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M&G Unit Trust Quarterly Commentary

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

March 2022

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M&G Investments

M&G Money Market Fund

Income

Q1 2022

Market overview

The first quarter of 2022 was full of unpleasant surprises, starting with high levels of financial market volatility in January as uncertainty over global inflation and interest rate policies, and risk-off investor sentiment, were reflected in broad weakness across both global equities and bonds. Then the tragic and destructive Russian invasion of Ukraine in the last week of February, and the unprecedented level of sanctions imposed against Russia, created even further uncertainty, along with rocketing commodity prices and inflation concerns. This combination of developments meant that many global asset returns, even from usual safe-havens like US Treasuries, were squarely in the red.

South Africa experienced a fragile economic recovery in Q4 2021, recording GDP growth of 1.7% y/y and bringing full-year 2021 growth to 4.9%, slightly better than expected. In Q1 2022, the Omicron variant of the Coronavirus proved to be less disruptive to economic activity than originally feared, helping lift business and consumer sentiment. However, a larger boost came from ever-rising global commodity prices, benefiting most SA mining companies and government tax revenues alike. While the high oil price did hurt local growth prospects, the country's terms of trade improved, consequently supporting the rand, which appreciated significantly against the three largest global currencies: it was 8.6% stronger vs the US dollar, 11% higher versus the UK pound sterling and 10.3% up against the euro in Q1 2022. This would have detracted meaningfully from local investors' offshore foreign currency returns.

SA's relatively slow growth and the stronger rand meant that local inflation was more subdued than that in many other countries, with February inflation unchanged at 5.7% y/y and inflation expectations not rising above the South African Reserve Bank (SARB)'s 6% ceiling. This quarter marked the first time in many years that South African CPI was lower than that of the US. Even so, with CPI at the higher end of the SARB's 3-6% target range and well above the 4.5% midpoint, the SARB hiked the repo rate by 25bps at both its March and January MPC meetings, as expected, to reach 4.25%, citing inflation and the war as the biggest threats. In March the Bank raised its expectations for economic growth to 2% for 2022 from 1.7% at the January meeting, but also lifted its 2022 inflation forecast to 5.8% from 4.9% previously.

The quarter brought other good news in the form of a 2023 National Budget which signalled the government's commitment to fiscal discipline by reducing the budget deficit using part of its revenue windfall from higher commodity prices, as well as cutting some spending and making progress with economic reforms. With future government bond issuance pared back, this also underpinned rand and local bond strength.

Performance

For the first quarter of 2022, the fund delivered a return of 1.1% (net of fees), while its benchmark, the STeFI Call Deposit, returned 0.9%. For the 12 months ended 31 March 2022, the fund returned 4.0% (net of fees), marginally outperforming its benchmark by 0.4%.

The average duration of the fund at quarter end was 91 days relative to the 90-day maximum average duration. The fund breached the Weighted Average Maturity and Weighted Average Duration limits at month end due to a large outflow. This will be corrected within the next month as required by regulation.

Over the quarter, a big change took place in the relative attractiveness of Negotiable Certificates of Deposits (NCDs) compared to Treasury bills (T-bills). At the end of 2021, the rate of a 1 year T-bill was approximately 0.5% higher than that of a 1 year NCD, with this gap falling to -0.25% by the end of the quarter. Other tenors were similarly affected, leaving the NCD yields above or in line with those of T-bills (depending on the tenor).

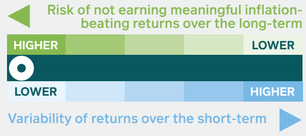
This relative outperformance of T-bills appears to have been driven by the outlook for T-bill issuance, and how this outlook changed after the February budget. For the 2020/21 fiscal year, National Treasury's need for funding increased materially, largely due to the weaker economic growth caused by the Covid pandemic. Much of their increased borrowing was raised in the T-bill market, with a total net issuance of R123bn for the year. By way of comparison, the 2021/22 fiscal year saw a net redemption of R7bn (i.e. Treasury paid back more than they borrowed), while for the 2022/23 fiscal year the net issuance is expected to be zero.

The improvement in the economic and fiscal outlook reduced National Treasury's borrowings in T-bills, which in turn increased scarcity, driving down the yields on these instruments. We reduced our holding in T-bills within the fund in response to this reduction in yield from 24% at the end of 2021 to 17% currently, in favour of NCDs, which have better liquidity characteristics and similar yields.

We have kept the duration and average maturity of the fund close to the allowable limits over the quarter, in an effort to take advantage of the steep yield curve, and improving yields brought about by the SARB's rate hikes. □

Annualised performance	A class	Benchmark	X class
1 year	4.0%	3.6%	3.9%
3 years	5.2%	4.7%	5.2%
5 years	6.1%	5.5%	6.2%
7 years	6.3%	5.8%	6.4%
10 years	6.0%	5.6%	6.1%
Since inception	7.4%	7.1%	-

Risk profile



Fund facts

Fund managers

Roshen Harry
René Prinsloo

ASISA category

South African - Interest Bearing - Money Market

Benchmark

STeFI Call Deposit Index

Inception date

9 April 2002

Fund size

R1 264 530 039

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Sources: M&G, Morningstar & Deutsche Securities

M&G High Interest Fund

Income

This fund is capped to new investors.

Q1 2022

Market overview

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The quarter brought other good news in the form of a 2023 National Budget which signalled the government's commitment to fiscal discipline by reducing the budget deficit using part of its revenue windfall from higher commodity prices, as well as cutting some spending and making progress with economic reforms. With future government bond issuance pared back, this also underpinned rand and local bond strength.

Performance

For the first quarter of 2022, the fund delivered a return of 1.0% (net of fees), on par with its benchmark, the STeFI Composite Index.

For the 12 months ended 31 March 2022, the fund returned 4.2% (net of fees), marginally outperforming its benchmark by 0.3%.

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 as the fund is exposed to spread risk, 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 which has 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 134 days.

Strategy and positioning

The first quarter of 2022 saw a total issuance volume (excluding government issuances) of R27bn which was broadly on par with the R26bn issued in the previous quarter. This, however, was notably higher compared to the R17bn issued in Q1 2021 – 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 first quarter was ABSA Bank which raised R3bn via a senior unsecured issuance in February.

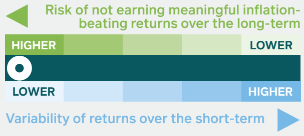
Credit spreads have for the most part remained relatively stable over the quarter, nearly back to pre-Covid levels.

Over the past quarter, the remaining term on the I2025 inflation-linked government bond reduced to below three years, and thereby became eligible to hold within the fund. The real yield on this instrument is currently sitting at around 2.4%, which in our view compares very favourably to that of cash, currently yielding around 1.5% less than inflation. We have around 6% of the fund invested in this instrument, which we funded by rotating out of shorter-dated inflation-linked bonds held at the time.

At quarter-end, the duration of the fund was 134 days (compared to a maximum allowable limit of 180 days). We have kept this number relatively elevated in an effort to take advantage of the steep yield curve, and improving yields brought about by the SARB's rate hikes. □

Annualised performance	A class	Benchmark	X class	D class
1 year	4.2%	3.9%	4.3%	4.4%
3 years	5.1%	5.2%	5.2%	5.3%
5 years	6.1%	6.1%	6.3%	6.4%
7 years	6.6%	6.4%	6.7%	6.8%
10 years	6.3%	6.1%	6.4%	6.6%
Since inception	6.2%	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
R10 240 234 143

Sources: M&G, Morningstar & Deutsche Securities

Disclaimer

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M&G Investments

M&G Income Fund

Income

Q1 2022

Market overview

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Performance

For the first quarter of 2022, the fund delivered a return of 1.2% (net of fees), while its benchmark, the STeFI Composite Index, delivered 1.0%. For the 12 months ended 31 March 2022, the fund returned 4.9% (net of fees), outperforming its benchmark by 1.0%.

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 which has a maximum 90 days weighted average duration.

The quarter-end average duration of the fund came in at 300 days.

Strategy and positioning

The first quarter of 2022 saw a total issuance volume (excluding government issuances) of R27bn which was broadly on par with the R26bn issued in the previous quarter. This, however, was notably higher compared to the R17bn issued in Q1 2021 – which at that time was still somewhat tempered due to the impact of the pandemic on market activity.

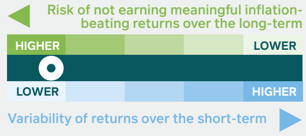
The make-up of issuance for the quarter followed established trends, with the majority being floating-rate notes and banks being the largest sector for issuance. Although auctions made up the majority of issuance over the quarter, we continue to see meaningful volume being done via private placements. The largest issuer in the first quarter was ABSA Bank which raised R3bn via a senior unsecured issuance in February.

Credit spreads have for the most part remained relatively stable over the quarter, nearly back to pre-Covid levels.

We maintained a duration position of slightly more than 300 days over the quarter, in an effort to take advantage of the steep yield curve. The majority of this duration came from our positions in the R186 and I2025 short-dated government securities, which we believe offer investors excellent prospects of inflation and cash beating returns over their remaining terms.

Annualised performance	A class	Benchmark	D class
1 year	4.9%	3.9%	5.1%
2 years	5.0%	4.3%	5.1%
3 years	5.8%	5.2%	5.9%
5 years	7.0%	6.1%	7.1%
Since inception	7.0%	6.2%	-

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

R686 635 956

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M&G Investments

M&G High Yield Bond Fund

Income

Q1 2022

Market overview

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Performance

For the first quarter of 2022, the fund delivered a return of 1.8% (net of fees), while its benchmark, the FTSE/JSE All Bond Index, delivered 1.9%. For the 12 months ended 31 March 2022, the fund returned 13.3% (net of fees), outperforming its benchmark by 0.9%.

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.

Over the quarter we reduced our duration position on the back of geopolitical concerns and the potential implications on inflation. 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.

Credit trends

The first quarter of 2022 saw a total issuance volume (excluding government issuances) of R27bn which was broadly on par with the R26bn issued in the previous quarter. This, however, was notably higher compared to the R17bn issued in Q1 2021 – which at that time was still somewhat tempered due to the impact of the pandemic on market activity.

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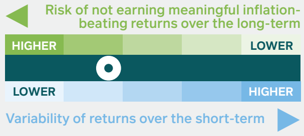
Credit spreads have for the most part remained relatively stable over the quarter, nearly back to pre-Covid levels.

Annualised performance	A class	Benchmark	B class
1 year	13.3%	12.4%	13.4%
3 years	7.4%	8.4%	7.5%
5 years	8.0%	8.9%	8.2%
7 years	7.0%	7.8%	7.2%
10 years	7.4%	8.1%	7.7%
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

R300 163 269

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M&G Enhanced Income Fund

Multi-asset

Q1 2022

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Commodity-producer South Africa was among the few beneficiaries of the spikes in precious metals and other commodity prices. In contrast to most other countries, both local equity and nominal bond markets registered respectable returns for the quarter, and the rand appreciated substantially against the major global currencies. However, this was offset to some extent in March by widespread bearish investor sentiment and weakness in Naspers/Prosus shares resulting from a further sell-off in Tencent amid a renewed Chinese government regulatory crackdown.

The US Federal Reserve (Fed) lifted its base rate by 25bps at its March meeting, but with inflationary pressures rising and energy prices now likely to be higher for longer due to extended sanctions, the Fed's outlook for interest rate increases became much more hawkish. US Treasuries reacted badly to the deteriorating conditions, selling off heavily in March (particularly in the shorter end of the curve – the Bloomberg Aggregate US Treasuries Index returned -6.2%). Fed policymakers have been able to be more aggressive amid the robust US economic recovery, with unemployment falling to 3.8% in February and GDP growth registering a solid 6.9% y/y for Q4 2021.

In the UK, with Q4 2021 GDP growth also strong at 6.5% y/y, the Bank of England implemented its third 25bp interest rate hike in a row in March, and warned of inflation reaching 8.0% y/y in April. However, the central bank was less aggressive on its outlook for rate hikes compared to the Federal Reserve, noting that the price shocks from the war were already taking a toll on consumer wallets. For Q1 2022, the UK FTSE 100 was flat.

