

# M&G Unit Trust Quarterly Commentary

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

Q3 2024

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5% Target Income Fund	<a href="#">View commentary</a> 
7% Target Income Fund	<a href="#">View commentary</a> 

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# M&G Money Market Fund

Income

Q3 2024

## Market overview

The third quarter of 2024 (Q3) witnessed notable fluctuations in global financial markets, driven by diverse economic signals, a shift among major central banks toward easing monetary policies and geopolitical tension. In mid-September, the US Federal Reserve (Fed) implemented a sizable interest rate cut of 50 basis points, lowering the target range to 4.75%-5.00%. This shift propelled global equity markets to new heights, while weakening the US dollar to major currencies.

In the US, Treasuries rallied leading up to the Fed's decision, while rate cuts pressured the US dollar and led to a rally in US equities. This environment contributed to a rally in global bond markets, particularly reflected in the Bloomberg Global Aggregate Bond Index delivering 7.0% (US\$) for the quarter.

Equity markets continued to perform well in the third quarter. Global equities (as measured by the MSCI All Country World Index) recorded a total return of 6.6% in Q3 compared to 2.9% in Q2, while emerging market equities (MSCI Emerging Markets Index) rallied another 8.7% in Q3 from 5.0% in Q2 (all in US\$).

In South Africa, improving sentiment from a market-friendly election, better economic conditions, and easing monetary policy led to gains in asset prices and the Rand, with the FTSE/JSE All Share Index rising 9.6% in rand terms. Key contributors included Listed Property (19.1%) and Financials (13.7%), while Resources declined by 1.1%. Industrials was one of the standout performers benefitting from the month-end China rally as Naspers and Prosus prices reacted to the strong move in the Tencent share price. From a South African investor perspective, the move had beneficial implications as Tencent followed the market higher, sending the share prices for Naspers and Prosus up by about 14% in September. In addition, the stimulus announcement led to higher commodity prices, which had a positive impact on the local resource sector.

South African bonds performed strongly, with the FTSE/JSE All Bond Index rising 10.5% (in Rand) over the quarter and adding more positive returns to the total for the year. Bond yields continued the downward move we have seen since the conclusion of the GNU election results.

Meanwhile, CPI decreased to 4.4% y/y in August, below the SARB's target and forecasts of 4.5%, down from 4.6% in July. This marks the third consecutive month of inflation slowdown. Following the Fed's lead, the Monetary Policy Committee (MPC) implemented a widely anticipated 25 basis point rate cut to 8%.

## Performance

The M&G Money Market Fund returned 2.1% for the quarter (A class, net of fees), 9bps ahead of its benchmark. Over the 12 months ending 30 September 2024, the Fund returned 8.8% versus 8.2% from the benchmark. It has also generated pleasing returns relative to its peer group over the last couple of years, with a ranking of 12th out of 37 funds over the past three years (Morningstar).

## Positioning

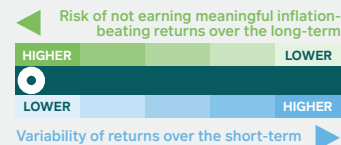
The third quarter was a stellar one for South African fixed rate assets. The performance of the ALBI illustrates this well – the 10.5% return of the index for the quarter is the third best quarterly return that it has delivered since its inception in 2001. This return was underpinned by a number of factors, the most notable of which was the improvement in investor sentiment towards South Africa after the May election and the formation of the GNU.

Another significant driver of returns was the extent to which inflation receded, and the unexpected nature of this move. At the start of the quarter the most recently reported headline inflation print for SA was at 5.2% y/y, still well within the upper half of the SARB's target range. This has since dropped to 4.4% y/y, which moves it into the lower half of the target range. This is the lowest inflation print that SA has seen since the first half of 2021. Similarly, both core as well as producer price inflation have receded significantly. This inflation move has led to a material recalibration of economist forecasts. To use the SARB as an example, they now expect inflation to average 0.5% less for both 2024 and 2025 than what their forecasts suggested at the start of the quarter. Furthermore, they now expect headline inflation to remain below the mid-point of their target range for the remainder of their forecast period (to the end of 2026). Three months ago they were only expecting inflation to sustainably move to the lower half of the target band from the second quarter of 2025.

In line with this improving inflation forecast, the SARB cut the repo rate by 25bps in September, after having kept it unchanged for over a year. The confluence of all of these factors (SARB cut, inflation improvement and improved sentiment) led the market to significantly revise its interest rate outlook. At the start of the quarter the FRA market was expecting only a 50bp cutting cycle over the next two years. The market is now pricing in a further 100bps of interest rate cuts (i.e. a total cutting cycle of 150bps).

This backdrop resulted in some significant moves in money market assets. Over the past quarter the NCD curve has moved lower by more than the 25bps SARB rate cut, and the curve has also inverted. Both of these changes point to the market pricing in further rate cuts. Indeed, when you compare fixed NCD rates to their floating counterparts it would appear to us that the NCD market is pricing in approximately a further 100bps of rate cuts, or a total cycle of 125bps, roughly in line with the FRAs. Floating rate spreads are less impacted by expected interest rate changes and these have remained roughly unchanged, moving about 10bps lower over the quarter. The treasury bill curve also moved lower and has also inverted but remains at an attractive level relative to bank NCDs. We therefore maintain a significant holding in treasury bills across most money market mandates, including the M&G Money Market Fund.

## Risk profile



## 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 589 247 406

## Annualised performance

	A class	Benchmark	X class
1 year	8.8%	8.2%	8.8%
3 years	7.1%	6.6%	7.1%
5 years	6.2%	5.7%	6.2%
7 years	6.6%	6.0%	6.6%
10 years	6.7%	6.1%	6.7%
20 years	7.0%	6.6%	-
Since inception	7.4%	7.1%	-

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The Fund maintained a relatively high duration and maturity exposure over the course of the quarter. Both the weighted average duration and weighted average maturity levels increased by around 8 days, to 76 days and 120 days respectively, close to

the upper end of the category limits. The relatively long-dated exposure in the fund means that, to some extent, attractive yield levels have been locked in in a declining interest rate environment, which should assist the relative performance of the fund. □

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Collective Investment Schemes (unit trusts) are generally medium-to long-term investments. Past performance is not necessarily a guide to future investment performance. Unit trust prices are calculated on a net asset value basis. This means the price is the total net market value of all assets of the unit trust fund divided by the total number of units of the fund. Any market movements – for example in share prices, bond prices, money market prices or currency fluctuations – relevant to the underlying assets of the fund may cause the value of the underlying assets to go up or down. As a result, the price of your units may go up or down. Unit trusts are traded at the ruling forward price of the day, meaning that transactions are processed during the day before you or the Manager know what the price at the end of the day will be. The price and therefore the number of units involved in the transaction are only known on the following day. The unit trust fund may borrow up to 10% of the fund value, and it may also lend any scrip (proof of ownership of an investment instrument) that it holds to earn additional income. A M&G unit trust fund may consist of different fund classes that are subject to different fees and charges. Where applicable, the Manager will pay your financial adviser an agreed standard ongoing adviser fee, which is included in the overall costs of the fund. A unit trust summary with all fees and maximum initial and ongoing adviser fees is available on our website. One can also obtain additional information on M&G products on the M&G website. The Fund may hold foreign securities including foreign CIS funds. As a result, the fund may face material risks. The volatility of the fund may be higher and the liquidity of the underlying securities may be restricted due to relative market sizes and market conditions. The fund's ability to settle securities and to repatriate investment income, capital or the proceeds of sales of securities may be adversely affected for multiple reasons including market conditions, macro-economic and political circumstances. Further, the return on the security may be affected (positively or negatively) by the difference in tax regimes between the domestic and foreign tax jurisdictions. The availability of market information and information on any underlying sub-funds may be delayed. The Manager may, at its discretion, close your chosen unit trust fund to new investors and additional investments by existing investors to make sure that it is managed in accordance with its mandate. It may also stop your existing debit order investment. The Manager makes no guarantees as to the capital invested in the fund or the returns of the fund. Excessive withdrawals from the fund may place the fund under liquidity pressure and, in certain circumstances; a process of ring-fencing withdrawal instructions may be followed. Fund prices are published daily on the M&G website. These are also available upon request. The performance is calculated for the portfolio. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. Purchase and repurchase requests must be received by the Manager by 13h30 (11h30 for the Money Market Fund) SA time each business day. All online purchase and repurchase transactions must be received by the Manager by 10h30 (for all Funds) SA time each business day.

# M&G High Interest Fund

Income

This fund is capped to new investors.

Q3 2024

## Market overview

The third quarter of 2024 (Q3) witnessed notable fluctuations in global financial markets, driven by diverse economic signals, a shift among major central banks toward easing monetary policies and geopolitical tension. In mid-September, the US Federal Reserve (Fed) implemented a sizable interest rate cut of 50 basis points, lowering the target range to 4.75%-5.00%. This shift propelled global equity markets to new heights, while weakening the US dollar to major currencies.

In the US, Treasuries rallied leading up to the Fed's decision, while rate cuts pressured the US dollar and led to a rally in US equities. This environment contributed to a rally in global bond markets, particularly reflected in the Bloomberg Global Aggregate Bond Index delivering 7.0% (US\$) for the quarter.

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In South Africa, improving sentiment from a market-friendly election, better economic conditions, and easing monetary policy led to gains in asset prices and the Rand, with the FTSE/JSE All Share Index rising 9.6% in rand terms. Key contributors included Listed Property (19.1%) and Financials (13.7%), while Resources declined by 1.1%. Industrials was one of the standout performers benefitting from the month-end China rally as Naspers and Prosus prices reacted to the strong move in the Tencent share price. From a South African investor perspective, the move had beneficial implications as Tencent followed the market higher, sending the share prices for Naspers and Prosus up by about 14% in September. In addition, the stimulus announcement led to higher commodity prices, which had a positive impact on the local resource sector.

South African bonds performed strongly, with the FTSE/JSE All Bond Index rising 10.5% (in Rand) over the quarter and adding more positive returns to the total for the year. Bond yields continued the downward move we have seen since the conclusion of the GNU election results.

Meanwhile, CPI decreased to 4.4% y/y in August, below the SARB's target and forecasts of 4.5%, down from 4.6% in July. This marks the third consecutive month of inflation slowdown. Following the Fed's lead, the Monetary Policy Committee (MPC) implemented a widely anticipated 25 basis point rate cut to 8%.

## Performance

Over the past quarter the M&G High Interest Fund returned 2.2% (A-class, net of fees), which was 16bps head of its benchmark. For the 12 months ending 30 September 2024, the Fund returned

8.9% (A class, net of fees) versus the benchmark's 8.5%.

Due to the conservative way in which we manage the fund, and the lack of duration opportunities inherent in the mandate, as one would expect, the fund did not participate much in the post-election rally. However, given that the SARB only recently commenced its rate cutting cycle, the predominantly floating-rate exposure of the fund benefitted from the high level JIBAR rate. The fund therefore generated an absolute level of return over the quarter that falls on the high side of what it has achieved historically.

## Positioning

The third quarter was a stellar one for South African fixed rate assets. The performance of the ALBI illustrates this well – the 10.5% return of the index for the quarter is the third best quarterly return that it has delivered since its inception in 2001. This return was underpinned by a number of factors, the most notable of which was the improvement in investor sentiment towards South Africa after the May election and the formation of the GNU.

Another significant driver of returns was the extent to which inflation receded, and the unexpected nature of this move. At the start of the quarter the most recently reported headline inflation print for SA was at 5.2% y/y, still well within the upper half of the SARB's target range. This has since dropped to 4.4% y/y, which moves it into the lower half of the target range. This is the lowest inflation print that SA has seen since the first half of 2021. Similarly, both core as well as producer price inflation have receded significantly. This inflation move has led to a material recalibration of economist forecasts. To use the SARB as an example, they now expect inflation to average 0.5% less for both 2024 and 2025 than what their forecasts suggested at the start of the quarter. Furthermore, they now expect headline inflation to remain below the mid-point of their target range for the remainder of their forecast period (to the end of 2026). Three months ago they were only expecting inflation to sustainably move to the lower half of the target band from the second quarter of 2025.

In line with this improving inflation forecast, the SARB cut the repo rate by 25bps in September, after having kept it unchanged for over a year. The confluence of all of these factors (SARB cut, inflation improvement and improved sentiment) led the market to significantly revise its interest rate outlook. At the start of the quarter the FRA market was expecting only a 50bp cutting cycle over the next two years. The market is now pricing in a further 100bps of interest rate cuts (i.e. a total cutting cycle of 150bps).

This backdrop resulted in some significant moves in money market assets. Over the past quarter the NCD curve has moved lower by more than the 25bps SARB rate cut, and the curve

## Risk profile

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

R11 080 501 952

## Annualised performance

	A class	Benchmark	X class	D class
1 year	8.9%	8.5%	9.1%	9.2%
3 years	7.3%	6.9%	7.4%	7.5%
5 years	6.2%	6.1%	6.3%	6.4%
7 years	6.6%	6.5%	6.7%	6.9%
10 years	6.9%	6.6%	7.0%	7.1%
Since inception	6.5%	6.3%	-	-

has also inverted. Both of these changes point to the market pricing in further rate cuts. Indeed, when you compare fixed NCD rates to their floating counterparts it would appear to us that the NCD market is pricing in approximately a further 100bps of rate cuts, or a total cycle of 125bps, roughly in line with the FRAs. Floating rate spreads are less impacted by expected interest rate changes and these have remained roughly unchanged, moving about 10bps lower over the quarter. The treasury bill curve also moved lower and has also inverted but remains at an attractive level relative to bank NCDs. We therefore maintain a significant holding in treasury bills (TB) across most money market mandates. 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.

We made no significant changes to the positioning of the fund over the past quarter.

### Credit

Total credit issuance (excluding government issuances) picked up 30% in Q3 2024 with R47.5bn issued, compared to R36.7bn in Q2 2024, with Q3 issuance being the largest quarterly issuance year-to-date. The Q3 issuance was up 63% compared to the same quarter in the prior year (Q3 2023: R29.2bn issued). Rolling 12 months issuance to Q3 2024 sits at R171.3bn compared to R157.4bn for the 12 months to Q3 2023.

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

Data compiled by RMB's Credit Research team indicates that banks and financial issuers dominated primary market issuance for the quarter contributing to 54% of gross issuance, followed by corporates at 18%. Q3 was the strongest quarter for banks year to date. ABSA Bank Limited was the largest bank issuer of the quarter, raising R3.3bn senior unsecured via green bonds and ABSA Group Limited raised R3bn Tier 2 paper via both private placement and auction. Nedbank Limited raised R3.1bn senior unsecured paper in July. Additionally, Nedbank Group Limited privately placed R3bn Additional Tier 1 paper. Transnet was the largest issuer of the quarter, issuing R6bn in September via private placement tap issuance. Q3 saw the smallest quarterly corporate issuance year to date with R8.8bn issued. Mobile Telephone Networks Ltd was the largest corporate issuer for the quarter, raising in total R2.9bn via an auction and a separate private placement.

July was the strongest issuance month year-to-date for banks with R10.3bn issued comprising purely of senior ranking issuance. ABSA Bank Limited, Nedbank Limited and The Standard Bank of South Africa Limited all issued senior notes carrying 3-year, 5-year and 7-year tenors, with investors showing the most interest in the 7-year note in each instance; reflecting investors being open to purchases further down the curve in search for yield. July further saw Telkom SA SOC Limited return to the local debt capital auction market, holding its first public auction since 2019.

August saw the strongest securitisation issuance year-to-date with R4bn issued across 3 structures. The issuance GCR raised Transaction Capital's rating outlook from negative to stable during August as the Group is now in a net cash position following the successful unbundling of WeBuyCars

and the subsequent settlement of the majority of its debt and liabilities including the listed bond TC001.

September was the strongest issuance month of Q3 with R18.6bn issued, R7bn of which was SOE issuance. In addition to Transnet's R6bn tap-issuance, the IDC privately placed R1bn.

After defaulting on its obligations four and a half years ago, the Land Bank was finally able to conclude a restructure with its lenders on the 16th of September. The restructure saw lenders exchange their existing Land Bank holdings for new amortising instruments maturing in March 2028. The implementation of the restructure allowed for the injection of an additional R5bn of equity into the Land Bank courtesy of National Treasury – a material benefit to lenders. Subsequent to the restructure, Land Bank repaid roughly a third of the amount it owed lenders - a positive outcome for all creditors. This repayment resulted in the proportional unwind of the impairment we hold against Land Bank exposures. The net effect of this change was a small positive contribution to the fund's performance of 3bps for the month of September. With the restructure concluded, the hope is that Land Bank can now focus on creating a sustainable business while continuing to service and ultimately repay existing lenders.

There was little move in credit spreads over the quarter, with both fixed rate credit spreads and floating rate credit spreads closing the quarter +1 bps wider. □

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# M&G Income Fund

Income

Q3 2024

## Market overview

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In the US, Treasuries rallied leading up to the Fed's decision, while rate cuts pressured the US dollar and led to a rally in US equities. This environment contributed to a rally in global bond markets, particularly reflected in the Bloomberg Global Aggregate Bond Index delivering 7.0% (US\$) for the quarter.

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Meanwhile, CPI decreased to 4.4% y/y in August, below the SARB's target and forecasts of 4.5%, down from 4.6% in July. This marks the third consecutive month of inflation slowdown. Following the Fed's lead, the Monetary Policy Committee (MPC) implemented a widely anticipated 25 basis point rate cut to 8%.

## Performance

Over the past quarter the M&G Income Fund returned 2.7% (A class, net of fees), which was 63bps ahead of the benchmark. For the 12 months ending 30 September 2024, the fund returned 9.9% (A class, net of fees) versus the benchmark's 8.6%.

## Annualised performance

	A class	Benchmark	D class
1 year	9.9%	8.5%	10.0%
3 years	8.3%	6.9%	8.5%
5 years	7.1%	6.1%	7.3%
7 years	7.6%	6.5%	7.7%
Since inception	7.7%	6.6%	-

We typically don't take big duration positions in this product, as evidenced by the current duration of around 60 days. We invest mostly in high-quality government and credit paper, predominantly of floating rate nature. At times we will attempt to enhance yields by buying slightly longer-dated instruments that would be suitable for the money market fund, which this fund's mandate allows. This approach reduces the volatility of returns, and the capital losses that occur when bonds sell off, but also means that the fund participates less during a strong market rally like we have just seen.

## Positioning

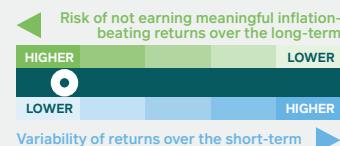
The third quarter was a stellar one for South African fixed rate assets. The performance of the ALBI illustrates this well – the 10.5% return of the index for the quarter is the third best quarterly return that it has delivered since its inception in 2001. This return was underpinned by a number of factors, the most notable of which was the improvement in investor sentiment towards South Africa after the May election and the formation of the GNU.

Another significant driver of returns was the extent to which inflation receded, and the unexpected nature of this move. At the start of the quarter the most recently reported headline inflation print for SA was at 5.2% y/y, still well within the upper half of the SARB's target range. This has since dropped to 4.4% y/y, which moves it into the lower half of the target range. This is the lowest inflation print that SA has seen since the first half of 2021. Similarly, both core as well as producer price inflation have receded significantly. This inflation move has led to a material recalibration of economist forecasts. To use the SARB as an example, they now expect inflation to average 0.5% less for both 2024 and 2025 than what their forecasts suggested at the start of the quarter. Furthermore, they now expect headline inflation to remain below the mid-point of their target range for the remainder of their forecast period (to the end of 2026). Three months ago, they were only expecting inflation to sustainably move to the lower half of the target band from the second quarter of 2025.

In line with this improving inflation forecast, the SARB cut the repo rate by 25bps in September, after having kept it unchanged for over a year. The confluence of all of these factors (SARB cut, inflation improvement and improved sentiment) led the market to significantly revise its interest rate outlook. At the start of the quarter the FRA market was expecting only a 50bp cutting cycle over the next two years. The market is now pricing in a further 100bps of interest rate cuts (i.e. a total cutting cycle of 150bps).

This backdrop resulted in some significant moves in money market assets. Over the past quarter, the NCD curve has moved lower by more than the 25bps SARB rate cut, and the curve has also inverted. Both changes point to the market pricing in further rate cuts. Indeed, when you compare fixed NCD rates to

## Risk profile



## Fund facts

### Fund objective

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

### Investor profile

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

### Investment mandate

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

### Fund managers

Roshen Harry  
René Prinsloo

### ASISA category

South African - Interest Bearing - Short Term

### Benchmark

STeFI Composite Index measured over a rolling 12-month period

### Inception date

6 December 2016

### Fund size

R354 258 126

their floating counterparts it would appear to us that the NCD market is pricing in approximately a further 100bps of rate cuts, or a total cycle of 125bps, roughly in line with the FRAs. Floating rate spreads are less impacted by expected interest rate changes and these have remained roughly unchanged, moving about 10bps lower over the quarter. The treasury bill curve also moved lower and has also inverted but remains at an attractive level relative to bank NCDs. We therefore maintain a significant holding in treasury bills (TB) across most money market mandates. For the M&G Income Fund specifically, the fact that the fund can hold longer-dated instruments makes TBs a less compelling investment relative to what else is available, and we remain uninvested in TBs.

#### Credit

Total credit issuance (excluding government issuances) picked up 30% in Q3 2024 with R47.5bn issued, compared to R36.7bn in Q2 2024, with Q3 issuance being the largest quarterly issuance year-to-date. The Q3 issuance was up 63% compared to the same quarter in the prior year (Q3 2023: R29.2bn issued). Rolling 12 months issuance to Q3 2024 sits at R171.3bn compared to R157.4bn for the 12 months to Q3 2023.

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

Data compiled by RMB's Credit Research team indicates that banks and financial issuers dominated primary market issuance for the quarter contributing to 54% of gross issuance, followed by corporates at 18%. Q3 was the strongest quarter for banks year to date. ABSA Bank Limited was the largest bank issuer of the quarter, raising R3.3bn senior unsecured via green bonds and ABSA Group Limited raised R3bn Tier 2 paper via both private placement and auction. Nedbank Limited raised R3.1bn senior unsecured paper in July. Additionally, Nedbank Group Limited privately placed R3bn Additional Tier 1 paper. Transnet was the largest issuer of the quarter, issuing R6bn in September via private placement tap issuance. Q3 saw the smallest quarterly corporate issuance year to date with R8.8bn issued. Mobile Telephone Networks Ltd was the largest corporate issuer for the quarter, raising in total R2.9bn via an auction and a separate private placement.

July was the strongest issuance month year-to-date for banks with R10.3bn issued comprising purely of senior ranking issuance. ABSA Bank Limited, Nedbank Limited and The Standard Bank of South Africa Limited all issued senior notes carrying 3-year, 5-year and 7-year tenors, with investors showing the most interest in the 7-year note in each instance; reflecting investors being open to purchases further down the curve in search for yield. July further saw Telkom SA SOC Limited return to the local debt capital auction market, holding its first public auction since 2019.

