M&G Investments

M&G Unit Trust Quarterly Commentary

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

Q4 2024

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Quarterly Commentary

M&G Money Market Fund

Income

Q4 2024

Market overview

In the fourth quarter, global markets and sentiment were shaped by political shifts and central bank actions.

November was dominated by the US election, starting with the lead up to the election date and results announcement to the subsequent nominations for key office position appointments. The Trump victory led to a further increase in the US dollar accompanied by a strong rally in US equity markets.

Central banks globally continued to adjust their policies well into the latter part of December. Several rate cuts were announced in December, including the US Federal Reserve (Fed), European Central Bank (ECB), Canada, Switzerland, Mexico, and Turkey. The Bank of England (BOE) and Bank of Japan (BOJ) held rates steady. The Fed's rate cut, accompanied by a hawkish tone, suggested that it could be the last cut for a while, and the market reacted by selling off as expected. Meanwhile, China's stimulus package announcement in September resulted in volatility in equity markets continuing into the quarter.

Global equities experienced a slight decline of 1% in the fourth quarter, but showed a strong annual gain of 17.5%, as measured by the All Country World Index (ACWI). Both developed and emerging market equities saw negative returns in the fourth quarter, with developed markets down by 0.2% and emerging markets down by 8.0%. In emerging markets, sentiment was dampened by President Trump's victory, which raised concerns over trade tariffs, especially with China. Brazilian equities struggled, with the Bovespa falling by 29.5%, while China underperformed by 4.9% due to tariff fears. Other markets such as India (-10.6%) and Turkey (-3.1%) also contributed to weaker performance. Despite this, for 2024, the MSCI Emerging Market Index added 7.5%, though it lagged behind the ACWI's 17.5% return, primarily due to the stellar performance in US markets.

Global bonds were one of the weakest asset classes, with the Bloomberg Global Aggregate Index showing a 5.1% decline for the quarter and a 1.7% decline for the year. This was unexpected, considering the start of a rate-cutting cycle. However, market expectations for a shallow cutting cycle, coupled with concerns over persistent US inflation above the 2% target, dampened bond market performance. Volatility in the bond market was driven by rising inflation expectations and central bank actions, leading to selloffs in key government bond markets, particularly US Treasuries and UK Gilts.

Performance

The M&G Money Market Fund returned 2.1% for the quarter (A class, net of fees), 15bps ahead of its benchmark. For the year the fund returned 8.7% (A class, net of fees) outperforming it's benchmark by 57bps. It has also generated pleasing returns relative to its peer group with a ranking of 12th out of 37 funds over one and three years (Morningstar).

Positioning

The fund maintained a relatively high duration and maturity exposure over the course of the quarter. The relatively long-dated exposure in the fund means that attractive yield levels have been locked in in a declining interest rate environment, which should assist the relative performance of the fund.

During November 2024, S&P revised South Africa's outlook to positive from stable and subsequently revised the outlooks on six South African financial institutions to positive from stable and raised the national scale ratings on four South African banks (ABSA Bank Limited, FirstRand Bank Limited, Investec Bank Limited and Nedbank Limited) upward by one notch, from zaAA to zaAA+.

Headline CPI inflation rose 0.1pp to 2.9% y/y in November due to slower fuel price deflation. This print was however lower than the 3.1% median Bloomberg survey of economists. Nevertheless, the market still expects the SARB to continue on its rate cutting path.

In November the Monetary policy committee (MPC) at the SARB reduced the repo rate by 25bp to 7.75% which was broadly in line with analyst expectations. The MPC unanimously voted in favour of the 25bp cut and there was no discussion of a 50bps cut as was the case in September meeting. The overall tone of the MPC statement was cautious, and the committee noted that the outlook was uncertain given the challenging global environment.

As at the end of the year the Forward-Rate Agreements (FRA) market signalled that the SARB would be lowering the policy rate over the following 12 months by about 50bps to 7.25%. This is notable change to the depth of rate cuts relative to the beginning of the quarter where the FRA market expected the SARB to reduce the repo rate to about 6.8% within 12 months.

The BER inflation expectations survey for the fourth quarter of 2024 indicated further moderation in inflation expectations across all the time horizons. Inflation expectations are backward looking and the moderation in headline inflation experienced over the last couple of months would be reflected in the inflation expectations of the participants being surveyed. The same goes with higher past inflation prints of 2022 which were at the time projected well into the future. For example, the December 2023 survey showed that average inflation expectations for 2024 then increased to 5.7%.

Average inflation expectations for participants being the Analysts, Business and trade unions for 2025 fell from 4.8% to 4.5% and for 2026 fell from 4.8% to 4.6%. It is interesting to note that the inflation expectations of trade unions for 2025 was at the midpoint of the SARB inflation target of 4.5% and for 2026 it was at 4.3% which is encouraging. Businesses surveyed were slightly higher than the SARB mid-point coming in at 4.8% for both 2025 and 2026. Five-year inflation expectations over all groups averaged 4.6% compared to 4.8% in the third quarter survey. This trajectory is

Annualised performance	A class	Benchmark	X class
1 year	8.7%	8.2%	8.7%
3 years	7.5%	7.0%	7.4%
5 years	6.3%	5.8%	6.3%
7 years	6.6%	6.0%	6.6%
10 years	6.7%	6.2%	6.8%
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 807 811 522

AA+(ZA)(f) GCR RATINGS www.GCRratings.com

Sources: M&G, Morningstar & Deutsche Securities

welcome by the SARB and they anticipate inflation expectations to moderate further given their policy stance coupled with experience of lower inflation will serve to anchor inflation expectations more firmly at lower levels.

Interestingly the IMF published a statement in November that SA's outlook is improving supported by recovering domestic demand and stable electricity supply and upwardly adjusted SA's real GDP growth to 1.5% in 2025 from 1.1% in 2024. However, the IMF warned that the risks to the outlook were to the downside highlighting protectionist policies and delays in the reform implementation. They also suggested a fiscal consolidation strategy to lower public debt-to-GDP and the implementation of a fiscal rule which would enhance credibility. This could lead to lower SA bond yields resulting in lower financing costs for the fiscus allowing funds to be used in other initiatives.

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Disclaimer

M&G High Interest Fund

Income

This fund is capped to new investors.

Q4 2024

Market overview

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Central banks globally continued to adjust their policies well into the latter part of December. Several rate cuts were announced in December, including the US Federal Reserve (Fed), European Central Bank (ECB), Canada, Switzerland, Mexico, and Turkey. The Bank of England (BOE) and Bank of Japan (BOJ) held rates steady. The Fed's rate cut, accompanied by a hawkish tone, suggested that it could be the last cut for a while, and the market reacted by selling off as expected. Meanwhile, China's stimulus package announcement in September resulted in volatility in equity markets continuing into the quarter.

Global equities experienced a slight decline of 1% in the fourth quarter, but showed a strong annual gain of 17.5%, as measured by the All Country World Index (ACWI). Both developed and emerging market equities saw negative returns in the fourth quarter, with developed markets down by 0.2% and emerging markets down by 8.0%. In emerging markets, sentiment was dampened by President Trump's victory, which raised concerns over trade tariffs, especially with China. Brazilian equities struggled, with the Bovespa falling by 29.5%, while China underperformed by 4.9% due to tariff fears. Other markets such as India (-10.6%) and Turkey (-3.1%) also contributed to weaker performance. Despite this, for 2024, the MSCI Emerging Market Index added 7.5%, though it lagged behind the ACWI's 17.5% return, primarily due to the stellar performance in US markets. Global property also faced losses, down 9.2% for the quarter but ended the year in positive territory with 1.6%.

Global bonds were one of the weakest asset classes, with the Bloomberg Global Aggregate Index showing a 5.1% decline for the quarter and a 1.7% decline for the year. This was unexpected, considering the start of a rate-cutting cycle. However, market expectations for a shallow cutting cycle, coupled with concerns over persistent US inflation above the 2% target, dampened bond market performance. Volatility in the bond market was driven by rising inflation expectations and central bank actions, leading to selloffs in key government bond markets, particularly US Treasuries and UK Gilts.

South Africa's consumer price index (CPI) rose by 2.9% y/y in November, up from 2.8% y/y in October. Despite this slight inflation increase, the South African Reserve Bank (SARB) Monetary Policy Committee reduced the policy rate by 25 basis points to 7.75% in November.

Local equity and bond markets saw slight declines, with the biggest impact coming from the weakening of the rand. Despite a solid annual return of 13.4%, the FTSE JSE All Share Index fell 2.1% in the fourth quarter. On a sector level, industrials posted modest returns of 0.2%, while financials (-1.2%) and resources (-10.1%) dragged on performance for the quarter (all in rand).

The FTSE All Bond Index (ALBI) returned 0.4% for the quarter, while inflation-linked bonds (ILBs) returned 0.8%. Throughout the year, the nominal bond market experienced significant volatility, with the 10-year bond yield peaking at 12.50% in April before strengthening to around 10.30% by year-end. The yield curve also bull-flattened in 2024, with long-term bond yields falling more sharply than shorter-term ones. The ILB curve flattened slightly, coming off an already flat basis at the start of the year.

Performance

Over the past quarter the M&G High Interest Fund returned 2.0% (A class, net of fees), matching its benchmark.

For the year the fund delivered a return of 8.9% (A class, net of fees) beating its benchmark by 44bps.

Positioning

The GNU fueled SA bond rally since mid-May lost its momentum during the fourth quarter of 2024. This resulted in a meagre 0.4% return for the All Bond Index (ALBI) for the quarter. Despite a sell-off in bonds, the ALBI delivered a stellar return of 17.2% for the year with longer dated bonds delivering almost 21%.

Headline CPI inflation rose 0.1pp to 2.9% y/y in November due to slower fuel price deflation. This print was however lower than the 3.1% median Bloomberg survey of economists. Nevertheless, the market still expects the South African Reserve Bank (SARB) to continue on its rate cutting path.

In November the Monetary policy committee (MPC) at the SARB reduced the repo rate by 25bp to 7.75% which was broadly in line with analyst expectations. The MPC unanimously voted in favour of the 25bp cut and there was no discussion of a 50bps cut as was the case in September meeting. The overall tone of the MPC statement was cautious, and the committee noted that the outlook was uncertain given the challenging global environment.

As at the end of the year the Forward-Rate Agreements (FRA) market signalled that the SARB would be lowering the policy rate over the following 12 months by about 50bps to 7.25%. This is notable change to the depth of rate cuts relative to the beginning of the quarter where the FRA market expected the SARB to reduce the repo rate to about 6.8% within 12 months.

The BER inflation expectations survey for the fourth quarter

Annualised performance	A class	Benchmark	X class	D class
1 year	8.9%	8.5%	9.0%	9.2%
3 years	7.6%	7.2%	7.7%	7.9%
5 years	6.2%	6.2%	6.4%	6.5%
7 years	6.7%	6.5%	6.8%	6.9%
10 years	6.9%	6.7%	7.0%	7.2%
Since inception	6.6%	6.4%	-	-

Risk profile

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

HIGHER LOWER

LOWER HIGHER

Variability of returns over the short-term

Fund facts

Fund 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

R10 461 287 188

Sources: M&G, Morningstar & Deutsche Securities

of 2024 indicated further moderation in inflation expectations across all the time horizons. Inflation expectations are backward looking and the moderation in headline inflation experienced over the last couple of months would be reflected in the inflation expectations of the participants being surveyed. The same goes with higher past inflation prints of 2022 which were at the time projected well into the future. For example, the December 2023 survey showed that average inflation expectations for 2024 then increased to 5.7%.

Average inflation expectations for participants being the Analysts, Business and trade unions for 2025 fell from 4.8% to 4.5% and for 2026 fell from 4.8% to 4.6%. It is interesting to note that the inflation expectations of trade unions for 2025 was at the midpoint of the SARB inflation target of 4.5% and for 2026 it was at 4.3% which is encouraging. Businesses surveyed were slightly higher than the SARB mid-point coming in at 4.8% for both 2025 and 2026. Five-year inflation expectations over all groups averaged 4.6% compared to 4.8% in the third quarter survey. This trajectory is welcome by the SARB, and they anticipate inflation expectations to moderate further given their policy stance coupled with experience of lower inflation will serve to anchor inflation expectations more firmly at lower levels.

Interestingly the IMF published a statement in November that SA's outlook is improving supported by recovering domestic demand and stable electricity supply and upwardly adjusted SA's real GDP growth to 1.5% in 2025 from 1.1% in 2024. However, the IMF warned that the risks to the outlook were to the downside highlighting protectionist policies and delays in the reform implementation. They also suggested a fiscal consolidation strategy to lower public debt-to-GDP and the implementation of a fiscal rule which would enhance credibility and lower bond yields. This could result in lower financing costs for the fiscus allowing funds used to service debt to be allocated to other initiatives.

These developments resulted in the NCD market repricing over the quarter as the interest rate cuts came through. At the end of the third quarter the money market curve was inverted pointing to rate cuts. As the rate cuts came through the money market curve regained its upward slope taking short rates to below 8%. Treasury bill (TB) rates offer attractive levels relative to NCDs especially in the 6- and 9-month tenors and we hold these instruments in money market funds. For the High Interest Fund specifically, the fact that the fund can hold instruments up to three years in maturity, and the liquidity requirements of the fund, make this instrument class less suited to the fund's needs and we remain uninvested in TBs.

Credit trends

Total credit issuance (excluding government issuances) picked up 14% in Q4 2024 with R54.1bn issued, compared to R47.5bn in Q3 2024, with Q4 issuance being the largest quarterly issuance of the year. The Q4 issuance was down 2% compared to the same quarter in the prior year (Q4 2023: R55.4bn issued). Full-year 2024 issuance was R170.1bn up 3.6% from 2023 total issuance of R164.1bn.

The make-up of issuance for the quarter followed established trends - issuance being almost exclusively floating-rate notes, with auctions accounting for just over 67% of placements by volume. December saw a slightly different trend in issuance, with 79% of December's R13.8bn issuance being via private placement.

Data compiled by RMB's Credit Research team indicates that banks and financial issuers dominated primary market issuance for the quarter contributing to 57% of gross issuance, followed by corporates at 28%. Q4 was the strongest quarter of the year for banks/financials with R30.9bn issued. FirstRand Bank Limited (FirstRand) was the largest bank/financials issuer of the quarter, having raised R7.5bn. FirstRand raised R2.6bn via its first social bond auction in November, upsized from its initial target issuance size of R2bn – R2.5bn given the R4.7bn bids received. FirstRand raised a further R2.5bn via the placement of a Tier 2 note during November with the remainder of the issuance raised via a Tier 2 and an AT1 private placement tap issuance. Q4 further saw the highest quarterly corporate issuance of the year, with R15.3bn issued. Woolworths Holdings Limited was the largest corporate issuer for the quarter, raising R2.25bn across five privately placed notes. Unusual for listed credit in the SA market, the notes carry a provision for redemption at the option of the issuer – commencing 29 January 2025 for WHL15 and 29 July 2026 for the other four notes. Daimler Truck Southern Africa Limited (DTSA) was the second largest corporate issuer for the quarter having issued R2.2bn across both auction and private placement in October and November, respectively. DTSA's auction which raised R1.5bn was 6.4x subscribed and banks which accounted for 26.5% of bids received 40.9% of the final allocation.

Attacq Limited, the listed REIT, held its inaugural debt capital markets auction in October 2024. With more than R4bn in bids received, R760m was issued across a 3-year and 5-year note offering.

November was the strongest issuance month of Q4 with R24.8bn issued, further making it the largest issuance month for 2024. Banks/financials issued R16.5bn in November, equally making it the largest issuance month for the sector for 2024.

November saw Industrial Development Corporation return to the local debt capital auction market, holding its first public auction since January 2020.

Numerous rating actions took place during the quarter.

During October 2024 Moody's downgraded five securitisation notes in Amber House Fund 2 (RF) Ltd (2021 refinancing) as well as The Thekwini Fund 18 (RF) Ltd, prompted by the correction of a model input error. Moody's further downgraded both the global and national scale ratings of seven notes in Transsec 4 (RF) Ltd and Transsec 5 (RF) Ltd, reflecting the decrease of credit enhancement available for the affected notes, as well as worse than expected collateral performance.

During November 2024, S&P revised South Africa's outlook to positive from stable and subsequently revised the outlook on six South African financial institutions to positive from stable and raised the national scale ratings on four South African banks (ABSA Bank Limited, FirstRand Bank Limited, Investec Bank Limited and Nedbank Limited) upward by one notch, from zaAA to zaAA+.

GCR downgraded Burstone Group Limited's (Burstone) national scale long-, and short-term credit ratings in November 2024 to A+(za) and A1(za) from AA-(za) and A1+(za) respectively following the sale of its majority stake in its Pan European Logistics portfolio to Blackstone Inc. GCR noted that while the transaction is a major advancement in Burstone's funds and asset management strategy, in the short to medium term

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Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

Burstone will report a much smaller direct investment portfolio with a material increase in exposure to its South African assets.

Furthermore, Moody's upgraded Discovery Limited's long term national scale rating in November to Aa3.za from A1.za to reflect reduced execution risk in its business model as more recent investments, such as its bank, approach operational maturity.

During December, S&P assigned Telkom a zaAAA national scale long-term rating viewing its ability to pay and meet its financial commitments as extremely strong in relation to other issuers in the domestic market. Following this Moody's withdrew its Telkom SA SOC Limited rating following the review of the issuer's request to withdraw its rating.

There was little move in credit spreads over the quarter, with fixed rate and floating rate credit spreads closing the quarter -1.8bps and -2.8bps narrower, respectively.

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Disclaimer

M&G Income Fund

Income

Q4 2024

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Global bonds were one of the weakest asset classes, with the Bloomberg Global Aggregate Index showing a 5.1% decline for the quarter and a 1.7% decline for the year. This was unexpected, considering the start of a rate-cutting cycle. However, market expectations for a shallow cutting cycle, coupled with concerns over persistent US inflation above the 2% target, dampened bond market performance. Volatility in the bond market was driven by rising inflation expectations and central bank actions, leading to selloffs in key government bond markets, particularly US Treasuries and UK Gilts.

Performance

Over the past quarter the fund returned 2.4% (A class, net of fees), outperforming its benchmark by 37bps.

For the year the fund returned 10.1% (A class, net of fees), beating its benchmark by 1.7%.

We typically do not take large duration positions in the M&G Income fund. The fund invests largely in government debt and high-quality corporate paper which is predominantly floating rate in nature. This immunizes the fund against interest rates risk and minimizes the risk of capital losses associated with bond market selloffs. The result of this approach is that the M&G Income Fund delivers a return profile that is less volatile.

Positioning

The GNU fueled SA bond rally since mid-May lost its momentum during the fourth quarter of 2024. This resulted in a meagre 0.4% return for the All Bond Index (ALBI) for the quarter. Despite a sell-off in bonds, the ALBI delivered a stellar return of 17.2% for the year with longer dated bonds delivering almost 21%.

Headline CPI inflation rose 0.1pp to 2.9% y/y in November due to slower fuel price deflation. This print was however lower than the 3.1% median Bloomberg survey of economists. Nevertheless, the market still expects the South African Reserve Bank (SARB) to continue on its rate cutting path.

In November the Monetary policy committee (MPC) at the SARB reduced the repo rate by 25bp to 7.75% which was broadly in line with analyst expectations. The MPC unanimously voted in favour of the 25bp cut and there was no discussion of a 50bps cut as was the case in September meeting. The overall tone of the MPC statement was cautious, and the committee noted that the outlook was uncertain given the challenging global environment.

As at the end of the year the Forward-Rate Agreements (FRA) market signalled that the SARB would be lowering the policy rate over the following 12 months by about 50bps to 7.25%. This is notable change to the depth of rate cuts relative to the beginning of the quarter where the FRA market expected the SARB to reduce the repo rate to about 6.8% within 12 months.

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Average inflation expectations for participants being the

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Since inception	7.7%	6.6%	-

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 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

R349 377 740

Sources: M&G, Morningstar & Deutsche Securities

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Credit trends

Total credit issuance (excluding government issuances) picked up 14% in Q4 2024 with R54.1bn issued, compared to R47.5bn in Q3 2024, with Q4 issuance being the largest quarterly issuance of the year. The Q4 issuance was down 2% compared to the same quarter in the prior year (Q4 2023: R55.4bn issued). Full-year 2024 issuance was R170.1bn up 3.6% from 2023 total issuance of R164.1bn.

The make-up of issuance for the quarter followed established trends - issuance being almost exclusively floating-rate notes, with auctions accounting for just over 67% of placements by volume. December saw a slightly different trend in issuance, with 79% of December's R13.8bn issuance being via private placement.

