MandG Investments Unit Trusts (Namibia) Ltd

Annual Report 2021

Managing director's message to unit holders

Flagship funds outperform in 2021

It proved to be a remarkable year for the company in 2021 as our long-standing global parent, London-based M&G Investments, became the majority shareholder in our South African and Namibian operations and we subsequently adopted the name M&G Investments Unit Trusts (Namibia) to align with its global identity. We also changed all of our fund names from Prudential to M&G. It was also a positive 12 months in terms of investment performance for our clients, as despite the worrisome impact of the new Coronavirus variants and lockdowns, we saw strong returns from both global developed market equities and our local investments, both equities and bonds. And importantly, our astute active asset allocation choices and stock and bond selection helped the M&G Namibian Balanced and Inflation Plus unit trusts outperform their benchmarks for the year.

Global bonds were one of the few asset classes to post negative returns, coming under pressure as many central banks finally started to pare back on their ultra-easy monetary policies by trimming asset purchases and/or hiking interest rates to fight rising inflation. In US$ terms, global equities (the MSCI All Country World Index) returned 18.5% for the year, with emerging markets significantly underperforming developed markets at -2.5% and 21.8%, respectively. Global bonds delivered -4.7%, but global property recorded a strong rebound with a 31.3% annual return.

The South African and Namibian equity market outperformed many of their peers, boosted by their substantial exposure to resources companies - many local miners benefited from the ongoing rally in commodity prices – but excellent returns were recorded across most sectors. The FTSE/JSE Capped SWIX Index closed 2021 with a total return of 27.1%. Namibia's NSX Overall Index performance was even stronger, offering investors a 33.9% return over the 12 months. The latter was driven by a 54.9% return from Industrials, 51.2% from Resources, 26.2% from Financials and 19.5% from Healthcare.

At the same time, South African bonds defied the global negative trend, registered a world-beating 8.4% annual return in rands for 2021 on the back of robust investor demand (arising from their attractive real yields relative to other sovereign bonds and a small improvement in perceived risks). This came despite the South African Reserve Bank (SARB) raising its key interest rate by 0.25% to 3.75% in November amid rising inflation, and signalling further hikes to come. SA inflation linked-bonds delivered 15.5% for the year and cash (as measured by the STeFI Composite) produced 3.8%.

In Namibia, the Bank of Namibia (BoN) chose not to follow the SARB's move given the economy's slower rate of recovery, and the fact that its repo rate was already at 3.75%. However, analysts do expect it to remain largely in sync with South Africa going forward given the 1:1 peg of the Namibian dollar with the rand. The IJG All Bond Index returned 4.4% for the year, while cash produced 4.2% as measured by the IJG Money Market Index.

However, the rand and Namibian dollar weakened versus the major global currencies, finishing the year a total of 9.1% lower against the US dollar, 8.0% down versus the pound sterling and 0.9% weaker compared to the euro. This would have boosted investors' returns from foreign-currency assets.

M&G Investments fund performance

We are very pleased to report that three out of M&G Investments' four Namibian unit trusts outperformed their benchmarks in 2021. The outperformance stemmed from a number of factors. One of these was that we took advantage of the opportunities presented by 2020's equity market correction to build positions in a handful of specific high-quality companies that we bought at generationally-cheap valuations that we believed were excellent opportunities. Some of these were among our largest holdings that contributed the most to alpha in 2021, including MTN, Investec, Sasol and Anglo American – a wide range of sectors and income sources. Equally important was our active asset allocation during the year, as we added value from our bond positioning across nominal and inflation-linked bonds.

The annualised returns (net of fees) of our Namibian retail (A Class) funds to the end of 2021 are listed below.

