M&G Unit Trust Quarterly Commentary

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

December 2021

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M&G Namibian Money Market Fund

Income

Q4 2021

Market overview

In line with market expectations, the South African Reserve Bank (SARB) hiked the repo rate by 25bps to 3.75% in November. Data showed CPI rose to 5.5% y/y and PPI hit a 10-year high of 9.6% y/y in November. The MPC's latest forecasts show a gradual rate hiking cycle, with the repo rate reaching approximately 5.0% by December 2022, 6.0% at the end of 2023 and 6.75% by end-2024. The Bank of Namibia (BoN) chose not to follow SARB's move given the slower rate of recovery in the country, inflation remaining at a relatively subdued 4.1% y/y in November and the fact that its repo rate was already at 3.75%. However, analysts do expect it to remain largely in sync with South Africa going forward given the 1:1 peg of the Namibian dollar with the rand.

South Africa's GDP growth slowed to 2.9% y/y in Q3, contracting by 1.5% on a quarterly basis due to the harsh impact that July's riots and tighter lockdowns for the Coronavirus had on consumer spending, investment and production. Forecasts show a consensus of around 5.1% growth for 2021, falling to around 2.0% in 2022, as the economy faces more headwinds such as the continuation of the Coronavirus pandemic, slowing global growth, rising interest rates, further power constraints and lower government spending, among others. In Namibia, Q3 GDP growth came in at 2.4% y/y, down from an upwardly revised 3.0% in Q2, led by increased activity in the mining and construction sectors, while services generally lagged. The BoN's December forecast calls for GDP growth of 1.5% for 2021 as a whole, rising to 3.3% in 2022 and driven largely by a recovery in services and good support from the mining sector.

In what was a generally weak year globally for bonds as interest rates started to rise, SA bonds delivered 2.9% in Q4 and registered a world-beating 8.4% annual return in rands in 2021 in total. SA inflation linked-bonds delivered 5.1% in Q4 and 15.5% for the year, outperforming their nominal counterparts, and cash (as measured by the STeFI Composite) posted returns of 1.0% in Q4 and 3.8% for the year. In Namibia, the IJG All Bond Index gave investors a 1.7% return for the quarter and 4.4% for the year, while cash produced 1.1% for Q4 and 4.2% for the year as measured by the IJG Money Market Index.

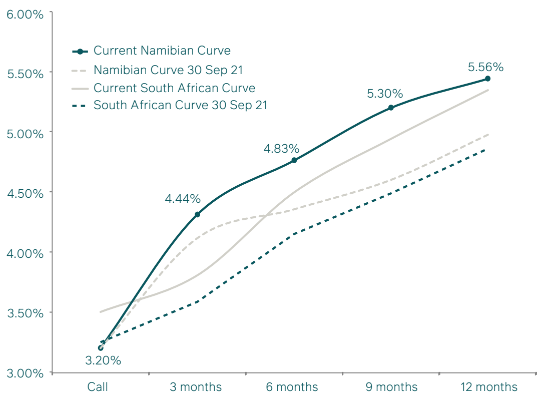
Namibian money market yields rose across most tenors, most notably in the 9-month tenor which increased by an average of 70bps from where they were in the previous quarter. Floating rate spreads over the three-month JIBAR also increased significantly, averaging around 87bps at quarter end.

Finally, the rand and Namibian dollar lost ground against the major currencies in Q4, losing 6.2% against a weak US dollar and 6.4% against the pound sterling, as well as 3.9% against the euro. For the year the currencies depreciated 9.1% versus the US dollar, 8.0% versus sterling and 0.9% against the euro. This would have boosted returns for investors with foreign-currency assets.

Performance

The fund returned 0.9% (net of fees), for the fourth quarter of 2021, outperforming its benchmark by 0.2%. For the 12 months ending 31 December 2021, the fund returned 3.5% (net of fees), while the benchmark returned 2.7% over the same period.

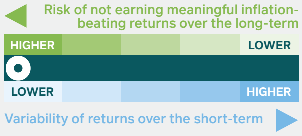
South africa vs Namibian rates as of Dec 2021



Annualised performance

Annualised performance	A class	Benchmark[1]
1 year	3.5%	2.7%
3 years	5.2%	4.5%
5 years	6.2%	5.9%
7 years	6.4%	6.3%
10 years	6.0%	6.1%
Since inception	6.0%	6.1%

Risk profile



Fund facts

Fund managers
Gareth Bern
Roshen Harry

Morningstar category
Africa Money Market

Benchmark
IJG Call Index

Inception date
12 March 2010

Fund size
N$1 295 322 689

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Sources: M&G, Morningstar & Deutsche Securities

Quarterly Commentary

M&G High Interest Fund

Income

This fund is capped to new investors.

Q4 2021

Market overview

In line with market expectations, the South African Reserve Bank (SARB) hiked the repo rate by 25bps to 3.75% in November. Data showed CPI rose to 5.5% y/y and PPI hit a 10-year high of 9.6% y/y in November, largely driven by higher fuel prices, reinforcing expectations for more interest rate hikes from the SARB in 2022. The MPC's latest forecasts show a gradual rate hiking cycle, with the repo rate reaching approximately 5.0% by December 2022, 6.0% at the end of 2023 and 6.75% by end-2024.

South Africa's GDP growth slowed to 2.9% y/y in Q3, contracting by 1.5% on a quarterly basis due to the harsh impact that July's riots and tighter lockdowns for the Coronavirus had on consumer spending, investment and production. Forecasts show a consensus of around 5.1% growth for 2021, falling to around 2.0% in 2022, as the economy faces more headwinds such as the continuation of the Coronavirus pandemic, slowing global growth, rising interest rates, further power constraints and lower government spending, among others. Commodity prices, which provided a strong underpin to SARS revenue collections and the local equity market in 2021, are likely to be less supportive in 2022. The SARB's expectations are for growth of 5.3% in 2021, falling to 1.7% in 2022 and 1.8% in 2023.

In what was a generally weak year globally for bonds as interest rates started to rise, SA bonds delivered 2.9% in Q4 and registered a world-beating 8.4% annual return in rands in 2021 in total. SA inflation linked-bonds delivered 5.1% in Q4 and 15.5% for the year, outperforming their nominal counterparts, and cash (as measured by the STeFI Composite) posted returns of 1.0% in Q4 and 3.8% for the year.

Performance

For the fourth quarter of 2021, the fund delivered a return of 1.0% (net of fees), inline with its benchmark, the STeFI Composite Index. For the 12 months ended 31 December 2021, the fund returned 3.9% (net of fees), marginally outperforming its benchmark by 0.1% over the same period.

The M&G High Interest Fund was launched in December 2010 with the aim of delivering returns in excess of money market yields without compromising the stability of the capital. Although capital protection is not guaranteed we highlight the low-risk nature of the portfolio and hence the remote prospect for capital loss over periods exceeding a few days.

The maximum term of instruments is limited to three years compared to money market funds at 13 months. The fund also has a maximum weighted average duration of 180 days as opposed to a typical money market fund targeting a maximum 90 days weighted average duration.

Relative to the 180-day maximum average duration, the quarter-end duration of the fund came in at 160 days.

Strategy and positioning

The fourth quarter saw reduced credit issuance (excluding government issuances) of R26bn compared to the R30bn issued in the previous quarter. This, however, was higher compared to the R21bn issued in Q4 2020 – which at that time was still somewhat tempered due to the impact of the pandemic on market activity.

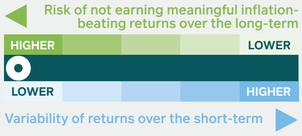
The make-up of issuance for the quarter followed established trends, with the majority being floating-rate notes and banks being the largest sector for issuance. Although auctions made up the majority of issuance over the quarter, we continue to see meaningful volume being done via private placements.

Credit spreads have for the most part continued to trend lower, towards pre-pandemic levels. The continued weighting of issuance towards floating-rate instruments, as well as the impact of swap rates trading significantly below the government bond curve, will make it challenging to find suitable fixed-rate opportunities.

We continue to look for opportunities that will enhance the return to investors without compromising the stability of their capital.

Annualised performance	A class	Benchmark	X class	D class
1 year	3.9%	3.8%	4.1%	4.2%
3 years	5.4%	5.5%	5.5%	5.6%
5 years	6.4%	6.2%	6.5%	6.6%
7 years	6.6%	6.4%	6.8%	6.9%
10 years	6.3%	6.2%	6.5%	6.6%
Since inception	6.3%	6.1%	-	-

Risk profile



Fund facts

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
R8 764 866 022

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Sources: M&G, Morningstar & Deutsche Securities

M&G Income Fund

Income

Q4 2021

Market overview

In line with market expectations, the South African Reserve Bank (SARB) hiked the repo rate by 25bps to 3.75% in November. Data showed CPI rose to 5.5% y/y and PPI hit a 10-year high of 9.6% y/y in November, largely driven by higher fuel prices, reinforcing expectations for more interest rate hikes from the SARB in 2022. The MPC's latest forecasts show a gradual rate hiking cycle, with the repo rate reaching approximately 5.0% by December 2022, 6.0% at the end of 2023 and 6.75% by end-2024.

South Africa's GDP growth slowed to 2.9% y/y in Q3, contracting by 1.5% on a quarterly basis due to the harsh impact that July's riots and tighter lockdowns for the Coronavirus had on consumer spending, investment and production. Forecasts show a consensus of around 5.1% growth for 2021, falling to around 2.0% in 2022, as the economy faces more headwinds such as the continuation of the Coronavirus pandemic, slowing global growth, rising interest rates, further power constraints and lower government spending, among others. Commodity prices, which provided a strong underpin to SARS revenue collections and the local equity market in 2021, are likely to be less supportive in 2022. The SARB's expectations are for growth of 5.3% in 2021, falling to 1.7% in 2022 and 1.8% in 2023.

In what was a generally weak year globally for bonds as interest rates started to rise, SA bonds delivered 2.9% in Q4 and registered a world-beating 8.4% annual return in rands in 2021 in total. SA inflation linked-bonds delivered 5.1% in Q4 and 15.5% for the year, outperforming their nominal counterparts, and cash (as measured by the STeFI Composite) posted returns of 1.0% in Q4 and 3.8% for the year.

Performance

For the fourth quarter of 2021, the fund delivered a return of 1.1% (net of fees), outperforming its benchmark, the STeFI Composite Index, by 0.1%. For the 12 months ended 31 December 2021, the fund returned 4.7% (net of fees), outperforming its benchmark by 0.9% over the same period.

The M&G Income Fund was launched in December 2016 with the aim of delivering returns in excess of money market yields by investing in longer dated liquid paper - without compromising the stability of the capital. Although capital protection is not guaranteed as the fund is exposed to spread risk, we highlight the low sensitivity to interest rate changes on the back of a low duration position.

The maximum term of instruments is not limited compared to money market funds at 13 months. The fund has a maximum weighted average duration of two years as opposed to a typical money market fund targeting a maximum 90 days weighted average duration.

The quarter-end average duration of the fund came in at 306 days.

Strategy and positioning

The fourth quarter saw reduced credit issuance (excluding government issuances) of R26bn compared to the R30bn issued in the previous quarter. This, however, was higher compared to the R21bn issued in Q4 2020 – which at that time was still somewhat tempered due to the impact of the pandemic on market activity.

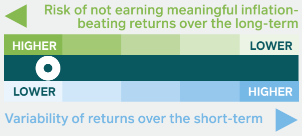
The make-up of issuance for the quarter followed established trends, with the majority being floating-rate notes and banks being the largest sector for issuance. Although auctions made up the majority of issuance over the quarter, we continue to see meaningful volume being done via private placements.

Credit spreads have for the most part continued to trend lower, towards pre-pandemic levels. The continued weighting of issuance towards floating-rate instruments, as well as the impact of swap rates trading significantly below the government bond curve, will make it challenging to find suitable fixed-rate opportunities.

We continue to look for opportunities that will enhance the return to investors without compromising the stability of their capital.

Annualised performance	A class	Benchmark	D class
1 year	4.7%	3.8%	4.8%
2 years	4.9%	4.6%	5.0%
3 years	6.2%	5.5%	6.3%
5 years	7.1%	6.2%	7.2%

Risk profile



Fund facts

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

R693 911 628

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Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

M&G High Yield Bond Fund

Income

Q4 2021

Market overview

In line with market expectations, the South African Reserve Bank (SARB) hiked the repo rate by 25bps to 3.75% in November. Data showed CPI rose to 5.5% y/y and PPI hit a 10-year high of 9.6% y/y in November, largely driven by higher fuel prices, reinforcing expectations for more interest rate hikes from the SARB in 2022. The MPC's latest forecasts show a gradual rate hiking cycle, with the repo rate reaching approximately 5.0% by December 2022, 6.0% at the end of 2023 and 6.75% by end-2024.

South Africa's GDP growth slowed to 2.9% y/y in Q3, contracting by 1.5% on a quarterly basis due to the harsh impact that July's riots and tighter lockdowns for the Coronavirus had on consumer spending, investment and production. Forecasts show a consensus of around 5.1% growth for 2021, falling to around 2.0% in 2022, as the economy faces more headwinds such as the continuation of the Coronavirus pandemic, slowing global growth, rising interest rates, further power constraints and lower government spending, among others. Commodity prices, which provided a strong underpin to SARS revenue collections and the local equity market in 2021, are likely to be less supportive in 2022. The SARB's expectations are for growth of 5.3% in 2021, falling to 1.7% in 2022 and 1.8% in 2023.

In what was a generally weak year globally for bonds as interest rates started to rise, SA bonds delivered 2.9% in Q4 and registered a world-beating 8.4% annual return in rands in 2021 in total. SA inflation linked-bonds delivered 5.1% in Q4 and 15.5% for the year, outperforming their nominal counterparts, and cash (as measured by the STeFI Composite) posted returns of 1.0% in Q4 and 3.8% for the year.

Performance

For the fourth quarter of 2021, the fund delivered a return of 3.1% (net of fees), while its benchmark, the FTSE/JSE All Bond Index, delivered 2.9%. For the 12 months ended 31 December 2021, the fund returned 9.4% (net of fees), outperforming its benchmark by 1.0%.

Strategy and positioning

We began the quarter in a long-duration position, with our overweight position focussed in the 12 – 20-year part of the curve. This position was offset to some extent by being underweight in the 3 – 7-year area. Shorter-dated bond yields sold off slightly, while longer-dated bonds rallied over the quarter, causing the yield curve to flatten. This, in turn, resulted in the fund outperforming its benchmark over the quarter.

There were no changes to the fund's duration positioning in the fourth quarter. We continue to have a positive view on the 12 – 20-year area of the bond curve relative to the 20-year plus area. In our view, investors are not being sufficiently compensated for holding long-dated bonds maturing beyond 20 years, with the additional yield on the 30-year bond compared to the 20-year bond being slightly negative.

As of 31 December, 10-year government bond yields were still somewhat more elevated compared to their history, with the R2032 yielding 9.8% equating to an after-inflation (real) yield of around 5.3% (assuming inflation of 4.5% over the next decade). This is substantially above our long-run fair value assumption of a 3.0% real yield. We continue to believe these yields more than compensate investors for the risks associated with holding SA government debt.

Credit trends

The fourth quarter saw reduced credit issuance (excluding government issuances) of R26bn compared to the R30bn issued in the previous quarter. This, however, was higher compared to the R21bn issued in Q4 2020 – which at that time was still somewhat tempered due to the impact of the pandemic on market activity.

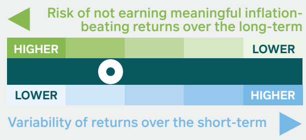
The make-up of issuance for the quarter followed established trends, with the majority being floating-rate notes and banks being the largest sector for issuance. Although auctions made up the majority of issuance over the quarter, we continue to see meaningful volume being done via private placements. The largest issuer in the fourth quarter was Standard Bank Group which raised R3bn via a combination of AT1 and an inaugural Green Bond Tier 2 issuance.

Credit spreads have for the most part continued to trend lower, towards pre-pandemic levels. The continued weighting of issuance towards floating-rate instruments, as well as the impact of swap rates trading significantly below the government bond curve, will make it challenging to find suitable fixed-rate opportunities.