August saw the strongest securitisation issuance year-to-date with R4bn issued across three structures. The issuance GCR raised Transaction Capital's rating outlook from negative to stable during August as the Group is now in a net cash position following the successful unbundling of WeBuyCars and the subsequent settlement of the majority of its debt and liabilities including the listed bond TC001.

September was the strongest issuance month of Q3 with R18.6bn issued, R7bn of which was SOE issuance. In addition

to Transnet's R6bn tap-issuance, the IDC privately placed R1bn.

After defaulting on its obligations four and a half years ago, the Land Bank was finally able to conclude a restructure with its lenders on the 16th of September. The restructure saw lenders exchange their existing Land Bank holdings for new amortising instruments maturing in March 2028. The implementation of the restructure allowed for the injection of an additional R5bn of equity into the Land Bank courtesy of National Treasury – a material benefit to lenders. Subsequent to the restructure, Land Bank repaid roughly a third of the amount it owed lenders - a positive outcome for all creditors. This repayment resulted in the proportional unwind of the impairment we hold against Land Bank exposures. The net effect of this change was a small positive contribution to the fund's performance of 14bps for the month of September. With the restructure concluded, the hope is that Land Bank can now focus on creating a sustainable business while continuing to service and ultimately repay existing lenders.

There was little move in credit spreads over the quarter, with both fixed rate credit spreads and floating rate credit spreads closing the quarter +1 bps wider. □

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Collective Investment Schemes (unit trusts) are generally medium-to long-term investments. Past performance is not necessarily a guide to future investment performance. Unit trust prices are calculated on a net asset value basis. This means the price is the total net market value of all assets of the unit trust fund divided by the total number of units of the fund. Any market movements – for example in share prices, bond prices, money market prices or currency fluctuations – relevant to the underlying assets of the fund may cause the value of the underlying assets to go up or down. As a result, the price of your units may go up or down. Unit trusts are traded at the ruling forward price of the day, meaning that transactions are processed during the day before you or the Manager know what the price at the end of the day will be. The price and therefore the number of units involved in the transaction are only known on the following day. The unit trust fund may borrow up to 10% of the fund value, and it may also lend any scrip (proof of ownership of an investment instrument) that it holds to earn additional income. A M&G unit trust fund may consist of different fund classes that are subject to different fees and charges. Where applicable, the Manager will pay your financial adviser an agreed standard ongoing adviser fee, which is included in the overall costs of the fund. A unit trust summary with all fees and maximum initial and ongoing adviser fees is available on our website. One can also obtain additional information on M&G products on the M&G website. The Fund may hold foreign securities including foreign CIS funds. As a result, the fund may face material risks. The volatility of the fund may be higher and the liquidity of the underlying securities may be restricted due to relative market sizes and market conditions. The fund's ability to settle securities and to repatriate investment income, capital or the proceeds of sales of securities may be adversely affected for multiple reasons including market conditions, macro-economic and political circumstances. Further, the return on the security may be affected (positively or negatively) by the difference in tax regimes between the domestic and foreign tax jurisdictions. The availability of market information and information on any underlying sub-funds may be delayed. The Manager may, at its discretion, close your chosen unit trust fund to new investors and additional investments by existing investors to make sure that it is managed in accordance with its mandate. It may also stop your existing debit order investment. The Manager makes no guarantees as to the capital invested in the fund or the returns of the fund. Excessive withdrawals from the fund may place the fund under liquidity pressure and, in certain circumstances, a process of ring-fencing withdrawal instructions may be followed. Fund prices are published daily on the M&G website. These are also available upon request. The performance is calculated for the portfolio. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. Purchase and repurchase requests must be received by the Manager by 13h30 (11h30 for the Money Market Fund) SA time each business day. All online purchase and repurchase transactions must be received by the Manager by 10h30 (for all Funds) SA time each business day.

# M&G Bond Fund

Income

Q3 2024

## Market overview

The third quarter of 2024 (Q3) witnessed notable fluctuations in global financial markets, driven by diverse economic signals, a shift among major central banks toward easing monetary policies and geopolitical tension. In mid-September, the US Federal Reserve (Fed) implemented a sizable interest rate cut of 50 basis points, lowering the target range to 4.75%-5.00%. This shift propelled global equity markets to new heights, while weakening the US dollar to major currencies.

In August, the Bank of England (BoE) reduced its main interest rate from 5.25% to 5%, maintaining this level through September. The BoE also announced plans to sell an additional £100 billion in bonds over the next year, thus scaling back its quantitative easing efforts.

The European Central Bank (ECB) also continued the easing trend, cutting its deposit rate by 25 basis points to 3.5% in September. Improved economic data and interest rate cuts in Europe and the US contributed to a recovery in European stocks following a selloff earlier in August.

Equity markets continued to perform well in the third quarter. Global equities (as measured by the MSCI All Country World Index) recorded a total return of 6.6% in Q3 compared to 2.9% in Q2, while emerging market equities (MSCI Emerging Markets Index) rallied another 8.7% in Q3 from 5.0% in Q2 (all in US\$).

Emerging market equity returns were led by strong performances from China, South Africa and India. South Africa and India are still benefiting from a market-friendly election outcome while China saw a rebound amid the stimulus measures announced to aid its economy.

In South Africa, improving sentiment from a market-friendly election, better economic conditions, and easing monetary policy led to gains in asset prices and the Rand, with the FTSE/JSE All Share Index rising 9.6% in rand terms. Key contributors included Listed Property (19.1%) and Financials (13.7%), while Resources declined by 1.1%. Industrials was one of the standout performers benefitting from the month-end China rally as Naspers and Prosus prices reacted to the strong move in the Tencent share price. From a South African investor perspective, the move had beneficial implications as Tencent followed the market higher, sending the share prices for Naspers and Prosus up by about 14% in September. In addition, the stimulus announcement led to higher commodity prices, which had a positive impact on the local resource sector.

South African bonds performed strongly, with the FTSE/JSE All Bond Index rising 10.5% (in Rand) over the quarter and adding more positive returns to the total for the year. Bond yields continued the downward move we have seen since the

conclusion of the GNU election results.

Meanwhile, CPI decreased to 4.4% y/y in August, below the SARB's target and forecasts of 4.5%, down from 4.6% in July. This marks the third consecutive month of inflation slowdown. Following the Fed's lead, the Monetary Policy Committee (MPC) implemented a widely anticipated 25 basis point rate cut to 8%.

## Performance

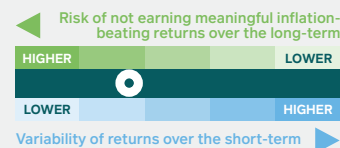
The M&G Bond Fund delivered a very pleasing absolute return of 10.5% (A-class, net of fees) over the past quarter. This was, however, a whisker behind the 10.5% generated by the ALBI benchmark over this period. On a relative basis the fund continues to perform well, ranking 2nd out of 40 funds over the past three years and 9th out of 33 funds over the past five years (Morningstar).

## Positioning

The third quarter was a stellar one for South African fixed rate assets. The performance of the ALBI illustrates this well – the 10.5% return of the index for the quarter is the third best quarterly return that it has delivered since its inception in 2001. Furthermore, of the 20+ most liquid emerging and developed markets that we monitor closely, the SA bond market had the best local currency performance over the past month, quarter and year. When one takes into account that the rand has also been one of the best-performing currencies over this period, it becomes clear that the SA bond market has delivered exceptional returns on any constant currency basis. This outcome was underpinned by a number of factors, the most notable of which was the improvement in investor sentiment towards South Africa after the May election and the formation of the GNU.

Another significant driver of returns was the extent to which inflation receded, and the unexpected nature of this move. At the start of the quarter the most recently reported headline inflation print for SA was at 5.2% y/y, still well within the upper half of the SARB's target range. This has since dropped to 4.4% y/y, which moves it into the lower half of the target range. This is the lowest inflation print that SA has seen since the first half of 2021. Similarly, both core as well as producer price inflation have receded significantly. This inflation move has led to a material recalibration of economist forecasts. To use the SARB as an example, they now expect inflation to average 0.5% less for both 2024 and 2025 than what their forecasts suggested at the start of the quarter. Furthermore, they now expect headline inflation to remain below the mid-point of their target range for the remainder of their forecast period (to the end of 2026). Three months ago they were only expecting inflation to sustainably move to the lower half of the target band from the second quarter of 2025.

## 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 089 045 853

## Annualised performance

	A class	Benchmark	B class
1 year	26.5%	26.1%	26.8%
3 years	12.0%	11.1%	12.3%
5 years	9.7%	9.8%	9.9%
7 years	9.4%	9.7%	9.6%
10 years	8.7%	9.1%	8.9%
20 years	8.7%	9.0%	9.0%
Since inception	10.0%	10.2%	-



In line with this improving inflation forecast, the SARB cut the repo rate by 25bps in September, after having kept it unchanged for over a year. The confluence of all these factors (SARB cut, inflation improvement and improved sentiment) led the market to significantly revise its interest rate outlook. At the start of the quarter the FRA market was expecting only a 50bp cutting cycle over the next two years. The market is now pricing in a further 100bps of interest rate cuts (i.e. a total cutting cycle of 150bps).

One of the significant changes to the bond market landscape over the past quarter was the announcement, and subsequent issuance, of two new fixed-rate government bonds, namely the R2033 and R2038. On the day of the announcement, the spread between the R2040 and the R2037 - the two bonds that straddle the new R2038 - reduced by 9 basis points. This was a painful adjustment for the fund, as it went into the quarter with the R2037 being by far its largest holding. The R2037 subsequently recovered some of this lost ground and ended up as one of the best-performing bonds (as measured by change in yield) over the quarter. Nevertheless, the new issuances introduced a lot of chaos into the bond curve over the quarter.

The last time National Treasury introduced a new instrument was when the R2053 was first introduced in the 2nd quarter of 2023. Similarly, the back end of the yield curve sold off significantly on the announcement, presumably due to concerns about the additional back-end issuance. However, long-dated bonds subsequently enjoyed a strong rally later in the year when the new instrument was eventually included in the ALBI, as the market expected this induction to lead to an increase in demand. We might therefore similarly expect a bump in the performance of this part of the curve when the new bonds eventually become sufficiently liquid to be considered for index inclusion. Ultimately, we don't spend too much time positioning the fund for expected issuance trends, as we think these are hard to anticipate, and difficult to take advantage of even in the unlikely event that you are able to foresee them.

Over the quarter the curve bull-flattened, with the R186 yield at the front reducing by 81bps, and the back end R2053's yield moving 132bps lower. As mentioned, the R2037 was our largest holding moving into the quarter, and its yield dropped by 137bps. Only the R214 rallied more (-143bps yield change), and our positioning therefore assisted the fund's performance. Towards the latter part of the quarter, we took profit on some of the R2037 strength, and more than halved the position to take advantage of other opportunities on the curve.

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 quarter (although it will also hopefully outperform the most conservatively positioned peers). However, we hope to generate good returns versus peers over the medium to long-term by taking advantage of relative value opportunities on the curve that we come across. We expect this approach to over time to 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. The current challenges that the taxi companies are facing serve as a useful reminder that credit exposure comes with liquidity and default risks, and any credit spread needs to be sufficiently large to compensate an investor for these risks. In the current environment of historically low fixed-rate credit spreads we expect the fund to remain uninvested in credit. □

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# M&G Enhanced Income Fund

Multi-asset

Q3 2024

## Market overview

US Treasury bond yields continued their recovering trend over the third quarter, making successive year-to-date lows. Monthly labour reports generally showed lower-than-expected monthly nonfarm payrolls and as expected average hourly earnings figures, alongside higher than forecasted unemployment rates. Prior nonfarm payrolls were continually revised lower too. The weak labour figures highlighted that from the lens of the FOMC's dual mandate the concern has shifted from high inflation to weak employment. The labour statistics helped drive a persistent bull steepening in yields over the quarter. The third quarter saw stronger real economic activity data surprises coupled with softer consumer inflation data surprises and this combination provided downward pressure for US bond yields over the course of the quarter.

The market was somewhat undecided heading into the July FOMC rate decision and positioning was decidedly less bearish than on previous occasions. Based on the prior tone of Fed speakers and inflation data prints, some participants in the US rates market were expecting a rate cut by the Fed. Although this did not materialise at the July meeting, it was the dovish tone of the statement and the ensuing press conference that allowed yields to continue rallying across the term structure with the front-end outperforming. The market subsequently repriced to fully expect a September rate cut. Interest rate cut expectations in the US grew stronger over August with the market discounting over 200bps worth of easing over the coming year. The July FOMC minutes released in August showed that the committee did discuss whether to cut rates then. The subsequent weakness in the labour market meant that that they probably regretted not cutting in July.

The US rates market was pushing for a 50bp cut by the FOMC at the 18 September meeting, however, the release of the August inflation reports a week earlier drove the market to price out a 50bp cut and instead priced in only 25bps. We suspect that the FOMC were unhappy with the market pricing in only a 25bp cut and they contacted the Wall Street Journal and Financial Times a few days before the meeting, asking them to publish dovish articles on the upcoming FOMC meeting. The market then raised the cut expectation to 40bps. The FOMC did lower rates by 50bps, although the tone was hawkish and supported a further increase in yields into quarter end.

Brent crude oil prices declined in each month over the quarter, initially reversing all the gains made year to date and then making new lows. The US dollar index lost its strengthening trend by weakening in every month of Q3 taking the greenback's performance to negative on the year. Dollar weakness helped the rand exchange rate strengthen, making the rand one of the best-performing currencies in the world this year. The lingering

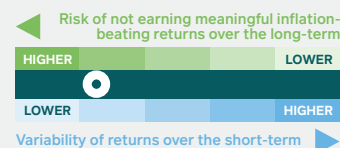
effects of pre-election position unwinding saw the RSA CDS market tighten over the course of the quarter to the tightest levels seen since pre-Covid.

Following the cabinet announcement, the new quarter began with another strong rally in SA government bonds as the market's nervousness was found to be misplaced. The rally had both local and global support underpins and continued for the remainder of July, which saw a mixed bag of local economic data outcomes. Market expectations on interest rates took a further step lower headed into the 18 July MPC meeting where the committee decided to hold the repo rate steady at 8.25%. The economist consensus was for unchanged rates while the market placed a one-third probability that rates would be lowered by 25bps. The market was accurate as the MPC voted by a margin of 4-2 to hold rates steady. The deliberations of the committee appear to have been very dovish and the decision was not easy. The market then widely expected the MPC to start the rate cutting cycle in September.

SA bond yields declined further in August. Lower global bond yields, a stronger rand and a weaker than expected CPI inflation print for July helped continue the post-election rally. Any seller of SA bonds since the election had sellers' remorse as the rally was unrelenting. Every uptick in yields was met with a strong wave of demand from both local and international buyers. High frequency real economic activity data releases were generally better than expected in August. The FRA market was discounting five successive interest rate cuts of 0.25% starting at the September MPC meeting, taking the repo rate down to the SARBs steady state of 7.00%. The MPCs view of the neutral repo rate currently sits at 7.25%. The contemporaneous real repo rate is high. The fact that the decision to keep rates steady at the July meeting was such a close call, and that the July CPI print was such a large downside surprise led the market to debate whether the size of the September rate cut would be 25bps or 50bps.

SA bond yields declined further in September. Lower global bond yields, a stronger rand, lower crude oil prices, weaker than expected CPI inflation for August and a lower Q3 2024 BER inflation expectations survey helped continue the rally. The MPC of the SARB lowered the repo rate by 25bps. This was in line with the economist consensus expectation, however, the market did price in some chance for a 50bp reduction. Despite the dovish economic data, the committee chose to focus on its risk assessment which was to the upside. The MPC made their decision prior to the FOMC announcement. The market read the statement and subsequent press conference as hawkish. This helped to flatten the yield curve over the month. The currency also benefitted from the decision.

## Risk profile



## Fund facts

### Fund objective

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

### Investor profile

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

### Investment mandate

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

### Fund managers

Roshen Harry  
Bulent Badsha

### ASISA category

South African - Multi-Asset - Income

### Benchmark

STeFI Composite Index measured over a rolling 36-month period

### Inception date

1 July 2009

### Fund size

R891 300 303

Annualised performance	A class	Benchmark	T class	X class	D class
1 year	13.8%	8.5%	14.0%	13.8%	14.2%
3 years	9.3%	6.9%	9.5%	9.3%	9.6%
5 years	7.5%	6.1%	7.7%	7.5%	7.9%
7 years	7.1%	6.5%	7.4%	7.2%	7.5%
10 years	7.3%	6.8%	-	7.4%	7.8%
Since inception	7.9%	6.9%	-	-	-

### Performance

Over the 12 months to September 2024 the M&G Enhanced Income Fund delivered a total return of 13.8% (A class, net of fees), which compares favourably to both the benchmark (STeFI Composite) return of 8.5% and the ASISA category average gain of 12.7%. More importantly, over the past four years the Fund provided an annualised return of 8.8% (A class, net of fees), which was comfortably ahead of the benchmark return of 6.1% and the peer average of 8.2%.

### Strategy and positioning

Over the quarter, the fund took advantage of the flattening of the Inflation Linked Bond (ILB) yield curve to make a switch trade where the real government bond exposure was shortened from the belly to the front end of the curve thereby reducing ILB duration. The implied real yields from nominal bonds have been more attractive than 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 the property teams favoured defensive, yet high yielding SA listed property stocks was maintained. There was a switch in some foreign bond exposure in the quarter, adding short-dated US treasury bonds in favour of the existing floating-rate US investment grade bonds due to the tightness of credit spreads. A fully currency-hedged position for the foreign bonds was largely maintained, which was beneficial in the face of a resurging rand exchange rate. Over the quarter, duration risk was managed tactically while the local cash bond positions were maintained. This proved to be beneficial considering the rally that ensued. The fund remains drawdown focussed, cyclically aware and tactically alert. □

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# M&G Inflation Plus Fund

Multi-asset

Q3 2024

## Market overview

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In the US, Treasuries rallied leading up to the Fed's decision, while rate cuts pressured the U.S. dollar and led to a rally in US equities. This environment contributed to a rally in global bond markets, particularly reflected in the Bloomberg Global Aggregate Bond Index delivering 7.0% (US\$) for the quarter.

Equity markets continued to perform well in the third quarter. Global equities (as measured by the MSCI All Country World Index) recorded a total return of 6.6% in Q3 compared to 2.9% in Q2, while emerging market equities (MSCI Emerging Markets Index) rallied another 8.7% in Q3 from 5.0% in Q2 (all in US\$). Emerging market equity returns were led by strong performances from China, South Africa and India. South Africa and India are still benefiting from a market-friendly election outcome while China saw a rebound amid the stimulus measures announced to aid its economy.

In South Africa, improving sentiment from a market-friendly election, better economic conditions, and easing monetary policy led to gains in asset prices and the Rand, with the FTSE/JSE All Share Index rising 9.6% in rand terms. Key contributors included Listed Property (19.1%), and Financials (13.7%) while Resources declined by 1.1%. Industrials was one of the standout performers benefitting from the month-end China rally as Naspers and Prosus prices reacted to the strong move in the Tencent share price. From a South African investor perspective, the move had beneficial implications as Tencent followed the market higher sending the share prices for Naspers and Prosus up by about 14% in September. In addition, the stimulus announcement led to higher commodity prices, which had a positive impact on the local resource sector.

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## Euro area

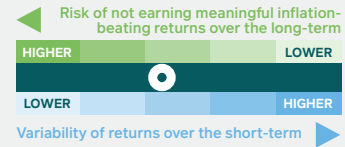
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Q2 2024 GDP growth surpassed expectations at 0.6% y/y but was revised down to 0.2% q/q, compared to 0.3% in Q1. France's CAC 40 rebounded with a 6.5% return in Q3 after a 7.3% decline in Q2, while Germany's DAX delivered a strong 10.4% return for Q3 (both in USD).

## Japan

The Bank of Japan (BOJ) unexpectedly raised rates by 15 basis

## 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

R20 065 463 463

### Awards

Raging Bull: 2013  
Morningstar: 2015

Annualised performance	A class	Objective <sup>1</sup>	T class	X class	B class
1 year	17.8%	7.8%	18.1%	17.8%	18.3%
3 years	9.9%	9.0%	10.1%	9.9%	10.4%
5 years	8.4%	8.4%	8.7%	8.4%	8.9%
7 years	6.5%	8.3%	6.8%	6.6%	7.1%
10 years	6.8%	8.3%	-	6.9%	7.4%
20 years	10.2%	9.1%	-	-	10.9%
Since inception	10.9%	9.2%	-	-	-

<sup>1</sup> 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.

points from 0-0.1% to 0.25% on the last day of July, the highest level since 2008, and signalling a more hawkish stance than anticipated. This decision led to significant volatility in local equities and high-carry currencies, with the Nikkei 225 Index experiencing a sharp decline in early August but recovering by month-end. After a strong return of 13.2% in Q1, the Nikkei retraced some gains in Q2 with a -7.6% return, followed by a 7.6% USD gain in Q3.

Japan's August core CPI rose to 2.8% y/y, aligning with forecasts and accelerating for the fourth consecutive month. In a widely anticipated move, the BOJ maintained its benchmark interest rate at 0.25% at its September meeting, in its efforts to normalise monetary policy. The BOJ's decision came as it seeks to transition away from a long-standing ultra-easy monetary stance while safeguarding the economy. Japan's economy grew at an annualised rate of 2.9% in the second quarter, surpassing the projected 2.1%.

### China

China's economy is showing signs of a modest recovery, but a slow start to the second half of the year is increasing pressure on the world's second-largest economy to implement additional stimulus policies. This came amid ongoing challenges, including a prolonged housing downturn, persistent deflation, rising debt issues, and escalating trade tensions.

The People's Bank of China (PBOC) announced broad policy easing measures to shore up a flailing economy. The central bank cut the rate on one-year medium-term lending facility (MLF) loans to some financial institutions to 2% from 2.3%. Additionally, the reserve requirement rate was reduced from 10% to 9.5%. Some questions around the Chinese economy remains, such as the health of their property market and the impact these changes will have on the recovery in that sector, but the market clearly thinks the initial actions were positive.

China's August CPI increased to 0.6% y/y from 0.5% in July but came in lower than the forecasted 0.7%. The uptick was mainly due to higher food costs from weather disruptions, rather than a recovery in domestic demand as producer price deflation worsened.

After years of stagnation, Chinese stocks surged in September, marking a significant turnaround from earlier in the quarter. The rally was driven by the government's aggressive stimulus plan, which included rate cuts and support for the struggling real estate sector. Hong Kong's Hang Seng Index returned 22.4% and the MSCI China Index rose 22.6% in Q3 2024 (both in US\$).

### Emerging markets

The MSCI Emerging Markets Index achieved a robust 8.9% return, primarily fuelled by gains in China and South Africa. The MSCI China Index ended the quarter as one of the top performers, surging 23.6%, while South Africa and India benefitted from positive sentiment following their market-friendly national elections, returning 16.3% and 7.4%, respectively (both in USD). Conversely, the MSCI Turkey Index fell from its position as the previous quarter's top-performer, ending the period down 12.5%. Brazil's Bovespa gained 8.5%, while South Korea's KOSPI declined by 2.2% (all in US\$).