The Eurozone experienced a weaker recovery from the Coronavirus crisis than the US and UK, with Q4 2021 GDP growth at 4.6% y/y, hurt by further waves of the Omicron variant of Covid-19 at different levels across the region. As such, the European Central Bank (ECB) kept its policy rate unchanged in March, but market speculation centred around one 25bp hike in 2022.

In Japan, the Bank of Japan (BOJ) was further behind other central banks in tightening its policy, leaving its policy rate unchanged as Q4 2021 GDP growth was revised down to 4.6% y/y vs 5.6% y/y previously reported due to weaker-than-expected consumer spending as Covid's influence was still being felt. The market is forecasting no interest rate hikes through 2023.

Chinese markets saw remarkable volatility in Q1 2022. Q4 2021 GDP growth was relatively slow at 4.0% y/y due partly to Covid infections and partly to ongoing debt problems in the property sector. During the quarter serious and widespread outbreak of Covid infections prompted harsh shutdowns in major cities that disrupted economic activity. The government announced its GDP growth target for 2022 at "around 5.5%" for the year, and pledged to support the economy by further ramping up its infrastructure spending, easing bank reserve requirements to prompt greater lending activity, and implementing more tax cuts, among other measures. The People's Bank of China (PBOC) left rates unchanged at its March meeting, but did pledge to cut rates further as necessary.

Hong Kong and China's equity markets sold off sharply on these developments, as well as on additional investor concerns over the news of further strict regulatory crackdowns on businesses, and a possible rift with Western countries over China's "pro-Russian" stance on the war.

South Africa experienced a fragile economic recovery in Q4 2021, recording GDP growth of 1.7% y/y and bringing full-year 2021 growth to 4.9%, slightly better than expected. In Q1 2022, the Omicron variant of the Coronavirus proved to be less disruptive to economic activity than originally feared, helping lift business and consumer sentiment. However, a larger boost came from ever-rising global commodity prices, benefiting most SA mining companies and government tax revenues alike. While the high oil price did hurt local growth prospects, the country's terms of trade improved, consequently supporting the rand, which appreciated significantly against the three largest global currencies: it was 8.6% stronger vs the US dollar, 11% higher versus the UK pound sterling and 10.3% up against the euro in Q1 2022. This would have detracted meaningfully from local investors' offshore foreign currency returns.

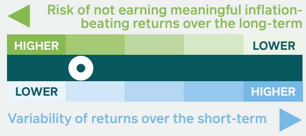
The SA Reserve Bank hiked the repo rate by 25bps at both its March and January MPC meetings, as expected, to reach 4.25%, citing inflation and the war as the biggest threats. In March the Bank raised its expectations for economic growth to 2% for 2022 from 1.7% at the January meeting, but also lifted its 2022 inflation forecast to 5.8% from 4.9% previously.

SA equity performance diverged widely during the quarter, but the overall FTSE/JSE ALSI emerged with a relatively respectable return of 3.8%, underpinned by the Resources sector's 18.2% return and 20.3% from Financials. The FTSE/JSE Capped SWIX ALSI, which we use as the equity benchmark for most of our client mandates, returned 6.7%. The All Property Index returned -1.6% and Industrials -13.1%, the latter hurt by over 30% declines in the values of Naspers and Prosus on the back of a further sharp sell-off in Tencent shares amid renewed Chinese government regulations.

SA nominal bonds still managed to return 1.9% over the quarter as shorter-dated bonds weakened but longer-dated bonds gained a little ground, resulting in a flatter yield curve. With SA inflation appearing not to be as much of a threat as earlier feared, inflation linked-bonds underperformed their nominal counterparts with a 0.3% return (FTSE/JSE Inflation-Linked Bond Index), reversing the longer-term trend, and cash (as measured by the STeFI Composite Index) posted a return of 1.0% in Q1 2022.

Annualised performance	A class	Benchmark	T class	X class	D class
1 year	7.0%	3.9%	7.2%	7.0%	7.4%
3 years	5.5%	5.2%	5.7%	5.5%	5.8%
5 years	5.9%	6.1%	6.2%	6.0%	6.3%
7 years	6.1%	6.4%	6.5%	6.3%	6.6%
10 years	6.8%	6.3%	-	7.0%	7.4%
Since inception	7.5%	6.8%	-	-	-

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
R817 726 331

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

Performance

The fund delivered a return of 0.6% (net of fees) for the first quarter of 2022, underperforming its benchmark (the STeFI Composite Index) by 0.4%. For the year ended 31 March 2022, the fund returned 7.0% (net of fees), outperforming its benchmark by 3.1%.

For the quarter, investments in floating-rate instruments, fixed-rate bonds and inflation-linked bonds contributed positively to overall fund returns, while investments in SA property and offshore bonds detracted somewhat.

Strategy and positioning

Starting with our view on **offshore asset allocation**, we maintained our portfolio exposure to US high yield corporate bonds and some dollar-denominated SA government bonds which we hedged back to rand using currency futures.

Over the quarter we reduced our exposure to **SA listed property** by 1% into cash. Conditions in the local property sector remain uncertain given the rising local interest rate cycle (many property companies are reliant on finance to expand their portfolios) and relatively weak growth prospects, among other fundamental factors. We have positioned the fund to hold quality companies with strong balance sheets within our small exposure to the sector.

Our portfolios benefited from our ongoing preference for **SA nominal bonds** in the first quarter thanks to their resilient performance. Although the shorter end of the SA yield curve was weaker on the back of the SARB's rate hikes, the longer end rallied, supported by these instruments' exceptional cheapness relative to most other markets, SA's improving fundamentals and the fact that SA inflation has remained relatively moderate. 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 decreased the fund's exposure to SA government bonds.

SA Inflation-linked bonds (ILBs) real yields remain relatively attractive compared to their own history and our long-run fair value assumption of 2.5%, despite experiencing a strong re-pricing in 2021.

Lastly, despite the SARB's two 25bp interest rate hikes in Q1, we remained tilted away from **SA cash** 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

Q1 2022

Market overview

The first quarter of 2022 was full of unpleasant surprises, starting with high levels of financial market volatility in January as uncertainty over global inflation and interest rate policies, and risk-off investor sentiment, were reflected in broad weakness across both global equities and bonds. Then the tragic and destructive Russian invasion of Ukraine in the last week of February, and the unprecedented level of sanctions imposed against Russia, created even further uncertainty, along with rocketing commodity prices and inflation concerns. This combination of developments meant that many global asset returns, even from usual safe-havens like US Treasuries, were squarely in the red.

Commodity-producer South Africa was among the few beneficiaries of the spikes in precious metals and other commodity prices. In contrast to most other countries, both local equity and nominal bond markets registered respectable returns for the quarter, and the rand appreciated substantially against the major global currencies. However, this was offset to some extent in March by widespread bearish investor sentiment and weakness in Naspers/Prosus shares resulting from a further sell-off in Tencent amid a renewed Chinese government regulatory crackdown.

The US Federal Reserve (Fed) lifted its base rate by 25bps at its March meeting, but with inflationary pressures rising and energy prices now likely to be higher for longer due to extended sanctions, the Fed's outlook for interest rate increases became much more hawkish. US Treasuries reacted badly to the deteriorating conditions, selling off heavily in March (particularly in the shorter end of the curve – the Bloomberg Aggregate US Treasuries Index returned -6.2%). Fed policymakers have been able to be more aggressive amid the robust US economic recovery, with unemployment falling to 3.8% in February and GDP growth registering a solid 6.9% y/y for Q4 2021.

US companies continued to report strong earnings in Q1 2022, but poor sentiment, combined with high starting valuations, saw US equity markets recording weak first-quarter performances: in US dollars, the Nasdaq delivered -8.9%, the S&P 500 returned -4.6% and the Dow Jones produced -4.1%.

In the UK, with Q4 2021 GDP growth also strong at 6.5% y/y, the Bank of England implemented its third 25bp interest rate hike in a row in March, and warned of inflation reaching 8.0% y/y in April. However, the central bank was less aggressive on its outlook for rate hikes compared to the Federal Reserve, noting that the price shocks from the war were already taking a toll on consumer wallets. For Q1 2022, the UK FTSE 100 was flat.

The Eurozone experienced a weaker recovery from the Coronavirus crisis than the US and UK, with Q4 2021 GDP growth at 4.6% y/y, hurt by further waves of the Omicron variant of Covid-19 at different levels across the region. As such, the European Central Bank (ECB) kept its policy rate unchanged in March, but market speculation centred around one 25bp hike in 2022. In France, the CAC 40 returned -8.7%, while Germany's DAX delivered -10.9% for the quarter in US dollars.

In Japan, the Bank of Japan (BOJ) was further behind other central banks in tightening its policy, leaving its policy rate unchanged as Q4 2021 GDP growth was revised down to 4.6% y/y vs 5.6% y/y previously reported due to weaker-than-expected consumer spending as Covid's influence was still being felt. The market is forecasting no interest rate hikes through 2023. Japan's Nikkei returned -7.5% for the quarter.

Chinese markets saw remarkable volatility in Q1 2022. Q4 2021 GDP growth was relatively slow at 4.0% y/y due partly to Covid infections and partly to ongoing debt problems in the property sector. During the quarter serious and widespread outbreak of Covid infections prompted harsh shutdowns in major cities that disrupted economic activity. The government announced its GDP growth target for 2022 at "around 5.5%" for the year, and pledged to support the economy by further ramping up its infrastructure spending, easing bank reserve requirements to prompt greater lending activity, and implementing more tax cuts, among other measures. The People's Bank of China (PBOC) left rates unchanged at its March meeting, but did pledge to cut rates further as necessary.

Hong Kong and China's equity markets sold off sharply on these developments, as well as on additional investor concerns over the news of further strict regulatory crackdowns on businesses, and a possible rift with Western countries over China's "pro-Russian" stance on the war. For the quarter, Hong Kong's Hang Seng produced -6.1%, while the MSCI China returned -14.2%.

South Africa

South Africa experienced a fragile economic recovery in Q4 2021, recording GDP growth of 1.7% y/y and bringing full-year 2021 growth to 4.9%, slightly better than expected. In Q1 2022, the Omicron variant of the Coronavirus proved to be less disruptive to economic activity than originally feared, helping lift business and consumer sentiment. However, a larger boost came from ever-rising global commodity prices, benefiting most SA mining companies and government tax revenues alike. While the high oil price did hurt local growth prospects, the country's terms of trade improved, consequently supporting the rand, which appreciated significantly against the three largest global currencies: it was 8.6% stronger vs the US dollar, 11% higher versus the UK pound sterling and 10.3% up against the euro in Q1 2022. This would have detracted meaningfully from local investors' offshore foreign currency returns.

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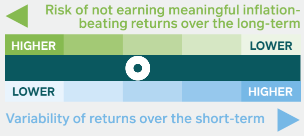
SA equity performance diverged widely during the quarter, but the overall FTSE/JSE ALSI emerged with a relatively respectable return of 3.8%, underpinned by the Resources sector's 18.2% return and 20.3% from Financials. The FTSE/JSE Capped SWIX ALSI, which we use as the equity benchmark for most of our client mandates, returned 6.7%. The All Property Index returned -1.6% and Industrials -13.1%, the latter hurt by over 30% declines in the values of Naspers and Prosus on the back of a further sharp sell-off in Tencent shares amid renewed Chinese government regulations.

SA nominal bonds still managed to return 1.9% over the quarter as shorter-dated bonds weakened but longer-dated bonds gained a little ground, resulting in a flatter yield curve. With SA inflation appearing not to be as much of a threat as earlier feared, inflation linked-bonds underperformed their nominal counterparts with a 0.3% return (FTSE/JSE Inflation-Linked Bond Index), reversing the longer-term trend, and cash (as measured by the STeFI Composite Index) posted a return of 1.0% in Q1 2022.

