

M&G Namibian Enhanced Income Fund

Multi-asset

Q1 2024

Market overview

Following their strong rally in the latter part 2023, US Treasuries yields gave back some of their gains in the first quarter of 2024. While yields took the elevator down in 4Q23, they broadly took the escalator up in 1Q24. By late 2023 the market had begun to price an early and deep rate cutting cycle and has had to steadily walk this back. Generally better-than-expected real economic activity data, coupled with stronger than forecast inflation data, helped to ensure that yields headed higher over the quarter. This move was also supported by the hawkish rhetoric emanating from US Federal Reserve FOMC members. During the quarter, employment reports generally showed higher-than-expected monthly nonfarm payrolls figures, lower-than-forecasted unemployment rates as well as continued stronger-than-anticipated average hourly earnings figures. Inflation readings proved to be stickier than expected, largely surprising to the upside and becoming the focus for both the FOMC and the market regarding the timing and extent of the US interest rate cutting cycle. The strength of the labour market, together with the deceleration in the inflation rate over the second half of 2023, made the bond market nervous ahead of the first FOMC meeting of the year. Unlike the previous two meetings, the statement and subsequent press conference were not received as overwhelmingly dovish by global markets.

While some dovish changes were made to the statement, these were already widely discounted. Some ambiguity remained in the statement as to the timing of the first rate cut. In repose to a question in the press conference, the FOMC chairman made it clear that he thought a March interest rate cut was unlikely and the market subsequently moved its expectation away from March towards later in the year. This move was only reinforced by economic data and communication from the FOMC and its members as the quarter progressed. Like the quarter before, the US Treasury yield curve had a flattening bias to start the year, however, this time around it was a bear flattener. After collapsing over the prior quarter, Brent crude oil prices regained their footing and increased steadily in the past quarter. The rand exchange rate started the new year on the back foot alongside a stronger US dollar index, weakening to just under R19.40/USD in the aftermath of the February National Budget before recovering from those cheap levels by quarter-end. The SA sovereign risk premium widened over the quarter, giving back all the strong gains made in the final two months of last year.

Monthly economic data releases in Q1 2024 continued to show general weakness in the South African economy. The good news was that the economic data released in March showed some hints of a recovery. CPI inflation rates were generally higher than expected during the quarter, pointing to the sticky nature of inflation above the inflation target. The SARB maintained hawkish rhetoric to bring inflation expectations back to the desired target level of 4.5%. The first MPC meeting of the year was a non-event for the local fixed income market as the committee was widely expected to show an unchanged rate stance and maintain a hawkish tone. The replacement of the

outgoing Deputy Governor by a former Lead Economist at the SARB shifts the balance on the MPC in favour of the hawks. The MPC also left the repo rate unchanged for the fifth consecutive meeting in March. There is now unanimity among committee members for holding the repo rate unchanged. After having reacted negatively to the National Budget in February when some market participants were disappointed with the terms of the National Treasury's usage of the GFECRA balance, the focus of the SA bond market shifted towards the May general election. It appears that foreign asset managers are avoiding SA assets until after the election due to the uncertainty that exists and the risks that abound. Supply from the National Treasury on a weekly basis remains relentless.

In Namibia, the Bank of Namibia left its main repo rate unchanged at 7.75% at its mid-February policy meetings, broadly following the SARB to maintain the N\$ peg to the rand. In its latest projections, the central bank is forecasting GDP growth of 3.9% in 2023, decelerating to 3.4% in 2024. The slowdown is attributable to expected weaker growth in both the primary and secondary industries, given slower global growth prospects, weak household and business demand and uncertainties caused by the ongoing drought in the region. In some good news, CPI inflation slowed for the third consecutive month to 4.5% in March 2024 from 5.0% in February and the BoN sees inflationary pressures receding further, with CPI averaging 4.8% in 2024.

Performance

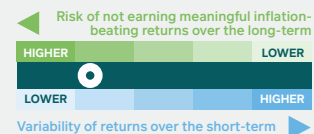
For the year ended 31 March 2024, the fund returned 8.2% (net of fees), compared to the benchmark's 8.4%. Over the past three years, the fund returned 6.8% p.a., outperforming the benchmark return of 6.3%.

Strategy and positioning

When US and local rate expectations were very aggressive at the start of the year, we used the opportunity to lock in profits by reducing SA bond duration after the strong rally at the end of the last year. In February, we took advantage of the steepness of the yield curve by terming out the SA nominal government bond exposure for a decent pick up in yield. During the quarter we maintained our modest positioning in our property teams favoured SA listed property stocks. The fund bought a modest exposure to foreign bonds in March in the form of US investment grade credit. We maintain some decent exposure to Namibian inflation linked bonds as real yields are attractive relative to the nominal counterpart. These instruments offer high real yields and serve as insurance to the portfolio should the inflation outlook deteriorate. Our preference is in the short end of this yield curve as we are mindful of managing volatility in the fund.

Continuing headwinds in the South African mini-bus taxi industry precipitated a credit event in the local debt market in the first quarter. The mini-bus taxi industry has been facing headwinds ever since the dramatic fall in commuter volumes brought about by Covid-19 lockdowns. Despite a recovery in

Risk profile



Fund facts

Fund managers

Bulent Badsha
Roshen Harry

Morningstar category

Africa Fixed Income

Benchmark

IJG Money Market Index

Inception date

19 June 2014

Fund size

N\$7 545 401

Annualised performance

	A class	Benchmark	B class
1 year	8.2%	8.4%	8.5%
3 years	6.8%	6.3%	7.2%
5 years	5.9%	6.3%	6.3%
7 years	6.0%	6.8%	6.4%
Since inception	6.2%	6.8%	-

commuter volumes, as lockdowns were eased, the performance of the mini-bus taxi industry has continued to lag pre Covid-19 levels driven by higher interest rates, fuel prices and vehicle prices, reduced commuter density, as well as an absence of fare increases given commuter affordability constraints. As a result of these pressures notes linked to an entity operating in the mini-bus taxi industry, Bridge Taxi Finance, suffered a credit event at the end of January. These notes were issued by two entities Martius (RF) Limited and Redink Rental (RF) Limited. Despite in the past being shown funding opportunities for Bridge Taxi Finance, at no point did the fund take any exposure to these entities.

The fund has material exposure to the South African M&G Enhanced Income Fund unit trust and the balance is invested in Namibian assets in the form of inflation linked bonds, bank floating rate notes and the M&G Namibian Money Market fund. □

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