M&G Investments

Quarter 1 2022

Consider this

Tencent:
Conquering the gaming Metaverse

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FPI Financial Planning Institute of Southern Africa
THE PROFESSIONAL STANDARD

1.5 CPD POINTS
FPI members can claim 1.5 CPD points for this edition.

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Chris Sickle
Chief Executive Officer

Letter from the CEO

The first quarter of 2022 unexpectedly saw high levels of financial market volatility as uncertainty over global inflation and interest rate policy, 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. This combination meant that many global asset returns, even from usual safe-havens like US Treasuries, were in the red. For the year-to-date period ended 25 March 2022, the MSCI World All Cap Index (USD) returned -5.4%, the MSCI Emerging Markets Index produced -8.3%, and the Bloomberg Global Aggregate Bond Index delivered -7.1%.

Commodity-producer South Africa was a beneficiary of the ensuing spikes in precious metals and other commodity prices. However, this was offset to some extent in March by global risk-off investor sentiment and weakness in Naspers/Prosus shares resulting from a further sell-off in Tencent amid a renewed Chinese government regulatory crackdown. The South African Reserve Bank (SARB) also hiked interest rates by 50bps during the quarter, following in the wake of the US Federal Reserve.

Consequently we saw the FTSE/JSE Capped SWIX produce a 4.9% total return for the year-to-date period ended 25 March 2022, underpinned by a 19.4% return from Resources and 12.6% from Financials. Meanwhile, Naspers and Prosus lost over one-third of their values year-to-date, Industrials delivered -15.1% and the All Property Index produced -2.9%. However, local nominal bond returns were positive at 1.2% for the year-to-date period ended 25 March 2022, and inflation-linked bonds returned 0.3%. Finally, the rand appreciated notably against the US dollar and other major global currencies for the year-to-date period, gaining 8.9% versus the greenback, 11.1% versus the UK pound sterling and 11.9% against the euro.

M&G portfolio performance

With events like the Russian invasion of Ukraine, since we don't pretend to know what the future will hold, we do not position our portfolios to benefit from only a narrow range of possible outcomes. We rather look to construct portfolios with many investment ideas, all of which we believe have favourable pay-off profiles. In turbulent periods such as these, the value of this diversification is evident, although there was no escaping the poor global returns. M&G Investments' portfolio performances for the year-to-date ended 25 March 2022 were supported by our local resources and bank equity holdings, our SA bond exposure, as well as our preference for offshore cash in our global holdings. The M&G Balanced Fund outperformed the average of its peers in the ASISA Multi-Asset High Equity Category, as did the M&G SA Equity Fund, with its local-only equity exposure. Our full fund performances will be communicated shortly in our March monthly client mailer.

Raging Bull Award and R300 billion AUM benchmark

I'm pleased to announce that in January the **M&G Global Inflation Plus Feeder Fund** won a Raging Bull Certificate as the "Best (SA-domiciled) global multi-asset low-equity fund" for its riskadjusted performance over five years to 31 December 2021. This is the second time that the fund has received this accolade, having previously won in 2019. The fund has a long history of outperforming its benchmark over the past 10 years.

At the same time, I'm happy to report that during the quarter M&G Investments surpassed the R300 billion benchmark in assets under management (AUM). This stemmed partly from the strong fund outperformance we were able to deliver to clients in the aftermath of the Coronavirus crisis from mid-2020 onward, and partly from the growing number of clients who appreciate our added value. I would like to thank you all for your support in what has been an extraordinary two years in financial market history.

New portfolio manager and COO

In other company news, René Prinsloo was recently appointed as a portfolio manager after having joined us in October 2019 as a member of the fixed income team. He is now a co-manager of the M&G Income, High Interest and Money Market Funds. Rene has 17 years of industry experience across both buy- and sell-side roles, most recently for Avior Capital Markets as a fixed income analyst and dealer. He is a qualified actuary (FFA) and a CFA charter holder, and holds a B.Sc. Honours degree from Stellenbosch University.

Our new Chief Operating Officer (COO) is Daryl van Zyl, who was promoted from his previous role as Head of Operations in February. Daryl joined M&G Investments in March 2011, and has over 20 years of industry experience. He is responsible for maintaining M&G's operational environment and finding ways to improve it through continuous innovation, greater efficiency and the latest systems and technologies. He is also a member of the ASISA Technological & Operations Board sub-committee. Daryl's education includes a Higher Diploma in Education: Financial Accounting (University of the Western Cape); a B.Com (Honours): Business Administration (University of the Western Cape); and a Post Graduate Diploma: Management Practice (Graduate School of Business, University of Cape Town).

Looking forward

We believe that investing in attractively priced assets, along with appropriate diversification, should help to limit the downside that comes with volatile market conditions. As the war grinds on, we are still convinced that our portfolios are well-positioned to add above-market value to client returns over the medium term. This view is based predominantly on the fact that most SA asset class valuations started 2022 very cheap, on both an historic and relative basis, and these valuations have not changed significantly during the market turmoil. In our view, the market remains overly pessimistic about SA companies' expected performances - there are many excellent businesses in South Africa 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 showing a robust return to growth over the medium term.

Our analysis also indicates that local nominal bond yields present investors with an attractive opportunity to earn lucrative real returns over time. Although the SARB has forecast local inflation rising to approximately 5.9% in the coming months, and analysts believe it could breach the central bank's 6% upper target, this should be temporary, in our view.

As such, we continue to prefer SA equities and bonds, as well as offshore cash, in our multi-asset portfolios. Our equity exposure is highly diversified both locally and offshore, with SA holdings tilted towards defensive stocks like British American Tobacco and sectors with relatively high earnings yields such as Resources and Financials, where rising inflation and interest rates have less impact on earnings.

As valuation-based investors, we will remain focused on the fundamentals in the months ahead, and on ensuring that we actively manage client portfolios to avoid any new risks and exploit opportunities that may emerge amid the uncertainty. Clients should remember to stick with their longer-term investment solutions and not look to traditional low-risk options like cash, as real cash returns remain poor and holding risk assets like equities will help portfolios to outperform rising inflation over the medium term.

Sincerely,

Chris Sickle

Chris joined M&G Investments in 2019 as Chief Financial Officer and took over from Bernard Fick as Chief Executive Officer in October 2021. He is primarily responsible for all aspects of M&G Investments Southern Africa's operations, including Namibia. With over 22 years of asset management experience, Chris previously worked for Ernst & Young (EY) as the Regional Managing Partner in the Western Cape and was a member of the EY Africa Executive Board. His qualifications include: B.Com Accounting (University of the Western Cape); B.Acc.Sc (Hons) (University of South Africa); Chartered Accountant (SA).

Pieter Hugo
Chief Client and Distribution Officer

Table Talk

Q I'm concerned about the impact of rising inflation and also market volatility from the Russia-Ukraine war on my longer-term investments. How should I position my portfolio to mitigate these risks?

A A good starting point is to ensure your long-term investment portfolio is correctly structured to be able to meet your investment objectives over the long term. This would include ensuring that it has adequate exposure to risk assets (such as equities), which is also one of the best ways to protect your investment portfolio against rising inflation. Making sure your portfolio is appropriately diversified is also important – diversification is one of the most powerful tools available to investors. It provides a number of advantages, including mitigation of portfolio downside (drawdown risk) in volatile conditions like the present.

Sufficient exposure to risk assets

Many South African investors have been de-risking their portfolios over the last five years or so due to the underperformance of riskier assets over this period, and then de-risking even further when the Covid-19 crisis came along. These investors are therefore holding fewer equities in their investment portfolios than their long-term investment objectives would require – consequently placing them at greater risk of underperforming inflation.

As shown in the table, equity returns have significantly outperformed inflation over the long term.

Description	3 years	5 years	10 years	20 years	30 years
FTSE/JSE All Share Index return (%)	14.6	14.6	15.0	15.5	14.6
CPI (%)	7.5	7.4	7.0	6.8	7.2
Real Return (%)	7.1	7.2	8.0	8.7	7.4

Average real returns over various rolling periods, from September 1985 – December 2021.
Source: Morningstar.

While equities serve as a good hedge against inflation, it's important to recognise that some equities perform better than others in higher inflationary environments. Resources, for example, benefit from higher commodity prices, while banks are able to charge higher interest rates. Conversely, rising prices typically adversely impact sectors dependent on consumer sales, such as Retailers, who have to absorb increased costs themselves or pass them on to already under-pressure consumers. **(See our in-depth articles on Banks and Retailers in this edition of Consider This).** Having the correct level of exposure and the right mix of stocks is therefore essential, as simply holding just any equities won't necessarily provide you with the required protection against inflation.

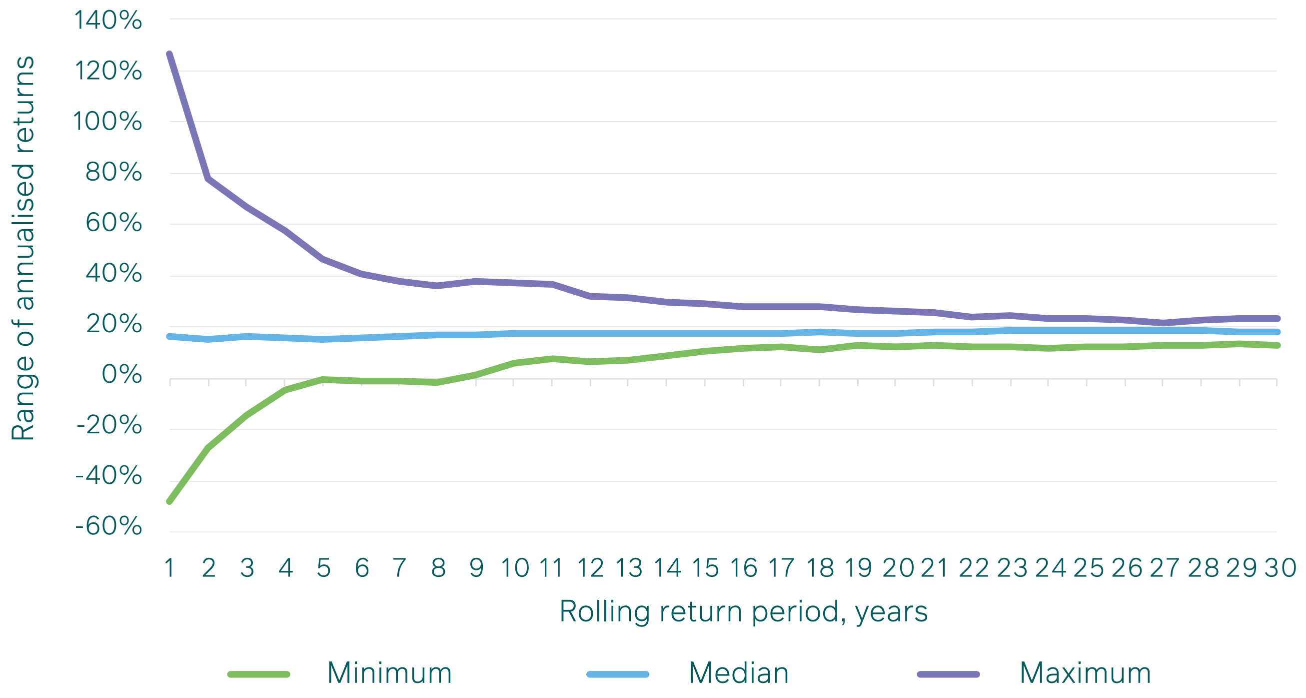
Another important factor worth highlighting is that equities are inherently more volatile relative to other asset classes over shorter periods. By adding these assets to your portfolio, you will effectively be moving up the risk/return spectrum. It's therefore important to have a good basic understanding of the risks associated with this asset class, and how best to manage them. The worst thing you can do is to disinvest from equities when they experience a short-term drawdown.

Managing risk

When measuring risk, one of the more commonly used metrics is standard deviation, which measures how widely dispersed an investment's returns are relative to its mean return. More simply put, standard deviation takes into account the up-and-down performance of an investment (also referred to as volatility) relative to its average performance.

While equities are regarded as more volatile than other asset classes over the short term, this volatility tends to smooth out over time. To demonstrate this, Graph 1 shows the range of equity returns achieved for increasing rolling periods since 1965. What is evident is that the shorter-term periods have very wide ranges of outcomes (i.e. from returns of over 120% to losses of over 40% over a rolling one-year period), however, as these periods lengthen the extreme gains and losses narrow to be much closer to the long-term average over time, effectively reducing volatility. Equity volatility can therefore be significantly mitigated by remaining invested for longer. And when combined with their potential to generate significant real returns (i.e. returns above inflation), equities make for an ideal hedge against inflation. The key take-out here is that those investors who can tolerate this higher short-term volatility are generally very well rewarded by earning significantly higher inflation-beating returns.

Graph 1: Range of returns available from the FTSE/JSE All Share Index



Source: Morningstar from 30 June 1965 to 31 December 2021.

The risk/return spectrum

When assessing if investors are being compensated for the risks inherent to their investment, a useful tool is to measure the risk and return history of a unit trust. While the past isn't a perfect guide to the future, looking at historical risk characteristics can be useful when assessing the relative risks of various assets. This is most applicable when combining assets with different risks into a portfolio. In order to build an optimal portfolio, a trade-off must be made between seeking higher returns and keeping the risk at an acceptable level.

As shown in Graph 2, when moving up the risk spectrum by incorporating a higher proportion of risk assets into a portfolio, the real return increases substantially. The M&G fund range in the graph demonstrates the various fund types and their risk-return profiles. The dots are very close to the blue line, which represents the most optimal combination of return given the risks, signalling that investors are being adequately compensated for the risks within the funds.

Graph 2: Optimal portfolios vs M&G funds

Source: M&G Investments

How our funds are positioned to outperform inflation and protect against volatility

The focus up until this point has largely been on the role that equities play in guarding against the impact of rising inflation, and the risks associated with that asset class. However, your question also relates to volatility, which is where a well-diversified portfolio of varying asset classes becomes important.

