M&G Unit Trust Quarterly Commentary

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

Q2 2024

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M&G Money Market Fund

Income

Q2 2024

Market overview

The second quarter of 2024 (Q2) saw a moderation in the bullish investor sentiment towards global equities during the previous two quarters, as stubbornly persistent inflation in the US prevented the US Federal Reserve (Fed) from starting to lower interest rates. Global bonds were weaker having posted -1.1% (Bloomberg Global Aggregate Bond Index, in US$) as US investors moved out their rate cut expectations significantly: the majority now forecast either 25bps or 50bps of reductions starting in September at the earliest. South African bonds posted a 7.5% return for the quarter. This saw the yield on the 10-year SA government bond fall from 12% at the beginning of the quarter to end around 11.25%. Finally, the STeFI Composite Index delivered 2.1%.

Sentiment improved for South Africa as investors deemed the May national elections a success. This caused a re-rating across asset classes, as uncertainties around future governance and policies abated significantly.

The SA Reserve Bank kept its base lending rate steady at 8.25% during the entire quarter, as expected, given the central bank's hawkish stance on inflation. May CPI was steady at 5.2% y/y, only slightly lower from its 5.3% y/y level at the beginning of the year, and still far above the bank's 4.5% target. This highlighted the persistent inflationary pressures that are dogging the economy. Businesses and consumer inflation expectations also remain above the 4.5% target, a trend Governor Lesetja Kganyago is determined to reverse. Finally, despite an improvement in loadshedding, the economy remained in the doldrums as Q1 2024 GDP growth contracted slightly at -0.1% (after a revised 0.3% in Q4 2023), but the SARB maintained its growth forecasts of 1.2% in 2024 and 1.3% in 2025.

Performance

The Fund returned 2.1% for the quarter (A class, net of fees), 14bps ahead of its benchmark. It 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 12th out of 36 funds over the last three years.

Positioning

The instrument universe for money market funds typically moves in near lockstep with monetary policy. With the SARB now having kept the repo rate unchanged for over a year, the investment landscape at the front of the interest rate curve has not changed very significantly. Over the quarter, we did, however, see somewhat of a rally in longer-dated NCDs, with 1-year NCD yields tightening by about 25 basis points. This move should be seen in the context of a much stronger bond market (ALBI up 7.5% for the quarter), boosted by the market's reaction to SA's election outcome.

Floating rate spreads remained fairly unchanged over the quarter. The NCD market is now pricing in between zero and two 25bps interest rate cuts over the next few years. This compares to three cuts implied by the FRA curve at present (up from one last quarter). If anything, we think this implied path for monetary policy is perhaps a little conservative. The MPC's QPM model forecasts inflation to reach the 4.5% target by the middle of next year. The SARB's estimate of the neutral real rate at around 2.5% therefore implies a neutral repo rate of around 7% at that point in time, should their forecasts play out. This would mean that 3-4 cuts may be possible. Nevertheless, it seems probable that the path ahead is one of a slow and shallow cutting cycle.

Despite the positive market reaction to the election, treasury bills (TB) sold off slightly, with 1-year TB yields moving 35bps higher. One would expect this instrument class to outperform NCDs in the wake of a market-favoured election outcome, so this move is a bit puzzling to us. We had a favourable outlook on TBs at the start of the quarter, and with the more attractive yields now on offer we have increased our position from 20% to 26% of the Fund.

The Fund's weighted average duration and maturity remain fairly unchanged, at 68 days and 113 days respectively. Similarly, the Fund's yield, at 8.85%, compares favourably to the 8.25% repo interest rate. We maintain our conservative credit exposure – a cornerstone of this product – with no exposure outside of South Africa's "big 5" banks and the South African government.

Annualised performance	A class	Benchmark	X class
1 year	8.8%	8.2%	8.8%
3 years	6.7%	6.2%	6.7%
5 years	6.1%	5.6%	6.2%
7 years	6.5%	5.9%	6.6%
10 years	6.6%	6.0%	6.6%
20 years	7.0%	6.6%	-
Since inception	7.4%	7.1%	-

Risk profile

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

HIGHER LOWER

LOWER HIGHER

Variability of returns over the short-term

Fund facts

Fund objective

To protect the capital of investors in an absolute sense, while providing income in excess of short-term bank deposit rates. Investors' capital remains highly liquid. While this is a low-risk fund, investors should be aware that the possibility of capital loss does exist. This could happen should an issuer of an underlying investment in the fund default.

Investor profile

Risk-averse individuals requiring a short-term investment with protection from equity and bond market-type volatility. Capital protection is more important than long-term capital growth. The recommended investment horizon is 1 – 12 months.

Investment mandate

South African short-term, highly liquid money market instruments with a maturity of less than 13 months. The weighted average duration of the underlying assets may not exceed 90 days and the weighted average legal maturity may not exceed 120 days. The Fund is managed to comply with regulations governing retirement fund investments (Reg. 28).

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 614 783 610

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G High Interest Fund

Income

This fund is capped to new investors.

Q2 2024

Market overview

The second quarter of 2024 (Q2) saw a moderation in the bullish investor sentiment towards global equities during the previous two quarters, as stubbornly persistent inflation in the US prevented the US Federal Reserve (Fed) from starting to lower interest rates, despite an expectedly high number of companies reporting strong fundamentals in their results across a variety of sectors. Election uncertainties also weighed on market sentiment in France and the UK, but positive results in South Africa and India encouraged equity rallies. Other central banks like the European Central Bank did enact cuts, however, helping both developed and emerging market equities record moderately positive returns. Meanwhile, global bonds were weaker as US investors moved out their rate cut expectations significantly: the majority now forecast either 25bps or 50bps of reductions starting in September at the earliest.

Global equity (as measured by the MSCI ACWI) recorded a total return of 2.9% in Q2 compared to 8.2% in Q1, while developed market equities produced 2.6% and emerging market equities returned 5.0% (MSCI Emerging Markets Index – all in US$). Global bonds posted -1.1% (Bloomberg Global Aggregate Bond Index, in US$).

Emerging markets led equity returns with strong performances from Turkey, South Africa, India and China. India recorded a surprise election result that helped reinforce democracy, and China saw a rebound amid improving sentiment and economic data.

In South Africa, asset prices rallied, and the rand gained ground on the back of what investors considered to be a successful outcome for the May national elections, in which there was almost no violence, the new Government of National Unity (GNU) was formed timeously, and President Cyril Ramaphosa was sworn in for his second term. Both the FTSE/JSE All Share Index and Capped SWIX Index delivered 8.2% in rand terms, boosted by a notable 17.8% return from Financials, 5.7% from Listed Property, 5.2% from Industrials, and 3.5% from Resources, due to general gains in commodity prices.

South African bonds posted a 7.5% return for the quarter. This saw the yield on the 10-year SA government bond fall from 12% at the beginning of the quarter to end around 11.25%. SA inflation-linked bonds returned 2.4%. Finally, the rand gained 3.7% against both the US dollar and the pound sterling and appreciated 4.5% versus the euro.

The SA Reserve Bank kept its base lending rate steady at 8.25% during the entire quarter, as expected, given the central bank's hawkish stance on inflation. May CPI was steady at 5.2% y/y, only slightly lower from its 5.3% y/y level at the beginning of the year, and still far above the bank's 4.5% target. This highlighted the persistent inflationary pressures that are dogging the economy. Businesses and consumer inflation expectations also remain above the 4.5% target, a trend Governor Lesetja Kganyago is determined to reverse. Finally, despite an improvement in loadshedding, the economy remained in the doldrums as Q1 2024 GDP growth contracted slightly at -0.1% (after a revised 0.3% in Q4 2023), but the SARB maintained its growth forecasts of 1.2% in 2024 and 1.3% in 2025.

Performance

The Fund delivered a return of 2.2% (A class, net of fees) over the quarter, which was 0.2% ahead of its benchmark. Due to its low duration, the Fund was insulated against the worst of the sell-off in bonds that occurred over the quarter. The fund also benefited from having no direct exposure to any taxi industry debt issuers.

Positioning

The MPC has now kept interest rates unchanged since May of 2023. The lack of movement in the repo rate has kept the front-end of the NCD curve reasonably anchored, and fixed-rate NCDs of less than a year in maturity were little changed over the past quarter. Longer-dated fixed rate NCD yields moved higher over the quarter, as one would expect, given that it was a pretty weak quarter for the SA bond market (with government bond yields up between 60bps and 90bps).

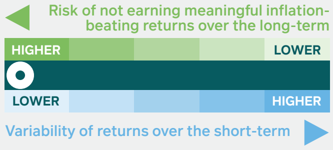
One fairly significant change that occurred over the quarter was how the market changed its outlook for interest rates. At the start of the year, the FRA curve implied a cutting cycle of around 100bps, with the first cut expected around June of this year. The FRA market is now implying only a single 25bps rate cut over the entire cycle, and pricing suggests this will happen in Q1 of 2025. This less optimistic interest rate outlook is consistent with the year-to-date acceleration of both headline as well as core inflation, and also with somewhat deteriorating inflation forecasts by the SARB.

Interestingly, the NCD market implies even less (if any at all) of a cutting cycle. A comparison of fixed-rate to floating-rate NCD yields suggests that the repo rate will stay largely unchanged over the next year. This seems perhaps a little overly pessimistic to us; we would think a shallow cutting cycle to be the most likely outcome. As a result, we think it makes sense to have a slight preference for fixed-rate paper over floating, where mandates allow, for money market and income products.

Treasury bill yields declined over the quarter, particularly for the 9-month and 12-month tenors. This is arguably due to a

Annualised performance	A class	Benchmark	X class	D class
1 year	8.9%	8.5%	9.0%	9.2%
3 years	6.9%	6.5%	7.0%	7.1%
5 years	6.1%	6.1%	6.2%	6.4%
7 years	6.6%	6.4%	6.7%	6.8%
10 years	6.8%	6.6%	6.9%	7.0%
Since inception	6.5%	6.3%	-	-

Risk profile



Fund facts

Fund objective

To maximise the current level of income above money market and current account yields, while providing maximum capital stability and a high degree of liquidity. This actively managed fund invests in slightly longer duration instruments than money market funds. The daily unit price will move slightly, in line with the performance of its holdings.

Investor profile

Individuals requiring a higher yield than that from a money market or current account, without taking on unnecessary risk. Capital stability and a high income yield are more important than long-term capital growth. The recommended investment horizon is 3-12 months, or longer depending on income needs and risk profile.

Investment mandate

The Fund invests in a flexible mix of non-equity securities. Its maximum weighted average duration is 180 days and the maximum tenor of any one instrument is 36 months. The Fund is managed to comply with regulations governing retirement fund investments (Regulation 28).

Fund managers

Roshen Harry
René Prinsloo

ASISA category

South African - Interest Bearing - Short Term

Benchmark

STeFI Composite Index measured over a rolling 12-month period

Inception date

8 December 2010

Fund size

R9 207 571 382

Sources: M&G, Morningstar & Deutsche Securities

more favourable issuance outlook, published in February's budget, as a result of National Treasury accessing a portion of the GFECRA valuation gains, and having less of a need to borrow as a result.

The fund positioning did not change materially over the course of the quarter.

Taxi industry headwinds

Continuing headwinds in the South African mini-bus taxi industry precipitated a credit event in the local debt market in the first quarter. The mini-bus taxi industry has been facing headwinds ever since the dramatic fall in commuter volumes brought about by Covid-19 lockdowns. Despite a recovery in commuter volumes, as lockdowns were eased, the performance of the mini-bus taxi industry has continued to lag pre-Covid-19 levels driven by higher interest rates, fuel prices and vehicle prices, reduced commuter density, as well as an absence of fare increases given commuter affordability constraints.

As a result of these pressures notes linked to an entity operating in the mini-bus taxi industry, Bridge Taxi Finance, suffered a credit event at the end of January. These notes were issued by two entities: Martius (RF) Limited and Redink Rental (RF) Limited. Despite in the past being shown funding opportunities for Bridge Taxi Finance, at no point did M&G take any exposure to these entities across any funds under management.

Certain M&G funds (excluding the High Interest Fund), did have exposure to another unrelated taxi operator, namely SA Taxi, which is majority owned by the JSE listed Transaction Capital (TC). Following SA Taxi's trading update in March 2023, in which a restructuring of SA Taxi was announced, this exposure was sold given our concerns around SA Taxi's performance and outlook. These notes were sold at a small mark-to-market loss but allowed the funds to potentially avoid much larger losses. As such there is no longer any direct exposure to SA Taxi or any of its funding vehicles.
The High Interest Fund maintains some exposure to TC001, a listed debt instrument issued by Transaction Capital (0.3% of fund). Although TC has not guaranteed any debt issued by SA Taxi, certain of TC's debt facilities have included cross default covenants. These cross default covenants could see the maturity of these TC debt facilities accelerated upon a default within SA Taxi.

In April TC completed an unbundling and separate listing of its subsidiary WeBuyCars. This transaction resulted in TC realising sufficient proceeds to allow for the early redemption of the facilities which included the cross default covenant. As a result, post the unbundling of WeBuyCars, TC is now 'insulated' from the issues in SA Taxi. Further, we continue to hold these bonds given our assessment that, post the unbundling of WeBuyCars, the remaining performing business of TC, being Nutun, is able to support TC's debt, including the corporate bonds held by M&G.

Credit trends

Total credit issuance (excluding government issuances) in Q1 2024 was off to a slow start with only R31.7bn issued compared to R55.4bn in the previous quarter (Q4 2023). R18.6bn of the Q1 2024 issuance was issued during March. The Q1 issuance was down 39% compared to the same quarter in the prior year (Q1 2023: R52.3bn issued). Rolling 12 months issuance to Q1 2024 is at R143.6bn compared to R166.8bn for the 12 months to Q1 2023.

The make-up of issuance for the quarter followed established trends: issuance being almost exclusively floating-rate notes with auctions accounting for just over 55% of placements by volume.

Data compiled by RMB's Credit Research team indicates that corporates have been the largest sector for new issuance year-to-date comprising 34% of total issuance, followed very closely by banks at 33%. Toyota was the largest corporate issuer for the quarter, having raised R2.4bn across two separate auctions. Total bank issuances for the quarter were the lowest they've been since Q1 2021. ABSA was the largest bank issuer for the quarter, having raised R3.3bn of Senior debt via auction in February 2024.

Transnet issued in the SA listed term debt market in March for the first time in two years, privately placing a series of floating and fixed government guaranteed notes for a collective of R7.0bn, making it the largest issuer year-to-date. Despite the benefit of the government guarantee, spread ranges on the floating notes were elevated, ranging between 305 - 350bps.

Fixed rate spreads closed the quarter +5 bps wider over the first quarter of the year. Floating rate credit spreads moved less than +0.4bps wider.

This quarter we sold out of our small holding in bank tier 2 debt. We held between 3% and 4% of Fund in total across two instruments. This position was not significantly contributing to the returns that the Fund generates (due to its small size), and we thought it more consistent with the prudent way in which we manage the Fund to do away with our insignificant tier 2 exposure entirely. Note that we do not hold AT1 debt in this Fund, so we now have no exposure to bank subordinated paper. This change was not as a result of a change in outlook for bank sub-debt.

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Disclaimer

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M&G Income Fund

Income

Q2 2024

Market overview

The second quarter of 2024 (Q2) saw a moderation in the bullish investor sentiment towards global equities during the previous two quarters, as stubbornly persistent inflation in the US prevented the US Federal Reserve (Fed) from starting to lower interest rates. Global bonds were weaker having posted -1.1% (Bloomberg Global Aggregate Bond Index, in US$) as US investors moved out their rate cut expectations significantly: the majority now forecast either 25bps or 50bps of reductions starting in September at the earliest. South African bonds posted a 7.5% return for the quarter. This saw the yield on the 10-year SA government bond fall from 12% at the beginning of the quarter to end around 11.25%. SA inflation-linked bonds returned 2.4%.

Sentiment improved for South Africa as investors deemed the May national elections a success. This caused a re-rating across asset classes, as uncertainties around future governance and policies abated significantly.

The SA Reserve Bank kept its base lending rate steady at 8.25% during the entire quarter, as expected, given the central bank's hawkish stance on inflation. May CPI was steady at 5.2% y/y, only slightly lower from its 5.3% y/y level at the beginning of the year, and still far above the bank's 4.5% target. This highlighted the persistent inflationary pressures that are dogging the economy. Businesses and consumer inflation expectations also remain above the 4.5% target, a trend Governor Lesetja Kganyago is determined to reverse. Finally, despite an improvement in loadshedding, the economy remained in the doldrums as Q1 2024 GDP growth contracted slightly at -0.1% (after a revised 0.3% in Q4 2023), but the SARB maintained its growth forecasts of 1.2% in 2024 and 1.3% in 2025.

Performance

For the quarter ending 30 June 2024, the Fund returned 2.4% (A class, net of fees), which was pleasingly 33bps ahead of its benchmark. Over the past year it has also performed reasonably well relative to its peer group, ranking 16 out of 41 funds (Morningstar, 30 June 2024).

Due to the conservative way in which we manage the Fund, and the lack of duration exposure that we typically take, as one would expect, the Fund did not participate much in the post-election rally. However, we remain near the top of the interest rate cycle (in our view), which means that the predominantly floating-rate exposure of the Fund benefits from a high JIBAR rate. The absolute monthly returns that the Fund generates therefore remain on the high side of where they have been over the Fund's history.

Positioning

The Over the past quarter the bond market reacted very positively to the election outcome. Fixed-rate government bond yields reduced by between 50 and 90bps, and back-end bonds returned just over 10% for the quarter. The ALBI returned 7.5% over the period, and almost all of this return came from June's performance. Most money market instruments were, however, little changed, as these typically move in near lockstep with monetary policy. With the SARB now having kept the repo rate unchanged for over a year, the investment landscape at the front of the interest rate curve has not changed very significantly. Longer-dated NCDs did enjoy some of the improvement in investor sentiment, with 5-year NCD rates coming in by about 50 basis points.

Floating rate NCD spreads remained fairly unchanged over the quarter. The NCD market is now pricing in between zero and two 25bps interest rate cuts over the next few years. This compares to three cuts implied by the FRA curve at present (up from one last quarter). If anything, we think this implied path for monetary policy is perhaps a little conservative. The MPC's QPM model forecasts inflation to reach the 4.5% target by the middle of next year. The SARB's estimate of the neutral real rate at around 2.5% therefore implies a neutral repo rate of around 7% at that point in time, should their forecasts play out. This would mean that 3-4 cuts may be possible. Nevertheless, it seems probable that the path ahead is one of a slow and shallow cutting cycle.

Despite the positive market reaction to the election, treasury bills (TB) sold off slightly, with 1-year TB yields moving 35bps higher. One would expect this instrument class to outperform NCDs in the wake of a market-favoured election outcome, so this move is a bit puzzling to us. We had a favourable outlook on TBs at the start of the quarter, and with the more attractive yields now on offer we have increased our position from 20% to 26% of Fund.

Over the quarter we marginally increased our exposure to the government's RN2030 floating rate bond from 18% to 20% of Fund. As mentioned previously, the pricing on this instrument looks very attractive, with recent auctions having cleared in the 140bps to 150bps range (spread over JIBAR). This is for a 6.2-year instrument, issued by the National Treasury. The spread compares favourably to where banks are issuing senior 7-year paper (130-135bps range), which we still find hard to understand. The government floating rate bond has a shorter term, offers better liquidity, better credit quality, and a higher yield.

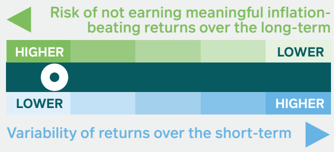
Credit trends

Total credit issuance (excluding government issuances) picked up 15% in Q2 2024 with R36.7bn issued, compared to R31.7bn in Q1 2024. The Q2 issuance was up 35% compared to the same quarter in the prior year (Q2 2023: R27.2bn issued). Rolling 12 months issuance to Q2 2024 sits at R153.0bn compared to R163.8bn for the 12 months to Q2 2023.

The make-up of issuance for the quarter followed established trends: issuance being almost exclusively floating-rate notes with

Annualised performance	A class	Benchmark	D class
1 year	9.8%	8.5%	9.9%
3 years	7.8%	6.5%	8.0%
5 years	7.0%	6.1%	7.1%
7 years	7.5%	6.4%	7.6%
Since inception	7.6%	6.5%	-

Risk profile



Fund facts

Fund objective

The Fund's objective is to maximise income while providing investors with relative capital stability. This is achieved by investing in a diversified portfolio of non-equity securities in the South African market.

Investor profile

Investors who are looking to maximise their income return over the short-to-medium term without assuming too much risk of capital loss. The recommended investment horizon is 1-2 years, or longer depending on income needs and risk profile.

Investment mandate

The Fund invests in a flexible mix of non-equity securities in the South African market. It is suitable for short-to-medium term investors looking for an actively managed interest-bearing fund. Compared to traditional money market and enhanced cash funds, the Fund can have a longer weighted average duration (max 24 months) with no limit on the maximum maturity period for any one instrument. The Fund is managed to comply with regulations governing retirement fund investments (Reg. 28).

