

Consider This Q1 2024 CEO Letter

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Marius Botha
CEO

Investment returns were mixed for South African (SA) investors over the first quarter (Q1) of 2024 as global equities continued to record a strong performance, while global bonds were weaker, weighed down by further signals that global interest rates would remain high for longer. At the same time, investor caution towards South Africa kept local asset returns in the red amid tepid economic growth and heightened uncertainty ahead of the May national elections. Developed equity markets galloped ahead on the back of broadly favourable earnings results and the increasingly likely prospects of a soft landing for the US and other major economies, but emerging market equity performance was lacklustre.

Q1 fund positioning

These market moves further entrenched the 2023 investment trend of global equities becoming more expensive relative to their South African counterparts, particularly the US market, although US gains have become less concentrated around AI-related stocks. This led us to maintain our house-view portfolio positioning favouring more attractive SA equities, while remaining underweight US equities and global equities as a whole. We instead hold certain well-valued European and emerging market equities. We are also somewhat underweight global bonds, and within those holdings prefer longer-dated sovereign bonds (both developed and emerging market), while avoiding high-yield corporate bonds that appear expensive in our view, given the risk.

We also made no meaningful changes to our overweight in SA bonds given their attractively high real yields compared to global bonds over the quarter. February's National Budget was relatively favourable for the SA bond market and in our view, investors are still very well compensated for the risks of owning these assets. Currently, the market is expecting three 25bp interest rate cuts from the SARB, each in the next three quarters of the year, and our funds are positioned to generate returns that meet or exceed their benchmarks no matter what scenario unfolds.

Performance Awards

I am very pleased to report that several of M&G Investments' unit trusts were recognised for their outstanding performances across a range of capabilities for periods ending 31 December 2023.

- The [M&G Property Fund](#) won a Raging Bull certificate for "Best SA Real Estate General Fund" for straight performance over the three years to 31 December 2023;
- The [M&G Bond Fund](#) was nominated for both a Raging Bull Award and a Morningstar Award for Best Bond Fund;
- The [M&G Global Balanced Feeder Fund](#) was nominated for a Raging Bull award in its category; and
- The [M&G Dividend Maximiser Fund](#) was named as a finalist in the 2024 Morningstar Awards for Best South Africa Equity Fund.

These nominations are yet more evidence of the deep experience and special talent we are proud to have among our teams of investment analysts and portfolio managers. They also once again confirm the success of our consistent, valuation-based investment process.

The M&G Investment Analyst Graduate Programme

As part of our ongoing commitment to transformation across our company and communities, during the quarter we welcomed four new participants to our Investment Analyst Graduate Programme – two from South Africa and two from Namibia. Read more about [Fanele Mngoma and Sibusisiwe Khuzwayo](#) in South Africa, and [Colleen Kalimba and Daniella Ferreira](#) in Namibia.

Through this programme, we help break through the perceived complexity and inaccessibility of the financial services industry for previously disadvantaged young people, building a talent pipeline for our company and the broader industry. We actively recruit and empower aspiring investment professionals by giving them direct, hands-on exposure to the investment management profession. During the two-year programme, participants rotate through various roles within the portfolio management team. This allows them to gain practical experience while also developing their knowledge and analytical skills. Formal education comes through the pursuit of a Chartered Financial Analyst (CFA) qualification, in which the candidate is funded and supported by M&G.

Looking ahead

Although conditions remain difficult in South Africa, we are cautiously optimistic about the potential for solid returns from the stocks we hold in our client portfolios. These include those companies with significant offshore earnings, where growth is more robust, those with strong and sustainable levels of profitability, and those able to take market share from competitors. With current valuations so low, if local conditions were to improve even slightly (such as through falling inflation and interest rates), equities could potentially re-rate and generate good returns for investors. Equally, falling interest rates are supportive of bonds. We pay careful attention to risk and build well-diversified portfolios that give them some defensive characteristics which will stand our clients in good stead. Going into Q2 2024, our investment team is sticking to what we know best: analysing the fundamentals, consistently applying our proven, valuation-based approach and ignoring the short-term noise, while remaining focused on delivering long-term value.

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