, and depreciated 3.2% against the euro and 4.3% versus the UK pound as sentiment toward SA remained depressed.

Performance

For Q3 2023, the fund produced a return of -3.9% (net of fees), compared to the -3.7% recorded by its benchmark. For the 12 months to 30 September, the fund delivered 16.4% versus the benchmark's 19.7% return.

The main contributor to the fund's absolute performance for the quarter was its underweight exposure to the US stock market, which generated a modest positive return. The primary detractor from absolute returns was its overall equity exposure, although fixed income holdings also weighed on returns.

Within the fund's "core" equity exposure managed according to M&G's AI-driven model, style exposure had a muted net impact on absolute performance over the quarter, as the positive contribution from cheap value stocks was offset by the portfolio's exposure to high beta stocks. Stock selection had a negative impact over the quarter, as did tactical exposure to emerging market stocks in Asia.

Strategy and positioning

During the quarter we saw "episodic" opportunities opening up among developed government bonds in September as yields rose and valuations reached the most attractive levels seen since the mid-2000s for the US and UK, and for nearly a decade in Germany. The sell-offs were extreme versus the history of the asset class, posting amongst the worse phases for returns across the three geographies.

We consequently tactically added 30-year US Treasuries, German bunds and UK gilts to the portfolio, lengthening duration and broadening its geographic exposure to cover much of the western developed bond universe. This reflects the view that these positions offer an attractive opportunity to deliver higher prospective returns in the period ahead than were on offer earlier in the year. The fund ended the quarter overweight in global bonds and duration.

Behaviorally, the speed of bond moves suggests a degree of panic selling. Commentators who were previously extremely positive on the prospects for fixed income assets, are now concerned about the short-term path of return, while many who had confidently forecast recessions in the developed world have capitulated on those predictions. Price moves of late have also been somewhat inconsistent with the path of macro data, such as, for example, US bonds selling off against a backdrop of US inflation pressure easing. Investors have seemingly given up (for now) on the view that a recession is imminent or that the tightening of conditions will have a damaging impact on economic growth. We do not seek to base our positions on forecasting the cyclical future, but would observe that there has been little of the way of evidence of hugely improving conditions from economic data. Indeed, Europe and the UK continue to show signs of weakness, and it is partly for this reason that long duration exposure was further diversified.

During the quarter we also tactically reduced our exposure to yen bonds and to emerging market debt as a partial offset to the increase in developed market debt, as part of our overall bond positioning. The portfolio does have some exposure to investment-grade corporate bonds, but we are avoiding high-yield bonds based on our view that spreads are inadequate on a risk-adjusted basis.

In global equities we reduced our overall exposure to the asset class by trimming some European holdings, while maintaining our underweight in the US market and overweight in non-US equities. As such we remain modestly underweight global equities in our overall portfolio positioning, which reflects our caution on the global outlook – in our view global equity valuations are not adequately pricing in the risks of worse-than-expected global growth.

It is notable how much market beliefs have changed in the last twelve months. In October last year there was almost full confidence that a recession was inevitable, while today there seems to be equal confidence that growth will prove resilient. It remains to be seen whether the consensus will be disappointed once again, but at the moment volatility seems to be caused less by a considered assessment of what data indicates about growth or inflation, and more about fear of short-term loss. We will continue to respond to market volatility where valuation, price action and sentiment suggest it is appropriate to do so. □

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G Global Property Feeder Fund

Global Property ZAR-denominated

Q3 2023

Market overview

After a promising start to the third quarter (Q3) of 2023 in July, it was largely downhill for investors in the following two months as the global interest rate outlook deteriorated, taking with it 2024 growth prospects and investor risk sentiment. As the prospect of "higher for longer" interest rates became increasingly likely, risk aversion took hold as global equity and bond markets sold off broadly. September saw developed market government bond yields rise substantially on the back of ongoing hawkish comments from the US Federal Reserve and others, and forecasters revised downward their 2024 GDP growth outlooks, even while revising upward those for 2023. This helped support the US dollar over the quarter versus other global currencies.

Disappointing Chinese growth also continued to weigh on market sentiment, as did risks associated with the ongoing Russia-Ukraine war, and the sharp increase in the price of oil, which jumped to over US$97/bbl (Brent crude) in late September.

The extent of market losses was broadly similar across equities and bonds, and developed and emerging markets, with global property stocks hardest hit by the "higher for longer" outlook. For the three months ended 30 September 2023, the MSCI All Country World Index delivered -3.4%, the MSCI Emerging Markets Index produced -2.9% and global property stocks (the FTSE EPRA/NAREIT Global REIT Index) returned -6.8% (all in US$).

United States

In the US, after hiking by 25bps in July, the Fed left interest rates unchanged in September, in line with expectations. However, the central bank subsequently surprised the market by hawkishly signalling the possibility of another rate hike before year-end, reinforced by later statements by Fed Governor Jerome Powell and other key voting members, which left little doubt that interest rates would be higher than forecast for longer. Markets have now priced in another 25bp rate hike for November. This perceived shift in the Fed's views came in the wake of still-strong US economic data, including a robust jobs market and higher August headline inflation at 3.7% y/y versus 3.2% in July, driven predominately by higher energy prices. However, Core CPI, which excludes volatile food and energy prices, fell to 4.3% y/y in August from 4.7% in July. And US GDP growth for Q2 was reported at 2.1%, revised down from the 2.4% initially estimated.

The Congressional stand-off over the national budget, which went down to the wire, prompted further market weakness, with the 10-year US Treasury yield rising to 4.75% at quarter-end compared to 3.8% at the start – a substantial upward move for the market. For the quarter, US equity returns were in the red: the Dow Jones produced -2.1%, the Nasdaq -3.9%, and the S&P 500 -3.3% (all in US$). The Nasdaq remains the top-performing developed equity market year to date with a return of 27.1%.