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

R372 452 700

Sources: M&G, Morningstar & Deutsche Securities

auctions accounting for just over 59% of placements by volume.

Data compiled by RMB's Credit Research team indicates that banks dominated primary market issuance for the quarter contributing to 52% of gross issuance, followed by corporates at 40%. FirstRand Bank Ltd was the largest issuer for the quarter, having raised R5.5bn across two separate auctions, followed by Standard Bank of South Africa Ltd who raised R3bn. Growthpoint Properties Ltd was the largest corporate issuer for the quarter, having raised R2.9bn via both auction and private placement.

Stor-Age Property REIT Ltd held its inaugural auction in April 2024 raising R500m across a 3-year and 5-year note. Fortress Real Estate Investments Ltd, having trended towards regular private placements in recent years, held its first public auction since 2020 during April.

May 2024 was the most active month of Q2 2024 with R17.9bn issued as many issuers chose to early refinance upcoming maturities ahead of the elections. May 2024 was also the strongest gross issuance month YTD for banks, with banks having raised R10.5bn across a combination of senior and AT1 paper. Woolworths Holdings Ltd, after being absent in the listed debt capital market for almost six years, raised R650m via private placement towards the end of May 2024 and a further R500m via private placement in June 2024.

June 2024 saw weak post-election issuance, with only R6.1bn issued, reflecting issuers following a cautious approach post the elections and the delay in the announcement of the Government of National Unity. FirstRand Bank Ltd was the only issuer to hold an auction during June, the remainder of issuances took place via private placement.

Fixed rate corporate bond spreads closed the quarter -1 bps tighter, while floating rate corporate bond credit spreads moved +10 bps wider.

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M&G Bond Fund
Income

Q2 2024

Market overview

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Global equity (as measured by the MSCI ACWI) recorded a total return of 2.9% in Q2 compared to 8.2% in Q1, while developed market equities produced 2.6% and emerging market equities returned 5.0% (MSCI Emerging Markets Index – all in US$). Global bonds posted -1.1% (Bloomberg Global Aggregate Bond Index, in US$).

Emerging markets led equity returns with strong performances from Turkey, South Africa, India and China. India recorded a surprise election result that helped reinforce democracy, and China saw a rebound amid improving sentiment and economic data.

In South Africa, asset prices rallied, and the rand gained ground on the back of what investors considered to be a successful outcome for the May national elections, in which there was almost no violence, the new Government of National Unity (GNU) was formed timeously, and President Cyril Ramaphosa was sworn in for his second term. Both the FTSE/JSE All Share Index and Capped SWIX Index delivered 8.2% in rand terms, boosted by a notable 17.8% return from Financials, 5.7% from Listed Property, 5.2% from Industrials, and 3.5% from Resources, due to general gains in commodity prices.

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Performance

The M&G Bond Fund (A-class, net of fees) pleasingly outperformed its benchmark over each of the three months in the quarter. It generated 7.7% over the second quarter, which was 25bps ahead of the ALBI benchmark. The fund also continues to perform well relative to its peers, ranking 3rd out of 40 funds over the past three years according to Morningstar.

Positioning

Over the past quarter the bond market reacted very positively to the election outcome. Fixed-rate government bond yields reduced by between 50 and 90bps, and back-end bonds returned just over 10% for the quarter. The ALBI returned 7.5% over the period, and almost all of this return came from June's performance. Compared to developed bond markets, as well as the more liquid emerging bond markets, SA was the standout outperformer over both the month and the quarter. Moreover, the rand also made significant gains against most other currencies on the back of the positive election sentiment. This means that foreign investors with exposure to rand-denominated local bonds did particularly well over the quarter.

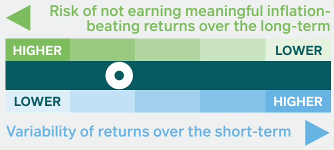
Our bond curve experienced a fair degree of flattening over the quarter, with the 0-10 year bonds lagging the longer tenors. The former bond yields came in by between 50 and 75bps, with the latter yields falling by c. 90bps. We fortunately carried out a significant rotation into the 15-year area of the curve over the course of the quarter, and thereby benefited from this curve flattening.

As mentioned before, seeing as this fund is managed with a neutral duration position against the benchmark, it will naturally lag the most aggressively positioned funds over short periods of market strength (although it will also hopefully outperform the most conservatively positioned peers). However, we hope to generate good returns versus peers over the medium to long-term by taking advantage of relative value opportunities

Annualised performance

Annualised performance	A class	Benchmark	B class
1 year	14.1%	13.7%	14.3%
3 years	8.4%	7.6%	8.6%
5 years	7.7%	7.8%	7.9%
7 years	8.4%	8.7%	8.6%
10 years	7.7%	8.2%	8.0%
20 years	8.6%	8.8%	8.9%
Since inception	9.6%	9.9%	-

Risk profile



Fund facts

Fund objective
To maximise income while securing steady capital growth. This is achieved by investing in a diversified portfolio of bonds in the South African market.

Investor profile
Individuals that require a high level of income from their capital investment with relatively low risk. The recommended investment horizon is 1-3 years, or longer when used as strategic exposure to the asset class.

Investment mandate
The Fund invests in a combination of government, semi-government and corporate bonds, and other interest-bearing securities. No duration constraints apply. The Fund is managed to comply with regulations governing retirement fund investments (Regulation 28).

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
R934 637 771

Sources: M&G, Morningstar & Deutsche Securities

on the curve that we come across.

Fixed rate credit spreads remain at historically low levels and are in fact negative for the better-quality issuers. The current challenges that the taxi companies are facing serve as a useful reminder that credit exposure comes with liquidity and default risks, and any credit spread needs to be sufficiently large to compensate an investor for these risks. In the current environment of historically low fixed-rate credit spreads we expect the fund to remain uninvested in credit.

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M&G Enhanced Income Fund

Multi-asset

Q2 2024

Market overview

US Treasury bond yields resumed their upward trajectory at the start of the second quarter after managing to stage a small recovery towards the end of the first quarter. The sell-off in US fixed income to the end of April largely unwound the stellar rally seen in the final quarter of last year. Market positioning for the first four months of the year had largely been offside, thereby helping to push yields even higher. Economic data, especially on the inflation front, provided the impetus for the higher for longer interest rate thesis at the start of the quarter. Treasury yields recovered in May after reaching year-to-date highs in late April. The market was nervous heading into the FOMC rate decision on 1 May and positioning was decidedly bearish. While the decision to hold rates steady was widely expected, it was the dovish tone of the statement and the ensuing press conference that caught the market by surprise and led to a rally in yields across the term structure. This was most acute in the very short end which led to a steepening in the yield curve. May and June saw largely weak real economic activity data surprises coupled with softer consumer inflation and this provided downward pressure for US bond yields over the course of the latter two months of the quarter. Global central bank easing coupled with a softer tone from FOMC members in their prepared remarks helped to bring forward the interest rate cut expectation in the US.

Brent crude oil prices declined marginally in the second quarter, after having rallied hard in the first quarter. Despite a further strengthening in the US dollar index over the quarter, the rand exchange rate managed to gain strongly in the second quarter and reverse all its losses from the first quarter. Market positioning towards the rand had been very negative this year until a month before the election when the release of the late April IPSOS poll shifted sentiment towards the currency favourably until a week before the election. Heightened volatility was experienced in the immediate aftermath of the risk event whereafter the currency gained in the wake of the post-election negotiations regarding the formation of the Government of National Unity (GNU). Election protection had also been sought via the CDS market and the SA sovereign risk premium had widened dramatically to start the year, but this almost fully reversed course with the unwinding of such positions causing spreads to tighten aggressively.

Local bond yields experienced heightened volatility in April, after having rallied at the start of the month on the back of coupon flows being reinvested, they sold-off hard in the middle of the month before recovering into month end. The local rates market saw a drop-off in liquidity following the February budget and going into the national election. Foreign participation reduced as fears of a left leaning ruling coalition government scared investors. Local investor activity in the bond market also declined in the face of the move towards more offshore exposure coupled with the already heavily long local bond position. While valuations remained attractive risks remained, both globally and domestically. Following the disappointment arising from the February "GFECRA" budget, the SA Fixed Income market was bracing itself for the next major event risk on the calendar – the general election. Sentiment towards SA assets are always negative headed into a general election, whereafter they rally in the aftermath. This time around SA assets were rallying hard a month before the election as release of the April IPSOS poll gave the market comfort. The market went from being overly pessimistic to a state of euphoria in the spate of a month heading into the election.

The initial market reaction to the election results saw heightened volatility in both the rand exchange rate and the local bond market as the market was shocked with the poor showing by the incumbent ruling party. Once the dust settled and it looked increasingly likely that a left leaning populist coalition was not being considered but rather a more centrist GNU was being negotiated, the election risk premium embedded in SA assets began to erode. Local bond yields then spent the bulk of June enjoying a strengthening bias supported by the currency as well as global forces. The rerating in SA bond yields that occurred was both aggressive and sharp with only a mild pullback into quarter-end ahead of the weekend cabinet announcement risk event.

Political developments dominated over everything on the economic data calendar. Market expectations on interest rates shifted post the election. From initially not expecting much in the way of interest rate relief this year, the market ended the quarter expecting at least one rate cut before year end. As we have long expected, the MPC of the SARB has been on election watch this year. Comments from an MPC member in the aftermath of the elections gave the market confidence that rate cuts are approaching soon.

Performance

For the year ended 30 June 2024, the fund delivered 11.4% (net of fees), healthily outperforming both its benchmark which returned 8.6% and the ASISA category average gain of 10.4%. Over the past four years the fund delivered an annualised return of 8.11%, again outperforming both the benchmark return of 5.9% and the category average gain of 7.5%.

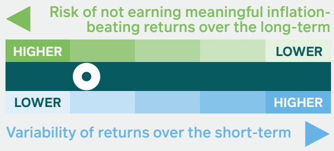
Strategy and positioning

In April, we took advantage of the steepness of the Inflation Linked Bond (ILB) yield curve to make a pairs trade where we termed out our real government bond exposure from the very front end to more the belly of the curve for a material pick up in yield on a duration-neutral basis. Although the implied real yields from nominal bonds appear more attractive than inflation linked bonds, we maintain some exposure to inflation-linkers. This is due to the relatively high absolute level of real yields available and the fact that they provide a form of insurance to the portfolio

Annualised performance	A class	Benchmark	T class	X class	D class
1 year	11.4%	8.5%	11.6%	11.3%	11.7%
3 years	8.3%	6.5%	8.5%	8.3%	8.6%
5 years	7.0%	6.0%	7.2%	6.9%	7.3%
7 years	6.9%	6.4%	7.2%	7.0%	7.3%
10 years	7.0%	6.7%	-	7.1%	7.5%
Since inception	7.8%	6.9%	-	-	-

Sources: M&G, Morningstar & Deutsche Securities

Risk profile



Fund facts

Fund objective

To maximise total returns in excess of the benchmark over a rolling 36-month period, while seeking to protect capital and reduce volatility through active asset management.

Investor profile

Individuals requiring an actively managed income solution that provides a high income return together with moderate capital growth. The recommended investment horizon is 1 to 3 years.

Investment mandate

The Fund invests in a flexible mix of high-yielding securities. The intended maximum limits are Equity 10%, Listed Property 25% and Foreign 45%. No duration constraints apply. The Fund is managed to comply with regulations governing retirement fund investments (Regulation 28).

Fund managers

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

R861 373 539

M&G Investments

were inflation to remain sticky above the SARB's 4.5% target. In the immediate aftermath of the election and the May MPC meeting, we decided to add interest rate risk exposure to the nominal rate curve and largely kept this higher duration position for the rest of the quarter which supported performance in the face of declining yields. Once again, our preference is in the shorter end of the yield curve. During the quarter we maintained positioning in our property teams favoured defensive, yet high yielding SA listed property stocks. We increased foreign bond exposure in the quarter, adding short-dated US treasury bonds to the existing floating rate US investment grade position. Both positions offered relatively attractive yields in hard currency terms. We held these foreign exposures on a currency unhedged basis going into the election but hedged them back into rand during the spell of heightened volatility and currency weakness that ensued in the week after the election. Over the quarter, duration risk was managed tactically. This proved to be beneficial considering the volatility that ensued. We remain drawdown focussed, cyclically aware and tactically alert.

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Sources: M&G, Morningstar & Deutsche Securities

M&G Inflation Plus Fund

Multi-asset

Q2 2024

Market overview

The second quarter of 2024 (Q2) saw a moderation in the bullish investor sentiment towards global equities during the previous two quarters, as stubbornly persistent inflation in the US prevented the US Federal Reserve (Fed) from starting to lower interest rates, despite an expectedly high number of companies reporting strong fundamentals in their results across a variety of sectors. Election uncertainties also weighed on market sentiment in France and the UK, but positive results in South Africa and India encouraged equity rallies. Other central banks like the European Central Bank did enact cuts, however, helping both developed and emerging market equities record moderately positive returns. Meanwhile, global bonds were weaker as US investors moved out their rate cut expectations significantly: the majority now forecast either 25bps or 50bps of reductions starting in September at the earliest.

Global equity (as measured by the MSCI ACWI) recorded a total return of 2.9% in Q2 compared to 8.2% in Q1, while developed market equities produced 2.6% and emerging market equities returned 5.0% (MSCI Emerging Markets Index – all in US$). Global bonds posted -1.1% (Bloomberg Global Aggregate Bond Index, in US$).

Emerging markets led equity returns with strong performances from Turkey, South Africa, India and China. India recorded a surprise election result that helped reinforce democracy, and China saw a rebound amid improving sentiment and economic data.

In South Africa, asset prices rallied, and the rand gained ground on the back of what investors considered to be a successful outcome for the May national elections, in which there was almost no violence, the new Government of National Unity (GNU) was formed timeously, and President Cyril Ramaphosa was sworn in for his second term. Both the FTSE/JSE All Share Index and Capped SWIX Index delivered 8.2% in rand terms, boosted by a notable 17.8% return from Financials, 5.7% from Listed Property, 5.2% from Industrials, and 3.5% from Resources, due to general gains in commodity prices.

South African bonds posted a 7.5% return for the quarter. This saw the yield on the 10-year SA government bond fall from 12% at the beginning of the quarter to end around 11.25%. SA inflation-linked bonds returned 2.4%. Finally, the rand gained 3.7% against both the US dollar and the pound sterling and appreciated 4.5% versus the euro.

United States

In the US, positive investor sentiment toward equities cooled slightly as the US Federal Reserve (Fed) continued to keep interest rates on hold for the quarter amid stubbornly high services inflation. At its 12 June meeting it raised its inflation forecast slightly and the "dot plot" guidance indicated its members' interest rate expectations now comprised only one 25bp rate cut this year, although several members did foresee two 25bp cuts. This important adjustment indicated rates would end 2024 at 5.1% compared to 4.6% in their March guidance. This came as May CPI was recorded at 3.3% y/y, softer than the 3.4% expected, as goods inflation and certain other CPI components were broadly lower. Core PCE, the Fed's preferred inflation measure, was 2.6% y/y, as expected, down from 2.8% in April and the lowest since March 2021. At the same time, US GDP for Q1 2024 was revised down to 1.3% from 1.6% previously, a disappointing result as manufacturing activity, business investment and demand, and consumer demand are constrained by high borrowing costs. As for 2024 growth, the Fed kept its forecast at 2.1% for the year. For the quarter, the Dow Jones produced -1.3%, the Nasdaq 8.5%, and the S&P 500 4.3% (all in US$).

UK

In In the UK, the Bank of England (BoE) again kept its main interest rate unchanged at 5.25% at its May and June meetings, even as May CPI fell to 2.0% y/y from 2.3% in April. The chances for a cut in interest rates improved, with the market pricing in a 25bp rate cut in August and more expected. The economy emerged from a technical recession: Q1 2024 GDP growth was reported at 0.6% y/y. Meanwhile, with the latest data indicating improving economic conditions, Conservative Prime Minister Rishi Sunak called a National Election for 4 July, much sooner than expected. However, polls show Labour leading by a substantial 20% margin, and expectations are for the Conservatives to lose power, injecting higher levels of uncertainty into the local financial market. In Q2 2024, the FTSE 100 returned 3.8% in US$, but lost 1.8% in June.

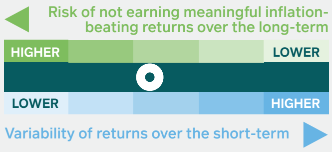
Euro area

In the Euro area, the European Central Bank (ECB) lowered its benchmark interest rate by 25bps at its June meeting to 3.75%, as had been expected. May CPI came in at 2.6% y/y, just above the 2.5% consensus and still higher than the ECB's target of 2.0%. However, inflation is projected to soften further despite stubborn services inflation. Meanwhile, GDP growth improved to 0.3% y/y in Q1 2024 versus a downwardly revised -0.1% y/y the previous quarter. The French equity market sold off in June after President Emmanuel Macron announced a snap parliamentary election for 30 June/7 July following his centrist coalition's resounding defeat in the European parliamentary elections by the far-right National Rally party headed by Marine le Pen. The first round of the French parliamentary elections showed both the far-right and far-left parties defeating Macron's centrists, and the election will be completed on 7 July. France's CAC 40

Annualised performance	A class	Objective[1]	T class	X class	B class
1 year	7.7%	8.6%	8.0%	7.7%	8.2%
3 years	8.7%	9.4%	9.0%	8.7%	9.2%
5 years	7.0%	8.5%	7.2%	7.0%	7.5%
7 years	6.2%	8.3%	6.5%	6.3%	6.8%
10 years	6.2%	8.4%	-	6.4%	6.9%
20 years	10.3%	9.2%	-	-	10.9%
Since inception	10.7%	9.2%	-	-	-

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

Risk profile



Fund facts

Fund objective

The primary objective is to outperform CPI by 5% before fees (which is 3.4% after fees for the A class) over a rolling 3-year period. The secondary objective is to reduce the risk of capital loss over any rolling 12-month period.

Investor profile

Individuals looking for a low- to medium-risk multi-asset fund. Individuals and retirees who want to protect their investment from the detrimental effects of inflation over time. The recommended investment horizon is 3 years or longer.

Investment mandate

The Fund invests in a diversified mix of local and foreign equity, bonds, listed property and cash. The Fund may also invest in derivatives and other collective investment schemes. Asset allocation is actively and tactically managed to achieve the Fund's objectives. The intended maximum limits are Equity 40%, Listed Property 25% and Foreign 45%. The Fund is managed to comply with regulations governing retirement fund investments (Regulation 28).

Fund managers

Sandile Malinga
Michael Moyle
Leonard Krüger

ASISA category

South African - Multi-Asset - Low Equity

Benchmark

CPI

Objective (before fees)

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

Inception date

1 June 2001

Fund size

R19 412 959 961

Awards

Raging Bull: 2013
Morningstar: 2015

Sources: M&G, Morningstar & Deutsche Securities

returned -7.3% in Q2 after losing 7.4% in June, while Germany's DAX delivered -2.1% for Q2 (both in US$).

Japan

After having hiked interest rates for the first time in 17 years in March, the Bank of Japan sounded a cautious note at its subsequent policy meetings, saying in June that it would be considered around further hikes given the fragile state of Japanese consumer demand. This came amid downward revisions to GDP growth for both Q1 2024 and Q4 2023: the former was lowered to -2.8% y/y from -1.9% y/y, and the latter to 0.1% y/y from 0.3% previously. May CPI came in slightly lower than expected at 2.5% y/y versus 2.6% y/y. With global economic growth slowing, Japan's export-reliant economy is facing more headwinds. After a strong 13.2% return in Q1, the Nikkei retraced some of its gains in Q2 with a return of -7.6%.

China

In Q2, China's Q1 GDP growth surprised significantly to the upside at 5.3% y/y versus the 4.6% expected. However, the latest fundamental data showed renewed weakness as new bank lending was softer than expected in the wake of the PBOC's key interest rate cuts in Q1, exacerbated by ongoing soft consumer demand, and lower consumer and business confidence, among other headwinds. Declines in new home prices accelerated despite the government's ongoing efforts to reduce oversupply in the property sector and provide support for overleveraged property companies. May CPI was recorded at only 0.3% and calls for more interest rate cuts grew. However, the PBOC refrained from enacting any further cuts during the quarter, constrained by the weakness of the yuan. Chinese equities rebounded in the quarter after the PBOC's Q1 rate cuts, with Hong Kong's Hang Seng returning 9.2% and the MSCI China delivering 7.2%, both in US$.

Emerging markets

The MSCI Turkey was among the strongest performers for the quarter with a robust return of 21.6%, while South Africa and India enjoyed improved sentiment from their successful national elections, delivering 12.5% and 10.4%, respectively (both in US$). The rebound in China boosted the MSCI China and offered investors a 7.2% return. Weakest with a return of -12.8% was Brazil's Bovespa, while South Korea's KOSPI was largely flat at -0.1% (all in US$).

