M&G Unit Trust Quarterly Commentary

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

Q2 2023

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Quarterly Commentary

M&G Money Market Fund

Income

Q2 2023

Market overview

The second quarter (Q2) of 2023 brought mixed results for investors, with global bonds losing ground but global equities performing relatively strongly in developed markets, even surprisingly so given the ever-changing outlook for global growth over the three months. A more positive growth outlook prevailed for the US, even as China's deteriorated, pushing US and other developed market equities higher while keeping emerging market equities relatively weaker. Meanwhile, global bonds were also weaker as the US Federal Reserve, along with other central banks, surprised with their ongoing hawkish stance by confirming the necessity of additional rate hikes. Investors continued to juggle the risk of the Fed's extra tightening bringing on a short-term recession versus the resilience of consumer spending and other economic growth factors, but June brought a healthy equity rally that helped erase weakness earlier in the quarter.

Other major economies continued their rate hiking cycles as well, with the Bank of England making headlines for its higher-than-expected 50bp increase in June, and Canada and Australia also implementing surprise hikes. Meanwhile, China and Japan maintained their easy monetary policies to support their expansions. Global equity returns outperformed bonds for a second quarter, while developed equity markets outperformed emerging equity markets. For the three months ended 30 June 2023, the MSCI All Country World Index delivered 6.2%, and the MSCI Emerging Markets Index produced 0.9% (in US$). At the same time, the Bloomberg Global Aggregate Bond Index delivered -1.5% (in US$) and global property stocks (the FTSE EPRA/NAREIT Global REIT Index) returned 0.6% (US$).

In South Africa, financial markets were even more volatile, with growth prospects continuing to be weighed down by loadshedding. In addition, the country was hit hard by a sell-off of SA bonds, banking shares and currency in May amid reports that South Africa was selling weapons to Russia and adopting a supposedly pro-Russian stance in its war against Ukraine and more generally. This prompted fears of retaliation from the West through trade and/or financial sanctions, leading to elevated investor risk perceptions for local investments. In June, however, these fears abated somewhat and the assets regained ground (especially bank shares), but risk perceptions did remain higher compared to Q1 as reflected by a weaker rand and elevated bond yields.

For the quarter, SA nominal bonds (the FTSE/JSE All Bond Index) delivered -1.5% in rands after largely retracing May's significant losses, while inflation-linked bonds (ILBs) produced -0.7% and cash returned 1.9%. Finally, despite regaining some 4.6% against the US dollar in June as sentiment improved, the rand still lost 6.5% against the greenback for the quarter, and depreciated 6.9% against the euro and 9.5% versus the UK pound as sentiment toward SA remained depressed. So far this year the rand has lost 11.6% versus a weakening US dollar.

Performance

Over the quarter the fund delivered a return of 2.0% (A class, net of fees) compared to the benchmark's 1.9%. Because the instruments held by the fund are predominantly floating rate in nature, absolute returns achieved continue to improve as the repo rate moves higher.

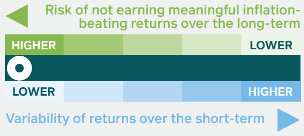
Strategy and positioning

The NCD curve remains relatively steep compared to history, despite the fact that most market commentators, as well as the FRA market, suggest that the repo rate has either peaked, or is close to doing so. In our opinion it therefore makes sense to try and lock-in the attractive rates on offer in longer-dated fixed-rate money market instruments, such as NCDs and treasury bills. As such, we maintained the duration of the fund on the high-side of the 90-day limit for this category, at 88 days at quarter-end (similar to where the fund started the quarter).

The gap between the TB (treasury bill) and NCD curves has also started to open up again, with TB yields currently between 20 and 40bps above similarly termed NCDs. We have therefore been adding to our TB exposure where opportunities have arisen to do so.

Annualised performance	A class	Benchmark	X class
1 year	7.0%	6.6%	7.0%
3 years	5.0%	4.6%	5.0%
5 years	5.8%	5.3%	5.9%
7 years	6.3%	5.7%	6.4%
10 years	6.2%	5.7%	6.3%
20 years	7.0%	6.7%	-
Since inception	7.3%	7.1%	-

Risk profile



Fund facts

Fund managers
Roshen Harry
René Prinsloo

ASISA category
South African - Interest Bearing - Money Market

Benchmark
STeFI Call Deposit Index

Inception date
9 April 2002

Fund size
R1 442 747 603

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Sources: M&G, Morningstar & Deutsche Securities

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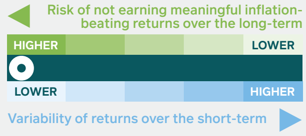
M&G High Interest Fund

Income

This fund is capped to new investors.

Q2 2023

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 746 097 006

Market overview

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Other major economies continued their rate hiking cycles as well, with the Bank of England making headlines for its higher-than-expected 50bp increase in June, and Canada and Australia also implementing surprise hikes. Meanwhile, China and Japan maintained their easy monetary policies to support their expansions. Global equity returns outperformed bonds for a second quarter, while developed equity markets outperformed emerging equity markets. For the three months ended 30 June 2023, the MSCI All Country World Index delivered 6.2%, and the MSCI Emerging Markets Index produced 0.9% (in US$). At the same time, the Bloomberg Global Aggregate Bond Index delivered -1.5% (in US$) and global property stocks (the FTSE EPRA/NAREIT Global REIT Index) returned 0.6% (US$).

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The SA equity market was dragged down in Q2 by losses in Resources shares amid fears of slower demand (particularly from China), offsetting good gains in Financials (after rebounding in June) and respectable returns from Industrials. The FTSE/JSE All Share Index (ALSI) returned 0.7% in Q2, while the more locally exposed Capped SWIX delivered 1.2% (both in rands). Industrial counters returned 3.4%, while Financials produced 5.9%, Resources -6.4% (Resources 10 Index) and the All Property Index 1.0% (all in rands).

For the quarter, SA nominal bonds (the FTSE/JSE All Bond Index) delivered -1.5% in rands after largely retracing May's significant losses, while inflation-linked bonds (ILBs) produced -0.7% and cash returned 1.9%. Finally, despite regaining some 4.6% against the US dollar in June as sentiment improved, the rand still lost 6.5% against the greenback for the quarter, and depreciated 6.9% against the euro and 9.5% versus the UK pound as sentiment toward SA remained depressed. So far this year the rand has lost 11.6% versus a weakening US dollar.

Credit trends

Total credit issuance (excluding government issuances) in Q2 2023 was disappointing compared to the previous quarter, with R27.2bn issued in Q2 compared to R52.3bn in the previous quarter (Q1 2023). Compared to the same quarter in the prior year (Q2 2022) the decline was more modest though, with issuance down 10% only. Rolling 12-month issuance to Q2 2023 is still robust, at R164bn compared to the 12 months to Q2 2022 of 113bn. Despite the quieter Q2, at the mid-point of the year gross issuance is still at 62% of the full year estimates as compiled by RMB Credit Research. According to ABSA's Credit Research team, total outstanding issuance, excluding government debt, has grown by a mere 3.2% year-on-year.

The make-up of issuance for the quarter followed established trends - the majority of issuance being floating-rate notes, with auctions making up nearly two-thirds of the placement methods. Data compiled by ABSA's Credit Research team indicates that banks have been the largest sector for new issuance year-to-date with around 52% of total issuance, while as at 30 June 2023 bank exposures comprised 49% of SA listed credit in issue.

The largest issuers in the quarter were the big four SA banks who combined raised R10.8bn. Absa Bank was the largest contributor raising R4.8bn, the bulk of which was issued via an auction of three floating-rate notes near the end of the quarter. Other than the big banks, the next largest corporate issuer was Northam, which issued just under R2.2bn to refinance maturing notes. There were no new corporate issues in the debt capital market in the second quarter.

Listed property fund Fortress postponed their debt auction of up to R750m of notes, scheduled for 19 May, in the wake of market volatility following the headlines surrounding the US Ambassador's claims relating to the docking of the Lady R in Simonstown with Russian arms in December 2022. Fortress did subsequently in June finalise a private placement of R800m. No other issuers sought to delay planned placements following

Annualised performance	A class	Benchmark	X class	D class
1 year	7.3%	6.8%	7.4%	7.5%
3 years	5.2%	5.0%	5.3%	5.4%
5 years	5.9%	5.8%	6.0%	6.1%
7 years	6.5%	6.3%	6.7%	6.8%
10 years	6.4%	6.3%	6.6%	6.7%
Since inception	6.3%	6.1%	-	-

Sources: M&G, Morningstar & Deutsche Securities

the media coverage and, further, no notable impact on credit spreads or investor appetite has been observed.

Credit spreads were little changed over the second quarter of the year. Floating rate spreads moved lower by 1 basis point (bp) versus Q1 2023, with fixed rate spreads closing the quarter +2 bps wider.

Q2 saw local bank subordinated Additional Tier 1 (AT1) issuance auctions from Standard Bank and Nedbank take place. These were the first AT1 auctions following the write-downs to Credit Suisse AT1 debt following the collapse and subsequent sale of Credit Suisse to UBS in Q1. Auction demand was strong, indicating that the local market has not been tainted by the events in Switzerland, with both auctions setting new records for low AT1 issuance spreads.

Performance

The fund returned 2.0% over the quarter (A Class, net of fees), compared to the benchmark's 1.9%, which was a pleasing outcome given the challenging environment. With around 90% of the fund's exposure in cash or floating-rate instruments, the fund return continues to improve as the repo rate moves higher.

Strategy and Positioning

The decision we took in Q1 to reduce duration and risk in this fund was well-timed, as SA fixed income assets had a tough quarter, with bond yields rising by around 70 basis points. This fund was therefore able to still deliver reasonably good returns relative to its benchmark and inflation, despite this weak market environment. We continue to view SA bonds and ILBs as attractive, but given the recent interest rate hikes we have seen (including the 50bps over the past quarter), cash and floating rate instruments also look attractive compared to our expectations of future inflation. When one thinks about returns from a risk-adjusted perspective, the argument for adding more duration into our STEFI-benchmarked products becomes more difficult. For now, we have kept the duration positioning relatively unchanged, at 93 days at quarter-end, compared to 89 days at the start of the quarter.

Over the past quarter we were successful in our bids for new bonds issued by Absa and MTN.

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Q2 2023

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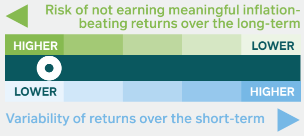
Annualised performance	A class	Benchmark	D class
1 year	8.7%	6.8%	8.8%
2 years	6.9%	5.5%	7.0%
3 years	6.8%	5.0%	6.9%
5 years	6.8%	5.8%	6.9%
Since inception	7.2%	6.2%	-

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

6 December 2016

Fund size

R603 215 687

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

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Strategy and Positioning

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Over the past quarter we were successful in our bids for new bonds issued by Absa, MTN and Santam.

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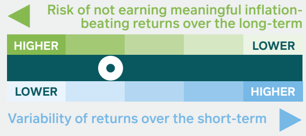
Sources: M&G, Morningstar & Deutsche Securities

M&G Bond Fund

Income

Q2 2023

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
R819 000 168

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Performance

The fund delivered a return of -1.2% for the quarter. This was a pleasing outcome compared to the fund benchmark (-1.5%) and peer group, but a weak absolute return, as a result of the challenging bond market environment. The sell-off was rather uniform across the curve, with all government bonds weakening by between 66 and 77bp in yield. This parallel shift higher made it difficult to generate alpha without taking a strong view on the direction of interest rates. The fund's duration remained relatively close to that of its benchmark over the period, but we still managed to generate some outperformance by being underexposed to the hardest-hit bonds (the R186 and the longest-dated bonds).

The very front-end of the curve sold off in response to more aggressive SARB tightening, and the accompanying expectation for higher future interest rates, as suggested by the move in the FRA curve. The back end also underperformed, due to a combination of worsening sentiment towards SA and an increase in supply (in the form of the new 30-year R2053 bond). The middle or "belly" of the curve, which we were overweight, held up slightly better.

Annualised performance	A class	Benchmark	B class
1 year	10.1%	8.2%	10.3%
3 years	8.6%	7.6%	8.9%
5 years	7.1%	7.4%	7.2%
7 years	7.5%	7.9%	7.7%
10 years	6.8%	7.4%	7.1%
20 years	8.1%	8.4%	8.4%
Since inception	9.5%	9.7%	-

Sources: M&G, Morningstar & Deutsche Securities

Strategy and positioning

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

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Multi-asset

Q2 2023

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For the quarter, SA nominal bonds (the FTSE/JSE All Bond Index) delivered -1.5% in rands after largely retracing May's significant losses, while inflation-linked bonds (ILBs) produced -0.7% and cash returned 1.9%. The All Property Index delivered 1.0% (in rands). Finally, despite regaining some 4.6% against the US dollar in June as sentiment improved, the rand still lost 6.5% against the greenback for the quarter and depreciated 6.9% against the euro and 9.5% versus the UK pound as sentiment toward SA remained depressed. So far this year the rand has lost 11.6% versus a weakening US dollar.

In the US, the Fed hiked its repo rate by 25bps at its May FOMC meeting and then paused in mid-June to assess the economic impact of its cumulative hiking cycle, moves that were expected by the market and brought temporary relief to interest rate markets. However, unexpectedly hawkish comments by Fed Governor Jerome Powell and other Fed Presidents subsequent to the meeting surprised markets by indicating another 1-2 increases ahead, equivalent to a potential additional 50bps. This "higher for longer" view, on top of more hawkish sentiment coming from most other central banks that hiked in late June, weighed on global bond markets, leading to losses. For example, the 10-year US Treasury yield ended the quarter yielding 3.8% compared to 3.5% at the start.

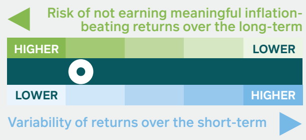
US inflation news was positive, with sharp drops in both CPI and PPI seen in May on the back of lower energy and food prices: CPI fell to 4.0% y/y from 4.9% y/y in April, while PPI dropped to 1.1% y/y versus 2.3% y/y previously. Still, this was well above the Fed's CPI 2.0% target, and core CPI (excluding food and energy) remained high at 5.3% y/y. Good news also came in late June in the form of a sizeable upward revision in US Q1 2023 GDP growth to 2.0% from 1.3% previously, underpinned by resilient consumer spending. The labour market also remained strong, defying predictions. These developments helped buoy US equity markets, even though signs of a slowdown multiplied, such as a lower May Manufacturing PMI. For the quarter, US equity returns were robust: the Dow Jones produced 4.0%, the Nasdaq 13.1%, and the S&P 500 8.7% (all in US$).

In the UK, the BOE's higher-than-predicted 50bp hike in June brought its base lending rate to 5%, the highest level since 2008, as the UK battled a stubbornly high CPI of 8.7% y/y in May, unchanged from April and the highest among major developed economies. Markets anticipate further rate hikes with no pause as the central bank has lagged others in its tightening cycle. The UK economy eked out 0.1% q/q growth for Q1 2023, avoiding a recession, but investors fear it could be tipped into contraction by the BOE's aggressive stance. Similar to the US, resilient consumer demand and a tight labour market are keeping growth buoyant but also fuelling inflation. For Q2 2023, the FTSE 100 returned 2.5% in US$.

At its June meeting, the European Central Bank (ECB) announced a 25bp rate rise to 3.5%, in line with expectations, while also raising its inflation and growth forecasts and ruling out any pause in its hiking cycle. As such, markets widely anticipate another 25bp hike at its July policy meeting and the chance of another increase in September, before a possible pause towards year-end. Euro area CPI stood at 6.1 y/y% in May, triple the Central Bank's 2%

Annualised performance	A class	Benchmark	T class	X class	D class
1 year	9.6%	6.8%	9.8%	9.6%	9.9%
3 years	7.0%	5.0%	7.2%	7.0%	7.3%
5 years	5.9%	5.8%	6.2%	6.0%	6.3%
7 years	6.3%	6.3%	6.7%	6.4%	6.8%
10 years	6.6%	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

R765 091 175

Sources: M&G, Morningstar & Deutsche Securities

target, while core CPI was sticky at 5.3% y/y. Seven Euro area economies contracted in Q1 2023, putting the region in a mild technical recession with -0.1% GDP growth. In European equity markets, France's CAC 40 returned 4.0% and Germany's DAX delivered 3.8% (in US$) in Q2.

Japan impressed investors with its continued recovery during Q2, reporting much better-than-expected revised GDP growth figures at 2.7% (versus 1.9% forecast) for Q1 2023. CPI rose to 3.2% y/y in May, high for the economy. However, the Bank of Japan continued its easy monetary policy, keeping its key lending rate at -0.1% as widely expected, saying that while they noted the rise in inflation, they would maintain policies designed to lift the country out of decades of deflation. Price increases have been driven by strong consumer demand and a weaker yen. These positive developments lifted enthusiasm for Japanese stocks, which saw the Nikkei return 9.1% in US$ for the quarter, making it one of the best-performing developed equity markets in the first half of 2023, along with the Nasdaq.

During the three months, China reported somewhat disappointing GDP growth of 4.5% for Q1 2023. The country's rebound clearly lost momentum in Q2, with inflation falling, new borrowing declining and retail sales growth slowing amid declining consumer confidence. Other reports showed lacklustre May industrial production growth at 3.5% y/y from 3.6% y/y previously. The data prompted analysts to revise lower their growth forecasts for 2023 as a whole, now ranging from approximately 4.5%-6.5%. Pent-up consumer demand continues to underpin the current (weaker) expansion, along with consumer services, while the property sector remains weak and youth unemployment high.

In a bid to spur growth and meet the government's 5% growth target for 2023, the People's Bank of China (PBOC) cut both short- and medium-term interest rates, and analysts now expect further cuts and stimulus measures from the central bank such as expanded infrastructure financing and easing in lending requirements (like mortgage downpayments). The slowdown and growing pessimism around growth weighed on local stock markets, with Hong Kong's Hang Seng returning -5.9% for the quarter and the MSCI China delivering -9.6%, both in US$.

Larger emerging equity markets posted a broad range of returns over the quarter in US$, led by Brazil's Bovespa with 21.8% and the MSCI India at 12.4%. South Korea's KOSPI was also in the black with a 2.5% performance. The MSCI Turkey recorded a -10.6% return, the MSCI South Africa -4.7% and the MSCI China -9.6% for the period (all in US$).