At M&G Investments, our two flagship multi-asset funds, the M&G Balanced and M&G Inflation Plus Funds, hold a well-diversified mix of domestic and global assets, which includes equity, property, bonds and cash – all of which tend to perform differently under varying market conditions. This enables the funds to generate returns across different market cycles, while absorbing varying degrees of market volatility.

The primary purpose of these portfolios, however, is to generate meaningful returns for investors – in fact, the Inflation Plus Fund has an explicit return objective of CPI+5% (before fees, over a rolling three-year period). The extent to which we hold each of the asset classes is driven not only by the funds' investment return objective, but also by the funds' risk objective, which is typically linked to reducing the risk of capital loss over a specific period. We determine the appropriate weights of each asset class in a portfolio that will enable us to achieve this optimal balance, driven by our long-held experience about each asset class' performance in changing market conditions and the given asset valuations.

For example, in our most recent positioning for the M&G Balanced Fund, we have just over 50% of the fund invested in SA equities and listed property, as well as nearly 20% in foreign equities. Broadly speaking, we believe this total of 70% exposure to risk assets is most optimal given those assets' current valuations, and will enable us to achieve the fund's investment objective (beating the average return of the ASISA Multi-Asset High Equity category). Historically, this has averaged around CPI+6%. Meanwhile, the fund's bond weighting totals approximately 24%, while its cash holdings are around 6%.

Looking at the M&G Inflation Plus Fund, its weightings are currently (across both local and offshore markets): equity and listed property 44%; bonds 48%; and cash 8%. It holds fewer risk assets, and more fixed-income assets, to cushion the return downside, which is an ideal blend for income-drawing investors.

In the current conditions, we believe longer-term investors should be aiming to have similar exposure to risk assets as these funds, depending on their individual risk appetite and return goals.

Those with an investment time frame of five years or longer and with a higher return target, could consider a Balanced-type fund holding over 70% in risk assets, while those with a lower risk appetite or three-year time frame should consider a low-equity multi-asset fund like Inflation Plus.

Lower-risk income funds like the M&G Income or Money Market Funds, in our view, would not be appropriate solutions for a longer-term investor as they would be less likely to generate adequate real returns over time. These funds are better suited for shorter-term investments (e.g. emergency cash) or the portions of investor portfolios from where they can draw an income.

In conclusion, a diversified portfolio across a range of asset classes, with an appropriate allocation towards risk assets (particularly equities), should serve as an adequate buffer against rising inflation and market volatility. Making asset allocation decisions yourself can be challenging, which is why a good option may be to outsource the asset allocation decisions to a fund manager with a proven long-term track record in having navigated varying market conditions, while generating significant real returns on behalf of their clients.

Pieter joined M&G Investments in 2015 as Managing Director of M&G Investments Unit Trusts and Head of Retail Business. In 2019 he was appointed as Chief Client & Distribution Officer. With 23 years of industry experience, Pieter previously worked for one of the country's largest financial services groups in a range of senior management positions. He holds a B.Comm (Maths) degree from Stellenbosch University, and is a Fellow of the Institute of Actuaries (UK) and the Actuarial Society of South Africa. He completed the General Management Program at Harvard Business School in 2010 and during 2020 completed a course in Behavioral Finance from Duke University.

Rudi de Cöning
Equity Analyst

Insert coin here: Gaming and the Metaverse

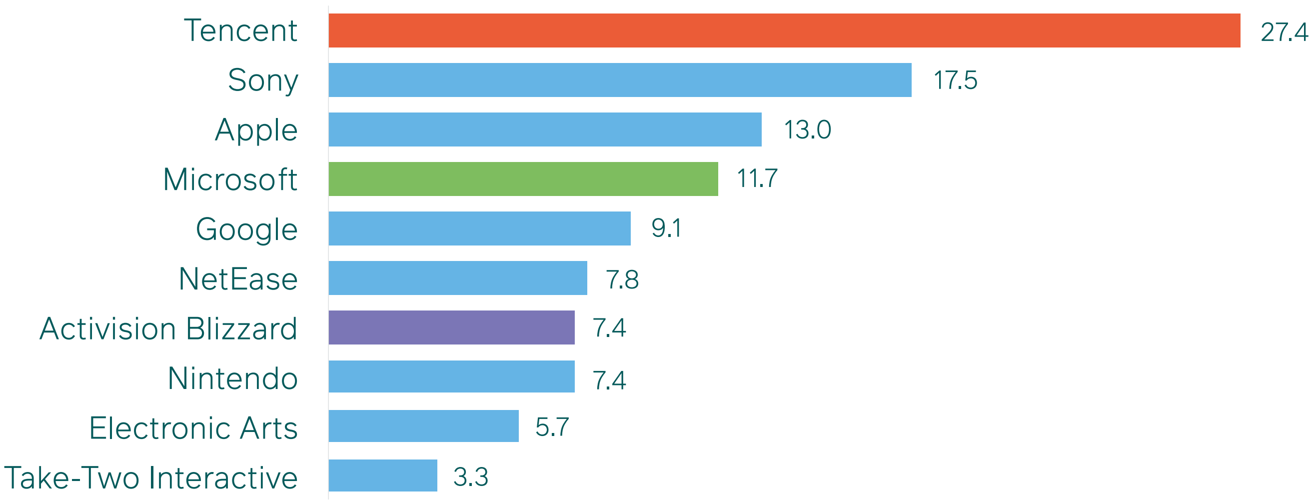
Key take-aways

- Tencent only launched its first video game in 2004, but is by far the world's largest revenue earner, surpassing better-known brands like Nintendo, Sony and Microsoft.
- The company has a large international market share outside of China, and continues to grow through new games and expanding paid-for enhancements to existing games.
- M&G Investments views the company as trading at a very attractive discount to its global peers, adapting well to new regulations and with good growth potential.

Corner café arcades are long gone, yet the 8-bit video game era inspired many developers, artists, and engineers to create ever-more immersive virtual worlds. Today's video games are played on multiple platforms (consoles, PC and mobile) reaching young and old, sprouting a well-established and keenly competitive multibillion-dollar industry.

The growth of gaming studios has not gone unnoticed by larger technology firms. One of the world's largest gaming publishers, Activision Blizzard, is set to be acquired by Microsoft for US$68 billion, a record-breaking amount for the Xbox owner and the gaming industry alike. Fortunately for South African investors, access to the industry's earnings power comes via the Naspers/ Prosus investment in Tencent, the world's largest video game company as measured by revenue, as seen in Graph 1.

Graph 1: 2020 Video Game Revenue by Company (USD billion)



Source: Newzoo, Bloomberg

Rapid growth for Tencent

Tencent's first game only launched in 2004, making its current market position particularly impressive. The game was inspired by Tencent QQ, an instant messaging service, but like many Chinese applications it operates more like a Swiss army knife. The super-app allows rich social interactivity, access to games, movies, music and shopping.

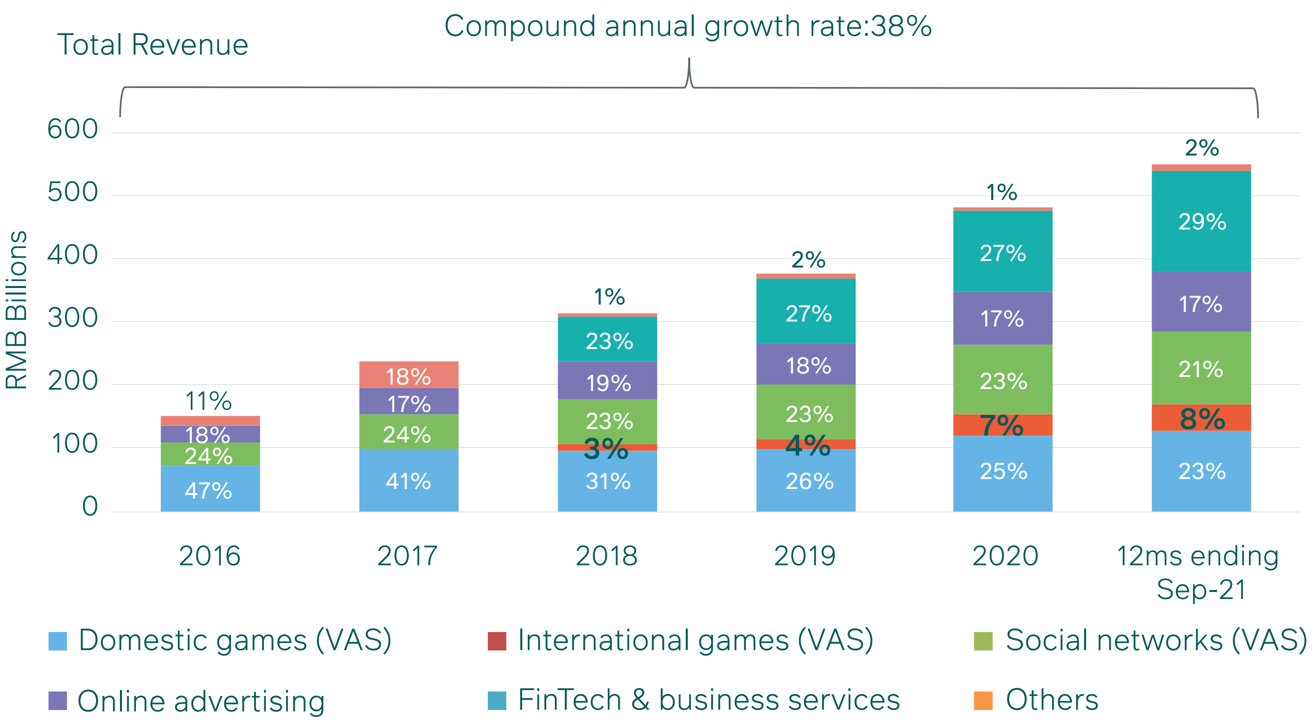
Alongside their own studios, traditionally focussed on Chinese consumers, Tencent also understood the offshore opportunity. Their sought-after portfolio includes: 100% of Riot Games, best known for League of Legends with 100 million monthly active users (MAU); and 40% of Epic Games, best known for Fortnite with 80 million MAU. Epic Games also developed the Unreal Engine, a commercially available gaming engine used widely by gaming studios to create games, specifically modelling in-game animation and physics. Its other notable investments and partnerships include Ubisoft, Activision Blizzard (note above), Roblox Corporation (with north of 150 million MAU) and the fiercely independent Nintendo.

International games

Source: Tencent

The benefit to Tencent is twofold: first, it helped them develop massively successful Chinese online multiplayer games through adapting global hits to the Chinese gamer. One of these was Honor of Kings, the world's top-grossing mobile game in 2020, which remains the most popular game in China as measured by active users and downloads. Second, access to these hugely successful game franchises provides geographically diversified and recurring revenue, as players pay to compete online. Graph 2 highlights the rising contribution to company revenue from international games. Investee companies benefit through highly sought-after access to the Chinese consumer, as entry into the market is controlled. Tencent distributed 1 million Nintendo Switch consoles in China during 2020, a boost for Nintendo, but also for Tencent, as they publish their games on new platforms.

Graph 2: Tencent Revenues by Business Segment (% of Revenue)



Source: Tencent

Welcome to the Metaverse

As the physical world locked down, the virtual world thrived, alongside the concept of the Metaverse. Most of our digital interactions today are just in two-dimensions - that is, our sight is locked to an obvious screen. Video conferencing has been surprisingly successful despite this constraint. We cannot lean over to whisper to a colleague and never really make eye contact in online meetings. The Metaverse, meanwhile, represents the bridging of this gap, by adding another dimension of interaction. For example: virtual spaces are created through immersive headsets with wide viewing angles, 3D sound allows us to differentiate and triangulate sounds and haptic gloves permit a virtual handshake. Such worlds create new opportunities for trade. Although today's technology requires further development, some video games have already created thriving digital economies.

Fortnite, best known as a "battle royale" game, has generated live concerts virtually. They hosted the popstar Ariana Grande last year, merging the game's traditional gameplay with a concert experience. Players competed in mini games, watched the concert, and danced together in digitally designed and specially purchased outfits. Yes, standing out from the crowd is important, and Balenciaga will happily sell you a digital luxury outfit. Although hard to envisage, the experience certainly resonated with consumers as the concert drew 78 million people!

This growing social element of video games plays into Tencent's strength in social networking, and its importance is emphasised as Games and Social Networks forms part of Tencent's Value Added Services (VAS) division. Strong and growing video game franchises are often based on highly captivating stories, filling content pipelines across other forms of media and vice-versa, as seen with books adapted for the big screen. Tencent applications link seamlessly to other media forms. Collectively the division enjoys a very large and active user base that can be tapped for new launches. Gamers and spectators alike love streaming video game content, as evidenced in the rise of E-sports, which is already estimated to be a one-billion-dollar industry. Gaming companies benefit from selling tickets, merchandise, media rights and of course drawing in more players. Furthermore, Tencent's Online Advertising business benefits as third-parties increasingly market products and services digitally, and are drawn to successful platforms.

Coping with new regulation

No business runs without risk: recently Tencent investors had to deal with increased regulatory scrutiny from the Chinese Communist Party (CCP). Oversight on CCP-appropriate content has been intensifying since 2017, slowing the approval of new game licenses and monetisation features. More recently the CCP focussed on minors' excessive screen time, a widely shared concern, with Tencent swiftly adhering to the new government regulations. By September 2021, minors accounted for only 0.7% of the total time spent playing Chinese games. Graph 2 points to the impact of the new regulations on the company's domestic gaming revenue growth, which was down 0.6% during 2018, followed by a resumption of growth to 10.1% per annum to September 2021. Plus, total revenue was bolstered by international diversification over the period. Tencent also fostered solidarity with the CCP by devoting aspects of some of its games to Chinese culture, "bringing it to life" with digital player skins or outfits based on Chinese art and tradition. All considered, the group's focus on better quality games, and a backlog of games set for approval, has filled a healthy revenue pipeline.