Annualised performance	A class	Objective[1]	T class	X class	B class
1 year	12.9%	9.1%	13.2%	12.9%	13.5%
2 years	18.2%	7.7%	18.5%	18.2%	18.8%
3 years	6.5%	7.8%	6.8%	6.5%	7.0%
5 years	5.4%	7.7%	5.8%	5.5%	6.0%
7 years	5.2%	8.3%	5.6%	5.4%	5.9%
10 years	8.3%	8.4%	-	8.5%	9.0%
Since inception	11.0%	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 771 556 250

Awards
Raging Bull: 2013
Morningstar: 2015

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

Performance

The fund returned -0.7% (after fees) for the first quarter of 2022 and 12.9% for the 12-month period ending 31 March 2022. The fund has delivered a return of 11.0% per annum since its inception in 2001 (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. The largest detractor from performance was international equities, with international bonds and international cash also detracting to a lesser extent. The already poor USD returns from international equities and bonds were worsened further by the Rand's strength against the dollar over the quarter.

In terms of specific equity exposure, among the strongest contributors to absolute returns for the quarter were the fund's holdings in Sasol, Standard Bank, Absa, First Rand, MTN, Anglo American and Exxaro. Top detractors from absolute performance were Naspers and Prosus, as well as Richemont to a much lesser extent.

Strategy and positioning

Starting with our view on **offshore asset allocation**, in Q1 2022 we maintained our portfolio positioning favouring local assets over global assets, which proved to be supportive for portfolio returns due to the relative outperformance of SA assets versus their global counterparts.

Within our global holdings, we continued to prefer global cash over both global equities and bonds in order to keep risk comparatively low, while also being able to take advantage of market mis-pricing episodes that might arise. This positioning also turned out to be favourable for our portfolios on a relative basis for the quarter, based on the weakness in both global equity and bond markets compared to global cash. Within our **global equity** positioning, we remained cautious on US equities. We have reduced slightly our global equity exposure by taking profit on some selected emerging market equity exposures which have outperformed strongly over the quarter. Our portfolios continue to favour selected European and other developed market equities, and some emerging market equities. Our exposure to a broad mix of assets with diversified return profiles has also helped to partly cushion our funds against the unexpected market shocks brought on by the war and sanctions.

Within **global bonds**, we preferred to get our duration via exposure to selective emerging market government bonds, not finding much value in either developed market **government bonds** or **investment grade corporate credit**. Also, emerging market government bond yields remained attractive in Q1. We believe that corporate yield spreads are not sufficiently high for the risk involved.

The M&G Inflation Plus Fund still heavily favoured **SA equities** at the end of Q1. However, we did trim our overall weighting in this asset class by 1%-2% during the quarter in order to bank some profits and to lower portfolio risk as a result of the rising market volatility. We consequently increased our SA cash holdings by a small amount. SA equity market valuations (as measured by the 12-month forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) re-rated slightly over the quarter, moving up from around 9.5X to around 9.8X at quarter-end, but this was not sufficient to change our view.

Within SA equities, during the quarter we raised our exposure to the Resources sector slightly in view of the improved valuations for many of our miners on the back of the much-increased likelihood of the "higher prices and margins for longer" scenario. Our large active Resources holdings include Sasol, a significant beneficiary of the higher oil price and a very good hedge for rising SA inflation. Northam Platinum is a higher-quality active position and our primary exposure to PGMs. Glencore and Exxaro are other large overweights, the first being very well diversified with no iron ore, coal or PGM exposure, and Exxaro offering potential above-market returns at an attractive valuation.

Another change during the quarter was to trim our Retail sector exposure due to company valuations deteriorating on the back of the higher inflation and interest rate outlook, which represent daunting headwinds for retail sales. We do hold Foschini, however, based on our belief that they have multiple levers to use to record good growth in these conditions. Otherwise we maintained our overweight in Banking shares, which performed very well during the quarter.

We continued with our slightly underweight positioning in **SA listed property** in Q1 2022, preferring to hold other shares that we consider offer better value propositions for less risk. Conditions in the local property sector remain uncertain given the rising local interest rate cycle (many property companies have relatively high debt levels since they depend on borrowing to expand their portfolios) and relatively weak growth prospects, among other fundamental factors.

Our portfolios benefited from our ongoing preference for **SA nominal bonds** in the first quarter thanks to their resilient performance. Although the shorter end of the SA yield curve was weaker on the back of the SARB's rate hikes, the longer end rallied, supported by these instruments' exceptional cheapness relative to most other markets and the fact that SA inflation has remained relatively moderate. This curve flattening also continued to support our bond positioning in the 7-12 year area of the yield curve. We still believe nominal bonds remain attractive relative to both other income assets like **SA inflation-linked bonds (ILBs)** and their own longer-term history, and will more than compensate investors for their associated risks. We currently have a neutral view on ILBs, as in the previous quarter. ILBs underperformed their nominal counterparts during Q1 2022, becoming slightly more attractive, but not enough to make us change our view. We do still believe that ILB real yields remain relatively attractive compared to their own history and our long-run fair value assumption, but they experienced a strong re-pricing in 2021 and in our view are less attractive and have lower potential returns than nominal bonds.

Lastly, despite the SARB's two 25bp interest rate hikes in Q1, the portfolio remained tilted away from **SA cash** as our least-preferred asset class, given the extremely low base rate off which the SARB hiked. We did increase our cash exposure by 1-2% during the quarter out of SA equities, but this was as a risk adjustment measure; other SA assets remain more attractive compared to cash. ☐

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

M&G Balanced Fund

Multi-asset

Q1 2022

Market overview

The first quarter of 2022 was full of unpleasant surprises, starting with high levels of financial market volatility in January as uncertainty over global inflation and interest rate policies, and risk-off investor sentiment, were reflected in broad weakness across both global equities and bonds. Then the tragic and destructive Russian invasion of Ukraine in the last week of February, and the unprecedented level of sanctions imposed against Russia, created even further uncertainty, along with rocketing commodity prices and inflation concerns. This combination of developments meant that many global asset returns, even from usual safe-havens like US Treasuries, were squarely in the red.

Commodity-producer South Africa was among the few beneficiaries of the spikes in precious metals and other commodity prices. In contrast to most other countries, both local equity and nominal bond markets registered respectable returns for the quarter, and the rand appreciated substantially against the major global currencies. However, this was offset to some extent in March by widespread bearish investor sentiment and weakness in Naspers/Prosus shares resulting from a further sell-off in Tencent amid a renewed Chinese government regulatory crackdown.

The US Federal Reserve (Fed) lifted its base rate by 25bps at its March meeting, but with inflationary pressures rising and energy prices now likely to be higher for longer due to extended sanctions, the Fed's outlook for interest rate increases became much more hawkish. US Treasuries reacted badly to the deteriorating conditions, selling off heavily in March (particularly in the shorter end of the curve – the Bloomberg Aggregate US Treasuries Index returned -6.2%). Fed policymakers have been able to be more aggressive amid the robust US economic recovery, with unemployment falling to 3.8% in February and GDP growth registering a solid 6.9% y/y for Q4 2021.

US companies continued to report strong earnings in Q1 2022, but poor sentiment, combined with high starting valuations, saw US equity markets recording weak first-quarter performances: in US dollars, the Nasdaq delivered -8.9%, the S&P 500 returned -4.6% and the Dow Jones produced -4.1%.

In the UK, with Q4 2021 GDP growth also strong at 6.5% y/y, the Bank of England implemented its third 25bp interest rate hike in a row in March, and warned of inflation reaching 8.0% y/y in April. However, the central bank was less aggressive on its outlook for rate hikes compared to the Federal Reserve, noting that the price shocks from the war were already taking a toll on consumer wallets. For Q1 2022, the UK FTSE 100 was flat.

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In Japan, the Bank of Japan (BOJ) was further behind other central banks in tightening its policy, leaving its policy rate unchanged as Q4 2021 GDP growth was revised down to 4.6% y/y vs 5.6% y/y previously reported due to weaker-than-expected consumer spending as Covid's influence was still being felt. The market is forecasting no interest rate hikes through 2023. Japan's Nikkei returned -7.5% for the quarter.

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Hong Kong and China's equity markets sold off sharply on these developments, as well as on additional investor concerns over the news of further strict regulatory crackdowns on businesses, and a possible rift with Western countries over China's "pro-Russian" stance on the war. For the quarter, Hong Kong's Hang Seng produced -6.1%, while the MSCI China returned -14.2%.

South Africa

South Africa experienced a fragile economic recovery in Q4 2021, recording GDP growth of 1.7% y/y and bringing full-year 2021 growth to 4.9%, slightly better than expected. In Q1 2022, the Omicron variant of the Coronavirus proved to be less disruptive to economic activity than originally feared, helping lift business and consumer sentiment. However, a larger boost came from ever-rising global commodity prices, benefiting most SA mining companies and government tax revenues alike. While the high oil price did hurt local growth prospects, the country's terms of trade improved, consequently supporting the rand, which appreciated significantly against the three largest global currencies: it was 8.6% stronger vs the US dollar, 11% higher versus the UK pound sterling and 10.3% up against the euro in Q1 2022. This would have detracted meaningfully from local investors' offshore foreign currency returns.

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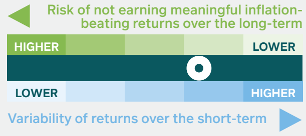
Annualised performance	A class	Benchmark	T class	X class	B class
1 year	15.5%	10.7%	15.7%	15.6%	16.0%
3 years	9.3%	9.0%	9.7%	9.4%	9.9%
5 years	8.0%	7.2%	8.4%	8.2%	8.7%
7 years	7.1%	6.1%	7.5%	7.3%	7.8%
10 years	10.4%	8.6%	-	-	11.1%
Since inception	13.0%	11.3%	-	-	-

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 687 727 790

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

Performance

The fund returned -0.2% (after fees) for the first quarter of 2022, while for the 12-month period ending 31 March 2022 its return was 15.5%. The fund has delivered a return of 13.0% per annum since its inception in 1999 (after fees), compared to its benchmark of 11.3% 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. The largest detractor from performance was international equities, with international bonds and international cash also detracting to a much lesser extent. The already poor USD returns from international equities and bonds were worsened further by the rand's strength against the dollar over the quarter.

In terms of specific equity exposure, among the strongest contributors to absolute returns for the quarter were the fund's holdings in Sasol, Exxaro, Standard Bank, Absa and Foschini. Top detractors from absolute performance were Naspers and Prosus.

Strategy and positioning

How have our views and portfolio positioning changed in Q1 2022?

Starting with our view on **offshore asset allocation**, we maintained our portfolio positioning favouring local assets over global assets, which proved to be supportive for portfolio returns due to the relative outperformance of SA assets versus their global counterparts.

Within our global holdings, we continued to prefer global cash over both global equities and bonds in order to keep risk comparatively low, while also being able to take advantage of market mis-pricing episodes that might arise. This positioning also turned out to be favourable for our portfolios on a relative basis for the quarter, based on the weakness in both global equity and bond markets compared to global cash.

Within our **global equity** positioning, we remained cautious on US equities. We have reduced slightly our global equity exposure by taking profit on some selected EM equity exposures which have outperformed strongly over the quarter. Our portfolio continues to favour selected European and other developed market equities, and some emerging market equities. Our exposure to a broad mix of assets with diversified return profiles has also helped to partly cushion our funds against the unexpected market shocks brought on by the war and sanctions.

Within **global bonds**, we preferred to get our duration via exposure to selective emerging market government bonds, not finding much value in either developed market **government bonds** or **investment grade corporate credit**. Also, emerging market government bond yields remained attractive in Q1. 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 Q1. However, we did trim our overall weighting in this asset class by 1%-2% during the quarter in order to bank some profits and to lower portfolio risk as a result of the rising market volatility. We consequently increased our SA cash holdings by a small amount. SA equity market valuations (as measured by the 12-month forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) re-rated slightly over the quarter, moving up from around 9.5X to around 9.8X at quarter-end, but this was not enough to change our view.