Data compiled by RMB's Credit Research team indicates that banks and financial issuers dominated primary market issuance for the quarter contributing to 57% of gross issuance, followed by corporates at 28%. Q4 was the strongest quarter of the year for banks/financials with R30.9bn issued. FirstRand Bank Limited (FirstRand) was the largest bank/financials issuer of the quarter, having raised R7.5bn. FirstRand raised R2.6bn via its first social bond auction in November, upsized from its initial target issuance size of R2bn – R2.5bn given the R4.7bn bids received. FirstRand raised a further R2.5bn via the placement of a Tier 2 note during November with the remainder of the issuance raised via a Tier 2 and an AT1 private placement tap issuance. Q4 further saw the highest quarterly corporate issuance of the year, with R15.3bn issued. Woolworths Holdings Limited was the largest corporate issuer for the quarter, raising R2.25bn across five privately placed notes. Unusual for listed credit in the SA market, the notes carry a provision for redemption at the option of the issuer – commencing 29 January 2025 for WHL15 and 29 July 2026 for the other four notes. Daimler Truck Southern Africa Limited (DTSA) was the second largest corporate issuer for the quarter having issued R2.2bn across both auction and private placement in October and November, respectively. DTSA's auction which raised R1.5bn was 6.4x subscribed and banks which accounted for 26.5% of bids received 40.9% of the final allocation.

Attacq Limited, the listed REIT, held its inaugural debt capital markets auction in October 2024. With more than R4bn in bids received, R760m was issued across a 3-year and 5-year note offering.

November was the strongest issuance month of Q4 with R24.8bn issued, further making it the largest issuance month for 2024. Banks/financials issued R16.5bn in November, equally making it the largest issuance month for the sector for 2024.

November saw Industrial Development Corporation return to the local debt capital auction market, holding its first public auction since January 2020.

Numerous rating actions took place during the quarter.

During October 2024 Moody's downgraded five securitisation notes in Amber House Fund 2 (RF) Ltd (2021 refinancing) as well as The Thekwini Fund 18 (RF) Ltd, prompted by the correction of a model input error. Moody's further downgraded both the global and national scale ratings of seven notes in Transsec 4 (RF) Ltd and Transsec 5 (RF) Ltd, reflecting the decrease of credit enhancement available for the affected notes, as well as worse than expected collateral performance.

During November 2024, S&P revised South Africa's outlook to positive from stable and subsequently revised the outlook on six South African financial institutions to positive from stable and raised the national scale ratings on four South African banks (ABSA Bank Limited, FirstRand Bank Limited, Investec Bank Limited and Nedbank Limited) upward by one notch, from zaAA to zaAA+.

GCR downgraded Burstone Group Limited's (Burstone) national scale long and short-term credit ratings in November 2024 to A+(za) and A1(za) from AA-(za) and A1+(za) respectively following the sale of its majority stake in its Pan European Logistics portfolio to Blackstone Inc. GCR noted that while the transaction is a major advancement in Burstone's funds and asset management strategy, in the short to medium term Burstone will report a much smaller direct investment portfolio with a material increase in exposure to its South African assets.

Furthermore, Moody's upgraded Discovery Limited's long-term national scale rating in November to Aa3.za from A1.za to reflect reduced execution risk in its business model as more recent investments, such as its bank, approach operational maturity.

During December, S&P assigned Telkom a zaAAA national scale

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Sources: M&G, Morningstar & Deutsche Securities

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long-term rating viewing its ability to pay and meet its financial commitments as extremely strong in relation to other issuers in the domestic market. Following this Moody's withdrew its Telkom SA SOC Limited rating following the review of the issuer's request to withdraw its rating.

There was little move in credit spreads over the quarter, with fixed rate and floating rate credit spreads closing the quarter -1.8bps and -2.8bps narrower, respectively.

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Sources: M&G, Morningstar & Deutsche Securities

M&G Bond Fund

Income

Q4 2024

Market overview

In the fourth quarter, global markets and sentiment were shaped by political shifts and central bank actions. November was dominated by the US election, starting with the lead up to the election date and results announcement to the subsequent nominations for key office position appointments. The Trump victory led to a further increase in the US dollar accompanied by a strong rally in US equity markets.

Central banks globally continued to adjust their policies well into the latter part of December. Several rate cuts were announced in December, including the US Federal Reserve (Fed), European Central Bank (ECB), Canada, Switzerland, Mexico, and Turkey. The Bank of England (BOE) and Bank of Japan (BOJ) held rates steady. The Fed's rate cut, accompanied by a hawkish tone, suggested that it could be the last cut for a while, and the market reacted by selling off as expected. Meanwhile, China's stimulus package announcement in September resulted in volatility in equity markets continuing into the quarter.

Global equities experienced a slight decline of 1% in the fourth quarter, but showed a strong annual gain of 17.5%, as measured by the All Country World Index (ACWI). Both developed and emerging market equities saw negative returns in the fourth quarter, with developed markets down by 0.2% and emerging markets down by 8.0%.

Global bonds were one of the weakest asset classes, with the Bloomberg Global Aggregate Index showing a 5.1% decline for the quarter and a 1.7% decline for the year. This was unexpected, considering the start of a rate-cutting cycle. However, market expectations for a shallow cutting cycle, coupled with concerns over persistent US inflation above the 2% target, dampened bond market performance. Volatility in the bond market was driven by rising inflation expectations and central bank actions, leading to selloffs in key government bond markets, particularly US Treasuries and UK Gilts.

The FTSE All Bond Index (ALBI) returned 0.4% for the quarter, while inflation-linked bonds (ILBs) returned 0.8%. Notably, South African bonds finished the year with a robust 17% gain, while ILBs returned 7.8% (both in rand). Throughout the year, the nominal bond market experienced significant volatility, with the 10-year bond yield peaking at 12.50% in April before strengthening to around 10.30% by year-end. The yield curve also bull-flattened in 2024, with long-term bond yields falling more sharply than shorter-term ones. The ILB curve flattened slightly, coming off an already flat basis at the start of the year.

Performance

The M&G Bond Fund delivered a return of 17.3% for the year (A class, net of fees) outperforming its benchmark (ALBI) by 0.1%. For the three-year period, the fund delivered 11% versus the benchmark return of 10.3%.

On a relative basis the fund continues to perform well, ranking 2nd out of 38 funds over the past three years and 9th out of 31 funds over the past five years (Morningstar).

Positioning

In the fourth quarter the All Bond Index (ALBI) delivered a modest 0.4% with the impressive rally the bond market experienced since the SA elections in May losing steam. The SA yield curve bear steepened over the fourth quarter resulting in longer dated bonds underperforming their shorter dated counterparts. Despite this sell off in bonds, the ALBI delivered a stellar one-year return of 17.2% with longer dated bonds delivering almost 21%.

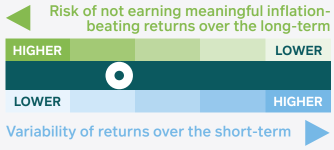
During November 2024, S&P revised South Africa's outlook to positive from stable and subsequently revised the outlook on six South African financial institutions to positive from stable and raised the national scale ratings on four South African banks (ABSA Bank Limited, FirstRand Bank Limited, Investec Bank Limited and Nedbank Limited) upward by one notch, from zaAA to zaAA+.

Relative to other liquid emerging markets and developed markets we follow, the South African bond market delivered impressive returns for investors. A large driver of these returns could be attributed to the improvement in investor confidence following the local election outcome held in May and progress made on reforms in key sectors. Despite this foreign investor holdings of SA, local currency bonds were still low at just under 25%, a large contrast from around 40% achieved during the 2018 period. In the fourth quarter the SA bond yield rally was halted which could in part be attributed to global factors, for example the US election outcome and the impact of Trump's domestic and trade policies on growth and inflation. Also, growth in the US has been resilient gauging from the recent economic activity data releases and a number of Fed governors having expressed their concerns about the stickiness of inflation.

Long dated SA bonds we believe still offer value at current levels and long-term investors have the opportunity to earn attractive real returns. Long dated SA bonds yields were a nudge above 11% at year end offering investors a real yield of about 6%. The South African Reserve Bank (SARB) in consultation with National Treasury are in discussions about a reduction of the inflation target from the current 3 to 6% range. Should a decision be taken that the SARB target a lower inflation range this could be a catalyst to meaningful bond performance. The timeline is however very uncertain.

Headline CPI inflation rose 0.1pp to 2.9% y/y in November due to slower fuel price deflation. This print was however

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

R1 028 530 812

Annualised performance	A class	Benchmark	B class
1 year	17.3%	17.2%	17.5%
3 years	11.0%	10.3%	11.2%
5 years	9.5%	9.6%	9.7%
7 years	9.1%	9.4%	9.3%
10 years	8.3%	8.7%	8.5%
20 years	8.4%	8.6%	8.6%
Since inception	9.9%	10.1%	-

Sources: M&G, Morningstar & Deutsche Securities

lower than the 3.1% median Bloomberg survey of economists. Nevertheless, the market still expects the SARB to continue its rate cutting path.

In November the Monetary policy committee (MPC) at the SARB reduced the repo rate by 25bp to 7.75% which was broadly in line with analyst expectations. The MPC unanimously voted in favour of the 25bp cut and there was no discussion of a 50bp cut as was the case in September meeting. The overall tone of the MPC statement was cautious, and the committee noted that the outlook was uncertain given the challenging global environment.

As at the end of the year the Forward-Rate Agreements (FRA) market signalled that the SARB would be lowering the policy rate over the following 12 months by about 50bps to 7.25%. This is a notable change to the depth of rate cuts relative to the beginning of the quarter where the FRA market expected the SARB to reduce the repo rate to about 6.8% within 12 months.

The BER inflation expectations survey for the fourth quarter of 2024 indicated further moderation in inflation expectations across all the time horizons. Inflation expectations are backward looking and the moderation in headline inflation experienced over the last couple of months would be reflected in the inflation expectations of the participants being surveyed. The same goes with higher past inflation prints of 2022 which were at the time projected well into the future. For example, the December 2023 survey showed that average inflation expectations for 2024 then increased to 5.7%.

Average inflation expectations for participants being the Analysts, Business and trade unions for 2025 fell from 4.8% to 4.5% and for 2026 fell from 4.8% to 4.6%. It is interesting to note that the inflation expectations of trade unions for 2025 was at the midpoint of the SARB inflation target of 4.5% and for 2026 it was at 4.3% which is encouraging. Businesses surveyed were slightly higher than the SARB mid-point coming in at 4.8% for both 2025 and 2026. Five-year inflation expectations over all groups averaged 4.6% compared to 4.8% in the third quarter survey. This trajectory is welcomed by the SARB and they anticipate inflation expectations to moderate further given their policy stance coupled with experience of lower inflation will serve to anchor inflation expectations more firmly at lower levels.

Interestingly, the IMF published a statement in November that SA's outlook is improving supported by recovering domestic demand and stable electricity supply and upwardly adjusted SA's real GDP growth to 1.5% in 2025 from 1.1% in 2024. However, the IMF warned that the risks to the outlook were to the downside highlighting protectionist policies and delays in the reform implementation. They also suggested a fiscal consolidation strategy to lower public debt-to-GDP and the implementation of a fiscal rule which would enhance credibility. This could lead to lower SA bond yields resulting in lower financing costs for the fiscus allowing funds to be used in other initiatives.

The fund had a meaningful exposure to the R2037 bond at the beginning of the fourth quarter despite reducing this exposure somewhat in the previous quarter. Given the good performance of the R2037 bond we decided to reduce exposure to this bond and deploy the capital in other instruments, for example the R2040s which is a longer dated bond maturing in January 2040 and is now the largest exposure in the fund.

The quarter was marked with higher bond volatility as we saw a reversal of the strong rally in bonds that ensued since May 2024 as the market gained some confidence in the South African economy post the SA election. The SA bond yield curve bear steepened with the short-dated bond yields i.e., the R186 increasing by about 33bps to 8.27% and the long dated newly issued bond instrument i.e., the R2053's yield increasing by approximately 46bps to 11.1%.

As mentioned previously, the neutral duration position of the fund against its benchmark means that it will naturally lag the most aggressively positioned funds over rallies such as what we saw over the past quarters (although it will also hopefully outperform the most conservatively positioned peers). However, we seek to generate attractive returns versus peers over the medium to long term by taking advantage of relative value opportunities on the SA bond curve. We expect this approach to over time lead to more consistent outperformance of the benchmark than would be achievable by taking significant duration and macro views in the fund.

Fixed rate credit spreads remain at historically low levels and are in fact negative for the better-quality issuers. There were two fixed rate issuances in the market during November 2024, however neither of these opportunities were viewed as favourable: Momentum Metropolitan Life Limited issued R500m via a 5.5-year fixed rate note in November at a spread of 25 bps and Industrial Development Corporation issued R393m via a 10-year fixed rate note at a spread of 99 bps. In the current environment of historically low fixed-rate credit spreads we expect the fund to remain uninvested in credit. □

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Sources: M&G, Morningstar & Deutsche Securities

M&G Enhanced Income Fund

Multi-asset

Q4 2024

Market overview

US Treasury bond yields reversed course in the final quarter of the year. After having rallied strongly from their yearly highs in late April down to the lows in September, yields bounced hard to close 2024 at the highest levels across most tenors, especially further along the term structure.

The September labour report showed higher than expected monthly nonfarm payrolls and a lower than forecasted unemployment rate, alongside higher than expected average hourly earnings figures. Prior nonfarm payrolls were revised lower. October saw stronger US real economic activity data surprises coupled with stronger consumer inflation data surprises and this combination added further upward pressure for bond yields. The US rates market was nervous headed into the US presidential election. When the polls started showing Donald Trump in the lead, global markets began to adjust, and this further supported the upward trajectory in bonds yields.

The October labour report showed much lower than expected monthly nonfarm payrolls and an as forecasted unemployment rate, alongside as expected average hourly earnings figures. Prior nonfarm payrolls were hardly revised this time. The weakness in the payroll's figures was largely ignored by the market as it was due to hurricane related effects. October saw weaker US real economic activity data surprises coupled with stronger consumer inflation data surprises and the bond market had to digest this combination of economic data in the month. An election poll released the weekend before the election had the market backtrack on its conviction of a Trump victory, but the election results showed very strong support for Trump and the Republican party overall. Bond yields sold off on the election result before recovering later in November.

The November labour report showed slightly higher than expected monthly nonfarm payrolls and a greater than forecasted unemployment rate, alongside higher average hourly earnings figures. Prior nonfarm payrolls were revised higher this time. December saw weaker US real economic activity data surprises coupled with stronger consumer inflation data surprises. The US Treasury yield curve ended the quarter with a bear flattener.

The US Treasury market was anxious headed into the December FOMC meeting for good reason as it sold-off dramatically in its aftermath. The FOMC lowered the federal funds rate by 0.25% as was widely expected, but the statement and ensuing press conference highlighted that the bar for further easing was high due to the strength of the economy and the stubborn nature of inflation. The US rates market reduced the extent of interest rate cut expectations over the course of December.

Brent crude oil prices increased marginally in the final quarter of 2024, after having declined over the previous quarter. Energy prices were relatively stable, trading within a narrow range. The US dollar index surged in 4Q24, after having lost ground previously. The currency received support once the market began pricing in a Trump win and this only increased upon his actual victory. The dollar had reached its strongest level in over two years by late December. Rampant dollar strength saw the rand exchange rate soften to its weakest level since the week after the local elections. Despite showing a small spot return loss, the rand remained one of the better performing currencies against the US dollar in 2024. The cost of SOAF protection via the CDS market increased in the aftermath of the MTBPS in October but declined following the US election in November and remained at multi-year lows until the December FOMC meeting before rising again. It remained in the ranges seen over the prior four months which saw some of the lowest levels post Covid.

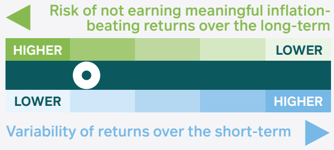
South Africa

SA bond yields rose to start the quarter in October. Higher global bond yields, a weaker rand, higher crude oil prices, and nervousness headed into the MTBPS and US presidential election all played a part in the repricing of yields higher. The market had been moving in one direction pretty much for four months and was also due a breather. A lot of good news was priced in since the election. October proved to be a bit of a wakeup call for a market that was still stuck in the GNU honeymoon period. Local economic data showed an improvement, with both the manufacturing and economy wide PMI figures bouncing in September. Consumer price inflation data moderated but printed in line with expectations. The market was very bullish headed into the MTBPS. Expectations for a cut in issuance were strong. Unfortunately, the market was disappointed as issuance was kept unchanged. The National Treasury forecasts for the budget also deteriorated, which was counter to market expectations. Upon the release of the document, RSA bond yields sold-off into month end. Negotiations over a fiscal anchor and a lower inflation target continue and this should keep the market on tenterhooks for the foreseeable future.

Local yields recovered most of their October losses in November. Local economic data releases in November showed an improvement, with signs of a boost in confidence following the formation of the GNU. Consumer price inflation data moderated and printed lower than expected at 2.8%. The Monetary Policy Committee (MPC) of the South African Reserve Bank (SARB) decided to lower the repurchase rate by a further 25 basis points. This was in line with analyst expectations, although the market had discounted the possibility of an even larger rate decline. The MPC has chosen to adopt a very cautious stance in lowering rates despite the collapse in realised inflation. The sharp decline in Brent Crude oil prices since late April, especially in Rand terms, has caused the committee to be circumspect.

Annualised performance	A class	Benchmark	T class	X class	D class
1 year	11.0%	8.5%	11.2%	11.0%	11.3%
3 years	9.1%	7.2%	9.3%	9.1%	9.4%
5 years	7.6%	6.2%	7.8%	7.5%	7.9%
7 years	7.2%	6.5%	7.4%	7.2%	7.6%
10 years	7.2%	6.7%	-	7.3%	7.7%
Since inception	7.9%	7.0%	-	-	-

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 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 10%, Listed Property 25% and Foreign 45%. 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

R834 249 781

Sources: M&G, Morningstar & Deutsche Securities

RSA government bond yields rose modestly in December, outperforming US Treasuries over the month. The local market saw a dip in activity with holiday-related shortened trading hours and reduced participants. The force of the weak rand and higher core bond yields were counteracted somewhat by the lack of government bond supply. Local real economic activity data released in December were poor, especially the worse-than-expected third quarter GDP figures while price data remain benign. Consumer price inflation increased but printed lower than expected at 2.9% - below the lower bound of the official inflation target range. The MPC of the SARB remains vigilant.

Performance

Over the 12 months to December 2024 the M&G Enhanced Income Fund delivered a total return of 11%, which compares favourably to both the benchmark (STeFI Composite) return of 8.5% and the ASISA category average gain of 10.2%. More importantly, over the past four years the fund provided an annualised return of 8.4% which was comfortably ahead of the benchmark return of 6.4% and the peer average of 7.9%.

Strategy and positioning

Over the quarter, the fund took advantage of the tightening in bank fixed rate NCD yields relative to RSA government bond yields. During the "Lady R" drama of May 2023, NCDs were purchased to add duration to the fund at elevated yields. These yields were more than those offered by similar tenor RSA government bonds at the time. However, over the course of time, that yield premium had been eroded to such an extent that it was now negative. Therefore, it was decided to sell the bank NCDs in favour of RSA government bonds on a duration neutral basis. This process also helped to raise liquidity for the fund to deploy for future opportunities. The implied real yields from nominal bonds have remained more attractive than those offered by inflation linked bonds for some time, therefore most of the fund's duration exposure is to nominal rates instead of real rates, but some exposure to inflation-linkers is maintained due to the relatively high absolute level of real yields available and the fact that they provide a form of insurance to the portfolio. The preference remains in the shorter end of the yield curve. During the quarter the positioning in our property teams favoured defensive, yet high yielding SA listed property stocks was maintained. Foreign bond exposure remains to short-dated US treasury bonds instead of corporate credit due to the tightness of spreads. A fully currency hedged position for the foreign bonds was maintained. Over the quarter, duration risk was managed tactically while the local cash bond positions were largely maintained. The fund remains drawdown focussed, cyclically aware and tactically alert.

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G Inflation Plus Fund

Multi-asset

Q4 2024

Market overview

In the fourth quarter, global markets and sentiment were shaped by political shifts and central bank actions.

November was dominated by the US election, starting with the lead up to the election date and results announcement to the subsequent nominations for key office position appointments. The Trump victory led to a further increase in the US dollar accompanied by a strong rally in US equity markets.

Central banks globally continued to adjust their policies well into the latter part of December. Several rate cuts were announced in December, including the US Federal Reserve (Fed), European Central Bank (ECB), Canada, Switzerland, Mexico, and Turkey. The Bank of England (BOE) and Bank of Japan (BOJ) held rates steady. The Fed's rate cut, accompanied by a hawkish tone, suggested that it could be the last cut for a while, and the market reacted by selling off as expected. Meanwhile, China's stimulus package announcement in September resulted in volatility in equity markets continuing into the quarter.

Global equities experienced a slight decline of 1% in the fourth quarter, but showed a strong annual gain of 17.5%, as measured by the All Country World Index (ACWI). Both developed and emerging market equities saw negative returns in the fourth quarter, with developed markets down by 0.2% and emerging markets down by 8.0%.

In emerging markets, sentiment was dampened by President Trump's victory, which raised concerns over trade tariffs, especially with China. Brazilian equities struggled, with the Bovespa falling by 29.5%, while China underperformed by 4.9% due to tariff fears. Other markets such as India (-10.6%) and Turkey (-3.1%) also contributed to weaker performance. Despite this, for 2024, the MSCI Emerging Market Index added 7.5%, though it lagged behind the ACWI's 17.5% return, primarily due to the stellar performance in US markets. Global property also faced losses, down 9.2% for the quarter but ended the year in positive territory with 1.6%.