UK

In the UK, the Bank of England kept its main interest rate unchanged at 5.25% at its September meeting, ignoring the lower-than-expected August CPI data at 6.7% y/y (versus 7% forecast). UK inflation has been particularly high and resilient compared to other major economies, and the markets are expecting at least one further 25bp rate hike in 2023. Meanwhile, Q2 2023 growth surprised marginally on the upside at 0.2% y/y compared to the 0% consensus, still managing to avoid a recession. Similar to the US, resilient consumer demand and a tight labour market are keeping growth in positive territory. For Q3 2023, the FTSE 100 returned -1.9% in US$.

Eurozone

In the eurozone, inflation remained relatively high during the quarter, with the latest August CPI at 5.2% only slightly lower from 5.3% in July. Core inflation, which excludes volatile energy and food prices, eased to 5.3% from 5.5%. After lifting interest rates by 25bps in September to a record 4.0%, ECB President Christine Lagarde suggested further hikes may not be necessary, but upside inflation risks remained. In other news, as in the UK, the region continued to avoid a recession as GDP growth accelerated slightly to 0.3% q/q in Q2 2023 after 0.1% in Q1, but the latest ECB projections called for slow growth of 0.7% in 2023, 1.0% in 2024 and 1.5% in 2025. In European equity markets, France's CAC 40 returned -6.3% and Germany's DAX delivered -7.5% (in US$) in Q3.

Japan

Japan continued to impress investors with its stronger-than-expected recovery, announcing Q2 2023 GDP growth of 6.0% y/y due to robust export growth (thanks to the weaker yen) and soundly beating forecasts of 3.1%.The BOJ maintained its ultra-low interest rates during the quarter in support of the recovery, and markets are looking for hints on when it will phase out stimulus. Meanwhile, core inflation remained above the BOJ's 2% inflation target at 3.1% in August, steady from July, but the BOJ has said they will continue policies designed to keep the country out of deflation. The Nikkei returned a disappointing -6.3% in US$ for Q3, but is still up 10% in 2023 so far.

China

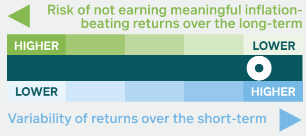
During the three months, China again reported disappointing GDP growth, this time at 6.3% y/y for Q2 2023 versus 7.3% expected. The country's rebound continued to lose momentum despite new stimulus measures from the PBOC as it lowered reserve requirements for commercial banks. Five big commercial banks also cut their lending rates in September. However, the PBOC kept its benchmark lending rates unchanged, as expected. China's CPI rose 0.1% y/y in August after a 0.3% y/y decline in July. After notable losses in Q2, local equity markets were still fairly weak in Q3, with Hong Kong's Hang Seng returning -4.1 % and the MSCI China delivering -1.8%, both in US$.

Emerging markets

Larger emerging equity markets ended the quarter in the red, with the exception of the MSCI Turkey, which engineered a sharp recovery with a 32.8% return, and the MSCI India, which posted 2.9% (both in US$). The MSCI China managed to pare its large losses from the previous quarter, delivering -1.8%, while the MSCI South Africa registered a -4.4% return (in US$). Brazil's Bovespa returned -4.9% and South Korea's KOSPI -5.9% (in US$).

Annualised performance	A class	Benchmark	B class
1 year	9.3%	6.2%	9.3%
Since inception	-6.3%	-5.0%	-

Risk profile



Fund facts

Investment manager of the underlying fund

M&G Investment Management Limited (UK)

Fund managers of the underlying fund

Gautam Samarth

ASISA category

Global - Real Estate - General

Benchmark

FTSE EPRA NAREIT Global REIT Index (Net)

Inception date

24 November 2021

Fund size

R10 728 390

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

Currency

The rand lost 0.3% against the US$ for the quarter, and depreciated 3.2% against the euro and 4.3% versus the UK pound as sentiment toward SA remained depressed.

Performance

For Q3 2023, the fund returned -6.4%, compared to its benchmark, the FTSE EPRA/NAREIT Global REITs Net Index's -7.1% return. For the 12 months to 30 September, the fund delivered 9.3%, outperforming the 6.3% return from the benchmark.

The portfolio outperformed on 35 out of 65 days during the quarter, offering a hit rate of ca. 53 %. Skew was modestly positive over the quarter as well.

Strategy and positioning

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 stock selection as well as style exposure contributed to performance over the quarter. Within style, exposures to high beta, small size and high earnings variability all contributed to returns.

At the stock level, Fibra Uno Administracion SA was the biggest contributor returns, with shares rallying on the back of a proposal to become an internally managed REIT. Outfront Media and Piedmont Office Realty Trust were the biggest detractors.

It is notable how much market beliefs have changed in the last twelve months. In October last year there was almost full confidence that a recession was inevitable, while today there seems to be equal confidence that growth will prove resilient. It remains to be seen whether the consensus will be disappointed once again, but at the moment volatility seems to be caused less by a considered assessment of what data indicates about growth or inflation, and more about fear of short-term loss. In our view, valuations are not adequately pricing in the risks of worse-than-expected global growth.

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G Global Equity Feeder Fund

Global Equity ZAR-denominated

Q3 2023

Market overview

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In the eurozone, inflation remained relatively high during the quarter, with the latest August CPI at 5.2% only slightly lower from 5.3% in July. Core inflation, which excludes volatile energy and food prices, eased to 5.3% from 5.5%. After lifting interest rates by 25bps in September to a record 4.0%, ECB President Christine Lagarde suggested further hikes may not be necessary, but upside inflation risks remained. In other news, as in the UK, the region continued to avoid a recession as GDP growth accelerated slightly to 0.3% q/q in Q2 2023 after 0.1% in Q1, but the latest ECB projections called for slow growth of 0.7% in 2023, 1.0% in 2024 and 1.5% in 2025. In European equity markets, France's CAC 40 returned -6.3% and Germany's DAX delivered -7.5% (in US$) in Q3.