Commodities

Global inflationary pressures were mixed in Q2 as most commodity prices moved higher but the price of Brent crude oil ended the period almost unchanged, rising from approximately US$86/bbl at the beginning of the quarter to around US$ 91/bbl almost immediately, and then falling to US$75/bbl at the beginning of June, and ending the quarter at around US$85/bbl. Sentiment was mixed between slowing global growth, especially in the US, production cuts from OPEC+ members, and an escalation in Middle East tensions which could lead to further supply restrictions. Among precious metals, gold gained 4.2%, while platinum rose 10.4% and palladium dropped 4.2%. Zinc was the largest gainer, up 23.4%, and aluminium, copper and lead were up between 9.0% and 11.1%.

South Africa

In South Africa, sentiment improved as investors deemed the May national elections a success. This caused a re-rating across asset classes, as noted above, as uncertainties around future governance and policies abated significantly.

Meanwhile, the SA Reserve Bank kept its base lending rate steady at 8.25% during the entire quarter, as expected, given the central bank's hawkish stance on inflation. May CPI was steady at 5.2% y/y, only slightly lower from its 5.3% y/y level at the beginning of the year, and still far above the bank's 4.5% target. This highlighted the persistent inflationary pressures that are dogging the economy. Businesses and consumer inflation expectations also remain above the 4.5% target, a trend Governor Lesetja Kganyago is determined to reverse. Finally, despite an improvement in loadshedding, the economy remained in the doldrums as Q1 2024 GDP growth contracted slightly at -0.1% (after a revised 0.3% in Q4 2023), but the SARB maintained its growth forecasts of 1.2% in 2024 and 1.3% in 2025.

Performance

The M&G Inflation Plus Fund returned 3.4% (A class, net of fees) for the second quarter of 2024 and 7.7% for the 12-month period ending 30 June 2024. The fund has delivered a return of 10.7% per annum since its inception in 1999 (A class, net of fees), compared to its objective of 10.8% per annum over the same period.

Looking at the fund's asset allocation, SA bond holdings added by far the most value to absolute performance for the quarter, followed by SA equity exposure. SA inflation-linked bonds also made a positive contribution. Global bond exposure was the largest detractor, while other global asset classes were also slightly negative mainly due to rand strengthening.

Within SA equities, the rally in Foschini and Spar shares added good value to the fund, as did the rebound in banking shares. Other notable contributors included globally exposed holdings Prosus/Naspers, and mining counters Anglo American Platinum and Exxaro. The largest detractors from performance were Multichoice (over concerns around its Nigerian operations) and shares in stocks that we don't hold in the portfolio, namely Capitec, Nedbank and Sanlam.

Strategy and positioning

Starting with our view on **offshore versus local asset allocation** in our house-view portfolios, during the quarter we did not adjust our positioning meaningfully, although the equity valuation gap between the two narrowed somewhat: the rally in South African equities and bonds following the positive election results led to the local assets to outperform global equities and bonds. At the same time, the MSCI ACWI's valuation fell slightly. We are comfortable with our ongoing positioning favouring more attractively valued SA assets compared to their global counterparts.

Within our **global holdings**, we remained broadly neutrally positioned in global equity, with an underlying underweight in the US market, as well as retaining our small overweights to global bonds and global cash. During Q2 we took profits on a portion of our overweight position in Chinese equities following the quarter's rally, which added to portfolio performance. The position remains slightly overweight at quarter-end. Proceeds from the sale went to the purchase of US equities, reducing some of the existing underweight, and to increase our exposure to Mexican equities.

In **global equities**, the MSCI ACWI 12-month forward P/E fell slightly to 17.6X at quarter-end from 17.9X at the beginning of the quarter. As noted above, we took profits on a portion of our overweight position in Chinese equities following the quarter's rally, which added to portfolio performance. The position remains slightly overweight at quarter-end. Proceeds from the sale went to the purchase of US equities, reducing some of the existing underweight, and to increase our exposure to Mexico. However, we remained broadly neutrally positioned in global equity, with

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Sources: M&G, Morningstar & Deutsche Securities

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an underlying underweight in the US market. With the S&P 500 Index valuation almost unchanged on a high 21X forward P/E for the period, we prefer cheaper markets such as the UK, Mexico and other emerging markets.

We are taking advantage of the many diverse stock-picking opportunities currently available as the gains in **global equities** recorded so far in 2024 have been pleasingly spread across sectors and geographies, and the top performers have produced returns varying between 40% and over 100%.

Within **global bonds**, we did not make any changes to our slightly overweight duration positioning during the quarter. We continue holding some 30-year US Treasuries, which adds duration to our portfolios, as well as moderate levels of local currency sovereign EM bonds where the real yields are high, and the currency is trading at fair-to-cheap levels.

Our house-view portfolios were also still underweight global corporate credit at quarter-end, based on our view of credit spreads as very unattractive for the risk involved versus their government counterparts.

Our house-view funds still favoured **SA equities** at the end of Q2 2024. SA equity valuations (as measured by the 12-month forward P/E ratio of the FTSE/JSE Capped SWIX Index) became somewhat less cheap during the quarter, rising from 9.7X to 9.9X, as share prices gained ground amid positive investor sentiment toward the outcome of the May national elections. The portfolios benefited from their overweight in banking stocks, and conditions remain favourable for stock-picking.

In Q2 we did not change our underweight exposure in **SA listed property**, although there are some indications that fundamentals are starting to improve. The sector could also gain some impetus from expected interest rate cuts, but these hopes have been deferred in line with interest rate cut expectations over the quarter, so for now we remain cautious. Property sector risks continue to be high relative to other sectors, and cash yields are at attractive levels. We still prefer exposure to non-property shares that we believe offer better value propositions for less risk.

We also did not change our overweight positioning in **SA nominal bonds** in our house-view portfolios. Despite the fall in bond yields during the quarter, given their very elevated levels, real yields remain attractive compared to history, other global sovereign bonds and other SA fixed income assets. The current yields should more than compensate investors for their associated risks over time.

We did not make any adjustments to our **SA inflation-linked bonds (ILBs)** holdings during Q2, 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, our portfolios remained tilted away from SA cash at quarter-end, despite the attractive positive real cash rate. This is because we prefer the relatively better prospective risk-adjusted returns on offer from higher-risk asset classes such as SA equity and bonds. Furthermore, bonds should enjoy a re-rating and hence capital gains resulting in additional returns, while returns to cash decline, should interest rates start to fall.

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M&G Balanced Fund
Multi-asset

Q2 2024

Market overview

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In South Africa, asset prices rallied, and the rand gained ground on the back of what investors considered to be a successful outcome for the May national elections, in which there was almost no violence, the new Government of National Unity (GNU) was formed timeously, and President Cyril Ramaphosa was sworn in for his second term. Both the FTSE/JSE All Share Index and Capped SWIX Index delivered 8.2% in rand terms, boosted by a notable 17.8% return from Financials, 5.7% from Listed Property, 5.2% from Industrials, and 3.5% from Resources, due to general gains in commodity prices.

South African bonds posted a 7.5% return for the quarter. This saw the yield on the 10-year SA government bond fall from 12% at the beginning of the quarter to end around 11.25%. SA inflation-linked bonds returned 2.4%. Finally, the rand gained 3.7% against both the US dollar and the pound sterling and appreciated 4.5% versus the euro.

United States

In the US, positive investor sentiment toward equities cooled slightly as the US Federal Reserve (Fed) continued to keep interest rates on hold for the quarter amid stubbornly high services inflation. At its 12 June meeting it raised its inflation forecast slightly and the "dot plot" guidance indicated its members' interest rate expectations now comprised only one 25bp rate cut this year, although several members did foresee two 25bp cuts. This important adjustment indicated rates would end 2024 at 5.1% compared to 4.6% in their March guidance. This came as May CPI was recorded at 3.3% y/y, softer than the 3.4% expected, as goods inflation and certain other CPI components were broadly lower. Core PCE, the Fed's preferred inflation measure, was 2.6% y/y, as expected, down from 2.8% in April and the lowest since March 2021. At the same time, US GDP for Q1 2024 was revised down to 1.3% from 1.6% previously, a disappointing result as manufacturing activity, business investment and demand, and consumer demand are constrained by high borrowing costs. As for 2024 growth, the Fed kept its forecast at 2.1% for the year. For the quarter, the Dow Jones produced -1.3%, the Nasdaq 8.5%, and the S&P 500 4.3% (all in US$).

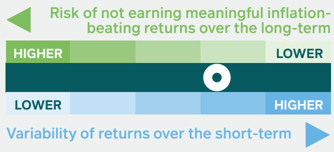
UK

In In the UK, the Bank of England (BoE) again kept its main interest rate unchanged at 5.25% at its May and June meetings, even as May CPI fell to 2.0% y/y from 2.3% in April. The chances for a cut in interest rates improved, with the market pricing in a 25bp rate cut in August and more expected. The economy emerged from a technical recession: Q1 2024 GDP growth was reported at 0.6% y/y. Meanwhile, with the latest data indicating improving economic conditions, Conservative Prime Minister Rishi Sunak called a National Election for 4 July, much sooner than expected. However, polls show Labour leading by a substantial 20% margin, and expectations are for the Conservatives to lose power, injecting higher levels of uncertainty into the local financial market. In Q2 2024, the FTSE 100 returned 3.8% in US$, but lost 1.8% in June.

Euro area

In the Euro area, the European Central Bank (ECB) lowered its benchmark interest rate by 25bps at its June meeting to 3.75%, as had been expected. May CPI came in at 2.6% y/y, just above the 2.5% consensus and still higher than the ECB's target of 2.0%. However, inflation is projected to soften further despite stubborn services inflation. Meanwhile, GDP growth improved to 0.3% y/y in Q1 2024 versus a downwardly revised -0.1% y/y the previous quarter. The French equity market sold off in June after President Emmanuel Macron announced a snap parliamentary election for 30 June/7 July following his centrist coalition's resounding defeat in the European parliamentary elections by the far-right National Rally party headed by Marine le Pen. The first round of the French parliamentary elections showed both the far-right and far-left parties defeating Macron's centrists, and the election will be completed on 7 July. France's CAC 40

Risk profile



Fund facts

Fund objective
To achieve steady long-term growth of capital and income by investing in a diversified combination of domestic and international assets, where the asset allocation is tactically managed.

Investor profile
A suitable fund for retirement provision and for those individuals looking to tilt their portfolio to value with controlled risk exposure. The recommended investment horizon is 5 years or longer.

Investment mandate
The Fund conforms to the regulations governing retirement fund investments (Regulation 28). Intended maximum limits: Equity 75%, Listed Property 25% and Foreign 45%.

Fund managers
Sandile Malinga
Michael Moyle
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
R25 043 567 732

Annualised performance	A class	Benchmark	T class	X class	B class
1 year	7.3%	10.3%	7.5%	7.3%	7.8%
3 years	9.9%	9.2%	10.2%	9.9%	10.4%
5 years	8.9%	8.9%	9.2%	9.0%	9.4%
7 years	8.2%	7.8%	8.6%	8.3%	8.8%
10 years	7.7%	6.9%	-	7.8%	8.3%
20 years	12.3%	10.7%	-	-	13.2%
Since inception	12.5%	11.1%	-	-	-

Sources: M&G, Morningstar & Deutsche Securities

returned -7.3% in Q2 after losing 7.4% in June, while Germany's DAX delivered -2.1% for Q2 (both in US$).

Japan

After having hiked interest rates for the first time in 17 years in March, the Bank of Japan sounded a cautious note at its subsequent policy meetings, saying in June that it would be considered around further hikes given the fragile state of Japanese consumer demand. This came amid downward revisions to GDP growth for both Q1 2024 and Q4 2023: the former was lowered to -2.8% y/y from -1.9% y/y, and the latter to 0.1% y/y from 0.3% previously. May CPI came in slightly lower than expected at 2.5% y/y versus 2.6% y/y. With global economic growth slowing, Japan's export-reliant economy is facing more headwinds. After a strong 13.2% return in Q1, the Nikkei retraced some of its gains in Q2 with a return of -7.6%.

China

In Q2, China's Q1 GDP growth surprised significantly to the upside at 5.3% y/y versus the 4.6% expected. However, the latest fundamental data showed renewed weakness as new bank lending was softer than expected in the wake of the PBOC's key interest rate cuts in Q1, exacerbated by ongoing soft consumer demand, and lower consumer and business confidence, among other headwinds. Declines in new home prices accelerated despite the government's ongoing efforts to reduce oversupply in the property sector and provide support for overleveraged property companies. May CPI was recorded at only 0.3% and calls for more interest rate cuts grew. However, the PBOC refrained from enacting any further cuts during the quarter, constrained by the weakness of the yuan. Chinese equities rebounded in the quarter after the PBOC's Q1 rate cuts, with Hong Kong's Hang Seng returning 9.2% and the MSCI China delivering 7.2%, both in US$.

Emerging markets

The MSCI Turkey was among the strongest performers for the quarter with a robust return of 21.6%, while South Africa and India enjoyed improved sentiment from their successful national elections, delivering 12.5% and 10.4%, respectively (both in US$). The rebound in China boosted the MSCI China and offered investors a 7.2% return. Weakest with a return of -12.8% was Brazil's Bovespa, while South Korea's KOSPI was largely flat at -0.1% (all in US$).

Commodities

Global inflationary pressures were mixed in Q2 as most commodity prices moved higher but the price of Brent crude oil ended the period almost unchanged, rising from approximately US$86/bbl at the beginning of the quarter to around US$ 91/bbl almost immediately, and then falling to US$75/bbl at the beginning of June, and ending the quarter at around US$85/bbl. Sentiment was mixed between slowing global growth, especially in the US, production cuts from OPEC+ members, and an escalation in Middle East tensions which could lead to further supply restrictions. Among precious metals, gold gained 4.2%, while platinum rose 10.4% and palladium dropped 4.2%. Zinc was the largest gainer, up 23.4%, and aluminium, copper and lead were up between 9.0% and 11.1%.

South Africa

In South Africa, sentiment improved as investors deemed the May national elections a success. This caused a re-rating across asset classes, as noted above, as uncertainties around future governance and policies abated significantly.
Meanwhile, the SA Reserve Bank kept its base lending rate steady at 8.25% during the entire quarter, as expected, given the central bank's hawkish stance on inflation. May CPI was steady at 5.2% y/y, only slightly lower from its 5.3% y/y level at the beginning of the year, and still far above the bank's 4.5% target. This highlighted the persistent inflationary pressures that are dogging the economy. Businesses and consumer inflation expectations also remain above the 4.5% target, a trend Governor Lesetja Kganyago is determined to reverse. Finally, despite an improvement in loadshedding, the economy remained in the doldrums as Q1 2024 GDP growth contracted slightly at -0.1% (after a revised 0.3% in Q4 2023), but the SARB maintained its growth forecasts of 1.2% in 2024 and 1.3% in 2025.

Performance

The M&G Balanced Fund returned 2.9% (A class, net of fees) for the second quarter of 2024, while for the 12-month period ending 30 June 2024 it returned 7.3%. The fund has delivered a return of 12.5% per annum since its inception in 1999 (A class, net of fees), compared to the 11.1% from its benchmark.

Looking at the fund's asset allocation, SA equity holdings added by far the most value to absolute performance for the quarter, followed by SA bond and cash exposures. Global equities were the largest detractors, while global bonds and cash also detracted, the latter mainly due to currency movements. Within SA equities, the rally in Foschini and Spar shares added good value to the fund, as did the rebound in banking shares. Other notable contributors included globally exposed holdings Prosus/Naspers, and mining counters Anglo American Platinum and Exxaro. The largest detractors from performance were Multichoice (over concerns around its Nigerian operations) and shares in stocks that we don't hold in the portfolio, namely Capitec, Nedbank and Sanlam.

Strategy and positioning

Starting with our view on **offshore versus local asset allocation** in our house-view portfolios, during the quarter we did not adjust our positioning meaningfully, although the equity valuation gap between the two narrowed somewhat: the rally in South African equities and bonds following the positive election results led to the local assets to outperform global equities and bonds. At the same time, the MSCI ACWI's valuation fell slightly. We are comfortable with our ongoing positioning favouring more attractively valued SA assets compared to their global counterparts.

Within our **global holdings**, we remained broadly neutrally positioned in global equity, with an underlying underweight in the US market, as well as retaining our small overweights to global bonds and global cash. During Q2 we took profits on a portion of our overweight position in Chinese equities following the quarter's rally, which added to portfolio performance. The position remains slightly overweight at quarter-end. Proceeds from the sale went to the purchase of US equities, reducing some of the existing underweight, and to increase our exposure to Mexican equities.

In **global equities**, the MSCI ACWI 12-month forward P/E fell slightly to 17.6X at quarter-end from 17.9X at the beginning of the quarter. As noted above, we took profits on a portion of our overweight position in Chinese equities following the quarter's rally, which added to portfolio performance. The position remains slightly overweight at quarter-end. Proceeds from the sale went to the purchase of US equities, reducing some of the existing underweight, and to increase our exposure to Mexico. However, we remained broadly neutrally positioned in global equity, with an underlying underweight in the US market. With the S&P 500 Index valuation almost unchanged on a high 21X forward P/E for the period, we prefer cheaper markets such as the UK, Mexico

M&G Investments

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Sources: M&G, Morningstar & Deutsche Securities

and other emerging markets.

We are taking advantage of the many diverse stock-picking opportunities currently available as the gains in **global equities** recorded so far in 2024 have been pleasingly spread across sectors and geographies, and the top performers have produced returns varying between 40% and over 100%.

Within **global bonds**, we did not make any changes to our slightly overweight duration positioning during the quarter. We continue holding some 30-year US Treasuries, which adds duration to our portfolios, as well as moderate levels of local currency sovereign EM bonds where the real yields are high, and the currency is trading at fair-to-cheap levels.

Our house-view portfolios were also still underweight **global corporate credit** at quarter-end, based on our view of credit spreads as very unattractive for the risk involved versus their government counterparts.

Our house-view funds still favoured **SA equities** at the end of Q2 2024. SA equity valuations (as measured by the 12-month forward P/E ratio of the FTSE/JSE Capped SWIX Index) became somewhat less cheap during the quarter, rising from 9.7X to 9.9X, as share prices gained ground amid positive investor sentiment toward the outcome of the May national elections. The portfolios benefited from their overweight in banking stocks, and conditions remain favourable for stock-picking.

In Q2 we did not change our underweight exposure in **SA listed property**, although there are some indications that fundamentals are starting to improve. The sector could also gain some impetus from expected interest rate cuts, but these hopes have been deferred in line with interest rate cut expectations over the quarter, so for now we remain cautious. Property sector risks continue to be high relative to other sectors, and cash yields are at attractive levels. We still prefer exposure to non-property shares that we believe offer better value propositions for less risk.

We also did not change our overweight positioning in **SA nominal bonds** in our house-view portfolios. Despite the fall in bond yields during the quarter, given their very elevated levels, real yields remain attractive compared to history, other global sovereign bonds and other SA fixed income assets. The current yields should more than compensate investors for their associated risks over time.

Our house-view portfolios have no meaningful exposure to **SA inflation-linked bonds (ILBs)**. 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. We also prefer to add value to client portfolios by taking advantage of the changing interest rate outlook reflected in nominal bonds.

Lastly, our portfolios remained tilted away from SA cash at quarter-end, despite the attractive positive real cash rate. This is because we prefer the relatively better prospective risk-adjusted returns on offer from higher-risk asset classes such as SA equity and bonds. Furthermore, bonds should enjoy a re-rating and hence capital gains resulting in additional returns, while returns to cash decline, should interest rates start to fall.

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Sources: M&G, Morningstar & Deutsche Securities

M&G Property Fund

Property

Q2 2024

Market overview

The second quarter of 2024 (Q2) saw a moderation in the bullish investor sentiment towards global equities during the previous two quarters, as stubbornly persistent inflation in the US prevented the US Federal Reserve (Fed) from starting to lower interest rates, despite an expectedly high number of companies reporting strong fundamentals in their results across a variety of sectors. Election uncertainties also weighed on market sentiment in France and the UK, but positive results in South Africa and India encouraged equity rallies. Other central banks like the European Central Bank did enact cuts, however, helping both developed and emerging market equities record moderately positive returns. Meanwhile, global bonds were weaker as US investors moved out their rate cut expectations significantly: the majority now forecast either 25bps or 50bps of reductions starting in September at the earliest.

Global equity (as measured by the MSCI ACWI) recorded a total return of 2.9% in Q2 compared to 8.2% in Q1, while developed market equities produced 2.6% and emerging market equities returned 5.0% (MSCI Emerging Markets Index – all in US$). Global bonds posted -1.1% (Bloomberg Global Aggregate Bond Index, in US$).

Emerging markets led equity returns with strong performances from Turkey, South Africa, India and China. India recorded a surprise election result that helped reinforce democracy, and China saw a rebound amid improving sentiment and economic data.

In South Africa, asset prices rallied, and the rand gained ground on the back of what investors considered to be a successful outcome for the May national elections, in which there was almost no violence, the new Government of National Unity (GNU) was formed timeously, and President Cyril Ramaphosa was sworn in for his second term. Both the FTSE/JSE All Share Index and Capped SWIX Index delivered 8.2% in rand terms, boosted by a notable 17.8% return from Financials, 5.7% from Listed Property, 5.2% from Industrials, and 3.5% from Resources, due to general gains in commodity prices.