There was little opportunity to add to the fund's credit exposure during the quarter due to continuing limited fixed-rate issuance. We continue to have capacity to add to our fixed-rate credit holdings within the fund and seek to find opportunities to add to our credit holdings at attractive prices.

Annualised performance	A class	Benchmark	B class
1 year	9.4%	8.4%	9.6%
3 years	8.0%	9.1%	8.2%
5 years	8.1%	9.1%	8.3%
7 years	7.1%	8.0%	7.4%
10 years	7.5%	8.2%	7.8%
Since inception	9.7%	10.1%	-

Risk profile



Fund facts

Fund managers
Roshen Harry
Gareth Bern

ASISA category
South African - Interest Bearing - Variable Term

Benchmark
FTSE/JSE All Bond Index

Inception date
27 October 2000

Fund size
R298 460 242

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Sources: M&G, Morningstar & Deutsche Securities

M&G Enhanced Income Fund

Multi-asset

Q4 2021

Market overview

The final quarter of 2021 was a very positive one for South African investors and M&G Investments' clients thanks to rallies in developed equity markets around the globe and in South Africa -- investors looked past negative developments like the higher uncertainty posed by the Omicron variant of the Coronavirus to push many bourses to fresh record highs. Amid this risk-on sentiment, many of the world's equity markets recorded impressive returns in 2021. However, emerging market equities lost ground in Q4, with the broad MSCI Emerging Markets Index ending the year in the red, dragged down by large losses in China and Turkey. Equally, global bonds posted negative returns in Q4 and for the year as a whole as many central banks finally signalled or started to pare back on their ultra-easy monetary policies by trimming asset purchases and/or hiking interest rates to fight rising inflation.

In the US, the most obvious emerging headwind to growth was the rapid spread of the Omicron variant, which stretched local health services and disrupted economic activity around the country. In another significant development, the Federal Reserve (Fed) shifted to a more aggressive inflation-fighting stance, doubling the pace of its planned reduction in asset purchases and also bringing forward the timing of its expected rate hikes – the Fed now sees an average of three 0.25% rate hikes in 2022. This came as US CPI jumped to 6.8% y/y in November, the highest since 1982, while producer prices (PPI) soared to 9.6% y/y, fuelled by energy price increases and ongoing supply chain blockages. And on the government spending front, Congressional opposition to President Biden's nearly US$2 trillion "Build Back Better" programme meant spending delays and likely cutbacks in the programme's total future injection into the US economy.

However, investors largely looked through these negative developments, instead focusing on indications of Omicron's less severe nature and the government's decision not to impose very strict lockdown measures to combat it. They were also encouraged by reports of some progress in developing a "universal" vaccine to help prevent all future variants of Covid-19. Markets also took comfort from the robust pace of the US recovery. The Conference Board estimated US GDP growth at 6.5% y/y in Q4 of 2021, and 5.6% for the full year, the highest in decades. Consensus expectations for 2022 averaged around 4.0%, still above its longer-term average. Meanwhile, the US unemployment rate continued to fall, reaching 4.2% in November from 4.6% in October, comfortably beating market expectations of 4.5%. And although December Manufacturing PMI decreased to 57.8 from 58.3 the previous month as factory production remained constrained, the survey encouragingly also indicated that supply constraints showed signs of easing.

Both the Bank of England (BoE) and the European Central Bank (ECB) followed the US Fed's policy tightening during the quarter, but to a lesser extent. The BoE hiked its base interest rate by 15bps to 0.25% amid a jump in CPI to 5.1% y/y in November, its highest in 10 years. PPI also accelerated to 9.1% in November, much higher than the 8.3% consensus forecast. In December the UK's total GDP was only 0.5% below its pre-Coronavirus levels, and the OECD expects it to grow by 6.9% in 2021 before slowing to 4.7% in 2022 and 2.1% in 2023.

Meanwhile, the ECB left its base rate unchanged at its December meeting, but cut its bond buying as planned, trying to balance inflation (at a 25-year high of 4.9% y/y) with Omicron's negative impact on economic growth. The OECD is projecting that Euro-area GDP growth will record a strong rebound of 5.3% for 2021 and then decelerate to 4.3% in 2022 and 2.5% in 2023.

The Japanese economy, which has been particularly hard-hit by the pandemic and slower to recover than other large economies, is expected to post growth of only 1.8% in 2021 before accelerating to 3.4% in 2022. In 2023, however, the OECD sees it slowing to only 1.1%. With inflation still well below the Bank of Japan's 2.0% target, the BOJ kept its interest rates ultra-low in December and extended its support for small companies, promising to maintain its dovish stance as necessary.

In China, institutions including the World Bank lowered their forecasts for the country's 2021 GDP growth to around 8.0%, the result of a slowdown towards year-end that was partly due to subdued consumer spending, Covid outbreaks and very strict government containment measures, as well as a slumping property market and constrained production activity. With the Chinese economic cycle ahead of Western countries', its 2022 GDP growth is now expected at around 5%, the lowest in decades. The People's Bank of China (PBoC) cut its one-year loan prime rate for businesses and households to 3.8% from 3.85% in a move to bolster growth, even as its lower reserve requirements for banks also took effect. Manufacturing PMI rose slightly to 50.9 in December in a sign of rising output and easing supply constraints, while retail sales surprised to the downside at 3.9% y/y, versus the 4.6% y/y forecast.

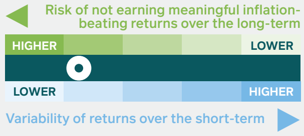
In line with market expectations, the South African Reserve Bank (SARB) hiked the repo rate by 25bps to 3.75% in November. Data showed CPI rose to 5.5% y/y and PPI hit a 10-year high of 9.6% y/y in November, largely driven by higher fuel prices, reinforcing expectations for more interest rate hikes from the SARB in 2022. The MPC's latest forecasts show a gradual rate hiking cycle, with the repo rate reaching approximately 5.0% by December 2022, 6.0% at the end of 2023 and 6.75% by end-2024.

South Africa's GDP growth slowed to 2.9% y/y in Q3, contracting by 1.5% on a quarterly basis due to the harsh impact that July's riots and tighter lockdowns for the Coronavirus had on consumer spending, investment and production. Forecasts show a consensus of around 5.1% growth for 2021, falling to around 2.0% in 2022, as the economy faces more headwinds such as the continuation of the Coronavirus pandemic, slowing global growth, rising interest rates, further power constraints and lower government spending, among others. Commodity prices, which provided a strong underpin to SARS revenue collections and the local equity market in 2021, are likely to be less supportive in 2022. The SARB's expectations are for growth of 5.3% in 2021, falling to 1.7% in 2022 and 1.8% in 2023.

In what was a generally weak year globally for bonds as interest rates started to rise, SA bonds delivered 2.9% in Q4 and registered a world-beating 8.4% annual return in rands in 2021 in total. SA inflation linked-bonds delivered 5.1% in Q4 and 15.5% for the

Annualised performance	A class	Benchmark	T class	X class	D class
1 year	6.4%	3.8%	6.6%	6.3%	6.7%
3 years	6.1%	5.5%	6.3%	6.1%	6.5%
5 years	6.2%	6.2%	6.6%	6.3%	6.7%
7 years	6.4%	6.4%	-	6.6%	6.9%
10 years	7.0%	6.4%	-	7.1%	7.5%
Since inception	7.6%	6.9%	-	-	-

Risk profile



Fund facts

Fund managers

David Knee

Roshen Harry

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

R812 481 163

Sources: M&G, Morningstar & Deutsche Securities

year, outperforming their nominal counterparts, and cash (as measured by the STeFI Composite) posted returns of 1.0% in Q4 and 3.8% for the year.

Finally, the rand lost ground against the major currencies in Q4, losing 6.2% against a weak US dollar and 6.4% against the pound sterling, as well as 3.9% against the euro. For the year it depreciated 9.1% versus the US dollar, 8.0% versus sterling and 0.9% against the euro.

Performance

The fund delivered a return of 2.0% (net of fees) for the fourth quarter of 2021, outperforming its benchmark (the STeFI Composite Index) by 1.0%. For the year ended 31 December 2021, the fund returned 6.4% (net of fees), outperforming its benchmark by 2.6%.

For the quarter, investments in floating-rate instruments, fixed-rate bonds, inflation-linked bonds, SA property and international assets (hedged back into rand), contributed positively to overall fund returns.

Strategy and positioning

During the quarter we maintained our offshore allocation, including our exposure to US high yield corporate bonds and some dollar denominated SA government bonds, which have been hedged back to rand using a blend of currency futures and options.

We maintained our positioning in SA listed property in Q4 2021. Listed property remains the best-performing sector (and asset class) in 2021, recording a 38.6% return over the 12 months to December. The quality of the sector is improving, as dividend yields have proved fairly robust and companies have built safety into their balance sheets by not paying out excessive distributions. This leaves room for further re-rating. It also continues to have good long-term growth prospects and while the logistics and self-storage segments have been the most resilient and are performing well, retail is still weak and the office segment even weaker, plagued by high vacancies. We have positioned the fund to hold quality companies with strong balance sheets within our small exposure to the sector.

The fund benefited from our ongoing preference for SA nominal bonds in Q4 (and the year as a whole) thanks to their resilient performance and the flattening of the SA yield curve in the wake of the SARB's rate hike. With inflation proving to be less of a risk than expected, and the SARB's own rate hike projections more dovish than previously priced into the market, during the quarter bond investors tempered their own rate-hike expectations and aligned with the SARB's view. We still believe nominal bonds remain attractive relative to both other income assets and their own longer-term history and will more than compensate investors for their associated risks. During the quarter we increased our exposure to SA government bonds to enhance the return prospects of the fund.

Inflation-linked bonds (ILBs) outperformed their nominal counterparts during the quarter by some 2.2% (220 basis points), extending their phenomenal run for 2021. We still believe that ILB real yields remain relatively attractive compared to their own history and our long-run fair value assumption of 2.5%. In Q4 the gap between ILB and cash real yields narrowed as a result of the SARB's rate hike and the fall in ILB yields.

Lastly, despite the SARB's 25bp interest rate hike, the portfolio remained heavily tilted away from SA cash in Q4 as our least preferred asset class, given the extremely low base rate off which the SARB hiked. Prospective real returns are still negative and other SA assets are more attractive on a relative basis.

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G Inflation Plus Fund

Multi-asset

Q4 2021

Market overview

The final quarter of 2021 was a very positive one for South African investors and M&G Investments' clients thanks to rallies in developed equity markets around the globe and in South Africa -- investors looked past negative developments like the higher uncertainty posed by the Omicron variant of the Coronavirus to push many bourses to fresh record highs. Amid this risk-on sentiment, many of the world's equity markets recorded impressive returns in 2021. However, emerging market equities lost ground in Q4, with the broad MSCI Emerging Markets Index ending the year in the red, dragged down by large losses in China and Turkey. Equally, global bonds posted negative returns in Q4 and for the year as a whole as many central banks finally signalled or started to pare back on their ultra-easy monetary policies by trimming asset purchases and/or hiking interest rates to fight rising inflation.

In US$ terms, the MSCI All Country World Index returned 6.7% for the quarter, with emerging markets significantly underperforming developed markets at -1.3% and 7.8%, respectively. Global bonds delivered -0.7% in Q4, but global property recorded a strong rebound with a 12.2% quarterly return.

In the US, the rapid spread of the Omicron variant disrupted economic activity, and in another significant development the Federal Reserve (Fed) shifted to a more aggressive inflation-fighting stance, doubling the pace of its planned reduction in asset purchases and also bringing forward the timing of its expected rate hikes. However, investors largely looked through these negative developments, instead focusing on indications of Omicron's less severe nature and the government's decision not to impose very strict lockdown measures to combat it. Markets also took comfort from the robust pace of the US recovery. The S&P 500 delivered an impressive 11.0% return in Q4 and 28.7% in 2021, the Dow Jones Industrial 30 7.9% and 20.9%, and the technology-heavy Nasdaq Composite 8.4% and 22.2% (all in US$).

Both the Bank of England (BoE) and the European Central Bank (ECB) followed the US Fed's policy tightening during the quarter, but to a lesser extent. The BoE hiked its base interest rate by 15bps to 0.25% amid a jump in CPI to 5.1% y/y in November, its highest in 10 years.

The ECB left its base rate unchanged, but cut its bond buying as planned, trying to balance inflation with Omicron's negative impact on economic growth. For Q4, the UK's FTSE 100 returned 5.2%, Germany's DAX 1.8% and France's CAC 40 7.8%. For the year, the UK's FTSE 100 delivered 17.4%, Germany's DAX 6.7% and France's CAC 40 22.6% (all in US$).

The Japanese economy, which has been slower to recover than other large economies, is expected to post growth of only 1.8% in 2021 before accelerating to 3.4% in 2022. In 2023, however, the OECD sees it slowing to only 1.1%. With inflation still well below the Bank of Japan's 2.0% target, the BOJ kept its interest rates ultra-low in December and extended its support for small companies.

In China, institutions lowered their forecasts for the country's 2021 GDP growth to around 8.0%. With the Chinese economic cycle ahead of Western countries', its 2022 GDP growth is now expected at around 5%, the lowest in decades. Japan's Nikkei 225 fell sharply in Q4 with a -5.1% return, and was one of the few large equity markets to record a loss in 2021 at -4.4% in US$. Other prominent bourses in the red were China and Hong Kong due to the government's regulatory and democratic crackdowns, and strict anti-Covid measures. The MSCI China lost 6.1% in Q4 and delivered -21.6% for 2021, while Hong Kong's Hang Seng fell 4.8% for the quarter and posted a -12.3% return in 2021 (all in US$).

South Africa

In line with market expectations, the South African Reserve Bank (SARB) hiked the repo rate by 25bps to 3.75% in November. Data showed CPI rose to 5.5% y/y and PPI hit a 10-year high of 9.6% y/y in November. The MPC's latest forecasts show a gradual rate hiking cycle, with the repo rate reaching approximately 5.0% by December 2022, 6.0% at the end of 2023 and 6.75% by end-2024.

South Africa's GDP growth slowed to 2.9% y/y in Q3, contracting by 1.5% on a quarterly basis due to the harsh impact that July's riots and tighter lockdowns for the Coronavirus had on consumer spending, investment and production. Forecasts show a consensus of around 5.1% growth for 2021, falling to around 2.0% in 2022, as the economy faces more headwinds such as the continuation of the Coronavirus pandemic, slowing global growth, rising interest rates, further power constraints and lower government spending, among others.

SA equities posted robust Q4 gains, with the FTSE/JSE ALSI returning 15.1%.

The FTSE/JSE Capped SWIX ALSI, which we use as the equity benchmark for most of our client mandates, returned 8.7%. Gains were led by the globally-exposed Resources and Industrial sectors, which delivered 22.2% and 16.1% respectively, while the All Property Index produced 8.4% and Financials 2.5%.

For the 2021 year, the ALSI returned the most in 10 years at 29.2% thanks to strong performances from Listed Property and Resources (up 38.6% and 32.4% respectively). The FTSE/JSE Capped SWIX ALSI delivered 27.1% for the year, Financials produced 29.6% and Industrials returned 26.5%.

In what was a generally weak year globally for bonds as interest rates started to rise, SA bonds delivered 2.9% in Q4 and registered a world-beating 8.4% return in rands in 2021 in total. SA inflation linked-bonds delivered 5.1% in Q4 and 15.5% for the year, outperforming their nominal counterparts, and cash (as measured by the STeFI Composite) posted returns of 1.0% in Q4 and 3.8% for the year.

Finally, the rand lost ground against the major currencies in Q4, losing 6.2% against a weak US dollar and 6.4% against the pound sterling, as well as 3.9% against the euro. For the year it depreciated 9.1% versus the US dollar, 8.0% versus sterling and 0.9% against the euro. This would have boosted returns for investors with foreign-currency assets.

