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M&G Unit Trust Quarterly Commentary

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

Q4 2023

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M&G Money Market Fund

Income

Q4 2023

Market overview

The final quarter of 2023 saw a synchronized rally across global bonds and equities as falling inflation in many economies led central banks to continue to pause or effectively end their interest rate hiking cycles and start to look towards rate cuts, particularly in the US. And, although a growth slowdown is still expected in 2024, this and the gradually improving outlook buoyed investor sentiment, resulting in strong gains in November and renewed bullishness in December, to end the year with unexpectedly good asset performance.

December's returns were dominated by the US Federal Reserve's unexpectedly positive forecasts at their 13 December policy meeting as, besides leaving interest rates on hold, they clearly indicated their expectations for three 25bp interest rate cuts in 2024, as well as forecasting a "soft landing" for the US economy. They also added that they didn't want to make an error by "waiting too long" to begin lowering rates. This was very good news for both equity and bond markets, helping bolster the 2024 outlook despite the uncertainty still surrounding the cumulative negative impact from the steep rate hiking cycle. Other large central banks also left interest rates on hold at their December policy meetings as expected.

Global bonds experienced a very volatile year, marked by rapid shifts in the interest rate outlook and investor sentiment that pushed the yield on the benchmark 10-year US treasury bond to 5% (briefly) in October and left it trading around 3.8% at year-end, presenting opportunities for active investors to harness attractive above-inflation yields. Ultimately, global bonds as an asset class returned 5.7% for the year.

South African assets were weighed down in 2023 by ongoing general pessimism over the country's weak growth prospects, loadshedding and uncertain government finances, exacerbated by the higher risks associated with the grey-listing of SA in global financial transactions and incidents like the "Lady R" and hosting of the BRICS Summit. This manifested in rand weakness, equity underperformance against the MSCI EM Index and continuing low valuations on SA stocks and bonds. However, SA bonds notably outperformed their global counterparts for the year, helped by their cheap valuations at the start of 2023, delivering a 9.7% annual return.

Performance

In the current environment, where the repo rate is high compared to prevailing inflation, the fund continues to put up good absolute and real return numbers. It is also consistently placing in the top half of the peer group (according to Morningstar), which is pleasing, given the conservative way in which we manage the fund's credit exposure. The fund returned 2.2% over the quarter (Class A, net of fees), compared to the benchmark's 2.0%. For the calendar year of 2023, the fund outperformed the benchmark by more than 50bps, generating 8.3%.

The M&G Money Market Fund has also generated pleasing returns relative to its peer group of late. According to Morningstar, the fund ranked 12th out of 38 funds over the past year, and 13th out of 34 funds over the last three years.

Strategy and positioning

The SARB again elected to hold rates steady this quarter, with the last change in the repo rate having come in May of 2023. The market for Negotiable Certificates of Deposit (NCDs) market took its cue from the SARB, with the NCD curve also little changed over the quarter. Floating NCD spreads have, however, increased slightly, and when you view the fixed and floating rate interest rates together, this indicates that the market now appears more positioned for rate cuts ahead. Indeed, the NCD market appears to be pricing in about 50bps of cuts over the next two to three years. This seems like a reasonable outlook to us, and we therefore don't have a strong preference for one interest rate class over the other.

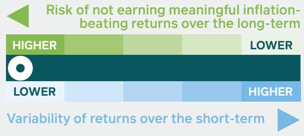
The Forward Rate Agreement (FRA) market appears more aggressive in its expectation for interest rate cuts. It is now pricing in around 100bps of cuts over the next two years. This has been one of the big changes that took place over the past quarter – at the start of the quarter the FRA market was implying a largely unchanged interest rate trajectory.

Government treasury bills continue to look attractive relative to bank paper. In light of this, we have increased our exposure to the instrument class from 13% to 21% over the quarter. Although these securities have the highest credit quality in the investment universe (in our opinion), they do come with less liquidity; therefore we don't expect to grow this position much further from here.

The fund duration was maintained at around 75 days over the quarter, in an effort to take advantage of the yield enhancement available from owning longer-dated paper.

Annualised performance	A class	Benchmark	X class
1 year	8.3%	7.8%	8.3%
3 years	5.8%	5.4%	5.8%
5 years	6.0%	5.5%	6.0%
7 years	6.4%	5.8%	6.5%
10 years	6.4%	5.9%	6.5%
20 years	6.9%	6.6%	-
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 495 680 985

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Sources: M&G and Morningstar

M&G High Interest Fund

Income

This fund is capped to new investors.

Q4 2023

Market overview

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Global bonds produced 8.1% (Bloomberg Global Aggregate Bond Index (in US$) in Q4, while South African bonds delivered an impressive 8.1%. This saw the yield on the 10-year SA government bond tumble from just over 11% at the start of the quarter to 9.8% by the end. The year proved to be a very volatile one for global bonds, marked by rapid shifts in the interest rate outlook and investor sentiment that pushed the yield on the benchmark 10-year US treasury bond to 5% (briefly) in October and left it trading around 3.8% at year-end, presenting opportunities for active investors to harness attractive above-inflation yields. Ultimately, global bonds as an asset class returned 5.7% for the year.

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Credit trends

Total credit issuance (excluding government issuances) in Q4 2023 proved to be very strong with R55.4bn issued compared to R29.2bn in the previous quarter (Q3 2023). The Q4 issuance compared to the same quarter in the prior year was up a healthy 14% (Q4 2022: R48.7bn issued). Full-year 2023 issuance was also robust at R164bn compared to full-year 2022 of 141bn, an increase of 16%. The full-year 2023 issuance of R164bn was 27% ahead of RMB Credit Research's estimate for 2023 issuance as compiled at the start of 2023. According to ABSA's Credit Research team total outstanding issuance, excluding government debt, has grown by 4.0% year-on-year.

The make-up of issuance for the quarter followed established trends -- issuance being almost exclusively floating-rate notes, with auctions accounting for just over 68% of placements by volume.

Data compiled by ABSA's Credit Research team indicates that banks have been the largest sector for new issuance in 2023 with around 55% of total issuance, while as at the end of December 2023 bank exposures comprised 50% of SA listed credit in issue. The Big 5 SA banks issued R23.9bn of new bonds in the quarter with the largest issuer being Standard Bank who raised in total just over R8bn across three separate auctions of Senior (R2.45bn), Tier 2 Sub-debt (R3.64bn) as well as Additional Tier 1 Sub-debt (R2.0bn).

There was one new issuer in the SA debt capital market in the fourth quarter in the form of a Residential Mortgage Backed Securitisation (RMBS) from FNB called Lehae. Across the five classes of notes that were on offer in the auction a total of R2.04bn was successfully placed -- only marginally less than what was targeted. The notes were placed within guided spread levels except for the Class C note which went five basis points (bps) below guidance.

Fixed-rate spreads closed the quarter +4 bps wider over the fourth quarter of the year. Floating-rate credit spreads moved lower by -4 bps, driven by -9 bps tightening of Senior Financial credit spreads.

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

Performance

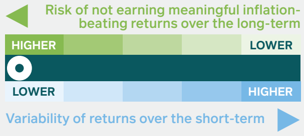
The lack of duration in the fund over the past quarter meant that it did not benefit much from the strong bond market return over the past quarter. Nevertheless, it returned a healthy 2.0% over the period (Class A, net of fees), marginally behind the benchmark's 2.1%, thanks to the relatively high level of short-term interest rates. Over the calendar year of 2023 the fund delivered 8.4%, comfortably ahead of the 8.1% benchmark return.

Strategy and Positioning

The SARB again elected to hold rates steady this quarter, with the last change in the repo rate having come in May of 2023. The Negotiable certificate of Deposit (NCD) market have taken

Annualised performance	A class	Benchmark	X class	D class
1 year	8.4%	8.1%	8.5%	8.6%
3 years	6.0%	5.7%	6.1%	6.2%
5 years	6.0%	5.9%	6.1%	6.2%
7 years	6.6%	6.4%	6.7%	6.8%
10 years	6.6%	6.4%	6.7%	6.9%
Since inception	6.4%	6.2%	-	-

Risk profile



Fund facts

Fund managers
Roshen Harry
René Prinsloo

ASISA category
South African - Interest Bearing - Short Term

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

Inception date
8 December 2010

Fund size
R14 093 115 178

Sources: M&G and Morningstar

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their cue from the SARB and the NCD curve is also little changed over the past quarter. Floating NCD spreads have, however, increased slightly, and when you view the fixed and floating rate interest rates together, this indicates that the market now appears more positioned for rate cuts ahead. Indeed, the NCD market appears to be pricing in about 50bps of cuts over the next two to three years. This seems like a reasonable outlook to us, and we therefore don't have a strong preference for one interest rate class over the other.

The Forward Rate Agreement (FRA) market appears more aggressive in its expectation of interest rate cuts. It is now pricing in around 100bps over the next two years. This has been one of the big changes that took place over the past quarter – at the start of the quarter the FRA market was implying a largely unchanged interest rate trajectory.

The most significant change in the fund over the quarter was its size, with the assets under management (AUM) growing from around R9.5bn to approximately R14bn. This was due to our multi-asset funds increasing their allocation to cash (which comes predominantly from their investments in this fund), partly as a result of the more attractive interest rates on offer lately. We elected to invest a significant portion of the new assets in some of the more liquid investments on offer to us, such as relatively short-term NCDs, as these assets are less likely to be sold at a loss, should these clients choose to rotate out of cash again at some point. This means that there was somewhat of a decline in the duration of the fund, and consequently also a slight reduction in the fund's yield.

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M&G Income Fund

Income

Q4 2023

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Fixed rate spreads closed the quarter +4 bps wider over the fourth quarter of the year. Floating rate credit spreads moved lower by -4 bps, driven by -9 bps tightening of Senior Financial credit spreads.

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

Performance

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

Strategy and Positioning

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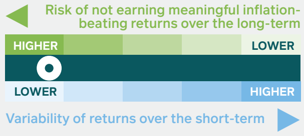
1 year	9.7%	8.1%	9.8%
3 years	7.0%	5.7%	7.1%
5 years	6.9%	5.9%	7.1%
7 years	7.4%	6.4%	7.5%
Since inception	7.4%	6.4%	-

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
R596 301 448

Sources: M&G and Morningstar

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One significant change to this fund over the quarter has been the inclusion of the RN2030 bond. This is a relatively new floating-rate bond issued by the SA government. The spread on offer for this bond has increased significantly over the past six months, from 115bps to 150bps at one point. Seeing as this is SA government debt, in our opinion it is the best quality credit on offer in the local market. However, the spread on this instrument is only slightly lower (or in some cases even higher) than that on good-quality corporate paper of similar term. Furthermore, the spreads on offer for corporate paper have been reducing, and the spreads on these government floaters have been rising. We expect to be able to access better liquidity in the RN2030 than in comparable corporate paper, and given the better credit quality as well, we would expect the fair spread to be well below where corporates issue. Even though we are aware of the fiscal risks that the South African government faces, and are appropriately concerned, we view this as an interesting investment opportunity, and have grown the position from no holding, to 7% of fund at quarter-end.

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Q4 2023

Market overview

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Performance

The fund delivered 8.3% over the quarter (class A, after fees), ahead of the benchmark's 8.1%. Over the calendar year of 2023 the fund return was 10.8% compared to the 9.7% of the ALBI. The performance relative to peers is equally pleasing. According to Morningstar, the fund ranks in the top decile of its category over 1, 2 and 3 years, and in the top quartile over the past 4 years.

Strategy and positioning

With global bond yields having peaked in October, and having moved significantly lower since then, the SA bond market also enjoyed a strong rally over the quarter. In fact, almost all of the ALBI's 9.7% return for 2023 came in the last quarter (8.1%). Investors that were able to ride out the volatility over the year were rewarded with a nearly double-digit nominal return, and very healthy real return as well.

The yield curve moved on average 90 bps lower, but also underwent a fairly significant change in shape. The seven-year area rallied the most, by around 110bps, while the ultra-long bonds lagged (yield moved 70bps lower). This bull-steepening of the curve was arguably the result of changes in expectations for central bank rates, in SA as well as globally. In SA, for example, the Forward Rate Agreement (FRA) curve is now pricing in around 100bps of cuts over the next two years. At the start of the quarter it was implying a largely unchanged interest rate trajectory.

We were well positioned for this steepening of the curve, with a significant overweight position around the seven-year area, and practically no exposure beyond 13 years in term.

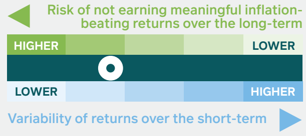
Another noteworthy development over the quarter was that the ALBI now has a new ultra-long bond, namely the R2053. This bond was first offered in April of 2023, but due to the JSE's liquidity requirements for the ALBI, it only became a constituent at index reconstitution at the start of November. The addition of this security had the effect of increasing the index's duration by around 1%. Again, we don't hold the R2053 or any of the bonds of similar maturity, as we view the ultra-long part of the curve to be overvalued.

We maintained a relatively neutral duration to the benchmark over the quarter; therefore all our outperformance resulted from our curve 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.

Annualised performance

	A class	Benchmark	B class
1 year	10.8%	9.7%	11.0%
3 years	8.5%	7.4%	8.7%
5 years	8.0%	8.2%	8.2%
7 years	8.1%	8.4%	8.3%
10 years	7.5%	8.0%	7.7%
20 years	8.3%	8.5%	8.5%
Since inception	9.6%	9.9%	-

Risk profile



Fund facts

Fund managers

Roshen Harry
René Prinsloo

ASISA category

South African - Interest Bearing - Variable Term

Benchmark

FTSE/JSE All Bond Index

Inception date

27 October 2000

Fund size

R861 247 129

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Quarterly Commentary

M&G Enhanced Income Fund

Multi-asset

Q4 2023

Market overview

After struggling in October, global markets started November on a strong footing and maintained this momentum through the remainder of the quarter. The initial impetus came from the unchanged interest rate decision of the US FOMC on 1 November. The dovish interpretation of the ensuing press conference supported global bond markets and weakened the US dollar, which had benefits for risk assets in general. This helped convince some that the US rate hiking cycle was over, and that the focus could be shifted to the start of the rate cutting cycle. US Treasuries rallied hard across the curve, with front-end bonds underperforming those further along the term structure, thereby leading to a flattening of the yield curve.

The December FOMC statement and subsequent press conference were also received as overwhelmingly dovish by global markets. Those remaining market participants who expected more interest rate hikes and those who were undecided received a shock as the committee left no one in doubt that the US rate interest hiking cycle was over and that interest rate cuts were on the horizon. Market positioning at the time was not reflective of such a dovish outcome and US Treasuries across the curve rallied hard for the remainder of the month. To illustrate the strength of the year-end rally, 10-year US Treasury yields had been above 5% in late October but ended December below 4%. Despite the continued tensions in the Middle East, Brent crude oil prices declined in the final quarter of the year, falling further from their Q3 2023 peak. After initially weakening to above R19.63/USD in early October, the rand exchange rate strengthened for the remainder of the quarter and ended up showing a gain, helped by a weakening US dollar. The SA sovereign risk premium tightened over the quarter, especially after the FOMC meetings.

South Africa

Monthly economic data releases in Q4 2023 continued to show weakness in the South African economy. The good news was that the general weakness in the rand over 2023 helped see the current account balance print a smaller- than-expected deficit. CPI inflation rates were erratic, driven largely by volatile petrol prices. The SARB released its semi-annual Monetary Policy Review in October and maintained hawkish rhetoric to bring inflation expectations back to the desired target level of 4.5%. Its Monetary Policy Committee (MPC) left the repo rate unchanged for the third consecutive meeting in November. This surprised the market, as it appeared that the two committee members who had been voting for hikes at the previous two meetings threw in the towel. The tone of the MPC remained hawkish and as always is the case, actions speak louder than words, with the MPC now relying on Open Mouth Operations (OMO) to guide inflation expectations lower.

The domestic bond market was anxious heading into the November release of National Treasury's Medium Term Budget Policy Statement (MTBPS). The widely held expectation was for the MTBPS to show lower revenues (declining mining sector profits), higher expenditure (civil service salary increases) and by implication a larger budget deficit for the current fiscal year. The most pressing issue for bond investors was whether the announcement of an increase in fixed-rate bond issuance was to be included in the MTBPS, or delayed until the Budget Review next February. This was a narrow short-term focus of the bond market going into the MTBPS release. This risk was embedded to some extent in yields, but it was not possible to gauge to what extent with any precision. Market positioning was also light, considering the anxiety in the build-up to the announcement.

The National Treasury took the highly unusual step of communicating to the market two hours before the release of the MTBPS that weekly issuance would remain unchanged, and this drove a material positive turnaround in the bond market before the actual release. These gains were followed through after the release, as the rand exchange rate strengthened and the sovereign risk premium narrowed. Interestingly, the MTBPS-inspired bond rally was largely a parallel move across all maturities, and thereby had no meaningful effect on the shape of the yield curve in November. The dovishness emanating from both FOMC meetings in Q4 2023 supported the SA bond market rally. Unfortunately for bond bulls, the rally in yields led to a steepening in the yield curve over the quarter as a whole. During December, the SA fixed income market was only fully operational until Thursday, 14 December. Thereafter, the market closed at 12h00 until year end. Most local market participants traditionally take leave over this period since primary dealer market-making obligations are reduced, and weekly government bond auctions are paused. Skeleton staff and shortened trading hours mean that liquidity collapses, and market moves can be exaggerated on relatively thin volume. This makes it very difficult to make significant changes to portfolio positioning over this period and most trades are flow-related.

Performance

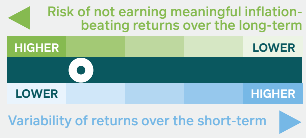
The fund delivered 2.1% (net of fees) for the quarter ending For the year ended 31 December 2023, the fund returned 10.2% (net of fees), healthily outperforming both its benchmark, which returned 8.1%, and the ASISA category average of 9.5%. Over the past three years the fund returned an annualised 7.6%, again outperforming both the benchmark return of 5.7% and the category average of 7.3%

Strategy and positioning

Our investment process allows the flexibility to construct the portfolio in favour of the most attractive mix of assets, as well as the ability to be tactical. The volatile macroeconomic backdrop has provided ample tactical opportunities to add and trim interest rate risk (duration) in the fund, adding value for investors. Fixed income assets by their very nature are highly cyclical, susceptible to both domestic and global inflation and monetary policy cycles. We pay particular attention to the interest rate cycle of the SARB. The path of the repo rate, as the base interest rate of the local economy, affects the pricing of all assets along the yield curve. How the SARB navigates the highly uncertain local and global environment is important for us in managing the fund, as it influences our asset allocation decisions between holding fixed-rate, floating-rate or inflation-linked instruments, as well as the overall level of duration and

Annualised performance	A class	Benchmark	T class	X class	D class
1 year	10.2%	8.1%	10.4%	10.1%	10.5%
3 years	7.6%	5.7%	7.8%	7.5%	7.9%
5 years	6.9%	5.9%	7.1%	6.9%	7.3%
7 years	6.8%	6.4%	7.1%	6.8%	7.2%
10 years	6.9%	6.5%	-	7.0%	7.4%
Since inception	7.7%	6.9%	-	-	-

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
R760 656 517

Sources: M&G and Morningstar

currency risk in the portfolio. The hiking cycle saw us reduce fixed-rate risk in favour of floating-rate exposure.