The international oil price trended lower during the quarter, with Brent crude ending at around US$76 per barrel from around US$80 per barrel at the start of the period on the back of expected lower demand as global growth slowed, even as producers like Saudi Arabia announced plans for further supply cuts. Brent crude oil has lost approximately 13% in US$ terms since the beginning of 2023. Other commodity prices also moved lower in Q2 amid the uncertain outlook; even the price of gold fell 2.5%. Zinc was the largest loser, down 18.7%, while nickel lost 12.7%, aluminium fell 10.3% and copper was down 8.1%. Among platinum group metals, palladium fell 16.0% and platinum lost 9.1%.

South Africa

In South Africa, the SARB surprised the market at its May MPC meeting by hiking the repo rate by an aggressive 50bps to 8.25%, worried about still-high inflation and the future inflationary impact of the weaker rand. And following the central bank's hike, SARB governor Kganyago remained tough in his anti-inflation stance, saying in late June that interest rates might need to go higher and stay there for longer. As such, the market is now expecting another 25bp hike at the MPC meeting in July and a possible extra 25bps in September. This in the face of slowing CPI, which fell markedly to 6.3% y/y in May from 6.8% in April, and expectations of a further decline in June as energy prices continued to ease and the rand rebounded. The SARB forecasts CPI to fall within its 3-6% target band in either Q3 or Q4 this year.

The SARB also revised upward slightly its economic growth expectations for 2023, to 0.3% from 0.2% in March, following the release of better-than-expected Q1 GDP data showing growth at 0.2% y/y, meaning South Africa had avoided a technical recession following a 1.1% contraction in Q4 2022. Still, the figures showed loadshedding and logistical issues were depressing fixed investment and consumer and business sentiment, with the important contributor of household spending rising only 0.4% during the quarter. June reports revealed the FNB/BER Consumer Confidence Index fell to -25 points for Q2, its second-lowest level on record after the -36 points seen during the Covid hard lockdown period of Q2 2020. At the same time, the country's Manufacturing PMI fell to 49.2 points in May, indicating a contraction in activity, due largely to weak demand.

Performance

The fund delivered 1.5% (net of fees) for the quarter ending June 2023 underperforming its benchmark which delivered 1.9%. For the year ended 30 June 2023, the fund returned 9.6% (net of fees), outperforming its benchmark which returned 6.8%.

Investments in floating-rate notes and other money market instruments contributed positively to overall fund returns, whereas the fund's exposure to bonds and SA listed property detracted.

Strategy and positioning

The fund is constructive on short-dated nominal and inflation-linked bonds, which we believe will deliver superior returns over the medium term relative to cash.

Currently the fund has no meaningful exposure to offshore assets, given the relative attractiveness of local fixed income instruments.

Following their sharp sell-off in May, we increased our positioning in SA nominal bonds and fixed-rate negotiable certificates of deposits, buying them at very attractive yields out of SA cash. 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. The SA bond rally in June provided the fund an opportunity to sell the bonds purchased in May and hence lock in some gains.

During the quarter we maintained our modest SA listed property exposure. Conditions in the local property sector remain uncertain given the rising local interest rate cycle

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

(many property companies are reliant on finance to expand their portfolios) and relatively weak growth prospects, among other fundamental factors.

We maintained our inflation-linked bonds (ILBs) exposure in our portfolio marginally favouring the shorter tenors. Their real yields remain relatively attractive (compared to their own history and to our long-run fair value assumption), but their valuations are less attractive than nominal bonds, giving them a lower return potential.

Lastly, the SARB's interest rate hikes during the quarter made SA cash relatively more attractive as an asset class. Higher real yields are available on cash instruments and the fund has increased its exposure to floating rate notes.

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Disclaimer

Quarterly Commentary

M&G Inflation Plus Fund

Multi-asset

Q2 2023

Market overview

The second quarter (Q2) of 2023 brought mixed results for investors, with global bonds losing ground but global equities performing relatively strongly in developed markets, even surprisingly so given the ever-changing outlook for global growth over the three months. A more positive growth outlook prevailed for the US, even as China's deteriorated, pushing US and other developed market equities higher while keeping emerging market equities relatively weaker. Meanwhile, global bonds were also weaker as the US Federal Reserve, along with other central banks, surprised with their ongoing hawkish stance by confirming the necessity of additional rate hikes. Investors continued to juggle the risk of the Fed's extra tightening bringing on a short-term recession versus the resilience of consumer spending and other economic growth factors, but June brought a healthy equity rally that helped erase weakness earlier in the quarter.

Other major economies continued their rate hiking cycles as well, with the Bank of England making headlines for its higher-than-expected 50bp increase in June, and Canada and Australia also implementing surprise hikes. Meanwhile, China and Japan maintained their easy monetary policies to support their expansions. Global equity returns outperformed bonds for a second quarter, while developed equity markets outperformed emerging equity markets. For the three months ended 30 June 2023, the MSCI All Country World Index delivered 6.2%, and the MSCI Emerging Markets Index produced 0.9% (in US$). At the same time, the Bloomberg Global Aggregate Bond Index delivered -1.5% (in US$) and global property stocks (the FTSE EPRA/NAREIT Global REIT Index) returned 0.6% (US$).

In South Africa, financial markets were even more volatile, with growth prospects continuing to be weighed down by loadshedding. In addition, the country was hit hard by a sell-off of SA bonds, banking shares and currency in May amid reports that South Africa was selling weapons to Russia and adopting a supposedly pro-Russian stance in its war against Ukraine and more generally. This prompted fears of retaliation from the West through trade and/or financial sanctions, leading to elevated investor risk perceptions for local investments. In June, however, these fears abated somewhat and the assets regained ground (especially bank shares), but risk perceptions did remain higher compared to Q1 as reflected by a weaker rand and elevated bond yields.

The SA equity market was dragged down in Q2 by losses in Resources shares amid fears of slower demand (particularly from China), offsetting good gains in Financials (after rebounding in June) and respectable returns from Industrials. The FTSE/JSE All Share Index (ALSI) returned 0.7% in Q2, while the more locally exposed Capped SWIX delivered 1.2% (both in rands). Industrial counters returned 3.4%, while Financials produced 5.9%, Resources -6.4% (Resources 10 Index) and the All Property Index 1.0% (all in rands).

For the quarter, SA nominal bonds (the FTSE/JSE All Bond Index) delivered -1.5% in rands after largely retracing May's significant losses, while inflation-linked bonds (ILBs) produced -0.7% and cash returned 1.9%. Finally, despite regaining some 4.6% against the US dollar in June as sentiment improved, the rand still lost 6.5% against the greenback for the quarter, and depreciated 6.9% against the euro and 9.5% versus the UK pound as sentiment toward SA remained depressed. So far this year the rand has lost 11.6% versus a weakening US dollar.

In the US, the Fed hiked its repo rate by 25bps at its May FOMC meeting and then paused in mid-June to assess the economic impact of its cumulative hiking cycle, moves that were expected by the market and brought temporary relief to interest rate markets. However, unexpectedly hawkish comments by Fed Governor Jerome Powell and other Fed Presidents subsequent to the meeting surprised markets by indicating another 1-2 increases ahead, equivalent to a potential additional 50bps. This "higher for longer" view, on top of more hawkish sentiment coming from most other central banks that hiked in late June, weighed on global bond markets, leading to losses. For example, the 10-year US Treasury yield ended the quarter yielding 3.8% compared to 3.5% at the start.

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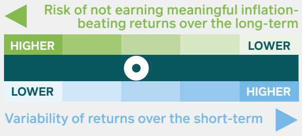
In the UK, the BOE's higher-than-predicted 50bp hike in June brought its base lending rate to 5%, the highest level since 2008, as the UK battled a stubbornly high CPI of 8.7% y/y in May, unchanged from April and the highest among major developed economies. Markets anticipate further rate hikes with no pause as the central bank has lagged others in its tightening cycle. The UK economy eked out 0.1% q/q growth for Q1 2023, avoiding a recession, but investors fear it could be tipped into contraction

Annualised performance	A class	Objective[1]	T class	X class	B class
1 year	12.1%	9.7%	12.3%	12.1%	12.6%
3 years	11.2%	9.4%	11.4%	11.2%	11.7%
5 years	5.8%	8.3%	6.2%	5.9%	6.4%
7 years	5.3%	8.3%	5.7%	5.5%	5.9%
10 years	7.1%	8.6%	-	7.3%	7.8%
20 years	10.6%	9.0%	-	-	11.2%
Since inception	10.8%	9.3%	-	-	-

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

Risk profile



Fund facts

Fund managers

David Knee
Michael Moyle
Sandile Malinga
Leonard Krüger

ASISA category

South African - Multi-Asset - Low Equity

Objective (before fees)

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

Inception date

1 June 2001

Fund size

R20 412 547 696

Awards

Raging Bull: 2013
Morningstar: 2015

Sources: M&G, Morningstar & Deutsche Securities

by the BOE's aggressive stance. Similar to the US, resilient consumer demand and a tight labour market are keeping growth buoyant but also fuelling inflation. For Q2 2023, the FTSE 100 returned 2.5% in US$.

At its June meeting, the European Central Bank (ECB) announced a 25bp rate rise to 3.5%, in line with expectations, while also raising its inflation and growth forecasts and ruling out any pause in its hiking cycle. As such, markets widely anticipate another 25bp hike at its July policy meeting and the chance of another increase in September, before a possible pause towards year-end. Euro area CPI stood at 6.1 y/y% in May, triple the Central Bank's 2% target, while core CPI was sticky at 5.3% y/y. Seven Euro area economies contracted in Q1 2023, putting the region in a mild technical recession with -0.1% GDP growth. In European equity markets, France's CAC 40 returned 4.0% and Germany's DAX delivered 3.8% (in US$) in Q2.

Japan impressed investors with its continued recovery during Q2, reporting much better-than-expected revised GDP growth figures at 2.7% (versus 1.9% forecast) for Q1 2023. CPI rose to 3.2% y/y in May, high for the economy. However, the Bank of Japan continued its easy monetary policy, keeping its key lending rate at -0.1% as widely expected, saying that while they noted the rise in inflation, they would maintain policies designed to lift the country out of decades of deflation. Price increases have been driven by strong consumer demand and a weaker yen. These positive developments lifted enthusiasm for Japanese stocks, which saw the Nikkei return 9.1% in US$ for the quarter, making it one of the best-performing developed equity markets in the first half of 2023, along with the Nasdaq.

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In a bid to spur growth and meet the government's 5% growth target for 2023, the People's Bank of China (PBOC) cut both short- and medium-term interest rates, and analysts now expect further cuts and stimulus measures from the central bank such as expanded infrastructure financing and easing in lending requirements (like mortgage downpayments). The slowdown and growing pessimism around growth weighed on local stock markets, with Hong Kong's Hang Seng returning -5.9% for the quarter and the MSCI China delivering -9.6%, both in US$.

Larger emerging equity markets posted a broad range of returns over the quarter in US$, led by Brazil's Bovespa with 21.8% and the MSCI India at 12.4%. South Korea's KOSPI was also in the black with a 2.5% performance. The MSCI Turkey recorded a -10.6% return, the MSCI South Africa -4.7% and the MSCI China -9.6% for the period (all in US$).

The international oil price trended lower during the quarter, with Brent crude ending at around US$76 per barrel from around US$80 per barrel at the start of the period on the back of expected lower demand as global growth slowed, even as producers like Saudi Arabia announced plans for further supply cuts. Brent crude oil has lost approximately 13% in US$ terms since the beginning of 2023. Other commodity prices also moved lower in Q2 amid the uncertain outlook; even the price of gold fell 2.5%. Zinc was the largest loser, down 18.7%, while nickel lost 12.7%, aluminium fell 10.3% and copper was down 8.1%. Among platinum group metals, palladium fell 16.0% and platinum lost 9.1%.

South Africa

In South Africa, the SARB surprised the market at its May MPC meeting by hiking the repo rate by an aggressive 50bps to 8.25%, worried about still-high inflation and the future inflationary impact of the weaker rand. And following the central bank's hike, SARB governor Kganyago remained tough in his anti-inflation stance, saying in late June that interest rates might need to go higher and stay there for longer. As such, the market is now expecting another 25bp hike at the MPC meeting in July and a possible extra 25bps in September. This in the face of slowing CPI, which fell markedly to 6.3% y/y in May from 6.8% in April, and expectations of a further decline in June as energy prices continued to ease and the rand rebounded. The SARB forecasts CPI to fall within its 3-6% target band in either Q3 or Q4 this year.

The SARB also revised upward slightly its economic growth expectations for 2023, to 0.3% from 0.2% in March, following the release of better-than-expected Q1 GDP data showing growth at 0.2% y/y, meaning South Africa had avoided a technical recession following a 1.1% contraction in Q4 2022. Still, the figures showed loadshedding and logistical issues were depressing fixed investment and consumer and business sentiment, with the important contributor of household spending rising only 0.4% during the quarter. June reports revealed the FNB/BER Consumer Confidence Index fell to -25 points for Q2, its second-lowest level on record after the -36 points seen during the Covid hard lockdown period of Q2 2020. At the same time, the country's Manufacturing PMI fell to 49.2 points in May, indicating a contraction in activity, due largely to weak demand.

Performance

The Fund returned 1.5% (after fees) for the second quarter of 2023 and 12.1% for the 12-month period ending 30 June 2023. The Fund has delivered a return of 10.8% per annum since its inception in 1999 (after fees), compared to its objective of 9.3% per annum over the same period.

Looking at the fund's asset allocation, global equities added the most value to absolute performance for the quarter, while global bonds, SA equities, SA listed property and global cash also added value. SA nominal bonds and ILBs detracted from performance during Q2.

Within SA equities, our holdings of strongly performing shares like Richemont, MTN, Textainer, Reinet and Naspers/Prosus added value to our portfolios during the quarter, as did our collective overweight exposure to SA banks like Standard Bank and First Rand. Resources holdings broadly detracted from performance, such as Implats, Northam Platinum, and Anglogold Ashanti, as did Multichoice and Spar (both dependent on SA consumers).

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.

M&G Investments

Within our **global holdings**, we bought both global equities and global bonds out of global cash during the quarter as the risk outlook started to improve, but remained neutral in these asset classes. We are also now tilted away from global cash, partly due to our forex positioning favouring the rand after its May sell-off.

While many **global equity** markets are still trading at relatively attractive levels, they became more expensive over the quarter, especially in the US: the MSCI ACWI forward P/E rose to 16.4X from 15.8X at the beginning of the quarter. Company earnings reports were mixed, with some starting to reflect downward revisions as the effects of central banks' aggressive monetary tightening began to appear. Because there are still unresolved questions around risks to earnings going forward, we remain selective: we are still leaning away from US equities due to their relatively expensive valuations versus other markets, and are also underweight Canada and Australia. We prefer the UK, Japan, China and other emerging markets that are relatively cheap, and we added to our Japan and China holdings out of global cash during the quarter.

For example, in China an additional risk premium has been priced into equities, with depressed multiples on depressed earnings, largely as a consequence of geopolitical factors such as the Russia-Ukraine war and Taiwan. Yet the economy is recovering – albeit not as strongly as hoped – and the yuan is weak, inflation is low, and the government has low foreign debt, all making the country very competitive. Equally, more stimulus is expected from the government.

Within **global bonds**, we stayed broadly neutral in our funds and added to our position in 30-year US Treasuries and 30-year UK gilts as yields rose. We also prefer sovereign EM bond markets where the real yields are high and the currency is trading at fair-to-cheap levels. Real global bond yields became more attractive over the quarter and offer more-than-fair compensation for the risk involved, which primarily can be seen as "higher for longer" interest rates. These global bonds are also solid diversifiers for SA equity risk.

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.

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.

Following their sharp-selloff in May, we increased our already-preferential positioning in **SA nominal bonds**, buying them at very attractive yields out of SA cash. The 10-year SA government bond yield reached a high of 12.1% at the end of May, compared to 10.7% at the start of the quarter, before retracing some losses to end June at around 11.4%. 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.

We are marginally favouring **SA 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 SARB's interest rate hikes during the quarter made **SA cash** relatively more attractive as an asset class. However, apart from SA property, we still prefer other local asset classes for the higher real yields available on both an absolute and relative basis. In Q2 our SA cash holdings declined as we opted to buy more SA nominal bonds. As such, the fund remained tilted away from SA cash.

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

M&G Balanced Fund

Multi-asset

Q2 2023

Market overview

The second quarter (Q2) of 2023 brought mixed results for investors, with global bonds losing ground but global equities performing relatively strongly in developed markets, even surprisingly so given the ever-changing outlook for global growth over the three months. A more positive growth outlook prevailed for the US, even as China's deteriorated, pushing US and other developed market equities higher while keeping emerging market equities relatively weaker. Meanwhile, global bonds were also weaker as the US Federal Reserve, along with other central banks, surprised with their ongoing hawkish stance by confirming the necessity of additional rate hikes. Investors continued to juggle the risk of the Fed's extra tightening bringing on a short-term recession versus the resilience of consumer spending and other economic growth factors, but June brought a healthy equity rally that helped erase weakness earlier in the quarter.

Other major economies continued their rate hiking cycles as well, with the Bank of England making headlines for its higher-than-expected 50bp increase in June, and Canada and Australia also implementing surprise hikes. Meanwhile, China and Japan maintained their easy monetary policies to support their expansions. Global equity returns outperformed bonds for a second quarter, while developed equity markets outperformed emerging equity markets. For the three months ended 30 June 2023, the MSCI All Country World Index delivered 6.2%, and the MSCI Emerging Markets Index produced 0.9% (in US$). At the same time, the Bloomberg Global Aggregate Bond Index delivered -1.5% (in US$) and global property stocks (the FTSE EPRA/NAREIT Global REIT Index) returned 0.6% (US$).

In South Africa, financial markets were even more volatile, with growth prospects continuing to be weighed down by loadshedding. In addition, the country was hit hard by a sell-off of SA bonds, banking shares and currency in May amid reports that South Africa was selling weapons to Russia and adopting a supposedly pro-Russian stance in its war against Ukraine and more generally. This prompted fears of retaliation from the West through trade and/or financial sanctions, leading to elevated investor risk perceptions for local investments. In June, however, these fears abated somewhat and the assets regained ground (especially bank shares), but risk perceptions did remain higher compared to Q1 as reflected by a weaker rand and elevated bond yields.

The SA equity market was dragged down in Q2 by losses in Resources shares amid fears of slower demand (particularly from China), offsetting good gains in Financials (after rebounding in June) and respectable returns from Industrials. The FTSE/JSE All Share Index (ALSI) returned 0.7% in Q2, while the more locally exposed Capped SWIX delivered 1.2% (both in rands). Industrial counters returned 3.4%, while Financials produced 5.9%, Resources -6.4% (Resources 10 Index) and the All Property Index 1.0% (all in rands).