### Commodities

Commodity markets experienced mixed results in Q3. China's stimulus announcement led to higher commodity prices. Gold prices surged to record highs, making gold the standout

performer with a 14.0% increase, driven by rising geopolitical tensions and monetary easing. In contrast, platinum saw a slight decline of 1.5%, while palladium rose by 2.7%. Zinc gained only 5.3% in Q3, after 23.4% in Q2. Additionally, aluminium, copper, and lead recorded increases ranging from 3.1% to 5.3%.

Brent crude oil experienced significant volatility this quarter, driven by mixed sentiment surrounding China's stimulus plans, potential production increases from OPEC+ members, and escalating tensions in the Middle East. OPEC+ has announced plans to boost production by 180,000 bpd monthly, following Saudi Arabia's shift from a \$100 oil price target to a focus on regaining market share. Oil prices dropped during the quarter, primarily due to rising global supply and weak demand growth in China year-to-date. The price of Brent crude oil started the quarter at a high of \$86.76/bbl but declined 17.5% by quarter end.

### South Africa

Sentiment in South Africa continued to be buoyant off the back of a favourable election outcome. The re-rating continued into asset classes against the backdrop of improving economic conditions. The economy grew by 0.4% q/q in Q2 2024, following stagnation (0.0% growth) in Q1. Household consumption emerged as the largest contributor to overall growth, reflecting renewed confidence and spending power among households. The first-half output slightly missed expectations, but the South African Reserve Bank (SARB) projected growth of 0.6% in both upcoming quarters. While medium-term growth forecasts have increased due to rising confidence, a stable electricity supply and reform momentum, investment remains a concern, having contracted for four consecutive quarters, highlighting the need for recovery to support sustained growth.

Meanwhile, CPI decreased to 4.4% y/y in August, below the SARB's target and forecasts of 4.5%, down from 4.6% in July. This marks the third consecutive month of inflation slowdown. Following the Fed's lead, the Monetary Policy Committee (MPC) implemented a widely anticipated 25 basis point rate cut to 8%. This move aligns with the consensus view that a less restrictive stance supports sustainably lower inflation in the medium term. Currently the local forward rate agreement (FRA) curve is pricing in another 125bps of cuts in the rest of the cycle so the expectations would be for gradual 25bps cuts to come through over the next 12 months. The FTSE/JSE All Share Index returned 9.6% (in rand) for the quarter.

### Performance

The M&G Inflation Plus Fund returned 6.9% (A class, after fees) for the third quarter of 2024 and 17.8% for the 12-month period ending 30 September 2024. The fund has delivered a return of 9.2% per annum since its inception in 1999 (A class, before fees), compared to its objective of 10.8% per annum over the same period.

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

Within SA equities, the rally in Foschini and banking shares added good value to the fund, as did the fall in the Aspen share price, which we do not own. Other notable contributors included globally exposed holding Prosus, and mining counters Sasol and Sibanye Stillwater. The largest detractors from performance were Exxaro, Investec and Multichoice (over

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concerns around its Nigerian operations) as well as shares in stocks that we don't hold or hold very little of in the portfolio, namely Nedbank and Capitec.

### Strategy and positioning

During the third quarter we have made some changes to the size of our positions due to the rally we have seen in domestic asset classes, but the broad direction of fund positioning has remained the same.

Starting with our view on **offshore versus local asset allocation** we have left our positioning unchanged for the quarter and continue to prefer domestic assets over foreign exposure, despite the strong rally we have seen in our local market post the GNU announcement. From a valuation perspective, SA equities are coming off a very low base and continue to screen relatively cheap compared to other markets. On the bond side our 10-year yield is still pricing real returns in excess of our fair value assumptions and therefore remains one of our key holdings across the funds.

Within the **global holdings** our positions are currently towards a small underweight in global equity with a bigger underweight to the US market in order to take overweight positions in more fairly priced offshore markets. We also retain our small overweight positions in global bonds and global cash. During the quarter we acted on the market sell-off in early August to add some Korean equity exposure to the funds and reduced our China and other EM Asia exposure at the end of the quarter after the strong rally we saw in the Chinese market post their stimulus announcements. In addition to this we also broadened out our carry basket in the funds to short out some of the major currencies, such as the USD and EUR, in favour of higher carry trades such as in Latin American (Latam) markets.

In **global equities**, the MSCI ACWI 12-month forward P/E rose slightly to around 18X at the end of the quarter with fairly volatile intra-quarter moves. We made use of the opportunities the volatility gave us to change some of our positioning on the equity side by adding to Korea and/or Japan in our funds after the early August market sell-off to go slightly overweight equities in our global positioning but then reduced the asset class again at the end of September to take profits in our China exposure after the strong post-stimulus move in that market. The valuation for the S&P 500 continues to screen as expensive to other markets with a forward P/E increase to about 21.5X during the period and therefore we continue to hold our underweight to the US in favour of cheaper markets such as the UK, Europe, Korea and other emerging markets, such as Mexico.

Within **global bonds** we did not make any changes to our overweight duration position during the quarter and continue to hold exposure to the long end of the US Treasury curve as well as more muted positions in UK gilts and EM bonds with high real yields in undervalued currencies.

We continue to stay underweight **global corporate credit** given the narrow credit spreads and the unattractive risk-reward payoffs in those instruments.

Our house-view continues to favour **SA equities** at the end of Q3 2024 and we made use of the post-election waiting period at the start of the quarter to add to our existing equity exposure across the funds. SA equity valuations when looking at the 12-month forward P/E ratio of the FTSE/JSE Capped SWIX Index moved higher to around 10.7X, due to a rally in share prices. On a Price-to-Book basis the market moved slightly less cheap from 1.6 at the start of the quarter to just over 1.7 by quarter end, but still

trades cheap compared to history and relative to other markets. The portfolios benefitted from the equity team's move to add more SA-exposed stocks pre-election, such as increasing the bank and retail exposure in the funds.

In Q3 one of the bigger changes to our positioning was to decrease the extent of our underweight exposure in the **SA listed property sector**, given the improving fundamentals we have witnessed in that segment of the market. The rate-cutting environment, sharp reduction in bond yields and improved balance sheet efficiency of the property companies should take away some of the headwinds the sector has had to contend with since the Covid period. However, we continue to hold the sector as an underweight in our funds given the sharp rally in prices over the short- and medium-term periods.

Another change we made during the quarter was to lock in some of the performance we experienced in our overweight **SA nominal bonds** position. Local bonds have rallied strongly since the GNU announcement and although we are still positive on the asset class, we feel the speed of the move has been so sudden that it would be beneficial to take some of our position off. Real yields remain attractive compared to our fundamentals and therefore we continue to hold an overweight position to the sector, but at a reduced scale.

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 made no changes to our ILB positioning during Q3. Real yields for these instruments are attractive at current levels, especially as the price move in ILBs have lagged nominal bonds during the quarter but given liquidity constraints and the advantage of being in nominal bonds in a rate-cutting environment we have kept our relative positioning in place in Q3.

Finally, 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. □

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# M&G Balanced Fund

Multi-asset

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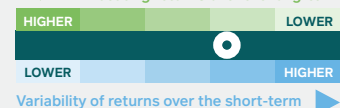
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## Risk profile

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



## 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 268 868 525

Annualised performance	A class	Benchmark	T class	X class	B class
1 year	17.8%	18.7%	18.1%	17.8%	18.4%
3 years	10.6%	10.4%	10.9%	10.6%	11.1%
5 years	10.6%	10.2%	10.8%	10.6%	11.1%
7 years	8.4%	8.0%	8.7%	8.5%	9.0%
10 years	8.2%	7.5%	-	8.4%	8.9%
20 years	12.0%	10.5%	-	-	12.9%
Since inception	12.7%	11.2%	-	-	-

### Japan

The Bank of Japan (BOJ) unexpectedly raised rates by 15 basis points from 0-0.1% to 0.25% on the last day of July, the highest level since 2008, and signalling a more hawkish stance than anticipated. This decision led to significant volatility in local equities and high-carry currencies, with the Nikkei 225 Index experiencing a sharp decline in early August but recovering by month-end. After a strong return of 13.2% in Q1, the Nikkei retraced some gains in Q2 with a -7.6% return, followed by a 7.6% USD gain in Q3.

Japan's August core CPI rose to 2.8% y/y, aligning with forecasts and accelerating for the fourth consecutive month. In a widely anticipated move, the BOJ maintained its benchmark interest rate at 0.25% at its September meeting, in its efforts to normalise monetary policy. The BOJ's decision came as it seeks to transition away from a long-standing ultra-easy monetary stance while safeguarding the economy. Japan's economy grew at an annualised rate of 2.9% in the second quarter, surpassing the projected 2.1%.

### China

China's economy is showing signs of a modest recovery, but a slow start to the second half of the year is increasing pressure on the world's second-largest economy to implement additional stimulus policies. This came amid ongoing challenges, including a prolonged housing downturn, persistent deflation, rising debt issues, and escalating trade tensions.

The People's Bank of China (PBOC) announced broad policy easing measures to shore up a flailing economy. The central bank cut the rate on one-year medium-term lending facility (MLF) loans to some financial institutions to 2% from 2.3%. Additionally, the reserve requirement rate was reduced from 10% to 9.5%. Some questions around the Chinese economy remains, such as the health of their property market and the impact these changes will have on the recovery in that sector, but the market clearly thinks the initial actions were positive.

China's August CPI increased to 0.6% y/y from 0.5% in July but came in lower than the forecasted 0.7%. The uptick was mainly due to higher food costs from weather disruptions, rather than a recovery in domestic demand as producer price deflation worsened.

After years of stagnation, Chinese stocks surged in September, marking a significant turnaround from earlier in the quarter. The rally was driven by the government's aggressive stimulus plan, which included rate cuts and support for the struggling real estate sector. Hong Kong's Hang Seng Index returned 22.4% and the MSCI China Index rose 22.6% in Q3 2024 (both in US\$).

### Emerging markets

The MSCI Emerging Markets Index achieved a robust 8.9% return, primarily fuelled by gains in China and South Africa. The MSCI China Index ended the quarter as one of the top performers, surging 23.6%, while South Africa and India benefitted from positive sentiment following their market-friendly national elections, returning 16.3% and 7.4%, respectively (both in USD). Conversely, the MSCI Turkey Index fell from its position as the previous quarter's top-performer, ending the period down 12.5%. Brazil's Bovespa gained 8.5%, while South Korea's KOSPI declined by 2.2% (all in US\$).

### Commodities

Commodity markets experienced mixed results in Q3. China's stimulus announcement led to higher commodity prices. Gold

prices surged to record highs, making gold the standout performer with a 14.0% increase, driven by rising geopolitical tensions and monetary easing. In contrast, platinum saw a slight decline of 1.5%, while palladium rose by 2.7%. Zinc gained only 5.3% in Q3, after 23.4% in Q2. Additionally, aluminium, copper, and lead recorded increases ranging from 3.1% to 5.3%.

Brent crude oil experienced significant volatility this quarter, driven by mixed sentiment surrounding China's stimulus plans, potential production increases from OPEC+ members, and escalating tensions in the Middle East. OPEC+ has announced plans to boost production by 180,000 bpd monthly, following Saudi Arabia's shift from a \$100 oil price target to a focus on regaining market share. Oil prices dropped during the quarter, primarily due to rising global supply and weak demand growth in China year-to-date. The price of Brent crude oil started the quarter at a high of \$86.76/bbl but declined 17.5% by quarter end.

### South Africa

Sentiment in South Africa continued to be buoyant off the back of a favourable election outcome. The re-rating continued into asset classes against the backdrop of improving economic conditions. The economy grew by 0.4% q/q in Q2 2024, following stagnation (0.0% growth) in Q1. Household consumption emerged as the largest contributor to overall growth, reflecting renewed confidence and spending power among households. The first-half output slightly missed expectations, but the South African Reserve Bank (SARB) projected growth of 0.6% in both upcoming quarters. While medium-term growth forecasts have increased due to rising confidence, a stable electricity supply and reform momentum, investment remains a concern, having contracted for four consecutive quarters, highlighting the need for recovery to support sustained growth.

Meanwhile, CPI decreased to 4.4% y/y in August, below the SARB's target and forecasts of 4.5%, down from 4.6% in July. This marks the third consecutive month of inflation slowdown. Following the Fed's lead, the Monetary Policy Committee (MPC) implemented a widely anticipated 25 basis point rate cut to 8%. This move aligns with the consensus view that a less restrictive stance supports sustainably lower inflation in the medium term. Currently the local forward rate agreement (FRA) curve is pricing in another 125bps of cuts in the rest of the cycle so the expectations would be for gradual 25bps cuts to come through over the next 12 months. The FTSE/JSE All Share Index returned 9.6% (in rand) for the quarter.

### Performance

The M&G Balanced Fund outperformed its benchmark and returned 6.4% (A class, net of fees) for the third quarter of 2024, while for the 12-month period ending 30 September 2024 its return was 17.8%. The fund has delivered a return of 12.7% (A class, net of fees) per annum since its inception in 1999, compared to its benchmark of 11.2% per annum over the same period.

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

Within SA equities, the rally in Foschini and banking shares added good value to the fund, as did the fall in the Aspen share price, which we do not own. Other notable contributors

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included globally exposed holding Prosus, and mining counters Sasol and Sibanye Stillwater. The largest detractors from performance were Exxaro, Investec and Multichoice (over concerns around its Nigerian operations) and shares in stocks that we don't hold or hold very little of in the portfolio, namely Nedbank and Capitec.

### Strategy and positioning

During the third quarter we have made some changes to the size of our positions due to the rally we have seen in domestic asset classes, but the broad direction of fund positioning has remained the same.

Starting with our view on **offshore versus local asset allocation**; we have left our positioning unchanged for the quarter and continue to prefer domestic assets over foreign exposure, despite the strong rally we have seen in our local market post the GNU announcement. From a valuation perspective, SA equities are coming off a very low base and continue to screen relatively cheap compared to other markets. On the bond side our 10-year yield is still pricing real returns in excess of our fair value assumptions and therefore remains one of our key holdings across the funds.

Within our **global holdings** our positions are currently towards a small underweight in global equity with a bigger underweight to the US market in order to take overweight positions in more fairly priced offshore markets. We also retain our small overweight positions in global bonds and global cash. During the quarter we acted on the market sell-off in early August to add some Korean equity exposure to the funds and reduced our China and other EM Asia exposure at the end of the quarter after the strong rally we saw in the Chinese market post their stimulus announcements. In addition to this we also broadened out our carry basket in the funds to short out some of the major currencies, such as the USD and EUR, in favour of higher carry trades such as in Latin American (Latam) markets.

In **global equities**, the MSCI ACWI 12-month forward P/E rose slightly to around 18X at the end of the quarter with fairly volatile intra-quarter moves. We made use of the opportunities the volatility gave us to change some of our positioning on the equity side by adding to Korea and/or Japan in our funds after the early August market sell-off to go slightly overweight equities in our global positioning but then reduced the asset class again at the end of September to take profits in our China exposure after the strong post-stimulus move in that market. The valuation for the S&P 500 continues to screen as expensive to other markets with a forward P/E increase to about 21.5X during the period and therefore we continue to hold our underweight to the US in favour of cheaper markets such as the UK, Europe, Korea and other emerging markets, such as Mexico.

Within **global bonds** we did not make any changes to our overweight duration position during the quarter and continue to hold exposure to the long end of the US Treasury curve as well as more muted positions in UK gilts and EM bonds with high real yields in undervalued currencies.

We continue to stay underweight **global corporate credit** given the narrow credit spreads and the unattractive risk-reward payoffs in those instruments.

Our house-view continues to favour **SA equities** at the end of Q3 2024 and we made use of the post-election waiting period at the start of the quarter to add to our existing equity exposure across the funds. SA equity valuations when looking at the 12-month forward P/E ratio of the FTSE/JSE Capped SWIX Index

moved higher to around 10.7X, due to a rally in share prices. On a Price-to-Book basis the market moved slightly less cheap from 1.6 at the start of the quarter to just over 1.7 by quarter end, but still trades cheap compared to history and relative to other markets. The portfolios benefitted from the equity team's move to add more SA-exposed stocks pre-election, such as increasing the bank and retail exposure in the funds.

In Q3 one of the bigger changes to our positioning was to decrease the extent of our underweight exposure in the **SA listed property sector**, given the improving fundamentals we have witnessed in that segment of the market. The rate-cutting environment, sharp reduction in bond yields and improved balance sheet efficiency of the property companies should take away some of the headwinds the sector has had to contend with since the Covid period. However, we continue to hold the sector as an underweight in our funds given the sharp rally in prices over the short- and medium-term periods.

Another change we made during the quarter was to lock in some of the performance we experienced in our overweight **SA nominal bonds** position. Local bonds have rallied strongly since the GNU announcement and although we are still positive on the asset class, we feel the speed of the move has been so sudden that it would be beneficial to take some of our position off. Real yields remain attractive compared to our fundamentals and therefore we continue to hold an overweight position to the sector, but at a reduced scale.

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. We made no changes to our ILB positioning during Q3. Real yields for these instruments are attractive at current levels, especially as the price move in ILBs have lagged nominal bonds during the quarter but given liquidity constraints and the advantage of being in nominal bonds in a rate-cutting environment we have kept our relative positioning in place in Q3.

Finally, 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. □

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# M&G Property Fund

Property

Q3 2024

## Market overview

The third quarter of 2024 (Q3) witnessed notable fluctuations in global financial markets, driven by diverse economic signals, a shift among major central banks toward easing monetary policies and geopolitical tension. In mid-September, the US Federal Reserve (Fed) implemented a sizable interest rate cut of 50 basis points, lowering the target range to 4.75%-5.00%. This shift propelled global equity markets to new heights, while weakening the US dollar to major currencies.

Equity markets continued to perform well in the third quarter. Global equities (as measured by the MSCI All Country World Index) recorded a total return of 6.6% in Q3 compared to 2.9% in Q2, while emerging market equities (MSCI Emerging Markets Index) rallied another 8.7% in Q3 from 5.0% in Q2 (all in US\$).

Emerging market equity returns were led by strong performances from China, South Africa and India. South Africa and India are still benefiting from a market-friendly election outcome while China saw a rebound amid the stimulus measures announced to aid its economy.

In South Africa, improving sentiment from a market-friendly election, better economic conditions, and easing monetary policy led to gains in asset prices and the Rand, with the FTSE/JSE All Share Index rising 9.6% in rand terms. Key contributors included Listed Property (19.1%) and Financials (13.7%), while Resources declined by 1.1%. Industrials was one of the standout performers benefitting from the month-end China rally as Naspers and Prosus prices reacted to the strong move in the Tencent share price. From a South African investor perspective, the move had beneficial implications as Tencent followed the market higher, sending the share prices for Naspers and Prosus up by about 14% in September. In addition, the stimulus announcement led to higher commodity prices, which had a positive impact on the local resource sector.

South African bonds performed strongly, with the FTSE/JSE All Bond Index rising 10.5% (in Rand) over the quarter and adding more positive returns to the total for the year. Bond yields continued the downward move we have seen since the conclusion of the GNU election results.

Meanwhile, CPI decreased to 4.4% y/y in August, below the SARB's target and forecasts of 4.5%, down from 4.6% in July. This marks the third consecutive month of inflation slowdown. Following the Fed's lead, the Monetary Policy Committee (MPC) implemented a widely anticipated 25 basis point rate cut to 8%.

## Performance

The M&G Property Fund outperformed its benchmark for the third quarter of 2024, returning 19.6% (A class, net of fees) compared to the All Property Index return of 19.1%. For the 12 months ending 30 September 2024, the fund returned 48.5%

versus the benchmark return of 51.0%.

Overweight positions in Hyprop contributed positively, as did underweight positions in Shaftesbury Capital and Lighthouse Capital.

Detractors to relative performance include underweight positions in Resilient and Burstone Group.

## Strategy and positioning

Our fund positioning favors mid cap SA focused property stocks with minimal office exposure and relatively high dividend yields that are supported a strong balance sheet. We've recently increased our exposure to SA retail property via holdings in Vukile and Hyprop. The rental reversionary cycle has turned positive in South Africa, and these stocks are well-positioned to benefit from anticipated rental growth. Offshore exposure to Central Eastern European retail remains core to the fund, as the property fundamentals are relatively more robust than South Africa.

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

The post-election market rally in SA saw SA property stocks rally 30% as bond yields compressed 250bps. This was followed by the first interest rate cut in September, with an additional 125bps of cuts expected over the next 12 months. A declining interest rate environment bodes well for property company earnings and dividend growth prospects.

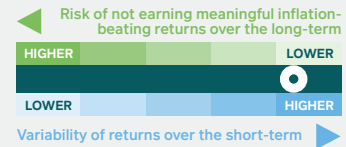
Transactional activity in offshore markets has increased on the back of declining interest rates and an outlook for healthy rental growth. Capital market activity has also picked with more companies coming to market to raise equity and bond debt. Refinancing risk has reduced as banks and bond markets conclude long-term deals at reasonable rates. For example: Nepi Rockcastle recently issued a EUR500mn 7-year bond at a 4.25% coupon, and Hammerson issued a 12-year EUR400 bond at 5.8% coupon.

Reinvigorated capital markets have been positive for transactional activity with some big buying and selling deals coming from Nepi Rockcastle, Hammerson, Burstone Group, Growthpoint, Vukile and Lighthouse Capital – with industrial and retail properties being the most traded.

## Outlook

The widespread rerating of listed property stocks led to a convergence in valuations across the sector. The earnings yield

## Risk profile



## 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

R952 392 630

### Awards

Raging Bull: 2023

## Annualised performance

	A class	Benchmark	D class
1 year	48.5%	51.0%	48.7%
2 years	32.2%	30.6%	32.5%
3 years	17.4%	15.3%	17.7%
Since inception	21.0%	19.8%	-



differential between high-risk and low-risk property companies has narrowed, signaling that we are no longer sufficiently compensated for higher risk. Consequently, we have adopted a more cautious stance on stock selection, concentrating on high-quality companies that are trading at fair valuations with ability to grow faster than the benchmark. These companies typically exhibit strong free cash flow generation, healthy balance sheets, and portfolios that

are well-positioned in assets that can grow income and valuation sustainably over time.

The M&G Property is pleased to have won the Raging Bull award for 3 years straight performance for 2023. At 30 September 2024, the fund still ranks number 1 over a 3 year rolling period. (Morningstar).

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# M&G Dividend Maximiser Fund

Equity

Q3 2024

## Market overview

The third quarter of 2024 (Q3) witnessed notable fluctuations in global financial markets, driven by diverse economic signals, a shift among major central banks toward easing monetary policies and geopolitical tension. In mid-September, the US Federal Reserve (Fed) implemented a sizable interest rate cut of 50 basis points, lowering the target range to 4.75%-5.00%. This shift propelled global equity markets to new heights, while weakening the US dollar to major currencies.

In August, the Bank of England (BoE) reduced its main interest rate from 5.25% to 5%, maintaining this level through September. The BoE also announced plans to sell an additional £100 billion in bonds over the next year, thus scaling back its quantitative easing efforts.