Performance

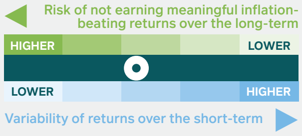
The fund returned 6.4% (after fees) for the fourth quarter of 2021 and 20.2% for the 12-month period ending 31 December 2021. The fund has delivered a return of 11.2% per annum since its inception in 1999 (after fees), compared to its objective of 9.2% per annum over the same period.

The largest asset-class contributors to absolute performance for the quarter were the fund's exposure to SA equities (by far), followed by SA bonds, international equities, SA ILBs and SA listed property. International fixed income and cash holdings also added good value. For the 2021 year as a whole, SA equities were the largest contributor to the fund's absolute return by a large margin, followed by international equities and SA ILBs. SA bonds and listed property also added good returns.

Annualised performance	A class	Objective[1]	T class	X class	B class
1 year	20.2%	8.9%	20.5%	20.2%	20.7%
3 years	8.3%	7.5%	8.6%	8.4%	8.9%
5 years	5.9%	7.8%	6.3%	6.0%	6.5%
7 years	5.9%	8.2%	-	6.1%	6.6%
10 years	8.8%	8.4%	-	9.0%	9.5%
Since inception	11.2%	9.2%	-	-	-

[1] Objective: CPI + 5% p.a. over rolling 3 years gross of fees; less long-term TIC of applicable class. For A class objective above a TIC of -1.6% was used.

Risk profile



Fund facts

Fund managers

David Knee
Michael Moyle
Sandile Malinga
Leonard Krüger

ASISA category

South African - Multi-Asset - Low Equity

Objective (before fees)

CPI+5% p.a. over a rolling 3-year period

Inception date

1 June 2001

Fund size

R20 751 276 895

Awards

Raging Bull: 2013
Morningstar: 2015

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

In terms of specific equity exposure, among the strongest equity contributors to absolute returns for the quarter were the fund's holdings in diverse stocks like MTN and Richemont, as well as Investec, Anglo American and Amplats. Of the few detractors, the among the largest for the quarter were Sasol, Foschini and FirstRand.

For the 12 months of 2021, the top share returns came from MTN, Anglo American, Sasol, Investec and Richemont, while those weighing on fund performance (albeit to a small degree) included the fund's exposures to Naspers, Prosus, Multichoice, Sibanye Stillwater and Northam Platinum.

Strategy and positioning

Starting with our view on offshore asset allocation, we maintained our portfolio positioning favouring global cash over global equities and bonds in order to keep risk relatively low and take advantage of market mis-pricing episodes that might arise. Within our global equity positioning, we remained cautious in our exposure to US equities, as this market continued to be expensive compared to most other countries. Instead, our portfolios favour selected European and other developed market equities, and some emerging market equities. We have been aiming to position the portfolios with higher weightings of very high-returning global assets while maintaining a mix of assets that have diversified return profiles, thereby cushioning them against unforeseen shocks.

At the same time, in aggregate the fund continued to be tilted away from global bonds - both government bonds and corporate credit -- at quarter-end, in favour of global cash. Government bond exposure was reduced further into cash in December in response to a rally in US Treasuries. Cash assets are less risky, and we believe that corporate yield spreads are no longer sufficiently high for the risk involved.

The M&G Inflation Plus Fund still heavily favoured SA equities at the end of Q4. After de-rating for much of the year, SA equity market valuations (as measured by the 12-month forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) finally re-rated slightly over the quarter, moving up from around 9.2X to around 9.5X at quarter-end. Equity price gains outpaced earnings revisions, but investors remain skeptical over the sustainability of local earnings growth and the country's economic growth. This increase in valuations was too small to cause us to lower our allocation to SA equity.

Within SA equities, in broad terms our exposure to large global companies worked in our favour over the quarter and in 2021 as a whole. However, even more notable was our broad diversification of holdings that added value for clients: the top equity contributions over 12 months came from our overweight holdings in MTN, Anglo American, Sasol, Investec and Richemont. Top detractors from performance for the year were Naspers/Prosus, Multichoice and Northam Platinum.

We continued with our neutral positioning in SA listed property in Q4 2021, having shifted some exposure away from the higher-valued property counters into more attractively-valued companies with higher return prospects in Q3, in recognition that risks in the sector have been improving. Although listed property does offer somewhat better value than our estimated fair value for the sector, at around 7.5% versus 6.0%, within SA equities we prefer other shares that we consider offer better value propositions for less risk.

Listed property proved to be the best-performing sector (and asset class) in 2021, recording a 38.6% return. The quality of the sector is improving, as dividend yields have proved fairly robust and companies have built safety into their balance sheets by not paying out excessive distributions. This leaves room for further re-rating. Property also offers diversification benefits. However, as with the previous quarter we are mindful that listed property is a lagging sector in the cycle, as earnings are usually only impacted negatively once rental contracts come to an end and new rents are set at lower levels (negative reversions) – and this is still happening. So while the logistics and self-storage segments have been the most resilient and are performing well, retail is still weak and the office segment even weaker, plagued by high vacancies.

The portfolio benefited from our ongoing preference for SA nominal bonds in Q4 (and the year as a whole) thanks to their resilient performance and the flattening of the SA yield curve in the wake of the SARB's rate hike. With inflation proving to be less of a risk than expected, and the SARB's own rate hike projections more dovish than previously priced into the market, during the quarter bond investors tempered their own rate-hike expectations and aligned with the SARB's view. As in Q3 we prefer the 7-12-year area of the curve, where relative valuations have become more attractive, but are also still holding bonds of 12-years and longer that have outperformed. We still believe nominal bonds remain attractive relative to both other income assets and their own longer-term history and will more than compensate investors for their associated risks.

SA Inflation-linked bonds (ILBs) outperformed their nominal counterparts during the quarter by some 2.2% (220 basis points), extending their phenomenal run for 2021. As in Q3, the outperformance by ILBs in Q4 led us to take some further profits in the fund's holding of ILBs and buy more nominal bonds, as the latter's relative valuation became more favorable. Although we reduced our exposure slightly, we still believe that ILB real yields remain relatively attractive compared to their own history and our long-run fair value assumption of 2.5%. In Q4 the gap between ILB and cash real yields narrowed as a result of the SARB's rate hike and the fall in ILB yields.

Lastly, despite the SARB's 25bp interest rate hike, the fund remained heavily tilted away from SA cash in Q4 as our least preferred asset class, given the extremely low base rate off which the SARB hiked. Prospective real returns are still negative and other SA assets more attractive on a relative basis.

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Sources: M&G, Morningstar & Deutsche Securities

Quarterly Commentary

M&G Balanced Fund

Multi-asset

Q4 2021

Market overview

The final quarter of 2021 was a very positive one for South African investors and M&G Investments' clients thanks to rallies in developed equity markets around the globe and in South Africa -- investors looked past negative developments like the higher uncertainty posed by the Omicron variant of the Coronavirus to push many bourses to fresh record highs. Amid this risk-on sentiment, many of the world's equity markets recorded impressive returns in 2021. However, emerging market equities lost ground in Q4, with the broad MSCI Emerging Markets Index ending the year in the red, dragged down by large losses in China and Turkey. Equally, global bonds posted negative returns in Q4 and for the year as a whole as many central banks finally signalled or started to pare back on their ultra-easy monetary policies by trimming asset purchases and/or hiking interest rates to fight rising inflation.

In US$ terms, the MSCI All Country World Index returned 6.7% for the quarter, with emerging markets significantly underperforming developed markets at -1.3% and 7.8%, respectively. Global bonds delivered -0.7% in Q4, but global property recorded a strong rebound with a 12.2% quarterly return.

In the US, the rapid spread of the Omicron variant disrupted economic activity, and in another significant development the Federal Reserve (Fed) shifted to a more aggressive inflation-fighting stance, doubling the pace of its planned reduction in asset purchases and also bringing forward the timing of its expected rate hikes. However, investors largely looked through these negative developments, instead focusing on indications of Omicron's less severe nature and the government's decision not to impose very strict lockdown measures to combat it. Markets also took comfort from the robust pace of the US recovery. The S&P 500 delivered an impressive 11.0% return in Q4 and 28.7% in 2021, the Dow Jones Industrial 30 7.9% and 20.9%, and the technology-heavy Nasdaq Composite 8.4% and 22.2% (all in US$).

Both the Bank of England (BoE) and the European Central Bank (ECB) followed the US Fed's policy tightening during the quarter, but to a lesser extent. The BoE hiked its base interest rate by 15bps to 0.25% amid a jump in CPI to 5.1% y/y in November, its highest in 10 years.

The ECB left its base rate unchanged, but cut its bond buying as planned, trying to balance inflation with Omicron's negative impact on economic growth. For Q4, the UK's FTSE 100 returned 5.2%, Germany's DAX 1.8% and France's CAC 40 7.8%. For the year, the UK's FTSE 100 delivered 17.4%, Germany's DAX 6.7% and France's CAC 40 22.6% (all in US$).

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In China, institutions lowered their forecasts for the country's 2021 GDP growth to around 8.0%. With the Chinese economic cycle ahead of Western countries', its 2022 GDP growth is now expected at around 5%, the lowest in decades. Japan's Nikkei 225 fell sharply in Q4 with a -5.1% return, and was one of the few large equity markets to record a loss in 2021 at -4.4% in US$. Other prominent bourses in the red were China and Hong Kong due to the government's regulatory and democratic crackdowns, and strict anti-Covid measures. The MSCI China lost 6.1% in Q4 and delivered -21.6% for 2021, while Hong Kong's Hang Seng fell 4.8% for the quarter and posted a -12.3% return in 2021 (all in US$).

South Africa

In line with market expectations, the South African Reserve Bank (SARB) hiked the repo rate by 25bps to 3.75% in November. Data showed CPI rose to 5.5% y/y and PPI hit a 10-year high of 9.6% y/y in November. The MPC's latest forecasts show a gradual rate hiking cycle, with the repo rate reaching approximately 5.0% by December 2022, 6.0% at the end of 2023 and 6.75% by end-2024.

South Africa's GDP growth slowed to 2.9% y/y in Q3, contracting by 1.5% on a quarterly basis due to the harsh impact that July's riots and tighter lockdowns for the Coronavirus had on consumer spending, investment and production. Forecasts show a consensus of around 5.1% growth for 2021, falling to around 2.0% in 2022, as the economy faces more headwinds such as the continuation of the Coronavirus pandemic, slowing global growth, rising interest rates, further power constraints and lower government spending, among others.

SA equities posted robust Q4 gains, with the FTSE/JSE ALSI returning 15.1%. The FTSE/JSE Capped SWIX ALSI, which we use as the equity benchmark for most of our client mandates, returned 8.7%. Gains were led by the globally-exposed Resources and Industrial sectors, which delivered 22.2% and 16.1% respectively, while the All Property Index produced 8.4% and Financials 2.5%.

For the 2021 year, the ALSI returned the most in 10 years at 29.2% thanks to strong performances from Listed Property and Resources (up 38.6% and 32.4% respectively). The FTSE/JSE Capped SWIX ALSI delivered 27.1% for the year, Financials produced 29.6% and Industrials returned 26.5%.

In what was a generally weak year globally for bonds as interest rates started to rise, SA bonds delivered 2.9% in Q4 and registered a world-beating 8.4% annual return in rands in 2021 in total. SA inflation linked-bonds delivered 5.1% in Q4 and 15.5% for the year, outperforming their nominal counterparts, and cash (as measured by the STeFI Composite) posted returns of 1.0% in Q4 and 3.8% for the year.

Finally, the rand lost ground against the major currencies in Q4, losing 6.2% against a weak US dollar and 6.4% against the pound sterling, as well as 3.9% against the euro. For the year it depreciated 9.1% versus the US dollar, 8.0% versus sterling and 0.9% against the euro. This would have boosted returns for investors with foreign-currency assets.

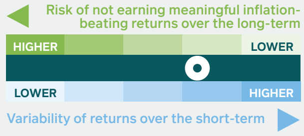
Performance

The fund returned 7.5% (after fees) for the fourth quarter of 2021, while for the 12-month period ending 31 December 2021 its return was 25.5%. The fund has delivered a return of 13.2% per annum since its inception in 1999 (after fees), compared to its benchmark of 11.5% per annum over the same period.

The largest asset-class contributors to absolute performance for the quarter were the fund's exposure to SA equities (by far), followed by global equities. SA bonds, SA listed property and international bonds also added value. Our strong preference for SA equities also proved to be the largest contributor to fund performance by a wide margin over other asset classes for 2021 as a whole.

Annualised performance	A class	Benchmark	T class	X class	B class
1 year	25.5%	20.3%	25.8%	25.6%	26.0%
3 years	11.8%	11.5%	12.1%	11.9%	12.4%
5 years	8.6%	8.0%	9.0%	9.4%	9.3%
7 years	7.9%	7.0%	-	8.1%	8.6%
10 years	11.0%	9.2%	-	-	11.8%
Since inception	13.2%	11.5%	-	-	-

Risk profile



Fund facts

Fund managers

David Knee
Michael Moyle
Sandile Malinga
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

R21 173 379 566

Sources: M&G, Morningstar & Deutsche Securities

In terms of specific equity exposure, among the strongest contributors to absolute returns for the quarter were the fund's holdings in Investec, MTN and Richemont. Top detractors from absolute performance included Sasol, retailers Foschini and Truworths and Exxaro.

Strategy and positioning

Starting with our view on **offshore asset allocation**, we maintained our portfolio positioning favouring global cash over global equities and bonds in order to keep risk relatively low and take advantage of market mis-pricing episodes that might arise. Within our **global equity** positioning, we remained cautious in our exposure to US equities, as this market continued to be expensive compared to most other countries. Instead, our portfolios favour selected European and other developed market equities, and some emerging market equities. We have been aiming to position the portfolios with higher weightings of very high-returning global assets while maintaining a mix of assets that have diversified return profiles, thereby cushioning them against unforeseen shocks.

At the same time, we kept a marginal preference for **global government bonds** in Q4 compared to **investment grade corporate credit**, keeping our small selective exposure to emerging market government bonds as yields remained attractive. We believe that corporate yield spreads are not sufficiently high for the risk involved.

The M&G Balanced Fund still heavily favoured **SA equities** at the end of Q4. After de-rating for much of the year, SA equity market valuations (as measured by the 12-month forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) finally re-rated slightly over the quarter, moving up from around 9.2X to around 9.5X at quarter-end. Equity price gains outpaced earnings revisions, but investors remain skeptical over the sustainability of local earnings growth and the country's economic growth. This increase in valuations was too small to cause us to lower our allocation to SA equity.

Within SA equities, in broad terms our exposure to large global companies worked in our favour over the quarter and in 2021 as a whole. However, even more notable was our broad diversification of holdings that added value for clients: among the top equity contributions over 12 months came from our overweight holdings in MTN, Investec, PPC, Sasol, Richemont and Textainer. Meanwhile, top equity detractors included our holdings in Naspers/Prosus, Multichoice and Northam Platinum.

We continued with our neutral positioning in **SA listed property** in Q4 2021, having shifted some exposure away from the higher-valued property counters into more attractively-valued companies with higher return prospects in Q3, in recognition that risks in the sector have been improving. Although listed property does offer somewhat better value than our estimated fair value for the sector, at around 7.5% versus 6.0%, within SA equities we prefer other shares that we consider offer better value propositions for less risk.

Listed property proved to be the best-performing sector (and asset class) in 2021, recording a 38.6% return. The quality of the sector is improving, as dividend yields have proved fairly robust and companies have built safety into their balance sheets by not paying out excessive distributions. This leaves room for further re-rating. Property also offers diversification benefits. However, as with the previous quarter we are mindful that listed property is a lagging sector in the cycle, as earnings are usually only impacted negatively once rental contracts come to an end and new rents are set at lower levels (negative reversions) – and this is still happening. So while the logistics and self-storage segments have been the most resilient and are performing well, retail is still weak and the office segment even weaker, plagued by high vacancies.