Within SA equities, during the quarter we raised our exposure to the Resources sector slightly in view of the improved valuations for many of our miners on the back of the much-increased likelihood of the "higher prices and margins for longer" scenario. Our large active Resources holdings include Sasol, a significant beneficiary of the higher oil price and a very good hedge for rising SA inflation. Northam Platinum is a higher-quality active position and our primary exposure to PGMs. Glencore and Exxaro are other large overweights, the first being very well diversified with no iron ore, coal or PGM exposure, and Exxaro offering potential above-market returns at an attractive valuation.

Another change during the quarter was to trim our Retail sector exposure due to company valuations deteriorating on the back of the higher inflation and interest rate outlook, which represent daunting headwinds for retail sales. We do hold Foschini, however, based on our belief that they have multiple levers to use to record good growth in these conditions. Otherwise we maintained our overweight in Banking shares, which performed very well during the quarter.

We continued with our slightly underweight positioning in **SA listed property** in Q1 2022, preferring to hold other shares that we consider offer better value propositions for less risk. Conditions in the local property sector remain uncertain given the rising local interest rate cycle (many property companies have relatively high debt levels since they depend on borrowing to expand their portfolios) and relatively weak growth prospects, among other fundamental factors.

Our portfolios benefited from our ongoing preference for **SA nominal bonds** in the first quarter thanks to their resilient performance. Although the shorter end of the SA yield curve was weaker on the back of the SARB's rate hikes, the longer end rallied, supported by these instruments' exceptional cheapness relative to most other markets and the fact that SA inflation has remained relatively moderate. This curve flattening also continued to support our bond positioning in the 7-12 year area of the yield curve. We still believe nominal bonds remain attractive relative to both other income assets like **SA inflation-linked bonds (ILBs)** and their own longer-term history, and will more than compensate investors for their associated risks. We are not holding ILBs in the fund to a meaningful degree.

Lastly, despite the SARB's two 25bp interest rate hikes in Q1, the portfolio remained tilted away from **SA cash** as our least-preferred asset class, given the extremely low base rate off which the SARB hiked. We did increase our cash exposure by 1-2% during the quarter out of SA equities, but this was as a risk adjustment measure; other SA assets remain more attractive compared to cash.

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Sources: M&G, Morningstar & Deutsche Securities

M&G Enhanced SA Property Tracker Fund

Property

Q1 2022

Market overview

The first quarter of 2022 was full of unpleasant surprises, starting with high levels of financial market volatility in January as uncertainty over global inflation and interest rate policies, and risk-off investor sentiment, were reflected in broad weakness across both global equities and bonds. Then the tragic and destructive Russian invasion of Ukraine in the last week of February, and the unprecedented level of sanctions imposed against Russia, created even further uncertainty, along with rocketing commodity prices and inflation concerns. This combination of developments meant that many global asset returns, even from usual safe-havens like US Treasuries, were squarely in the red.

Commodity-producer South Africa was among the few beneficiaries of the spikes in precious metals and other commodity prices. In contrast to most other countries, both local equity and nominal bond markets registered respectable returns for the quarter, and the rand appreciated substantially against the major global currencies. However, this was offset to some extent in March by widespread bearish investor sentiment and weakness in Naspers/Prosus shares resulting from a further sell-off in Tencent amid a renewed Chinese government regulatory crackdown.

South Africa experienced a fragile economic recovery in Q4 2021, recording GDP growth of 1.7% y/y and bringing full-year 2021 growth to 4.9%, slightly better than expected. In Q1 2022, the Omicron variant of the Coronavirus proved to be less disruptive to economic activity than originally feared, helping lift business and consumer sentiment. However, a larger boost came from ever-rising global commodity prices, benefiting most SA mining companies and government tax revenues alike. While the high oil price did hurt local growth prospects, the country's terms of trade improved, consequently supporting the rand, which appreciated significantly against the three largest global currencies: it was 8.6% stronger vs the US dollar, 11% higher versus the UK pound sterling and 10.3% up against the euro in Q1 2022. This would have detracted meaningfully from local investors' offshore foreign currency returns.

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SA equity performance diverged widely during the quarter, but the overall FTSE/JSE ALSI emerged with a relatively respectable return of 3.8%, underpinned by the Resources sector's 18.2% return and 20.3% from Financials. The FTSE/JSE Capped SWIX ALSI, which we use as the equity benchmark for most of our client mandates, returned 6.7%. The All Property Index returned -1.6% and Industrials -13.1%, the latter hurt by over 30% declines in the values of Naspers and Prosus on the back of a further sharp sell-off in Tencent shares amid renewed Chinese government regulations.

SA nominal bonds still managed to return 1.9% over the quarter as shorter-dated bonds weakened but longer-dated bonds gained a little ground, resulting in a flatter yield curve. With SA inflation appearing not to be as much of a threat as earlier feared, inflation linked-bonds underperformed their nominal counterparts with a 0.3% return (FTSE/JSE Inflation-Linked Bond Index), reversing the longer-term trend, and cash (as measured by the STeFI Composite Index) posted a return of 1.0% in Q1 2022.

Performance

After an exceptional 2021, the fund returned -1.6% (after fees) for the first quarter of 2022 compared to the benchmark which returned -1.3% over the same period. The fund's performance for the 12 months ending 31 March 2022 was still respectable at 27.5% (after fees) compared to the benchmark's return of 27.1%, thereby meeting the fund's objective of providing a total net return equal to or better than the benchmark.

Contributing to relative performance over the quarter were underweight positions in Sirius Real Estate and Fortress Reit A, as well as overweight positions in Dipula Income Fund and SA Corporate Real Estate. Detracting from relative performance were underweight positions in over-leveraged companies Fortress Reit B and Emira Property Fund.

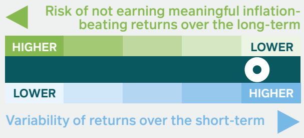
Strategy and positioning

The direct impact of the Russia-Ukraine war on the portfolio has been minimal, however there have been several indirect and unintended consequences worth noting. Romania and Poland border the Ukraine and have accepted Ukrainian refugees. As Russia is a major exporter of energy commodities, including coal, oil and gas, the impact on energy prices has been significant. Higher energy prices will in turn impact consumers across the world and especially in Europe. Unfortunately, this may have an impact on the recovery in consumer spending which is expected pick up following the numerous lockdowns across Europe. In time, economies in Central and Eastern Europe will most likely recover strongly, largely due to low levels of debt and growing per capita incomes and consumption.

In South Africa, office vacancies continue to deteriorate, whereas the situation in retail is more positive. Many retail landlords have undergone large resets in rentals over the last few years and have alluded to seeing some light at the end of the tunnel in terms of the

Annualised performance	A class	Benchmark	T class	D class
1 year	27.5%	27.1%	27.5%	27.7%
3 years	-4.6%	-3.8%	-4.6%	-4.5%
5 years	-6.0%	-4.9%	-5.9%	-5.8%
7 years	-3.1%	-2.7%	-	-3.0%
10 years	4.6%	5.0%	-	4.7%
Since inception	9.1%	9.5%	-	-

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
R701 849 540

Awards
Morningstar/Standard & Poor's: 2011

Sources: M&G, Morningstar & Deutsche Securities

quantum of negative rental reversions abating. This is encouraging if trading performance can keep up with inflation as it would mean a potential return to rental growth. The industrial sector remains tepid in terms of rental growth, with low vacancies not translating to an increase in rental growth. On the positive side, steel prices will likely set a new floor on industrial rents thanks to the high cost of building new facilities.

Of interest during the quarter, Fortress failed to gain support for a controversial resolution which proposed to split the first half income distribution equally between A and B holders. The management team of Vukile also thought it appropriate to raise capital at a large discount to net asset value via a private placement. In a sector which relies on the ability to raise funding from equity capital markets, it is sometimes remarkable how certain management teams nevertheless proceed to undermine their source of capital i.e. their shareholders.

Corporate action continues to be a theme, with the Board of Irongate Properties Australia recommending a buyout offer for the company. Offshore markets have better evidence of private market values of direct property and hence discounts tend to be narrower.

The SA Listed Property Index trades at a 1-year forward dividend yield of 8.7% and should be able to provide real returns to investors over the medium term.

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M&G Property Fund

Property

Q1 2022

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Performance

After an exceptional 2021, the fund returned -1.1% (after fees) for the first quarter of 2022 compared to the benchmark which returned -1.6% over the same period. The fund's performance for the 12 months ending 31 March 2022 was excellent, returning 29.0% (after fees) compared to the benchmark's return of 26.3%.

Contributing to relative performance over the quarter were underweight positions in Fairvest B (formerly Arrowhead B), Sirius Real Estate and Capital & Counties Properties, as well as overweight positions in Dipula Income Fund and SA Corporate Real Estate. Detracting from relative performance were underweight positions in over-leveraged companies that rallied ahead of the benchmark, including Emira, Vukile, EPP and Fortress B.

Strategy and positioning

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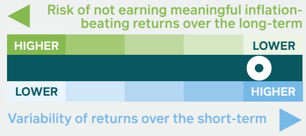
The All Property Index trades at a 1-year forward dividend yield of 8.4% and should be able to provide real returns to investors over the medium term.

Annualised performance	A class	Benchmark	D class
1 year	29.0%	26.3%	29.3%
Since inception	26.7%	26.3%	-

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
R143 069 394

Sources: M&G, Morningstar & Deutsche Securities

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M&G Investments

M&G Dividend Maximiser Fund

Equity

Q1 2022

Market overview

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The US Federal Reserve (Fed) lifted its base rate by 25bps at its March meeting, but with inflationary pressures rising and energy prices now likely to be higher for longer due to extended sanctions, the Fed's outlook for interest rate increases became much more hawkish. US Treasuries reacted badly to the deteriorating conditions, selling off heavily in March (particularly in the shorter end of the curve – the Bloomberg Aggregate US Treasuries Index returned -6.2%). Fed policymakers have been able to be more aggressive amid the robust US economic recovery, with unemployment falling to 3.8% in February and GDP growth registering a solid 6.9% y/y for Q4 2021.

US companies continued to report strong earnings in Q1 2022, but poor sentiment, combined with high starting valuations, saw US equity markets recording weak first-quarter performances: in US dollars, the Nasdaq delivered -8.9%, the S&P 500 returned -4.6% and the Dow Jones produced -4.1%.

In the UK, with Q4 2021 GDP growth also strong at 6.5% y/y, the Bank of England implemented its third 25bp interest rate hike in a row in March, and warned of inflation reaching 8.0% y/y in April. However, the central bank was less aggressive on its outlook for rate hikes compared to the Federal Reserve, noting that the price shocks from the war were already taking a toll on consumer wallets. For Q1 2022, the UK FTSE 100 was flat.

The Eurozone experienced a weaker recovery from the Coronavirus crisis than the US and UK, with Q4 2021 GDP growth at 4.6% y/y, hurt by further waves of the Omicron variant of Covid-19 at different levels across the region. As such, the European Central Bank (ECB) kept its policy rate unchanged in March, but market speculation centred around one 25bp hike in 2022. In France, the CAC 40 returned -8.7%, while Germany's DAX delivered -10.9% for the quarter in US dollars.

In Japan, the Bank of Japan (BOJ) was further behind other central banks in tightening its policy, leaving its policy rate unchanged as Q4 2021 GDP growth was revised down to 4.6% y/y vs 5.6% y/y previously reported due to weaker-than-expected consumer spending as Covid's influence was still being felt. The market is forecasting no interest rate hikes through 2023. Japan's Nikkei returned -7.5% for the quarter.

Chinese markets saw remarkable volatility in Q1 2022. Q4 2021 GDP growth was relatively slow at 4.0% y/y due partly to Covid infections and partly to ongoing debt problems in the property sector. During the quarter serious and widespread outbreak of Covid infections prompted harsh shutdowns in major cities that disrupted economic activity. The government announced its GDP growth target for 2022 at "around 5.5%" for the year, and pledged to support the economy by further ramping up its infrastructure spending, easing bank reserve requirements to prompt greater lending activity, and implementing more tax cuts, among other measures. The People's Bank of China (PBOC) left rates unchanged at its March meeting, but did pledge to cut rates further as necessary.