Global bonds were one of the weakest asset classes, with the Bloomberg Global Aggregate Index showing a 5.1% decline for the quarter and a 1.7% decline for the year. This was unexpected, considering the start of a rate-cutting cycle. However, market expectations for a shallow cutting cycle, coupled with concerns over persistent US inflation above the 2% target, dampened bond market performance. Volatility in the bond market was driven by rising inflation expectations and central bank actions, leading to selloffs in key government bond markets, particularly US Treasuries and UK Gilts.

Local equity and bond markets saw slight declines, with the biggest impact coming from the weakening of the rand. Despite a solid annual return of 13.4%, the FTSE JSE All Share Index fell 2.1% in the fourth quarter. On a sector level, industrials posted modest returns of 0.2%, while financials (-1.2%) and resources (-10.1%) dragged on performance for the quarter (all in rand). South African listed property posted a 0.4% loss in the fourth quarter, but still delivered strong annual returns of nearly 30%.

The FTSE All Bond Index (ALBI) returned 0.4% for the quarter, while inflation-linked bonds (ILBs) returned 0.8%. Notably, South African bonds finished the year with a robust 17% gain, while ILBs returned 7.8% (both in rand). Throughout the year, the nominal bond market experienced significant volatility, with the 10-year bond yield peaking at 12.50% in April before strengthening to around 10.30% by year-end. The yield curve also bull-flattened in 2024, with long-term bond yields falling more sharply than shorter-term ones. The ILB curve flattened slightly, coming off an already flat basis at the start of the year. SA cash gained 2.0% for the quarter (in rand).

United States

Political developments played a significant role in shaping market sentiment during the fourth quarter. US equities rose in the quarter, driven by President Trump's election victory and Republican control of Congress, which fuelled optimism around expectations of tax cuts, deregulation, and pro-growth policies.

Meanwhile, US inflation rose to 2.7% y/y in November, slightly up from 2.6% y/y in October, in line with expectations. This didn't sway the Federal Reserve's decision to cut interest rates by 25 basis points in both November and December, bringing the target range to 4.25%-4.5%. US third quarter growth reached 3.1%, driven by strong consumer spending, and slightly better than the second quarter's 3.0% growth.

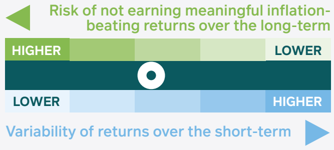
While US equities surged in November following the election results, the rally stalled in December after the Fed lowered its expectations for further rate cuts due to slower inflation progress and an uncertain policy outlook. Despite this, US equities still finished the quarter strong, with the Nasdaq leading at 6.3%, followed by the S&P 500 (2.4%) and the Dow Jones (0.9%).

Notably, US equities posted solid returns across all indices for the year led by the Nasdaq (29.6%), S&P 500 (25%), and the Dow Jones (15%), all in US dollar terms. Bonds, however, faced a more challenging quarter. Bond yields rose and the fed fund futures curve moving higher following the market expectations for fewer rate cuts in 2025 (due to persistent inflation) led to a sell-off in US Treasuries in December.

Annualised performance	A class	Objective[1]	T class	X class	B class
1 year	11.4%	6.3%	11.7%	11.4%	11.9%
3 years	8.1%	8.7%	8.4%	8.1%	8.6%
5 years	8.6%	8.3%	8.8%	8.6%	9.1%
7 years	6.2%	8.1%	6.5%	6.3%	6.8%
10 years	6.6%	8.3%	-	6.7%	7.2%
20 years	9.9%	9.1%	-	-	10.6%
Since inception	10.8%	9.1%	-	-	-

[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

R18 989 094 620

Awards

Raging Bull: 2013
Morningstar: 2015

Sources: M&G, Morningstar & Deutsche Securities

Eurozone
Eurozone faced another challenging quarter. Equities declined due to recession fears and political instability in France and Germany. Slightly improved third quarter growth of 0.4% q/q from 0.3% q/q in the second quarter was better than the 0.2% expected. Inflation rose by 2.2% y/y in November, driven by higher commodity prices, from 2.0% in October and slightly below the 2.3% forecast. Despite the slight uptick in inflation, the European Central Bank (ECB) unanimously decided to reduce interest rates by another 25 basis points in December, lowering its deposit rate to 3%. The ECB also signalled further cuts for 2025.

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Inflation in the UK rose by 2.6% y/y in November, in line with forecasts but up from 2.3% in October. As a result, the Bank of England kept interest rates unchanged at 4.75% in December, as expected. Economic growth in the UK disappointed, with quarterly growth at 0% q/q, down from 0.5% in the previous quarter, and falling below the anticipated 0.2%, revised downward from initial estimates. In this environment, UK equities declined, affected by rising bond yields, inflation expectations, and concerns over government fiscal policies following the Autumn Budget. The FTSE 100 ended the quarter down 6.8% but posted a 7.7% gain for the year.

China
Deflationary pressure continues in China, with the CPI slowing to 0.2% y/y in November, down from 0.3% in October. The People's Bank of China (PBOC) kept its benchmark lending rates unchanged, maintaining the one-year loan prime rate at 3.1% and the five-year rate at 3.6%. China's third quarter GDP growth slowed to 4.6% from 4.7% in the second quarter, resulting in a 4.8% growth rate for the first three quarters of the year. In recent months, China has introduced several measures to stabilise its economy, including shifting to a looser monetary policy in December, providing tax incentives for the property market, and unveiling a 10 trillion yuan debt package. Markets were spurred early November following a stimulus package unveiled late in September to support the economy and ailing property market but retraced some of those gains by quarter end. The Hang Seng Index dropped 4.9% in the fourth quarter but posted a strong 23.7% gain for the year.

Japan
Japan's core consumer price inflation rose to 2.7% y/y in November, up from 2.3% in October, in line with expectations and remaining above the Bank of Japan's 2% target. The Bank of Japan kept its benchmark interest rate steady at 0.25% in December. Japan's third quarter GDP was revised upward to a 1.2% annualised growth rate, compared to the initial estimate of 0.9%, though it was lower than the 2.2% annualised growth in the third quarter. The Nikkei Index fell 4.1% in the fourth quarter due to a weak yen and strong US economic performance but finished the year with an 8.8% gain (in US$).

South Africa
South Africa's consumer price index (CPI) rose by 2.9% y/y in November, up from 2.8% y/y in October. Despite this slight inflation increase, the South African Reserve Bank (SARB) Monetary Policy Committee reduced the policy rate by 25 basis points to 7.75% in November. The country's third quarter GDP contracted by 0.3%, primarily due to a decline in agricultural output, following a revised 0.3% growth in the second quarter.

Commodities
Commodities also stayed true to form with volatile moves across the board and faced another challenging month of negative returns for the quarter. Notably, nickel, palladium and copper suffered losses of around 11%. After strong performance in recent months, gold retraced some of its gains this quarter with -1.3% due to US dollar strength but still ended the year with close to a 27% return. Brent crude gained 3.6% for the quarter.

Performance
The M&G Inflation Plus Fund outperformed its objective in the fourth quarter of 2024, returning 1.3% (A class, net of fees). For the 12-month period ending 31 December 2024, its return was 11.4% (A class, net of fees). The fund has delivered an annual return of 10.8% since its inception in 1999 (A class, net of fees), compared to its objective of 9.1% per annum over the same period.

In terms of asset allocation this quarter, the fund's overweight position in international cash was beneficial to performance given the rand weakened against the US dollar, driven by a post-election rally and strong economic performance. It also weakened against the British pound, and euro. The international equity portion also performed well on a relative basis, however given its underweight allocation, it detracted slightly from fund performance versus the benchmark.

Within the SA equity allocation, while the benchmark was down -2.2% for the quarter amid a market that experienced slight declines, the fund's favourable stock selection helped its SA equity performance stay relatively flat.

The fund's overweight position in ABSA (up 8.2%) was the top contributor to performance this quarter. ABSA has shown a steady improvement in operating performance and is generating a return on equity (ROE) of approximately 13%, which is substantially up from the high single-digit returns it was generating just a few years ago. We think that its ROE will continue to gradually improve and support its share price, which we think is still undervalued.

The fund's position in Pepkor (up 20.1%) was the next largest positive contributor to performance over the quarter. It has been a strong beneficiary of the lower bond yields and improving consumer sentiment during the quarter.

Not holding Sasol proved beneficial and was the third best contributor to performance versus the benchmark, as it was down -28.25% during the period.

Not holding Discovery, however, detracted from relative performance as it delivered well during the quarter. Our underweight position in Capitec also slightly held back relative performance.

Strategy and positioning
Most asset classes experienced volatile moves in the fourth quarter of 2024, and we exploited favourable entry points in the markets to add back to risk assets using the cash available from third quarter profit taking. In broad terms, we have left our offshore versus local asset positioning mostly unchanged for the quarter and continue to prefer domestic assets over foreign exposure.

SA equities are coming off a very low base and continue to screen relatively cheap compared to other markets. We continue

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Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

to hold an overweight position as market valuations point to a continued rerating in that asset class.

Fundamentally, SA equities still trade at low valuation levels when looking at both the 12-month forward P/E ratio (10.1x) as well as the Price-to-Book ratio (1.72x). Local equities have experienced a moderate decline since the US elections, but we witnessed strong positive returns in the asset class leading up to that point, predominantly after the local government elections, adding positively to portfolio returns during the year.

On the local property front, we've continued with our trajectory of closing the underweight we had in the portfolios to that asset class. As at the end of the fourth quarter, we still have a small underweight to the property sector in place in the portfolios, but at a much-reduced scale compared to the start of the year. This change is on the back of improved fundamentals seen in the sector, especially the improvement in published financials reported by some companies as well as the reprieve experienced due to reduction in loadshedding and interest rates moving lower. For the year, property was the top-performing asset class in the local market but, with the move coming off a very low base, we've been comfortable making use of opportunities presented by market volatility to close the underweight we held in that asset class.

From a valuation perspective, our 10-year yield is still pricing a real return in excess of our fair value assumptions and, therefore, nominal bonds remain a key holding across the funds. This position led to favourable returns in the second half of 2024 given the post-election rally in local assets and we continue to keep the position in place due to improved fundamentals in our market.

The last quarter of 2024 was very muted in the local bond space – especially in comparison to the second and third quarter rallies we experienced. We made use of a selloff in bonds at the start of the quarter to add some more exposure to our portfolios to reinstate some of the positions we had taken off during the third quarter rally. Real yields are still trading at attractive levels compared to our equilibrium return assumptions and we continue to see merit to holding a sizeable overweight to nominal bonds in our portfolios. Given the strong returns witnessed in this asset class during the year, our portfolios have benefitted significantly from our overweight holding to SA nominal bonds throughout the year.

Our house-view portfolios continue to have no meaningful exposure to SA inflation-linked bonds (ILBs) as our preference has been for nominal bonds in favour of ILBs, but we do hold some of these bonds in our real return portfolios, such as the M&G Inflation Plus Fund. We added to our ILB holdings in a selection of our real return portfolios during the quarter on the back of the significant price lag in ILBs compared to their nominal bond counterparts during the year. Real yields for these instruments are attractive at current levels but, given liquidity constraints and the advantage of being in nominal bonds in a rate-cutting environment, we continue to favour nominal bonds over ILBs in most of our portfolios.

Our portfolios remain tilted away from SA cash as the interest rate-cutting environment will lead to lower positive real cash rates over the medium term. We continue to prefer the risk-adjusted returns we receive in the SA equity and bond space and would expect that gap to open even more as local interest rates are cut further beyond this point, even in a shallow rate-cutting cycle such as the one the market is currently pricing in.

In our global portion of the portfolios, we are currently slightly overweight global equities; overweight bonds and cash; and underweight credit and property. We continued to broaden out our carry basket during the quarter by adding long positions in Turkish lira and Colombian peso to existing Mexican peso and Brazilian real exposures, funded out of new shorts in Thai baht and Taiwanese dollar being added to US dollar and euro short positions.

The valuation for the MSCI All Country World Index 12-month forward P/E ratio peaked at the beginning of December before settling back at around 18x by the end of the year. The main driving force behind this valuation remains the high multiple that the US is trading on, with the S&P 12-month forward P/E remaining elevated at the current 22x. Due to this, we have kept our underweight position to the US market in place during the quarter as we continue to see better valuation opportunities in other equity markets.

We made use of market diversions post the US election to add back some of the tactical China exposure we took off at the end of September as well as reinstating a long position to the Indonesian equity market. Away from that, we continue to hold tactical long positions to Latam markets, South Korea and Japan.

We continue to favour long-dated US treasuries given the favourable real yields delivered by these instruments. In addition, we introduced a new tactical position to Brazilian bonds to the fund in December given the episodic selloff seen in bond yields in that region.

We maintain our underweight position to global corporate credit given that credit spreads have continued to contract during the quarter, increasing the unattractiveness of the risk-reward payoff for those instruments.

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G Balanced Fund

Multi-asset

Q4 2024

Market overview

In the fourth quarter, global markets and sentiment were shaped by political shifts and central bank actions.

November was dominated by the US election, starting with the lead up to the election date and results announcement to the subsequent nominations for key office position appointments. The Trump victory led to a further increase in the US dollar accompanied by a strong rally in US equity markets.

Central banks globally continued to adjust their policies well into the latter part of December. Several rate cuts were announced in December, including the US Federal Reserve (Fed), European Central Bank (ECB), Canada, Switzerland, Mexico, and Turkey. The Bank of England (BOE) and Bank of Japan (BOJ) held rates steady. The Fed's rate cut, accompanied by a hawkish tone, suggested that it could be the last cut for a while, and the market reacted by selling off as expected. Meanwhile, China's stimulus package announcement in September resulted in volatility in equity markets continuing into the quarter.

Global equities experienced a slight decline of 1% in the fourth quarter, but showed a strong annual gain of 17.5%, as measured by the All Country World Index (ACWI). Both developed and emerging market equities saw negative returns in the fourth quarter, with developed markets down by 0.2% and emerging markets down by 8.0%. In emerging markets, sentiment was dampened by President Trump's victory, which raised concerns over trade tariffs, especially with China. Brazilian equities struggled, with the Bovespa falling by 29.5%, while China underperformed by 4.9% due to tariff fears. Other markets such as India (-10.6%) and Turkey (-3.1%) also contributed to weaker performance. Despite this, for 2024, the MSCI Emerging Market Index added 7.5%, though it lagged behind the ACWI's 17.5% return, primarily due to the stellar performance in US markets. Global property also faced losses, down 9.2% for the quarter but ended the year in positive territory with 1.6%.

Global bonds were one of the weakest asset classes, with the Bloomberg Global Aggregate Index showing a 5.1% decline for the quarter and a 1.7% decline for the year. This was unexpected, considering the start of a rate-cutting cycle. However, market expectations for a shallow cutting cycle, coupled with concerns over persistent US inflation above the 2% target, dampened bond market performance. Volatility in the bond market was driven by rising inflation expectations and central bank actions, leading to selloffs in key government bond markets, particularly US Treasuries and UK Gilts.

Local equity and bond markets saw slight declines, with the biggest impact coming from the weakening of the rand. Despite a solid annual return of 13.4%, the FTSE JSE All Share Index fell 2.1% in the fourth quarter. On a sector level, industrials posted modest returns of 0.2%, while financials (-1.2%) and resources (-10.1%) dragged on performance for the quarter (all in rand).

South African listed property posted a 0.4% loss in the fourth quarter, but still delivered strong annual returns of nearly 30%.

The FTSE All Bond Index (ALBI) returned 0.4% for the quarter, while inflation-linked bonds (ILBs) returned 0.8%. Notably, South African bonds finished the year with a robust 17% gain, while ILBs returned 7.8% (both in rand). Throughout the year, the nominal bond market experienced significant volatility, with the 10-year bond yield peaking at 12.50% in April before strengthening to around 10.30% by year-end. The yield curve also bull-flattened in 2024, with long-term bond yields falling more sharply than shorter-term ones. The ILB curve flattened slightly, coming off an already flat basis at the start of the year.

SA cash gained 2.0% for the quarter (in rand).

United States

Political developments played a significant role in shaping market sentiment during the fourth quarter. US equities rose in the quarter, driven by President Trump's election victory and Republican control of Congress, which fuelled optimism around expectations of tax cuts, deregulation, and pro-growth policies.

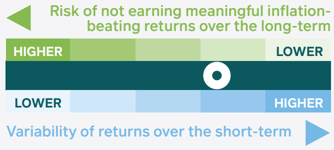
Meanwhile, US inflation rose to 2.7% y/y in November, slightly up from 2.6% y/y in October, in line with expectations. This didn't sway the Federal Reserve's decision to cut interest rates by 25 basis points in both November and December, bringing the target range to 4.25%-4.5%. US third quarter growth reached 3.1%, driven by strong consumer spending, and slightly better than the second quarter's 3.0% growth.

While US equities surged in November following the election results, the rally stalled in December after the Fed lowered its expectations for further rate cuts due to slower inflation progress and an uncertain policy outlook. Despite this, US equities still finished the quarter strong, with the Nasdaq leading at 6.3%, followed by the S&P 500 (2.4%) and the Dow Jones (0.9%).

Notably, US equities posted solid returns across all indices for the year led by the Nasdaq (29.6%), S&P 500 (25%), and the Dow Jones (15%), all in US dollar terms. Bonds, however, faced a more challenging quarter. Bond yields rose and the fed fund futures curve moving higher following the market expectations for fewer rate cuts in 2025 (due to persistent inflation) led to a sell-off in US Treasuries in December.

Annualised performance	A class	Benchmark	T class	X class	B class
1 year	12.3%	13.5%	12.6%	12.4%	12.9%
3 years	8.7%	8.3%	9.0%	8.7%	9.2%
5 years	10.5%	10.0%	10.8%	10.6%	11.1%
7 years	8.2%	7.9%	8.5%	8.3%	8.8%
10 years	8.1%	7.4%	-	8.3%	8.8%
20 years	11.6%	9.9%	-	-	12.4%
Since inception	12.6%	11.1%	-	-	-

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

R26 044 354 401

Sources: M&G, Morningstar & Deutsche Securities

Eurozone
Eurozone faced another challenging quarter. Equities declined due to recession fears and political instability in France and Germany. Slightly improved third quarter growth of 0.4% q/q from 0.3% q/q in the second quarter was better than the 0.2% expected. Inflation rose by 2.2% y/y in November, driven by higher commodity prices, from 2.0% in October and slightly below the 2.3% forecast. Despite the slight uptick in inflation, the European Central Bank (ECB) unanimously decided to reduce interest rates by another 25 basis points in December, lowering its deposit rate to 3%. The ECB also signalled further cuts for 2025.

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Deflationary pressure continues in China, with the CPI slowing to 0.2% y/y in November, down from 0.3% in October. The People's Bank of China (PBOC) kept its benchmark lending rates unchanged, maintaining the one-year loan prime rate at 3.1% and the five-year rate at 3.6%. China's third quarter GDP growth slowed to 4.6% from 4.7% in the second quarter, resulting in a 4.8% growth rate for the first three quarters of the year. In recent months, China has introduced several measures to stabilise its economy, including shifting to a looser monetary policy in December, providing tax incentives for the property market, and unveiling a 10 trillion yuan debt package. Markets were spurred early November following a stimulus package unveiled late in September to support the economy and ailing property market but retraced some of those gains by quarter end. The Hang Seng Index dropped 4.9% in the fourth quarter but posted a strong 23.7% gain for the year.

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Japan's core consumer price inflation rose to 2.7% y/y in November, up from 2.3% in October, in line with expectations and remaining above the Bank of Japan's 2% target. The Bank of Japan kept its benchmark interest rate steady at 0.25% in December. Japan's third quarter GDP was revised upward to a 1.2% annualised growth rate, compared to the initial estimate of 0.9%, though it was lower than the 2.2% annualised growth in the third quarter. The Nikkei Index fell 4.1% in the fourth quarter due to a weak yen and strong US economic performance but finished the year with an 8.8% gain (in US$).

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Commodities also stayed true to form with volatile moves across the board and faced another challenging month of negative returns for the quarter. Notably, nickel, palladium and copper suffered losses of around 11%. After strong performance in recent months, gold retraced some of its gains this quarter with -1.3% due to US dollar strength but still ended the year with close to a 27% return. Brent crude gained 3.6% for the quarter.

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South Africa's consumer price index (CPI) rose by 2.9% y/y in November, up from 2.8% y/y in October. Despite this slight inflation increase, the South African Reserve Bank (SARB) Monetary Policy Committee reduced the policy rate by 25 basis points to 7.75% in November. The country's third quarter GDP contracted by 0.3%, primarily due to a decline in agricultural output, following a revised 0.3% growth in the second quarter.

Performance
The M&G Balanced Fund outperformed its benchmark by 0.7% in the fourth quarter of 2024, returning 2.1% (A class, net of fees). For the 12-month period ending 31 December 2024, its return was 12.3% (A class, net of fees) versus the 13.5% delivered by the benchmark. The fund has delivered an annual return of 12.6% since its inception in 1999 (after fees), compared to its benchmark of 11.1% per annum over the same period.

In terms of asset allocation this quarter, the fund's overweight position in international cash was beneficial given the rand weakened against the US dollar, driven by a post-election rally and strong economic performance. It also weakened against the British pound, and euro. The international equity portion also performed well on a relative basis, however given its underweight allocation, it detracted slightly from fund performance versus the benchmark.

