

# Investment Focus: Unpacking the M&G Namibian Enhanced Income Fund's strong performance

November 2023



## M&G Investments

Investment Focus: Unpacking the M&G Namibian Enhanced Income Fund's strong performance

Looking at M&G's Namibian multi-asset funds' performance over the past year, the lower-risk [Enhanced Income Fund](#) outperformed its higher-risk counterparts on an absolute basis. This is partly due to the increase in interest rates over the period, as well as M&G's active management approach and focus on limiting losses. As shown in the table, the Fund has delivered 8.5% over the 12 months to end October 2023, versus 7.4% for the [M&G Namibian Inflation Plus Fund](#) and 6.9% for the [M&G Namibian Balanced Fund](#). However, over the longer three-year period, the higher-risk funds, holding more growth assets, have outperformed: the Balanced Fund has delivered 10.9% p.a. compared to 9.5% p.a. for the Inflation Plus Fund and 6.1% p.a. for the Enhanced Income Fund. The three funds have also outperformed or been in line with their respective benchmarks over the past three years.

M&G Namibian unit trust	1-year return to 31 Oct 2023	3-year return to 31 Oct 2023 (annualised)	3-year Benchmark Performance (annualised)
Balanced Fund	6.9%	10.9%	10.9%
Inflation Plus Fund	7.4%	9.5%	9.3%
Enhanced Income Fund	8.5%	6.1%	5.8%

### Focusing on limiting losses

How did the Namibian Enhanced Income Fund achieve its strong performance amid rising interest rates? Several tactics have been at play. Over the past year to 31 October 2023, Portfolio Managers Roshen Harry and David Knee have been focusing on limiting the Fund's losses by keeping its risk at low levels, while also achieving returns above Namibia's IJG Money Market Index. As such, they have avoided offshore assets due to their more expensive valuations, lower yields and exchange rate risk. They have also been holding no equity and an insignificant amount of listed property exposure (at around 1%) given that the sector faces a relatively high risk of poor earnings in the current challenging macroeconomic environment.

When it comes to bonds, diversification across issuers is always an important principle M&G Investments adheres to in order to reduce credit risk. Added to this, the managers have avoided longer-dated maturities, preferring to focus on 3- to 7-year South African bonds because of their lower vulnerability to growing fiscal risks than 12+-year bonds, while still offering better yields than maturities shorter than three years. They have also preferred 3-7 year maturities in Namibian inflation-linked bonds. The latter have made up just over 25% of the Fund's holdings over the period, as they feature coupons that automatically rise in line with inflation and therefore serve as protection against inflation surprises. This strategy has certainly paid off – both the SA bond and Namibian ILB positions have contributed meaningfully to the Fund's 8.5% return.

Additionally, the managers have opted for larger exposure to shorter-term "cash-type" debt, largely in the form of money

market instruments and floating rate notes (FRNs) issued by banks. In a rising interest rate environment, floating-rate debt offers more safety than fixed-rate (or nominal) debt because interest rates paid to FRN investors rise as their base reference rate (JIBAR) is automatically adjusted upward when the SARB hikes its repo rate. Cash-type holdings in the Fund, across both Namibian and South African markets, have comprised some 50% of the fund, and this has contributed the most to the Fund's outperformance during the last 12 months across asset classes. In short, the managers' strategy of protecting the fund from losses in the rising interest rate environment, while simultaneously taking advantage of the attractive valuations of medium-term bonds, have been successful in producing strong performance in both absolute and relative terms.

---

---

**Disclaimer.**

This document is for information purposes only and is not an offer to or solicitation for investors to invest in any of the capabilities or products offered by MandG Investment Managers (Pty) Ltd [M&G Investment Managers] (Registration no. 2013/051515/07) and MandG Investments (Namibia) (Pty) Ltd (Registration no. 1996/85) [M&G Namibia] or any of their associates, being MandG Investments Unit Trusts South Africa (RF) Ltd (Registration no 1999/005242/06) and MandG Investments Unit Trusts (Namibia) Ltd Registration no. 2007/609. M&G Investment Managers is an authorised discretionary financial services provider by the Financial Sector Conduct Authority of South Africa [FSP45199] in terms of the Financial Advisory and Intermediary Services Act, and has its registered offices at 5th Floor Protea Place, 30 Dreyer Street, Claremont, 7708. M&G Namibia is an approved person in terms of section 4 of Stock Exchanges Control Act and has its registered offices at 6 Feld Street, Windhoek, Namibia. Information given in this document has been obtained from, or based upon sources believed to be from an accurate and timely source but M&G Investment Managers and M&G Namibia make no representations or warranty, express or implied, with respect to the correctness, accuracy or completeness of the information and opinions. This information is not intended to constitute a basis for any specific investment decision. Investors are advised to familiarise themselves with the unique risks pertaining to their investment choices. Investors should seek the advice of a properly qualified financial consultant/adviser before investing. The value of an investment will fluctuate and past performance is not necessarily an indication of future returns.