Hong Kong and China's equity markets sold off sharply on these developments, as well as on additional investor concerns over the news of further strict regulatory crackdowns on businesses, and a possible rift with Western countries over China's "pro-Russian" stance on the war. For the quarter, Hong Kong's Hang Seng produced -6.1%, while the MSCI China returned -14.2%.

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Performance

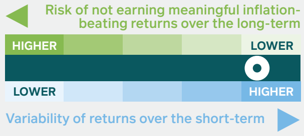
The fund delivered a return of 2.2% (net of fees) for the first quarter of 2022, underperforming its benchmark (the average of the general equity funds) by 2.0%. For the year ended 31 March 2022, the fund returned 20.2% (net of fees), outperforming its benchmark by 2.6%.

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

The largest sectoral contributor to performance for the quarter was our overweight to the banks sector.

Annualised performance	A class	Benchmark	T class	B class	F class
1 year	20.2%	17.6%	20.6%	20.6%	21.0%
3 years	13.7%	11.2%	14.0%	14.1%	14.4%
5 years	10.3%	7.8%	10.7%	10.7%	11.0%
7 years	8.1%	5.7%	8.5%	8.5%	-
10 years	11.3%	8.8%	-	11.8%	-
Since inception	16.2%	13.3%	-	-	-

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 161 402 442

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

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

We think that South African banks continue to trade at very undemanding valuations, despite the recent sharp increase in share prices. We therefore continue to have one of our larger sector overweights to the banks sector. We continue to be overweight Standard Bank, ABSA and Investec. All these banks were significant contributors to performance over the last quarter, with Standard Bank being a top-three contributor to performance. Investec is a company that we have held for a number of years in the fund and we have always been of the view that it is a good quality company trading on a depressed multiple. We do not own Capitec and are underweight to FirstRand. While we would rate these banks highly in terms of quality, we cannot ignore that they are substantially more highly rated than other banks in the sector.

The fund's underweight position in Mondi was the largest stock contributor. We held Mondi previously after its unbundling out of Anglo American in 2007 and sold many years later after it realised our assessment of fair value. Our investment case for owning Mondi at the time was that margins in the paper and packaging business were very depressed and far below normal. Through a combination of Mondi's own efforts to reduce costs and a packaging sector which rapidly consolidated due to the low returns, Mondi was able to substantially increase its margins (they moved up from around 5% to over 15%) and returns, cash flow and strong dividend growth followed. The share price rerated significantly. Mondi is a high-quality packaging company and a good capital allocator, but got to a point where it was just priced for perfection and so there was no discount in the price, in our view for any disappointment. In the last quarter, a large risk came to pass with the Ukraine/Russia war. Mondi has a very large (around 20% of group profits) and high returning plant in Russia, which because of sanctions, is likely to cause the company to have to curtail production or try to sell the plant. This caused the Mondi share price to drop over 25% in the last quarter.

Our preference in the paper and packaging sector has been Sappi. The fund has held Sappi for several years now based on an investment case that the company was aggressively allocating capital away from its declining paper business and investing heavily in its dissolving pulp business. Dissolving pulp is a product mainly used in the production of clothing and this product has been growing quickly as a cheaper alternative to cotton. The investment case has played out well, as Sappi has managed to pay down refinanced debt to much lower levels of interest and is now making well over half its profits from dissolving pulp, and most importantly for the fund, has resumed paying dividends. We think therefore that Sappi is today in a far better position than it has been for the last decade and is now benefiting from an upturn in dissolving pulp prices. We think Sappi represents excellent value where it is currently trading.

During the last quarter, the largest detractor from performance was the fund's allocation to offshore markets. The fund is invested in the M&G Global Equity Fund (8%), M&G Global Dividend Fund (4.9%) and the M&G Africa Equity Fund (3%) which together represent an offshore allocation of approximately 16%. This offshore allocation detracted over 3% from performance for the quarter, mainly as a result of the strengthening of the rand. The rand strengthened by 8.6% versus the US dollar over the quarter.

Over the last two years, we have substantially reduced the offshore allocation of the fund as we believed that the SA market and SA currency represented very good value. Today, we continue to think that emerging markets and African equities represent particularly good value and we now believe that the SA rand represents fair value given its appreciation. We no longer think the currency is undervalued.

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

Strategy and positioning

We remain optimistic regarding the South African equity market returns over the medium term due to the prevailing excessive levels of pessimism reflected in share prices and valuations. Going into the Covid-19 pandemic, the South African market in our view was already undervalued and has fallen to levels that we think are exceptionally attractive. The Price-to-Book of the JSE remains close to 2X as at the end of March 2022. 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.

South African assets appear to be undervalued relative to emerging and developed markets. We believe that earnings and dividends in South Africa should continue to show a strong return to growth over the medium term. We do however highlight the risk of rising interest rates and bond yields in the United States and many developed markets. While South African bond yields are already elevated and remain attractive, we think that rising bond yields in the US may start to present, and are already presenting, headwinds to equities valuations.

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 amongst 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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M&G Equity Fund

Equity

Q1 2022

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The US Federal Reserve (Fed) lifted its base rate by 25bps at its March meeting, but with inflationary pressures rising and energy prices now likely to be higher for longer due to extended sanctions, the Fed's outlook for interest rate increases became much more hawkish. US Treasuries reacted badly to the deteriorating conditions, selling off heavily in March (particularly in the shorter end of the curve – the Bloomberg Aggregate US Treasuries Index returned -6.2%). Fed policymakers have been able to be more aggressive amid the robust US economic recovery, with unemployment falling to 3.8% in February and GDP growth registering a solid 6.9% y/y for Q4 2021.

US companies continued to report strong earnings in Q1 2022, but poor sentiment, combined with high starting valuations, saw US equity markets recording weak first-quarter performances: in US dollars, the Nasdaq delivered -8.9%, the S&P 500 returned -4.6% and the Dow Jones produced -4.1%.

In the UK, with Q4 2021 GDP growth also strong at 6.5% y/y, the Bank of England implemented its third 25bp interest rate hike in a row in March, and warned of inflation reaching 8.0% y/y in April. However, the central bank was less aggressive on its outlook for rate hikes compared to the Federal Reserve, noting that the price shocks from the war were already taking a toll on consumer wallets. For Q1 2022, the UK FTSE 100 was flat.

The Eurozone experienced a weaker recovery from the Coronavirus crisis than the US and UK, with Q4 2021 GDP growth at 4.6% y/y, hurt by further waves of the Omicron variant of Covid-19 at different levels across the region. As such, the European Central Bank (ECB) kept its policy rate unchanged in March, but market speculation centred around one 25bp hike in 2022. In France, the CAC 40 returned -8.7%, while Germany's DAX delivered -10.9% for the quarter in US dollars.

In Japan, the Bank of Japan (BOJ) was further behind other central banks in tightening its policy, leaving its policy rate unchanged as Q4 2021 GDP growth was revised down to 4.6% y/y vs 5.6% y/y previously reported due to weaker-than-expected consumer spending as Covid's influence was still being felt. The market is forecasting no interest rate hikes through 2023. Japan's Nikkei returned -7.5% for the quarter.

Chinese markets saw remarkable volatility in Q1 2022. Q4 2021 GDP growth was relatively slow at 4.0% y/y due partly to Covid infections and partly to ongoing debt problems in the property sector. During the quarter serious and widespread outbreak of Covid infections prompted harsh shutdowns in major cities that disrupted economic activity. The government announced its GDP growth target for 2022 at "around 5.5%" for the year, and pledged to support the economy by further ramping up its infrastructure spending, easing bank reserve requirements to prompt greater lending activity, and implementing more tax cuts, among other measures. The People's Bank of China (PBOC) left rates unchanged at its March meeting, but did pledge to cut rates further as necessary.

Hong Kong and China's equity markets sold off sharply on these developments, as well as on additional investor concerns over the news of further strict regulatory crackdowns on businesses, and a possible rift with Western countries over China's "pro-Russian" stance on the war. For the quarter, Hong Kong's Hang Seng produced -6.1%, while the MSCI China returned -14.2%.

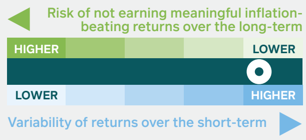
South Africa experienced a fragile economic recovery in Q4 2021, recording GDP growth of 1.7% y/y and bringing full-year 2021 growth to 4.9%, slightly better than expected. In Q1 2022, the Omicron variant of the Coronavirus proved to be less disruptive to economic activity than originally feared, helping lift business and consumer sentiment. However, a larger boost came from ever-rising global commodity prices, benefiting most SA mining companies and government tax revenues alike. While the high oil price did hurt local growth prospects, the country's terms of trade improved, consequently supporting the rand, which appreciated significantly against the three largest global currencies: it was 8.6% stronger vs the US dollar, 11% higher versus the UK pound sterling and 10.3% up against the euro in Q1 2022. This would have detracted meaningfully from local investors' offshore foreign currency returns.

The SA Reserve Bank hiked the repo rate by 25bps at both its March and January MPC meetings, as expected, to reach 4.25%, citing inflation and the war as the biggest threats. In March the Bank raised its expectations for economic growth to 2% for 2022 from 1.7% at the January meeting, but also lifted its 2022 inflation forecast to 5.8% from 4.9% previously.

SA equity performance diverged widely during the quarter, but the overall FTSE/JSE ALSI emerged with a relatively respectable return of 3.8%, underpinned by the Resources sector's 18.2% return and 20.3% from Financials. The FTSE/JSE Capped SWIX ALSI, which we use as the equity benchmark for most of our client mandates, returned 6.7%. The All Property Index returned -1.6% and Industrials -13.1%, the latter hurt by over 30% declines in the values of Naspers and Prosus on the back of a further sharp sell-off in Tencent shares amid renewed Chinese government regulations.

Annualised performance	A class	Benchmark	B class	F class
1 year	21.8%	17.6%	22.3%	23.0%
3 years	14.7%	11.2%	15.1%	15.5%
5 years	11.3%	7.8%	11.8%	12.2%
7 years	8.8%	5.7%	9.2%	-
10 years	12.2%	8.8%	12.6%	-
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 540 775 009

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

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

Performance

For the first quarter of 2022, the fund returned 3.7% (net of fees), underperforming its benchmark by 0.4%. Over the 12 months ending 31 March 2022, the fund generated a return of 21.8%, outperforming its benchmark by 4.2% 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.

Contributing to relative performance over the quarter was the fund's overweight positions in Sasol, Exxaro and our preferred banks, Absa and Standard Bank. Detracting from value over the quarter came from our holdings in Naspers, as well as underweight positions in BHP, FirstRand and Goldfields.

The fund's overweight investment in Sasol was the second largest contributor to performance during the quarter. Sasol's problems have been well known to the market. Their substantial investment in the Lake Charles Chemical Project (LCCP) led to a significant amount of debt being added to the company's balance sheet. This combination of financial leverage together with the natural operating leverage of an oil company meant that the risk to the business increased. The company made some sensible decisions to reduce costs and sell-off some non-core assets to reduce debt levels. However, in retrospect, the pressure applied by banks and shareholders to sell a part of the LCCP to reduce the financial risk further appears to have turned out to be a mistake. Unfortunately, the combination of an over-leveraged business at the point when the economic cycle turns down can dramatically reduce the options that a company has or force decisions to be made that would not ordinarily be made. The economic cycle has however turned firmly in Sasol's favour over the last year and the strength of the oil price and chemicals prices has caused a sharp re-rating of the share price. The Ukraine crisis has led to further increases in energy prices which should generate exceptionally strong cashflows for Sasol. We think Sasol continues to be significantly undervalued given its ability to now quickly pay down debt. We think there is still significant upside to the Sasol share price.

It is worth mentioning that when we construct our portfolios, we do not do so based on a particular view or outcome as we think it is not possible to consistently predict what oil prices or inflation rates might do… or when and where countries may go to war for instance. We rather look to construct portfolios with many different and diversified ideas, which we think have favourable pay-off profiles. In this way, we hopefully have portfolios that can deliver good returns under many different economic environments.

