**Chris Sickle**
Chief Executive Officer

# Letter from the CEO

**Global financial markets sold off sharply in the third quarter** of 2022, but especially in September as negativity around global growth gathered steam, spurred by aggressive central bank interest rate hikes (and steeper forecasts) led by the US Federal Reserve. Central bankers vowed a stiff fight against surprisingly high inflation data and growing signs of second-round price effects, despite acknowledging the "pain" caused to consumers and businesses. The chances of recession increased meaningfully, and economists, analysts and investors like ourselves are now considering the possibility that this disruption marks a longer-lasting global shift back towards a paradigm of higher inflation and interest rates last prevalent in the early 1980s. In such conditions, the investment strategies of the past are not likely to be as effective going forward. Read more on our thoughts on this topic in the accompanying article by our CIO David Knee.

The deteriorating environment was felt across all asset classes and regions. Investors fear emerging economies will be obliged to increase interest rates more in line with the US than dictated by their own local conditions, leading to excessive growth slowdowns or stagflation. A final notable feature of the quarter was significant US dollar strength on the back of prospects of even higher US interest rates, with the greenback reaching multi-decade highs against the pound sterling and euro, and moving about 10% stronger versus the rand.

The South African Reserve Bank followed the US with a total of 150bps of interest rate hikes during Q3, both to curb local price pressures and to ensure the interest rate differential between SA and the US doesn't become too wide, therefore protecting against rand weakness. South African equity returns were in the red but did manage to lose less than both the MSCI ACWI (global) and the MSCI emerging market indices during the quarter. Resources and Listed Property stocks were relatively hard-hit, with the former dragged down by falling global commodity prices. South African bonds continued their outperformance of global bonds so far in 2022, delivering marginally positive returns and helped by their attractive yields on both an absolute and relative basis. Finally, SA inflation-linked bonds (ILBs) were in negative territory. Details on Q3 2022 market performance and our investment views will be available in our latest Market Observations report.

## M&G portfolio performance

Against this backdrop, on a relative basis our flagship funds outperformed their benchmarks or the average of their ASISA category peers over the past 12 months. Their absolute returns remained in positive territory for the 12-month period as well. Globally, our underweight positioning in global bonds helped fund performance, as did our neutral stance in global equities. Global cash holdings also provided a cushion for client returns.

Our SA equity selection has also continued to add relative value over the 12-month period, as has our overweight holding in SA bonds. However, our funds targeting inflation-plus returns were impacted negatively by higher inflation and the prevailing low-to-negative absolute return environment.

## Celebrating women and diversity

August was Women's Month in South Africa, and at M&G Investments we celebrate diversity and inclusion, which includes a conscious effort to promote gender equality in our business every day. It is a well-known fact that the investment industry globally is traditionally a male-orientated one, and South Africa is no different. However, we are pleased to see that over the last few years, more and more females are carving out successful careers for themselves in our industry. For us, diversity and inclusion are key tenets for our success.

We are proud to play a positive role in the careers of the 85 females (of whom 60 are Black) now in our company, representing 48% of our staff. Thirteen of the 38 staff employed across our investment teams are female, and in our Exco, three of the 8 members are female, of whom two are Black.

This helps make M&G Investments a diverse place to work, demonstrating our commitment to gender transformation in the investment industry and the country as a whole. This focus on an inclusive culture has enabled us to attract and retain female talent across our teams. We encourage our people managers to engage with their staff around goals and career paths, helping ensure that our people are in the right place and in the right role irrespective of their gender. We tap into the passions of our people and assist with any development or training required to achieve their goals. This not only benefits our staff, but allows us to retain and grow our talent, which we require to achieve our purpose of helping our clients live the lives they want and retire with dignity.

Additionally, on 24 September we celebrated Heritage Day by honouring the different cultures and cuisines represented in South Africa. Our staff cooked dishes to be shared, representative of their family heritage, through which we were able to raise approximately R24,000 to donate to The Haven Night Shelter, a non-profit providing care, food and shelter for the homeless in the Western Cape. M&G Investments matched the staff contributions, through which we were able to provide safe beds to 347 homeless people for five nights.

## More online security enhancements

A part of managing our clients' money, it is fundamental that we ensure that your funds and details are safeguarded, especially in this environment of cybercrime. We are aware of ongoing fraud attempts across the local financial services industry and ask that you be extra cautious when engaging online in money-related matters. As part of our ongoing efforts to ensure the protection of our clients' personal information, from 9 September 2022 we started sending a confirmation email to all clients following any online changes made to their static details on record. This is in addition to the SMS and telephonic notifications we send after having processed clients' requested changes. Financial advisers are now able to view and track their clients' online instructions and notifications to us as well.

## Outlook

In escalating their fight against persistent inflation, global central bankers have warned that consumers are likely to feel more pain going forward before conditions improve. Economies could fall into recession or experience stagflation. In our view, it is best for investors to know that they are likely to experience ongoing volatility and further possible market downturns in the months ahead, and to be prepared for these and not panic. Remember that the global economy and financial markets always move in cycles, and that eventually we will come out of the current downturn and into a new growth cycle and market upturn. A key to investment success is not to miss out on the upturn when it does materialise – whenever that may be.

We have already seen falls in the global oil price and slowing food inflation, with consumer inflation thought to have now peaked in the US. Meanwhile, SA asset valuations have cheapened further, with current measures indicating double-digit prospective returns from SA equities and bonds over the next three to five years. Of course, no one knows when exactly these returns will materialise and in what fashion, but they provide a healthy margin of safety that should reward investors well for the risks they are taking over time.

Despite this cheapness, we have opted not to add more to our overweight SA equity and bond positions in our houseview portfolios, nor have we added to our global equity exposure, given the increased risks to company earnings, bond yields and economic growth. We prefer to see further de-ratings before increasing our holdings. We have also kept our neutral stance in SA listed property for the same reasons.

As our clients, you should know that we manage your funds with the goal of consistently performing through full market cycles, both the up and the down, and we are still confident that our funds are on track to meet their goals based on the excellent valuations at which we've bought our holdings. Patience is what is required now to weather the current downturn, taking advantage of selective opportunities until the Fed signals an end to its rate hiking cycle.

Sincerely,

Chris Sickle

**Chris Sickle**
Chief Executive Officer

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).