Japan

Japan continued to impress investors with its stronger-than-expected recovery, announcing Q2 2023 GDP growth of 6.0% y/y due to robust export growth (thanks to the weaker yen) and soundly beating forecasts of 3.1%.The BOJ maintained its ultra-low interest rates during the quarter in support of the recovery, and markets are looking for hints on when it will phase out stimulus. Meanwhile, core inflation remained above the BOJ's 2% inflation target at 3.1% in August, steady from July, but the BOJ has said they will continue policies designed to keep the country out of deflation. The Nikkei returned a disappointing -6.3% in US$ for Q3, but is still up 10% in 2023 so far.

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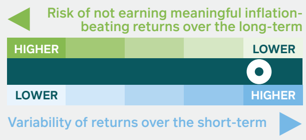
Emerging markets

Larger emerging equity markets ended the quarter in the red, with the exception of the MSCI Turkey, which engineered a sharp recovery with a 32.8% return, and the MSCI India, which posted

Annualised performance

Annualised performance	A class	Benchmark	B class
1 year	23.9%	26.6%	24.3%
3 years	12.9%	11.3%	13.3%
5 years	11.4%	12.7%	11.8%
7 years	12.1%	13.6%	-
10 years	12.9%	14.5%	-
20 years	10.9%	13.2%	-
Since inception	8.2%	9.6%	-

Risk profile



Fund facts

Investment manager of the underlying fund

M&G Investment Management Limited (UK)

Fund managers of the underlying fund

Gautam Samarth

ASISA category

Global - Equity - General

Benchmark

MSCI All Country World Index TR Net

Inception date

18 February 2000

Fund size

R1 117 585 700

Sources: M&G, Morningstar & Deutsche Securities

2.9% (both in US$). The MSCI China managed to pare its large losses from the previous quarter, delivering -1.8%, while the MSCI South Africa registered a -4.4% return (in US$). Brazil's Bovespa returned -4.9% and South Korea's KOSPI -5.9% (in US$).

Currency

The rand lost 0.3% against the US$ for the quarter, and depreciated 3.2% against the euro and 4.3% versus the UK pound as sentiment toward SA remained depressed.

Performance

For Q3 2023, the fund returned -3.5% (net of fees), compared to the benchmark's -3.7%. For the 12 months ending 30 September, the fund delivered 23.9% (net of fees) compared to the benchmark's 26.6%.

The portfolio outperformed on 30 out of 65 days during the quarter, offering an unfavourable hit rate of ca. 46 %. This was partially offset by positive skew, and as a result fund performance was only marginally behind the benchmark over the quarter.

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.

In terms of absolute return, the fund's style exposure had a muted net impact on performance over the quarter, with positive contribution from high beta stocks offset by exposure to high residual volatility and smaller-size companies. Stock selection also had a negligible impact over the quarter.

Samsonite International SA, a manufacturer of travel luggage and accessories and Centria PLC., a power Utility company in the UK were the biggest contributors to performance.

Azul SA, a Brazilian airline operator and Inspire Medical Systems, a manufacturer of medical devices to treat sleep apnoea were the largest stock level detractors.

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.

It is notable how much market beliefs have changed in the last twelve months. In October last year there was almost full confidence that a recession was inevitable, while today there seems to be equal confidence that growth will prove resilient.

It remains to be seen whether the consensus will be disappointed once again but at the moment volatility seems to be caused less by a considered assessment of what data indicates about growth or inflation, and more about fear of short term loss.

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Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

M&G 2.5% Target Income Fund

Target Income

Q3 2023

Market overview

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Disappointing Chinese growth also continued to weigh on market sentiment, as did risks associated with the ongoing Russia-Ukraine war, and the sharp increase in the price of oil, which jumped to over US$97/bbl (Brent crude) in late September.

The extent of market losses was broadly similar across equities and bonds, and developed and emerging markets, with global property stocks hardest hit by the "higher for longer" outlook. For the three months ended 30 September 2023, the MSCI All Country World Index delivered -3.4%, the MSCI Emerging Markets Index produced -2.9% and global property stocks (the FTSE EPRA/NAREIT Global REIT Index) returned -6.8% (all in US$). At the same time, the Bloomberg Global Aggregate Bond Index offered no diversification for investors, delivering -3.6% (in US$).

South African markets took their cue from their global counterparts in Q3, with local concerns adding to the pessimistic tone. The elevated risks associated with SA assets brought on partly by the "Lady R" incident in May persisted, with perceptions of SA's pro-Russia stance enhanced by the hosting of the BRICS Summit and growth prospects remaining subdued (highlighted by a temporary increase to Stage 6 loadshedding in September). This kept pressure on all SA assets, including the rand.

Over the quarter the SA equity market was dragged down by Industrial counters, as well as Resources (amid fears of slower global growth and demand, particularly from China). Locally-focused companies fared better. The FTSE/JSE All Share Index (ALSI) returned -3.5% in Q3 while the Capped SWIX delivered -3.8% (both in rands). Industrial counters returned -6.2% and Resources -5.3%, while Financials produced 2.2% and the All Property Index -0.6% (all in rands).

For the quarter, SA nominal bonds (the FTSE/JSE All Bond Index) delivered -0.3% in rands, while inflation-linked bonds (ILBs) produced 0.8% and cash returned 2.1%. Finally, the rand lost 0.3% against the US$ for the quarter, and depreciated 3.2% against the euro and 4.3% versus the UK pound as sentiment toward SA remained depressed.

United States

In the US, after hiking by 25bps in July, the Fed left interest rates unchanged in September, in line with expectations. However, the central bank subsequently surprised the market by hawkishly signalling the possibility of another rate hike before year-end, reinforced by later statements by Fed Governor Jerome Powell and other key voting members, which left little doubt that interest rates would be higher than forecast for longer. Markets have now priced in another 25bp rate hike for November. This perceived shift in the Fed's views came in the wake of still-strong US economic data, including a robust jobs market and higher August headline inflation at 3.7% y/y versus 3.2% in July, driven predominately by higher energy prices. However, Core CPI, which excludes volatile food and energy prices, fell to 4.3% y/y in August from 4.7% in July. And US GDP growth for Q2 was reported at 2.1%, revised down from the 2.4% initially estimated.

