PRUDENTIAL UNIT TRUSTS QUARTERLY COMMENTARY
30 SEPTEMBER 2018

COMBINED QUARTERLY COMMENTARY

INCOME | MULTI-ASSET | PROPERTY/ EQUITY | GLOBAL

Please **DOWNLOAD** this PDF pack to make use of the new interactive functionality

Click on the **"View commentary"** button to view the fact sheet of a specific fund.
Click the **"Home"** button to come back to this page.

INCOME FUNDS	
Money Market Fund	View commentary
High Interest Fund	View commentary
High Yield Bond Fund	View commentary
MULTI-ASSET FUNDS	
Enhanced Income Fund	View commentary
Inflation Plus Fund	View commentary
Balanced Fund	View commentary
PROPERTY/EQUITY FUNDS	
Enhanced SA Property Tracker Fund	View commentary
Dividend Maximiser Fund	View commentary
Equity Fund	View commentary
GLOBAL FUND OF FUNDS	
Global High Yield Bond Fund of Funds	View commentary
Global Cautious Managed Fund of Funds	View commentary
Global Value Fund of Funds	View commentary

HOW TO INVEST

prudential.co.za

myprudential.co.za

Invest now

PRUDENTIAL MONEY MARKET FUND
30 SEPTEMBER 2018

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME FUND

MARKET OVERVIEW

The third quarter of 2018 was another difficult quarter for investors, as the rand, bonds and equities all came under selling pressure from the risk-averse global sentiment, as well as a further broad deterioration in the economy. The land expropriation debate also continued to exacerbate uncertainty. The rand was exceptionally volatile during the quarter, hitting its worst level of R15.69 to the US dollar on 5 September amid the strong sell-off in emerging market currencies and assets, and exacerbated by President Trump's exaggerated tweet about land seizures and white farmer killings. The local currency did recover somewhat to end the quarter at around R14.14 per US$, some 3.2% weaker over the three months. It deteriorated 2.7% against the euro and ended 1.9% weaker versus the UK pound sterling over the quarter.

Headlining the disappointing data, South Africa's Q2 GDP data shocked the market with a contraction of -0.7% (q/q annualised), coming on the heels of a revised -2.6% in Q1 and putting the economy into a technical recession. This was well below the consensus forecast of 0.5% growth and was due primarily to a sharp fall in agricultural production, although household spending also suffered, particularly that on durable goods as consumer budgets came under pressure. The GDP contraction, in turn, sparked concerns over the government's longer-term fiscal policy and raised the spectre of further credit rating downgrades. Moody's, however, said the prospects of it changing its investment-grade sovereign rating in the next eight months were low, although it did halve its 2018 growth estimate to only 0.7%.

In a close vote at its September Monetary Policy Committee meeting, the SA Reserve Bank (SARB) kept interest rates on hold, as expected. While mindful of the poor state of the economy, it was more hawkish in tone, noting that inflation risks had risen due to rand depreciation and the higher oil price, as well as ongoing negative sentiment toward emerging markets. Governor Lesetja Kganyago said the Bank's current projections implied that five interest rate hikes of 25bps each would be necessary through 2020 to keep inflation within the 3-6% inflation target band. Although August CPI slowed to 4.9% y/y from 5.1% in July, economists expect it to rise closer to 6% towards year-end as second-round inflation effects take hold.

Among positive developments for the quarter, in an effort to help restore business and consumer confidence President Ramaphosa unveiled plans to re-prioritise government spending to help boost the ailing economy. These were largely greeted favourably, although with some scepticism around implementation. The President also made headway with attracting foreign investment totalling some US$35.5 billion from China and other countries, including US$2.5 billion for struggling Eskom. Some progress toward a constructive policy in the mining sector also came in the form of the retraction of the controversial Minerals and Petroleum Resources and Development Act (MPRD), which had alarmed investors. In addition, the government took steps in uncovering more details on corruption across several government departments with the start of the State Capture Inquiry on 20 August.

For the quarter, the BEASSA All Bond Index returned 0.8% - the yield on the benchmark R186 SA government bond barely moved, ending the quarter at around 9.0% from 9.1% at the beginning of the quarter. However, this masked substantial volatility as the benchmark yield traded as low as 8.57% and as high as 9.25% over the three months. Meanwhile, inflation-linked bonds delivered 0.5%, and cash as measured by the STeFI Composite Index produced 1.7%.

South Africa's Producer Price Inflation (PPI) accelerated to 6.3% y/y in August, up from a 6.1% y/y rise recorded in June and above market expectations for a decline to 5.9% y/y. The main contributor was the coke, petroleum, chemical, rubber and plastic products category, followed by transport equipment. Month-on-month, PPI rose 0.6%.

Private sector credit extension (PSCE) added 6.7% y/y in August from a growth of 5.4% y/y posted in July – coming in well above market expectations of 5.5% y/y. The acceleration was on the back of a marked lift in credit extended to companies.

PERFORMANCE

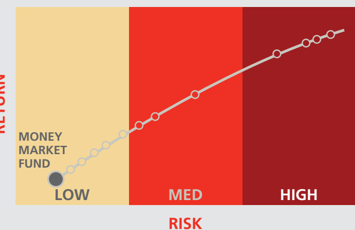
The fund generated a return of 1.8% (net of fees) for the quarter, outperforming its benchmark, the STeFI Call Deposit Index, by 0.2%. For the 12 months ended 30 September 2018, the fund returned 7.4% (net of fees) while the benchmark returned 6.6% over the same period.

The weighted average duration of the fund at quarter-end was 60 days relative to the 90-day maximum weighted average duration. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	X CLASS
1 year	7.4%	6.6%	7.6%
3 years	7.3%	6.7%	7.5%
5 years	6.7%	6.2%	6.8%
7 years	6.3%	5.9%	6.4%
10 years	6.7%	6.3%	n/a
Since inception	7.8%	7.6%	6.3%

Inception date X Class: 1 April 2011

RISK/RETURN PROFILE:



FUND MANAGERS:
Roshen Harry and Sandile Malinga

ASISA CATEGORY:
South African - Interest Bearing - Money Market

BENCHMARK:
STeFI Call Deposit Index

INCEPTION DATE:
9 April 2002

FUND SIZE:
R1 494 773 363

DISCLAIMER
Prudential Portfolio Managers Unit Trusts Ltd (Registration number: 1999/0524/06) is an approved CISCA management company (#29). Assets are managed by Prudential Investment Managers (South Africa) (Pty) Ltd, which is an approved discretionary Financial Services Provider (#45199). The Trustee's/Custodian details are: Standard Bank of South Africa Limited - Trustee Services & Investor Services. 20th Floor, Main Tower, Standard Bank Centre, Heerengracht, Cape Town. Collective Investment Schemes (unit trusts) are generally medium-to long-term investments. Past performance is not necessarily a guide to future investment performance. Unit trusts are traded at the ruling forward price of the day, meaning that transactions are processed during the day before you or the Manager know what the price at the end of the day will be. The price and therefore the number of units involved in the transaction are only known on the following day. The unit trust fund may borrow up to 10% of the fund value, and it may also lend any scrip (proof of ownership of an investment instrument) that it holds to earn additional income. A Prudential unit trust fund may consist of different fund classes that are subject to different fees and charges. Where applicable, the Manager will pay your financial adviser an agreed standard ongoing adviser fee, which is included in the overall costs of the fund. A Collective Investment Schemes (CIS) summary with all fees and maximum initial and ongoing adviser fees is available on our website. One can also obtain additional information on Prudential products on the Prudential website. The Manager may, at its discretion, close your chosen unit trust fund to new investors and to additional investments by existing investors to make sure that it is managed in accordance with its mandate. It may also stop your existing debit order investment. The Manager makes no guarantees as to the capital invested in the fund or the returns of the fund. Excessive withdrawals from the fund may place the fund under liquidity pressure and, in such circumstances; a process of ring fencing withdrawal instructions and managed pay outs over time may be followed. A money market fund is not a bank deposit account. The Prudential Money Market Fund aims to maintain a constant price of 100 cents per unit. A forward looking yield is used. This means that the last seven days' yield (less the maximum service charges, including VAT) is taken and is annualised for the next 12 month period, assuming the income returns are reinvested. Yields for money market funds are published daily. The purpose of the money market yield is to indicate to investors a compounded annual return for all money market portfolios on a comparable basis. The yield calculation is not used for income distribution purposes. The total return to the investor is primarily made up of interest received but may also include any gain or loss made as a result of a default by an issuer of any instrument held by the fund. This can have the effect of a capital loss. Such losses will be borne by the Prudential Money Market Fund and its investors and in order to maintain a constant price of 100 cents per unit, investors' unit holdings may be reduced to the extent of such losses. Fund prices are published daily on the Prudential website. These are also available upon request. The performance is calculated for the portfolio. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. Purchase and repurchase requests must be received by the Manager by 11h30 for Money Market SA time each business day. All online purchase and repurchase transactions must be received by the Manager by 10h30 (for all Funds) SA time each business day.

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MARKET OVERVIEW

The third quarter of 2018 was another difficult quarter for investors, as the rand, bonds and equities all came under selling pressure from the risk-averse global sentiment, as well as a further broad deterioration in the economy. The land expropriation debate also continued to exacerbate uncertainty. The rand was exceptionally volatile during the quarter, hitting its worst level of R15.69 to the US dollar on 5 September amid the strong sell-off in emerging market currencies and assets, and exacerbated by President Trump's exaggerated tweet about land seizures and white farmer killings. The local currency did recover somewhat to end the quarter at around R14.14 per US$, some 3.2% weaker over the three months. It deteriorated 2.7% against the euro and ended 1.9% weaker versus the UK pound sterling over the quarter.

Headlining the disappointing data, South Africa's Q2 GDP data shocked the market with a contraction of -0.7% (q/q annualised), coming on the heels of a revised -2.6% in Q1 and putting the economy into a technical recession. This was well below the consensus forecast of 0.5% growth and was due primarily to a sharp fall in agricultural production, although household spending also suffered, particularly that on durable goods as consumer budgets came under pressure. The GDP contraction, in turn, sparked concerns over the government's longer-term fiscal policy and raised the spectre of further credit rating downgrades. Moody's, however, said the prospects of it changing its investment-grade sovereign rating in the next eight months were low, although it did halve its 2018 growth estimate to only 0.7%.

In a close vote at its September Monetary Policy Committee meeting, the SA Reserve Bank (SARB) kept interest rates on hold, as expected. While mindful of the poor state of the economy, it was more hawkish in tone, noting that inflation risks had risen due to rand depreciation and the higher oil price, as well as ongoing negative sentiment toward emerging markets. Governor Lesetja Kganyago said the Bank's current projections implied that five interest rate hikes of 25bps each would be necessary through 2020 to keep inflation within the 3-6% inflation target band. Although August CPI slowed to 4.9% y/y from 5.1% in July, economists expect it to rise closer to 6% towards year-end as second-round inflation effects take hold.

Among positive developments for the quarter, in an effort to help restore business and consumer confidence President Ramaphosa unveiled plans to re-prioritise government spending to help boost the ailing economy. These were largely greeted favourably, although with some scepticism around implementation. The President also made headway with attracting foreign investment totalling some US$35.5 billion from China and other countries, including US$2.5 billion for struggling Eskom. Some progress toward a constructive policy in the mining sector also came in the form of the retraction of the controversial Minerals and Petroleum Resources and Development Act (MPRD), which had alarmed investors. In addition, the government took steps in uncovering more details on corruption across several government departments with the start of the State Capture Inquiry on 20 August.

For the quarter, the BEASSA All Bond Index returned 0.8% - the yield on the benchmark R186 SA government bond barely moved, ending the quarter at around 9.0% from 9.1% at the beginning of the quarter. However, this masked substantial volatility as the benchmark yield traded as low as 8.57% and as high as 9.25% over the three months. Meanwhile, inflation-linked bonds delivered 0.5%, and cash as measured by the STeFI Composite Index produced 1.7%.

PERFORMANCE

The fund generated a return of 1.9% (net of fees) for the quarter compared to its benchmark, the STeFI Composite Index, which returned 1.7%. For the 12 months ended 30 September 2018, the fund returned 7.7% (net of fees) while the benchmark returned 7.3% over the same period.

The fund was launched in December 2010 with the aim of delivering returns in excess of money market yields without compromising the stability of the capital. Although capital protection is not guaranteed we highlight the low risk nature of the portfolio and hence the remote prospect for capital loss over periods exceeding a few days.

The maximum term of instruments is limited to three years compared to money market funds at 13 months. The fund also has a maximum weighted average duration of 180 days as opposed to a typical money market fund targeting a maximum 90 days weighted average maturity.

Relative to the 180 day maximum, the quarter end weighted average duration of the fund came in at 36 days.

STRATEGY AND POSITIONING

The fund has generally sought to take advantage of banks' requirements to secure longer-dated funding which better matches the profile of their loan books. This has led to a steep credit curve whereby they are prepared to pay significantly more for funding beyond the 12-month point. We prefer these longer-dated securities and have exposure to securities issued by banks such as ABSA, Standard Bank, FirstRand, Nedbank and Investec both in floating and fixed rate securities.

While credit issuance has been scarce since 2016, mixed with a tightening of credit spreads, 2018 so far has seen a number of banks and corporates coming to market, after some hesitance following the downgrade of the sovereign credit rating last year. Issuances were generally well supported and largely cleared around the lower-end of guidance.

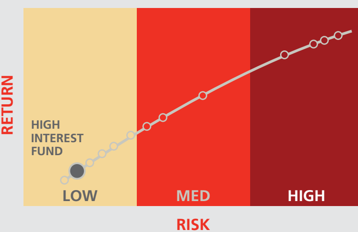
We continue to look for opportunities that will enhance the return to investors without compromising the stability of their capital. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	X CLASS	D CLASS
1 year	7.7%	7.3%	7.9%	8.0%
3 years	7.9%	7.3%	8.1%	8.2%
5 years	7.1%	6.8%	7.2%	7.5%
7 years	6.7%	6.4%	6.8%	7.0%
Since inception	6.6%	6.3%	6.8%	6.9%

Inception dates: X Class: 1 April 2011, D Class: 9 December 2010

INCOME FUND

RISK/RETURN PROFILE:



FUND MANAGERS:
Roshen Harry and Sandile Malinga

ASISA CATEGORY:
South African - Interest Bearing - Short Term

BENCHMARK:
STeFI Composite Index measured over a rolling 12-month period

INCEPTION DATE:
8 December 2010

FUND SIZE:
R8 754 522 256

PLEASE NOTE:
This fund is capped to new investors

DISCLAIMER
Prudential Portfolio Managers Unit Trusts Ltd (Registration number: 1999/0524/06) is an approved CISCA management company (#29). Assets are managed by Prudential Investment Managers (South Africa) (Pty) Ltd, which is an approved discretionary Financial Services Provider (#45199). The Trustee's/Custodian details are: Standard Bank of South Africa Limited - Trustee Services & Investor Services. 20th Floor, Main Tower, Standard Bank Centre, Heerengracht, Cape Town. Collective Investment Schemes (unit trusts) are generally medium-to long-term investments. Past performance is not necessarily a guide to future investment performance. Unit trust prices are calculated on a net asset value basis. This means the price is the total net market value of all assets of the unit trust fund divided by the total number of units of the fund. Any market movements – for example in share prices, bond prices, money market prices or currency fluctuations - relevant to the underlying assets of the fund may cause the value of the underlying assets to go up or down. As a result, the price of your units may go up or down. Unit trusts are traded at the ruling forward price of the day, meaning that transactions are processed during the day before you or the Manager know what the price at the end of the day will be. The price and therefore the number of units involved in the transaction are only known on the following day. The unit trust fund may borrow up to 10% of the fund value, and it may also lend any scrip (proof of ownership of an investment instrument) that it holds to earn additional income. A Prudential unit trust fund may consist of different fund classes that are subject to different fees and charges. Where applicable, the Manager will pay your financial adviser an agreed standard ongoing adviser fee, which is included in the overall costs of the fund. A Collective Investment Schemes (CIS) summary with all fees and maximum initial and ongoing adviser fees is available on our website. One can also obtain additional information on Prudential products on the Prudential website. The Manager may, at its discretion, close your chosen unit trust fund to new investors and to additional investments by existing investors to make sure that it is managed in accordance with its mandate. It may also stop your existing debit order investment. The Manager makes no guarantees as to the capital invested in the fund or the returns of the fund. Excessive withdrawals from the fund may place the fund under liquidity pressure and, in certain circumstances; a process of ring fencing withdrawal instructions may be followed. The Fund is an interest bearing fund. A current annualised yield is used. This means the portion of the return of the Fund that is attributed to income generated over the last 12 months, assuming the investor reinvests all distributions and incurs no transaction fees or taxes. Fund prices are published daily on the Prudential website. These are also available upon request. The performance is calculated for the portfolio. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. Purchase and repurchase requests must be received by the Manager by 13h30 SA time each business day. All online purchase and repurchase transactions must be received by the Manager by 10h30 (for all Funds) SA time each business day.