For the quarter, SA nominal bonds (the FTSE/JSE All Bond Index) delivered -1.5% in rands after largely retracing May's significant losses, while inflation-linked bonds (ILBs) produced -0.7% and cash returned 1.9%. Finally, despite regaining some 4.6% against the US dollar in June as sentiment improved, the rand still lost 6.5% against the greenback for the quarter, and depreciated 6.9% against the euro and 9.5% versus the UK pound as sentiment toward SA remained depressed. So far this year the rand has lost 11.6% versus a weakening US dollar.

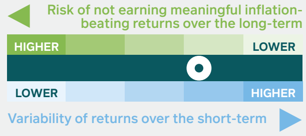
In the US, the Fed hiked its repo rate by 25bps at its May FOMC meeting and then paused in mid-June to assess the economic impact of its cumulative hiking cycle, moves that were expected by the market and brought temporary relief to interest rate markets. However, unexpectedly hawkish comments by Fed Governor Jerome Powell and other Fed Presidents subsequent to the meeting surprised markets by indicating another 1-2 increases ahead, equivalent to a potential additional 50bps. This "higher for longer" view, on top of more hawkish sentiment coming from most other central banks that hiked in late June, weighed on global bond markets, leading to losses. For example, the 10-year US Treasury yield ended the quarter yielding 3.8% compared to 3.5% at the start.

US inflation news was positive, with sharp drops in both CPI and PPI seen in May on the back of lower energy and food prices: CPI fell to 4.0% y/y from 4.9% y/y in April, while PPI dropped to 1.1% y/y versus 2.3% y/y previously. Still, this was well above the Fed's CPI 2.0% target, and core CPI (excluding food and energy) remained high at 5.3% y/y. Good news also came in late June in the form of a sizeable upward revision in US Q1 2023 GDP growth to 2.0% from 1.3% previously, underpinned by resilient consumer spending. The labour market also remained strong, defying predictions. These developments helped buoy US equity markets, even though signs of a slowdown multiplied, such as a lower May Manufacturing PMI. For the quarter, US equity returns were robust: the Dow Jones produced 4.0%, the Nasdaq 13.1%, and the S&P 500 8.7% (all in US$).

In the UK, the BOE's higher-than-predicted 50bp hike in June brought its base lending rate to 5%, the highest level since 2008, as the UK battled a stubbornly high CPI of 8.7% y/y in May, unchanged from April and the highest among major developed economies. Markets anticipate further rate hikes with no pause as the central bank has lagged others in its tightening cycle. The UK economy eked out 0.1% q/q growth for Q1 2023, avoiding a recession, but investors fear it could be tipped into contraction

Annualised performance	A class	Benchmark	T class	X class	B class
1 year	15.7%	14.7%	16.0%	15.7%	16.2%
3 years	14.2%	11.4%	14.5%	14.2%	14.7%
5 years	8.0%	7.5%	8.3%	8.1%	8.5%
7 years	7.8%	6.6%	8.2%	7.9%	8.4%
10 years	9.1%	7.7%	-	9.3%	9.8%
20 years	12.9%	11.2%	-	-	13.9%
Since inception	12.8%	11.1%	-	-	-

Risk profile



Fund facts

Fund managers

David Knee
Michael Moyle
Sandile Malinga
Leonard Krüger

ASISA category

South African - Multi-Asset - High Equity

Benchmark

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

Inception date

2 August 1999

Fund size

R23 792 883 628

Sources: M&G, Morningstar & Deutsche Securities

by the BOE's aggressive stance. Similar to the US, resilient consumer demand and a tight labour market are keeping growth buoyant but also fuelling inflation. For Q2 2023, the FTSE 100 returned 2.5% in US$.

At its June meeting, the European Central Bank (ECB) announced a 25bp rate rise to 3.5%, in line with expectations, while also raising its inflation and growth forecasts and ruling out any pause in its hiking cycle. As such, markets widely anticipate another 25bp hike at its July policy meeting and the chance of another increase in September, before a possible pause towards year-end. Euro area CPI stood at 6.1 y/y% in May, triple the Central Bank's 2% target, while core CPI was sticky at 5.3% y/y. Seven Euro area economies contracted in Q1 2023, putting the region in a mild technical recession with -0.1% GDP growth. In European equity markets, France's CAC 40 returned 4.0% and Germany's DAX delivered 3.8% (in US$) in Q2.

Japan impressed investors with its continued recovery during Q2, reporting much better-than-expected revised GDP growth figures at 2.7% (versus 1.9% forecast) for Q1 2023. CPI rose to 3.2% y/y in May, high for the economy. However, the Bank of Japan continued its easy monetary policy, keeping its key lending rate at -0.1% as widely expected, saying that while they noted the rise in inflation, they would maintain policies designed to lift the country out of decades of deflation. Price increases have been driven by strong consumer demand and a weaker yen. These positive developments lifted enthusiasm for Japanese stocks, which saw the Nikkei return 9.1% in US$ for the quarter, making it one of the best-performing developed equity markets in the first half of 2023, along with the Nasdaq.

During the three months, China reported somewhat disappointing GDP growth of 4.5% for Q1 2023. The country's rebound clearly lost momentum in Q2, with inflation falling, new borrowing declining and retail sales growth slowing amid declining consumer confidence. Other reports showed lacklustre May industrial production growth at 3.5% y/y from 3.6% y/y previously. The data prompted analysts to revise lower their growth forecasts for 2023 as a whole, now ranging from approximately 4.5%-6.5%. Pent-up consumer demand continues to underpin the current (weaker) expansion, along with consumer services, while the property sector remains weak and youth unemployment high.

In a bid to spur growth and meet the government's 5% growth target for 2023, the People's Bank of China (PBOC) cut both short- and medium-term interest rates, and analysts now expect further cuts and stimulus measures from the central bank such as expanded infrastructure financing and easing in lending requirements (like mortgage downpayments). The slowdown and growing pessimism around growth weighed on local stock markets, with Hong Kong's Hang Seng returning -5.9% for the quarter and the MSCI China delivering -9.6%, both in US$.

Larger emerging equity markets posted a broad range of returns over the quarter in US$, led by Brazil's Bovespa with 21.8% and the MSCI India at 12.4%. South Korea's KOSPI was also in the black with a 2.5% performance. The MSCI Turkey recorded a -10.6% return, the MSCI South Africa -4.7% and the MSCI China -9.6% for the period (all in US$).

The international oil price trended lower during the quarter, with Brent crude ending at around US$76 per barrel from around US$80 per barrel at the start of the period on the back of expected lower demand as global growth slowed, even as producers like Saudi Arabia announced plans for further supply cuts. Brent crude oil has lost approximately 13% in US$ terms since the beginning of 2023. Other commodity prices also moved lower in Q2 amid the uncertain outlook; even the price of gold fell 2.5%. Zinc was the largest loser, down 18.7%, while nickel lost 12.7%, aluminium fell 10.3% and copper was down 8.1%. Among platinum group metals, palladium fell 16.0% and platinum lost 9.1%.

South Africa

In South Africa, the SARB surprised the market at its May MPC meeting by hiking the repo rate by an aggressive 50bps to 8.25%, worried about still-high inflation and the future inflationary impact of the weaker rand. And following the central bank's hike, SARB governor Kganyago remained tough in his anti-inflation stance, saying in late June that interest rates might need to go higher and stay there for longer. As such, the market is now expecting another 25bp hike at the MPC meeting in July and a possible extra 25bps in September. This in the face of slowing CPI, which fell markedly to 6.3% y/y in May from 6.8% in April, and expectations of a further decline in June as energy prices continued to ease and the rand rebounded. The SARB forecasts CPI to fall within its 3-6% target band in either Q3 or Q4 this year.

The SARB also revised upward slightly its economic growth expectations for 2023, to 0.3% from 0.2% in March, following the release of better-than-expected Q1 GDP data showing growth at 0.2% y/y, meaning South Africa had avoided a technical recession following a 1.1% contraction in Q4 2022. Still, the figures showed loadshedding and logistical issues were depressing fixed investment and consumer and business sentiment, with the important contributor of household spending rising only 0.4% during the quarter. June reports revealed the FNB/BER Consumer Confidence Index fell to -25 points for Q2, its second-lowest level on record after the -36 points seen during the Covid hard lockdown period of Q2 2020. At the same time, the country's Manufacturing PMI fell to 49.2 points in May, indicating a contraction in activity, due largely to weak demand.

Performance

The fund returned 3.1% (after fees) for the second quarter of 2023, while for the 12-month period ending 30 June 2023 its return was 15.7%. The Fund has delivered a return of 12.8% per annum since its inception in 1999 (after fees), compared to its benchmark of 11.1% per annum over the same period.

Looking at the fund's asset allocation, global equities added the most value to absolute performance for the quarter, while SA equities, global bonds and global cash also added value. SA bonds was the only asset class detracting from performance during Q2.

Within SA equities, our holdings of strongly performing shares like Richemont, MTN, Textainer, Reinet and Naspers/Prosus added value to our portfolios during the quarter, as did our collective overweight exposure to SA banks like Standard Bank, First Rand and Investec. Resources holdings broadly detracted from performance, such as Implats, Northam Platinum, and Anglogold Ashanti, as did Multichoice and Spar (both dependent on SA consumers).

Strategy and positioning

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

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

Within our **global holdings**, we bought both global equities and global bonds out of global cash during the quarter as the risk outlook started to improve, but remained neutral in these asset classes. We are also now tilted away from global cash, partly due to our forex positioning favouring the rand after its May sell-off.

While many **global equity** markets are still trading at relatively attractive levels, they became more expensive over the quarter, especially in the US: the MSCI ACWI forward P/E rose to 16.4X from 15.8X at the beginning of the quarter. Company earnings reports were mixed, with some starting to reflect downward revisions as the effects of central banks' aggressive monetary tightening began to appear. Because there are still unresolved questions around risks to earnings going forward, we remain selective: we are still leaning away from US equities due to their relatively expensive valuations versus other markets, and are also underweight Canada and Australia. We prefer the UK, Japan, China and other emerging markets that are relatively cheap, and we added to our Japan and China holdings out of global cash during the quarter.

For example, in China an additional risk premium has been priced into equities, with depressed multiples on depressed earnings, largely as a consequence of geopolitical factors such as the Russia-Ukraine war and Taiwan. Yet the economy is recovering – albeit not as strongly as hoped – and the yuan is weak, inflation is low, and the government has low foreign debt, all making the country very competitive. Equally, more stimulus is expected from the government.

Within **global bonds**, we stayed broadly neutral in our funds and added to our position in 30-year US Treasuries and 30-year UK gilts as yields rose. We also prefer sovereign EM bond markets where the real yields are high and the currency is trading at fair-to-cheap levels. Real global bond yields became more attractive over the quarter and offer more-than-fair compensation for the risk involved, which primarily can be seen as "higher for longer" interest rates. These global bonds are also solid diversifiers for SA equity risk.

The M&G Balanced 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.

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.

Following their sharp-selloff in May, we increased our already-preferential positioning in **SA nominal bonds**, buying them at very attractive yields out of SA cash. The 10-year SA government bond yield reached a high of 12.1% at the end of May, compared to 10.7% at the start of the quarter, before retracing some losses to end June at around 11.4%. 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. The M&G Balanced Fund does not hold **SA inflation-linked bonds (ILBs)** to a meaningful degree.

Lastly, the SARB's interest rate hikes during the quarter made **SA cash** relatively more attractive as an asset class. However, apart from SA property, we still prefer other local asset classes for the higher real yields available on both an absolute and relative basis. In Q2 our SA cash holdings declined as we opted to buy more SA nominal bonds. As such, the fund remained tilted away from SA cash.

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Sources: M&G, Morningstar & Deutsche Securities

Quarterly Commentary

M&G Enhanced SA Property Tracker Fund

Property

Q2 2023

Market overview

The second quarter (Q2) of 2023 brought mixed results for investors, with global bonds losing ground but global equities performing relatively strongly in developed markets, even surprisingly so given the ever-changing outlook for global growth over the three months. A more positive growth outlook prevailed for the US, even as China's deteriorated, pushing US and other developed market equities higher while keeping emerging market equities relatively weaker. Meanwhile, global bonds were also weaker as the US Federal Reserve, along with other central banks, surprised with their ongoing hawkish stance by confirming the necessity of additional rate hikes. Investors continued to juggle the risk of the Fed's extra tightening bringing on a short-term recession versus the resilience of consumer spending and other economic growth factors, but June brought a healthy equity rally that helped erase weakness earlier in the quarter.

Other major economies continued their rate hiking cycles as well, with the Bank of England making headlines for its higher-than-expected 50bp increase in June, and Canada and Australia also implementing surprise hikes. Meanwhile, China and Japan maintained their easy monetary policies to support their expansions. Global equity returns outperformed bonds for a second quarter, while developed equity markets outperformed emerging equity markets. For the three months ended 30 June 2023, the MSCI All Country World Index delivered 6.2%, and the MSCI Emerging Markets Index produced 0.9% (in US$). At the same time, global property stocks (the FTSE EPRA/NAREIT Global REIT Index) returned 0.6% (US$).

In South Africa, financial markets were even more volatile, with growth prospects continuing to be weighed down by loadshedding. In addition, the country was hit hard by a sell-off of SA bonds, banking shares and currency in May amid reports that South Africa was selling weapons to Russia and adopting a supposedly pro-Russian stance in its war against Ukraine and more generally. This prompted fears of retaliation from the West through trade and/or financial sanctions, leading to elevated investor risk perceptions for local investments. In June, however, these fears abated somewhat and the assets regained ground (especially bank shares), but risk perceptions did remain higher compared to Q1 as reflected by a weaker rand and elevated bond yields.

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Performance

The M&G Enhanced SA Property Tracker Fund returned 1.0% for the quarter compared with 0.7% for its benchmark, the SA Listed Property Index.

Underweight positions in Equites and Emira contributed to relative returns for the quarter, as did overweight positions in Fortress A, Nepi Rockcastle and Sirius Real Estate. Underweight positions in Fortress B and Attacq also detracted from performance.

Strategy and positioning

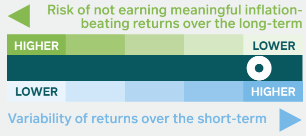
In terms of positioning, we are finding good value in some of the offshore names with strong fundamentals, such as Nepi Rockcastle and Sirius. In South Africa, there is greater perceived value among the mid- and small-capitalisation companies such as Dipula B, SA Corporate and Octodec. For the most part, these companies are significantly cheaper than some of the South Africa-centric companies and have little to no offshore debt and certainly no mismatches of offshore debt to offshore assets. Given more stable fundamentals within some of these smaller companies when compared to the larger REITs, the yields are perceived as being safer despite being higher than the larger REITs in the sector.

We see the sector as being inexpensive but facing headwinds in terms of the high SA bond yields and rising interest rate environment. In offshore names, refinancing risks are not material in the near-term and we don't see the same risks as those currently manifesting in the US, affecting our offshore companies.

Annualised performance

Annualised performance	A class	Benchmark	T class	D class
1 year	9.2%	10.0%	9.2%	9.4%
3 years	11.3%	11.3%	11.3%	11.4%
5 years	-4.4%	-3.5%	-4.4%	-4.3%
7 years	-4.3%	-3.6%	-4.3%	-4.2%
10 years	1.1%	1.5%	-	1.2%
Since inception	8.3%	8.6%	-	-

Risk profile



Fund facts

Fund managers
Yusuf Mowlana

ASISA category
South African - Real Estate - General

Benchmark
FTSE/JSE South African Listed Property Index (J253)

Inception date
2 December 2005

Fund size
R527 012 538

Awards
Morningstar/Standard & Poor's: 2011

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M&G Property Fund

Property

Q2 2023

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Other major economies continued their rate hiking cycles as well, with the Bank of England making headlines for its higher-than-expected 50bp increase in June, and Canada and Australia also implementing surprise hikes. Meanwhile, China and Japan maintained their easy monetary policies to support their expansions. Global equity returns outperformed bonds for a second quarter, while developed equity markets outperformed emerging equity markets. For the three months ended 30 June 2023, the MSCI All Country World Index delivered 6.2%, and the MSCI Emerging Markets Index produced 0.9% (in US$). At the same time, global property stocks (the FTSE EPRA/NAREIT Global REIT Index) returned 0.6% (US$).

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Performance

The M&G Property Fund returned 2.8% compared to the All Property Index return of 1.0% for the quarter.

Overweight positions in Sirius Real Estate, Fortress A shares and Nepi Rockcastle contributed to relative returns, as did underweights in Equites, Resilient and Emira.

Overweight positions in Dipula B, Stor-Age and SA Corporate detracted from relative performance, as did underweights in Industrials REIT (post the announcement of a private equity buy-out), Fortress B and Lighthouse.

Strategy and positioning

In terms of positioning, we are finding good value in some of the offshore names with strong fundamentals, such as Nepi Rockcastle, Sirius and Hammerson. In South Africa, there is greater perceived value among the mid- and small-capitalisation companies such as Dipula B, SA Corporate and Octodec. For the most part, these companies are significantly cheaper than some of the South Africa-centric companies and have little to no offshore debt and certainly no mismatches of offshore debt to offshore assets. Given more stable fundamentals within some of these smaller companies when compared to the larger REITs, the yields are perceived as being safer despite being higher than the larger REITs in the sector.

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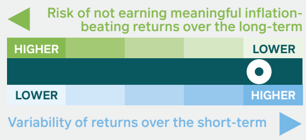
At the end of June, the fund ranks number one, over one and two years in its ASISA category, according to Morningstar.

Annualised performance	A class	Benchmark	D class
1 year	12.9%	8.9%	13.5%
2 years	7.8%	4.3%	8.2%
Since inception	14.8%	12.6%	-

Risk profile



Fund facts

Fund managers
Yusuf Mowlana

ASISA category
South African – Real Estate – General

Benchmark
FTSE/JSE All Property Index

Inception date
9 July 2020

Fund size
R242 391 981

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G Dividend Maximiser Fund

Equity

Q2 2023

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In South Africa, financial markets were even more volatile, with growth prospects continuing to be weighed down by loadshedding. In addition, the country was hit hard by a sell-off of SA bonds, banking shares and currency in May amid reports that South Africa was selling weapons to Russia and adopting a supposedly pro-Russian stance in its war against Ukraine and more generally. This prompted fears of retaliation from the West through trade and/or financial sanctions, leading to elevated investor risk perceptions for local investments. In June, however, these fears abated somewhat and the assets regained ground (especially bank shares), but risk perceptions did remain higher compared to Q1 as reflected by a weaker rand and elevated bond yields.

