



iStock-1182691452



**Chris Sickle**  
Chief Executive Officer

# Letter from the CEO



**T**he first quarter of 2022 unexpectedly saw high levels of financial market volatility as uncertainty over global inflation and interest rate policy, and risk-off investor sentiment, were reflected in broad weakness across both global equities and bonds. Then the tragic and destructive Russian invasion of Ukraine in the last week of February, and the unprecedented level of sanctions imposed against Russia, created even further uncertainty, along with rocketing commodity prices. This combination meant that many global asset returns, even from usual safe-havens like US Treasuries, were in the red. For the year-to-date period ended 25 March 2022, the MSCI World All Cap Index (USD) returned -5.4%, the MSCI Emerging Markets Index produced -8.3%, and the Bloomberg Global Aggregate Bond Index delivered -7.1%.

Commodity-producer South Africa was a beneficiary of the ensuing spikes in precious metals and other commodity prices. However, this was offset to some extent in March by global risk-off investor sentiment and weakness in Naspers/Prosus shares resulting from a further sell-off in Tencent amid a renewed Chinese government regulatory crackdown. The South African Reserve Bank (SARB) also hiked interest rates by 50bps during the quarter, following in the wake of the US Federal Reserve.

Consequently we saw the FTSE/JSE Capped SWIX produce a 4.9% total return for the year-to-date period ended 25 March 2022, underpinned by a 19.4% return from Resources and 12.6% from Financials. Meanwhile, Naspers and Prosus lost over one-third of their values year-to-date, Industrials delivered -15.1% and the All Property Index produced -2.9%. However, local nominal

bond returns were positive at 1.2% for the year-to-date period ended 25 March 2022, and inflation-linked bonds returned 0.3%. Finally, the rand appreciated notably against the US dollar and other major global currencies for the year-to-date period, gaining 8.9% versus the greenback, 11.1% versus the UK pound sterling and 11.9% against the euro.

## M&G portfolio performance

With events like the Russian invasion of Ukraine, since we don't pretend to know what the future will hold, we do not position our portfolios to benefit from only a narrow range of possible outcomes. We rather look to construct portfolios with many investment ideas, all of which we believe have favourable pay-off profiles. In turbulent periods such as these, the value of this diversification is evident, although there was no escaping the poor global returns. M&G Investments' portfolio performances for the year-to-date ended 25 March 2022 were supported by our local resources and bank equity holdings, our SA bond exposure, as well as our preference for offshore cash in our global holdings. The M&G Balanced Fund outperformed the average of its peers in the ASISA Multi-Asset High Equity Category, as did the M&G SA Equity Fund, with its local-only equity exposure. Our full fund performances will be communicated shortly in our March monthly client mailer.

## Raging Bull Award and R300 billion AUM benchmark

I'm pleased to announce that in January the **M&G Global Inflation Plus Feeder Fund** won a Raging Bull Certificate as the "Best (SA-domiciled) global multi-asset low-equity fund" for its risk-

adjusted performance over five years to 31 December 2021. This is the second time that the fund has received this accolade, having previously won in 2019. The fund has a long history of outperforming its benchmark over the past 10 years.

At the same time, I'm happy to report that during the quarter M&G Investments surpassed the R300 billion benchmark in assets under management (AUM). This stemmed partly from the strong fund outperformance we were able to deliver to clients in the aftermath of the Coronavirus crisis from mid-2020 onward, and partly from the growing number of clients who appreciate our added value. I would like to thank you all for your support in what has been an extraordinary two years in financial market history.

## **New portfolio manager and COO**

In other company news, René Prinsloo was recently appointed as a portfolio manager after having joined us in October 2019 as a member of the fixed income team. He is now a co-manager of the M&G Income, High Interest and Money Market Funds. Rene has 17 years of industry experience across both buy- and sell-side roles, most recently for Avior Capital Markets as a fixed income analyst and dealer. He is a qualified actuary (FFA) and a CFA charter holder, and holds a B.Sc. Honours degree from Stellenbosch University.

Our new Chief Operating Officer (COO) is Daryl van Zyl, who was promoted from his previous role as Head of Operations in February. Daryl joined M&G Investments in March 2011, and has over 20 years of industry experience. He is responsible for maintaining M&G's operational environment and finding ways to improve it through continuous innovation, greater efficiency and

the latest systems and technologies. He is also a member of the ASISA Technological & Operations Board sub-committee. Daryl's education includes a Higher Diploma in Education: Financial Accounting (University of the Western Cape); a B.Com (Honours): Business Administration (University of the Western Cape); and a Post Graduate Diploma: Management Practice (Graduate School of Business, University of Cape Town).

### Looking forward

We believe that investing in attractively priced assets, along with appropriate diversification, should help to limit the downside that comes with volatile market conditions. As the war grinds on, we are still convinced that our portfolios are well-positioned to add above-market value to client returns over the medium term. This view is based predominantly on the fact that most SA asset class valuations started 2022 very cheap, on both an historic and relative basis, and these valuations have not changed significantly during the market turmoil. In our view, the market remains overly pessimistic about SA companies' expected performances - there are many excellent businesses in South Africa like banks, retailers and miners that have demonstrated solid long-term profitability, and we believe many have the potential to deliver strong results going forward, with earnings and dividends showing a robust return to growth over the medium term.

Our analysis also indicates that local nominal bond yields present investors with an attractive opportunity to earn lucrative real returns over time. Although the SARB has forecast local inflation rising to approximately 5.9% in the coming months, and analysts believe it could breach the central bank's 6% upper target, this should be temporary, in our view.

As such, we continue to prefer SA equities and bonds, as well as offshore cash, in our multi-asset portfolios. Our equity exposure is highly diversified both locally and offshore, with SA holdings tilted towards defensive stocks like British American Tobacco and sectors with relatively high earnings yields such as Resources and Financials, where rising inflation and interest rates have less impact on earnings.

As valuation-based investors, we will remain focused on the fundamentals in the months ahead, and on ensuring that we actively manage client portfolios to avoid any new risks and exploit opportunities that may emerge amid the uncertainty. Clients should remember to stick with their longer-term investment solutions and not look to traditional low-risk options like cash, as real cash returns remain poor and holding risk assets like equities will help portfolios to outperform rising inflation over the medium term.

Sincerely,

A handwritten signature in black ink that reads "Chris Sickle". The signature is written in a cursive, flowing style.

Chris joined M&G Investments in 2019 as Chief Financial Officer and took over from Bernard Fick as Chief Executive Officer in October 2021. He is primarily responsible for all aspects of M&G Investments Southern Africa's operations, including Namibia. With over 22 years of asset management experience, Chris previously worked for Ernst & Young (EY) as the Regional Managing Partner in the Western Cape and was a member of the EY Africa Executive Board. His qualifications include: B.Com Accounting (University of the Western Cape); B.Acc.Sc (Hons) (University of South Africa); Chartered Accountant (SA).