PRUDENTIAL UNIT TRUSTS QUARTERLY COMMENTARY
30 JUNE 2019

PRUDENTIAL
INVESTMENT MANAGERS

COMBINED QUARTERLY COMMENTARY

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PRUDENTIAL MONEY MARKET FUND
30 JUNE 2019

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME FUND

MARKET OVERVIEW

Developments were mixed over the quarter. First, Q1 GDP surprised by contracting 3.2% (q/q annualised), the largest downturn in a decade. As a consequence, many institutions – including the SA Reserve Bank, IMF and Moody's – downgraded the country's 2019 growth forecast to only 1.0%.

With CPI under control at 4.5% y/y in May, the SARB left interest rates on hold and lowered its interest rate outlook to include one 25bp rate cut by the first quarter of 2020. Still, it remains concerned about future inflationary pressures arising from the weaker rand, as well as higher costs from fuel and electricity, among other sources.

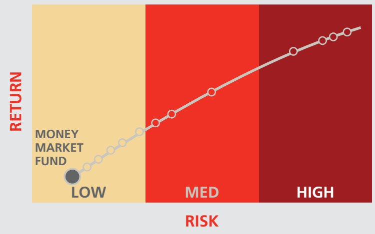
The ANC's comfortable 57.5% win in the national elections boosted investor confidence that Cyril Ramaphosa would be able to pursue a course including difficult structural reforms and curbing corruption. The new cabinet was well received as well, although investors were disappointed by the lack of detail in plans to reform Eskom and deal with its high debt levels in the President's State of the Nation Address. Detracting from the positive sentiment were contradictory ANC statements around the nationalisation of the SARB and attacks on the central bank's independence that undermined investor confidence.

Private sector credit extension (PSCE) decelerated to 7.7% y/y in May from 8.0% y/y posted in April. The deceleration was on the back of a decline in credit extended to corporates from 9.5% recorded in the previous month to 9.0%, while credit extended to households remained largely unchanged at 6.1% y/y.

PERFORMANCE

For the quarter, the fund generated a return of 1.8% (net of fees) outperforming its benchmark by 0.2%. For the 12 months ended 30 June 2019, 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 51 days relative to the 90-day maximum weighted average duration. ■

RISK/RETURN PROFILE:



FUND MANAGERS:
Sandile Malinga and Roshen Harry

ASISA CATEGORY:
South African - Interest Bearing - Money Market

BENCHMARK:
STeFI Call Deposit Index

INCEPTION DATE:
9 April 2002

FUND SIZE:
R1 309 549 558

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	X CLASS
1 year	7.4%	6.6%	7.6%
3 years	7.5%	6.8%	7.6%
5 years	7.0%	6.4%	7.1%
7 years	6.5%	6.0%	6.6%
10 years	6.4%	6.0%	n/a
Since inception	7.8%	7.6%	6.4%

Inception date X Class: 1 April 2011

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL HIGH INTEREST FUND
30 JUNE 2019

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME FUND

MARKET OVERVIEW

SA bonds managed to post decent gains in Q2 2019, helped by the more upbeat global sentiment and lower interest rate outlook, but dented somewhat by the stronger rand. Developments were mixed over the quarter. First, Q1 GDP surprised by contracting 3.2% (q/q annualised), the largest downturn in a decade. As a consequence, many institutions – including the SA Reserve Bank, IMF and Moody's – downgraded the country's 2019 growth forecast to only 1.0%.

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SA bonds also rallied on the easier interest rate outlook globally and in South Africa, as the BEASSA All Bond Index delivered 3.7% in Q2: the yield on the benchmark R186 bond (due 2026) fell from around 8.6% at the start of the quarter to end at 8.1%, a significant move. The SA yield curve steepened as the longer-dated R209 bond (due 2036) only fell slightly - to 9.4% from 9.5%. Over the three months, cash (as measured by the STeFI Composite) delivered 1.8%.

PERFORMANCE

For the quarter, the fund generated a return of 1.9% (net of fees), outperforming its benchmark by 0.1%.

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-day weighted average maturity.

Relative to the 180-day maximum, the quarter-end weighted average duration of the fund came in at 30 days.

STRATEGY AND POSITIONING

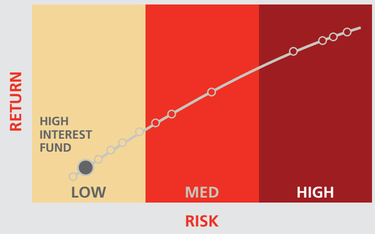
We generally sought to take advantage of the banks' requirements to secure longer-dated funding which better matched the profile of their loan books. This has led to a relatively steep credit curve, whereby banks are prepared to pay significantly more for funding beyond the 12-month point. We prefer 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, coupled with a tightening of credit spreads and some hesitance following the downgrade of the sovereign credit rating in 2017, so far 2019 has seen a number of banks and corporates coming to the market. Issuances were generally well supported and largely cleared around the mid-to 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%	7.8%	7.9%
3 years	8.0%	7.4%	8.1%	8.3%
5 years	7.4%	7.1%	7.6%	7.7%
7 years	6.9%	6.6%	7.0%	7.2%
Since inception	6.7%	6.4%	6.8%	7.0%

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

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:
R10 196 937 194

PLEASE NOTE:
This fund is capped to new investors

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL INCOME FUND
30 JUNE 2019

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME FUND

MARKET OVERVIEW

SA bonds managed to post decent gains in Q2 2019, helped by the more upbeat global sentiment and lower interest rate outlook, but dented somewhat by the stronger rand. Developments were mixed over the quarter. First, Q1 GDP surprised by contracting 3.2% (q/q annualised), the largest downturn in a decade. As a consequence, many institutions – including the SA Reserve Bank, IMF and Moody's – downgraded the country's 2019 growth forecast to only 1.0%.

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PERFORMANCE

For the quarter, the fund generated a return of 2.1% (net of fees), outperforming its benchmark by 0.3%.

The fund was launched in December 2016 with the aim of delivering returns in excess of money market yields by investing in longer-dated liquid paper without compromising the stability of capital. Although capital protection is not guaranteed as the fund is exposed to spread risk, we highlight the low sensitivity to interest-rate changes on the back of a low duration position.

The maximum term of instruments is not limited compared to money market funds at 13 months. The fund has a maximum weighted average duration of two years as opposed to a typical money market fund targeting a maximum 90-day weighted average maturity.

At quarter-end, the weighted average duration of the fund came in at 52 days.

STRATEGY AND POSITIONING

We generally sought to take advantage of the banks' requirements to secure longer-dated funding which better matched the profile of their loan books. This has led to a relatively steep credit curve, whereby banks 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, coupled with a tightening of credit spreads and some hesitance following the downgrade of the sovereign credit rating in 2017, so far 2019 has seen a number of banks and corporates coming to the market. Issuances were generally well supported and largely cleared around the mid-to lower-end of guidance.

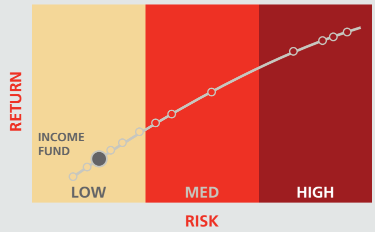
We continue to look for opportunities that will enhance the return to investors without compromising the stability of their capital. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	D CLASS
1 year	8.7%	7.3%	8.8%
2 years	8.8%	7.3%	8.9%
Since inception	8.5%	7.4%	8.7%

[1] Inception dates: D Class: 6 December 2016

1-YEAR INCOME RETURN	A CLASS	D CLASS
Fund yield (net of fees)	8.2%	8.3%

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:
6 December 2016

FUND SIZE:
R1 308 806 030

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL HIGH YIELD BOND FUND
30 JUNE 2019

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME FUND

MARKET OVERVIEW

SA bonds managed to post decent gains in Q2 2019, helped by the more upbeat global sentiment and lower interest rate outlook, but dented somewhat by the stronger rand. Developments were mixed over the quarter. First, Q1 GDP surprised by contracting 3.2% (q/q annualised), the largest downturn in a decade. As a consequence, many institutions – including the SA Reserve Bank, IMF and Moody's – downgraded the country's 2019 growth forecast to only 1.0%.

With CPI under control at 4.5% y/y in May, the SARB left interest rates on hold and lowered its interest rate outlook to include one 25bp rate cut by the first quarter of 2020. Still, it remains concerned about future inflationary pressures arising from the weaker rand, as well as higher costs from fuel and electricity, among other sources.

SA bonds rallied on the easier interest rate outlook globally and in South Africa, as the BEASSA All Bond Index delivered 3.7% in Q2: the yield on the benchmark R186 bond (due 2026) fell from around 8.6% at the start of the quarter to end at 8.1%, a significant move. The SA yield curve steepened as the longer-dated R209 bond (due 2036) only fell slightly - to 9.4% from 9.5%. Over the three months, cash (as measured by the STeFI Composite) delivered 1.8%.

The ANC's comfortable 57.5% win in the national elections boosted investor confidence that Cyril Ramaphosa would be able to pursue a course including difficult structural reforms and curbing corruption. The new cabinet was well received as well, although investors were disappointed by the lack of detail in plans to reform Eskom and deal with its high debt levels in the President's State of the Nation Address. Detracting from the positive sentiment were contradictory ANC statements around the nationalisation of the SARB and attacks on the central bank's independence that undermined investor confidence.