In the financials sector, we think that South African banks continue to trade at very undemanding valuations, despite the recent sharp increase in share prices. We therefore continue to have one of our larger sector overweights to the banks sector. We continue to be overweight Standard Bank and ABSA. These banks were significant contributors to performance over the last quarter. We do not own Capitec and are underweight to FirstRand. While we would rate these banks highly in terms of quality, we cannot ignore that they are substantially more highly rated than other banks in the sector.

During the last quarter, one of the largest detractors from performance was the fund's underweight position to the BHP Group. We maintain an underweight to BHP due to our concern that margins in iron ore mining are at, what we think, cyclical highs. The iron ore price has remained at highly elevated price levels for a number of years and this has caused the increasing valuations for iron ore companies. At this point, we do not think that investors are being sufficiently compensated for the risk of a material iron ore price decline.

Strategy and positioning

The Russia-Ukraine war caused major disruptions to global commodity markets, especially energy commodities such as oil, coal and gas. Though we believe current prices to be above what we would expect to materialise over the long term, the impact on supply does assist in placing a medium-term floor on commodity prices.

Importantly, for the fund's holdings with exposure to Russian-centric commodities, the current equity valuations in our view do not discount the current pricing environment, which gives a level of comfort in maintaining our positions in companies like Glencore, Exxaro, Anglo American, Sasol, and more recently, the addition of Thungela.

The environment for our banking holdings is supportive. Earnings growth is likely to be robust as the banks benefit from the positive endowment effect and a gradual unwinding of high bad debt provisions taken during the peak of the Covid pandemic.

The fund has not increased its offshore exposure despite recent rand strength. We view the fund's holdings as more attractive than the opportunity set in our Global Equity Fund on valuation grounds, especially given the headwinds to global equity valuations faced by global markets from rising interest rates.

We are optimistic on the prospects for returns for the fund given low starting valuations and forecast growth. The fund's holdings are valued at 7.7 times their forecast earnings for next year, which we believe is relatively cheap.

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Disclaimer

Sources: M&G, Morningstar & Deutsche Securities

Quarterly Commentary

M&G SA Equity Fund

Equity

Q1 2022

Market overview

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Commodity-producer South Africa was among the few beneficiaries of the spikes in precious metals and other commodity prices. In contrast to most other countries, both local equity and nominal bond markets registered respectable returns for the quarter, and the rand appreciated substantially against the major global currencies. However, this was offset to some extent in March by widespread bearish investor sentiment and weakness in Naspers/Prosus shares resulting from a further sell-off in Tencent amid a renewed Chinese government regulatory crackdown.

South Africa experienced a fragile economic recovery in Q4 2021, recording GDP growth of 1.7% y/y and bringing full-year 2021 growth to 4.9%, slightly better than expected. In Q1 2022, the Omicron variant of the Coronavirus proved to be less disruptive to economic activity than originally feared, helping lift business and consumer sentiment. However, a larger boost came from ever-rising global commodity prices, benefiting most SA mining companies and government tax revenues alike. While the high oil price did hurt local growth prospects, the country's terms of trade improved, consequently supporting the rand, which appreciated significantly against the three largest global currencies: it was 8.6% stronger vs the US dollar, 11% higher versus the UK pound sterling and 10.3% up against the euro in Q1 2022. This would have detracted meaningfully from local investors' offshore foreign currency returns.

The SA Reserve Bank hiked the repo rate by 25bps at both its March and January MPC meetings, as expected, to reach 4.25%, citing inflation and the war as the biggest threats. In March the Bank raised its expectations for economic growth to 2% for 2022 from 1.7% at the January meeting, but also lifted its 2022 inflation forecast to 5.8% from 4.9% previously.

SA equity performance diverged widely during the quarter, but the overall FTSE/JSE ALSI emerged with a relatively respectable return of 3.8%, underpinned by the Resources sector's 18.2% return and 20.3% from Financials. The FTSE/JSE Capped SWIX ALSI, which we use as the equity benchmark for most of our client mandates, returned 6.7%. The All Property Index returned -1.6% and Industrials -13.1%, the latter hurt by over 30% declines in the values of Naspers and Prosus on the back of a further sharp sell-off in Tencent shares amid renewed Chinese government regulations.

Performance

The fund delivered a return of 6.2% (net of fees) for the first quarter of 2021, underperforming its benchmark by 0.6%. For the 12 months ended 31 March 2022, the fund returned 23.0% (net of fees), outperforming its benchmark by 2.6%. 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 March 2022.

In the financials sector, we think that South African banks continue to trade at very undemanding valuations, despite the recent sharp increase in share prices. We therefore continue to have one of our larger sector overweights to the banks sector. We continue to be overweight Standard Bank, ABSA and Investec. All these banks were significant contributors to performance over the last quarter, with Standard Bank being the top contributor to performance. Investec is a company that we have held for a number of years in the fund and we have always been of the view that it is a good quality company trading on a depressed multiple. We do not own Capitec and are underweight to FirstRand. While we would rate these banks highly in terms of quality, we cannot ignore that they are substantially more highly rated than other banks in the sector.

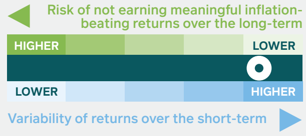
The fund's overweight investment in Sasol was the second largest contributor to performance during the quarter. Sasol's problems have been well known to the market. Their substantial investment in the Lake Charles Chemical Project (LCCP) led to a significant amount of debt being added to the company's balance sheet. This combination of financial leverage together with the natural operating leverage of an oil company meant that the risk to the business increased. The company made some sensible decisions to reduce costs and sell-off some non-core assets to reduce debt levels. However, in retrospect, the pressure applied by banks and shareholders to sell a part of the LCCP to reduce the financial risk further appears to have turned out to be a mistake. Unfortunately, the combination of an over-leveraged business at the point when the economic cycle turns down can dramatically reduce the options that a company has or force decisions to be made that would not ordinarily be made. The economic cycle has however turned firmly in Sasol's favour over the last year and the strength of the oil price and chemicals prices has caused a sharp re-rating of the share price. The Ukraine crisis has led to further increases in energy prices which should generate exceptionally strong cashflows for Sasol. We think Sasol continues to be significantly undervalued given its ability to now quickly pay down debt. We think there is still significant upside to the Sasol share price.

It is worth mentioning that when we construct our portfolios, we do not do so based on a particular view or outcome as we think it is not possible to consistently predict what oil prices or inflation rates might do… or when and where countries may go to war for instance. We rather look to construct portfolios with many different and diversified ideas, which we think have favourable pay-off profiles. In this way, we hopefully have portfolios that can deliver good returns under many different economic environments.

Annualised performance	B class	Benchmark[1]	F class
1 year	24.4%	20.4%	23.0%
3 years	11.5%	11.9%	10.2%
5 years	9.4%	8.2%	8.2%
7 years	7.8%	6.7%	-
10 years	11.6%	10.3%	-
Since inception	15.4%	13.6%	-

[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.

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
R40 706 527 394

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

We have observed that many businesses in South Africa have emerged from last year's Covid-19 induced lockdowns in a stronger position than when they went in. One such company is The Foschini Group (TFG), which was a strong contributor to performance for the quarter. TFG in our opinion will benefit substantially from their purchase of JET over the next three years. 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, we think that there is still substantial upside on a three-year view.

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 full 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. MTN has been steadily reducing debt levels on its balance sheet by realising non-core assets like their tower assets. We think that 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 the risk of the business.

During the last quarter, one of the largest detractors from performance was the fund's underweight position to the BHP Group. We maintain an underweight to BHP due to our concern that margins in iron ore mining are at, what we think, cyclical highs. The iron ore price has remained at highly elevated price levels for a number of years and this has caused the increasing valuations for iron ore companies. At this point, we do not think that investors are being sufficiently compensated for the risk of a material iron ore price decline.

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 March 2022. 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 continue to show a strong return to growth over the medium term. We do however highlight the risk of rising interest rates and bond yields in the United States and many developed markets. While South African bond yields are already elevated and remain attractive, we think that rising bond yields in the US may start to present, and are already presenting, headwinds to equity valuations.

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 Investments

M&G Global Bond Feeder Fund

Global Income ZAR-denominated

Q1 2022

Market overview

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Finally, the rand appreciated significantly against the three largest global currencies: it was 8.6% stronger vs the US dollar, 11% higher versus the UK pound sterling and 10.3% up against the euro in Q1 2022. This would have detracted meaningfully from local investors' offshore foreign currency returns.

Performance

For the first quarter of 2022, the fund returned -13.2% (net of fees), outperforming its benchmark by 1.0%. Over the 12 months ending 31 March 2022, the fund generated a return of -6.3%, outperforming its benchmark by 1.1% over the same period.

Contributors to absolute performance over the quarter came from the fund's exposure to local currency Brazilian and South African government bonds. Main detractors from absolute performance over this period came from the fund's exposure to global and US investment-grade bonds, as well as emerging-markets hard currency government bonds.

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. We maintain an underweight position on many developed market government bonds given their ongoing low yields.

During the quarter, we closed our Colombian government bond and currency position as we believed that Colombia's deteriorating economic fundamentals were not adequately reflected in the price.

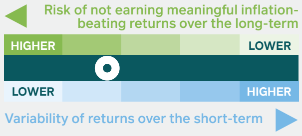
We remain highly active within the global bond asset class, seeking positive exposures to emerging-market government bonds, both hard currency and soft currency, and investment-grade corporate bonds because of the better real yields they can offer compared to developed market government bonds, where we tend to be underweight versus the benchmark.

The upward movement of interest rates and rate expectations remains a key issue for investors. Developed market government bond yields have risen sharply, with meaningful policy tightening now priced in, and such rapid moves can be prone to some reversal. We still, however, view them as vulnerable on a medium-term valuation perspective. Real yields are low or negative, even assuming a benign inflation outcome, and current inflationary pressures pose the risk that policy may shift more aggressively than is currently expected by a market in which beliefs remain relatively anchored.

While the fundamental economic backdrop still seems supportive of corporate profits, a more aggressive policy shift could also pose challenges for risk assets, if higher interest rates pressure the pricing of all financial assets. We, therefore, seek exposures where valuations may provide some buffer against that (and other unexpected outcomes). In particular, we think that emerging markets remain selectively attractive, with both local currency bonds, hard currency bonds and currencies providing opportunities.

We currently also hold an elevated level of cash, providing scope to respond to future volatility as it arises.

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

R527 052 536

Annualised performance	A class	Benchmark	B class
1 year	-6.3%	-7.4%	-6.0%
3 years	1.3%	1.0%	1.6%
5 years	3.0%	3.5%	-
7 years	3.8%	4.3%	-
10 years	7.8%	7.8%	-
Since inception	7.4%	7.6%	-

Sources: M&G, Morningstar & Deutsche Securities

M&G Investments

Disclaimer

MandG Investments Unit Trusts (South Africa) (RF) Ltd (Registration number: 1999/0524/06) is an approved CISCA management company (#29). Assets are managed by MandG Investment Managers (Pty) Ltd, which is an approved discretionary Financial Services Provider (#45199). The Trustee's/Custodian details are: Standard Bank of South Africa limited – Trustees Services & investor Services. 20th Floor, Main Tower, Standard Bank Centre, Heerengracht, Cape Town.

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Quarterly Commentary

M&G Global Inflation Plus Feeder Fund

Global Multi-Asset ZAR-denominated

Q1 2022

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The US Federal Reserve (Fed) lifted its base rate by 25bps at its March meeting, but with inflationary pressures rising and energy prices now likely to be higher for longer due to extended sanctions, the Fed's outlook for interest rate increases became much more hawkish. US Treasuries reacted badly to the deteriorating conditions, selling off heavily in March (particularly in the shorter end of the curve – the Bloomberg Aggregate US Treasuries Index returned -6.2%). Fed policymakers have been able to be more aggressive amid the robust US economic recovery, with unemployment falling to 3.8% in February and GDP growth registering a solid 6.9% y/y for Q4 2021.