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In the US, the Fed hiked its repo rate by 25bps at its May FOMC meeting and then paused in mid-June to assess the economic impact of its cumulative hiking cycle, moves that were expected by the market and brought temporary relief to interest rate markets. However, unexpectedly hawkish comments by Fed Governor Jerome Powell and other Fed Presidents subsequent to the meeting surprised markets by indicating another 1-2 increases ahead, equivalent to a potential additional 50bps. This "higher for longer" view, on top of more hawkish sentiment coming from most other central banks that hiked in late June, weighed on global markets.

Good news came in late June in the form of a sizeable upward revision in US Q1 2023 GDP growth to 2.0% from 1.3% previously, underpinned by resilient consumer spending. The labour market also remained strong, defying predictions. These developments helped buoy US equity markets, even though signs of a slowdown multiplied, such as a lower May Manufacturing PMI. For the quarter, US equity returns were robust: the Dow Jones produced 4.0%, the Nasdaq 13.1%, and the S&P 500 8.7% (all in US$).

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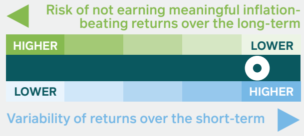
Annualised performance	A class	Benchmark	T class	B class	F class
1 year	16.8%	12.2%	17.7%	17.2%	18.0%
3 years	18.3%	14.3%	18.8%	18.6%	19.1%
5 years	9.4%	7.0%	9.8%	9.7%	10.2%
7 years	9.0%	5.9%	9.4%	9.4%	9.7%
10 years	9.8%	7.4%	-	10.2%	-
20 years	16.3%	13.0%	-	-	-
Since inception	15.7%	12.7%	-	-	-

Risk profile



Fund facts

Fund managers
Ross Biggs
Kaitlin Byrne

ASISA category
South African - Equity - General

Benchmark
ASISA South African – Equity - General Category Mean

Inception date
2 August 1999

Fund size
R4 323 692 587

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

Sources: M&G, Morningstar & Deutsche Securities

Japan impressed investors with its continued recovery during Q2, reporting much better-than-expected revised GDP growth figures at 2.7% (versus 1.9% forecast) for Q1 2023. CPI rose to 3.2% y/y in May, high for the economy. However, the Bank of Japan continued its easy monetary policy, keeping its key lending rate at -0.1% as widely expected. These positive developments lifted enthusiasm for Japanese stocks, which saw the Nikkei return 9.2% in US$ for the quarter, making it one of the best-performing developed equity markets in the first half of 2023, along with the Nasdaq.

During the three months, China reported somewhat disappointing GDP growth of 4.5% for Q1 2023. The country's rebound clearly lost momentum in Q2, with inflation falling, new borrowing declining and retail sales growth slowing amid declining consumer confidence. Other reports showed lacklustre May industrial production growth at 3.5% y/y from 3.6% y/y previously. The data prompted analysts to revise lower their growth forecasts for 2023 as a whole, now ranging from approximately 4.5%-6.5%. Pent-up consumer demand continues to underpin the current (weaker) expansion, along with consumer services, while the property sector remains weak and youth unemployment high.

In a bid to spur growth and meet the government's 5% growth target for 2023, the People's Bank of China (PBOC) cut both short- and medium-term interest rates, and analysts now expect further cuts and stimulus measures from the central bank such as expanded infrastructure financing and easing in lending requirements (like mortgage downpayments). The slowdown and growing pessimism around growth weighed on local stock markets, with Hong Kong's Hang Seng returning -5.9% for the quarter and the MSCI China delivering -9.7%, both in US$.

Larger emerging equity markets posted a broad range of returns over the quarter in US$, led by Brazil's Bovespa with 21.8% and the MSCI India at 12.4%. South Korea's KOSPI was also in the black with a 2.5% performance. The MSCI Turkey recorded a -10.6% return, the MSCI South Africa -4.7% and the MSCI China -9.7% for the period (all in US$).

South Africa

In South Africa, the SARB surprised the market at its May MPC meeting by hiking the repo rate by an aggressive 50bps to 8.25%, worried about still-high inflation and the future inflationary impact of the weaker rand. And following the central bank's hike, SARB governor Kganyago remained tough in his anti-inflation stance, saying in late June that interest rates might need to go higher and stay there for longer. As such, the market is now expecting another 25bp hike at the MPC meeting in July and a possible extra 25bps in September. This in the face of slowing CPI, which fell markedly to 6.3% y/y in May from 6.8% in April, and expectations of a further decline in June as energy prices continued to ease and the rand rebounded. The SARB forecasts CPI to fall within its 3-6% target band in either Q3 or Q4 this year.

The SARB also revised upward slightly its economic growth expectations for 2023, to 0.3% from 0.2% in March, following the release of better-than-expected Q1 GDP data showing growth at 0.2% y/y, meaning South Africa had avoided a technical recession following a 1.1% contraction in Q4 2022. Still, the figures showed loadshedding and logistical issues were depressing fixed investment and consumer and business sentiment, with the important contributor of household spending rising only 0.4% during the quarter. June reports revealed the FNB/BER Consumer Confidence Index fell to -25 points for Q2, its second-lowest level on record after the -36 points seen during the Covid hard lockdown period of Q2 2020. At the same time, the country's Manufacturing PMI fell to 49.2 points in May, indicating a contraction in activity, due largely to weak demand.

Performance

The M&G Dividend Maximiser Fund delivered a return of 3.4% (net of fees) for the second quarter of 2023, outperforming its benchmark (the average of the general equity funds) by 2.6%. For the year ended 30 June 2023, the fund returned 16.8% (net of fees), outperforming its benchmark by 4.6%. It is particularly pleasing to report that over the 3-year period ending 30 June 2023, both the absolute and relative performance of the Fund has been strong, with an absolute return of 18.3% per annum over this period, outperforming the benchmark by 4% per year.

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

The Fund's overweight to Textainer Group Holdings was the largest contributor to performance for the quarter. Textainer, which mainly operates in US$, also benefited from the weaker rand, which depreciated by almost 6% against the US$ over the quarter. Textainer is one of the worlds' largest container leasing companies and leases containers to shipping companies. The container leasing market has been exceptionally strong over the last two years, as shipping lines have been desperate to lease containers to ship goods at the very high shipping rates that persisted post COVID. The profitability of shipping lines has been exceptionally high and the opportunity cost to not have containers to supply customers is substantial. Container leasing companies have used their strong position and strong markets to sign much longer leases with shipping companies. These long leases will ensure that profitability and cash flows are more stable going forward. We have been exceptionally impressed with how the company's management has been allocating capital over the last three years. The company has been able to buy back almost a quarter of its shares over this period at extremely attractive prices and we think this smart allocation of cash should further accelerate the improvement of company returns.

The Fund's investment in Richemont was again a top contributor during the quarter. 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 travel returns and the China market continues to open 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 substantially higher in five years' time. After many years of restructuring the watch businesses inside the company, there is potential for this business to surprise the market on the upside.

During the quarter, platinum group metals (PGM) prices continued to fall; the price of rhodium in particular fell dramatically and halved in price. Rhodium at its peak was contributing over 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 then-high margins that

 Sources: M&G, Morningstar & Deutsche Securities

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 because of their investment in capacity. In the first quarter of 2023, we sold out of the Fund's position in Sibanye Stillwater to further improve the quality of our holdings in the platinum sector, which now comprise Northam, Amplats and Impala Platinum. In the last quarter, the underweight position to Sibanye Stillwater was one of the top contributors to performance.

The Fund's overweight to Sappi Limited, the South African-based paper company, was one of the larger detractors from performance for the 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 has enabled Sappi to pay down debt, and we expect a resumption of dividends and potentially share buy-backs in the year ahead. We think that despite Sappi's underperformance in the last quarter, it is today in a far better position than it has been for the last decade.

The Fund's 5% allocation to the M&G Global Dividend Fund was also a top contributor to performance over the last quarter. The Fund was up 9.4% in Rands over the quarter, of which approximately 6% was due to currency depreciation against the US$.

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

Strategy and positioning

We remain optimistic regarding South African equity market returns over the medium term due to the prevailing excessive levels of pessimism reflected in share prices and valuations. The Price-to-Book ratio of the JSE remains close to 1.7X as at the end of June 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 other emerging and developed markets. We do, however, highlight the risk of rising interest rates and bond yields in the United States and many developed and emerging markets. While South African bond yields are already elevated and remain attractive, we think that rising bond yields in the US present headwinds to equities valuations. The hurdle rate has increased. This higher rate not only decreases equity valuations, but also increases the real financial risk to companies via a higher cost of debt.

Over the last two years, we have substantially reduced the offshore allocation of the Fund, as we thought that the SA market and SA currency represented very good value. Today, we continue to think that Emerging Markets and African equities represent particularly good value, and we think the SA rand is still attractive. The Fund has approximately 23% 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.

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

M&G Equity Fund

Equity

Q2 2023

Market overview

The second quarter (Q2) of 2023 brought mixed results for investors, with global bonds losing ground but global equities performing relatively strongly in developed markets, even surprisingly so given the ever-changing outlook for global growth over the three months. A more positive growth outlook prevailed for the US, even as China's deteriorated, pushing US and other developed market equities higher while keeping emerging market equities relatively weaker. Meanwhile, global bonds were also weaker as the US Federal Reserve, along with other central banks, surprised with their ongoing hawkish stance by confirming the necessity of additional rate hikes. Investors continued to juggle the risk of the Fed's extra tightening bringing on a short-term recession versus the resilience of consumer spending and other economic growth factors, but June brought a healthy equity rally that helped erase weakness earlier in the quarter.

Other major economies continued their rate hiking cycles as well, with the Bank of England making headlines for its higher-than-expected 50bp increase in June, and Canada and Australia also implementing surprise hikes. Meanwhile, China and Japan maintained their easy monetary policies to support their expansions. Global equity returns outperformed bonds for a second quarter, while developed equity markets outperformed emerging equity markets. For the three months ended 30 June 2023, the MSCI All Country World Index delivered 6.2%, and the MSCI Emerging Markets Index produced 0.9% (in US$). At the same time, the Bloomberg Global Aggregate Bond Index delivered -1.5% (in US$) and global property stocks (the FTSE EPRA/NAREIT Global REIT Index) returned 0.6% (US$).

In South Africa, financial markets were even more volatile, with growth prospects continuing to be weighed down by loadshedding. In addition, the country was hit hard by a sell-off of SA bonds, banking shares and currency in May amid reports that South Africa was selling weapons to Russia and adopting a supposedly pro-Russian stance in its war against Ukraine and more generally. This prompted fears of retaliation from the West through trade and/or financial sanctions, leading to elevated investor risk perceptions for local investments. In June, however, these fears abated somewhat and the assets regained ground (especially bank shares), but risk perceptions did remain higher compared to Q1 as reflected by a weaker rand and elevated bond yields.

The SA equity market was dragged down in Q2 by losses in Resources shares amid fears of slower demand (particularly from China), offsetting good gains in Financials (after rebounding in June) and respectable returns from Industrials. The FTSE/JSE All Share Index (ALSI) returned 0.7% in Q2, while the more locally exposed Capped SWIX delivered 1.2% (both in rands). Industrial counters returned 3.4%, while Financials produced 5.9%, Resources -6.4% (Resources 10 Index) and the All Property Index 1.0% (all in rands).

For the quarter, SA nominal bonds (the FTSE/JSE All Bond Index) delivered -1.5% in rands after largely retracing May's significant losses, while inflation-linked bonds (ILBs) produced -0.7% and cash returned 1.9%. Finally, despite regaining some 4.6% against the US dollar in June as sentiment improved, the rand still lost 6.5% against the greenback for the quarter, and depreciated 6.9% against the euro and 9.5% versus the UK pound as sentiment toward SA remained depressed. So far this year the rand has lost 11.6% versus a weakening US dollar.

In the US, the Fed hiked its repo rate by 25bps at its May FOMC meeting and then paused in mid-June to assess the economic impact of its cumulative hiking cycle, moves that were expected by the market and brought temporary relief to interest rate markets. However, unexpectedly hawkish comments by Fed Governor Jerome Powell and other Fed Presidents subsequent to the meeting surprised markets by indicating another 1-2 increases ahead, equivalent to a potential additional 50bps. This "higher for longer" view, on top of more hawkish sentiment coming from most other central banks that hiked in late June, weighed on global markets.

Good news came in late June in the form of a sizeable upward revision in US Q1 2023 GDP growth to 2.0% from 1.3% previously, underpinned by resilient consumer spending. The labour market also remained strong, defying predictions. These developments helped buoy US equity markets, even though signs of a slowdown multiplied, such as a lower May Manufacturing PMI. For the quarter, US equity returns were robust: the Dow Jones produced 4.0%, the Nasdaq 13.1%, and the S&P 500 8.7% (all in US$).

In the UK, the BOE's higher-than-predicted 50bp hike in June brought its base lending rate to 5%, the highest level since 2008, as the UK battled a stubbornly high CPI of 8.7% y/y in May, unchanged from April and the highest among major developed economies. Markets anticipate further rate hikes with no pause as the central bank has lagged others in its tightening cycle. The UK economy eked out 0.1% q/q growth for Q1 2023, avoiding a recession, but investors fear it could be tipped into contraction by the BOE's aggressive stance. Similar to the US, resilient consumer demand and a tight labour market are keeping growth buoyant but also fuelling inflation. For Q2 2023, the FTSE 100 returned 2.5% in US$.

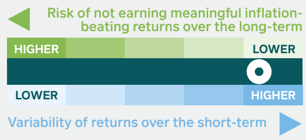
At its June meeting, the European Central Bank (ECB) announced a 25bp rate rise to 3.5%, in line with expectations, while also raising its inflation and growth forecasts and ruling out any pause in its hiking cycle. As such, markets widely anticipate another 25bp hike at its July policy meeting and the chance of another increase in September, before a possible pause towards year-end. Seven Euro area economies contracted in Q1 2023, putting the region in a mild technical recession with -0.1% GDP growth. In European equity markets, France's CAC 40 returned 4.0% and Germany's DAX delivered 3.8% (in US$) in Q2.

Japan impressed investors with its continued recovery during Q2, reporting much better-than-expected revised GDP growth figures at 2.7% (versus 1.9% forecast) for Q1 2023. CPI rose to 3.2% y/y in May, high for the economy. However, the Bank of Japan continued its easy monetary policy, keeping its key lending rate at -0.1% as widely expected. These positive developments lifted enthusiasm for Japanese stocks, which saw the Nikkei return 9.2% in US$ for the quarter, making it one of the best-performing developed equity markets in the first half of 2023, along with the Nasdaq.

During the three months, China reported somewhat disappointing GDP growth of 4.5% for Q1 2023. The country's rebound clearly lost momentum in Q2, with inflation falling, new borrowing declining and

Annualised performance	A class	Benchmark	B class	F class
1 year	11.7%	12.2%	12.2%	13.3%
3 years	19.3%	14.3%	19.7%	20.5%
5 years	9.7%	7.0%	10.1%	10.7%
7 years	9.8%	5.9%	10.2%	10.7%
10 years	10.2%	7.4%	10.6%	-
20 years	16.8%	13.0%	-	-
Since inception	15.7%	12.7%	-	-

Risk profile



Fund facts

Fund managers
Chris Wood
Yusuf Mowlana

ASISA category
South African - Equity - General

Benchmark
ASISA South African - Equity - General Category Mean

Inception date
2 August 1999

Fund size
R5 366 172 980

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

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

retail sales growth slowing amid declining consumer confidence. Other reports showed lacklustre May industrial production growth at 3.5% y/y from 3.6% y/y previously. The data prompted analysts to revise lower their growth forecasts for 2023 as a whole, now ranging from approximately 4.5%-6.5%. Pent-up consumer demand continues to underpin the current (weaker) expansion, along with consumer services, while the property sector remains weak and youth unemployment high.

In a bid to spur growth and meet the government's 5% growth target for 2023, the People's Bank of China (PBOC) cut both short- and medium-term interest rates, and analysts now expect further cuts and stimulus measures from the central bank such as expanded infrastructure financing and easing in lending requirements (like mortgage downpayments). The slowdown and growing pessimism around growth weighed on local stock markets, with Hong Kong's Hang Seng returning -5.9% for the quarter and the MSCI China delivering -9.7%, both in US$.

Larger emerging equity markets posted a broad range of returns over the quarter in US$, led by Brazil's Bovespa with 21.8% and the MSCI India at 12.4%. South Korea's KOSPI was also in the black with a 2.5% performance. The MSCI Turkey recorded a -10.6% return, the MSCI South Africa -4.7% and the MSCI China -9.7% for the period (all in US$).

Performance

During the quarter, the fund returned 1.2% compared to the average fund which returned 0.8%.

Overweight positions in Textainer, HCI and Investec contributed to relative performance, as did underweights in Sibanye, Anglogold and Anglo American.

Detracting from relative performance were overweight positions in Multichoice, Spar and Impala, as well as underweight positions in FirstRand, Goldfields and Nedbank.

It was an eventful quarter, with both positive and negative news for some of the fund's holdings.

Prosus released its FY23 results in the final week of the quarter and provided details of its intended simplification of the corporate structure and unwinding of the current cross-holding. Currently, Prosus holds shares in its parent holding company Naspers, which gives Prosus shareholders a larger share of the underlying economics of its investment portfolio. The proposed simplification will retain the effective economic split (43% to Naspers and 57% to Prosus) without the cross-holding but through a simpler direct ownership structure. Most importantly, the latest transaction will be done without any tax triggered or significant cost incurred, details that were well received by the market and saw both Naspers and Prosus finish the quarter strongly. Naspers and Prosus represent the fund's largest exposure on a combined basis.

For the platinum group metal miners, the rhodium price was particularly weak over the quarter, falling 45% over the period to US$4,000 at the end of June and putting pressure on the platinum group metal basket price. Despite a weaker exchange rate, the rand PGM basket price is now 35% lower than where we started the year and leading to significant earnings downgrades for all platinum producers on the JSE. The deteriorating fundamentals have weighed heavily on the share prices of both Northam and Impala, to which the fund has exposure.

The new Nigerian president has mooted a number of economic reform initiatives aimed at implementing more orthodox economic policies, which has led to Naira devaluation and removal of different exchange rates. While it creates near-term headwind for holdings such as MTN and Multichoice, we view these developments as positive for enabling ongoing investment in the country with improved likelihood to repatriate profits.

HCI is perhaps among the most exciting names in the fund currently. HCI owns an indirect stake in an oil exploration block off the coast of Namibia. The potential oil find could be worth as much as HCI's entire current market cap, or more, should test results prove positive.