The European Central Bank (ECB) also continued the easing trend, cutting its deposit rate by 25 basis points to 3.5% in September. Improved economic data and interest rate cuts in Europe and the US contributed to a recovery in European stocks following a selloff earlier in August.

In the US, Treasuries rallied leading up to the Fed's decision, while rate cuts pressured the U.S. dollar and led to a rally in US equities. This environment contributed to a rally in global bond markets, particularly reflected in the Bloomberg Global Aggregate Bond Index delivering 7.0% (US\$) for the quarter.

Equity markets continued to perform well in the third quarter. Global equities (as measured by the MSCI All Country World Index) recorded a total return of 6.6% in Q3 compared to 2.9% in Q2, while emerging market equities (MSCI Emerging Markets Index) rallied another 8.7% in Q3 from 5.0% in Q2 (all in US\$).

Emerging market equity returns were led by strong performances from China, South Africa and India. South Africa and India are still benefiting from a market-friendly election outcome while China saw a rebound amid the stimulus measures announced to aid its economy.

In South Africa, improving sentiment from a market-friendly election, better economic conditions, and easing monetary policy led to gains in asset prices and the Rand, with the FTSE/JSE All Share Index rising 9.6% in rand terms. Key contributors included Listed Property (19.1%), and Financials (13.7%) while Resources declined by 1.1%. Industrials was one of the standout performers benefitting from the month-end China rally as Naspers and Prosus prices reacted to the strong move in the Tencent share price. From a South African investor perspective, the move had beneficial implications as Tencent followed the market higher sending the share prices for Naspers and Prosus up by about 14% in September. In addition, the stimulus announcement led to higher commodity prices, which had a positive impact on the

local resource sector.

## Performance

The M&G Dividend Maximiser Fund delivered a return of 8.5% (A class, net of fees) for the third quarter of 2024, underperforming its benchmark (the average of the general equity funds) by 0.3%. For the year ended 30 September 2024, the fund returned 18.2% (A class, net of fees), underperforming its benchmark by 3.6%. For the three-year period ending 30 September 2024, the absolute performance of the Fund has been strong, with an absolute return of 11.3% per annum over this period, underperforming the benchmark by 0.2% per year.

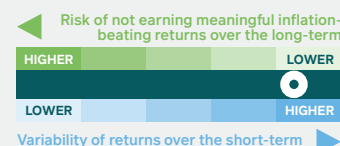
The Fund's dual focus of buying undervalued companies with strong cash flows and dividends remains core.

The main detractors from performance for the quarter related to the Fund's offshore exposure of approximately 21%, of which 18% 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 1.4% over the quarter in South African rand, which was mainly due the strengthening of the Rand by approximately 5% over the quarter. This total offshore weighting of 21% can be viewed in context of the maximum allowable offshore limit of 45% for this fund. The Fund's fairly low weighting to offshore reflects that we think the South African market is relatively attractively priced.

The largest contributor to performance for the quarter was the Fund's holding in Southern Sun Hotels. The share price was up over 45% in the quarter as it is responding to increasingly positive news and sentiment around the South African market post the election results. We think that Southern Sun provides excellent low risk exposure to property within South Africa and is well-positioned to benefit from lower bond yields and an improving travel market. We think that the G20 Summit being hosted in South Africa next year, could also provide further momentum to a company which is very operationally leveraged to improve occupancies and higher room rates at their hotels. The company has a very strong balance sheet considering the underlying property base which it owns, and we think that dividends should grow strongly over the next few years.

Sasol was the second largest contributor to performance in the quarter. Sasol's share price was down almost 16% in the quarter, and we do not hold a position in this company. Within the oil and chemicals sector, our preferred company to own has been Omnia, which we think is very attractively priced for a world-class mining explosives and fertilizer business. We had previously commented that while Sasol was currently paying a high dividend yield that we were concerned that the dividend may need to be cut due to cash flows coming under pressure over the next five years given the substantial capex projects to transition the business to reduced carbon emissions. In the annual results released during

## 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 393 313 951

### Awards

Raging Bull: 2006, 2008  
Morningstar/Standard & Poor's: 2007, 2009

Annualised performance	A class	Benchmark	T class	B class	F class
1 year	18.2%	21.8%	18.6%	18.5%	19.0%
3 years	11.3%	11.6%	12.0%	11.7%	12.3%
5 years	13.0%	11.3%	13.4%	13.3%	13.8%
7 years	9.5%	7.9%	10.0%	9.9%	10.3%
10 years	8.4%	6.8%	-	8.8%	-
20 years	14.5%	11.8%	-	-	-
Since inception	15.4%	12.8%	-	-	-

the quarter, Sasol has indeed revised its dividend policy, in 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 lower dividend than previously expected.

The third largest contributor to performance this quarter was due to the Fund not holding any Aspen shares. We have generally held the view that Aspen's shares have been expensively valued over long periods of time. We think that the market tends to pay up for the potential growth in this company and its potential ability to fill its pharmaceutical manufacturing overcapacity. The full year results released at the beginning of September were disappointing, resulting in the share pricing falling by 15% for the quarter. We continue to think that this business is expensively valued and see better opportunities in the market.

Generally, within the resources space, the recent announcement from China to support its economy and the stock market is potentially positive for base and bulk metals. In our view, China has been suffering from weak consumer and business sentiment, amongst other structural issues, and the recent stimulus package should go some way to improving sentiment. Iron ore, which has been weak due to a weak property sector, has responded positively to the stimulus announcements, 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 in the absence of 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 is attractive. We therefore continue to hold positions to Exxaro, Anglo American, BHP and Glencore.

Overall, therefore, we are cautiously optimistic about the sector over the near-term as interest rate cuts, a weaker US dollar, 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.

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 quarter as the SA election results in June where 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.

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. We retain our underweight to Capitec which, while we rate more highly in terms of quality, we cannot ignore that that it is substantially more highly rated than other banks in the sector and over the last six months has rerated to a level where we think that the share is priced for continued high growth and perfection. We continue to prefer Standard Bank, ABSA and Investec, which are substantially cheaper than Capitec.

We think that the banks that we own are trading on undemanding valuations, especially given that earnings and dividend growth is exceptionally strong currently. We think there is

also good opportunity to generate alpha within this sector by being overweight relatively undervalued banks.

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

### Strategy and positioning

We remain optimistic regarding the South African equity market returns over the medium term due to the prevailing excessive levels of pessimism reflected in share prices and valuations. The Price to Book of the JSE remains close to 1.8X as at the end of September 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 re-rating of equities in South Africa.

The Fund's relatively low offshore exposure reflects that we think the SA market and SA currency represent very good value. Today, we continue to think that Emerging Markets and African equities represent particularly good value, and we think the SA rand is still attractive. Your Fund has approximately 18% 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 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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Collective Investment Schemes (unit trusts) are generally medium- to long-term investments. Past performance is not necessarily a guide to future investment performance. Unit trust prices are calculated on a net asset value basis. This means the price is the total net market value of all assets of the unit trust fund divided by the total number of units of the fund. Any market movements – for example in share prices, bond prices, money market prices or currency fluctuations – relevant to the underlying assets of the fund may cause the value of the underlying assets to go up or down. As a result, the price of your units may go up or down. Unit trusts are traded at the ruling forward price of the day, meaning that transactions are processed during the day before you or the Manager know what the price at the end of the day will be. The price and therefore the number of units involved in the transaction are only known on the following day. The unit trust fund may borrow up to 10% of the fund value, and it may also lend any scrip (proof of ownership of an investment instrument) that it holds to earn additional income. A M&G unit trust fund may consist of different fund classes that are subject to different fees and charges. Where applicable, the Manager will pay your financial adviser an agreed standard ongoing adviser fee, which is included in the overall costs of the fund. A unit trust summary with all fees and maximum initial and ongoing adviser fees is available on our website. One can also obtain additional information on M&G products on the M&G website. The Fund may hold foreign securities including foreign CIS funds. As a result, the fund may face material risks. The volatility of the fund may be higher and the liquidity of the underlying securities may be restricted due to relative market sizes and market conditions. The fund's ability to settle securities and to repatriate investment income, capital or the proceeds of sales of securities may be adversely affected for multiple reasons including market conditions, macro-economic and political circumstances. Further, the return on the security may be affected (positively or negatively) by the difference in tax regimes between the domestic and foreign tax jurisdictions. The availability of market information and information on any underlying sub-funds may be delayed. The Manager may, at its discretion, close your chosen unit trust fund to new investors and additional investments by existing investors to make sure that it is managed in accordance with its mandate. It may also stop your existing debit order investment. The Manager makes no guarantees as to the capital invested in the fund or the returns of the fund. Excessive withdrawals from the fund may place the fund under liquidity pressure and, in certain circumstances, a process of ring-fencing withdrawal instructions may be followed. Fund prices are published daily on the M&G website. These are also available upon request. The performance is calculated for the portfolio. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. Purchase and repurchase requests must be received by the Manager by 13h30 (11h30 for the Money Market Fund) SA time each business day. All online purchase and repurchase transactions must be received by the Manager by 13h30 (11h30 for the Money Market Fund) SA time each business day.

# M&G Equity Fund

Equity

Q3 2024

## Market overview

The third quarter of 2024 (Q3) witnessed notable fluctuations in global financial markets, driven by diverse economic signals, a shift among major central banks toward easing monetary policies and geopolitical tension. In mid-September, the US Federal Reserve (Fed) implemented a sizable interest rate cut of 50 basis points, lowering the target range to 4.75%-5.00%. This shift propelled global equity markets to new heights, while weakening the US dollar to major currencies.

In August, the Bank of England (BoE) reduced its main interest rate from 5.25% to 5%, maintaining this level through September. The BoE also announced plans to sell an additional £100 billion in bonds over the next year, thus scaling back its quantitative easing efforts.

The European Central Bank (ECB) also continued the easing trend, cutting its deposit rate by 25 basis points to 3.5% in September. Improved economic data and interest rate cuts in Europe and the US contributed to a recovery in European stocks following a selloff earlier in August.

Significant market movements were also driven by substantial stimulus measures from the Chinese central bank aimed at bolstering the economy. The Hong Kong Hang Seng Index surged, returning 22.3% for the quarter. The Chinese government's stimulus measures resulted in a notable 23.6% rally in the MSCI China Index (in US\$).

In contrast, the Bank of Japan (BOJ) raised rates by 15 basis points to 0.25% on July 31, marking the highest level since 2008. This unexpected hawkish move triggered considerable volatility in local equities and high-carry currencies, with the Nikkei 225 Index experiencing sharp declines early in August, before recovering those losses by month-end. As economic data from the US shifted expectations for the Federal Reserve, the Yen strengthened, leading to increased short-term volatility in Japanese equities and across regional Asian markets.

The International Monetary Fund (IMF) reported a stabilisation in global economic growth as the effects of previous interest rate hikes faded and falling inflation enhanced consumer disposable income. The IMF global growth forecast for 2024 is 3.2%, and its 2025 outlook is at 3.3%. Overall, global conditions have improved, although risks remain. A US 'soft landing' appears increasingly likely following the worst inflation surge in a generation, but it is not guaranteed.

Equity markets continued to perform well in the third quarter. Global equities (as measured by the MSCI All Country World Index) recorded a total return of 6.6% in Q3 compared to 2.9% in Q2, while emerging market equities (MSCI Emerging Markets Index) rallied another 8.7% in Q3 from 5.0% in Q2 (all in US\$). Emerging market equity returns were led by strong performances from China, South Africa and India. South Africa and India are still benefiting from a market-friendly election outcome while China saw a rebound amid the stimulus measures announced to aid its economy.

In South Africa, improving sentiment from a market-friendly election, better economic conditions, and easing monetary policy led to gains in asset prices and the Rand, with the FTSE/JSE All Share Index rising 9.6% in rand terms. Key contributors included Listed Property (19.1%), and Financials (13.7%) while Resources declined by 1.1%. Industrials was one of the standout performers benefitting from the month-end China rally as Naspers and Prosus prices reacted to the strong move in the Tencent share price. From a South African investor perspective, the move had beneficial implications as Tencent followed the market higher sending the share prices for Naspers and Prosus up by about 14% in September. In addition, the stimulus announcement led to higher commodity prices, which had a positive impact on the local resource sector.

South African bonds performed strongly, with the FTSE/JSE All Bond Index rising 10.5% (in Rand) over the quarter and adding more positive returns to the total for the year. Bond yields continued the downward move we have seen since the conclusion of the GNU election results.

Meanwhile, CPI decreased to 4.4% y/y in August, below the SARB's target and forecasts of 4.5%, down from 4.6% in July. This marks the third consecutive month of inflation slowdown. Following the Fed's lead, the Monetary Policy Committee (MPC) implemented a widely anticipated 25 basis point rate cut to 8%.

## Performance

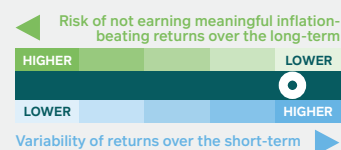
The M&G Equity Fund returned 7.7% (A class, net of fees) for the three months ending 30 September 2024, which brings the total returns for the year to date to 12.3% and 18.3% (A class, net of fees) over the one-year period. The average fund in the sector returned 8.8% for the three months, 14.7% for the year to date and 21.8% over one year.

Over the three months, the largest detractor has been the fund's investment in the M&G Global Equity Fund, which accounted for nearly all the underperformance. This is to be expected given that the rand strengthened just over 5% versus the dollar during the quarter and South African equity markets rallied given improved sentiment in South Africa post the formation of the Government of National Unity. Together with a rally in bond yields which have resulted in an upward repricing of South African equities, rand assets have been an excellent performer.

Fund holdings which have contributed to performance over the three months have been Nampak, Foschini and Motus. Not owning Sasol, Aspen, Mondi and Gold Fields have contributed to performance.

Detracting from performance have been companies the fund owned, which did not stand to benefit from the market rally and those which benefited but were not owned by the fund. These include Mr Price (not owned), Multichoice (subject to an offer which is fixed at R125 per share) and Nedbank (not owned).

## Risk profile



## Fund facts

### Fund objective

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

### Investor profile

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

### Investment mandate

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

### Fund managers

Chris Wood  
Yusuf Mowlana

### ASISA category

South African - Equity - General

### Benchmark

ASISA South African - Equity - General Category Average

### Inception date

2 August 1999

### Fund size

R6 472 127 561

### Awards

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

## Annualised performance

	A class	Benchmark	B class	F class
1 year	18.3%	21.8%	18.7%	19.0%
3 years	10.8%	11.6%	11.2%	12.0%
5 years	13.8%	11.3%	14.2%	14.8%
7 years	10.0%	7.9%	10.5%	11.0%
10 years	8.9%	6.8%	9.3%	-
20 years	14.9%	11.8%	-	-
Since inception	15.5%	12.8%	-	-

### Strategy & positioning

The M&G Equity Fund has maintained an overweight to the bank sector which has been one of the stand-out performers for the year. The banks remain inexpensive versus their own history and have a depressed earnings base, on balance, given high levels of provisions taken against bad loans. The potential release of these provisions, or simply the fact that they do not increase, should provide earnings support to these companies. Although not especially bullish on the near-term prospects for the value of loans to grow aggressively, loan growth in line with nominal GDP coupled with attractive dividend yields offer the likelihood of market-beating returns.

Within the property sector, the fund has retained its exposure to companies with strong fundamentals and sound balance sheets, being SA Corporate and Nepi Rockcastle. Within the domestic consumer names, Spar and Foschini are held in overweight positions as is Pick 'n Pay. All three companies are regarded as inexpensive versus their intrinsic values and in the case of Spar and Pick 'n Pay, both trade on undemanding valuations given the potential turnarounds in both companies and the non-repeat of previous headwinds. The fund has limited exposure to the insurance sector, with Reinet providing indirect exposure to Pension Investment Corporation in the United Kingdom.

During the quarter, the Peoples Bank of China announced several interventions aimed at supporting the housing and stock markets, including a reduction in the Reserve Requirement Ratio and cuts to mortgage and policy rates. The initial reaction was very positive for companies with exposure to China, including the large mining companies as well as Richemont and Naspers. It remains to be seen as to whether the interventions will have a lasting impact on the housing market or whether it can achieve its intention of boosting consumer and stock market investor sentiment. Naspers and Prosus are among the preferred names of the offshore holdings as we regard the Tencent share price to be attractively valued. Richemont and British American Tobacco remain top offshore picks.

### Outlook

The formation of the South African Government of National Unity is cause for cautious optimism. Investors would need to pay careful attention to the concrete steps and achievements made by the government. This has improved the outlook for the rand and government bonds. An element of stability in the business environment, including the abatement of loadshedding, may provide a better environment for companies to grow. What happens in China has major implications for commodity markets and several companies listed on the JSE, not limited to the mining companies. This may be a headwind to the market in the near-term if stimulus measures fail to achieve their objectives. With declining interest rates on the cards globally, the pressure on asset values has dissipated absent a recession. We are optimistic on the continued potential for the fund to produce real, inflation-adjusted returns. □

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# M&G SA Equity Fund

Equity

Q3 2024

## Market overview

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Global equities (as measured by the MSCI All Country World Index) recorded a total return of 6.6% in Q3 compared to 2.9% in Q2, while emerging market equities (MSCI Emerging Markets Index) rallied another 8.7% in Q3 from 5.0% in Q2 (all in US\$). The Bloomberg Global Aggregate Bond Index delivering 7.0% (US\$) for the quarter.

Emerging market equity returns were led by strong performances from China, South Africa and India. South Africa and India are still benefiting from a market-friendly election outcome while China saw a rebound amid the stimulus measures announced to aid its economy.

In South Africa, improving sentiment from a market-friendly election, better economic conditions, and easing monetary policy led to gains in asset prices and the Rand, with the FTSE/JSE All Share Index rising 9.6% in rand terms. Key contributors included Listed Property (19.1%) and Financials (13.7%), while Resources declined by 1.1%. Industrials was one of the standout performers benefitting from the month-end China rally as Naspers and Prosus prices reacted to the strong move in the Tencent share price. From a South African investor perspective, the move had beneficial implications as Tencent followed the market higher, sending the share prices for Naspers and Prosus up by about 14% in September. In addition, the stimulus announcement led to higher commodity prices, which had a positive impact on the local resource sector.

Meanwhile, CPI decreased to 4.4% y/y in August, below the SARB's target and forecasts of 4.5%, down from 4.6% in July. This marks the third consecutive month of inflation slowdown. Following the Fed's lead, the Monetary Policy Committee (MPC) implemented a widely anticipated 25 basis point rate cut to 8%.

South African bonds performed strongly, with the FTSE/JSE All Bond Index rising 10.5% (in Rand) over the quarter and adding more positive returns to the total for the year. Bond yields continued the downward move we have seen since the conclusion of the GNU election results.

## Performance

The M&G SA Equity Fund delivered a return of 9.2 % (F class, net of fees) for the third quarter of 2024, slightly behind its benchmark which delivered a return of 9.6%. For the 12 months ended 30 September 2024, the Fund returned 19.5% (F class, net of fees), underperforming its benchmark by 5.9%. Over the 3-year period ending 30 September 2024, the Fund delivered a return of 11.3% per annum over this period, underperforming the benchmark by 1.1% per year.

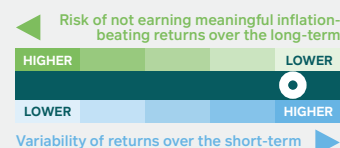
The largest contributor to performance this quarter was due to the Fund not holding any Aspen shares. We have generally held the view that Aspen's shares have been expensively valued over long periods of time. We think that the market tends to pay up for the potential growth in this company and its potential ability to fill its pharmaceutical manufacturing overcapacity. The full year results released at the beginning of September were disappointing, causing the share pricing to fall by 15% for the quarter. We continue to think that this business is expensively valued and see better opportunities in the market.

Over the last quarter, we sold our remaining shares in Sasol. This underweight position to Sasol was the second largest contributor to performance in the quarter. We had previously commented that while Sasol was currently paying a high dividend yield that we were concerned that the dividend may need to be cut due to cash flows coming under pressure over the next five years given the substantial capex projects to transition the business to reduced carbon emissions. In the annual results released during the quarter, Sasol has indeed revised its dividend policy, in 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 lower dividend than previously expected.

The outperformance from Sasol was offset by our overweight exposure to energy and iron ore stock, Exxaro, in the resources sector. Exxaro is exceptionally attractively valued relative to the cashflows it receives from its stake in the Sishen Iron Ore company and its large coal business mainly supplying coal to Eskom power stations. On the ESG front, we have been very engaged with Exxaro to understand their coal transition and how they are utilising the cash flows from thermal coal to invest in renewable energy and the potential opportunities and risks to invest in battery commodities.

Generally within the resources space, the recent announcement from China to support its economy and the stock market is potentially positive for base and bulk metals. In our view, China has been suffering from weak consumer and business sentiment, amongst other structural issues, and the recent stimulus package should go some way to improving sentiment. Iron ore, which has been weak due to a struggling property sector, has responded positively to the stimulus announcements, as has copper, which is normally

## Risk profile



## Fund facts

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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.

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### Fund managers

Ross Biggs  
Chris Wood  
Aadil Omar  
Leonard Krüger

### ASISA category

South African - Equity - General

### Benchmark

FTSE/JSE Capped SWIX All Share Index

### Inception date

21 September 2000

### Fund size

R39 661 322 286

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.

## Annualised performance

	B class	Benchmark <sup>1</sup>	F class
1 year	20.9%	25.4%	19.5%
3 years	12.6%	12.4%	11.3%
5 years	12.6%	11.9%	11.3%
7 years	9.0%	8.1%	7.7%
10 years	8.4%	7.5%	-
20 years	14.1%	13.0%	-
Since inception	14.7%	13.0%	-

<sup>1</sup>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.



a bellwether for expected economic growth. Fundamentally, although iron ore inventories are fairly 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 in the absence of 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. Therefore, we continue to hold overweight positions to Exxaro, Glencore, BHP and an equal weight position to Anglo American.

Overall therefore, we are cautiously optimistic about the sector over the near-term as interest rate cuts, a weaker US dollar, 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.

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 quarter 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.

South Africa has a very well-regulated banking sector and credit risk within the large banks have generally been very well-managed through cycles. We therefore continue to think that banks look relatively attractively valued and we remain overweight the banking sector. Our underweight to Capitec though was the second largest detractor from performance for the quarter. While we rate Capitec more highly in terms of quality banks and its has grown tremendously over the last decade, we cannot ignore that it is substantially more highly rated than other banks in the sector and over the last six months has rerated to a level where we think that the share is priced for continued high growth and perfection. Our continued preference remains Standard Bank, ABSA and Investec, which are substantially cheaper than Capitec.

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

A strong beneficiary of the lower bond yields during the quarter was the Fund's overweight position to The Foschini Group. 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. Despite the almost 25% share price increase of Foschini in the quarter, we still think it is attractively priced.