US companies continued to report strong earnings in Q1 2022, but poor sentiment, combined with high starting valuations, saw US equity markets recording weak first-quarter performances: in US dollars, the Nasdaq delivered -8.9%, the S&P 500 returned -4.6% and the Dow Jones produced -4.1%.

In the UK, with Q4 2021 GDP growth also strong at 6.5% y/y, the Bank of England implemented its third 25bp interest rate hike in a row in March, and warned of inflation reaching 8.0% y/y in April. However, the central bank was less aggressive on its outlook for rate hikes compared to the Federal Reserve, noting that the price shocks from the war were already taking a toll on consumer wallets. For Q1 2022, the UK FTSE 100 was flat.

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In Japan, the Bank of Japan (BOJ) was further behind other central banks in tightening its policy, leaving its policy rate unchanged as Q4 2021 GDP growth was revised down to 4.6% y/y vs 5.6% y/y previously reported due to weaker-than-expected consumer spending as Covid's influence was still being felt. The market is forecasting no interest rate hikes through 2023. Japan's Nikkei returned -7.5% for the quarter.

Chinese markets saw remarkable volatility in Q1 2022. Q4 2021 GDP growth was relatively slow at 4.0% y/y due partly to Covid infections and partly to ongoing debt problems in the property sector. During the quarter serious and widespread outbreak of Covid infections prompted harsh shutdowns in major cities that disrupted economic activity. The government announced its GDP growth target for 2022 at "around 5.5%" for the year, and pledged to support the economy by further ramping up its infrastructure spending, easing bank reserve requirements to prompt greater lending activity, and implementing more tax cuts, among other measures. The People's Bank of China (PBOC) left rates unchanged at its March meeting, but did pledge to cut rates further as necessary.

Hong Kong and China's equity markets sold off sharply on these developments, as well as on additional investor concerns over the news of further strict regulatory crackdowns on businesses, and a possible rift with Western countries over China's "pro-Russian" stance on the war. For the quarter, Hong Kong's Hang Seng produced -6.1%, while the MSCI China returned -14.2%.

Finally, the rand appreciated significantly against the three largest global currencies: it was 8.6% stronger vs the US dollar, 11% higher versus the UK pound sterling and 10.3% up against the euro in Q1 2022. This would have detracted meaningfully from local investors' offshore foreign currency returns.

Performance

For the first quarter of 2022, the fund returned -12.3% (net of fees), while global inflation measured -6.9%. Over the 12 months ending 31 March 2022, the fund generated a return of -0.5%, while global inflation measured 5.2% over the same period.

Contributors to absolute performance over the quarter came from the fund's exposure to Brazilian and South African government bonds, as well as Indonesian and European value equities. Main detractors from absolute performance over this period came from the fund's exposure to investment-grade corporate bonds, emerging-markets hard currency government bonds, as well as broad exposure to equities.

Strategy and positioning

Our preference for equities is now more muted than previously, however, we retain a preference for equities from Japan, Europe and the UK, and still favour equities over government bonds. We are constructive on emerging market hard currency and local debt.

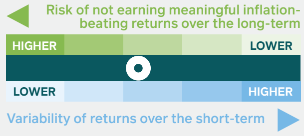
During the quarter we sold our position in Indonesian equities following good performance. The Indonesia stockmarket has behaved very idiosyncratically, rising to post-Covid highs, partly on the back of rising commodities prices, while other markets have fallen.

The upward movement of interest rates and rate expectations remains a key issue for investors. Developed market government bond yields have risen sharply, with meaningful policy tightening now priced in. We still, however, view them as vulnerable on a medium-term valuation perspective. Real yields are low or negative, even assuming a benign inflation outcome, and current inflationary pressures pose the risk that policy may shift more aggressively than is currently expected by a market in which beliefs remain relatively anchored.

Annualised performance	A class	Benchmark[1]	B class
1 year	-0.5%	5.2%	-0.2%
3 years	4.9%	3.4%	5.3%
5 years	5.7%	3.9%	6.0%
7 years	5.8%	4.5%	6.2%
10 years	9.2%	8.2%	-
Since inception	7.3%	6.6%	-

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

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

R229 800 974

Sources: M&G, Morningstar & Deutsche Securities

It remains the case that global equities have been relatively resilient to rising interest rates thus far. While the fundamental economic backdrop still seems supportive of corporate profits, a more aggressive policy shift could also pose challenges for risk assets, if higher interest rates pressure the pricing of all financial assets. Therefore, we take a cautious stance and will wait patiently for potential opportunities.

We currently hold an elevated level of cash to give us the scope to respond to future volatility.

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Disclaimer

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

Sources: M&G, Morningstar & Deutsche Securities

Quarterly Commentary

M&G Investments

M&G Global Balanced Feeder Fund

Global Multi-Asset ZAR-denominated

Q1 2022

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Performance

For the first quarter of 2022, the fund returned -11.5% (net of fees), outperforming its benchmark by 1.7%. Over the 12 months ending 31 March 2022, the fund generated a return of 4.8%, outperforming its benchmark by 1.8% over the same period.

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Strategy and positioning

Our preference for equities is now more muted than previously, however, we retain a preference for equities from Japan, Europe and the UK, and still favour equities over government bonds. We are constructive on emerging market hard currency and local debt.

Annualised performance	A class	Benchmark	B class
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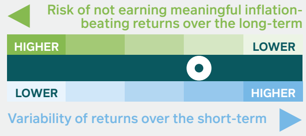
Risk profile



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
R47 687 027

Sources: M&G, Morningstar & Deutsche Securities

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M&G Global Equity Feeder Fund

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Performance

For the first quarter of 2022, the fund returned -11.8% (net of fees), outperforming its benchmark by 1.7%. Over the 12 months ending 31 March 2022, the fund generated a return of 4.7%, while its benchmark delivered 6.2% over the same period.

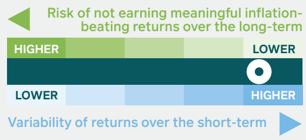
The fund outperformed on 32 of 64 days, offering a hit rate for the entire quarter of 50%. A positive skew over the quarter was the main driver of outperformance. Style had a negative contribution over the quarter, with exposure to small-size and high-earnings variability detracting from performance.

Strategy and positioning

The portion of the fund managed using its proprietary machine learning model is approximately 90%, with the balance of approximately 10% remaining in strategic ETFs. The ETF allocation is primarily used for liquidity purposes. At the factor level, the fund currently exhibits positive active exposure to momentum, high-volatility and smaller-cap companies, while being relatively neutral to value and growth.

It remains the case that global equities have been relatively resilient to rising interest rates thus far. While the fundamental economic backdrop still seems supportive of corporate profits, a more aggressive policy shift could also pose challenges for risk assets, if higher interest rates pressure the pricing of all financial assets.

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
R474 424 518

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1 year	4.7%	6.2%	5.1%
3 years	13.2%	14.1%	13.5%
5 years	11.4%	13.6%	-
7 years	10.9%	12.7%	-
10 years	15.4%	17.3%	-
Since inception	7.8%	9.3%	-

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Sources: M&G, Morningstar & Deutsche Securities

M&G 2.5% Target Income Fund

Target Income

Q1 2022

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Commodity-producer South Africa was among the few beneficiaries of the spikes in precious metals and other commodity prices. In contrast to most other countries, both local equity and nominal bond markets registered respectable returns for the quarter, and the rand appreciated substantially against the major global currencies. However, this was offset to some extent in March by widespread bearish investor sentiment and weakness in Naspers/Prosus shares resulting from a further sell-off in Tencent amid a renewed Chinese government regulatory crackdown.

The US Federal Reserve (Fed) lifted its base rate by 25bps at its March meeting, but with inflationary pressures rising and energy prices now likely to be higher for longer due to extended sanctions, the Fed's outlook for interest rate increases became much more hawkish. US Treasuries reacted badly, selling off heavily in March. The US recovery has been solid, with unemployment falling to 3.8% in February and GDP growth registering 6.9% y/y for Q4 2021. US companies continued to report strong earnings in Q1 2022, but poor sentiment, combined with high starting valuations, saw US equity markets recording weak first-quarter performances: in US dollars, the Nasdaq delivered -8.9%, the S&P 500 returned -4.6% and the Dow Jones produced -4.1%.

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South Africa

South Africa experienced a fragile economic recovery in Q4 2021, recording GDP growth of 1.7% y/y and bringing full-year 2021 growth to 4.9%, slightly better than expected. In Q1 2022, the Omicron variant of the Coronavirus proved to be less disruptive to economic activity than originally feared, helping lift business and consumer sentiment. However, a larger boost came from ever-rising global commodity prices, benefiting most SA mining companies and government tax revenues alike. While the high oil price did hurt local growth prospects, the country's terms of trade improved, consequently supporting the rand, which appreciated significantly against the three largest global currencies: it was 8.6% stronger vs the US dollar, 11% higher versus the UK pound sterling and 10.3% up against the euro in Q1 2022. This would have detracted meaningfully from local investors' offshore foreign currency returns.

The SA Reserve Bank hiked the repo rate by 25bps at both its March and January MPC meetings, as expected, to reach 4.25%, citing inflation and the war as the biggest threats. In March the Bank raised its expectations for economic growth to 2% for 2022 from 1.7% at the January meeting, but also lifted its 2022 inflation forecast to 5.8% from 4.9% previously.

SA equity performance diverged widely during the quarter, but the overall FTSE/JSE ALSI emerged with a relatively respectable return of 3.8%, underpinned by the Resources sector's 18.2% return and 20.3% from Financials. The FTSE/JSE Capped SWIX ALSI, which we use as the equity benchmark for most of our client mandates, returned 6.7%. The All Property Index returned -1.6% and Industrials -13.1%, the latter hurt by over 30% declines in the values of Naspers and Prosus on the back of a further sharp sell-off in Tencent shares amid renewed Chinese government regulations.

SA nominal bonds still managed to return 1.9% over the quarter as shorter-dated bonds weakened but longer-dated bonds gained a little ground, resulting in a flatter yield curve. With SA inflation appearing not to be as much of a threat as earlier feared, inflation linked-bonds underperformed their nominal counterparts with a 0.3% return (FTSE/JSE Inflation-Linked Bond Index), reversing the longer-term trend, and cash (as measured by the STeFI Composite Index) posted a return of 1.0% in Q1 2022.

Performance

The M&G 2.5% Target Income Fund returned 0.7% (after fees) for the first quarter of 2022 and 16.2% for the 12-month period ending 31 March 2022.

The largest asset-class contributor to the fund's absolute performance for the quarter was its exposure to SA equities, by far, followed by SA bonds. International equity was the largest detractor from absolute performance, and international bonds and cash also detracted, partly due to rand appreciation. The fund holds no SA ILBs.

Annualised performance	A class	CPI	B class
1 year	16.2%	5.6%	16.6%
2 years	27.1%	4.2%	27.5%
Since inception	7.4%	4.2%	-

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
R103 692 499

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 Sasol, Exxaro, Standard Bank, Absa, MTN and Foschini. Top detractors from absolute performance were Naspers and Prosus, as well as Richemont to a much lesser extent.

Strategy and positioning

Starting with our view on **offshore asset allocatio**n, we maintained our portfolio positioning favouring local assets over global assets, which proved to be supportive for portfolio returns due to the relative outperformance of SA assets versus their global counterparts.

Within our global holdings, we continued to prefer global cash over both global equities and bonds in order to keep risk comparatively low, while also being able to take advantage of market mis-pricing episodes that might arise. This positioning also turned out to be favourable for our portfolios on a relative basis for the quarter, based on the weakness in both global equity and bond markets compared to global cash.

Within our **global equity** positioning, we remained cautious on US equities. We have reduced slightly our global equity exposure by taking profit on some selected emerging market equity exposures which have outperformed strongly over the quarter. The portfolio continues to favour selected European and other developed market equities, and some emerging market equities. Our exposure to a broad mix of assets with diversified return profiles has also helped to partly cushion our funds against the unexpected market shocks brought on by the war and sanctions.

Within **global bonds**, we preferred to get our duration via exposure to selective emerging market government bonds, not finding much value in either developed market **government bonds** or **investment grade corporate credit**. Also, emerging market government bond yields remained attractive in Q1. We still believe that corporate yield spreads are not sufficiently high for the risk involved.