Bringing to life Chinese Culture

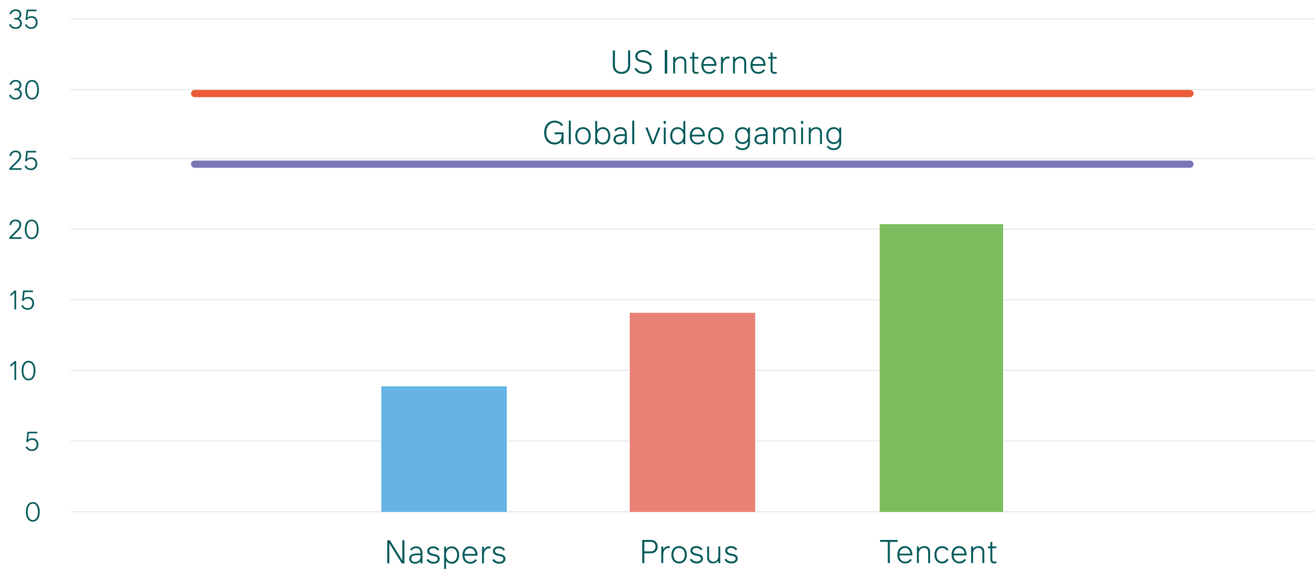
Digitalised Chinese cultural heritage into a series of popular HoK skins, transmitting provincial arts and traditions to a wider audience.

HoK skins based on provincial arts and traditions

An unreasonable discount

M&G Investments has long appreciated Tencent's excellent growth, high margins and strong cash generation, as well as the attractive access via Naspers/Prosus shares. The latter companies benefit from its robust earnings contribution and a growing dividend stream that assist in funding their other global E-commerce investments. Graph 3 highlights the value on offer: Naspers is trading on the most attractive valuation, with a price-to-earnings measure of under 10X, compared to US internet companies at an average of around 30X and global video gaming companies at 25X. Tencent itself is also trading at what we believe to be an unreasonable discount to other global video gaming and US internet stocks.

Graph 3: Naspers trading at attractive discount
(12-month forward price-to-earnings ratios) as of 15 March 2022



Source: M&G Investments, Bloomberg

As the world returns to public spaces, many anticipate less time for screens, but since 2007 the world has increasingly embraced the computer that fits in your pocket and the digital interaction it allows. This is a screen Tencent has mastered, having created a digital world used daily by many millions of Chinese locals that connects them to each other, to their favourite content, and not least of all, to many different services. Tencent Gaming continues its focus on enriching the gaming experience with available-to-purchase expansion packs and player skins. These elements are less capital intensive for the company, produce incrementally stronger cash flows and are likely to keep many more gamers active on their platforms for longer. □

Appendix

1. https://www.tencent.com/attachments/toolkit/2021/Q3/CorporateOverview3Q21.pdf

2. https://www.tencent.com/attachments/toolkit/2021/Q3/3Q21EarningsPresentation.pdf

Rudi joined M&G Investments in 2014 as an Institutional Business Development Analyst, progressing to Equity Analyst in 2018. He is primarily responsible for researching stocks within the Financial sector. Rudi joined the financial services industry in 2012 as a fund accountant covering multiple fund types including mutual and hedge funds. Rudi holds an Honours Degree in Business Science (Financial Analysis) from the University of Stellenbosch and is a CFA charterholder.

Analysis

iStock-1212829838

Stefan Swanepoel
Equity Analyst

SA Banks: Good bets despite rising interest rates

Key take-aways

- During the Coronavirus crisis, SA banks made extensive provisions for non-performing loans, and emerged with healthier-than-expected balance sheets for several reasons.
- SA bank earnings are set to benefit from a gradual rise in interest rates with judicious management of their lending practices, and should not need to raise further provisions.
- M&G Investments believes SA banks should deliver above-market growth and returns based on their current valuations, including a scenario where inflation is higher than expected.

In South Africa and around the world, central banks are hiking their base interest rates and cutting back their asset purchases as inflation rises and economic growth solidifies in the wake of the (current) retreat of the Coronavirus. Investors are keeping a close eye on the pace and extent of the forecast monetary tightening, concerned that central bank policymakers may err on the side of tightening too much and cutting off growth. With the war in Ukraine and sanctions against Russia pushing energy and food prices higher and threatening to send them skyrocketing even further, central banks' task of balancing future growth and inflation has been made even more difficult. Lifting interest rates too high, too soon, would impact negatively on corporate earnings and stock valuations across all sectors and types of companies.

Broadly, in a rising interest rate cycle corporate borrowing costs become more expensive, while consumer spending slows. This combination of higher costs and lower sales results in reduced revenue, so companies become less profitable. From a valuations perspective, investors value a company by using a discount rate to calculate the present value of its future cash flow, also referred to as the Discounted Cash Flow method. When applying this valuation methodology, increases to the interest rate result in a higher discount rate, which reduces the present value of companies' future earnings, and consequently, the price that investors are willing to pay for that stock.

However, there are exceptions to this broad view: banks are one type of company that can benefit from a rising interest rate cycle, as long as that cycle's duration and extent remain moderate. This is because they earn a portion of their total income as an endowment – the pot of capital they have set aside earns interest, so their income rises as interest rates increase. As long as consumers can still repay their loans, and banks' non-performing loans (NPLs) don't deteriorate too far, this scenario can be earnings-accretive. If, however, the rate hiking cycle is aggressive, with increases coming too fast and/or too steep for more consumers to be able to afford their debt repayments, banks' impairment costs will rise and earnings will suffer.

Outlook for the cycle

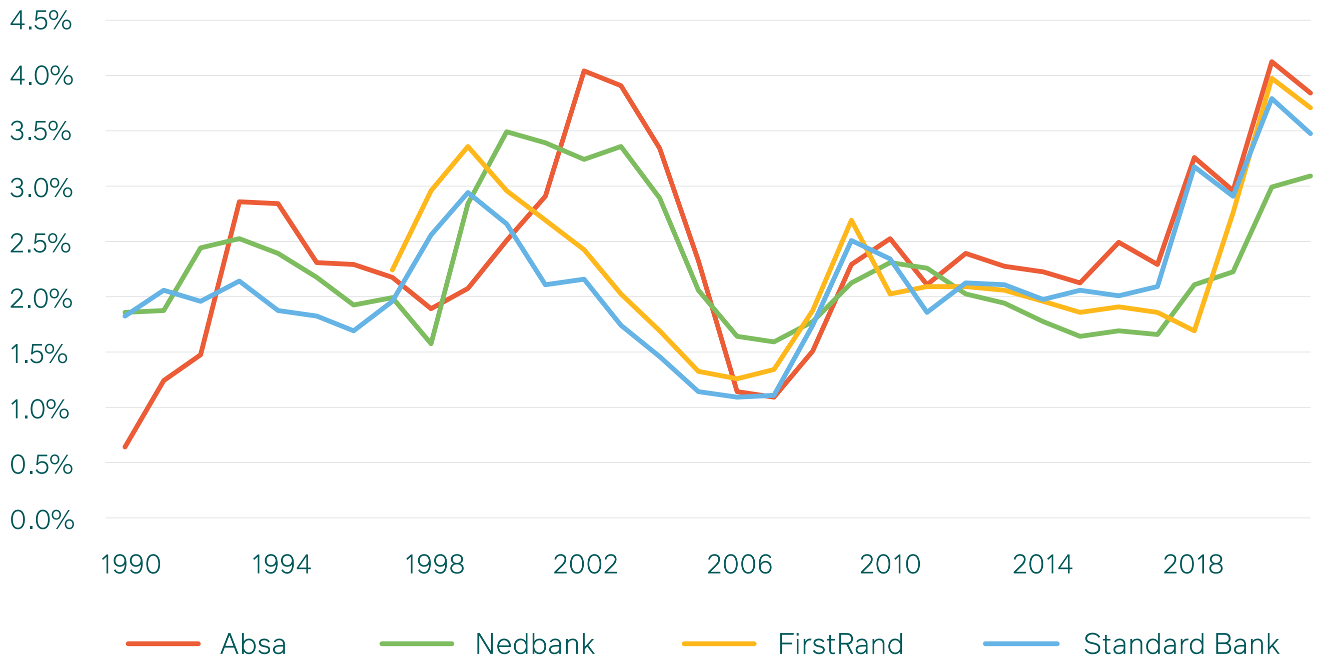
For now, the local market and the South African Reserve Bank are forecasting a moderate hiking cycle in terms of its timing and value. The Forward Rate (FRAs) market is pricing in 11 rate hikes totalling 275 bps over the next 24 months. Local inflation has remained more subdued than its global counterparts due largely to the low growth environment, and inflation expectations remain below the 6% upper limit of the SARB's 3-6% target range. Globally, meanwhile, although concerns are growing over inflationary pressures from the much higher prices of oil and gas as a result of the Russian invasion of Ukraine, interest rate markets have recently been pricing in more moderate rate hikes from the US Federal Reserve, as investors weigh the balance the Fed must strike between supporting growth and reining in inflation.

Past versus present

Historically, in South Africa we've seen that rate hiking cycles of over 150 basis points or so, spread over a short six-month period, have triggered an increase in NPLs such that banks have had to raise their provisioning levels in excess of what they would earn from the endowment benefit. This is more aggressive than the current projected cycle. Also, these days the National Credit Act has made banks much more judicious in their lending practices, so that it is now difficult to compare the current environment with the past. Growth in bank financing across credit cards, vehicle finance, home loans and personal loans has remained in the mid-single-digits, compared to around 20% before the introduction of the Act. It has been even more subdued during the Coronavirus crisis, even lower than inflation. As a precaution, during the worst of the crisis banks took very large impairments, allowing them to set aside high levels of provisions and did not pay out dividends.

Thanks partly to their more conservative lending practices, banks' performances proved to be better than expected, as although NPLs did rise notably, they were amply provisioned and maintained healthy balance sheets. Current provisioning levels are substantially higher than what they were during the Global Financial Crisis – in fact, banks have overprovisioned. Graph 1 illustrates how banks' provisions versus their advances are at very high levels compared to their history.

Graph 1: Banks' provisions-to-advances very high



Source: Company data, M&G Investments, data as of 15 March 2022

Overprovisioning and healthy margins

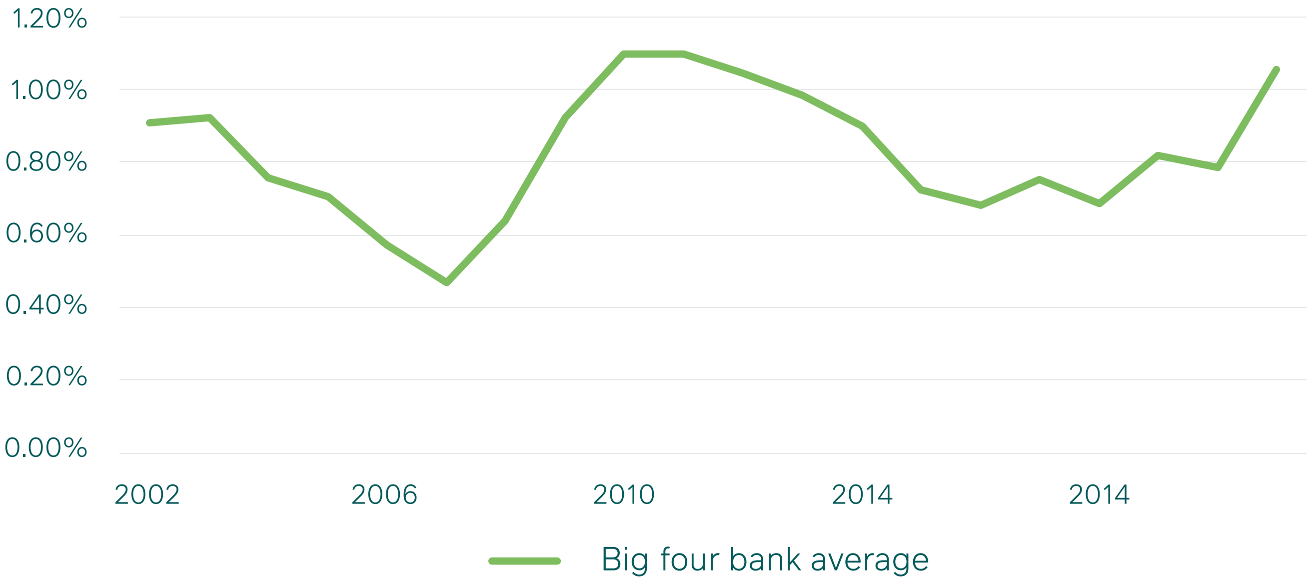
As such, the market is anticipating that some of these provisions will be written back, improving earnings and capital levels further. Another portion could be retained in case of much worse-than-expected NPLs going forward if, for example, interest rates hikes were to be more aggressive than currently expected. In the unlikely event that NPLs are much worse than anticipated, in theory the banks already have the provisioning in place to cover a substantial amount of uncertainty.

It is important to note that bank margins were shielded in part from the full impact of the exceptionally low interest rates. Although they did pass on a portion of the SARB's interest rate cuts to consumers, banks retained a buffer, which also protected their earnings. Now, as interest rates rise, that buffer will narrow, but banks will be repricing their own lending rates higher as well. The banks have focused on repricing assets and have successfully locked in more attractive margins over the period. We expect bank margins to continue to expand from these levels.