We also make a concerted effort to understand the fiscal policy stance adopted by government, as it affects our duration position and government bond exposure. The deterioration in government finances saw us favour the short end of the yield curve.

During the quarter we maintained our light positioning in SA listed property in the fund due to liquidity considerations. Spreads available from offshore credit remained tight and not yet attractive enough for us to allocate offshore. Although the implied real yields from nominal bonds appear more attractive than inflation-linked bonds, we maintained some exposure to inflation-linkers. This is due to the relatively high absolute level of real yields available and the fact that they provide a form of insurance to the portfolio were the inflation outlook to deteriorate. Once again, our preference is in the short end of this yield curve. Over the quarter, duration risk was managed tactically, but the preference was to maintain a decent amount of risk. This proved to be beneficial considering the bond rally that ensued.

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Disclaimer

M&G Inflation Plus Fund

Multi-asset

Q4 2023

Market overview

The final quarter of 2023 saw a synchronized rally across global bonds and equities as falling inflation in many economies led central banks to continue to pause or effectively end their interest rate hiking cycles and start to look towards rate cuts, particularly in the US. And, although a growth slowdown is still expected in 2024, this and the gradually improving outlook buoyed investor sentiment, resulting in strong gains in November and renewed bullishness in December, to end the year with unexpectedly good asset performance.

December's returns were dominated by the US Federal Reserve's unexpectedly positive forecasts at their 13 December policy meeting as, besides leaving interest rates on hold, they clearly indicated their expectations for three 25bp interest rate cuts in 2024.This was very good news for both equity and bond markets, helping bolster the 2024 outlook despite the uncertainty still surrounding the cumulative negative impact from the steep rate hiking cycle. Other large central banks also left interest rates on hold at their December policy meetings as expected.

Global equity (as measured by the MSCI ACWI) delivered 11.0% in Q4, emerging market equities returned 7.9% (MSCI Emerging Markets Index) and global bonds produced 8.1% (Bloomberg Global Aggregate Bond Index) all in US$. In South Africa, the FTSE/JSE Capped SWIX Index posted an 8.2% return in rand. Gains were propelled by a 15.9% rebound in the All Property Index over the quarter and 11.8% from Financials, while Industrials delivered 5.9% (hit by a sharp fall in Naspers/Prosus shares in December) and Resources stocks were flat (0%). South African bonds delivered an impressive 8.1% for the quarter. This saw the yield on the 10-year SA government bond tumble from just over 11% at the start of the quarter to 9.8% by the end. Meanwhile, the rand gained 2.7% against a weaker US dollar in Q4, but in total lost 8.2% against the US dollar, 14.1% versus the UK pound and 12.1% against the euro in 2023.

For 2023 as a whole, global equities returned an excellent 22.2% in US$ and 32.3% in rand (due to rand depreciation), with gains fairly concentrated around a handful of giant global AI-related US companies. These outpaced other US shares and, indeed, most other equity markets for the year, making the US meaningfully more expensive than its global counterparts. This also reflected the relative vitality of the US economy versus most other large economies. By contrast, Chinese growth disappointed and equities were in the red.

Global bonds experienced a very volatile year, marked by rapid shifts in the interest rate outlook that pushed the yield on the benchmark 10-year US treasury bond to 5% (briefly) in October and left it trading around 3.8% at year-end, presenting opportunities for active investors to harness attractive above-inflation yields. Ultimately, global bonds returned 5.7% for the year.

United States

In the US, the Fed's December forecasts for 2024 showed inflation falling gradually toward its 2% target amid a slowdown in growth, without steep job losses – in other words, a "soft landing" as investors have hoped for. Unemployment is seen rising to 4.1% from its current 3.7% level, still low from a historic perspective, and GDP growth is forecast to average 1.3% for the year. Meanwhile, at 3.1% y/y, November CPI was in line with expectations and down from October's 3.2% y/y, helped by lower energy prices over the period.

For the quarter, the Dow Jones produced 11.7%, the Nasdaq 13.1%, and the S&P 500 13.8% (all in US$). The Nasdaq was the top-performing developed equity market in 2023 with a remarkable return of 44.6%.

UK

In the UK, the Bank of England (BoE) kept its main interest rate unchanged at 5.25% at its December meeting, saying its next move would remain data-dependent, but the market is pricing in the start of rate cuts from June 2024. November CPI fell sharply to 3.9% y/y from 4.6% in October. The UK economy is on the verge of recession, having recorded zero (0%) GDP growth in Q3 2023, and with the BoE downgrading its growth forecast for 2024 to 0% from 0.5% previously. For Q4 2023, the FTSE 100 returned 14.4% in US$, and for the 12 months it produced 14.4%.

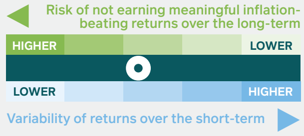
Eurozone

In the eurozone, inflation continued to fall during the quarter, with the latest November CPI at 2.4% y/y nearing the ECB's 2% target rate. However, the central bank's latest forecasts show inflation improving only very slowly going forward and averaging 2.7% in 2024 from 5.3% in July. GDP growth in the area registered a paltry 0.1% y/y in Q3 2023, and is expected to remain very subdued at 0.8% y/y in 2024. In contrast to the Fed, the ECB remained hawkish, continuing to warn of upside inflation risks from energy prices and labour costs, and discounting the possibility of interest rate cuts in the foreseeable future. In European equity markets, France's CAC 40 returned 10.5% in Q4 and 24.4% for 2023 as a whole, while Germany's DAX delivered 13.6% in Q4 and 24.5% for the year (all in US$).

Japan

After impressive growth in the first half of the year, Japanese GPD shrank by a more-than-expected 2.9% in Q3 2023 (annualised, revised) as consumer and business spending contracted and real wages fell due to prolonged relatively high inflationary conditions. The sharp slowdown came despite the Bank of Japan maintaining its ultra-easy monetary policy, which had provided firm support previously and also helped push the local equity market to 33-year highs in December. The latest conditions suggested that the BOJ will continue to

Risk profile



Fund facts

Fund managers

David Knee
Michael Moyle
Sandile Malinga
Leonard Krüger

ASISA category

South African - Multi-Asset - Low Equity

Objective (before fees)

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

Inception date

1 June 2001

Fund size

R19 620 339 610

Awards

Raging Bull: 2013
Morningstar: 2015

Annualised performance	A class	Objective[1]	T class	X class	B class
1 year	9.9%	8.9%	10.2%	9.9%	10.4%
3 years	10.9%	9.5%	11.1%	10.9%	11.4%
5 years	7.6%	8.4%	7.9%	7.6%	8.1%
7 years	6.0%	8.4%	6.4%	6.2%	6.7%
10 years	6.6%	8.6%	-	6.8%	7.3%
20 years	10.3%	9.2%	-	-	10.9%
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.

Sources: M&G and Morningstar

keep interest rates exceptionally low, in line with the central bank's goal of keeping inflation sustained at around 2% and avoiding deflationary conditions. The Nikkei returned 11.4% (in US$) for Q4, and 22.6% in 2023.

China

During the three months, the Chinese economy gained traction with Q3 GDP growth reported at a stronger-than-expected 4.9% y/y (vs 4.4% y/y forecast). Although this means that the government is likely to meet its 5% GDP growth target for 2023, the absolute level of growth has continued to disappoint. The country's exports remained under pressure from relatively weaker foreign demand, but looser monetary policy from the People's Bank of China (PBOC) has added stimulus through lower bank rates for its medium-term lending facilities.

There was positive news with November data showing industrial production grew faster than expected at 6.6% y/y (versus 5.6%), up from 4.6% y/y in October, and retail sales growth of 10.1% also improving significantly from 7.6% the previous month. Pent-up consumer demand continues to underpin the expansion, along with consumer services, while the property sector remains in crisis and youth unemployment high. Chinese markets were still in the red in Q4, with Hong Kong's Hang Seng returning -3.7% and the MSCI China -4.2%, both in US$. For the year, the Hang Seng produced -10.6% and the MSCI China posted -11.0%.

Emerging markets

With the exceptions of China and Turkey, larger emerging equity markets performed very strongly over the quarter. Brazil's Bovespa soared with a return of 18.6%, followed by South Korea's KOSPI with 13.9%, the MSCI South Africa at 12.7% and the MSCI India at 12.0% (all in US$). The MSCI Turkey fell 12.1% (in US$).

South Africa

In South Africa, at its 23 November policy meeting the SA Reserve Bank voted unanimously to keep the repo rate steady at 8.25%, as expected. Governor Lesetja Kanyago still sounded relatively hawkish regarding inflation, but noted that growth was likely to remain muted due to ongoing energy and logistical constraints (at ports and railways) weighing on economic activity and adding to the costs of doing business. Q3 2023 GDP contracted more than expected at -0.7% y/y (versus -0.2% forecast), with output declining in agriculture, mining and construction, while services output expanded. Looking ahead, the SARB projected GDP growth at 0.8% for 2023, 1.2% in 2024 and 1.3% in 2025. Besides local headwinds to growth, China's ongoing slower growth presents challenges for SA's commodity exports.

Headline November CPI declined to 5.5% y/y from 5.9% y/y in October, largely on the back of energy price decreases. However, after falling in Q3, surveyed inflation expectations for 2024 rose to 5.7% from 5.5% in Q4, according to the BER. Consumer confidence remained in the doldrums, as the FNB/BER Consumer Confidence Index registered -17 points in Q4 from -16 points in Q3.

South African assets were weighed down in 2023 by ongoing general pessimism over the country's weak growth prospects, loadshedding and uncertain government finances, exacerbated by the higher risks associated with the grey-listing of SA in global financial transactions and incidents like the "Lady R" and hosting of the BRICS Summit. This manifested in rand weakness, equity underperformance against the MSCI EM Index and continuing low valuations on SA stocks and bonds. The FTSE/JSE ALSI returned 9.3% and the more domestically-focused FTSE/JSE Capped SWIX Index posted 7.9% for the year. However, SA bonds notably outperformed their global counterparts for the year, helped by their cheap valuations at the start of 2023, delivering a 9.7% annual return.

Performance

The fund returned 7.1% (after fees) for the fourth quarter of 2023 and 9.9% for the 12-month period ending 31 December 2023. The fund has delivered a return of 10.8% per annum since its inception in 1999 (after fees), compared to its after-fee objective of 9.3% per annum over the same period.

Looking at the fund's asset allocation, SA bonds added the most value to absolute performance for the quarter, while SA equities also added some value, followed by SA listed property, which had a strong quarter. Global equities and bonds added positively to absolute performance over the quarter.

Within SA equities, our holdings in many different stocks added to absolute fund performance in Q4 given the strong rally. The largest included Standard Bank, Textainer, Investec, Richemont, FirstRand, Goldfields and Exxaro. The few detractors from performance included Sasol (given the decline in the oil price over the period), and British American Tobacco and Absa to a lesser extent.

Strategy and positioning

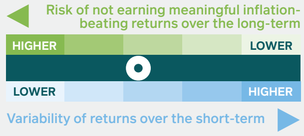
Starting with our view on offshore vs local asset allocation, during the quarter we increased our offshore exposure and reduced our total SA exposure: we trimmed our SA assets across equity, listed property and bonds and used the proceeds to buy global equities and increase our cash holdings. However, we continued to prefer more attractively valued SA assets compared to their global counterparts.

Within our **global holdings**, during Q4 we bought more global equity out of our SA holdings, so that our position moved from slightly underweight to slightly overweight at quarter-end as the global growth outlook improved. Following the strong November rally in global bonds, we also took profits on a portion of our 30-year global bond exposure so that our portfolios moved from slightly overweight to slightly underweight, and duration also fell from modestly over- to underweight at quarter-end.

In **global equities**, the MSCI ACWI 12-month forward P/E rose to 16.8X at quarter-end from 15.9X at the beginning of the quarter as stock prices gained ground. We increased our weighting on the back of the modest improvement in the interest rate outlook; however, we remain concerned that US equities remained priced for a perfect "soft landing" outcome in 2024. As such we have moved only modestly overweight from our previously slightly underweight exposure, and remained tilted away from the relatively more expensive US market. Equity markets that we prefer for their cheaper valuations include the UK, Japan, China and other emerging markets.

Within **global bonds**, November's sharp rally offered an opportunity for us to take profits on our holdings of 30-year US Treasuries, UK gilts and German bunds, thus reducing our overweight position in global bonds. Portfolio duration also fell. We used the proceeds to buy global equity and increase our global cash position. We continue holding moderate levels of local currency sovereign EM bonds where the real yields are high and the currency is trading at fair-to-cheap levels.

Risk profile



Fund facts

Fund managers

David Knee
Michael Moyle
Sandile Malinga
Leonard Krüger

ASISA category

South African - Multi-Asset - Low Equity

Objective (before fees)

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

Inception date

1 June 2001

Fund size

R19 620 339 610

Awards

Raging Bull: 2013
Morningstar: 2015

Sources: M&G and Morningstar

M&G Investments

The fund was underweight **global corporate credit** at quarter-end, based on our view of credit spreads as unattractive for the risk involved versus their government counterparts.

The fund still favoured **SA equities** at the end of Q4 2023, although we did take some risk off the table by selling into the quarter's rally and using the proceeds to buy global equities and increase our SA cash holdings. SA equity valuations (as measured by the 12-month forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) rose to 10.0X from 9.5X at the beginning of the quarter. Local equity market conditions during the year favoured stock picking, given the wide dispersion in valuations across the market, and even within sectors. Some of the top stock holdings that made the most meaningful contributions to performance over the past 12 months included Textainer, Standard Bank, Investec and Richemont.

Global shipping container lessor **Textainer** has been a preferred holding for several years, having benefited significantly from the recovery in global trade following the Covid pandemic. It possessed a sufficiently strong balance sheet that enabled the company to participate in the trade recovery post covid and increase its container fleet substantially. As an early mover, the company took advantage of the extended container shortages due to the dislocations in global trade to lease out the acquired containers at favourable lease rates for longer lease durations. This was financed with fixed rate debt that helped it withstand the higher interest rate environment. In the slowdown, the management team demonstrated discipline, not pursuing market share at all costs and rather focusing on share buybacks and shareholder returns. In October this year, the group announced an all cash buyout offer by US alternative investment firm Stonepeak at a 46% premium to its share price, sparking equivalent share price gains in Textainer and adding excellent value to our client portfolios.

Standard Bank and Investec: The fund has been overweight SA banks for some time, recognising that they are among the only businesses to benefit from rising interest rates as they receive more income from debtors and government bond holdings. There is a risk that debtors may default as interest rates rise, but at M&G we recognised that SA banks had been conservative in their lending practices in the run-up to, and during, the Covid pandemic, and had over-provided for bad debt in the economic downturn resulting from Covid, as well as in the conversion to a new accounting standard (IFRS 9). They had also had to comply with stricter lending regulations post the introduction of the National Credit Act in the late 2000s, giving them very healthy balance sheets at the beginning of 2023. Yet their valuations reflected the prevailing high uncertainty around inflation, interest rates and growth in SA and globally. Sentiment deteriorated further during the second quarter of the year after the emergence of the US regional banking crisis and rescue of Swiss banking giant Credit Suisse. Yet the banks consistently reported stronger-than-expected earnings and profits, successfully weathering the poor local conditions and helping lift their share prices. Among our bank holdings, Standard Bank and Investec were the standouts for the year.

Richemont, the global luxury goods group, has been another large contributor to the portfolio's performance in 2023 due to our active overweight in the stock. Despite its cyclicality, Richemont is a high-quality company with a regionally diversified business and a strong balance sheet reflecting a net cash position. The group also has strong free cash flows and a very strong balance sheet, being in a large net cash position. Richemont's jewellery businesses experienced surprisingly strong sales growth throughout 2023 across all its brands like Cartier, Van Cleef & Arpels and Piaget, reporting record operating profit for its 2023 financial year ending 30 March. And this despite headwinds that were supposed to materialise because of economic slowdowns in China and the West. The company's' geographical diversification helped meaningfully as the robustness of the US economy (and Europe to a lesser extent) compensated for the slower-than-expected Chinese economic recovery post their COVID lock-down.

In Q4 we further lowered our already-underweight exposure in **SA listed property** by selling into that sector's good performance, while buying global equity and lifting our cash exposure. Property sector risks remained high relative to other sectors, while cash yields have become more attractive. 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 and growth prospects relatively weak, and many property companies are reliant on finance to expand their portfolios, among other fundamental factors.

We also sold some of our overweight holdings in **SA nominal bonds**, taking profit into the rally over the period. Still, we maintained our significant preference for these assets in the fund. From a yield of over 12% at the start of the quarter, the 10-year SA government bond rallied by over 100bps to close the quarter at a yield of around 11%. We continue to believe SA nominal bond valuations are attractive relative to other fixed income assets and to their own longer-term history, and will more than compensate investors for their associated risks over time.

We did not make any adjustments to our **SA inflation-linked bonds (ILBs)** positioning during Q4, continuing to marginally favour these assets. 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 lower return potential.

Lastly, we added to our **SA cash** holdings during the quarter after trimming some of our other SA exposure, but given our very underweight positioning prior to this, the fund remained tilted away from SA cash at quarter-end. Yields on cash-type instruments have become more attractive for investors following the SARB's steep interest rate hikes in 2023. □

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Disclaimer

Sources: M&G and Morningstar

M&G Balanced Fund

Multi-asset

Q4 2023

Market overview

The final quarter of 2023 saw a synchronized rally across global bonds and equities as falling inflation in many economies led central banks to continue to pause or effectively end their interest rate hiking cycles and start to look towards rate cuts, particularly in the US. And, although a growth slowdown is still expected in 2024, this and the gradually improving outlook buoyed investor sentiment, resulting in strong gains in November and renewed bullishness in December, to end the year with unexpectedly good asset performance.