Our overweight position in British American Tobacco (BAT) was the fourth largest relative contributor to performance for the quarter. 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 has also been able to take advantage of its very highly rated Indian associate company, by selling down approximately 4% of its stake in ITC this year, such that it still owns 25% of ITC. Due to the exceptionally high rating of ITC, the 4%

sale raised approximately GBP 1.5 billion. This sale has enabled BAT to reduce debt and 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.

It is worth mentioning that we do not construct our portfolios 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 of 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 September 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 re-rating of equities in South Africa.

The focus of the M&G SA Equity 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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- 📞 0860 105 775

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### Application forms

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Collective Investment Schemes (unit trusts) are generally medium-to long-term investments. Past performance is not necessarily a guide to future investment performance. Unit trust prices are calculated on a net asset value basis. This means the price is the total net market value of all assets of the unit trust fund divided by the total number of units of the fund. Any market movements – for example in share prices, bond prices, money market prices or currency fluctuations – relevant to the underlying assets of the fund may cause the value of the underlying assets to go up or down. As a result, the price of your units may go up or down. Unit trusts are traded at the ruling forward price of the day, meaning that transactions are processed during the day before you or the Manager know what the price at the end of the day will be. The price and therefore the number of units involved in the transaction are only known on the following day. The unit trust fund may borrow up to 10% of the fund value, and it may also lend any scrip (proof of ownership of an investment instrument) that it holds to earn additional income. A M&G unit trust fund may consist of different fund classes that are subject to different fees and charges. Where applicable, the Manager will pay your financial adviser an agreed standard ongoing adviser fee, which is included in the overall costs of the fund. A unit trust summary with all fees and maximum initial and ongoing adviser fees is available on our website. One can also obtain additional information on M&G products on the M&G website. The Fund may hold foreign securities including foreign CIS funds. As a result, the fund may face material risks. The volatility of the fund may be higher and the liquidity of the underlying securities may be restricted due to relative market and market conditions. The fund's ability to settle securities and to repatriate investment income, capital or the proceeds of sales of securities may be adversely affected for multiple reasons including market conditions, macro-economic and political circumstances. Further, the return on the security may be affected (positively or negatively) by the difference in tax regimes between the domestic and foreign tax jurisdictions. The availability of market information and information on any underlying sub-funds may be delayed. The Manager may, at its discretion, close your chosen unit trust fund to new investors and additional investments by existing investors to make sure that it is managed in accordance with its mandate. It may also stop your existing debit order investment. The Manager makes no guarantees as to the capital invested in the fund or the returns of the fund. Excessive withdrawals from the fund may place the fund under liquidity pressure and, in certain circumstances, a process of ring-fencing withdrawal instructions may be followed. Fund prices are published daily on the M&G website. These are also available upon request. The performance is calculated for the portfolio. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. Purchase and repurchase requests must be received by the Manager by 13h30 (11h30 for the Money Market Fund) SA time each business day. All online purchase and repurchase transactions must be received by the Manager by 10h30 (for all Funds) SA time each business day.

# M&G Global Bond Feeder Fund

Global Income ZAR-denominated

Q3 2024

## Market overview

The third quarter of 2024 (Q3) witnessed notable fluctuations in global financial markets, driven by diverse economic signals, a shift among major central banks toward easing monetary policies and geopolitical tension. In mid-September, the US Federal Reserve (Fed) implemented a sizable interest rate cut of 50 basis points, lowering the target range to 4.75%-5.00%. This shift propelled global equity markets to new heights, while weakening the US dollar to major currencies.

US Treasuries rallied leading up to the Fed's decision, while rate cuts pressured the U.S. dollar and led to a rally in US equities. This environment contributed to a rally in global bond markets, particularly reflected in the Bloomberg Global Aggregate Bond Index delivering 7.0% (US\$) for the quarter.

## United States

While the much-anticipated rate cut was no surprise, the Fed did, however, surprise markets by cutting rates by a sizable 50 basis points in September, marking the start of its first easing campaign in four years. This significant cut reflected signs of moderating inflation and a weakening labour market. The focus has shifted towards the quantum of future rate cuts before the market will get too worried about a possible US recession. Comments from Fed chair Powell also helped ease any market concerns as it suggested future rate cuts should be more muted depending on economic data and inflation reporting.

August's CPI came in at 2.5% y/y, aligned with expectations and down from 2.9% in July, while the core PCE price index, the Fed's preferred inflation measure, rose to 2.7%/y. Q2 GDP exceeded expectations at 3% (q/q annualised), largely driven by consumer spending, while the downwardly revised Q1 GDP stood at 1.3%. The Fed maintained its growth forecast for 2024 at 2.1%.

## United Kingdom

In the UK, the Bank of England (BOE) kept its main interest rate steady at 5% during its September meeting, following a reduction from 5.25% to 5% in August. UK CPI held steady at 2.2% y/y in August, aligning with expectations as the BOE aims to return inflation to its 2% target.

UK GDP grew by 0.7% in Q2 2024, slightly below expectations, following 0.3%/y growth in Q1, with underlying growth showing weakness in the first half of the year. In the UK National Election on 4 July, the Labour Party achieved a decisive victory, unseating the Conservatives after 14 years. Pre-election uncertainty caused some volatility, but the outcome was anticipated in the local financial markets.

## Euro area

In the Euro area, the European Central Bank (ECB) lowered its main refinancing rate to 3.65% during its September meeting, as anticipated. August CPI was reported at 2.2% y/y, down from 2.6% in July and, aligning with the consensus, with the preliminary September number printing at 1.8%, below the ECB's 2.0% target.

Q2 2024 GDP growth surpassed expectations at 0.6% y/y but was revised down to 0.2% q/q, compared to 0.3% in Q1.

## Japan

The Bank of Japan (BOJ) unexpectedly raised rates by 15 basis points from 0-0.1% to 0.25% on the last day of July, the highest level since 2008, and signaling a more hawkish stance than anticipated. This decision led to significant volatility in local equities and high-carry currencies.

Japan's August core CPI rose to 2.8% y/y, aligning with forecasts and accelerating for the fourth consecutive month. In a widely anticipated move, the BOJ maintained its benchmark interest rate at 0.25% at its September meeting, in its efforts to normalise monetary policy. The BOJ's decision came as it seeks to transition away from a long-standing ultra-easy monetary stance while safeguarding the economy. Japan's economy grew at an annualised rate of 2.9% in the second quarter, surpassing the projected 2.1%.

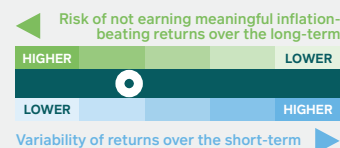
## China

China's economy is showing signs of a modest recovery, but a slow start to the second half of the year is increasing pressure on the world's second-largest economy to implement additional stimulus policies. This came amid ongoing challenges, including a prolonged housing downturn, persistent deflation, rising debt issues, and escalating trade tensions.

The People's Bank of China (PBOC) announced broad policy easing measures to shore up a flailing economy. The central bank cut the rate on one-year medium-term lending facility (MLF) loans to some financial institutions to 2% from 2.3%. Additionally, the reserve requirement rate was reduced from 10% to 9.5%. Some questions around the Chinese economy remains, such as the health of their property market and the impact these changes will have on the recovery in that sector, but the market clearly thinks the initial actions were positive.

China's August CPI increased to 0.6% y/y from 0.5% in July but came in lower than the forecasted 0.7%. The uptick was mainly due to higher food costs from weather disruptions, rather than a recovery in domestic demand as producer price deflation worsened.

## 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

R698 002 970

### Awards

Raging Bull: 2006, 2008, 2013  
Morningstar/Standard & Poor's: 2007, 2009, 2013

## Annualised performance

	A class	Benchmark	B class
1 year	2.0%	2.4%	2.4%
3 years	0.3%	1.4%	0.6%
5 years	1.4%	1.7%	1.8%
7 years	3.0%	3.8%	-
10 years	4.1%	4.9%	-
20 years	7.5%	7.7%	-
Since inception	7.1%	7.4%	-

### Currency

The Rand strengthened to the end of September to the best levels since the start of 2023 having gained 5.6% against the US dollar and 1.7% against the Euro, but it depreciated 0.1% against the Pound Sterling.

### Performance

The Global Bond Feeder Fund returned 1.3%, net of fees, versus 1.0% from its benchmark, the Bloomberg Global Aggregate Bond Index. For the 12 months ending 30 September, the fund delivered 2.0% compared to the benchmark's 2.4% return.

The fund's absolute performance in the third quarter, was driven by the strong returns from global bonds, particularly long-dated US Treasuries. Eurozone sovereign bonds, UK gilts, emerging market sovereign bonds and corporate bonds also aided returns.

### Strategy and positioning

During July, we reduced exposure to both short-dated German, and French, government bonds and moved into KFW (German supranational). After significant outperformance of New Zealand government bonds relative to their Australian counterparts, we switched exposure from the former into Australia, mostly via supranationals. It was a quiet month for credit trades, with the fund only slightly reducing exposure to one Italian bank, on valuation grounds. In emerging markets, exposure to the Dominican Republic was reduced due to valuations no longer appearing attractive. Finally, in FX we increased exposure to both the Mexican peso and New Zealand dollar and reduced the Japanese yen position in light of the very strong performance.

In August, we shortened the fund's duration, post the repricing of government bond yield curves early in the month, and especially in the US. We considered adding credit exposure through the primary market, however in recent new issues value is being squeezed and therefore opportunity to participate was limited. In emerging markets, we trimmed exposure to Indonesia following strong performance. In FX, a rally in the first week of the month, presented an opportunity to reduce our yen position. We also reduced some exposure to the Swedish krona.

Activity in September, we switched some exposure out of German bunds and into Australian government bonds and carried out a relative value trade on the US Treasury curve. In credit, we reduced exposure to Takeda Pharmaceutical and in emerging markets, given the positive performance in Peru, the fund reduced duration there.


### Outlook

The fund's overweight duration position has moved lower, with markets pricing in an aggressive easing cycle in the US which would be suited to a significant deterioration in economic growth. The Fed's ability to front load cuts may be limited by key event risks such as the US elections and escalating conflict in the Middle East, making the November meeting as uncertain as September.

We continue to expect a slowdown in growth alongside a period of consistent monetary easing, however favour being long rates in countries such as the UK and Australia, where less has been priced in. To put the size of the US yield, move and our positioning adjustment into perspective, the fund was 1.0 years long US duration at the end of June, and is 0.2 years long now. The 10-year Treasury yield has moved just over 60 bps lower over that period. The fund is neutral on EUR duration and long GBP and AUD. We prefer curve steepening trades, which are positive from a carry perspective.

Corporate bond markets still trade at historically tight levels and, with limited carry and an asymmetry of how spreads may change in the broad range of potential macro and geopolitical developments, we continue to be underweight.


In emerging markets, from a duration perspective, the fund is broadly in line with the benchmark; the majority of overweight positions are in Latin America (Uruguay) as well as Indonesia.

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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# M&G Global Inflation Plus Feeder Fund

Global Multi-Asset ZAR-denominated

Q3 2024

## Market overview

The third quarter of 2024 (Q3) witnessed notable fluctuations in global financial markets, driven by diverse economic signals, a shift among major central banks toward easing monetary policies and geopolitical tension. In mid-September, the US Federal Reserve (Fed) implemented a sizable interest rate cut of 50 basis points, lowering the target range to 4.75%-5.00%. This shift propelled global equity markets to new heights, while weakening the US dollar to major currencies.

In the US, Treasuries rallied leading up to the Fed's decision, while rate cuts pressured the U.S. dollar and led to a rally in US equities. This environment contributed to a rally in global bond markets, particularly reflected in the Bloomberg Global Aggregate Bond Index delivering 7.0% (US\$) for the quarter.

Equity markets continued to perform well in the third quarter. Global equities (as measured by the MSCI All Country World Index) recorded a total return of 6.6% in Q3 compared to 2.9% in Q2, while emerging market equities (MSCI Emerging Markets Index) rallied another 8.7% in Q3 from 5.0% in Q2 (all in US\$).

Emerging market equity returns were led by strong performances from China, South Africa and India. South Africa and India are still benefiting from a market-friendly election outcome while China saw a rebound amid the stimulus measures announced to aid its economy.

## United States

In the US, investor sentiment toward equities cooled slightly in anticipation of the Federal Reserve's rate decision. While the much-anticipated rate cut was no surprise, the Fed did, however, surprise markets by cutting rates by a sizable 50 basis points in September, marking the start of its first easing campaign in four years. This significant cut reflected signs of moderating inflation and a weakening labour market. The focus has shifted towards the quantum of future rate cuts before the market will get too worried about a possible US recession. Comments from Fed chair Powell also helped ease any market concerns as it suggested future rate cuts should be more muted depending on economic data and inflation reporting.

August's CPI came in at 2.5% y/y, aligned with expectations and down from 2.9% in July, while the core PCE price index, the Fed's preferred inflation measure, rose to 2.7% y/y. Q2 GDP exceeded expectations at 3% (q/q annualised), largely driven by consumer spending, while the downwardly revised Q1 GDP stood at 1.3%. The Fed maintained its growth forecast for 2024 at 2.1%. During the quarter, the Dow Jones gained 8.7%, the Nasdaq increased by 2.8%, and the S&P 500 rose by 5.9% (all in US\$).

## United Kingdom

In the UK, the Bank of England (BOE) kept its main interest rate steady at 5% during its September meeting, following a reduction from 5.25% to 5% in August. UK CPI held steady at 2.2% y/y in August, aligning with expectations as the BOE aims to return inflation to its 2% target.

UK GDP grew by 0.7% in Q2 2024, slightly below expectations, following 0.3% y/y growth in Q1, with underlying growth showing weakness in the first half of the year. In the UK National Election on 4 July, the Labour Party achieved a decisive victory, unseating the Conservatives after 14 years. Pre-election uncertainty caused some volatility, but the outcome was anticipated in the local financial markets. In Q3 2024, the FTSE 100 Index returned 8% (in US\$).

## Euro area

In the Euro area, the European Central Bank (ECB) lowered its main refinancing rate to 3.65% during its September meeting, as anticipated. August CPI was reported at 2.2% y/y, down from 2.6% in July and, aligning with the consensus, with the preliminary September number printing at 1.8%, below the ECB's 2.0% target.

Q2 2024 GDP growth surpassed expectations at 0.6% y/y but was revised down to 0.2% q/q, compared to 0.3% in Q1. France's CAC 40 rebounded with a 6.5% return in Q3 after a 7.3% decline in Q2, while Germany's DAX delivered a strong 10.4% return for Q3 (both in USD).

## Japan

The Bank of Japan (BOJ) unexpectedly raised rates by 15 basis points from 0-0.1% to 0.25% on the last day of July, the highest level since 2008, and signaling a more hawkish stance than anticipated. This decision led to significant volatility in local equities and high-carry currencies, with the Nikkei 225 Index experiencing a sharp decline in early August but recovering by month-end. After a strong return of 13.2% in Q1, the Nikkei retraced some gains in Q2 with a -7.6% return, followed by a 8.5% USD gain in Q3.

Japan's August core CPI rose to 2.8% y/y, aligning with forecasts and accelerating for the fourth consecutive month. In a widely anticipated move, the BOJ maintained its benchmark interest rate at 0.25% at its September meeting, in its efforts to normalise monetary policy. The BOJ's decision came as it seeks to transition away from a long-standing ultra-easy monetary stance while safeguarding the economy. Japan's economy grew at an annualised rate of 2.9% in the second quarter, surpassing the projected 2.1%.

## Risk profile

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



Variability of returns over the short-term

## 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

R176 295 205

### Awards

Raging Bull: 2019, 2021

## Annualised performance

	A class	Benchmark <sup>1</sup>	B class
1 year	6.8%	-6.3%	7.2%
3 years	4.6%	9.5%	5.0%
5 years	5.4%	6.4%	5.7%
7 years	6.1%	6.1%	6.4%
10 years	6.8%	6.6%	7.2%
20 years	7.5%	7.2%	-
Since inception	7.4%	7.2%	-

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

### China

China's economy is showing signs of a modest recovery, but a slow start to the second half of the year is increasing pressure on the world's second-largest economy to implement additional stimulus policies. This came amid ongoing challenges, including a prolonged housing downturn, persistent deflation, rising debt issues, and escalating trade tensions.

The People's Bank of China (PBOC) announced broad policy easing measures to shore up a flailing economy. The central bank cut the rate on one-year medium-term lending facility (MLF) loans to some financial institutions to 2% from 2.3%. Additionally, the reserve requirement rate was reduced from 10% to 9.5%. Some questions around the Chinese economy remains, such as the health of their property market and the impact these changes will have on the recovery in that sector, but the market clearly thinks the initial actions were positive.

China's August CPI increased to 0.6% y/y from 0.5% in July but came in lower than the forecasted 0.7%. The uptick was mainly due to higher food costs from weather disruptions, rather than a recovery in domestic demand as producer price deflation worsened.

After years of stagnation, Chinese stocks surged in September, marking a significant turnaround from earlier in the quarter. The rally was driven by the government's aggressive stimulus plan, which included rate cuts and support for the struggling real estate sector. Hong Kong's Hang Seng Index returned 22.3% and the MSCI China Index rose 23.6% in Q3 2024 (both in US\$).

### Emerging markets

The MSCI Emerging Markets Index achieved a robust 8.9% return, primarily fuelled by gains in China and South Africa. The MSCI China Index ended the quarter as one of the top performers, surging 23.6%, while South Africa and India benefitted from positive sentiment following their market-friendly national elections, returning 16.3% and 7.4%, respectively (both in USD). Conversely, the MSCI Turkey Index fell from its position as the previous quarter's top-performer, ending the period down 12.5%. Brazil's Bovespa gained 8.5%, while South Korea's KOSPI declined by 2.2% (all in US\$).

### Currency

The Rand strengthened to the end of September to the best levels since the start of 2023 having gained 5.6% against the US dollar and 1.7% against the Euro, but it depreciated 0.1% against the Pound Sterling.

### Performance

The M&G Global Inflation Plus Feeder Fund produced a return of 1.1% (A class, net of fees) for the quarter, whilst global inflation (based on the OECD G7 CPI index) measured -5.3%. For the 12 months to 30 September, the fund delivered 6.8% and global inflation measured -6.3% (for the rolling year ended 15 August 2024).

The fund's allocation to equities, fixed income and property all contributed to returns in the quarter.

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

Looking at our core exposure, the portfolio outperformed on 26 out of 66 trading days during the quarter, offering an

unfavourable hit rate of around 39%. The poor hit rate was offset by a favourable skew, as average outperformance was larger than average underperformance over the period.

A key attribute of portfolio construction within the fund is that active country, currency and industry exposures are constrained to ensure that style and idiosyncratic stock risk are the main drivers of active returns. The portfolio's style exposure provided a modest tailwind over the quarter, with exposure to high beta and smaller size factors, more than compensating for a modest drag from the portfolio's high residual volatility exposure. Stock selection had a modest negative impact over the quarter.

In terms of tactical positions, holdings in Asia ex Japan (particularly China/Hong Kong/Indonesia/South Korea) were beneficial. However, holdings in Japan cost some performance.

Turning to fixed income holdings, the fund's core exposure was the main driver of returns supported by tactical positions. Within core exposure, absolute performance in the third quarter, was driven by the strong returns from global bonds, particularly long-dated US Treasuries. Eurozone sovereign bonds, UK gilts, emerging market sovereign bonds and corporate bonds also aided returns. In terms of our tactical positions, the main contributor to returns were US Treasuries and emerging market sovereign bonds.

In global property, absolute performance was driven by the strong returns from real estate investment trusts, which reflected investor optimism regarding the future path of interest rates. The portfolio outperformed on 32 out of 66 trading days during the quarter, offering a hit rate of around 48%. There was very little difference in magnitude of outperforming versus underperforming days, as skew was relatively flat over the quarter. The fund is managed by constraining active country, currency and industry risk at the portfolio construction phase. This ensures that style and idiosyncratic stock risk are the main drivers of active returns. The portfolio's style exposure was a significant headwind over the quarter. Within style, exposure to high growth stocks proved to be the greatest detractor to performance.

### Strategy and positioning

At the beginning of August, in response to weakness in the Korean stock market, we began a new equity position in MSCI Korea ETF.

Towards the end of the quarter, we rebalanced the tactical equity positions in the fund, by increasing exposure to Latin America, Italy and the World ex US. At the same time we reduced exposure to equity holdings in European, Asia ex Japan and Indonesia.

As a result of activity in the quarter the fund has a small net equity active position of -2%.

### Outlook

Looking forward, it seems there will be plenty to occupy investors in the final quarter of the year. With no US Federal Reserve meeting in October, investors will no doubt be carefully digesting upcoming employment and inflation data, as well as any remarks from policymakers, for clues on the future path of interest rates.

The US third-quarter earnings season will need to be

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sufficiently upbeat to support the recent strength in US equities. Finally, with no clear favourite between the two candidates in the upcoming US presidential election, we are reminded about how surprising market reactions can be to election outcomes. We remain alert and ready to respond to future bouts of volatility.

Overall, equity valuations look demanding in aggregate, although not detached from recent robust earnings and fundamentals. We favour equity exposure outside the US. Within fixed income, developed market bonds offer attractive real yields and have potential diversification qualities if growth disappoints, whilst emerging market sovereign bonds present attractive real and nominal yields. Credit spreads, like equity

valuations, reflect a comfort with the corporate backdrop, so we are cautious in aggregate, and are focused on selected industries and geographies. Cash real yields are elevated and attractive, as well as uncorrelated with other asset classes. Liquidity provides flexibility to respond to tactical opportunities. □

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Collective Investment Schemes (unit trusts) are generally medium-to long-term investments. Past performance is not necessarily a guide to future investment performance. Unit trust prices are calculated on a net asset value basis. This means the price is the total net market value of all assets of the unit trust fund divided by the total number of units of the fund. Any market movements – for example in share prices, bond prices, money market prices or currency fluctuations – relevant to the underlying assets of the fund may cause the value of the underlying assets to go up or down. As a result, the price of your units may go up or down. Unit trusts are traded at the ruling forward price of the day, meaning that transactions are processed during the day before you or the Manager know what the price at the end of the day will be. The price and therefore the number of units involved in the transaction are only known on the following day. The unit trust fund may borrow up to 10% of the fund value, and it may also lend any scrip (proof of ownership of an investment instrument) that it holds to earn additional income. A M&G unit trust fund may consist of different fund classes that are subject to different fees and charges. Where applicable, the Manager will pay your financial adviser an agreed standard ongoing adviser fee, which is included in the overall costs of the fund. A unit trust summary with all fees and maximum initial and ongoing adviser fees is available on our website. One can also obtain additional information on M&G products on the M&G website. The Fund may hold foreign securities including foreign CIS funds. As a result, the fund may face material risks. The volatility of the fund may be higher and the liquidity of the underlying securities may be restricted due to relative market sizes and market conditions. The fund's ability to settle securities and to repatriate investment income, capital or the proceeds of sales of securities may be adversely affected for multiple reasons including market conditions, macro-economic and political circumstances. Further, the return on the security may be affected (positively or negatively) by the difference in tax regimes between the domestic and foreign tax jurisdictions. The availability of market information and information on any underlying sub-funds may be delayed. The Manager may, at its discretion, close your chosen unit trust fund to new investors and additional investments by existing investors to make sure that it is managed in accordance with its mandate. It may also stop your existing debit order investment. The Manager makes no guarantees as to the capital invested in the fund or the returns of the fund. Excessive withdrawals from the fund may place the fund under liquidity pressure and, in certain circumstances, a process of ring-fencing withdrawal instructions may be followed. Fund prices are published daily on the M&G website. These are also available upon request. The performance is calculated for the portfolio. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. Purchase and repurchase requests must be received by the Manager by 13h30 (11h30 for the Money Market Fund) SA time each business day. All online purchase and repurchase transactions must be received by the Manager by 10h30 (for all Funds) SA time each business day.