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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
R101 170 076

Annualised performance	A class	CPI	B class
1 year	13.4%	4.8%	13.8%
2 years	8.0%	6.2%	8.4%
3 years	14.1%	5.8%	14.5%
Since inception	6.6%	5.1%	-

Sources: M&G, Morningstar & Deutsche Securities

markets are looking for hints on when it will phase out stimulus. Meanwhile, core inflation remained above the BOJ's 2% inflation target at 3.1% in August, steady from July, but the BOJ has said they will continue policies designed to keep the country out of deflation. The Nikkei returned a disappointing -6.3% in US$ for Q3, but is still up 10% in 2023 so far.

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South Africa

In South Africa, the SA Reserve Bank kept its repo rate steady at 8.25% at both its July and September policy meetings, as expected by the market, but still cited upside risks to the inflation outlook such as higher global energy prices and the weaker rand. Governor Lesetja Kanyago's hawkish comments left the door open for another interest rate hike in November. Headline inflation ticked up to 4.8% y/y in August from 4.7% y/y in July, while the SARB revised its CPI forecasts for 2023 to 5.9% (from 6.0%) and for 2024 to 5.1% (from 5.0%).

GDP growth for Q2 2023 surprised positively at 0.6% q/q versus 0.3% expected, helped by growth in manufacturing, finance and a turnaround in agriculture. The central bank also upwardly revised its GDP growth forecast for this year to 0.7% (from 0.4% in July), while the 2024 and 2025 forecasts remained unchanged at 1.0% and 1.1%, respectively. Consumer confidence improved slightly against the backdrop of falling inflation and a potential peak in interest rates, with the FNB/BER Q3 2023 Consumer Confidence Index registering -16 points from -25 points in Q2.

The headwinds to growth remained considerable, however, as loadshedding ramped up to Stage 6 temporarily in September, a reminder of the energy constraints facing the country, while China's slower growth presents challenges for commodity exports. Lower-than-expected tax collections have also fuelled concerns over the national budget deficit, with negative implications for the local bond market.

Performance

The M&G 2.5% Target Income Fund returned -3.1% (after fees) for the third quarter of 2023 and 13.4% for the 12-month period ending 30 September 2023.

Looking at the fund's asset allocation, global cash added the most value to absolute performance for the quarter, while SA cash also added some value. SA listed property was flat. All other asset classes detracted from performance in Q3, with SA equities the largest detractor.

Within SA equities, our holdings in Sasol, Exxaro, Glencore and Sappi added value to fund performance during the quarter, as did our collective overweight exposure to SA banks like Standard Bank, Absa and Investec. China-exposed shares like Naspers/Prosus and Richemont were the largest detractors from performance, while gold and platinum shares also detracted. MTN was another detractor for the quarter as, despite resilient results reported in August, the share price declined 18% over the period.

Strategy and positioning

Starting with our view on offshore vs local asset allocation in the fund, during the quarter our relative exposure remained largely unchanged, as we continued to prefer more attractively valued SA assets compared to their global counterparts.

Within our global holdings, during Q3 we sold a small amount of global equity. We also bought more global bonds largely out of global cash during the significant September sell-off, adding to our existing tactical overweight in 30-year US Treasuries, and opening new tactical overweights in UK gilt and German bund holdings. As of quarter-end, this has given us a small underweight in global equities in the fund, an overweight position in global bonds and duration, and a continuing underweight in global cash due partly to our forex positioning.

In global equities, the MSCI ACWI 12-month forward P/E fell to around 15.9X at quarter-end from 16.4X at the beginning of the quarter as stock prices slumped. We pared our position slightly as the growth outlook appeared to worsen, while we retained our ongoing concerns that earnings expectations, particularly in the US, still do not fully reflect the downside risks to corporate earnings associated with central banks' steep interest rate hikes and the increased likelihood of rates remaining elevated for longer. While we did see meaningful downward revisions to GDP forecasts for 2024 during the quarter, corporate earnings forecasts have remained remarkably resilient. As such we continue to be selective around our global equity holdings and have moved slightly underweight in the fund. In the current environment, as stressed previously, we prefer high-quality companies with pricing power, strong balance sheets and reliable cashflow generation.

Our tilt away from the US reflects that market's relatively expensive valuations (at a forward P/E of 18.9X at quarter-end), and we are also avoiding Australia and Canada. Equity markets that we prefer for their cheaper valuations include the UK, Japan, China and other emerging markets that are relatively cheap. For example, the 12-month forward P/E of the MSCI Emerging Markets Index stood at around 11.8X at quarter-end.

Within global bonds, real yields became much more attractive over the quarter and in our view offer more-than-fair compensation for the risk involved, which primarily reflects investors' views of "higher for longer" global interest rates. We moved to an overweight position in global government bonds in Q3 from our previously broadly neutral stance, adding to our holdings of 30-year US Treasuries, 30-year UK gilts and long-dated German bunds. Duration also rose given our preference for long-dated paper. We are also holding moderate levels of local currency sovereign EM bonds where the real yields are high and the currency is trading at fair-to-cheap levels.

The fund still favoured SA equities at the end of Q3 2023, with our positioning largely unchanged. SA equity valuations (as measured by the 12-month forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) were also little moved over the quarter at 9.5X, experiencing similar declines in both earnings expectations and share prices.

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

R101 170 076

Sources: M&G, Morningstar & Deutsche Securities

Despite its weakness in Q3, MTN is still up over 100% in the past three years. MTN Nigeria has been impacted by the June devaluation of the Naira, while load-shedding has placed pressure on MTN SA's profitability. However, volume growth in Nigeria, cost cutting initiatives, price increases and the implementation of additional backup power solutions are expected to help offset lost revenue.