December's returns were dominated by the US Federal Reserve's unexpectedly positive forecasts at their 13 December policy meeting as, besides leaving interest rates on hold, they clearly indicated their expectations for three 25bp interest rate cuts in 2024.This was very good news for both equity and bond markets, helping bolster the 2024 outlook despite the uncertainty still surrounding the cumulative negative impact from the steep rate hiking cycle. Other large central banks also left interest rates on hold at their December policy meetings as expected.

Global equity (as measured by the MSCI ACWI) delivered 11.0% in Q4, emerging market equities returned 7.9% (MSCI Emerging Markets Index) and global bonds produced 8.1% (Bloomberg Global Aggregate Bond Index), all in US$. In South Africa, the FTSE/JSE Capped SWIX Index posted an 8.2% return in rand. Gains were propelled by a 15.9% rebound in the All Property Index over the quarter and 11.8% from Financials, while Industrials delivered 5.9% (hit by a sharp fall in Naspers/Prosus shares in December) and Resources stocks were flat (0%). South African bonds delivered an impressive 8.1% for the quarter. This saw the yield on the 10-year SA government bond tumble from just over 11% at the start of the quarter to 9.8% by the end. Meanwhile, the rand gained 2.7% against a weaker US dollar in Q4, but in total lost 8.2% against the US dollar, 14.1% versus the UK pound and 12.1% against the euro in 2023.

For 2023 as a whole, global equities returned an excellent 22.2% in US$ and 32.3% in rand (due to rand depreciation), with gains fairly concentrated around a handful of giant global AI-related US companies. These outpaced other US shares and, indeed, most other equity markets for the year, making the US meaningfully more expensive than its global counterparts. This also reflected the relative vitality of the US economy versus most other large economies. By contrast, Chinese growth disappointed and equities were in the red.

Global bonds experienced a very volatile year, marked by rapid shifts in the interest rate outlook that pushed the yield on the benchmark 10-year US treasury bond to 5% (briefly) in October and left it trading around 3.8% at year-end, presenting opportunities for active investors to harness attractive above-inflation yields. Ultimately, global bonds returned 5.7% for the year.

United States

In the US, the Fed's December forecasts for 2024 showed inflation falling gradually toward its 2% target amid a slowdown in growth, without steep job losses -- in other words, a "soft landing" as investors have hoped for. Unemployment is seen rising to 4.1% from its current 3.7% level, still low from a historic perspective, and GDP growth is forecast to average 1.3% for the year. Meanwhile, at 3.1% y/y, November CPI was in line with expectations and down from October's 3.2% y/y, helped by lower energy prices over the period.

For the quarter, the Dow Jones produced 11.7%, the Nasdaq 13.1%, and the S&P 500 13.8% (all in US$). The Nasdaq was the top-performing developed equity market in 2023 with a remarkable return of 44.6%.

UK

In the UK, the Bank of England (BoE) kept its main interest rate unchanged at 5.25% at its December meeting, saying its next move would remain data-dependent, but the market is pricing in the start of rate cuts from June 2024. November CPI fell sharply to 3.9% y/y from 4.6% in October. The UK economy is on the verge of recession, having recorded zero (0%) GDP growth in Q3 2023, and with the BoE downgrading its growth forecast for 2024 to 0% from 0.5% previously. For Q4 2023, the FTSE 100 returned 14.4% in US$, and for the 12 months it produced 14.4%.

Eurozone

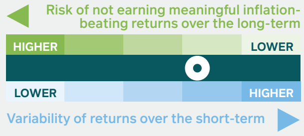
In the eurozone, inflation continued to fall during the quarter, with the latest November CPI at 2.4% y/y nearing the ECB's 2% target rate. However, the central bank's latest forecasts show inflation improving only very slowly going forward and averaging 2.7% in 2024 from 5.3% in July. GDP growth in the area registered a paltry 0.1% y/y in Q3 2023, and is expected to remain very subdued at 0.8% y/y in 2024. In contrast to the Fed, the ECB remained hawkish, continuing to warn of upside inflation risks from energy prices and labour costs, and discounting the possibility of interest rate cuts in the foreseeable future. In European equity markets, France's CAC 40 returned 10.5% in Q4 and 24.4% for 2023 as a whole, while Germany's DAX delivered 13.6% in Q4 and 24.5% for the year (all in US$).

Japan

After impressive growth in the first half of the year, Japanese GPD shrank by a more-than-expected 2.9% in Q3 2023 (annualised, revised) as consumer and business spending contracted and real wages fell due to prolonged relatively high inflationary conditions. The sharp slowdown came despite the Bank of Japan maintaining its ultra-easy monetary policy, which had provided firm support previously and also helped push the local equity market to 33-year highs in December. The latest conditions suggested that the BOJ will continue to

Annualised performance	A class	Benchmark	T class	X class	B class
1 year	11.5%	12.3%	11.7%	11.5%	12.0%
3 years	12.8%	10.5%	13.1%	12.9%	13.3%
5 years	9.8%	9.2%	10.1%	9.9%	10.4%
7 years	8.1%	7.4%	8.5%	8.7%	8.7%
10 years	8.1%	7.0%	-	8.3%	8.8%
20 years	12.2%	10.6%	-	-	13.1%
Since inception	12.6%	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

R24 229 715 421

Sources: M&G and Morningstar

keep interest rates exceptionally low, in line with the central bank's goal of keeping inflation sustained at around 2% and avoiding deflationary conditions. The Nikkei returned 11.4% (in US$) for Q4, and 22.6% in 2023.

China

During the three months, the Chinese economy gained traction with Q3 GDP growth reported at a stronger-than-expected 4.9% y/y (vs 4.4% y/y forecast). Although this means that the government is likely to meet its 5% GDP growth target for 2023, the absolute level of growth has continued to disappoint. The country's exports remained under pressure from relatively weaker foreign demand, but looser monetary policy from the People's Bank of China (PBOC) has added stimulus through lower bank rates for its medium-term lending facilities.

There was positive news with November data showing industrial production grew faster than expected at 6.6% y/y (versus 5.6%), up from 4.6% y/y in October, and retail sales growth of 10.1% also improving significantly from 7.6% the previous month. Pent-up consumer demand continues to underpin the expansion, along with consumer services, while the property sector remains in crisis and youth unemployment high. Chinese markets were still in the red in Q4, with Hong Kong's Hang Seng returning -3.7% and the MSCI China -4.2%, both in US$. For the year, the Hang Seng produced -10.6% and the MSCI China posted -11.0%.

Emerging markets

With the exceptions of China and Turkey, larger emerging equity markets performed very strongly over the quarter. Brazil's Bovespa soared with a return of 18.6%, followed by South Korea's KOSPI with 13.9%, the MSCI South Africa at 12.7% and the MSCI India at 12.0% (all in US$). The MSCI Turkey fell 12.1% (in US$).

South Africa

In South Africa, at its 23 November policy meeting the SA Reserve Bank voted unanimously to keep the repo rate steady at 8.25%, as expected. Governor Lesetja Kanyago still sounded relatively hawkish regarding inflation, but noted that growth was likely to remain muted due to ongoing energy and logistical constraints (at ports and railways) weighing on economic activity and adding to the costs of doing business. Q3 2023 GDP contracted more than expected at -0.7% y/y (versus -0.2% forecast), with output declining in agriculture, mining and construction, while services output expanded. Looking ahead, the SARB projected GDP growth at 0.8% for 2023, 1.2% in 2024 and 1.3% in 2025. Besides local headwinds to growth, China's ongoing slower growth presents challenges for SA's commodity exports.

Headline November CPI declined to 5.5% y/y from 5.9% y/y in October, largely on the back of energy price decreases. However, after falling in Q3, surveyed inflation expectations for 2024 rose to 5.7% from 5.5% in Q4, according to the BER. Consumer confidence remained in the doldrums, as the FNB/BER Consumer Confidence Index registered -17 points in Q4 from -16 points in Q3.

South African assets were weighed down in 2023 by ongoing general pessimism over the country's weak growth prospects, loadshedding and uncertain government finances, exacerbated by the higher risks associated with the grey-listing of SA in global financial transactions and incidents like the "Lady R" and hosting of the BRICS Summit. This manifested in rand weakness, equity underperformance against the MSCI EM Index and continuing low valuations on SA stocks and bonds. The FTSE/JSE ALSI returned 9.3% and the more domestically-focused FTSE/JSE Capped SWIX Index posted 7.9% for the year. However, SA bonds notably outperformed their global counterparts for the year, helped by their cheap valuations at the start of 2023, delivering a 9.7% annual return.

Performance

The fund returned 7.1% (after fees) for the fourth quarter of 2023, while for the 12-month period ending 31 December 2023 its return was 11.5%. The fund has delivered a return of 12.6% 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, SA equity holdings added the most value to absolute performance for the quarter, followed by global equities and SA bonds. SA property also added good value, as did global bonds. In fact, all asset classes contributed to the quarter's strong absolute performance.

Within SA equities, our holdings in many different stocks added to absolute fund performance in Q4 given the strong rally. The largest included Standard Bank, Textainer, Richemont, FirstRand, Goldfields, Investec and Exxaro. The few detractors from performance included Sasol (given the decline in the oil price over the period), British American Tobacco and Absa.

Strategy and positioning

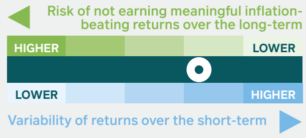
Starting with our view on offshore vs local asset allocation, during the quarter we increased our offshore exposure and reduced our total SA exposure: we trimmed our SA assets across equity, listed property and bonds and used the proceeds to buy global equities and increase our cash holdings. However, we continued to prefer more attractively valued SA assets compared to their global counterparts.

Within our **global holdings**, during Q4 we bought more global equity out of our SA holdings, so that our position moved from slightly underweight to slightly overweight at quarter-end as the global growth outlook improved. Following the strong November rally in global bonds, we also took profits on a portion of our 30-year global bond exposure so that our portfolios moved from slightly overweight to slightly underweight, and duration also fell from modestly over- to underweight at quarter-end.

In **global equities**, the MSCI ACWI 12-month forward P/E rose to 16.8X at quarter-end from 15.9X at the beginning of the quarter as stock prices gained ground. We increased our weighting on the back of the modest improvement in the interest rate outlook; however, we remain concerned that US equities remained priced for a perfect "soft landing" outcome in 2024. As such we have moved only modestly overweight from our previously slightly underweight exposure, and remained tilted away from the relatively more expensive US market. Equity markets that we prefer for their cheaper valuations include the UK, Japan, China and other emerging markets.

Within **global bonds**, November's sharp rally offered an opportunity for us to take profits on our holdings of 30-year US Treasuries, UK gilts and German bunds, thus reducing our overweight position in global bonds. Portfolio duration also fell. We used the proceeds to buy global equity and increase

Risk profile



Fund facts

Fund managers
David Knee
Michael Moyle
Sandile Malinga
Leonard Krüger

ASISA category
South African - Multi-Asset - High Equity

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

Inception date
2 August 1999

Fund size
R23 197 832 115

Sources: M&G and Morningstar

M&G Investments

our global cash position. We continue holding moderate levels of local currency sovereign EM bonds where the real yields are high and the currency is trading at fair-to-cheap levels.

The M&G Balanced Fund was underweight **global corporate credit** at quarter-end, based on our view of credit spreads as unattractive for the risk involved versus their government counterparts.

The fund still favoured **SA equities** at the end of Q4 2023, although we did take some risk off the table by selling into the quarter's rally and using the proceeds to buy global equities and increase our SA cash holdings. SA equity valuations (as measured by the 12-month forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) rose to 10.0X from 9.5X at the beginning of the quarter. Local equity market conditions during the year favoured stock picking, given the wide dispersion in valuations across the market, and even within sectors. Some of the top stock holdings that made the most meaningful contributions to performance over the past 12 months included Textainer, Standard Bank, Investec and Richemont.

Global shipping container lessor **Textainer** has been a preferred holding for several years, having benefited significantly from the recovery in global trade following the Covid pandemic. It possessed a sufficiently strong balance sheet that enabled the company to participate in the trade recovery post covid and increase its container fleet substantially. As an early mover, the company took advantage of the extended container shortages due to the dislocations in global trade to lease out the acquired containers at favourable lease rates for longer lease durations. This was financed with fixed rate debt that helped it withstand the higher interest rate environment. In the slowdown, the management team demonstrated discipline, not pursuing market share at all costs and rather focusing on share buybacks and shareholder returns. In October this year, the group announced an all cash buyout offer by US alternative investment firm Stonepeak at a 46% premium to its share price, sparking equivalent share price gains in Textainer and adding excellent value to our client portfolios.

Standard Bank and Investec: The M&G Balanced Fund has been overweight SA banks for some time, recognising that they are among the only businesses to benefit from rising interest rates as they receive more income from debtors and government bond holdings. There is a risk that debtors may default as interest rates rise, but at M&G we recognised that SA banks had been conservative in their lending practices in the run-up to, and during, the Covid pandemic, and had over-provided for bad debt in the economic downturn resulting from Covid, as well as in the conversion to a new accounting standard (IFRS 9). They had also had to comply with stricter lending regulations post the introduction of the National Credit Act in the late 2000s, giving them very healthy balance sheets at the beginning of 2023. Yet their valuations reflected the prevailing high uncertainty around inflation, interest rates and growth in SA and globally. Sentiment deteriorated further during the second quarter of the year after the emergence of the US regional banking crisis and rescue of Swiss banking giant Credit Suisse. Yet the banks consistently reported stronger-than-expected earnings and profits, successfully weathering the poor local conditions and helping lift their share prices. Among our bank holdings, Standard Bank and Investec were the standouts over the year.

Richemont, the global luxury goods group, has been another large contributor to the portfolio's performance in 2023 due to our active overweight in the stock. Despite its cyclicality, Richemont is a high-quality company with a regionally diversified business and a strong balance sheet reflecting a net cash position. The group also has strong free cash flows and a very strong balance sheet, being in a large net cash position. Richemont's jewellery businesses experienced surprisingly strong sales growth throughout 2023 across all its brands like Cartier, Van Cleef & Arpels and Piaget, reporting record operating profit for its 2023 financial year ending 30 March. And this despite headwinds that were supposed to materialise because of economic slowdowns in China and the West. The company's' geographical diversification helped meaningfully as the robustness of the US economy (and Europe to a lesser extent) compensated for the slower-than-expected Chinese economic recovery post their COVID lock-down.

In Q4 we further lowered our already-underweight exposure in **SA listed property** by selling into that sector's good performance, while buying global equity and lifting our cash exposure. Property sector risks remained high relative to other sectors, while cash yields have become more attractive. 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 and growth prospects relatively weak, and many property companies are reliant on finance to expand their portfolios, among other fundamental factors.

We also sold some of our overweight holdings in **SA nominal bonds**, taking profit into the rally over the period. Still, we maintained our significant preference for these assets in the fund. From a yield of over 12% at the start of the quarter, the 10-year SA government bond rallied by over 100bps to close the quarter at a yield of around 11%. We continue to believe SA nominal bond valuations are attractive relative to other fixed income assets and to their own longer-term history, and will more than compensate investors for their associated risks over time.

Lastly, we added to our **SA cash** holdings during the quarter after trimming some of our other SA exposure, but given our very underweight positioning prior to this, the fund remained tilted away from SA cash at quarter-end. Yields on cash-type instruments have become more attractive for investors following the SARB's steep interest rate hikes in 2023.

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Sources: M&G and Morningstar

Quarterly Commentary

M&G Enhanced SA Property Tracker Fund

Property

Q4 2023

Market overview

The final quarter of 2023 saw a synchronized rally across global bonds and equities as falling inflation in many economies led central banks to continue to pause or effectively end their interest rate hiking cycles and start to look towards rate cuts, particularly in the US. And, although a growth slowdown is still expected in 2024, this and the gradually improving outlook buoyed investor sentiment, resulting in strong gains in November and renewed bullishness in December, to end the year with unexpectedly good asset performance.

December's returns were dominated by the US Federal Reserve's unexpectedly positive forecasts at their 13 December policy meeting as, besides leaving interest rates on hold, they clearly indicated their expectations for three 25bp interest rate cuts in 2024, as well as forecasting a "soft landing" for the US economy. They also added that they didn't want to make an error by "waiting too long" to begin lowering rates. This was very good news for both equity and bond markets, helping bolster the 2024 outlook despite the uncertainty still surrounding the cumulative negative impact from the steep rate hiking cycle. Other large central banks also left interest rates on hold at their December policy meetings as expected.

In South Africa, the FTSE/JSE Capped SWIX Index posted an 8.2% return in rand and somewhat stronger than other emerging markets. Gains were propelled by a strong 15.9% rebound in the All Property Index over the quarter and 11.8% from Financials, while Industrials delivered 5.9% (hit by a sharp fall in Naspers/Prosus shares in December) and Resources stocks were flat (0%).

South African assets were weighed down in 2023 by ongoing general pessimism over the country's weak growth prospects, loadshedding and uncertain government finances, exacerbated by the higher risks associated with the grey-listing of SA in global financial transactions and incidents like the "Lady R" and hosting of the BRICS Summit. This manifested in rand weakness, equity underperformance against the MSCI EM Index and continuing low valuations on SA stocks and bonds. The FTSE/JSE ALSI returned 9.3% and the more domestically-focused FTSE/JSE Capped SWIX Index posted 7.9% for the year.

Performance

The M&G Enhanced SA Property Tracker Fund returned 15.8% for the quarter compared with 16.4% for its benchmark, the SA Listed Property Index. For the year ending 31 December 2023, the fund returned 9.6% compared to the benchmark return of 10.1%.

Overweight positions in Growthpoint contributed to relative returns, as did the underweight position in Fairvest B, Burstone and Resilient. Overweight positions in Fortress A and Dipula B detracted from relative performance, as did an underweight position in Lighthouse Capital.

Strategy and positioning

In terms of positioning, we find good value in offshore names with strong fundamentals, such as NEPI Rockcastle, Sirius Real Estate and Hammerson. In South Africa, we prefer high-yielding mid- and small-capitalisation REITs such as Dipula B, SA Corporate and Octodec. However, large-cap, high beta SA property stocks such as Growthpoint and Redefine now offer compelling value in terms of yield and re-rating potential should bond yields and interest rates decline in 2024.

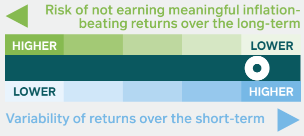
The fourth quarter of 2023 saw several REITs report results showing a stabilisation in SA property fundamentals. Retail-focused REITs saw vacancies reach new lows and reversions turn positive. Office market vacancies are stable at the expense of persistent negative reversions. We expect nominal net property income growth across SA portfolios to be offset by higher interest rates as hedges expire, resulting in muted earnings growth over the short to medium term.