Within the SA equity allocation, while the benchmark was down -2.2% for the quarter amid a market that experienced slight declines, the fund's favourable stock selection helped the SA equity performance stay relatively flat.

The fund's overweight position in ABSA (up 8.1%) was the top contributor to performance this quarter. ABSA has shown a steady improvement in operating performance and is generating a return on equity (ROE) of approximately 13%, which is substantially up from the high single-digit returns it was generating just a few years ago. We think that its ROE will continue to gradually improve and support its share price, which we think is still undervalued.

The fund's position in Pepkor (up 20.1%) was the next largest positive contributor to performance over the quarter. It has been a strong beneficiary of the lower bond yields and improving consumer sentiment during the quarter.

Not holding Sasol proved beneficial and was the third best contributor to performance versus the benchmark, as it was down -28.25% during the period.

Not holding Discovery, however, detracted from relative performance as it delivered well during the quarter. Our underweight position in Capitec also slightly held back relative performance.

Strategy and positioning
Most asset classes experienced volatile moves in the fourth quarter of 2024, and we exploited favourable entry points in the markets to add back to risk assets using the cash available from third quarter profit taking.

In broad terms, we have left our offshore versus local asset positioning mostly unchanged for the quarter and continue to prefer domestic assets over foreign exposure.

SA equities are coming off a very low base and continue to

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Sources: M&G, Morningstar & Deutsche Securities

screen relatively cheap compared to other markets. We continue to hold an overweight position as market valuations point to a continued rerating in that asset class.

Fundamentally, SA equities still trade at low valuation levels when looking at both the 12-month forward P/E ratio (10.1x) as well as the Price-to-Book ratio (1.72x). Local equities have experienced a moderate decline since the US elections, but we witnessed strong positive returns in the asset class leading up to that point, predominantly after the local government elections, adding positively to portfolio returns during the year.

On the local property front, we've continued with our trajectory of closing the underweight we had in the portfolios to that asset class. As at the end of the fourth quarter, we still have a small underweight to the property sector in place in the portfolios, but at a much-reduced scale compared to the start of the year. This change is on the back of improved fundamentals seen in the sector, especially the improvement in published financials reported by some companies as well as the reprieve experienced due to reduction in loadshedding and interest rates moving lower. For the year, property was the top-performing asset class in the local market but, with the move coming off a very low base, we've been comfortable making use of opportunities presented by market volatility to close the underweight we held in that asset class.

From a valuation perspective, our 10-year yield is still pricing a real return in excess of our fair value assumptions and, therefore, nominal bonds remain a key holding across the funds. This position led to favourable returns in the second half of 2024 given the post-election rally in local assets and we continue to keep the position in place due to improved fundamentals in our market.

The last quarter of 2024 was very muted in the local bond space – especially in comparison to the second and third quarter rallies we experienced. We made use of a selloff in bonds at the start of the quarter to add some more exposure to our portfolios to reinstate some of the positions we had taken off during the third quarter rally. Real yields are still trading at attractive levels compared to our equilibrium return assumptions and we continue to see merit to holding a sizeable overweight to nominal bonds in our portfolios. Given the strong returns witnessed in this asset class during the year, our portfolios have benefitted significantly from our overweight holding to SA nominal bonds throughout the year.

Our house-view portfolios continue to have no meaningful exposure to SA inflation-linked bonds (ILBs) as our preference has been for nominal bonds in favour of ILBs. Real yields for these instruments are attractive at current levels but, given liquidity constraints and the advantage of being in nominal bonds in a rate-cutting environment, we continue to favour nominal bonds over ILBs in most of our portfolios.

Our portfolios remain tilted away from SA cash as the interest rate-cutting environment will lead to lower positive real cash rates over the medium term. We continue to prefer the risk-adjusted returns we receive in the SA equity and bond space and would expect that gap to open even more as local interest rates are cut further beyond this point, even in a shallow rate-cutting cycle such as the one the market is currently pricing in.

In our global portion of the portfolios, we are currently slightly overweight global equities; overweight bonds and cash; and underweight credit and property. We continued to broaden out our carry basket during the quarter by adding long positions in Turkish lira and Colombian peso to existing Mexican peso and Brazilian real exposures, funded out of new shorts in Thai baht and Taiwanese dollar being added to US dollar and euro short positions.

The valuation for the MSCI All Country World Index 12-month forward P/E ratio peaked at the beginning of December before settling back at around 18x by the end of the year. The main driving force behind this valuation remains the high multiple that the US is trading on, with the S&P 12-month forward P/E remaining elevated at the current 22x. Due to this, we have kept our underweight position to the US market in place during the quarter as we continue to see better valuation opportunities in other equity markets.

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Disclaimer

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M&G Property Fund

Property

Q4 2024

Market overview

In the fourth quarter, global markets and sentiment were shaped by political shifts and central bank actions.

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In emerging markets, sentiment was dampened by President Trump's victory, which raised concerns over trade tariffs, especially with China. Brazilian equities struggled, with the Bovespa falling by 29.5%, while China underperformed by 4.9% due to tariff fears. Other markets such as India (-10.6%) and Turkey (-3.1%) also contributed to weaker performance. Despite this, for 2024, the MSCI Emerging Market Index added 7.5%, though it lagged behind the ACWI's 17.5% return, primarily due to the stellar performance in US markets. Global property also faced losses, down 9.2% for the quarter but ended the year in positive territory with 1.6%.

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Despite a solid annual return of 13.4%, the FTSE JSE All Share Index fell 2.1% in the fourth quarter. On a sector level, industrials posted modest returns of 0.2%, while financials (-1.2%) and resources (-10.1%) dragged on performance for the quarter (all in rand). South African listed property posted a 0.4% loss in the fourth quarter, but still delivered strong annual returns of nearly 30%.

Performance

The M&G Property Fund delivered 0.6% (A class, net of fees) for the fourth quarter of 2024, compared to the All-Property Index return of -0.4%.

Overweight positions in MAS Real Estate, Dipula and Nepi Rockcastle contributed positively to performance.

Detractors to relative performance include overweight positions in Fortress B, and underweight positions in Attacq and Equites.

Despite muted performance in Q4, the SA Listed Property Sector ended the 2024 year as the top-performing asset class, returning 29.8%. The M&G Property Fund outperformed its benchmark and delivered 0.4% of alpha for clients.

Strategy and positioning

Following the SA listed property sector rally, we reassessed the fund positioning as valuations across the sector became less dispersed and relatively more expensive. High yielding mid-cap SA focused stocks with a retail bias and minimal office exposure anchor the portfolio, together with exposure to high growth sectors such as retail property in Romania and Spain.

South African property fundamentals are stable with most REITS set to deliver a reliable stream of dividends supported by declining vacancies, improved reversions and falling interest rates. Retail reversions have turned positive and bode well for retail focused property funds, while office reversions remain negative as the market struggles to absorb the excess supply. Industrial properties continue to benefit from low vacancies and rising construction costs.

In Q4, geopolitical uncertainty led to bond market volatility that saw bond yields rise. UK and US bond yields rose amid market concerns over inflation and fiscal pressures. South African government bond yields followed suit resulting in poor performance in Q4 for the SA listed property sector as share prices came under pressure.

Key company specific events include major asset acquisitions made by Vukile and Lighthouse Capital who continue to expand their retail portfolios in Spain and Portugal. MAS Real Estate announced a cautionary relating to the dissolution of their problematic development joint venture, the success of which would unlock significant shareholder value. Burstone finalised the disposal of a majority stake in their Pan European Logistics portfolio to Blackstone. These proceeds will de-gear the fund and propel them into their next phase of growth in third-party asset management.

There have been three UK property stocks that have inward listed on the JSE. This includes two healthcare focused REITs – Primary Health Properties and Assura; and a retail focused REIT – Supermarket REIT.

Annualised performance	A class	Benchmark	D class
1 year	30.2%	29.8%	30.3%
2 years	21.4%	19.9%	21.7%
3 years	14.1%	12.1%	14.4%
Since inception	19.9%	18.5%	-

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 seeks to maximise long-term growth from investing 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
R963 966 724

Awards
Raging Bull: 2023

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

Outlook

The outlook for SA listed property is positive. There is a healthy prospect for dividends and renewed optimism for sustainable growth potential in both income and net asset value that is supported by improved property fundamentals and declining interest rates. Broadly, we estimate that the SA listed property sector can deliver a total shareholder return of 13% - comprising of an 8% dividend yield and 5% growth.

The M&G Property Fund follows a robust investment process with risk control mechanisms that ensure we select only high-quality stocks that are capable of sustainably generating benchmarking beating value for our clients.

The M&G Property Fund is pleased to have won the Raging Bull award for three years straight performance for 2023. As 31 December 2024, the fund once again ranks number one for three years straight performance (Morningstar).

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Application forms

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

Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G Dividend Maximiser Fund

Equity

Q4 2024

Market overview

In the fourth quarter, global markets and sentiment were shaped by political shifts and central bank actions.

November was dominated by the US election, starting with the lead up to the election date and results announcement to the subsequent nominations for key office position appointments. The Trump victory led to a further increase in the US dollar accompanied by a strong rally in US equity markets.

Central banks globally continued to adjust their policies well into the latter part of December. Several rate cuts were announced in December, including the US Federal Reserve (Fed), European Central Bank (ECB), Canada, Switzerland, Mexico, and Turkey. The Bank of England (BOE) and Bank of Japan (BOJ) held rates steady. The Fed's rate cut, accompanied by a hawkish tone, suggested that it could be the last cut for a while, and the market reacted by selling off as expected. Meanwhile, China's stimulus package announcement in September resulted in volatility in equity markets continuing into the quarter.

Global equities experienced a slight decline of 1% in the fourth quarter, but showed a strong annual gain of 17.5%, as measured by the All Country World Index (ACWI). Both developed and emerging market equities saw negative returns in the fourth quarter, with developed markets down by 0.2% and emerging markets down by 8.0%. In emerging markets, sentiment was dampened by President Trump's victory, which raised concerns over trade tariffs, especially with China. Brazilian equities struggled, with the Bovespa falling by 29.5%, while China underperformed by 4.9% due to tariff fears. Other markets such as India (-10.6%) and Turkey (-3.1%) also contributed to weaker performance. Despite this, for 2024, the MSCI Emerging Market Index added 7.5%, though it lagged behind the ACWI's 17.5% return, primarily due to the stellar performance in US markets. Global property also faced losses, down 9.2% for the quarter but ended the year in positive territory with 1.6%.

Global bonds were one of the weakest asset classes, with the Bloomberg Global Aggregate Index showing a 5.1% decline for the quarter and a 1.7% decline for the year.

Local equity and bond markets saw slight declines, with the biggest impact coming from the weakening of the rand. Despite a solid annual return of 13.4%, the FTSE JSE All Share Index fell 2.1% in the fourth quarter. On a sector level, industrials posted modest returns of 0.2%, while financials (-1.2%) and resources (-10.1%) dragged on performance for the quarter (all in rand).

Performance

The M&G Dividend Maximiser Fund delivered a return of 2.8% (A class, net of fees) for the fourth quarter of 2024, outperforming its benchmark (the average of the general equity funds) by 3.8%. For the year ended 31 December 2024, the fund returned 14.5% (A class, net of fees), outperforming its benchmark by 1%. For the 3-year period ending 31 December 2024, the absolute performance of the fund has been satisfactory, with an absolute return of 8.9% (A class, net of fees) per annum over this period, outperforming the benchmark by 1.1% per year.

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

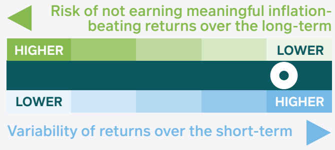
The main contributor to performance for the quarter and the year was the fund's offshore exposure of approximately 23%, of which 20% is to the M&G Global Equity Fund and 3% is to the M&G Africa Equity Fund. The M&G Global Equity Fund returned 12.3% over the quarter (in rand) which was mainly due to the weakening of the rand to the US dollar by 9% over the quarter. Over the full year, the M&G Global Equity Fund returned 20.2%. Over this period, the rand to US dollar was essentially flat - starting and ending the year at R18.80 to the US dollar. The M&G Africa Equity Fund returned 14.7% over the quarter. This total offshore weighting of 23% can be viewed in context of the maximum allowable offshore limit of 45% for this fund. The fund's low weighting to offshore reflects our thinking that the South African market is relatively attractively priced.

The second largest contributor to performance for the quarter and the third largest for the year was the funds' overweight position to Quilter. Quilter's share price was up 15.75% for the quarter and just over 53% for the year. The UK-based company is essentially a financial advice business offering an excellent investment platform as well as asset management services to its large investment adviser base. We think that structurally in the UK, the business is exposed to a favourable tailwind, where an ageing population with a large and increasing savings pool is increasingly looking for good financial advice. We were attracted to the company mainly due to its exceptionally attractive valuation after many years of restructuring and IT expenditure in the business to upgrade its investment adviser platform. The company is now benefitting from a strong management team which has demonstrated conservative capital management and maintained good cost performance since the upgrade of the investment platform. The dividend yield of 4% (in pound sterling) is attractive, especially considering that we think that this dividend could grow at approximately 10% per year over the medium term.

The third largest contributor to performance for the quarter was the fund's overweight position to Pepkor. Pepkor returned just over 20% for the quarter and just over 50% for the year. We think that Pepkor is a high-quality business that dominates the value apparel and general merchandise markets. This section of the retail market has been relatively strong because of its strong value proposition during a period where consumers have been under pressure. The business also has a strong management team with

Annualised performance	A class	Benchmark	T class	B class	F class
1 year	14.5%	13.5%	14.7%	14.9%	15.0%
3 years	8.9%	7.9%	9.5%	9.3%	9.8%
5 years	12.7%	10.1%	13.2%	13.1%	13.5%
7 years	9.1%	6.9%	9.6%	9.5%	9.9%
10 years	8.7%	6.5%	-	9.0%	-
20 years	13.5%	10.8%	-	-	-
Since inception	15.4%	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 377 377 391

Awards

Raging Bull: 2006, 2008

Morningstar/Standard & Poor's: 2007, 2009

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

a good track record and who are well-incentivised to grow the value of the group. We particularly like the strong balance sheet and good cash conversion. Lower interest rates and home loan repayments, together with expected lower fuel prices and much less disruption from Eskom, should mean an improvement to consumer disposable income. We think this bodes well for Pepkor.

One of the key drivers of the strong retail market has been the materially lower bond yields in the second half of 2024. We have previously commented about the very high nominal and real bond yields on offer in South Africa and the potential support that any reduction in these bond yields would provide to the SA equity market. Post the election in June 2024, and the lower bond yields, we have seen strong share price rallies from the interest rate sensitive sectors such as the retailers, banks, insurers and property companies. Looking forward into 2025, we would expect that the lower bond yields should continue to support growth in earnings and dividends for these sectors.

While discussing the retail and interest rate sensitive sectors, we should mention the two largest detractors from performance for the quarter. The largest detractor was from our overweight position to Tsogo Sun, the casino business. Tsogo's share price was down by 16% for the quarter as recent results from the company disappointed the market. The huge growth in the online gambling market in South Africa is we think negatively impacting the casinos which have very low exposure to online gambling. Despite the low growth expected in earnings over the medium term, we still think that the strong cash flow generation and high dividend yield of 7% makes this a compelling investment. Mr Price, a company in which we are not invested, was the second largest detractor from performance for the quarter. Mr Price has long been regarded as a good quality business which has consistently grown. We think that this growth though is getting a lot harder for the business because of a much more competitive market in South Africa with the entry of more competitors aimed at Mr Price's customer base. Mr Price has been trying to grow by investing in businesses outside its core business and this has substantially reduced the return on equity that the core business generates. We think that Mr Price is expensively valued and see better opportunities in the market.

A large contributor to outperformance during the quarter was the fund's positioning within the chemicals sector where we hold a large overweight position in Omnia and own no Sasol. Sasol had a negative return of 28% over the last quarter. Our concern around Sasol is due to the cash flows it generates coming under pressure over the next five years given the substantial capex projects to transition the business to reduced carbon emissions. Sasol revised it dividend policy over the last year so that the dividend will now be based off cash flow rather than earnings. We think this change in policy is likely to result in a much lower dividend than previously expected over the coming years.

Our preference within the chemicals sector is for Omnia, which produces mining explosives and chemicals, as well as fertilizers. Omnia, we think is a high-quality company and has an exceptionally strong balance sheet and the ability to pay high and sustainable dividends. Omnia returned 20% for the quarter.

The resources sector has been mainly driven by China which has been suffering from weak consumer and business sentiment, amongst other structural issues. Iron ore, which has been weak due to a weak Chinese property sector, has responded positively to stimulus announcements from China in the last quarter of 2024, as has copper which is normally a bellwether for expected economic growth. Fundamentally, although iron ore inventories are elevated at ports, prices had fallen to the 90th percentile and without much supply growth from the major miners, prices should be sustained above $90/t even absent a positive impact from the announced stimulus. Similarly, copper supply is constrained and the recent surge in copper related M&A and exploration, is likely to keep copper prices well above cost support. Therefore, against this backdrop we still think that exposure to well-diversified commodity companies with optionality are attractive. We therefore continue to hold overweight positions to Kumba, Anglo American and BHP. We have reduced our overweight position in BHP and allocated some capital to an overweight position in Anglo American due to relative price action between the two companies.
Overall, therefore, we are cautiously optimistic about the resources sector over the near-term as interest rate cuts, a stimulative China and rational mine supply should be good for prices. However, we are yet to see the leading indicators, such as manufacturing PMIs or China property sales, turn convincingly positive.

We acknowledge that while it is very difficult to forecast the future and we do not make any attempt to do this, we do spend a lot of time thinking about the economic cycles that various sectors are in, and where valuations are. In this way, we aim to try make money for our clients through these cycles and continue to try 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 1.8X as at the end of December 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 significantly under a more favourable economic situation. The prospect of lower interest rates and bond yields both in the United States and South Africa, as well as the favourably viewed Government of National Unity in South Africa, may continue to support a rerating of equities in South Africa.

The fund's relatively low offshore exposure reflects that we think the SA market and 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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Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

M&G Equity Fund

Equity

Q4 2024

Market overview

In the fourth quarter, global markets and sentiment were shaped by political shifts and central bank actions. November was dominated by the US election, starting with the lead up to the election date and results announcement to the subsequent nominations for key office position appointments. The Trump victory led to a further increase in the US dollar accompanied by a strong rally in US equity markets.

Central banks globally continued to adjust their policies well into the latter part of December. Several rate cuts were announced in December, including the US Federal Reserve (Fed), European Central Bank (ECB), Canada, Switzerland, Mexico, and Turkey. The Bank of England (BOE) and Bank of Japan (BOJ) held rates steady. The Fed's rate cut, accompanied by a hawkish tone, suggested that it could be the last cut for a while, and the market reacted by selling off as expected. Meanwhile, China's stimulus package announcement in September resulted in volatility in equity markets continuing into the quarter.

Global equities experienced a slight decline of 1% in the fourth quarter, but showed a strong annual gain of 17.5%, as measured by the All Country World Index (ACWI). Both developed and emerging market equities saw negative returns in the fourth quarter, with developed markets down by 0.2% and emerging markets down by 8.0%.

In emerging markets, sentiment was dampened by President Trump's victory, which raised concerns over trade tariffs, especially with China. Brazilian equities struggled, with the Bovespa falling by 29.5%, while China underperformed by 4.9% due to tariff fears. Other markets such as India (-10.6%) and Turkey (-3.1%) also contributed to weaker performance. Despite this, for 2024, the MSCI Emerging Market Index added 7.5%, though it lagged behind the ACWI's 17.5% return, primarily due to the stellar performance in US markets. Global property also faced losses, down 9.2% for the quarter but ended the year in positive territory with 1.6%.

Local equity and bond markets saw slight declines, with the biggest impact coming from the weakening of the rand. Despite a solid annual return of 13.4%, the FTSE JSE All Share Index fell 2.1% in the fourth quarter. On a sector level, industrials posted modest returns of 0.2%, while financials (-1.2%) and resources (-10.1%) dragged on performance for the quarter (all in rand).

The FTSE All Bond Index (ALBI) returned 0.4% for the quarter, while inflation-linked bonds (ILBs) returned 0.8%. Notably, South African bonds finished the year with a robust 17% gain, while ILBs returned 7.8% (both in rand).

Meanwhile, South Africa's consumer price index (CPI) rose by 2.9% y/y in November, up from 2.8% y/y in October. Despite this slight inflation increase, the South African Reserve Bank (SARB) Monetary Policy Committee reduced the policy rate by 25 basis points to 7.75% in November. The country's third quarter GDP contracted by 0.3%, primarily due to a decline in agricultural output, following a revised 0.3% growth in the second quarter.

Performance

The M&G Equity Fund outperformed by 4.1% (A class, net of fees) for the fourth quarter. For the year ending 31 December 2024, the fund delivered 15.7% (A class, net of fees) when compared to the average fund of 13.5%. This is a pleasing outcome in a year which was a tale of two halves with the first half of the year being one of weaker absolute returns and underperformance relative to peer funds with returns for the first six months of the year being 4.3% (A class, net of fees) compared to the average fund in the sector of 5.5%. The second half of the year saw the fund return 11% (A class, net of fees) compared to the average fund return of 7.6%.