Strategy and positioning

Relative to its recent history, the fund has a lower level of offshore exposure, which is both a function of our view on the current valuation of the rand and domestic company valuations relative to those of global companies. It is this second factor that we are perhaps surer of given the potential vulnerability in the rand due to the South African government's puzzling foreign policy stances, potential weakness in commodity markets and the ongoing lack of competitiveness of the South African economy. South African-centric companies trade on mid- to high single-digit multiples, which we view as compelling on a long-term basis.

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M&G SA Equity Fund

Equity

Q2 2023

Market overview

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The SARB also revised upward slightly its economic growth expectations for 2023, to 0.3% from 0.2% in March, following the release of better-than-expected Q1 GDP data showing growth at 0.2% y/y, meaning South Africa had avoided a technical recession following a 1.1% contraction in Q4 2022. Still, the figures showed loadshedding and logistical issues were depressing fixed investment and consumer and business sentiment, with the important contributor of household spending rising only 0.4% during the quarter. June reports revealed the FNB/BER Consumer Confidence Index fell to -25 points for Q2, its second-lowest level on record after the -36 points seen during the Covid hard lockdown period of Q2 2020. At the same time, the country's Manufacturing PMI fell to 49.2 points in May, indicating a contraction in activity, due largely to weak demand.

Despite regaining some 4.6% against the US dollar in June as sentiment improved, the rand still lost 6.5% against the greenback for the quarter and depreciated 6.9% against the euro and 9.5% versus the UK pound as sentiment toward SA remained depressed. So far this year the rand has lost 11.6% versus a weakening US dollar.

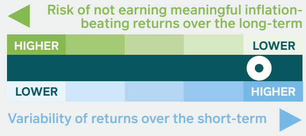
Performance

The Fund delivered a return of 0.7% (net of fees) for the second quarter of 2023, underperforming its benchmark by 0.5%. For the 12 months ended 30 June 2023, the Fund returned 12.9% (net of fees), underperforming its benchmark by 0.6%. It is particularly pleasing to report that over the three-year period ending 30 June 2023, both the absolute and relative performance of the Fund has been strong, with an absolute return of 18.4% per annum over this period, outperforming the benchmark by 2.7% per year.

Annualised performance	B class	Benchmark[1]	F class
1 year	14.2%	13.5%	12.9%
3 years	19.7%	15.7%	18.4%
5 years	8.1%	6.9%	6.9%
7 years	8.3%	6.3%	-
10 years	9.8%	8.3%	-
20 years	15.7%	14.1%	-
Since inception	14.8%	12.9%	-

[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
R44 206 550 146

Sources: M&G, Morningstar & Deutsche Securities

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The Fund's investment in Richemont was again a top contributor during the quarter. 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 travel returns and the China market opens up further 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 significantly higher in five years' time. After many years of restructuring the watch businesses inside the company, there is potential for this business to surprise the market on the upside.

It is worth noting that the Fund's overweight position to Reinet was also a contributor to performance in the quarter. This company is mainly comprised of two investments, the largest being Pension Insurance Corporation, which comprises over half of the value of the business, and British American Tobacco, which is about one-quarter of the value of Reinet. We continue to find the Pension Insurance Corporation to be an exceptionally attractive asset. It is in the business of buying in the risks associated with defined benefit schemes in the United Kingdom. Companies which have defined benefit pension schemes for current and retired employees may wish to transfer the risks and administration associated with these schemes to a large insurer that can more effectively and efficiently manage the pensions. Pension Insurance Corporation has rapidly grown into one the largest such insurers in the UK and continues to grow, as companies are increasingly willing and able to transfer these risks across to insurers. The general rise in interest rates has been a helpful catalyst to make these risk transfers more feasible for companies, and we think the sector should continue to see strong growth. British Petroleum is the latest UK company which has expressed interest in transferring its pension scheme risks to third party insurers. We think that the 40% discount at which Reniet trades to its underlying investments presents a very attractive discount on high-quality investments.

During the quarter, platinum group metals prices continued to fall; in particular the price of rhodium fell dramatically and halved in price. Rhodium at its peak was contributing over 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 unusually high margins that companies were earning and moved our client 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 the Fund's position in 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 last quarter, the underweight position to Sibanye Stillwater was one of the top contributors to performance.

The Fund's overweight to Sappi Limited, the South African-based paper company, was one of the larger detractors from performance for the 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 has enabled Sappi to pay down debt, and we expect a resumption of dividends and potentially share buy backs in the year ahead. We think that despite Sappi's underperformance in the last quarter, it is today in a far better position than it has been for the last decade.

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. We think 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.

Strategy and positioning

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, 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.

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 ratio of the JSE remains close to 1.7X as at the end

Sources: M&G, Morningstar & Deutsche Securities

of June 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 other emerging and developed markets. We do, however, highlight the risk of rising interest rates and bond yields in the United States and many developed and emerging markets. While South African bond yields are already elevated and remain attractive, we think that rising bond yields in the US present headwinds to equities valuations. The hurdle rate has increased. This higher rate not only decreases equity valuations, but also increases the real financial risk to companies via a higher cost of debt. The focus of the fund continues to be on finding companies that are undervalued and which can grow earnings and dividends over the long run.

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M&G Global Bond Feeder Fund

Global Income ZAR-denominated

Q2 2023

Market overview

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Other major economies continued their rate hiking cycles as well, with the Bank of England making headlines for its higher-than-expected 50bp increase in June, and Canada and Australia also implementing surprise hikes. Meanwhile, China and Japan maintained their easy monetary policies to support their expansions. The Bloomberg Global Aggregate Bond Index delivered -1.5% (in US$).

In the US, the Fed hiked its repo rate by 25bps at its May FOMC meeting and then paused in mid-June to assess the economic impact of its cumulative hiking cycle, moves that were expected by the market and brought temporary relief to interest rate markets. However, unexpectedly hawkish comments by Fed Governor Jerome Powell and other Fed Presidents subsequent to the meeting surprised markets by indicating another 1-2 increases ahead, equivalent to a potential additional 50bps. This "higher for longer" view, on top of more hawkish sentiment coming from most other central banks that hiked in late June, weighed on global bond markets, leading to losses. For example, the 10-year US Treasury yield ended the quarter yielding 3.8% compared to 3.5% at the start.

US inflation news was positive, with sharp drops in both CPI and PPI seen in May on the back of lower energy and food prices: CPI fell to 4.0% y/y from 4.9% y/y in April, while PPI dropped to 1.1% y/y versus 2.3% y/y previously. Still, this was well above the Fed's CPI 2.0% target, and core CPI (excluding food and energy) remained high at 5.3% y/y. Good news also came in late June in the form of a sizeable upward revision in US Q1 2023 GDP growth to 2.0% from 1.3% previously, underpinned by resilient consumer spending. The labour market also remained strong, defying predictions.

In the UK, the BOE's higher-than-predicted 50bp hike in June brought its base lending rate to 5%, the highest level since 2008, as the UK battled a stubbornly high CPI of 8.7% y/y in May, unchanged from April and the highest among major developed economies. Markets anticipate further rate hikes with no pause as the central bank has lagged others in its tightening cycle. The UK economy eked out 0.1% q/q growth for Q1 2023, avoiding a recession, but investors fear it could be tipped into contraction by the BOE's aggressive stance. Similar to the US, resilient consumer demand and a tight labour market are keeping growth buoyant but also fuelling inflation.

At its June meeting, the European Central Bank (ECB) announced a 25bp rate rise to 3.5%, in line with expectations, while also raising its inflation and growth forecasts and ruling out any pause in its hiking cycle. As such, markets widely anticipate another 25bp hike at its July policy meeting and the chance of another increase in September, before a possible pause towards year-end. Euro area CPI stood at 6.1 y/y% in May, triple the Central Bank's 2% target, while core CPI was sticky at 5.3% y/y. Seven Euro area economies contracted in Q1 2023, putting the region in a mild technical recession with -0.1% GDP growth.

Japan impressed investors with its continued recovery during Q2, reporting much better-than-expected revised GDP growth figures at 2.7% (versus 1.9% forecast) for Q1 2023. CPI rose to 3.2% y/y in May, high for the economy. However, the Bank of Japan continued its easy monetary policy, keeping its key lending rate at -0.1% as widely expected, saying that while they noted the rise in inflation, they would maintain policies designed to lift the country out of decades of deflation. Price increases have been driven by strong consumer demand and a weaker yen.

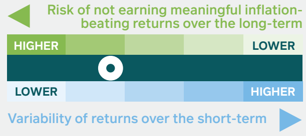
During the three months, China reported somewhat disappointing GDP growth of 4.5% for Q1 2023. The country's rebound clearly lost momentum in Q2, with inflation falling, new borrowing declining and retail sales growth slowing amid declining consumer confidence. Other reports showed lacklustre May industrial production growth at 3.5% y/y from 3.6% y/y previously. The data prompted analysts to revise lower their growth forecasts for 2023 as a whole, now ranging from approximately 4.5%-6.5%. Pent-up consumer demand continues to underpin the current (weaker) expansion, along with consumer services, while the property sector remains weak and youth unemployment high.

In a bid to spur growth and meet the government's 5% growth target for 2023, the People's Bank of China (PBOC) cut both short- and medium-term interest rates, and analysts now expect further cuts and stimulus measures from the central bank such as expanded infrastructure financing and easing in lending requirements (like mortgage downpayments).

Finally, as a result of elevated risk sentiment towards South Africa on the back of intense loadshedding and worries of financial and/or trade sanctions for the country's seemingly pro-Russian stance, the rand lost 6.5% against the US$ for the quarter, and depreciated 6.9% against the euro and 9.5% versus the UK pound. So far this year the rand has lost 11.6% versus a weakening US dollar.

Annualised performance	A class	Benchmark	B class
1 year	14.3%	13.8%	14.7%
3 years	-2.1%	-2.3%	-1.7%
5 years	5.3%	5.5%	-
7 years	2.7%	2.8%	-
10 years	6.3%	6.9%	-
20 years	7.4%	7.5%	-
Since inception	7.7%	7.9%	-

Risk profile



Fund facts

Investment manager of the underlying fund

M&G Investment Management Limited (UK)

Fund managers of the underlying fund

Jim Leaviss
Eva Sun-Wai

ASISA category

Global - Interest Beating - Variable Term

Benchmark

Bloomberg Global Aggregate Bond Index

Inception date

27 October 2000

Fund size

R728 574 571

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

Performance

For Q2 2023, the fund returned 3.6% (net of fees) versus its benchmark, the Bloomberg Global Aggregate Bond index, which returned 4.9 %. For the 12 months ending 30 June, the fund delivered 14.3% compared to the benchmark's 13.8%.

In terms of absolute performance for the quarter, the main contributors to the fund's returns were government bonds from Colombia, Indonesia and Mexico.

The main detractors from absolute performance were weakness in the Japanese yen relative to the US dollar and strength in UK sterling relative to the US dollar. Also detracting were government bonds from the UK, US, Japan and Australia.

In terms of relative fund performance, at the start of the quarter, the fund's underweight corporate credit exposure proved unhelpful as credit outperformed government bonds and spreads tightened. The fund's US dollar duration positioning detracted due to a sell-off in short-dated bonds. In May, the fund's developed and emerging markets (EM) sovereign bonds positioning contributed positively. However, our underweight to the US dollar and our EM currency exposure continued to drag. As the quarter came to an end, developed market interest rates came under renewed pressure, which resulted in a tough period for bond funds.

Strategy and positioning

In April, we added German government bonds and long-dated sovereign bonds from Spain and Italy. We also carried out relative value trades by switching into longer-dated Treasury Inflation Protected Securities (TIPS). In May, we added small amounts of euro and sterling duration. In the US, we moved from five-year US Treasuries into shorter-dated one-year and two-year bonds following a sell-off due to uncertainty around the debt ceiling. Finally in June, we added to our UK gilts position after yields sold off. Over the course of the quarter, we marginally increased the duration of the portfolio.

In credit, we remain underweight investment-grade debt and continue to de-risk by selling down our exposure to financials and high-yield names including Asda and Nordstrom. Earlier in the quarter, we participated in new issues from electricity supplier EDF and oil and gas firm BP. Towards the end of the quarter, we took advantage of a sell-off in South African interest rates and currency to add to South African government bonds. We also trimmed our exposure to Chile due to stretched valuations. In currency, we added back a small exposure to the Brazilian real and by the end of the period, we remained underweight US dollar and sterling.

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Quarterly Commentary

M&G Global Inflation Plus Feeder Fund

Global Multi-Asset ZAR-denominated

Q2 2023

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Other major economies continued their rate hiking cycles as well, with the Bank of England making headlines for its higher-than-expected 50bp increase in June, and Canada and Australia also implementing surprise hikes. Meanwhile, China and Japan maintained their easy monetary policies to support their expansions. Global equity returns outperformed bonds for a second quarter, while developed equity markets outperformed emerging equity markets. For the three months ended 30 June 2023, the MSCI All Country World Index delivered 6.2%, and the MSCI Emerging Markets Index produced 0.9% (in US$). At the same time, the Bloomberg Global Aggregate Bond Index delivered -1.5% (in US$) and global property stocks (the FTSE EPRA/NAREIT Global REIT Index) returned 0.6% (US$).

In the US, the Fed hiked its repo rate by 25bps at its May FOMC meeting and then paused in mid-June to assess the economic impact of its cumulative hiking cycle, moves that were expected by the market and brought temporary relief to interest rate markets. However, unexpectedly hawkish comments by Fed Governor Jerome Powell and other Fed Presidents subsequent to the meeting surprised markets by indicating another 1-2 increases ahead, equivalent to a potential additional 50bps. This "higher for longer" view, on top of more hawkish sentiment coming from most other central banks that hiked in late June, weighed on global bond markets, leading to losses. For example, the 10-year US Treasury yield ended the quarter yielding 3.8% compared to 3.5% at the start.

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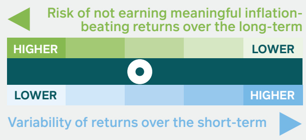
Annualised performance	A class	Benchmark[1]	B class
1 year	20.3%	20.7%	20.7%
3 years	4.5%	8.2%	4.8%
5 years	8.1%	9.6%	8.5%
7 years	6.2%	6.8%	6.6%
10 years	8.4%	9.2%	-
Since inception	7.8%	8.0%	-

[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

ASISA category:
Global - Multi-Asset - Low Equity

Benchmark
Global inflation

Inception date
1 March 2004

Fund size
R238 323 002

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

data prompted analysts to revise lower their growth forecasts for 2023 as a whole, now ranging from approximately 4.5%-6.5%. Pent-up consumer demand continues to underpin the current (weaker) expansion, along with consumer services, while the property sector remains weak and youth unemployment high.

In a bid to spur growth and meet the government's 5% growth target for 2023, the People's Bank of China (PBOC) cut both short- and medium-term interest rates, and analysts now expect further cuts and stimulus measures from the central bank such as expanded infrastructure financing and easing in lending requirements (like mortgage downpayments). The slowdown and growing pessimism around growth weighed on local stock markets, with Hong Kong's Hang Seng returning -5.9% for the quarter and the MSCI China delivering -9.6%, both in US$.

Larger emerging equity markets posted a broad range of returns over the quarter in US$, led by Brazil's Bovespa with 21.8% and the MSCI India at 12.4%. South Korea's KOSPI was also in the black with a 2.5% performance. The MSCI Turkey recorded a -10.6% return, the MSCI South Africa -4.7% and the MSCI China -9.6% for the period (all in US$).

The international oil price trended lower during the quarter, with Brent crude ending at around US$76 per barrel from around US$80 per barrel at the start of the period on the back of expected lower demand as global growth slowed, even as producers like Saudi Arabia announced plans for further supply cuts. Brent crude oil has lost approximately 13% in US$ terms since the beginning of 2023. Other commodity prices also moved lower in Q2 amid the uncertain outlook; even the price of gold fell 2.5%. Zinc was the largest loser, down 18.7%, while nickel lost 12.7%, aluminium fell 10.3% and copper was down 8.1%. Among platinum group metals, palladium fell 16.0% and platinum lost 9.1%.

Finally, as a result of elevated risk sentiment towards South Africa on the back of intense loadshedding and worries of financial and/or trade sanctions for the country's seemingly pro-Russian stance, the rand lost 6.5% against the US$ for the quarter, and depreciated 6.9% against the euro and 9.5% versus the UK pound. So far this year the rand has lost 11.6% versus a weakening US dollar.

Performance

For Q2 2023, the fund returned 7.5% (net of fees), ahead of global inflation (based on the OECD Major 7 CPI Total Index) measuring 7.8%. For the 12 months to 30 June, the fund produced 20.3% (net of fees) while global inflation measured 20.7%.

The main contributor to the fund's performance for the quarter was its exposure to equities which had significantly stronger returns compared to bonds over the period.

Within equities, the core equity strategy contributed the lion share to returns. This strategy is invested in global stocks chosen by machine learning where positive contribution from high beta stocks was offset by exposure to high residual volatility and smaller-size companies.

Exposure to government bonds from Colombia, Indonesia and Mexico added to fixed income performance but was swamped by negative returns from government bonds from the UK, US, Japan and Australia.

Strategy and positioning

In managing the fund, we added tactically to both duration and equity risk during the quarter. In equities, we targeted discrete opportunities in European banks, which we believe are attractively valued given recent price falls against an improved earnings outlook. We also added exposure to Chinese H-shares (Chinese companies listed in Hong Kong). In our opinion, Chinese stocks currently offer elevated earnings yields relative to the rest of the world as the narrative on the county has turned particularly negative once again and could offer some return differentiation should stimulus or economic activity surprise positively.

Additionally, we added long duration positions through exposure to long-dated US Treasuries and UK gilts, both to balance overall portfolio risk and in recognition of yields that we see as compelling. We added UK gilts since yields have approached levels close to the extreme Q4 2022 sell-off, and they diversify our long-end exposure.

Looking ahead, recent months have been characterised by an 'uneasy calm', with the possible exceptions of AI stocks and assets in Japan seeing good demand. In an environment in which the prevailing economic regime is hard to assess, such conditions could well be vulnerable to a shock.

By definition, it is impossible to predict what form such a shock would take and which assets would be most affected. The fund continues to be cautiously positioned and we wait patiently to respond to any opportunities presented by volatility created by ongoing uncertainty about inflation and economic growth.