South African bonds posted a 7.5% return for the quarter. This saw the yield on the 10-year SA government bond fall from 12% at the beginning of the quarter to end around 11.25%. SA inflation-linked bonds returned 2.4%. Finally, the rand gained 3.7% against both the US dollar and the pound sterling and appreciated 4.5% versus the euro.

Meanwhile, the SA Reserve Bank kept its base lending rate steady at 8.25% during the entire quarter, as expected, given the central bank's hawkish stance on inflation. May CPI was steady at 5.2% y/y, only slightly lower from its 5.3% y/y level at the beginning of the year, and still far above the bank's 4.5% target. This highlighted the persistent inflationary pressures that are dogging the economy. Businesses and consumer inflation expectations also remain above the 4.5% target, a trend Governor Lesetja Kganyago is determined to reverse. Finally, despite an improvement in loadshedding, the economy remained in the doldrums as Q1 2024 GDP growth contracted slightly at -0.1% (after a revised 0.3% in Q4 2023), but the SARB maintained its growth forecasts of 1.2% in 2024 and 1.3% in 2025.

Performance

The M&G Property Fund performed slightly below its benchmark for the second quarter, returning 4.9% compared to the All-Property Index return of 5.7%. The fund delivered a decent outperformance of 1.8% versus its benchmark for the three-year period ending 30 June 2024 and ranks number 1 out of 35 funds for the same period (Morningstar).

Overweight positions in Hyprop and SA Corporate Real Estate contributed positively, as did underweight positions in Shaftesbury Capital and Lighthouse Capital.

Detractors to relative performance include overweight positions in Sirius Real Estate, and underweight positions in Growthpoint and Emira.

Strategy and positioning

Our fund positioning favors offshore names with strong property fundamentals, such as NEPI Rockcastle, Sirius Real Estate and Hammerson. Locally, we find good value in high-yielding mid-caps such as SA Corporate, Octodec and Dipula.

South African property fundamentals are stable with vacancy levels steadily declining across all sectors. However, sectoral rental growth is divergent. Office rents are under pressure due to oversupply. Retail rent affordability ratios are at decade lows and reversions are turning positive. Industrial property delivers the strongest growth, benefitting from favourable supply demand dynamics and the pass-through of rising construction costs. Geographically, Western Cape property performance has continued to outperform, also benefiting from favourable supply demand dynamics.

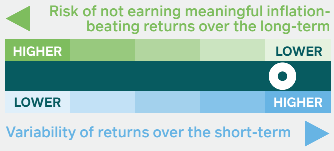
Along with the rest of the market, South African property companies enjoyed a post-election rally, buoyed by a strengthening rand and compressing government bond yields. However, it remains uncertain how the newly formed coalition can help against prevailing headwinds such as rapidly rising property costs, poor economic growth and high interest rates.

Offshore property delivered good rental growth as the lagged impact of high inflation reflected in rents. Retail property in Central Eastern Europe and Spain stand out with robust trading growth, boding well for rental growth prospects. Positively, we see increased potential deal activity as investors call the top of the interest rate cycle. Companies of interest include Growthpoint's stake in Capital and Regional, Vukile's stake in Lar Espana, Burstone's Pan European Logistics business, Hammerson's stake in Value Retail and Spear REIT's acquisition of Emira's Western Cape Portfolio. Despite cooling global inflation and an interest rate cut by the European Central Bank there is still uncertainty on the

Annualised performance

Annualised performance	A class	Benchmark	D class
1 year	23.9%	26.0%	24.0%
2 years	18.3%	17.2%	18.6%
3 years	12.9%	11.1%	13.2%
Since inception	17.0%	15.9%	-

Risk profile



Fund facts

Fund objective

The Fund seeks to maximise long-term growth from investing primarily in South African listed property markets.

Investor profile

Investors who seek exposure to South African listed property as part of a diversified portfolio. Alternatively, investors looking for a growing income stream but who are willing to be exposed to capital volatility. The recommended investment horizon is 5 years or longer.

Investment mandate

The Fund is an actively managed portfolio investing primarily in South African listed property instruments and assets in liquid form. The Fund may invest in other collective investment schemes and in financial derivative instruments. No direct investment in physical property may be made.

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

R784 446 855

Awards

Raging Bull: 2023

Sources: M&G, Morningstar & Deutsche Securities

timing and quantum of future interest rate cuts. A market-friendly election outcome in South Africa and three months of no loadshedding is bodes well for investor confidence. However, we remain cautious on earnings growth potential for listed property as positive topline growth will likely be eroded by higher interest rates as the benefits of hedging rolls off.

The M&G Property Fund is positioned in select stocks that either deliver high growth underpinned by enduring structural tailwinds or compensate for low growth with high dividend yields supported by strong free cash flow generation. We are acutely aware of potential corporate activity within the listed property sector and have positioned the fund accordingly.

The M&G Property Fund won the Raging Bull Award for the "Best SA Real Estate General Fund" for its straight performance over the three-year period to 31 December 2023.

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G Dividend Maximiser Fund

Equity

Q2 2024

Market overview

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Performance

The M&G Dividend Maximiser Fund delivered a return of 3.4% (A class, net of fees) for the second quarter of 2024, underperforming its benchmark (the average of the general equity funds) by 3.9%. For the year ended 30 June 2024, the fund returned 5.0% (A class, net of fees), underperforming its benchmark by 4.8%. For the 3-year period ending 30 June 2024, both the absolute and relative performance of the Fund has been strong, with an absolute return of 10.1% per annum, outperforming the benchmark by 0.7% per year.

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

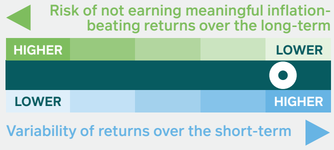
The main detractor from performance for the quarter related to the Fund's offshore exposure of approximately 20% to the M&G Global Equity Fund. This Fund returned -3% over the quarter in South African rand which was mainly due the strengthening of the Rand by approximately 4% over the quarter. The fund has approximately 20% allocated offshore with a further 3% in African markets excluding South Africa, which we think are very attractively priced. This total offshore weighting of 23% can be viewed in context of the maximum allowable offshore limit of 45% for this fund. The fairly low weighting to offshore in the fund reflects our thinking that the South African market is relatively attractively priced.

In the financial sector, we think that South African banks continue to trade at undemanding valuations. Bond yields are relatively elevated, and the South African bond yield curve is relatively steep. While the high bond yields increase the hurdle rate that investors require, we think that this fact also embeds a higher potential return into current bank valuations. If interest rates were to come down, this could be positive for interest rate sensitive companies such as the banks. South Africa has a very well-regulated banks sector and credit risk within the large banks have generally been well-managed through cycles. Therefore, we believe that banks look relatively attractively valued and we remain overweight in this sector. The SA election results were favourably viewed by the market and we saw a significant rerating of many of the more interest rate sensitive companies and particularly the banks.

We saw a relative outperformance of the higher quality banks such as Firstrand and Capitec over the last quarter. While we have been reducing our underweight to Firstrand over the last year, we do not hold a position in Capitec due to its very expensive valuation in our view. While we rate Capitec more highly in terms of quality

Annualised performance	A class	Benchmark	T class	B class	F class
1 year	5.0%	9.8%	5.7%	5.3%	6.0%
3 years	10.1%	9.4%	10.8%	10.5%	11.1%
5 years	10.8%	8.7%	11.3%	11.1%	11.6%
7 years	9.3%	7.5%	9.8%	9.6%	10.1%
10 years	7.6%	5.7%	-	8.0%	-
20 years	14.8%	12.0%	-	-	-
Since inception	15.2%	12.6%	-	-	-

Risk profile



Fund facts

Fund objective

To provide broad-based exposure to shares that offer value and medium- to long-term growth. The portfolio managers seek to invest in companies where returns can be achieved from any or all of growth in earnings, growth in dividends and a re-rating of its share price; however, there will be a bias towards companies offering high but sustainable dividend yields.

Investor profile

Investors with a higher risk tolerance looking for out-performance of the average SA General Equity Fund without taking on greater risk of loss. The recommended investment horizon is 7 years or longer.

Investment mandate

The Fund invests in companies that meet the portfolio managers' value criteria. The Fund will have a bias towards investment in companies offering high, sustainable dividend yields; however, it is not restricted from investing in companies offering earnings growth or possible market re-rating. The intended maximum limits are Equity 100%, Property 10% and Foreign 45%.

Fund managers

Ross Biggs
Kaitlin Byrne

ASISA category

South African - Equity - General

Benchmark

ASISA South African - Equity - General Category Average

Inception date

2 August 1999

Fund size

R4 174 731 136

Awards

Raging Bull: 2006, 2008

Morningstar/Standard & Poor's: 2007, 2009

Sources: M&G, Morningstar & Deutsche Securities

banks, we cannot ignore that it is substantially more highly rated than other banks in the sector. For this reason, we continue to be overweight ABSA and Investec and underweight Capitec.

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

Our underweight position to Bidcorp was the largest contributor to performance for the last quarter. We held a preference for overweights in other high quality defensive companies such as British American Tobacco and Anheuser-Busch.

Bidcorp is a food service company that has global scale and managed to pick up a lot of market share during the Covid period when smaller competitors came under pressure. They also managed to invest in the business ahead of the curve by adding warehouse and distribution capacity. This has allowed them to take advantage of the strong recovery in the out of home eating space post Covid. Earnings have continued to surprise to the upside, but we think that this momentum in earnings growth is now likely to slow, given higher inflation and interest costs impact on customers, in a more difficult economic environment. While we like its high quality and defensiveness, we have found the valuation to be rich.

We have been reducing risk within the Resources sector and have sold our position in Sasol and Sappi over the last six months. We think that given the generally declining commodity cycle that companies with increased optionality are in stronger positions. We would view commodity companies with strong balance sheets and with diversified commodity product suites as having relatively more optionality. For this reason, our key overweights within commodities are now in BHP, Exxaro and Omnia. All these companies have relatively strong balance sheets and have a diversified product suite.

Our underweights to Sasol and Sappi were key relative contributors to performance over the quarter. While Sasol is currently paying a high dividend yield, we are concerned that the dividend may be cut due to cash flows coming under pressure over the next five years given the substantial capex projects to transition the business to reduced carbon emissions.

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

Strategy and positioning

We remain optimistic regarding the South African equity market returns over the medium term due to the prevailing excessive levels of pessimism reflected in share prices and valuations. The Price to Book of the JSE remains close to 1.7X as at the end of June 2024 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 toward the end of 2024.

The Fund's relatively low offshore exposure reflects that we think the SA market and SA currency represent 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 20% allocated offshore. We also have a further 3% in African markets (excluding South Africa) which we think are very attractively priced.

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

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G Equity Fund

Equity

Q2 2024

Market overview

The second quarter of 2024 (Q2) saw a moderation in the bullish investor sentiment towards global equities during the previous two quarters, as stubbornly persistent inflation in the US prevented the US Federal Reserve (Fed) from starting to lower interest rates, despite an expectedly high number of companies reporting strong fundamentals in their results across a variety of sectors. Election uncertainties also weighed on market sentiment in France and the UK, but positive results in South Africa and India encouraged equity rallies. Other central banks like the European Central Bank did enact cuts, however, helping both developed and emerging market equities record moderately positive returns. Meanwhile, global bonds were weaker as US investors moved out their rate cut expectations significantly: the majority now forecast either 25bps or 50bps of reductions starting in September at the earliest.

Global equity (as measured by the MSCI ACWI) recorded a total return of 2.9% in Q2 compared to 8.2% in Q1, while developed market equities produced 2.6% and emerging market equities returned 5.0% (MSCI Emerging Markets Index – all in US$). Global bonds posted -1.1% (Bloomberg Global Aggregate Bond Index, in US$).

Emerging markets led equity returns with strong performances from Turkey, South Africa, India and China. India recorded a surprise election result that helped reinforce democracy, and China saw a rebound amid improving sentiment and economic data.

In South Africa, asset prices rallied, and the rand gained ground on the back of what investors considered to be a successful outcome for the May national elections, in which there was almost no violence, the new Government of National Unity (GNU) was formed timeously, and President Cyril Ramaphosa was sworn in for his second term. Both the FTSE/JSE All Share Index and Capped SWIX Index delivered 8.2% in rand terms, boosted by a notable 17.8% return from Financials, 5.7% from Listed Property, 5.2% from Industrials, and 3.5% from Resources, due to general gains in commodity prices.

South African bonds posted a 7.5% return for the quarter. This saw the yield on the 10-year SA government bond fall from 12% at the beginning of the quarter to end around 11.25%. SA inflation-linked bonds returned 2.4%. Finally, the rand gained 3.7% against both the US dollar and the pound sterling and appreciated 4.5% versus the euro.

The SA Reserve Bank kept its base lending rate steady at 8.25% during the entire quarter, as expected, given the central bank's hawkish stance on inflation. May CPI was steady at 5.2% y/y, only slightly lower from its 5.3% y/y level at the beginning of the year, and still far above the bank's 4.5% target. This highlighted the persistent inflationary pressures that are dogging the economy. Businesses and consumer inflation expectations also remain above the 4.5% target, a trend Governor Lesetja Kganyago is determined to reverse. Finally, despite an improvement in loadshedding, the economy remained in the doldrums as Q1 2024 GDP growth contracted slightly at -0.1% (after a revised 0.3% in Q4 2023), but the SARB maintained its growth forecasts of 1.2% in 2024 and 1.3% in 2025.

Performance

The M&G Equity Fund returned 5.3% for the quarter compared to the category average of 7.4%. For the year ending 30 June 2024, the fund returned 7.0% versus the 9.8% delivered by the benchmark.

Strategy & positioning

The fund's offshore positioning detracted from performance as did underweight positions in Firstrand, Capitec and Sanlam. Overweight positions in Multichoice, Africa Oil, Telkom and MTN detracted from performance.

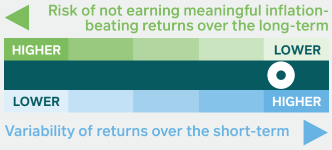
The quarter saw a relatively strong performance from the South Africa market, with the Capped Swix Index returning 8.2%. The fund's carve-out of companies listed on the JSE returned 9.3%, thus outperforming the opportunity set. The fund's offshore holdings detracted from performance as the M&G Global Equity Fund returned -3% in rand terms for the period.

The South African elections turned out to be a better outcome than perhaps the market had expected. The ANC garnered fewer votes than most political commentators had expected, but nonetheless formed a broad coalition with parties regarded to be more centrist from an economic point of view. We think this brings about policy continuity and will likely strengthen the resolve of government to pursue structural reforms of state-owned entities and also fiscal stability. The boost to confidence has already had a tangible impact on the country, with the cost for government to borrow over 10 years now below 11% after spiking above 12%. This point is sometimes lost on those who point to fiscal consolidation and conservatism as being anti-poor: the cost of poor credibility is directly reflected in a government's borrowing costs. Higher borrowing costs take away real money from things which are useful to a country's citizens like spending on infrastructure, healthcare, education and safety. Unlike developed markets which enjoy comparatively lower borrowing costs, South Africans sacrifice a far greater amount of their collective production to service its interest bill by virtue of needing to borrow at higher interest rates. For example, South Africa with a debt to GDP ratio of 72% and a marginal cost of borrowing for 10 years of 11%, 'gives up' roughly 8% (72% times 11%) of its GDP to lenders every year. To use an extreme example, Japan has a debt to GDP ratio of 260%, yet pays only 1% to borrow for 10 years and therefore 'gives up' just 2.6% of its annual production. The upside to South Africa should it succeed in lowing its inflation target sustainably and regaining credibility in the eyes of international lenders is substantial, not only for asset prices but importantly for the real economy. Whether viewed from the left or the right, it is tempting to get carried away with how many things can go right given the track record of execution by governments past and present in the country and so one does need to maintain an element of skepticism and caution while maintaining a clear focus on valuations.

Among some of the larger positions which have been out-of-consensus in the recent past or currently, we discuss MTN and Naspers below.

The M&G Equity Fund increased its exposure to MTN following

Risk profile



Fund facts

Fund objective

To provide broad-based exposure to shares that offer value and medium- to long-term growth. The portfolio managers seek to invest in those companies where returns can be achieved from any or all of (a) growth in earnings, (b) growth in dividends and (c) a re-rating by the market of the company's share price.

Investor profile

Investors with a higher risk tolerance who are looking for out-performance of the average South African General Equity Fund without taking on greater risk of loss. The recommended investment horizon is 7 years or longer.

Investment mandate

The Fund invests in companies that meet the portfolio managers' value criteria. The Fund seeks out value by attempting to capture all components of return over time, including high dividend yield, earnings growth and possible market re-rating. The intended maximum limits are Equity 100%, Listed Property 10% and Foreign 45%.

Fund managers

Chris Wood
Yusuf Mowlana

ASISA category

South African - Equity - General

Benchmark

ASISA South African - Equity - General Category Average

Inception date

2 August 1999

Fund size

R6 039 133 021

Awards

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

Annualised performance	A class	Benchmark	B class	F class
1 year	7.0%	9.8%	7.3%	8.0%
3 years	9.9%	9.4%	10.3%	11.1%
5 years	11.2%	8.7%	11.6%	12.2%
7 years	9.9%	7.5%	10.4%	10.9%
10 years	8.1%	5.7%	8.6%	-
20 years	15.2%	12.0%	-	-
Since inception	15.4%	12.6%	-	-

Sources: M&G, Morningstar & Deutsche Securities

continued price weakness. Our investment case is premised on margin recovery in both SA and Nigeria over the course of the next three years. We remain optimistic that MTN Nigeria can recover profitability through a renegotiation of tower lease contracts with HIS, and that the regulator will grant the industry a much-needed tariff increase to offset the high FX induced cost inflation. Aside from these Nigerian specific drivers, MTN continues to enjoy strong revenue growth, with robust underlying demand for mobile telephony services across Africa, particularly for mobile data. Lastly, MTN has a fast-growing mobile money business that stands to benefit from MTN's strong market position across its core African operations.

The current share price does not reflect the potential recovery in MTN's earnings, with the market focused on the short-term headwinds arising from the recent Naira devaluation. MTN is trading on less than 3.5x EBITDA, which is below our base case valuation multiple of 5x. Our sum of the parts has MTN Group being worth around R130 per share but acknowledge the Group's earnings and cash flow need to recover in order for the market to be willing to re-rate the stock.

Naspers and Prosus have enjoyed a strong rally thanks to a combination of improved performance from its largest investment, Tencent, and also the buyback program undertaken by the company. An improvement in the prospects of Tencent's domestic video game and short video businesses should not only improve revenue, but also margins, as these are superior margin businesses. The company has also curtailed costs to the benefit of its margins and undertaken a significant buyback of its shares. Combined with double digit earnings growth likely for the year, we are pleased by the company's performance in a what had been a tough environment.

We remain optimistic on the prospects for South African shares notwithstanding the rally. While growth will remain hard to come by for the country, it may well be that the wheels are being set in motion for a better 10 years in the future than has been in the past.

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Sources: M&G, Morningstar & Deutsche Securities

M&G SA Equity Fund

Equity

Q2 2024

Market overview

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In South Africa, asset prices rallied, and the rand gained ground on the back of what investors considered to be a successful outcome for the May national elections, in which there was almost no violence, the new Government of National Unity (GNU) was formed timeously, and President Cyril Ramaphosa was sworn in for his second term. Both the FTSE/JSE All Share Index and Capped SWIX Index delivered 8.2% in rand terms, boosted by a notable 17.8% return from Financials, 5.7% from Listed Property, 5.2% from Industrials, and 3.5% from Resources, due to general gains in commodity prices.

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Performance

The Fund delivered a return of 5.9% (net of fees) for the second quarter of 2024, underperforming its benchmark which delivered a return of 8.2%. For the 12 months ended 30 June 2024, the Fund returned 4.9% (net of fees), underperforming its benchmark by 5.1%. Over the 3-year period ending 30 June 2024, the Fund was in line with the benchmark return of 10.1% per annum.

The Funds' overweight investment in the Multichoice Group which was a major contributor to performance for the first quarter unfortunately turned into one of the Fund's main detractors in the second quarter. The negotiations between French operator Canal Plus, the Multichoice board and the regulators in South Africa are likely to mean that the final offer to shareholders might take a bit longer than expected. The share price which had reacted very positively to the increased offer from Canal Plus, from R105 to R125, fell back a bit during the latest quarter. This fallback in share price together with the strong market meant that Multichoice detracted from performance.

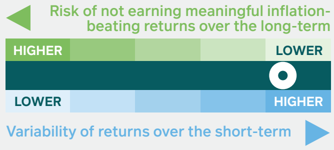
We have maintained our position in Multichoice with the current share price trading at a now substantial discount to the Canal Plus indicative offer of R125, and one is arguably only paying for the Group's profitable South African business, with no value being attributed to Rest of Africa or its other investments (Sports betting, Irdeto technology and Showmax).