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL HIGH YIELD BOND FUND
30 SEPTEMBER 2018

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME FUND

MARKET OVERVIEW

In South Africa, Q3 2018 was another difficult quarter for investors, as the rand, bonds and equities all came under selling pressure from the risk-averse global sentiment, as well as a further broad deterioration in the economy. The land expropriation debate also continued to exacerbate uncertainty. The rand was exceptionally volatile during the quarter, hitting its worst level of R15.69 to the US dollar on 5 September amid the strong sell-off in emerging market currencies and assets, and exacerbated by President Trump's exaggerated tweet about land seizures and white farmer killings. The local currency did recover somewhat to end the quarter at around R14.14 per US$, some 3.2% weaker over the three months. It deteriorated 2.7% against the euro and ended 1.9% weaker versus the UK pound sterling over the quarter.

Headlining the disappointing data, South Africa's Q2 GDP data shocked the market with a contraction of -0.7% (q/q annualised), coming on the heels of a revised -2.6% in Q1 and putting the economy into a technical recession. This was well below the consensus forecast of 0.5% growth and was due primarily to a sharp fall in agricultural production, although household spending also suffered, particularly that on durable goods as consumer budgets came under pressure. The GDP contraction, in turn, sparked concerns over the government's longer-term fiscal policy and raised the spectre of further credit rating downgrades. Moody's, however, said the prospects of it changing its investment-grade sovereign rating in the next eight months were low, although it did halve its 2018 growth estimate to only 0.7%.

In a close vote at its September Monetary Policy Committee meeting, the SA Reserve Bank (SARB) kept interest rates on hold, as expected. While mindful of the poor state of the economy, it was more hawkish in tone, noting that inflation risks had risen due to rand depreciation and the higher oil price, as well as ongoing negative sentiment toward emerging markets. Governor Lesetja Kganyago said the Bank's current projections implied that five interest rate hikes of 25bps each would be necessary through 2020 to keep inflation within the 3-6% inflation target band. Although August CPI slowed to 4.9% y/y from 5.1% in July, economists expect it to rise closer to 6% towards year-end as second-round inflation effects take hold.

Among positive developments for the quarter, in an effort to help restore business and consumer confidence President Ramaphosa unveiled plans to re-prioritise government spending to help boost the ailing economy. These were largely greeted favourably, although with some scepticism around implementation. The President also made headway with attracting foreign investment totalling some US$35.5 billion from China and other countries, including US$2.5 billion for struggling Eskom. Some progress toward a constructive policy in the mining sector also came in the form of the retraction of the controversial Minerals and Petroleum Resources and Development Act (MPRD), which had alarmed investors. In addition, the government took steps in uncovering more details on corruption across several government departments with the start of the State Capture Inquiry on 20 August.

For the quarter, the BEASSA All Bond Index returned 0.8% - the yield on the benchmark R186 SA government bond barely moved, ending the quarter at around 9.0% from 9.1% at the beginning of the quarter. However, this masked substantial volatility as the benchmark yield traded as low as 8.57% and as high as 9.25% over the three months. Meanwhile, cash as measured by the STeFI Composite Index produced 1.7%.

PERFORMANCE

For the 12 months ended 30 September 2018, the fund delivered 6.6%, underperforming its benchmark as measured by the BEASSA All Bond Index by 0.5%. For the third quarter of 2018, the fund returned 0.6%, marginally underperforming its benchmark by 0.2%.

The fund retained its long duration position throughout the quarter. We remain favourably disposed to bonds at current valuations and would look to add to our existing long duration position should yields sell off further. On the issuance front, primary bond market issuance (excluding government issuance) recovered from the Q2's slump with issuance ending the quarter around R31bn. Issuance was dominated by financials followed by corporates, while issuance from state owned enterprises and securitisations remained muted.

On the financials front, the market saw well supported issues from Nedbank, FirstRand and Absa. Corporate issuance once again was dominated by the auto sector but there were a number of issuers who looked to raise capital market funding. Noteworthy issuers over the quarter included Mercedes-Benz and Toyota in the auto sector; Vukile, Emira, Hyprop and Accelerate in the property sector; and EnX, Woolworths and AECI (a first time issuer) in the corporate sector.

As has been the trend for some time, issuance volume was overwhelmingly dominated by floating rate notes with the fund having limited opportunity to participate in fixed rate issuance. Demand for credit continues to remain strong, and despite the increase in supply, this quarter's spreads continued to move lower.

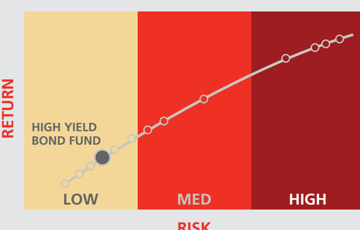
STRATEGY AND POSITIONING

In SA nominal bonds, despite volatility there was little change in valuations from the start and end of the quarter, and remained cheap compared to their longer-term average. Consequently, we maintained our overweight position in this asset class. We continue to prefer longer-dated government bonds due to the more attractive yields on offer, and are comfortable with the compensation bonds offer given the risk involved. However, inflation remains a threat and the SA government and businesses have not yet done enough to eliminate the prospects of further credit rating downgrades, especially given the deterioration in the country's growth rate. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	6.6%	7.1%	6.8%
3 years	7.1%	7.7%	7.4%
5 years	6.4%	7.2%	6.7%
7 years	7.4%	7.9%	7.7%
10 years	8.2%	8.6%	8.6%
Since inception	10.0%	10.3%	9.0%

Inception date B Class: 1 April 2003

RISK/RETURN PROFILE:



FUND MANAGERS:
Gareth Bern and Roshen Harry

ASISA CATEGORY:
South African - Interest Bearing - Variable Term

BENCHMARK:
BEASSA Total Return All Bond Index

INCEPTION DATE:
27 October 2000

FUND SIZE:
R543 481 412

DISCLAIMER

Prudential Portfolio Managers Unit Trusts Ltd (Registration number: 1999/0524/06) is an approved CISCA management company (#29). Assets are managed by Prudential Investment Managers (South Africa) (Pty) Ltd, which is an approved discretionary Financial Services Provider (#45199). The Trustee's/Custodian details are: Standard Bank of South Africa Limited - Trustee Services & Investor Services. 20th Floor, Main Tower, Standard Bank Centre, Heerengracht, Cape Town. Collective Investment Schemes (unit trusts) are generally medium-to long-term investments. Past performance is not necessarily a guide to future investment performance. Unit trust prices are calculated on a net asset value basis. This means the price is the total net market value of all assets of the unit trust fund divided by the total number of units of the fund. Any market movements – for example in share prices, bond prices, money market prices or currency fluctuations - relevant to the underlying assets of the fund may cause the value of the underlying assets to go up or down. As a result, the price of your units may go up or down. Unit trusts are traded at the ruling forward price of the day, meaning that transactions are processed during the day before you or the Manager know what the price at the end of the day will be. The price and therefore the number of units involved in the transaction are only known on the following day. The unit trust fund may borrow up to 10% of the fund value, and it may also lend any scrip (proof of ownership of an investment instrument) that it holds to earn additional income. A Prudential unit trust fund may consist of different fund classes that are subject to different fees and charges. Where applicable, the Manager will pay your financial adviser an agreed standard ongoing adviser fee, which is included in the overall costs of the fund. A Collective Investment Schemes (CIS) summary with all fees and maximum initial and ongoing adviser fees is available on our website. One can also obtain additional information on Prudential products on the Prudential website. The Manager may, at its discretion, close your chosen unit trust fund to new investors and to additional investments by existing investors to make sure that it is managed in accordance with its mandate. It may also stop your existing debit order investment. The Manager makes no guarantees as to the capital invested in the fund or the returns of the fund. Excessive withdrawals from the fund may place the fund under liquidity pressure and, in certain circumstances; a process of ring fencing withdrawal instructions may be followed. The Fund is an interest bearing fund. A current annualised yield is used. This means the portion of the return of the Fund that is attributed to income generated over the last 12 months, assuming the investor reinvests all distributions and incurs no transaction fees or taxes. Fund prices are published daily on the Prudential website. These are also available upon request. The performance is calculated for the portfolio. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. Purchase and repurchase requests must be received by the Manager by 13h30 SA time each business day. All online purchase and repurchase transactions must be received by the Manager by 10h30 (for all Funds) SA time each business day.

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL ENHANCED INCOME FUND
30 SEPTEMBER 2018

QUARTERLY COMMENTARY

MULTI-ASSET

MARKET OVERVIEW

The third quarter of 2018 saw a sharp escalation in the trade war between the US and China, in addition to still-strong US growth, rising US interest rates, a strengthening US dollar and financial crises in Turkey and Argentina. The result: developed equity markets (as measured by the MSCI World Index) returned 5.1% in US dollars, while emerging equity markets (as measured by the MSCI Emerging Markets) delivered -1.1% in US dollars due to heightened investor risk aversion. In South Africa, negative local economic news weighed on financial markets, as did poor global sentiment, with local bonds losing ground but the weaker rand underpinning rand hedges and Resource shares on the JSE.

Global bonds lost 0.9% (in US$) during the quarter, largely on the back of rising US interest rates. More bond issuance also weighed on the US Treasury bond market as the Trump tax cuts expanded the budget deficit. As widely expected, the US Federal Reserve hiked interest rates by 25bps at its September FOMC meeting, while also upping its 2018 growth outlook to 3.1%. The Fed still foresees another 25bp hike this year (consensus in December) and three more 25bp hikes through 2019, as well as one in 2020.

The US economy picked up steam, recording 2.9% GDP growth in Q2 (q/q annualised) stoked by Trump's tax cuts as consumer and business spending rose, while inflation remained under check. Equity markets reflected the bullish sentiment as the S&P 500 returned 7.7%, the Nasdaq 8.6% and Dow Jones Industrial 30 Index 9.6% (all in US$), although September returns were much more muted due largely to rising trade tensions.

In contrast with the US, Eurozone growth slowed to 2.2% (q/q annualised) in Q2 from 2.5% previously. The European Central Bank (ECB) kept its benchmark interest rate unchanged at 0% at its 13 September meeting, as had been expected, and the Dow Jones Eurostoxx 50 returned -0.2% for the quarter. Meanwhile, UK growth picked up slightly to 1.3% (q/q annualised) from 1.2% in the previous quarter, and the Bank of England surprised by hiking its interest rate by 25bps in August - the first time since the Financial Crisis. The UK's FTSE 100 Index returned -1.8% for the quarter.

After contracting by a revised 0.9% (q/q annualised) in Q1 2018, the Japanese economy rebounded to 1.9% growth in Q2, beating expectations of 1.4%. The Nikkei 225 Index returned 6.3% in Q3, reaching 27-year highs. In China, Q2 GDP growth came in at 6.7% (q/q annualised), as expected, slightly down on the 6.8% reported for Q1 due to slower industrial output and business fixed investment. Business confidence is being hit by growing concerns over the widening impact of US tariffs on Chinese exports, the full extent of which is set to be felt later in the year and is likely to exacerbate the slowdown. Chinese stocks were weaker as a consequence.

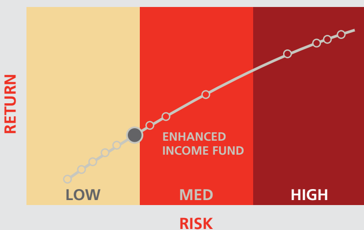
Emerging markets (EMs) in general experienced capital outflows during the quarter, with bonds hit particularly hard. Financial crises in Turkey and Argentina in late August and early September worsened already-poor investor sentiment, with the contagion effect spreading across most EMs. For the quarter the MSCI Turkey lost 20.5% (in US$), despite returning 20.6% in September, and the central bank was forced to hike interest rates by nearly 7.0% to 24% to protect a plunging lira. The MSCI China returned -7.4% and the MSCI South Africa delivered -7.2%, while Russia returned 6.6% and Brazil 5.0% (all in US$).

In South Africa, Q3 2018 was another difficult quarter for investors, as the rand, bonds and equities all came under selling pressure from the risk-averse global sentiment, as well as a further broad deterioration in the economy. The land expropriation debate also continued to exacerbate uncertainty. The rand was exceptionally volatile, hitting a worst level of R15.69 versus the US dollar on 5 September amid the strong sell-off in EM currencies and assets, and exacerbated by President Trump's exaggerated tweet about land seizures and white farmer killings. The local currency did recover somewhat to end the quarter at around R14.14 per US$, some 3.2% weaker over the three months. It deteriorated 2.7% against the euro and ended 1.9% weaker versus the UK pound sterling over the quarter.

Headlining the disappointing data, South Africa's Q2 GDP data shocked the market with a contraction of -0.7% (q/q annualised), coming on the heels of a revised -2.6% in Q1 and putting the economy into recession. This, in turn, sparked concerns over the government's longer-term fiscal policy and raised the spectre of further credit rating downgrades. Moody's, however, said the prospects of it changing its investment-grade sovereign rating in the next eight months were low, although it did halve its 2018 growth estimate to only 0.7%. In a close vote at its September Monetary Policy Committee meeting, the SA Reserve Bank (SARB) kept interest rates on hold, as expected. Although August CPI slowed to 4.9% y/y from 5.1% in July, economists expect it to rise closer to 6% towards year-end as second-round inflation effects take hold.

For the quarter, the BEASSA All Bond Index returned 0.8% - the yield on the benchmark R186 SA government bond barely moved, ending the quarter at around 9.0% from 9.1% at the beginning of the quarter. However, this masked substantial volatility as the benchmark yield traded as low as 8.57% and as high as 9.25% over the three months. Meanwhile, inflation-linked bonds delivered 0.5%, and cash as measured by the STeFI Composite Index produced 1.7%. For local equities, the FTSE/JSE All Share index (ALSI) returned -2.2% over the three months, led lower by Industrial counters with a -7.8% return (impacted by a decline in Naspers). Financials defied the lower-growth, weaker rand environment with a return of 2.8% and Resources were again the star performers, delivering 5.2%. Listed property produced -1.0% as the inflation and growth outlooks further deteriorated. For 2018 so far, the ALSI remains in negative territory with a -3.8% return.

