Quarterly Commentary

M&G Dividend Maximiser Fund

Equity

Q1 2025

Market overview

The new year started off quite differently to the expectations that shaped the outlook heading into 2025. After a strong performance by US equities in 2024, markets were optimistic that a new Republican administration would further fuel US exceptionalism.

However, the situation unfolded quite differently than anticipated in the first quarter. The heightened uncertainty and volatility due to the unpredictable nature of US trade policy has dampened growth expectations and weighed on US markets and the dollar. Trump's new term has been nothing short of chaotic and market moving as participants try to decipher the impact of regulations on asset prices and the economy in general.

Globally, tariff talks and the potential trade war were key drivers of market moves for the quarter, as well as regional dynamics around policy shifts.

Global equity (as measured by the MSCI All Country World Index) fell 1.3% during the quarter. US equities fared the worst in the major regions, with the Nasdaq showing the biggest fall (-10.3%) on the back of the moves in tech stocks. The S&P and Dow Jones lost 4.3% and 0.9% respectively for the quarter (all in US dollars). Global bonds fared relatively better with 2.6% (Bloomberg Global Aggregate Bond Index, in US dollars). In South Africa, the FTSE/JSE All Share Index returned 5.6% (in rand) on the back of strong performance in the precious metal and mining space. The resource sector rallied 33.7% in the quarter, with gold and PGM names delivering strong returns due to those commodities being up significantly in the month of March.

Performance

The M&G Dividend Maximiser Fund delivered a return of 2.4% (A class, net of fees) for the first quarter of 2025, outperforming its benchmark (the average of the general equity funds) by 0.5%. For the year ended 31 March 2025, the fund returned 18.1% (A class, net of fees), outperforming its benchmark by 0.3%. For the 3-year period ending 31 March 2025, the absolute performance of the Fund has been satisfactory, with an absolute return of 9% per annum over this period, outperforming the benchmark by 1.9% per year.

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

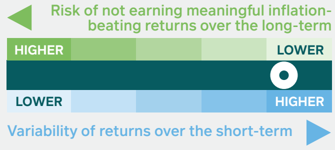
During the first quarter of 2025, new US policies, particularly on tariffs, increased the level of market uncertainty, which we think will cause risk premiums to rise across the world. In the short term, we may see risk premiums shrink for a few "safe haven" assets, like gold and US treasuries, but generally we think risk premiums and credit spreads could rise across the board. The broad-based tariffs that that were announced against most of the US trading partners will also likely cause countries to question the word "partner". This may cause countries to re-evaluate how much capital they deploy into US treasuries. We have witnessed countries such as China redeploying the capital from their maturing US treasury holdings into other assets, such as gold, over the last few years.

We think that the macroeconomic uncertainty together with the gold price rally into the face of rising real US interest rates and the large central bank buying of gold from China warrants a more risk-conscious approach to this difficult-to-value asset. For this reason, we are holding a larger gold company position than would normally be the case at this point in the cycle where gold miners are earning elevated margins. The material and relatively fast move lower in Chinese bond yields has also increased the relative attractiveness of gold to the Chinese market. Our overweight position to Anglogold, which was up by 67% in the quarter, was a contributor to performance over the last quarter, but this outperformance was more than offset from us not holding Harmony Gold, which was up by 77% in the quarter. Harmony Gold was the Fund's second largest detractor from performance for the quarter.

The fund's overweight position in MTN was the largest contributor to performance over the quarter. 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 our opinion, the current MTN Group share price is attributing low value for MTN Nigeria, despite it historically being the group's largest contributor to both operating profit and group value. The market has chosen to focus on the near-term negative impacts of the weaker naira on MTN Nigeria's operating costs – primarily its tower leases – and appears to assume that none of the increased cost can either be recovered from the consumer or shared with its service providers. Our view is that profit margins in Nigeria will recover both through the renegotiation of tower lease contracts and the recent regulatory approval for an industry-wide tariff increase. We are witnessing substantial price increases in many businesses in Nigeria currently as companies attempt to restore their profit margins post the significant currency depreciation. The underlying demand for voice and data services continues to be robust across most of MTN's markets, including Nigeria, while there is upside opportunity from the scaling of the Group's mobile money offering. Our quarrel with the market therefore on MTN is that it is focusing on the short term rather than the long term. In January 2025, the Nigerian Telecoms regulator announced that they would allow for telecoms operators to take up to 50% price increases. This caused substantial outperformance of MTN in January 2025.

Annualised performance	A class	Benchmark	T class	B class	F class
1 year	18.1%	17.7%	18.1%	18.4%	18.4%
3 years	9.0%	7.1%	9.5%	9.4%	9.9%
5 years	19.0%	16.5%	19.4%	19.4%	19.8%
7 years	10.2%	7.9%	10.7%	10.6%	11.0%
10 years	8.3%	6.1%	8.8%	8.7%	-
20 years	13.6%	10.8%	-	-	-
Since inception	15.3%	12.6%	-	-	-

Risk profile



Fund facts

Fund objective

To provide broad-based exposure to shares that offer value and medium- to long-term growth. The portfolio managers seek to invest in companies where returns can be achieved from any or all of growth in earnings, growth in dividends and a re-rating of its share price; however, there will be a bias towards companies offering high but sustainable dividend yields.