Primary bond market issuance volume (excluding government issuances) during the quarter increased 43% q/q, from R35.5bn (Q1 2019) to R51bn (Q2 2019), more than double the volume posted in Q2 2018 (R22bn). The issuance volume for the months of April and June drove the growth for the quarter. April, which is traditionally a muted month, produced exceptionally high issuance volume, driven by the election in early May. In anticipation of this political event, most issuers brought forward their issuances.

Consistent with previous quarters, issuance activity was dominated by the financial sector. Corporate sector issuance followed with Growthpoint, MTN, Telkom and Northam contributing the most to the volumes in this space. SOE issuances continued to gather pace, driven by the development funding institutions, as well as Eskom.

The demand for credit appears to have normalised, which is evidenced by lower oversubscription levels, and clearing spreads being more in line with guidance than previously. Once again, the market displays a preference for issuing floating rate notes, thus allowing for limited opportunities to participate in fixed-rate issuances over the quarter.

PERFORMANCE

For the quarter, the fund generated a return of 3.6% (net of fees), marginally underperforming its benchmark by 0.1%. For the 12 months ended 30 June 2019, the fund returned 10.7% (net of fees) while the benchmark returned 11.5% over the same period.

STRATEGY AND POSITIONING

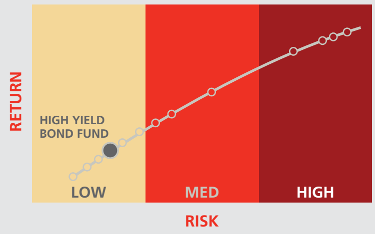
The fund maintained its long duration positon over the quarter as we continue to view current valuations as cheap compared to our assessment of their long-term fair value.

The fund's credit exposure continues to fall in the absence of new fixed-rate issuances to participate in. We continue to look for opportunities to add to the fund's credit holdings. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	10.7%	11.5%	10.9%
3 years	9.3%	9.9%	9.6%
5 years	7.7%	8.6%	8.1%
7 years	7.3%	7.8%	7.6%
10 years	8.7%	9.0%	9.0%
Since inception	10.2%	10.5%	9.3%

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:
R321 305 886

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL ENHANCED INCOME FUND
30 JUNE 2019

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

MARKET OVERVIEW

The second quarter of 2019 (Q2) was a true rollercoaster for investors around the world, as market sentiment seemed to whipsaw from positive to negative on the back of ever-changing US-China trade news and evolving central bank policy. April's solid equity gains turned into sharp losses in May, only to rebound again in June, leaving investors with good returns across the board, although not as strong as those recorded in Q1. Propelling gains were the easier monetary outlooks adopted by many central banks in the face of building evidence of a growth slowdown, as well as better news on US-China trade negotiations seeming to outweigh the negative news on that front by the end of the quarter. Emerging markets also benefitted somewhat from the more bullish sentiment and the lower global interest rate outlook. For South African investors, local equities and bonds posted decent gains in rand terms, and the rand managed to rally against all the major currencies for the quarter thanks to a rebound in June after some weakness in May.

In the US, the advent of 1 July 2019 made the current economic expansion the longest (albeit most pedestrian) recovery in US history. GDP growth came in surprisingly high for Q1 2019 at 3.1% (q/q annualised, revised), due to an improved trade surplus and higher inventories, short-term factors that masked sizeable drops in consumer and business spending, as well as weaker housing investment and declines in manufacturing production. The jobs market remained exceptionally strong, with unemployment at 3.6% at a 50-year low. Wage and inflationary pressures were subdued, however: May CPI came in at only 1.8% y/y and earnings rose only 3.1% y/y, leaving space for rate cuts. At its June meeting, the Federal Reserve left interest rates unchanged, but Chairman Jerome Powell signalled the Bank was ready to support the economy with lower rates if necessary. Its latest "dot plot" (forecasting the expected rates path) was changed to indicate a rate cut sometime in 2020. This was very positive for equities and bonds. For the quarter, the US 10-year Treasury yield fell notably, from around 2.4% to 2.0% at quarter-end. In the equity market, the US S&P 500 returned 4.3%, the Nasdaq 4.2% and the Dow Jones Industrial 3.2%.

In the UK, Prime Minister Theresa May was forced to resign after failing to deliver Brexit. The new contest for PM only served to extend policy uncertainty, and the chances of a "no deal" rose substantially with Boris Johnson seen as the favourite. The pound sterling weakened as a consequence. Amid broadly slowing UK and EU growth, the Bank of England downgraded its 2019 growth forecast from 1.7% to 1.2%, and the ECB suggested it would adopt "additional stimulus" if growth and inflation didn't improve. Meanwhile, in more positive news the Italian government reached a deal with the EU Commission over debt-reduction measures, avoiding a fiscal crisis.

Japan's economy accelerated by a surprising 2.1% in Q1 2019 (q/q annualised), but concerns remained over weak exports, depressed capital spending and downbeat consumer sentiment. As such, the Bank of Japan kept its easy monetary policy in place, and a debate emerged over the planned imposition of a new consumption tax later in the year.

In China, meanwhile, Q1 2019 GDP growth came in at 6.4%, largely in line with consensus expectations. However, the IMF trimmed its 2019 growth forecast for the country to 6.2% from 6.3% previously. Although renewed optimism over a positive outcome for US-China trade negotiations pushed the MSCI China 8.1% higher in June, it was still one of the few large equity markets in the red for the quarter with a -3.9% return (all in US$). Hong Kong and Singapore markets were also dented by trade fears, as well as by the exceptionally large Hong Kong protests over proposed new extradition measures to China that were eventually set aside.

SA bonds managed to post decent gains in Q2 2019, helped by the more upbeat global sentiment and lower interest rate outlook, but dented somewhat by the stronger rand. Developments were mixed over the quarter. First, Q1 GDP surprised by contracting 3.2% (q/q annualised), the largest downturn in a decade. As a consequence, many institutions – including the SA Reserve Bank, IMF and Moody's – downgraded the country's 2019 growth forecast to only 1.0%. With CPI under control at 4.5% y/y in May, the SARB left interest rates on hold and lowered its interest rate outlook to include one 25bp rate cut by the first quarter of 2020. Still, it remains concerned about future inflationary pressures arising from the weaker rand, as well as higher costs from fuel and electricity, among other sources.

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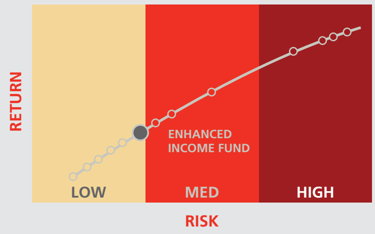
Despite a wide trading range over the quarter in which the rand weakened to over R15/US$ but subsequently rebounded, the local currency managed to gain 2.5% versus the greenback, 4.5% against a struggling UK pound sterling and 1.1% versus the euro.

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 183 284 097

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	X CLASS	D CLASS
1 year	6.0%	7.3%	6.5%	6.3%	6.6%
3 years	6.9%	7.4%	7.4%	7.1%	7.5%
5 years	7.0%	7.3%	n/a	7.2%	7.6%
7 years	7.3%	6.6%	n/a	7.6%	7.9%
Since inception	8.2%	7.3%	7.3%	7.9%	8.2%

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

ASSET CLASS RETURNS	TOTAL RETURN Q2 2019
SA equity – FTSE/JSE All Share Index (Rand)	3.9%
SA equity – FTSE/JSE Capped SWIX All Share (Rand)	2.9%
SA listed property – FTSE/JSE All Property Index (Rand)	1.5%
SA bonds – BEASSA All Bond Index (Rand)	3.7%
SA inflation-linked bonds – JSE CILI Index (Rand)	2.8%
SA cash - STeFI Composite Index (Rand)	1.8%
Global equity – MSCI All Country World (Total) (US$ net)	3.6%
Global equity – MSCI World (Developed) (US$ net)	4.0%
Global equity – MSCI Emerging Markets (US$ net)	0.6%
Global bonds – Bloomberg Barclays Global Aggregate Bond Index (US$)	3.3%
Global property – FTSE EPRA/NAREIT Global Property REIT Index (US$ net)	1.0%

Sources: Prudential, Morningstar & Deutsche Securities

PERFORMANCE

The fund returned 2.2% (net of fees) for the second quarter of 2019, outperforming its benchmark by 0.4%. For the 12-month period ending 30 June 2019, the fund returned 6.0% (net of fees), underperforming its benchmark by 1.3%.

Investments in floating-rate notes, fixed-rate and inflation-linked bonds contributed positively to overall fund returns for the quarter, with SA property and international assets also providing a modest contribution.

As the rand weakened to R15.00 to the US dollar, we hedged about one-third of the fund's offshore exposure using listed currency options. This took the total hedged exposure to approximately two-thirds of the total foreign exposure. This was to protect some of the currency gains made in the portfolio from its offshore assets due to a weakening rand.

STRATEGY AND POSITIONING

In **global fixed income**, US government bonds are still trading at slightly expensive levels, but are less expensive than other developed markets like the UK, EU and Japan, where government bond yields remain at exceptionally low levels. We are underweight global sovereign bonds, preferring to hold investment-grade US corporate bonds. The fund invested in some South African Government bonds issued in US dollars which were hedged back into rands. These assets are slightly cheap and have the potential for stronger returns going forward now that US interest rates could possibly head lower from here, or at least stay steady.

The fund has a very modest exposure to **SA listed property**, where we remain concerned around the quality of earnings and the possibility of further downward revisions to earnings forecasts despite the attractive valuations prevailing in the asset class. The sector faces headwinds arising from pressure on landlords to reduce their rentals, particularly in the retail space where retailers are facing sluggish consumer spending. Equally, oversupply in office space is negative for listed property earnings currently.