The consumer: Not such a wildcard

Meanwhile, although South African consumers have been hit extremely hard by the Coronavirus crisis, the worst appears to be behind us. Those with jobs have been able to save more due to the low interest rates and lockdown conditions, and are able to afford bigger deposits for their new loans, lowering the risk to banks. Another favourable factor is that South Africans are used to funding themselves with debt. History has shown that they have a high propensity to repay their loans, so even if they experience difficulties, it is usually a matter of an extended repayment term, rather than a full loss for the lender. Graph 2 shows that the banks' write-offs net of recoveries (as a percentage of opening gross advances) are currently lower than they were in the years following the Global Financial Crisis, and stable over an extended period at around 83bps. This means that on average, only 0.83% of gross loans written by banks are not recovered compared to the approximately 3.5% they hold in provisions.

Graph 2: Banks' write-offs net of recoveries



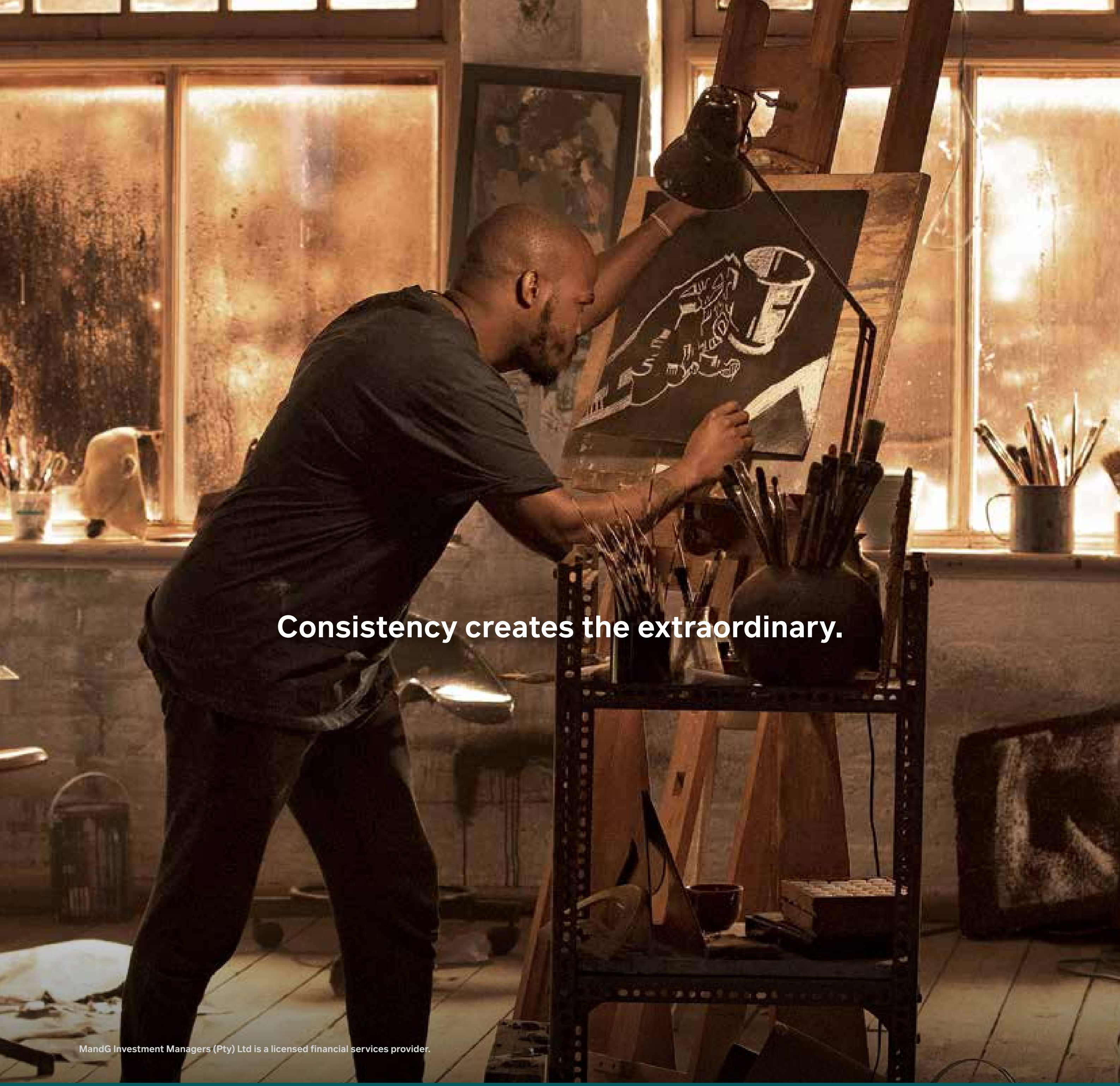
Source: Company data, M&G Investments, data as of 15 March 2022

A beneficial investment

In short, the above factors make us believe that it is unlikely that banks will need to raise their provisions further during the current rate hiking cycle, thereby avoiding any balance sheet impairments. They should be among the few sectors to benefit from rising interest rates, carefully compensating for rising risks of non-repayment with higher interest rates for customers. Further into the cycle we do think higher rates are likely to dampen some lending activity at the margin, but not to a meaningful degree.

In our view, the South African banking sector is one of the best places to be invested going forward when you consider the direction of interest rates. More importantly, however, bank stock valuations remain extremely attractive compared to their history and relative to many other sectors, and have excellent potential to re-rate further once the true extent of their write-backs of provisions is known. Absa, Investec and Standard Bank are among the top equity holdings in our flagship unit trusts like the M&G Balanced, Inflation Plus and Equity Funds, and we believe this positioning will help add above-market returns to our client portfolios over the medium term.

Stefan joined M&G Investments in February 2019 as an Equity Analyst focusing on Banking, select Property, Speciality Finance and Insurance companies. With 15 years' experience in financial services, Stefan previously worked at Deutsche Bank Securities and RMB Asset Management. He completed his articles at PwC in the FS Banking division and is a qualified Chartered Accountant. His qualifications include B.Com Accounting (cum laude) and B.Com Accounting Hons.


Consistency creates the extraordinary.
MandG Investment Managers (Pty) Ltd is a licensed financial services provider.

Q&A with Chris Sickle, CEO

1. Chris, please tell us about your background.
I grew up in a family that valued education and lived by traditional principles like hard work, respecting your elders, and treating others as you'd want them to treat you. It was these principles, values and my parents that helped me navigate growing up in a tough neighbourhood, and set the foundation for the rest of my life. I thoroughly enjoyed my childhood, spending a lot of time at school, playing various sports every day after school and religiously doing my homework once I got home. I loved school – especially maths and accounting – and decided to become a chartered accountant from an early age, even though I didn't know what the profession really entailed.

Later, I was accepted at the University of the Western Cape, but without a bursary or student loan to fund my studies. Still, I insisted on registering for a B.Com (Accounting) and forged ahead, not knowing how I would pay my tuition. During March that year, I was fortunate to receive a TEFSA (now NSFAS) bursary/loan that covered my first two years of study, and in my third year a bursary from my mother's employer.

So my determination paid off: I earned my B.Com Accounting degree, and went on to get my Hons B.Compt at UNISA, while working as an accounts clerk at financial services group Board of Executors (BoE).

My time at BoE sparked an interest in asset management, and I subsequently did my articles at Deloitte in their Financial Services division, going on to become a Chartered Accountant (SA).

After Deloitte I spent a year at a small asset manager, but then returned to the auditing profession by joining a different global audit and consulting firm, EY (Ernst & Young), becoming a partner in 2005. A year later I met my wife of 13 years; she was a partner at Deloitte at the time. We went on to have three children – two girls (now ages 10 and 9) and a boy (age 7) – the latter when I was 40! For the next nearly 20 years, I worked closely with a number of the country's leading asset managers in an audit and advisory capacity. Ultimately, I was appointed as a member of the EY Africa Executive Board and became the Regional Managing Partner in the Western Cape.

In 2019 I joined M&G Investments as Chief Financial Officer, becoming Chief Executive Officer in October 2021 just as the company was changing its name from Prudential to M&G Investments and integrating more closely with our global parent company in London.

2. What qualities do you possess that you think have contributed most to your success?
I would say that it's a combination of tenacity and not being afraid of hard work that has helped me the most in my career trajectory so far. My sheer determination to succeed and become an accountant kept me going in the face of some harsh realities, such as having no money to pay tuition fees. I refused to give up. That makes M&G Investments, with our company ethos of consistency, a very good fit for me.

Also, growing up in a community with such a diversity and richness of cultures, and working in a global giant like EY, has made me open to, and accepting of, different ideas and approaches. I have been able to look to several different people in my life as role models over the years, choosing different characteristics that I admired in each one which moulded who I am today. That said, my core ethos has remained those traditional first principles that I was raised with, and is at the heart of my success.

3. How do you think your career to date will help you in your role as CEO?

In my 17 years at EY I was fortunate to have worked with many asset managers, from small to large. This gave me unique knowledge of different asset managers' styles, operational structures, management techniques and talent deployment, to name some areas. In addition, I also serviced many pension and retirement funds, as well as being a trustee on EY's pension fund. This afforded a "three-dimensional" experience of the value chain in the financial services industry. I believe that this diverse experience and client perspective will serve me well as we transition to becoming a fully global asset manager under the M&G name in Southern Africa.

4. What are your goals as a new CEO?

My primary aim is to lead the company to be even more successful in helping our clients meet their investment goals. This means that investing will always be at the heart of what we do. Also, I want to leave the company in a better position than when I started, in terms of the size and sustainability of the business, team talent and transformation. In the much nearer-term, given that I've started during a key transitionary period for the company, I want to expand M&G Investments' brand recognition from primarily institutional investors and consultants to retail investors. Another goal is to work closely with both our SA and Namibian clients and our global colleagues to bring the best global investment solutions to the local market.

5. What areas of the business are you paying particular attention to at the moment?

First and foremost, we need to continue to keep our clients at the core of what we do, by continuing to create value for them! Given that clients have been increasing their offshore exposure in recent times, we are placing special emphasis on global investments. We are in continuous discussions with our local investors to ascertain what they need in terms of offshore solutions that will add value and enhance their portfolios. As a global investment manager, M&G Investments has a very long history of innovation and successful experience in markets around the world that could be valuable for investors in Southern Africa. We want to leverage their global expertise in combination with our local understanding, offering clients a seamless route to offshore exposure.

6. What are the current challenges facing the South African asset management industry, and what's your outlook for it?

We operate as a global community in all aspects; the local economy is not immune to this. That said, our investable universe in SA is limited and clients are demanding more offshore exposure. This has resulted in increased competition, where large global asset managers have entered the SA market.

Transformation remains a challenge in the financial services industry. Even though we have reached Level 1 B-BBEE status, we know we need to continue our transformation journey, both as a company and as an industry. Transformation initiatives remain a high priority for us both internally and externally. We are working closely with industry bodies in many different areas such as training, skills transfer and employment opportunities.

ESG (Environmental, Social and Governance) investing is another challenge for the local industry. M&G Investments has a long-held commitment to the UN Principles for Responsible Investing and the Code for Responsible Investing in South Africa (CRISA), which we signed over a decade ago, but the South African economy has a well-recognised dependence on commodity production. The renewed prioritisation of ESG principles represents an opportunity for us given that our London-based parent can support us on solutions going forward, being well known for its growing capabilities in this area. Locally we continue to engage with investee companies, clients and regulators to ensure that we take a carefully managed approach to ESG, while still delivering to our client mandates.

Looking ahead, from my two decades of working at one of the world's top management consulting firms, I am convinced that ours is a world-class, well-regulated industry that compares very well with developed markets in terms of client outcomes, professional standards and adherence to global standards. It is an exceptional industry to work in, and it attracts talented people. The industry plays a very important role in helping South Africans improve their lives and secure their futures through investing, and I am optimistic about the future for these reasons. ◻

Floating rate notes: A global perspective from M&G Investments, London

Introduction

One type of asset that can help protect portfolios in a rising inflation and interest rate environment is a floating rate note (FRN) – a type of bond where the income it delivers is linked to interest rates, so that if interest rates rise, the income it pays out also rises. High-yield FRNs, meanwhile, come with greater risk to investors because the issuer has a lower credit rating. Therefore the potential income is higher than an investment-grade FRN.

M&G Global Funds, including the M&G Global Balanced and Inflation Plus Funds, can invest in these instruments, and fund manager Marc Beckenstrater and the London-based asset management team have a wide range of both investment-grade and high-yield FRNs to choose from. Read two recently published articles from the London team on the efficacy of these securities.