# M&G Global Balanced Feeder Fund

Global Multi-Asset ZAR-denominated

Q3 2024

## Market overview

The third quarter of 2024 (Q3) witnessed notable fluctuations in global financial markets, driven by diverse economic signals, a shift among major central banks toward easing monetary policies and geopolitical tension. In mid-September, the US Federal Reserve (Fed) implemented a sizable interest rate cut of 50 basis points, lowering the target range to 4.75%-5.00%. This shift propelled global equity markets to new heights, while weakening the US dollar to major currencies.

In the US, Treasuries rallied leading up to the Fed's decision, while rate cuts pressured the U.S. dollar and led to a rally in US equities. This environment contributed to a rally in global bond markets, particularly reflected in the Bloomberg Global Aggregate Bond Index delivering 7.0% (US\$) for the quarter.

Equity markets continued to perform well in the third quarter. Global equities (as measured by the MSCI All Country World Index) recorded a total return of 6.6% in Q3 compared to 2.9% in Q2, while emerging market equities (MSCI Emerging Markets Index) rallied another 8.7% in Q3 from 5.0% in Q2 (all in US\$).

Emerging market equity returns were led by strong performances from China, South Africa and India. South Africa and India are still benefiting from a market-friendly election outcome while China saw a rebound amid the stimulus measures announced to aid its economy.

### United States

In the US, investor sentiment toward equities cooled slightly in anticipation of the Federal Reserve's rate decision. While the much-anticipated rate cut was no surprise, the Fed did, however, surprise markets by cutting rates by a sizable 50 basis points in September, marking the start of its first easing campaign in four years. This significant cut reflected signs of moderating inflation and a weakening labour market. The focus has shifted towards the quantum of future rate cuts before the market will get too worried about a possible US recession. Comments from Fed chair Powell also helped ease any market concerns as it suggested future rate cuts should be more muted depending on economic data and inflation reporting.

August's CPI came in at 2.5% y/y, aligned with expectations and down from 2.9% in July, while the core PCE price index, the Fed's preferred inflation measure, rose to 2.7%/y. Q2 GDP exceeded expectations at 3% (q/q annualised), largely driven by consumer spending, while the downwardly revised Q1 GDP stood at 1.3%. The Fed maintained its growth forecast for 2024 at 2.1%. During the quarter, the Dow Jones gained 8.7%, the Nasdaq increased by 2.8%, and the S&P 500 rose by 5.9% (all in US\$).

### United Kingdom

In the UK, the Bank of England (BOE) kept its main interest rate steady at 5% during its September meeting, following a reduction from 5.25% to 5% in August. UK CPI held steady at 2.2% y/y in August, aligning with expectations as the BOE aims to return inflation to its 2% target.

UK GDP grew by 0.7% in Q2 2024, slightly below expectations, following 0.3%/y growth in Q1, with underlying growth showing weakness in the first half of the year. In the UK National Election on 4 July, the Labour Party achieved a decisive victory, unseating the Conservatives after 14 years. Pre-election uncertainty caused some volatility, but the outcome was anticipated in the local financial markets. In Q3 2024, the FTSE 100 Index returned 8% (in US\$).

### Euro area

In the Euro area, the European Central Bank (ECB) lowered its main refinancing rate to 3.65% during its September meeting, as anticipated. August CPI was reported at 2.2% y/y, down from 2.6% in July and, aligning with the consensus, with the preliminary September number printing at 1.8%, below the ECB's 2.0% target.

Q2 2024 GDP growth surpassed expectations at 0.6% y/y but was revised down to 0.2% q/q, compared to 0.3% in Q1. France's CAC 40 rebounded with a 6.5% return in Q3 after a 7.3% decline in Q2, while Germany's DAX delivered a strong 10.4% return for Q3 (both in USD).

### Japan

The Bank of Japan (BOJ) unexpectedly raised rates by 15 basis points from 0-0.1% to 0.25% on the last day of July, the highest level since 2008, and signaling a more hawkish stance than anticipated. This decision led to significant volatility in local equities and high-carry currencies, with the Nikkei 225 Index experiencing a sharp decline in early August but recovering by month-end. After a strong return of 13.2% in Q1, the Nikkei retraced some gains in Q2 with a -7.6% return, followed by a 8.5% USD gain in Q3.

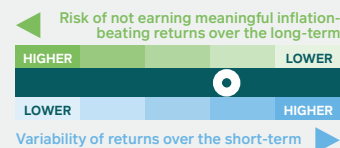
Japan's August core CPI rose to 2.8% y/y, aligning with forecasts and accelerating for the fourth consecutive month. In a widely anticipated move, the BOJ maintained its benchmark interest rate at 0.25% at its September meeting, in its efforts to normalise monetary policy. The BOJ's decision came as it seeks to transition away from a long-standing ultra-easy monetary stance while safeguarding the economy. Japan's economy grew at an annualised rate of 2.9% in the second quarter, surpassing the projected 2.1%.

### China

China's economy is showing signs of a modest recovery, but a slow start to the second half of the year is increasing pressure on the world's second-largest economy to implement additional stimulus policies. This came amid ongoing challenges, including a prolonged housing downturn, persistent deflation, rising debt issues, and escalating trade tensions.

The People's Bank of China (PBOC) announced broad policy easing measures to shore up a flailing economy. The central bank cut the rate on one-year medium-term lending facility (MLF) loans to some financial institutions to 2% from 2.3%. Additionally, the reserve requirement rate was reduced from 10% to 9.5%. Some questions around the Chinese economy remains, such as the health of their property market and the impact these changes will

## 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 381 952 882

## Annualised performance

	A class	Benchmark	B class
1 year	11.1%	14.4%	11.5%
2 years	13.7%	17.0%	14.1%
3 years	8.1%	9.6%	8.5%
5 years	8.9%	10.8%	9.1%
Since inception	9.1%	11.5%	-

have on the recovery in that sector, but the market clearly thinks the initial actions were positive.

China's August CPI increased to 0.6% y/y from 0.5% in July but came in lower than the forecasted 0.7%. The uptick was mainly due to higher food costs from weather disruptions, rather than a recovery in domestic demand as producer price deflation worsened. After years of stagnation, Chinese stocks surged in September, marking a significant turnaround from earlier in the quarter. The rally was driven by the government's aggressive stimulus plan, which included rate cuts and support for the struggling real estate sector. Hong Kong's Hang Seng Index returned 22.3% and the MSCI China Index rose 23.6% in Q3 2024 (both in US\$).

### Emerging markets

The MSCI Emerging Markets Index achieved a robust 8.9% return, primarily fuelled by gains in China and South Africa. The MSCI China Index ended the quarter as one of the top performers, surging 23.6%, while South Africa and India benefitted from positive sentiment following their market-friendly national elections, returning 16.3% and 7.4%, respectively (both in USD). Conversely, the MSCI Turkey Index fell from its position as the previous quarter's top-performer, ending the period down 12.5%. Brazil's Bovespa gained 8.5%, while South Korea's KOSPI declined by 2.2% (all in US\$).

### Currency

The Rand strengthened to the end of September to the best levels since the start of 2023 having gained 5.6% against the US dollar and 1.7% against the Euro, but it depreciated 0.1% against the Pound Sterling.

### Performance

The M&G Global Balanced Feeder Fund produced a return of 1.2% (A class, net of fees in Rand) for the quarter, versus the 0.9% recorded by its benchmark. For the 12 months to 30 September, the fund delivered 11.1% compared to the benchmark's 14.4% return.

The fund's allocation to global equities was the main driver of returns, with support from fixed income and property.

Within global equities, our core exposure chosen by machine learning and our tactical positions contributed to returns. The portfolio outperformed on 26 out of 66 trading days during the quarter, offering an unfavourable hit rate of around 39%. The poor hit rate was offset by a favourable skew, as average outperformance was larger than average underperformance over the period.

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

The portfolio's style exposure provided a modest tailwind over the quarter, with exposure to high beta and smaller size factors, more than compensating for a modest drag from the portfolio's high residual volatility exposure.

In terms of tactical (non-core) positions, holdings in Asia ex Japan (particularly China/Hong Kong/Indonesia/South Korea) were beneficial. However, holdings in Japan and a short position in the S&P 500 Index (which is part of a relative value trade) cost some performance.

Looking at the fund's fixed income holdings, its core exposure was the main driver of returns supported by tactical positions. Absolute performance in the third quarter, was driven by the

strong returns from global bonds, particularly long-dated US Treasuries. Eurozone sovereign bonds, UK gilts, emerging market sovereign bonds and corporate bonds also aided returns. In terms of our tactical positions, the main contributor to returns were US Treasuries and emerging market sovereign bonds.

Within property, absolute performance was driven by the strong returns from real estate investment trusts, which reflected investor optimism regarding the future path of interest rates. The portfolio outperformed on 32 out of 66 trading days during the quarter, offering a hit rate of around 48%. There was very little difference in magnitude of outperforming versus underperforming days, as skew was relatively flat over the quarter. The fund is managed by constraining active country, currency and industry risk at the portfolio construction phase. This ensures that style and idiosyncratic stock risk are the main drivers of active returns. The portfolio's style exposure was a significant headwind over the quarter. Within style, exposure to high growth stocks proved to be the greatest detractor to performance.

### Strategy and positioning

At the beginning of August, in response to weakness in the Korean stock market, we began a new equity position in MSCI Korea ETF.

Towards the end of the quarter, we rebalanced the tactical equity positions in the fund, by increasing exposure to Latin America, Italy and the World ex US. At the same time, we reduced exposure to equity holdings in European, Asia ex Japan and Indonesia.

As a result of activity in the quarter the fund has a small net equity active position of -1.95%.

### Outlook

Looking forward, it seems there will be plenty to occupy investors in the final quarter of the year. With no US Federal Reserve meeting in October, investors will no doubt be carefully digesting upcoming employment and inflation data, as well as any remarks from policymakers, for clues on the future path of interest rates.

The US third-quarter earnings season will need to be sufficiently upbeat to support the recent strength in US equities. Finally, with no clear favourite between the two candidates in the upcoming US presidential election, we are reminded about how surprising market reactions can be to election outcomes. We remain alert and ready to respond to future bouts of volatility.

Overall, equity valuations look demanding in aggregate, although not detached from recent robust earnings and fundamentals. We favour equity exposure outside the US. Within fixed income, developed market bonds offer attractive real yields and have potential diversification qualities if growth disappoints, whilst emerging market sovereign bonds present attractive real and nominal yields. Credit spreads, like equity valuations, reflect a comfort with the corporate backdrop, so we are cautious in aggregate, and are focused on selected industries and geographies. Cash real yields are elevated and attractive, as well as uncorrelated with other asset classes. Liquidity provides flexibility to respond to tactical opportunities. □

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# M&G Global Property Feeder Fund

Global Property ZAR-denominated

Q3 2024

## Market overview

The third quarter of 2024 (Q3) witnessed notable fluctuations in global financial markets, driven by diverse economic signals, a shift among major central banks toward easing monetary policies and geopolitical tension. In mid-September, the US Federal Reserve (Fed) implemented a sizable interest rate cut of 50 basis points, lowering the target range to 4.75%-5.00%. This shift propelled global equity markets to new heights, while weakening the US dollar to major currencies.

In the US, Treasuries rallied leading up to the Fed's decision, while rate cuts pressured the U.S. dollar and led to a rally in US equities.

Equity markets continued to perform well in the third quarter. Global equities (as measured by the MSCI All Country World Index) recorded a total return of 6.6% in Q3 compared to 2.9% in Q2, while emerging market equities (MSCI Emerging Markets Index) rallied another 8.7% in Q3 from 5.0% in Q2 (all in US\$).

### United States

In the US, investor sentiment toward equities cooled slightly in anticipation of the Federal Reserve's rate decision. While the much-anticipated rate cut was no surprise, the Fed did, however, surprise markets by cutting rates by a sizable 50 basis points in September, marking the start of its first easing campaign in four years. This significant cut reflected signs of moderating inflation and a weakening labour market. The focus has shifted towards the quantum of future rate cuts before the market will get too worried about a possible US recession. Comments from Fed chair Powell also helped ease any market concerns as it suggested future rate cuts should be more muted depending on economic data and inflation reporting.

August's CPI came in at 2.5% y/y, aligned with expectations and down from 2.9% in July, while the core PCE price index, the Fed's preferred inflation measure, rose to 2.7%/y. Q2 GDP exceeded expectations at 3% (q/q annualised), largely driven by consumer spending, while the downwardly revised Q1 GDP stood at 1.3%. The Fed maintained its growth forecast for 2024 at 2.1%. During the quarter, the Dow Jones gained 8.7%, the Nasdaq increased by 2.8%, and the S&P 500 rose by 5.9% (all in US\$).

### United Kingdom

In the UK, the Bank of England (BOE) kept its main interest rate steady at 5 % during its September meeting, following a reduction from 5.25% to 5% in August. UK CPI held steady at 2.2% y/y in August, aligning with expectations as the BOE aims to return inflation to its 2% target.

UK GDP grew by 0.7% in Q2 2024, slightly below expectations, following 0.3%/y growth in Q1, with underlying growth showing weakness in the first half of the year. In the UK National Election on 4 July, the Labour Party achieved a decisive victory, unseating the Conservatives after 14 years. Pre-election uncertainty caused some volatility, but the outcome was anticipated in

the local financial markets. In Q3 2024, the FTSE 100 Index returned 8% (in US\$).

### Euro area

In the Euro area, the European Central Bank (ECB) lowered its main refinancing rate to 3.65% during its September meeting, as anticipated. August CPI was reported at 2.2% y/y, down from 2.6% in July and, aligning with the consensus, with the preliminary September number printing at 1.8%, below the ECB's 2.0% target.

Q2 2024 GDP growth surpassed expectations at 0.6% y/y but was revised down to 0.2% q/q, compared to 0.3% in Q1. France's CAC 40 rebounded with a 6.5% return in Q3 after a 7.3% decline in Q2, while Germany's DAX delivered a strong 10.4% return for Q3 (both in USD).

### Japan

The Bank of Japan (BOJ) unexpectedly raised rates by 15 basis points from 0-0.1% to 0.25% on the last day of July, the highest level since 2008, and signaling a more hawkish stance than anticipated. This decision led to significant volatility in local equities and high-carry currencies, with the Nikkei 225 Index experiencing a sharp decline in early August but recovering by month-end. After a strong return of 13.2% in Q1, the Nikkei retraced some gains in Q2 with a -7.6% return, followed by a 8.5% USD gain in Q3.

Japan's August core CPI rose to 2.8% y/y, aligning with forecasts and accelerating for the fourth consecutive month. In a widely anticipated move, the BOJ maintained its benchmark interest rate at 0.25% at its September meeting, in its efforts to normalise monetary policy. The BOJ's decision came as it seeks to transition away from a long-standing ultra-easy monetary stance while safeguarding the economy. Japan's economy grew at an annualised rate of 2.9% in the second quarter, surpassing the projected 2.1%.

### China

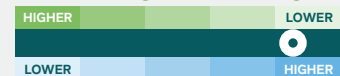
China's economy is showing signs of a modest recovery, but a slow start to the second half of the year is increasing pressure on the world's second-largest economy to implement additional stimulus policies. This came amid ongoing challenges, including a prolonged housing downturn, persistent deflation, rising debt issues, and escalating trade tensions.

The People's Bank of China (PBOC) announced broad policy easing measures to shore up a flailing economy. The central bank cut the rate on one-year medium-term lending facility (MLF) loans to some financial institutions to 2% from 2.3%. Additionally, the reserve requirement rate was reduced from 10% to 9.5%. Some questions around the Chinese economy remains, such as the health of their property market and the impact these changes will have on the recovery in that sector, but the market clearly thinks the initial actions were positive.

China's August CPI increased to 0.6% y/y from 0.5% in July but came in lower than the forecasted 0.7%. The uptick was

## Risk profile

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



Variability of returns over the short-term

## 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 966 886

## Annualised performance

	A class	Benchmark	B class
1 year	17.3%	18.0%	17.5%
2 years	13.2%	12.0%	13.3%
Since inception	1.4%	2.6%	-

mainly due to higher food costs from weather disruptions, rather than a recovery in domestic demand as producer price deflation worsened.

After years of stagnation, Chinese stocks surged in September, marking a significant turnaround from earlier in the quarter. The rally was driven by the government's aggressive stimulus plan, which included rate cuts and support for the struggling real estate sector. Hong Kong's Hang Seng Index returned 22.3% and the MSCI China Index rose 23.6% in Q3 2024 (both in US\$).

#### Emerging markets

The MSCI Emerging Markets Index achieved a robust 8.9% return, primarily fuelled by gains in China and South Africa. The MSCI China Index ended the quarter as one of the top performers, surging 23.6%, while South Africa and India benefitted from positive sentiment following their market-friendly national elections, returning 16.3% and 7.4%, respectively (both in USD). Conversely, the MSCI Turkey Index fell from its position as the previous quarter's top-performer, ending the period down 12.5%. Brazil's Bovespa gained 8.5%, while South Korea's KOSPI declined by 2.2% (all in US\$).

#### Currency

The Rand strengthened to the end of September to the best levels since the start of 2023 having gained 5.6% against the US dollar and 1.7% against the Euro, but it depreciated 0.1% against the Pound Sterling.

#### Performance

The M&G Global Property Feeder Fund produced a return of 9.1% (A class, net of fees in Rand) for the quarter, versus the 9.4% recorded by its benchmark. For the 12 months to 30 June, the fund delivered 17.3% compared to the benchmark's 18.0% return.

Absolute performance was driven by the strong returns from real estate investment trusts, which reflected investor optimism regarding the future path of interest rates.

The portfolio outperformed on 32 out of 66 trading days during the quarter, offering a hit rate of around 48%. There was very little difference in magnitude of outperforming versus underperforming days, as skew was relatively flat over the quarter.

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

The portfolio's style exposure was a significant headwind over the quarter. Within style, exposure to high growth stocks proved to be the greatest detractor to performance.

Stock selection had a positive impact over the quarter.

#### Outlook

Looking forward, it seems there will be plenty to occupy investors in the final quarter of the year. With no US Federal Reserve meeting in October, investors will no doubt be carefully digesting upcoming employment and inflation data, as well as any remarks from policymakers, for clues on the future path of interest rates.

The US third-quarter earnings season will need to be sufficiently upbeat to support the recent strength in US equities. Finally, with no clear favourite between the two candidates in the upcoming US presidential election, we are reminded about how surprising market reactions can be to election outcomes.

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

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Collective Investment Schemes (unit trusts) are generally medium-to long-term investments. Past performance is not necessarily a guide to future investment performance. Unit trust prices are calculated on a net asset value basis. This means the price is the total net market value of all assets of the unit trust fund divided by the total number of units of the fund. Any market movements – for example in share prices, bond prices, money market prices or currency fluctuations – relevant to the underlying assets of the fund may cause the value of the underlying assets to go up or down. As a result, the price of your units may go up or down. Unit trusts are traded at the ruling forward price of the day, meaning that transactions are processed during the day before you or the Manager know what the price at the end of the day will be. The price and therefore the number of units involved in the transaction are only known on the following day. The unit trust fund may borrow up to 10% of the fund value, and it may also lend any scrip (proof of ownership of an investment instrument) that it holds to earn additional income. A M&G unit trust fund may consist of different fund classes that are subject to different fees and charges. Where applicable, the Manager will pay your financial adviser an agreed standard ongoing adviser fee, which is included in the overall costs of the fund. A unit trust summary with all fees and maximum initial and ongoing adviser fees is available on our website. One can also obtain additional information on M&G products on the M&G website. The Fund may hold foreign securities including foreign CIS funds. As a result, the fund may face material risks. The volatility of the fund may be higher and the liquidity of the underlying securities may be restricted due to relative market sizes and market conditions. The fund's ability to settle securities and to repatriate investment income, capital or the proceeds of sales of securities may be adversely affected for multiple reasons including market conditions, macro-economic and political circumstances. Further, the return on the security may be affected (positively or negatively) by the difference in tax regimes between the domestic and foreign tax jurisdictions. The availability of market information and information on any underlying sub-funds may be delayed. The Manager may, at its discretion, close your chosen unit trust fund to new investors and additional investments by existing investors to make sure that it is managed in accordance with its mandate. It may also stop your existing debit order investment. The Manager makes no guarantees as to the capital invested in the fund or the returns of the fund. Excessive withdrawals from the fund may place the fund under liquidity pressure and, in certain circumstances; a process of ring fencing withdrawal instructions may be followed. Fund prices are published daily on the M&G website. These are also available upon request. The performance is calculated for the portfolio. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. Purchase and repurchase requests must be received by the Manager by 13h30 (11h30 for the Money Market Fund) SA time each business day. All online purchase and repurchase transactions must be received by the Manager by 10h30 (for all Funds) SA time each business day.

# M&G Global Equity Feeder Fund

Global Equity ZAR-denominated

Q3 2024

## Market overview

The third quarter of 2024 (Q3) witnessed notable fluctuations in global financial markets, driven by diverse economic signals, a shift among major central banks toward easing monetary policies and geopolitical tension. In mid-September, the US Federal Reserve (Fed) implemented a sizable interest rate cut of 50 basis points, lowering the target range to 4.75%-5.00%. This shift propelled global equity markets to new heights, while weakening the US dollar to major currencies.

Equity markets continued to perform well in the third quarter. Global equities (as measured by the MSCI All Country World Index) recorded a total return of 6.6% in Q3 compared to 2.9% in Q2, while emerging market equities (MSCI Emerging Markets Index) rallied another 8.7% in Q3 from 5.0% in Q2 (all in US\$).

### United States

In the US, investor sentiment toward equities cooled slightly in anticipation of the Federal Reserve's rate decision. While the much-anticipated rate cut was no surprise, the Fed did, however, surprise markets by cutting rates by a sizable 50 basis points in September, marking the start of its first easing campaign in four years. This significant cut reflected signs of moderating inflation and a weakening labour market. The focus has shifted towards the quantum of future rate cuts before the market will get too worried about a possible US recession. Comments from Fed chair Powell also helped ease any market concerns as it suggested future rate cuts should be more muted depending on economic data and inflation reporting.

August's CPI came in at 2.5% y/y, aligned with expectations and down from 2.9% in July, while the core PCE price index, the Fed's preferred inflation measure, rose to 2.7%y/y. Q2 GDP exceeded expectations at 3% (q/q annualised), largely driven by consumer spending, while the downwardly revised Q1 GDP stood at 1.3%. The Fed maintained its growth forecast for 2024 at 2.1%. During the quarter, the Dow Jones gained 8.7%, the Nasdaq increased by 2.8%, and the S&P 500 rose by 5.9% (all in US\$).