The fund still heavily favoured **SA equities** at the end of Q1. SA equity market valuations (as measured by the 12-month forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) re-rated slightly over the quarter, moving up from around 9.5X to around 9.8X at quarter-end, but this was not enough to change our view. We maintained our overweight exposure to Banking shares, and underweight to Retailers, during the quarter, both of which were favourable to fund performance during the quarter.

We continued with our neutral positioning in **SA listed property** in Q1 2022. Although listed property does offer somewhat better value than our estimated fair value for the sector, within SA equities we prefer other shares that we consider offer better value propositions for less risk. The retail segment remains weak and is facing serious headwinds in the rising interest rate environment, and the office segment is even weaker, characterised by high vacancies.

The portfolio benefited from our ongoing preference for **SA nominal bonds** in Q1 due to these assets continuing resilient performance and the flattening of the SA yield curve in the wake of the SARB's rate hikes, as well as the good-news 2023 National Budget. We still prefer the 7-12-year area of the curve and are also still holding bonds of 12-years and longer, all of which outperformed versus their shorter-dated counterparts over the quarter. We also 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 total 50bps of interest rate hikes, the fund remained heavily tilted away from **SA cash** in Q1 as our least preferred asset class, given the extremely low base rate off which the SARB hiked. Other SA assets are 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 5% Target Income Fund

Target Income

Q1 2022

Market overview

The first quarter of 2022 was full of unpleasant surprises, starting with high levels of financial market volatility in January as uncertainty over global inflation and interest rate policies, and risk-off investor sentiment, were reflected in broad weakness across both global equities and bonds. Then the tragic and destructive Russian invasion of Ukraine in the last week of February, and the unprecedented level of sanctions imposed against Russia, created even further uncertainty, along with rocketing commodity prices and inflation concerns. This combination of developments meant that many global asset returns, even from usual safe-havens like US Treasuries, were squarely in the red.

Commodity-producer South Africa was among the few beneficiaries of the spikes in precious metals and other commodity prices. In contrast to most other countries, both local equity and nominal bond markets registered respectable returns for the quarter, and the rand appreciated substantially against the major global currencies. However, this was offset to some extent in March by widespread bearish investor sentiment and weakness in Naspers/Prosus shares resulting from a further sell-off in Tencent amid a renewed Chinese government regulatory crackdown.

The US Federal Reserve (Fed) lifted its base rate by 25bps at its March meeting, but with inflationary pressures rising and energy prices now likely to be higher for longer due to extended sanctions, the Fed's outlook for interest rate increases became much more hawkish. US Treasuries reacted badly, selling off heavily in March. The US recovery has been solid, with unemployment falling to 3.8% in February and GDP growth registering 6.9% y/y for Q4 2021. US companies continued to report strong earnings in Q1 2022, but poor sentiment, combined with high starting valuations, saw US equity markets recording weak first-quarter performances: in US dollars, the Nasdaq delivered -8.9%, the S&P 500 returned -4.6% and the Dow Jones produced -4.1%.

In the UK, with Q4 2021 GDP growth strong at 6.5% y/y, the Bank of England implemented its third 25bp interest rate hike in a row in March, and warned of inflation reaching 8.0% y/y in April. However, the central bank was less aggressive on its outlook for rate hikes compared to the Fed, noting that the price shocks from the war were already taking a toll on consumer wallets. For Q1 2022, the UK FTSE 100 was flat.

The Eurozone experienced a weaker recovery from the Coronavirus crisis than the US and UK, with Q4 2021 GDP growth at 4.6% y/y, hurt by further waves of the Omicron variant of Covid-19 at different levels across the region. As such, the European Central Bank (ECB) kept its policy rate unchanged in March, but market speculation centred around one 25bp hike in 2022. In France, the CAC 40 returned -8.7%, while Germany's DAX delivered -10.9% for the quarter in US dollars.

Chinese markets saw remarkable volatility in Q1 2022. Q4 2021 GDP growth was relatively slow at 4.0% y/y due partly to Covid infections, which became more serious and widespread in Q1 and prompted harsh shutdowns in major cities that disrupted economic activity. The government pledged to support the economy by further ramping up its infrastructure spending, easing bank reserve requirements to prompt greater lending activity, and implementing more tax cuts, among other measures. The People's Bank of China (PBOC) left rates unchanged at its March meeting, but did pledge to cut rates further as necessary. Hong Kong and China's equity markets sold off sharply on these developments, as well as on additional investor concerns over the news of further strict regulatory crackdowns on businesses, and a possible rift with Western countries over China's "pro-Russian" stance on the war. For the quarter, Hong Kong's Hang Seng produced -6.1%, while the MSCI China returned -14.2%.

South Africa

South Africa experienced a fragile economic recovery in Q4 2021, recording GDP growth of 1.7% y/y and bringing full-year 2021 growth to 4.9%, slightly better than expected. In Q1 2022, the Omicron variant of the Coronavirus proved to be less disruptive to economic activity than originally feared, helping lift business and consumer sentiment. However, a larger boost came from ever-rising global commodity prices, benefiting most SA mining companies and government tax revenues alike. While the high oil price did hurt local growth prospects, the country's terms of trade improved, consequently supporting the rand, which appreciated significantly against the three largest global currencies: it was 8.6% stronger vs the US dollar, 11% higher versus the UK pound sterling and 10.3% up against the euro in Q1 2022. This would have detracted meaningfully from local investors' offshore foreign currency returns.

The SA Reserve Bank hiked the repo rate by 25bps at both its March and January MPC meetings, as expected, to reach 4.25%, citing inflation and the war as the biggest threats. In March the Bank raised its expectations for economic growth to 2% for 2022 from 1.7% at the January meeting, but also lifted its 2022 inflation forecast to 5.8% from 4.9% previously.

SA equity performance diverged widely during the quarter, but the overall FTSE/JSE ALSI emerged with a relatively respectable return of 3.8%, underpinned by the Resources sector's 18.2% return and 20.3% from Financials. The FTSE/JSE Capped SWIX ALSI, which we use as the equity benchmark for most of our client mandates, returned 6.7%. The All Property Index returned -1.6% and Industrials -13.1%, the latter hurt by over 30% declines in the values of Naspers and Prosus on the back of a further sharp sell-off in Tencent shares amid renewed Chinese government regulations.

SA nominal bonds still managed to return 1.9% over the quarter as shorter-dated bonds weakened but longer-dated bonds gained a little ground, resulting in a flatter yield curve. With SA inflation appearing not to be as much of a threat as earlier feared, inflation linked-bonds underperformed their nominal counterparts with a 0.3% return (FTSE/JSE Inflation-Linked Bond Index), reversing the longer-term trend, and cash (as measured by the STeFI Composite Index) posted a return of 1.0% in Q1 2022.

Performance

The M&G 5% Target Income Fund returned -0.5% (after fees) for the first quarter of 2022 and 12.8% for the 12-month period ending 31 March 2022.

The largest asset-class contributor to the fund's absolute performance for the quarter was its exposure to SA equities, by far, followed by SA bonds. International equity was the largest detractor from absolute performance, and international bonds and

Annualised performance	A class	CPI	B class
1 year	12.8%	5.6%	13.2%
2 years	16.8%	4.2%	17.2%
Since inception	6.2%	4.2%	-

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 873 010

Sources: M&G, Morningstar & Deutsche Securities

cash also detracted, partly due to rand appreciation. In terms of specific equity exposure, among the strongest equity contributors to absolute returns for the quarter were Sasol, Anglo American, Exxaro, Standard Bank, Absa, MTN and Foschini. Top detractors from absolute performance were Naspers and Prosus.

Strategy and positioning

Starting with our view on **offshore asset allocation**, in Q1 2022 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. This proved supportive of the fund performance given the weakness in global equity and global bonds compared to global cash over the quarter.

Within our **global equity** positioning, we remained cautious on US equities. We have reduced slightly our global equity exposure by taking profit on some selected emerging market equity exposures which have outperformed strongly over the quarter. The portfolio continues to favour selected European and other developed market equities, and some emerging market equities. Our exposure to a broad mix of assets with diversified return profiles has also helped to partly cushion our funds against the unexpected market shocks brought on by the war and sanctions.

Within **global bonds**, we preferred to get our duration via exposure to selective emerging market government bonds, not finding much value in either developed market **government bonds** or **investment grade corporate credit**. Also, emerging market government bond yields remained attractive in Q1. We still believe that corporate yield spreads are not sufficiently high for the risk involved.

The fund still heavily favoured **SA equities** at the end of Q1. SA equity market valuations (as measured by the 12-month forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) re-rated slightly over the quarter, moving up from around 9.5X to around 9.8X at quarter-end. As in the previous quarter, 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, we maintained our overweight exposure to Banking shares and underweight to Retailers. In broad terms, this positioning was favourable for fund performance. Our exposure to the Resources sector also helped to boost the portfolio for the quarter. Its broad diversification of holdings also helped support performance.

We continued with our neutral positioning in **SA listed property** in Q1 2022. Although the overall sector and certain property counters are attractive, within SA equities we prefer other shares that we consider offer better value propositions for less risk. The retail segment remains weak and is facing serious headwinds in the rising interest rate environment, and the office segment is even weaker, characterised by high vacancies.

The portfolio benefited from our ongoing preference for **SA nominal bonds** in Q1 due to their continuing resilient performance and the flattening of the SA yield curve in the wake of the SARB's rate hikes, as well as the good-news 2023 National Budget. We still prefer the 7-12-year area of the curve and are also still holding bonds of 12-years and longer, all of which outperformed versus their shorter-dated counterparts over the quarter. We also 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) underperformed their nominal counterparts during the quarter, reversing the trend seen during most of 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%, but nominal bonds continued to offer better value.

Lastly, despite the SARB's total 50bps of interest rate hikes, the fund remained heavily tilted away from **SA cash** in Q1 as our least preferred asset class, given the extremely low base rate off which the SARB hiked. Other SA assets are 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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M&G 7% Target Income Fund

Target Income

Q1 2022

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Performance

The M&G 7% Target Income Fund returned 2.3% (after fees) for the quarter and 13.6% for the 12-month period ending 31 March 2022.

The largest asset-class contributor to the fund's absolute performance for the quarter was its exposure to SA bonds by far, followed by SA equities. International exposure detracted modestly from absolute returns, partly due to rand appreciation.

In terms of specific equity exposure, among the strongest equity contributors to absolute returns for the quarter were Sasol, Anglo American, Exxaro, Standard Bank, Absa, MTN and Foschini. Top detractors from absolute performance were Naspers and Prosus.

Strategy and positioning

The portfolio benefited from our ongoing preference for **SA nominal bonds** in Q1 due to their ongoing resilient performance and the flattening of the SA yield curve in the wake of the SARB's rate hikes, as well as the good-news 2023 National Budget. We still prefer the 7-12-year area of the curve and are also still holding bonds of 12-years and longer, all of which outperformed versus their shorter-dated counterparts over the quarter. 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.

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Within SA equities, in broad terms our exposure to the Resources sector, our overweight in banking shares and our underweight in retailers helped to boost the portfolio for the quarter. Its broad diversification of holdings also helped support performance.

We continued with our neutral positioning in **SA listed property** in Q1 2022. Although the overall sector and certain property counters are attractive, within SA equities we prefer other shares that we consider offer better value propositions for less risk. The retail segment remains weak and is facing serious headwinds in the rising interest rate environment, and the office segment is even weaker, characterised by high vacancies.

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
R395 824 019

Annualised performance	A class	CPI	B class
1 year	13.6%	5.6%	14.0%
2 years	15.6%	4.2%	16.0%
Since inception	6.3%	4.2%	-

Sources: M&G, Morningstar & Deutsche Securities

Lastly, despite the SARB's total 50bps of interest rate hikes, the fund remained heavily tilted away from **SA cash** in Q1 as our least preferred asset class, given the extremely low base rate off which the SARB hiked. Other SA assets are more attractive on a relative basis.

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