In **SA nominal bonds**, valuations remained cheap over the quarter compared to their longer-term fair value. We prefer to hold a modest level of exposure to longer-dated government bonds at attractive yields of above 9%. We are also comfortable with the compensation bonds offer given the risk involved, while recognising that 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**, real yields remain attractive for long-dated tenors. We continue to prefer bank issued inflation-linked bonds offering real yields of about 4%.

In **SA variable-rate bonds**, we consider the credit spreads being offered as attractive and adequately compensating investors for the risks being taken on. These instruments by construction have very little interest rate risk and suit the risk profile of the fund. Hence, a significant proportion of the fund is invested in floating rate notes offered by the big local banks and high-quality SA corporates. ■

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL INFLATION PLUS FUND
30 JUNE 2019

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

MARKET OVERVIEW

The second quarter of 2019 (Q2) was a true rollercoaster for investors around the world, as market sentiment seemed to whipsaw from positive to negative on the back of ever-changing US-China trade news and evolving central bank policy. April's solid equity gains turned into sharp losses in May, only to rebound again in June, leaving investors with good returns across the board, although not as strong as those recorded in Q1. Propelling gains were the easier monetary outlooks adopted by many central banks in the face of building evidence of a growth slowdown, as well as better news on US-China trade negotiations seeming to outweigh the negative news on that front by the end of the quarter. Emerging markets also benefitted somewhat from the more bullish sentiment and the lower global interest rate outlook. For South African investors, local equities and bonds posted decent gains in rand terms, and the rand managed to rally against all the major currencies for the quarter thanks to a rebound in June after some weakness in May. In US$ terms, global equity (the MSCI All Country World Index) returned 3.6% for the quarter, with developed markets posting 4.0% and emerging markets producing 0.6%. Global bonds delivered 3.3% and global property 1.0%, buoyed by the Fed's unexpectedly more dovish interest rate outlook.

In the US, the advent of 1 July 2019 made the current economic expansion the longest (albeit most pedestrian) recovery in US history. GDP growth came in surprisingly high for Q1 2019 at 3.1% (q/q annualised, revised). The jobs market remained exceptionally strong, with unemployment at 3.6% at a 50-year low. Wage and inflationary pressures were subdued, however: May CPI came in at only 1.8% y/y and earnings rose only 3.1% y/y, leaving space for rate cuts. At its June meeting, the Federal Reserve left interest rates unchanged, but Chairman Jerome Powell signalled the Bank was ready to support the economy with lower rates if necessary. Its latest "dot plot" (forecasting the expected rates path) was changed to indicate a rate cut sometime in 2020. This was very positive for equities and bonds. For the quarter, the US 10-year Treasury yield fell notably, from around 2.4% to 2.0% at quarter-end. In the equity market, the US S&P 500 returned 4.3%, the Nasdaq 4.2% and the Dow Jones Industrial 3.2%.

Other developed and emerging markets also benefited from the lower rates outlook and possibly improving trade conflict outlook. The UK's FTSE 100 returned 0.9% for the quarter, while Germany's DAX produced 9.1% and the French CAC 40 delivered 7.7% (all in US$). In Asia, Japan's Nikkei 225 returned 3.3% in US$. Although renewed optimism over a positive outcome for US-China trade negotiations pushed the MSCI China 8.1% higher in June, it was still one of the few large equity markets in the red for the quarter with a -3.9% return (all in US$). Among other emerging markets, strong performers for the quarter included the MSCI Russia with 17.3% and Brazil's Bovespa at 7.4%. Aside from China, the weakest markets were South Korea's KOSPI 200 (-1.3%), the MSCI India (0.5%) and the MSCI Turkey (3.1%), all in US$.

South African returns in positive territory

SA equities and bonds both managed to post decent gains in Q2 2019, helped by the more upbeat global sentiment and lower interest rate outlook, but dented somewhat by the stronger rand. Developments were mixed over the quarter. First, Q1 GDP surprised by contracting 3.2% (q/q annualised), the largest downturn in a decade. As a consequence, many institutions – including the SA Reserve Bank, IMF and Moody's – downgraded the country's 2019 growth forecast to only 1.0%. With CPI under control at 4.5% y/y in May, the SARB left interest rates on hold and lowered its interest rate outlook to include one 25bp rate cut by the first quarter of 2020. Still, it remains concerned about future inflationary pressures arising from the weaker rand, as well as higher costs from fuel and electricity, among other sources.

The ANC's comfortable 57.5% win in the national elections boosted investor confidence that Cyril Ramaphosa would be able to pursue a course including difficult structural reforms and curbing corruption. The new cabinet was well received as well, although investors were disappointed by the lack of detail in plans to reform Eskom and deal with its high debt levels in the President's State of the Nation Address. Detracting from the positive sentiment were contradictory ANC statements around the nationalisation of the SARB and attacks on the central bank's independence that undermined investor confidence.

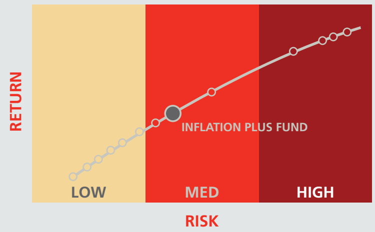
The FTSE/JSE ALSI returned 3.9% for the quarter, led by Financials with 5.4%, which were bolstered by the easier interest rate outlook. Industrial counters delivered 4.0%, Resources produced 2.4% and Listed Property returned 1.5%. The FTSE/JSE Capped SWIX All Share Index, which we use as the equity benchmark for the majority of our client mandates, returned 2.9%.

SA bonds also rallied on the easier interest rate outlook globally and in South Africa, as the BEASSA All Bond Index delivered 3.7% in Q2: the yield on the benchmark R186 bond (due 2026) fell from around 8.6% at the start of the quarter to end at 8.1%, a significant move. The SA yield curve steepened as the longer-dated R209 bond (due 2036) only fell slightly - to 9.4% from 9.5%. SA inflation-linked bonds returned 2.8% over the three months, while cash (as measured by the STeFI Composite) delivered 1.8%. Despite a wide trading range over the quarter in which the rand weakened to over R15/US$ but subsequently rebounded, the local currency managed to gain 2.5% versus the greenback, 4.5% against a struggling UK pound sterling and 1.1% versus the euro.

PERFORMANCE

The fund returned 1.3% (after fees) for the first quarter of 2019 and produced 2.1% for the 12-month period ending 30 June 2019. The fund has delivered a return of 11.9% per annum since inception (after fees), compared to its after-fee objective of 9.4% per annum over the same period.

RISK/RETURN PROFILE:



FUND MANAGERS:
David Knee, Michael Moyle 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:
R32 354 013 543

AWARDS:
Raging Bull: 2013
Morningstar: 2015

ANNUALISED PERFORMANCE	A CLASS	OBJECTIVE#	T CLASS	X CLASS	B CLASS
1 year	2.1%	7.9%	2.6%	2.4%	2.8%
3 years	3.4%	8.2%	3.9%	3.7%	4.2%
5 years	5.5%	8.4%	n/a	5.8%	6.3%
7 years	8.8%	8.7%	n/a	9.1%	9.7%
10 years	10.3%	8.6%	n/a	n/a	11.1%
Since inception	11.9%	9.4%	5.0%	9.6%	11.9%

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 cl
Inception dates: X Class: 1 July 2011, B Class: 1 July 2002, T Class: 2 January 2015

ASSET CLASS RETURNS	TOTAL RETURN Q2 2019
SA equity – FTSE/JSE All Share Index (Rand)	3.9%
SA equity – FTSE/JSE Capped SWIX All Share (Rand)	2.9%
SA listed property – FTSE/JSE All Property Index (Rand)	1.5%
SA bonds – BEASSA All Bond Index (Rand)	3.7%
SA inflation-linked bonds – JSE CILI Index (Rand)	2.8%
SA cash - STeFI Composite Index (Rand)	1.8%
Global equity – MSCI All Country World (Total) (US$ net)	3.6%
Global equity – MSCI World (Developed) (US$ net)	4.0%
Global equity – MSCI Emerging Markets (US$ net)	0.6%
Global bonds – Bloomberg Barclays Global Aggregate Bond Index (US$)	3.3%
Global property – FTSE EPRA/NAREIT Global Property REIT Index (US$ net)	1.0%

Sources: Prudential, Morningstar & Deutsche Securities

The largest positive contributors to absolute performance for the period included the fund's exposure to South African equity holdings, including banking shares like Absa, and Standard Bank, as well as Richemont and MTN. Listed property underweights in Intu and Capital & Counties, as well as an overweight in Resilient, also added value.

SA fixed income assets like nominal bonds, inflation-linked bonds and cash also added value, as did the fund's international fixed income exposure. International equity and listed property holdings also offered a small contribution for the quarter, buoyed by the lower interest rate outlook but dented somewhat by rand appreciation.

Meanwhile, Sasol was the largest equity detractor from absolute performance for the quarter (see comment below), while BAT and Sappi also detracted. The fund's underweight holdings in Anglogold and Goldfields also detracted from performance given the rise in the gold price and their shares over the period.

STRATEGY AND OUTLOOK

Starting with our view on **offshore asset portfolios**, we remain underweight global bonds, 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.

The global equity risk premium on offer remains substantially above historic norms, reflecting the extraordinarily low government bond yields, which fell further during the quarter as a result of global interest rate expectations being revised downward. This view holds true in our higher return-targeting multi-asset funds, where our total offshore exposure remains at around 25%.

