M&G Investments

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.

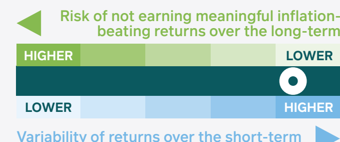
The main contributor to performance for the quarter and the year was the fund's offshore exposure of approximately 23%, of which 20% is to the M&G Global Equity Fund and 3% is to the M&G Africa Equity Fund. The M&G Global Equity Fund returned 12.3% over the quarter (in rand) which was mainly due to the 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 Investments, Morningstar & Deutsche Securities

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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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Application forms

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Sources: M&G Investments, Morningstar & Deutsche Securities