Amongst the offshore names, Sirius Real Estate completed an oversubscribed bookbuild, raising 15% of their market capitalisation at a small discount to net asset value. Proceeds will be used to acquire a portfolio of assets in the UK and Germany embedded with significant value unlock potential. Spanish and Central Eastern European retail property owned by some of SA's listed REITs reported strong trading performances, benefiting from the high inflation and growing footfall. This bodes well for rental growth potential.

For 2024, we anticipate that the recent lower global inflation will be sustained and that interest rate cuts are on the horizon. These dynamics, combined with our view that rentals have stabilised and can grow (at least nominally), create an environment in which SA listed property can re-rate. We have positioned our fund to benefit from these tailwinds, while not compromising our criteria for high-quality stocks with attractive risk-adjusted total return prospects that are underpinned by healthy free cash flow generation.

Annualised performance	A class	Benchmark	T class	D class
1 year	9.6%	10.1%	9.6%	9.8%
3 years	14.7%	14.9%	14.7%	14.9%
5 years	-0.5%	0.2%	-0.5%	-0.4%
7 years	-2.6%	-1.7%	-2.6%	-2.5%
10 years	2.5%	2.9%	-	2.6%
Since inception	8.8%	9.2%	-	-

Risk profile



Fund facts

Fund managers
Yusuf Mowlana
Rahgib Davids

ASISA category
South African - Real Estate - General

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

Inception date
2 December 2005

Fund size
R546 148 904

Awards
Morningstar/Standard & Poor's: 2011

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Disclaimer

Sources: M&G and Morningstar

M&G Property Fund

Property

Q4 2023

Market overview

The final quarter of 2023 saw a synchronized rally across global bonds and equities as falling inflation in many economies led central banks to continue to pause or effectively end their interest rate hiking cycles and start to look towards rate cuts, particularly in the US. And, although a growth slowdown is still expected in 2024, this and the gradually improving outlook buoyed investor sentiment, resulting in strong gains in November and renewed bullishness in December, to end the year with unexpectedly good asset performance.

December's returns were dominated by the US Federal Reserve's unexpectedly positive forecasts at their 13 December policy meeting as, besides leaving interest rates on hold, they clearly indicated their expectations for three 25bp interest rate cuts in 2024, as well as forecasting a "soft landing" for the US economy. They also added that they didn't want to make an error by "waiting too long" to begin lowering rates. This was very good news for both equity and bond markets, helping bolster the 2024 outlook despite the uncertainty still surrounding the cumulative negative impact from the steep rate hiking cycle. Other large central banks also left interest rates on hold at their December policy meetings as expected.

In South Africa, the FTSE/JSE Capped SWIX Index posted an 8.2% return in rand and somewhat stronger than other emerging markets. Gains were propelled by a strong 15.9% rebound in the All Property Index over the quarter and 11.8% from Financials, while Industrials delivered 5.9% (hit by a sharp fall in Naspers/Prosus shares in December) and Resources stocks were flat (0%). South African bonds delivered an impressive 8.1% for the quarter.

South African assets were weighed down in 2023 by ongoing general pessimism over the country's weak growth prospects, loadshedding and uncertain government finances, exacerbated by the higher risks associated with the grey-listing of SA in global financial transactions and incidents like the "Lady R" and hosting of the BRICS Summit. This manifested in rand weakness, equity underperformance against the MSCI EM Index and continuing low valuations on SA stocks and bonds. The FTSE/JSE ALSI returned 9.3% and the more domestically-focused FTSE/JSE Capped SWIX Index posted 7.9% for the year.

Performance

The M&G Property Fund returned 14.8% compared to the All Property Index return of 15.9% for the quarter. For the year ending 31 December 2023, the fund returned 13.1% outperforming the benchmark's return of 10.7%.

Overweight positions in SA Corporate, NepiRockcastle and Hammerson contributed to relative returns, as did underweights in Hyprop, Burstone and Resilient.

Underweight positions in Lighthouse Capital, Redefine and Shaftesbury detracted from relative performance, as did overweight positions in Vukile, Dipula B and Stor-Age.

Strategy and positioning

In terms of positioning, we find good value in offshore names with strong fundamentals, such as NEPI Rockcastle, Sirius Real Estate and Hammerson. In South Africa, we prefer high-yielding mid- and small-capitalisation REITs such as Dipula B, SA Corporate and Octodec. However, large-cap, high beta SA property stocks such as Growthpoint and Redefine now offer compelling value in terms of yield and re-rating potential should bond yields and interest rates decline in 2024.

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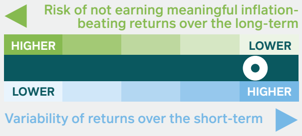
Amongst the offshore names, Sirius Real Estate completed an oversubscribed bookbuild, raising 15% of their market capitalisation at a small discount to net asset value. Proceeds will be used to acquire a portfolio of assets in the UK and Germany embedded with significant value-unlock potential. Spanish and Central Eastern European retail property owned by some of SA's listed REITs reported strong trading performances, benefiting from the high inflation and growing footfall. This bodes well for rental growth potential.

For 2024, we anticipate that the recent lower global inflation will be sustained and that interest rate cuts are on the horizon. These dynamics, combined with our view that rentals have stabilised and can grow (at least nominally), create an environment in which SA listed property can re-rate. We have positioned our fund to benefit from these tailwinds, while not compromising our criteria for high quality stocks with attractive risk-adjusted total return prospects that are underpinned by healthy free cash flow generation.

At 31 December 2023, the fund ranks number one over three years in its ASISA category, according to Morningstar.

Annualised performance	A class	Benchmark	D class
1 year	13.1%	10.7%	13.7%
2 years	6.8%	4.2%	7.2%
3 years	17.2%	14.6%	17.7%
Since inception	17.0%	15.4%	-

Risk profile



Fund facts

Fund managers
Yusuf Mowlana
Rahgib Davids

ASISA category
South African – Real Estate – General

Benchmark
FTSE/JSE All Property Index

Inception date
9 July 2020

Fund size
R265 392 549

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Sources: M&G and Morningstar

M&G Dividend Maximiser Fund

Equity

Q4 2023

Market overview

The final quarter of 2023 saw a synchronized rally across global bonds and equities as falling inflation in many economies led central banks to continue to pause or effectively end their interest rate hiking cycles and start to look towards rate cuts, particularly in the US. And, although a growth slowdown is still expected in 2024, this and the gradually improving outlook buoyed investor sentiment, resulting in strong gains in November and renewed bullishness in December, to end the year with unexpectedly good asset performance.

December's returns were dominated by the US Federal Reserve's unexpectedly positive forecasts at their 13 December policy meeting as, besides leaving interest rates on hold, they clearly indicated their expectations for three 25bp interest rate cuts in 2024, as well as forecasting a "soft landing" for the US economy. They also added that they didn't want to make an error by "waiting too long" to begin lowering rates. This was very good news for both equity and bond markets, helping bolster the 2024 outlook despite the uncertainty still surrounding the cumulative negative impact from the steep rate hiking cycle. Other large central banks also left interest rates on hold at their December policy meetings as expected.

Global equity (as measured by the MSCI ACWI) delivered 11.0% in Q4 and emerging market equities returned 7.9% (MSCI Emerging Markets Index) both in US$. In South Africa, the FTSE/JSE Capped SWIX Index posted an 8.2% return in rand and somewhat stronger than other emerging markets. Gains were propelled by a strong 15.9% rebound in the All Property Index over the quarter and 11.8% from Financials, while Industrials delivered 5.9% (hit by a sharp fall in Naspers/Prosus shares in December) and Resources stocks were flat (0%). Meanwhile, the rand gained 2.7% against a weaker US dollar in Q4, but in total lost 8.2% against the US dollar, 14.1% versus the UK pound and 12.1% against the euro in 2023.

For 2023 as a whole, global equities returned an excellent 22.2% in US$ and 32.3% in rand (due to rand depreciation), with gains fairly concentrated around a handful of giant global AI-related US companies, termed the "magnificent seven": Apple, (up 54%), Amazon (up 77%), Alphabet (up 57%), Nvidia (up 246%), Meta (up 184%), Microsoft (up 57%) and Tesla (up 130%). These outpaced other US shares and, indeed, most other equity markets for the year, making the US meaningfully more expensive than its global counterparts. This also reflected the relative vitality of the US economy versus most other large economies. By contrast, Chinese tech stocks were deep in the red, with Tencent losing 54% for the year, Meituan -54%, JD.com -50% and Welbo Corp -44%.

South African assets were weighed down in 2023 by ongoing general pessimism over the country's weak growth prospects, loadshedding and uncertain government finances, exacerbated by the higher risks associated with the grey-listing of SA in global financial transactions and incidents like the "Lady R" and hosting of the BRICS Summit. This manifested in rand weakness, equity underperformance against the MSCI EM Index and continuing low valuations on SA stocks and bonds. The FTSE/JSE ALSI returned 9.3% and the more domestically-focused FTSE/JSE Capped SWIX Index posted 7.9% for the year.

Performance

The M&G Dividend Maximiser Fund delivered a return of 6.0% (net of fees) for the fourth quarter of 2023, marginally underperforming its benchmark (the average of the general equity funds) by 0.2%. For the year ended 31 December 2023, the fund returned 8.7% (net of fees), outperforming its benchmark by 1.4%. It is particularly pleasing to report that over the three-year period ending 31 December 2023, both the absolute and relative performance of the fund has been strong, with an absolute return of 15.2% per annum over this period, outperforming the benchmark by 3.3% per year.

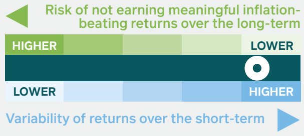
The fund's dual focus of buying undervalued companies with strong cash flows and dividends remains core.

The fund's large overweight position to Textainer Group Holdings was the largest contributor to performance for the quarter and the year. The share price increased by almost 29% in the last quarter and by 77% over the last year in Rands. Textainer is one of the worlds' largest container leasing companies and leases containers to shipping companies. We have held a large active position in Textainer in the fund for over three years and actively built the position at very attractive share prices when the outlook for the shipping market looked difficult and the market worried about global shipping during COVID. At the time we purchased the shares, the company was not paying dividends, after having suspended paying dividends in 2016. We thought that despite the lack of dividends, that the company was of high quality, exceptionally well-managed and that even in the event of a shipping slowdown, that cash flows would be strong. We therefore thought that it would be highly likely that the company would be able to pay a sustainable dividend in the future. We are exceptionally impressed with how the company's management has allocated capital over the last three years. Not only were they able to resume paying dividends in 2021, but the company was able to buy back almost a quarter of the company over the last three years at extremely attractive prices. These buy-backs resulted in accelerated returns for the shareholders who remained invested in the company.

Despite the market worries during COVID, the container leasing market emerged from the pandemic in an exceptionally strong position. As a result of the disruptions to global trade and then the strong resumption of trade, shipping lines were desperate to lease containers to ship goods at the very high shipping rates that persisted post COVID. The profitability of shipping lines was

Annualised performance	A class	Benchmark	T class	B class	F class
1 year	8.7%	7.3%	9.5%	9.0%	9.8%
3 years	15.2%	11.9%	15.8%	15.5%	16.1%
5 years	11.8%	9.1%	12.3%	12.2%	12.6%
7 years	9.2%	6.8%	9.7%	9.6%	10.0%
10 years	8.3%	6.2%	-	8.7%	-
20 years	15.2%	12.0%	-	-	-
Since inception	15.4%	12.6%	-	-	-

Risk profile



Fund facts

Fund managers
Ross Biggs
Kaitlin Byrne

ASISA category
South African - Equity - General

Benchmark
ASISA South African – Equity - General Category Mean

Inception date
2 August 1999

Fund size
R4 228 166 709

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

Sources: M&G and Morningstar

exceptionally high and the opportunity cost to not have containers to supply customers was substantial. Container leasing companies used these strong markets to sign much longer leases with shipping companies with the result that future cash flows became even more predictable. These longer leases will ensure that profitability and cash flows are more stable going forward.

The stability and predictability of future cash flows from the largest container leasing companies caught the attention of large infrastructure funds. The result was that Textainer's largest competitor was bought out in 2023, and during the last quarter, Textainer also received a bid from a large infrastructure fund called Stonepeak at a substantial premium to the share price. We view the take-out offer as fair and have sold a large part of the fund's position in the company post the offer being announced.

The second largest contributor to performance for this quarter was the fund's underweight to Sasol. We held Sasol in an overweight position in the past as we think it has been attractively valued but have reduced this position over the last year in this fund due to the variability in the dividend flow from the company and our preference within the chemicals sector for Omnia, which produces mining explosives and chemicals, as well as fertilizers. Omnia we think is a high quality company and has an exceptionally strong balance sheet and the ability to pay high and sustainable dividends.

The largest detractor from performance for the quarter was the funds' underweight position to the gold sector and in particular the underweight positions to Anglogold and Goldfields. We have fairly consistently been underweight to the gold sector in this fund due to the very poor cash flows generated by gold companies and consequently the very poor dividend growth that gold companies have exhibited over a long period of time.

We are also of the view that given the high real interest rates on offer currently, it makes the hurdle rate for an investment in gold much higher. Investors, instead of buying gold which earns no return, could instead buy inflation-linked bonds yielding good positive real rates. We however do retain small holdings of Anglogold and Goldfields in the fund given the current elevated political risk around the world together with increased gold buying by some central banks. The gold sector underweight remains one of the larger sector underweights in the fund.

The second largest detractor from performance in the quarter was the funds' underweight to FirstRand Bank. While we rate FirstRand and Capitec more highly in terms of quality banks, we cannot ignore that that they are substantially more highly rated than other banks in the sector. For this reason, we continue to be overweight Standard Bank, ABSA and Investec and underweight FirstRand and Capitec.

While South African banks continue to trade at decent valuations, we have reduced our overweight position over the last year due to the increase in share prices post COVID as well as the increase in bond yields which have resulted in South African banks trading closer to fair value.

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

We think that the banks that we own are trading on undemanding valuations, especially given that earnings and dividend growth is currently exceptionally strong.

We acknowledge that while it is very difficult to forecast the future and we do not make any attempt to do this, we 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 to buy companies that have proven dividend and cash flow track records, and which can withstand the normal upheavals that occur in markets over time. We aim to continue building risk-cognisant portfolios that seek to add value through stock selection relative to the benchmark.

Strategy and positioning

We remain optimistic regarding the South African equity market returns over the medium term due to the prevailing excessive levels of pessimism reflected in share prices and valuations. The Price to Book of the JSE remains close to 1.6X as at the end of December 2023 which we think is a very attractive valuation level.

South African assets appear to be undervalued relative to emerging and developed markets. The higher interest rates and bond yields in the United States and many developed and emerging markets during 2023 compared with 2022 meant that equity valuations faced a much higher hurdle rate over the last year. The pace of interest rate increases however slowed in 2023 and there is general optimism that rates may start to decline into 2024. The US 10-year bond yield for instance reduced by over 1% in the last quarter of the year and this has been generally supportive of equity markets.

Over the last two years, we have substantially reduced the offshore allocation of the fund as we thought that the SA market and 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 17% allocated offshore.

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

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Sources: M&G and Morningstar

M&G Equity Fund

Equity

Q4 2023

Market overview

The final quarter of 2023 saw a synchronized rally across global bonds and equities as falling inflation in many economies led central banks to continue to pause or effectively end their interest rate hiking cycles and start to look towards rate cuts, particularly in the US. And, although a growth slowdown is still expected in 2024, this and the gradually improving outlook buoyed investor sentiment, resulting in strong gains in November and renewed bullishness in December, to end the year with unexpectedly good asset performance.

December's returns were dominated by the US Federal Reserve's unexpectedly positive forecasts at their 13 December policy meeting as, besides leaving interest rates on hold, they clearly indicated their expectations for three 25bp interest rate cuts in 2024.This was very good news for both equity and bond markets, helping bolster the 2024 outlook despite the uncertainty still surrounding the cumulative negative impact from the steep rate hiking cycle. Other large central banks also left interest rates on hold at their December policy meetings as expected.

Global equity (as measured by the MSCI ACWI) delivered 11.0% in Q4 and emerging market equities returned 7.9% (MSCI Emerging Markets Index), both in US$. In South Africa, the FTSE/JSE Capped SWIX Index posted an 8.2% return in rand. Gains were propelled by a 15.9% rebound in the All Property Index over the quarter and 11.8% from Financials, while Industrials delivered 5.9% (hit by a sharp fall in Naspers/Prosus shares in December) and Resources stocks were flat (0%). Meanwhile, the rand gained 2.7% against a weaker US dollar in Q4, but in total lost 8.2% against the US dollar, 14.1% versus the UK pound and 12.1% against the euro in 2023.

For 2023 as a whole, global equities returned an excellent 22.2% in US$ and 32.3% in rand (due to rand depreciation), with gains fairly concentrated around a handful of giant global AI-related US companies. These outpaced other US shares and, indeed, most other equity markets for the year, making the US meaningfully more expensive than its global counterparts. This also reflected the relative vitality of the US economy versus most other large economies. By contrast, Chinese growth disappointed and equities were in the red.

In the US, the Fed's December forecasts for 2024 showed inflation falling gradually toward its 2% target amid a slowdown in growth, without steep job losses -- in other words, a "soft landing" as investors have hoped for. Unemployment is seen rising to 4.1% from its current 3.7% level, still low from a historic perspective, and GDP growth is forecast to average 1.3% for the year. Meanwhile, at 3.1% y/y, November CPI was in line with expectations and down from October's 3.2% y/y, helped by lower energy prices over the period. For the quarter, the Dow Jones produced 11.7%, the Nasdaq 13.1%, and the S&P 500 13.8% (all in US$). The Nasdaq was the top-performing developed equity market in 2023 with a remarkable return of 44.6%.

In the UK, the Bank of England (BoE) kept its main interest rate unchanged at 5.25% at its December meeting, saying its next move would remain data-dependent, but the market is pricing in the start of rate cuts from June 2024. November CPI fell sharply to 3.9% y/y from 4.6% in October. The UK economy is on the verge of recession, having recorded zero (0%) GDP growth in Q3 2023, and with the BoE downgrading its growth forecast for 2024 to 0% from 0.5% previously. For Q4 2023, the FTSE 100 returned 14.4% in US$, and for the 12 months it produced 14.4%.