### United Kingdom

In the UK, the Bank of England (BOE) kept its main interest rate steady at 5 % during its September meeting, following a reduction from 5.25% to 5% in August. UK CPI held steady at 2.2% y/y in August, aligning with expectations as the BOE aims to return inflation to its 2% target.

UK GDP grew by 0.7% in Q2 2024, slightly below expectations, following 0.3%y/y growth in Q1, with underlying growth showing weakness in the first half of the year. In the UK National Election on 4 July, the Labour Party achieved a decisive victory, unseating the Conservatives after 14 years. Pre-election uncertainty caused some volatility, but the outcome was anticipated in the local financial markets. In Q3 2024, the FTSE 100 Index returned 8% (in US\$).

### Euro area

In the Euro area, the European Central Bank (ECB) lowered its main refinancing rate to 3.65% during its September meeting, as anticipated. August CPI was reported at 2.2% y/y, down from 2.6% in July and, aligning with the consensus, with the preliminary September number printing at 1.8%, below the ECB's 2.0% target.

Q2 2024 GDP growth surpassed expectations at 0.6% y/y but was revised down to 0.2% q/q, compared to 0.3% in Q1. France's CAC 40 rebounded with a 6.5% return in Q3 after a 7.3% decline in Q2, while Germany's DAX delivered a strong 10.4% return for Q3 (both in USD).

### Japan

The Bank of Japan (BOJ) unexpectedly raised rates by 15 basis points from 0-0.1% to 0.25% on the last day of July, the highest level since 2008, and signaling a more hawkish stance than anticipated. This decision led to significant volatility in local equities and high-carry currencies, with the Nikkei 225 Index experiencing a sharp decline in early August but recovering by month-end. After a strong return of 13.2% in Q1, the Nikkei retraced some gains in Q2 with a -7.6% return, followed by a 8.5% USD gain in Q3.

Japan's August core CPI rose to 2.8% y/y, aligning with forecasts and accelerating for the fourth consecutive month. In a widely anticipated move, the BOJ maintained its benchmark interest rate at 0.25% at its September meeting, in its efforts to normalise monetary policy. The BOJ's decision came as it seeks to transition away from a long-standing ultra-easy monetary stance while safeguarding the economy. Japan's economy grew at an annualised rate of 2.9% in the second quarter, surpassing the projected 2.1%.

### China

China's economy is showing signs of a modest recovery, but a slow start to the second half of the year is increasing pressure on the world's second-largest economy to implement additional stimulus policies. This came amid ongoing challenges, including a prolonged housing downturn, persistent deflation, rising debt issues, and escalating trade tensions.

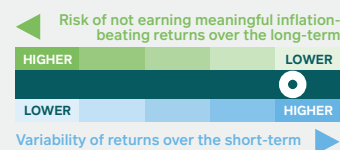
The People's Bank of China (PBOC) announced broad policy easing measures to shore up a flailing economy. The central bank cut the rate on one-year medium-term lending facility (MLF) loans to some financial institutions to 2% from 2.3%. Additionally, the reserve requirement rate was reduced from 10% to 9.5%. Some questions around the Chinese economy remains, such as the health of their property market and the impact these changes will have on the recovery in that sector, but the market clearly thinks the initial actions were positive.

China's August CPI increased to 0.6% y/y from 0.5% in July

## Annualised performance

	A class	Benchmark	B class
1 year	15.8%	20.5%	16.2%
3 years	10.2%	13.1%	10.6%
5 years	13.9%	15.1%	14.3%
7 years	12.0%	14.1%	-
10 years	12.2%	14.1%	-
20 years	11.3%	13.8%	-
Since inception	8.5%	10.0%	-

## Risk profile



## Fund facts

### Fund objective

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

### Investor profile

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

### Investment mandate

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

### Investment manager of the underlying fund

M&G Investment Management Ltd (UK)

### Fund managers of the underlying fund

Gautam Samarth  
Michael Cook

### ASISA category

Global - Equity - General

### Benchmark

MSCI All Country World Index (Net)

### Inception date

18 February 2000

### Fund size

R1 966 887 590

but came in lower than the forecasted 0.7%. The uptick was mainly due to higher food costs from weather disruptions, rather than a recovery in domestic demand as producer price deflation worsened.

After years of stagnation, Chinese stocks surged in September, marking a significant turnaround from earlier in the quarter. The rally was driven by the government's aggressive stimulus plan, which included rate cuts and support for the struggling real estate sector. Hong Kong's Hang Seng Index returned 22.3% and the MSCI China Index rose 23.6% in Q3 2024 (both in US\$).

### Emerging markets

The MSCI Emerging Markets Index achieved a robust 8.9% return, primarily fuelled by gains in China and South Africa. The MSCI China Index ended the quarter as one of the top performers, surging 23.6%, while South Africa and India benefitted from positive sentiment following their market-friendly national elections, returning 16.3% and 7.4%, respectively (both in USD). Conversely, the MSCI Turkey Index fell from its position as the previous quarter's top-performer, ending the period down 12.5%. Brazil's Bovespa gained 8.5%, while South Korea's KOSPI declined by 2.2% (all in US\$).

### Currency

The Rand strengthened to the end of September to the best levels since the start of 2023 having gained 5.6% against the US dollar and 1.7% against the Euro, but it depreciated 0.1% against the Pound Sterling.

### Performance

The M&G Global Equity Feeder Fund produced a return of 1.2% (A class, net of fees in Rand) for the quarter, versus the 0.6% recorded by its benchmark. For the 12 months to 30 September, the fund delivered 15.8% compared to the benchmark's 20.5% return.

Absolute performance was driven by gains in equity markets in the quarter.

The portfolio outperformed on 26 out of 66 trading days during the quarter, offering an unfavourable hit rate of around 39%. The poor hit rate was offset by a favourable skew, as average outperformance was larger than average underperformance over the period.

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

The portfolio's style exposure provided a modest tailwind over the quarter, with exposure to high beta and smaller size factors, more than compensating for a modest drag from the portfolio's high residual volatility exposure.

Stock selection had a modest negative impact over the quarter.

### Strategy & positioning

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

### Outlook

Looking forward, it seems there will be plenty to occupy investors in the final quarter of the year. With no US Federal Reserve meeting in October, investors will no doubt be carefully digesting upcoming employment and inflation data, as well as any remarks from policymakers, for clues on the future path of interest rates.

The US third-quarter earnings season will need to be sufficiently upbeat to support the recent strength in US equities. Finally, with no clear favourite between the two candidates in the upcoming US presidential election, we are reminded about how surprising market reactions can be to election outcomes.

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# M&G 2.5% Target Income Fund

Target Income

Q3 2024

## Market overview

The third quarter of 2024 (Q3) witnessed notable fluctuations in global financial markets, driven by diverse economic signals, a shift among major central banks toward easing monetary policies and geopolitical tension. In mid-September, the US Federal Reserve (Fed) implemented a sizable interest rate cut of 50 basis points, lowering the target range to 4.75%-5.00%. This shift propelled global equity markets to new heights, while weakening the US dollar to major currencies.

In the US, Treasuries rallied leading up to the Fed's decision, while rate cuts pressured the U.S. dollar and led to a rally in US equities. This environment contributed to a rally in global bond markets, particularly reflected in the Bloomberg Global Aggregate Bond Index delivering 7.0% (US\$) for the quarter.

Equity markets continued to perform well in the third quarter. Global equities (as measured by the MSCI All Country World Index) recorded a total return of 6.6% in Q3 compared to 2.9% in Q2, while emerging market equities (MSCI Emerging Markets Index) rallied another 8.7% in Q3 from 5.0% in Q2 (all in US\$). Emerging market equity returns were led by strong performances from China, South Africa and India. South Africa and India are still benefiting from a market-friendly election outcome while China saw a rebound amid the stimulus measures announced to aid its economy.

In South Africa, improving sentiment from a market-friendly election, better economic conditions, and easing monetary policy led to gains in asset prices and the Rand, with the FTSE/JSE All Share Index rising 9.6% in rand terms. Key contributors included Listed Property (19.1%), and Financials (13.7%) while Resources declined by 1.1%. Industrials was one of the standout performers benefitting from the month-end China rally as Naspers and Prosus prices reacted to the strong move in the Tencent share price. From a South African investor perspective, the move had beneficial implications as Tencent followed the market higher sending the share prices for Naspers and Prosus up by about 14% in September. In addition, the stimulus announcement led to higher commodity prices, which had a positive impact on the local resource sector.

South African bonds performed strongly, with the FTSE/JSE All Bond Index rising 10.5% (in rand) over the quarter and adding more positive returns to the total for the year. Bond yields continued the downward move we have seen since the conclusion of the GNU election results.

The Rand also strengthened to the end of September to the best levels since the start of 2023 having gained 5.6% against the US dollar and 1.7% against the Euro, but it depreciated 0.1% against the Pound Sterling.

## United States

In the US, investor sentiment toward equities cooled slightly in anticipation of the Federal Reserve's rate decision. While the much-anticipated rate cut was no surprise, the Fed did, however, surprise markets by cutting rates by a sizable 50 basis points in September, marking the start of its first easing campaign in four years. This significant cut reflected signs of moderating inflation and a weakening labour market. The focus has shifted towards the quantum of future rate cuts before the market will get too worried about a possible US recession. Comments from Fed chair Powell also helped ease any market concerns as it suggested future rate cuts should be more muted depending on economic data and inflation reporting.

August's CPI came in at 2.5% y/y, aligned with expectations and down from 2.9% in July, while the core PCE price index, the Fed's preferred inflation measure, rose to 2.7%/y/y. Q2 GDP exceeded expectations at 3% (q/q annualised), largely driven by consumer spending, while the downwardly revised Q1 GDP stood at 1.3%. The Fed maintained its growth forecast for 2024 at 2.1%. During the quarter, the Dow Jones gained 8.7%, the Nasdaq increased by 2.8%, and the S&P 500 rose by 5.9% (all in US\$).

## United Kingdom

In the UK, the Bank of England (BOE) kept its main interest rate steady at 5 % during its September meeting, following a reduction from 5.25% to 5% in August. UK CPI held steady at 2.2% y/y in August, aligning with expectations as the BOE aims to return inflation to its 2% target.

UK GDP grew by 0.7% in Q2 2024, slightly below expectations, following 0.3%/y/y growth in Q1, with underlying growth showing weakness in the first half of the year. In the UK National Election on 4 July, the Labour Party achieved a decisive victory, unseating the Conservatives after 14 years. Pre-election uncertainty caused some volatility, but the outcome was anticipated in the local financial markets. In Q3 2024, the FTSE 100 Index returned 8% (in US\$).

## Euro area

In the Euro area, the European Central Bank (ECB) lowered its benchmark interest rate to 3.65% during its September meeting, as anticipated. August CPI was reported at 2.2% y/y, down from 2.6% in July and, aligning with the consensus, but still above the ECB's 2.0% target.

Q2 2024 GDP growth surpassed expectations at 0.6% y/y but was revised down to 0.2% q/q, compared to 0.3% in Q1. France's CAC 40 rebounded with a 6.5% return in Q3 after a 7.3% decline in Q2, while Germany's DAX delivered a strong 10.4% return for Q3 (both in USD).

## 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 643 674

## Annualised performance

	A class	CPI	B class
1 year	17.4%	4.4%	17.7%
2 years	15.4%	4.6%	15.8%
3 years	11.0%	5.6%	11.4%
5 years	10.3%	5.0%	10.6%
Since inception	8.5%	4.9%	-

**Japan**

The Bank of Japan (BOJ) unexpectedly raised rates by 15 basis points from 0-0.1% to 0.25% on the last day of July, the highest level since 2008, and signaling a more hawkish stance than anticipated. This decision led to significant volatility in local equities and high-carry currencies, with the Nikkei 225 Index experiencing a sharp decline in early August but recovering by month-end. After a strong return of 13.2% in Q1, the Nikkei retraced some gains in Q2 with a -7.6% return, followed by a 7.6% USD gain in Q3.

Japan's August core CPI rose to 2.8% y/y, aligning with forecasts and accelerating for the fourth consecutive month. In a widely anticipated move, the BOJ maintained its benchmark interest rate at 0.25% at its September meeting, in its efforts to normalise monetary policy. The BOJ's decision came as it seeks to transition away from a long-standing ultra-easy monetary stance while safeguarding the economy. Japan's economy grew at an annualised rate of 2.9% in the second quarter, surpassing the projected 2.1%.

**China**

China's economy is showing signs of a modest recovery, but a slow start to the second half of the year is increasing pressure on the world's second-largest economy to implement additional stimulus policies. This came amid ongoing challenges, including a prolonged housing downturn, persistent deflation, rising debt issues, and escalating trade tensions.

The People's Bank of China (PBOC) announced broad policy easing measures to shore up a flailing economy. The central bank cut the rate on one-year medium-term lending facility (MLF) loans to some financial institutions to 2% from 2.3%. Additionally, the reserve requirement rate was reduced from 10% to 9.5%. Some questions around the Chinese economy remains, such as the health of their property market and the impact these changes will have on the recovery in that sector, but the market clearly thinks the initial actions were positive.

China's August CPI increased to 0.6% y/y from 0.5% in July but came in lower than the forecasted 0.7%. The uptick was mainly due to higher food costs from weather disruptions, rather than a recovery in domestic demand as producer price deflation worsened.

After years of stagnation, Chinese stocks surged in September, marking a significant turnaround from earlier in the quarter. The rally was driven by the government's aggressive stimulus plan, which included rate cuts and support for the struggling real estate sector. Hong Kong's Hang Seng Index returned 22.4% and the MSCI China Index rose 22.6% in Q3 2024 (both in US\$).

The MSCI Emerging Markets Index achieved a robust 8.9% return, primarily fuelled by gains in China and South Africa. The MSCI China Index ended the quarter as one of the top performers, surging 23.6%, while South Africa and India benefitted from positive sentiment following their market-friendly national elections, returning 16.3% and 7.4%, respectively (both in USD). Conversely, the MSCI Turkey Index fell from its position as the previous quarter's top-performer, ending the period down 12.5%. Brazil's Bovespa gained 8.5%, while South Korea's KOSPI declined by 2.2% (all in US\$).

**Emerging markets**

The MSCI Emerging Markets Index achieved a robust 8.9% return, primarily fuelled by gains in China and South Africa. The MSCI

China Index ended the quarter as one of the top performers, surging 23.6%, while South Africa and India benefitted from positive sentiment following their market-friendly national elections, returning 16.3% and 7.4%, respectively (both in USD). Conversely, the MSCI Turkey Index fell from its position as the previous quarter's top-performer, ending the period down 12.5%. Brazil's Bovespa gained 8.5%, while South Korea's KOSPI declined by 2.2% (all in US\$).

**Commodities**

Commodity markets experienced mixed results in Q3. China's stimulus announcement led to higher commodity prices. Gold prices surged to record highs, making gold the standout performer with a 14.0% increase, driven by rising geopolitical tensions and monetary easing. In contrast, platinum saw a slight decline of 1.5%, while palladium rose by 2.7%. Zinc gained only 5.3% in Q3, after 23.4% in Q2. Additionally, aluminium, copper, and lead recorded increases ranging from 3.1% to 5.3%.

Brent crude oil experienced significant volatility this quarter, driven by mixed sentiment surrounding China's stimulus plans, potential production increases from OPEC+ members, and escalating tensions in the Middle East. OPEC+ has announced plans to boost production by 180,000 bpd monthly, following Saudi Arabia's shift from a \$100 oil price target to a focus on regaining market share. Oil prices dropped during the quarter, primarily due to rising global supply and weak demand growth in China year-to-date. The price of Brent crude oil started the quarter at a high of \$86.76/bbl but declined 17.5% by quarter end.

**South Africa**

Sentiment in South Africa continued to be buoyant off the back of a favourable election outcome. The re-rating continued into asset classes against the backdrop of improving economic conditions. The economy grew by 0.4% q/q in Q2 2024, following stagnation (0.0% growth) in Q1. Household consumption emerged as the largest contributor to overall growth, reflecting renewed confidence and spending power among households. The first-half output slightly missed expectations, but the South African Reserve Bank (SARB) projected growth of 0.6% in both upcoming quarters. While medium-term growth forecasts have increased due to rising confidence, a stable electricity supply and reform momentum, investment remains a concern, having contracted for four consecutive quarters, highlighting the need for recovery to support sustained growth.

Meanwhile, CPI decreased to 4.4% y/y in August, below the SARB's target and forecasts of 4.5%, down from 4.6% in July. This marks the third consecutive month of inflation slowdown. Following the Fed's lead, the Monetary Policy Committee (MPC) implemented a widely anticipated 25 basis point rate cut to 8%. This move aligns with the consensus view that a less restrictive stance supports sustainably lower inflation in the medium term. Currently the local forward rate agreement (FRA) curve is pricing in another 125bps of cuts in the rest of the cycle so the expectations would be for gradual 25bps cuts to come through over the next 12 months. The FTSE/JSE All Share Index returned 9.6% (in rand) for the quarter.

**Performance**

The M&G 2.5% Target Income Fund returned 5.9% (A class after fees) for the third quarter of 2024 and 17.4% (A class after fees) for the 12-month period ending 30 September 2024.

Looking at the fund's asset allocation, SA equity holdings added by far the most value to absolute performance for the quarter,

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followed by SA bond and cash exposures. Global equities were the largest detractors, while global bonds and cash also detracted, the latter mainly due to currency movements.

Within SA equities, the rally in Foschini and banking shares added good value to the fund, as did the fall in the Aspen share price, which we do not own. Other notable contributors included globally exposed holdings Prosus/Naspers, and mining counters Sasol and Sibanye Stillwater. The largest detractors from performance were Exxaro, Investec and Multichoice (over concerns around its Nigerian operations) and shares in stocks that we don't hold in the portfolio, namely Capitec, Nedbank and Sanlam.

### Strategy and positioning

During the third quarter we have made some changes to the size of our positions due to the rally we have seen in domestic asset classes, but the broad direction of fund positioning has remained the same.

Starting with our view on **offshore versus local asset allocation** we have left our positioning unchanged for the quarter and continue to prefer domestic assets over foreign exposure, despite the strong rally we have seen in our local market post the GNU announcement. From a valuation perspective, SA equities are coming off a very low base and continue to screen relatively cheap compared to other markets. On the bond side our 10-year yield is still pricing real returns in excess of our fair value assumptions and therefore remains one of our key holdings across the funds.

Within the **global holdings** our positions are currently towards a small underweight in global equity with a bigger underweight to the US market in order to take overweight positions in more fairly priced offshore markets. We also retain our small overweight positions in global bonds and global cash. During the quarter we acted on the market sell-off in early August to add some Korean equity exposure to the funds and reduced our China and other EM Asia exposure at the end of the quarter after the strong rally we saw in the Chinese market post their stimulus announcements. In addition to this we also broadened out our carry basket in the funds to short out some of the major currencies, such as the USD and EUR, in favour of higher carry trades such as in Latin American (Latam) markets.

In **global equities**, the MSCI ACWI 12-month forward P/E rose slightly to around 18X at the end of the quarter with fairly volatile intra-quarter moves. We made use of the opportunities the volatility gave us to change some of our positioning on the equity side by adding to Korea and/or Japan in our funds after the early August market sell-off to go slightly overweight equities in our global positioning but then reduced the asset class again at the end of September to take profits in our China exposure after the strong post-stimulus move in that market. The valuation for the S&P 500 continues to screen as expensive to other markets with a forward P/E increase to about 21.5X during the period and therefore we continue to hold our underweight to the US in favour of cheaper markets such as the UK, Europe, Korea and other emerging markets, such as Mexico.

Within **global bonds** we did not make any changes to our overweight duration position during the quarter and continue to hold exposure to the long end of the US Treasury curve as well as more muted positions in UK gilts and EM bonds with high real yields in undervalued currencies.

We continue to stay underweight **global corporate credit** given

the narrow credit spreads and the unattractive risk-reward payoffs in those instruments.

Our house-view continues to favour **SA equities** at the end of Q3 2024 and we made use of the post-election waiting period at the start of the quarter to add to our existing equity exposure across the funds. SA equity valuations when looking at the 12-month forward P/E ratio of the FTSE/JSE Capped SWIX Index moved higher to around 10.7X, due to a rally in share prices. On a Price-to-Book basis the market moved slightly less cheap from 1.6 at the start of the quarter to just over 1.7 by quarter end, but still trades cheap compared to history and relative to other markets. The portfolios benefitted from the equity team's move to add more SA-exposed stocks pre-election, such as increasing the bank and retail exposure in the funds.

In Q3 one of the bigger changes to our positioning was to decrease the extent of our underweight exposure in the **SA listed property sector**, given the improving fundamentals we have witnessed in that segment of the market. The rate-cutting environment, sharp reduction in bond yields and improved balance sheet efficiency of the property companies should take away some of the headwinds the sector has had to contend with since the Covid period. However, we continue to hold the sector as an underweight in our funds given the sharp rally in prices over the short- and medium-term periods.

Another change we made during the quarter was to lock in some of the performance we experienced in our overweight **SA nominal bonds** position. Local bonds have rallied strongly since the GNU announcement and although we are still positive on the asset class, we feel the speed of the move has been so sudden that it would be beneficial to take some of our position off. Real yields remain attractive compared to our fundamentals and therefore we continue to hold an overweight position to the sector, but at a reduced scale.

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. We made no changes to our ILB positioning during Q3. Real yields for these instruments are attractive at current levels, especially as the price move in ILBs have lagged behind nominal bonds during the quarter but given liquidity constraints and the advantage of being in nominal bonds in a rate-cutting environment we have kept our relative positioning in place in Q3.

Finally, 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. □

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# M&G 5% Target Income Fund

Target Income

Q3 2024

## Market overview

The third quarter of 2024 (Q3) witnessed notable fluctuations in global financial markets, driven by diverse economic signals, a shift among major central banks toward easing monetary policies and geopolitical tension. In mid-September, the US Federal Reserve (Fed) implemented a sizable interest rate cut of 50 basis points, lowering the target range to 4.75%-5.00%. This shift propelled global equity markets to new heights, while weakening the US dollar to major currencies.

In the US, Treasuries rallied leading up to the Fed's decision, while rate cuts pressured the U.S. dollar and led to a rally in US equities. This environment contributed to a rally in global bond markets, particularly reflected in the Bloomberg Global Aggregate Bond Index delivering 7.0% (US\$) for the quarter.

Equity markets continued to perform well in the third quarter. Global equities (as measured by the MSCI All Country World Index) recorded a total return of 6.6% in Q3 compared to 2.9% in Q2, while emerging market equities (MSCI Emerging Markets Index) rallied another 8.7% in Q3 from 5.0% in Q2 (all in US\$). Emerging market equity returns were led by strong performances from China, South Africa and India. South Africa and India are still benefiting from a market-friendly election outcome while China saw a rebound amid the stimulus measures announced to aid its economy.