Commenting on some of our tactical changes to the fund in Q3, over the last year we have gradually decreased our overweight to the Banks sector as earnings and dividends have recovered strongly post the COVID lows. We continue to be positioned in favour of the lower-rated banks, Standard Bank, ABSA and Investec, and underweight the more highly rated banks, Firstrand and Capitec. ABSA is worth mentioning as it has shown a steady improvement in operating performance and is generating a return on equity of 17%, up substantially from the high single-digit returns it was generating just a few years ago. Although its share price has performed relatively well versus the other banks, we think that it is still undervalued and it remains one of our top overweights in the banking sector. We have reduced our overweight position to Standard Bank due to its substantial re-rating. However, we continue to have an overweight position to the Banks sector as we think that the banks that we own are trading on undemanding valuations, especially given that earnings and dividend growth are exceptionally strong currently.

During the quarter we added to our overweight position in British American Tobacco (BAT) as we believe that the investment case remains very strong -- the company is trading with an exceptionally attractive dividend yield of 8% and we expect this dividend to continue growing for the next five years, despite the risks which tobacco companies face. We anticipate continued strong cash flows from BAT's core business in the United States to drive a repayment of debt, as well as continue to fund investment into next-generation lower-risk products. BAT is at the forefront of offering its customers alternative products which reduce harm and we expect this trend to continue. We think that BAT can continue to grow profits while helping its customers switch to much lower risk and less harmful products. BAT provides us with very stable and defensive cash flows at a very attractive valuation, especially amidst continued concerns around the risk of a global recession.

Platinum group metals (PGM) companies continued to be impacted by the fall in PGM prices – for example, the price of palladium has fallen 42.5% in the past 12 months. Rhodium, at its peak over a year ago, was contributing more than 50% of a typical platinum producer's revenue and contributed massively to their profitability. This sector's fortunes have changed rapidly over the last five years. In 2019, margins started to improve after many years where margins were not even high enough to compensate the mines for ongoing maintenance capex. In 2021 and 2022, margins in the sector were at near-record highs and cash generation was very strong. We were cognisant of the high margins that companies were earning and moved our clients' portfolios to an underweight position in 2022. We also strategically shifted our preference for companies within the sector to the higher- quality platinum companies which are likely to see production growth as a result of their investment in capacity. These now comprise Northam and Impala Platinum. In the past quarter, in order to remain underweight the platinum sector and given the relatively good performance of Northam, we reduced this position slightly, although it remains our favoured exposure within the sector.

During the quarter we remained tilted away from SA listed property as property sector risks remained high relative to other sectors. 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 expectations for "higher for longer" interest rates (many property companies are reliant on finance to expand their portfolios) and relatively weak growth prospects, among other fundamental factors.

Despite their further weakness in September, we did not increase our exposure to SA nominal bonds, maintaining our significant preference for these assets in the fund. From a yield of 11.4% at the start of the quarter, the 10-year SA government bond reached a high of around 12.28% on 28 September before recouping some of the losses on the last day of the quarter. This is not far from the 12.4% high reached during the height of Covid. While we acknowledge the heightened risks to the local economy, we continue to believe SA nominal bond valuations are attractive relative to other fixed income assets and to their own longer-term history, and will more than compensate investors for their associated risks over time. We held no SA ILBs in the portfolio.

Lastly, the fund remained tilted away from SA cash, given that other SA asset classes offer higher real yields on both an absolute and relative basis.

M&G Investments

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info@mandg.co.za

mandg.co.za

0860 105 775

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

M&G 5% Target Income Fund

Target Income

Q3 2023

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
R177 011 619

Market overview

After a promising start to the third quarter (Q3) of 2023 in July, it was largely downhill for investors in the following two months as the global interest rate outlook deteriorated, taking with it 2024 growth prospects and investor risk sentiment. As the prospect of "higher for longer" interest rates became increasingly likely, risk aversion took hold as global equity and bond markets sold off broadly. September saw developed market government bond yields rise substantially on the back of ongoing hawkish comments from the US Federal Reserve and others, and forecasters revised downward their 2024 GDP growth outlooks, even while revising upward those for 2023.

Disappointing Chinese growth also continued to weigh on market sentiment, as did risks associated with the ongoing Russia-Ukraine war, and the sharp increase in the price of oil, which jumped to over US$97/bbl (Brent crude) in late September.

The extent of market losses was broadly similar across equities and bonds, and developed and emerging markets, with global property stocks hardest hit by the "higher for longer" outlook. For the three months ended 30 September 2023, the MSCI All Country World Index delivered -3.4%, the MSCI Emerging Markets Index produced -2.9% and global property stocks (the FTSE EPRA/NAREIT Global REIT Index) returned -6.8% (all in US$). At the same time, the Bloomberg Global Aggregate Bond Index offered no diversification for investors, delivering -3.6% (in US$).

South African markets took their cue from their global counterparts in Q3, with local concerns adding to the pessimistic tone. The elevated risks associated with SA assets brought on partly by the "Lady R" incident in May persisted, with perceptions of SA's pro-Russia stance enhanced by the hosting of the BRICS Summit and growth prospects remaining subdued (highlighted by a temporary increase to Stage 6 loadshedding in September). This kept pressure on all SA assets, including the rand.

Over the quarter the SA equity market was dragged down by Industrial counters, as well as Resources (amid fears of slower global growth and demand, particularly from China). Locally-focused companies fared better. The FTSE/JSE All Share Index (ALSI) returned -3.5% in Q3 while the Capped SWIX delivered -3.8% (both in rands). Industrial counters returned -6.2% and Resources -5.3%, while Financials produced 2.2% and the All Property Index -0.6% (all in rands).

For the quarter, SA nominal bonds (the FTSE/JSE All Bond Index) delivered -0.3% in rands, while inflation-linked bonds (ILBs) produced 0.8% and cash returned 2.1%. Finally, the rand lost 0.3% against the US$ for the quarter, and depreciated 3.2% against the euro and 4.3% versus the UK pound as sentiment toward SA remained depressed.