Among the contributors to the fund's performance over the one-year period, were overweight positions in Nampak, Foschini and Altron together with underweight and nil positions in Sasol, Goldfields and Anheuser-Busch InBev.

Detracting from performance over the one-year period, were overweight positions in HCI, MTN and Exxaro. Underweight positions in Mr Price, Capitec and Pepkor detracted from performance of the fund.

Strategy & positioning

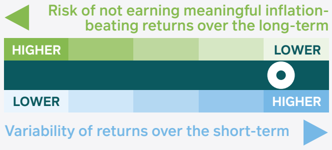
Nampak's inclusion in the fund proved a good decision. Under the leadership of FMCG doyen, Phil Roux, the company has managed to keep creditors at bay while raising equity, disposing of non-core businesses, reducing redundant layers of management and managing its working capital more optimally. The route to regaining lost market share will be a harder one but this, together with reducing its finance costs through refinancing and asset disposals, should drive very strong earnings growth for the company.

During the quarter, the fund participated in the Boxer IPO. Boxer is a leading grocery retailer in South Africa which was formerly wholly owned by Pick 'n Pay. The company retails a more limited range of items when compared to conventional grocery stores and aims to serve lower to mid LSM customers. In recent years, the company has managed to grow while achieving high margins and earning very attractive returns on capital. We regard the company as among the higher quality companies on the JSE by virtue of its market position and financial metrics. The fund also continued to hold its position in Pick 'n Pay which owns a controlling stake in Boxer. The investment case is slightly different to that of Boxer in that it one gains exposure to the potential turnaround of the Pick 'n Pay-branded grocery stores, Pick 'n Pay clothing and also a large cash balance which will likely be deployed into much-needed capital expenditure to refurbish the store base. The Pick 'n Pay investment case, while subject to less certain outcomes than the Boxer investment case, provides investors with the potential of large upside should Sean Summers, the current CEO, be successful in his efforts.

Among the large companies which have detracted from performance have been Capitec, by not owing the company, and the overweight in MTN. With the benefit of hindsight, we have underestimated the resilience of the company's lending book and the ability of the management team to successfully start new businesses. This has not gone unnoticed by the market to

Annualised performance	A class	Benchmark	B class	F class
1 year	15.7%	13.5%	16.0%	16.1%
3 years	8.9%	7.9%	9.3%	10.0%
5 years	14.0%	10.1%	14.4%	14.9%
7 years	9.5%	6.9%	9.9%	10.5%
10 years	9.1%	6.5%	9.5%	-
20 years	13.9%	10.8%	-	-
Since inception	15.5%	12.6%	-	-

Risk profile



Fund facts

Fund objective

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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 529 842 753

Awards

Raging Bull: 2006, 2007, 2008

Morningstar/Standard & Poor's: 2007, 2008

Sources: M&G, Morningstar & Deutsche Securities

the point where the company trades at a historic PE ratio of just under 29 times at the time of writing. The MTN share price has suffered the opposite fate with the Nigerian naira depreciation resulting in lower margins for the Nigerian business and the associated reduction in the translation of profits into rands. Prospects for the company have improved significantly as the company has renegotiated onerous dollar-based tower leases and has the prospect of the Nigerian regulator increasing tariffs for the first time in over a decade. In addition, the rand/naira exchange rate has stabilised which will assist with the translation of earnings into rands.

Recent news of Tencent being included in the US Department of Defense's list as a "Chinese Military Company", or CMC, sent the share prices of Naspers and Prosus down in line with Tencent. Inclusion on the CMC list should have little fundamental impact on the company as Tencent has confirmed it does not currently do business with the US Department of Defense, nor the Peoples Liberation Army. The company regards its inclusion on the list as an error and aims to have itself removed from the list in time. There is recent precedent for this removal.

The Government of National Unity (GNU) in South Africa has continued to operate despite the obvious ideological differences between the two largest parties within the arrangement. A dispute resolution mechanism appears to have averted public disagreements which risk one of the DA or ANC from walking away and thus dissolving the arrangement. Domestic-facing equities have rallied strongly since the formation of the GNU and now carry the weight of expectations of topline growth and margin improvements. We are optimistic on the prospect of improved business conditions although ongoing share price performance would require delivery of earnings growth.

The fund managers would like to thank our investors for their support through these past number of years and wish you well for 2025.

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Application forms

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G SA Equity Fund

Equity

Q4 2024

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Global bonds were one of the weakest asset classes, with the Bloomberg Global Aggregate Index showing a 5.1% decline for the quarter and a 1.7% decline for the year.

Despite a solid annual return of 13.4%, the FTSE JSE All Share Index fell 2.1% in the fourth quarter. On a sector level, industrials posted modest returns of 0.2%, while financials (-1.2%) and resources (-10.1%) dragged on performance for the quarter (all in rand).

South African listed property posted a 0.4% loss in the fourth quarter, but still delivered strong annual returns of nearly 30%.

The FTSE All Bond Index (ALBI) returned 0.4% for the quarter, while inflation-linked bonds (ILBs) returned 0.8%. Notably, South African bonds finished the year with a robust 17% gain, while ILBs returned 7.8% (both in rand). Throughout the year, the nominal bond market experienced significant volatility, with the 10-year bond yield peaking at 12.50% in April before strengthening to around 10.30% by year-end. The yield curve also bull-flattened in 2024, with long-term bond yields falling more sharply than shorter-term ones. The ILB curve flattened slightly, coming off an already flat basis at the start of the year.

South Africa's consumer price index (CPI) rose by 2.9% y/y in November, up from 2.8% y/y in October. Despite this slight inflation increase, the South African Reserve Bank (SARB) Monetary Policy Committee reduced the policy rate by 25 basis points to 7.75% in November.

The country's third quarter GDP contracted by 0.3%, primarily due to a decline in agricultural output, following a revised 0.3% growth in the second quarter. Local equity and bond markets saw slight declines, with the biggest impact coming from the weakening of the rand.

Performance

The M&G SA Equity Fund delivered a return of -1% (F class, net of fees) for the fourth quarter of 2024, outperforming its benchmark which delivered a return of -2.1%. For the 12 months ended 31 December 2024, the fund returned 11.4% (F class, net of fees), underperforming its benchmark by 2%. Over the 3-year period ending 31 December 2024, both the absolute and relative performance of the fund has been satisfactory, with an absolute return of 8.1% per annum over this period, underperforming the benchmark by 0.4% per year.

The largest contributor to outperformance this quarter was the fund's overweight holding in ABSA Bank. ABSA has shown a steady improvement in operating performance and is generating a Return on Equity of approximately 13% which is up substantially from the high single-digit returns it was generating just a few years ago. We think that the Return on Equity of the business will continue to gradually improve and support its share price which we think is still undervalued. It remains one of the top overweights that we have in the banking sector.

In the financials sector, we think that South African banks continue to trade at undemanding valuations. We think that bond yields are still elevated although bond yields have fallen materially over the last half of 2024 as the SA election results in June were favourably viewed by the market. As a result, we have seen strong share price rallies from the interest rate sensitive sectors such as the banks, insurers, retailers and property companies. We think that the bulk of the return in the second half of 2024 from these sectors came mainly from an increase in rating that many of the companies in these sectors enjoyed as a result of the lower bond yields. Looking forward into 2025, we would expect that the lower bond yields should continue to support growth in earnings and

Annualised performance	B class	Benchmark[1]	F class
1 year	12.7%	13.4%	11.4%
3 years	9.3%	8.5%	8.1%
5 years	11.5%	10.3%	10.2%
7 years	7.6%	6.5%	6.4%
10 years	8.2%	7.1%	-
20 years	13.4%	12.4%	-
Since inception	14.5%	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

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 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 - SA General

Benchmark

FTSE/JSE Capped SWIX All Share Index

Inception date

21 September 2000

Fund size

R38 434 503 549

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

M&G Investments

dividends for these sectors.

South Africa has a very well-regulated banks 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 banks sector. Our underweight to Capitec though was the second largest detractor from performance for the quarter and the largest detractor from performance for the year. While we rate Capitec more highly in terms of quality banks and it has grown tremendously over the last decade, we cannot ignore that it is substantially more highly rated than other banks in the sector. Over the last year, it has rerated to a level where we think that the share is priced for perfection.

We think that lower bond yields, good earnings and dividend growth in the banking sector should provide a good opportunity to generate alpha within this sector by being overweight relatively undervalued banks. We continue to prefer Standard Bank, ABSA and Investec, which are substantially cheaper than Capitec.

A strong beneficiary of the lower bond yields and improving consumer sentiment during the quarter was the fund's overweight positions to Pepkor and The Foschini Group both in the retail sector. Lower interest rates and home loan repayments, together with expected lower fuel prices and much less disruption from Eskom, should mean an improvement to consumer disposable income. The Fund's overweight holding to Foschini has been the top contributor to the performance of the Fund over the year. Despite the 57% rally in the share price over the last year, we still think it is attractively priced.

The third largest contributor to performance over the fourth quarter was due to the fund not holding any position in Sasol. Sasol had a negative return of 28% over the last quarter. Our concern around Sasol is due to the cash flows it generates coming under pressure over the next five years given the substantial capex projects to transition the business to reduced carbon emissions. Sasol revised it dividend policy over the last year so that the dividend will be based off cash flow rather than earnings. We think this change in policy is likely to result in a much lower dividend than previously expected over the coming years.

The resources sector has been mainly driven by China, which has been suffering from weak consumer and business sentiment, amongst other structural issues. Iron ore, which has been weak due to a weak Chinese property sector, has responded positively to stimulus announcements from China in the last quarter of 2024, as has copper which is normally a bellwether for expected economic growth. Fundamentally, although iron ore inventories are fairly elevated at ports, prices had fallen to the 90th percentile without much supply growth from the major miners, prices should be sustained above $90/t even absent a positive impact from the announced stimulus. Similarly copper supply is constrained and the recent surge in copper related M&A and exploration is likely to keep copper prices well above cost support. Therefore, against this backdrop we still think that exposure to well-diversified commodity companies with optionality are attractive. We therefore continue to hold overweight positions to Exxaro, Glencore, Anglo American and an equal weight position to BHP Billiton. Over the last quarter, we reduced our overweight position in BHP Billiton to neutral and allocated this capital to an overweight position in Anglo American as a result of relative price action between the two companies.

Overall, therefore, we are cautiously optimistic about the sector over the near-term as interest rate cuts, a stimulative China and rational mine supply should be good for prices. However, we are yet to see the leading indicators, such as manufacturing PMIs or China property sales turn convincingly positive.

Our overweight position in British American Tobacco (BAT) was the fourth largest relative contributor to performance for the quarter and the third largest contributor to performance for the year. We believe that the investment case remains very strong as the company is trading with an exceptionally attractive dividend yield of 9%. We anticipate continued strong cash flows from BAT to drive a repayment of debt, enable significant share repurchases, as well as continue to fund investment into next generation low risk products. BAT's reduction of debt has enabled it to restart its share buyback programme. Shareholders are therefore receiving an exceptionally attractive 9% dividend yield as well as a share buyback program to further enhance this yield.

BAT is at the forefront, together with Philip Morris International, of offering its customers alternative products which reduce harm and we expect this trend to continue. We think that BAT can continue to grow profits while helping its customers switch to much lower risk and less harmful products. We think BAT is a high yielding "insurance" like asset due to its defensive cash flows.

The largest detractor from performance for the last quarter was due to the fund not holding a position in Discovery. Discovery's business consists mainly of an ex-growth South African Health business which it depends on for its strong cash flow to help fund its various ventures and life insurance businesses in South Africa and the United Kingdom. Discovery's poor group cash flow as a result is reflected in its low dividend yield which is marginally above 1% which we think is very low relative to the rest of the SA market. This low dividend yield requires one to believe in future growth as the primary source of shareholder return.

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 1.8X as at the end of December 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 significantly under a more favourable economic situation. The prospect of lower interest rates and bond yields both in the United States

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

and South Africa, as well as the favourably viewed Government of National Unity in South Africa, may continue to support a re-rating of equities in South Africa.

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

M&G Global Bond Feeder Fund

Global Income ZAR-denominated

Q4 2024

Market overview

In the fourth quarter, global markets and sentiment were shaped by political shifts and central bank actions.

November was dominated by the US election, starting with the lead up to the election date and results announcement to the subsequent nominations for key office position appointments. The Trump victory led to a further increase in the US dollar accompanied by a strong rally in US equity markets.

Central banks globally continued to adjust their policies well into the latter part of December. Several rate cuts were announced in December, including the US Federal Reserve (Fed), European Central Bank (ECB), Canada, Switzerland, Mexico, and Turkey. The Bank of England (BOE) and Bank of Japan (BOJ) held rates steady. The Fed's rate cut, accompanied by a hawkish tone, suggested that it could be the last cut for a while, and the market reacted by selling off as expected. Meanwhile, China's stimulus package announcement in September resulted in volatility in equity markets continuing into the quarter.

Global bonds were one of the weakest asset classes, with the Bloomberg Global Aggregate Index showing a 5.1% decline for the quarter and a 1.7% decline for the year. This was unexpected, considering the start of a rate-cutting cycle. However, market expectations for a shallow cutting cycle, coupled with concerns over persistent US inflation above the 2% target, dampened bond market performance. Volatility in the bond market was driven by rising inflation expectations and central bank actions, leading to selloffs in key government bond markets, particularly US Treasuries and UK Gilts.

United States

Political developments played a significant role in shaping market sentiment during the fourth quarter. US equities rose in the quarter, driven by President Trump's election victory and Republican control of Congress, which fuelled optimism around expectations of tax cuts, deregulation, and pro-growth policies.

Meanwhile, US inflation rose to 2.7% y/y in November, slightly up from 2.6% y/y in October, in line with expectations. This didn't sway the Federal Reserve's decision to cut interest rates by 25 basis points in both November and December, bringing the target range to 4.25%-4.5%. US third quarter growth reached 3.1%, driven by strong consumer spending, and slightly better than the second quarter's 3.0% growth.

Bonds faced a challenging quarter. Bond yields rose and the fed fund futures curve moving higher following the market expectations for fewer rate cuts in 2025 (due to persistent inflation) led to a sell-off in US Treasuries in December.

Eurozone

Eurozone faced another challenging quarter. Equities declined due to recession fears and political instability in France and Germany. Slightly improved third quarter growth of 0.4% q/q from 0.3% q/q in the second quarter was better than the 0.2% expected. Inflation rose by 2.2% y/y in November, driven by higher commodity prices, from 2.0% in October and slightly below the 2.3% forecast. Despite the slight uptick in inflation, the European Central Bank (ECB) unanimously decided to reduce interest rates by another 25 basis points in December, lowering its deposit rate to 3%. The ECB also signalled further cuts for 2025.

United Kingdom

Inflation in the UK rose by 2.6% y/y in November, in line with forecasts but up from 2.3% in October. As a result, the Bank of England kept interest rates unchanged at 4.75% in December, as expected. Economic growth in the UK disappointed, with quarterly growth at 0% q/q, down from 0.5% in the previous quarter, and falling below the anticipated 0.2%, revised downward from initial estimates. In this environment, UK equities declined, affected by rising bond yields, inflation expectations, and concerns over government fiscal policies following the Autumn Budget.

China

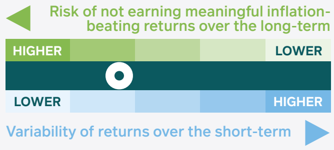
Deflationary pressure continues in China, with the CPI slowing to 0.2% y/y in November, down from 0.3% in October. The People's Bank of China (PBOC) kept its benchmark lending rates unchanged, maintaining the one-year loan prime rate at 3.1% and the five-year rate at 3.6%. China's third quarter GDP growth slowed to 4.6% from 4.7% in the second quarter, resulting in a 4.8% growth rate for the first three quarters of the year. In recent months, China has introduced several measures to stabilise its economy, including shifting to a looser monetary policy in December, providing tax incentives for the property market, and unveiling a 10 trillion yuan debt package. Markets were spurred early November following a stimulus package unveiled late in September to support the economy and ailing property market but retraced some of those gains by quarter end.

Japan

Japan's core consumer price inflation rose to 2.7% y/y in November, up from 2.3% in October, in line with expectations and remaining above the Bank of Japan's 2% target. The Bank of Japan kept its benchmark interest rate steady at 0.25% in December. Japan's third quarter GDP was revised upward to a 1.2% annualised growth rate, compared to the initial estimate of 0.9%, though it was lower than the 2.2% annualised growth in the third quarter.

Annualised performance	A class	Benchmark	B class
1 year	-3.4%	1.2%	-3.0%
3 years	-0.4%	0.9%	-0.1%
5 years	2.9%	4.1%	3.3%
7 years	4.5%	5.6%	-
10 years	4.2%	5.2%	-
20 years	7.8%	8.2%	-
Since inception	7.1%	7.5%	-

Risk profile



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

R760 691 755

Awards

Raging Bull: 2006, 2008, 2013

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

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

Currency

The rand weakened against the US dollar (9.5%), British pound (2.3%), and euro (1.8%) during the quarter. The strength of the US dollar was driven by a post-election rally and strong economic performance, particularly relative to the UK and other developed economies.

Performance

The Global Bond Feeder Fund returned 1.7% (A class, net of fees, in rand), versus 3.9% from its benchmark, the Bloomberg Global Aggregate Bond Index. For the 12 months ending 31 December, the fund delivered -3.4% compared to the benchmark's 1.2% return.

Absolute performance in the quarter was driven by losses on global bonds, as yields rose.

Relative performance was hurt by the fund's underweight position in credit, which includes an outright short in high yield and positioning in currencies, principally due to the overweight in Japanese yen.

Strategy and positioning

In October, the fund's overweight duration position was adjusted to neutral in anticipation of the US election at the beginning of November. Exposure to 2-year Treasury Inflation-Protected Securities (TIPS) was increased ahead of the election, which subsequently performed well due to the election results and the potential for inflationary policies such as tariffs.

In November, we reduced the fund's non-core euro risk in favour of German bunds, based on a bearish outlook for Europe. We also extended the fund's Japanese duration by selling bonds maturing in 2056 and purchasing those maturing in 2060.

The fund ended the year with a neutral duration overall, and a number of relative value trades across different jurisdictions. In the developed market space, the fund is long UK and Australia duration, where yield levels remain at compelling levels, and short Japan, where we believe there is scope for the Bank of Japan to continue to tighten policy through time.

With spread levels historically tight, the fund retains a cautious approach to credit risk. The fund is underweight investment-grade and has an outright short in high yield. Whilst the catalyst for wider spreads is neither obvious nor necessarily imminent, from a value perspective it is difficult to make a case for even a neutral exposure given current valuation.

In emerging markets, from a duration perspective the fund is underweight China and overweight in select LATAM markets as well as Indonesia, which comes out as broadly neutral on balance. The fund's largest, active, single currency pair across developed markets is the yen vs the euro, which we believe should strengthen over time with economic weakness in Europe contributing to the respective sovereign yield curves converging. In emerging markets, the leading overweight is the Brazilian real, followed by Indonesia rupiah, with the structural short in the Chinese renminbi.

Outlook

As we look ahead to 2025, there are many uncertainties. While markets are currently pricing in a very optimistic outlook for growth, with risk assets at all-time highs and a soft landing widely anticipated, there are risks that this scenario may not materialise. The upcoming inauguration of Trump and other geopolitical tensions only add to the uncertainty.

However, with uncertainty and volatility come opportunity. We believe that the best way to capitalise on this is via a broad and flexible investment strategy. Our approach allows us to invest across nearly the entire fixed income spectrum, including currencies. Our flexibility enables us to dynamically allocate assets across this broad opportunity set, utilising both bonds and derivatives, and taking both long and short positions to benefit from perceived market mis-pricings.

In terms of currency exposures, the fund's largest, active, single currency exposure is in the yen. In emerging market FX, the main long positions are in the Indonesian rupiah and select currencies across Latin America.

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Sources: M&G, Morningstar & Deutsche Securities

Quarterly Commentary

M&G Global Inflation Plus Feeder Fund

Global Multi-Asset ZAR-denominated

Q4 2024

Market overview

In the fourth quarter, global markets and sentiment were shaped by political shifts and central bank actions.

November was dominated by the US election, starting with the lead up to the election date and results announcement to the subsequent nominations for key office position appointments. The Trump victory led to a further increase in the US dollar accompanied by a strong rally in US equity markets.

Central banks globally continued to adjust their policies well into the latter part of December. Several rate cuts were announced in December, including the US Federal Reserve (Fed), European Central Bank (ECB), Canada, Switzerland, Mexico, and Turkey. The Bank of England (BOE) and Bank of Japan (BOJ) held rates steady. The Fed's rate cut, accompanied by a hawkish tone, suggested that it could be the last cut for a while, and the market reacted by selling off as expected. Meanwhile, China's stimulus package announcement in September resulted in volatility in equity markets continuing into the quarter.

Global equities experienced a slight decline of 1% in the fourth quarter, but showed a strong annual gain of 17.5%, as measured by the MSCI All Country World Index (ACWI). Both developed and emerging market equities saw negative returns in the fourth quarter, with developed markets down by 0.2% and emerging markets down by 8.0%. Global property also faced losses, down 9.2% for the quarter but ended the year in positive territory with 1.6%.