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M&G Global Balanced Feeder Fund

Global Multi-Asset ZAR-denominated

Q2 2023

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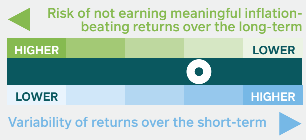
Annualised performance	A class	Benchmark	B class
1 year	24.1%	27.3%	24.5%
2 years	11.4%	11.8%	11.6%
3 years	9.7%	9.3%	9.9%
5 years	10.0%	12.4%	10.1%
Since inception	10.0%	12.4%	-

Risk profile



Fund facts

Investment manager of the underlying fund

M&G Investment Management Limited (UK)

Fund managers of the underlying fund

Craig Simpson

ASISA category

Global - 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 625 007 245

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

In a bid to spur growth and meet the government's 5% growth target for 2023, the People's Bank of China (PBOC) cut both short- and medium-term interest rates, and analysts now expect further cuts and stimulus measures from the central bank such as expanded infrastructure financing and easing in lending requirements (like mortgage downpayments). The slowdown and growing pessimism around growth weighed on local stock markets, with Hong Kong's Hang Seng returning -5.9% for the quarter and the MSCI China delivering -9.6%, both in US$.

Larger emerging equity markets posted a broad range of returns over the quarter in US$, led by Brazil's Bovespa with 21.8% and the MSCI India at 12.4%. South Korea's KOSPI was also in the black with a 2.5% performance. The MSCI Turkey recorded a -10.6% return, the MSCI South Africa -4.7% and the MSCI China -9.6% for the period (all in US$).

The international oil price trended lower during the quarter, with Brent crude ending at around US$76 per barrel from around US$80 per barrel at the start of the period on the back of expected lower demand as global growth slowed, even as producers like Saudi Arabia announced plans for further supply cuts. Brent crude oil has lost approximately 13% in US$ terms since the beginning of 2023. Other commodity prices also moved lower in Q2 amid the uncertain outlook; even the price of gold fell 2.5%. Zinc was the largest loser, down 18.7%, while nickel lost 12.7%, aluminium fell 10.3% and copper was down 8.1%. Among platinum group metals, palladium fell 16.0% and platinum lost 9.1%.

Finally, as a result of elevated risk sentiment towards South Africa on the back of intense loadshedding and worries of financial and/or trade sanctions for the country's seemingly pro-Russian stance, the rand lost 6.5% against the US$ for the quarter, and depreciated 6.9% against the euro and 9.5% versus the UK pound. So far this year the rand has lost 11.6% versus a weakening US dollar.

Performance

For Q2 2023, the fund produced a return of 10.3% (net of fees), compared to the 10.4% recorded by its benchmark. For the 12 months to 30 June, the fund delivered 24.1% versus the benchmark's 27.3% return.

The main contributor to the fund's performance for the quarter was its exposure to equities, which had significantly stronger returns compared to bonds over the period.

Within equities, the core equity strategy contributed the lion's share to returns. This strategy is invested in global stocks chosen by machine learning, where the positive contributions from high-beta stocks were offset by exposure to high residual volatility and smaller-size companies. Shares in Japan and emerging market stocks from Latin America added some small value as well.

Exposure to government bonds from Colombia, Indonesia and Mexico also added to performance while the fund further benefited from the strength of the Mexican peso, Hungarian forint and euro relative to the US$.

Strategy and positioning

We added tactically to both duration and equity risk during the quarter. In equities, we targeted discrete opportunities in European banks, which we believe are attractively valued given recent price falls against an improved earnings outlook. We also added exposure to Chinese H-shares (Chinese companies listed in Hong Kong). In our opinion, Chinese stocks currently offer elevated earnings yields relative to the rest of the world as the narrative on the county has turned particularly negative once again and could offer some return differentiation should stimulus or economic activity surprise positively.

We added long duration positions through exposure to long-dated US Treasuries and gilts, both to balance overall portfolio risk and in recognition of yields that we see as compelling. We added gilts since yields have approached levels close to the extreme Q4 2022 sell-off, and they diversify our long-end exposure.

Recent months have been characterised by an 'uneasy calm', with the possible exceptions of strong demand for AI stocks and assets in Japan. In an environment in which the prevailing economic regime is hard to assess, such conditions could well be vulnerable to a shock.

By definition, it is impossible to predict what form such a shock would take and which assets would be most affected. The fund continues to be cautiously positioned, and we wait patiently to respond to any opportunities presented by volatility created by ongoing uncertainty about inflation and economic growth.

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G Global Property Feeder Fund

Global Property ZAR-denominated

Q2 2023

Market overview

The second quarter (Q2) of 2023 brought mixed results for investors, with global bonds losing ground but global equities performing relatively strongly in developed markets, even surprisingly so given the ever-changing outlook for global growth over the three months. A more positive growth outlook prevailed for the US, even as China's deteriorated, pushing US and other developed market equities higher while keeping emerging market equities relatively weaker. Meanwhile, global bonds were also weaker as the US Federal Reserve surprised with their ongoing hawkish stance by confirming the necessity of additional rate hikes. Investors continued to juggle the risk of the Fed's extra tightening bringing on a short-term recession versus the resilience of consumer spending and other economic growth factors, but June brought a healthy equity rally that helped erase weakness earlier in the quarter.

Other major economies continued their rate hiking cycles as well, with the Bank of England making headlines for its higher-than-expected 50bp increase in June, and Canada and Australia also implementing surprise hikes. Meanwhile, China and Japan maintained their easy monetary policies to support their expansions. Global equity returns outperformed bonds for a second quarter, while developed equity markets outperformed emerging equity markets. For the three months ended 30 June 2023, the MSCI All Country World Index delivered 6.2%, and the MSCI Emerging Markets Index produced 0.9% (in US$). At the same time, global property stocks (the FTSE EPRA/NAREIT Global REIT Index) returned 0.6% (US$).

In the US, the Fed hiked its repo rate by 25bps at its May FOMC meeting and then paused in mid-June to assess the economic impact of its cumulative hiking cycle, moves that were expected by the markets. However, unexpectedly hawkish comments by Fed Governor Jerome Powell and other Fed Presidents subsequent to the meeting surprised markets by indicating another 1-2 increases ahead, equivalent to a potential additional 50bps. This "higher for longer" view, on top of more hawkish sentiment coming from most other central banks that hiked in late June, weighed on sentiment. However, this was offset by more positive news for equities in terms of meaningful declines in inflation and a sizeable upward revision in US Q1 2023 GDP growth in June to 2.0% from 1.3% previously, underpinned by resilient consumer spending. The labour market also remained strong, defying predictions. These developments helped buoy US equity markets: for the quarter, US equity returns were robust: the Dow Jones produced 4.0%, the Nasdaq 13.1%, and the S&P 500 8.7% (all in US$).

In the UK, the BOE's higher-than-predicted 50bp hike in June brought its base lending rate to 5%, the highest level since 2008, as the UK battled a stubbornly high CPI of 8.7% y/y in May, unchanged from April and the highest among major developed economies. Markets anticipate further rate hikes with no pause as the central bank has lagged others in its tightening cycle. The UK economy eked out 0.1% q/q growth for Q1 2023, avoiding a recession, but investors fear it could be tipped into contraction by the BOE's aggressive stance. Similar to the US, resilient consumer demand and a tight labour market are keeping growth buoyant but also fuelling inflation. For Q2 2023, the FTSE 100 returned 2.5% in US$.

At its June meeting, the European Central Bank (ECB) announced a 25bp rate rise to 3.5%, in line with expectations, while also raising its inflation and growth forecasts and ruling out any pause in its hiking cycle. As such, markets widely anticipate another 25bp hike at its July policy meeting and the chance of another increase in September, before a possible pause towards year-end. Euro area CPI stood at 6.1 y/y% in May, triple the Central Bank's 2% target, while core CPI was sticky at 5.3% y/y. Seven Euro area economies contracted in Q1 2023, putting the region in a mild technical recession with -0.1% GDP growth. In European equity markets, France's CAC 40 returned 4.0% and Germany's DAX delivered 3.8% (in US$) in Q2.

Japan impressed investors with its continued recovery during Q2, reporting much better-than-expected revised GDP growth figures at 2.7% (versus 1.9% forecast) for Q1 2023. CPI rose to 3.2% y/y in May, high for the economy. However, the Bank of Japan continued its easy monetary policy, keeping its key lending rate at -0.1% as widely expected. Price increases have been driven by strong consumer demand and a weaker yen. These positive developments lifted enthusiasm for Japanese stocks, which saw the Nikkei return 9.1% in US$ for the quarter, making it one of the best-performing developed equity markets in the first half of 2023, along with the Nasdaq.

During the three months, China reported somewhat disappointing GDP growth of 4.5% for Q1 2023. The country's rebound clearly lost momentum in Q2, with inflation falling, new borrowing declining and retail sales growth slowing amid declining consumer confidence. Other reports showed lacklustre May industrial production growth at 3.5% y/y from 3.6% y/y previously. The data prompted analysts to revise lower their growth forecasts for 2023 as a whole, now ranging from approximately 4.5%-6.5%. Pent-up consumer demand continues to underpin the current (weaker) expansion, along with consumer services, while the property sector remains weak and youth unemployment high.

In a bid to spur growth and meet the government's 5% growth target for 2023, the People's Bank of China (PBOC) cut both short- and medium-term interest rates, and analysts now expect further cuts and stimulus measures from the central bank such as expanded infrastructure financing and easing in lending requirements (like mortgage downpayments). The slowdown and growing pessimism around growth weighed on local stock markets, with Hong Kong's Hang Seng returning -5.9% for the quarter and the MSCI China delivering -9.6%, both in US$.

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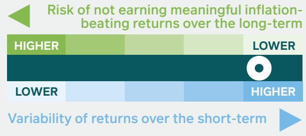
Annualised performance	A class	Benchmark	B class
1 year	8.3%	11.6%	8.7%
Since inception	-3.3%	-1.3%	-

Risk profile



Fund facts

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

Fund managers of the underlying fund
Gautam Samarth
Egidijus Bertulis

ASISA category
Global - Real Estate - General

Benchmark
FTSE EPRA NAREIT Global REIT Index (Net)

Inception date
24 November 2021

Fund size
R11 447 327

Sources: M&G, Morningstar & Deutsche Securities

The international oil price trended lower during the quarter, with Brent crude ending at around US$76 per barrel from around US$80 per barrel at the start of the period on the back of expected lower demand as global growth slowed, even as producers like Saudi Arabia announced plans for further supply cuts. Brent crude oil has lost approximately 13% in US$ terms since the beginning of 2023. Other commodity prices also moved lower in Q2 amid the uncertain outlook; even the price of gold fell 2.5%. Zinc was the largest loser, down 18.7%, while nickel lost 12.7%, aluminium fell 10.3% and copper was down 8.1%. Among platinum group metals, palladium fell 16.0% and platinum lost 9.1%.

Finally, as a result of elevated risk sentiment towards South Africa on the back of intense loadshedding and worries of financial and/or trade sanctions for the country's seemingly pro-Russian stance, the rand lost 6.5% against the US$ for the quarter, and depreciated 6.9% against the euro and 9.5% versus the UK pound. So far this year the rand has lost 11.6% versus a weakening US dollar.

Performance

For Q2 2023, the fund returned 8.9%, compared to its benchmark, the FTSE EPRA/NAREIT Global REITs Net Index's 7.2% return. For the 12 months to 30 June, the fund delivered 8.3% compared to the 11.6% return from the benchmark.

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

Stock selection was the major contributor to performance over the quarter, while the net impact from style was muted. Within style, exposures to high beta, cheap valuation and high earnings variability all contributed to returns, while the portfolio's exposure to smaller size companies and high dividend yield detracted.

At the stock level, Civitas Social Housing was the biggest contributor to returns for the quarter with its shares rallying on the back of receiving a bid to be acquired. SBA Commications Corp. and Avalonbay Communities Inc. were the biggest detractors.

Strategy and positioning

Recent months have been characterised by an 'uneasy calm', with the possible exceptions of AI stocks and assets in Japan. In an environment in which the prevailing economic regime is hard to assess, such conditions could well be vulnerable to a shock.

By definition, it is impossible to predict what form such a shock would take and which assets would be most affected. The fund continues to be cautiously positioned and we wait patiently to respond to any opportunities presented by volatility created by ongoing uncertainty about inflation and economic growth.

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Sources: M&G, Morningstar & Deutsche Securities

Quarterly Commentary

M&G Global Equity Feeder Fund

Global Equity ZAR-denominated

Q2 2023

Market overview

The second quarter (Q2) of 2023 brought mixed results for investors, with global bonds losing ground but global equities performing relatively strongly in developed markets, even surprisingly so given the ever-changing outlook for global growth over the three months. A more positive growth outlook prevailed for the US, even as China's deteriorated, pushing US and other developed market equities higher while keeping emerging market equities relatively weaker. Meanwhile, global bonds were also weaker as the US Federal Reserve surprised with their ongoing hawkish stance by confirming the necessity of additional rate hikes. Investors continued to juggle the risk of the Fed's extra tightening bringing on a short-term recession versus the resilience of consumer spending and other economic growth factors, but June brought a healthy equity rally that helped erase weakness earlier in the quarter.

Other major economies continued their rate hiking cycles as well, with the Bank of England making headlines for its higher-than-expected 50bp increase in June, and Canada and Australia also implementing surprise hikes. Meanwhile, China and Japan maintained their easy monetary policies to support their expansions. Global equity returns outperformed bonds for a second quarter, while developed equity markets outperformed emerging equity markets. For the three months ended 30 June 2023, the MSCI All Country World Index delivered 6.2%, and the MSCI Emerging Markets Index produced 0.9% (in US$). At the same time, global property stocks (the FTSE EPRA/NAREIT Global REIT Index) returned 0.6% (US$).

In the US, the Fed hiked its repo rate by 25bps at its May FOMC meeting and then paused in mid-June to assess the economic impact of its cumulative hiking cycle, moves that were expected by the markets. However, unexpectedly hawkish comments by Fed Governor Jerome Powell and other Fed Presidents subsequent to the meeting surprised markets by indicating another 1-2 increases ahead, equivalent to a potential additional 50bps. This "higher for longer" view, on top of more hawkish sentiment coming from most other central banks that hiked in late June, weighed on sentiment. However, this was offset by more positive news for equities in terms of meaningful declines in inflation and a sizeable upward revision in US Q1 2023 GDP growth in June to 2.0% from 1.3% previously, underpinned by resilient consumer spending. The labour market also remained strong, defying predictions. These developments helped buoy US equity markets: for the quarter, US equity returns were robust: the Dow Jones produced 4.0%, the Nasdaq 13.1%, and the S&P 500 8.7% (all in US$).

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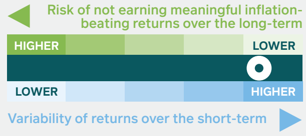
In a bid to spur growth and meet the government's 5% growth target for 2023, the People's Bank of China (PBOC) cut both short- and medium-term interest rates, and analysts now expect further cuts and stimulus measures from the central bank such as expanded infrastructure financing and easing in lending requirements (like mortgage downpayments). The slowdown and growing pessimism around growth weighed on local stock markets, with Hong Kong's Hang Seng returning -5.9% for the quarter and the MSCI China delivering -9.6%, both in US$.

Annualised performance	A class	Benchmark	B class
1 year	35.7%	34.4%	36.2%
3 years	15.4%	14.1%	15.8%
5 years	13.8%	15.3%	-
7 years	12.8%	14.0%	-
10 years	14.3%	16.0%	-
20 years	11.0%	13.3%	-
Since inception	8.5%	9.9%	-

Risk profile



Fund facts

Investment manager of the underlying fund

M&G Investment Management Limited (UK)

Fund managers of the underlying fund

Gautam Samarth
Egidijus Bertulis

ASISA category

Global - Equity - General

Benchmark

MSCI All Country World Index TR Net

Inception date

18 February 2000

Fund size

R1 158 928 304

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

Larger emerging equity markets posted a broad range of returns over the quarter in US$, led by Brazil's Bovespa with 21.8% and the MSCI India at 12.4%. South Korea's KOSPI was also in the black with a 2.5% performance. The MSCI Turkey recorded a -10.6% return, the MSCI South Africa -4.7% and the MSCI China -9.6% for the period (all in US$).

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Finally, as a result of elevated risk sentiment towards South Africa on the back of intense loadshedding and worries of financial and/or trade sanctions for the country's seemingly pro-Russian stance, the rand lost 6.5% against the US$ for the quarter, and depreciated 6.9% against the euro and 9.5% versus the UK pound. So far this year the rand has lost 11.6% versus a weakening US dollar.

Performance

For Q2 2023, the fund returned 13.2% (net of fees), compared to the benchmark's 13.1%. For the 12 months ending 30 June, the fund delivered 35.7% (net of fees) compared to the benchmark's 34.4%.

A key attribute of portfolio construction within the fund is that active country, currency and industry exposures are constrained to ensure that style and individual stock risk are the main drivers of active returns.

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.

Inspire Medical Systems, a manufacturer of implantable medical systems to treat sleep apnea and Extreme Networks Inc., a provider of data networking services were the biggest contributors to performance, the latter benefitting from improved industry sentiment.

Pagerduty Inc. and Synaptics Inc. were the largest stock level detractors. Both companies saw their share prices fall on the back of disappointing revenue guidance for the remainder of the year.

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.

Recent months have been characterised by an 'uneasy calm', with the possible exceptions of AI stocks and assets in Japan, which have experienced good demand. In an environment in which the prevailing economic regime is hard to assess, such conditions could well be vulnerable to a shock.

By definition, it is impossible to predict what form such a shock would take and which assets would be most affected. The fund continues to be cautiously positioned and we wait patiently to respond to any opportunities presented by volatility created by ongoing uncertainty about inflation and economic growth.

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

M&G 2.5% Target Income Fund

Target Income

Q2 2023

Market overview

The second quarter (Q2) of 2023 brought mixed results for investors, with global bonds losing ground but global equities performing relatively strongly in developed markets, even surprisingly so given the ever-changing outlook for global growth over the three months. A more positive growth outlook prevailed for the US, even as China's deteriorated, pushing US and other developed market equities higher while keeping emerging market equities relatively weaker. Meanwhile, global bonds were also weaker as the US Federal Reserve, along with other central banks, surprised with their ongoing hawkish stance by confirming the necessity of additional rate hikes. Investors continued to juggle the risk of the Fed's extra tightening bringing on a short-term recession versus the resilience of consumer spending and other economic growth factors, but June brought a healthy equity rally that helped erase weakness earlier in the quarter.

Other major economies continued their rate hiking cycles as well, with the Bank of England making headlines for its higher-than-expected 50bp increase in June, and Canada and Australia also implementing surprise hikes. Meanwhile, China and Japan maintained their easy monetary policies to support their expansions. Global equity returns outperformed bonds for a second quarter, while developed equity markets outperformed emerging equity markets. For the three months ended 30 June 2023, the MSCI All Country World Index delivered 6.2%, and the MSCI Emerging Markets Index produced 0.9% (in US$). At the same time, the Bloomberg Global Aggregate Bond Index delivered -1.5% (in US$) and global property stocks (the FTSE EPRA/NAREIT Global REIT Index) returned 0.6% (US$).