United States

In the US, after hiking by 25bps in July, the Fed left interest rates unchanged in September, in line with expectations. However, the central bank subsequently surprised the market by hawkishly signalling the possibility of another rate hike before year-end, reinforced by later statements by Fed Governor Jerome Powell and other key voting members, which left little doubt that interest rates would be higher than forecast for longer. Markets have now priced in another 25bp rate hike for November. This perceived shift in the Fed's views came in the wake of still-strong US economic data, including a robust jobs market and higher August headline inflation at 3.7% y/y versus 3.2% in July, driven predominately by higher energy prices. However, Core CPI, which excludes volatile food and energy prices, fell to 4.3% y/y in August from 4.7% in July. And US GDP growth for Q2 was reported at 2.1%, revised down from the 2.4% initially estimated.

The Congressional stand-off over the national budget, which went down to the wire, prompted further weakness in bond markets, with the 10-year US Treasury yield rising to 4.75% at quarter-end compared to 3.8% at the start – a substantial upward move for the market. For the quarter, US equity returns were in the red: the Dow Jones produced -2.1%, the Nasdaq -3.9%, and the S&P 500 -3.3% (all in US$). The Nasdaq remains the top-performing developed equity market year to date with a return of 27.1%.

UK

In the UK, the Bank of England kept its main interest rate unchanged at 5.25% at its September meeting, ignoring the lower-than-expected August CPI data at 6.7% y/y (versus 7% forecast). UK inflation has been particularly high and resilient compared to other major economies, and the markets are expecting at least one further 25bp rate hike in 2023. Meanwhile, Q2 2023 growth surprised marginally on the upside at 0.2% y/y compared to the 0% consensus, still managing to avoid a recession. Similar to the US, resilient consumer demand and a tight labour market are keeping growth in positive territory. For Q3 2023, the FTSE 100 returned -1.9% in US$.

Eurozone

In the eurozone, inflation remained relatively high during the quarter, with the latest August CPI at 5.2% only slightly lower from 5.3% in July. Core inflation, which excludes volatile energy and food prices, eased to 5.3% from 5.5%. After lifting interest rates by 25bps in September to a record 4.0%, ECB President Christine Lagarde suggested further hikes may not be necessary, but upside inflation risks remained. In other news, as in the UK, the region continued to avoid a recession as GDP growth accelerated slightly to 0.3% q/q in Q2 2023 after 0.1% in Q1, but the latest ECB projections called for slow growth of 0.7% in 2023, 1.0% in 2024 and 1.5% in 2025. In European equity markets, France's CAC 40 returned -6.3% and Germany's DAX delivered -7.5% (in US$) in Q3.

Japan

Japan continued to impress investors with its stronger-than-expected recovery, announcing Q2 2023 GDP growth of 6.0% y/y due to robust export growth (thanks to the weaker yen) and soundly beating forecasts of 3.1%.The BOJ maintained its ultra-low interest rates during the quarter in support of the recovery, and

Annualised performance	A class	CPI	B class
1 year	9.9%	4.8%	10.3%
2 years	4.6%	6.2%	5.0%
3 years	8.5%	5.8%	8.9%
Since inception	5.1%	5.1%	-

Sources: M&G, Morningstar & Deutsche Securities

markets are looking for hints on when it will phase out stimulus. Meanwhile, core inflation remained above the BOJ's 2% inflation target at 3.1% in August, steady from July, but the BOJ has said they will continue policies designed to keep the country out of deflation. The Nikkei returned a disappointing -6.3% in US$ for Q3, but is still up 10% in 2023 so far.

China

During the three months, China again reported disappointing GDP growth, this time at 6.3% y/y for Q2 2023 versus 7.3% expected. The country's rebound continued to lose momentum despite new stimulus measures from the PBOC as it lowered reserve requirements for commercial banks. Five big commercial banks also cut their lending rates in September. However, the PBOC kept its benchmark lending rates unchanged, as expected. China's CPI rose 0.1% y/y in August after a 0.3% y/y decline in July. After notable losses in Q2, local equity markets were still fairly weak in Q3, with Hong Kong's Hang Seng returning -4.1 % and the MSCI China delivering -1.8%, both in US$.

Emerging markets

Larger emerging equity markets ended the quarter in the red, with the exception of the MSCI Turkey, which engineered a sharp recovery with a 32.8% return, and the MSCI India, which posted 2.9% (both in US$). The MSCI China managed to pare its large losses from the previous quarter, delivering -1.8%, while the MSCI South Africa registered a -4.4% return (in US$). Brazil's Bovespa returned -4.9% and South Korea's KOSPI -5.9% (in US$).

South Africa

In South Africa, the SA Reserve Bank kept its repo rate steady at 8.25% at both its July and September policy meetings, as expected by the market, but still cited upside risks to the inflation outlook such as higher global energy prices and the weaker rand. Governor Lesetja Kanyago's hawkish comments left the door open for another interest rate hike in November. Headline inflation ticked up to 4.8% y/y in August from 4.7% y/y in July, while the SARB revised its CPI forecasts for 2023 to 5.9% (from 6.0%) and for 2024 to 5.1% (from 5.0%).

GDP growth for Q2 2023 surprised positively at 0.6% q/q versus 0.3% expected, helped by growth in manufacturing, finance and a turnaround in agriculture. The central bank also upwardly revised its GDP growth forecast for this year to 0.7% (from 0.4% in July), while the 2024 and 2025 forecasts remained unchanged at 1.0% and 1.1%, respectively. Consumer confidence improved slightly against the backdrop of falling inflation and a potential peak in interest rates, with the FNB/BER Q3 2023 Consumer Confidence Index registering -16 points from -25 points in Q2.