RISK/RETURN PROFILE:



FUND MANAGERS:
David Knee and Roshen Harry

ASISA CATEGORY:
South African - Multi-Asset - Income

BENCHMARK:
STeFI Composite Index measured over a rolling 36-month period

INCEPTION DATE:
1 July 2009

FUND SIZE:
R2 166 241 354

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	X CLASS	D CLASS
1 year	5.8%	7.3%	6.3%	6.1%	6.4%
3 years	7.3%	7.3%	7.8%	7.5%	7.9%
5 years	7.2%	7.0%	n/a	7.5%	7.8%
7 years	7.7%	6.9%	n/a	8.0%	8.3%
Since inception	8.4%	7.3%	7.4%	8.1%	8.3%

Inception dates: X Class: 1 April 2011, D Class: 1 July 2011, T Class: 2 January 2015

ASSET CLASS RETURNS	TOTAL RETURN Q3 2018
Global equity – MSCI World (US$) (Developed)	5.1%
Global equity – MSCI Emerging Markets (US$)	-1.1%
Global bonds – Bloomberg Barclays Global Aggregate Bond Index (US$)	-0.9%
Global property – FTSE EPRA/NAREIT Global Property REIT Index (US$)	-0.3%
SA equity – FTSE/JSE All Share Index	-2.2%
SA bonds – BEASSA All Bond Index	0.8%
SA listed property – SA Listed Property Index	-1.0%
SA inflation-linked bonds – JSE CILI Index	0.5%
SA cash (STeFI Composite Index)	1.7%

Sources: Prudential, Morningstar & Deutsche Securities

PERFORMANCE

For the 12 months ended 30 September 2018 the fund delivered 5.8%, underperforming its benchmark as measured by the STeFI Composite Index by 1.5%. For the third quarter of 2018, the fund returned 1.3%, underperforming its benchmark by 0.5%.

Detracting from performance was the fund's exposure to SA property, which became marginally cheaper over the quarter. However, we believe the asset class is priced to deliver attractive low double-digit returns over the medium term. Contributing to performance was the fund's unhedged offshore investments due to the rand weakening against the US dollar. We considered the rand to be trading in undervalued territory during the quarter, deciding to hedge some of our unhedged offshore exposure into rands to protect the fund from rand appreciation. Investments in domestic floating rate notes also contributed positively to fund returns.

STRATEGY AND POSITIONING

In global fixed income, as in previous quarters, despite rising government bond yields, they continue to trade at very low yields (and high valuations) historically, and remain at risk to rising interest rates globally. We remain underweight global sovereign bonds and underweight duration to reduce interest rate risk, preferring to hold investment-grade US and European corporate bonds.

For global equities, gains in the US pushed valuations to higher levels there as we maintained our underweight in that market. Other developed markets like Germany and Japan remained broadly attractive, however, and valuation disparities between developed and emerging markets (EMs) widened further in Q3. Broad EM selling made many even more attractive compared to markets like the US. We continue to prefer the global banking sector, which has underperformed the broader market, as well as certain developed markets where equities are undervalued but fundamentals for earnings growth remain positive, including Germany and Japan, and selected emerging markets such as South Korea, Indonesia and China. These overweight positions are financed primarily by an underweight in global bonds, as well as US equities to a lesser extent. Many regions offer better value than the South African equity market, which is why we continue to be overweight global equities in our house view portfolios. SA equity earnings have been depressed relative to their long-term trends, and therefore have the potential to improve if the current government has even modest success in lifting the rate of potential growth.

SA listed property became marginally cheaper over the quarter, but we continue to have a neutral exposure in our multi-asset portfolios. Even though the overall sector is priced to deliver attractive low double-digit returns over the medium term, we remain concerned about the risks to the sector, including slow growth and rising inflationary pressures.

In SA nominal bonds, despite volatility there was little change in valuations from the start and end of the quarter, and remained cheap compared to their longer-term average. Consequently, we maintained our overweight position in this asset class. We continue to prefer longer-dated government bonds due to the more attractive yields on offer, and are comfortable with the compensation bonds offer given the risk involved. However, inflation remains a threat and the SA government and businesses have not yet done enough to eliminate the prospects of further credit rating downgrades, especially given the deterioration in the country's growth rate.

For SA inflation-linked bonds, following the quarter's small gains valuations were little changed. We continue to be neutrally positioned in this asset class. Real yields are attractive, but we still believe that better value exists elsewhere – in long-dated nominal bonds and equities. ■

DISCLAIMER

Prudential Portfolio Managers Unit Trusts Ltd (Registration number: 1999/0524/06) is an approved CISCA management company (#29). Assets are managed by Prudential Investment Managers (South Africa) (Pty) Ltd, which is an approved discretionary Financial Services Provider (#45199). The Trustee's/Custodian details are: Standard Bank of South Africa Limited - Trustee Services & Investor Services. 20th Floor, Main Tower, Standard Bank Centre, Heerengracht, Cape Town. Collective Investment Schemes (unit trusts) are generally medium-to long-term investments. Past performance is not necessarily a guide to future investment performance. Unit trust prices are calculated on a net asset value basis. This means the price is the total net market value of all assets of the unit trust fund divided by the total number of units of the fund. Any market movements – for example in share prices, bond prices, money market prices or currency fluctuations - relevant to the underlying assets of the fund may cause the value of the underlying assets to go up or down. As a result, the price of your units may go up or down. Unit trusts are traded at the ruling forward price of the day, meaning that transactions are processed during the day before you or the Manager know what the price at the end of the day will be. The price and therefore the number of units involved in the transaction are only known on the following day. The unit trust fund may borrow up to 10% of the fund value, and it may also lend any scrip (proof of ownership of an investment instrument) that it holds to earn additional income. A Prudential unit trust fund may consist of different fund classes that are subject to different fees and charges. Where applicable, the Manager will pay your financial adviser an agreed standard ongoing adviser fee, which is included in the overall costs of the fund. A Collective Investment Schemes (CIS) summary with all fees and maximum initial and ongoing adviser fees is available on our website. One can also obtain additional information on Prudential products on the Prudential website. The Manager may, at its discretion, close your chosen unit trust fund to new investors and to additional investments by existing investors to make sure that it is managed in accordance with its mandate. It may also stop your existing debit order investment. The Manager makes no guarantees as to the capital invested in the fund or the returns of the fund. Excessive withdrawals from the fund may place the fund under liquidity pressure and, in certain circumstances; a process of ring fencing withdrawal instructions may be followed. The Fund may hold foreign securities including foreign CIS funds. As a result, the fund may face material risks. The volatility of the fund may be higher and the liquidity of the underlying securities may be restricted due to relative market sizes and market conditions. The fund's ability to settle securities and to repatriate investment income, capital or the proceeds of sales of securities may be adversely affected for multiple reasons including market conditions, macro-economic and political circumstances. Further, the return on the security may be affected (positively or negatively) by the difference in tax regimes between the domestic and foreign tax jurisdictions. The availability of market information and information on any underlying sub-funds may be delayed. Fund prices are published daily on the Prudential website. These are also available upon request. The performance is calculated for the portfolio. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax.Purchase and repurchase requests must be received by the Manager by 13h30 SA time each business day. All online purchase and repurchase transactions must be received by the Manager by 10h30 (for all Funds) SA time each business day.

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL INFLATION PLUS FUND
30 SEPTEMBER 2018

QUARTERLY COMMENTARY

MULTI-ASSET

MARKET OVERVIEW

The third quarter of 2018 saw a sharp escalation in the trade war between the US and China, in addition to still-strong US growth, rising US interest rates, a strengthening US dollar and financial crises in Turkey and Argentina. The result: developed equity markets (as measured by the MSCI World Index) returned 5.1% in US dollars, while emerging equity markets (as measured by the MSCI Emerging Markets) delivered -1.1% in US dollars due to heightened investor risk aversion. In South Africa, negative local economic news weighed on financial markets, as did poor global sentiment, with local bonds losing ground but the weaker rand underpinned rand hedges and Resource shares on the JSE.

Global bonds lost 0.9% (in US$) during the quarter, largely on the back of rising US interest rates. More bond issuance also weighed on the US Treasury bond market as the Trump tax cuts expanded the budget deficit. As widely expected, the US Federal Reserve hiked interest rates by 25bps at its September FOMC meeting, while also upping its 2018 growth outlook to 3.1%. The Fed still foresees another 25bp hike this year (consensus in December) and three more 25bp hikes through 2019, as well as one in 2020.

The US economy picked up steam, recording 2.9% GDP growth in Q2 (q/q annualised) stoked by Trump's tax cuts as consumer and business spending rose, while inflation remained under check. Equity markets reflected the bullish sentiment as the S&P 500 returned 7.7%, the Nasdaq 8.6% and Dow Jones Industrial 30 Index 9.6% (all in US$), although September returns were much more muted due largely to rising trade tensions.

In contrast with the US, Eurozone growth slowed to 2.2% (q/q annualised) in Q2 from 2.5% previously. The European Central Bank (ECB) kept its benchmark interest rate unchanged at 0% at its 13 September meeting, as had been expected, and the Dow Jones Eurostoxx 50 returned -0.2% for the quarter. Meanwhile, UK growth picked up slightly to 1.3% (q/q annualised) from 1.2% in the previous quarter, and the Bank of England surprised by hiking its interest rate by 25bps in August - the first time since the Financial Crisis. The UK's FTSE 100 Index returned -1.8% for the quarter.

After contracting by a revised 0.9% (q/q annualised) in Q1 2018, the Japanese economy rebounded to 1.9% growth in Q2, beating expectations of 1.4%. The Nikkei 225 Index returned 6.3% in Q3, reaching 27-year highs. In China, Q2 GDP growth came in at 6.7% (q/q annualised), as expected, slightly down on the 6.8% reported for Q1 due to slower industrial output and business fixed investment. Business confidence is being hit by growing concerns over the widening impact of US tariffs on Chinese exports, the full extent of which is set to be felt later in the year and is likely to exacerbate the slowdown. Chinese stocks were weaker as a consequence.

Emerging markets (EMs) in general experienced capital outflows during the quarter, with bonds hit particularly hard. Financial crises in Turkey and Argentina in late August and early September worsened already-poor investor sentiment, with the contagion effect spreading across most EMs. For the quarter the MSCI Turkey lost 20.5% (in US$), despite returning 20.6% in September, and the central bank was forced to hike interest rates by nearly 7.0% to 24% to protect a plunging lira. The MSCI China returned -7.4% and the MSCI South Africa delivered -7.2%, while Russia returned 6.6% and Brazil 5.0% (all in US$).

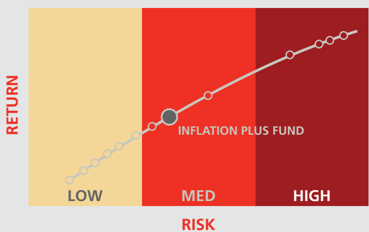
In South Africa, Q3 2018 was another difficult quarter for investors, as the rand, bonds and equities all came under selling pressure from the risk-averse global sentiment, as well as a further broad deterioration in the economy. The land expropriation debate also continued to exacerbate uncertainty. The rand was exceptionally volatile, hitting a worst level of R15.69 versus the US dollar on 5 September amid the strong sell-off in EM currencies and assets, and exacerbated by President Trump's exaggerated tweet about land seizures and white farmer killings. The local currency did recover somewhat to end the quarter at around R14.14 per US$, some 3.2% weaker over the three months. It deteriorated 2.7% against the euro and ended 1.9% weaker versus the UK pound sterling over the quarter.

Headlining the disappointing data, South Africa's Q2 GDP data shocked the market with a contraction of -0.7% (q/q annualised), coming on the heels of a revised -2.6% in Q1 and putting the economy into recession. This, in turn, sparked concerns over the government's longer-term fiscal policy and raised the spectre of further credit rating downgrades. Moody's, however, said the prospects of it changing its investment-grade sovereign rating in the next eight months were low, although it did halve its 2018 growth estimate to only 0.7%.

In a close vote at its September Monetary Policy Committee meeting, the SA Reserve Bank (SARB) kept interest rates on hold, as expected. Although August CPI slowed to 4.9% y/y from 5.1% in July, economists expect it to rise closer to 6% towards year-end as second-round inflation effects take hold.

For the quarter, the BEASSA All Bond Index returned 0.8% - the yield on the benchmark R186 SA government bond barely moved, ending the quarter at around 9.0% from 9.1% at the beginning of the quarter. However, this masked substantial volatility as the benchmark yield traded as low as 8.57% and as high as 9.25% over the three months. Meanwhile, inflation-linked bonds delivered 0.5%, and cash as measured by the STeFI Composite Index produced 1.7%. For local equities, the FTSE/JSE All Share index (ALSI) returned -2.2% over the three months, led lower by Industrial counters with a -7.8% return (impacted by a decline in Naspers). Financials defied the lower-growth, weaker rand environment with a return of 2.8% and Resources were again the star performers, delivering 5.2%. Listed property produced -1.0% as the inflation and growth outlooks further deteriorated. For 2018 so far, the ALSI remains in negative territory with a -3.8% return.

RISK/RETURN PROFILE:



FUND MANAGERS:
Michael Moyle, David Knee, Duncan Schwulst and Johny Lambridis

ASISA CATEGORY:
South African - Multi-Asset - Low Equity

OBJECTIVE (BEFORE FEES):
CPI+5% p.a. over a rolling 3-year period

INCEPTION DATE:
1 June 2001

FUND SIZE:
R35 026 108 242

AWARDS:
Raging Bull: 2013
Morningstar: 2015

ANNUALISED PERFORMANCE	A CLASS	OBJECTIVE#	T CLASS	X CLASS	B CLASS
1 year	2.3%	8.3%	2.8%	2.6%	3.1%
3 years	5.2%	8.6%	5.8%	5.5%	6.0%
5 years	7.5%	8.7%	n/a	7.8%	8.3%
7 years	10.3%	8.8%	n/a	10.6%	11.1%
10 years	10.2%	8.6%	n/a	n/a	11.0%
Since inception	12.3%	9.5%	5.5%	10.4%	12.3%

Objective (After A Class Fees) over a rolling 3-year period. Fee adjustment to gross Fund Objective for different classes: A class -1.6%, T class -1%, X class -1.4%, B class -0.9%.
Inception dates: X Class: 1 July 2011, B Class: 1 July 2002, T Class: 2 January 2015

ASSET CLASS RETURNS	TOTAL RETURN Q2 2018
Global equity – MSCI World (US$) (Developed)	5.1%
Global equity – MSCI Emerging Markets (US$)	-1.1%
Global bonds – Bloomberg Barclays Global Aggregate Bond Index (US$)	-0.9%
Global property – FTSE EPRA/NAREIT Global Property REIT Index (US$)	-0.3%
SA equity – FTSE/JSE All Share Index	-2.2%
SA bonds – BEASSA All Bond Index	0.8%
SA listed property – SA Listed Property Index	-1.0%
SA inflation-linked bonds – JSE CILI Index	0.5%
SA cash (STeFI Composite Index)	1.7%

Sources: Prudential, Morningstar & Deutsche Securities

PERFORMANCE

The fund returned 0.6% (net of fees) for the third quarter of 2018, compared to its inflation objective of 1.9%. Over the 3-year period ending 30 September 2018, the fund delivered 5.2% per annum (net of fees), while its inflation objective returned 8.6% per annum over the same period.

Contributing the most to absolute performance for the quarter was the fund's exposure to global equities, together with positions in US investment grade bonds and a local currency Mexican bond. This was further aided by rand weakness. The primary detractors from absolute performance were the fund's holdings in South African listed property and selected South African equities, specifically Naspers and Aspen.

STRATEGY AND OUTLOOK

We recognise that the fund's returns have been disappointing for investors over the recent past. While we cannot predict when it will happen, our valuation-based approach suggests that the fund is currently well positioned to meet its objective over the medium to long term.