In South Africa, improving sentiment from a market-friendly election, better economic conditions, and easing monetary policy led to gains in asset prices and the Rand, with the FTSE/JSE All Share Index rising 9.6% in rand terms. Key contributors included Listed Property (19.1%), and Financials (13.7%) while Resources declined by 1.1%. Industrials was one of the standout performers benefitting from the month-end China rally as Naspers and Prosus prices reacted to the strong move in the Tencent share price. From a South African investor perspective, the move had beneficial implications as Tencent followed the market higher sending the share prices for Naspers and Prosus up by about 14% in September. In addition, the stimulus announcement led to higher commodity prices, which had a positive impact on the local resource sector.

South African bonds performed strongly, with the FTSE/JSE All Bond Index rising 10.5% (in rand) over the quarter and adding more positive returns to the total for the year. Bond yields continued the downward move we have seen since the conclusion of the GNU election results.

The Rand also strengthened to the end of September to the best levels since the start of 2023 having gained 5.6% against the US dollar and 1.7% against the Euro, but it depreciated 0.1% against the Pound Sterling.

## United States

In the US, investor sentiment toward equities cooled slightly in

anticipation of the Federal Reserve's rate decision. While the much-anticipated rate cut was no surprise, the Fed did, however, surprise markets by cutting rates by a sizable 50 basis points in September, marking the start of its first easing campaign in four years. This significant cut reflected signs of moderating inflation and a weakening labour market. The focus has shifted towards the quantum of future rate cuts before the market will get too worried about a possible US recession. Comments from Fed chair Powell also helped ease any market concerns as it suggested future rate cuts should be more muted depending on economic data and inflation reporting.

August's CPI came in at 2.5% y/y, aligned with expectations and down from 2.9% in July, while the core PCE price index, the Fed's preferred inflation measure, rose to 2.7%/y/y. Q2 GDP exceeded expectations at 3% (q/q annualised), largely driven by consumer spending, while the downwardly revised Q1 GDP stood at 1.3%. The Fed maintained its growth forecast for 2024 at 2.1%. During the quarter, the Dow Jones gained 8.7%, the Nasdaq increased by 2.8%, and the S&P 500 rose by 5.9% (all in US\$).

## United Kingdom

In the UK, the Bank of England (BOE) kept its main interest rate steady at 5 % during its September meeting, following a reduction from 5.25% to 5% in August. UK CPI held steady at 2.2% y/y in August, aligning with expectations as the BOE aims to return inflation to its 2% target.

UK GDP grew by 0.7% in Q2 2024, slightly below expectations, following 0.3%/y growth in Q1, with underlying growth showing weakness in the first half of the year. In the UK National Election on 4 July, the Labour Party achieved a decisive victory, unseating the Conservatives after 14 years. Pre-election uncertainty caused some volatility, but the outcome was anticipated in the local financial markets. In Q3 2024, the FTSE 100 Index returned 8% (in US\$).

## Euro area

In the Euro area, the European Central Bank (ECB) lowered its benchmark interest rate to 3.65% during its September meeting, as anticipated. August CPI was reported at 2.2% y/y, down from 2.6% in July and, aligning with the consensus, but still above the ECB's 2.0% target.

Q2 2024 GDP growth surpassed expectations at 0.6% y/y but was revised down to 0.2% q/q, compared to 0.3% in Q1. France's CAC 40 rebounded with a 6.5% return in Q3 after a 7.3% decline in Q2, while Germany's DAX delivered a strong 10.4% return for Q3 (both in USD).

## Japan

The Bank of Japan (BOJ) unexpectedly raised rates by 15 basis points from 0-0.1% to 0.25% on the last day of July, the highest

## 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

R186 138 617

## Annualised performance

	A class	CPI	B class
1 year	20.5%	4.4%	20.9%
2 years	15.1%	4.6%	15.5%
3 years	9.6%	5.6%	10.0%
5 years	8.3%	5.0%	8.7%
Since inception	7.8%	4.9%	-





level since 2008, and signaling a more hawkish stance than anticipated. This decision led to significant volatility in local equities and high-carry currencies, with the Nikkei 225 Index experiencing a sharp decline in early August but recovering by month-end. After a strong return of 13.2% in Q1, the Nikkei retraced some gains in Q2 with a -7.6% return, followed by a 7.6% USD gain in Q3.

Japan's August core CPI rose to 2.8% y/y, aligning with forecasts and accelerating for the fourth consecutive month. In a widely anticipated move, the BOJ maintained its benchmark interest rate at 0.25% at its September meeting, in its efforts to normalise monetary policy. The BOJ's decision came as it seeks to transition away from a long-standing ultra-easy monetary stance while safeguarding the economy. Japan's economy grew at an annualised rate of 2.9% in the second quarter, surpassing the projected 2.1%.

### China

China's economy is showing signs of a modest recovery, but a slow start to the second half of the year is increasing pressure on the world's second-largest economy to implement additional stimulus policies. This came amid ongoing challenges, including a prolonged housing downturn, persistent deflation, rising debt issues, and escalating trade tensions.

The People's Bank of China (PBOC) announced broad policy easing measures to shore up a flailing economy. The central bank cut the rate on one-year medium-term lending facility (MLF) loans to some financial institutions to 2% from 2.3%. Additionally, the reserve requirement rate was reduced from 10% to 9.5%. Some questions around the Chinese economy remains, such as the health of their property market and the impact these changes will have on the recovery in that sector, but the market clearly thinks the initial actions were positive.

China's August CPI increased to 0.6% y/y from 0.5% in July but came in lower than the forecasted 0.7%. The uptick was mainly due to higher food costs from weather disruptions, rather than a recovery in domestic demand as producer price deflation worsened.

After years of stagnation, Chinese stocks surged in September, marking a significant turnaround from earlier in the quarter. The rally was driven by the government's aggressive stimulus plan, which included rate cuts and support for the struggling real estate sector. Hong Kong's Hang Seng Index returned 22.4% and the MSCI China Index rose 22.6% in Q3 2024 (both in US\$).

### Emerging markets

The MSCI Emerging Markets Index achieved a robust 8.9% return, primarily fuelled by gains in China and South Africa. The MSCI China Index ended the quarter as one of the top performers, surging 23.6%, while South Africa and India benefitted from positive sentiment following their market-friendly national elections, returning 16.3% and 7.4%, respectively (both in USD). Conversely, the MSCI Turkey Index fell from its position as the previous quarter's top-performer, ending the period down 12.5%. Brazil's Bovespa gained 8.5%, while South Korea's KOSPI declined by 2.2% (all in US\$).

### Commodities

Commodity markets experienced mixed results in Q3. China's stimulus announcement led to higher commodity prices. Gold prices surged to record highs, making gold the standout performer with a 14.0% increase, driven by rising geopolitical tensions

and monetary easing. In contrast, platinum saw a slight decline of 1.5%, while palladium rose by 2.7%. Zinc gained only 5.3% in Q3, after 23.4% in Q2. Additionally, aluminium, copper, and lead recorded increases ranging from 3.1% to 5.3%.

Brent crude oil experienced significant volatility this quarter, driven by mixed sentiment surrounding China's stimulus plans, potential production increases from OPEC+ members, and escalating tensions in the Middle East. OPEC+ has announced plans to boost production by 180,000 bpd monthly, following Saudi Arabia's shift from a \$100 oil price target to a focus on regaining market share. Oil prices dropped during the quarter, primarily due to rising global supply and weak demand growth in China year-to-date. The price of Brent crude oil started the quarter at a high of \$86.76/bbl but declined 17.5% by quarter end.

### South Africa

Sentiment in South Africa continued to be buoyant off the back of a favourable election outcome. The re-rating continued into asset classes against the backdrop of improving economic conditions. The economy grew by 0.4% q/q in Q2 2024, following stagnation (0.0% growth) in Q1. Household consumption emerged as the largest contributor to overall growth, reflecting renewed confidence and spending power among households. The first-half output slightly missed expectations, but the South African Reserve Bank (SARB) projected growth of 0.6% in both upcoming quarters. While medium-term growth forecasts have increased due to rising confidence, a stable electricity supply and reform momentum, investment remains a concern, having contracted for four consecutive quarters, highlighting the need for recovery to support sustained growth.

Meanwhile, CPI decreased to 4.4% y/y in August, below the SARB's target and forecasts of 4.5%, down from 4.6% in July. This marks the third consecutive month of inflation slowdown. Following the Fed's lead, the Monetary Policy Committee (MPC) implemented a widely anticipated 25 basis point rate cut to 8%. This move aligns with the consensus view that a less restrictive stance supports sustainably lower inflation in the medium term. Currently the local forward rate agreement (FRA) curve is pricing in another 125bps of cuts in the rest of the cycle so the expectations would be for gradual 25bps cuts to come through over the next 12 months. The FTSE/JSE All Share Index returned 9.6% (in rand) for the quarter.

### Performance

The M&G 5% Target Income Fund returned 8.4% (A class after fees) for the third quarter of 2024 and 20.5% (A class after fees) for the 12-month period ending 30 September 2024.

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

Within SA equities, the rally in Foschini and banking shares added good value to the fund, as did the fall in the Aspen share price, which we do not own. Other notable contributors included globally exposed holdings Prosus/Naspers, and mining counters Sasol and Sibanye Stillwater. The largest detractors from performance were Exxaro, Investec and Multichoice (over concerns around its Nigerian operations) and shares in stocks that we don't hold in the portfolio, namely Capitec, Nedbank and Sanlam.

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Finally, 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. □

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# M&G 7% Target Income Fund

Target Income

Q3 2024

## Market overview

The third quarter of 2024 (Q3) witnessed notable fluctuations in global financial markets, driven by diverse economic signals, a shift among major central banks toward easing monetary policies and geopolitical tension. In mid-September, the US Federal Reserve (Fed) implemented a sizable interest rate cut of 50 basis points, lowering the target range to 4.75%-5.00%. This shift propelled global equity markets to new heights, while weakening the US dollar to major currencies.

In the US, Treasuries rallied leading up to the Fed's decision, while rate cuts pressured the U.S. dollar and led to a rally in US equities. This environment contributed to a rally in global bond markets, particularly reflected in the Bloomberg Global Aggregate Bond Index delivering 7.0% (US\$) for the quarter.

Equity markets continued to perform well in the third quarter. Global equities (as measured by the MSCI All Country World Index) recorded a total return of 6.6% in Q3 compared to 2.9% in Q2, while emerging market equities (MSCI Emerging Markets Index) rallied another 8.7% in Q3 from 5.0% in Q2 (all in US\$). Emerging market equity returns were led by strong performances from China, South Africa and India. South Africa and India are still benefiting from a market-friendly election outcome while China saw a rebound amid the stimulus measures announced to aid its economy.

In South Africa, improving sentiment from a market-friendly election, better economic conditions, and easing monetary policy led to gains in asset prices and the Rand, with the FTSE/JSE All Share Index rising 9.6% in rand terms. Key contributors included Listed Property (19.1%), and Financials (13.7%) while Resources declined by 1.1%. Industrials was one of the standout performers benefitting from the month-end China rally as Naspers and Prosus prices reacted to the strong move in the Tencent share price. From a South African investor perspective, the move had beneficial implications as Tencent followed the market higher sending the share prices for Naspers and Prosus up by about 14% in September. In addition, the stimulus announcement led to higher commodity prices, which had a positive impact on the local resource sector.

South African bonds performed strongly, with the FTSE/JSE All Bond Index rising 10.5% (in rand) over the quarter and adding more positive returns to the total for the year. Bond yields continued the downward move we have seen since the conclusion of the GNU election results.

The Rand also strengthened to the end of September to the best levels since the start of 2023 having gained 5.6% against the US dollar and 1.7% against the Euro, but it depreciated 0.1% against the Pound Sterling.

## United States

In the US, investor sentiment toward equities cooled slightly in

anticipation of the Federal Reserve's rate decision. While the much-anticipated rate cut was no surprise, the Fed did, however, surprise markets by cutting rates by a sizable 50 basis points in September, marking the start of its first easing campaign in four years. This significant cut reflected signs of moderating inflation and a weakening labour market. The focus has shifted towards the quantum of future rate cuts before the market will get too worried about a possible US recession. Comments from Fed chair Powell also helped ease any market concerns as it suggested future rate cuts should be more muted depending on economic data and inflation reporting.

August's CPI came in at 2.5% y/y, aligned with expectations and down from 2.9% in July, while the core PCE price index, the Fed's preferred inflation measure, rose to 2.7%/y/y. Q2 GDP exceeded expectations at 3% (q/q annualised), largely driven by consumer spending, while the downwardly revised Q1 GDP stood at 1.3%. The Fed maintained its growth forecast for 2024 at 2.1%. During the quarter, the Dow Jones gained 8.7%, the Nasdaq increased by 2.8%, and the S&P 500 rose by 5.9% (all in US\$).

## United Kingdom

In the UK, the Bank of England (BOE) kept its main interest rate steady at 5% during its September meeting, following a reduction from 5.25% to 5% in August. UK CPI held steady at 2.2% y/y in August, aligning with expectations as the BOE aims to return inflation to its 2% target.

UK GDP grew by 0.7% in Q2 2024, slightly below expectations, following 0.3%/y/y growth in Q1, with underlying growth showing weakness in the first half of the year. In the UK National Election on 4 July, the Labour Party achieved a decisive victory, unseating the Conservatives after 14 years. Pre-election uncertainty caused some volatility, but the outcome was anticipated in the local financial markets. In Q3 2024, the FTSE 100 Index returned 8% (in US\$).

## Euro area

In the Euro area, the European Central Bank (ECB) lowered its benchmark interest rate to 3.65% during its September meeting, as anticipated. August CPI was reported at 2.2% y/y, down from 2.6% in July and, aligning with the consensus, but still above the ECB's 2.0% target.

Q2 2024 GDP growth surpassed expectations at 0.6% y/y but was revised down to 0.2% q/q, compared to 0.3% in Q1. France's CAC 40 rebounded with a 6.5% return in Q3 after a 7.3% decline in Q2, while Germany's DAX delivered a strong 10.4% return for Q3 (both in USD).

## Japan

The Bank of Japan (BOJ) unexpectedly raised rates by 15 basis points from 0-0.1% to 0.25% on the last day of July, the highest level since 2008, and signaling a more hawkish stance than

## 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

R357 635 242

## Annualised performance

	A class	CPI	B class
1 year	22.4%	4.4%	22.8%
2 years	15.1%	4.6%	15.5%
3 years	10.3%	5.6%	10.7%
5 years	8.4%	5.0%	8.8%
Since inception	7.9%	4.9%	-

anticipated. This decision led to significant volatility in local equities and high-carry currencies, with the Nikkei 225 Index experiencing a sharp decline in early August but recovering by month-end. After a strong return of 13.2% in Q1, the Nikkei retraced some gains in Q2 with a -7.6% return, followed by a 7.6% USD gain in Q3.

Japan's August core CPI rose to 2.8% y/y, aligning with forecasts and accelerating for the fourth consecutive month. In a widely anticipated move, the BOJ maintained its benchmark interest rate at 0.25% at its September meeting, in its efforts to normalise monetary policy. The BOJ's decision came as it seeks to transition away from a long-standing ultra-easy monetary stance while safeguarding the economy. Japan's economy grew at an annualised rate of 2.9% in the second quarter, surpassing the projected 2.1%.

### China

China's economy is showing signs of a modest recovery, but a slow start to the second half of the year is increasing pressure on the world's second-largest economy to implement additional stimulus policies. This came amid ongoing challenges, including a prolonged housing downturn, persistent deflation, rising debt issues, and escalating trade tensions.

The People's Bank of China (PBOC) announced broad policy easing measures to shore up a flailing economy. The central bank cut the rate on one-year medium-term lending facility (MLF) loans to some financial institutions to 2% from 2.3%. Additionally, the reserve requirement rate was reduced from 10% to 9.5%. Some questions around the Chinese economy remains, such as the health of their property market and the impact these changes will have on the recovery in that sector, but the market clearly thinks the initial actions were positive.

China's August CPI increased to 0.6% y/y from 0.5% in July but came in lower than the forecasted 0.7%. The uptick was mainly due to higher food costs from weather disruptions, rather than a recovery in domestic demand as producer price deflation worsened.

After years of stagnation, Chinese stocks surged in September, marking a significant turnaround from earlier in the quarter. The rally was driven by the government's aggressive stimulus plan, which included rate cuts and support for the struggling real estate sector. Hong Kong's Hang Seng Index returned 22.4% and the MSCI China Index rose 22.6% in Q3 2024 (both in US\$).

### Emerging markets

The MSCI Emerging Markets Index achieved a robust 8.9% return, primarily fueled by gains in China and South Africa. The MSCI China Index ended the quarter as one of the top performers, surging 23.6%, while South Africa and India benefitted from positive sentiment following their market-friendly national elections, returning 16.3% and 7.4%, respectively (both in USD). Conversely, the MSCI Turkey Index fell from its position as the previous quarter's top-performer, ending the period down 12.5%. Brazil's Bovespa gained 8.5%, while South Korea's KOSPI declined by 2.2% (all in US\$).

### Commodities

Commodity markets experienced mixed results in Q3. China's stimulus announcement led to higher commodity prices. Gold prices surged to record highs, making gold the standout performer with a 14.0% increase, driven by rising geopolitical tensions and monetary easing. In contrast, platinum saw a slight decline

of 1.5%, while palladium rose by 2.7%. Zinc gained only 5.3% in Q3, after 23.4% in Q2. Additionally, aluminium, copper, and lead recorded increases ranging from 3.1% to 5.3%.

Brent crude oil experienced significant volatility this quarter, driven by mixed sentiment surrounding China's stimulus plans, potential production increases from OPEC+ members, and escalating tensions in the Middle East. OPEC+ has announced plans to boost production by 180,000 bpd monthly, following Saudi Arabia's shift from a \$100 oil price target to a focus on regaining market share. Oil prices dropped during the quarter, primarily due to rising global supply and weak demand growth in China year-to-date. The price of Brent crude oil started the quarter at a high of \$86.76/bbl but declined 17.5% by quarter end.

### South Africa

Sentiment in South Africa continued to be buoyant off the back of a favourable election outcome. The re-rating continued into asset classes against the backdrop of improving economic conditions. The economy grew by 0.4% q/q in Q2 2024, following stagnation (0.0% growth) in Q1. Household consumption emerged as the largest contributor to overall growth, reflecting renewed confidence and spending power among households. The first-half output slightly missed expectations, but the South African Reserve Bank (SARB) projected growth of 0.6% in both upcoming quarters. While medium-term growth forecasts have increased due to rising confidence, a stable electricity supply and reform momentum, investment remains a concern, having contracted for four consecutive quarters, highlighting the need for recovery to support sustained growth.

Meanwhile, CPI decreased to 4.4% y/y in August, below the SARB's target and forecasts of 4.5%, down from 4.6% in July. This marks the third consecutive month of inflation slowdown. Following the Fed's lead, the Monetary Policy Committee (MPC) implemented a widely anticipated 25 basis point rate cut to 8%. This move aligns with the consensus view that a less restrictive stance supports sustainably lower inflation in the medium term. Currently the local forward rate agreement (FRA) curve is pricing in another 125bps of cuts in the rest of the cycle so the expectations would be for gradual 25bps cuts to come through over the next 12 months. The FTSE/JSE All Share Index returned 9.6% (in rand) for the quarter.

### Performance

The M&G 7% Target Income Fund returned 9.3% (A class after fees) for the third quarter of 2024 and 22.4% for the 12-month period ending 30 September 2024.

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

Within SA equities, the rally in Foschini and banking shares added good value to the fund, as did the fall in the Aspen share price, which we do not own. Other notable contributors included globally exposed holdings Prosus/Naspers, and mining counters Sasol and Sibanye Stillwater. The largest detractors from performance were Exxaro, Investec and Multichoice (over concerns around its Nigerian operations) and shares in stocks that we don't hold in the portfolio, namely Capitec, Nedbank and Sanlam.

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### Strategy and positioning

During the third quarter we have made some changes to the size of our positions due to the rally we have seen in domestic asset classes, but the broad direction of fund positioning has remained the same.

Starting with our view on **offshore versus local asset allocation** we have left our positioning unchanged for the quarter and continue to prefer domestic assets over foreign exposure, despite the strong rally we have seen in our local market post the GNU announcement. From a valuation perspective, SA equities are coming off a very low base and continue to screen relatively cheap compared to other markets. On the bond side our 10-year yield is still pricing real returns in excess of our fair value assumptions and therefore remains one of our key holdings across the funds.

Within the **global holdings** our positions are currently towards a small underweight in global equity with a bigger underweight to the US market in order to take overweight positions in more fairly priced offshore markets. We also retain our small overweight positions in global bonds and global cash. During the quarter we acted on the market sell-off in early August to add some Korean equity exposure to the funds and reduced our China and other EM Asia exposure at the end of the quarter after the strong rally we saw in the Chinese market post their stimulus announcements. In addition to this we also broadened out our carry basket in the funds to short out some of the major currencies, such as the USD and EUR, in favour of higher carry trades such as in Latin American (Latam) markets.

In **global equities**, the MSCI ACWI 12-month forward P/E rose slightly to around 18X at the end of the quarter with fairly volatile intra-quarter moves. We made use of the opportunities the volatility gave us to change some of our positioning on the equity side by adding to Korea and/or Japan in our funds after the early August market sell-off to go slightly overweight equities in our global positioning but then reduced the asset class again at the end of September to take profits in our China exposure after the strong post-stimulus move in that market. The valuation for the S&P 500 continues to screen as expensive to other markets with a forward P/E increase to about 21.5X during the period and therefore we continue to hold our underweight to the US in favour of cheaper markets such as the UK, Europe, Korea and other emerging markets, such as Mexico.

Within **global bonds** we did not make any changes to our overweight duration position during the quarter and continue to hold exposure to the long end of the US Treasury curve as well as more muted positions in UK gilts and EM bonds with high real yields in undervalued currencies.

We continue to stay underweight **global corporate credit** given the narrow credit spreads and the unattractive risk-reward payoffs in those instruments.

Our house-view continues to favour **SA equities** at the end of Q3 2024 and we made use of the post-election waiting period at the start of the quarter to add to our existing equity exposure across the funds. SA equity valuations when looking at the 12-month forward P/E ratio of the FTSE/JSE Capped SWIX Index moved higher to around 10.7X, due to a rally in share prices. On a Price-to-Book basis the market moved slightly less cheap from 1.6 at the start of the quarter to just over 1.7 by quarter end, but still trades cheap compared to history and relative to other markets. The portfolios benefitted from the equity team's move to add

more SA-exposed stocks pre-election, such as increasing the bank and retail exposure in the funds.

In Q3 one of the bigger changes to our positioning was to decrease the extent of our underweight exposure in the **SA listed property sector**, given the improving fundamentals we have witnessed in that segment of the market. The rate-cutting environment, sharp reduction in bond yields and improved balance sheet efficiency of the property companies should take away some of the headwinds the sector has had to contend with since the Covid period. However, we continue to hold the sector as an underweight in our funds given the sharp rally in prices over the short- and medium-term periods.

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