M&G Investments

M&G High Interest Fund

Income

This fund is capped to new investors.

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). Emerging markets, as measured by the MSCI Emerging Market Index, showed positive performance of 2.9% for the quarter, outperforming the developed market counterparts that delivered -1.8% (MSCI World). In emerging markets, Brazil's Bovespa (16.8%), China (15.9%) and South Africa (8.7%) performing strongly during the quarter (all in US dollars). In Turkey, some country-specific market moves due to widespread anti-government protests in the region in March led the Turkish equity market to be sold off, ending the quarter on -8.9% (in US dollars). Global bonds fared relatively better with 2.6% (Bloomberg Global Aggregate Bond Index, in US dollars).

In South Africa, Fiscal uncertainty increased following the delay of the National Budget Speech, initially scheduled for 19 February, due to coalition disagreements. The budget was eventually re-presented on 12 March, with the proposed 2% VAT hike scaled back to 50 basis points over the next two years. The most significant impact was the effect this had on the Government of National Unity (GNU), as the ANC and DA clashed over the budget proposal, undermining the stability of the government. On the economic front, South Africa's GDP showed modest growth of 0.6% q/q in Q4 2024, narrowly avoiding a technical recession, following a contraction of 0.3% in Q3. Annual consumer price inflation held steady at 3.2% y/yr in February 2025. As expected, the South African Reserve Bank (SARB) kept the repo rate unchanged at 7.5% in March, maintaining a cautious stance after the rate cut in January.

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. The strong rally in SA equity for the quarter has been very concentrated in a few bigger names, such as gold companies, Naspers/Prosus, MTN and a few other rand-hedge stocks, like British American Tobacco and Richemont. Industrials delivered 3.1% while financials ended the quarter down 1.8%.

SA bonds had a more muted quarter but managed to add small gains of 0.7% as per the All Bond Index. Concerns around the budget have led to a steeper yield curve with yields on long-dated bonds rising somewhat during March compared to flatter levels on the short-end of the curve. For inflation-linked bonds, the Composite Inflation-Linked Bond Index also delivered 0.7% for the quarter, with a similar steepening of the curve for those instruments (all in rand).

Performance

The M&G High Interest Fund performed adequately over this more challenging period, returning 2% (A class, net of fees) for the first quarter and outperforming its benchmark by 5bps.

For the year, the fund delivered a return of 8.7% (A class, net of fees), delivering a 39bps outperformance to its benchmark.

Positioning

South African fixed income assets had a somewhat challenging start to the year, as was the case in most other countries. The South African government bond curve moved higher by about 25bps on average, and the curve also steepened, such that back-end bonds lost money over the quarter. The money market curve also steepened, with the very front-end pulled down by the SARB's January rate cut, while the longer-dated NCD yields didn't change much.

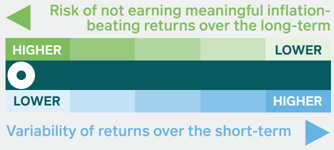
Floating rate NCD spreads continued their downward trend, and when compared to fixed-rate NCDs, implying no further rate cuts by the SARB. This is roughly consistent with the FRA curve, which is currently pricing in one further rate cut. FRA market is positioned for the repo rate to bottom at 7.25% in this cycle, and this view has not changed over the quarter. This view seems reasonable to us. The SARB estimates the neutral real repo rate at between 250bps and 300bps, and if you add this to the mid-point of the inflation target band (4.5%), that would suggest a neutral repo rate of 7% to 7.5%.

The treasury bill curve was broadly unchanged over the quarter, and these instruments are still looking attractive to us relative to shorter-dated NCDs, especially the 6-month and 9-month tenors. For the M&G High Interest Fund specifically, the fact that the fund can hold longer-dated instruments makes TBs a less compelling investment relative to what else is available, and we remain uninvested in TBs.

This quarter we were successful in auctions of new

Annualised performance	A class	Benchmark	X class	D class
1 year	8.7%	8.3%	8.8%	8.9%
3 years	8.0%	7.5%	8.1%	8.2%
5 years	6.3%	6.2%	6.4%	6.5%
7 years	6.7%	6.5%	6.8%	6.9%
10 years	7.0%	6.7%	7.1%	7.2%
Since inception	6.6%	6.4%	-	-

Risk profile



Fund facts

Fund objective

To maximise the current level of income above money market and current account yields, while providing maximum capital stability and a high degree of liquidity. This actively managed fund invests in slightly longer duration instruments than money market funds. The daily unit price will move slightly, in line with the performance of its holdings.