In global fixed income, as in previous quarters, despite rising government bond yields, they continue to trade at very low yields (and high valuations) historically, and remain at risk to rising interest rates globally. We remain underweight global sovereign bonds and underweight duration to reduce interest rate risk, preferring to hold investment-grade US and European corporate bonds.

For global equities, gains in the US pushed valuations to higher levels there as we maintained our underweight in that market. Other developed markets like Germany and Japan remained broadly attractive, however, and valuation disparities between developed and EMs widened further in Q3. Broad EM selling made many even more attractive compared to markets like the US. We continue to prefer the global banking sector, which has underperformed the broader market, as well as certain developed markets where equities are undervalued but fundamentals for earnings growth remain positive, including Germany and Japan, and selected emerging markets such as South Korea, Indonesia and China. These overweight positions are financed primarily by an underweight in global bonds, as well as US equities to a lesser extent. Many regions offer better value than the South African equity market, which is why we continue to be overweight global equities in our house view portfolios. SA equity earnings have been depressed relative to their long-term trends, and therefore have the potential to improve if the current government has even modest success in lifting the rate of potential growth.

SA equities moved cheaper during the quarter: the FTSE/JSE ALSI 12-month forward P/E fell to around 12.8X at quarter-end from around 13.7X in Q2, below our long-term fair value estimate of 14.5X. At current levels the market is priced to deliver attractive medium-term returns. However, in the context of the low-equity Inflation Plus Fund's 40% total equity exposure limit, we still see better opportunities offshore due to stronger earnings growth potential in certain markets. Consequently we remain slightly underweight SA equities and overweight global equities in the fund, with total equity exposure close to the maximum allowed.

The fund still holds resources stocks with exposure to global growth like Anglo American, BHP Billiton, Exxaro, Sasol and Sappi, as well as global giants such as Naspers and British American Tobacco. We have also maintained our overweight exposure to financial shares including Old Mutual, Standard Bank and Barclays Group Africa, which have offered attractive valuations with relatively high dividend yields. Meanwhile, we are still underweight retail stocks, given the pressure under which local consumers find themselves, but do hold a select overweight in Pick 'n Pay, having sold down our Foschini exposure during the quarter.

SA listed property became marginally cheaper over the quarter, but we continue to have a neutral exposure in our multi-asset portfolios. Even though the overall sector is priced to deliver attractive low double-digit returns over the medium term, we remain concerned about the risks to the sector, including slow growth and rising inflationary pressures.

In SA nominal bonds, despite volatility there was little change in valuations from the start and end of the quarter, and remained cheap compared to their longer-term average. Consequently, we maintained our overweight position in this asset class. We continue to prefer longer-dated government bonds due to the more attractive yields on offer, and are comfortable with the compensation bonds offer given the risk involved. However, inflation remains a threat and the SA government and businesses have not yet done enough to eliminate the prospects of further credit rating downgrades, especially given the deterioration in the country's growth rate.

For SA inflation-linked bonds, following the quarter's small gains valuations were little changed. We continue to be neutrally positioned in this asset class. Real yields are attractive, but we still believe that better value exists elsewhere – in long-dated nominal bonds and equities.■

DISCLAIMER

Prudential Portfolio Managers Unit Trusts Ltd (Registration number: 1999/0524/06) is an approved CISCA management company (#29). Assets are managed by Prudential Investment Managers (South Africa) (Pty) Ltd, which is an approved discretionary Financial Services Provider (#45199). The Trustee's/Custodian details are: Standard Bank of South Africa Limited - Trustee Services & Investor Services. 20th Floor, Main Tower, Standard Bank Centre, Heerengracht, Cape Town. Collective Investment Schemes (unit trusts) are generally medium-to long-term investments. Past performance is not necessarily a guide to future investment performance. Unit trust prices are calculated on a net asset value basis. This means the price is the total net market value of all assets of the unit trust fund divided by the total number of units of the fund. Any market movements – for example in share prices, bond prices, money market prices or currency fluctuations - relevant to the underlying assets of the fund may cause the value of the underlying assets to go up or down. As a result, the price of your units may go up or down. Unit trusts are traded at the ruling forward price of the day, meaning that transactions are processed during the day before you or the Manager know what the price at the end of the day will be. The price and therefore the number of units involved in the transaction are only known on the following day. The unit trust fund may borrow up to 10% of the fund value, and it may also lend any scrip (proof of ownership of an investment instrument) that it holds to earn additional income. A Prudential unit trust fund may consist of different fund classes that are subject to different fees and charges. Where applicable, the Manager will pay your financial adviser an agreed standard ongoing adviser fee, which is included in the overall costs of the fund. A Collective Investment Schemes (CIS) summary with all fees and maximum initial and ongoing adviser fees is available on our website. One can also obtain additional information on Prudential products on the Prudential website. The Manager may, at its discretion, close your chosen unit trust fund to new investors and to additional investments by existing investors to make sure that it is managed in accordance with its mandate. It may also stop your existing debit order investment. The Manager makes no guarantees as to the capital invested in the fund or the returns of the fund. Excessive withdrawals from the fund may place the fund under liquidity pressure and, in certain circumstances; a process of ring fencing withdrawal instructions may be followed. The Fund may hold foreign securities including foreign CIS funds. As a result, the fund may face material risks. The volatility of the fund may be higher and the liquidity of the underlying securities may be restricted due to relative market sizes and market conditions. The fund's ability to settle securities and to repatriate investment income, capital or the proceeds of sales of securities may be adversely affected for multiple reasons including market conditions, macro-economic and political circumstances. Further, the return on the security may be affected (positively or negatively) by the difference in tax regimes between the domestic and foreign tax jurisdictions. The availability of market information and information on any underlying sub-funds may be delayed. Fund prices are published daily on the Prudential website. These are also available upon request. The performance is calculated for the portfolio. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax.Purchase and repurchase requests must be received by the Manager by 13h30 SA time each business day. All online purchase and repurchase transactions must be received by the Manager by 10h30 (for all Funds) SA time each business day.

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL BALANCED FUND
30 SEPTEMBER 2018

QUARTERLY COMMENTARY

MULTI-ASSET

MARKET OVERVIEW

The third quarter of 2018 saw a sharp escalation in the trade war between the US and China, in addition to still-strong US growth, rising US interest rates, a strengthening US dollar and financial crises in Turkey and Argentina. The result: developed equity markets (as measured by the MSCI World Index) returned 5.1% in US dollars, while emerging equity markets (as measured by the MSCI Emerging Markets) delivered -1.1% in US dollars due to heightened investor risk aversion. In South Africa, negative local economic news weighed on financial markets, as did poor global sentiment, with local bonds losing ground but the weaker rand underpinned rand hedges and Resource shares on the JSE.

Global bonds lost 0.9% (in US$) during the quarter, largely on the back of rising US interest rates. More bond issuance also weighed on the US Treasury bond market as the Trump tax cuts expanded the budget deficit. As widely expected, the US Federal Reserve hiked interest rates by 25bps at its September FOMC meeting, while also upping its 2018 growth outlook to 3.1%. The Fed still foresees another 25bp hike this year (consensus in December) and three more 25bp hikes through 2019, as well as one in 2020.

The US economy picked up steam, recording 2.9% GDP growth in Q2 (q/q annualised) stoked by Trump's tax cuts as consumer and business spending rose, while inflation remained under check. Equity markets reflected the bullish sentiment as the S&P 500 returned 7.7%, the Nasdaq 8.6% and Dow Jones Industrial 30 Index 9.6% (all in US$), although September returns were much more muted due largely to rising trade tensions.

In contrast with the US, Eurozone growth slowed to 2.2% (q/q annualised) in Q2 from 2.5% previously. The European Central Bank (ECB) kept its benchmark interest rate unchanged at 0% at its 13 September meeting, as had been expected, and the Dow Jones Eurostoxx 50 returned -0.2% for the quarter. Meanwhile, UK growth picked up slightly to 1.3% (q/q annualised) from 1.2% in the previous quarter, and the Bank of England surprised by hiking its interest rate by 25bps in August - the first time since the Financial Crisis. The UK's FTSE 100 Index returned -1.8% for the quarter.

After contracting by a revised 0.9% (q/q annualised) in Q1 2018, the Japanese economy rebounded to 1.9% growth in Q2, beating expectations of 1.4%. The Nikkei 225 Index returned 6.3% in Q3, reaching 27-year highs. In China, Q2 GDP growth came in at 6.7% (q/q annualised), as expected, slightly down on the 6.8% reported for Q1 due to slower industrial output and business fixed investment. Business confidence is being hit by growing concerns over the widening impact of US tariffs on Chinese exports, the full extent of which is set to be felt later in the year and is likely to exacerbate the slowdown. Chinese stocks were weaker as a consequence.

Emerging markets (EMs) in general experienced capital outflows during the quarter, with bonds hit particularly hard. Financial crises in Turkey and Argentina in late August and early September worsened already-poor investor sentiment, with the contagion effect spreading across most EMs. For the quarter the MSCI Turkey lost 20.5% (in US$), despite returning 20.6% in September, and the central bank was forced to hike interest rates by nearly 7.0% to 24% to protect a plunging lira. The MSCI China returned -7.4% and the MSCI South Africa delivered -7.2%, while Russia returned 6.6% and Brazil 5.0% (all in US$).

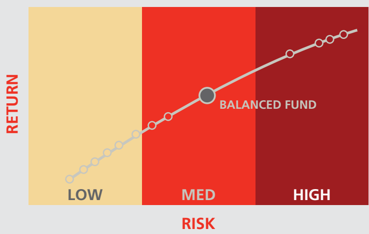
In South Africa, Q3 2018 was another difficult quarter for investors, as the rand, bonds and equities all came under selling pressure from the risk-averse global sentiment, as well as a further broad deterioration in the economy. The land expropriation debate also continued to exacerbate uncertainty. The rand was exceptionally volatile, hitting a worst level of R15.69 versus the US dollar on 5 September amid the strong sell-off in EM currencies and assets, and exacerbated by President Trump's exaggerated tweet about land seizures and white farmer killings. The local currency did recover somewhat to end the quarter at around R14.14 per US$, some 3.2% weaker over the three months. It deteriorated 2.7% against the euro and ended 1.9% weaker versus the UK pound sterling over the quarter.

Headlining the disappointing data, South Africa's Q2 GDP data shocked the market with a contraction of -0.7% (q/q annualised), coming on the heels of a revised -2.6% in Q1 and putting the economy into recession. This, in turn, sparked concerns over the government's longer-term fiscal policy and raised the spectre of further credit rating downgrades. Moody's, however, said the prospects of it changing its investment-grade sovereign rating in the next eight months were low, although it did halve its 2018 growth estimate to only 0.7%.

In a close vote at its September Monetary Policy Committee meeting, the SA Reserve Bank (SARB) kept interest rates on hold, as expected. Although August CPI slowed to 4.9% y/y from 5.1% in July, economists expect it to rise closer to 6% towards year-end as second-round inflation effects take hold.

For the quarter, the BEASSA All Bond Index returned 0.8% - the yield on the benchmark R186 SA government bond barely moved, ending the quarter at around 9.0% from 9.1% at the beginning of the quarter. However, this masked substantial volatility as the benchmark yield traded as low as 8.57% and as high as 9.25% over the three months. Meanwhile, inflation-linked bonds delivered 0.5%, and cash as measured by the STeFI Composite Index produced 1.7%. For local equities, the FTSE/JSE All Share index (ALSI) returned -2.2% over the three months, led lower by Industrial counters with a -7.8% return (impacted by a decline in Naspers). Financials defied the lower-growth, weaker rand environment with a return of 2.8% and Resources were again the star performers, delivering 5.2%. Listed property produced -1.0% as the inflation and growth outlooks further deteriorated. For 2018 so far, the ALSI remains in negative territory with a -3.8% return.

RISK/RETURN PROFILE:



FUND MANAGERS:
David Knee, Duncan Schwulst, Michael Moyle and Johny Lambridis

ASISA CATEGORY:
South African - Multi-Asset - High Equity

BENCHMARK:
ASISA South African - Multi-Asset - High Equity Category Average

INCEPTION DATE:
2 August 1999

FUND SIZE:
R21 269 162 283

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	X CLASS	B CLASS
1 year	6.6%	3.1%	7.1%	6.9%	7.4%
3 years	7.5%	5.3%	8.0%	7.7%	8.3%
5 years	9.0%	6.7%	n/a	9.2%	9.8%
7 years	12.6%	9.7%	n/a	n/a	13.5%
10 years	11.6%	9.1%	n/a	n/a	12.5%
Since inception	13.8%	11.8%	6.9%	10.9%	14.7%

Inception dates: X Class: 2 January 2013, B Class: 1 July 2002, T Class: 2 January 2015

ASSET CLASS RETURNS	TOTAL RETURN Q3 2018
Global equity – MSCI World (US$) (Developed)	5.1%
Global equity – MSCI Emerging Markets (US$)	-1.1%
Global bonds – Bloomberg Barclays Global Aggregate Bond Index (US$)	-0.9%
Global property – FTSE EPRA/NAREIT Global Property REIT Index (US$)	-0.3%
SA equity – FTSE/JSE All Share Index	-2.2%
SA bonds – BEASSA All Bond Index	0.8%
SA listed property – SA Listed Property Index	-1.0%
SA inflation-linked bonds – JSE CILI Index	0.5%
SA cash (STeFI Composite Index)	1.7%

Sources: Prudential, Morningstar & Deutsche Securities

PERFORMANCE

The fund returned 1.7% for the third quarter of 2018 and returned 6.6% for the 12-month period ending 30 September 2018 (both net fees). This compares to the benchmark's return of 1.1% and 3.1% respectively. The fund has delivered a return of 13.8% per annum since inception (after fees) compared to its benchmark of 11.8% per annum over the same period. To 30 September 2018, it retains its top-quartile performance over all full year periods from 1-10 years, according to Morningstar.

The largest contributor to absolute performance over the quarter was the fund's exposure to global equities, which outperformed all other asset classes over the period. This was further aided by rand weakness. The fund's position in Naspers and Aspen detracted from performance, though in part, offset by positive returns from Sasol and Old Mutual.

STRATEGY AND POSITIONING

In global fixed income, as in previous quarters, despite rising government bond yields, they continue to trade at very low yields (and high valuations) historically, and remain at risk to rising interest rates globally. We remain underweight global sovereign bonds and underweight duration to reduce interest rate risk, preferring to hold investment-grade US and European corporate bonds.

For global equities, gains in the US pushed valuations to higher levels there as we maintained our underweight in that market. Other developed markets like Germany and Japan remained broadly attractive, however, and valuation disparities between developed and EMs widened further in Q3. Broad EM selling made many even more attractive compared to markets like the US. We continue to prefer the global banking sector, which has underperformed the broader market, as well as certain developed markets where equities are undervalued but fundamentals for earnings growth remain positive, including Germany and Japan, and selected emerging markets such as South Korea, Indonesia and China. These overweight positions are financed primarily by an underweight in global bonds, as well as US equities to a lesser extent. Many regions offer better value than the South African equity market, which is why we continue to be overweight global equities in our house view portfolios. SA equity earnings have been depressed relative to their long-term trends, and therefore have the potential to improve if the current government has even modest success in lifting the rate of potential growth.

SA equities moved cheaper during the quarter: the FTSE/JSE ALSI 12-month forward P/E fell to around 12.8X at quarter-end from around 13.7X in Q2, below our long-term fair value estimate of 14.5X. At current levels the market is priced to deliver attractive medium-term returns.