In the eurozone, inflation continued to fall during the quarter, with the latest November CPI at 2.4% y/y nearing the ECB's 2% target rate. However, the central bank's latest forecasts show inflation improving only very slowly going forward and averaging 2.7% in 2024 from 5.3% in July. GDP growth in the area registered a paltry 0.1% y/y in Q3 2023, and is expected to remain very subdued at 0.8% y/y in 2024. In contrast to the Fed, the ECB remained hawkish, continuing to warn of upside inflation risks from energy prices and labour costs, and discounting the possibility of interest rate cuts in the foreseeable future. In European equity markets, France's CAC 40 returned 10.5% in Q4 and 24.4% for 2023 as a whole, while Germany's DAX delivered 13.6% in Q4 and 24.5% for the year (all in US$).

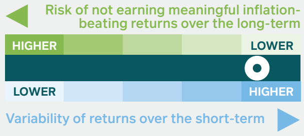
After impressive growth in the first half of the year, Japanese GPD shrank by a more-than-expected 2.9% in Q3 2023 (annualised, revised) as consumer and business spending contracted and real wages fell due to prolonged relatively high inflationary conditions. The sharp slowdown came despite the Bank of Japan maintaining its ultra-easy monetary policy, which had provided firm support previously and also helped push the local equity market to 33-year highs in December. The latest conditions suggested that the BOJ will continue to keep interest rates exceptionally low, in line with the central bank's goal of keeping inflation sustained at around 2% and avoiding deflationary conditions. The Nikkei returned 11.4% (in US$) for Q4, and 22.6% in 2023.

During the three months, the Chinese economy gained traction with Q3 GDP growth reported at a stronger-than-expected 4.9% y/y (vs 4.4% y/y forecast). Although this means that the government is likely to meet its 5% GDP growth target for 2023, the absolute level of growth has continued to disappoint. The country's exports remained under pressure from relatively weaker foreign demand, but looser monetary policy from the People's Bank of China (PBOC) has added stimulus through lower bank rates for its medium-term lending facilities.

There was positive news with November data showing industrial production grew faster than expected at 6.6% y/y (versus 5.6%), up from 4.6% y/y in October, and retail sales growth of 10.1% also improving significantly from 7.6% the previous month. Pent-up consumer demand continues to underpin the expansion, along with consumer services, while the property sector remains in crisis and youth unemployment high. Chinese markets were still in the red in Q4, with Hong Kong's Hang Seng returning -3.7% and the MSCI China -4.2%, both in US$. For the year, the Hang Seng produced -10.6% and the MSCI China posted -11.0%.

Annualised performance	A class	Benchmark	B class	F class
1 year	3.5%	7.3%	3.8%	4.8%
3 years	15.1%	11.9%	15.5%	16.4%
5 years	12.1%	9.1%	12.6%	13.2%
7 years	9.6%	6.8%	10.0%	10.6%
10 years	8.6%	6.2%	9.1%	-
20 years	15.4%	12.0%	-	-
Since inception	15.5%	12.6%	-	-

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 662 979 214

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

Sources: M&G and Morningstar

With the exceptions of China and Turkey, larger emerging equity markets performed very strongly over the quarter. Brazil's Bovespa soared with a return of 18.6%, followed by South Korea's KOSPI with 13.9%, the MSCI South Africa at 12.7% and the MSCI India at 12.0% (all in US$). The MSCI Turkey fell 12.1% (in US$).

Performance

The fund returned 5.4% for the quarter and 3.5% for the year. This was lower than the returns earned by the benchmark, the average fund performance in the sector, of 6.2% and 7.3%, respectively, over the same periods. This was a somewhat disappointing outcome for the fund, which came after a three-year period of significant outperformance.

In analysing the performance of the fund for the year, the largest detractors for the year were underweight positions in FirstRand, Goldfields and Sanlam, as well as overweight positions in Multichoice and Impala Platinum and Northam. Contributing to performance were overweight positions in Textainer and Datatec, as well as underweight positions in Anglo American, Sibanye, Anglo Platinum and Transaction Capital.

Strategy and positioning

During the quarter, the Chinese government announced further regulatory measures to curb addictive behaviour in relation to online games. This resulted in an immediate sell-off of Tencent and other gaming-related companies, which in turn led to the Naspers and Prosus share prices declining. The fund has an overweight exposure to these companies. Shortly after this announcement, the regulator reaffirmed its support for the gaming sector and approved several games for publication. Tencent also used the lower share price as an opportunity to buy back its own stock, which we view as attractive in its own right.

Multichoice also staged a recovery after poor share price performance as a consequence of a weaker performance from its South African business, in addition to the market's skepticism in relation to its heavy investment into its online streaming capability via the new Showmax service. Canal Plus, a French company, has built a 33% stake in the business and we expect significant value creation for our unit holders in the medium term.

Post a poor production update, Anglo American, a company which the fund held in an underweight position, fell sharply, highlighting a weaker production outlook than the market expected. The fund's current preferred global mining exposures are to BHP and Glencore. Within the mining space, the fund has an underweight position to the PGM sector as well as the gold sector, given weaker free cash generation when compared to the other holdings of the fund, including Exxaro and Thungela.

Within the banks, Investec, Absa and Standard Bank are preferred to FirstRand, Nedbank and Capitec, while the fund's only insurance exposure is indirectly via Reinet and its investment in Pension Insurance Corporation.

During the quarter, the real estate sector enjoyed a strong recovery on the prospect of lower interest rates. SA corporate was among the sector's best performers over the past three years.

The fund managers see the past year as a disappointment and not indicative of future relative performance. As always, we will seek to find superior opportunities within the opportunity set and would like to thank our investors for their support.

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M&G SA Equity Fund

Equity

Q4 2023

Market overview

The final quarter of 2023 saw a synchronized rally across global bonds and equities as falling inflation in many economies led central banks to continue to pause or effectively end their interest rate hiking cycles and start to look towards rate cuts, particularly in the US. And, although a growth slowdown is still expected in 2024, this and the gradually improving outlook buoyed investor sentiment, resulting in strong gains in November and renewed bullishness in December, to end the year with unexpectedly good asset performance.

December's returns were dominated by the US Federal Reserve's unexpectedly positive forecasts at their 13 December policy meeting as, besides leaving interest rates on hold, they clearly indicated their expectations for three 25bp interest rate cuts in 2024, as well as forecasting a "soft landing" for the US economy. They also added that they didn't want to make an error by "waiting too long" to begin lowering rates. This was very good news for both equity and bond markets, helping bolster the 2024 outlook despite the uncertainty still surrounding the cumulative negative impact from the steep rate hiking cycle. Other large central banks also left interest rates on hold at their December policy meetings as expected.

Global equity (as measured by the MSCI ACWI) delivered 11.0% in Q4 and emerging market equities returned 7.9% (MSCI Emerging Markets Index, both in US$). In South Africa, the FTSE/JSE Capped SWIX Index posted an 8.2% return in rand, somewhat stronger than other emerging markets. Gains were propelled by a strong 15.9% rebound in the All Property Index over the quarter and 11.8% from Financials, while Industrials delivered 5.9% (hit by a sharp fall in Naspers/Prosus shares in December) and Resources stocks were flat (0%). Meanwhile, the rand gained 2.7% against a weaker US dollar in Q4, but in total lost 8.2% against the US dollar, 14.1% versus the UK pound and 12.1% against the euro in 2023. This would have boosted foreign earnings for SA-listed companies with significant offshore operations.

South African assets were weighed down in 2023 by ongoing general pessimism over the country's weak growth prospects, loadshedding and uncertain government finances, exacerbated by the higher risks associated with the grey-listing of SA in global financial transactions and incidents like the "Lady R" and hosting of the BRICS Summit. This manifested in rand weakness, equity underperformance against the MSCI EM Index and continuing low valuations on SA stocks. The FTSE/JSE ALSI returned 9.3% and the more domestically-focused FTSE/JSE Capped SWIX Index posted 7.9% for the year.

Performance

The fund delivered a return of 6.2% (net of fees) for the fourth quarter of 2023, compared to its benchmark which delivered 8.2%. For the 12 months ended 31 December 2023, the fund returned 4.4% (net of fees), underperforming its benchmark's 7.9% return. It is particularly pleasing to report that over the three-year period ending 31 December 2023, both the absolute and relative performance of the fund has been strong, with an absolute return of 15.0% per annum over this period, outperforming the benchmark's 12.7% return.

Among the interest rate-sensitive stocks, the banking sector remained our preferred exposure through the quarter; however, we continued to moderate the position as the interest rate cycle neared its peak.

The fund's longer-term and differentiated holding in Textainer was a significant contributor over the period. The investment case was premised on an attractive valuation (<1x price-to-book value), complemented by a strong long-run return on equity (ROE) of over 16%. As shipping rates moderated, Textainer was able to maintain its high profitability and returns owing to longer-term leases with shipping lines and superior inventory management. The container market was also underpinned by a strong second-hand market and rational supply. Container companies are also compelling assets for financial sponsors, as we witnessed with the acquisition of Triton Shipping by Brookfield Infrastructure in early 2023. Textainer shareholders were similarly bought out by US-based infrastructure investor Stonepeak in October 2023, driving a large portion of the returns the fund accrued from the holding in Textainer.

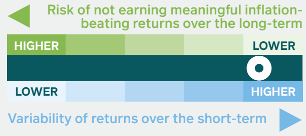
Our select overweights within insurers, namely Reinet Investments and OUTsurance, contributed positively to overall performance during Q4. Reinet is an investment holding company with its largest assets being Pension Corp (of which it owns 49.5%) and British American Tobacco. Pension Corp is at an attractive point in its business development cycle and the higher interest rate environment has had a positive impact on solvency. Pension Corp declared a maiden dividend in 2022. In addition, we believe the UK market has the potential to grow significantly in the next three years, and Pension Corp is one of the few players who can participate in the growth in buy-ins and buy-outs in the UK pension risk transfer market. In our assessment, Reinet is trading at a discount to fair value with its growth prospects not fully priced in. Therefore, we were not surprised by recent press reports of private equity interest in the pension risk transfer market and Pension Corp specifically.

The overweight in Sasol was among the larger detractors from fund performance over the quarter. Stabilisation in the energy price market provided some support for the share during the first three quarters of 2023, however a failed AGM in the fourth quarter sparked an aggressive sell-off and Sasol significantly underperformed the broader market and related oil players. Concerns around the company's cash flows and potential impact on dividends dominated the investment

Annualised performance	B class	Benchmark[1]	F class
1 year	5.6%	7.9%	4.4%
3 years	16.3%	12.7%	15.0%
5 years	9.9%	9.0%	8.7%
7 years	8.5%	7.2%	7.3%
10 years	8.0%	6.9%	-
20 years	14.4%	13.0%	-
Since inception	14.6%	12.8%	-

[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

R43 811 765 869

Sources: M&G and Morningstar

narrative, which was further exacerbated by a muted outlook for the chemical market. While the company's South African operations are performing largely in line with expectations, the lack of a meaningful contribution from Lake Charles, high levels of corporate debt, and the potential costs related to decarbonisation have served to depress the share. While we still think Sasol offers value at current prices, we concede that significant capital investment is required to transition the company to a cleaner fuels operator over the next decade.

The fund's long-standing underweight to the gold sector was also a detractor over the period. Fundamentally, we maintain that gold companies are poor long-term investments as free cash flow (FCF) is often lumpy and unsustainable. During periods of high cash flow generation, gold companies are compelled to reinvest in the business as gold mines are often short life assets. Shareholders therefore receive a small fraction of cash flow generated. While gold rallied along with other carry (and risk) assets in the wake of the Fed pivot, we note this outperformance has already started to abate.

The fund's overweight exposure to British American Tobacco detracted from performance during the fourth quarter of 2023. Much of the underperformance can be attributed to a single event when the company wrote down the value of some of its US cigarette brands. The company took a non-cash impairment charge of US$31.5bn on a base asset value of US$80bn as it changed its accounting policy away from an indefinite useful life and started amortising the value of its combustible brands. Despite the significant (non-cash) charge, and the potential regulatory risks, we still see the stock offering compelling value trading at more than a 15% FCF yield, translating to an approximate10% dividend yield to shareholders (in UK pound terms). Growth prospects are also favourable if the company manages well through this period.

As always, it is worth noting that we construct portfolios on a bottom-up basis and aim to avoid embedding a large top-down macro or thematic view. We seek to include investment ideas into a portfolio based on their own merits, which we believe provides a favourable risk reward skew. In this way, we hope to construct portfolios which can deliver favourable investment outcomes across many market environments over time.

Strategy and positioning

Reflecting on the last quarter of 2023, we had the sense that the overall degree of pessimism abated as reflected in the price performance of various risk assets. Nevertheless, the South African market remains less well-bid as sentiment remains cautious heading into an election year. Furthermore, the commodity complex, especially PGMs, remains vulnerable to demand-supply imbalances. While rates have likely peaked, the global growth outlook remains challenged, undermining the demand for commodities.

We remain constructive on the South African market as valuations remain attractive. South African assets appear to be undervalued relative to most emerging and developed markets. We see select opportunities across various segments, but are nevertheless cognisant of the backdrop and have constructed portfolios to reflect this. The fund continues to focus on seeking out companies that are attractively priced relative to underlying earnings and cash flow generation.

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Sources: M&G and Morningstar

M&G Global Bond Feeder Fund

Global Income ZAR-denominated

Q4 2023

Market overview

The final quarter of 2023 saw a synchronized rally across global bonds and equities as falling inflation in many economies led central banks to continue to pause or effectively end their interest rate hiking cycles and start to look towards rate cuts, particularly in the US. And, although a growth slowdown is still expected in 2024, this and the gradually improving outlook buoyed investor sentiment, resulting in strong gains in November and renewed bullishness in December, to end the year with surprisingly good asset performance.

December's returns were dominated by the US Federal Reserve's unexpectedly positive forecasts at their 13 December policy meeting as, besides leaving interest rates on hold, they clearly indicated their expectations for three 25bp interest rate cuts in 2024.This was very good news for both equity and bond markets, helping bolster the 2024 outlook despite the uncertainty still surrounding the cumulative negative impact from the steep rate hiking cycle. Other large central banks also left interest rates on hold at their December policy meetings as expected.

Global bonds produced 8.1% (Bloomberg Global Aggregate Bond Index, in US$) over the quarter and experienced a very volatile year. This was marked by rapid shifts in the interest rate outlook that pushed the yield on the benchmark 10-year US treasury bond to 5% (briefly) in October and left it trading around 3.8% at year-end, presenting opportunities for active investors to harness attractive above-inflation yields. Ultimately, global bonds returned 5.7% for the year.

United States

In the US, the Fed's December forecasts for 2024 showed inflation falling gradually toward its 2% target amid a slowdown in growth, without steep job losses -- in other words, a "soft landing" as investors have hoped for. Unemployment is seen rising to 4.1% from its current 3.7% level, still low from a historic perspective, and GDP growth is forecast to average 1.3% for the year. Meanwhile, at 3.1% y/y, November CPI was in line with expectations and down from October's 3.2% y/y, helped by lower energy prices over the period.

UK

In the UK, the Bank of England (BoE) kept its main interest rate unchanged at 5.25% at its December meeting, saying its next move would remain data-dependent, but the market is pricing in the start of rate cuts from June 2024. November CPI fell sharply to 3.9% y/y from 4.6% in October. The UK economy is on the verge of recession, having recorded zero (0%) GDP growth in Q3 2023, and with the BoE downgrading its growth forecast for 2024 to 0% from 0.5% previously.

Eurozone

In the eurozone, inflation continued to fall during the quarter, with the latest November CPI at 2.4% y/y% nearing the ECB's 2% target rate. However, the central bank's latest forecasts show inflation improving only very slowly going forward and averaging 2.7% in 2024 from 5.3% in July. GDP growth in the area registered a paltry 0.1% y/y in Q3 2023, and is expected to remain very subdued at 0.8% y/y in 2024. In contrast to the Fed, the ECB remained hawkish, continuing to warn of upside inflation risks from energy prices and labour costs, and discounting the possibility of interest rate cuts in the foreseeable future.

Japan

After impressive growth in the first half of the year, Japanese GPD shrank by a more-than-expected 2.9% in Q3 2023 (annualised, revised) as consumer and business spending contracted and real wages fell due to prolonged relatively high inflationary conditions. The sharp slowdown came despite the Bank of Japan maintaining its ultra-easy monetary policy, which had provided firm support previously and also helped push the local equity market to 33-year highs in December. The latest conditions suggested that the BOJ will continue to keep interest rates exceptionally low, in line with the central bank's goal of keeping inflation sustained at around 2% and avoiding deflationary conditions.

China

During the three months, the Chinese economy gained traction with Q3 GDP growth reported at a stronger-than-expected 4.9% y/y (vs 4.4% y/y forecast). Although this means that the government is likely to meet its 5% GDP growth target for 2023, the absolute level of growth has continued to disappoint. The country's exports remained under pressure from relatively weaker foreign demand, but looser monetary policy from the People's Bank of China (PBOC) has added stimulus through lower bank rates for its medium-term lending facilities.

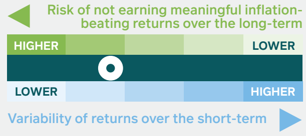
There was positive news with November data showing industrial production grew faster than expected at 6.6% y/y (versus 5.6%), up from 4.6% y/y in October, and retail sales growth of 10.1% also improving significantly from 7.6% the previous month. Pent-up consumer demand continues to underpin the expansion, along with consumer services, while the property sector remains in crisis and youth unemployment high.

Currency

The rand gained 2.7% against a weaker US$ for the quarter, but for 2023 in total depreciated 8.2% against the US$, 14.1% versus the UK pound and 12.1% against the euro as sentiment toward SA remained depressed.

Annualised performance	A class	Benchmark	B class
1 year	13.8%	14.4%	14.1%
3 years	1.5%	1.8%	1.8%
5 years	4.8%	4.6%	5.2%
7 years	4.5%	4.9%	-
10 years	5.4%	6.1%	-
20 years	7.7%	7.8%	-
Since inception	7.6%	7.8%	-

Risk profile



Fund facts

Investment manager of the underlying fund

M&G Investment Management Limited (UK)

Fund managers of the underlying fund

Jim Leaviss
Eva Sun-Wai
Robert Burrows

ASISA category

Global - Interest Beating - Variable Term

Benchmark

Bloomberg Global Aggregate Bond Index

Inception date

27 October 2000

Fund size

R760 493 430

Sources: M&G and Morningstar

M&G Investments

Performance

For Q4 2023, the fund returned 7.4% (net of fees) versus its benchmark, the Bloomberg Global Aggregate Bond Index, which returned 8.1%. For the 12 months ending 31 December, the fund delivered 13.8%, compared to the benchmark's 14.4%.