1) A guide to high yield floating rate notes:

Seeking protection against rising interest rates and inflation

By M&G Investments Public Fixed Income team, London

Read more

2) Staying afloat: How FRNs can offer an escape route from rising inflation

By Ana Gil, Bond Vigilantes blog (M&G bond team)

Read more

Analysis

Damon Buss
Equity Analyst

Consumer headwinds bode ill for retailers

Key take-aways

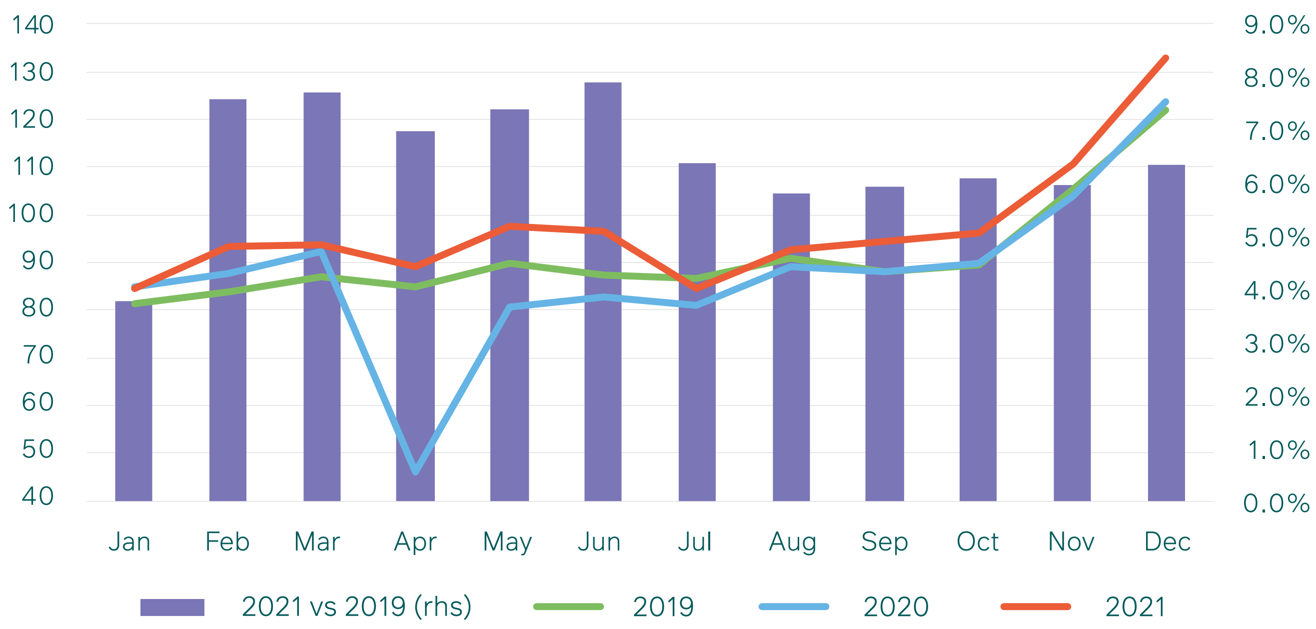
- Post-Covid, consumers' pent-up demand boosted retail earnings as they resumed more "normal" spending patterns.
- Rising inflation and interest rates will now leave consumers with lower budgets for discretionary spending, putting pressure on retailers' earnings going forward.
- M&G Investments is underweight the SA retail sector, but holds The Foschini Group because of its attractive valuation and our belief that it is best-positioned to weather these headwinds.

Consumer spending patterns changed materially in early 2020 as concerns of the impact of Covid-19's arrival in South Africa and the possibility of lockdowns became a reality. Food and drug retailers saw substantial volume increases as consumers panic-bought groceries and personal care products, while apparel, liquor and entertainment retailers (restaurants, bars, cinemas, travel, etc.) had to adapt to not being allowed to trade.

These sudden changes created several interesting investment opportunities for investors willing to look through the extreme short-term negativity (by taking the view that the draconian bans on trading would be lifted at some point) and buy stocks whose prices were trading well below their intrinsic values. Within the retail sector, apparel stocks sold off heavily as the market questioned how long they would earn no revenue, while the food retailers outperformed as the market priced in the volume boost from the panic buying. We took advantage of the dislocation of the apparel retailers' share prices relative to their intrinsic values and established a position in The Foschini Group (TFG) as our preferred exposure in our M&G equity funds.

Over the past two years, retailers' share prices have performed far better than initially expected, as earnings for most retailers rebounded relatively strongly and have exceeded pre-pandemic levels of 2019. The earnings recovery was driven by a combination of strong revenue growth and judicious cost management.

Graph 1: Strong rebound in retail sales in South Africa



Source: StatsSA

While consumer incomes were impacted by jobs losses and reduced working hours, there were other offsetting factors that resulted in disposable incomes remaining relatively robust, including: the inability to trade in restricted categories (liquor, entertainment, etc.); substantially reduced travel costs (due to work-from-home requirements and restricted holiday travel); additional government grants; and the 300-basis point (bp) reduction in interest rates (positive for mortgage and vehicle lease costs). South Africans are not known for being particularly good savers, and hence consumer spending in the categories the listed retailers operate in, namely food, apparel and drug retail, recovered quickly, as illustrated in Graph 1.

Retailers also experienced a swift improvement in margins, both at the gross profit and operating profit levels. Strong demand and reduced stock levels due to disrupted global supply chains enabled retailers to promote less and make more full-price sales, boosting gross profit margins. At the same time, from an operating expense perspective they used the opportunity to become far more efficient by exiting poorly performing space, negotiating significantly lower rentals, rationalizing product ranges and reducing head count where possible. The 300-basis point interest rate cut substantially reduced net finance costs. The combination of these factors resulted in earnings recovering far quicker than consensus estimates.

Acceleration of the omni-channel transition

The one structural trend which Covid-19 accelerated in the sector was the growth of online shopping, delivering three to five years of growth in only one year. While online sales provide phenomenal convenience for consumers, it is a costly service to offer and is margin-dilutive since companies incur additional operating costs to pick, pack and deliver, for the same revenue. It is thus a drag on shareholder returns.

Online penetration in South Africa remains low currently, at 4% of apparel and 2% of food sales, but will continue to grow rapidly as customers increasingly demand the choice to shop in any channel, at any time they choose. To stay relevant, retailers must transition to an omni-channel offer (physical stores plus online), but doing so profitably remains an unresolved challenge, with most retailers uncertain of what scale is needed to break even.

TFG has an advantage over SA peers as it can leverage the knowledge and experience of its non-SA divisions that operate in markets which are far further down the omni-channel transition – for example, online sales account for 38% of total apparel sales in Australia and 35% in the UK, according to Euromonitor.

The return to a post-Covid normal

We are now two years on from the start of Covid-19 and life has started to return to pre-Covid "normal" as lockdown restrictions have been eased. There will be some structural changes to spending patterns: for example, in-home food consumption will be higher, as a greater proportion of people work from home than pre-Covid.

Yet, most spending patterns are returning to pre-Covid norms and consumers are having to re-allocate their spending from categories that benefitted from Covid (in-home consumption and homeware/DIY) to the categories which suffered. The key categories seeing a return of spending are transport costs (the second-biggest expense after debt repayments for the average South African's budget), out-of-home consumption (restaurants, bars, entertainment) and apparel (shifting away from loungewear to fashionwear).

Our thesis that spending patterns would normalise once the restrictions were lifted and that the apparel retailers would deliver earnings significantly above those implied by their share prices in mid-2020 has played out. This leads to the question: how do we expect the retail sector to perform going forward?

Back to SA's low-growth reality

At M&G Investments we acknowledge that we have limited ability to forecast macro changes better than the market, but we are cognisant of the environment companies are trading in. The tailwinds of Covid are largely behind us now and headwinds are starting to build, making us increasingly concerned about the level of consumer spending going forward and the impact this will have on retailers' earnings relative to consensus expectations.

The headwinds which concern us the most are:

- Unemployment continues to escalate, placing a greater burden on those with incomes and on the government to provide grants to those without incomes. The businesses we engage with are also not looking to rehire the employees let go during Covid, partly due to the restrictive labour laws of South Africa, and partly because they've adapted to doing more with less staff.

- Without employment growth aggregate gross earnings are unlikely to grow in real terms, as salary increases are generally pegged to inflation in the private sector and government has budgeted increases of 1.8% for the next three years. Government's ability to increase grants will also be constrained when commodity prices normalise and the super taxes currently being paid by the mining companies reduce.

- Inflation is expected to rise, with upside risks to consensus expectations given the impact the Russia/Ukraine war is having on global food and fuel prices. Prices of staple food products will need to increase significantly, as wheat is up over 40% and maize has risen over 25% since the start of 2022. And the petrol price is already 32% higher vs March 2021, with further increases highly likely. The inflation the consumer feels in their everyday spending will be considerably higher than reported core inflation, to which their salary growth is pegged.

- The interest rate hiking cycle has started. The SA Reserve Bank has already raised the repo rate by 75 basis points, and the market consensus is expecting another 100 basis points in each of 2022 and 2023, which would almost fully reverse the 300 basis points of cuts during 2020. As mortgage payments are the largest component of consumers' monthly expenditure, these rate hikes will have a material impact on disposable incomes.

There are three ways a retailer can grow its sales: market growth, expansion (organically or acquisitively) and market share growth (i.e. out-competing).

For the reasons stated above, SA is a low-growth market. Therefore, to grow their sales at a reasonable rate, retailers must either expand organically through rolling out new stores (like TFG in SA and Australia) or acquisitively (such as Mr. Price buying Power Fashions and Yuppie Chef in 2021). An acquisitive strategy can deliver growth quickly, but has high risk of not delivering the forecast returns on the capital deployed (a lot of capital has been destroyed by SA businesses following this strategy). The third growth avenue, taking market share by out-competing peers, is extremely challenging to do consistently in the highly competitive retail sector.

Best placed to weather the storm

While we remain underweight the consumer sector in our M&G equity funds given the combination of a low-growth environment with increasing headwinds skewing risk to the downside, we continue to see value in TFG, as it has multiple self-help levers. If these self-help levers continue to be executed successfully, then we expect their earnings to materially beat consensus forecasts.

TFG has the greatest number of self-help levers of the listed SA retailers, among which are:

- The SA business still has a decent growth runway, as it can roll out stores across the 21 niche brands they own, and these brands are growing market share in aggregate.

- TFG was extremely opportunistic in their acquisition of Jet in September 2020, where they paid R385 million for 425 stores. Jet is a strong brand, but the business had been starved of capital under Edcon's ownership. With TFG injecting the required level of working capital and plugging Jet into the TFG procurement and manufacturing systems, Jet's operational performance is improving rapidly. If Jet meets our revenue and earnings forecasts for FY22, TFG would have acquired the business for an extremely cheap price-earnings ratio of under 1.0X.

- Their local manufacturing division produces approximately 25% of the apparel they sell, of which over 70% is made on a quick-response basis. This enables TFG to hold 30% less inventory and ensures they have stock of high-demand products, resulting in more full-price sales and hence a higher gross profit margin. The recently announced acquisition of Tapestry Brands (owner of Coricraft, Dial-a-Bed and Volpes) will significantly enhance their local manufacturing of homeware products and improve the working capital utilization of their homeware division.

- TFG has made the most progress in transitioning the SA business to an omni-channel retailer and has recently hired the two founders of Superbalist to drive the development of their omni-channel offering.

- RAG, the Australian division which operates five niche brands, has recorded a compound annual growth rate (CAGR) in sales of 15% over the last seven years and still has substantial store growth potential in Australia and New Zealand. It has also established an online presence in the USA for its Johnny Bigg brand, which provides fashionable apparel and footwear to the niche oversized-menswear market (sizes XL – 10XL).

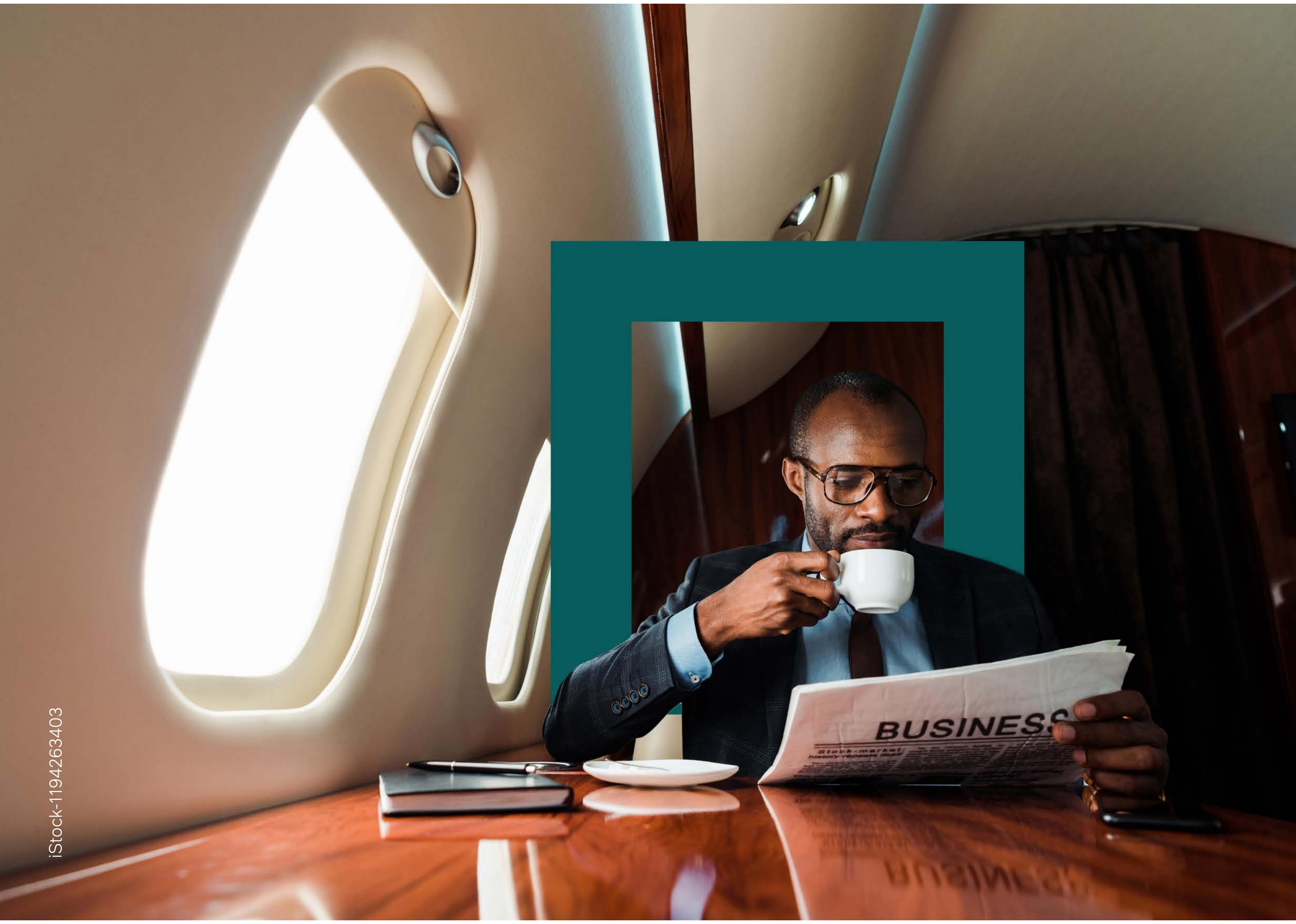
- TFG UK is the division most exposed to formal/social wear, so was most negatively impacted by Covid lockdowns. Since restrictions were lifted in late 2021, they have experienced significant pent-up demand, which combined with the cost rationalisation implemented has seen profit margins return to high-single digits, above pre-Covid levels.