The fund still holds resources stocks with exposure to global growth like Anglo American, BHP Billiton, Exxaro, Sasol and Sappi, as well as global giants such as Naspers and British American Tobacco. We have also maintained our overweight exposure to financial shares including Old Mutual, Standard Bank and Barclays Group Africa, which have offered attractive valuations with relatively high dividend yields. Meanwhile, we are still underweight retail stocks, given the pressure under which local consumers find themselves, but do hold a select overweight in Pick 'n Pay, having sold down our Foschini exposure during the quarter.

SA listed property became marginally cheaper over the quarter, but we continue to have a neutral exposure in our multi-asset portfolios. Even though the overall sector is priced to deliver attractive low double-digit returns over the medium term, we remain concerned about the risks to the sector, including slow growth and rising inflationary pressures.

In SA nominal bonds, despite volatility there was little change in valuations from the start and end of the quarter, and remained cheap compared to their longer-term average. Consequently, we maintained our overweight position in this asset class. We continue to prefer longer-dated government bonds due to the more attractive yields on offer, and are comfortable with the compensation bonds offer given the risk involved. However, inflation remains a threat and the SA government and businesses have not yet done enough to eliminate the prospects of further credit rating downgrades, especially given the deterioration in the country's growth rate.

For SA inflation-linked bonds, following the quarter's small gains valuations were little changed. We continue to be neutrally positioned in this asset class. Real yields are attractive, but we still believe that better value exists elsewhere – in long-dated nominal bonds and equities.■

DISCLAIMER

Prudential Portfolio Managers Unit Trusts Ltd (Registration number: 1999/0524/06) is an approved CISCA management company (#29). Assets are managed by Prudential Investment Managers (South Africa) (Pty) Ltd, which is an approved discretionary Financial Services Provider (#45199). The Trustee's/Custodian details are: Standard Bank of South Africa Limited - Trustee Services & Investor Services. 20th Floor, Main Tower, Standard Bank Centre, Heerengracht, Cape Town. Collective Investment Schemes (unit trusts) are generally medium-to long-term investments. Past performance is not necessarily a guide to future investment performance. Unit trust prices are calculated on a net asset value basis. This means the price is the total net market value of all assets of the unit trust fund divided by the total number of units of the fund. Any market movements – for example in share prices, bond prices, money market prices or currency fluctuations - relevant to the underlying assets of the fund may cause the value of the underlying assets to go up or down. As a result, the price of your units may go up or down. Unit trusts are traded at the ruling forward price of the day, meaning that transactions are processed during the day before you or the Manager know what the price at the end of the day will be. The price and therefore the number of units involved in the transaction are only known on the following day. The unit trust fund may borrow up to 10% of the fund value, and it may also lend any scrip (proof of ownership of an investment instrument) that it holds to earn additional income. A Prudential unit trust fund may consist of different fund classes that are subject to different fees and charges. Where applicable, the Manager will pay your financial adviser an agreed standard ongoing adviser fee, which is included in the overall costs of the fund. A Collective Investment Schemes (CIS) summary with all fees and maximum initial and ongoing adviser fees is available on our website. One can also obtain additional information on Prudential products on the Prudential website. The Manager may, at its discretion, close your chosen unit trust fund to new investors and to additional investments by existing investors to make sure that it is managed in accordance with its mandate. It may also stop your existing debit order investment. The Manager makes no guarantees as to the capital invested in the fund or the returns of the fund. Excessive withdrawals from the fund may place the fund under liquidity pressure and, in certain circumstances; a process of ring fencing withdrawal instructions may be followed. The Fund may hold foreign securities including foreign CIS funds. As a result, the fund may face material risks. The volatility of the fund may be higher and the liquidity of the underlying securities may be restricted due to relative market sizes and market conditions. The fund's ability to settle securities and to repatriate investment income, capital or the proceeds of sales of securities may be adversely affected for multiple reasons including market conditions, macro-economic and political circumstances. Further, the return on the security may be affected (positively or negatively) by the difference in tax regimes between the domestic and foreign tax jurisdictions. The availability of market information and information on any underlying sub-funds may be delayed. Fund prices are published daily on the Prudential website. These are also available upon request. The performance is calculated for the portfolio. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax.Purchase and repurchase requests must be received by the Manager by 13h30 SA time each business day. All online purchase and repurchase transactions must be received by the Manager by 10h30 (for all Funds) SA time each business day.

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL ENHANCED SA PROPERTY TRACKER FUND
30 SEPTEMBER 2018

QUARTERLY COMMENTARY

PROPERTY

MARKET OVERVIEW

In South Africa, Q3 2018 was another difficult quarter for investors, as the rand, bonds and equities all came under selling pressure from the risk-averse global sentiment, as well as a further broad deterioration in the economy. The land expropriation debate also continued to exacerbate uncertainty. The rand was exceptionally volatile during the quarter, hitting its worst level of R15.69 to the US dollar on 5 September amid the strong sell-off in emerging market currencies and assets, and exacerbated by President Trump's exaggerated tweet about land seizures and white farmer killings. The local currency did recover somewhat to end the quarter at around R14.14 per US$, some 3.2% weaker over the three months. It deteriorated 2.7% against the euro and ended 1.9% weaker versus the UK pound sterling over the quarter.

Headlining the disappointing data, South Africa's Q2 GDP data shocked the market with a contraction of -0.7% (q/q annualised), coming on the heels of a revised -2.6% in Q1 and putting the economy into a technical recession. This was well below the consensus forecast of 0.5% growth and was due primarily to a sharp fall in agricultural production, although household spending also suffered, particularly that on durable goods as consumer budgets came under pressure. The GDP contraction, in turn, sparked concerns over the government's longer-term fiscal policy and raised the spectre of further credit rating downgrades. Moody's, however, said the prospects of it changing its investment-grade sovereign rating in the next eight months were low, although it did halve its 2018 growth estimate to only 0.7%.

In a close vote at its September Monetary Policy Committee meeting, the SA Reserve Bank (SARB) kept interest rates on hold, as expected. While mindful of the poor state of the economy, it was more hawkish in tone, noting that inflation risks had risen due to rand depreciation and the higher oil price, as well as ongoing negative sentiment toward emerging markets. Governor Lesetja Kganyago said the Bank's current projections implied that five interest rate hikes of 25bps each would be necessary through 2020 to keep inflation within the 3-6% inflation target band. Although August CPI slowed to 4.9% y/y from 5.1% in July, economists expect it to rise closer to 6% towards year-end as second-round inflation effects take hold.

Among positive developments for the quarter, in an effort to help restore business and consumer confidence President Ramaphosa unveiled plans to re-prioritise government spending to help boost the ailing economy. These were largely greeted favourably, although with some scepticism around implementation. The President also made headway with attracting foreign investment totalling some US$35.5 billion from China and other countries, including US$2.5 billion for struggling Eskom. Some progress toward a constructive policy in the mining sector also came in the form of the retraction of the controversial Minerals and Petroleum Resources and Development Act (MPRD), which had alarmed investors. In addition, the government took steps in uncovering more details on corruption across several government departments with the start of the State Capture Inquiry on 20 August.

For the quarter, the FTSE/JSE All Share index (ALSI) returned -2.2% led lower by Industrial counters with a -7.8% return (impacted by a decline in Naspers). Financials defied the lower-growth, weaker rand environment with a return of 2.8% and Resources were again the star performers, delivering 5.2%. Listed property produced -1.0% as the inflation and growth outlooks further deteriorated. For 2018 so far, the ALSI remains in negative territory with a -3.8% return.

PERFORMANCE

The fund returned -1.2% (net of fees) for the quarter, underperforming its benchmark, the FTSE/JSE South African Listed Property Index, by 0.2%. For the 12 months ended 30 September 2018, the fund returned -16.8% (net of fees), while its benchmark returned -15.7% over the same period.

As a reminder, the fund takes limited active positions based on fundamental factors, while aiming to limit tracking error to a maximum of 2%. Over the quarter, overweight positions in EPP and Delta Property Fund contributed positively to performance, as did an underweight position in Growthpoint. An overweight position in Rebosis and underweight positions in NEPI Rockcastle and Fortress A detracted from performance.

STRATEGY AND POSITIONING

The major listed property companies delivered a per share distribution growth of 5.9% over the last six month's reporting cycle, with a great deal of divergence among companies. Yields on property companies are as attractive as they have been for several years and have moved in sympathy with long-dated South African government bonds. At quarter end, listed income-producing property companies appear to be priced to deliver attractive low double-digit total returns, assuming modest distribution growth and no change to the multiple ascribed by the market to the net income of the companies, or the rating.

Year to date the SAPY index returned -22% (to the end of September 2018), led by declines in the share prices of Resilient, Fortress, Greenbay and NEPI Rockcastle as these four companies represented approximately 42% of the SAPY index at the beginning of the year. Their collective weights within SAPY have subsequently declined to approximately 27% with Greenbay having been reclassified out of the index. Although the domestically-focussed property companies were the relative outperformers for the year, local property fundamentals remain weak and appear to have deteriorated further. This has not gone unnoticed by the market as the sector bellwether, Growthpoint Properties, produced a total return of -9% to the end of September.

The retail sector faces some headwinds as the restructuring of the Edcon group and its various sub-brands is likely to place further pressure on the weaker retail assets in the market. Landlords appear negative on the prospects of any recovery in the office market and low build-cost inflation and low economic growth are likely to stifle market rental growth in the industrial sector.

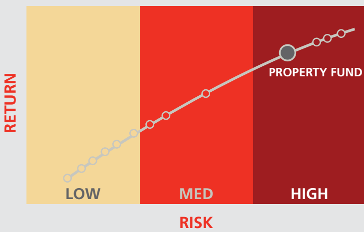
The lacklustre local property fundamentals have contributed to a decline in the quality of earnings over the past year as management teams have attempted to maintain the veneer of 'growth' by declaring items which are non-cash and once-off in nature as dividends to shareholders. Some companies have done the sensible thing and eliminated these items while guiding to lower growth, while others have not done so yet.

We view the current valuations as attractive relative to alternative 'yield' assets, in the absence of a material change in the market's valuation (or rating). However, we remain concerned about the risks to the sector, including slow growth and rising inflationary pressures. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	D CLASS
1 year	-16.8%	-15.7%	-16.8%	-16.7%
3 years	-1.2%	-1.4%	-1.1%	-1.1%
5 years	6.9%	6.8%	n/a	7.0%
7 years	11.1%	11.2%	n/a	11.2%
10 years	13.5%	13.5%	n/a	n/a
Since inception	13.4%	13.6%	-0.9%	12.2%

Inception date D Class: 1 July 2010, T Class: 1 April 2015

RISK/RETURN PROFILE:



FUND MANAGERS:
Jeanne-Marie Snalam

ASISA CATEGORY:
South African - Real Estate - General

BENCHMARK:
FTSE/JSE South African Listed Property Index (J253)

INCEPTION DATE:
2 December 2005

FUND SIZE:
R3 949 939 221

AWARDS:
Morningstar/Standard & Poor's: 2011

DISCLAIMER
Prudential Portfolio Managers Unit Trusts Ltd (Registration number: 1999/0524/06) is an approved CISCA management company (#29). Assets are managed by Prudential Investment Managers (South Africa) (Pty) Ltd, which is an approved discretionary Financial Services Provider (#45199). The Trustee's/Custodian details are: Standard Bank of South Africa Limited - Trustee Services & Investor Services. 20th Floor, Main Tower, Standard Bank Centre, Heerengracht, Cape Town. Collective Investment Schemes (unit trusts) are generally medium-to long-term investments. Past performance is not necessarily a guide to future investment performance. Unit trust prices are calculated on a net asset value basis. This means the price is the total net market value of all assets of the unit trust fund divided by the total number of units of the fund. Any market movements – for example in share prices, bond prices, money market prices or currency fluctuations - relevant to the underlying assets of the fund may cause the value of the underlying assets to go up or down. As a result, the price of your units may go up or down. Unit trusts are traded at the ruling forward price of the day, meaning that transactions are processed during the day before you or the Manager know what the price at the end of the day will be. The price and therefore the number of units involved in the transaction are only known on the following day. The unit trust fund may borrow up to 10% of the fund value, and it may also lend any scrip (proof of ownership of an investment instrument) that it holds to earn additional income. A Prudential unit trust fund may consist of different fund classes that are subject to different fees and charges. Where applicable, the Manager will pay your financial adviser an agreed standard ongoing adviser fee, which is included in the overall costs of the fund. A Collective Investment Schemes (CIS) summary with all fees and maximum initial and ongoing adviser fees is available on our website. One can also obtain additional information on Prudential products on the Prudential website. The Manager may, at its discretion, close your chosen unit trust fund to new investors and to additional investments by existing investors to make sure that it is managed in accordance with its mandate. It may also stop your existing debit order investment. The Manager makes no guarantees as to the capital invested in the fund or the returns of the fund. Excessive withdrawals from the fund may place the fund under liquidity pressure and, in certain circumstances; a process of ring fencing withdrawal instructions may be followed. Fund prices are published daily on the Prudential website. These are also available upon request. The performance is calculated for the portfolio. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. Purchase and repurchase requests must be received by the Manager by 13h30 SA time each business day. All online purchase and repurchase transactions must be received by the Manager by 10h30 (for all Funds) SA time each business day.

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL DIVIDEND MAXIMISER FUND
30 SEPTEMBER 2018

QUARTERLY COMMENTARY

EQUITY

MARKET OVERVIEW

The third quarter of 2018 saw a sharp escalation in the trade war between the US and China, in addition to still-strong US growth, rising US interest rates, a strengthening US dollar and financial crises in Turkey and Argentina. The result: developed equity markets (as measured by the MSCI World Index) returned 5.1% in US dollars, while emerging equity markets (as measured by the MSCI Emerging Markets) delivered -1.1% in US dollars due to heightened investor risk aversion.

In South Africa, negative local economic news weighed on financial markets, as did poor global sentiment, with local bonds losing ground. The weaker rand underpinned rand hedges and Resource shares on the JSE. In South Africa, the rand, bonds and equities all came under selling pressure from the risk-averse global sentiment, as well as a further broad deterioration in the economy. The weaker economic data in South Africa is being exacerbated by the sharply rising oil price which has put pressure on disposable incomes. During the quarter, these issues resulted in negative returns coming from the interest rate sensitive sectors such as the banks, retailers and consumer goods.

The price of Brent crude oil rose to a four-year high of US$82.55 per barrel and ended the quarter at US$81.92, up about 4.1% due to impending supply sanctions on Iran, as well as a late-September agreement by oil producers not to raise production levels. Looking at other commodities, gold was weaker on the back of the stronger US dollar, losing 4.9% for the quarter, while industrial metals prices also lost ground across the board.

For the quarter, the FTSE/JSE All Share index (ALSI) returned -2.2% led lower by Industrial counters with a -7.8% return (impacted by a decline in Naspers). Financials defied the lower-growth, weaker rand environment with a return of 2.8% and Resources were again the star performers, delivering 5.2%. Listed property produced -1.0% as inflation and growth outlooks further deteriorated. For 2018 so far, the ALSI remains in negative territory with a -3.8% return.

We acknowledge that while it is very difficult to forecast the future and we do not make any attempt to do this, we do spend a lot of time thinking about the economic cycles that various sectors are in, and where valuations are. In this way, we aim to make money for our clients through these cycles and continue to buy companies that have proven dividend and cash flow track records and which can withstand the normal upheavals that occur in markets over time. We aim to continue building risk-cognisant portfolios that seek to add value through stock selection relative to benchmark.

PERFORMANCE

The fund produced a return of 0.4% (net of fees) for the three months ended September 2018, outperforming its benchmark, the ASISA South African - Equity - General Category Mean, by 1.1% over the same period. For the year ended September 2018, the Prudential Dividend Maximiser Fund has outperformed its benchmark by 5.4%, producing a total return of 6.5% (net of fees).