In South Africa, financial markets were even more volatile, with growth prospects continuing to be weighed down by loadshedding. In addition, the country was hit hard by a sell-off of SA bonds, banking shares and currency in May amid reports that South Africa was selling weapons to Russia and adopting a supposedly pro-Russian stance in its war against Ukraine and more generally. This prompted fears of retaliation from the West through trade and/or financial sanctions, leading to elevated investor risk perceptions for local investments. In June, however, these fears abated somewhat and the assets regained ground (especially bank shares), but risk perceptions did remain higher compared to Q1 as reflected by a weaker rand and elevated bond yields.

The SA equity market was dragged down in Q2 by losses in Resources shares amid fears of slower demand (particularly from China), offsetting good gains in Financials (after rebounding in June) and respectable returns from Industrials. The FTSE/JSE All Share Index (ALSI) returned 0.7% in Q2, while the more locally exposed Capped SWIX delivered 1.2% (both in rands). Industrial counters returned 3.4%, while Financials produced 5.9%, Resources -6.4% (Resources 10 Index) and the All Property Index 1.0% (all in rands).

For the quarter, SA nominal bonds (the FTSE/JSE All Bond Index) delivered -1.5% in rands after largely retracing May's significant losses, while inflation-linked bonds (ILBs) produced -0.7% and cash returned 1.9%. Finally, despite regaining some 4.6% against the US dollar in June as sentiment improved, the rand still lost 6.5% against the greenback for the quarter, and depreciated 6.9% against the euro and 9.5% versus the UK pound as sentiment toward SA remained depressed. So far this year the rand has lost 11.6% versus a weakening US dollar.

In the US, the Fed hiked its repo rate by 25bps at its May FOMC meeting and then paused in mid-June to assess the economic impact of its cumulative hiking cycle, moves that were expected by the market and brought temporary relief to interest rate markets. However, unexpectedly hawkish comments by Fed Governor Jerome Powell and other Fed Presidents subsequent to the meeting surprised markets by indicating another 1-2 increases ahead, equivalent to a potential additional 50bps. This "higher for longer" view, on top of more hawkish sentiment coming from most other central banks that hiked in late June, weighed on global bond markets, leading to losses. For example, the 10-year US Treasury yield ended the quarter yielding 3.8% compared to 3.5% at the start.

US inflation news was positive, with sharp drops in both CPI and PPI seen in May on the back of lower energy and food prices: CPI fell to 4.0% y/y from 4.9% y/y in April, while PPI dropped to 1.1% y/y versus 2.3% y/y previously. Still, this was well above the Fed's CPI 2.0% target, and core CPI (excluding food and energy) remained high at 5.3% y/y. Good news also came in late June in the form of a sizeable upward revision in US Q1 2023 GDP growth to 2.0% from 1.3% previously, underpinned by resilient consumer spending. The labour market also remained strong, defying predictions. These developments helped buoy US equity markets, even though signs of a slowdown multiplied, such as a lower May Manufacturing PMI. For the quarter, US equity returns were robust: the Dow Jones produced 4.0%, the Nasdaq 13.1%, and the S&P 500 8.7% (all in US$).

In the UK, the BOE's higher-than-predicted 50bp hike in June brought its base lending rate to 5%, the highest level since 2008, as the UK battled a stubbornly high CPI of 8.7% y/y in May, unchanged from April and the highest among major developed economies. Markets anticipate further rate hikes with no pause as the central bank has lagged others in its tightening cycle. The UK economy eked out 0.1% q/q growth for Q1 2023, avoiding a recession, but investors fear it could

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
R105 802 510

Annualised performance	A class	CPI	B class
1 year	16.6%	6.3%	17.0%
2 years	12.5%	6.4%	12.9%
3 years	15.3%	6.0%	15.7%
Since inception	7.9%	5.0%	-

Sources: M&G, Morningstar & Deutsche Securities

be tipped into contraction by the BOE's aggressive stance. Similar to the US, resilient consumer demand and a tight labour market are keeping growth buoyant but also fuelling inflation. For Q2 2023, the FTSE 100 returned 2.5% in US$.

At its June meeting, the European Central Bank (ECB) announced a 25bp rate rise to 3.5%, in line with expectations, while also raising its inflation and growth forecasts and ruling out any pause in its hiking cycle. As such, markets widely anticipate another 25bp hike at its July policy meeting and the chance of another increase in September, before a possible pause towards year-end. Euro area CPI stood at 6.1 y/y% in May, triple the Central Bank's 2% target, while core CPI was sticky at 5.3% y/y. Seven Euro area economies contracted in Q1 2023, putting the region in a mild technical recession with -0.1% GDP growth. In European equity markets, France's CAC 40 returned 4.0% and Germany's DAX delivered 3.8% (in US$) in Q2.

Japan impressed investors with its continued recovery during Q2, reporting much better-than-expected revised GDP growth figures at 2.7% (versus 1.9% forecast) for Q1 2023. CPI rose to 3.2% y/y in May, high for the economy. However, the Bank of Japan continued its easy monetary policy, keeping its key lending rate at -0.1% as widely expected, saying that while they noted the rise in inflation, they would maintain policies designed to lift the country out of decades of deflation. Price increases have been driven by strong consumer demand and a weaker yen. These positive developments lifted enthusiasm for Japanese stocks, which saw the Nikkei return 9.1% in US$ for the quarter, making it one of the best-performing developed equity markets in the first half of 2023, along with the Nasdaq.

During the three months, China reported somewhat disappointing GDP growth of 4.5% for Q1 2023. The country's rebound clearly lost momentum in Q2, with inflation falling, new borrowing declining and retail sales growth slowing amid declining consumer confidence. Other reports showed lacklustre May industrial production growth at 3.5% y/y from 3.6% y/y previously. The data prompted analysts to revise lower their growth forecasts for 2023 as a whole, now ranging from approximately 4.5%-6.5%. Pent-up consumer demand continues to underpin the current (weaker) expansion, along with consumer services, while the property sector remains weak and youth unemployment high.

In a bid to spur growth and meet the government's 5% growth target for 2023, the People's Bank of China (PBOC) cut both short- and medium-term interest rates, and analysts now expect further cuts and stimulus measures from the central bank such as expanded infrastructure financing and easing in lending requirements (like mortgage downpayments). The slowdown and growing pessimism around growth weighed on local stock markets, with Hong Kong's Hang Seng returning -5.9% for the quarter and the MSCI China delivering -9.6%, both in US$.

Larger emerging equity markets posted a broad range of returns over the quarter in US$, led by Brazil's Bovespa with 21.8% and the MSCI India at 12.4%. South Korea's KOSPI was also in the black with a 2.5% performance. The MSCI Turkey recorded a -10.6% return, the MSCI South Africa -4.7% and the MSCI China -9.6% for the period (all in US$).

The international oil price trended lower during the quarter, with Brent crude ending at around US$76 per barrel from around US$80 per barrel at the start of the period on the back of expected lower demand as global growth slowed, even as producers like Saudi Arabia announced plans for further supply cuts. Brent crude oil has lost approximately 13% in US$ terms since the beginning of 2023. Other commodity prices also moved lower in Q2 amid the uncertain outlook; even the price of gold fell 2.5%. Zinc was the largest loser, down 18.7%, while nickel lost 12.7%, aluminium fell 10.3% and copper was down 8.1%. Among platinum group metals, palladium fell 16.0% and platinum lost 9.1%.

South Africa

In South Africa, the SARB surprised the market at its May MPC meeting by hiking the repo rate by an aggressive 50bps to 8.25%, worried about still-high inflation and the future inflationary impact of the weaker rand. And following the central bank's hike, SARB governor Kganyago remained tough in his anti-inflation stance, saying in late June that interest rates might need to go higher and stay there for longer. As such, the market is now expecting another 25bp hike at the MPC meeting in July and a possible extra 25bps in September. This in the face of slowing CPI, which fell markedly to 6.3% y/y in May from 6.8% in April, and expectations of a further decline in June as energy prices continued to ease and the rand rebounded. The SARB forecasts CPI to fall within its 3-6% target band in either Q3 or Q4 this year.

The SARB also revised upward slightly its economic growth expectations for 2023, to 0.3% from 0.2% in March, following the release of better-than-expected Q1 GDP data showing growth at 0.2% y/y, meaning South Africa had avoided a technical recession following a 1.1% contraction in Q4 2022. Still, the figures showed loadshedding and logistical issues were depressing fixed investment and consumer and business sentiment, with the important contributor of household spending rising only 0.4% during the quarter. June reports revealed the FNB/BER Consumer Confidence Index fell to -25 points for Q2, its second-lowest level on record after the -36 points seen during the Covid hard lockdown period of Q2 2020. At the same time, the country's Manufacturing PMI fell to 49.2 points in May, indicating a contraction in activity, due largely to weak demand.

Performance

The M&G 2.5% Target Income Fund returned 3.9% (after fees) for the second quarter of 2023 and 16.6% for the 12-month period ending 30 June 2023.

The fund's global equity exposure added the most value to its absolute return for Q2, by far, followed by its SA equity, global bonds and global cash holdings. SA nominal bonds was the only asset class detractor for the quarter.

Within SA equities, our holdings of strongly performing shares like Richemont, MTN, Textainer, Reinet and Naspers/Prosus added value to fund returns during the quarter, as did our collective overweight exposure to SA banks like Standard Bank, First Rand and Investec. Resources holdings broadly detracted from performance, such as Implats, Northam Platinum and Anglogold Ashanti, as did Multichoice and Spar (both dependent on SA consumers).

Strategy and positioning

Starting with our view on offshore vs local asset allocation, there were no changes to our positioning. We continue to favour SA equities and bonds over global assets due to their more attractive valuations.

Within our **global holdings**, we bought both global equities and global bonds out of global cash during the quarter as the risk outlook started to improve, but remained neutral in these asset classes. We are also now tilted away from global cash, partly due to our forex positioning favouring the rand after its May sell-off.

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

While many **global equity** markets are still trading at relatively attractive levels, they became more expensive over the quarter, especially in the US: the MSCI ACWI forward P/E rose to 16.4X from 15.8X at the beginning of the quarter. Company earnings reports were mixed, with some starting to reflect downward revisions as the effects of central banks' aggressive monetary tightening began to appear. Because there are still unresolved questions around risks to earnings going forward, we remain selective: we are still leaning away from US equities due to their relatively expensive valuations versus other markets, and are also underweight Canada and Australia. We prefer the UK, Japan, China and other emerging markets that are relatively cheap, and we added to our Japan and China holdings out of global cash during the quarter.

For example, in China an additional risk premium has been priced into equities, with depressed multiples on depressed earnings, largely as a consequence of geopolitical factors such as the Russia-Ukraine war and Taiwan. Yet the economy is recovering – albeit not as strongly as hoped – and the yuan is weak, inflation is low, and the government has low foreign debt, all making the country very competitive. Equally, more stimulus is expected from the government.

Within **global bonds**, we stayed broadly neutral in our funds and added to our position in 30-year US Treasuries and 30-year UK gilts as yields rose. We also prefer sovereign EM bond markets where the real yields are high and the currency is trading at fair-to-cheap levels. Real global bond yields became more attractive over the quarter and offer more-than-fair compensation for the risk involved, which primarily can be seen as "higher for longer" interest rates. These global bonds are also solid diversifiers for SA equity risk.

The M&G 2.5% Target Income 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.

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.

Following their sharp-selloff in May, we increased our already-preferential positioning in **SA nominal bonds**, buying them at very attractive yields out of SA cash. The 10-year SA government bond yield reached a high of 12.1% at the end of May, compared to 10.7% at the start of the quarter, before retracing some losses to end June at around 11.4%. 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. The fund does not hold **SA inflation-linked bonds (ILBs)** to a meaningful degree.

Lastly, the SARB's interest rate hikes during the quarter made **SA cash** relatively more attractive as an asset class. However, apart from SA property, we still prefer other local asset classes for the higher real yields available on both an absolute and relative basis. In Q2 our SA cash holdings declined as we opted to buy more SA nominal bonds. As such, the fund remained tilted away from SA cash.

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

M&G 5% Target Income Fund

Target Income

Q2 2023

Market overview

The second quarter (Q2) of 2023 brought mixed results for investors, with global bonds losing ground but global equities performing relatively strongly in developed markets, even surprisingly so given the ever-changing outlook for global growth over the three months. A more positive growth outlook prevailed for the US, even as China's deteriorated, pushing US and other developed market equities higher while keeping emerging market equities relatively weaker. Meanwhile, global bonds were also weaker as the US Federal Reserve, along with other central banks, surprised with their ongoing hawkish stance by confirming the necessity of additional rate hikes. Investors continued to juggle the risk of the Fed's extra tightening bringing on a short-term recession versus the resilience of consumer spending and other economic growth factors, but June brought a healthy equity rally that helped erase weakness earlier in the quarter.

Other major economies continued their rate hiking cycles as well, with the Bank of England making headlines for its higher-than-expected 50bp increase in June, and Canada and Australia also implementing surprise hikes. Meanwhile, China and Japan maintained their easy monetary policies to support their expansions. Global equity returns outperformed bonds for a second quarter, while developed equity markets outperformed emerging equity markets. For the three months ended 30 June 2023, the MSCI All Country World Index delivered 6.2%, and the MSCI Emerging Markets Index produced 0.9% (in US$). At the same time, the Bloomberg Global Aggregate Bond Index delivered -1.5% (in US$) and global property stocks (the FTSE EPRA/NAREIT Global REIT Index) returned 0.6% (US$).

In South Africa, financial markets were even more volatile, with growth prospects continuing to be weighed down by loadshedding. In addition, the country was hit hard by a sell-off of SA bonds, banking shares and currency in May amid reports that South Africa was selling weapons to Russia and adopting a supposedly pro-Russian stance in its war against Ukraine and more generally. This prompted fears of retaliation from the West through trade and/or financial sanctions, leading to elevated investor risk perceptions for local investments. In June, however, these fears abated somewhat and the assets regained ground (especially bank shares), but risk perceptions did remain higher compared to Q1 as reflected by a weaker rand and elevated bond yields.

The SA equity market was dragged down in Q2 by losses in Resources shares amid fears of slower demand (particularly from China), offsetting good gains in Financials (after rebounding in June) and respectable returns from Industrials. The FTSE/JSE All Share Index (ALSI) returned 0.7% in Q2, while the more locally exposed Capped SWIX delivered 1.2% (both in rands). Industrial counters returned 3.4%, while Financials produced 5.9%, Resources -6.4% (Resources 10 Index) and the All Property Index 1.0% (all in rands).

For the quarter, SA nominal bonds (the FTSE/JSE All Bond Index) delivered -1.5% in rands after largely retracing May's significant losses, while inflation-linked bonds (ILBs) produced -0.7% and cash returned 1.9%. Finally, despite regaining some 4.6% against the US dollar in June as sentiment improved, the rand still lost 6.5% against the greenback for the quarter, and depreciated 6.9% against the euro and 9.5% versus the UK pound as sentiment toward SA remained depressed. So far this year the rand has lost 11.6% versus a weakening US dollar.

In the US, the Fed hiked its repo rate by 25bps at its May FOMC meeting and then paused in mid-June to assess the economic impact of its cumulative hiking cycle, moves that were expected by the market and brought temporary relief to interest rate markets. However, unexpectedly hawkish comments by Fed Governor Jerome Powell and other Fed Presidents subsequent to the meeting surprised markets by indicating another 1-2 increases ahead, equivalent to a potential additional 50bps. This "higher for longer" view, on top of more hawkish sentiment coming from most other central banks that hiked in late June, weighed on global bond markets, leading to losses. For example, the 10-year US Treasury yield ended the quarter yielding 3.8% compared to 3.5% at the start.

US inflation news was positive, with sharp drops in both CPI and PPI seen in May on the back of lower energy and food prices: CPI fell to 4.0% y/y from 4.9% y/y in April, while PPI dropped to 1.1% y/y versus 2.3% y/y previously. Still, this was well above the Fed's CPI 2.0% target, and core CPI (excluding food and energy) remained high at 5.3% y/y. Good news also came in late June in the form of a sizeable upward revision in US Q1 2023 GDP growth to 2.0% from 1.3% previously, underpinned by resilient consumer spending. The labour market also remained strong, defying predictions. These developments helped buoy US equity markets, even though signs of a slowdown multiplied, such as a lower May Manufacturing PMI. For the quarter, US equity returns were robust: the Dow Jones produced 4.0%, the Nasdaq 13.1%, and the S&P 500 8.7% (all in US$).

In the UK, the BOE's higher-than-predicted 50bp hike in June brought its base lending rate to 5%, the highest level since 2008, as the UK battled a stubbornly high CPI of 8.7% y/y in May, unchanged from April and the highest among major developed economies. Markets anticipate further rate hikes with no pause as the central bank has lagged others in its tightening cycle. The UK economy eked out 0.1% q/q growth for Q1 2023, avoiding a recession, but investors fear it could be tipped into contraction by the BOE's aggressive stance. Similar to the US, resilient consumer demand and a tight labour market are keeping growth buoyant but also fuelling inflation. For Q2 2023, the FTSE 100 returned 2.5% in US$.

At its June meeting, the European Central Bank (ECB) announced a 25bp rate rise to 3.5%, in line with expectations, while also raising its inflation and growth forecasts and ruling out any pause in its

Annualised performance	A class	CPI	B class
1 year	11.7%	6.3%	12.1%
2 years	7.5%	6.4%	7.8%
3 years	9.5%	6.0%	9.8%
Since inception	6.0%	5.0%	-

Fund facts

Fund managers
David Knee
Michael Moyle
Sandile Malinga
Leonard Krüger

ASISA category
Worldwide - Multi Asset - Unclassified

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

Inception date
2 April 2019

Fund size
R185 379 251

Sources: M&G, Morningstar & Deutsche Securities

hiking cycle. As such, markets widely anticipate another 25bp hike at its July policy meeting and the chance of another increase in September, before a possible pause towards year-end. Euro area CPI stood at 6.1 y/y% in May, triple the Central Bank's 2% target, while core CPI was sticky at 5.3% y/y. Seven Euro area economies contracted in Q1 2023, putting the region in a mild technical recession with -0.1% GDP growth. In European equity markets, France's CAC 40 returned 4.0% and Germany's DAX delivered 3.8% (in US$) in Q2.