Our long duration positioning aided performance over the quarter given the broad rally in government bonds from the US, UK, and Europe. This was further supported by gains from emerging market sovereign bonds and corporate bonds.

Strategy and positioning

At the start of the quarter, we took advantage of the weakness in longer-dated yields by increasing the fund's duration and adding to positions that would benefit from a steepening in the yield curve. This was achieved by adding to longer-dated developed market sovereign bonds, while trimming shorter-dated allocations.

Elsewhere, we took profits on select emerging market debt where we felt the outlook was less compelling. We took profits on some corporate names in favour of new issues, for example selling Bunzl and adding Coventry Building Society and Nationwide.

As the quarter progressed, we continued to de-risk the portfolio by selling some holdings, mostly financials. We reduced risk in EM by buying protection on the "CDX EM" credit default swap (CDS) index after a rally in risk assets.

In December, we reduced duration at the margin as government bonds rallied, by selling some euro futures and Canadian sovereign bonds. We continued to reduce positions in some financial names.

Outlook

We believe there is an opportunity in 2024 for investors in government bonds and duration, as interest rates may be at their peak and valuations look attractive. We think the more likely scenario for next year is not a soft landing, but a slowdown followed by central banks cutting interest rates. Potential concerns for 2024 include the possibility of inflation not being defeated, a wave of government bond supply, and difficulties arising from higher rates for both companies and governments.

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Disclaimer

Quarterly Commentary

M&G Global Inflation Plus Feeder Fund

Global Multi-Asset ZAR-denominated

Q4 2023

Market overview

The final quarter of 2023 saw a synchronized rally across global bonds and equities as falling inflation in many economies led central banks to continue to pause or effectively end their interest rate hiking cycles and start to look towards rate cuts, particularly in the US. And, although a growth slowdown is still expected in 2024, this and the gradually improving outlook buoyed investor sentiment, resulting in strong gains in November and renewed bullishness in December, to end the year with unexpectedly good asset performance.

December's returns were dominated by the US Federal Reserve's unexpectedly positive forecasts at their 13 December policy meeting as, besides leaving interest rates on hold, they clearly indicated their expectations for three 25bp interest rate cuts in 2024.This was very good news for both equity and bond markets, helping bolster the 2024 outlook despite the uncertainty still surrounding the cumulative negative impact from the steep rate hiking cycle. Other large central banks also left interest rates on hold at their December policy meetings as expected.

Global equity (as measured by the MSCI ACWI) delivered 11.0% in Q4, emerging market equities returned 7.9% (MSCI Emerging Markets Index) and global bonds produced 8.1% (Bloomberg Global Aggregate Bond Index, both in US$).

For 2023 as a whole, global equities returned an excellent 22.2% in US$ and 32.3% in rand (due to rand depreciation), with gains fairly concentrated around a handful of giant global AI-related US companies. These outpaced other US shares and, indeed, most other equity markets for the year, making the US meaningfully more expensive than its global counterparts. This also reflected the relative vitality of the US economy versus most other large economies. By contrast, Chinese growth disappointed and equities were in the red.

Global bonds experienced a very volatile year, marked by rapid shifts in the interest rate outlook that pushed the yield on the benchmark 10-year US treasury bond to 5% (briefly) in October and left it trading around 3.8% at year-end, presenting opportunities for active investors to harness attractive above-inflation yields. Ultimately, global bonds returned 5.7% for the year.

United States

In the US, the Fed's December forecasts for 2024 showed inflation falling gradually toward its 2% target amid a slowdown in growth, without steep job losses -- in other words, a "soft landing" as investors have hoped for. Unemployment is seen rising to 4.1% from its current 3.7% level, still low from a historic perspective, and GDP growth is forecast to average 1.3% for the year. Meanwhile, at 3.1% y/y, November CPI was in line with expectations and down from October's 3.2% y/y, helped by lower energy prices over the period. For the quarter, the Dow Jones produced 11.7%, the Nasdaq 13.1%, and the S&P 500 13.8% (all in US$). The Nasdaq was the top-performing developed equity market in 2023 with a remarkable return of 44.6%.

UK

In the UK, the Bank of England (BoE) kept its main interest rate unchanged at 5.25% at its December meeting, saying its next move would remain data-dependent, but the market is pricing in the start of rate cuts from June 2024. November CPI fell sharply to 3.9% y/y from 4.6% in October. The UK economy is on the verge of recession, having recorded zero (0%) GDP growth in Q3 2023, and with the BoE downgrading its growth forecast for 2024 to 0% from 0.5% previously. For Q4 2023, the FTSE 100 returned 14.4% in US$, and for the 12 months it produced 14.4%.

Eurozone

In the eurozone, inflation continued to fall during the quarter, with the latest November CPI at 2.4% y/y% nearing the ECB's 2% target rate. However, the central bank's latest forecasts show inflation improving only very slowly going forward and averaging 2.7% in 2024 from 5.3% in July. GDP growth in the area registered a paltry 0.1% y/y in Q3 2023, and is expected to remain very subdued at 0.8% y/y in 2024. In contrast to the Fed, the ECB remained hawkish, continuing to warn of upside inflation risks from energy prices and labour costs, and discounting the possibility of interest rate cuts in the foreseeable future. In European equity markets, France's CAC 40 returned 10.5% in Q4 and 24.4% for 2023 as a whole, while Germany's DAX delivered 13.6% in Q4 and 24.5% for the year (all in US%).

Japan

After impressive growth in the first half of the year, Japanese GPD shrank by a more-than-expected 2.9% in Q3 2023 (annualised, revised) as consumer and business spending contracted and real wages fell due to prolonged relatively high inflationary conditions. The sharp slowdown came despite the Bank of Japan maintaining its ultra-easy monetary policy, which had provided firm support previously and also helped push the local equity market to 33-year highs in December. The latest conditions suggested that the BOJ will continue to keep interest rates exceptionally low, in line with the central bank's goal of keeping inflation sustained at around 2% and avoiding deflationary conditions. The Nikkei returned 11.4% (in US$) for Q4, and 22.6% in 2023.

China

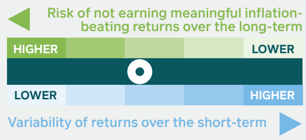
During the three months, the Chinese economy gained traction with Q3 GDP growth reported at a stronger-than-expected 4.9% y/y (vs 4.4% y/y forecast). Although this means that the government is likely to meet its 5% GDP growth target for 2023, the absolute level of growth has continued to disappoint. The country's exports remained under pressure from relatively

Annualised performance	A class	Benchmark[1]	B class
1 year	19.1%	11.6%	19.5%
3 years	6.8%	13.4%	7.2%
5 years	8.7%	8.7%	9.1%
7 years	7.3%	7.3%	7.7%
10 years	7.5%	7.8%	7.8%
Since inception	7.8%	7.7%	-

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

Sources: M&G and Morningstar

Risk profile



Fund facts

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

Fund managers of the underlying fund
Craig Simpson
Aaron Powell

ASISA category:
Global - Multi-Asset - Low Equity

Benchmark
Global inflation

Inception date
1 March 2004

Fund size
R224 308 136

weaker foreign demand, but looser monetary policy from the People's Bank of China (PBOC) has added stimulus through lower bank rates for its medium-term lending facilities.

There was positive news with November data showing industrial production grew faster than expected at 6.6% y/y (versus 5.6%), up from 4.6% y/y in October, and retail sales growth of 10.1% also improving significantly from 7.6% the previous month. Pent-up consumer demand continues to underpin the expansion, along with consumer services, while the property sector remains in crisis and youth unemployment high. Chinese markets were still in the red in Q4, with Hong Kong's Hang Seng returning -3.7% and the MSCI China -4.2%, both in US$. For the year, the Hang Seng produced -10.6% and the MSCI China posted -11.0%

Emerging markets

With the exceptions of China and Turkey, larger emerging equity markets performed very strongly over the quarter. Brazil's Bovespa soared with a return of 18.6%, followed by South Korea's KOSPI with 13.9%, the MSCI South Africa at 12.7% and the MSCI India at 12.0% (all in US$). The MSCI Turkey fell 12.1% (both in US$).

Currency

The rand gained 2.7% against a weaker US$ for the quarter, but for 2023 in total depreciated 8.2% against the US dollar, 14.1% versus the UK pound and 12.1% against the euro as sentiment toward SA remained depressed.

Performance

For Q4 2023, the fund returned 7.8% (net of fees), compared to global inflation (based on the OECD Major 7 CPI Total Index) measuring -2.6%. For the 12 months to 31 December, the fund produced 19.1% (net of fees) while global inflation measured 11.6%.

Our core equity exposure, chosen by M&G's machine learning model, outperformed on 30 out of 65 days during the quarter, offering an unfavourable hit rate of around 46%. This drag was more than offset by positive skew, i.e. contribution from outperforming days more than offsets the lag from underperforming days.

Style exposure proved to be a significant positive contributor over the quarter, with exposures to high beta, high residual volatility and low momentum all contributing to performance, while exposure to smaller cap companies detracted.

In terms of tactical equity exposure, emerging market stocks in Asia and Latin America, European equities, and US financials were also beneficial to returns. However, a short position in the US stock market weighed on performance, as did exposure to China.

The long duration positioning from our core fixed income exposure was the main contributor to performance in the quarter.

In terms of our tactical fixed income positions, the main contributor to returns was from US Treasuries, with support from UK gilts.

Our property exposure outperformed on 40 out of 65 days during the quarter, offering an attractive hit rate of around 61 %. This more than offset the slightly negative skew, resulting in the fund outperforming.

The majority of outperformance came from stock selection, with overall style effects providing only a modest positive contribution. Within style, exposures to cheap valuation contributed to returns, while small size exposure detracted.

Strategy and positioning

Overall, the fund's exposure to equities was increased marginally during the quarter, while we reduced the fund's exposure to fixed income through reducing tactical exposure to emerging market bonds and UK gilts.

Outlook

The current consensus view is one of slowing US growth and Chinese economic malaise, which is expected to lead to global growth dipping below 3% in 2024. In Japan, investors' eyes will remain focused on the Bank of Japan and a potential end to its so-called "yield curve control" policy and negative interest rates. Western Europe will continue to flirt with recession, with many economists seeing a mild recession in Germany and a flat-lining UK. In emerging markets, India, Indonesia and the Philippines are seen as better growth prospects.

Against a backdrop of slowing global growth, but a resilient employment market, we expect policy interest rates in developed economies to be on hold in the first half of 2024, with cuts in the second half. At the same time, we believe company profits will slow in line with the economy.

M&G Investments

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Sources: M&G and Morningstar

M&G Global Balanced Feeder Fund

Global Multi-Asset ZAR-denominated

Q4 2023

Market overview

The final quarter of 2023 saw a synchronized rally across global bonds and equities as falling inflation in many economies led central banks to continue to pause or effectively end their interest rate hiking cycles and start to look towards rate cuts, particularly in the US. And, although a growth slowdown is still expected in 2024, this and the gradually improving outlook buoyed investor sentiment, resulting in strong gains in November and renewed bullishness in December, to end the year with unexpectedly good asset performance.

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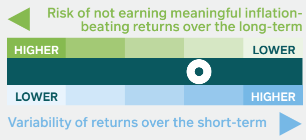
Risk profile



Fund facts

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

Fund managers of the underlying fund
Craig Simpson
Aaron Powell

ASISA category
Global - Multi Asset - High Equity

Benchmark
65% MSCI All Country World Index TR (Net), 5% FTSE EPRA/NAREIT Global REIT Index, 25% Bloomberg Global Aggregate Bond Index, 5% US 1m Treasury Bill

Inception date
28 June 2018

Fund size
R1 245 973 259

Annualised performance	A class	Benchmark	B class
1 year	24.1%	26.1%	24.5%
2 years	5.9%	5.3%	6.3%
3 years	11.2%	10.7%	11.4%
5 years	12.0%	13.3%	12.1%
Since inception	9.8%	11.8%	-

Sources: M&G and Morningstar

the absolute level of growth has continued to disappoint. The country's exports remained under pressure from relatively weaker foreign demand, but looser monetary policy from the People's Bank of China (PBOC) has added stimulus through lower bank rates for its medium-term lending facilities.

There was positive news with November data showing industrial production grew faster than expected at 6.6% y/y (versus 5.6%), up from 4.6% y/y in October, and retail sales growth of 10.1% also improving significantly from 7.6% the previous month. Pent-up consumer demand continues to underpin the expansion, along with consumer services, while the property sector remains in crisis and youth unemployment high. Chinese markets were still in the red in Q4, with Hong Kong's Hang Seng returning -3.7% and the MSCI China -4.2%, both in US$. For the year, the Hang Seng produced -10.6% and the MSCI China posted -11.0%

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Currency

The rand gained 2.7% against a weaker US$ for the quarter, but for 2023 in total depreciated 8.2% against the US dollar, 14.1% versus the UK pound and 12.1% against the euro as sentiment toward SA remained depressed.

Performance

For Q4 2023, the fund produced a return of 8.1% (net of fees), compared to the 7.1% recorded by its benchmark. For the 12 months to 31 December, the fund delivered 24.1% versus the benchmark's 26.1% return.

The fund benefited from the strong performance of equity, fixed income and property markets over the quarter. Our core equity exposure, chosen by our machine learning model, outperformed on 30 out of 65 days during the quarter, offering an unfavourable hit rate of around 46 %. However, this drag was more than offset by positive skew, i.e. the contribution from outperforming days more than offsets the lag from underperforming days.

Our style exposure in equities proved to be a significant positive contributor over the quarter, with exposures to high beta, high residual volatility and low momentum all contributing to performance, while exposure to smaller cap companies detracted. Stock selection had a modest negative impact over the quarter.

In terms of tactical equity exposure, emerging market stocks in Asia and Latin America, European equities and US financials were also beneficial to returns. However, our short position in the US stock market weighed on performance, as did exposure to China.

In fixed income, the long duration positioning from our core fixed income exposure was the main contributor to performance in the quarter. In terms of our tactical fixed income positions, the main contributor to returns was from US Treasuries, with support from UK gilts.

Our property exposure, also managed by a machined-learning model, outperformed on 40 out of 65 days during the quarter, offering an attractive hit rate of around 61 %. This more than offset the slightly negative skew, resulting in outperformance. The majority of outperformance came from stock selection, with overall style effects providing only a modest positive contribution. Within style, exposures to cheap valuation contributed to returns, while small size exposure detracted.

Strategy and positioning

Overall the fund's exposure to equities was increased and exposure to fixed income and cash was reduced marginally during the quarter, through reducing tactical exposure to emerging market bonds and UK gilts.

Outlook

The current consensus view is one of slowing US growth and Chinese economic malaise, which will lead to global growth dipping below 3% in 2024. In Japan, investors' eyes will remain focused on the Bank of Japan and a potential end to its so-called "yield curve control" policy and negative interest rates. Western Europe will continue to flirt with recession, with many economists seeing a mild recession in Germany and a flat-lining UK. In emerging markets, India, Indonesia and the Philippines are seen as better growth prospects.

Against a backdrop of slowing global growth, but a resilient employment market, we expect policy interest rates in developed economies to be on hold in the first half of 2024, with cuts in the second half. At the same time, we believe company profits will slow in line with the economy.

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Disclaimer

Sources: M&G and Morningstar

M&G Investments

M&G Global Property Feeder Fund

Global Property ZAR-denominated

Q4 2023

Market overview

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For Q4, global equity (as measured by the MSCI ACWI) delivered 11.0% in Q4, emerging market equities returned 7.9% (MSCI Emerging Markets Index) and global bonds produced 8.1% (Bloomberg Global Aggregate Bond Index, both in US$). Global property stocks (the FTSE EPRA/NAREIT Global REIT Index) were the star performers over the period, returning 15.2% (in US$).

For 2023 as a whole, global equities returned an excellent 22.2% in US$ and 32.3% in rand (due to rand depreciation), with gains fairly concentrated around a handful of giant global AI-related US companies. These outpaced other US shares and, indeed, most other equity markets for the year, making the US meaningfully more expensive than its global counterparts. This also reflected the relative vitality of the US economy versus most other large economies. By contrast, Chinese growth disappointed and equities were in the red. In 2023, the FTSE EPRA/NAREIT Global REIT Index returned 9.6%.

United States

In the US, the Fed's December forecasts for 2024 showed inflation falling gradually toward its 2% target amid a slowdown in growth, without steep job losses -- in other words, a "soft landing" as investors have hoped for. Unemployment is seen rising to 4.1% from its current 3.7% level, still low from a historic perspective, and GDP growth is forecast to average 1.3% for the year. Meanwhile, at 3.1% y/y, November CPI was in line with expectations and down from October's 3.2% y/y, helped by lower energy prices over the period. For the quarter, the Dow Jones produced 11.7%, the Nasdaq 13.1%, and the S&P 500 13.8% (all in US$). The Nasdaq was the top-performing developed equity market in 2023 with a remarkable return of 44.6%.

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Eurozone

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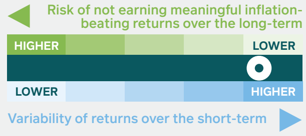
Annualised performance	A class	Benchmark	B class
1 year	23.5%	18.6%	23.5%
2 years	-2.0%	-2.5%	-1.8%
Since inception	1.1%	1.0%	-

Sources: M&G and Morningstar

Risk profile



Fund facts

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

Fund managers of the underlying fund
Gautam Samarth

ASISA category
Global - Real Estate - General

Benchmark
FTSE EPRA NAREIT Global REIT Index (Net)

Inception date
24 November 2021

Fund size
R12 439 996

M&G Investments

There was positive news with November data showing industrial production grew faster than expected at 6.6% y/y (versus 5.6%), up from 4.6% y/y in October, and retail sales growth of 10.1% also improving significantly from 7.6% the previous month. Pent-up consumer demand continues to underpin the expansion, along with consumer services, while the property sector remains in crisis and youth unemployment high. Chinese markets were still in the red in Q4, with Hong Kong's Hang Seng returning -3.7% and the MSCI China -4.2%, both in US$. For the year, the Hang Seng produced -10.6% and the MSCI China posted -11.0%

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Currency

The rand gained 2.7% against a weaker US$ for the quarter, but for 2023 as a whole lost 8.2% against the US dollar, 14.1% versus the UK pound and 12.1% against the euro as sentiment toward SA remained depressed.