In emerging markets, sentiment was dampened by President Trump's victory, which raised concerns over trade tariffs, especially with China. Brazilian equities struggled, with the Bovespa falling by 29.5%, while China underperformed by 4.9% due to tariff fears. Other markets such as India (-10.6%) and Turkey (-3.1%) also contributed to weaker performance. Despite this, for 2024, the MSCI Emerging Market Index added 7.5%, though it lagged behind the ACWI's 17.5% return, primarily due to the stellar performance in US markets.

Global bonds were one of the weakest asset classes, with the Bloomberg Global Aggregate Index showing a 5.1% decline for the quarter and a 1.7% decline for the year. This was unexpected, considering the start of a rate-cutting cycle. However, market expectations for a shallow cutting cycle, coupled with concerns over persistent US inflation above the 2% target, dampened bond market performance. Volatility in the bond market was driven by rising inflation expectations and central bank actions, leading to selloffs in key government bond markets, particularly US Treasuries and UK Gilts.

United States

Political developments played a significant role in shaping market sentiment during the fourth quarter. US equities rose in the quarter, driven by President Trump's election victory and Republican control of Congress, which fuelled optimism around expectations of tax cuts, deregulation, and pro-growth policies.

Meanwhile, US inflation rose to 2.7% y/y in November, slightly up from 2.6% y/y in October, in line with expectations. This didn't sway the Federal Reserve's decision to cut interest rates by 25 basis points in both November and December, bringing the target range to 4.25%-4.5%. US third quarter growth reached 3.1%, driven by strong consumer spending, and slightly better than the second quarter's 3.0% growth.

While US equities surged in November following the election results, the rally stalled in December after the Fed lowered its expectations for further rate cuts due to slower inflation progress and an uncertain policy outlook. Despite this, US equities still finished the quarter strong, with the Nasdaq leading at 6.3%, followed by the S&P 500 (2.4%) and the Dow Jones (0.9%).

Notably, US equities posted solid returns across all indices for the year led by the Nasdaq (29.6%), S&P 500 (25%), and the Dow Jones (15%), all in US dollar terms. Bonds, however, faced a more challenging quarter. Bond yields rose and the fed fund futures curve moving higher following the market expectations for fewer rate cuts in 2025 (due to persistent inflation) led to a sell-off in US Treasuries in December.

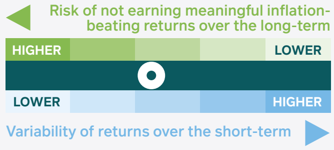
Eurozone

Eurozone faced another challenging quarter. Equities declined due to recession fears and political instability in France and Germany. Slightly improved third quarter growth of 0.4% q/q from 0.3% q/q in the second quarter was better than the 0.2% expected. Inflation rose by 2.2% y/y in November, driven by higher commodity prices, from 2.0% in October and slightly below the 2.3% forecast. Despite the slight uptick in inflation, the European Central Bank (ECB) unanimously decided to reduce interest rates by another 25 basis points in December, lowering its deposit rate to 3%. The ECB also signalled further cuts for 2025.

United Kingdom

Inflation in the UK rose by 2.6% y/y in November, in line with forecasts but up from 2.3% in October. As a result, the Bank of England kept interest rates unchanged at 4.75% in December, as expected. Economic growth in the UK disappointed, with quarterly growth at 0% q/q, down from 0.5% in the previous quarter, and falling below the anticipated 0.2%, revised downward from initial estimates. In this environment, UK equities declined, affected by rising bond yields, inflation expectations, and concerns over government fiscal policies following the Autumn Budget. The

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

R162 848 757

Awards

Raging Bull: 2019, 2021

Annualised performance

Annualised performance	A class	Benchmark[1]	B class
1 year	2.1%	5.6%	2.4%
3 years	3.3%	10.2%	3.7%
5 years	6.8%	10.1%	7.1%
7 years	7.4%	8.6%	7.8%
10 years	6.9%	7.5%	7.2%
20 years	7.8%	8.1%	-
Since inception	7.5%	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.

Sources: M&G, Morningstar & Deutsche Securities

FTSE 100 ended the quarter down 6.8% but posted a 7.7% gain for the year.

China

Deflationary pressure continues in China, with the CPI slowing to 0.2% y/y in November, down from 0.3% in October. The People's Bank of China (PBOC) kept its benchmark lending rates unchanged, maintaining the one-year loan prime rate at 3.1% and the five-year rate at 3.6%. China's third quarter GDP growth slowed to 4.6% from 4.7% in the second quarter, resulting in a 4.8% growth rate for the first three quarters of the year. In recent months, China has introduced several measures to stabilise its economy, including shifting to a looser monetary policy in December, providing tax incentives for the property market, and unveiling a 10 trillion yuan debt package. Markets were spurred early November following a stimulus package unveiled late in September to support the economy and ailing property market but retraced some of those gains by quarter end. The Hang Seng Index dropped 4.9% in the fourth quarter but posted a strong 23.7% gain for the year.

Japan

Japan's core consumer price inflation rose to 2.7% y/y in November, up from 2.3% in October, in line with expectations and remaining above the Bank of Japan's 2% target. The Bank of Japan kept its benchmark interest rate steady at 0.25% in December. Japan's third quarter GDP was revised upward to a 1.2% annualised growth rate, compared to the initial estimate of 0.9%, though it was lower than the 2.2% annualised growth in the third quarter. The Nikkei Index fell 4.1% in the fourth quarter due to a weak yen and strong US economic performance but finished the year with an 8.8% gain (in US$).

Currency

The rand weakened against the US dollar (9.5%), British pound (2.3%), and euro (1.8%) during the quarter. The strength of the US dollar was driven by a post-election rally and strong economic performance, particularly relative to the UK and other developed economies.

Performance

The M&G Global Inflation Plus Feeder Fund produced a return of 3% (A class, net of fees, in rand) for the quarter, whilst global inflation (based on the OECD G7 CPI index) measured 9.7%. For the 12 months to 31 December 2024, the fund delivered 2.1% and global inflation measured 5.6% (for the rolling year ended 15 November 2024).

Fixed income investments were the main cause of losses for the fund on an absolute basis whilst equities, property and cash/currency exposure also cost some performance.

Within equities, our core exposure to global equities chosen by machine learning recorded a positive return.

The portfolio's core equity construction strategy, which constrains active exposures to country, currency, and industry, successfully prioritised stock selection and style as primary drivers of returns. This approach led to differentiated performance across capitalisation tranches, with mid-cap and large-cap stocks significantly outperforming small-cap counterparts due to a negative-size exposure. Sector-wise, the portfolio achieved marginal gains in 14 of the 18 GICS industry groups, particularly in Consumer Staples, Energy, and Industrials, while mitigating losses in Technology and Consumer Discretionary sectors through disciplined stock selection.

In terms of tactical (non-core) positions, holdings in Latin America, Asia ex Japan (particularly South Korea) and a World ex US tracker, lost value.

Turning to fixed income, performance in the quarter was driven by losses on global bonds, as yields rose. The fund's core exposure was the main cause of losses, but our tactical holdings also lost value.

Relative performance was hurt by the fund's underweight position in credit, which includes an outright short in high yield and positioning in currencies, principally due to the overweight in Japanese yen. Tactical holdings in US Treasuries and UK gilts also underperformed.

In terms of our tactical (non-core) positions, the main detractor from performance was long-dated US Treasuries and to a lesser extent UK gilts and emerging market sovereign bonds.

In global property, absolute returns were driven by the weak performance of real estate investment trusts, which fell as investors reined in expectations for rate cuts in 2025.

The portfolio's fourth-quarter performance reflected the challenges of navigating a volatile macroeconomic environment, characterised by falling interest rates and political uncertainties. While the constrained country exposure strategy facilitated selective gains through effective stock selection, it also limited participation in outperforming regions, particularly within the Canadian market. In the style space, the consistency of performance across REITs industries manifested as positive sentiment returns for the sector.

Strategy and positioning

At the start of the quarter, we adjusted the fund's currency basket, responding to weakness in spot prices. The trades have increased the overall carry and diversification of the basket.

In December, we responded to weakness in Brazilian financial assets by introducing a new target weighting in 10-year Brazilian government bonds of 1.5%. In addition, we began new positions in what we consider to be attractively valued equities in China and Indonesia. These were funded by selling the S&P 500 Index and closing our position in an emerging market bond tracker.

Outlook

Overall, the elevated levels of comfort among market participants, as well as the asset prices that reflect that, lead us to be cautious and selective in constructing portfolios, knowing that there will likely be significant shifts in sentiment and thus asset prices in the months ahead.

We are neutral on equities given ongoing economic resilience but are aware of valuation headwinds and elevated real interest rates. We prefer attractively priced assets and therefore have a bias towards non-US equities. In particular, we believe there are still attractively valued opportunities in Asian and Latin American equities, as well as specific pockets within developed markets, such as European banks, global players and UK stocks.

We still like long-dated US Treasuries as an attractively priced form of portfolio insurance. Long-dated UK gilts also look attractive to us, given declining levels of inflation while

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Sources: M&G, Morningstar & Deutsche Securities

the Bank of England base rate remains elevated. We retain positions in a well-diversified basket of emerging market government bonds in local currency as what we consider to be an attractive source of medium-term returns. We are particularly looking at Brazil and Mexico with the potential to add. We do not favour corporate bonds given the current level of credit spread and its recent compression.

We prefer emerging market currencies where yields are attractive. Cash real yields are elevated and attractive, in our view, as well as uncorrelated to other asset classes. Higher liquidity provides flexibility to respond to tactical opportunities.

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M&G Investments

M&G Global Balanced Feeder Fund

Global Multi-Asset ZAR-denominated

Q4 2024

Market overview

In the fourth quarter, global markets and sentiment were shaped by political shifts and central bank actions.

November was dominated by the US election, starting with the lead up to the election date and results announcement to the subsequent nominations for key office position appointments. The Trump victory led to a further increase in the US dollar accompanied by a strong rally in US equity markets.

Central banks globally continued to adjust their policies well into the latter part of December. Several rate cuts were announced in December, including the US Federal Reserve (Fed), European Central Bank (ECB), Canada, Switzerland, Mexico, and Turkey. The Bank of England (BOE) and Bank of Japan (BOJ) held rates steady. The Fed's rate cut, accompanied by a hawkish tone, suggested that it could be the last cut for a while, and the market reacted by selling off as expected. Meanwhile, China's stimulus package announcement in September resulted in volatility in equity markets continuing into the quarter.

Global equities experienced a slight decline of 1% in the fourth quarter, but showed a strong annual gain of 17.5%, as measured by the MSCI All Country World Index (ACWI). Both developed and emerging market equities saw negative returns in the fourth quarter, with developed markets down by 0.2% and emerging markets down by 8.0%. Global property also faced losses, down 9.2% for the quarter but ended the year in positive territory with 1.6%.

In emerging markets, sentiment was dampened by President Trump's victory, which raised concerns over trade tariffs, especially with China. Brazilian equities struggled, with the Bovespa falling by 29.5%, while China underperformed by 4.9% due to tariff fears. Other markets such as India (-10.6%) and Turkey (-3.1%) also contributed to weaker performance. Despite this, for 2024, the MSCI Emerging Market Index added 7.5%, though it lagged behind the ACWI's 17.5% return, primarily due to the stellar performance in US markets.

Global bonds were one of the weakest asset classes, with the Bloomberg Global Aggregate Index showing a 5.1% decline for the quarter and a 1.7% decline for the year. This was unexpected, considering the start of a rate-cutting cycle. However, market expectations for a shallow cutting cycle, coupled with concerns over persistent US inflation above the 2% target, dampened bond market performance. Volatility in the bond market was driven by rising inflation expectations and central bank actions, leading to selloffs in key government bond markets, particularly US Treasuries and UK Gilts.

United States

Political developments played a significant role in shaping market sentiment during the fourth quarter. US equities rose in the quarter, driven by President Trump's election victory and Republican control of Congress, which fuelled optimism around expectations of tax cuts, deregulation, and pro-growth policies.

Meanwhile, US inflation rose to 2.7% y/y in November, slightly up from 2.6% y/y in October, in line with expectations. This didn't sway the Federal Reserve's decision to cut interest rates by 25 basis points in both November and December, bringing the target range to 4.25%-4.5%. US third quarter growth reached 3.1%, driven by strong consumer spending, and slightly better than the second quarter's 3.0% growth.

While US equities surged in November following the election results, the rally stalled in December after the Fed lowered its expectations for further rate cuts due to slower inflation progress and an uncertain policy outlook. Despite this, US equities still finished the quarter strong, with the Nasdaq leading at 6.3%, followed by the S&P 500 (2.4%) and the Dow Jones (0.9%).

Notably, US equities posted solid returns across all indices for the year led by the Nasdaq (29.6%), S&P 500 (25%), and the Dow Jones (15%), all in US dollar terms. Bonds, however, faced a more challenging quarter. Bond yields rose and the fed fund futures curve moving higher following the market expectations for fewer rate cuts in 2025 (due to persistent inflation) led to a sell-off in US Treasuries in December.

Eurozone

Eurozone faced another challenging quarter. Equities declined due to recession fears and political instability in France and Germany. Slightly improved third quarter growth of 0.4% q/q from 0.3% q/q in the second quarter was better than the 0.2% expected. Inflation rose by 2.2% y/y in November, driven by higher commodity prices, from 2.0% in October and slightly below the 2.3% forecast. Despite the slight uptick in inflation, the European Central Bank (ECB) unanimously decided to reduce interest rates by another 25 basis points in December, lowering its deposit rate to 3%. The ECB also signalled further cuts for 2025.

United Kingdom

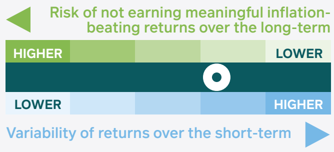
Inflation in the UK rose by 2.6% y/y in November, in line with forecasts but up from 2.3% in October. As a result, the Bank of England kept interest rates unchanged at 4.75% in December, as expected. Economic growth in the UK disappointed, with quarterly growth at 0% q/q, down from 0.5% in the previous quarter, and falling below the anticipated 0.2%, revised downward from initial estimates. In this environment, UK equities declined, affected by rising bond yields, inflation expectations, and concerns over government fiscal policies following the Autumn Budget. The FTSE 100 ended the quarter down 6.8% but posted a 7.7% gain for the year.

China

Deflationary pressure continues in China, with the CPI slowing to 0.2% y/y in November, down from 0.3% in October. The People's Bank of China (PBOC) kept its benchmark lending rates unchanged, maintaining the one-year loan prime rate at 3.1% and the five-year

Annualised performance	A class	Benchmark	B class
1 year	9.0%	14.3%	9.4%
2 years	16.3%	20.1%	16.7%
3 years	7.0%	8.2%	7.3%
5 years	10.6%	12.8%	10.8%
Since inception	9.7%	12.2%	-

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 894 574 747

Sources: M&G, Morningstar & Deutsche Securities

rate at 3.6%. China's third quarter GDP growth slowed to 4.6% from 4.7% in the second quarter, resulting in a 4.8% growth rate for the first three quarters of the year. In recent months, China has introduced several measures to stabilise its economy, including shifting to a looser monetary policy in December, providing tax incentives for the property market, and unveiling a 10 trillion yuan debt package. Markets were spurred early November following a stimulus package unveiled late in September to support the economy and ailing property market but retraced some of those gains by quarter end. The Hang Seng Index dropped 4.9% in the fourth quarter but posted a strong 23.7% gain for the year.

Japan

Japan's core consumer price inflation rose to 2.7% y/y in November, up from 2.3% in October, in line with expectations and remaining above the Bank of Japan's 2% target. The Bank of Japan kept its benchmark interest rate steady at 0.25% in December. Japan's third quarter GDP was revised upward to a 1.2% annualised growth rate, compared to the initial estimate of 0.9%, though it was lower than the 2.2% annualised growth in the third quarter. The Nikkei Index fell 4.1% in the fourth quarter due to a weak yen and strong US economic performance but finished the year with an 8.8% gain (in US$).

Currency

The rand weakened against the US dollar (9.5%), British pound (2.3%), and euro (1.8%) during the quarter. The strength of the US dollar was driven by a post-election rally and strong economic performance, particularly relative to the UK and other developed economies.

Performance

The M&G Global Balanced Feeder Fund produced a return of 6.1% (A class, net of fees in rand) for the quarter, versus the 6.9% recorded by its benchmark. For the 12 months to 31 December, the fund delivered 9.0% compared to the benchmark's 14.3% return.

Fixed income investments were the main cause of losses. Our holdings in property also cost some performance. Conversely, equity and cash/currency exposure made a small positive contribution.

Within global equities, our core exposure chosen by machine learning recorded a positive return. Absolute performance was driven by gains in global equity markets in the quarter, particularly the fund's holdings in US equities. However, our tactical positions fell in value.

The portfolio's core equity construction strategy, which constrains active exposures to country, currency, and industry, successfully prioritised stock selection and style as primary drivers of returns. This approach led to differentiated performance across capitalisation tranches, with mid-cap and large-cap stocks significantly outperforming small-cap counterparts due to a negative-size exposure. Sector-wise, the portfolio achieved marginal gains in 14 of the 18 GICS industry groups, particularly in Consumer Staples, Energy, and Industrials, while mitigating losses in Technology and Consumer Discretionary sectors through disciplined stock selection.

In terms of tactical (non-core) positions, holdings in Latin America, Asia ex Japan (particularly South Korea) and a World ex US tracker, lost value.

Looking at the fund's fixed income holdings, performance in the fourth quarter was driven by losses on global bonds, as yields rose.

The fund's core fixed income portfolio hurt relative returns. Relative performance was hurt by the fund's underweight position in credit, which includes an outright short in high yield and positioning in currencies, principally due to the overweight in Japanese yen. Tactical holdings in US Treasuries and UK gilts also underperformed.

In terms of our tactical (non-core positions) positions, the main detractor from performance was long-dated US Treasuries and to a lesser extent UK gilts and emerging market sovereign bonds.

Within global property, absolute returns were driven by the weak performance of real estate investment trusts, which fell as investors reined in expectations for rate cuts in 2025.

The portfolio's fourth-quarter performance reflected the challenges of navigating a volatile macroeconomic environment, characterised by falling interest rates and political uncertainties. While the constrained country exposure strategy facilitated selective gains through effective stock selection, it also limited participation in outperforming regions, particularly within the Canadian market. In the style space, the consistency of performance across REITs industries manifested as positive sentiment returns for the sector.

Strategy and positioning

At the start of the quarter, we adjusted the fund's currency basket, responding to weakness in spot prices. The trades have increased the overall carry and diversification of the basket.

In December, we responded to weakness in Brazilian financial assets by introducing a new target weighting in 10-year Brazilian government bonds of 1.5%. In addition, we began new positions in what we consider to be attractively valued equities in China and Indonesia. These were funded by selling the S&P 500 Index and closing our position in an emerging market bond tracker.

Outlook

Overall, the elevated levels of comfort among market participants, as well as the asset prices that reflect that, lead us to be cautious and selective in constructing portfolios, knowing that there will likely be significant shifts in sentiment and thus asset prices in the months ahead.

We are neutral on equities given ongoing economic resilience but are aware of valuation headwinds and elevated real interest rates. We prefer attractively priced assets and therefore have a bias towards non-US equities. In particular, we believe there are still attractively valued opportunities in Asian and Latin American equities, as well as specific pockets within developed markets, such as European banks, global players and UK stocks.

We still like long-dated US Treasuries as an attractively priced form of portfolio insurance. Long-dated UK gilts also look attractive to us, given declining levels of inflation while the Bank of England base rate remains elevated. We retain positions in a well-diversified basket of emerging market government bonds in local currency as what we consider to be an attractive source of medium-term returns. We are particularly looking at Brazil and Mexico with the potential to add. We do not favour corporate bonds given the current level of credit spread and its recent compression.

We prefer emerging market currencies where yields are attractive. Cash real yields are elevated and attractive, in our view, as well as uncorrelated to other asset classes. Higher liquidity provides flexibility to respond to tactical opportunities.

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Sources: M&G, Morningstar & Deutsche Securities

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Global Property ZAR-denominated

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Global equities experienced a slight decline of 1% in the fourth quarter, but showed a strong annual gain of 17.5%, as measured by the MCSI All Country World Index (ACWI). Both developed and emerging market equities saw negative returns in the fourth quarter, with developed markets down by 0.2% and emerging markets down by 8.0%.

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United States

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Notably, US equities posted solid returns across all indices for the year led by the Nasdaq (29.6%), S&P 500 (25%), and the Dow Jones (15%), all in US dollar terms. Bonds, however, faced a more challenging quarter. Bond yields rose and the fed fund futures curve moving higher following the market expectations for fewer rate cuts in 2025 (due to persistent inflation) led to a sell-off in US Treasuries in December.