In **global fixed income**, US government bonds are still trading at slightly expensive levels, but are less expensive than other developed markets like the UK, EU and Japan, where government bond yields remain at exceptionally low levels. Consequently, the asset class as whole remains unattractive versus equities. We are underweight global sovereign bonds and underweight duration, preferring to hold investment-grade US and European corporate bonds. These assets are slightly cheap and have the potential for stronger returns going forward now that US interest rates could possibly head lower from here, or at least stay steady.

For **global equities**, we have maintained our overweight position as a whole given the very high risk premium from equities versus bonds. Emerging markets and currencies continue to be especially well valued on many measures, while the US market is relatively expensive - other markets offer better value.

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 Italy, Germany, Japan and Singapore. We also find selected emerging markets attractive, including 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.

We switched some of our global equity exposure into SA equity holdings due to the widening of the valuation differential to very attractive levels in June. This did not change our overall underweight SA equities/overweight global equities positioning for the fund, however.

South African equity valuations did not change materially over the quarter, hence we retained our underweight position in SA equities in the Prudential Inflation Plus Fund. However, we did add to this position during the quarter by selling some of our global equity holdings, as mentioned above. The fund continues to hold resources stocks with exposure to global growth and foreign currency earnings like Anglo American, Exxaro, Sasol and Sappi, as well as global giants such as Naspers and British American Tobacco (BAT). In general these stocks did not add as much value to the fund as in the previous quarter due to the stronger rand over the period and subdued gains in the Resources sector. Sasol was one of the largest detractors from fund performance over the quarter after its share price came under pressure when in May it reported a major $1.1 billion overrun in costs for its Lake Charles chemicals project in the US. Its share price lost over 13% on the day and more in subsequent days.

We have also maintained our overweight exposure to financial shares including Old Mutual, Standard Bank and Absa, which have offered attractive valuations with relatively high dividend yields. Apart from Old Mutual, these holdings added good value over the quarter. At the same time we are still underweight consumer-related shares given the pressure under which local consumers find themselves at this point in the economic cycle.

We remain cautiously optimistic regarding SA equity market returns over the medium term due to the prevailing excessive levels of pessimism reflected in share prices and valuations.

We remain underweight **SA listed property** in the fund and in June we trimmed the fund's holdings slightly more to take more risk off the table. Despite the attractive valuation of the sector – primarily evidenced by a historic dividend yield of just under 9% – we have increasing question marks about the ability of the sector, in the near term, to sustainably grow dividends at rates it has delivered historically. This is a combination of an increasingly difficult operating environment both domestically and for UK Retail, as well as some property companies over-distributing dividends in the recent past. The latter may require a re-setting of dividends and dividend expectations at a lower level than previously anticipated. Consensus has been poor at anticipating the effects of weak fundamentals on dividends (persistently over-optimistic) and we therefore see further downside risks to the market forecasts for distribution growth in the near term.

In **SA nominal bonds**, valuations remained cheap over the quarter compared to their longer-term fair value, although they did become more expensive relative to SA equities. We continue to be overweight SA bonds, and still prefer longer-dated government bonds (like the R209) due to the more attractive yields on offer above 9%. We are also comfortable with the compensation bonds offer given the risk involved, while recognising that 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**, real yields remain attractive for long-dated tenors. However, we continue to be neutrally positioned in this asset class because we believe better value exists in SA equity and nominal bonds, where long-dated nominal bonds have the potential to offer more attractive value over the medium-term and are much more liquid. ■

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL BALANCED FUND
30 JUNE 2019

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

MARKET OVERVIEW

The second quarter of 2019 (Q2) was a true rollercoaster for investors around the world, as market sentiment seemed to whipsaw from positive to negative on the back of ever-changing US-China trade news and evolving central bank policy. April's solid equity gains turned into sharp losses in May, only to rebound again in June, leaving investors with good returns across the board, although not as strong as those recorded in Q1. Propelling gains were the easier monetary outlooks adopted by many central banks in the face of building evidence of a growth slowdown, as well as better news on US-China trade negotiations seeming to outweigh the negative news on that front by the end of the quarter. Emerging markets also benefitted somewhat from the more bullish sentiment and the lower global interest rate outlook. For South African investors, local equities and bonds posted decent gains in rand terms, and the rand managed to rally against all the major currencies for the quarter thanks to a rebound in June after some weakness in May. In US$ terms, global equity (the MSCI All Country World Index) returned 3.6% for the quarter, with developed markets posting 4.0% and emerging markets producing 0.6%. Global bonds delivered 3.3% and global property 1.0%, buoyed by the Fed's unexpectedly more dovish interest rate outlook.

In the US, the advent of 1 July 2019 made the current economic expansion the longest (albeit most pedestrian) recovery in US history. GDP growth came in surprisingly high for Q1 2019 at 3.1% (q/q annualised, revised). The jobs market remained exceptionally strong, with unemployment at 3.6% at a 50-year low. Wage and inflationary pressures were subdued, however: May CPI came in at only 1.8% y/y and earnings rose only 3.1% y/y, leaving space for rate cuts. At its June meeting, the Federal Reserve left interest rates unchanged, but Chairman Jerome Powell signalled the Bank was ready to support the economy with lower rates if necessary. Its latest "dot plot" (forecasting the expected rates path) was changed to indicate a rate cut sometime in 2020. This was very positive for equities and bonds. For the quarter, the US 10-year Treasury yield fell notably, from around 2.4% to 2.0% at quarter-end. In the equity market, the US S&P 500 returned 4.3%, the Nasdaq 4.2% and the Dow Jones Industrial 3.2%.

Other developed and emerging markets also benefited from the lower rates outlook and possibly improving trade conflict outlook. The UK's FTSE 100 returned 0.9% for the quarter, while Germany's DAX produced 9.1% and the French CAC 40 delivered 7.7% (all in US$). In Asia, Japan's Nikkei 225 returned 3.3% in US$. Although renewed optimism over a positive outcome for US-China trade negotiations pushed the MSCI China 8.1% higher in June, it was still one of the few large equity markets in the red for the quarter with a -3.9% return (all in US$). Among other emerging markets, strong performers for the quarter included the MSCI Russia with 17.3% and Brazil's Bovespa at 7.4%. Aside from China, the weakest markets were South Korea's KOSPI 200 (-1.3%), the MSCI India (0.5%) and the MSCI Turkey (3.1%), all in US$.

South African returns in positive territory

SA equities and bonds both managed to post decent gains in Q2 2019, helped by the more upbeat global sentiment and lower interest rate outlook, but dented somewhat by the stronger rand. Developments were mixed over the quarter. First, Q1 GDP surprised by contracting 3.2% (q/q annualised), the largest downturn in a decade. As a consequence, many institutions – including the SA Reserve Bank, IMF and Moody's – downgraded the country's 2019 growth forecast to only 1.0%. With CPI under control at 4.5% y/y in May, the SARB left interest rates on hold and lowered its interest rate outlook to include one 25bp rate cut by the first quarter of 2020. Still, it remains concerned about future inflationary pressures arising from the weaker rand, as well as higher costs from fuel and electricity, among other sources.

The ANC's comfortable 57.5% win in the national elections boosted investor confidence that Cyril Ramaphosa would be able to pursue a course including difficult structural reforms and curbing corruption. The new cabinet was well received as well, although investors were disappointed by the lack of detail in plans to reform Eskom and deal with its high debt levels in the President's State of the Nation Address. Detracting from the positive sentiment were contradictory ANC statements around the nationalisation of the SARB and attacks on the central bank's independence that undermined investor confidence.

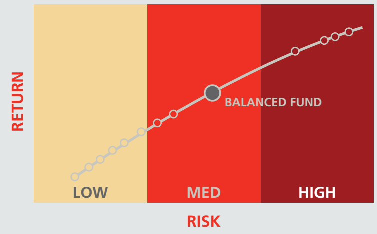
The FTSE/JSE ALSI returned 3.9% for the quarter, led by Financials with 5.4%, which were bolstered by the easier interest rate outlook. Industrial counters delivered 4.0%, Resources produced 2.4% and Listed Property returned 1.5%. The FTSE/JSE Capped SWIX All Share Index, which we use as the equity benchmark for the majority of our client mandates, returned 2.9%.

SA bonds also rallied on the easier interest rate outlook globally and in South Africa, as the BEASSA All Bond Index delivered 3.7% in Q2: the yield on the benchmark R186 bond (due 2026) fell from around 8.6% at the start of the quarter to end at 8.1%, a significant move. The SA yield curve steepened as the longer-dated R209 bond (due 2036) only fell slightly - to 9.4% from 9.5%. SA inflation-linked bonds returned 2.8% over the three months, while cash (as measured by the STeFI Composite) delivered 1.8%. Despite a wide trading range over the quarter in which the rand weakened to over R15/US$ but subsequently rebounded, the local currency managed to gain 2.5% versus the greenback, 4.5% against a struggling UK pound sterling and 1.1% versus the euro.

PERFORMANCE

The fund returned 1.1% (after fees) for the first quarter of 2019 and produced 2.6% for the 12-month period ending 30 June 2019. The fund has delivered a return of 13.3% per annum since inception (after fees), compared to its benchmark of 11.5% per annum over the same period.