Fund name		1-year return (% p.a.)	3-year return (% p.a.)	5-year return (% p.a.)
M&G Namibian Balanced Fund		18.8	10.2	8.1
	Benchmark	17.3	9.9	7.6
M&G Namibian Inflation Plus Fund		13.1	8.4	7.3
	Benchmark	8.0	6.8	7.8
M&G Namibian Enhanced Income Fund		3.6	5.0	5.5
	Benchmark	4.2	5.8	6.7
M&G Namibian Money Market Fund		3.5	5.2	6.2
	Benchmark	2.7	4.5	5.9

Source: Morningstar, data to 31 December 2021

Managing Director’s message to unit holders (continued)

Going into 2022

In the new year, some headwinds to growth are presenting themselves in the form of rising global inflation, higher global and local interest rates, the potential of new Covid strains, geopolitical tensions, and political concerns both locally and abroad, all arising from the interconnected world we live in. And after the unusually high returns investors enjoyed in 2021, starting valuations for both SA equities and bonds are now more expensive than they were at the beginning of last year.

However, looking at the fundamentals, we still see many lucrative investment opportunities across different asset classes over the medium term. This view is based predominantly on the fact that, even though local equity valuations did rise last year, this was off a very cheap base, and those gains lagged many other markets in terms of both their absolute level and re-rating. Negative investor sentiment has weighed heavily on our local assets for many years, and this presents opportunities for further strong potential returns going forward, should we experience even only a few small positive developments in the economy and government finances in 2022.

With South African and Namibian equities and bonds valued more cheaply than global equities and bonds, we continue to favour local over offshore investments in our multi-asset portfolios. We do retain a healthy exposure to offshore equities and cash, however, given the valuable diversification benefits they offer, as well as select emerging market bonds for their attractively high yields.

In our view, the market is overly pessimistic about local companies’ expected performances – there are many excellent businesses like banks, retailers and miners that have demonstrated solid long-term profitability, and we believe many have the potential to deliver strong results going forward, with earnings and dividends already showing a return to growth. We are particularly excited about the return potential from our overweight positions in banks: Standard Bank, Absa and Investec are among the top 10 equity holdings in our flagship funds. Banks benefit from a rising interest rate cycle as long as its pace and extent remain relatively moderate – which we currently expect from the SARB and BoN.

We prefer SA and Namibian equities to property counters in our portfolios due to the continued structural challenges the listed property sector faces, such as oversupply in the office space, rising interest rates and negative rental reversions.

Meanwhile, we believe local nominal bonds present investors with an attractive opportunity to earn lucrative returns over time. The yield on the 20-year SA government bond remains well over 10%, near its highest level since 2001, offering investors adequate compensation for the risks involved. Although inflation has been rising, for now we believe it is not likely to become a longer-term, structural problem. Currently SA inflation expectations remain relatively subdued compared to many other countries, and within the SARB’s 3-6% inflation target band.

Global sovereign bonds are still offering investors negative real yields as a result of the historically deep interest rate cuts made by global central banks during the pandemic. We have reduced our global bond position further in favour of SA nominal bonds in many of our portfolios. We also hold more SA government bonds and fewer corporate bonds than usual, given that there’s little need for us to take on the additional credit risk at the current elevated yields on offer. We prefer longer-dated bonds due to the extra yield they offer as a result of the steepness of the local yield curve. We believe investors are adequately compensated for the extra risk associated with the longer duration.

Local cash continues to be an unattractive investment option for now. This is because of the very low base off which our rates are rising – leaving potential cash returns much lower than those from SA equities and SA bonds. As local interest rates rise, cash should become more attractive again. However, based on the SARB’s projections, it will take time before it becomes a viable option for longer-term investors. Given the large shift of local investors into cash over the past 3-5 years, investors will need to reassess their cash holdings very carefully.

In summary, despite the risks presenting themselves in 2022, we believe local equity and bond valuations remain attractive, and have the potential to deliver strong returns to compensate for those risks over the medium term. We are confident that our client portfolios are well-positioned to benefit from ongoing global and local economic growth, especially since current valuations for many of the assets we are holding remain at relatively cheap levels on both an historic and relative basis. Those investors who stick with their investments should be well rewarded for their patience over the medium term.