The fund's South African holdings had a good quarter, outperforming the benchmark. This performance was enhanced with our foreign holdings in the fund, which benefited from the strong US market as well as the rand, which weakened by 3.2% against the US dollar during the quarter.

The fund's dual focus of buying undervalued companies with strong cash flows and dividends, put it in good stead during the last quarter.

Our substantial underweight position to Aspen was the strongest contributor to relative performance during the quarter. We have owned no or very small amounts of this company over the last decade due to the poor cash flow, dividend growth and dividend yield of this company. We continue to think that Aspen trades on the expensive side of fair value, and given the poor cash flows of the business and indebted balance sheet, we see limited scope for strong dividend growth going forward. Aspen has been very acquisitive over time and has exhibited relatively poor dividend yields.

The fund's overweight position to Old Mutual was also a strong contributor to performance. We think that the break-up of Old Mutual could release significant value. Old Mutual has traded at a big discount to the sum of its parts. In the next quarter, we look forward to the unbundling of Nedbank from Old Mutual.

Sasol performed strongly during the quarter and this is a company that we have continued to add to in the fund. This is a company we regard highly as it has been able to grow its cash flows and earnings strongly over decades. Over the last few years however, cash flow growth has been fairly flat, as a lot of cash flow has been going into the Lake Charles Chemicals Project. As this project nears completion over the next year, we expect cash flows to return to their projected growth and we envisage stronger dividend growth.

The largest detractor from performance over the quarter was the fund's holding in Metrofile. Metrofile is a company we have long held in the fund as a result of its high dividend yield and strong dividend growth. Over the last year, the company invested heavily to expand its business in Africa and we expect slower dividend growth going forward as this company focuses on paying down the debt associated with these acquisitions.

We would like to remind our investors that when investing in the JSE, that they are not only buying South African exposure, but also shares in globally competitive and exposed businesses such as BHP Billiton, Naspers and BAT. In the case of the Prudential Dividend Maximiser Fund, we have viewed foreign stocks as being relatively attractive and currently approximately 30% of the fund is directly invested offshore across various markets.

STRATEGY AND POSITIONING

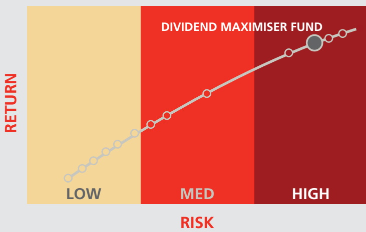
On market valuations, we currently view the market in South Africa as being undervalued. While we have been cautious regarding dividend growth in the South African market over the last five years, we now have more conviction that earnings and dividends should show a return to growth. This growth in dividends is based mainly on a return to more normal profit margins amongst the mining companies and related industries. We still consider some offshore equity markets to be relatively undervalued and attractive, and therefore maintain the fund's offshore exposure. We have in addition allocated some capital to the rest of Africa where we think dividends could show excellent growth over the next five years, particularly in Nigeria and Egypt.

The focus of the fund continues to be on finding companies that are undervalued and which are paying good dividend yields with the potential to pay growing dividends over the long run. We are confident that we have built a portfolio of attractively priced stocks that in aggregate is cheaper than owning the index, yet still capable of delivering attractive underlying growth independent of the economic cycle in which we find ourselves. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	B CLASS
1 year	6.5%	1.1%	7.0%	6.9%
3 years	7.2%	3.9%	7.6%	7.6%
5 years	8.2%	5.4%	n/a	8.6%
7 years	12.9%	9.9%	n/a	13.4%
10 years	13.0%	9.8%	n/a	13.4%
Since inception	16.9%	13.5%	5.5%	11.5%

Inception date B Class: 2 January 2007, T Class: 2 January 2015

RISK/RETURN PROFILE:



FUND MANAGERS:

Ross Biggs, Craig Butters and Rehana Khan

ASISA CATEGORY:

South African - Equity - General

BENCHMARK:

ASISA South African – Equity - General Category Mean

INCEPTION DATE:

2 August 1999

FUND SIZE:

R4 778 044 219

AWARDS:

Raging Bull: 2006, 2008
Morningstar/Standard & Poor's: 2007, 2009

DISCLAIMER

Prudential Portfolio Managers Unit Trusts Ltd (Registration number: 1999/0524/06) is an approved CISCA management company (#29). Assets are managed by Prudential Investment Managers (South Africa) (Pty) Ltd, which is an approved discretionary Financial Services Provider (#45199). The Trustee's/Custodian details are: Standard Bank of South Africa Limited - Trustee Services & Investor Services. 20th Floor, Main Tower, Standard Bank Centre, Heerengracht, Cape Town. Collective Investment Schemes (unit trusts) are generally medium-to long-term investments. Past performance is not necessarily a guide to future investment performance. Unit trust prices are calculated on a net asset value basis. This means the price is the total net market value of all assets of the unit trust fund divided by the total number of units of the fund. Any market movements – for example in share prices, bond prices, money market prices or currency fluctuations - relevant to the underlying assets of the fund may cause the value of the underlying assets to go up or down. As a result, the price of your units may go up or down. Unit trusts are traded at the ruling forward price of the day, meaning that transactions are processed during the day before you or the Manager know what the price at the end of the day will be. The price and therefore the number of units involved in the transaction are only known on the following day. The unit trust fund may borrow up to 10% of the fund value, and it may also lend any scrip (proof of ownership of an investment instrument) that it holds to earn additional income. A Prudential unit trust fund may consist of different fund classes that are subject to different fees and charges. Where applicable, the Manager will pay your financial adviser an agreed standard ongoing adviser fee, which is included in the overall costs of the fund. A Collective Investment Schemes (CIS) summary with all fees and maximum initial and ongoing adviser fees is available on our website. One can also obtain additional information on Prudential products on the Prudential website. The Fund charges a performance fee which is based on 20% of the Fund's outperformance of its benchmark, measured over a rolling 36-month basis. The performance fee will be capped at 1.25% for any rolling 12-month period. The Manager may, at its discretion, close your chosen unit trust fund to new investors and to additional investments by existing investors to make sure that it is managed in accordance with its mandate. It may also stop your existing debit order investment. The Manager makes no guarantees as to the capital invested in the fund or the returns of the fund. Excessive withdrawals from the fund may place the fund under liquidity pressure and, in certain circumstances; a process of ring fencing withdrawal instructions may be followed. The Fund may hold foreign securities including foreign CIS funds. As a result, the fund may face material risks. The volatility of the fund may be higher and the liquidity of the underlying securities may be restricted due to relative market sizes and market conditions. The fund's ability to settle securities and to repatriate investment income, capital or the proceeds of sales of securities may be adversely affected for multiple reasons including market conditions, macro-economic and political circumstances. Further, the return on the security may be affected (positively or negatively) by the difference in tax regimes between the domestic and foreign tax jurisdictions. The availability of market information and information on any underlying sub-funds may be delayed. Fund prices are published daily on the Prudential website. These are also available upon request. The performance is calculated for the portfolio. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. Purchase and repurchase requests must be received by the Manager by 13h30 SA time each business day. All online purchase and repurchase transactions must be received by the Manager by 10h30 (for all Funds) SA time each business day.

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL EQUITY FUND
30 SEPTEMBER 2018

QUARTERLY COMMENTARY

EQUITY

MARKET OVERVIEW

During the third quarter of 2018, continued geopolitical uncertainty weighed on global financial markets, with an escalation in the US led trade war with China, no tangible progress with Brexit negotiations and ratification of sanctions against Iran. Against this backdrop, the US market remained resilient, with US companies delivering strong growth in earnings, benefitting from Trump's tax reforms and an economy operating close to full employment. The tight US labour market and prospect of a modest increase in US inflation, has prompted the Fed to continue raising short rates, resulting in higher bond yields and continued dollar strength.

In South Africa, the market exuberance witnessed during the first quarter of 2018, post Cyril Ramaphosa's election as the country's new president, abated with disappointing economic data serving as reminder of the challenges facing the country. Trading updates from domestic food producers and retailers, such as Tiger Brands and Shoprite, highlighted the tough consumer environment in which South African businesses are currently operating, with weak demand impacting sales volumes. The impact of higher oil (leading to petrol price increases), together with increased soft commodity prices and a weaker rand, will put further strain on both companies and consumers in coming months.

For the quarter, the FTSE/JSE All Share Index returned -2.2%, led lower by Industrial counters with a -7.8% return (impacted by a decline in Naspers). Financials defied the lower-growth, weaker rand environment with a return of 2.8% and Resources were again the star performers, delivering 5.2%. Listed property produced -1.0% as the inflation and growth outlooks further deteriorated. For 2018 so far, the ALSI remains in negative territory with a -3.8% return.

PERFORMANCE

The fund delivered a return of -0.8% (net of fees) for the third quarter of 2018, while the benchmark, the ASISA South African Equity General Category Mean, returned -0.7% over the same period. For the year ended September 2018, the Prudential Equity Fund delivered a total return of 5.9% (net of fees), outperforming the benchmark by a pleasing 4.8%.

Contributing towards performance over the quarter was the fund's 15% allocation to the Prudential Global Equity Fund, which benefitted from its underlying exposure to both the US market and the weaker rand over the period. In addition, the fund's underweight position in MTN Group contributed positively to performance, following the market's reaction to news that the Nigerian Central Bank Governor had issued a letter, demanding MTN Nigeria return US$8.1b of dividends, which the Governor claimed had been repatriated over a number of years without the necessary authorisation. In a further blow to MTN, the following week, on 4th September 2018, MTN Nigeria received an additional claim for US$2b of unpaid import duties and VAT from the Nigerian Attorney General. Despite MTN management issuing a statement denying any wrongdoing and have documentary evidence to defend both claims, MTN's share price fell from R109 to R70 in the days following the news breaking, with the share recovering off its lows to end the quarter down 17% at R87. We took advantage of the price collapse and chose to reverse the fund's underweight position in MTN. It was our assessment that the market was attaching no value to MTN Nigeria (26% of Group profit) and had de-rated the rest of the Group's assets, such that we were being offered a fair price to own MTN excluding Nigeria, with an option that the dispute could be resolved favourably.

The primary detractor from the fund's performance over the quarter came from our holding in Aspen Pharmacare, with the share price declining 34% over the period. Our investment in Aspen was premised on 2018 being a year of improved profit performance as the Group annualised prior year acquisitions of anaesthetic portfolios from Astra Zeneca and GSK, with an expectation that a focus on working capital management and improved cash flow would lead to a reduction in debt. Unfortunately, our expectations and those of the market were not met, with Aspen reporting disappointing revenue growth (with declines in key categories) and an investment of R1.6b in working capital, which led to net debt being almost R5b higher than the market had forecast.

Other positive contributors to performance came from the fund's holdings in Novus, Old Mutual and Exxaro, while direct holdings in US listed Textainer and Brightsphere (formerly Old Mutual US Asset Managers) detracted.

STRATEGY AND POSITIONING

We currently view the South African market as being undervalued, with the market having de-rated as earnings from the resource companies recovered and the index price has fallen. We acknowledge that the outlook remains challenging, with downside risk to earnings persisting for those companies whose fortunes are tied to the South African economy. Despite these challenges we continue to identify stocks, which in our view offer attractive prospective returns, where market pessimism is already discounted in the current price (MTN and British American Tobacco), or alternatively, offer growth in earnings as a result of favourable commodity prices (Anglo American, Sasol and Exxaro) or we expect an unlock of value as a result of fresh management initiatives (Naspers and Altron).

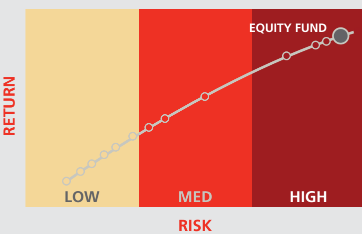
For global equities, gains in the US pushed valuations to higher levels there as we maintained our underweight in that market. Other developed markets like Germany and Japan remained broadly attractive, however, and valuation disparities between developed and emerging markets (EMs) widened further in Q3. Broad EM selling made many even more attractive compared to markets like the US. We continue to prefer the global banking sector, which has underperformed the broader market, as well as certain developed markets where equities are undervalued but fundamentals for earnings growth remain positive, including Germany and Japan, and selected EMs such as South Korea, Indonesia and China.

It is our objective to build a diversified portfolio, with exposure across the various sectors of the market, which in aggregate is cheaper than that of our peers' funds, while still having a preference for owning better-than-average quality companies. While the future will always be uncertain, we try to identify companies that can deliver growth in underlying earnings that will support sustained capital appreciation. However, we accept that not all our stock picks will prove to be successful but prudent scaling of positions will limit the impact on the fund when we get it wrong. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	5.9%	1.1%	6.3%
3 years	7.4%	3.9%	7.9%
5 years	8.2%	5.4%	8.6%
7 years	13.4%	9.9%	13.9%
10 years	13.2%	9.8%	13.7%
Since inception	16.9%	13.5%	11.9%

[#] Inception date B Class: 2 January 2007

RISK/RETURN PROFILE:



FUND MANAGERS:
Chris Wood, Johny Lambridis and Simon Kendall

ASISA CATEGORY:
South African - Equity - General

BENCHMARK:
ASISA South African - Equity - General Category Mean

INCEPTION DATE:
2 August 1999

FUND SIZE:
R2 984 156 852

AWARDS:
Raging Bull: 2006, 2007, 2008
Morningstar/Standard & Poor's: 2007, 2008

DISCLAIMER

Prudential Portfolio Managers Unit Trusts Ltd (Registration number: 1999/0524/06) is an approved CISCA management company (#29). Assets are managed by Prudential Investment Managers (South Africa) (Pty) Ltd, which is an approved discretionary Financial Services Provider (#45199). The Trustee's/Custodian details are: Standard Bank of South Africa Limited - Trustee Services & Investor Services. 20th Floor, Main Tower, Standard Bank Centre, Heerengracht, Cape Town. Collective Investment Schemes (unit trusts) are generally medium-to long-term investments. Collective Investment Schemes (unit trusts) are generally medium-to long-term investments. Past performance is not necessarily a guide to future investment performance. Unit trust prices are calculated on a net asset value basis. This means the price is the total net market value of all assets of the unit trust fund divided by the total number of units of the fund. Any market movements – for example in share prices, bond prices, money market prices or currency fluctuations - relevant to the underlying assets of the fund may cause the value of the underlying assets to go up or down. As a result, the price of your units may go up or down. Unit trusts are traded at the ruling forward price of the day, meaning that transactions are processed during the day before you or the Manager know what the price at the end of the day will be. The price and therefore the number of units involved in the transaction are only known on the following day. The unit trust fund may borrow up to 10% of the fund value, and it may also lend any scrip (proof of ownership of an investment instrument) that it holds to earn additional income. A Prudential unit trust fund may consist of different fund classes that are subject to different fees and charges. Where applicable, the Manager will pay your financial adviser an agreed standard ongoing adviser fee, which is included in the overall costs of the fund. A Collective Investment Schemes (CIS) summary with all fees and maximum initial and ongoing adviser fees is available on our website. One can also obtain additional information on Prudential products on the Prudential website. The Fund charges a performance fee which is based on 20% of the Fund's outperformance of its benchmark, measured over a rolling 36-month basis. The performance fee will be capped at 1.25% for any rolling 12-month period. The Manager may, at its discretion, close your chosen unit trust fund to new investors and to additional investments by existing investors to make sure that it is managed in accordance with its mandate. It may also stop your existing debit order investment. The Manager makes no guarantees as to the capital invested in the fund or the returns of the fund. Excessive withdrawals from the fund may place the fund under liquidity pressure and, in certain circumstances; a process of ring fencing withdrawal instructions may be followed. The Fund may hold foreign securities including foreign CIS funds. As a result, the fund may face material risks. The volatility of the fund may be higher and the liquidity of the underlying securities may be restricted due to relative market sizes and market conditions. The fund's ability to settle securities and to repatriate investment income, capital or the proceeds of sales of securities may be adversely affected for multiple reasons including market conditions, macro-economic and political circumstances. Further, the return on the security may be affected (positively or negatively) by the difference in tax regimes between the domestic and foreign tax jurisdictions. The availability of market information and information on any underlying sub-funds may be delayed. Fund prices are published daily on the Prudential website. These are also available upon request. The performance is calculated for the portfolio. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. Purchase and repurchase requests must be received by the Manager by 13h30 SA time each business day. All online purchase and repurchase transactions must be received by the Manager by 10h30 (for all Funds) SA time each business day.