Investor profile

Individuals requiring a higher yield than that from a money market or current account, without taking on unnecessary risk. Capital stability and a high income yield are more important than long-term capital growth. The recommended investment horizon is 3-12 months, or longer depending on income needs and risk profile.

Investment mandate

The Fund invests in a flexible mix of non-equity securities. Its maximum weighted average duration is 180 days and the maximum tenor of any one instrument is 36 months. The Fund is managed to comply with regulations governing retirement fund investments (Regulation 28).

Fund managers

Roshen Harry
René Prinsloo

ASISA category

South African - Interest Bearing - Short Term

Benchmark

STeFI Composite Index measured over a rolling 12-month period

Inception date

8 December 2010

Fund size

R12 442 280 106

Sources: M&G Investments, Morningstar & Deutsche Securities instruments issued by Pepkor, Standard Bank, Nedbank and Absa. Funds were deployed into these instruments from the maturing I2025 government ILB which was a long-held position in the fund. The fund duration, at 44 days, remains fairly low and relatively unchanged over the quarter.

Credit trends

Total credit issuance (excluding government issuances) was off to a slow start in Q1 2025 with only R27.1bn issued, compared to R54.1bn in Q4 2024. The Q1 issuance was down 14% compared to the same quarter in the prior year (Q1 2024: R31.7bn issued). Rolling 12 months issuance to Q1 2025 sits at R165.5bn compared to R143.6bn for the 12 months to Q1 2024, an increase of 15%.

The make-up of issuance for the quarter followed established trends - issuance being almost exclusively floating-rate notes, with auctions accounting for 58% of placements by volume.

Data compiled by RMB's Credit Research team indicates that banks and financial issuers dominated primary market issuance for the quarter contributing to 52% of gross issuance, followed by corporates at 27%. Standard Bank was the largest bank/financials issuer of the quarter, raising R2.5bn in senior bonds, and R1.5bn in an Additional Tier 1 capital instrument. Pepkor Holdings was the largest corporate issuer for the quarter, having raised R3.3bn.

Zeda Financing Ltd held its inaugural debt capital markets auction in March 2025. The auction was well-supported, with more than R2.3bn in bids received. A total of R850m was issued across a 3- and 5-year notes offering, resulting in a subscription rate of 3.2x. Industrial Development Corporation issued its inaugural sustainable use of proceeds bonds in March 2025, raising R2.046bn across 5, 7, 10 and 12-year notes. The auction was 1.7x oversubscribed.

Transnet privately placed a R2.2bn 3-year senior unsecured and non-guaranteed floating rate note at 320 basis points (bps) over 3-month JIBAR, making it the largest SOE issuer year-to-date. This is the first non-guaranteed term note issued by Transnet in the local debt capital market since February 2022.

Numerous rating actions took place during the quarter. During February 2025, Moody's upgraded Barloworld Ltd national scale by one notch, to Aa1.za from Aa2.za. Moody's noted that the rating action reflects that Barloworld has maintained, and is expected to continue to maintain, adequate credit metrics despite a downturn in the commodity cycle, which has caused a decline in demand for heavy equipment in its main market of Southern Africa.

GCR has assigned Motus an initial long term issuer rating of AA-(za) on the back of its leading market position in the South African automotive industry, and strong financial profile. The ratings also reflect Motus' product and geographic diversification, which has helped sustain earnings growth and a moderate gearing and liquidity profile.

GCR has placed Octodec Investments rating of A-(za) on negative outlook due to sluggish financial performance, which has added to funding and liquidity pressure. GCR noted that the negative outlook reflects the weak operating environment that has hampered an improvement in Octodec's key property performance metrics over the past three years. As a result, key gearing and liquidity metrics have deteriorated slightly, which may continue if there is no meaningful improvement in property performance. M&G has no exposure to Octodec.

GCR has downgraded Accelerate Property Fund's national scale credit rating to C(za) from B(za) on increasing material risk of a near-term default or restructuring/distressed debt exchange. The outlook remains on rating watch negative. M&G has no exposure to Accelerate Property Fund.

During March, Moody's upgraded GreenHouse Funding 5 (RF) Ltd's B notes to A3.za(sf) from Baa3.za(sf). The rating action was prompted by an increase in credit enhancement.

Fixed rate spreads closed the quarter -2.7 bps lower over the first quarter of the year. Floating rate credit spreads closed -0.5 bps lower over the first quarter of the year.

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Application forms

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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.

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 Investments, Morningstar & Deutsche Securities