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Lastly, despite the SARB's 25bp interest rate hike, the fund remained heavily tilted away from **SA cash** in Q4 as our least preferred asset class, given the extremely low base rate off which the SARB hiked. Prospective real returns are still negative and other SA assets more attractive on a relative basis. ☐

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Sources: M&G, Morningstar & Deutsche Securities

Quarterly Commentary

M&G Enhanced SA Property Tracker Fund

Property

Q4 2021

Market overview

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In line with market expectations, the South African Reserve Bank (SARB) hiked the repo rate by 25bps to 3.75% in November. Data showed CPI rose to 5.5% y/y and PPI hit a 10-year high of 9.6% y/y in November. The MPC's latest forecasts show a gradual rate hiking cycle, with the repo rate reaching approximately 5.0% by December 2022, 6.0% at the end of 2023 and 6.75% by end-2024.

South Africa's GDP growth slowed to 2.9% y/y in Q3, contracting by 1.5% on a quarterly basis due to the harsh impact that July's riots and tighter lockdowns for the Coronavirus had on consumer spending, investment and production. Forecasts show a consensus of around 5.1% growth for 2021, falling to around 2.0% in 2022, as the economy faces more headwinds such as the continuation of the Coronavirus pandemic, slowing global growth, rising interest rates, further power constraints and lower government spending, among others.

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Finally, the rand lost ground against the major currencies in Q4, losing 6.2% against a weak US dollar and 6.4% against the pound sterling, as well as 3.9% against the euro. For the year it depreciated 9.1% versus the US dollar, 8.0% versus sterling and 0.9% against the euro. This would have boosted returns for investors with foreign-currency assets.

Performance

For the fourth quarter of 2021 the fund returned 8.5% (after fees) compared to the benchmark which returned 8.3% over the same period. The fund enjoyed an exceptionally good 12 months (ending 31 December 2021) after a tumultuous 2020 for investors and the sector, returning 37.6% over the period and outperforming the benchmark by 0.7%, thereby achieving its objective of meeting the benchmark return after fees.

For the year, overweight positions in both Dipula A and Dipula B contributed to relative returns, as did underweight positions in EPP and Fortress A. Detracting from relative performance were the fund's cash holdings, held for liquidity purposes, as well as underweight positions in Resilient, Fortress B and Emira.

Strategy and positioning

"Wounds heal, scars remain" is an apt way to describe the post-Covid world of property. For the most part, Covid rental relief has ceased and landlords are providing assistance to only a limited group of tenants.

In large malls, we are seeing some return of footfall to levels above that of 2020, but still some way below levels seen in 2019. Spending patterns are slightly better, which points to either lower-spending customers having reduced the frequency of visits to the mall, shoppers spending more on the fewer occasions that they visit the mall, or a combination of both. The level of rent and occupancy costs-to-sales remain a concern and will likely result in ongoing rental pressures.

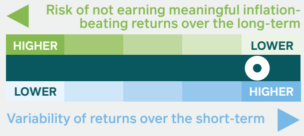
The office sector in South Africa remains weak, largely due to a lack of meaningful and sustained economic growth as opposed to recent work-from-home trends. When coupled with an oversupply of space, especially in the large Gauteng market, rental growth prospects are limited.

The industrial space, though enjoying comparatively low vacancies, has its prospects similarly tied to the economy. Ongoing loadshedding continues to erode the competitiveness of South African manufacturers, with the result that logistics and light industrial sectors have performed relatively better than older spec manufacturing buildings.

Offshore markets have been supported by strong responses from developed market central banks, though vaccination rates in Romania, one of the large CEE markets in which the South African property sector is invested, remain concerningly low.

Annualised performance	A class	Benchmark	T class	D class
1 year	37.6%	36.9%	37.7%	37.9%
3 years	-3.8%	-2.9%	-3.8%	-3.7%
5 years	-5.4%	-4.4%	-5.3%	-5.2%
7 years	-1.1%	-0.7%	-	-1.0%
10 years	5.5%	5.9%	-	5.6%
Since inception	9.4%	9.8%	-	-

Risk profile



Fund facts

Fund managers
Yusuf Mowlana

ASISA category
South African - Real Estate - General

Benchmark
FTSE/JSE South African Listed Property Index (J253)

Inception date
2 December 2005

Fund size
R728 311 513

Awards
Morningstar/Standard & Poor's: 2011

Sources: M&G, Morningstar & Deutsche Securities

The good news is that the fund's benchmark index trades at a yield of 8.5% one year ahead and a price-to-net asset value of 0.76 on asset values, which are lower (and therefore more realistic) than those before Covid. Resetting rental levels is a cyclical phenomenon and does not reset downwards forever, as do valuations. We forecast the 8.5% dividend to grow and hopefully deliver low double digit returns in the medium term given some growth and no de- or re-rating of companies.

M&G Investments

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M&G Property Fund

Property

Q4 2021

Market overview

The final quarter of 2021 was a very positive one for South African investors and M&G Investments' clients thanks to rallies in developed equity markets around the globe and in South Africa -- investors looked past negative developments like the higher uncertainty posed by the Omicron variant of the Coronavirus to push many bourses to fresh record highs. Amid this risk-on sentiment, many of the world's equity markets recorded impressive returns in 2021.

In line with market expectations, the South African Reserve Bank (SARB) hiked the repo rate by 25bps to 3.75% in November. Data showed CPI rose to 5.5% y/y and PPI hit a 10-year high of 9.6% y/y in November. The MPC's latest forecasts show a gradual rate hiking cycle, with the repo rate reaching approximately 5.0% by December 2022, 6.0% at the end of 2023 and 6.75% by end-2024.

South Africa's GDP growth slowed to 2.9% y/y in Q3, contracting by 1.5% on a quarterly basis due to the harsh impact that July's riots and tighter lockdowns for the Coronavirus had on consumer spending, investment and production. Forecasts show a consensus of around 5.1% growth for 2021, falling to around 2.0% in 2022, as the economy faces more headwinds such as the continuation of the Coronavirus pandemic, slowing global growth, rising interest rates, further power constraints and lower government spending, among others.

SA equities posted robust Q4 gains, with the FTSE/JSE ALSI returning 15.1%. The FTSE/JSE Capped SWIX ALSI, which we use as the equity benchmark for most of our client mandates, returned 8.7%. Gains were led by the globally-exposed Resources and Industrial sectors, which delivered 22.2% and 16.1% respectively, while the All Property Index produced 8.4% and Financials 2.5%.

For the 2021 year, the ALSI returned the most in 10 years at 29.2% thanks to strong performances from Listed Property and Resources (up 38.6% and 32.4% respectively). The FTSE/JSE Capped SWIX ALSI delivered 27.1% for the year, Financials produced 29.6% and Industrials returned 26.5%.

In what was a generally weak year globally for bonds as interest rates started to rise, SA bonds delivered 2.9% in Q4 and registered a world-beating 8.4% annual return in rands in 2021 in total. SA inflation linked-bonds delivered 5.1% in Q4 and 15.5% for the year, outperforming their nominal counterparts, and cash (as measured by the STeFI Composite) posted returns of 1.0% in Q4 and 3.8% for the year.

Finally, the rand lost ground against the major currencies in Q4, losing 6.2% against a weak US dollar and 6.4% against the pound sterling, as well as 3.9% against the euro. For the year it depreciated 9.1% versus the US dollar, 8.0% versus sterling and 0.9% against the euro. This would have boosted returns for investors with foreign-currency assets.

Performance

For the fourth quarter of 2021 the fund returned 9.5% (after fees) compared to the benchmark which returned 8.4% over the same period. The fund enjoyed an exceptionally good year (ending 31 December 2021) in its first calendar year of existence, returning 41.2% over the period and outperforming the benchmark by 2.6%.

For the year, overweight positions in Hyprop, SA Corporate and RDI REIT (bought by a private equity company) contributed to relative returns, as did underweight positions in EPP and Fortress A. Detracting from relative performance were underweight positions in Arrowhead, Attacq and Sirius, as was an overweight in lockdown-resilient Stor-age REIT.

Strategy and positioning

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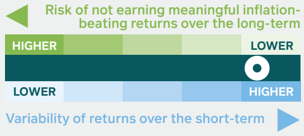
The good news is that the fund's benchmark index trades at a yield of 8.3% one year ahead and a price-to-net asset value of 0.76 on asset values, which are lower (and therefore more realistic) than those before Covid. Resetting rental levels is a cyclical phenomenon and does not reset downwards forever, as do valuations. We forecast the 8.3% dividend to grow and hopefully deliver low double digit returns in the medium term given some growth and no de- or re-rating of companies.

Annualised performance	A class	Benchmark	D class
1 year	41.2%	38.6%	41.7%
Since inception	33.1%	33.1%	-

Risk profile



Fund facts

Fund managers

Yusuf Mowlana

ASISA category

South African – Real Estate – General

Benchmark

FTSE/JSE All Property Index

Inception date

9 July 2020

Fund size

R139 253 623

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Disclaimer

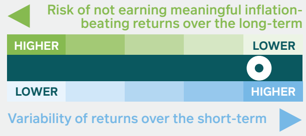
Sources: M&G, Morningstar & Deutsche Securities

M&G Dividend Maximiser Fund

Equity

Q4 2021

Risk profile



Fund facts

Fund managers
Ross Biggs
Kaitlin Byrne

ASISA category
South African - Equity - General

Benchmark
ASISA South African – Equity - General Category Mean

Inception date
2 August 1999

Fund size
R4 054 216 455

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

Market overview

The final quarter of 2021 was a very positive one for South African investors and M&G Investments' clients thanks to rallies in developed equity markets around the globe and in South Africa -- investors looked past negative developments like the higher uncertainty posed by the Omicron variant of the Coronavirus to push many bourses to fresh record highs. Amid this risk-on sentiment, many of the world's equity markets recorded impressive returns in 2021. However, emerging market equities lost ground in Q4, with the broad MSCI Emerging Markets Index ending the year in the red, dragged down by large losses in China and Turkey. Equally, global bonds posted negative returns in Q4 and for the year as a whole as many central banks finally signalled or started to pare back on their ultra-easy monetary policies by trimming asset purchases and/or hiking interest rates to fight rising inflation.

In US$ terms, the MSCI All Country World Index returned 6.7% for the quarter, with emerging markets significantly underperforming developed markets at -1.3% and 7.8%, respectively. Global bonds delivered -0.7% in Q4, but global property recorded a strong rebound with a 12.2% quarterly return.

In the US, the rapid spread of the Omicron variant disrupted economic activity, and in another significant development the Federal Reserve (Fed) shifted to a more aggressive inflation-fighting stance, doubling the pace of its planned reduction in asset purchases and also bringing forward the timing of its expected rate hikes. However, investors largely looked through these negative developments, instead focusing on indications of Omicron's less severe nature and the government's decision not to impose very strict lockdown measures to combat it. Markets also took comfort from the robust pace of the US recovery. The S&P 500 delivered an impressive 11.0% return in Q4 and 28.7% in 2021, the Dow Jones Industrial 30 7.9% and 20.9%, and the technology-heavy Nasdaq Composite 8.4% and 22.2% (all in US$).

Both the Bank of England (BoE) and the European Central Bank (ECB) followed the US Fed's policy tightening during the quarter, but to a lesser extent. The BoE hiked its base interest rate by 15bps to 0.25% amid a jump in CPI to 5.1% y/y in November, its highest in 10 years.

The ECB left its base rate unchanged, but cut its bond buying as planned, trying to balance inflation with Omicron's negative impact on economic growth. For Q4, the UK's FTSE 100 returned 5.2%, Germany's DAX 1.8% and France's CAC 40 7.8%. For the year, the UK's FTSE 100 delivered 17.4%, Germany's DAX 6.7% and France's CAC 40 22.6% (all in US$).

The Japanese economy, which has been slower to recover than other large economies, is expected to post growth of only 1.8% in 2021 before accelerating to 3.4% in 2022. In 2023, however, the OECD sees it slowing to only 1.1%. With inflation still well below the Bank of Japan's 2.0% target, the BOJ kept its interest rates ultra-low in December and extended its support for small companies.

In China, institutions lowered their forecasts for the country's 2021 GDP growth to around 8.0%. With the Chinese economic cycle ahead of Western countries', its 2022 GDP growth is now expected at around 5%, the lowest in decades. Japan's Nikkei 225 fell sharply in Q4 with a -5.1% return, and was one of the few large equity markets to record a loss in 2021 at -4.4% in US$. Other prominent bourses in the red were China and Hong Kong due to the government's regulatory and democratic crackdowns, and strict anti-Covid measures. The MSCI China lost 6.1% in Q4 and delivered -21.6% for 2021, while Hong Kong's Hang Seng fell 4.8% for the quarter and posted a -12.3% return in 2021 (all in US$).

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Performance

The fund delivered a return of 9.7% (net of fees) for the fourth quarter of 2021, outperforming its benchmark (the average of the general equity funds) by 0.3%. For the year ended 31 December 2021, the fund returned 35.3% (net of fees), outperforming its benchmark by 8.6%.

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

The largest contributor to performance for the quarter was our underweight to Aspen pharmaceuticals. This company has benefitted from its tie-up with Johnson & Johnson to produce Covid-19 vaccines, but we think that this business is fairly valued and see better opportunities in the market.

We think that South African banks are trading at very undemanding valuations, and for this reason, we have one of our larger sector overweights to the banks sector. We continue to be overweight Standard Bank, ABSA and Investec. FirstRand, in which the fund holds an underweight position, was the second largest contributor to relative performance over the last quarter. While we continue to be overweight the banks sector, we think there is also good opportunity to generate alpha within this sector by being overweight relatively undervalued banks versus the banks such as Capitec and FirstRand. While we rate FirstRand and Capitec more highly in terms of quality, we cannot ignore that that they are substantially more highly rated than other banks in the sector.

Investec was another top contributor to performance for the

Annualised performance	A class	Benchmark	T class	B class	F class
1 year	35.3%	26.7%	35.6%	35.8%	36.0%
3 years	15.7%	11.8%	16.0%	16.1%	16.3%
5 years	10.4%	7.4%	10.8%	10.8%	11.1%
7 years	8.5%	5.9%	-	8.9%	-
10 years	11.9%	9.1%	-	12.3%	-
Since inception	16.3%	13.3%	-	-	-

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

last quarter as well as for the year ending 31 December 2021. Investec is a company that we have held for several years in the fund and we have always been of the view that it is a good quality company trading on a depressed multiple. During the Covid-19 crisis, Investec traded on valuations that we had not seen since the global financial crisis, despite being in a much stronger capital position today than it was during the financial crisis. The 25% stake that Investec owns in Ninety One asset management post the demerger of the two companies in 2020, also provided significant safety to the investment case as this is a listed asset which could have been realised in the event of a crisis. In the last quarter of the year, Investec posted excellent results and announced that they would be distributing 15% of their stake in Ninety One to shareholders.

The fund's overweight to Textainer Group Holdings was the most significant stock contributor to outperformance over the last year. Textainer is one of the world's largest container leasing companies and leases containers to shipping companies. Leading into the pandemic, the business was in a strong position to take advantage of some opportunities that arose. We have been exceptionally impressed with how the company's management has allocated capital. The company has been able to buy back a substantial number of shares at extremely attractive prices and we think this smart allocation of cash should further accelerate the improvement of returns from the company. The container leasing market's fortunes have rapidly improved over the last year and Textainer has managed to put a substantial amount of capital to work by buying a large amount of containers and leasing them out on long-term and very attractive rentals. Despite this large investment, we expect Textainer to also be able to resume the payment of dividends this year, which is indeed an exciting milestone for the company and investors.

The fund's overweight position in MTN was the second-largest single contributor to the outperformance over the last year. The market has been very concerned about the risks of doing business in Nigeria, where MTN has a significant business. While we do not disagree that investing in Nigeria requires a higher risk premium, we think that MTN presents excellent value and continues to be one of the larger overweight positions in the fund. MTN is trading on a dividend yield of over 6%, which we think should be able to grow over the next five years.

During the last quarter, the largest detractors from performance were underweight positions in Impala Platinum and Royal Bafokeng Platinum. As we have commented previously, this sector's fortunes have rapidly improved after many years of earning margins which on average were not high enough to even compensate the mines for ongoing maintenance capex. Today, margins in the sector are at near-record highs and cash generation is very strong. We are cognisant of the high margins that companies are currently earning but moved to an underweight position in the platinum sector in the first quarter of the year due to rising valuations of platinum companies. This underweight positioning detracted from performance in the last quarter.