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL CAUTIOUS MANAGED FUND OF FUNDS

NOW KNOWN AS PRUDENTIAL GLOBAL INFLATION PLUS FEEDER FUND

30 SEPTEMBER 2018

MARKET OVERVIEW

The third quarter of 2018 saw a sharp escalation in the trade war between the US and China, in addition to still-strong US growth, rising US interest rates, a strengthening US dollar and financial crises in Turkey and Argentina. The result: stronger equity markets in developed economies but heightened investor risk aversion that impacted particularly negatively on emerging markets. Developed equity markets ended the quarter returning 5.1% in US dollars, while emerging equity markets delivered -1.1%. In South Africa, negative local economic news weighed on financial markets, as did poor global sentiment, with local bonds losing ground but the weaker rand underpinning rand hedges and Resource shares on the JSE.

Global bonds lost 0.9% (in US$) during the quarter, largely on the back of rising US interest rates. More bond issuance also weighed on the US Treasury bond market as the Trump tax cuts expanded the budget deficit. The yield on the benchmark 10-year US Treasury bond ended the quarter at 3.05% from 2.9% at the end of Q2. As widely expected, the US Federal Reserve hiked interest rates by 25bps at its September FOMC meeting, while also upping its 2018 growth outlook to 3.1%. The Fed also removed its policy description as "accommodative", signalling that it considers its benchmark target range, now at 2.0-2.25%, to be close to a "neutral" level, meaning it is no longer supportive of economic expansion, but neither is it a constraint. The Fed still foresees another 25bp hike this year (consensus in December) and three more 25bp hikes through 2019, as well as one in 2020. Fed Chairman Jerome Powell's post-FOMC comments that he didn't expect a near-term recession further boosted the US dollar and US stocks late in the quarter.

The US economy picked up steam, recording 2.9% GDP growth in Q2 (q/q annualised) stoked by Trump's tax cuts as consumer and business spending rose. Inflation remained under check as August CPI came in at 2.7% y/y from 2.9% in July, slower than forecast as rising energy costs were offset by declines in healthcare and apparel costs. The Fed's key core Personal Consumption Expenditure (PCE) measure for August was reported at 2.0%, hitting the target for the third time in 2018. Equity markets reflected the bullish sentiment as the S&P 500 returned 7.7%, the Nasdaq 8.6% and Dow Jones Industrial 30 Index 9.6% (all in US$), although September returns were much more muted due largely to rising trade tensions.

In contrast with the US, Eurozone growth slowed to 2.2% (q/q annualised) in Q2 from 2.5% previously, impacted by higher fuel prices and slower consumer spending, while August CPI decelerated to 2.0% y/y from 2.1% in July, softer than expected. The European Central Bank (ECB) kept its benchmark interest rate unchanged at 0% at its 13 September meeting, as had been expected, and officials said rates should remain at record lows for at least the next nine months. However, it also began scaling back its bond-buying programme. The Dow Jones Eurostoxx 50 returned -0.2% (in US$) for the quarter. Meanwhile, UK growth picked up slightly to 1.3% (q/q annualised) from 1.2% in the previous quarter, and the Bank of England surprised by hiking its interest rate by 25bps in August - the first time since the Financial Crisis. This was on the back of a strong labour market and credit growth, and despite worsening uncertainty over the outcome of Brexit as the government faces heightened internal party conflict and a renewed stalemate with the EU. The UK's FTSE 100 Index returned -1.8% (in US$) for the quarter.

After contracting by a revised 0.9% (q/q annualised) in Q1 2018, the Japanese economy rebounded to 1.9% growth in Q2, beating expectations of 1.4%. Apart from some once-off factors dampening Q1 growth, the rebound was attributed to a pickup in consumer spending amid a tight labour market and rising real incomes. However, the expansion is forecast to lose steam gradually as Japan's export-led economy is impacted by worsening global trade conditions, despite the central bank's supportive policies. The Nikkei 225 Index returned 6.3% (in US$) in Q3, reaching 27-year highs. In China, Q2 GDP growth came in at 6.7% (q/q annualised), as expected, slightly down on the 6.8% reported for Q1 due to slower industrial output and business fixed investment. Business confidence is being hit by growing concerns over the widening impact of US tariffs on Chinese exports, the full extent of which is set to be felt later in the year and is likely to exacerbate the slowdown. Chinese stocks were weaker as a consequence.

Emerging markets (EMs) in general experienced capital outflows during the quarter, with bonds hit particularly hard. Financial crises in Turkey and Argentina in late August and early September worsened already-poor investor sentiment, with the contagion effect spreading across most EMs. For the quarter the MSCI Turkey lost 20.5% (in US$), despite returning 20.6% in September, and the central bank was forced to hike interest rates by nearly 7.0% to 24% to protect a plunging lira. The MSCI China returned -7.4% and the MSCI South Africa delivered -7.2%, while MSCI Russia returned 6.6% and Brazil's Bovespa 5.0% (all in US$).

The rand ended the quarter at around R14.14 per US$, some 3.2% weaker over the three months. It deteriorated 2.7% against the euro and ended 1.9% weaker versus the pound sterling over the quarter.

PERFORMANCE

The fund returned 4.4% (net of fees) in rand terms for the quarter, versus 3.4% from its benchmark, the ASISA Global - Multi-Asset - Low Equity Category Mean. In US dollar terms the fund returned 1.2% (net of fees) over the same period. For the 12 months ending 30 September 2018, in rand terms the fund returned 4.9% (net of fees), marginally underperforming its benchmark by 0.4%.

The fund's tactical asset class exposure added to performance as equities outperformed fixed income during the quarter. Performance was further boosted by the fund's underweight in treasuries as well as exposure to hard currency emerging market bonds, a local currency Mexican bond and investment grade US corporate exposure. This contribution was in part offset by stock selection within equities.

STRATEGY AND POSITIONING

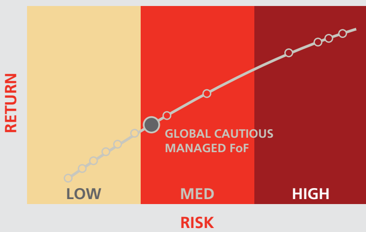
In our global portfolios we remain underweight global bonds and global cash, and overweight global equities, with the latter offering attractive valuations in many markets, particularly when viewed relative to bonds, and much higher potential returns over the medium term.

In global fixed income, as in previous quarters, despite rising government bond yields, they continue to trade at very low yields (and high valuations) historically, and remain at risk to rising interest rates globally. We remain underweight global sovereign bonds and underweight duration to reduce interest rate risk, preferring to hold investment-grade US and European corporate bonds.

For global equities, gains in the US pushed valuations to higher levels there as we maintained our underweight in that market. Other developed markets like Germany and Japan remained broadly attractive, however, and valuation disparities between developed and EMs widened further in Q3. Broad EM selling made many even more attractive compared to markets like the US. We continue to prefer the global banking sector, which has underperformed the broader market, as well as certain developed markets where equities are undervalued but fundamentals for earnings growth remain positive, including Germany and Japan, and selected EMs such as South Korea, Indonesia and China. These overweight positions are financed primarily by an underweight in global bonds, as well as US equities to a lesser extent. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	4.9%	5.3%	5.2%
3 years	5.3%	4.6%	5.6%
5 years	8.6%	8.4%	8.9%
7 years	10.5%	9.7%	n/a
10 years	6.6%	6.2%	n/a
Since inception	7.7%	7.2%	9.4%

RISK/RETURN PROFILE:



FUND MANAGERS:

Michael Moyle and David Knee

ASISA CATEGORY:

Global - Multi-Asset - Low Equity

BENCHMARK:

ASISA Global - Multi-Asset - Low Equity Category Mean

INCEPTION DATE:

1 March 2004

FUND SIZE:

R108 227 726

DISCLAIMER

Prudential Portfolio Managers Unit Trusts Ltd (Registration number: 1999/0524/06) is an approved CISCA management company (#29). Assets are managed by Prudential Investment Managers (South Africa) (Pty) Ltd, which is an approved discretionary Financial Services Provider (#45199). The Trustee's/Custodian details are: Standard Bank of South Africa Limited - Trustee Services & Investor Services. 20th Floor, Main Tower, Standard Bank Centre, Heerengracht, Cape Town. Collective Investment Schemes (unit trusts) are generally medium-to long-term investments. Past performance is not necessarily a guide to future investment performance. Unit trust prices are calculated on a net asset value basis. This means the price is the total net market value of all assets of the unit trust fund divided by the total number of units of the fund. Any market movements – for example in share prices, bond prices, money market prices or currency fluctuations - relevant to the underlying assets of the fund may cause the value of the underlying assets to go up or down. As a result, the price of your units may go up or down. Unit trusts are traded at the ruling forward price of the day, meaning that transactions are processed during the day before you or the Manager know what the price at the end of the day will be. The price and therefore the number of units involved in the transaction are only known on the following day. The unit trust fund may borrow up to 10% of the fund value, and it may also lend any scrip (proof of ownership of an investment instrument) that it holds to earn additional income. A Prudential unit trust fund may consist of different fund classes that are subject to different fees and charges. Where applicable, the Manager will pay your financial adviser an agreed standard ongoing adviser fee, which is included in the overall costs of the fund. A Collective Investment Schemes (CIS) summary with all fees and maximum initial and ongoing adviser fees is available on our website. One can also obtain additional information on Prudential products on the Prudential website. The Manager may, at its discretion, close your chosen unit trust fund to new investors and to additional investments by existing investors to make sure that it is managed in accordance with its mandate. It may also stop your existing debit order investment. The Manager makes no guarantees as to the capital invested in the fund or the returns of the fund. Excessive withdrawals from the fund may place the fund under liquidity pressure and, in certain circumstances; a process of ring fencing withdrawal instructions may be followed. The Fund may hold foreign securities including foreign CIS funds. As a result, the fund may face material risks. The volatility of the fund may be higher and the liquidity of the underlying securities may be restricted due to relative market sizes and market conditions. The fund's ability to settle securities and to repatriate investment income, capital or the proceeds of sales of securities may be adversely affected for multiple reasons including market conditions, macro-economic and political circumstances. Further, the return on the security may be affected (positively or negatively) by the difference in tax regimes between the domestic and foreign tax jurisdictions. The availability of market information and information on any underlying sub-funds may be delayed. The fund is a fund of funds which may only invest in other unit trusts (sub-funds) and assets in liquid form. Sub-funds may levy their own charges that could result in a higher fee structure for these funds. Fund prices are published daily on the Prudential website. These are also available upon request. The performance is calculated for the portfolio. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. Purchase and repurchase requests must be received by the Manager by 13h30 SA time each business day. All online purchase and repurchase transactions must be received by the Manager by 10h30 (for all Funds) SA time each business day.

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL HIGH YIELD BOND FUND OF FUNDS

NOW KNOWN AS PRUDENTIAL GLOBAL BOND FEEDER FUND

30 SEPTEMBER 2018

QUARTERLY COMMENTARY

GLOBAL INCOME

MARKET OVERVIEW

The third quarter of 2018 saw a sharp escalation in the trade war between the US and China, in addition to still-strong US growth, rising US interest rates, a strengthening US dollar and financial crises in Turkey and Argentina. The result: stronger equity markets in developed economies but heightened investor risk aversion that impacted particularly negatively on emerging markets. Developed equity markets ended the quarter returning 5.1% in US dollars, while emerging equity markets delivered -1.1%. In South Africa, negative local economic news weighed on financial markets, as did poor global sentiment, with local bonds losing ground but the weaker rand underpinned rand hedges and Resource shares on the JSE.

Global bonds lost 0.9% (in US$) during the quarter, largely on the back of rising US interest rates. More bond issuance also weighed on the US Treasury bond market as the Trump tax cuts expanded the budget deficit. The yield on the benchmark 10-year US Treasury bond ended the quarter at 3.05% from 2.9% at the end of Q2. As widely expected, the US Federal Reserve hiked interest rates by 25bps at its September FOMC meeting, while also upping its 2018 growth outlook to 3.1%. The Fed also removed its policy description as "accommodative", signalling that it considers its benchmark target range, now at 2.0-2.25%, to be close to a "neutral" level, meaning it is no longer supportive of economic expansion, but neither is it a constraint. The Fed still foresees another 25bp hike this year (consensus in December) and three more 25bp hikes through 2019, as well as one in 2020. Fed Chairman Jerome Powell's post-FOMC comments that he didn't expect a near-term recession further boosted the US dollar and US stocks late in the quarter.

The US economy picked up steam, recording 2.9% GDP growth in Q2 (q/q annualised) stoked by Trump's tax cuts as consumer and business spending rose. Inflation remained under check as August CPI came in at 2.7% y/y from 2.9% in July, slower than forecast as rising energy costs were offset by declines in healthcare and apparel costs. The Fed's key core Personal Consumption Expenditure (PCE) measure for August was reported at 2.0%, hitting the target for the third time in 2018. Equity markets reflected the bullish sentiment as the S&P 500 returned 7.7%, the Nasdaq 8.6% and Dow Jones Industrial 30 Index 9.6% (all in US$), although September returns were much more muted due largely to rising trade tensions.

In contrast with the US, Eurozone growth slowed to 2.2% (q/q annualised) in Q2 from 2.5% previously, impacted by higher fuel prices and slower consumer spending, while August CPI decelerated to 2.0% y/y from 2.1% in July, softer than expected. The European Central Bank (ECB) kept its benchmark interest rate unchanged at 0% at its 13 September meeting, as had been expected, and officials said rates should remain at record lows for at least the next nine months. However, it also began scaling back its bond-buying programme. The Dow Jones Eurostoxx 50 returned -0.2% (in US$) for the quarter. Meanwhile, UK growth picked up slightly to 1.3% (q/q annualised) from 1.2% in the previous quarter, and the Bank of England surprised by hiking its interest rate by 25bps in August - the first time since the Financial Crisis. This was on the back of a strong labour market and credit growth, and despite worsening uncertainty over the outcome of Brexit as the government faces heightened internal party conflict and a renewed stalemate with the EU. The UK's FTSE 100 Index returned -1.8% (in US$) for the quarter.

After contracting by a revised 0.9% (q/q annualised) in Q1 2018, the Japanese economy rebounded to 1.9% growth in Q2, beating expectations of 1.4%. Apart from some once-off factors dampening Q1 growth, the rebound was attributed to a pickup in consumer spending amid a tight labour market and rising real incomes. However, the expansion is forecast to lose steam gradually as Japan's export-led economy is impacted by worsening global trade conditions, despite the central bank's supportive policies. The Nikkei 225 Index returned 6.3% (in US$) in Q3, reaching 27-year highs. In China, Q2 GDP growth came in at 6.7% (q/q annualised), as expected, slightly down on the 6.8% reported for Q1 due to slower industrial output and business fixed investment. Business confidence is being hit by growing concerns over the widening impact of US tariffs on Chinese exports, the full extent of which is set to be felt later in the year and is likely to exacerbate the slowdown. Chinese stocks were weaker as a consequence.