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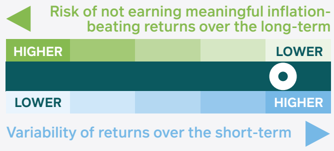
China

Deflationary pressure continues in China, with the CPI slowing to 0.2% y/y in November, down from 0.3% in October. The People's Bank of China (PBOC) kept its benchmark lending rates unchanged, maintaining the one-year loan prime rate at 3.1% and the five-year rate at 3.6%. China's third quarter GDP growth slowed to 4.6% from 4.7% in the second quarter, resulting in a 4.8% growth rate for the first three quarters of the year. In recent months, China has introduced several measures to stabilise its economy, including shifting to a looser monetary policy in December, providing tax incentives for the property market, and unveiling a 10 trillion yuan debt package. Markets were spurred early November following a stimulus package unveiled late in September to support the economy and ailing property market but retraced some of those gains by quarter end. The Hang Seng Index dropped 4.9% in the fourth quarter but posted a strong 23.7% gain for the year.

Annualised performance	A class	Benchmark	B class
1 year	-2.4%	4.6%	-2.3%
2 years	9.8%	11.4%	9.8%
3 years	-2.2%	-0.2%	-2.0%
Since inception	-0.1%	2.2%	-

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 902 244

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

Japan

Japan's core consumer price inflation rose to 2.7% y/y in November, up from 2.3% in October, in line with expectations and remaining above the Bank of Japan's 2% target. The Bank of Japan kept its benchmark interest rate steady at 0.25% in December. Japan's third quarter GDP was revised upward to a 1.2% annualised growth rate, compared to the initial estimate of 0.9%, though it was lower than the 2.2% annualised growth in the third quarter. The Nikkei Index fell 4.1% in the fourth quarter due to a weak yen and strong US economic performance but finished the year with an 8.8% gain (in US$).

Currency

The rand weakened against the US dollar (9.5%), British pound (2.3%), and euro (1.8%) during the quarter. The strength of the US dollar was driven by a post-election rally and strong economic performance, particularly relative to the UK and other developed economies.

Performance

The M&G Global Property Feeder Fund produced a return of -4% (A class, net of fees, in Rand) for the quarter, versus the -0.6% recorded by its benchmark. For the 12 months to 31 December, the fund delivered -2.4% compared to the benchmark's 4.6% return.

Absolute returns were driven by the weak performance of real estate investment trusts, which fell as investors reined in expectations for rate cuts in 2025.

Overall, the portfolio's fourth quarter performance reflected the challenges of navigating a volatile macroeconomic environment, characterised by falling interest rates and political uncertainties. While the constrained country exposure strategy facilitated selective gains through effective stock selection, it also limited participation in outperforming regions, particularly within the Canadian market. In the style space, the consistency of performance across REITs industries manifested as positive sentiment returns for the sector.

Outlook

Looking forward to 2025, we expect continued turbulence caused by central bank policies. Thematically, we anticipate sustained demand for specialised REITs in the form of data centres and infrastructure supporting the expanding developments in artificial intelligence technology.

The quarter underscored the importance of rigorous stock selection and diversified positioning in mitigating risks and leveraging opportunities within the global REIT sector. These challenging market conditions make it essential to maintain a disciplined and flexible investment approach that naturally adapts to the evolving economic landscape throughout the first quarter of 2025.

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Disclaimer

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M&G Global Equity Feeder Fund

Global Equity ZAR-denominated

Q4 2024

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Annualised performance	A class	Benchmark	B class
1 year	19.3%	20.9%	19.7%
3 years	11.5%	11.4%	11.9%
5 years	16.3%	16.8%	16.7%
7 years	14.4%	16.1%	-
10 years	13.2%	14.7%	-
20 years	12.1%	14.3%	-
Since inception	8.9%	10.3%	-

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

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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.

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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

R2 083 769 885

Sources: M&G, Morningstar & Deutsche Securities

property market but retraced some of those gains by quarter end. The Hang Seng Index dropped 4.9% in the fourth quarter but posted a strong 23.7% gain for the year.

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The rand weakened against the US dollar (9.5%), British pound (2.3%), and euro (1.8%) during the quarter. The strength of the US dollar was driven by a post-election rally and strong economic performance, particularly relative to the UK and other developed economies.

Performance

The M&G Global Equity Feeder Fund produced a return of 12% (A class, net of fees, in rand) for the quarter versus the 8.4% recorded by its benchmark. For the 12 months to 31 December 2024, the fund delivered 19.3% compared to the benchmark's 20.9% return.

Absolute performance was driven by gains in equity markets in the quarter, particularly the fund's holdings in US equities.

The fund outperformed in every month in the quarter, with the strongest relative performance coming in October and November.

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.

Throughout the quarter, factor performance showed consistency and divergence across regions. Higher-risk stocks performed well in the US and Emerging Markets but lagged in Europe and Japan. Growth factors remained robust globally, particularly in the US and Europe, while value measures generally weakened except in defensive sectors within Europe and Japan. Sentiment measures, especially price momentum, were successful in developed markets but inconsistent in Emerging Markets, and quality factors yielded mixed results, being favoured in Europe and Emerging Markets.

The portfolio's construction strategy, which constrains active exposures to country, currency, and industry, successfully prioritised stock selection and style as primary drivers of returns. This approach led to differentiated performance across capitalisation tranches, with mid-cap and large-cap stocks significantly outperforming small-cap counterparts due to a negative-size exposure. Sector-wise, the portfolio achieved marginal gains in 14 of the 18 GICS industry groups, particularly in Consumer Staples, Energy, and Industrials, while mitigating losses in Technology and Consumer Discretionary sectors through disciplined stock selection.

The final quarter of 2024 underscored the portfolio's strategic strengths in active stock selection and favourable style factor tailwinds. Despite encountering varying regional challenges and market volatility influenced by macroeconomic sentiment and geopolitical events, the portfolio achieved solid outperformance against the benchmark.

Strategy & positioning

Encouraged by our performance, we believe this quarter validates our central use of artificial intelligence in our investment process. We will continue to maintain constrained active exposures within our diversified portfolio to navigate the evolving global markets through 2025.

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

As we move into the first quarter of 2025, the AI theme is expected to remain a central focus for investors. We anticipate that AI-driven advancements will extend beyond large-cap, technology companies, broadening into smaller companies, and permeating various industries. This broadening adoption of AI technologies could unlock new growth opportunities and enhance productivity across sectors such as healthcare, finance, manufacturing, and consumer goods. Investors should watch for companies that effectively integrate AI into their operations and those that stand to benefit from increased efficiency and innovation.

Geopolitical developments will continue to play a significant role in shaping market dynamics as the new US government takes office. Policy shifts and international relations will be closely scrutinised, with potential implications for trade, regulation, and global cooperation. The administration's stance on issues such as climate change, technology regulation, and international trade agreements could create both opportunities and challenges for businesses operating domestically and internationally. Market participants should remain vigilant to geopolitical events and assess their potential impact on specific industries and regions.

Central bank policies will remain a critical factor influencing market conditions, as authorities strive to balance the dual objectives of managing inflation and lowering interest rates. The ongoing efforts to control inflation without stifling economic growth will require careful navigation by central banks around the world. Investors should monitor central bank communications and policy decisions closely, as changes in interest rates could affect borrowing costs, consumer spending, and investment returns. The interplay between inflation control and interest rate adjustments will likely drive market volatility, making it essential to maintain a disciplined and flexible investment approach to adapt to the evolving economic landscape throughout Q1 2025.

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Sources: M&G, Morningstar & Deutsche Securities

M&G 2.5% Target Income Fund

Target Income

Q4 2024

Market overview

In the fourth quarter, global markets and sentiment were shaped by political shifts and central bank actions. November was dominated by the US election, starting with the lead up to the election date and results announcement to the subsequent nominations for key office position appointments. The Trump victory led to a further increase in the US dollar accompanied by a strong rally in US equity markets.

Central banks globally continued to adjust their policies well into the latter part of December. Several rate cuts were announced in December, including the US Federal Reserve (Fed), European Central Bank (ECB), Canada, Switzerland, Mexico, and Turkey. The Bank of England (BOE) and Bank of Japan (BOJ) held rates steady. The Fed's rate cut, accompanied by a hawkish tone, suggested that it could be the last cut for a while, and the market reacted by selling off as expected. Meanwhile, China's stimulus package announcement in September resulted in volatility in equity markets continuing into the quarter.

Global equities experienced a slight decline of 1% in the fourth quarter, but showed a strong annual gain of 17.5%, as measured by the All Country World Index (ACWI). Both developed and emerging market equities saw negative returns in the fourth quarter, with developed markets down by 0.2% and emerging markets down by 8.0%. In emerging markets, sentiment was dampened by President Trump's victory, which raised concerns over trade tariffs, especially with China. Brazilian equities struggled, with the Bovespa falling by 29.5%, while China underperformed by 4.9% due to tariff fears. Other markets such as India (-10.6%) and Turkey (-3.1%) also contributed to weaker performance. Despite this, for 2024, the MSCI Emerging Market Index added 7.5%, though it lagged behind the ACWI's 17.5% return, primarily due to the stellar performance in US markets. Global property also faced losses, down 9.2% for the quarter but ended the year in positive territory with 1.6%.

Global bonds were one of the weakest asset classes, with the Bloomberg Global Aggregate Index showing a 5.1% decline for the quarter and a 1.7% decline for the year. This was unexpected, considering the start of a rate-cutting cycle. However, market expectations for a shallow cutting cycle, coupled with concerns over persistent US inflation above the 2% target, dampened bond market performance. Volatility in the bond market was driven by rising inflation expectations and central bank actions, leading to selloffs in key government bond markets, particularly US Treasuries and UK Gilts.

Local equity and bond markets saw slight declines, with the biggest impact coming from the weakening of the rand. Despite a solid annual return of 13.4%, the FTSE JSE All Share Index fell 2.1% in the fourth quarter. On a sector level, industrials posted modest returns of 0.2%, while financials (-1.2%) and resources (-10.1%) dragged on performance for the quarter (all in rand).

South African listed property posted a 0.4% loss in the fourth quarter, but still delivered strong annual returns of nearly 30%.

The FTSE All Bond Index (ALBI) returned 0.4% for the quarter, while inflation-linked bonds (ILBs) returned 0.8%. Notably, South African bonds finished the year with a robust 17% gain, while ILBs returned 7.8% (both in rand). Throughout the year, the nominal bond market experienced significant volatility, with the 10-year bond yield peaking at 12.50% in April before strengthening to around 10.30% by year-end. The yield curve also bull-flattened in 2024, with long-term bond yields falling more sharply than shorter-term ones. The ILB curve flattened slightly, coming off an already flat basis at the start of the year. SA cash gained 2.0% for the quarter (in rand).

United States

Political developments played a significant role in shaping market sentiment during the fourth quarter. US equities rose in the quarter, driven by President Trump's election victory and Republican control of Congress, which fuelled optimism around expectations of tax cuts, deregulation, and pro-growth policies.

Meanwhile, US inflation rose to 2.7% y/y in November, slightly up from 2.6% y/y in October, in line with expectations. This didn't sway the Federal Reserve's decision to cut interest rates by 25 basis points in both November and December, bringing the target range to 4.25%-4.5%. US third quarter growth reached 3.1%, driven by strong consumer spending, and slightly better than the second quarter's 3.0% growth.

While US equities surged in November following the election results, the rally stalled in December after the Fed lowered its expectations for further rate cuts due to slower inflation progress and an uncertain policy outlook. Despite this, US equities still finished the quarter strong, with the Nasdaq leading at 6.3%, followed by the S&P 500 (2.4%) and the Dow Jones (0.9%).

Notably, US equities posted solid returns across all indices for the year led by the Nasdaq (29.6%), S&P 500 (25%), and the Dow Jones (15%), all in US dollar terms. Bonds, however, faced a more challenging quarter. Bond yields rose and the fed fund futures curve moving higher following the market expectations for fewer rate cuts in 2025 (due to persistent inflation) led to a sell-off in US Treasuries in December.

Eurozone

Eurozone faced another challenging quarter. Equities declined due to recession fears and political instability in France and Germany. Slightly improved third quarter growth of 0.4% q/q from 0.3% q/q in the second quarter was better than the 0.2% expected.

Inflation rose by 2.2% y/y in November, driven by higher commodity prices, from 2.0% in October and slightly below the

Annualised performance

Annualised performance	A class	CPI	B class
1 year	12.5%	2.9%	12.9%
2 years	12.6%	4.2%	13.0%
3 years	9.4%	5.3%	9.8%
5 years	10.4%	4.9%	10.8%
Since inception	8.7%	4.7%	-

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 017 091

Sources: M&G, Morningstar & Deutsche Securities

2.3% forecast. Despite the slight uptick in inflation, the European Central Bank (ECB) unanimously decided to reduce interest rates by another 25 basis points in December, lowering its deposit rate to 3%. The ECB also signalled further cuts for 2025.

United Kingdom

Inflation in the UK rose by 2.6% y/y in November, in line with forecasts but up from 2.3% in October. As a result, the Bank of England kept interest rates unchanged at 4.75% in December, as expected. Economic growth in the UK disappointed, with quarterly growth at 0% q/q, down from 0.5% in the previous quarter, and falling below the anticipated 0.2%, revised downward from initial estimates. In this environment, UK equities declined, affected by rising bond yields, inflation expectations, and concerns over government fiscal policies following the Autumn Budget. The FTSE 100 ended the quarter down 6.8% but posted a 7.7% gain for the year.

China

Deflationary pressure continues in China, with the CPI slowing to 0.2% y/y in November, down from 0.3% in October. The People's Bank of China (PBOC) kept its benchmark lending rates unchanged, maintaining the one-year loan prime rate at 3.1% and the five-year rate at 3.6%. China's third quarter GDP growth slowed to 4.6% from 4.7% in the second quarter, resulting in a 4.8% growth rate for the first three quarters of the year. In recent months, China has introduced several measures to stabilise its economy, including shifting to a looser monetary policy in December, providing tax incentives for the property market, and unveiling a 10 trillion yuan debt package. Markets were spurred early November following a stimulus package unveiled late in September to support the economy and ailing property market but retraced some of those gains by quarter end. The Hang Seng Index dropped 4.9% in the fourth quarter but posted a strong 23.7% gain for the year.

Japan

Japan's core consumer price inflation rose to 2.7% y/y in November, up from 2.3% in October, in line with expectations and remaining above the Bank of Japan's 2% target.
The Bank of Japan kept its benchmark interest rate steady at 0.25% in December.

Japan's third quarter GDP was revised upward to a 1.2% annualised growth rate, compared to the initial estimate of 0.9%, though it was lower than the 2.2% annualised growth in the third quarter. The Nikkei Index fell 4.1% in the fourth quarter due to a weak yen and strong US economic performance but finished the year with an 8.8% gain (in US$).

Commodities

Commodities also stayed true to form with volatile moves across the board and faced another challenging month of negative returns for the quarter. Notably, nickel, palladium and copper suffered losses of around 11%. After strong performance in recent months, gold retraced some of its gains this quarter with -1.3% due to US dollar strength but still ended the year with close to a 27% return. Brent crude gained 3.6% for the quarter.

South Africa

South Africa's consumer price index (CPI) rose by 2.9% y/y in November, up from 2.8% y/y in October. Despite this slight inflation increase, the South African Reserve Bank (SARB) Monetary Policy Committee reduced the policy rate by 25 basis points to 7.75% in November. The country's third quarter GDP contracted by 0.3%, primarily due to a decline in agricultural output, following a revised 0.3% growth in the second quarter.

Performance

The M&G 2.5% Target Income Fund returned 2.7% (A class, net of fees) for the fourth quarter of 2024 and 12.5% for the 12-month period ending 31 December 2024.

In terms of asset allocation, the fund's position in international cash added the most value to absolute performance for the quarter, given the rand weakened against the US dollar, which was driven by a post-election rally and strong economic performance. The rand also weakened against the British pound, and euro. The fund's allocation to international equity also added significantly to performance.

The SA equity allocation detracted slightly from absolute performance amid a market that experienced slight declines.

The fund's position in ABSA added good value to the fund this quarter. ABSA has shown a steady improvement in operating performance and is generating a return on equity (ROE) of approximately 13%, which is substantially up from the high single-digit returns it was generating just a few years ago. We think that its ROE will continue to gradually improve and support its share price, which we think is still undervalued.

The fund's position in Pepkor also contributed positively to absolute performance over the quarter. It has been a strong beneficiary of the lower bond yields and improving consumer sentiment during the quarter.

Not holding Sasol proved beneficial for performance, as it was down -28.25% during the period.

Not holding Discovery, however, detracted from performance as it delivered well during the quarter.

Strategy and positioning

Most asset classes experienced volatile moves in the fourth quarter of 2024, and we exploited favourable entry points in the markets to add back to risk assets using the cash available from third quarter profit taking.

In broad terms, we have left our offshore versus local asset positioning mostly unchanged for the quarter and continue to prefer domestic assets over foreign exposure.

SA equities are coming off a very low base and continue to screen relatively cheap compared to other markets. We continue to hold an overweight position as market valuations point to a continued rerating in that asset class.

Fundamentally, SA equities still trade at low valuation levels when looking at both the 12-month forward P/E ratio (10.1x) as well as the Price-to-Book ratio (1.72x). Local equities have experienced a moderate decline since the US elections, but we witnessed strong positive returns in the asset class leading up to that point, predominantly after the local government elections, adding positively to portfolio returns during the year.

On the local property front, we've continued with our trajectory of closing the underweight we had in the portfolios to that asset class. As at the end of the fourth quarter, we still have a small underweight to the property sector in place in the portfolios, but at a much-reduced scale compared to the start of the year. This change is on the back of improved fundamentals seen in the

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Sources: M&G, Morningstar & Deutsche Securities

sector, especially the improvement in published financials reported by some companies as well as the reprieve experienced due to reduction in loadshedding and interest rates moving lower. For the year, property was the top-performing asset class in the local market but, with the move coming off a very low base, we've been comfortable making use of opportunities presented by market volatility to close the underweight we held in that asset class.

From a valuation perspective, our 10-year yield is still pricing a real return in excess of our fair value assumptions and, therefore, nominal bonds remain a key holding across the funds. This position led to favourable returns in the second half of 2024 given the post-election rally in local assets and we continue to keep the position in place due to improved fundamentals in our market.

The last quarter of 2024 was very muted in the local bond space – especially in comparison to the second and third quarter rallies we experienced. We made use of a selloff in bonds at the start of the quarter to add some more exposure to our portfolios to reinstate some of the positions we had taken off during the third quarter rally. Real yields are still trading at attractive levels compared to our equilibrium return assumptions and we continue to see merit to holding a sizeable overweight to nominal bonds in our portfolios. Given the strong returns witnessed in this asset class during the year, our portfolios have benefitted significantly from our overweight holding to SA nominal bonds throughout the year.

Our house-view portfolios continue to have no meaningful exposure to SA inflation-linked bonds (ILBs) as our preference has been for nominal bonds in favour of ILBs. Real yields for these instruments are attractive at current levels but, given liquidity constraints and the advantage of being in nominal bonds in a rate-cutting environment, we continue to favour nominal bonds over ILBs in most of our portfolios.

Our portfolios remain tilted away from SA cash as the interest rate-cutting environment will lead to lower positive real cash rates over the medium term. We continue to prefer the risk-adjusted returns we receive in the SA equity and bond space and would expect that gap to open even more as local interest rates are cut further beyond this point, even in a shallow rate-cutting cycle such as the one the market is currently pricing in.

In our global portion of the portfolios, we are currently slightly overweight global equities; overweight bonds and cash; and underweight credit and property. We continued to broaden out our carry basket during the quarter by adding long positions in Turkish lira and Colombian peso to existing Mexican peso and Brazilian real exposures, funded out of new shorts in Thai baht and Taiwanese dollar being added to US dollar and euro short positions.

The valuation for the MSCI All Country World Index 12-month forward P/E ratio peaked at the beginning of December before settling back at around 18x by the end of the year. The main driving force behind this valuation remains the high multiple that the US is trading on, with the S&P 12-month forward P/E remaining elevated at the current 22x. Due to this, we have kept our underweight position to the US market in place during the quarter as we continue to see better valuation opportunities in other equity markets.

We made use of market diversions post the US election to add back some of the tactical China exposure we took off at the end of September as well as reinstating a long position to the Indonesian equity market. Away from that, we continue to hold tactical long positions to Latam markets, South Korea and Japan.

We continue to favour long-dated US treasuries given the favourable real yields delivered by these instruments. In addition, we introduced a new tactical position to Brazilian bonds to the fund in December given the episodic selloff seen in bond yields in that region.

We maintain our underweight position to global corporate credit given that credit spreads have continued to contract during the quarter, increasing the unattractiveness of the risk-reward payoff for those instruments.

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Disclaimer

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M&G 5% Target Income Fund

Target Income

Q4 2024

Market overview

In the fourth quarter, global markets and sentiment were shaped by political shifts and central bank actions.

November was dominated by the US election, starting with the lead up to the election date and results announcement to the subsequent nominations for key office position appointments. The Trump victory led to a further increase in the US dollar accompanied by a strong rally in US equity markets.

Central banks globally continued to adjust their policies well into the latter part of December. Several rate cuts were announced in December, including the US Federal Reserve (Fed), European Central Bank (ECB), Canada, Switzerland, Mexico, and Turkey. The Bank of England (BOE) and Bank of Japan (BOJ) held rates steady. The Fed's rate cut, accompanied by a hawkish tone, suggested that it could be the last cut for a while, and the market reacted by selling off as expected. Meanwhile, China's stimulus package announcement in September resulted in volatility in equity markets continuing into the quarter.