The largest detractor from relative performance for the year was the fund's underweight position to Sasol. While Sasol has underperformed over recent years mainly due to the amount of capital and the operational challenges in bringing the Lake Charles Chemical Project (LCCP) to successful completion, we think that it now represents very good value and we anticipate that Sasol will resume its dividends. The company has recently made what we think are sensible decisions to reduce costs and sell off some non-core assets to reduce debt levels. This has not only reduced operational risk, but also financial risk. The strength of the oil price and chemicals prices over the last year has also significantly reduced the risk to the company. We have therefore, more recently, moved from an underweight to an overweight position within the M&G Dividend Maximiser Fund

We continue to think that offshore equity markets look attractive, but over the last year, we have seen opportunities to reduce our offshore weighting based on the relative attractiveness of the SA market. The fund is approximately 18% invested offshore mainly through the M&G Global Equity Fund and the M&G Global Dividend Fund.

We acknowledge that while it is very difficult to forecast the future and we do not make any attempt to do this, we do spend a lot of time thinking about the economic cycles that various sectors are in, and where valuations are. In this way, we aim to try make money for our clients through these cycles and continue to try 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. Going into the Covid-19 pandemic, the South African market, in our view, was already undervalued and has fallen to levels which we think are exceptionally attractive. The Price-to-Book of the JSE remains close to 2X as at the end of December 2021. We also note that within the South African market, many commodity companies continue to experience elevated revenue and earnings, as the prices of platinum group metals, coal and iron ore continue to remain at high levels. These strong commodity prices are not only helpful to the companies mining them but are also broadly helpful to the South African economy. We have therefore reallocated some capital out of the mining sector and into some South African economy focused companies.

South African assets appear to be undervalued relative to emerging and developed markets. We believe that earnings and dividends in South Africa should show a strong return to growth over the medium term. This growth in dividends is based mainly on a return to more normal dividends amongst the mining companies and banks whose balance sheets are now very healthy.

On market valuations, we currently view the market in South Africa along with many other emerging markets as being very undervalued. We think that earnings and dividends should show a strong return to growth over the medium term. This growth in dividends is based mainly on a return to more normal profit margins among the mining companies and related industries, which we are already witnessing as well as a resumption of dividends from banks and SA industrial companies.

The focus of the fund continues to be on finding companies that are undervalued and which are paying good dividend yields with the potential to pay growing dividends over the long run. We are confident that we have built a portfolio of attractively priced stocks that in aggregate is cheaper than owning the index, yet still capable of delivering attractive underlying growth independent of the economic cycle in which we find ourselves. □

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Sources: M&G, Morningstar & Deutsche Securities

M&G Equity Fund

Equity

Q4 2021

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In US$ terms, the MSCI All Country World Index returned 6.7% for the quarter, with emerging markets significantly underperforming developed markets at -1.3% and 7.8%, respectively. Global bonds delivered -0.7% in Q4, but global property recorded a strong rebound with a 12.2% quarterly return.

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Performance

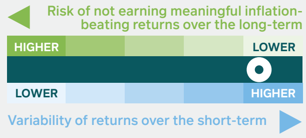
For the fourth quarter of 2021, the fund returned 8.5% (net of fees), marginally underperforming its benchmark by -0.9%. Over the 12 months ending 31 December 2021, the fund generated a return of 36.5%, outperforming its benchmark by 9.8% over the same period.

We are pleased that the fund has maintained its top-quartile ranking versus its peer group over the short- and long term, continuing to achieve demonstrably better outcomes for our clients than the opportunity set available in the South African equity sector.

The sources of outperformance over the last year were broad-based, derived from stocks across multiple sectors rather than any single company or sector. High conviction overweight positions in Investec, MTN as well as Textainer, which were built in the aftermath of the Covid-19 sell-off paid off handsomely.

Annualised performance	A class	Benchmark	B class	F class
1 year	36.5%	26.7%	36.9%	37.6%
3 years	16.7%	11.8%	17.1%	17.5%
5 years	11.2%	7.4%	11.7%	12.1%
7 years	9.2%	5.9%	9.6%	-
10 years	12.6%	9.1%	13.1%	-
Since inception	16.4%	13.3%	-	-

Risk profile



Fund facts

Fund managers

Chris Wood
Yusuf Mowlana

ASISA category

South African - Equity - General

Benchmark

ASISA South African - Equity - General Category Mean

Inception date

2 August 1999

Fund size

R4 115 463 937

Awards

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

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

Disappointingly, our overweight positions in Naspers, Northam and Multichoice detracted from returns, as did our underweight positions in Impala and Royal Bafokeng.

Investec is a company that we have held for several years in the fund and we have always been of the view that it is a good quality company trading on a depressed multiple. During the Covid-19 crisis, Investec traded on valuations that we had not seen since the global financial crisis, despite being in a much stronger capital position today than it was during the financial crisis. The 25% stake that Investec owns in Ninety One asset management post the demerger of the two companies in 2020, also provided significant safety to the investment case as this is a listed asset which could have been realised in the event of a crisis. In the last quarter of the year, Investec posted excellent results and announced that they would be distributing 15% of their stake in Ninety One to shareholders.

Textainer is one of the world's largest container leasing companies and leases containers to shipping companies. Leading into the pandemic, the business was in a strong position to take advantage of some opportunities that arose. We have been exceptionally impressed with how the company's management has allocated capital. The company has been able to buy back a substantial number of shares at extremely attractive prices and we think this smart allocation of cash should further accelerate the improvement of returns from the company. The container leasing market's fortunes have rapidly improved over the last year and Textainer has managed to put a substantial amount of capital to work by buying a large amount of containers and leasing them out on long-term and very attractive rentals. Despite this large investment, we expect Textainer to also be able to resume the payment of dividends this year, which is indeed an exciting milestone for the company and investors.

The fund's overweight position in MTN was the second largest contributor to the outperformance over the last year. The market has been very concerned about the risks of doing business in Nigeria, where MTN has a significant business. While we do not disagree that investing in Nigeria requires a higher risk premium, we think that MTN presents excellent value and continues to be one of the larger overweight positions in the fund. MTN is trading on a dividend yield of over 6%, which we think should be able to grow over the next five years.

Among the fund's largest detractors from performance for the year were underweight positions in Impala Platinum and Royal Bafokeng Platinum. As we have commented previously, this sector's fortunes have rapidly improved after many years of earning margins which on average were not high enough to even compensate the mines for ongoing maintenance capex. Today, margins in the sector are at near-record highs and cash generation is very strong. We are cognisant of the high margins that companies are currently earning but moved to an underweight position in the platinum sector in the first quarter of the year due to rising valuations of platinum companies. This underweight positioning detracted from performance in the last quarter.

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. Going into the Covid-19 pandemic, the South African market, in our view, was already undervalued and has fallen to levels which we think are exceptionally attractive. The Price-to-Book of the JSE remains close to 2X as at the end of December 2021.

Our key overweights in the commodity space are Sasol, Glencore and Northam. Though Glencore has benefited from high thermal coal prices, we see the base metals offering more sustainable returns than coal in the longer-term. While Sasol has underperformed over recent years mainly due to the amount of capital and the operational challenges in bringing the Lake Charles Chemical Project (LCCP) to successful completion, we think that it represents very good value. The company has recently made what we think are sensible decisions to reduce costs and sell off some non-core assets to reduce debt levels. This has not only reduced operational risk, but also financial risk. The strength of the oil price and chemicals prices over the last year has also significantly reduced the risk to the company and we have witnessed a sharp re-rating of the share price.

Within the banks, we still favour Investec, Standard Bank and ABSA for their prospects of improving returns on equity, advances in growth and starting valuations relative to the other companies in the sector. The fund holds no insurers, and instead, prefers asset managers for their capital-light business models and cash-generation ability.

Within the industrial space, we maintain an overweight to Naspers and Prosus as well as MTN. ◻

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Sources: M&G, Morningstar & Deutsche Securities

M&G SA Equity Fund

Equity

Q4 2021

Market overview

The final quarter of 2021 was a very positive one for South African investors and M&G Investments' clients thanks to rallies in developed equity markets around the globe and in South Africa -- investors looked past negative developments like the higher uncertainty posed by the Omicron variant of the Coronavirus to push many bourses to fresh record highs. Amid this risk-on sentiment, many of the world's equity markets recorded impressive returns in 2021. However, emerging market equities lost ground in Q4, with the broad MSCI Emerging Markets Index ending the year in the red, dragged down by large losses in China and Turkey. Equally, global bonds posted negative returns in Q4 and for the year as a whole as many central banks finally signalled or started to pare back on their ultra-easy monetary policies by trimming asset purchases and/or hiking interest rates to fight rising inflation.

In South Africa, the South African Reserve Bank (SARB) hiked the repo rate by 25bps to 3.75% in November in line with market expectations. Data showed CPI rose to 5.5% y/y and PPI hit a 10-year high of 9.6% y/y in November. The MPC's latest forecasts show a gradual rate hiking cycle, with the repo rate reaching approximately 5.0% by December 2022, 6.0% at the end of 2023 and 6.75% by end-2024.

South Africa's GDP growth slowed to 2.9% y/y in Q3, contracting by 1.5% on a quarterly basis due to the harsh impact that July's riots and tighter lockdowns for the Coronavirus had on consumer spending, investment and production. Forecasts show a consensus of around 5.1% growth for 2021, falling to around 2.0% in 2022, as the economy faces more headwinds such as the continuation of the Coronavirus pandemic, slowing global growth, rising interest rates, further power constraints and lower government spending, among others.

SA equities posted robust Q4 gains, with the FTSE/JSE ALSI returning 15.1%. The FTSE/JSE Capped SWIX ALSI, which we use as the equity benchmark for most of our client mandates, returned 8.7%. Gains were led by the globally-exposed Resources and Industrial sectors, which delivered 22.2% and 16.1% respectively, while the All Property Index produced 8.4% and Financials 2.5%.

For the 2021 year, the ALSI returned the most in 10 years at 29.2% thanks to strong performances from Listed Property and Resources (up 38.6% and 32.4% respectively). The FTSE/JSE Capped SWIX ALSI delivered 27.1% for the year, Financials produced 29.6% and Industrials returned 26.5%.

Finally, the rand lost ground against the major currencies in Q4, losing 6.2% against a weak US dollar and 6.4% against the pound sterling, as well as 3.9% against the euro. For the year it depreciated 9.1% versus the US dollar, 8.0% versus sterling and 0.9% against the euro. This would have boosted returns for investors with foreign-currency assets.

Performance

The fund delivered a return of 8.1% (net of fees) for the fourth quarter of 2021, underperforming its benchmark marginally by 0.5%. For the 12 months ending 31 December 2021, the fund returned 34.3% (net of fees), outperforming its benchmark by 7.2%. It is particularly pleasing to report that against this period of robust market returns, post the March 2020 sell-off, our stock picking has delivered strong alpha over the period ending 31 December 2021.

In the Financials sector, we think that South African banks are trading at very undemanding valuations, and for this reason, we have one of our larger sector overweights to the banks sector. We continue to be overweight Standard Bank, ABSA and Investec.

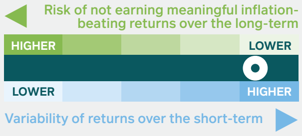
Investec was another top contributor to performance for the last quarter as well as for the year ending 31 December 2021. Investec is a company that we have held for several years in the fund and we have always been of the view that it is a good quality company trading on a depressed multiple. During the Covid-19 crisis, Investec traded on valuations that we had not seen since the global financial crisis, despite being in a much stronger capital position today than it was during the financial crisis. The 25% stake that Investec owns in Ninety One asset management post the demerger of the two companies in 2020, also provided significant safety to the investment case as this is a listed asset which could have been realised in the event of a crisis. In the last quarter of the year, Investec posted excellent results and announced that they would be distributing 15% of their stake in Ninety One to shareholders.

We continue to be overweight the banks sector and think there is also good opportunity to generate alpha within this sector by being overweight relatively undervalued banks versus banks such as Capitec and FirstRand. While we rate FirstRand and Capitec more highly in terms of quality, we cannot ignore that that they are substantially more highly rated than other banks in the sector.

The fund's holdings in Richemont was a top-five contributor during the quarter. Richemont's sales have been surprisingly resilient over the last two years and the jewellery maisons of Cartier and Van Cleef and Arpels have been significantly beating market expectations. We think that these are exceptionally strong brands and that their brand value with consumers has never been higher. In particular, consumers in China and the United States have been flocking to buy Cartier products post the Covid-19 lockdowns. As travel returns, we are likely to see even stronger sales growth. The company has an exceptionally strong balance sheet with a substantial net cash position. We think that cash flows and dividends from Richemont will be a lot higher in five years' time. After many years of restructuring the watch businesses inside the company, there is potential for this business to surprise the market on the upside.

The fund's overweight position in MTN continued to be a key contributor to the outperformance over the quarter and was in fact the largest contributor to performance for the year ending 31 December 2021. The market has been very concerned about the risks of doing business in Nigeria, where MTN has a significant business. While we do not disagree that investing in Nigeria requires a higher risk premium, we think that MTN presents excellent value and continues to be one of the larger overweight positions in the fund. MTN is trading on a dividend yield of over 6%, which we think should be able to grow over the next five years. MTN has been steadily reducing debt levels on its balance sheet by realising non-core assets like their tower assets. We think that

Risk profile



Fund facts

Fund managers
Ross Biggs
Chris Wood
Leonard Krüger
Aadil Omar

ASISA category
South African - Equity - General

Benchmark
FTSE/JSE Capped SWIX All Share Index

Inception date
21 September 2000

Fund size
R37 407 914 265

Annualised performance	B class	Benchmark[1]	F class
1 year	35.8%	27.1%	34.3%
3 years	11.4%	10.9%	10.2%
5 years	8.9%	7.6%	7.6%
7 years	7.7%	6.5%	-
10 years	11.7%	10.3%	-
Since inception	15.2%	13.4%	-

[1] The Fund's benchmark changed from the FTSE/JSE All Share Index (TR) to the FTSE/JSE Capped SWIX All Share Index (TR) on 1 July 2017.

Sources: M&G, Morningstar & Deutsche Securities

this process will not only ensure a stable and growing dividend but will also reduce any balance sheet risk. In the last quarter, MTN announced that it would be realising some capital as a result of the intended listing of its investment in IHS towers. We think this move will continue to reduce risk to the business.

One of the largest detractors from relative performance for the quarter was the fund's overweight position to Sasol, but was in fact the third largest contributor to performance for the full year. While Sasol has underperformed over recent years mainly due to the amount of capital and the operational challenges in bringing the Lake Charles Chemical Project (LCCP) to successful completion, we think that it represents very good value. The company has recently made what we think are sensible decisions to reduce costs and sell off some non-core assets to reduce debt levels. This has not only reduced operational risk, but also financial risk. The strength of the oil price and chemicals prices over the last year has also significantly reduced the risk to the company and we have witnessed a sharp re-rating of the share price.

Within the industrial sectors, the domestic retailers performed poorly in the last quarter after having performed strongly in the prior quarter. The Foschini Group (TFG) was one of the funds' largest detractors from performance. TFG in our opinion has emerged from the pandemic in a much stronger position than when it entered. We think it will benefit substantially over the next three years from their opportunistic purchase of JET. TFG was able to buy JET at a bargain basement price from the financially distressed Edcon Group last year. Although the price of TFG has increased since we made our initial purchases in 2020, we think that there is still substantial upside on a three-year view.

During the last quarter, the largest detractor from performance was the fund's underweight position in Impala Platinum. As we have commented previously, this sector's fortunes have rapidly improved after many years of earning margins which on average were not high enough to even compensate the mines for ongoing maintenance capex. Today, margins in the sector are at near-record highs and cash generation is very strong. We are cognisant of the high margins that companies are currently earning, but moved to an underweight position in the platinum sector in the first quarter of the year due to rising valuations of platinum companies. This underweight positioning detracted from fund performance in the last quarter, with our underweight to Impala platinum being the top detractor for the quarter.