To conclude, I’d like to remind you that, going forward, our closer integration with M&G’s global investment teams means that we are bringing even more of their impressive store of expertise and resources to bear on managing our portfolios. Also, even though we have changed our name to M&G Investments, we still retain our long-held successful investment philosophy and process, well-resourced and experienced local teams and our focus on consistently delivering world-class client service and benchmark-beating client returns, above all.

Regards,

Ben Bertolini
Managing Director
M&G Investments Unit Trusts (Namibia) Ltd

Trustee Report on the MandG Investments Unit Trust (Namibia) Limited

As Trustees to the MandG Investments Unit Trusts (Namibia) Scheme (“the Scheme”), we are entrusted by the scheme to report to unit holders on the administration of the Scheme during the accounting period under review.

We advise for the period 1 January 2021 to 31 December 2021 we reasonably believe that the Manager has administered the Scheme in accordance with:

(i) the limitations imposed on the investment by the Act; and

(ii) the provisions of the Act and the relevant deeds.

We confirm that according to the records available to us there were no material instances of compliance contraventions and therefore no consequent losses incurred by the Portfolio in the year, due to breaches of relevant Trust Deed.

Yours faithfully,

Ian Erlank
Markets Head

23 March 2022

MandG Investments Unit Trusts (Namibia) Ltd Collective Investment Schemes Annual Report for the year ended 31 December 2021

This summarised report is extracted from the audited information, but is not itself audited. The annual financial statements were audited by Ernst & Young Namibia, who expressed an unmodified opinion on 23 March 2022. The audited annual financial statements and the auditor’s report thereon are available for inspection at the Schemes’ registered office.

The directors take full responsibility for the preparation of the abridged report and the financial information has been correctly extracted from the underlying annual financial statements.

Disclaimer

MandG Investments Unit Trusts (Namibia) Ltd is an approved Management Company in terms of the Namibian Unit Trusts Control Act, 1981. Unit trust funds are generally medium- to long-term investments. The value of a unit may go down as well as up. Past performance is not necessarily a guide to the future. Unit trust prices are calculated on a net asset value basis, which is the total book value of all assets in the portfolio divided by the number of units in issue. Fluctuations or movements in exchange rates may also be the cause of the value of underlying international investments going up or down. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. Commissions and incentives may be paid and if so, would be included in the overall costs. Different classes of units apply to the MandG Investments Unit Trusts (Namibia) Ltd Schemes and are subject to different fees and charges. Permissible deductions may include management fees, NAMFISA levies and auditor’s fees. A detailed schedule of fees and charges and maximum commissions is available on request from the management company. Forward pricing is used. All of the unit trusts may be capped at any time in order for them to be managed in accordance with their mandates.

The M&G Namibian Money Market Fund aims to maintain a constant price of 100 cents per unit. The total return to the investor is primarily made up of interest received but may also include any gain or loss made on any particular instrument held. In most cases this may have the effect of increasing or decreasing the daily yield, but in some cases, for example in the event of a default on the part of an issuer of any instrument held by the Fund, it can have the effect of a capital loss. Such losses will be borne by the M&G Namibian Money Market Fund and its investors and in order to maintain a constant price of 100 cents per unit, investors’ unit holdings will be reduced to the extent of such losses.

MandG Investments Unit Trusts (Namibia) Ltd
Physical address: 6 Feld Street, Windhoek, Namibia

M&G Annual Management Fee

There are no initial charges levied by MandG Investments Unit Trusts (Namibia) Ltd.
Initial fees may be agreed between the investor and the financial adviser.