Emerging markets (EMs) in general experienced capital outflows during the quarter, with bonds hit particularly hard. Financial crises in Turkey and Argentina in late August and early September worsened already-poor investor sentiment, with the contagion effect spreading across most EMs. For the quarter the MSCI Turkey lost 20.5% (in US$), despite returning 20.6% in September, and the central bank was forced to hike interest rates by nearly 7.0% to 24% to protect a plunging lira. The MSCI China returned -7.4% and the MSCI South Africa delivered -7.2%, while MSCI Russia returned 6.6% and Brazil's Bovespa 5.0% (all in US$).

The rand ended the quarter at around R14.14 per US$, some 3.2% weaker over the three months. It deteriorated 2.7% against the euro and ended 1.9% weaker versus the pound sterling over the quarter.

PERFORMANCE

The fund returned 2.7% (net of fees) in rand terms for the quarter, while its benchmark, the Bloomberg Barclays Global Aggregate Bond Index, delivered 2.2%. In US dollar terms the fund delivered -0.5% (net of fees) over the same period. For the 12 months ending 30 September 2018, in rand terms the fund returned 0.6% (net of fees), underperforming its benchmark by 2.8%.

The fund benefited from being underweight global treasuries during the quarter. Exposure to hard currency bonds in emerging markets, a local currency Mexican government bond, as well as investment grade US corporate exposure further added to performance.

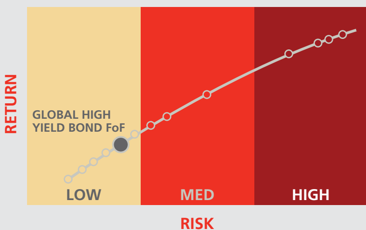
STRATEGY AND POSITIONING

In global fixed income, as in previous quarters, despite rising government bond yields, they continue to trade at very low yields (and high valuations) historically, and remain at risk to rising interest rates globally. We remain underweight global sovereign bonds and underweight duration to reduce interest rate risk, preferring to hold investment-grade US and European corporate bonds. ■

ANNUALISED PERFORMANCE

	A CLASS	BENCHMARK
1 year	0.6%	3.3%
3 years	2.2%	2.8%
5 years	7.0%	7.8%
7 years	10.0%	9.2%
10 years	8.9%	8.6%
Since inception	8.4%	8.6%

RISK/RETURN PROFILE:



FUND MANAGERS:

David Knee and Michael Moyle

ASISA CATEGORY:

Global - Interest Bearing - Variable Term

BENCHMARK:

Bloomberg Barclays Global Aggregate Bond Index

INCEPTION DATE:

1 November 2000

FUND SIZE:

R436 062 076

AWARDS:

Raging Bull: 2006, 2008, 2013

Morningstar/Standard & Poor's: 2007, 2009, 2013

DISCLAIMER

Prudential Portfolio Managers Unit Trusts Ltd (Registration number: 1999/0524/06) is an approved CISCA management company (#29). Assets are managed by Prudential Investment Managers (South Africa) (Pty) Ltd, which is an approved discretionary Financial Services Provider (#45199). The Trustee's/Custodian details are: Standard Bank of South Africa Limited - Trustee Services & Investor Services. 20th Floor, Main Tower, Standard Bank Centre, Heerengracht, Cape Town. Collective Investment Schemes (unit trusts) are generally medium-to long-term investments. Past performance is not necessarily a guide to future investment performance. Unit trust prices are calculated on a net asset value basis. This means the price is the total net market value of all assets of the unit trust fund divided by the total number of units of the fund. Any market movements – for example in share prices, bond prices, money market prices or currency fluctuations - relevant to the underlying assets of the fund may cause the value of the underlying assets to go up or down. As a result, the price of your units may go up or down. Unit trusts are traded at the ruling forward price of the day, meaning that transactions are processed during the day before you or the Manager know what the price at the end of the day will be. The price and therefore the number of units involved in the transaction are only known on the following day. The unit trust fund may borrow up to 10% of the fund value, and it may also lend any scrip (proof of ownership of an investment instrument) that it holds to earn additional income. A Prudential unit trust fund may consist of different fund classes that are subject to different fees and charges. Where applicable, the Manager will pay your financial adviser an agreed standard ongoing adviser fee, which is included in the overall costs of the fund. A Collective Investment Schemes (CIS) summary with all fees and maximum initial and ongoing adviser fees is available on our website. One can also obtain additional information on Prudential products on the Prudential website. The Manager may, at its discretion, close your chosen unit trust fund to new investors and to additional investments by existing investors to make sure that it is managed in accordance with its mandate. It may also stop your existing debit order investment. The Manager makes no guarantees as to the capital invested in the fund or the returns of the fund. Excessive withdrawals from the fund may place the fund under liquidity pressure and, in certain circumstances; a process of ring fencing withdrawal instructions may be followed. The Fund is an interest bearing fund. A current annualised yield is used. This means the portion of the return of the Fund that is attributed to income generated over the last 12 months, assuming the investor reinvests all distributions and incurs no transaction fees or taxes. Fund prices are published daily on the Prudential website. These are also available upon request. The performance is calculated for the portfolio. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. Purchase and repurchase requests must be received by the Manager by 13h30 SA time each business day. All online purchase and repurchase transactions must be received by the Manager by 10h30 (for all Funds) SA time each business day.

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL VALUE FUND OF FUNDS

NOW KNOWN AS PRUDENTIAL GLOBAL EQUITY FEEDER FUND

30 SEPTEMBER 2018

QUARTERLY COMMENTARY

GLOBAL EQUITY

MARKET OVERVIEW

The third quarter of 2018 saw a sharp escalation in the trade war between the US and China, in addition to still-strong US growth, rising US interest rates, a strengthening US dollar and financial crises in Turkey and Argentina. The result: stronger equity markets in developed economies but heightened investor risk aversion that impacted particularly negatively on emerging markets. Developed equity markets ended the quarter returning 5.1% in US dollars, while emerging equity markets delivered -1.1%. In South Africa, negative local economic news weighed on financial markets, as did poor global sentiment, with local bonds losing ground but the weaker rand underpinned rand hedges and Resource shares on the JSE.

Global bonds lost 0.9% (in US$) during the quarter, largely on the back of rising US interest rates. More bond issuance also weighed on the US Treasury bond market as the Trump tax cuts expanded the budget deficit. The yield on the benchmark 10-year US Treasury bond ended the quarter at 3.05% from 2.9% at the end of Q2. As widely expected, the US Federal Reserve hiked interest rates by 25bps at its September FOMC meeting, while also upping its 2018 growth outlook to 3.1%. The Fed also removed its policy description as "accommodative", signalling that it considers its benchmark target range, now at 2.0-2.25%, to be close to a "neutral" level, meaning it is no longer supportive of economic expansion, but neither is it a constraint. The Fed still foresees another 25bp hike this year (consensus in December) and three more 25bp hikes through 2019, as well as one in 2020. Fed Chairman Jerome Powell's post-FOMC comments that he didn't expect a near-term recession further boosted the US dollar and US stocks late in the quarter.

The US economy picked up steam, recording 2.9% GDP growth in Q2 (q/q annualised) stoked by Trump's tax cuts as consumer and business spending rose. Inflation remained under check as August CPI came in at 2.7% y/y from 2.9% in July, slower than forecast as rising energy costs were offset by declines in healthcare and apparel costs. The Fed's key core Personal Consumption Expenditure (PCE) measure for August was reported at 2.0%, hitting the target for the third time in 2018. Equity markets reflected the bullish sentiment as the S&P 500 returned 7.7%, the Nasdaq 8.6% and Dow Jones Industrial 30 Index 9.6% (all in US$), although September returns were much more muted due largely to rising trade tensions.

In contrast with the US, Eurozone growth slowed to 2.2% (q/q annualised) in Q2 from 2.5% previously, impacted by higher fuel prices and slower consumer spending, while August CPI decelerated to 2.0% y/y from 2.1% in July, softer than expected. The European Central Bank (ECB) kept its benchmark interest rate unchanged at 0% at its 13 September meeting, as had been expected, and officials said rates should remain at record lows for at least the next nine months. However, it also began scaling back its bond-buying programme. The Dow Jones Eurostoxx 50 returned -0.2% (in US$) for the quarter. Meanwhile, UK growth picked up slightly to 1.3% (q/q annualised) from 1.2% in the previous quarter, and the Bank of England surprised by hiking its interest rate by 25bps in August - the first time since the Financial Crisis. This was on the back of a strong labour market and credit growth, and despite worsening uncertainty over the outcome of Brexit as the government faces heightened internal party conflict and a renewed stalemate with the EU. The UK's FTSE 100 Index returned -1.8% (in US$) for the quarter.

After contracting by a revised 0.9% (q/q annualised) in Q1 2018, the Japanese economy rebounded to 1.9% growth in Q2, beating expectations of 1.4%. Apart from some once-off factors dampening Q1 growth, the rebound was attributed to a pickup in consumer spending amid a tight labour market and rising real incomes. However, the expansion is forecast to lose steam gradually as Japan's export-led economy is impacted by worsening global trade conditions, despite the central bank's supportive policies. The Nikkei 225 Index returned 6.3% (in US$) in Q3, reaching 27-year highs. In China, Q2 GDP growth came in at 6.7% (q/q annualised), as expected, slightly down on the 6.8% reported for Q1 due to slower industrial output and business fixed investment. Business confidence is being hit by growing concerns over the widening impact of US tariffs on Chinese exports, the full extent of which is set to be felt later in the year and is likely to exacerbate the slowdown. Chinese stocks were weaker as a consequence.

Emerging markets (EMs) in general experienced capital outflows during the quarter, with bonds hit particularly hard. Financial crises in Turkey and Argentina in late August and early September worsened already-poor investor sentiment, with the contagion effect spreading across most EMs. For the quarter the MSCI Turkey lost 20.5% (in US$), despite returning 20.6% in September, and the central bank was forced to hike interest rates by nearly 7.0% to 24% to protect a plunging lira. The MSCI China returned -7.4% and the MSCI South Africa delivered -7.2%, while MSCI Russia returned 6.6% and Brazil's Bovespa 5.0% (all in US$).

The rand ended the quarter at around R14.14 per US$, some 3.2% weaker over the three months. It deteriorated 2.7% against the euro and ended 1.9% weaker versus the pound sterling over the quarter.

PERFORMANCE

The fund returned 7.0% (net of fees) in rand terms for the three months ended 30 September 2018, compared to 7.6% from its benchmark, the MSCI All Country World Index. In US dollar terms the fund returned 3.2% (net of fees) over the same period. For the 12 months ending 30 September 2018, in rand terms the fund returned 11.4% (net of fees), underperforming its benchmark by 3.6%.

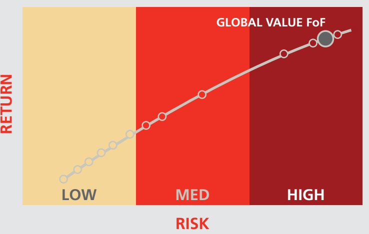
In the current risk-off environment where the US equity market and US dollar dominate market returns, the fund's preference for more attractively valued equity markets, mostly emerging markets, funded by an underweight to the US, detracted from performance. Stock selection in the US IT sector and an underweight in Apple, as well as stock selection in Healthcare and Industrials further detracted from performance.

STRATEGY AND POSITIONING

For global equities, gains in the US pushed valuations to higher levels there as we maintained our underweight in that market. Other developed markets like Germany and Japan remained broadly attractive, however, and valuation disparities between developed and EMs widened further in Q3. Broad EM selling made many even more attractive compared to markets like the US. We continue to prefer the global banking sector, which has underperformed the broader market, as well as certain developed markets where equities are undervalued but fundamentals for earnings growth remain positive, including Germany and Japan, and selected EMs such as South Korea, Indonesia and China. These overweight positions are financed primarily by an underweight in global bonds, as well as US equities to a lesser extent. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK
1 year	11.4%	15.0%
3 years	12.6%	14.3%
5 years	14.4%	16.3%
7 years	18.9%	21.0%
10 years	11.5%	14.1%
Since inception	7.3%	8.8%

RISK/RETURN PROFILE:



RISK

FUND MANAGERS:

David Knee and Michael Moyle

ASISA CATEGORY:

Global - Equity - General

BENCHMARK:

MSCI All Country World Index (Net)

INCEPTION DATE:

18 February 2000

FUND SIZE:

R314 009 630

DISCLAIMER

Prudential Portfolio Managers Unit Trusts Ltd (Registration number: 1999/0524/06) is an approved CISCA management company (#29). Assets are managed by Prudential Investment Managers (South Africa) (Pty) Ltd, which is an approved discretionary Financial Services Provider (#45199). The Trustee's/Custodian details are: Standard Bank of South Africa Limited - Trustee Services & Investor Services. 20th Floor, Main Tower, Standard Bank Centre, Heerengracht, Cape Town. Collective Investment Schemes (unit trusts) are generally medium-to long-term investments. Past performance is not necessarily a guide to future investment performance. Unit trust prices are calculated on a net asset value basis. This means the price is the total net market value of all assets of the unit trust fund divided by the total number of units of the fund. Any market movements – for example in share prices, bond prices, money market prices or currency fluctuations - relevant to the underlying assets of the fund may cause the value of the underlying assets to go up or down. As a result, the price of your units may go up or down. Unit trusts are traded at the ruling forward price of the day, meaning that transactions are processed during the day before you or the Manager know what the price at the end of the day will be. The price and therefore the number of units involved in the transaction are only known on the following day. The unit trust fund may borrow up to 10% of the fund value, and it may also lend any scrip (proof of ownership of an investment instrument) that it holds to earn additional income. A Prudential unit trust fund may consist of different fund classes that are subject to different fees and charges. Where applicable, the Manager will pay your financial adviser an agreed standard ongoing adviser fee, which is included in the overall costs of the fund. A Collective Investment Schemes (CIS) summary with all fees and maximum initial and ongoing adviser fees is available on our website. One can also obtain additional information on Prudential products on the Prudential website. The Manager may, at its discretion, close your chosen unit trust fund to new investors and to additional investments by existing investors to make sure that it is managed in accordance with its mandate. It may also stop your existing debit order investment. The Manager makes no guarantees as to the capital invested in the fund or the returns of the fund. Excessive withdrawals from the fund may place the fund under liquidity pressure and, in certain circumstances; a process of ring fencing withdrawal instructions may be followed. The Fund may hold foreign securities including foreign CIS funds. As a result, the fund may face material risks. The volatility of the fund may be higher and the liquidity of the underlying securities may be restricted due to relative market sizes and market conditions. The fund's ability to settle securities and to repatriate investment income, capital or the proceeds of sales of securities may be adversely affected for multiple reasons including market conditions, macro-economic and political circumstances. Further, the return on the security may be affected (positively or negatively) by the difference in tax regimes between the domestic and foreign tax jurisdictions. The availability of market information and information on any underlying sub-funds may be delayed. The fund is a fund of funds which may only invest in other unit trusts (sub-funds) and assets in liquid form. Sub-funds may levy their own charges that could result in a higher fee structure for these funds. Fund prices are published daily on the Prudential website. These are also available upon request. The performance is calculated for the portfolio. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. Purchase and repurchase requests must be received by the Manager by 13h30 SA time each business day. All online purchase and repurchase transactions must be received by the Manager by 10h30 (for all Funds) SA time each business day.

Sources: Prudential, Morningstar & Deutsche Securities