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Consider this: Q2 2023 - CEO Letter

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Chief Executive

Looking back at the second quarter of 2023, most investors would have experienced mixed portfolio returns, with diversification again proving very beneficial. Global developed market equities broadly delivered pleasing returns, but global bonds weakened amid central banks' surprisingly hawkish stances against persistent inflation. Both equity and bond returns were enhanced by rand depreciation over the period.

Local asset performance was disappointing as South African financial markets underperformed most other global markets on the back of the specific risks associated with two main factors: 1) loadshedding, which is weighing on growth prospects, and 2) the new threat of financial or trade sanctions being imposed by the West. The latter follows May reports of South African arms sales to Russia and growing perceptions of the government generally favouring Russia in its war against Ukraine. These elevated risk perceptions of South African assets left the rand weaker and government bond yields higher in Q2, while SA equity returns were muted. Read more about these financial market developments and our latest portfolio management views in our Market Observations Q2 2023 report by CIO David Knee.

Taking advantage of weakness

Sharp sell-offs such as those we saw in SA bonds and the rand in May allow active valuation-based investment managers like us the opportunity to buy assets at very attractive levels, should we deem that the potential rewards will more than compensate for the associated risks. In this case we did take advantage of bond market weakness to buy more local bonds for our funds where appropriate.

In our multi-asset funds we also added to our global bond exposure as yields moved higher, buying 30-year US Treasuries and UK gilts at attractive valuations as they offered excellent income and diversification benefits. This reduced our global cash position slightly, which we had been holding at higher-than-usual levels amid the uncertain global macroeconomic environment. We are confident that these portfolio adjustments, both local and global, will help produce market-beating returns for our clients going forward.

M&G wins prestigious "Group of the Year" and Asian Fund Awards

We are proud to report that M&G Investments (UK) won the Group of the Year Award at the prestigious annual Investment Week Fund Manager of the Year Awards on 22 June. At the same time, the M&G Japan Fund won the Japan Equities Fund Award and the M&G Asian Fund was highly commended in the Asia Pacific ex. Japan Equities category.

South African investors have access to the impressive performance of the M&G Japan Fund via the M&G Global Equity Fund (in US dollars) and the M&G Global Equity Feeder Fund (in rands).

The Investment Week Fund Manager of the Year Awards has been a flagship event for the investment industry for over a quarter of a century. It honours fund managers and groups who have demonstrated consistently strong performance for investors and whom the judging panel believe have the potential to continue to outperform in the future.

The new M&G Global Listed Infrastructure Fund

During the quarter we were excited to have launched our M&G Global Listed Infrastructure Feeder Fund in South Africa, in response to keen demand from local investors. This new rand-denominated global equity fund will enable South African institutional and retail clients to gain easy access to global listed infrastructure assets and their attractive growth and inflation protection benefits. The Feeder Fund invests into the existing Luxembourg-domiciled US dollar-denominated M&G (Lux) Global Listed Infrastructure Fund. We have also applied for approval to distribute this US dollar fund in South Africa.

The launch comes at a time when global listed infrastructure investments are increasingly popular around the world for offering diversification, steady income growth and inflation protection. The Fund, which already has a successful five-year track record and US$3.2 billion (approximately R60 billion) under management, invests across a well-diversified mix of listed infrastructure-related equities around the world. You can find more details about the fund and how to invest **here**.

A comment on fund performance

In Q2, the **M&G Global Feeder Funds** continued their strong performance in rand terms, due partly to the weakness of the rand over the period when translated from US$. The M&G Global Balanced and Global Equity Feeder Funds were particular standouts over the three months, as well as for the 12-month period. Also over the past 12 months to 30 June, the **M&G Dividend Maximiser Fund** has recorded a notably strong performance compared to its peers. Overweights in Naspers/ Prosus, SA banks, Richemont, Oceana and Anglo American are among those holdings that have lifted its returns significantly, along with smaller contributions from MTN, BHP, enX and Tsogo Sun. Note the wide diversification of sectors from which returns have been generated.

Looking ahead

In our view, both SA equity and SA bond valuations remain the most attractive among the different asset classes, offering the best potential for market outperformance over time. It is true that local risks are elevated, but we believe the current high yields on government bonds reflect exaggerated risks, such as inflation remaining above the SARB's 3-6% CPI target range in perpetuity. Slower company earnings growth also remains a concern for both global and local equities, which is why we are being selective in our portfolio construction.

Still, we are holding ample global exposure, having seen good opportunities among global equities and bonds in recent months. This is one of the advantages of being a large global investment manager with a wealth of resources at our disposal (both AI and human) to assess those opportunities. Not only are we taking advantage of cheap SA assets, but the diversification provided by offshore exposure helps us to optimise client portfolios. In the current conditions, this is more important than ever.