Japan impressed investors with its continued recovery during Q2, reporting much better-than-expected revised GDP growth figures at 2.7% (versus 1.9% forecast) for Q1 2023. CPI rose to 3.2% y/y in May, high for the economy. However, the Bank of Japan continued its easy monetary policy, keeping its key lending rate at -0.1% as widely expected, saying that while they noted the rise in inflation, they would maintain policies designed to lift the country out of decades of deflation. Price increases have been driven by strong consumer demand and a weaker yen. These positive developments lifted enthusiasm for Japanese stocks, which saw the Nikkei return 9.1% in US$ for the quarter, making it one of the best-performing developed equity markets in the first half of 2023, along with the Nasdaq.

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In a bid to spur growth and meet the government's 5% growth target for 2023, the People's Bank of China (PBOC) cut both short- and medium-term interest rates, and analysts now expect further cuts and stimulus measures from the central bank such as expanded infrastructure financing and easing in lending requirements (like mortgage downpayments). The slowdown and growing pessimism around growth weighed on local stock markets, with Hong Kong's Hang Seng returning -5.9% for the quarter and the MSCI China delivering -9.6%, both in US$.

Larger emerging equity markets posted a broad range of returns over the quarter in US$, led by Brazil's Bovespa with 21.8% and the MSCI India at 12.4%. South Korea's KOSPI was also in the black with a 2.5% performance. The MSCI Turkey recorded a -10.6% return, the MSCI South Africa -4.7% and the MSCI China -9.6% for the period (all in US$).

The international oil price trended lower during the quarter, with Brent crude ending at around US$76 per barrel from around US$80 per barrel at the start of the period on the back of expected lower demand as global growth slowed, even as producers like Saudi Arabia announced plans for further supply cuts. Brent crude oil has lost approximately 13% in US$ terms since the beginning of 2023. Other commodity prices also moved lower in Q2 amid the uncertain outlook; even the price of gold fell 2.5%. Zinc was the largest loser, down 18.7%, while nickel lost 12.7%, aluminium fell 10.3% and copper was down 8.1%. Among platinum group metals, palladium fell 16.0% and platinum lost 9.1%.

South Africa

In South Africa, the SARB surprised the market at its May MPC meeting by hiking the repo rate by an aggressive 50bps to 8.25%, worried about still-high inflation and the future inflationary impact of the weaker rand. And following the central bank's hike, SARB governor Kganyago remained tough in his anti-inflation stance, saying in late June that interest rates might need to go higher and stay there for longer. As such, the market is now expecting another 25bp hike at the MPC meeting in July and a possible extra 25bps in September. This in the face of slowing CPI, which fell markedly to 6.3% y/y in May from 6.8% in April, and expectations of a further decline in June as energy prices continued to ease and the rand rebounded. The SARB forecasts CPI to fall within its 3-6% target band in either Q3 or Q4 this year.

The SARB also revised upward slightly its economic growth expectations for 2023, to 0.3% from 0.2% in March, following the release of better-than-expected Q1 GDP data showing growth at 0.2% y/y, meaning South Africa had avoided a technical recession following a 1.1% contraction in Q4 2022. Still, the figures showed loadshedding and logistical issues were depressing fixed investment and consumer and business sentiment, with the important contributor of household spending rising only 0.4% during the quarter. June reports revealed the FNB/BER Consumer Confidence Index fell to -25 points for Q2, its second-lowest level on record after the -36 points seen during the Covid hard lockdown period of Q2 2020. At the same time, the country's Manufacturing PMI fell to 49.2 points in May, indicating a contraction in activity, due largely to weak demand.

Performance

The M&G 5% Target Income Fund returned 0.5% (after fees) for the second quarter of 2023 and 11.7% (after fees) for the 12-month period ending 30 June 2023.

Looking at the fund's asset allocation, global equities added the most value to absolute performance for the quarter, while global bonds, SA equities, SA listed property and global cash also added value. SA nominal bonds was the only asset class detracting from performance during Q2.

Within SA equities, our holdings of strongly performing shares like Richemont, MTN, Textainer, Reinet and Naspers/Prosus added value to the fund during the quarter, as did our collective overweight exposure to SA banks like Standard Bank and First Rand. Resources holdings broadly detracted from performance, such as Implats, Northam Platinum, and Anglogold Ashanti, as did Multichoice and Spar (both dependent on SA consumers).

Strategy and positioning

Starting with our view on **offshore asset allocation**, during the quarter our global holdings remained largely unchanged versus South African holdings. We continue to prefer SA assets for their more attractive valuations versus global assets.

Within our **global holdings**, we bought both global equities and global bonds out of global cash during the quarter as the risk outlook started to improve, but remained neutral in these asset classes. We are also now tilted away from global cash, partly due to our forex positioning favouring the rand after its May sell-off.

While many **global equity** markets are still trading at relatively attractive levels, they became more expensive over the quarter, especially in the US: the MSCI ACWI forward P/E rose to 16.4X

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

from 15.8X at the beginning of the quarter. Company earnings reports were mixed, with some starting to reflect downward revisions as the effects of central banks' aggressive monetary tightening began to appear. Because there are still unresolved questions around risks to earnings going forward, we remain selective: we are still leaning away from US equities due to their relatively expensive valuations versus other markets, and are also underweight Canada and Australia. We prefer the UK, Japan, China and other emerging markets that are relatively cheap, and we added to our Japan and China holdings out of global cash during the quarter.

For example, in China an additional risk premium has been priced into equities, with depressed multiples on depressed earnings, largely as a consequence of geopolitical factors such as the Russia-Ukraine war and Taiwan. Yet the economy is recovering – albeit not as strongly as hoped – and the yuan is weak, inflation is low, and the government has low foreign debt, all making the country very competitive. Equally, more stimulus is expected from the government.

Within **global bonds**, we stayed broadly neutral in our funds and added to our position in 30-year US Treasuries and 30-year UK gilts as yields rose. We also prefer sovereign EM bond markets where the real yields are high and the currency is trading at fair-to-cheap levels. Real global bond yields became more attractive over the quarter and offer more-than-fair compensation for the risk involved, which primarily can be seen as "higher for longer" interest rates. These global bonds are also solid diversifiers for SA equity risk.

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.

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.

Following their sharp-selloff in May, we increased our already-preferential positioning in **SA nominal bonds**, buying them at very attractive yields out of SA cash. The 10-year SA government bond yield reached a high of 12.1% at the end of May, compared to 10.7% at the start of the quarter, before retracing some losses to end June at around 11.4%. 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. The fund held no **SA inflation-linked bonds (ILBs)** at the end of Q1.

Lastly, the SARB's interest rate hikes during the quarter made **SA cash** relatively more attractive as an asset class. However, apart from SA property, we still prefer other local asset classes for the higher real yields available on both an absolute and relative basis. In Q2 our SA cash holdings declined as we opted to buy more SA nominal bonds. As such, the fund remained tilted away from SA cash. □

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Sources: M&G, Morningstar & Deutsche Securities

M&G 7% Target Income Fund

Target Income

Q2 2023

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

R368 323 130

Market overview

The second quarter (Q2) of 2023 brought mixed results for investors, with global bonds losing ground but global equities performing relatively strongly in developed markets, even surprisingly so given the ever-changing outlook for global growth over the three months. A more positive growth outlook prevailed for the US, even as China's deteriorated, pushing US and other developed market equities higher while keeping emerging market equities relatively weaker. Meanwhile, global bonds were also weaker as the US Federal Reserve, along with other central banks, surprised with their ongoing hawkish stance by confirming the necessity of additional rate hikes. Investors continued to juggle the risk of the Fed's extra tightening bringing on a short-term recession versus the resilience of consumer spending and other economic growth factors, but June brought a healthy equity rally that helped erase weakness earlier in the quarter.

Other major economies continued their rate hiking cycles as well, with the Bank of England making headlines for its higher-than-expected 50bp increase in June, and Canada and Australia also implementing surprise hikes. Meanwhile, China and Japan maintained their easy monetary policies to support their expansions. Global equity returns outperformed bonds for a second quarter, while developed equity markets outperformed emerging equity markets. For the three months ended 30 June 2023, the MSCI All Country World Index delivered 6.2%, and the MSCI Emerging Markets Index produced 0.9% (in US$). At the same time, the Bloomberg Global Aggregate Bond Index delivered -1.5% (in US$) and global property stocks (the FTSE EPRA/NAREIT Global REIT Index) returned 0.6% (US$).

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For the quarter, SA nominal bonds (the FTSE/JSE All Bond Index) delivered -1.5% in rands after largely retracing May's significant losses, while inflation-linked bonds (ILBs) produced -0.7% and cash returned 1.9%. Finally, despite regaining some 4.6% against the US dollar in June as sentiment improved, the rand still lost 6.5% against the greenback for the quarter, and depreciated 6.9% against the euro and 9.5% versus the UK pound as sentiment toward SA remained depressed. So far this year the rand has lost 11.6% versus a weakening US dollar.

In the US, the Fed hiked its repo rate by 25bps at its May FOMC meeting and then paused in mid-June to assess the economic impact of its cumulative hiking cycle, moves that were expected by the market and brought temporary relief to interest rate markets. However, unexpectedly hawkish comments by Fed Governor Jerome Powell and other Fed Presidents subsequent to the meeting surprised markets by indicating another 1-2 increases ahead, equivalent to a potential additional 50bps. This "higher for longer" view, on top of more hawkish sentiment coming from most other central banks that hiked in late June, weighed on global bond markets, leading to losses. For example, the 10-year US Treasury yield ended the quarter yielding 3.8% compared to 3.5% at the start.

US inflation news was positive, with sharp drops in both CPI and PPI seen in May on the back of lower energy and food prices: CPI fell to 4.0% y/y from 4.9% y/y in April, while PPI dropped to 1.1% y/y versus 2.3% y/y previously. Still, this was well above the Fed's CPI 2.0% target, and core CPI (excluding food and energy) remained high at 5.3% y/y. Good news also came in late June in the form of a sizeable upward revision in US Q1 2023 GDP growth to 2.0% from 1.3% previously, underpinned by resilient consumer spending. The labour market also remained strong, defying predictions. These developments helped buoy US equity markets, even though signs of a slowdown multiplied, such as a lower May Manufacturing PMI. For the quarter, US equity returns were robust: the Dow Jones produced 4.0%, the Nasdaq 13.1%, and the S&P 500 8.7% (all in US$).

In the UK, the BOE's higher-than-predicted 50bp hike in June brought its base lending rate to 5%, the highest level since 2008, as the UK battled a stubbornly high CPI of 8.7% y/y in May, unchanged from April and the highest among major developed economies. Markets anticipate further rate hikes with no pause as the central bank has lagged others in its tightening cycle. The UK economy eked out 0.1% q/q growth for Q1 2023, avoiding a recession, but investors fear it could be tipped into contraction

Annualised performance	A class	CPI	B class
1 year	9.5%	6.3%	9.8%
2 years	6.2%	6.4%	6.5%
3 years	9.0%	6.0%	9.4%
Since inception	5.6%	5.0%	-

Sources: M&G, Morningstar & Deutsche Securities

by the BOE's aggressive stance. Similar to the US, resilient consumer demand and a tight labour market are keeping growth buoyant but also fuelling inflation. For Q2 2023, the FTSE 100 returned 2.5% in US$.

At its June meeting, the European Central Bank (ECB) announced a 25bp rate rise to 3.5%, in line with expectations, while also raising its inflation and growth forecasts and ruling out any pause in its hiking cycle. As such, markets widely anticipate another 25bp hike at its July policy meeting and the chance of another increase in September, before a possible pause towards year-end. Euro area CPI stood at 6.1 y/y% in May, triple the Central Bank's 2% target, while core CPI was sticky at 5.3% y/y. Seven Euro area economies contracted in Q1 2023, putting the region in a mild technical recession with -0.1% GDP growth. In European equity markets, France's CAC 40 returned 4.0% and Germany's DAX delivered 3.8% (in US$) in Q2.

Japan impressed investors with its continued recovery during Q2, reporting much better-than-expected revised GDP growth figures at 2.7% (versus 1.9% forecast) for Q1 2023. CPI rose to 3.2% y/y in May, high for the economy. However, the Bank of Japan continued its easy monetary policy, keeping its key lending rate at -0.1% as widely expected, saying that while they noted the rise in inflation, they would maintain policies designed to lift the country out of decades of deflation. Price increases have been driven by strong consumer demand and a weaker yen. These positive developments lifted enthusiasm for Japanese stocks, which saw the Nikkei return 9.1% in US$ for the quarter, making it one of the best-performing developed equity markets in the first half of 2023, along with the Nasdaq.

During the three months, China reported somewhat disappointing GDP growth of 4.5% for Q1 2023. The country's rebound clearly lost momentum in Q2, with inflation falling, new borrowing declining and retail sales growth slowing amid declining consumer confidence. Other reports showed lacklustre May industrial production growth at 3.5% y/y from 3.6% y/y previously. The data prompted analysts to revise lower their growth forecasts for 2023 as a whole, now ranging from approximately 4.5%-6.5%. Pent-up consumer demand continues to underpin the current (weaker) expansion, along with consumer services, while the property sector remains weak and youth unemployment high.

In a bid to spur growth and meet the government's 5% growth target for 2023, the People's Bank of China (PBOC) cut both short- and medium-term interest rates, and analysts now expect further cuts and stimulus measures from the central bank such as expanded infrastructure financing and easing in lending requirements (like mortgage downpayments). The slowdown and growing pessimism around growth weighed on local stock markets, with Hong Kong's Hang Seng returning -5.9% for the quarter and the MSCI China delivering -9.6%, both in US$.

Larger emerging equity markets posted a broad range of returns over the quarter in US$, led by Brazil's Bovespa with 21.8% and the MSCI India at 12.4%. South Korea's KOSPI was also in the black with a 2.5% performance. The MSCI Turkey recorded a -10.6% return, the MSCI South Africa -4.7% and the MSCI China -9.6% for the period (all in US$).

The international oil price trended lower during the quarter, with Brent crude ending at around US$76 per barrel from around US$80 per barrel at the start of the period on the back of expected lower demand as global growth slowed, even as producers like Saudi Arabia announced plans for further supply cuts. Brent crude oil has lost approximately 13% in US$ terms since the beginning of 2023. Other commodity prices also moved lower in Q2 amid the uncertain outlook; even the price of gold fell 2.5%. Zinc was the largest loser, down 18.7%, while nickel lost 12.7%, aluminium fell 10.3% and copper was down 8.1%. Among platinum group metals, palladium fell 16.0% and platinum lost 9.1%.

South Africa

In South Africa, the SARB surprised the market at its May MPC meeting by hiking the repo rate by an aggressive 50bps to 8.25%, worried about still-high inflation and the future inflationary impact of the weaker rand. And following the central bank's hike, SARB governor Kganyago remained tough in his anti-inflation stance, saying in late June that interest rates might need to go higher and stay there for longer. As such, the market is now expecting another 25bp hike at the MPC meeting in July and a possible extra 25bps in September. This in the face of slowing CPI, which fell markedly to 6.3% y/y in May from 6.8% in April, and expectations of a further decline in June as energy prices continued to ease and the rand rebounded. The SARB forecasts CPI to fall within its 3-6% target band in either Q3 or Q4 this year.

The SARB also revised upward slightly its economic growth expectations for 2023, to 0.3% from 0.2% in March, following the release of better-than-expected Q1 GDP data showing growth at 0.2% y/y, meaning South Africa had avoided a technical recession following a 1.1% contraction in Q4 2022. Still, the figures showed loadshedding and logistical issues were depressing fixed investment and consumer and business sentiment, with the important contributor of household spending rising only 0.4% during the quarter. June reports revealed the FNB/BER Consumer Confidence Index fell to -25 points for Q2, its second-lowest level on record after the -36 points seen during the Covid hard lockdown period of Q2 2020. At the same time, the country's Manufacturing PMI fell to 49.2 points in May, indicating a contraction in activity, due largely to weak demand.

Performance

The M&G 7% Target Income Fund returned -0.7% (after fees) for the quarter and 9.5% for the 12-month period ending 30 June 2023.

The fund's SA and global equity exposure added the most value to its absolute return for Q2, followed by its global bonds holdings, while SA property and cash also added some value. These returns were offset by SA bond holdings, which were the largest detractors from value and pushed the fund return into negative territory for the period.

Within SA equities, our holdings of strongly performing shares like Richemont, MTN, Textainer, Reinet and Naspers/Prosus added value to the fund during the quarter, as did our collective overweight exposure to SA banks like Standard Bank, First Rand and Investec. Resources holdings broadly detracted from performance, such as Implats, Northam Platinum, and Anglogold Ashanti, as did Multichoice and Spar (both dependent on SA consumers).

Strategy and positioning

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

M&G Investments

Within our **global holdings**, we bought both global equities and global bonds out of global cash during the quarter as the risk outlook started to improve, but remained neutral in these asset classes. We are also now tilted away from global cash, partly due to our forex positioning favouring the rand after its May sell-off.

While many **global equity** markets are still trading at relatively attractive levels, they became more expensive over the quarter, especially in the US: the MSCI ACWI forward P/E rose to 16.4X from 15.8X at the beginning of the quarter. Company earnings reports were mixed, with some starting to reflect downward revisions as the effects of central banks' aggressive monetary tightening began to appear. Because there are still unresolved questions around risks to earnings going forward, we remain selective: we are still leaning away from US equities due to their relatively expensive valuations versus other markets, and are also underweight Canada and Australia. We prefer the UK, Japan, China and other emerging markets that are relatively cheap, and we added to our Japan and China holdings out of global cash during the quarter.

For example, in China an additional risk premium has been priced into equities, with depressed multiples on depressed earnings, largely as a consequence of geopolitical factors such as the Russia-Ukraine war and Taiwan. Yet the economy is recovering – albeit not as strongly as hoped – and the yuan is weak, inflation is low, and the government has low foreign debt, all making the country very competitive. Equally, more stimulus is expected from the government.

Within **global bonds**, we stayed broadly neutral in our funds and added to our position in 30-year US Treasuries and 30-year UK gilts as yields rose. We also prefer sovereign EM bond markets where the real yields are high and the currency is trading at fair-to-cheap levels. Real global bond yields became more attractive over the quarter and offer more-than-fair compensation for the risk involved, which primarily can be seen as "higher for longer" interest rates. These global bonds are also solid diversifiers for SA equity risk.

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.

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.

Following their sharp-selloff in May, we increased our already-preferential positioning in **SA nominal bonds**, buying them at very attractive yields out of SA cash. The 10-year SA government bond yield reached a high of 12.1% at the end of May, compared to 10.7% at the start of the quarter, before retracing some losses to end June at around 11.4%. 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. The fund held no **SA inflation-linked bonds (ILBs)** at the end of Q1.

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

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