M&G annual management fee (Excl. VAT)	Retail Units: (A Class)	Institutional: (B Class)
M&G Namibian Balanced Fund	1.25%	0.75%
M&G Namibian Inflation Plus Fund	1.00%	0.60%
M&G Namibian Enhanced Income Fund	0.85%	0.50%
M&G Namibian Money Market Fund	0.50%	0.00%

Distributions

Note: Only the funds that have distributed for 2021 have been included in the distribution tables.

Fund	Declaration period	Retail (A Class) Cents per unit	Institutional (B Class) Cents per unit
M&G Namibian Balanced Fund	31-Dec-21	2.79	3.34
	30-Jun-21	2.08	2.60
M&G Namibian Inflation Plus Fund	31-Dec-21	5.48	6.08
	30-Jun-21	4.50	4.96
M&G Namibian Enhanced Income Fund	31-Dec-21	2.09	2.18
	30-Sep-21	0.74	0.83
	30-Jun-21	0.77	0.86
	31-Mar-21	0.79	0.87
M&G Namibian Money Market Fund	31-Dec-21	0.33	
	30-Nov-21	0.24	
	31-Oct-21	0.33	
	30-Sep-21	0.31	
	31-Aug-21	0.32	
	31-Jul-21	0.31	
	30-Jun-21	0.28	
	31-May-21	0.30	
	30-Apr-21	0.30	
	31-Mar-21	0.22	
	28-Feb-21	0.26	
	31-Jan-21	0.29	

Retail (A Class) Units

Annualised Performance (%) as at 31 December 2021

Fund	1 year	2 years	3 years	4 years	5 years	Since inception	Fund inception date
M&G Namibian Balanced Fund	18.79	10.64	10.18	7.16	8.12	8.60	1 August 2008
M&G Namibian Inflation Plus Fund	13.11	8.11	8.44	6.70	7.30	10.55	15 September 2003
M&G Namibian Money Market Fund	3.53	4.16	5.21	5.78	6.21	6.00	12 March 2010
M&G Namibian Enhanced Income Fund	3.55	3.71	4.98	4.96	5.54	5.80	19 June 2014

Source: Morningstar performance figures for the Funds are based on NAV price.

Institutional (B Class) Units

Annualised Performance (%) as at 31 December 2021

Fund	1 year	2 years	3 years	4 years	5 years	Since inception	Fund inception date
M&G Namibian Balanced Fund	19.37	11.18	10.75	7.71	8.68	9.18	1 August 2008
M&G Namibian Inflation Plus Fund	13.52	8.52	8.86	7.11	7.71	10.14	1 July 2011
M&G Namibian Enhanced Income Fund	3.93	4.08	5.34	5.32	5.90	6.18	19 June 2014

Source: Morningstar performance figures for the Funds are based on NAV price.

Our financial information

Statement of financial position as at 31 December 2021

	M&G Namibian Inflation Plus Fund	M&G Namibian Balanced Fund	M&G Namibian Money Market Fund	M&G Namibian Enhanced Income Fund
Securities at market value	1 860 254 602	348 441 643	1 148 136 142	2 957 094
Other assets	301 468 317	119 173 361	266 356 407	365 943
Total	**2 161 722 919**	**467 615 004**	**1 414 492 549**	**3 323 037**
Total unitholder funds	2 119 207 679	461 054 520	1 408 965 837	3 251 935
Total liabilities	42 515 240	6 560 484	5 526 712	71 102
Total	**2 161 722 919**	**467 615 004**	**1 414 492 549**	**3 323 037**
Net income	73 205 792	10 748 122	54 188 257	141 264
Distributions	**73 202 790**	**10 753 330**	**54 188 259**	**141 265**
Undistributed income/(deficit) at year end	3 002	(5 208)	(2)	(1)
Net income/(loss) after distributions*	**7**	**(3)**	**1**	**(1)**
Difference (income attributable to unitholders opening balance)	2 995	(5 205)	(3)	0

*Net income/(loss) per statement of comprehensive income after adjusting for net fair value gains & losses and transaction costs

Contact us

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