The combination of the above factors is expected to give TFG the highest three-year earnings CAGR of all the retailers to 2023, and should result in the company's P/E re-rating from the current low level of 11x.

While SA consumers are likely to come under increasing pressure over the rest of 2022, we are confident that TFG has sufficient self-help levers – and is using them – to outperform the other retailers and hence add value to our clients' portfolios.

With 15 years' investment management experience, Damon joined M&G Investments in January 2020 as an Equity Analyst where he is primarily responsible for research on Retail sector companies. Prior to joining M&G Investments, Damon spent five years at Electus Fund Managers, during which time he conducted analysis on Consumer and Diversified Industrial companies. He also worked as an Industrials Analyst at Stanlib Asset Management, where he covered multiple sectors, including Small/Midcap Industrials. Damon holds a BEcon (Hons) degree.

Analysis



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Miranda Van Rensburg
Regional Sales Manager

Pitfalls and guidelines in offshore investing

Key take-aways

- South Africans often rely on investing offshore to preserve their wealth over time, and foreign assets can offer the benefits of higher growth potential and greater diversification.
- The SA government recently raised the offshore limits for retirement funds to 45%. In M&G Investments' view, this allowance is sufficiently high to no longer act as a true constraint on investors' "ideal" offshore exposure.
- These days, the offshore vehicle you choose, as well as tax and estate planning issues, are important considerations when investing.

There is a saying in Brazil, "Pai rico, filho nobre, neto pobre", which translates to "Rich father, noble son, poor grandson". Similar quotes can be found in different languages in many countries. There is even a well-known "third generation rule" which holds that 70% of affluent families will have lost all their wealth by the third generation. Cornelius Vanderbilt famously said that anyone, even a fool, can make lots of money. However, it takes intelligence to maintain the fortune for the following years.

Responsible stewardship from one generation to the next is paramount, but obviously can be fraught with difficulties. In South Africa, the way that many investors think about preserving wealth is primarily by taking their funds offshore.

Offshore benefits are compelling

Ongoing economic concerns, a broadly depreciating rand, political uncertainty and the quest for diversification have propelled increasing flows into funds that invest outside South African borders. The local opportunity set is small: South Africa makes up less than 0.4% of global GDP and only 0.44% of the global equity universe (as represented by the MSCI All Country World Index). Offshore investing facilitates access to a range of other currencies, geographies and growth opportunities, adding valuable diversification to a portfolio.

South Africans are known to be an innovative bunch, and initially the wealthy were using offshore tax havens to not only preserve their wealth, but also to evade local taxes in the process. In 2016, SARS introduced the Special Voluntary Disclosure Programme to allow for the wealthy to disclose their holdings without facing penalties, which proved to be quite successful, luring more South Africans back into the tax net. Since then, the world (and SARS) has evolved, and SARS now receives reports from around 80+ tax jurisdictions on South Africans' offshore investments. The message is clear: If your name is on the list and you haven't disclosed it to SARS, expect big penalties. South Africans have quickly discovered that it's best to disclose all offshore holdings and earnings.

Not so many restrictions these days

The merits of offshore investing are myriad. The latest budget has also allowed for an increase in the offshore allocation that a Regulation 28 fund can make to offshore assets. This means that pension funds and other funds subject to Regulation 28 can now invest up to 45% offshore. In M&G Investments' view, this higher allowance no longer acts as a true constraint on investors' "ideal" foreign exposure for their retirement portfolios; it is more than adequate to provide the necessary diversification benefits and growth opportunities, as long as the investor wants to retire in South Africa.

In addition, in recent years the SA government has increased foreign travel and investment allowances for individuals. South African residents over the age of 18 years are entitled to a single discretionary allowance of up to R1 million per calendar year. On top of this, South Africans are also entitled to a foreign investment allowance of up to R10 million per calendar year, subject to SARS clearance.

Given the much more relaxed environment and widespread options for going offshore these days, investors typically spend a large amount of time determining which funds of the increasingly growing list of offshore funds to invest in, sifting through tables of top holdings, and getting engrossed in the virtues of technology shares versus more cyclical shares such as airlines and hotels. What has become clear, however, is that they should be spending at least as much time considering exactly how to invest, and determining which vehicle(s) is most suitable for them.

Going offshore: Feeder funds vs Direct funds

Generally there are two ways to access global investments: rand feeder funds domiciled in South Africa or foreign currency-denominated direct funds domiciled offshore, using one's South African foreign investment allowance.

Rand feeder funds can be found on different South African investment platform offering various offshore options. They invest using South African rands, so that when you sell your investment you receive the proceeds in rands. These funds generally have lower investment minimums and lower fees than direct offshore funds, and payments can be made directly into your local bank account. And because they are domiciled in South Africa, estate planning is more efficient and probate and other legal issues are less complicated.

Direct offshore funds, on the other hand, invest via foreign currency, so that the proceeds are returned to you in the foreign currency. Typically their structure facilitates less capital gains tax being paid on disposal in an environment where the rand depreciates, but they also typically require a larger initial investment. Additionally, estate planning and legal issues can be more complex, and the investor has to open an offshore bank account if they want to retain the proceeds offshore in foreign currency.

M&G Investments has a range of global funds available to investors either directly or via several offshore platforms to meet the risk and return requirements of most investors. Here's more information about our **global funds and how to invest**.

Fund	Currency	Benchmark	Risk
M&G Global Equity Fund M&G Global Equity Feeder Fund	USD Rand	MSCI All Country World Index	High
M&G Global Property Fund M&G Global Property Feeder Fund	USD Rand	FTSE EPRA/NARIET Global REIT Index	High
M&G Global Balanced Fund M&G Global Balanced Feeder Fund	USD Rand	65% MSCI All Country World Index 25% Bloomberg Global Agg Bond Index 5% FTSE EPRA/NARIET Global REIT Index 5% US 1mo Treasury Bills	Medium
M&G Global Inflation Plus Fund M&G Global Inflation Plus Feeder Fund	USD Rand	Global Inflation	Medium
M&G Global Bond Fund M&G Global Bond Feeder Fund	USD Rand	Bloomberg Global Agg Bond Index	Low

Wills, taxes and other legal considerations

As Benjamin Franklin famously said, “In this world nothing is certain but death and taxes”, and tax planning should certainly be a major consideration when deliberating the “how’s” of offshore investing, along with estate planning.

South Africans are taxed on their worldwide income, which therefore necessitates diligence when choosing the best structure for these offshore investments. Double taxation may arise if the same assets of the deceased person are subject to estate duty in South Africa as well as the equivalent in the foreign country, unless agreements are in place between South Africa and the respective country.

A term that is often used is “situs tax”. Situs refers to the location of an asset, for example where a property is located, or the country where funds are invested. Situs taxes are the taxes levied on such assets upon death. In the US, for example, such situs tax comes into play even at the relatively low level of US$60,000.

Turning to estate planning, under certain circumstances, a separate will is required for assets held offshore. However, even with a separate foreign will, significant complications can occur when winding up an estate. Typically, winding up such a foreign estate at the same time as the SA estate can be difficult where originals of documents are required to be sent back and forth. The South African Master requires an original will, and so do the offshore authorities. Where the amounts invested offshore are small, it is also difficult to find offshore executors willing to help with winding up the foreign portion of the estate as it is not worth their while.

Another complication looms as a result of probate, which occurs where foreign jurisdictions do not recognise the South African executor. In this case, a local court authority has to be appointed before the estate can be wound up. This process can be lengthy and costly. Some countries can even consider a South African-drafted will to be invalid.

An important factor worth considering is forced heirship, of which some form exists in most major countries. Such rules restrict a testator's freedom in deciding how assets are to be distributed after death. These rules then have implications for the existing will when finalising the estate. Once again, the importance of consulting your financial adviser on proper estate planning cannot be underestimated.

Estate duty can be high, depending on the country where this is applicable:

	Estate / Inheritance tax rate
Turkey	10%
Denmark	15%
Japan	55%
US	40%
UK	40%

Source: PWC

For example, an investment in the US done directly through a mutual fund there would attract estate duties in the US, which for non-US residents could be as high as 40%. Fortunately, there are numerous structures made available through South African insurers for South Africans to invest offshore in a way that is beneficial to tax planning as well as estate planning.

Two of the most well-known structures include offshore trusts and offshore endowments. The latter allow the owner to nominate beneficiaries to which proceeds of an investment will be paid on death. This circumvents the issue of probate, which therefore saves significant time and cost. Proceeds can simply be paid out without being subject to executor's fees. Estate duty would still be applicable, but only in the local market, where our estate duty is significantly less. In addition, should a spouse be the beneficiary, there would not be any estate duty payable.

The bottom line here is that offshore investments are a well-known and accepted option for preserving wealth for future generations, and more solutions are becoming increasingly accessible to South Africans. However, it remains just as complicated as ever when it comes to taxation, retirement and estate planning: there are numerous factors at play and landmines are all around. Consequently, the value of an experienced financial adviser who understands these issues and is able to guide an investor down the road of potential options cannot be underestimated.

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Miranda joined M&G Investments in January 2016 as Regional Sales Manager. She is currently responsible for the management of retail distribution in the Gauteng region. With more than 20 years' industry experience, Miranda has served in a range of roles including: business development, manager research, portfolio management and asset consulting to large pension funds. She holds an MSc (Engineering) degree and is a CFA Charterholder.

iStock-174970862

Aadil Omar
Head of Equity Research

Risk management for the high wire

Key take-aways

- Like acrobats on a high wire, success in money management boils down to mitigating errors and reducing the severity of risk when errors do occur.
- Portfolios need to have a tolerance for variance, so that if an event/investment doesn't turn out as expected, that variance does not unduly impact the total portfolio value. This tolerance is influenced by the portfolio's concentration and its leverage.
- Unlike the high wire, where one mistake can be catastrophic, unintended results in investing can be positive, which is sheer luck.

Acrobatics: *(Greek: "to walk on tip-toe," or "to climb up"), the specialised and ancient art of jumping, tumbling, and balancing, often later with the use of such apparatus as poles, one-wheel cycles, balls, barrels, tightropes, trampolines and flying trapezes.*

The Great Wallendas, a circus acrobatic troupe founded by Karl Wallenda, were noted throughout Europe for their four-man pyramid and cycling the high wire. The troupe went on to claim numerous records and were exceptionally creative in first-of-their-kind stunts, such as the unequalled three-tier seven-man high wire pyramid (debuted in 1947). Individual members also went on to break and set numerous records in the field of acrobatics:

Nik Wallenda (great-grandson of Karl), for instance, became the first aerialist to walk a tightrope directly over Niagara Falls in 2012 (walking from the United States into Canada). Nik also broke the world record for the highest and longest bike ride on a high wire, which was broadcast live in 2008.

The Wallendas were not just other-worldly in their resolute determination to push the physical and mental boundaries of performance, but what made them even more remarkable was that they performed many of these stunts without a safety net. It would not be an exaggeration to say these acrobats did parlay in a fate-tempting trade. And tragically, in some instances, the Wallendas came second best. The troupe suffered several tragedies and setbacks, such as the accidental deaths of no fewer than three members of the original Wallenda troupe, including that of Karl Wallenda, who died after falling from a high wire in Puerto Rico in 1978. The injuries suffered by these performers are yet more numerous.

Fate-tempting activities are, by their very nature, experiments in risk. Acrobatics, especially when undertaken without the mitigating feature of a safety net or harness, embeds risk that is unforgiving of error. When risk is so thoroughly present in an activity, it is not just error of commission that could lead to adverse outcomes, but any deviation from the safety zone. Stacking human bodies in a pyramid formation while walking a high wire, without a safety net, epitomises a situation when you're a sneeze away from ruin. Staying safe requires everything from the weather to the tension of the wire to remain within an extremely narrow range of variation. And you would need every one of your fellow troupe members to execute their acts with unwavering precision. In other words, this is an activity that will take your life unless it is executed flawlessly.

Now consider an activity that is very forgiving to imprecise execution, like jumping on a bed. Probably not something most readers have practised since they were very young, but an acrobatic feat nonetheless. But jumping on a bed is nothing like walking a high wire, despite the punishment suffered by elder siblings the world over because a younger brother couldn't hold his own on the landing. The bed offers a large surface area on which to land and is very forgiving to the way you land. The bed is also only about a meter or so from the ground, and unless you're completely off-target, the risk of plummeting to the earth at terminal velocity should be extremely low.

We can generalise these concepts a bit by thinking of the surface area of the respective substrates (the bed being large while the high wire is narrow) to a system's *tolerance for variance*. The distance from the ground in the event of an error represents the *severity of a risk event*, should it occur. Falling from a high wire is catastrophic, while falling off the bed is probably more perilous for the elder sibling orchestrating the activity than it is for the victim.

More importantly though, there are a few risk features lurking slightly beneath the surface of those immediately apparent. One such feature is the *default position of the risk bearer* in that environment. The default position of a Wallenda on the high wire is utterly perilous. He exerts immense effort to keep from succumbing to risk. Furthermore, the longer the time spent on the high wire, the higher the risk. Little Jimmy - the bed jumper - on the other hand, is largely in a position of relative safety. Simply maintaining his jumping cadence would be enough to ensure a nasty outcome remains improbable. Perilous environments embed more points of terminal failure for a risk taker than safer environments.

Risky pursuits in the world of bids and offers

There are many parallels to be drawn from the antics of acrobats to the world of money management and finance. The one that immediately comes to mind is that of the default position of a trader. We often hear the dismal statistics associated with trading or other forms of financial speculation. I did some Googling and discovered that a mere 3.5%-4.5% of account holders on one of the UK's most popular spread-betting platforms were profitable. That means 95% go on to lose money or at best stand still.

Why is it that the default position for most traders is to lose money?

