

M&G Namibian Enhanced Income Fund

Multi-asset

Q4 2023

Market overview

The final quarter of 2023 saw a synchronized rally across global bonds and equities as falling inflation in many economies led central banks to continue to pause or effectively end their interest rate hiking cycles and start to look towards rate cuts, particularly in the US. Although a growth slowdown is still expected in 2024, this dovish tone and the gradually improving outlook buoyed investor sentiment, resulting in strong gains in November and renewed bullishness in December to end the year with unexpectedly good asset performance.

South Africa and Namibia

In South Africa, at its November policy meeting the South African Reserve Bank (SARB) voted unanimously to keep the repo rate steady at 8.25%, as expected. Governor Lesetja Kanyago still sounded relatively hawkish regarding inflation but noted that growth was likely to remain muted due to ongoing energy and logistical constraints (at ports and railways) weighing on economic activity and adding to the costs of doing business. The Q3 2023 GDP contracted more than expected at -0.7% y/y (versus -0.2% forecast), with output declining in agriculture, mining and construction, while services output expanded. Looking ahead, the SARB projected GDP growth at 0.8% for 2023, 1.2% in 2024 and 1.3% in 2025. Besides local headwinds to growth, China's ongoing slower growth presents challenges for SA's commodity exports.

Headline November CPI declined to 5.5% y/y from 5.9% y/y in October, largely on the back of energy price decreases. However, after falling in Q3, surveyed inflation expectations for 2024 rose to 5.7% from 5.5% in Q4, according to the Bureau for Economic Research (BER). Consumer confidence remained in the doldrums, as the FNB/BER Consumer Confidence Index registered -17 points in Q4 from -16 points in Q3.

South African bonds delivered an impressive 8.1% for the quarter. This saw the yield on the 10-year SA government bond tumble from just over 11% at the start of the quarter to 9.8% by the end. Meanwhile, the rand gained 2.7% against a weaker US dollar in Q4, but in total lost 8.2% against the US dollar, 14.1% versus the UK pound and 12.1% against the euro in 2023.

South African assets were weighed down in 2023 by ongoing general pessimism over the country's weak growth prospects, loadshedding and uncertain government finances, exacerbated by the higher risks associated with the grey-listing of SA in global financial transactions and incidents like the "Lady R" and hosting of the BRICS Summit. This manifested in rand weakness, equity underperformance against the MSCI EM Index and continuing low valuations on SA stocks and bonds. However,

SA bonds notably outperformed their global counterparts for the year, helped by their cheap valuations at the start of 2023, delivering a 9.7% annual return.

In Namibia, the Bank of Namibia left its main repo rate unchanged at 7.75% at both its October and December policy meetings, broadly following the SARB to maintain the N\$ peg to the rand. In its December Economic Outlook, the central bank forecast 2023 growth at 3.9% following the strong 7.2% expansion seen in Q3 2023, helped by a surge in mining and quarrying, as well as higher-than-expected oil and gas exploration activity. GDP growth for 2024 is seen decelerating to 3.4% due to softer global demand for commodities and an expected contraction in agricultural production, plus a slowdown in consumer and business spending amid high interest rates. The Bank reported increases in both uranium and gold production in 2023, and a decline in diamond production versus the very high levels of 2022. Namibian CPI fell to 5.7% y/y in November from 6.0% in October, and is seen averaging 5.9% in 2023 and 4.8% in 2024.

Namibian assets broadly outperformed their SA peers for the quarter, escaping much of the elevated risk associated with South Africa. Namibian bonds recorded further gains thanks to improving government deficit projections and lower bond issuance, as well as higher demand due to the localisation regulations, with yield spreads versus SA bonds continuing to narrow. Namibia's IJG All Bond Index delivered 6.7% over Q4, while the IJG Money Market Index returned 2.1%.

Performance

The Namibian Enhanced Income Fund returned 3.0%, outperforming its benchmark return of 2.1% for the fourth quarter. For the year ended 31 December 2023, the fund returned 8.5% (net of fees), outperforming its benchmark return of 8.1%.

Strategy and outlook

During the quarter we maintained our light positioning in SA listed property due to liquidity considerations. Spreads available from offshore credit remain tight and not yet attractive enough for us to allocate offshore. The fund has material exposure to the South African M&G Enhanced Income Fund unit trust and the balance is invested in Namibian assets. The fund has a preference for Namibian inflation-linked bonds due to the high level of real yields on offer and the fact that they provide a form of insurance to the portfolio were the inflation outlook to deteriorate. Our preference is in the short end of this yield curve. The fund also has some exposure to bank floating-rate notes. Over the quarter our preference was to maintain a decent amount of risk which was beneficial considering the bond rally that ensued. □

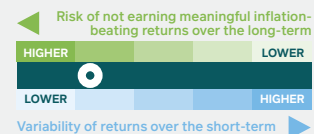
Annualised performance

	A class	Benchmark	B class
1 year	8.5%	8.1%	8.8%
3 years	6.2%	6.0%	6.6%
5 years	6.0%	6.2%	6.4%
7 years	6.1%	6.8%	6.5%
Since inception	6.2%	6.8%	-

Disclaimer

MandG Investments Unit Trusts (Namibia) Ltd (Registration number: 2007/609) is an approved Management Company in terms of the Unit Trusts Control Act, 1981. Unit trusts are generally medium- to long-term investments. The value of units may go down as well as up and past performance is not necessarily a guide to the future. A schedule of fees and charges and maximum commissions is available on request from the Management Company. Commission and incentives may be paid and if so, would be included in the overall costs. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. Different classes of units may apply to the portfolio and are subject to different fees and charges. Unit prices are calculated on a net asset value (NAV) basis, which is the total value of all the assets in the portfolio including any income accrual and less any permissible deductions from the portfolio divided by the number of units in issue. Fund valuations take place at approximately 14h30 Namibian time each day and forward pricing is used. Purchase and repurchase requests must be received by the manager by 13h30 (09h00 for the Money Market Fund) Namibian time each business day. In calculating performance figures initial charges are not taken into account. Annual service charges are deducted in all calculations. Performance figures are sourced from Morningstar and are based on lump sum investments using NAV prices with gross income reinvested.

Risk profile



Fund facts

Fund managers

David Knee
Roshen Harry

Morningstar category

Africa Fixed Income

Benchmark

IJG Money Market Index

Inception date

19 June 2014

Fund size

N\$5 432 823

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Application forms

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