Investor profile

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

Investment mandate

The Fund invests in companies that meet the portfolio managers' value criteria. The Fund will have a bias towards investment in companies offering high, sustainable dividend yields; however, it is not restricted from investing in companies offering earnings growth or possible market re-rating. The intended maximum limits are Equity 100%, Property 10% and Foreign 45%.

Fund managers

Ross Biggs
Kaitlin Byrne

ASISA category

South African - Equity - General

Benchmark

ASISA South African - Equity - General Category Average

Inception date

2 August 1999

Fund size

R4 446 709 877

Awards

Raging Bull: 2006, 2008

Morningstar/Standard & Poor's: 2007, 2009

Sources: M&G Investments, Morningstar & Deutsche Securities

While global turmoil and the associated volatility has affected assets around the world, the South African political developments unfolding simultaneously have only added to investors' concerns. Parliament's adoption of the 're-drafted' national budget without the support of the DA has significantly increased the risk that the GNU unravels in its current form. This uncertainty caused a reversal in the first quarter of some of the rally that we had seen in SA-exposed companies during 2024.

The retail sector in particular fell in the last quarter. The Fund not holding Mr Price was the second largest contributor to performance. This outperformance was however offset by the Fund's overweight position to Spar.

Mr Price has long been regarded as a good quality business, which has consistently grown. We think that this growth though is getting a lot harder for the business because of a much more competitive market in South Africa with the entry of more competitors aimed at Mr Prices' customer base. Mr Price has been trying to grow by investing in businesses outside its core business and this has substantially reduced the return on equity that the core business generates. We think that Mr Price is expensively valued and see better opportunities in the market.

We continue to have an overweight position to Spar. The Board and the Executive team of Spar have moved swiftly to address the key operational challenge in the core South African business, which was caused by a poor software implementation in the main distribution centre in Spar's biggest region, KwaZulu Natal. Loyalty levels from franchisees have improved and we think the South African business of Spar will return to earning the good returns that we have seen it deliver in the past. We think that the return of the group's focus to its key South African and Irish businesses will generate good returns for shareholders. Encouragingly, the Board has also announced a review of the Swiss business, which currently earns a return well below its' cost of capital. We think that through these initiatives, Spar should be able to deliver good earnings and rerate off what we think is a very low rating for the quality of this business.

We continue to think that Banks sector looks relatively more attractive than the retail sector and we remain overweight the banks sector. South Africa has a very well-regulated banks sector and credit risk within the large banks have generally been very well managed through cycles. We think that good earnings and dividend growth in the banking sector should provide a good opportunity to generate alpha within this sector by being overweight relatively undervalued banks. We continue to be prefer Standard Bank, ABSA and Investec, which are substantially cheaper than Capitec.

We think that South African banks continue to trade at undemanding valuations.

When evaluating the future cash flows of a business, it is also important to consider both the operational and financial leverage within the company. Where there is slowing growth, high fixed costs and operational leverage can mean a fall in profits. High debt and financial leverage can similarly impact cash flows negatively. A combination of both high operational leverage and financial leverage can be fatal to a company in a recessionary environment. The risk of increasing company bankruptcies is rising.

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 for instance. We rather look to construct portfolios with many different and diversified ideas, all of which we think have favourable pay-off profiles. In this way, we hopefully have portfolios which can deliver good returns under many different economic environments.

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

There are many high-quality South African companies with sound business models and strong, well-capitalised balance sheets that are trading at undemanding valuations. We're in a position where we have flexibility to add attractive assets opportunistically. We are, however, mindful of the possibility of further market surprises and are ready to take advantage of opportunities that arise.

The main detractor from performance for the quarter and the year related to the Fund's approximately 20% offshore exposure to the M&G Global Equity Fund. The M&G Global Equity Fund returned -4.9% over the quarter in South African. Over the full year, the M&G Global Equity Fund returned 4.8%, which was substantially below the benchmark return of 17.7%. Our total offshore weighting of 23%, consisting of approximately 20% in the M&G Global Equity Fund and 3% in the M&G Africa Equity Fund, can be viewed in context of the maximum allowable offshore limit of 45% for this fund. The Fund's low weighting to offshore reflects that we think the South African market is relatively attractively priced.

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Strategy and positioning

In our view, the tariffs that Trump is imposing are bringing increased uncertainty to consumers, businesses and investors across the world. The longer this uncertainty persists, the more likely businesses are going to delay and reduce investment; and the more likely that global growth will slow, and returns on capital will deteriorate as operational gearing kicks in. Risk premiums are likely to rise in this environment. The cost of capital is rising.

We continue to think that the South African equity market is attractively valued over the medium term due to the prevailing levels of pessimism reflected in share prices and valuations. The Price to Book of the JSE remains close to 1.8X as at the end of March 2025, which we think is an attractive valuation level even given the heightened uncertainty in the market. We think that the South African rand is also attractively priced. In a recession scenario, these valuation levels together with sound stock picking should provide some margin of safety.

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Application forms

An electronic copy of this document is available at www.mandg.co.za

Sources: M&G Investments, Morningstar & Deutsche Securities

M&G Investments

The Fund's relatively low offshore exposure reflects our view that the SA market and SA currency represent very good value. Today, we continue to think that Emerging Markets and African equities represent good value, and we think the SA rand is attractive. The Fund has approximately 20% allocated offshore. We also have a further 3% in African markets excluding South Africa, which we think are very attractively priced.

The focus of the fund continues to be on finding companies that are undervalued, and 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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