Why do most fund managers underperform their benchmarks over any meaningful period?

Why is the severity of a risky event almost always underestimated?

There are numerous angles through which to respond to the above questions, but for purposes of this article, I'd like to offer some thoughts on risk management related to the features introduced above, namely: tolerance, severity, and default position.

Hire wire antics differ materially from bed jumping in each of these sub-variables, which collectively serve to amplify risk. When systems are intolerant to errors, and the severity of a mistake is catastrophic, not losing is the same as winning. The task is simply to get to the other side of the wire without incident. In fact, given every aspect represents a potential point of failure, we can simplify the task as follows: To succeed, the practitioner must execute without error. Skill therefore translates to zero-error execution. There are no positive outcomes when things do not go according to plan.

Needless to say, successful money managers avoid these extreme all-or-nothing positions. And money management differs in a fundamental way, in that there is the potential for unintended outcomes to be favourable. In other words, sometimes when things do not go according to plan you could still get lucky and enjoy a bonanza: Perhaps you're avoiding a share because you assess it to be too expensive, and then the company announces bankruptcy. Or you've invested in a gold miner which has failed to discover adequate gold deposits, but then the company is bought out for a handsome sum, having instead uncovered an unexpected platinum resource. This kind of luck does not happen when walking high wires.

Still, success in money management does boil down to mitigating errors and reducing the severity of risk when errors do occur. The task of mitigating errors becomes more demanding when tolerance for risk is reduced and vice versa. Some features either expand or contract a portfolio's tolerance for variance, especially when it is to the downside. A few notable categories include:

Leverage: As the name suggests, leverage extends outcomes on either side of the equation; good outcomes are better and bad outcomes are worse. Leverage therefore has the effect of adding depth to the severity of outcomes. Greater leverage takes a portfolio closer to ruin when undesirable outcomes occur.

Concentration: Concentrated portfolios require greater accuracy in terms of what you need to be right about. Unlike leverage, though, concentrated portfolios do not amplify outcomes but rather focus them on specific variables. In some ways, concentrated portfolios reduce complexity; there are fewer things one must get right. But this comes at the expense of optionality in some cases – if a portfolio is concentrated, it cannot take advantage of as many investment options.

When portfolios are enhanced through leverage or concentration, the ability to withstand adverse change (volatility), especially a shock, is compromised. Like a high wire acrobat who has momentarily lost his balance, the time available to recover is significantly reduced when tolerance is cut to the bone. Leverage forces portfolios to de-risk at the most adverse point, while being overly concentrated could make it too costly to switch horses when a risk event occurs. Being too close to the wire simply hinders the opportunity to recover when something goes wrong.

Risk practitioners, even those on the high wire, are risk managers

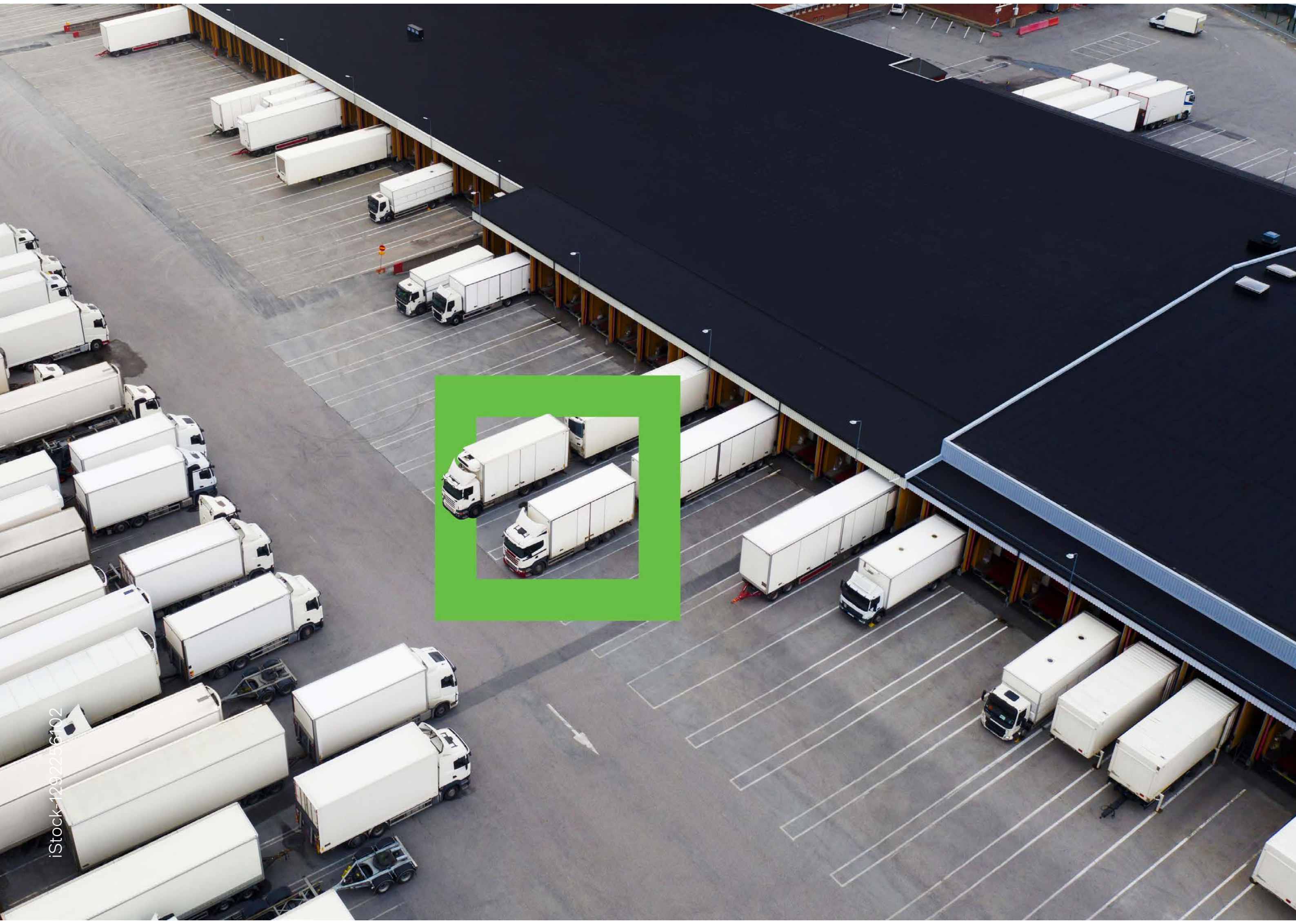
The Wallendas are pure practitioners of risk. Every aspect of the performance is a mini exercise in taming some component of the risk inherent in acrobatics. One should have no doubt that the performances are thoroughly planned, locations and sets meticulously prepared, and acts laboriously rehearsed before any tickets go on sale. So deliberate are they in preparation that the Great Wallendas operate as a family business, with initiation beginning as soon as a Wallenda is of school-going age.

Practise and preparation are the only mechanisms available to the troupe for risk control – their craft is the equivalent of probability-stacking, where the entire ensemble of performers needs to operate as a single unit. The Wallendas have turned risk management on the high wire into a generational competence. That is what makes them the *Great* Wallendas.

High stakes games will always carry a high price, usually in the form of significant risk. We should learn from the Wallendas that risk management can be an active and deliberate pursuit, as it is for us at M&G Investments. Even though one may not know what might happen when the air turns thin, being well prepared is simply good risk management. □

Aadil joined M&G Investments in July 2013 as an Equity Analyst. In August 2018 he joined a global equity hedge fund in London, before returning to M&G Investments in January 2020 as Head of Equity Research. With 15 years' investment experience, Aadil's qualifications include a BCom degree (Hons, cum laude) from the University of Pretoria and a Masters in Finance degree from INSEAD. He is also a CFA charterholder.

Analysis



Duncan Schwulst
Fixed Income Analyst

Diversifying income assets with careful risk analysis

Key take-aways

- At M&G Investments, we don't rely solely on ratings agencies for a borrower's credit quality, we conduct extensive in-house analysis and assign our own ratings.
- We employ many different measures of creditworthiness to determine a fair rate at which to lend, one that balances risk and reward for our clients.
- The Equites debt issue was very competitive, and we obtained an allocation for our client portfolios that favourably enhanced diversification and prospective returns for the risk involved.

As risk-aware investment managers, one of M&G Investments' primary aims when building client portfolios is to include a broad range of income-earning assets to help diversify risk, guided by our in-depth credit analysis process. A recent opportunity to do this came in the form of a credit issue by Equites Property Fund, the JSE-listed Real Estate Investment Trust (REIT), which came to market in November 2021 looking to raise between R750m and R1bn across one-year and three-year bonds. Here we were successful in adding what we assessed to be a high-quality issuer to the M&G High Interest Fund (and other client portfolios), further diversifying the fund's sources of income while earning an attractive yield.

A look at M&G's credit analysis for Equites

Equites was listed on the JSE in June 2014 with a R1bn portfolio of properties located in the Western Cape, but has subsequently grown to own a portfolio of high-quality logistics properties located in South Africa and the UK valued at some R22bn.

Our assessment of the **business risks** identified several significant positives for the Equites investment case. First, Equites is benefitting from very strong demand for logistics space, on the back of the rapid growth in E-commerce and consequent business moves to multiple sales channels (omni-channel) and demand for faster fulfilment. Interestingly, unlike the experience of many other landlords, the Covid-19 pandemic has been a tailwind for this specialised sub-sector of the property industry due to supply chain disruptions and the resulting drive for supply chain resilience and optimisation, and a move away from "Just-In-Time" processes. These dynamics are leading to increases in inventory levels, with concomitant commercial need for larger storage space.

Equites also benefits from a significantly long lease expiry profile of more than 14 years, compared to its peers' average lease expiry profiles of around three to four years. This reduces risk for its creditors given the longer-term revenue visibility this entails. Its vacancies are also low in contrast to those of its peers, further evidencing the keen demand for space in their portfolio.

The final significant positive is that the group has been shifting its geographic exposure out of South Africa into the lower-risk UK over the last five years. Management has plans to increase this UK exposure, which will reduce the overall portfolio risk further.

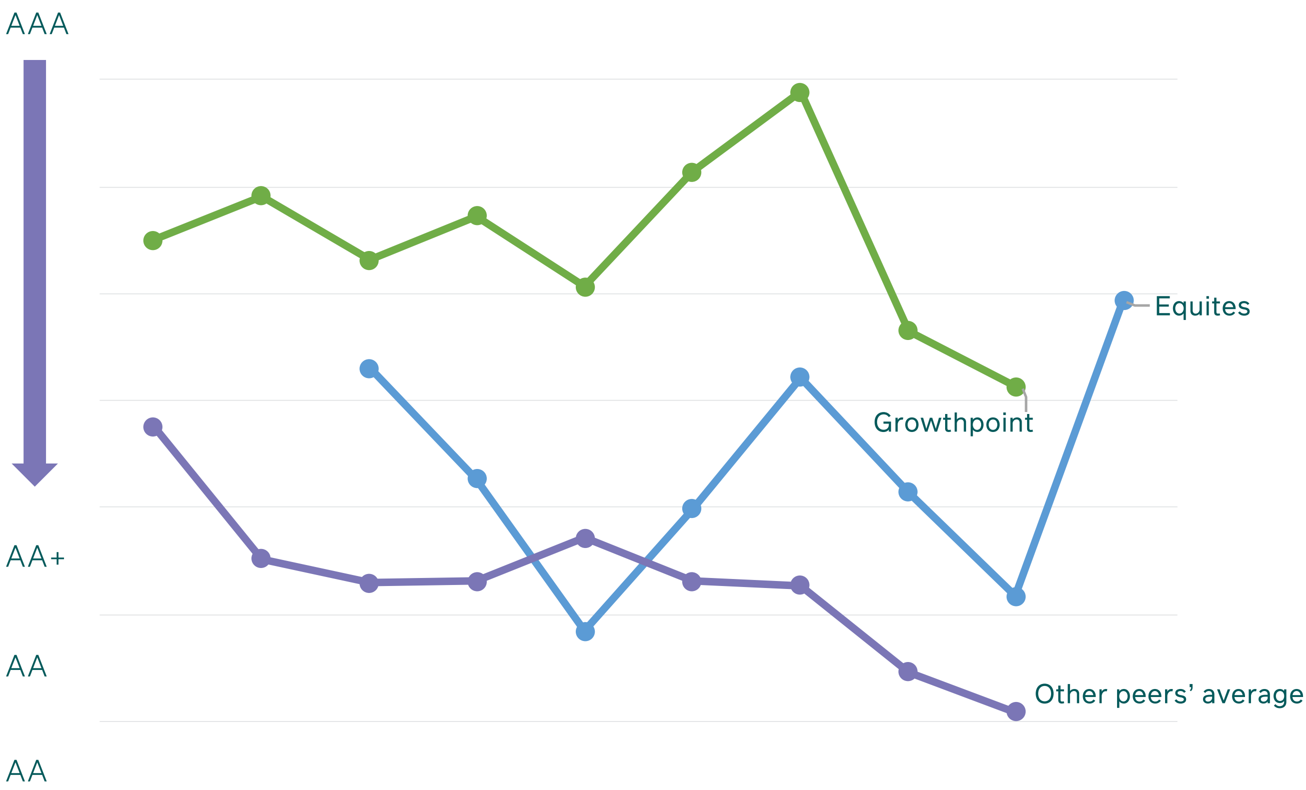
The investment case is not without weaknesses, however. Adding to risk is Equites' greater development focus than its peers, with a significant UK pipeline. The exposure to land and developments amounts to 20% of its assets, with capital commitments equating to 9% of assets. A further negative is that its portfolio size, though having grown quickly, is still below average, which results in less diversification. Diversification has been further reduced by a recent substantial deal with Shoprite, in which it acquired a 50% interest in three of the retailer's large Distribution Centres. This has now led to tenant concentration for the Equites portfolio, with Shoprite being 11% of its tenant base.

Our consideration of the **financial risks** associated with the company found that Equites was strongly positioned. Unlike other property issuers we analyse, Equites had been able to deliver strong like-for-like (or "stable portfolio") net property income growth of 7.5% in South Africa during the Covid-19 pandemic. A large contributor to this strong result was that Equites had granted minimal Covid-associated relief payments to tenants.