RISK/RETURN PROFILE:



FUND MANAGERS:
David Knee, 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:
R23 100 742 123

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	X CLASS	B CLASS
1 year	2.6%	3.2%	3.2%	2.9%	3.4%
3 years	5.7%	4.0%	6.2%	5.9%	6.5%
5 years	6.4%	4.9%	n/a	6.7%	7.2%
7 years	10.8%	8.5%	n/a	n/a	11.6%
10 years	12.2%	9.4%	n/a	n/a	13.1%
Since inception	13.3%	11.5%	6.0%	9.8%	13.6%

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

ASSET CLASS RETURNS	TOTAL RETURN Q2 2019
SA equity – FTSE/JSE All Share Index (Rand)	3.9%
SA equity – FTSE/JSE Capped SWIX All Share (Rand)	2.9%
SA listed property – FTSE/JSE All Property Index (Rand)	1.5%
SA bonds – BEASSA All Bond Index (Rand)	3.7%
SA inflation-linked bonds – JSE CILI Index (Rand)	2.8%
SA cash - STeFI Composite Index (Rand)	1.8%
Global equity – MSCI All Country World (Total) (US$ net)	3.6%
Global equity – MSCI World (Developed) (US$ net)	4.0%
Global equity – MSCI Emerging Markets (US$ net)	0.6%
Global bonds – Bloomberg Barclays Global Aggregate Bond Index (US$)	3.3%
Global property – FTSE EPRA/NAREIT Global Property REIT Index (US$ net)	1.0%

Sources: Prudential, Morningstar & Deutsche Securities

The largest positive contributors to absolute performance for the period included the fund's exposure to South African equity holdings, including banking shares like Absa, Investec plc and Standard Bank, as well as Richemont and MTN.

SA fixed income assets like nominal bonds (where the fund is overweight), inflation-linked bonds and cash also added value, as did fund's international holdings across equities, listed property and fixed income. While the latter two were buoyed by the lower interest rate outlook, returns were offset to some extent by rand appreciation.

Meanwhile, Sasol was the largest equity detractor from absolute performance for the quarter (see below comment), while BAT and Sappi also detracted. Our underweight holdings in Anglogold and Goldfields also detracted from performance given the rise in the gold price and their shares over the period.

STRATEGY AND OUTLOOK

Starting with our view on **offshore asset 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.

The global equity risk premium on offer remains substantially above historic norms, reflecting the extraordinarily low government bond yields, which fell further during the quarter as a result of global interest rate expectations being revised downward. This view holds true in our higher return-targeting multi-asset funds, where our total offshore exposure remains at around 25%.

In **global fixed income**, US government bonds are still trading at slightly expensive levels, but are less expensive than other developed markets like the UK, EU and Japan, where government bond yields remain at exceptionally low levels. Consequently, the asset class as whole remains unattractive versus equities. We are underweight global sovereign bonds and underweight duration, preferring to hold investment-grade US and European corporate bonds. These assets are slightly cheap and have the potential for stronger returns going forward now that US interest rates could possibly head lower from here, or at least stay steady.

For **global equities**, we have maintained our overweight position as a whole given the very high risk premium from equities versus bonds. Emerging markets and currencies continue to be especially well valued on many measures, while the US market is relatively expensive - other markets offer better value.

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 Italy, Germany, Japan and Singapore. We also find selected emerging markets attractive, including 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.

S**outh African equity** valuations did not change materially over the quarter, hence we retained our overweight position in SA equities in the Prudential Balanced Fund. In May we did add slightly to our SA equity holdings in the Balanced Fund by selling SA nominal bonds as valuations became less attractive in the latter, but this did not alter our broad overweight in SA bonds.

The fund continues to hold resources stocks with exposure to global growth and foreign currency earnings like Anglo American, Exxaro, Sasol and Sappi, as well as global giants such as Naspers and British American Tobacco (BAT). In general these stocks did not add as much value to the fund as in the previous quarter due to the stronger rand over the period and subdued gains in the Resources sector. Sasol was one of the largest detractors from fund performance over the quarter after its share price came under pressure when in May it reported a major $1.1 billion overrun in costs for its Lake Charles chemicals project in the US. Its share price lost over 13% on the day and more in subsequent days.

We have also maintained our overweight exposure to financial shares including Old Mutual, Investec plc, Standard Bank and Absa, which have offered attractive valuations with relatively high dividend yields. Apart from Old Mutual, these holdings added good value over the quarter. At the same time we are still underweight consumer-related shares like Clicks, Mr. Price, Shoprite and Truworths, given the pressure under which local consumers find themselves at this point in the economic cycle.

We remain cautiously optimistic regarding SA equity market returns over the medium term due to the prevailing excessive levels of pessimism reflected in share prices and valuations.

We remain underweight **SA listed property** in the Balanced Fund. Despite the attractive valuation of the sector – primarily evidenced by a historic dividend yield of just under 9% – we have increasing question marks about the ability of the sector, in the near term, to sustainably grow dividends at rates it has delivered historically. This is a combination of an increasingly difficult operating environment both domestically and for UK Retail, as well as some property companies over-distributing dividends in the recent past. The latter may require a re-setting of dividends and dividend expectations at a lower level than previously anticipated. Consensus has been poor at anticipating the effects of weak fundamentals on dividends (persistently over-optimistic) and we therefore see further downside risks to the market forecasts for distribution growth in the near term.

Specialist logistics is experiencing some structural tailwinds from the growth of e-commerce, which may help Industrial Property-focused companies. However, Retail and Office Property companies will find it increasingly difficult to replace expiring leases, entered into when economic conditions were stronger, with new leases at higher passing rents.

In **SA nominal bonds**, valuations remained cheap over the quarter compared to their longer-term fair value, although they did become more expensive relative to SA equities. Hence we sold some bonds in the Prudential Balanced Fund to buy more SA equities. We continue to be overweight SA bonds, and still prefer longer-dated government bonds (like the R209) due to the more attractive yields on offer above 9%. We are also comfortable with the compensation bonds offer given the risk involved, while recognising that 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**, real yields remain attractive for long-dated tenors. However, we continue to be neutrally positioned in this asset class because we believe better value exists in SA equity and nominal bonds, where long-dated nominal bonds have the potential to offer more attractive value over the medium-term and are much more liquid. ■

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL ENHANCED SA PROPERTY TRACKER FUND
30 JUNE 2019

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

PROPERTY

MARKET OVERVIEW

Developments were mixed over the quarter. First, Q1 GDP surprised by contracting 3.2% (q/q annualised), the largest downturn in a decade. As a consequence, many institutions – including the SA Reserve Bank, IMF and Moody's – downgraded the country's 2019 growth forecast to only 1.0%. With CPI under control at 4.5% y/y in May, the SARB left interest rates on hold and lowered its interest rate outlook to include one 25bp rate cut by the first quarter of 2020. Still, it remains concerned about future inflationary pressures arising from the weaker rand, as well as higher costs from fuel and electricity, among other sources.

The ANC's comfortable 57.5% win in the national elections boosted investor confidence that Cyril Ramaphosa would be able to pursue a course including difficult structural reforms and curbing corruption. The new cabinet was well received as well, although investors were disappointed by the lack of detail in plans to reform Eskom and deal with its high debt levels in the President's State of the Nation Address. Detracting from the positive sentiment were contradictory ANC statements around the nationalisation of the SARB and attacks on the central bank's independence that undermined investor confidence.

Despite a wide trading range over the quarter in which the rand weakened to over R15/US$ but subsequently rebounded, the local currency managed to gain 2.5% versus the greenback, 4.5% against a struggling UK pound sterling and 1.1% versus the euro.

At quarter-end, listed property companies were priced to return approximately 13.4% pa. over the medium term (assuming no change in the market's valuation of property), comfortably above inflation. Actual delivered growth in distributions per share for the major listed property companies averaged 3.5% for the last six month's reporting cycle.

The FTSE/JSE SAPY Index returned 4.5% for the quarter ending 30 June 2019. The decline in the SAPY Index valuation during the first six months of the year is largely explained by the de-rating of Fortress B and Hyprop shares.

Local property fundamentals remain under pressure as tenant retention comes at a cost and property operating cost growth outpaces revenue growth. We expect continued weakness in the fundamentals across all three major property sectors (retail, commercial and industrial) and there continues to be an oversupply of commercial space in the South African market. Most stocks are trading at significant discounts to their NAVs.

PERFORMANCE

While returns for the Prudential Enhanced SA Property Tracker Fund have been positive in the second quarter and YTD (3.2% and 4.1%, respectively, after fees), returns have disappointingly lagged the FTSE/JSE Listed Property Index (SAPY) by a larger-than-expected level.

The Enhanced SA Property Tracker Fund's strategy of targeting higher-yielding property companies was generally able to harvest outperformance of the index between 2009 and 2017. However, in the last 18 months, since the sector has come under considerable pressure, this strategy has not delivered acceptable returns as it has positioned the fund to be overweight smaller market cap property companies (such as Rebosis and Delta) that have struggled considerably relative to larger property companies. There has been a flight to quality in the sector to a large extent, giving smaller property companies a higher yield than larger companies. This, in turn, has caused the fund to lag the SAPY over the period.