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. Going into the Covid-19 pandemic, the South African market, in our view, was already undervalued and has fallen to levels which we think are exceptionally attractive. The Price-to-Book of the JSE remains close to 2X as at the end of December 2021. We also note that within the South African market, many commodity companies continue to experience elevated revenue and earnings, as the prices of platinum group metals, coal and iron ore continue to remain at high levels. These strong commodity prices are not only helpful to the companies mining them but are also broadly helpful to the South African economy. We have therefore reallocated some capital out of the mining sector and into some South African economy focused companies.

South African assets appear to be undervalued relative to emerging and developed markets. We believe that earnings and dividends in South Africa should show a strong return to growth over the medium term. This growth in dividends is based mainly on a return to more normal dividends amongst the mining companies and banks whose balance sheets are now very healthy.

The focus of the fund continues to be on finding companies that are undervalued and which can grow earnings and dividends over the long run. □

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Sources: M&G, Morningstar & Deutsche Securities

M&G Global Bond Feeder Fund

Global Income ZAR-denominated

Q4 2021

Market overview

The final quarter of 2021 was a very positive one thanks to rallies in developed equity markets around the globe and -- investors looked past negative developments like the higher uncertainty posed by the Omicron variant of the Coronavirus to push many bourses to fresh record highs. Global bonds posted negative returns in Q4 and for the year as a whole as many central banks finally signalled or started to pare back on their ultra-easy monetary policies by trimming asset purchases and/or hiking interest rates to fight rising inflation.

In the US, the rapid spread of the Omicron variant disrupted economic activity, and in another significant development the Federal Reserve (Fed) shifted to a more aggressive inflation-fighting stance, doubling the pace of its planned reduction in asset purchases and also bringing forward the timing of its expected rate hikes. However, investors largely looked through these negative developments, instead focusing on indications of Omicron's less severe nature and the government's decision not to impose very strict lockdown measures to combat it. Markets also took comfort from the robust pace of the US recovery.

Both the Bank of England (BoE) and the European Central Bank (ECB) followed the US Fed's policy tightening during the quarter, but to a lesser extent. The BoE hiked its base interest rate by 15bps to 0.25% amid a jump in CPI to 5.1% y/y in November, its highest in 10 years.

The ECB left its base rate unchanged, but cut its bond buying as planned, trying to balance inflation with Omicron's negative impact on economic growth.

The Japanese economy, which has been slower to recover than other large economies, is expected to post growth of only 1.8% in 2021 before accelerating to 3.4% in 2022. In 2023, however, the OECD sees it slowing to only 1.1%. With inflation still well below the Bank of Japan's 2.0% target, the BOJ kept its interest rates ultra-low in December and extended its support for small companies.

In China, institutions lowered their forecasts for the country's 2021 GDP growth to around 8.0%. With the Chinese economic cycle ahead of Western countries', its 2022 GDP growth is now expected at around 5%, the lowest in decades.

Finally, the rand lost ground against the major currencies in Q4, losing 6.2% against a weak US dollar and 6.4% against the pound sterling, as well as 3.9% against the euro. For the year it depreciated 9.1% versus the US dollar, 8.0% versus sterling and 0.9% against the euro. This would have boosted returns for investors with foreign-currency assets.

Performance

The fund delivered a return of 4.0% (net of fees) for the fourth quarter of 2021, underperforming its benchmark by 1.4%. For the year ended 31 December 2021, the fund returned 2.4% (net of fees), while its benchmark delivered 4.0% over the same period.

Contributors to absolute performance over the quarter came from the fund's exposure to US Treasuries held for diversification and duration management purposes. Main detractors from absolute performance over this period came from the fund's Turkish foreign-exchange forward contracts and emerging-market hard currency bond exposures.

Strategy and positioning

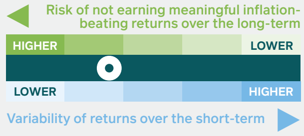
The fund's positioning continues to reflect our preference for emerging-market government bonds, both local (e.g. South African bonds) and hard currency.

Early in the quarter we bought a 7-year Chilean government bond in response to further episodic-looking price weakness in local bonds and currency. We funded this from hard currency South African government bonds, where yields had come down and were comparatively less attractive. In November, we reduced exposure to 30-year US Treasuries in response to the decline in yields, before closing the position in December following a further decline, with the proceeds going to cash.

We remain highly active within the global bond asset class, seeking positive exposures on emerging-market government bonds, both hard currency and soft currency, investment-grade corporate bonds because of the better real yields they can offer compared to developed-market government bonds, where we tend to be underweight versus the benchmark. Spreads in developed-market investment-grade and high-yield credit have become increasingly tight, leaving only emerging-market hard currency and local currency debt as offering fair yields, in our view. Despite ongoing weakness in emerging-market bonds, we believe that the meaningful real yields on offer are attractive for investors with longer time horizons.

Annualised performance	A class	Benchmark	B class
1 year	2.4%	4.0%	2.8%
3 years	7.4%	7.3%	7.8%
5 years	5.9%	6.6%	-
7 years	6.3%	7.0%	-
10 years	9.2%	9.0%	-
Since inception	8.3%	8.4%	-

Risk profile



Fund facts

Investment manager of the underlying fund

M&G Investment Management Limited (UK)

Fund managers of the underlying fund

Marc Beckenstrater
Craig Simpson

ASISA category

Global - Interest Beating - Variable Term

Benchmark

Bloomberg Global Aggregate Bond Index

Inception date

27 October 2000

Fund size

R578 139 655

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Sources: M&G, Morningstar & Deutsche Securities

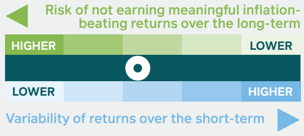
Quarterly Commentary

M&G Global Inflation Plus Feeder Fund

Global Multi-Asset ZAR-denominated

Q4 2021

Risk profile



Fund facts

Investment manager of the underlying fund
M&G Investment Management Limited (UK)

Fund managers of the underlying fund
Marc Beckenstrater
Craig Simpson

ASISA category:
Global - Multi-Asset - Low Equity

Benchmark
Global inflation

Inception date
1 March 2004

Fund size
R261 170 298

Market overview

The final quarter of 2021 was a very positive one thanks to rallies in developed equity markets around the globe and -- investors looked past negative developments like the higher uncertainty posed by the Omicron variant of the Coronavirus to push many bourses to fresh record highs. Amid this risk-on sentiment, many of the world's equity markets recorded impressive returns in 2021. However, emerging market equities lost ground in Q4, with the broad MSCI Emerging Markets Index ending the year in the red, dragged down by large losses in China and Turkey. Equally, global bonds posted negative returns in Q4 and for the year as a whole as many central banks finally signalled or started to pare back on their ultra-easy monetary policies by trimming asset purchases and/or hiking interest rates to fight rising inflation.

In US$ terms, the MSCI All Country World Index returned 6.7% for the quarter, with emerging markets significantly underperforming developed markets at -1.3% and 7.8%, respectively. Global bonds delivered -0.7% in Q4, but global property recorded a strong rebound with a 12.2% quarterly return.

In the US, the rapid spread of the Omicron variant disrupted economic activity, and in another significant development the Federal Reserve (Fed) shifted to a more aggressive inflation-fighting stance, doubling the pace of its planned reduction in asset purchases and also bringing forward the timing of its expected rate hikes. However, investors largely looked through these negative developments, instead focusing on indications of Omicron's less severe nature and the government's decision not to impose very strict lockdown measures to combat it. Markets also took comfort from the robust pace of the US recovery. The S&P 500 delivered an impressive 11.0% return in Q4 and 28.7% in 2021, the Dow Jones Industrial 30 7.9% and 20.9%, and the technology-heavy Nasdaq Composite 8.4% and 22.2% (all in US$).

Both the Bank of England (BoE) and the European Central Bank (ECB) followed the US Fed's policy tightening during the quarter, but to a lesser extent. The BoE hiked its base interest rate by 15bps to 0.25% amid a jump in CPI to 5.1% y/y in November, its highest in 10 years.

The ECB left its base rate unchanged, but cut its bond buying as planned, trying to balance inflation with Omicron's negative impact on economic growth. For Q4, the UK's FTSE 100 returned 5.2%, Germany's DAX 1.8% and France's CAC 40 7.8%. For the year, the UK's FTSE 100 delivered 17.4%, Germany's DAX 6.7% and France's CAC 40 22.6% (all in US$).

The Japanese economy, which has been slower to recover than other large economies, is expected to post growth of only 1.8% in 2021 before accelerating to 3.4% in 2022. In 2023, however, the OECD sees it slowing to only 1.1%. With inflation still well below the Bank of Japan's 2.0% target, the BOJ kept its interest rates ultra-low in December and extended its support for small companies.

In China, institutions lowered their forecasts for the country's 2021 GDP growth to around 8.0%. With the Chinese economic cycle ahead of Western countries', its 2022 GDP growth is now expected at around 5%, the lowest in decades. Japan's Nikkei 225 fell sharply in Q4 with a -5.1% return, and was one of the few large equity markets to record a loss in 2021 at -4.4% in US$. Other prominent bourses in the red were China and Hong Kong due to the government's regulatory and democratic crackdowns, and strict anti-Covid measures. The MSCI China lost 6.1% in Q4 and delivered -21.6% for 2021, while Hong Kong's Hang Seng fell 4.8% for the quarter and posted a -12.3% return in 2021 (all in US$).

Finally, the rand lost ground against the major currencies in Q4, losing 6.2% against a weak US dollar and 6.4% against the pound sterling, as well as 3.9% against the euro. For the year it depreciated 9.1% versus the US dollar, 8.0% versus sterling and 0.9% against the euro. This would have boosted returns for investors with foreign-currency assets.

Performance

The fund delivered a return of 7.1% (net of fees) for the fourth quarter of 2021, while global inflation measured 7.5%. For the year ended 31 December 2021, the fund returned 12.9% (net of fees), while global inflation measured 14.9%.

Contributors to absolute performance over the quarter came from the fund's broad exposure to global equities, particularly from the US, as well as US Treasuries held for diversification and duration management purposes. Main detractors from absolute performance over this period came from the fund's exposure to Japanese and Chinese equities, European corporate bonds as well as US-dollar denominated and local currency exposure to Turkey.

Strategy and positioning

Our preference for equities is now more muted than previously, however, we retain a preference for ex-US equity exposure and still favour equities over government bonds. We are constructive on emerging market hard currency and local debt.

Annualised performance	A class	Benchmark[1]	B class
1 year	12.9%	14.9%	13.3%
3 years	12.0%	6.1%	12.4%
5 years	8.7%	5.3%	9.1%
7 years	8.5%	6.3%	8.8%
10 years	10.4%	8.7%	-
Since inception	8.2%	7.2%	-

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

Sources: M&G, Morningstar & Deutsche Securities

In November, we reduced exposure to 30-year US Treasuries in response to the decline in yields, before closing the position in December following a further decline, with the proceeds going to cash.

As we enter 2022, our stance remains largely unchanged. We will continue to closely evaluate price movements in markets, while holding a range of relatively riskier assets in view of our belief in an ongoing global recovery.

We expect continued near-term pressure on bonds as rates adjust to more hawkish central bank rhetoric, albeit offset by equities supported by robust growth. However, we consider that the market could well become too hawkish for its own good, particularly if inflation does moderate somewhat. We continue to value selected emerging market bonds for their attractive yield.

We maintain a significant allocation to cash to allow us to respond to market volatility – though we will also make the decision to maintain our existing positioning where we consider this to be more appropriate.

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M&G Global Balanced Feeder Fund

Global Multi-Asset ZAR-denominated

Q4 2021

Market overview

The final quarter of 2021 was a very positive one thanks to rallies in developed equity markets around the globe and -- investors looked past negative developments like the higher uncertainty posed by the Omicron variant of the Coronavirus to push many bourses to fresh record highs. Amid this risk-on sentiment, many of the world's equity markets recorded impressive returns in 2021. However, emerging market equities lost ground in Q4, with the broad MSCI Emerging Markets Index ending the year in the red, dragged down by large losses in China and Turkey. Equally, global bonds posted negative returns in Q4 and for the year as a whole as many central banks finally signalled or started to pare back on their ultra-easy monetary policies by trimming asset purchases and/or hiking interest rates to fight rising inflation.

In US$ terms, the MSCI All Country World Index returned 6.7% for the quarter, with emerging markets significantly underperforming developed markets at -1.3% and 7.8%, respectively. Global bonds delivered -0.7% in Q4, but global property recorded a strong rebound with a 12.2% quarterly return.

In the US, the rapid spread of the Omicron variant disrupted economic activity, and in another significant development the Federal Reserve (Fed) shifted to a more aggressive inflation-fighting stance, doubling the pace of its planned reduction in asset purchases and also bringing forward the timing of its expected rate hikes. However, investors largely looked through these negative developments, instead focusing on indications of Omicron's less severe nature and the government's decision not to impose very strict lockdown measures to combat it. Markets also took comfort from the robust pace of the US recovery. The S&P 500 delivered an impressive 11.0% return in Q4 and 28.7% in 2021, the Dow Jones Industrial 30 7.9% and 20.9%, and the technology-heavy Nasdaq Composite 8.4% and 22.2% (all in US$).

Both the Bank of England (BoE) and the European Central Bank (ECB) followed the US Fed's policy tightening during the quarter, but to a lesser extent. The BoE hiked its base interest rate by 15bps to 0.25% amid a jump in CPI to 5.1% y/y in November, its highest in 10 years.

The ECB left its base rate unchanged, but cut its bond buying as planned, trying to balance inflation with Omicron's negative impact on economic growth. For Q4, the UK's FTSE 100 returned 5.2%, Germany's DAX 1.8% and France's CAC 40 7.8%. For the year, the UK's FTSE 100 delivered 17.4%, Germany's DAX 6.7% and France's CAC 40 22.6% (all in US$).

The Japanese economy, which has been slower to recover than other large economies, is expected to post growth of only 1.8% in 2021 before accelerating to 3.4% in 2022. In 2023, however, the OECD sees it slowing to only 1.1%. With inflation still well below the Bank of Japan's 2.0% target, the BOJ kept its interest rates ultra-low in December and extended its support for small companies.

In China, institutions lowered their forecasts for the country's 2021 GDP growth to around 8.0%. With the Chinese economic cycle ahead of Western countries', its 2022 GDP growth is now expected at around 5%, the lowest in decades. Japan's Nikkei 225 fell sharply in Q4 with a -5.1% return, and was one of the few large equity markets to record a loss in 2021 at -4.4% in US$. Other prominent bourses in the red were China and Hong Kong due to the government's regulatory and democratic crackdowns, and strict anti-Covid measures. The MSCI China lost 6.1% in Q4 and delivered -21.6% for 2021, while Hong Kong's Hang Seng fell 4.8% for the quarter and posted a -12.3% return in 2021 (all in US$).

Finally, the rand lost ground against the major currencies in Q4, losing 6.2% against a weak US dollar and 6.4% against the pound sterling, as well as 3.9% against the euro. For the year it depreciated 9.1% versus the US dollar, 8.0% versus sterling and 0.9% against the euro. This would have boosted returns for investors with foreign-currency assets.

Performance

The fund delivered a return of 9.6% (net of fees) for the fourth quarter of 2021, underperforming its benchmark by 1.6%. For the year ended 31 December 2021, the fund returned 22.4% (net of fees), marginally outperforming its benchmark by 0.2%.

Contributors to absolute performance over the quarter came from the fund's broad exposure to global equities, particularly from the US, as well as M&G's factor investing fund and US Treasuries held for diversification and duration management purposes. Main detractors from absolute performance over this period came from the fund's exposure to Japanese and Chinese equities, European corporate and South African government bonds as well as US-dollar denominated and local currency exposure to Turkey.

Strategy and positioning

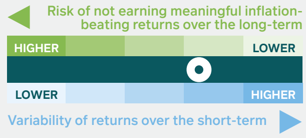
Our preference for equities is now more muted than previously, however, we retain a preference for ex-US equity exposure and still favour equities over government bonds. We are constructive on emerging market hard currency and local debt.

