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CEO Letter

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Chief Executive

Market overview for 2023

2023 proved to be a good year for SA investors with well-diversified portfolios, with developed-market equities and SA bonds the stand-out performers, as well as SA Financial and Industrial stocks. Conditions rewarded active managers in terms of stock-picking and exploiting rapid shifts in interest rate views. For 2023 as a whole, global equities (MSCI ACWI) returned an excellent 22.2% in US\$ and 32.3% in rand (due to rand depreciation), with gains fairly concentrated around a handful of giant global AI-related US companies, termed the “magnificent seven”. These stocks outpaced other US shares and, indeed, most other equity markets for the year, making the US meaningfully more expensive than its global counterparts. This also reflected the relative vitality of the US economy versus most other large economies.

Global bonds experienced a very volatile year, with bearish “higher for longer” investor sentiment pushing the yield on the benchmark 10-year US treasury bond to over 5% (briefly) in October before rallying in the last months of the year to trade around 3.8% at year-end. This presented opportunities for active investors like M&G to harness attractive above-inflation yields and add value to client portfolios. Ultimately, global bonds as an asset class returned 5.7% for the year (Bloomberg Global Aggregate Bond Index).

South Africa

South African assets were weighed down in 2023 by ongoing general pessimism over the country’s weak growth prospects, loadshedding and uncertain government finances, exacerbated by the higher risks associated with the grey-listing of SA in global financial transactions and incidents like the “Lady R” and hosting of the BRICS Summit that projected a pro-Russian stance. These factors manifested in rand weakness, equity underperformance against the MSCI EM Index and continuing low valuations on SA stocks and bonds. The FTSE/JSE ALSI returned 9.3% and the more domestically-focused FTSE/JSE Capped SWIX Index posted 7.9% for the year.

These overall index returns masked stronger underlying performances from SA Financial shares (+21.5% return) and Industrial shares (+16.6% return) in 2023, the former boosted by their resilient operational performances and attractive valuations and the latter by their greater global exposure. Unfortunately, the major sell-off in Tencent in December (spurred by the unveiling of detrimental new Chinese gaming regulations) hit Naspers and Prosus shares hard, dragging down the overall ALSI and Industrial Index returns. Resources shares, which lost 15.4% amid falling commodity prices and weaker Chinese growth, also hurt overall index performance for the year.

By contrast, SA bonds notably outperformed their global counterparts for the year, rallying amid the improved global sentiment in Q4 and helped by their cheap valuations at the start of 2023, to deliver a 9.7% annual return – above that of the ALSI.

Investment performance

From an investment perspective, at M&G we remained true to our fundamental, valuation-based approach in 2023, with our biggest SA equity picks generally delivering strong returns for our clients. Our overweights in banking stocks like Standard Bank and Investec across our houseview portfolios added good value, as did Textainer and Richemont. Our overweight in SA bonds also contributed solid returns in our multi-asset portfolios for the year.

In retrospect, very few forecasts from early 2023 proved to be correct (read our article “2023 surprises that shaped investor thinking”), showing yet again why we don’t use projections to build our portfolios. In fact, global returns broadly surprised to the upside, although disappointing Chinese growth weighed on emerging market performance over the period. In light of these market returns, offshore diversification proved especially valuable for SA investor portfolios.

It’s important to remember, however, that this performance is not likely to repeat itself in 2024, especially given the ongoing large gap between local asset valuations (very cheap) and their global peers (expensive). This differential makes it more likely that SA assets will outperform in future, particularly versus the more expensive markets. Equally, the weaker rand means significant further depreciation is not as likely. We continue to favour SA equities and bonds in our client portfolios, while also having meaningful exposure to select emerging market bonds and equities, and to global government bonds, among other effective diversifiers. We believe our portfolios are well-positioned to deliver value to clients going into 2024, with any good SA news helping to produce solid returns and a possible re-rating of SA equities and bonds.

Release of Sustainability Report 2022/23

In early December we were very pleased to have published our M&G Investments Southern Africa Sustainability Report for 2022/2023, which showcases our holistic approach to sustainability and highlights our progress made across various areas in our business. As custodians of our clients’ hard-earned savings, we recognise that the role that we play is not only around improving our own sustainability-related initiatives but also in furthering the progress towards achieving sustainable outcomes for our investee companies and, importantly, our clients.

For the first time, the report includes our Corporate Social Responsibility (CSI) initiatives, our Transformation story, and our first independent Taskforce on Climate-related and Financial Disclosures (TCFD) Report. By combining these elements, we aim to provide a transparent account of our efforts in bringing our commitment to sustainability to life. In addition, we share information around how we’ve strengthened our policies by adopting principles from our broader global group, enhanced our investment and risk processes through integration systems and oversight procedures, as well as our focus on achieving sustainable economic development through a Just Transition.

We would like to express our sincere gratitude to our clients for their ongoing support in 2023, through all the volatility of financial markets, politics and unexpected events. Next year will undoubtedly be just as unpredictable (with both SA and US Presidential elections adding to the uncertainty), but together we can make a meaningful difference and create a better future for generations to come. Thank you for joining us on this journey and we wish you much peace, happiness and prosperity in 2024.

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