In the financials sector, we think that South African banks continue to trade at undemanding valuations. We think that bond yields are relatively elevated and the South African bond yield curve relatively steep. While the high bond yields increased the hurdle rate that investors require, we think that this fact also embeds a higher potential return into current bank valuations. If interest rates were to come down, this could be positive for interest rate sensitive companies such as the banks. South Africa has a well regulated banking sector and credit risk within the large banks have generally been very well managed through cycles. We therefore continue to think that Banks look relatively attractively valued and we remain overweight the banking sector. The SA election results where favourably viewed by the market and we saw a significant rerating of many of the more interest rate sensitive companies and particularly the banks. We benefited from our overweight to the banking sector but we saw a relative outperformance of the higher quality banks such as Firstrand and Capitec. While we have been reducing our underweight to Firstrand over the last year, we do not hold a position in Capitec due to its very expensive

Annualised performance	B class	Benchmark[1]	F class
1 year	6.1%	10.0%	4.9%
3 years	11.3%	10.1%	10.1%
5 years	8.9%	8.7%	7.7%
7 years	8.7%	7.5%	7.4%
10 years	7.2%	6.3%	-
20 years	14.4%	13.4%	-
Since inception	14.4%	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 objective

To provide broad-based exposure to South African shares that offer value and medium- to long-term growth. The portfolio managers seek to invest in companies where returns can be achieved from any or all of (a) growth in earnings, (b) growth in dividends and (c) a re-rating by the market of the company's share price.

Investor profile

Investors with a higher risk tolerance who are looking for out-performance of the South African equity market, while limiting volatility relative to the fund's benchmark. The recommended investment horizon is 7 years or longer.

Investment mandate

The Fund can invest in any company listed on the JSE that meet the portfolio managers' value criteria. The Fund seeks out value by attempting to capture all components of return over time, including high dividend yield, earnings growth and possible market re-rating. The Fund will not invest in any foreign markets. The intended maximum limits are Equity 100%, Property 10% and Foreign 0%.

Fund managers

Ross Biggs
Chris Wood
Aadil Omar
Leonard Krüger

ASISA category

South African - Equity - General

Benchmark

FTSE/JSE Capped SWIX All Share Index

Inception date

21 September 2000

Fund size

R37 932 738 809

Please note that the B Class is only available to large retirement funds and institutional investors. The F Class was launched on 01/07/2016.

Sources: M&G, Morningstar & Deutsche Securities

valuation in our view. While we rate Capitec more highly in terms of quality banks, we cannot ignore that it is 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 Capitec.

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

The Fund's overweight position in MTN was the third largest detractor from performance over the quarter. The market has been very concerned about the risks of doing business in Nigeria, where MTN has a significant presence. While we do not disagree that investing in Nigeria requires a higher risk premium, we think that MTN presents excellent value and continues to be one of the larger overweight positions in the Fund. MTN is trading on a dividend yield of over 6%, which we think should be able to grow over the next five years. MTN has been steadily reducing debt levels on its balance sheet by realising non-core assets like their tower assets. We think that this process will not only ensure a stable and growing dividend but will also reduce any balance sheet risk. Our investment thesis for MTN has not changed but we do acknowledge the Niara has devalued more than we had initially anticipated. In our opinion, the current MTN Group share price is attributing little, if any, value for MTN Nigeria, despite it historically being the group's largest contributor to both operating profit and group value. The market has chosen to focus on the near-term negative impacts of the weaker Niara on MTN Nigeria's operating costs – primarily its tower leases – and appears to assume that none of the increased cost can either be recovered from the consumer or shared with its service providers. Our view is that profit margins in Nigeria will recover both through renegotiation of tower lease contracts and regulatory approval for an industry wide tariff increase. We are witnessing substantial price increases in many businesses in Nigeria currently as companies attempt to restore their profit margins post the significant currency depreciation. The underlying demand for voice and data services continues to be robust across most of MTN's markets, including Nigeria, while there is upside opportunity from the scaling of the Group's mobile money offering. Our quarrel with the market therefore on MTN is that it is focusing on the short term rather than the long -term.

Our underweight position to Bidcorp was the largest contributor to performance for the last quarter. We have held a preference for overweights in other high quality defensive companies such as British American Tobacco and Anheuser-Busch.

Bidcorp is a food service company that has global scale and managed to pick up a lot of market share during the Covid period when smaller competitors came under pressure. They also managed to invest in the business ahead of the curve by adding warehouse and distribution capacity. This has allowed them to take advantage of the strong recovery in the out of home eating space post Covid. Earnings have continued to surprise to the upside, but we think that this momentum in earnings growth is now likely to slow, given higher inflation and interest costs impact on customers, in a more difficult economic environment. While we like its high quality and defensiveness, we have found the valuation to be rich.

A top contributor to performance was also our overweight position to Spar which we have established over the last year. We established this position at particularly attractive prices as the market was concerned around the company's balance sheet, its investment into Poland (which they have recently announced that they will be reversing out of) and the implementation of a new warehouse management system which did not go according to plan.

Shareholders pushed for management changes at Spar due to concerns around poor corporate governance and the Board and the Executive team were refreshed. This new team has moved swiftly to address the key operational challenge in the core South African business, which was caused by a poor software implementation in the main distribution centre in Spar's biggest region, Kwazulu Natal. Loyalty levels from franchisees have improved and we think the South African business of Spar will return to earning the good returns that we have seen it deliver in the past.

The exit of the Polish business has also been confirmed and should be finalised during the second half of this year. Whilst this has been a costly acquisition, the non-repeat of the losses going forward provides another boost for the company and importantly return the focus of the business to the South African and Irish businesses where they operate well. Encouragingly, the Board has also announced a review of the Swiss business, which currently earns a return well below it's cost of capital. We think that through these initiatives, Spar should be able to deliver good earnings and rerate off what we think is a very low rating for the quality of this business.

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

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

Strategy and positioning

We remain optimistic regarding the South African equity market returns over the medium term due to the prevailing excessive levels of pessimism reflected in share prices and valuations. The Price to Book of the JSE remains close to 1.7X as at the end of June 2024 which we think is a very attractive valuation level.

South African assets appear to be undervalued relative to emerging and developed markets and have the potential to rerate significanly under a more favourable economic situation. We do however highlight the risk of rising interest rates and bond yields in the United States and many developed and emerging markets. While South African bond yields are already elevated and remain attractive, we think that rising bond yields in the US present headwinds to equities valuations. The hurdle rate has increased and not only decreases equity valuations, but also increases the real financial risk to companies via a higher cost of debt.

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

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G Global Bond Feeder Fund

Global Income ZAR-denominated

Q2 2024

Market overview

The second quarter of 2024 (Q2) saw a moderation in the bullish investor sentiment towards global equities during the previous two quarters, as stubbornly persistent inflation in the US prevented the US Federal Reserve (Fed) from starting to lower interest rates, despite an expectedly high number of companies reporting strong fundamentals in their results across a variety of sectors. Election uncertainties also weighed on market sentiment in France and the UK, but positive results in South Africa and India encouraged equity rallies. Other central banks like the European Central Bank did enact cuts, however, helping both developed and emerging market equities record moderately positive returns. Meanwhile, global bonds were weaker as US investors moved out their rate cut expectations significantly: the majority now forecast either 25bps or 50bps of reductions starting in September at the earliest.

United States

In the US, positive investor sentiment toward equities cooled slightly as the US Federal Reserve (Fed) continued to keep interest rates on hold for the quarter amid stubbornly high services inflation. At its 12 June meeting it raised its inflation forecast slightly and the "dot plot" guidance indicated its members' interest rate expectations now comprised only one 25bp rate cut this year, although several members did foresee two 25bp cuts. This important adjustment indicated rates would end 2024 at 5.1% compared to 4.6% in their March guidance.

This came as May CPI was recorded at 3.3% y/y, softer than the 3.4% expected, as goods inflation and certain other CPI components were broadly lower. Core PCE, the Fed's preferred inflation measure, was 2.6% y/y, as expected, down from 2.8% in April and the lowest since March 2021. At the same time, US GDP for Q1 2024 was revised down to 1.3% from 1.6% previously, a disappointing result as manufacturing activity, business investment and demand, and consumer demand are constrained by high borrowing costs. As for 2024 growth, the Fed kept its forecast at 2.1% for the year

United Kingdom

In the UK, the Bank of England (BoE) again kept its main interest rate unchanged at 5.25% at its May and June meetings, even as May CPI fell to 2.0% y/y from 2.3% in April. The chances for a cut in interest rates improved, with the market pricing in a 25bp rate cut in August and more expected. The economy emerged from a technical recession: Q1 2024 GDP growth was reported at 0.6% y/y. Meanwhile, with the latest data indicating improving economic conditions, Conservative Prime Minister Rishi Sunak called a National Election for 4 July, much sooner than expected. However, polls show Labour leading by a substantial 20% margin, and expectations are for the Conservatives to lose power, injecting higher levels of uncertainty into the local financial market.

Euro area

In the Euro area, the European Central Bank (ECB) lowered its benchmark interest rate by 25bps at its June meeting to 3.75%, as had been expected. May CPI came in at 2.6% y/y, just above the 2.5% consensus and still higher than the ECB's target of 2.0%. However, inflation is projected to soften further despite stubborn services inflation. Meanwhile, GDP growth improved to 0.3% y/y in Q1 2024 versus a downwardly revised -0.1% y/y the previous quarter. The French equity market sold off in June after President Emmanuel Macron announced a snap parliamentary election for 30 June/7 July following his centrist coalition's resounding defeat in the European parliamentary elections by the far-right National Rally party headed by Marine le Pen. The first round of the French parliamentary elections showed both the far-right and far-left parties defeating Macron's centrists, and the election will be completed on 7 July.

Japan

After having hiked interest rates for the first time in 17 years in March, the Bank of Japan sounded a cautious note at its subsequent policy meetings, saying in June that it would be considered around further hikes given the fragile state of Japanese consumer demand. This came amid downward revisions to GDP growth for both Q1 2024 and Q4 2023: the former was lowered to -2.8% y/y from -1.9% y/y, and the latter to 0.1% y/y from 0.3% previously. May CPI came in slightly lower than expected at 2.5% y/y versus 2.6% y/y. With global economic growth slowing, Japan's export-reliant economy is facing more headwinds.

China

Chinese markets experienced a small recovery in Q1, as the Chinese authorities enacted measures to stabilise the capital market and bolster economic growth. The PBOC cut the bank reserve requirement ratio by 50bps, followed by a historic 25bp cut in the 5-year Loan Rate. These moves significantly boosted market sentiment. GDP growth for Q4 2023 came in at 5.2% y/y, surpassing the government's 5% target level, and the new 2024 target was set at 5.0%, as expected. This is expected to be even more difficult to achieve, due to prevailing headwinds such as weak consumer demand, industry oversupply and lower consumer and business confidence. Analysts foresee further policy support in the months ahead to further support market confidence and sustainable growth.

Currency

The rand gained 3.7% against both the US dollar and the pound sterling and appreciated 4.5% versus the euro.

Performance

Global Bond Feeder Fund returned -5.7% (net of fees) for the quarter versus its benchmark, the Bloomberg Global

Annualised performance	A class	Benchmark	B class
1 year	-4.3%	-2.5%	-4.0%
3 years	1.2%	2.6%	1.5%
5 years	2.7%	3.2%	3.0%
7 years	3.5%	4.4%	-
10 years	4.2%	5.1%	-
20 years	7.8%	8.0%	-
Since inception	7.2%	7.5%	-

Risk profile

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

HIGHER | LOWER

LOWER | HIGHER

Variability of returns over the short-term

Fund facts

Fund objective

The Fund's objective is to generate investment returns through exposure to global bonds and interest-bearing instruments over the medium term.

Investor profile

Investors seeking returns from a diversified portfolio of global debt and fixed income securities. The recommended investment horizon is 2 years (or longer when used as strategic exposure to the asset class). Although the Fund's investment universe is global, units are priced in rands. Investors can therefore invest without having to personally expatriate rands.

Investment mandate

The Fund is a feeder fund and, other than assets in liquid form and currency contracts, invests only in one underlying fund – the M&G Global Bond Fund, a US dollar denominated fund domiciled in Ireland. Through this underlying fund, the Fund has exposure to a diversified portfolio of global debt and fixed income securities, other collective investment schemes and financial derivative instruments.

Investment manager of the underlying fund

M&G Investment Management Ltd (UK)

Fund managers of the underlying fund

Eva Sun-Wai

Robert Burrows

ASISA category

Global - Interest Bearing - Variable Term

Benchmark

Bloomberg Global Aggregate Bond Index

Inception date

27 October 2000

Fund size

R701 860 153

Awards

Raging Bull: 2006, 2008, 2013

Morningstar/Standard & Poor's: 2007, 2009, 2013

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

Aggregate Bond Index, which returned -4.8%. For the 12 months ending 30 June, the fund delivered -4.3%, compared to the benchmark's -2.5%.

The fund's absolute performance was hurt by holdings in developed market government bonds (particularly those with longer durations) as investors pushed back their expectations for interest rate cuts by central banks. Emerging market sovereign debt in Brazil, Colombia and Mexico also held back returns

Strategy and positioning

In response to inflows during April, we topped up some sovereign bond positions, including the UK, US and Germany. Conversely, we reduced our exposure to Italian BTPs in light of recent outperformance against German bunds and other peripheral bonds and noting a less constructive fiscal picture in Italy, in our view. We also switched some French OATs for some EU supranational bonds, which we believe have less fiscal risk. We also sold some Thames Water bonds maturing in 2031 and cognisant of wider spill over risks, we also sold Wessex Water and reduced some Southern Water exposure. We sold some longer end sterling bonds, as we believe this part of the market looks expensive.

In May, we participated in a number of relative value trades in US Treasury bonds and UK gilts. We also sold EDF bonds and purchased French government bonds in a relative value trade. In credit markets, we purchased a Swisscom new issue. The fund also made purchases in Uruguay, South Africa, Japan and Brazil sovereign bonds.

In response to election-induced French volatility, we added French government bonds in June, but switched from French corporates such as EDF, so that we maintained our underweight exposure at a country level. We also switched our 10-year EU bond into a 10-year KFW (German bank) to reflect our view that German credit risk is safer versus EU-wide premia. Following the rate cut from the Bank of Canada, the 10-year spread versus US Treasuries reached all-time wides. Therefore, we implemented a small relative value position, by selling 10-year Canadian government bonds and buying 10-year US Treasuries. We also marginally added to sovereign bonds issued by Spain, New Zealand, and Italy.

Outlook

Our broad investment theme remains in place, with the fund being defensively positioned, with a long interest rate and a short credit risk bias. We think the more likely scenario for this year is not a soft landing, but a slowdown followed by central banks cutting interest rates. Therefore, we want to be exposed to government bonds and longer in interest rate duration, which we would expect to perform well in such a scenario. Credit spreads remain extremely tight and offer little value, in our view.

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Disclaimer

Quarterly Commentary

M&G Investments

M&G Global Inflation Plus Feeder Fund

Global Multi-Asset ZAR-denominated

Q2 2024

Market overview

The second quarter of 2024 (Q2) saw a moderation in the bullish investor sentiment towards global equities during the previous two quarters, as stubbornly persistent inflation in the US prevented the US Federal Reserve (Fed) from starting to lower interest rates, despite an expectedly high number of companies reporting strong fundamentals in their results across a variety of sectors. Election uncertainties also weighed on market sentiment in France and the UK, but positive results in South Africa and India encouraged equity rallies. Other central banks like the European Central Bank did enact cuts, however, helping both developed and emerging market equities record moderately positive returns. Meanwhile, global bonds were weaker as US investors moved out their rate cut expectations significantly: the majority now forecast either 25bps or 50bps of reductions starting in September at the earliest.

Global equity (as measured by the MSCI ACWI) recorded a total return of 2.9% in Q2 compared to 8.2% in Q1, while developed market equities produced 2.6% and emerging market equities returned 5.0% (MSCI Emerging Markets Index – all in US$). Global bonds posted -1.1% (Bloomberg Global Aggregate Bond Index, in US$).

United States

In the US, positive investor sentiment toward equities cooled slightly as the US Federal Reserve (Fed) continued to keep interest rates on hold for the quarter amid stubbornly high services inflation. At its 12 June meeting it raised its inflation forecast slightly and the "dot plot" guidance indicated its members' interest rate expectations now comprised only one 25bp rate cut this year, although several members did foresee two 25bp cuts. This important adjustment indicated rates would end 2024 at 5.1% compared to 4.6% in their March guidance.

This came as May CPI was recorded at 3.3% y/y, softer than the 3.4% expected, as goods inflation and certain other CPI components were broadly lower. Core PCE, the Fed's preferred inflation measure, was 2.6% y/y, as expected, down from 2.8% in April and the lowest since March 2021. At the same time, US GDP for Q1 2024 was revised down to 1.3% from 1.6% previously, a disappointing result as manufacturing activity, business investment and demand, and consumer demand are constrained by high borrowing costs. As for 2024 growth, the Fed kept its forecast at 2.1% for the year. For the quarter, the Dow Jones produced -1.3%, the Nasdaq 8.5%, and the S&P 500 4.3% (all in US$).

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In the UK, the Bank of England (BoE) again kept its main interest rate unchanged at 5.25% at its May and June meetings, even as May CPI fell to 2.0% y/y from 2.3% in April. The chances for a cut in interest rates improved, with the market pricing in a 25bp rate cut in August and more expected. The economy emerged from a technical recession: Q1 2024 GDP growth was reported at 0.6% y/y. Meanwhile, with the latest data indicating improving economic conditions, Conservative Prime Minister Rishi Sunak called a National Election for 4 July, much sooner than expected. However, polls show Labour leading by a substantial 20% margin, and expectations are for the Conservatives to lose power, injecting higher levels of uncertainty into the local financial market. In Q2 2024, the FTSE 100 returned 3.8% in US$, but lost 1.8% in June.

Euro area

In the Euro area, the European Central Bank (ECB) lowered its benchmark interest rate by 25bps at its June meeting to 3.75%, as had been expected. May CPI came in at 2.6% y/y, just above the 2.5% consensus and still higher than the ECB's target of 2.0%. However, inflation is projected to soften further despite stubborn services inflation. Meanwhile, GDP growth improved to 0.3% y/y in Q1 2024 versus a downwardly revised -0.1% y/y the previous quarter. The French equity market sold off in June after President Emmanuel Macron announced a snap parliamentary election for 30 June/7 July following his centrist coalition's resounding defeat in the European parliamentary elections by the far-right National Rally party headed by Marine le Pen. The first round of the French parliamentary elections showed both the far-right and far-left parties defeating Macron's centrists, and the election will be completed on 7 July. France's CAC 40 returned -7.3% in Q2 after losing 7.4% in June, while Germany's DAX delivered -2.1% for Q2 (both in US$).

Japan

After having hiked interest rates for the first time in 17 years in March, the Bank of Japan sounded a cautious note at its subsequent policy meetings, saying in June that it would be considered around further hikes given the fragile state of Japanese consumer demand. This came amid downward revisions to GDP growth for both Q1 2024 and Q4 2023: the former was lowered to -2.8% y/y from -1.9% y/y, and the latter to 0.1% y/y from 0.3% previously. May CPI came in slightly lower than expected at 2.5% y/y versus 2.6% y/y. With global economic growth slowing, Japan's export-reliant economy is facing more headwinds. After a strong 13.2% return in Q1, the Nikkei retraced some of its gains in Q2 with a return of -7.6%.

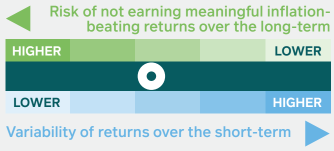
China

In Q2, China's Q1 GDP growth surprised significantly to the upside at 5.3% y/y versus the 4.6% expected. However, the latest fundamental data showed renewed weakness as new bank lending was softer than expected in the wake of the PBOC's key interest rate cuts in Q1, exacerbated by ongoing soft consumer demand, and lower consumer and business confidence, among other headwinds. Declines in new home prices accelerated despite

Annualised performance	A class	Benchmark[1]	B class
1 year	0.5%	-0.6%	0.8%
3 years	5.8%	13.9%	6.2%
5 years	6.8%	9.2%	7.2%
7 years	6.7%	7.6%	7.1%
10 years	7.0%	7.6%	7.3%
20 years	7.7%	7.9%	-
Since inception	7.4%	7.6%	-

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

Risk profile



Fund facts

Fund objective

The Fund is priced in rands and its objective, expressed in US dollar terms, is to outperform global inflation while aiming to preserve capital over the medium term.

Investor profile

Investors seeking to preserve the real value of their capital, in US dollar terms, by investing in a diversified portfolio of global assets. The recommended investment horizon is 3 years or longer. Since units are priced in rands, investors can invest without having to expatriate rands.