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In emerging markets, sentiment was dampened by President Trump's victory, which raised concerns over trade tariffs, especially with China. Brazilian equities struggled, with the Bovespa falling by 29.5%, while China underperformed by 4.9% due to tariff fears. Other markets such as India (-10.6%) and Turkey (-3.1%) also contributed to weaker performance. Despite this, for 2024, the MSCI Emerging Market Index added 7.5%, though it lagged behind the ACWI's 17.5% return, primarily due to the stellar performance in US markets. Global property also faced losses, down 9.2% for the quarter but ended the year in positive territory with 1.6%.

Global bonds were one of the weakest asset classes, with the Bloomberg Global Aggregate Index showing a 5.1% decline for the quarter and a 1.7% decline for the year. This was unexpected, considering the start of a rate-cutting cycle. However, market expectations for a shallow cutting cycle, coupled with concerns over persistent US inflation above the 2% target, dampened bond market performance. Volatility in the bond market was driven by rising inflation expectations and central bank actions, leading to selloffs in key government bond markets, particularly US Treasuries and UK Gilts.

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United States

Political developments played a significant role in shaping market sentiment during the fourth quarter. US equities rose in the quarter, driven by President Trump's election victory and Republican control of Congress, which fuelled optimism around expectations of tax cuts, deregulation, and pro-growth policies.

Meanwhile, US inflation rose to 2.7% y/y in November, slightly up from 2.6% y/y in October, in line with expectations. This didn't sway the Federal Reserve's decision to cut interest rates by 25 basis points in both November and December, bringing the target range to 4.25%-4.5%. US third quarter growth reached 3.1%, driven by strong consumer spending, and slightly better than the second quarter's 3.0% growth.

While US equities surged in November following the election results, the rally stalled in December after the Fed lowered its expectations for further rate cuts due to slower inflation progress and an uncertain policy outlook. Despite this, US equities still finished the quarter strong, with the Nasdaq leading at 6.3%, followed by the S&P 500 (2.4%) and the Dow Jones (0.9%).

Notably, US equities posted solid returns across all indices for the year led by the Nasdaq (29.6%), S&P 500 (25%), and the Dow Jones (15%), all in US dollar terms. Bonds, however, faced a more challenging quarter. Bond yields rose and the fed fund futures curve moving higher following the market expectations for fewer rate cuts in 2025 (due to persistent inflation) led to a sell-off in US Treasuries in December.

Eurozone

Eurozone faced another challenging quarter. Equities declined due to recession fears and political instability in France and Germany. Slightly improved third quarter growth of 0.4% q/q from 0.3% q/q in the second quarter was better than the 0.2% expected.

Annualised performance	A class	CPI	B class
1 year	13.1%	2.9%	13.5%
2 years	10.6%	4.2%	10.9%
3 years	7.9%	5.3%	8.3%
5 years	8.1%	4.9%	8.5%
Since inception	7.5%	4.7%	-

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
R183 461 505

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

Inflation rose by 2.2% y/y in November, driven by higher commodity prices, from 2.0% in October and slightly below the 2.3% forecast. Despite the slight uptick in inflation, the European Central Bank (ECB) unanimously decided to reduce interest rates by another 25 basis points in December, lowering its deposit rate to 3%. The ECB also signalled further cuts for 2025.

United Kingdom

Inflation in the UK rose by 2.6% y/y in November, in line with forecasts but up from 2.3% in October. As a result, the Bank of England kept interest rates unchanged at 4.75% in December, as expected.

Economic growth in the UK disappointed, with quarterly growth at 0% q/q, down from 0.5% in the previous quarter, and falling below the anticipated 0.2%, revised downward from initial estimates.

In this environment, UK equities declined, affected by rising bond yields, inflation expectations, and concerns over government fiscal policies following the Autumn Budget. The FTSE 100 ended the quarter down 6.8% but posted a 7.7% gain for the year.

China

Deflationary pressure continues in China, with the CPI slowing to 0.2% y/y in November, down from 0.3% in October. The People's Bank of China (PBOC) kept its benchmark lending rates unchanged, maintaining the one-year loan prime rate at 3.1% and the five-year rate at 3.6%. China's third quarter GDP growth slowed to 4.6% from 4.7% in the second quarter, resulting in a 4.8% growth rate for the first three quarters of the year. In recent months, China has introduced several measures to stabilise its economy, including shifting to a looser monetary policy in December, providing tax incentives for the property market, and unveiling a 10 trillion yuan debt package. Markets were spurred early November following a stimulus package unveiled late in September to support the economy and ailing property market but retraced some of those gains by quarter end. The Hang Seng Index dropped 4.9% in the fourth quarter but posted a strong 23.7% gain for the year.

Japan

Japan's core consumer price inflation rose to 2.7% y/y in November, up from 2.3% in October, in line with expectations and remaining above the Bank of Japan's 2% target.
The Bank of Japan kept its benchmark interest rate steady at 0.25% in December.

Japan's third quarter GDP was revised upward to a 1.2% annualised growth rate, compared to the initial estimate of 0.9%, though it was lower than the 2.2% annualised growth in the third quarter.

The Nikkei Index fell 4.1% in the fourth quarter due to a weak yen and strong US economic performance but finished the year with an 8.8% gain (in US$).

Commodities

Commodities also stayed true to form with volatile moves across the board and faced another challenging month of negative returns for the quarter. Notably, nickel, palladium and copper suffered losses of around 11%. After strong performance in recent months, gold retraced some of its gains this quarter with -1.3% due to US dollar strength but still ended the year with close to a 27% return. Brent crude gained 3.6% for the quarter.

South Africa

South Africa's consumer price index (CPI) rose by 2.9% y/y in November, up from 2.8% y/y in October. Despite this slight inflation increase, the South African Reserve Bank (SARB) Monetary Policy Committee reduced the policy rate by 25 basis points to 7.75% in November. The country's third quarter GDP contracted by 0.3%, primarily due to a decline in agricultural output, following a revised 0.3% growth in the second quarter.

Performance

The M&G 5% Target Income Fund returned 0.4% (A class, net of fees) for the fourth quarter of 2024 and 13.1% (A class, net of fees) for the 12-month period ending 31 December 2024.

In terms of asset allocation, the fund's positions in international equity and international cash added significant value to absolute performance for the quarter. The rand weakened against the US dollar, which was driven by a post-election rally and strong economic performance. It also weakened against the British pound, and euro.
The SA equity allocation detracted slightly from absolute performance amid a market that experienced slight declines.

The fund's position in ABSA added good value to the fund this quarter. ABSA has shown a steady improvement in operating performance and is generating a return on equity (ROE) of approximately 13%, which is substantially up from the high single-digit returns it was generating just a few years ago. We think that its ROE will continue to gradually improve and support its share price, which we think is still undervalued.

The fund's position in Pepkor also contributed positively to absolute performance over the quarter. It has been a strong beneficiary of the lower bond yields and improving consumer sentiment during the quarter.

Not holding Sasol proved beneficial for performance, as it was down -28.25% during the period.

Not holding Discovery, however, detracted from performance as it delivered well during the quarter.

Strategy and positioning

Most asset classes experienced volatile moves in the fourth quarter of 2024, and we exploited favourable entry points in the markets to add back to risk assets using the cash available from third quarter profit taking.

In broad terms, we have left our offshore versus local asset positioning mostly unchanged for the quarter and continue to prefer domestic assets over foreign exposure.

South Africa

SA equities

SA equities are coming off a very low base and continue to screen relatively cheap compared to other markets. We continue to hold an overweight position as market valuations point to a continued rerating in that asset class.

Fundamentally, SA equities still trade at low valuation levels when looking at both the 12-month forward P/E ratio (10.1x) as well as the Price-to-Book ratio (1.72x). Local equities have experienced a moderate decline since the US elections, but we witnessed strong positive returns in the asset class leading up to that point, predominantly after the local government elections, adding positively to portfolio returns during the year.

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Sources: M&G, Morningstar & Deutsche Securities

SA property

On the local property front, we've continued with our trajectory of closing the underweight we had in the portfolios to that asset class. As at the end of the fourth quarter, we still have a small underweight to the property sector in place in the portfolios, but at a much-reduced scale compared to the start of the year. This change is on the back of improved fundamentals seen in the sector, especially the improvement in published financials reported by some companies as well as the reprieve experienced due to reduction in loadshedding and interest rates moving lower. For the year, property was the top-performing asset class in the local market but, with the move coming off a very low base, we've been comfortable making use of opportunities presented by market volatility to close the underweight we held in that asset class.

SA bonds

From a valuation perspective, our 10-year yield is still pricing a real return in excess of our fair value assumptions and, therefore, nominal bonds remain a key holding across the funds. This position led to favourable returns in the second half of 2024 given the post-election rally in local assets and we continue to keep the position in place due to improved fundamentals in our market.

The last quarter of 2024 was very muted in the local bond space – especially in comparison to the second and third quarter rallies we experienced. We made use of a selloff in bonds at the start of the quarter to add some more exposure to our portfolios to reinstate some of the positions we had taken off during the third quarter rally. Real yields are still trading at attractive levels compared to our equilibrium return assumptions and we continue to see merit to holding a sizeable overweight to nominal bonds in our portfolios. Given the strong returns witnessed in this asset class during the year, our portfolios have benefitted significantly from our overweight holding to SA nominal bonds throughout the year.

Our house-view portfolios continue to have no meaningful exposure to SA inflation-linked bonds (ILBs) as our preference has been for nominal bonds in favour of ILBs. Real yields for these instruments are attractive at current levels but, given liquidity constraints and the advantage of being in nominal bonds in a rate-cutting environment, we continue to favour nominal bonds over ILBs in most of our portfolios.

SA cash

Our portfolios remain tilted away from SA cash as the interest rate-cutting environment will lead to lower positive real cash rates over the medium term. We continue to prefer the risk-adjusted returns we receive in the SA equity and bond space and would expect that gap to open even more as local interest rates are cut further beyond this point, even in a shallow rate-cutting cycle such as the one the market is currently pricing in.

Global

In our global portion of the portfolios, we are currently slightly overweight global equities; overweight bonds and cash; and underweight credit and property. We continued to broaden out our carry basket during the quarter by adding long positions in Turkish lira and Colombian peso to existing Mexican peso and Brazilian real exposures, funded out of new shorts in Thai baht and Taiwanese dollar being added to US dollar and euro short positions.

Global equities

The valuation for the MSCI All Country World Index 12-month forward P/E ratio peaked at the beginning of December before settling back at around 18x by the end of the year. The main driving force behind this valuation remains the high multiple that the US is trading on, with the S&P 12-month forward P/E remaining elevated at the current 22x. Due to this, we have kept our underweight position to the US market in place during the quarter as we continue to see better valuation opportunities in other equity markets.

We made use of market diversions post the US election to add back some of the tactical China exposure we took off at the end of September as well as reinstating a long position to the Indonesian equity market. Away from that, we continue to hold tactical long positions to Latam markets, South Korea and Japan.

Global bonds

We continue to favour long-dated US treasuries given the favourable real yields delivered by these instruments. In addition, we introduced a new tactical position to Brazilian bonds to the fund in December given the episodic selloff seen in bond yields in that region.

We maintain our underweight position to global corporate credit given that credit spreads have continued to contract during the quarter, increasing the unattractiveness of the risk-reward payoff for those instruments.

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Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

M&G 7% Target Income Fund

Target Income

Q4 2024

Market overview

In the fourth quarter, global markets and sentiment were shaped by political shifts and central bank actions.

November was dominated by the US election, starting with the lead up to the election date and results announcement to the subsequent nominations for key office position appointments. The Trump victory led to a further increase in the US dollar accompanied by a strong rally in US equity markets.

Central banks globally continued to adjust their policies well into the latter part of December. Several rate cuts were announced in December, including the US Federal Reserve (Fed), European Central Bank (ECB), Canada, Switzerland, Mexico, and Turkey. The Bank of England (BOE) and Bank of Japan (BOJ) held rates steady. The Fed's rate cut, accompanied by a hawkish tone, suggested that it could be the last cut for a while, and the market reacted by selling off as expected. Meanwhile, China's stimulus package announcement in September resulted in volatility in equity markets continuing into the quarter.

Global equities experienced a slight decline of 1% in the fourth quarter, but showed a strong annual gain of 17.5%, as measured by the All Country World Index (ACWI). Both developed and emerging market equities saw negative returns in the fourth quarter, with developed markets down by 0.2% and emerging markets down by 8.0%.

In emerging markets, sentiment was dampened by President Trump's victory, which raised concerns over trade tariffs, especially with China. Brazilian equities struggled, with the Bovespa falling by 29.5%, while China underperformed by 4.9% due to tariff fears. Other markets such as India (-10.6%) and Turkey (-3.1%) also contributed to weaker performance. Despite this, for 2024, the MSCI Emerging Market Index added 7.5%, though it lagged behind the ACWI's 17.5% return, primarily due to the stellar performance in US markets. Global property also faced losses, down 9.2% for the quarter but ended the year in positive territory with 1.6%.

Global bonds were one of the weakest asset classes, with the Bloomberg Global Aggregate Index showing a 5.1% decline for the quarter and a 1.7% decline for the year. This was unexpected, considering the start of a rate-cutting cycle. However, market expectations for a shallow cutting cycle, coupled with concerns over persistent US inflation above the 2% target, dampened bond market performance. Volatility in the bond market was driven by rising inflation expectations and central bank actions, leading to selloffs in key government bond markets, particularly US Treasuries and UK Gilts.

Local equity and bond markets saw slight declines, with the biggest impact coming from the weakening of the rand. Despite a solid annual return of 13.4%, the FTSE JSE All Share Index fell 2.1% in the fourth quarter. On a sector level, industrials posted modest returns of 0.2%, while financials (-1.2%) and resources (-10.1%) dragged on performance for the quarter (all in rand). South African listed property posted a 0.4% loss in the fourth quarter, but still delivered strong annual returns of nearly 30%.

The FTSE All Bond Index (ALBI) returned 0.4% for the quarter, while inflation-linked bonds (ILBs) returned 0.8%. Notably, South African bonds finished the year with a robust 17% gain, while ILBs returned 7.8% (both in rand). Throughout the year, the nominal bond market experienced significant volatility, with the 10-year bond yield peaking at 12.50% in April before strengthening to around 10.30% by year-end. The yield curve also bull-flattened in 2024, with long-term bond yields falling more sharply than shorter-term ones. The ILB curve flattened slightly, coming off an already flat basis at the start of the year. SA cash gained 2.0% for the quarter (in rand).

United States

Political developments played a significant role in shaping market sentiment during the fourth quarter. US equities rose in the quarter, driven by President Trump's election victory and Republican control of Congress, which fuelled optimism around expectations of tax cuts, deregulation, and pro-growth policies.

Meanwhile, US inflation rose to 2.7% y/y in November, slightly up from 2.6% y/y in October, in line with expectations. This didn't sway the Federal Reserve's decision to cut interest rates by 25 basis points in both November and December, bringing the target range to 4.25%-4.5%. US third quarter growth reached 3.1%, driven by strong consumer spending, and slightly better than the second quarter's 3.0% growth.

While US equities surged in November following the election results, the rally stalled in December after the Fed lowered its expectations for further rate cuts due to slower inflation progress and an uncertain policy outlook. Despite this, US equities still finished the quarter strong, with the Nasdaq leading at 6.3%, followed by the S&P 500 (2.4%) and the Dow Jones (0.9%).

Notably, US equities posted solid returns across all indices for the year led by the Nasdaq (29.6%), S&P 500 (25%), and the Dow Jones (15%), all in US dollar terms. Bonds, however, faced a more challenging quarter. Bond yields rose and the fed fund futures curve moving higher following the market expectations for fewer rate cuts in 2025 (due to persistent inflation) led to a sell-off in US Treasuries in December.

Eurozone

Eurozone faced another challenging quarter. Equities declined due to recession fears and political instability in France and Germany. Slightly improved third quarter growth of 0.4% q/q from 0.3% q/q in the second quarter was better than the 0.2% expected.

Inflation rose by 2.2% y/y in November, driven by higher

Annualised performance	A class	CPI	B class
1 year	14.5%	2.9%	14.9%
2 years	11.4%	4.2%	11.7%
3 years	9.2%	5.3%	9.6%
5 years	8.1%	4.9%	8.5%
Since inception	7.7%	4.7%	-

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
R345 942 016

Sources: M&G, Morningstar & Deutsche Securities

commodity prices, from 2.0% in October and slightly below the 2.3% forecast. Despite the slight uptick in inflation, the European Central Bank (ECB) unanimously decided to reduce interest rates by another 25 basis points in December, lowering its deposit rate to 3%. The ECB also signalled further cuts for 2025.

United Kingdom

Inflation in the UK rose by 2.6% y/y in November, in line with forecasts but up from 2.3% in October. As a result, the Bank of England kept interest rates unchanged at 4.75% in December, as expected.

Economic growth in the UK disappointed, with quarterly growth at 0% q/q, down from 0.5% in the previous quarter, and falling below the anticipated 0.2%, revised downward from initial estimates.

In this environment, UK equities declined, affected by rising bond yields, inflation expectations, and concerns over government fiscal policies following the Autumn Budget. The FTSE 100 ended the quarter down 6.8% but posted a 7.7% gain for the year.

China

Deflationary pressure continues in China, with the CPI slowing to 0.2% y/y in November, down from 0.3% in October. The People's Bank of China (PBOC) kept its benchmark lending rates unchanged, maintaining the one-year loan prime rate at 3.1% and the five-year rate at 3.6%. China's third quarter GDP growth slowed to 4.6% from 4.7% in the second quarter, resulting in a 4.8% growth rate for the first three quarters of the year. In recent months, China has introduced several measures to stabilise its economy, including shifting to a looser monetary policy in December, providing tax incentives for the property market, and unveiling a 10 trillion yuan debt package. Markets were spurred early November following a stimulus package unveiled late in September to support the economy and ailing property market but retraced some of those gains by quarter end. The Hang Seng Index dropped 4.9% in the fourth quarter but posted a strong 23.7% gain for the year.

Japan

Japan's core consumer price inflation rose to 2.7% y/y in November, up from 2.3% in October, in line with expectations and remaining above the Bank of Japan's 2% target.
The Bank of Japan kept its benchmark interest rate steady at 0.25% in December.

Japan's third quarter GDP was revised upward to a 1.2% annualised growth rate, compared to the initial estimate of 0.9%, though it was lower than the 2.2% annualised growth in the third quarter.

The Nikkei Index fell 4.1% in the fourth quarter due to a weak yen and strong US economic performance but finished the year with an 8.8% gain (in US$).

Commodities

Commodities also stayed true to form with volatile moves across the board and faced another challenging month of negative returns for the quarter. Notably, nickel, palladium and copper suffered losses of around 11%. After strong performance in recent months, gold retraced some of its gains this quarter with -1.3% due to US dollar strength but still ended the year with close to a 27% return. Brent crude gained 3.6% for the quarter.

South Africa

South Africa's consumer price index (CPI) rose by 2.9% y/y in November, up from 2.8% y/y in October. Despite this slight inflation increase, the South African Reserve Bank (SARB) Monetary Policy Committee reduced the policy rate by 25 basis points to 7.75% in November. The country's third quarter GDP contracted by 0.3%, primarily due to a decline in agricultural output, following a revised 0.3% growth in the second quarter.

Performance

The M&G 7% Target Income Fund returned 0.5% (A class, net of fees) for the fourth quarter of 2024 and 14.5% for the 12-month period ending 31 December 2024.

In terms of asset allocation, the fund's positions in international equity and international cash added significant value to absolute performance for the quarter. The rand weakened against the US dollar, which was driven by a post-election rally and strong economic performance. It also weakened against the British pound, and euro.

The SA equity allocation detracted slightly from absolute performance amid a market that experienced slight declines.

The fund's position in ABSA added good value to the fund this quarter. ABSA has shown a steady improvement in operating performance and is generating a return on equity (ROE) of approximately 13%, which is substantially up from the high single-digit returns it was generating just a few years ago. We think that its ROE will continue to gradually improve and support its share price, which we think is still undervalued.

The fund's position in Pepkor also contributed positively to absolute performance over the quarter. It has been a strong beneficiary of the lower bond yields and improving consumer sentiment during the quarter.

Not holding Sasol proved beneficial for performance, as it was down -28.25% during the period.

Not holding Discovery, however, detracted from performance as it delivered well during the quarter.

Strategy and positioning

Most asset classes experienced volatile moves in the fourth quarter of 2024, and we exploited favourable entry points in the markets to add back to risk assets using the cash available from third quarter profit taking.

In broad terms, we have left our offshore versus local asset positioning mostly unchanged for the quarter and continue to prefer domestic assets over foreign exposure.

SA equities are coming off a very low base and continue to screen relatively cheap compared to other markets. We continue to hold an overweight position as market valuations point to a continued rerating in that asset class.

Fundamentally, SA equities still trade at low valuation levels when looking at both the 12-month forward P/E ratio (10.1x) as well as the Price-to-Book ratio (1.72x). Local equities have experienced a moderate decline since the US elections, but we witnessed strong positive returns in the asset class leading up to that point, predominantly after the local government elections, adding positively to portfolio returns during the year.

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