Performance

For Q4 2023, the fund returned 15.4%, compared to its benchmark, the FTSE EPRA/NAREIT Global REITs Net Index's 12.1% return. For the 12 months to 31 December, the fund delivered 23.5%, outperforming the 18.6% return from the benchmark.

The portfolio outperformed on 40 out of 65 days during the quarter, offering an attractive hit rate of around 61 %. This more than offset the slightly negative skew (i.e. the contribution from outperforming days more than offsets the lag from underperforming days), resulting in the fund outperforming.

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.

The majority of outperformance came from stock selection, with overall style effects providing only a modest positive contribution. Within style, exposures to cheap valuation contributed to returns, while small size exposure detracted.

Strategy and positioning

The current consensus view is one of slowing US growth and Chinese economic malaise, which will lead to global growth dipping below 3% in 2024. In Japan, investors' eyes will remain focused on the Bank of Japan and a potential end to its so-called "yield curve control" policy and negative interest rates. Western Europe will continue to flirt with recession, with many economists seeing a mild recession in German and a flat-lining UK. In emerging markets, India, Indonesia and the Philippines are seen as better growth prospects.

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In the US, the Fed's December forecasts for 2024 showed inflation falling gradually toward its 2% target amid a slowdown in growth, without steep job losses -- in other words, a "soft landing" as investors have hoped for. Unemployment is seen rising to 4.1% from its current 3.7% level, still low from a historic perspective, and GDP growth is forecast to average 1.3% for the year. Meanwhile, at 3.1% y/y, November CPI was in line with expectations and down from October's 3.2% y/y, helped by lower energy prices over the period. For the quarter, the Dow Jones produced 11.7%, the Nasdaq 13.1%, and the S&P 500 13.8% (all in US$). The Nasdaq was the top-performing developed equity market in 2023 with a remarkable return of 44.6%.

UK

In the UK, the Bank of England (BoE) kept its main interest rate unchanged at 5.25% at its December meeting, saying its next move would remain data-dependent, but the market is pricing in the start of rate cuts from June 2024. November CPI fell sharply to 3.9% y/y from 4.6% in October. The UK economy is on the verge of recession, having recorded zero (0%) GDP growth in Q3 2023, and with the BoE downgrading its growth forecast for 2024 to 0% from 0.5% previously. For Q4 2023, the FTSE 100 returned 14.4% in US$, and for the 12 months it produced 14.4%.

Eurozone

In the eurozone, inflation continued to fall during the quarter, with the latest November CPI at 2.4% y/y% nearing the ECB's 2% target rate. However, the central bank's latest forecasts show inflation improving only very slowly going forward and averaging 2.7% in 2024 from 5.3% in July. GDP growth in the area registered a paltry 0.1% y/y in Q3 2023, and is expected to remain very subdued at 0.8% y/y in 2024. In contrast to the Fed, the ECB remained hawkish, continuing to warn of upside inflation risks from energy prices and labour costs, and discounting the possibility of interest rate cuts in the foreseeable future. In European equity markets, France's CAC 40 returned 10.5% in Q4 and 24.4% for 2023 as a whole, while Germany's DAX delivered 13.6% in Q4 and 24.5% for the year (all in US%).

Japan

After impressive growth in the first half of the year, Japanese GPD shrank by a more-than-expected 2.9% in Q3 2023 (annualised, revised) as consumer and business spending contracted and real wages fell due to prolonged relatively high inflationary conditions. The sharp slowdown came despite the Bank of Japan maintaining its ultra-easy monetary policy, which had provided firm support previously and also helped push the local equity market to 33-year highs in December. The latest conditions suggested that the BOJ will continue to keep interest rates exceptionally low, in line with the central bank's goal of keeping inflation sustained at around 2% and avoiding deflationary conditions. The Nikkei returned 11.4% (in US$) for Q4, and 22.6% in 2023.

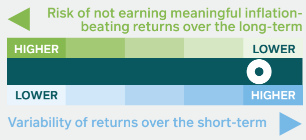
China

During the three months, the Chinese economy gained traction with Q3 GDP growth reported at a stronger-than-expected 4.9% y/y (vs 4.4% y/y forecast). Although this means that the government is likely to meet its 5% GDP growth target for 2023, the absolute level of growth has continued to disappoint. The country's exports remained under pressure from relatively weaker foreign demand, but looser monetary policy from the People's Bank of China (PBOC) has added stimulus through lower bank rates for its medium-term lending facilities.

There was positive news with November data showing industrial production grew faster than expected at 6.6% y/y (versus 5.6%), up from 4.6% y/y in October, and retail sales growth of 10.1% also improving significantly from 7.6% the previous

Annualised performance	A class	Benchmark	B class
1 year	31.0%	32.3%	31.4%
3 years	15.5%	14.0%	15.9%
5 years	16.3%	17.3%	16.7%
7 years	13.1%	14.7%	-
10 years	12.5%	14.1%	-
20 years	10.9%	13.1%	-
Since inception	8.5%	9.8%	-

Risk profile



Fund facts

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

Fund managers of the underlying fund
Gautam Samarth

ASISA category
Global - Equity - General

Benchmark
MSCI All Country World Index TR Net

Inception date
18 February 2000

Fund size
R1 783 348 951

Sources: M&G and Morningstar

month. Pent-up consumer demand continues to underpin the expansion, along with consumer services, while the property sector remains in crisis and youth unemployment high. Chinese markets were still in the red in Q4, with Hong Kong's Hang Seng returning -3.7% and the MSCI China -4.2%, both in US$. For the year, the Hang Seng produced -10.6% and the MSCI China posted -11.0%

Emerging markets

With the exceptions of China and Turkey, larger emerging equity markets performed very strongly over the quarter. Brazil's Bovespa soared with a return of 18.6%, followed by South Korea's KOSPI with 13.9%, the MSCI South Africa at 12.7% and the MSCI India at 12.0% (all in US$). The MSCI Turkey fell 12.1% (both in US$).

Currency

The rand gained 2.7% against a weaker US$ for the quarter, but for 2023 as a whole lost 8.2% against the US dollar, 14.1% versus the UK pound and 12.1% against the euro as sentiment toward SA remained depressed.

Performance

For Q4 2023, the fund returned 8.7% (net of fees), compared to the benchmark's 8.0%. For the 12 months ending 31 December, the fund delivered 31.0% (net of fees) compared to the benchmark's 32.3%.

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

The portfolio outperformed on 30 out of 65 days during the quarter, offering an unfavourable hit rate of around 46 %. However, this was more than offset by positive skew (i.e. the contribution from outperforming days more than offsets the lag from underperforming days), resulting in the fund outperforming in the quarter.

The portfolio's style exposure proved to be a significant positive contributor over the quarter, with exposures to high beta, high residual volatility and low momentum all contributing to performance, while exposure to smaller cap companies detracted. Stock selection had a modest negative impact over the quarter.

Strategy and positioning

The current consensus view is one of slowing US growth and Chinese economic malaise, which will lead to global growth dipping below 3% in 2024. In Japan, investors' eyes will remain focused on the Bank of Japan and a potential end to its so-called "yield curve control" policy and negative interest rates. Western Europe will continue to flirt with recession, with many economists seeing a mild recession in German and a flat-lining UK. In emerging markets, India, Indonesia and the Philippines are seen as better growth prospects.

Against a backdrop of slowing global growth, but a resilient employment market, we expect policy interest rates in developed economies to be on hold in the first half of 2024, with cuts in the second half. At the same time, we believe company profits will slow in line with the economy. □

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Sources: M&G and Morningstar

M&G Investments

M&G 2.5% Target Income Fund

Target Income

Q4 2023

Market overview

The final quarter of 2023 saw a synchronized rally across global bonds and equities as falling inflation in many economies led central banks to continue to pause or effectively end their interest rate hiking cycles and start to look towards rate cuts, particularly in the US. And, although a growth slowdown is still expected in 2024, this and the gradually improving outlook buoyed investor sentiment, resulting in strong gains in November and renewed bullishness in December, to end the year with unexpectedly good asset performance.

December's returns were dominated by the US Federal Reserve's unexpectedly positive forecasts at their 13 December policy meeting as, besides leaving interest rates on hold, they clearly indicated their expectations for three 25bp interest rate cuts in 2024.This was very good news for both equity and bond markets, helping bolster the 2024 outlook despite the uncertainty still surrounding the cumulative negative impact from the steep rate hiking cycle. Other large central banks also left interest rates on hold at their December policy meetings as expected.

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For 2023 as a whole, global equities returned an excellent 22.2% in US$ and 32.3% in rand (due to rand depreciation), with gains fairly concentrated around a handful of giant global AI-related US companies. These outpaced other US shares and, indeed, most other equity markets for the year, making the US meaningfully more expensive than its global counterparts. This also reflected the relative vitality of the US economy versus most other large economies. By contrast, Chinese growth disappointed and equities were in the red.

Global bonds experienced a very volatile year, marked by rapid shifts in the interest rate outlook that pushed the yield on the benchmark 10-year US treasury bond to 5% (briefly) in October and left it trading around 3.8% at year-end, presenting opportunities for active investors to harness attractive above-inflation yields. Ultimately, global bonds returned 5.7% for the year.

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Annualised performance	A class	CPI	B class
1 year	12.7%	5.5%	13.1%
2 years	7.9%	6.5%	8.3%
3 years	13.9%	6.1%	14.3%
Since inception	7.9%	5.1%	-

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
R106 176 226

Sources: M&G and Morningstar

keep interest rates exceptionally low, in line with the central bank's goal of keeping inflation sustained at around 2% and avoiding deflationary conditions. The Nikkei returned 11.4% (in US$) for Q4, and 22.6% in 2023.

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There was positive news with November data showing industrial production grew faster than expected at 6.6% y/y (versus 5.6%), up from 4.6% y/y in October, and retail sales growth of 10.1% also improving significantly from 7.6% the previous month. Pent-up consumer demand continues to underpin the expansion, along with consumer services, while the property sector remains in crisis and youth unemployment high. Chinese markets were still in the red in Q4, with Hong Kong's Hang Seng returning -3.7% and the MSCI China -4.2%, both in US$. For the year, the Hang Seng produced -10.6% and the MSCI China posted -11.0%.

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With the exceptions of China and Turkey, larger emerging equity markets performed very strongly over the quarter. Brazil's Bovespa soared with a return of 18.6%, followed by South Korea's KOSPI with 13.9%, the MSCI South Africa at 12.7% and the MSCI India at 12.0% (all in US$). The MSCI Turkey fell 12.1% (in US$).

South Africa

In South Africa, at its 23 November policy meeting the SA Reserve Bank voted unanimously to keep the repo rate steady at 8.25%, as expected. Governor Lesetja Kanyago still sounded relatively hawkish regarding inflation, but noted that growth was likely to remain muted due to ongoing energy and logistical constraints (at ports and railways) weighing on economic activity and adding to the costs of doing business. Q3 2023 GDP contracted more than expected at -0.7% y/y (versus -0.2% forecast), with output declining in agriculture, mining and construction, while services output expanded. Looking ahead, the SARB projected GDP growth at 0.8% for 2023, 1.2% in 2024 and 1.3% in 2025. Besides local headwinds to growth, China's ongoing slower growth presents challenges for SA's commodity exports.

Headline November CPI declined to 5.5% y/y from 5.9% y/y in October, largely on the back of energy price decreases. However, after falling in Q3, surveyed inflation expectations for 2024 rose to 5.7% from 5.5% in Q4, according to the BER. Consumer confidence remained in the doldrums, as the FNB/BER Consumer Confidence Index registered -17 points in Q4 from -16 points in Q3.

South African assets were weighed down in 2023 by ongoing general pessimism over the country's weak growth prospects, loadshedding and uncertain government finances, exacerbated by the higher risks associated with the grey-listing of SA in global financial transactions and incidents like the "Lady R" and hosting of the BRICS Summit. This manifested in rand weakness, equity underperformance against the MSCI EM Index and continuing low valuations on SA stocks and bonds. The FTSE/JSE ALSI returned 9.3% and the more domestically-focused FTSE/JSE Capped SWIX Index posted 7.9% for the year. However, SA bonds notably outperformed their global counterparts for the year, helped by their cheap valuations at the start of 2023, delivering a 9.7% annual return.

Performance

The M&G 2.5% Target Income Fund returned 7.2% (after fees) for the fourth quarter of 2023 and 12.7% for the 12-month period ending 31 December 2023.

Looking at the fund's asset allocation, global equities added the most value to absolute performance for the quarter, followed by SA equities and SA bonds. In fact, it was only global cash that detracted (minorly) from performance over the period given the strong rally across most assets.

Within SA equities, it was our collective overweight in SA banking shares that was among the strongest contributors to the fund's absolute performance over the period, with Standard Bank, First Rand and Investec all adding good value. Other standouts were Textainer, Richemont, Gold Fields, Exxaro and even Naspers, despite its sharp late-December sell-off. The few detractors from absolute performance included Sasol (given the weaker oil price over the period), British American Tobacco and Absa.

Strategy and positioning

Starting with our view on offshore vs local asset allocation, during the quarter we increased our offshore exposure and reduced our total SA exposure: we trimmed our SA assets across equity, listed property and bonds and used the proceeds to buy global equities and increase our cash holdings. However, we continued to prefer more attractively valued SA assets compared to their global counterparts.

Within our **global holdings**, during Q4 we bought more global equity out of our SA holdings, so that our position moved from slightly underweight to slightly overweight at quarter-end as the global growth outlook improved. Following the strong November rally in global bonds, we also took profits on a portion of our 30-year global bond exposure so that our portfolios moved from slightly overweight to slightly underweight, and duration also fell from modestly over- to underweight at quarter-end.

In **global equities**, the MSCI ACWI 12-month forward P/E rose to 16.8X at quarter-end from 15.9X at the beginning of the quarter as stock prices gained ground. We increased our weighting on the back of the modest improvement in the interest rate outlook; however, we remain concerned that US equities remained priced for a perfect "soft landing" outcome in 2024. As such we have moved only modestly overweight from our previously slightly underweight exposure, and remained tilted away from the relatively more expensive US market. Equity markets that we prefer for their cheaper valuations include the UK, Japan, China and other emerging markets.

Within **global bonds**, November's sharp rally offered an opportunity for us to take profits on our holdings of 30-year US Treasuries, UK gilts and German bunds, thus reducing our overweight position in global bonds. Portfolio duration also fell. We used the proceeds to buy global equity and increase our global cash position. We continue holding moderate levels of local currency sovereign EM bonds where the real yields are high and the currency is trading at fair-to-cheap levels.

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
R106 176 226

Sources: M&G and Morningstar

The fund was underweight **global corporate credit** at quarter-end, based on our view of credit spreads as unattractive for the risk involved versus their government counterparts.

The fund still favoured **SA equities** at the end of Q4 2023, although we did take some risk off the table by selling into the quarter's rally and using the proceeds to buy global equities and increase our SA cash holdings. SA equity valuations (as measured by the 12-month forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) rose to 10.0X from 9.5X at the beginning of the quarter. Local equity market conditions during the year favoured stock picking, given the wide dispersion in valuations across the market, and even within sectors. Some of the top stock holdings that made the most meaningful contributions to performance over the past 12 months included Textainer, Standard Bank, Investec and Richemont.

Global shipping container lessor **Textainer** has been a preferred holding for several years, having benefited significantly from the recovery in global trade following the Covid pandemic. It possessed a sufficiently strong balance sheet that enabled the company to participate in the trade recovery post covid and increase its container fleet substantially. As an early mover, the company took advantage of the extended container shortages due to the dislocations in global trade to lease out the acquired containers at favourable lease rates for longer lease durations. This was financed with fixed rate debt that helped it withstand the higher interest rate environment. In the slowdown, the management team demonstrated discipline, not pursuing market share at all costs and rather focusing on share buybacks and shareholder returns. In October this year, the group announced an all cash buyout offer by US alternative investment firm Stonepeak at a 46% premium to its share price, sparking equivalent share price gains in Textainer and adding excellent value to our client portfolios.

Standard Bank and Investec: The fund has been overweight SA banks for some time, recognising that they are among the only businesses to benefit from rising interest rates as they receive more income from debtors and government bond holdings. There is a risk that debtors may default as interest rates rise, but at M&G we recognised that SA banks had been conservative in their lending practices in the run-up to, and during, the Covid pandemic, and had over-provided for bad debt in the economic downturn resulting from Covid, as well as in the conversion to a new accounting standard (IFRS 9). They had also had to comply with stricter lending regulations post the introduction of the National Credit Act in the late 2000s, giving them very healthy balance sheets at the beginning of 2023. Yet their valuations reflected the prevailing high uncertainty around inflation, interest rates and growth in SA and globally. Sentiment deteriorated further during the second quarter of the year after the emergence of the US regional banking crisis and rescue of Swiss banking giant Credit Suisse. Yet the banks consistently reported stronger-than-expected earnings and profits, successfully weathering the poor local conditions and helping lift their share prices. Among our bank holdings, Standard Bank and Investec were the standouts over the year.

Richemont, the global luxury goods group, has been another large contributor to the portfolio's performance in 2023 due to our active overweight in the stock. Despite its cyclicality, Richemont is a high-quality company with a regionally diversified business and a strong balance sheet reflecting a net cash position. The group also has strong free cash flows and a very strong balance sheet, being in a large net cash position. Richemont's jewellery businesses experienced surprisingly strong sales growth throughout 2023 across all its brands like Cartier, Van Cleef & Arpels and Piaget, reporting record operating profit for its 2023 financial year ending 30 March. And this despite headwinds that were supposed to materialise because of economic slowdowns in China and the West. The company's' geographical diversification helped meaningfully as the robustness of the US economy (and Europe to a lesser extent) compensated for the slower-than-expected Chinese economic recovery post their COVID lock-down.

In Q4 we further lowered our already-underweight exposure in **SA listed property** by selling into that sector's good performance, while buying global equity and lifting our cash exposure. Property sector risks remained high relative to other sectors, while cash yields have become more attractive. 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 and growth prospects relatively weak, and many property companies are reliant on finance to expand their portfolios, among other fundamental factors.

We also sold some of our overweight holdings in **SA nominal bonds**, taking profit into the rally over the period. Still, we maintained our significant preference for these assets in the fund. From a yield of over 12% at the start of the quarter, the 10-year SA government bond rallied by over 100bps to close the quarter at a yield of around 11%. We continue to believe SA nominal bond valuations are attractive relative to other fixed income assets and to their own longer-term history, and will more than compensate investors for their associated risks over time. The fund holds no SA ILBs.