Investment mandate

The Fund is a feeder fund and, other than assets in liquid form and currency contracts, invests only in one fund – the M&G Global Inflation Plus Fund, a US dollar denominated fund domiciled in Ireland. Through this underlying fund, the Fund has exposure to a diversified portfolio that may include equity and property securities, cash, bonds and commodities. The Fund may invest up to 40% in equity securities (excl. property) and up to 25% in property securities.

Investment manager of the underlying fund

M&G Investment Management Ltd (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

R179 143 621

Awards

Raging Bull: 2019, 2021

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

the government's ongoing efforts to reduce oversupply in the property sector and provide support for overleveraged property companies. May CPI was recorded at only 0.3% and calls for more interest rate cuts grew. However, the PBOC refrained from enacting any further cuts during the quarter, constrained by the weakness of the yuan. Chinese equities rebounded in the quarter after the PBOC's Q1 rate cuts, with Hong Kong's Hang Seng returning 9.2% and the MSCI China delivering 7.2%, both in US$. .

Emerging markets

The MSCI Turkey was among the strongest performers for the quarter with a robust return of 21.6%, while South Africa and India enjoyed improved sentiment from their successful national elections, delivering 12.5% and 10.4%, respectively (both in US$). The rebound in China boosted the MSCI China and offered investors a 7.2% return. Weakest with a return of -12.8% was Brazil's Bovespa, while South Korea's KOSPI was largely flat at -0.1% (all in US$).

Currency

The rand gained 3.7% against both the US dollar and the pound sterling and appreciated 4.5% versus the euro.

Performance

The M&G Global Inflation Plus Feeder Fund produced a return of -4.4% (A class, net of fees) for the quarter, whilst global inflation (based on the OECD G7 CPI index) measured -2.6%. For the 12 months to 30 June, the fund delivered 0.5% and global inflation measured -0.6% (for the rolling year ended 15 May 2024).

The fund's allocation to equities made the most significant contribution to absolute returns, while fixed income exposure hurt returns. Property exposure also held back returns marginally.

Within equities, our core exposure to global equities chosen by machine learning and our tactical positions contributed to returns.

Looking at core exposure, the portfolio outperformed on 28 out of 65 trading days during the quarter, offering an unfavourable hit rate of around 43%. While this was partly offset by a positive skew, the poor hit rate resulted in the fund underperforming over the quarter.

A key attribute of portfolio construction within the fund is that active country, currency and industry exposures are constrained to ensure that style and idiosyncratic stock risk are the main drivers of active returns. The portfolio's style exposure proved to be a significant headwind over the quarter. Within style, exposure to high beta, high earnings variability and mid cap stocks all detracted from performance. Active exposures to high growth and high momentum stocks were positive at the portfolio level and partially offset some of the major style headwinds. Stock selection had a negative impact over the quarter.

In terms of tactical positions, holdings in Asia ex-Japan equities were beneficial to returns. However, holdings in Latin America held back performance.

Turning to fixed income holdings, both the fund's core exposure and tactical positions in fixed income hurt returns. Within core exposure, absolute performance was hurt by holdings in developed market government bonds (particularly those with longer durations) as investors pushed back their expectations for interest rate cuts by central banks. Emerging market sovereign debt in Brazil, Colombia and Mexico also held back returns. In terms of our tactical positions, the main detractor from returns was from longer dated US Treasuries.

In global property, absolute performance was driven by the weakness in real estate investment trusts in the quarter. The portfolio outperformed on 34 out of 65 trading days during the quarter, offering a positive hit rate of around 52%. This was offset by a modestly negative skew, resulting in the fund underperforming over the quarter. The property portion of the fund is also managed by constraining active country, currency and industry risk at the portfolio construction phase. This ensures that style and idiosyncratic stock risk are the main drivers of active returns. The portfolio's style exposure proved to be a positive contributor over the quarter, partly reversing some of the style headwinds from Q1. Within style, exposure to mid-cap and cheap valuation stocks contributed to performance, but this was partly offset by active exposures to high earnings yield and high dividend yield.

Strategy and positioning

During the second quarter, we reduced our equity weight to slightly underweight, reflecting recent strong price moves, positivity and perhaps complacency by investors, against a backdrop of challenging global equity valuations, in our view.

In April, we reduced our tactical equity position in China, after a significant unwind of much of the episodic price behavior we saw earlier in the year. We remain long China equity, since it still offers significant value, in our opinion. We also began a new position in a MSCI World ex US ETF.

In June, Mexican equities fell significantly in a short space of time. Whilst we acknowledge the negative aspects of a socialist government, this was a significant hit to Mexican pricing. Valuations were cheap before this price move, so we believed adding to Mexico was prudent.

Later in June, we reduced our exposure to EuroStoxx 50 and FTSE 100 equities and began a small position in Indonesian equities, taking advantage of a price fall, which offered an attractive entry point for a market that has very strong economic growth fundamentals.

Outlook

Many major equity and credit markets offer limited compensation for growth disappointment. Investors will be watching closely for any signs, that what has so far been benign disinflation in many economies, remains so, and does not become a challenge to economic growth.

Any pockets of asset price weakness, such as those in France and Mexico in June, have thus far been contained. It remains to be seen whether this reflects a genuinely more supportive set of underlying conditions, or an optimism engendered by the recent experience of strong returns.

Overall equity valuations look demanding in aggregate (most notably in the US), although not detached from recent robust earnings/fundamentals. Within bonds we prefer to be defensively positioned, with a long interest rate and a short credit risk bias. We think the more likely scenario for this year is not a soft landing, but a slowdown followed by central banks cutting interest rates. Therefore, we want to be exposed to government bonds and longer in interest rate duration, which we would expect to perform well in such a scenario. Credit spreads remain extremely tight and offer little value, in our view. □

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Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

M&G Global Balanced Feeder Fund

Global Multi-Asset ZAR-denominated

Q2 2024

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In the UK, the Bank of England (BoE) again kept its main interest rate unchanged at 5.25% at its May and June meetings, even as May CPI fell to 2.0% y/y from 2.3% in April. The chances for a cut in interest rates improved, with the market pricing in a 25bp rate cut in August and more expected. The economy emerged from a technical recession: Q1 2024 GDP growth was reported at 0.6% y/y. Meanwhile, with the latest data indicating improving economic conditions, Conservative Prime Minister Rishi Sunak called a National Election for 4 July, much sooner than expected. However, polls show Labour leading by a substantial 20% margin, and expectations are for the Conservatives to lose power, injecting higher levels of uncertainty into the local financial market. In Q2 2024, the FTSE 100 returned 3.8% in US$, but lost 1.8% in June.

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In the Euro area, the European Central Bank (ECB) lowered its benchmark interest rate by 25bps at its June meeting to 3.75%, as had been expected. May CPI came in at 2.6% y/y, just above the 2.5% consensus and still higher than the ECB's target of 2.0%. However, inflation is projected to soften further despite stubborn services inflation. Meanwhile, GDP growth improved to 0.3% y/y in Q1 2024 versus a downwardly revised -0.1% y/y the previous quarter. The French equity market sold off in June after President Emmanuel Macron announced a snap parliamentary election for 30 June/7 July following his centrist coalition's resounding defeat in the European parliamentary elections by the far-right National Rally party headed by Marine le Pen. The first round of the French parliamentary elections showed both the far-right and far-left parties defeating Macron's centrists, and the election will be completed on 7 July. France's CAC 40 returned -7.3% in Q2 after losing 7.4% in June, while Germany's DAX delivered -2.1% for Q2 (both in US$).

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China

In Q2, China's Q1 GDP growth surprised significantly to the upside at 5.3% y/y versus the 4.6% expected. However, the latest fundamental data showed renewed weakness as new bank lending was softer than expected in the wake of the PBOC's key interest rate cuts in Q1, exacerbated by ongoing soft consumer demand, and lower consumer and business confidence, among other headwinds. Declines in new home prices accelerated despite the government's ongoing efforts to reduce oversupply in the property sector and provide support for overleveraged property companies. May CPI was recorded at only 0.3% and calls for more interest rate cuts grew. However, the PBOC refrained from enacting any further cuts during the quarter, constrained by the weakness of the yuan. Chinese equities rebounded in the quarter after the PBOC's Q1 rate cuts, with Hong Kong's Hang Seng returning 9.2% and the MSCI China delivering 7.2%, both in US$.

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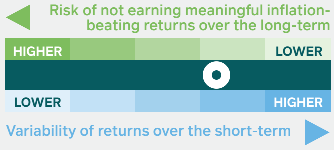
Annualised performance	A class	Benchmark	B class
1 year	5.6%	9.3%	5.9%
2 years	14.5%	17.9%	14.9%
3 years	9.4%	10.9%	9.7%
5 years	10.5%	12.3%	10.6%
Since inception	9.3%	11.8%	-

Risk profile



Fund facts

Fund objective

The Fund's objective is to provide investors with capital growth over the long-term by investing in a diversified portfolio of global assets.

Investor profile

Investors seeking long-term capital growth from a diversified portfolio of global assets. The recommended investment horizon is 5 years or longer. Although the Fund's investment universe is global, units are priced in rands. Investors can therefore invest without having to personally expatriate rands.

Investment mandate

The Fund is a feeder fund and, other than assets in liquid form and currency contracts, invests only in one underlying fund - the M&G Global Balanced Fund, a US dollar denominated fund domiciled in Ireland. Through this underlying fund, the Fund has exposure to a diversified portfolio that may include equity and property securities, cash, bonds, currencies and commodities. The Fund may invest up to 75% in equity securities (excluding property) and up to 25% in property securities.

Investment manager of the underlying fund

M&G Investment Management Ltd (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 350 621 178

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

Currency

The rand gained 3.7% against both the US dollar and the pound sterling and appreciated 4.5% versus the euro.

Performance

The M&G Global Balanced Feeder Fund produced a return of -3.6% (A class, net of fees) for the quarter, compared to the -2.2% recorded by its benchmark. For the 12 months to 30 June, the fund delivered 5.6% versus the benchmark's 9.3% return.

The fund's allocation to global equities made the most significant contribution to returns, whilst fixed income exposure hurt returns. Property exposure also held back returns marginally.

Within global equities, our core exposure chosen by machine learning resulted in the portfolio having outperformed on 28 out of 65 trading days during the quarter, offering an unfavourable hit rate of around 43%. While this was partly offset by a positive skew, the poor hit rate resulted in underperformance over the reference period.

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

The portfolio's style exposure proved to be a significant headwind over the quarter. Within style, exposure to high beta, high earnings variability and mid cap stocks all detracted from performance. Active exposures to high growth and high momentum stocks were positive at the portfolio level and partially offset some of the major style headwinds.

In terms of tactical (non-core) positions, holdings in Asia ex-Japan equities were beneficial to returns. However, holdings in Latin America and a short position in the S&P 500, held back performance.

Looking at the fund's fixed income holdings, its core exposure and tactical positions hurt returns. Absolute performance was hurt by holdings in developed market government bonds (particularly those with longer durations) as investors pushed back their expectations for interest rate cuts by central banks. Emerging market sovereign debt in Brazil, Colombia and Mexico also held back returns. In terms of our tactical positions, the main detractor from returns was from US Treasuries.

Within property, absolute performance was driven by the weakness in real estate investment trusts in the quarter. The portfolio outperformed on 34 out of 65 trading days, offering a positive hit rate of around 52%. This was offset by a modestly negative skew, resulting in the fund underperforming over the quarter. The fund is managed by constraining active country, currency and industry risk at the portfolio construction phase. This ensures that style and idiosyncratic stock risk are the main drivers of active returns. The portfolio's style exposure proved to be a positive contributor over the quarter, partly reversing some of the style headwinds from Q1. Within style, exposure to mid-cap and cheap valuation stocks contributed to performance, but this was partly offset by active exposures to high earnings yield and high dividend yield.

Strategy and positioning

During the second quarter, we reduced our equity weight to slightly underweight, reflecting recent strong price moves, positivity and perhaps complacency by investors, against a backdrop of challenging global equity valuations, in our view.

In April, we reduced our tactical equity position in China, after a significant unwind of much of the episodic price behaviour we saw earlier in the year. We remain long China equity, since it still offers significant value, in our opinion. We also began a new position in a MSCI World ex US ETF.

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Many major equity and credit markets offer limited compensation for growth disappointment. Investors will be watching closely for any signs, that what has so far been benign disinflation in many economies, remains so, and does not become a challenge to economic growth.

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Overall equity valuations look demanding in aggregate (most notably in the US), although not detached from recent robust earnings/fundamentals. Within bonds we prefer to be defensively positioned, with a long interest rate and a short credit risk bias. We think the more likely scenario for this year is not a soft landing, but a slowdown followed by central banks cutting interest rates. Therefore, we want to be exposed to government bonds and longer in interest rate duration, which we would expect to perform well in such a scenario. Credit spreads remain extremely tight and offer little value, in our view.

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G Global Property Feeder Fund

Global Property ZAR-denominated

Q2 2024

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This came as May CPI was recorded at 3.3% y/y, softer than the 3.4% expected, as goods inflation and certain other CPI components were broadly lower. Core PCE, the Fed's preferred inflation measure, was 2.6% y/y, as expected, down from 2.8% in April and the lowest since March 2021. At the same time, US GDP for Q1 2024 was revised down to 1.3% from 1.6% previously, a disappointing result as manufacturing activity, business investment and demand, and consumer demand are constrained by high borrowing costs. As for 2024 growth, the Fed kept its forecast at 2.1% for the year. For the quarter, the Dow Jones produced -1.3%, the Nasdaq 8.5%, and the S&P 500 4.3% (all in US$).

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In the UK, the Bank of England (BoE) again kept its main interest rate unchanged at 5.25% at its May and June meetings, even as May CPI fell to 2.0% y/y from 2.3% in April. The chances for a cut in interest rates improved, with the market pricing in a 25bp rate cut in August and more expected. The economy emerged from a technical recession: Q1 2024 GDP growth was reported at 0.6% y/y. Meanwhile, with the latest data indicating improving economic conditions, Conservative Prime Minister Rishi Sunak called a National Election for 4 July, much sooner than expected. However, polls show Labour leading by a substantial 20% margin, and expectations are for the Conservatives to lose power, injecting higher levels of uncertainty into the local financial market. In Q2 2024, the FTSE 100 returned 3.8% in US$, but lost 1.8% in June.

Euro area

In the Euro area, the European Central Bank (ECB) lowered its benchmark interest rate by 25bps at its June meeting to 3.75%, as had been expected. May CPI came in at 2.6% y/y, just above the 2.5% consensus and still higher than the ECB's target of 2.0%. However, inflation is projected to soften further despite stubborn services inflation. Meanwhile, GDP growth improved to 0.3% y/y in Q1 2024 versus a downwardly revised -0.1% y/y the previous quarter. The French equity market sold off in June after President Emmanuel Macron announced a snap parliamentary election for 30 June/7 July following his centrist coalition's resounding defeat in the European parliamentary elections by the far-right National Rally party headed by Marine le Pen. The first round of the French parliamentary elections showed both the far-right and far-left parties defeating Macron's centrists, and the election will be completed on 7 July. France's CAC 40 returned -7.3% in Q2 after losing 7.4% in June, while Germany's DAX delivered -2.1% for Q2 (both in US$).

Japan

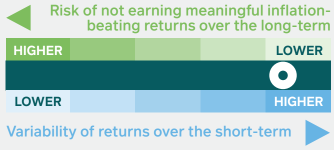
After having hiked interest rates for the first time in 17 years in March, the Bank of Japan sounded a cautious note at its subsequent policy meetings, saying in June that it would be considered around further hikes given the fragile state of Japanese consumer demand. This came amid downward revisions to GDP growth for both Q1 2024 and Q4 2023: the former was lowered to -2.8% y/y from -1.9% y/y, and the latter to 0.1% y/y from 0.3% previously. May CPI came in slightly lower than expected at 2.5% y/y versus 2.6% y/y. With global economic growth slowing, Japan's export-reliant economy is facing more headwinds. After a strong 13.2% return in Q1, the Nikkei retraced some of its gains in Q2 with a return of -7.6%.

China

In Q2, China's Q1 GDP growth surprised significantly to the upside at 5.3% y/y versus the 4.6% expected. However, the latest fundamental data showed renewed weakness as new bank lending was softer than expected in the wake of the PBOC's key interest rate cuts in Q1, exacerbated by ongoing soft consumer demand, and lower consumer and business confidence, among other headwinds. Declines in new home prices accelerated despite the government's ongoing efforts to reduce oversupply in the property sector and provide support for overleveraged property companies. May CPI was recorded at only 0.3% and calls for more interest rate cuts grew. However, the PBOC refrained from enacting any further cuts during the quarter, constrained by the weakness of the yuan.

Annualised performance	A class	Benchmark	B class
1 year	0.6%	0.3%	0.8%
2 years	4.4%	5.8%	4.6%
Since inception	-1.8%	-0.7%	-

Risk profile



Fund facts

Fund objective

To provide investors with capital growth over the long-term by investing in a diversified portfolio of global property securities.

Investor profile

Investors seeking long-term capital growth from a diversified portfolio of global property securities. The recommended investment horizon is 7 years or longer.

Investment mandate

The Fund is a feeder fund and, other than assets in liquid form and currency contracts, invests only in one underlying fund - the M&G Global Property Fund. Quantitative analysis of individual companies, proprietary data analysis and machine learning are used to identify securities for potential inclusion by the fund managers. Through this underlying fund, the Fund has exposure to a diversified portfolio of global property securities that may include REITs and equity securities of companies engaged in real estate activities. The underlying fund may invest in other collective investment schemes and financial derivative instruments.

Investment manager of the underlying fund

M&G Investment Management Ltd (UK)

Fund managers of the underlying fund

Gautam Samarth
Michael Cook

ASISA category

Global - Real Estate - General

Benchmark

FTSE EPRA/NAREIT Global REITs Index (Net)

Inception date

24 November 2021

Fund size

R1 703 194

Sources: M&G, Morningstar & Deutsche Securities

the MSCI China delivering 7.2%, both in US$.

Emerging markets

The MSCI Turkey was among the strongest performers for the quarter with a robust return of 21.6%, while South Africa and India enjoyed improved sentiment from their successful national elections, delivering 12.5% and 10.4%, respectively (both in US$). The rebound in China boosted the MSCI China and offered investors a 7.2% return. Weakest with a return of -12.8% was Brazil's Bovespa, while South Korea's KOSPI was largely flat at -0.1% (all in US$).

Currency

The rand gained 3.7% against both the US dollar and the pound sterling and appreciated 4.5% versus the euro.

Performance

The M&G Global Property Feeder Fund produced a return of -6.3% (A class, net of fees) for the quarter, compared to the -5.3% recorded by its benchmark. For the 12 months to 30 June, the fund delivered 0.6% versus the benchmark's 0.3% return.

Absolute performance was driven by the weakness in real estate investment trusts in the quarter.

The portfolio outperformed on 34 out of 65 trading days during the quarter, offering a positive hit rate of around 52%. This was offset by a modestly negative skew, resulting in the fund underperforming over the quarter.

The fund is managed by constraining active country, currency and industry risk at the portfolio construction phase. This ensures that style and idiosyncratic stock risk are the main drivers of active returns.

The portfolio's style exposure proved to be a positive contributor over the quarter, partly reversing some of the style headwinds from Q1. Within style, exposure to mid-cap and cheap valuation stocks contributed to performance, but this was partly offset by active exposures to high earnings yield and high dividend yield. Stock selection had a negative impact over the quarter.

Outlook

Many major equity and credit markets offer limited compensation for growth disappointment. Investors will be watching closely for any signs, that what has so far been benign disinflation in many economies, remains so, and does not become a challenge to economic growth.

Any pockets of asset price weakness, such as those in France and Mexico in June, have thus far been contained. It remains to be seen whether this reflects a genuinely more supportive set of underlying conditions, or an optimism engendered by the recent experience of strong returns.

Overall equity valuations look demanding in aggregate (most notably in the US), although not detached from recent robust earnings/fundamentals.

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

M&G Global Equity Feeder Fund

Global Equity ZAR-denominated

Q2 2024

Market overview

The second quarter of 2024 (Q2) saw a moderation in the bullish investor sentiment towards global equities during the previous two quarters, as stubbornly persistent inflation in the US prevented the US Federal Reserve (Fed) from starting to lower interest rates, despite an expectedly high number of companies reporting strong fundamentals in their results across a variety of sectors. Election uncertainties also weighed on market sentiment in France and the UK, but positive results in South Africa and India encouraged equity rallies. Other central banks like the European Central Bank did enact cuts, however, helping both developed and emerging market equities record moderately positive returns. Meanwhile, global bonds were weaker as US investors moved out their rate cut expectations significantly: the majority now forecast either 25bps or 50bps of reductions starting in September at the earliest.

Global equity (as measured by the MSCI ACWI) recorded a total return of 2.9% in Q2 compared to 8.2% in Q1, while developed market equities produced 2.6% and emerging market equities returned 5.0% (MSCI Emerging Markets Index – all in US$). Global bonds posted -1.1% (Bloomberg Global Aggregate Bond Index, in US$).