The headwinds to growth remained considerable, however, as loadshedding ramped up to Stage 6 temporarily in September, a reminder of the energy constraints facing the country, while China's slower growth presents challenges for commodity exports. Lower-than-expected tax collections have also fuelled concerns over the national budget deficit, with negative implications for the local bond market.

Performance

The M&G 5% Target Income Fund returned -2.4% (after fees) for the third quarter of 2023 and 9.9% (after fees) for the 12-month period ending 30 September 2023.

Looking at the fund's asset allocation, SA cash added the most value to absolute performance for the quarter, while SA listed property and global cash were flat. All other asset classes detracted from performance in Q3, with SA equities the largest detractor.

Within SA equities, our holdings in Sasol, Exxaro, Glencore and Sappi added value to fund performance during the quarter, as did our collective overweight exposure to SA banks like Standard Bank, Absa and Investec. China-exposed shares like Naspers/Prosus and Richemont were the largest detractors from performance, while gold and platinum shares also detracted. MTN was another detractor for the quarter as, despite resilient results reported in August, the share price declined 18% over the period.

Strategy and positioning

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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

R177 011 619

Sources: M&G, Morningstar & Deutsche Securities

The fund still favoured SA equities at the end of Q3 2023, with our positioning largely unchanged. SA equity valuations (as measured by the 12-month forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) were also little moved over the quarter at 9.5X, experiencing similar declines in both earnings expectations and share prices.

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info@mandg.co.za

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Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

M&G 7% Target Income Fund

Target Income

Q3 2023

Market overview

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Annualised performance	A class	CPI	B class
1 year	8.3%	4.8%	8.6%
2 years	4.7%	6.2%	5.0%
3 years	8.3%	5.8%	8.7%
Since inception	4.9%	5.1%	-

Fund facts

Fund managers
David Knee
Michael Moyle
Sandile Malinga
Leonard Krüger

ASISA category
Worldwide - Multi Asset - Unclassified

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

Inception date
2 April 2019

Fund size
R344 453 998

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

Japan

Japan continued to impress investors with its stronger-than-expected recovery, announcing Q2 2023 GDP growth of 6.0% y/y due to robust export growth (thanks to the weaker yen) and soundly beating forecasts of 3.1%.The BOJ maintained its ultra-low interest rates during the quarter in support of the recovery, and markets are looking for hints on when it will phase out stimulus. Meanwhile, core inflation remained above the BOJ's 2% inflation target at 3.1% in August, steady from July, but the BOJ has said they will continue policies designed to keep the country out of deflation. The Nikkei returned a disappointing -6.3% in US$ for Q3, but is still up 10% in 2023 so far.

China

During the three months, China again reported disappointing GDP growth, this time at 6.3% y/y for Q2 2023 versus 7.3% expected. The country's rebound continued to lose momentum despite new stimulus measures from the PBOC as it lowered reserve requirements for commercial banks. Five big commercial banks also cut their lending rates in September. However, the PBOC kept its benchmark lending rates unchanged, as expected. China's CPI rose 0.1% y/y in August after a 0.3% y/y decline in July. After notable losses in Q2, local equity markets were still fairly weak in Q3, with Hong Kong's Hang Seng returning -4.1 % and the MSCI China delivering -1.8%, both in US$.

Emerging markets

Larger emerging equity markets ended the quarter in the red, with the exception of the MSCI Turkey, which engineered a sharp recovery with a 32.8% return, and the MSCI India, which posted 2.9% (both in US$). The MSCI China managed to pare its large losses from the previous quarter, delivering -1.8%, while the MSCI South Africa registered a -4.4% return (in US$). Brazil's Bovespa returned -4.9% and South Korea's KOSPI -5.9% (in US$).

South Africa

In South Africa, the SA Reserve Bank kept its repo rate steady at 8.25% at both its July and September policy meetings, as expected by the market, but still cited upside risks to the inflation outlook such as higher global energy prices and the weaker rand. Governor Lesetja Kanyago's hawkish comments left the door open for another interest rate hike in November. Headline inflation ticked up to 4.8% y/y in August from 4.7% y/y in July, while the SARB revised its CPI forecasts for 2023 to 5.9% (from 6.0%) and for 2024 to 5.1% (from 5.0%).

GDP growth for Q2 2023 surprised positively at 0.6% q/q versus 0.3% expected, helped by growth in manufacturing, finance and a turnaround in agriculture. The central bank also upwardly revised its GDP growth forecast for this year to 0.7% (from 0.4% in July), while the 2024 and 2025 forecasts remained unchanged at 1.0% and 1.1%, respectively. Consumer confidence improved slightly against the backdrop of falling inflation and a potential peak in interest rates, with the FNB/BER Q3 2023 Consumer Confidence Index registering -16 points from -25 points in Q2.

The headwinds to growth remained considerable, however, as loadshedding ramped up to Stage 6 temporarily in September, a reminder of the energy constraints facing the country, while China's slower growth presents challenges for commodity exports. Lower-than-expected tax collections have also fuelled concerns over the national budget deficit, with negative implications for the local bond market.

Performance

The M&G 7% Target Income Fund returned -1.5% (after fees) for the quarter and 8.3% for the 12-month period ending 30 September 2023.

Looking at the fund's asset allocation, SA cash added the most value to absolute performance for the quarter, while SA listed property was flat. All other asset classes detracted from performance in Q3, with SA equities the largest detractor.

Within SA equities, our holdings in Sasol, Exxaro, Glencore and Sappi added value to fund performance during the quarter, as did our collective overweight exposure to SA banks like Standard Bank, Absa and Investec. China-exposed shares like Naspers/Prosus and Richemont were the largest detractors from performance, while gold and platinum shares also detracted. MTN was another detractor for the quarter as, despite resilient results reported in August, the share price declined 18% over the period.

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 global counterparts.

Within our global holdings, during Q3 we sold a small amount of global equity. We also bought more global bonds largely out of global cash during the significant September sell-off, adding to our existing tactical overweight in 30-year US Treasuries, and opening new tactical overweights in UK gilt and German bund holdings. As of quarter-end, this has given us a small underweight in global equities in the fund, an overweight position in global bonds and duration, and a continuing underweight in global cash due partly to our forex positioning.