Lastly, we added to our **SA cash** holdings during the quarter after trimming some of our other SA exposure, but given our very underweight positioning prior to this, the fund remained tilted away from SA cash at quarter-end. Yields on cash-type instruments have become more attractive for investors following the SARB's steep interest rate hikes in 2023.

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Disclaimer

Sources: M&G and Morningstar

M&G 5% Target Income Fund

Target Income

Q4 2023

Market overview

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In the eurozone, inflation continued to fall during the quarter, with the latest November CPI at 2.4% y/y nearing the ECB's 2% target rate. However, the central bank's latest forecasts show inflation improving only very slowly going forward and averaging 2.7% in 2024 from 5.3% in July. GDP growth in the area registered a paltry 0.1% y/y in Q3 2023, and is expected to remain very subdued at 0.8% y/y in 2024. In contrast to the Fed, the ECB remained hawkish, continuing to warn of upside inflation risks from energy prices and labour costs, and discounting the possibility of interest rate cuts in the foreseeable future. In European equity markets, France's CAC 40 returned 10.5% in Q4 and 24.4% for 2023 as a whole, while Germany's DAX delivered 13.6% in Q4 and 24.5% for the year (all in US$).

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Annualised performance	A class	CPI	B class
1 year	8.1%	5.5%	8.5%
2 years	5.5%	6.5%	5.8%
3 years	9.0%	6.1%	9.4%
Since inception	6.4%	5.1%	-

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
R179 117 337

Sources: M&G and Morningstar

keep interest rates exceptionally low, in line with the central bank's goal of keeping inflation sustained at around 2% and avoiding deflationary conditions. The Nikkei returned 11.4% (in US$) for Q4, and 22.6% in 2023.

China

During the three months, the Chinese economy gained traction with Q3 GDP growth reported at a stronger-than-expected 4.9% y/y (vs 4.4% y/y forecast). Although this means that the government is likely to meet its 5% GDP growth target for 2023, the absolute level of growth has continued to disappoint. The country's exports remained under pressure from relatively weaker foreign demand, but looser monetary policy from the People's Bank of China (PBOC) has added stimulus through lower bank rates for its medium-term lending facilities.

There was positive news with November data showing industrial production grew faster than expected at 6.6% y/y (versus 5.6%), up from 4.6% y/y in October, and retail sales growth of 10.1% also improving significantly from 7.6% the previous month. Pent-up consumer demand continues to underpin the expansion, along with consumer services, while the property sector remains in crisis and youth unemployment high. Chinese markets were still in the red in Q4, with Hong Kong's Hang Seng returning -3.7% and the MSCI China -4.2%, both in US$. For the year, the Hang Seng produced -10.6% and the MSCI China posted -11.0%.

Emerging markets

With the exceptions of China and Turkey, larger emerging equity markets performed very strongly over the quarter. Brazil's Bovespa soared with a return of 18.6%, followed by South Korea's KOSPI with 13.9%, the MSCI South Africa at 12.7% and the MSCI India at 12.0% (all in US$). The MSCI Turkey fell 12.1% (in US$).

South Africa

In South Africa, at its 23 November policy meeting the SA Reserve Bank voted unanimously to keep the repo rate steady at 8.25%, as expected. Governor Lesetja Kanyago still sounded relatively hawkish regarding inflation, but noted that growth was likely to remain muted due to ongoing energy and logistical constraints (at ports and railways) weighing on economic activity and adding to the costs of doing business. Q3 2023 GDP contracted more than expected at -0.7% y/y (versus -0.2% forecast), with output declining in agriculture, mining and construction, while services output expanded. Looking ahead, the SARB projected GDP growth at 0.8% for 2023, 1.2% in 2024 and 1.3% in 2025. Besides local headwinds to growth, China's ongoing slower growth presents challenges for SA's commodity exports.

Headline November CPI declined to 5.5% y/y from 5.9% y/y in October, largely on the back of energy price decreases. However, after falling in Q3, surveyed inflation expectations for 2024 rose to 5.7% from 5.5% in Q4, according to the BER. Consumer confidence remained in the doldrums, as the FNB/BER Consumer Confidence Index registered -17 points in Q4 from -16 points in Q3.

South African assets were weighed down in 2023 by ongoing general pessimism over the country's weak growth prospects, loadshedding and uncertain government finances, exacerbated by the higher risks associated with the grey-listing of SA in global financial transactions and incidents like the "Lady R" and hosting of the BRICS Summit. This manifested in rand weakness, equity underperformance against the MSCI EM Index and continuing low valuations on SA stocks and bonds. The FTSE/JSE ALSI returned 9.3% and the more domestically-focused FTSE/JSE Capped SWIX Index posted 7.9% for the year. However, SA bonds notably outperformed their global counterparts for the year, helped by their cheap valuations at the start of 2023, delivering a 9.7% annual return.

Performance

The M&G 5% Target Income Fund returned 7.0% (after fees) for the fourth quarter of 2023 and 8.1% (after fees) for the 12-month period ending 31 December 2023.

Looking at the fund's asset allocation, SA bonds were the largest contributors to the fund's absolute performance for the quarter, followed by SA equity. Global equity, global bonds and SA listed property also contributed meaningfully to fund value. There were no asset class detractors for the quarter.

Within SA equities, it was our collective overweight in SA banking shares that was among the strongest contributors to the fund's absolute performance over the period, with Standard Bank, First Rand and Investec all adding good value. Other standouts were Textainer, Richemont, Gold Fields, Exxaro and even Naspers, despite its sharp late-December sell-off. The few detractors from absolute performance included Sasol (given the weaker oil price over the period), British American Tobacco and Absa.

Strategy and positioning

Starting with our view on offshore vs local asset allocation, during the quarter we increased our offshore exposure and reduced our total SA exposure: we trimmed our SA assets across equity, listed property and bonds and used the proceeds to buy global equities and increase our cash holdings. However, we continued to prefer more attractively valued SA assets compared to their global counterparts.

Within our **global holdings**, during Q4 we bought more global equity out of our SA holdings, so that our position moved from slightly underweight to slightly overweight at quarter-end as the global growth outlook improved. Following the strong November rally in global bonds, we also took profits on a portion of our 30-year global bond exposure so that our portfolios moved from slightly overweight to slightly underweight, and duration also fell from modestly over- to underweight at quarter-end.

In **global equities**, the MSCI ACWI 12-month forward P/E rose to 16.8X at quarter-end from 15.9X at the beginning of the quarter as stock prices gained ground. We increased our weighting on the back of the modest improvement in the interest rate outlook; however, we remain concerned that US equities remained priced for a perfect "soft landing" outcome in 2024. As such we have moved only modestly overweight from our previously slightly underweight exposure, and remained tilted away from the relatively more expensive US market. Equity markets that we prefer for their cheaper valuations include the UK, Japan, China and other emerging markets.

Within **global bonds**, November's sharp rally offered an opportunity for us to take profits on our holdings of 30-year US Treasuries, UK gilts and German bunds, thus reducing our overweight position in global bonds. Portfolio duration also fell. We used the proceeds to buy global equity and increase our global cash position. We continue holding moderate levels of local currency sovereign EM bonds where the real yields are high and the currency is trading at fair-to-cheap levels.

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
R179 117 337

Sources: M&G and Morningstar

The fund was **underweight global corporate credit** at quarter-end, based on our view of credit spreads as unattractive for the risk involved versus their government counterparts.

The fund still favoured **SA equities** at the end of Q4 2023, although we did take some risk off the table by selling into the quarter's rally and using the proceeds to buy global equities and increase our SA cash holdings. SA equity valuations (as measured by the 12-month forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) rose to 10.0X from 9.5X at the beginning of the quarter. Local equity market conditions during the year favoured stock picking, given the wide dispersion in valuations across the market, and even within sectors. Some of the top stock holdings that made the most meaningful contributions to performance over the past 12 months included Textainer, Standard Bank, Investec and Richemont.

Global shipping container lessor **Textainer** has been a preferred holding for several years, having benefited significantly from the recovery in global trade following the Covid pandemic. It possessed a sufficiently strong balance sheet that enabled the company to participate in the trade recovery post covid and increase its container fleet substantially. As an early mover, the company took advantage of the extended container shortages due to the dislocations in global trade to lease out the acquired containers at favourable lease rates for longer lease durations. This was financed with fixed rate debt that helped it withstand the higher interest rate environment. In the slowdown, the management team demonstrated discipline, not pursuing market share at all costs and rather focusing on share buybacks and shareholder returns. In October this year, the group announced an all cash buyout offer by US alternative investment firm Stonepeak at a 46% premium to its share price, sparking equivalent share price gains in Textainer and adding excellent value to our client portfolios.

Standard Bank and Investec: The fund has been overweight SA banks for some time, recognising that they are among the only businesses to benefit from rising interest rates as they receive more income from debtors and government bond holdings. There is a risk that debtors may default as interest rates rise, but at M&G we recognised that SA banks had been conservative in their lending practices in the run-up to, and during, the Covid pandemic, and had over-provided for bad debt in the economic downturn resulting from Covid, as well as in the conversion to a new accounting standard (IFRS 9). They had also had to comply with stricter lending regulations post the introduction of the National Credit Act in the late 2000s, giving them very healthy balance sheets at the beginning of 2023. Yet their valuations reflected the prevailing high uncertainty around inflation, interest rates and growth in SA and globally. Sentiment deteriorated further during the second quarter of the year after the emergence of the US regional banking crisis and rescue of Swiss banking giant Credit Suisse. Yet the banks consistently reported stronger-than-expected earnings and profits, successfully weathering the poor local conditions and helping lift their share prices. Among our bank holdings, Standard Bank and Investec were the standouts over the year.

Richemont, the global luxury goods group, has been another large contributor to the portfolio's performance in 2023 due to our active overweight in the stock. Despite its cyclicality, Richemont is a high-quality company with a regionally diversified business and a strong balance sheet reflecting a net cash position. The group also has strong free cash flows and a very strong balance sheet, being in a large net cash position. Richemont's jewellery businesses experienced surprisingly strong sales growth throughout 2023 across all its brands like Cartier, Van Cleef & Arpels and Piaget, reporting record operating profit for its 2023 financial year ending 30 March. And this despite headwinds that were supposed to materialise because of economic slowdowns in China and the West. The company's' geographical diversification helped meaningfully as the robustness of the US economy (and Europe to a lesser extent) compensated for the slower-than-expected Chinese economic recovery post their COVID lock-down.

In Q4 we further lowered our already-underweight exposure in **SA listed property** by selling into that sector's good performance, while buying global equity and lifting our cash exposure. Property sector risks remained high relative to other sectors, while cash yields have become more attractive. 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 and growth prospects relatively weak, and many property companies are reliant on finance to expand their portfolios, among other fundamental factors.

We also sold some of our overweight holdings in **SA nominal bonds**, taking profit into the rally over the period. Still, we maintained our significant preference for these assets in the fund. From a yield of over 12% at the start of the quarter, the 10-year SA government bond rallied by over 100bps to close the quarter at a yield of around 11%. We continue to believe SA nominal bond valuations are attractive relative to other fixed income assets and to their own longer-term history, and will more than compensate investors for their associated risks over time. The fund holds no SA ILBs.

Lastly, we added to our **SA cash** holdings during the quarter after trimming some of our other SA exposure, but given our very underweight positioning prior to this, the fund remained tilted away from SA cash at quarter-end. Yields on cash-type instruments have become more attractive for investors following the SARB's steep interest rate hikes in 2023. □

M&G Investments

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

Disclaimer

Sources: M&G and Morningstar

M&G Investments

M&G 7% Target Income Fund

Target Income

Q4 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
R350 251 451

Market overview

The final quarter of 2023 saw a synchronized rally across global bonds and equities as falling inflation in many economies led central banks to continue to pause or effectively end their interest rate hiking cycles and start to look towards rate cuts, particularly in the US. And, although a growth slowdown is still expected in 2024, this and the gradually improving outlook buoyed investor sentiment, resulting in strong gains in November and renewed bullishness in December, to end the year with unexpectedly good asset performance.

December's returns were dominated by the US Federal Reserve's unexpectedly positive forecasts at their 13 December policy meeting as, besides leaving interest rates on hold, they clearly indicated their expectations for three 25bp interest rate cuts in 2024.This was very good news for both equity and bond markets, helping bolster the 2024 outlook despite the uncertainty still surrounding the cumulative negative impact from the steep rate hiking cycle. Other large central banks also left interest rates on hold at their December policy meetings as expected.

Global equity (as measured by the MSCI ACWI) delivered 11.0% in Q4, emerging market equities returned 7.9% (MSCI Emerging Markets Index) and global bonds produced 8.1% (Bloomberg Global Aggregate Bond Index), all in US$. In South Africa, the FTSE/JSE Capped SWIX Index posted an 8.2% return in rand. Gains were propelled by a 15.9% rebound in the All Property Index over the quarter and 11.8% from Financials, while Industrials delivered 5.9% (hit by a sharp fall in Naspers/Prosus shares in December) and Resources stocks were flat (0%). South African bonds delivered an impressive 8.1% for the quarter. This saw the yield on the 10-year SA government bond tumble from just over 11% at the start of the quarter to 9.8% by the end. Meanwhile, the rand gained 2.7% against a weaker US dollar in Q4, but in total lost 8.2% against the US dollar, 14.1% versus the UK pound and 12.1% against the euro in 2023.

For 2023 as a whole, global equities returned an excellent 22.2% in US$ and 32.3% in rand (due to rand depreciation), with gains fairly concentrated around a handful of giant global AI-related US companies. These outpaced other US shares and, indeed, most other equity markets for the year, making the US meaningfully more expensive than its global counterparts. This also reflected the relative vitality of the US economy versus most other large economies. By contrast, Chinese growth disappointed and equities were in the red.

Global bonds experienced a very volatile year, marked by rapid shifts in the interest rate outlook that pushed the yield on the benchmark 10-year US treasury bond to 5% (briefly) in October and left it trading around 3.8% at year-end, presenting opportunities for active investors to harness attractive above-inflation yields. Ultimately, global bonds returned 5.7% for the year.

United States

In the US, the Fed's December forecasts for 2024 showed inflation falling gradually toward its 2% target amid a slowdown in growth, without steep job losses -- in other words, a "soft landing" as investors have hoped for. Unemployment is seen rising to 4.1% from its current 3.7% level, still low from a historic perspective, and GDP growth is forecast to average 1.3% for the year. Meanwhile, at 3.1% y/y, November CPI was in line with expectations and down from October's 3.2% y/y, helped by lower energy prices over the period.

For the quarter, the Dow Jones produced 11.7%, the Nasdaq 13.1%, and the S&P 500 13.8% (all in US$). The Nasdaq was the top-performing developed equity market in 2023 with a remarkable return of 44.6%.

UK

In the UK, the Bank of England (BoE) kept its main interest rate unchanged at 5.25% at its December meeting, saying its next move would remain data-dependent, but the market is pricing in the start of rate cuts from June 2024. November CPI fell sharply to 3.9% y/y from 4.6% in October. The UK economy is on the verge of recession, having recorded zero (0%) GDP growth in Q3 2023, and with the BoE downgrading its growth forecast for 2024 to 0% from 0.5% previously. For Q4 2023, the FTSE 100 returned 14.4% in US$, and for the 12 months it produced 14.4%.

Eurozone

In the eurozone, inflation continued to fall during the quarter, with the latest November CPI at 2.4% y/y nearing the ECB's 2% target rate. However, the central bank's latest forecasts show inflation improving only very slowly going forward and averaging 2.7% in 2024 from 5.3% in July. GDP growth in the area registered a paltry 0.1% y/y in Q3 2023, and is expected to remain very subdued at 0.8% y/y in 2024. In contrast to the Fed, the ECB remained hawkish, continuing to warn of upside inflation risks from energy prices and labour costs, and discounting the possibility of interest rate cuts in the foreseeable future. In European equity markets, France's CAC 40 returned 10.5% in Q4 and 24.4% for 2023 as a whole, while Germany's DAX delivered 13.6% in Q4 and 24.5% for the year (all in US$).

Japan

After impressive growth in the first half of the year, Japanese GPD shrank by a more-than-expected 2.9% in Q3 2023 (annualized, revised) as consumer and business spending contracted and real wages fell due to prolonged relatively high inflationary conditions. The sharp slowdown came despite the Bank of Japan maintaining its ultra-easy monetary policy, which had provided firm support previously and also helped push the local equity market to 33-year highs in December. The latest conditions suggested that the BOJ will continue to

Annualised performance	A class	CPI	B class
1 year	8.3%	5.5%	8.7%
2 years	6.6%	6.5%	7.0%
3 years	8.5%	6.1%	8.8%
Since inception	6.2%	5.1%	-

Sources: M&G and Morningstar

keep interest rates exceptionally low, in line with the central bank's goal of keeping inflation sustained at around 2% and avoiding deflationary conditions. The Nikkei returned 11.4% (in US$) for Q4, and 22.6% in 2023.

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South African assets were weighed down in 2023 by ongoing general pessimism over the country's weak growth prospects, loadshedding and uncertain government finances, exacerbated by the higher risks associated with the grey-listing of SA in global financial transactions and incidents like the "Lady R" and hosting of the BRICS Summit. This manifested in rand weakness, equity underperformance against the MSCI EM Index and continuing low valuations on SA stocks and bonds. The FTSE/JSE ALSI returned 9.3% and the more domestically-focused FTSE/JSE Capped SWIX Index posted 7.9% for the year. However, SA bonds notably outperformed their global counterparts for the year, helped by their cheap valuations at the start of 2023, delivering a 9.7% annual return.

Performance

The M&G 7% Target Income Fund returned 7.4% (after fees) for the quarter and 8.3% for the 12-month period ending 31 December 2023.

Looking at the fund's asset allocation, SA bonds were by far the largest contributors to the fund's absolute performance for the quarter, followed by SA equity. Global equity, SA listed property and global bonds also contributed meaningfully to fund value. There were no asset class detractors for the quarter.

Within SA equities, it was our collective overweight in SA banking shares that was among the strongest contributors to the fund's absolute performance over the period, with Standard Bank, First Rand and Investec all adding good value. Other standouts were Textainer, Richemont, Gold Fields, Exxaro and even Naspers, despite its sharp late-December sell-off. The few detractors from absolute performance included Sasol (given the weaker oil price over the period), British American Tobacco and Absa.

Strategy and positioning

Starting with our view on offshore vs local asset allocation, during the quarter we increased our offshore exposure and reduced our total SA exposure: we trimmed our SA assets across equity, listed property and bonds and used the proceeds to buy global equities and increase our cash holdings. However, we continued to prefer more attractively valued SA assets compared to their global counterparts.

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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
R350 251 451

Sources: M&G and Morningstar

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