United States

In the US, positive investor sentiment toward equities cooled slightly as the US Federal Reserve (Fed) continued to keep interest rates on hold for the quarter amid stubbornly high services inflation. At its 12 June meeting it raised its inflation forecast slightly and the "dot plot" guidance indicated its members' interest rate expectations now comprised only one 25bp rate cut this year, although several members did foresee two 25bp cuts. This important adjustment indicated rates would end 2024 at 5.1% compared to 4.6% in their March guidance.

This came as May CPI was recorded at 3.3% y/y, softer than the 3.4% expected, as goods inflation and certain other CPI components were broadly lower. Core PCE, the Fed's preferred inflation measure, was 2.6% y/y, as expected, down from 2.8% in April and the lowest since March 2021. At the same time, US GDP for Q1 2024 was revised down to 1.3% from 1.6% previously, a disappointing result as manufacturing activity, business investment and demand, and consumer demand are constrained by high borrowing costs. As for 2024 growth, the Fed kept its forecast at 2.1% for the year. For the quarter, the Dow Jones produced -1.3%, the Nasdaq 8.5%, and the S&P 500 4.3% (all in US$).

United Kingdom

In the UK, the Bank of England (BoE) again kept its main interest rate unchanged at 5.25% at its May and June meetings, even as May CPI fell to 2.0% y/y from 2.3% in April. The chances for a cut in interest rates improved, with the market pricing in a 25bp rate cut in August and more expected. The economy emerged from a technical recession: Q1 2024 GDP growth was reported at 0.6% y/y. Meanwhile, with the latest data indicating improving economic conditions, Conservative Prime Minister Rishi Sunak called a National Election for 4 July, much sooner than expected. However, polls show Labour leading by a substantial 20% margin, and expectations are for the Conservatives to lose power, injecting higher levels of uncertainty into the local financial market. In Q2 2024, the FTSE 100 returned 3.8% in US$, but lost 1.8% in June.

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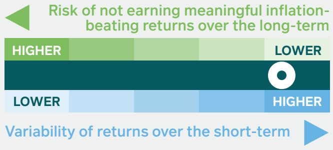
After having hiked interest rates for the first time in 17 years in March, the Bank of Japan sounded a cautious note at its subsequent policy meetings, saying in June that it would be considered around further hikes given the fragile state of Japanese consumer demand. This came amid downward revisions to GDP growth for both Q1 2024 and Q4 2023: the former was lowered to -2.8% y/y from -1.9% y/y, and the latter to 0.1% y/y from 0.3% previously. May CPI came in slightly lower than expected at 2.5% y/y versus 2.6% y/y. With global economic growth slowing, Japan's export-reliant economy is facing more headwinds. After a strong 13.2% return in Q1, the Nikkei retraced some of its gains in Q2 with a return of -7.6%.

China

In Q2, China's Q1 GDP growth surprised significantly to the upside at 5.3% y/y versus the 4.6% expected. However, the latest fundamental data showed renewed weakness as new bank lending was softer than expected in the wake of the PBOC's key interest rate cuts in Q1, exacerbated by ongoing soft consumer demand, and lower consumer and business confidence, among other headwinds. Declines in new home prices accelerated despite the government's ongoing efforts to reduce oversupply in the property sector and provide support for overleveraged property companies. May CPI was recorded at only 0.3% and calls for more interest rate cuts grew. However, the PBOC

Risk profile



Fund facts

Fund objective

To provide investors with capital growth over the long-term by investing in a diversified portfolio of global equity securities.

Investor profile

Investors seeking long-term capital growth from global equity securities. The recommended investment horizon is 7 years or longer. Although the Fund's investment universe is global, units are priced in rands. Investors can therefore invest without having to personally expatriate rands.

Investment mandate

The Fund is a feeder fund and, other than assets in liquid form and currency contracts, invests only in one underlying fund – the M&G Global Equity Fund. Quantitative analysis of individual companies, proprietary data analysis and machine learning are used to identify securities for potential inclusion by the fund managers. The Fund has exposure to a diversified portfolio that may include common stocks and shares, depository receipts, REITs, other collective investment schemes and financial derivative instruments.

Investment manager of the underlying fund

M&G Investment Management Ltd (UK)

Fund managers of the underlying fund

Gautam Samarth
Michael Cook

ASISA category

Global - Equity - General

Benchmark

MSCI All Country World Index (Net)

Inception date

18 February 2000

Fund size

R1 912 354 442

Annualised performance	A class	Benchmark	B class
1 year	10.4%	15.4%	10.8%
3 years	10.5%	14.4%	10.9%
5 years	15.0%	16.6%	15.4%
7 years	13.0%	15.4%	-
10 years	12.3%	14.5%	-
20 years	11.4%	14.0%	-
Since inception	8.5%	10.1%	-

Sources: M&G, Morningstar & Deutsche Securities

refrained from enacting any further cuts during the quarter, constrained by the weakness of the yuan. Chinese equities rebounded in the quarter after the PBOC's Q1 rate cuts, with Hong Kong's Hang Seng returning 9.2% and the MSCI China delivering 7.2%, both in US$.

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The MSCI Turkey was among the strongest performers for the quarter with a robust return of 21.6%, while South Africa and India enjoyed improved sentiment from their successful national elections, delivering 12.5% and 10.4%, respectively (both in US$). The rebound in China boosted the MSCI China and offered investors a 7.2% return. Weakest with a return of -12.8% was Brazil's Bovespa, while South Korea's KOSPI was largely flat at -0.1% (all in US$).

Currency

The rand gained 3.7% against both the US dollar and the pound sterling and appreciated 4.5% versus the euro.

Performance

The M&G Global Equity Feeder Fund produced a return of -3.3% (A class, net of fees) for the quarter, compared to the -1.0% recorded by its benchmark. For the 12 months to 30 June, the fund delivered 10.4% versus the benchmark's 15.4% return.

Absolute performance was driven by gains in equity markets in the quarter. Better-performing markets included the US, UK and China.

The portfolio outperformed on 28 out of 65 trading days during the quarter, offering an unfavourable hit rate of around 43%. While this was partly offset by a positive skew, the poor hit rate resulted in underperformance over the reference period.

A key attribute of portfolio construction within the fund is that active country, currency and industry exposures are constrained to ensure that style and idiosyncratic stock risk are the main drivers of active returns. The portfolio's style exposure proved to be a significant headwind over the quarter. Within style, exposure to high beta, high earnings variability and mid cap stocks all detracted from performance. Active exposures to high growth and high momentum stocks were positive at the portfolio level and partially offset some of the major style headwinds. Stock selection had a negative impact over the quarter.

Strategy & positioning

The portion of the fund managed using its proprietary machine learning model is approximately 90%, with the balance of approximately 10% remaining in strategic ETFs. The ETF allocation is primarily used for liquidity purposes.

Outlook

At Many major equity and credit markets offer limited compensation for growth disappointment. Investors will be watching closely for any signs, that what has so far been benign disinflation in many economies, remains so, and does not become a challenge to economic growth.

Any pockets of asset price weakness, such as those in France and Mexico in June, have thus far been contained. It remains to be seen whether this reflects a genuinely more supportive set of underlying conditions, or an optimism engendered by the recent experience of strong returns.

Overall equity valuations look demanding in aggregate (most notably in the US), although not detached from recent robust earnings/fundamentals.

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

M&G 2.5% Target Income Fund

Target Income

Q2 2024

Market overview

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Global equity (as measured by the MSCI ACWI) recorded a total return of 2.9% in Q2 compared to 8.2% in Q1, while developed market equities produced 2.6% and emerging market equities returned 5.0% (MSCI Emerging Markets Index – all in US$). Global bonds posted -1.1% (Bloomberg Global Aggregate Bond Index, in US$).

Emerging markets led equity returns with strong performances from Turkey, South Africa, India and China. India recorded a surprise election result that helped reinforce democracy, and China saw a rebound amid improving sentiment and economic data.

In South Africa, asset prices rallied, and the rand gained ground on the back of what investors considered to be a successful outcome for the May national elections, in which there was almost no violence, the new Government of National Unity (GNU) was formed timeously, and President Cyril Ramaphosa was sworn in for his second term. Both the FTSE/JSE All Share Index and Capped SWIX Index delivered 8.2% in rand terms, boosted by a notable 17.8% return from Financials, 5.7% from Listed Property, 5.2% from Industrials, and 3.4% from Resources, due to general gains in commodity prices.

South African bonds posted a 7.5% return for the quarter. This saw the yield on the 10-year SA government bond fall from 12% at the beginning of the quarter to end around 11.25%. SA inflation-linked bonds returned 2.4%. Finally, the rand gained 3.7% against both the US dollar and the pound sterling and appreciated 4.5% versus the euro.

United States

In the US, positive investor sentiment toward equities cooled slightly as the US Federal Reserve (Fed) continued to keep interest rates on hold for the quarter amid stubbornly high services inflation. At its 12 June meeting it raised its inflation forecast slightly and the "dot plot" guidance indicated its members' interest rate expectations now comprised only one 25bp rate cut this year, although several members did foresee two 25bp cuts. This important adjustment indicated rates would end 2024 at 5.1% compared to 4.6% in their March guidance.

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Japan

After having hiked interest rates for the first time in 17 years

Annualised performance	A class	CPI	B class
1 year	7.4%	5.2%	7.8%
2 years	11.9%	5.8%	12.3%
3 years	10.8%	6.0%	11.2%
5 years	8.5%	5.0%	8.9%
Since inception	7.8%	5.1%	-

Fund facts

Fund objective
To target an annual income return of 2.5%, with a secondary objective of growing capital. While a 2.5% annual income return is targeted, the actual income return may vary.

Investor profile
Income drawing investors who want to invest in a fund that aims to earn 2.5% income per year. Subject to this level of income return being achieved, investors also want capital growth over time. Given the level of targeted income return, it's likely that the real value of capital after targeted income drawdowns will grow over the long term.

Investment mandate
The Fund invests in a flexible mix of local and foreign equity, bonds, property and cash. The Fund can also invest in derivatives and other collective investment schemes. The Fund is not managed to conform to the regulations governing retirement fund investments (Reg. 28). The Fund is not limited in terms of allocation to asset classes, currencies or geographies.

Income distribution
The income earned from the Fund's underlying assets will be distributed quarterly. Typically, investors will reinvest these distributions. Regular drawdowns, which could be made monthly, quarterly, half-yearly or yearly, will be funded through the sale of units.

Fund managers
Sandile Malinga
Michael Moyle
Leonard Krüger

ASISA category
Worldwide - Multi-Asset - Unclassified

Primary objective
2.5% Income return p.a.

Inception date
2 April 2019

Fund size
R92 262 470

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

in March, the Bank of Japan sounded a cautious note at its subsequent policy meetings, saying in June that it would be considered around further hikes given the fragile state of Japanese consumer demand. This came amid downward revisions to GDP growth for both Q1 2024 and Q4 2023: the former was lowered to -2.8% y/y from -1.9% y/y, and the latter to 0.1% y/y from 0.3% previously. May CPI came in slightly lower than expected at 2.5% y/y versus 2.6% y/y. With global economic growth slowing, Japan's export-reliant economy is facing more headwinds. After a strong 13.2% return in Q1, the Nikkei retraced some of its gains in Q2 with a return of -7.6%.

China

In Q2, China's Q1 GDP growth surprised significantly to the upside at 5.3% y/y versus the 4.6% expected. However, the latest fundamental data showed renewed weakness as new bank lending was softer than expected in the wake of the PBOC's key interest rate cuts in Q1, exacerbated by ongoing soft consumer demand, and lower consumer and business confidence, among other headwinds. Declines in new home prices accelerated despite the government's ongoing efforts to reduce oversupply in the property sector and provide support for overleveraged property companies. May CPI was recorded at only 0.3% and calls for more interest rate cuts grew. However, the PBOC refrained from enacting any further cuts during the quarter, constrained by the weakness of the yuan. Chinese equities rebounded in the quarter after the PBOC's Q1 rate cuts, with Hong Kong's Hang Seng returning 9.2% and the MSCI China delivering 7.2%, both in US$.

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Commodities

Global inflationary pressures were mixed in Q2 as most commodity prices moved higher but the price of Brent crude oil ended the period almost unchanged, rising from approximately US$86/bbl at the beginning of the quarter to around US$ 91/bbl almost immediately, and then falling to US$75/bbl at the beginning of June, and ending the quarter at around US$85/bbl. Sentiment was mixed between slowing global growth, especially in the US, production cuts from OPEC+ members, and an escalation in Middle East tensions which could lead to further supply restrictions. Among precious metals, gold gained 4.2%, while platinum rose 10.4% and palladium dropped 4.2%. Zinc was the largest gainer, up 23.4%, and aluminium, copper and lead were up between 9.0% and 11.1%.

South Africa

In South Africa, sentiment improved as investors deemed the May national elections a success. This caused a re-rating across asset classes, as noted above, as uncertainties around future governance and policies abated significantly.

Meanwhile, the SA Reserve Bank kept its base lending rate steady at 8.25% during the entire quarter, as expected, given the central bank's hawkish stance on inflation. May CPI was steady at 5.2% y/y, only slightly lower from its 5.3% y/y level at the beginning of the year, and still far above the bank's 4.5% target. This highlighted the persistent inflationary pressures that are dogging the economy. Businesses and consumer inflation expectations also remain above the 4.5% target, a trend Governor Lesetja Kganyago is determined to reverse. Finally, despite an improvement in loadshedding, the economy remained in the doldrums as Q1 2024 GDP growth contracted slightly at -0.1% (after a revised 0.3% in Q4 2023), but the SARB maintained its growth forecasts of 1.2% in 2024 and 1.3% in 2025.

Performance

The M&G 2.5% Target Income Fund returned 2.2% (after fees) for the second quarter of 2024 and 7.4% for the 12-month period ending 30 June 2024.

Looking at the fund's asset allocation, SA equity holdings added by far the most value to absolute performance for the quarter, followed by SA bond and cash exposures. Global equities were the largest detractors, while global bonds and cash also detracted, the latter mainly due to currency movements.

Within SA equities, the rally in Foschini and Spar shares added good value to the fund, as did the rebound in banking shares. Other notable contributors included globally exposed holdings Prosus/Naspers, and mining counters Anglogold Ashanti and Exxaro. The largest detractors from performance were Multichoice (over concerns around its Nigerian operations) and shares in stocks that we don't hold in the portfolio, namely Capitec, Nedbank and Sanlam.

Strategy and positioning

Starting Starting with our view on **offshore versus local asset allocation** in our house-view portfolios, during the quarter we did not adjust our positioning meaningfully, although the equity valuation gap between the two narrowed somewhat: the rally in South African equities and bonds following the positive election results led to the local assets to outperform global equities and bonds. At the same time, the MSCI ACWI's valuation fell slightly. We are comfortable with our ongoing positioning favouring more attractively valued SA assets compared to their global counterparts.

Within our **global holdings**, we remained broadly neutrally positioned in global equity, with an underlying underweight in the US market, as well as retaining our small overweights to global bonds and global cash. During Q2 we took profits on a portion of our overweight position in Chinese equities following the quarter's rally, which added to portfolio performance. The position remains slightly overweight at quarter-end. Proceeds from the sale went to the purchase of US equities, reducing some of the existing underweight, and to increase our exposure to Mexican equities.

In **global equities**, the MSCI ACWI 12-month forward P/E fell slightly to 17.6X at quarter-end from 17.9X at the beginning of the quarter. As noted above, we took profits on a portion of our overweight position in Chinese equities following the quarter's rally, which added to portfolio performance. The position remains slightly overweight at quarter-end. Proceeds from the sale went to the purchase of US equities, reducing some of the existing underweight, and to increase our exposure to Mexico. However, we remained broadly neutrally positioned in global equity, with an underlying underweight in the US market. With the S&P 500 Index valuation almost unchanged on a high 21X forward P/E for the period, we prefer cheaper markets such as the UK, Mexico and other emerging markets.

We are taking advantage of the many diverse stock-picking opportunities currently available as the gains in global equities

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

recorded so far in 2024 have been pleasingly spread across sectors and geographies, and the top performers have produced returns varying between 40% and over 100%.

Within **global bonds**, we did not make any changes to our slightly overweight duration positioning during the quarter. We continue holding some 30-year US Treasuries, which adds duration to our portfolios, as well as moderate levels of local currency sovereign EM bonds where the real yields are high, and the currency is trading at fair-to-cheap levels.

Our house-view portfolios were also still underweight **global corporate credit** at quarter-end, based on our view of credit spreads as very unattractive for the risk involved versus their government counterparts.

Our house-view funds still favoured **SA equities** at the end of Q2 2024. SA equity valuations (as measured by the 12-month forward P/E ratio of the FTSE/JSE Capped SWIX Index) became somewhat less cheap during the quarter, rising from 9.7X to 9.9X, as share prices gained ground amid positive investor sentiment toward the outcome of the May national elections. The portfolios benefited from their overweight in banking stocks, and conditions remain favourable for stock-picking.

In Q2 we did not change our underweight exposure in **SA listed property**, although there are some indications that fundamentals are starting to improve. The sector could also gain some impetus from expected interest rate cuts, but these hopes have been deferred in line with interest rate cut expectations over the quarter, so for now we remain cautious. Property sector risks continue to be high relative to other sectors, and cash yields are at attractive levels. We still prefer exposure to non-property shares that we believe offer better value propositions for less risk.

We also did not change our overweight positioning in **SA nominal bonds** in our house-view portfolios. Despite the fall in bond yields during the quarter, given their very elevated levels, real yields remain attractive compared to history, other global sovereign bonds and other SA fixed income assets. The current yields should more than compensate investors for their associated risks over time.

Our house-view portfolios have no meaningful exposure to **SA inflation-linked bonds (ILBs)**. 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. We also prefer to add value to client portfolios by taking advantage of the changing interest rate outlook reflected in nominal bonds.

Lastly, our portfolios remained tilted away from **SA cash** at quarter-end, despite the attractive positive real cash rate. This is because we prefer the relatively better prospective risk-adjusted returns on offer from higher-risk asset classes such as SA equity and bonds. Furthermore, bonds should enjoy a re-rating and hence capital gains resulting in additional returns, while returns to cash decline, should interest rates start to fall. □

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

M&G 5% Target Income Fund

Target Income

Q2 2024

Market overview

The second quarter of 2024 (Q2) saw a moderation in the bullish investor sentiment towards global equities during the previous two quarters, as stubbornly persistent inflation in the US prevented the US Federal Reserve (Fed) from starting to lower interest rates, despite an expectedly high number of companies reporting strong fundamentals in their results across a variety of sectors. Election uncertainties also weighed on market sentiment in France and the UK, but positive results in South Africa and India encouraged equity rallies. Other central banks like the European Central Bank did enact cuts, however, helping both developed and emerging market equities record moderately positive returns. Meanwhile, global bonds were weaker as US investors moved out their rate cut expectations significantly: the majority now forecast either 25bps or 50bps of reductions starting in September at the earliest.

Global equity (as measured by the MSCI ACWI) recorded a total return of 2.9% in Q2 compared to 8.2% in Q1, while developed market equities produced 2.6% and emerging market equities returned 5.0% (MSCI Emerging Markets Index – all in US$). Global bonds posted -1.1% (Bloomberg Global Aggregate Bond Index, in US$).

Emerging markets led equity returns with strong performances from Turkey, South Africa, India and China. India recorded a surprise election result that helped reinforce democracy, and China saw a rebound amid improving sentiment and economic data.

In South Africa, asset prices rallied, and the rand gained ground on the back of what investors considered to be a successful outcome for the May national elections, in which there was almost no violence, the new Government of National Unity (GNU) was formed timeously, and President Cyril Ramaphosa was sworn in for his second term. Both the FTSE/JSE All Share Index and Capped SWIX Index delivered 8.2% in rand terms, boosted by a notable 17.8% return from Financials, 5.7% from Listed Property, 5.2% from Industrials, and 3.4% from Resources, due to general gains in commodity prices.

South African bonds posted a 7.5% return for the quarter. This saw the yield on the 10-year SA government bond fall from 12% at the beginning of the quarter to end around 11.25%. SA inflation-linked bonds returned 2.4%. Finally, the rand gained 3.7% against both the US dollar and the pound sterling and appreciated 4.5% versus the euro.

United States

In the US, positive investor sentiment toward equities cooled slightly as the US Federal Reserve (Fed) continued to keep interest rates on hold for the quarter amid stubbornly high services inflation. At its 12 June meeting it raised its inflation forecast slightly and the "dot plot" guidance indicated its members' interest rate expectations now comprised only one 25bp rate cut this year, although several members did foresee two 25bp cuts. This important adjustment indicated rates would end 2024 at 5.1% compared to 4.6% in their March guidance. This came as May CPI was recorded at 3.3% y/y, softer than the 3.4% expected, as goods inflation and certain other CPI components were broadly lower. Core PCE, the Fed's preferred inflation measure, was 2.6% y/y, as expected, down from 2.8% in April and the lowest since March 2021. At the same time, US GDP for Q1 2024 was revised down to 1.3% from 1.6% previously, a disappointing result as manufacturing activity, business investment and demand, and consumer demand are constrained by high borrowing costs. As for 2024 growth, the Fed kept its forecast at 2.1% for the year. For the quarter, the Dow Jones produced -1.3%, the Nasdaq 8.5%, and the S&P 500 4.3% (all in US$).