Early in the quarter we bought a 7-year Chilean government bond in response to further episodic-looking price weakness in local bonds and currency. We funded this from South African government bonds, where yields had come down and were comparatively less attractive. In November, we reduced exposure to 30-year US Treasuries in response to the decline in yields, before closing the position in December following a further decline, with the proceeds going to cash.

As we enter 2022, our stance remains largely unchanged. We will continue to closely evaluate price movements in markets, while holding a range of relatively riskier assets in view of our belief in an ongoing global recovery.

Annualised performance	A class	Benchmark	B class
1 year	22.4%	22.2%	22.4%
2 years	16.3%	20.3%	16.3%
3 years	16.1%	19.1%	16.2%
Since inception	12.1%	15.7%	-

Risk profile



Fund facts

Investment manager of the underlying fund

M&G Investment Management Limited (UK)

Fund managers of the underlying fund

Marc Beckenstrater
Craig Simpson

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

R50 039 278

Sources: M&G, Morningstar & Deutsche Securities

We expect continued near-term pressure on bonds as rates adjust to more hawkish central bank rhetoric, albeit offset by equities supported by robust growth. However, we consider that the market could well become too hawkish for its own good, particularly if inflation does moderate somewhat. We continue to value selected emerging market bonds for their attractive yield.

We maintain a significant allocation to cash to allow us to respond to market volatility – though we will also make the decision to maintain our existing positioning where we consider this to be more appropriate.

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M&G Global Equity Feeder Fund

Global Equity ZAR-denominated

Q4 2021

Market overview

The final quarter of 2021 was a very positive one thanks to rallies in developed equity markets around the globe and -- investors looked past negative developments like the higher uncertainty posed by the Omicron variant of the Coronavirus to push many bourses to fresh record highs. Amid this risk-on sentiment, many of the world's equity markets recorded impressive returns in 2021. However, emerging market equities lost ground in Q4, with the broad MSCI Emerging Markets Index ending the year in the red, dragged down by large losses in China and Turkey. Equally, global bonds posted negative returns in Q4 and for the year as a whole as many central banks finally signalled or started to pare back on their ultra-easy monetary policies by trimming asset purchases and/or hiking interest rates to fight rising inflation.

In US$ terms, the MSCI All Country World Index returned 6.7% for the quarter, with emerging markets significantly underperforming developed markets at -1.3% and 7.8%, respectively.

In the US, the rapid spread of the Omicron variant disrupted economic activity, and in another significant development the Federal Reserve (Fed) shifted to a more aggressive inflation-fighting stance, doubling the pace of its planned reduction in asset purchases and also bringing forward the timing of its expected rate hikes. However, investors largely looked through these negative developments, instead focusing on indications of Omicron's less severe nature and the government's decision not to impose very strict lockdown measures to combat it. Markets also took comfort from the robust pace of the US recovery. The S&P 500 delivered an impressive 11.0% return in Q4 and 28.7% in 2021, the Dow Jones Industrial 30 7.9% and 20.9%, and the technology-heavy Nasdaq Composite 8.4% and 22.2% (all in US$).

Both the Bank of England (BoE) and the European Central Bank (ECB) followed the US Fed's policy tightening during the quarter, but to a lesser extent. The BoE hiked its base interest rate by 15bps to 0.25% amid a jump in CPI to 5.1% y/y in November, its highest in 10 years.

The ECB left its base rate unchanged, but cut its bond buying as planned, trying to balance inflation with Omicron's negative impact on economic growth. For Q4, the UK's FTSE 100 returned 5.2%, Germany's DAX 1.8% and France's CAC 40 7.8%. For the year, the UK's FTSE 100 delivered 17.4%, Germany's DAX 6.7% and France's CAC 40 22.6% (all in US$).

The Japanese economy, which has been slower to recover than other large economies, is expected to post growth of only 1.8% in 2021 before accelerating to 3.4% in 2022. In 2023, however, the OECD sees it slowing to only 1.1%. With inflation still well below the Bank of Japan's 2.0% target, the BOJ kept its interest rates ultra-low in December and extended its support for small companies.

In China, institutions lowered their forecasts for the country's 2021 GDP growth to around 8.0%. With the Chinese economic cycle ahead of Western countries', its 2022 GDP growth is now expected at around 5%, the lowest in decades. Japan's Nikkei 225 fell sharply in Q4 with a -5.1% return, and was one of the few large equity markets to record a loss in 2021 at -4.4% in US$. Other prominent bourses in the red were China and Hong Kong due to the government's regulatory and democratic crackdowns, and strict anti-Covid measures. The MSCI China lost 6.1% in Q4 and delivered -21.6% for 2021, while Hong Kong's Hang Seng fell 4.8% for the quarter and posted a -12.3% return in 2021 (all in US$).

Finally, the rand lost ground against the major currencies in Q4, losing 6.2% against a weak US dollar and 6.4% against the pound sterling, as well as 3.9% against the euro. For the year it depreciated 9.1% versus the US dollar, 8.0% versus sterling and 0.9% against the euro. This would have boosted returns for investors with foreign-currency assets.

Performance

The fund delivered a return of 8.1% (net of fees) for the fourth quarter of 2021, underperforming its benchmark by 5.2%. For the year ended 31 December 2021, the fund returned 32.5% (net of fees), outperforming its benchmark by 3.2%.

The fund outperformed on 28 of 66 days, offering a hit rate for the entire quarter of around 42%, which resulted in the fund underperforming its benchmark over the period. Style had a negative contribution over the quarter, with exposure to small-size, high-earnings variability and high-trading activity detracting from performance. This was partially offset by the fund's positive exposure to momentum. We expect style to have a negligible impact on performance over the long term.

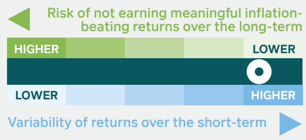
Strategy and positioning

Over the course of the quarter, the portion of the fund managed using its proprietary machine learning model increased to approximately 90%, with the balance of approximately 10% remaining in strategic ETFs. The ETF allocation is primarily used for liquidity purposes. Furthermore, the factor exposures now exhibit an underweight to high profitability, while maintaining earlier exposures to smaller-cap, high-earnings variability and high momentum companies.

As we enter 2022, our stance remains largely unchanged. The valuation of equities is such that long-run potential returns are substantially lower than those available in 2020. The tailwinds that have delivered exceptional earnings delivery since the start of the pandemic are fading, and equities are now challenged on a number of fronts. Alongside increasing hawkish central bank rhetoric, pressurised margins from cost increases, and potential taxation increases all contribute to a more challenging earnings and return outlook for the asset class.

Annualised performance	A class	Benchmark	B class
1 year	32.5%	29.3%	33.0%
3 years	22.2%	24.7%	22.7%
5 years	15.2%	18.0%	-
7 years	14.0%	16.1%	-
10 years	17.7%	19.7%	-
Since inception	8.6%	10.1%	-

Risk profile



Fund facts

Investment manager of the underlying fund
M&G Investment Management Limited (UK)

Fund managers of the underlying fund
Marc Beckenstrater
Gautam Samarth

ASISA category
Global - Equity - General

Benchmark
MSCI All Country World Index TR Net

Inception date
18 February 2000

Fund size
R532 985 514

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Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

M&G 2.5% Target Income Fund

Target Income

Q4 2021

Market overview

The final quarter of 2021 was a very positive one for South African investors and M&G Investments' clients thanks to rallies in developed equity markets around the globe and in South Africa -- investors looked past negative developments like the higher uncertainty posed by the Omicron variant of the Coronavirus to push many bourses to fresh record highs. Amid this risk-on sentiment, many of the world's equity markets recorded impressive returns in 2021. However, emerging market equities lost ground in Q4, with the broad MSCI Emerging Markets Index ending the year in the red, dragged down by large losses in China and Turkey. Equally, global bonds posted negative returns in Q4 and for the year as a whole as many central banks finally signalled or started to pare back on their ultra-easy monetary policies by trimming asset purchases and/or hiking interest rates to fight rising inflation.

In US$ terms, the MSCI All Country World Index returned 6.7% for the quarter, with emerging markets significantly underperforming developed markets at -1.3% and 7.8%, respectively. Global bonds delivered -0.7% in Q4, but global property recorded a strong rebound with a 12.2% quarterly return.

In the US, the rapid spread of the Omicron variant disrupted economic activity, and in another significant development the Federal Reserve (Fed) shifted to a more aggressive inflation-fighting stance, doubling the pace of its planned reduction in asset purchases and also bringing forward the timing of its expected rate hikes. However, investors largely looked through these negative developments, instead focusing on indications of Omicron's less severe nature and the government's decision not to impose very strict lockdown measures to combat it. Markets also took comfort from the robust pace of the US recovery. The S&P 500 delivered an impressive 11.0% return in Q4 and 28.7% in 2021, the Dow Jones Industrial 30 7.9% and 20.9%, and the technology-heavy Nasdaq Composite 8.4% and 22.2% (all in US$).

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In China, institutions lowered their forecasts for the country's 2021 GDP growth to around 8.0%. With the Chinese economic cycle ahead of Western countries', its 2022 GDP growth is now expected at around 5%, the lowest in decades. Japan's Nikkei 225 fell sharply in Q4 with a -5.1% return, and was one of the few large equity markets to record a loss in 2021 at -4.4% in US$. Other prominent bourses in the red were China and Hong Kong due to the government's regulatory and democratic crackdowns, and strict anti-Covid measures. The MSCI China lost 6.1% in Q4 and delivered -21.6% for 2021, while Hong Kong's Hang Seng fell 4.8% for the quarter and posted a -12.3% return in 2021 (all in US$).

South Africa

In line with market expectations, the South African Reserve Bank (SARB) hiked the repo rate by 25bps to 3.75% in November. Data showed CPI rose to 5.5% y/y and PPI hit a 10-year high of 9.6% y/y in November. The MPC's latest forecasts show a gradual rate hiking cycle, with the repo rate reaching approximately 5.0% by December 2022, 6.0% at the end of 2023 and 6.75% by end-2024.

South Africa's GDP growth slowed to 2.9% y/y in Q3, contracting by 1.5% on a quarterly basis due to the harsh impact that July's riots and tighter lockdowns for the Coronavirus had on consumer spending, investment and production. Forecasts show a consensus of around 5.1% growth for 2021, falling to around 2.0% in 2022, as the economy faces more headwinds such as the continuation of the Coronavirus pandemic, slowing global growth, rising interest rates, further power constraints and lower government spending, among others.

SA equities posted robust Q4 gains, with the FTSE/JSE ALSI returning 15.1%. The FTSE/JSE Capped SWIX ALSI, which we use as the equity benchmark for most of our client mandates, returned 8.7%. Gains were led by the globally-exposed Resources and Industrial sectors, which delivered 22.2% and 16.1% respectively, while the All Property Index produced 8.4% and Financials 2.5%.

For the 2021 year, the ALSI returned the most in 10 years at 29.2% thanks to strong performances from Listed Property and Resources (up 38.6% and 32.4% respectively). The FTSE/JSE Capped SWIX ALSI delivered 27.1% for the year, Financials produced 29.6% and Industrials returned 26.5%.

In what was a generally weak year globally for bonds as interest rates started to rise, SA bonds delivered 2.9% in Q4 and registered a world-beating 8.4% annual return in rands in 2021 in total. SA inflation linked-bonds delivered 5.1% in Q4 and 15.5% for the year, outperforming their nominal counterparts, and cash (as measured by the STeFI Composite) posted returns of 1.0% in Q4 and 3.8% for the year.

Finally, the rand lost ground against the major currencies in Q4, losing 6.2% against a weak US dollar and 6.4% against the pound sterling, as well as 3.9% against the euro. For the year it depreciated 9.1% versus the US dollar, 8.0% versus sterling and 0.9% against the euro. This would have boosted returns for investors with foreign-currency assets.

Performance

The Prudential 2.5% Target Income Fund returned 7.3% (after fees) for the fourth quarter of 2021 and 26.7% for the 12-month period ending 31 December 2021. The largest asset-class contributor to the fund's absolute performance for the quarter was its exposure to SA equities, followed by international equities and SA listed property. Both international and local bonds also added good value. The fund holds no SA ILBs.

In terms of specific equity exposure, among the strongest equity contributors to absolute returns for the quarter were MTN, Richemont and Investec, while resources counters like Anglo American, Amplats, Glencore and Northam also added good value. Top detractors from absolute performance included Sasol, banks Standard Bank and FirstRand, and retailers Foschini and Truworths.

Annualised performance	A class	CPI	B class
1 year	26.7%	5.5%	27.2%
2 years	11.8%	4.3%	12.2%
Since inception	7.8%	4.1%	-

Fund facts

Fund managers
David Knee
Michael Moyle
Sandile Malinga
Leonard Krüger

ASISA category
Worldwide - Multi Asset - Unclassified

Objective (before fees)
2.5% Income return p.a.

Inception date
2 April 2019

Fund size
R108 474 173

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

Strategy and positioning

Starting with our view on offshore asset allocation, we maintained our portfolio positioning favouring global cash over global equities and bonds in order to keep risk relatively low and take advantage of market mis-pricing episodes that might arise. Within our global equity positioning, we remained cautious in our exposure to US equities, as this market continued to be expensive compared to most other countries. Instead, our portfolios favour selected European and other developed market equities, and some emerging market equities. We have been aiming to position the portfolios with higher weightings of very high-returning global assets while maintaining a mix of assets that have diversified return profiles, thereby cushioning them against unforeseen shocks.

At the same time, in aggregate the fund continued to be tilted away from global bonds - both government bonds and corporate credit -- at quarter-end, in favour of global cash. Government bond exposure was reduced further into cash in December in response to a rally in US Treasuries. Cash assets are less risky, and we believe that corporate yield spreads are no longer sufficiently high for the risk involved.

The fund still heavily favoured SA equities at the end of Q4. After de-rating for much of the year, SA equity market valuations (as measured by the 12-month forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) finally re-rated slightly over the quarter, moving up from around 9.2X to around 9.5X at quarter-end. Equity price gains outpaced earnings revisions, but investors remain skeptical over the sustainability of local earnings growth and the country's economic growth. This increase in valuations was too small to cause us to lower our allocation to SA equity.

Within SA equities, in broad terms our exposure to large global companies worked in our favour over the quarter and in 2021 as a whole. However, even more notable was our broad diversification of holdings that added value for clients: the top equity contributions over 12 months came from our overweight holdings in MTN, Sasol, Investec, Anglo American, Richemont and Implats. Meanwhile, top equity detractors included our holdings in Naspers, Northam Platinum, Sibanye Stillwater, Multichoice and Anglogold.

We continued with our neutral positioning in SA listed property in Q4 2021, having shifted some exposure away from the higher-valued property counters into more attractively-valued companies with higher return prospects in Q3, in recognition that risks in the sector have been improving. Although listed property does offer somewhat better value than our estimated fair value for the sector, at around 7.5% versus 6.0%, within SA equities we prefer other shares that we consider offer better value propositions for less risk.

Listed property proved to be the best-performing sector (and asset class) in 2021, recording a 38.6% return. The quality of the sector is improving, as dividend yields have proved fairly robust and companies have built safety into their balance sheets by not paying out excessive distributions. This leaves room for further re-rating. Property also offers diversification benefits. However, as with the previous quarter we are mindful that listed property is a lagging sector in the cycle, as earnings are usually only impacted negatively once rental contracts come to an end and new rents are set at lower levels (negative reversions) – and this is still happening. So while the logistics and self-storage segments have been the most resilient and are performing well, retail is still weak and the office segment even weaker, plagued by high vacancies.

The portfolio benefited from our ongoing preference for SA nominal bonds in Q4 (and the year as a whole) thanks to their resilient performance and the flattening of the SA yield curve in the wake of the SARB's rate hike. With inflation proving to be less of a risk than expected, and the SARB's own rate hike projections more dovish than previously priced into the market, during the quarter bond investors tempered their own rate-hike expectations and aligned with the SARB's view. As in Q3 we prefer the 7-12-year area of the curve, where relative valuations have become more attractive, but are also still holding bonds of 12-years and longer that have outperformed. We still believe nominal bonds remain attractive relative to both other income assets and their own longer-term history and will more than compensate investors for their associated risks.