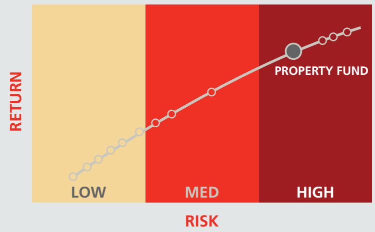
STRATEGY AND POSITIONING

While high yield is normally a good indicator of potentially strong future returns, it may also indicate the market's concern around the sustainability of the yield (or even the sustainability of the company). We have therefore taken steps to address the strategy of the fund at the end of the second quarter, principally by reducing exposure to certain higher-yielding property companies. We would therefore expect returns to be closer to the benchmark in subsequent quarters. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	D CLASS
1 year	-2.2%	0.8%	-2.2%	-2.1%
3 years	-3.5%	-2.3%	-3.5%	-3.4%
5 years	5.2%	5.6%	n/a	5.3%
7 years	7.8%	8.1%	n/a	7.9%
10 years	12.6%	13.0%	n/a	n/a
Since inception	12.5%	12.9%	-1.0%	11.0%

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

RISK/RETURN PROFILE:



FUND MANAGERS:
Jeanne-Marie Snalam and Johny Lambridis

ASISA CATEGORY:
South African - Real Estate - General

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

INCEPTION DATE:
2 December 2005

FUND SIZE:
R3 099 762 122

AWARDS:
Morningstar/Standard & Poor's: 2011

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL DIVIDEND MAXIMISER FUND
30 JUNE 2019

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

EQUITY

MARKET OVERVIEW

The second quarter of 2019 (Q2) was a true rollercoaster for investors around the world, as market sentiment seemed to whipsaw from positive to negative on the back of ever-changing US-China trade news and evolving central bank policy. April's solid equity gains turned into sharp losses in May, only to rebound again in June, leaving investors with good returns across the board, although not as strong as those recorded in Q1. Propelling gains were the easier monetary outlooks adopted by many central banks in the face of building evidence of a growth slowdown, as well as better news on US-China trade negotiations seeming to outweigh the negative news on that front by the end of the quarter. Emerging markets also benefitted somewhat from the more bullish sentiment and the lower global interest rate outlook. For South African investors, local equities and bonds posted decent gains in rand terms, and the rand managed to rally against all the major currencies for the quarter thanks to a rebound in June after some weakness in May.

In the US, the advent of 1 July 2019 made the current economic expansion the longest (albeit most pedestrian) recovery in US history. GDP growth came in surprisingly high for Q1 2019 at 3.1% (q/q annualised, revised), due to an improved trade surplus and higher inventories, short-term factors that masked sizeable drops in consumer and business spending, as well as weaker housing investment and declines in manufacturing production. The jobs market remained exceptionally strong, with unemployment at 3.6% at a 50-year low. Wage and inflationary pressures were subdued, however: May CPI came in at only 1.8% y/y and earnings rose only 3.1% y/y, leaving space for rate cuts. At its June meeting, the Federal Reserve left interest rates unchanged, but Chairman Jerome Powell signalled the Bank was ready to support the economy with lower rates if necessary. Its latest "dot plot" (forecasting the expected rates path) was changed to indicate a rate cut sometime in 2020. This was very positive for equities and bonds. For the quarter, the US 10-year Treasury yield fell notably, from around 2.4% to 2.0% at quarter-end. In the equity market, the US S&P 500 returned 4.3%, the Nasdaq 4.2% and the Dow Jones Industrial 3.2%.

In the UK, Prime Minister Theresa May was forced to resign after failing to deliver Brexit. The new contest for PM only served to extend policy uncertainty, and the chances of a "no deal" rose substantially with Boris Johnson seen as the favourite. The pound sterling weakened as a consequence. Amid broadly slowing UK and EU growth, the Bank of England downgraded its 2019 growth forecast from 1.7% to 1.2%, and the ECB suggested it would adopt "additional stimulus" if growth and inflation didn't improve. Meanwhile, in more positive news the Italian government reached a deal with the EU Commission over debt-reduction measures, avoiding a fiscal crisis. The UK's FTSE 100 returned 0.9% for the quarter, while Germany's DAX produced 9.1% and the French CAC 40 delivered 7.7% (all in US$).

Japan's economy accelerated by a surprising 2.1% in Q1 2019 (q/q annualised), but concerns remained over weak exports, depressed capital spending and downbeat consumer sentiment. As such, the Bank of Japan kept its easy monetary policy in place, and a debate emerged over the planned imposition of a new consumption tax later in the year. For Q2, the Nikkei 225 returned 3.3% in US$.

In China, meanwhile, Q1 2019 GDP growth came in at 6.4%, largely in line with consensus expectations. However, the IMF trimmed its 2019 growth forecast for the country to 6.2% from 6.3% previously. Although renewed optimism over a positive outcome for US-China trade negotiations pushed the MSCI China 8.1% higher in June, it was still one of the only large equity markets in the red for the quarter with a -3.9% return (all in US$). Hong Kong and Singapore markets were also dented by trade fears, as well as by the exceptionally large Hong Kong protests over proposed new extradition measures to China that were eventually set aside.

Among other emerging markets, strong performers for the quarter included the MSCI Russia with 17.3% and Brazil's Bovespa at 7.4%. Aside from China, the weakest markets were South Korea's KOSPI 200 (-1.3%), the MSCI India (0.5%) and the MSCI Turkey (3.1%), all in US$.

After a 27% rise in the previous quarter, the price of Brent crude oil weakened by 2.7% in Q2 on the back of slowing global growth concerns and rising US production. The fall was mitigated by a renewed OPEC and Russia pact to extend supply cuts through the end of 2019, as well as fears of supply disruptions in the Strait of Hormuz and Iran after ship bombings in the Strait and additional sanctions affecting the latter. After starting the quarter at around US$67 per barrel, it ended around US$65. In other commodities moves, industrial metals like nickel, copper, aluminium and zinc lost ground on deteriorating global growth, but gold gained on its safe haven status amid the trade war and the palladium price also rose on good demand.

SA equities and bonds both managed to post decent gains in Q2 2019, helped by the more upbeat global sentiment and lower interest rate outlook, but dented somewhat by the stronger rand. Developments were mixed over the quarter. First, Q1 GDP surprised by contracting 3.2% (q/q annualised), the largest downturn in a decade. As a consequence, many institutions – including the SA Reserve Bank, IMF and Moody's – downgraded the country's 2019 growth forecast to only 1.0%. With CPI under control at 4.5% y/y in May, the SARB left interest rates on hold and lowered its interest rate outlook to include one 25bp rate cut by the first quarter of 2020. Still, it remains concerned about future inflationary pressures arising from the weaker rand, as well as higher costs from fuel and electricity, among other sources.

The ANC's comfortable 57.5% win in the national elections boosted investor confidence that Cyril Ramaphosa would be able to pursue a course including difficult structural reforms and curbing corruption. The new cabinet was well received as well, although investors were disappointed by the lack of detail in plans to reform Eskom and deal with its high debt levels in the President's State of the Nation Address. Detracting from the positive sentiment were contradictory ANC statements around the nationalisation of the SARB and attacks on the central bank's independence that undermined investor confidence.

The FTSE/JSE ALSI returned 3.9% for the quarter, led by Financials with 5.4%, which were bolstered by the easier interest rate outlook. Industrial counters delivered 4.0%, Resources produced 2.4% and Listed Property returned 1.5%. The FTSE/JSE Capped SWIX All Share Index, which we use as the equity benchmark for the majority of our client mandates, returned 2.9%.

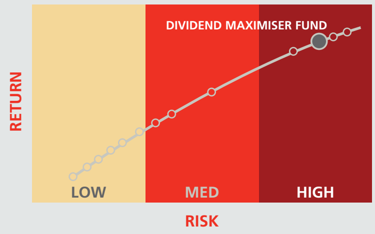
Despite a wide trading range over the quarter in which the rand weakened to over R15/US$ but subsequently rebounded, the local currency managed to gain 2.5% versus the greenback, 4.5% against a struggling UK pound sterling and 1.1% versus the euro.

PERFORMANCE

The fund delivered a return of 0.0% (net of fees) for the second quarter of 2019, while the benchmark returned 1.6% over the same period. For the 12 months ended June 2019, the fund delivered a total return of -1.5% (net of fees), underperforming its benchmark by 3.0%.

The fund's dual focus of buying undervalued companies with strong cash flows and dividends remains core.

RISK/RETURN PROFILE:



FUND MANAGERS:
Ross Biggs 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 280 745 111

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

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	B CLASS
1 year	-1.5%	1.5%	-1.0%	-1.1%
3 years	4.8%	2.7%	5.1%	5.2%
5 years	4.5%	2.9%	n/a	4.9%
7 years	10.3%	8.1%	n/a	10.8%
10 years	12.5%	10.6%	n/a	13.0%
Since inception	16.1%	13.1%	4.2%	10.6%

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

Sources: Prudential, Morningstar & Deutsche Securities

Although BAT was a detractor from performance for the quarter, we think that the investment case remains strong. The company is trading on a very high dividend yield of 7% and we expect this dividend to grow in the region of 10% per year for the next five years even given the risks which tobacco companies face. BAT is at the forefront of offering their customers alternative products which reduce harm, and we expect this trend to continue. After many years of lower profits in the emerging markets in which BAT operates, due to higher taxes and weaker currencies, positive signs are starting to emerge. In South Africa, for instance, the illicit cigarette market ballooned during the last eight years and was estimated to have grown from around 10% to 50% of the market. This resulted in lost sales for BAT and a massive loss to the tax revenues of South Africa. In the last year, illicit volumes have started to drop as the tax authority has been a lot more effective in collecting cigarette taxes.

We have held a position in FirstRand Bank for many years and have started to reduce this position as it has now reached levels which we think represent fair value. We are also cognisant of the valuation gap that has opened up between FirstRand and some of the other South African banks like ABSA, and have therefore added to our position in ABSA. While there is undoubtedly a quality premium for FirstRand over ABSA, we think that we are now more than compensated for this, as we are likely to receive a dividend yield which is almost 40% higher in ABSA. The fund's overweight in ABSA was the largest contributor to performance for the last quarter, while our underweight now to FirstRand was a large detractor as it continued to rise. We continue to find good value in South African banks and this sector is our preferred interest-rate sensitive sector, well ahead of clothing retailers and property. We think that valuations in the clothing retail space do not provide any margin of safety for the relatively high margins and very tough consumer environment. We are seeing substantial job cuts in both the private and public sectors across South Africa, which not only has a direct effect on the disposable income of consumers, but also has the rational effect of making all consumers increasingly cautious about spending.