United Kingdom

In the UK, the Bank of England (BoE) again kept its main interest rate unchanged at 5.25% at its May and June meetings, even as May CPI fell to 2.0% y/y from 2.3% in April. The chances for a cut in interest rates improved, with the market pricing in a 25bp rate cut in August and more expected. The economy emerged from a technical recession: Q1 2024 GDP growth was reported at 0.6% y/y. Meanwhile, with the latest data indicating improving economic conditions, Conservative Prime Minister Rishi Sunak called a National Election for 4 July, much sooner than expected. However, polls show Labour leading by a substantial 20% margin, and expectations are for the Conservatives to lose power, injecting higher levels of uncertainty into the local financial market. In Q2 2024, the FTSE 100 returned 3.8% in US$, but lost 1.8% in June.

Euro area

In the Euro area, the European Central Bank (ECB) lowered its benchmark interest rate by 25bps at its June meeting to 3.75%, as had been expected. May CPI came in at 2.6% y/y, just above the 2.5% consensus and still higher than the ECB's target of 2.0%. However, inflation is projected to soften further despite stubborn services inflation. Meanwhile, GDP growth improved to 0.3% y/y in Q1 2024 versus a downwardly revised -0.1% y/y the previous quarter. The French equity market sold off in June after President Emmanuel Macron announced a snap parliamentary election for 30 June/7 July following his centrist coalition's resounding defeat in the European parliamentary elections by the far-right National Rally party headed by Marine le Pen. The first round of the French parliamentary elections showed both the far-right and far-left parties defeating Macron's centrists, and the election will be completed on 7 July. France's CAC 40 returned -7.3% in Q2 after losing 7.4% in June, while Germany's DAX delivered -2.1% for Q2 (both in US$).

Japan

After having hiked interest rates for the first time in 17 years in March, the Bank of Japan sounded a cautious note at its

Annualised performance	A class	CPI	B class
1 year	8.5%	5.2%	8.8%
2 years	10.1%	5.8%	10.4%
3 years	7.8%	6.0%	8.2%
5 years	6.8%	5.0%	7.1%
Since inception	6.5%	5.1%	-

Fund facts

Fund objective

To target an annual income return of 5%, with a secondary objective of growing capital. While a 5% annual income return is targeted, the actual income return may vary.

Investor profile

Income drawing investors who want to invest in a fund that aims to earn 5% income per year. Subject to this income return being achieved, investors also want capital growth over time. The relatively high targeted income return means there's an appreciable possibility that the real value of capital after targeted income drawdowns will not be maintained over the long term.

Investment mandate

The Fund invests in a flexible mix of local and foreign equity, bonds, property and cash. The Fund can also invest in derivatives and other collective investment schemes. The Fund is not managed to conform to the regulations governing retirement fund investments (Reg.28). Besides a max. total equity exposure of 85%, the Fund is not limited in its allocation to asset classes, currencies or geographies.

Income distribution

The income earned from the Fund's underlying assets will be distributed quarterly. Typically, investors will reinvest these distributions. Regular drawdowns, which could be made monthly, quarterly, half-yearly or yearly, will be funded through the sale of units.

Fund managers

Sandile Malinga
Michael Moyle
Leonard Krüger

ASISA category

Worldwide - Multi-Asset - Unclassified

Primary objective

5% Income return p.a.

Inception date

2 April 2019

Fund size

R173 264 778

Sources: M&G, Morningstar & Deutsche Securities

subsequent policy meetings, saying in June that it would be considered around further hikes given the fragile state of Japanese consumer demand. This came amid downward revisions to GDP growth for both Q1 2024 and Q4 2023: the former was lowered to -2.8% y/y from -1.9% y/y, and the latter to 0.1% y/y from 0.3% previously. May CPI came in slightly lower than expected at 2.5% y/y versus 2.6% y/y. With global economic growth slowing, Japan's export-reliant economy is facing more headwinds. After a strong 13.2% return in Q1, the Nikkei retraced some of its gains in Q2 with a return of -7.6%.

China

In Q2, China's Q1 GDP growth surprised significantly to the upside at 5.3% y/y versus the 4.6% expected. However, the latest fundamental data showed renewed weakness as new bank lending was softer than expected in the wake of the PBOC's key interest rate cuts in Q1, exacerbated by ongoing soft consumer demand, and lower consumer and business confidence, among other headwinds. Declines in new home prices accelerated despite the government's ongoing efforts to reduce oversupply in the property sector and provide support for overleveraged property companies. May CPI was recorded at only 0.3% and calls for more interest rate cuts grew. However, the PBOC refrained from enacting any further cuts during the quarter, constrained by the weakness of the yuan. Chinese equities rebounded in the quarter after the PBOC's Q1 rate cuts, with Hong Kong's Hang Seng returning 9.2% and the MSCI China delivering 7.2%, both in US$.

Emerging markets

The MSCI Turkey was among the strongest performers for the quarter with a robust return of 21.6%, while South Africa and India enjoyed improved sentiment from their successful national elections, delivering 12.5% and 10.4%, respectively (both in US$). The rebound in China boosted the MSCI China and offered investors a 7.2% return. Weakest with a return of -12.8% was Brazil's Bovespa, while South Korea's KOSPI was largely flat at -0.1% (all in US$).

Commodities

Global inflationary pressures were mixed in Q2 as most commodity prices moved higher but the price of Brent crude oil ended the period almost unchanged, rising from approximately US$86/bbl at the beginning of the quarter to around US$ 91/bbl almost immediately, and then falling to US$75/bbl at the beginning of June, and ending the quarter at around US$85/bbl. Sentiment was mixed between slowing global growth, especially in the US, production cuts from OPEC+ members, and an escalation in Middle East tensions which could lead to further supply restrictions. Among precious metals, gold gained 4.2%, while platinum rose 10.4% and palladium dropped 4.2%. Zinc was the largest gainer, up 23.4%, and aluminium, copper and lead were up between 9.0% and 11.1%.

South Africa

In In South Africa, sentiment improved as investors deemed the May national elections a success. This caused a re-rating across asset classes, as noted above, as uncertainties around future governance and policies abated significantly.

Meanwhile, the SA Reserve Bank kept its base lending rate steady at 8.25% during the entire quarter, as expected, given the central bank's hawkish stance on inflation. May CPI was steady at 5.2% y/y, only slightly lower from its 5.3% y/y level at the beginning of the year, and still far above the bank's 4.5% target. This highlighted the persistent inflationary pressures that are dogging the economy. Businesses and consumer inflation expectations also remain above the 4.5% target, a trend Governor Lesetja Kganyago is determined to reverse. Finally, despite an improvement in loadshedding, the economy remained in the doldrums as Q1 2024 GDP growth contracted slightly at -0.1% (after a revised 0.3% in Q4 2023), but the SARB maintained its growth forecasts of 1.2% in 2024 and 1.3% in 2025.

Performance

The M&G 5% Target Income Fund returned 5.2% (A class, net of fees) for the second quarter of 2024 and 8.5% (after fees) for the 12-month period ending 30 June 2024.

Looking at the fund's asset allocation, SA bond holdings added by far the most value to absolute performance for the quarter, followed by SA equity exposure. Global bond exposure was the largest detractor, while other global asset classes were also slightly negative mainly due to rand strengthening.

Within SA equities, the rally in Foschini and Spar shares added good value to the fund, as did the rebound in banking shares. Other notable contributors included globally exposed holdings Prosus/Naspers, and mining counters Anglogold Ashanti and Exxaro. The largest detractors from performance were Multichoice (over concerns around its Nigerian operations) and shares in stocks that we don't hold in the portfolio, namely Capitec, Nedbank and Sanlam.

Strategy and positioning

Starting with our view on **offshore versus local asset allocation** in our house-view portfolios, during the quarter we did not adjust our positioning meaningfully, although the equity valuation gap between the two narrowed somewhat: the rally in South African equities and bonds following the positive election results led to the local assets to outperform global equities and bonds. At the same time, the MSCI ACWI's valuation fell slightly. We are comfortable with our ongoing positioning favouring more attractively valued SA assets compared to their global counterparts.

Within our **global holdings**, we remained broadly neutrally positioned in global equity, with an underlying underweight in the US market, as well as retaining our small overweights to global bonds and global cash. During Q2 we took profits on a portion of our overweight position in Chinese equities following the quarter's rally, which added to portfolio performance. The position remains slightly overweight at quarter-end. Proceeds from the sale went to the purchase of US equities, reducing some of the existing underweight, and to increase our exposure to Mexican equities.

In **global equities**, the MSCI ACWI 12-month forward P/E fell slightly to 17.6X at quarter-end from 17.9X at the beginning of the quarter. As noted above, we took profits on a portion of our overweight position in Chinese equities following the quarter's rally, which added to portfolio performance. The position remains slightly overweight at quarter-end. Proceeds from the sale went to the purchase of US equities, reducing some of the existing underweight, and to increase our exposure to Mexico. However, we remained broadly neutrally positioned in global equity, with an underlying underweight in the US market. With the S&P 500 Index valuation almost unchanged on a high 21X forward P/E for the period, we prefer cheaper markets such as the UK, Mexico and other emerging markets.

We are taking advantage of the many diverse stock-picking opportunities currently available as the gains in global equities

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Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

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We also did not change our overweight positioning in **SA nominal bonds** in our house-view portfolios. Despite the fall in bond yields during the quarter, given their very elevated levels, real yields remain attractive compared to history, other global sovereign bonds and other SA fixed income assets. The current yields should more than compensate investors for their associated risks over time.

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M&G Investments

M&G 7% Target Income Fund

Target Income

Q2 2024

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United States

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This came as May CPI was recorded at 3.3% y/y, softer than the 3.4% expected, as goods inflation and certain other CPI components were broadly lower. Core PCE, the Fed’s preferred inflation measure, was 2.6% y/y, as expected, down from 2.8% in April and the lowest since March 2021. At the same time, US GDP for Q1 2024 was revised down to 1.3% from 1.6% previously, a disappointing result as manufacturing activity, business investment and demand, and consumer demand are constrained by high borrowing costs. As for 2024 growth, the Fed kept its forecast at 2.1% for the year. For the quarter, the Dow Jones produced -1.3%, the Nasdaq 8.5%, and the S&P 500 4.3% (all in US$).

United Kingdom

In the UK, the Bank of England (BoE) again kept its main interest rate unchanged at 5.25% at its May and June meetings, even as May CPI fell to 2.0% y/y from 2.3% in April. The chances for a cut in interest rates improved, with the market pricing in a 25bp rate cut in August and more expected. The economy emerged from a technical recession: Q1 2024 GDP growth was reported at 0.6% y/y. Meanwhile, with the latest data indicating improving economic conditions, Conservative Prime Minister Rishi Sunak called a National Election for 4 July, much sooner than expected. However, polls show Labour leading by a substantial 20% margin, and expectations are for the Conservatives to lose power, injecting higher levels of uncertainty into the local financial market. In Q2 2024, the FTSE 100 returned 3.8% in US$, but lost 1.8% in June.

Euro area

In the Euro area, the European Central Bank (ECB) lowered its benchmark interest rate by 25bps at its June meeting to 3.75%, as had been expected. May CPI came in at 2.6% y/y, just above the 2.5% consensus and still higher than the ECB’s target of 2.0%. However, inflation is projected to soften further despite stubborn services inflation. Meanwhile, GDP growth improved to 0.3% y/y in Q1 2024 versus a downwardly revised -0.1% y/y the previous quarter. The French equity market sold off in June after President Emmanuel Macron announced a snap parliamentary election for 30 June/7 July following his centrist coalition’s resounding defeat in the European parliamentary elections by the far-right National Rally party headed by Marine le Pen. The first round of the French parliamentary elections showed both the far-right and far-left parties defeating Macron’s centrists, and the election will be completed on 7 July. France’s CAC 40 returned -7.3% in Q2 after losing 7.4% in June, while Germany’s DAX delivered -2.1% for Q2 (both in US$).

Japan

After having hiked interest rates for the first time in 17 years in March, the Bank of Japan sounded a cautious note at its subsequent policy meetings, saying in June that it would

Annualised performance	A class	CPI	B class
1 year	10.4%	5.2%	10.8%
2 years	9.9%	5.8%	10.3%
3 years	7.6%	6.0%	7.9%
5 years	6.5%	5.0%	6.8%
Since inception	6.5%	5.1%	-

Fund facts

Fund objective

To target an annual income return of 7%, with a secondary objective of growing capital invested. While a 7% annual income return is targeted, the actual income return may vary.

Investor profile

Income drawing investors who want to invest in a fund that aims to earn 7% income per year. Subject to this income return being achieved, investors also want capital growth over time. The very high level of targeted income return means it is most likely that the real value of capital after targeted income drawdowns will be eroded over the long term.

Investment mandate

The Fund invests in a flexible mix of local and foreign equity, bonds, property and cash. The Fund can also invest in derivatives and other collective investment schemes. The Fund is not managed to conform to the regulations governing retirement fund investments (Reg. 28). Besides a max. total equity exposure of 70%, the Fund is not limited in terms of allocation to asset classes, currencies or geographies.

Income distribution

The income earned from the Fund’s underlying assets will be distributed quarterly. Typically, investors will reinvest these distributions. Regular drawdowns, which could be made monthly, quarterly, half-yearly or yearly, will be funded through the sale of units.

Fund managers

Sandile Malinga
Michael Moyle
Leonard Krüger

ASISA category

Worldwide - Multi-Asset - Unclassified

Primary objective

7% Income return p.a.

Inception date

2 April 2019

Fund size

R338 497 350

Sources: M&G, Morningstar & Deutsche Securities

be considered around further hikes given the fragile state of Japanese consumer demand. This came amid downward revisions to GDP growth for both Q1 2024 and Q4 2023: the former was lowered to -2.8% y/y from -1.9% y/y, and the latter to 0.1% y/y from 0.3% previously. May CPI came in slightly lower than expected at 2.5% y/y versus 2.6% y/y. With global economic growth slowing, Japan's export-reliant economy is facing more headwinds. After a strong 13.2% return in Q1, the Nikkei retraced some of its gains in Q2 with a return of -7.6%.

China

In Q2, China's Q1 GDP growth surprised significantly to the upside at 5.3% y/y versus the 4.6% expected. However, the latest fundamental data showed renewed weakness as new bank lending was softer than expected in the wake of the PBOC's key interest rate cuts in Q1, exacerbated by ongoing soft consumer demand, and lower consumer and business confidence, among other headwinds. Declines in new home prices accelerated despite the government's ongoing efforts to reduce oversupply in the property sector and provide support for overleveraged property companies. May CPI was recorded at only 0.3% and calls for more interest rate cuts grew. However, the PBOC refrained from enacting any further cuts during the quarter, constrained by the weakness of the yuan. Chinese equities rebounded in the quarter after the PBOC's Q1 rate cuts, with Hong Kong's Hang Seng returning 9.2% and the MSCI China delivering 7.2%, both in US$.

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Commodities

Global inflationary pressures were mixed in Q2 as most commodity prices moved higher but the price of Brent crude oil ended the period almost unchanged, rising from approximately US$86/bbl at the beginning of the quarter to around US$ 91/bbl almost immediately, and then falling to US$75/bbl at the beginning of June, and ending the quarter at around US$85/bbl. Sentiment was mixed between slowing global growth, especially in the US, production cuts from OPEC+ members, and an escalation in Middle East tensions which could lead to further supply restrictions. Among precious metals, gold gained 4.2%, while platinum rose 10.4% and palladium dropped 4.2%. Zinc was the largest gainer, up 23.4%, and aluminium, copper and lead were up between 9.0% and 11.1%.

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Meanwhile, the SA Reserve Bank kept its base lending rate steady at 8.25% during the entire quarter, as expected, given the central bank's hawkish stance on inflation. May CPI was steady at 5.2% y/y, only slightly lower from its 5.3% y/y level at the beginning of the year, and still far above the bank's 4.5% target. This highlighted the persistent inflationary pressures that are dogging the economy. Businesses and consumer inflation expectations also remain above the 4.5% target, a trend Governor Lesetja Kganyago is determined to reverse. Finally, despite an improvement in loadshedding, the economy remained in the doldrums as Q1 2024 GDP growth contracted slightly at -0.1% (after a revised 0.3% in Q4 2023), but the SARB maintained its growth forecasts of 1.2% in 2024 and 1.3% in 2025.

Performance

The M&G 7% Target Income Fund returned 5.8% (A class, net of fees) for the second quarter of 2024 and 10.4% for the 12-month period ending 30 June 2024.

Looking at the fund's asset allocation, SA bond holdings added by far the most value to absolute performance for the quarter, followed by SA equity exposure. Global bond exposure was the largest detractor, while other global asset classes were also slightly negative mainly due to rand strengthening.

Within SA equities, the rally in Foschini and Spar shares added good value to the fund, as did the rebound in banking shares. Other notable contributors included globally exposed holdings Prosus/Naspers, and mining counters Anglogold Ashanti and Exxaro. The largest detractors from performance were Multichoice (over concerns around its Nigerian operations) and shares in stocks that we don't hold in the portfolio, namely Capitec, Nedbank and Sanlam.

Strategy and positioning

Starting with our view on **offshore versus local asset allocation** in our house-view portfolios, during the quarter we did not adjust our positioning meaningfully, although the equity valuation gap between the two narrowed somewhat: the rally in South African equities and bonds following the positive election results led to the local assets to outperform global equities and bonds. At the same time, the MSCI ACWI's valuation fell slightly. We are comfortable with our ongoing positioning favouring more attractively valued SA assets compared to their global counterparts.

Within our **global holdings**, we remained broadly neutrally positioned in global equity, with an underlying underweight in the US market, as well as retaining our small overweights to global bonds and global cash. During Q2 we took profits on a portion of our overweight position in Chinese equities following the quarter's rally, which added to portfolio performance. The position remains slightly overweight at quarter-end. Proceeds from the sale went to the purchase of US equities, reducing some of the existing underweight, and to increase our exposure to Mexican equities.

In **global equities**, the MSCI ACWI 12-month forward P/E fell slightly to 17.6X at quarter-end from 17.9X at the beginning of the quarter. As noted above, we took profits on a portion of our overweight position in Chinese equities following the quarter's rally, which added to portfolio performance. The position remains slightly overweight at quarter-end. Proceeds from the sale went to the purchase of US equities, reducing some of the existing underweight, and to increase our exposure to Mexico. However, we remained broadly neutrally positioned in global equity, with an underlying underweight in the US market. With the S&P 500 Index valuation almost unchanged on a high 21X forward P/E for the period, we prefer cheaper markets such as the UK, Mexico and other emerging markets.

We are taking advantage of the many diverse stock-picking opportunities currently available as the gains in global equities recorded so far in 2024 have been pleasingly spread across

Sources: M&G, Morningstar & Deutsche Securities

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sectors and geographies, and the top performers have produced returns varying between 40% and over 100%.

Within **global bonds**, we did not make any changes to our slightly overweight duration positioning during the quarter. We continue holding some 30-year US Treasuries, which adds duration to our portfolios, as well as moderate levels of local currency sovereign EM bonds where the real yields are high, and the currency is trading at fair-to-cheap levels.

Our house-view portfolios were also still underweight **global corporate credit** at quarter-end, based on our view of credit spreads as very unattractive for the risk involved versus their government counterparts.

Our house-view funds still favoured **SA equities** at the end of Q2 2024. SA equity valuations (as measured by the 12-month forward P/E ratio of the FTSE/JSE Capped SWIX Index) became somewhat less cheap during the quarter, rising from 9.7X to 9.9X, as share prices gained ground amid positive investor sentiment toward the outcome of the May national elections. The portfolios benefited from their overweight in banking stocks, and conditions remain favourable for stock-picking.

In Q2 we did not change our underweight exposure in **SA listed property**, although there are some indications that fundamentals are starting to improve. The sector could also gain some impetus from expected interest rate cuts, but these hopes have been deferred in line with interest rate cut expectations over the quarter, so for now we remain cautious. Property sector risks continue to be high relative to other sectors, and cash yields are at attractive levels. We still prefer exposure to non-property shares that we believe offer better value propositions for less risk.

We also did not change our overweight positioning in **SA nominal bonds** in our house-view portfolios. Despite the fall in bond yields during the quarter, given their very elevated levels, real yields remain attractive compared to history, other global sovereign bonds and other SA fixed income assets. The current yields should more than compensate investors for their associated risks over time.

Our house-view portfolios have no meaningful exposure to **SA inflation-linked bonds (ILBs)**. 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. We also prefer to add value to client portfolios by taking advantage of the changing interest rate outlook reflected in nominal bonds.

Lastly, our portfolios remained tilted away from SA cash at quarter-end, despite the attractive positive real cash rate. This is because we prefer the relatively better prospective risk-adjusted returns on offer from higher-risk asset classes such as SA equity and bonds. Furthermore, bonds should enjoy a re-rating and hence capital gains resulting in additional returns, while returns to cash decline, should interest rates start to fall. □

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