Other strengths identified from the financial analysis included a low loan-to-value ratio (gearing) compared to its peers, a long debt maturity profile, a high level of unencumbered assets, and a low level of secured debt.

Wherever possible, we try to consider issuers relative to their peers. In the property sector there are a number of issuers, and this comparison is very informative. Based on this peer analysis, which takes account of the metrics referred to above and several others, we considered Equites and Growthpoint to be at the top of the peer group in terms of credit quality, both at a South African local scale rating of AAA, as shown in Graph 1. The other property sector issuers were clustered two to three local rating notches lower, at around AA to AA-.

Graph 1: Equites local credit quality at the top of the SA property pile



Source: M&G Investments. Equites metric based on FY2022 interim results to August 2021, others on most recent full-year results.

Environmental, social and governance factors

As with all our potential credit investments, we also consider how environmental, social and governance (ESG) issues manifest themselves and may introduce additional risks to our client portfolios. From an environmental perspective, Equites management demonstrated a keen focus on property operating efficiency, particularly in implementing solar electricity and water-efficiency projects in their properties. They have also made significant progress in obtaining an increasing number of "Green" building certifications across the portfolio.

As for the social aspects, we acknowledged that this was not a major risk for the company, as Equites' clients are typically corporates rather than consumers. Equites is committed to numerous CSI projects, which also mitigate social risk.

Finally, on governance factors we considered the Board composition and the make-up of skills and experience across the members, noting the position of Leon Campher as Chairman. Leon is well known in the investment industry given his role as CEO of ASISA and past position as CEO of Coronation. Additionally, our past engagements with him as shareholders have been constructive.

Leveraging off equity analysis

For issuers listed on the JSE like Equites, we always seek to take advantage of the in-depth analysis provided by our equity team colleagues. In this case, the equity team had a generally positive view on Equites, viewing debt exposure as being low risk. The equity team's overweight position in the company at the time gave us further comfort in our decision to take on the credit risk, while also being mindful in gauging the extent to which the equity team's positioning was based on the company's valuation, versus their view on its fundamentals.

Checking the Ts and Cs

Reviewing the bond documentation (or terms and conditions) is an important step in our analysis process. We do not outsource this – rather it is performed by the relevant credit analyst. From our review of the Equites documentation we noted the inclusion of both a 50% Loan-to-Value covenant and a 2.0x Interest Cover Ratio financial covenant. These covenants, though not unusual, are not always included in property company listed bonds, and provide some protection against the company materially increasing its financial leverage. On a technical point, we noted that the pricing supplements needed to be checked to make sure that these financial covenant clauses were marked as "applicable", otherwise they would not apply to these particular bonds being offered.

Another positive came from the inclusion of two "put event" clauses, which are not commonplace. These gave investors protection against both:

- A delisting of Equites' listed bonds or ordinary shares; and
- A disposal of the greater part of Equites' undertaking/assets.

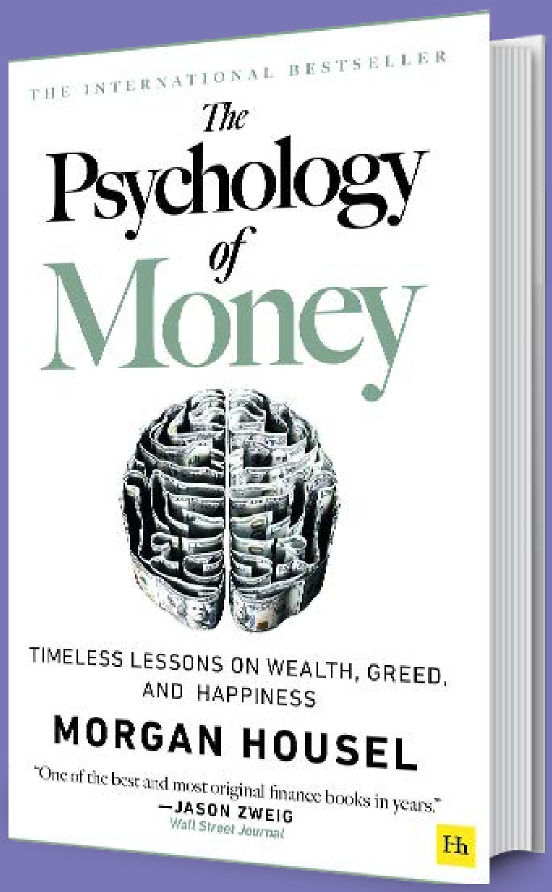
Credit Committee go-ahead

On the strength of the credit analysis as described above, the M&G Investments Credit Committee approved a credit limit for Equites. Given our positive view of the credit, we decided to bid relatively aggressively for the issue.

Equites' debt proved to be very sought-after by investors, given its relatively high credit quality and the subdued numbers of corporate bond issues to go to market since the Covid-19 crisis. This made the auction very successful for Equites, with the three-year bond pricing at Jibar + 1.45%, which was below the guidance. The auction attracted bids from 16 different parties with total bids exceeding the amount on offer by 3.5x – a strong show of support from the market. We were successful in acquiring around half of the volume we bid for – a good outcome considering the strong demand for the issue and the aggressive bidding.

We believe the Equites three-year debt was a sound addition to our M&G High Interest Fund holdings, delivering clients an attractive yield for the risk involved. It has also helped further diversify the fund's income sources in an environment where the domestic credit market has seen limited new issuers coming to market. Our clients should know that we take advantage of these opportunities to add value to our client portfolios whenever possible, although we will also not overpay or take unnecessary risks should we judge a security to be too expensive or a credit of insufficient quality. It all hinges on our consistent application of our detailed credit analysis process. ☐

Duncan joined M&G Investments in 2007 as a Fixed Income Credit Analyst and was appointed as joint-Portfolio Manager of the M&G Investments Enhanced SA Property Tracker Fund in December 2014. In June 2018, Duncan returned to the Fixed Income team to resume his role as Credit Analyst. His responsibilities involve focusing on various sectors, including property company debt issuers. Prior to joining M&G Investments, Duncan completed his articles at PwC, after which he took up a finance role at JP Morgan in the US. His qualifications include a BBusSc in Finance, Post-Graduate Diploma in Accounting, CA (SA) and CFA.



Clare Lindeque
Head of Quantitative Analysis

An invaluable focus on finances

November 2021's virtual CFA South Africa Conference featured Morgan Housel, author and venture capital partner, as guest speaker. I find conferences to be a good source of business and investment-related book recommendations that I might otherwise have missed while indulging my other interests, not least because hearing someone speak about a subject they're fascinated enough by to have produced a book on, is a joy and the best possible invitation to explore the subject further. Maria Mazzucato and Daniel Pink's books followed me home from the 2019 CFA Conference, and in the same spirit I was curious to read Morgan Housel's debut, *The Psychology of Money*.

This is a tremendously useful and accessible book, and everyone should read it. I do not say that lightly. Housel manages to cover a remarkable number and range of important subjects in just over 200 pages, and almost no matter what your experience with personal financial management is, he has something to offer.

Despite the financial sector hoovering up some of the finest minds of each generation, there is little evidence that, collectively, we are better investors for it. Humans have made astonishing progress in almost every field of endeavour (for a recent, real-world example, look no further than the life-saving Covid-19 vaccines that were developed in record time, using existing technology that had been awaiting its moment to shine). But we remain stubbornly indifferent at saving, retirement planning, and debt management. Housel believes that these shortcomings are because we have failed to attend to the financial challenges of life with sufficient psychological focus.

The psychological aspects of how we relate to money, and how these are influenced by our emotions, our early life experiences and upbringing, are often neglected in favour of expending effort on spreadsheets, calculations and developing investment strategies. Basic numeracy – the ability to confidently calculate a percentage change, for example – is something that is essential for success in many areas of life, not just personal finances (and of course far more is expected from those who make their living as financial advisers or investment managers), but we disregard the "softer" aspects of financial planning at our peril.

These gentle lessons Housel encourages us to learn include some of the things you were told growing up, but didn't believe: that not everyone who appears wealthy, is; that luck is an enormous factor in determining who does well and who doesn't; and that wealth is the ability to spend your time in ways that serve you and bring you satisfaction. You know enough, now, to see the truth in those ideas. He also covers concepts such as risk and volatility, compounding, decision making, and dealing with failure.

Housel's book takes the form of twenty short chapters, or stories, about what we do with our money – the mistakes we make, and how to do better. Each chapter is framed around an instructive story about an investor, scientist, economist, entrepreneur, or other character, some largely unknown. He provides ample historical context for why things are the way they are, both in the world, and in our heads. His writing style is simple (several reviewers call it "crisp", which is apt) and entertaining. He concludes with a chapter on how he manages his own finances, providing a fascinating case study of a successful investor who is, at the same time, not a Jim Simons or a Warren Buffett, but a relatively ordinary individual.

This is a short read with a potentially huge payoff, if you are willing to devote sufficient psychological focus to it.

Clare joined M&G Investments in 2007 and is the Head of Quantitative Analysis. With 19 years of industry experience, she has worked in a range of roles spanning quantitative analysis, marketing and web development. Clare holds a Master of Science degree in Financial Mathematics from the University of Cape Town, a Financial Risk Manager certification from the Global Association of Risk Professionals and is also a CFA charterholder.

Invest in consistency

mandg.co.za

M&G Investments

In Brief

We're serious about the responsible stewardship of our clients' assets and excellent client service.

Founded in
Cape Town, 1994

Number of staff
180+

BBBEE
Level 1

Offices
Cape Town (HO), Johannesburg, Durban, Port Elizabeth & Windhoek, Namibia

Total assets under management
R300 Billion

Unit trust MANCO
R130 Billion

Segregated and Pooled Life
R170 Billion

AUM Reflected as at 31 January 2022

Ready to invest?

Investing with M&G Investments is quick and easy. Use our **tools** to help determine the best unit trusts to meet your objectives and then complete an **online application form**. If you need help with any part of this process, contact our Client Service Team via the chat widget or call: 0860 105 775

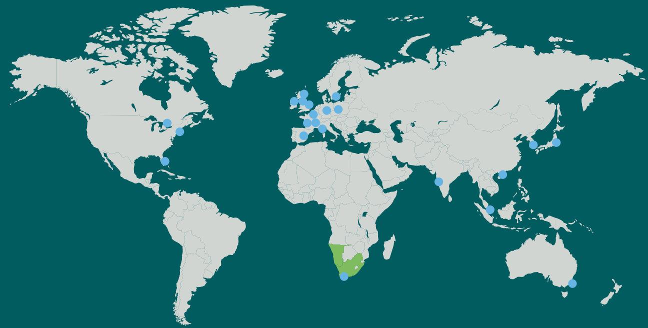
Tools

Invest now

Previously Prudential Investment Managers. MandG Investment Managers (Pty) Ltd is a licensed financial services provider. Click **here** to read our performance disclaimers.

A coordinated global network

M&G Investments Southern Africa works together with experts across M&G plc's worldwide operations to offer a consistent investment philosophy and process.



Our range of funds

Our unit trusts include equity funds, balanced funds, property funds, income funds and tax-free funds.

18 rand-denom. local funds

5 us dollar-denom. global funds

Building block funds

Solution funds

Tax free

Living annuities

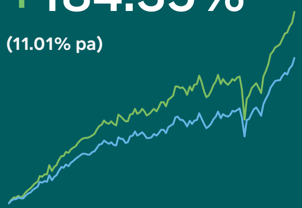
Income funds

Our flagship funds

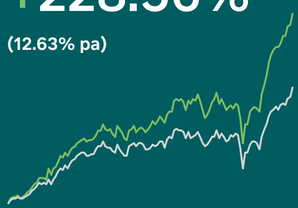
- M&G Equity Fund
- M&G Dividend Maximiser Fund
- M&G Enh SA Property Tracker Fund
- M&G Income Fund
- M&G Inflation Plus Fund
- M&G Balanced Fund

Consistent returns over the last 10 years*

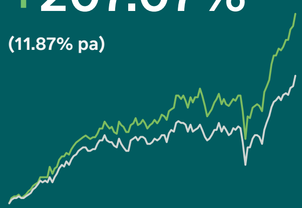
M&G Balanced
+184.35%
(11.01% pa)



M&G Equity
+228.56%
(12.63% pa)



M&G Dividend Maximiser
+207.07%
(11.87% pa)



— Fund — (ASISA) South African MA High Equity Category Mean — (ASISA) South African EQ General Category Mean

*Source: Morningstar, showing 10 year performance to 31 December 2021

Why Consistency matters

Consistency is a quality that M&G Investments prides itself on. It's a major factor that has led to investment success for our clients and ourselves. And it's also about the inputs as well as the outputs: being consistently disciplined, consistently diligent and consistently determined. That's because in investing, it doesn't matter how good you are on a given day, you have to be consistently good day after day, month after month, decade after decade. It's this quality that has helped us achieve consistent top fund performance year after year. In turn, this has enabled our clients to improve their lives.

Consistently strong returns
Over nearly three decades we have used the same valuation-based philosophy, applying it unemotionally every day and ignoring the short-term swings of the market. We have also always deliberately chosen to incorporate a wide variety of investment ideas in our portfolios, carefully diversifying risk rather than betting on a small number of assets or forecasts. The resulting strong performance track records of our funds confirm the correctness of our belief in consistency.

Consistent innovation
Globally, we have a decades-long track record of consistent innovation – creating cutting-edge investment solutions around the needs of our clients and playing an active role in improving the world we live in. This spans environmental, social and governance (ESG) investing, infrastructure investing and the use of artificial intelligence, among others. We bring the latest expertise to Southern Africa to enhance our own long-standing active approach.

A consistent team
Our investment team has proved remarkably stable, building up their skills through training, experience and close collaboration with each other and scores of their colleagues overseas. Working together over the years, doing the right things right, helps ensure they can generate repeatable successes in the ever-changing markets. And throughout our business, whether compliance, operations or client service, our staff all understand that maintaining consistently high standards is at the heart of everything we do.

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