Sappi continued to detract from performance as the price of paper pulp has fallen since the beginning of the year. Sappi is a major global supplier of cellulose pulp and generates very good margins from this business, in spite of the lower prices now being achieved. Sappi also continues to generate strong cash flows, which has enabled it to strengthen its balance sheet over the last few years, invest in high-return-on-capital projects for future growth and resume dividend payments. While we remain cognisant of the risks that Sappi faces with respect to falling paper demand and the trade war, we believe the valuation of Sappi is now at the most attractive levels we have seen in the last decade.

We continue to think that offshore equity markets look very attractive, certainly relative to offshore bond markets and when compared to South Africa. The fund is approximately 30% invested offshore, mainly through the Prudential Global Equity Fund and the M&G Global Dividend Fund. Both funds were top contributors to outperformance for the first quarter of the year, but detracted from performance in the second quarter as the rand strengthened.

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 try to make money for our clients through these cycles and continue to try 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 the benchmark.

STRATEGY AND POSITIONING

We remain optimistic regarding SA equity market returns over the medium term due to the prevailing excessive levels of pessimism reflected in share prices and valuations. Over the past two years, the JSE has witnessed a barrage of substantial companies which have fallen from lofty levels. Some of these falls were due to accounting fraud (such as Steinhoff), others were due to years of acquisitive growth fuelled by cheap debt (such as Aspen), while others were due to continued expenditure and expansion until debt levels became too high (such as Tongaat). The fund has managed to generate outperformance by avoiding these companies. The main reason we have avoided these companies has had to do with poor cash flows which were not able to comfortably service the debt that had been accumulated over the years. The sensible use of debt can have substantially positive benefits to shareholders and enhance returns considerably, but can have exactly the opposite effect when used to levels which reduce flexibility and put the business at risk.

On market valuations, we currently view the market in South Africa along with many other emerging markets 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 among 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.

We would like to remind 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 Richemont, Naspers and BAT. In the case of the Prudential Dividend Maximiser Fund, we have in addition viewed foreign stocks as being relatively attractive. Currently, approximately 30% of the fund is directly invested offshore across various markets.

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 are cheaper than owning the index, yet still capable of delivering attractive underlying growth independent of the economic cycle in which we find ourselves. ■

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL EQUITY FUND
30 JUNE 2019

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

EQUITY

MARKET OVERVIEW

The second quarter of 2019 (Q2) was a true rollercoaster for investors around the world, as market sentiment seemed to whipsaw from positive to negative on the back of ever-changing US-China trade news and evolving central bank policy. April's solid equity gains turned into sharp losses in May, only to rebound again in June, leaving investors with good returns across the board, although not as strong as those recorded in Q1. Propelling gains were the easier monetary outlooks adopted by many central banks in the face of building evidence of a growth slowdown, as well as better news on US-China trade negotiations seeming to outweigh the negative news on that front by the end of the quarter. Emerging markets also benefitted somewhat from the more bullish sentiment and the lower global interest rate outlook. For South African investors, local equities and bonds posted decent gains in rand terms, and the rand managed to rally against all the major currencies for the quarter thanks to a rebound in June after some weakness in May.

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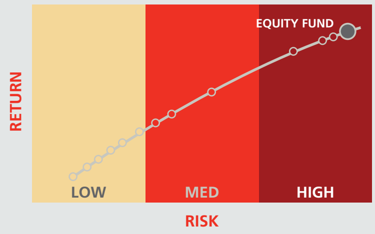
Despite a wide trading range over the quarter in which the rand weakened to over R15/US$ but subsequently rebounded, the local currency managed to gain 2.5% versus the greenback, 4.5% against a struggling UK pound sterling and 1.1% versus the euro.

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	0.0%	1.5%	0.4%
3 years	6.5%	2.7%	7.0%
5 years	5.1%	2.9%	5.6%
7 years	11.0%	8.1%	11.5%
10 years	13.0%	10.6%	13.5%
Since inception	16.3%	13.1%	11.3%

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:
R3 441 502 760

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

Sources: Prudential, Morningstar & Deutsche Securities

PERFORMANCE

The fund delivered a return of -0.5% (net of fees) for the second quarter of 2019, while the benchmark returned 1.6% over the same period. For the 12 months ended June 2019, the fund delivered a total return of 0.0% (net of fees), underperforming its benchmark by 1.5%. As at the end of June 2019, the fund ranked in the top quartile of its ASISA category in terms of annualised performance over the past 3 – 15 years.

The fund's overweight exposure to Altron, Absa and the recent addition of MultiChoice were significant contributors to performance over the last quarter. However, this was offset (given the moderate rand strength over the period) by the fund's offshore holdings and exposure to rand-hedge stocks such as Sappi, Sasol and BAT.

Sasol's performance has been particularly disappointing, falling 22% in the second quarter. Underperformance stemmed not only from a stronger rand and weaker oil price, but also from continued operational challenges in bringing the Lake Charles Chemical Project (LCCP) to successful completion. Our current assessment of Sasol is that the investment case is not broken (albeit delayed and riskier, with the additional approximate $1bn LCCP capex overrun placing additional strain on the balance sheet). Indeed, we still expect a significant "cashflow inflection point" for Sasol in 2020/21 (i.e. when positive operating profit from LCCP replaces significant capex to build the plant). Sustainable earnings for Sasol at the current rand/oil price (excluding any contribution from the LCCP) is approximately R38 per share. On a 9x multiple (broadly the historic average) this implies a value of R340 for Sasol versus the current share price of R325. This suggests that the recent negative news flow around the LCCP has driven the market to ascribe a zero or negative equity value to LCCP.

The biggest contributor to relative performance in the second quarter came from our overweight position in Altron, which increased some 37%. Altron is a rarity among SA industrials stocks, managing to deliver strong earnings growth despite a poor economy as the group delivers on its multi-stage turnaround. Despite rising 50% year to date, Altron still trades on roughly the same forward PE as the overall market (Capped SWIX) of approximately 11x.

STRATEGY AND POSITIONING

The ANC won the recent elections, as expected. In recent days, President Ramaphosa has ended uncertainty around the leadership of the South African Reserve Bank (SARB) by reappointing Lesetja Kganyago as governor for another five-year term (as well as filling the two vacant deputy positions with insiders). Away from this the President has made little to no material headway in addressing the multitude of factors facing the economy – the largest of which remains Eskom's debt problems – or delivering on his election promise of reducing corruption.

While Trump continues to tweet and the financial press continue to ascribe daily gyrations in market levels to market participants' reaction to those tweets – our investment team remains focused on long-term fundamentals. Forward earnings expectations for the South African market continue to grind higher (albeit slower than we have become accustomed to) and so on many of our valuation metrics the local equity market is in the bottom quartile of historic observations. ■

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL BOND FEEDER FUND
30 JUNE 2019

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL INCOME

MARKET OVERVIEW

The second quarter of 2019 (Q2) was a true rollercoaster for investors around the world, as market sentiment seemed to whipsaw from positive to negative on the back of ever-changing US-China trade news and evolving central bank policy. April's solid equity gains turned into sharp losses in May, only to rebound again in June, leaving investors with good returns across the board, although not as strong as those recorded in Q1. Propelling gains were the easier monetary outlooks adopted by many central banks in the face of building evidence of a growth slowdown, as well as better news on US-China trade negotiations seeming to outweigh the negative news on that front by the end of the quarter. Emerging markets also benefitted somewhat from the more bullish sentiment and the lower global interest rate outlook.

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Despite a wide trading range over the quarter in which the rand weakened to over R15/US$ but subsequently rebounded, the local currency managed to gain 2.5% versus the greenback, 4.5% against a struggling UK pound sterling and 1.1% versus the euro.

PERFORMANCE

The fund produced a return of 0.4% (net of fees) in rand for the second quarter of 2019, underperforming its benchmark by 0.3%. For the 12 months ending 30 June 2019, the fund returned 8.5% (net of fees) while the benchmark returned 8.9%.

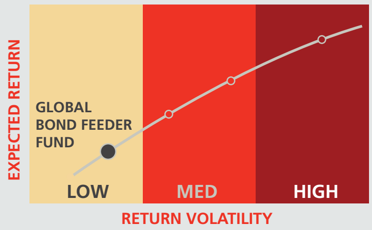
The main contributors to performance came from the fund's holdings US and emerging market bonds, particularly Mexican and South African government bonds, as markets benefited from lower US interest rate expectations.

STRATEGY AND POSITIONING

The fund continues to reflect our preference for selected areas of corporate bonds and emerging market government bonds issued by Mexico, South Africa and Brazil. This is based on the view that these assets offer better value than mainstream government bonds at present. The fund reduced its Mexican government bond exposure in favour of South African government bonds, creating a more balanced emerging markets bond position. The fund also lowered its duration in US dollar-denominated bonds by allocating more to floating rate bonds. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK
1 year	8.5%	8.9%
3 years	0.4%	0.3%
5 years	5.7%	7.1%
7 years	9.8%	9.9%
10 years	9.7%	9.3%
Since inception	8.4%	8.6%

RISK/RETURN PROFILE:



INVESTMENT MANAGER:
M&G Investment Management Limited (UK)

FUND MANAGERS OF THE UNDERLYING FUND:
Marc Beckenstrater and Craig Simpson

ASISA CATEGORY:
Global - Interest Beating - Variable Term

BENCHMARK:
Bloomberg Barclays Global Aggregate Bond Index

INCEPTION DATE:
27 October 2000

FUND SIZE:
R451 123 839

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL INFLATION PLUS FEEDER FUND
30 JUNE 2019

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL MULTI-ASSET

MARKET OVERVIEW

The second quarter of 2019 (Q2) was a true rollercoaster for investors around the world, as market sentiment seemed to whipsaw from positive to negative on the back of ever-changing US-China trade news and evolving central bank policy. April's solid equity gains turned into sharp losses in May, only to rebound again in June, leaving investors with good returns across the board, although not as strong as those recorded in Q1. Propelling gains were the easier monetary outlooks adopted by many central banks in the face of building evidence of a growth slowdown, as well as better news on US-China trade negotiations seeming to outweigh the negative news on that front by the end of the quarter. Emerging markets also benefitted somewhat from the more bullish sentiment and the lower global interest rate outlook.