Lastly, despite the SARB's 25bp interest rate hike, the fund remained heavily tilted away from SA cash in Q4 as our least preferred asset class, given the extremely low base rate off which the SARB hiked. Prospective real returns are still negative and other SA assets more attractive on a relative basis.

Although market volatility remains high in the short term, we believe the fund is well-positioned to meet its objectives over the next three to five years, and we continue to take advantage of opportunities to enhance long-term returns.

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Sources: M&G, Morningstar & Deutsche Securities

M&G 5% Target Income Fund

Target Income

Q4 2021

Market overview

The final quarter of 2021 was a very positive one for South African investors and M&G Investments' clients thanks to rallies in developed equity markets around the globe and in South Africa -- investors looked past negative developments like the higher uncertainty posed by the Omicron variant of the Coronavirus to push many bourses to fresh record highs. Amid this risk-on sentiment, many of the world's equity markets recorded impressive returns in 2021. However, emerging market equities lost ground in Q4, with the broad MSCI Emerging Markets Index ending the year in the red, dragged down by large losses in China and Turkey. Equally, global bonds posted negative returns in Q4 and for the year as a whole as many central banks finally signalled or started to pare back on their ultra-easy monetary policies by trimming asset purchases and/or hiking interest rates to fight rising inflation.

In US$ terms, the MSCI All Country World Index returned 6.7% for the quarter, with emerging markets significantly underperforming developed markets at -1.3% and 7.8%, respectively. Global bonds delivered -0.7% in Q4, but global property recorded a strong rebound with a 12.2% quarterly return.

In the US, the rapid spread of the Omicron variant disrupted economic activity, and in another significant development the Federal Reserve (Fed) shifted to a more aggressive inflation-fighting stance, doubling the pace of its planned reduction in asset purchases and also bringing forward the timing of its expected rate hikes. However, investors largely looked through these negative developments, instead focusing on indications of Omicron's less severe nature and the government's decision not to impose very strict lockdown measures to combat it. Markets also took comfort from the robust pace of the US recovery. The S&P 500 delivered an impressive 11.0% return in Q4 and 28.7% in 2021, the Dow Jones Industrial 30 7.9% and 20.9%, and the technology-heavy Nasdaq Composite 8.4% and 22.2% (all in US$).

Both the Bank of England (BoE) and the European Central Bank (ECB) followed the US Fed's policy tightening during the quarter, but to a lesser extent. The BoE hiked its base interest rate by 15bps to 0.25% amid a jump in CPI to 5.1% y/y in November, its highest in 10 years.

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The Japanese economy, which has been slower to recover than other large economies, is expected to post growth of only 1.8% in 2021 before accelerating to 3.4% in 2022. In 2023, however, the OECD sees it slowing to only 1.1%. With inflation still well below the Bank of Japan's 2.0% target, the BOJ kept its interest rates ultra-low in December and extended its support for small companies.

In China, institutions lowered their forecasts for the country's 2021 GDP growth to around 8.0%. With the Chinese economic cycle ahead of Western countries', its 2022 GDP growth is now expected at around 5%, the lowest in decades. Japan's Nikkei 225 fell sharply in Q4 with a -5.1% return, and was one of the few large equity markets to record a loss in 2021 at -4.4% in US$. Other prominent bourses in the red were China and Hong Kong due to the government's regulatory and democratic crackdowns, and strict anti-Covid measures. The MSCI China lost 6.1% in Q4 and delivered -21.6% for 2021, while Hong Kong's Hang Seng fell 4.8% for the quarter and posted a -12.3% return in 2021 (all in US$).

South Africa

In line with market expectations, the South African Reserve Bank (SARB) hiked the repo rate by 25bps to 3.75% in November. Data showed CPI rose to 5.5% y/y and PPI hit a 10-year high of 9.6% y/y in November. The MPC's latest forecasts show a gradual rate hiking cycle, with the repo rate reaching approximately 5.0% by December 2022, 6.0% at the end of 2023 and 6.75% by end-2024.

South Africa's GDP growth slowed to 2.9% y/y in Q3, contracting by 1.5% on a quarterly basis due to the harsh impact that July's riots and tighter lockdowns for the Coronavirus had on consumer spending, investment and production. Forecasts show a consensus of around 5.1% growth for 2021, falling to around 2.0% in 2022, as the economy faces more headwinds such as the continuation of the Coronavirus pandemic, slowing global growth, rising interest rates, further power constraints and lower government spending, among others.

SA equities posted robust Q4 gains, with the FTSE/JSE ALSI returning 15.1%. The FTSE/JSE Capped SWIX ALSI, which we use as the equity benchmark for most of our client mandates, returned 8.7%. Gains were led by the globally-exposed Resources and Industrial sectors, which delivered 22.2% and 16.1% respectively, while the All Property Index produced 8.4% and Financials 2.5%.

For the 2021 year, the ALSI returned the most in 10 years at 29.2% thanks to strong performances from Listed Property and Resources (up 38.6% and 32.4% respectively). The FTSE/JSE Capped SWIX ALSI delivered 27.1% for the year, Financials produced 29.6% and Industrials returned 26.5%.

In what was a generally weak year globally for bonds as interest rates started to rise, SA bonds delivered 2.9% in Q4 and registered a world-beating 8.4% return in rands in 2021 in total. SA inflation linked-bonds delivered 5.1% in Q4 and 15.5% for the year, outperforming their nominal counterparts, and cash (as measured by the STeFI Composite) posted returns of 1.0% in Q4 and 3.8% for the year.

Finally, the rand lost ground against the major currencies in Q4, losing 6.2% against a weak US dollar and 6.4% against the pound sterling, as well as 3.9% against the euro. For the year it depreciated 9.1% versus the US dollar, 8.0% versus sterling and 0.9% against the euro.

Performance

The M&G 5% Target Income Fund returned 5.2% (after fees) for the fourth quarter of 2021 and 16.6% for the 12-month period ending 31 December 2021. The largest asset-class contributors to absolute performance for the quarter were the fund's exposure to SA equities, followed by SA bonds and global equities. SA listed property and global bonds also added good returns. There were no detractors to the fund's absolute returns on an asset class basis.

In terms of specific equity exposure, among the strongest equity contributors to absolute returns for the quarter were the fund's holdings in MTN, followed by Richemont and Investec and mining shares like Anglo American and Amplats. Counters that weighed marginally on performance included financial shares Standard Bank, FirstRand and Old Mutual, as well as Sasol.

Annualised performance	A class	CPI	B class
1 year	16.6%	5.5%	17.0%
2 years	8.4%	4.3%	8.8%
Since inception	7.0%	4.1%	-

Fund facts

Fund managers
David Knee
Michael Moyle
Sandile Malinga
Leonard Krüger

ASISA category
Worldwide - Multi Asset - Unclassified

Objective (before fees)
5% Income return p.a.

Inception date
2 April 2019

Fund size
R211 527 074

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

Strategy and positioning

Starting with our view on **offshore asset allocation**, we maintained our portfolio positioning favouring global cash over global equities and bonds in order to keep risk relatively low and take advantage of market mis-pricing episodes that might arise. Within our **global equity** positioning, we remained cautious in our exposure to US equities, as this market continued to be expensive compared to most other countries. Instead, our portfolios favour selected European and other developed market equities, and some emerging market equities. We have been aiming to position the portfolios with higher weightings of very high-returning global assets while maintaining a mix of assets that have diversified return profiles, thereby cushioning them against unforeseen shocks.

At the same time, in aggregate the fund continued to be tilted away from **global bonds - both government bonds and corporate credit** -- at quarter-end, in favour of global cash. Government bond exposure was reduced further into cash in December in response to a rally in US Treasuries. Cash assets are less risky, and we believe that corporate yield spreads are no longer sufficiently high for the risk involved.

The fund still heavily favoured **SA equities** at the end of Q4. After de-rating for much of the year, SA equity market valuations (as measured by the 12-month forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) finally re-rated slightly over the quarter, moving up from around 9.2X to around 9.5X at quarter-end. Equity price gains outpaced earnings revisions, but investors remain skeptical over the sustainability of local earnings growth and the country's economic growth. This increase in valuations was too small to cause us to lower our allocation to SA equity.

Within SA equities, in broad terms our exposure to large global companies worked in our favour over the quarter and in 2021 as a whole. However, even more notable was our broad diversification of holdings that added value for clients: among the top equity contributions over 12 months came from our overweight holdings in MTN, Sasol, Investec, Anglo American, Richemont and Growthpoint.

We continued with our neutral positioning in **SA listed property** in Q4 2021, having shifted some exposure away from the higher-valued property counters into more attractively-valued companies with higher return prospects in Q3, in recognition that risks in the sector have been improving. Although listed property does offer somewhat better value than our estimated fair value for the sector, at around 7.5% versus 6.0%, within SA equities we prefer other shares that we consider offer better value propositions for less risk.

Listed property proved to be the best-performing sector (and asset class) in 2021, recording a 38.6% return. The quality of the sector is improving, as dividend yields have proved fairly robust and companies have built safety into their balance sheets by not paying out excessive distributions. This leaves room for further re-rating. Property also offers diversification benefits. However, as with the previous quarter we are mindful that listed property is a lagging sector in the cycle, as earnings are usually only impacted negatively once rental contracts come to an end and new rents are set at lower levels (negative reversions) – and this is still happening. So while the logistics and self-storage segments have been the most resilient and are performing well, retail is still weak and the office segment even weaker, plagued by high vacancies.

The portfolio benefited from our ongoing preference for **SA nominal bonds** in Q4 (and the year as a whole) thanks to their resilient performance and the flattening of the SA yield curve in the wake of the SARB's rate hike. With inflation proving to be less of a risk than expected, and the SARB's own rate hike projections more dovish than previously priced into the market, during the quarter bond investors tempered their own rate-hike expectations and aligned with the SARB's view. As in Q3 we prefer the 7-12-year area of the curve, where relative valuations have become more attractive, but are also still holding bonds of 12-years and longer that have outperformed. We still believe nominal bonds remain attractive relative to both other income assets and their own longer-term history and will more than compensate investors for their associated risks.

SA Inflation-linked bonds (ILBs) outperformed their nominal counterparts during the quarter by some 2.2% (220 basis points), extending their phenomenal run for 2021. We still believe that ILB real yields remain relatively attractive compared to their own history and our long-run fair value assumption of 2.5%. In Q4 the gap between ILB and cash real yields narrowed as a result of the SARB's rate hike and the fall in ILB yields.

Lastly, despite the SARB's 25bp interest rate hike, the fund remained heavily tilted away from **SA cash** in Q4 as our least preferred asset class, given the extremely low base rate off which the SARB hiked. Prospective real returns are still negative and other SA assets more attractive on a relative basis.

Although market volatility remains high in the short term, we believe the fund is well-positioned to meet its objectives over the next three to five years, and we continue to take advantage of opportunities to enhance long-term returns. □

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Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

M&G 7% Target Income Fund

Target Income

Q4 2021

Fund facts

Fund managers
David Knee
Michael Moyle
Sandile Malinga
Leonard Krüger

ASISA category
Worldwide - Multi Asset - Unclassified

Objective (before fees)
7% Income return p.a.

Inception date
2 April 2019

Fund size
R392 350 594

Market overview

The final quarter of 2021 was a very positive one for South African investors and M&G Investments' clients thanks to rallies in developed equity markets around the globe and in South Africa -- investors looked past negative developments like the higher uncertainty posed by the Omicron variant of the Coronavirus to push many bourses to fresh record highs. Amid this risk-on sentiment, many of the world's equity markets recorded impressive returns in 2021. However, emerging market equities lost ground in Q4, with the broad MSCI Emerging Markets Index ending the year in the red, dragged down by large losses in China and Turkey. Equally, global bonds posted negative returns in Q4 and for the year as a whole as many central banks finally signalled or started to pare back on their ultra-easy monetary policies by trimming asset purchases and/or hiking interest rates to fight rising inflation.

South Africa

In line with market expectations, the South African Reserve Bank (SARB) hiked the repo rate by 25bps to 3.75% in November. Data showed CPI rose to 5.5% y/y and PPI hit a 10-year high of 9.6% y/y in November. The MPC's latest forecasts show a gradual rate hiking cycle, with the repo rate reaching approximately 5.0% by December 2022, 6.0% at the end of 2023 and 6.75% by end-2024.

South Africa's GDP growth slowed to 2.9% y/y in Q3, contracting by 1.5% on a quarterly basis due to the harsh impact that July's riots and tighter lockdowns for the Coronavirus had on consumer spending, investment and production. Forecasts show a consensus of around 5.1% growth for 2021, falling to around 2.0% in 2022, as the economy faces more headwinds such as the continuation of the Coronavirus pandemic, slowing global growth, rising interest rates, further power constraints and lower government spending, among others.

SA equities posted robust Q4 gains, with the FTSE/JSE ALSI returning 15.1%. The FTSE/JSE Capped SWIX ALSI, which we use as the equity benchmark for most of our client mandates, returned 8.7%. Gains were led by the globally-exposed Resources and Industrial sectors, which delivered 22.2% and 16.1% respectively, while the All Property Index produced 8.4% and Financials 2.5%.

For the 2021 year, the ALSI returned the most in 10 years at 29.2% thanks to strong performances from Listed Property and Resources (up 38.6% and 32.4% respectively). The FTSE/JSE Capped SWIX ALSI delivered 27.1% for the year, Financials produced 29.6% and Industrials returned 26.5%.

In what was a generally weak year globally for bonds as interest rates started to rise, SA bonds delivered 2.9% in Q4 and registered a world-beating 8.4% annual return in rands in 2021 in total. SA inflation linked-bonds delivered 5.1% in Q4 and 15.5% for the year, outperforming their nominal counterparts, and cash (as measured by the STeFI Composite) posted returns of 1.0% in Q4 and 3.8% for the year.

Finally, the rand lost ground against the major currencies in Q4, losing 6.2% against a weak US dollar and 6.4% against the pound sterling, as well as 3.9% against the euro. For the year it depreciated 9.1% versus the US dollar, 8.0% versus sterling and 0.9% against the euro. This would have boosted returns for investors with foreign-currency assets.

Performance

The M&G 7% Target Income Fund returned 3.5% (after fees) for the quarter and 12.2% for the 12-month period ending 31 December 2021.

The largest asset-class contributors to absolute performance for the quarter were the fund's exposure to SA nominal bonds (by far), followed by SA equities, listed property and ILBs. There were no detractors from the fund's absolute returns on an asset class basis.

In terms of specific equity exposure, among the strongest equity contributors to absolute returns for the quarter were the fund's holdings in MTN, Richemont and Investec, followed by Listed Property groups Growthpoint and Hyprop, and Resources shares like Anglo American and Amplats. Shares that detracted from value for Q4 (but only minorly so) included Sasol, Foschini, FirstRand and Standard Bank.

Strategy and positioning

The fund still heavily favoured SA equities at the end of Q4. After de-rating for much of the year, SA equity market valuations (as measured by the 12-month forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) finally re-rated slightly over the quarter, moving up from around 9.2X to around 9.5X at quarter-end. Equity price gains outpaced earnings revisions, but investors remain skeptical over the sustainability of local earnings growth and the country's economic growth. This increase in valuations was too small to cause us to lower our allocation to SA equity.

Within SA equities, in broad terms our exposure to large global companies worked in our favour over the quarter and in 2021 as a whole. However, even more notable was our broad diversification of holdings that added value for clients: among the top equity contributions over 12 months came from our overweight holdings in MTN, Investec, Growthpoint, Sasol, Hyprop, Anglo American and Richemont. The equity detractors included exposure to Naspers/Prosus, Northam and Sibanye Stillwater.

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Annualised performance	A class	CPI	B class
1 year	12.2%	5.5%	12.6%
2 years	6.4%	4.3%	6.8%
Since inception	5.9%	4.1%	-

Sources: M&G, Morningstar & Deutsche Securities

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