In global equities, the MSCI ACWI 12-month forward P/E fell to around 15.9X at quarter-end from 16.4X at the beginning of the quarter as stock prices slumped. We pared our position slightly as the growth outlook appeared to worsen, while we retained our ongoing concerns that earnings expectations, particularly in the US, still do not fully reflect the downside risks to corporate earnings associated with central banks' steep interest rate hikes and the increased likelihood of rates remaining elevated for longer. While we did see meaningful downward revisions to GDP forecasts for 2024 during the quarter, corporate earnings forecasts have remained remarkably resilient. As such we continue to be selective around our global equity holdings and have moved slightly underweight in the fund. In the current environment, as stressed previously, we prefer high-quality companies with pricing power, strong balance sheets and reliable cashflow generation.

Our tilt away from the US reflects that market's relatively expensive valuations (at a forward P/E of 18.9X at quarter-end), and we are also avoiding Australia and Canada. Equity markets that we prefer for their cheaper valuations include the UK, Japan, China and other emerging markets that are relatively cheap. For example, the 12-month forward P/E of the MSCI Emerging Markets Index stood at around 11.8X at quarter-end.

Within global bonds, real yields became much more attractive over the quarter and in our view offer more-than-fair compensation for the risk involved, which primarily reflects investors' views of "higher for longer" global interest rates. We moved to an

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
R344 453 998

Sources: M&G, Morningstar & Deutsche Securities

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overweight position in global government bonds in Q3 from our previously broadly neutral stance, adding to our holdings of 30-year US Treasuries, 30-year UK gilts and long-dated German bunds. Duration also rose given our preference for long-dated paper. We are also holding moderate levels of local currency sovereign EM bonds where the real yields are high and the currency is trading at fair-to-cheap levels.

The fund still favoured SA equities at the end of Q3 2023, with our positioning largely unchanged. SA equity valuations (as measured by the 12-month forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) were also little moved over the quarter at 9.5X, experiencing similar declines in both earnings expectations and share prices.

Despite its weakness in Q3, MTN is still up over 100% in the past three years. MTN Nigeria has been impacted by the June devaluation of the Naira, while load-shedding has placed pressure on MTN SA's profitability. However, volume growth in Nigeria, cost cutting initiatives, price increases and the implementation of additional backup power solutions are expected to help offset lost revenue.

Commenting on some of our tactical changes to the fund in Q3, over the last year we have gradually decreased our overweight to the Banks sector as earnings and dividends have recovered strongly post the COVID lows. We continue to be positioned in favour of the lower-rated banks, Standard Bank, ABSA and Investec, and underweight the more highly rated banks, Firstrand and Capitec. ABSA is worth mentioning as it has shown a steady improvement in operating performance and is generating a return on equity of 17%, up substantially from the high single-digit returns it was generating just a few years ago. Although its share price has performed relatively well versus the other banks, we think that it is still undervalued and it remains one of our top overweights in the banking sector. We have reduced our overweight position to Standard Bank due to its substantial re-rating. However, we continue to have an overweight position to the Banks sector as we think that the banks that we own are trading on undemanding valuations, especially given that earnings and dividend growth are exceptionally strong currently.

During the quarter we added to our overweight position in British American Tobacco (BAT) as we believe that the investment case remains very strong -- the company is trading with an exceptionally attractive dividend yield of 8% and we expect this dividend to continue growing for the next five years, despite the risks which tobacco companies face. We anticipate continued strong cash flows from BAT's core business in the United States to drive a repayment of debt, as well as continue to fund investment into next-generation lower-risk products. BAT is at the forefront of offering its customers alternative products which reduce harm and we expect this trend to continue. We think that BAT can continue to grow profits while helping its customers switch to much lower risk and less harmful products. BAT provides us with very stable and defensive cash flows at a very attractive valuation, especially amidst continued concerns around the risk of a global recession.

Platinum group metals (PGM) companies continued to be impacted by the fall in PGM prices – for example, the price of palladium has fallen 42.5% in the past 12 months. Rhodium, at its peak over a year ago, was contributing more than 50% of a typical platinum producer's revenue and contributed massively to their profitability. This sector's fortunes have changed rapidly over the last five years. In 2019, margins started to improve after many years where margins were not even high enough to compensate the mines for ongoing maintenance capex. In 2021 and 2022, margins in the sector were at near-record highs and cash generation was very strong. We were cognisant of the high margins that companies were earning and moved our clients' portfolios to an underweight position in 2022. We also strategically shifted our preference for companies within the sector to the higher- quality platinum companies which are likely to see production growth as a result of their investment in capacity. These now comprise Northam and Impala Platinum. In the past quarter, in order to remain underweight the platinum sector and given the relatively good performance of Northam, we reduced this position slightly, although it remains our favoured exposure within the sector.

During the quarter we remained tilted away from SA listed property as property sector risks remained high relative to other sectors. 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 expectations for "higher for longer" interest rates (many property companies are reliant on finance to expand their portfolios) and relatively weak growth prospects, among other fundamental factors.

Despite their further weakness in September, we did not increase our exposure to SA nominal bonds, maintaining our significant preference for these assets in the fund. From a yield of 11.4% at the start of the quarter, the 10-year SA government bond reached a high of around 12.28% on 28 September before recouping some of the losses on the last day of the quarter. This is not far from the 12.4% high reached during the height of Covid. While we acknowledge the heightened risks to the local economy, we continue to believe SA nominal bond valuations are attractive relative to other fixed income assets and to their own longer-term history, and will more than compensate investors for their associated risks over time. We held no SA ILBs in the portfolio.

Lastly, the fund remained tilted away from SA cash, given that other SA asset classes offer higher real yields on both an absolute and relative basis. □

Contact us

info@mandg.co.za

mandg.co.za

0860 105 775

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