In the US, the advent of 1 July 2019 made the current economic expansion the longest (albeit most pedestrian) recovery in US history. GDP growth came in surprisingly high for Q1 2019 at 3.1% (q/q annualised, revised), due to an improved trade surplus and higher inventories, short-term factors that masked sizeable drops in consumer and business spending, as well as weaker housing investment and declines in manufacturing production. The jobs market remained exceptionally strong, with unemployment at 3.6% at a 50-year low. Wage and inflationary pressures were subdued, however: May CPI came in at only 1.8% y/y and earnings rose only 3.1% y/y, leaving space for rate cuts. At its June meeting, the Federal Reserve left interest rates unchanged, but Chairman Jerome Powell signalled the Bank was ready to support the economy with lower rates if necessary. Its latest "dot plot" (forecasting the expected rates path) was changed to indicate a rate cut sometime in 2020. This was very positive for equities and bonds. For the quarter, the US 10-year Treasury yield fell notably, from around 2.4% to 2.0% at quarter-end. In the equity market, the US S&P 500 returned 4.3%, the Nasdaq 4.2% and the Dow Jones Industrial 3.2%.

In the UK, Prime Minister Theresa May was forced to resign after failing to deliver Brexit. The new contest for PM only served to extend policy uncertainty, and the chances of a "no deal" rose substantially with Boris Johnson seen as the favourite. The pound sterling weakened as a consequence. Amid broadly slowing UK and EU growth, the Bank of England downgraded its 2019 growth forecast from 1.7% to 1.2%, and the ECB suggested it would adopt "additional stimulus" if growth and inflation didn't improve. Meanwhile, in more positive news the Italian government reached a deal with the EU Commission over debt-reduction measures, avoiding a fiscal crisis. The UK's FTSE 100 returned 0.9% for the quarter, while Germany's DAX produced 9.1% and the French CAC 40 delivered 7.7% (all in US$).

Japan's economy accelerated by a surprising 2.1% in Q1 2019 (q/q annualised), but concerns remained over weak exports, depressed capital spending and downbeat consumer sentiment. As such, the Bank of Japan kept its easy monetary policy in place, and a debate emerged over the planned imposition of a new consumption tax later in the year. For Q2, the Nikkei 225 returned 3.3% in US$. In China, meanwhile, Q1 2019 GDP growth came in at 6.4%, largely in line with consensus expectations. However, the IMF trimmed its 2019 growth forecast for the country to 6.2% from 6.3% previously. Although renewed optimism over a positive outcome for US-China trade negotiations pushed the MSCI China 8.1% higher in June, it was still one of the few large equity markets in the red for the quarter with a -3.9% return (all in US$). Hong Kong and Singapore markets were also dented by trade fears, as well as by the exceptionally large Hong Kong protests over proposed new extradition measures to China that were eventually set aside.

Among other emerging markets, strong performers for the quarter included the MSCI Russia with 17.3% and Brazil's Bovespa at 7.4%. Aside from China, the weakest markets were South Korea's KOSPI 200 (-1.3%), the MSCI India (0.5%) and the MSCI Turkey (3.1%), all in US$.

After a 27% rise in the previous quarter, the price of Brent crude oil weakened by 2.7% in Q2 on the back of slowing global growth concerns and rising US production. The fall was mitigated by a renewed OPEC and Russia pact to extend supply cuts through the end of 2019, as well as fears of supply disruptions in the Strait of Hormuz and Iran after ship bombings in the Strait and additional sanctions affecting the latter. After starting the quarter at around US$67 per barrel, it ended around US$65. In other commodities moves, industrial metals like nickel, copper, aluminium and zinc lost ground on deteriorating global growth, but gold gained on its safe haven status amid the trade war and the palladium price also rose on good demand.

Despite a wide trading range over the quarter in which the rand weakened to over R15/US$ but subsequently rebounded, the local currency managed to gain 2.5% versus the greenback, 4.5% against a struggling UK pound sterling and 1.1% versus the euro.

PERFORMANCE

The fund produced a return of 0.1% (net of fees) in rand for the second quarter of 2019, outperforming its benchmark by 1.5%. For the 12 months ending 30 June 2019, the fund returned 6.8% (net of fees) while the benchmark returned 1.3%.

Global equities and fixed-income positions contributed to absolute performance over the quarter, with both asset classes showing a strong correlation. The fund's exposure to emerging market sovereign bonds, particularly Mexican bonds, also added value. Detracting from absolute performance was the fund's exposure to South Korean equities, which disappointed due to challenges facing its export sector.

STRATEGY AND POSITIONING

The fund remains overweight equities and underweight global sovereign bonds, as the size of the equity risk premium remains the most obvious opportunity on offer across the global investment landscape today.

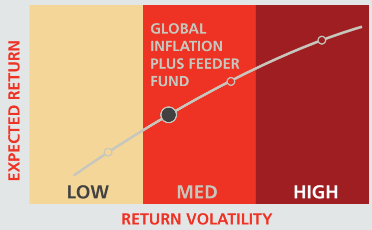
Our bond exposure favours investment-grade corporate bonds and emerging market sovereign bonds. Over the quarter the fund decreased its exposure to Mexican government bonds in favour of South African government bonds, creating a more balanced emerging market bond position. The fund lowered its duration in US dollar-denominated bonds by moving to floating rate bonds.

The relative appeal of equities compared to bonds has not changed, despite the strongly correlated performance of these two assets recently. We believe it is a good environment to be invested in global equities, especially within European and Asian markets. The positive tailwind following the recent softening in interest rate expectations supports this view, with valuations in the majority of equity markets looking attractive and priced to hopefully provide the expected level of return given their risk properties. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK*	B CLASS
1 year	6.8%	1.3%	7.2%
3 years	3.3%	0.5%	3.6%
5 years	7.1%	6.1%	7.4%
7 years	10.5%	9.5%	n/a
10 years	8.2%	6.8%	n/a
Since inception	7.4%	6.7%	8.6%

Inception date B Class: 1 July 2013
* The Fund's benchmark changed from the ASISA Global - Multi Asset - Low Equity Category Mean to Global Inflation on 1 November 2018.

RISK/RETURN PROFILE:



INVESTMENT MANAGER:
M&G Investment Management Limited (UK)

FUND MANAGERS OF THE UNDERLYING FUND:
Marc Beckenstrater and Craig Simpson

ASISA CATEGORY:
Global - Multi-Asset - Low Equity

BENCHMARK:
Global inflation

INCEPTION DATE:
1 March 2004

FUND SIZE:
R106 806 476

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL BALANCED FEEDER FUND
30 JUNE 2019

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL MULTI-ASSET

MARKET OVERVIEW

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PERFORMANCE

The fund produced a return of -0.3% (net of fees) in rand for the second quarter of 2019, underperforming its benchmark by 1.0%. For the 12 months ending 30 June 2019, the fund returned 3.3% (net of fees) while the benchmark returned 9.0%.

Global equities and fixed-income positions contributed to absolute performance over the quarter, with both asset classes showing a strong correlation. The fund's exposure to emerging market sovereign bonds issued by Mexico and South Africa also added value. Detracting from absolute performance was the fund's exposure to South Korean equities, which disappointed due to challenges facing its export sector.

STRATEGY AND POSITIONING

The fund remains overweight equities and underweight bonds (and more cautious on developed government bonds compared to the benchmark), as the size of the equity risk premium remains the most obvious opportunity on offer across the global investment landscape today.

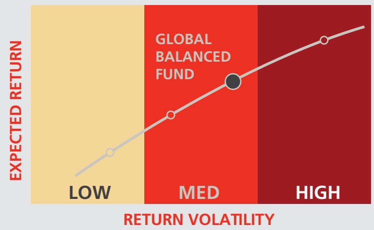
Over the quarter the fund decreased its exposure to Mexican government bonds in favour of South African government bonds, creating a more balanced emerging market bond position. The fund lowered its duration in US dollar-denominated bonds by moving to floating rate bonds.

The relative appeal of equities compared to bonds has not changed, despite the strongly correlated performance of these two assets recently. We believe it is a good environment to be invested in global equities, especially within European and Asian markets. The positive tailwind following the recent softening in interest rate expectations supports this view, with valuations in the majority of equity markets looking attractive and priced to hopefully provide the expected level of return given their risk properties. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	3.3%	9.0%	3.4%
Since inception	3.3%	9.0%	3.4%

\# Inception date B Class: 28 June 2018

RISK/RETURN PROFILE:



INVESTMENT MANAGER:
M&G Investment Management Limited (UK)

FUND MANAGERS OF THE UNDERLYING FUND:
Marc Beckenstrater and Craig Simpson

ASISA CATEGORY:
Global - Multi Asset - High Equity

BENCHMARK:
65% MSCI All Country World Index TR (Net),
5% FTSE EPRA/NAREIT Global REIT Index,
25% Bloomberg Barclays Global Aggregate
Bond Index, 5% USD 1m LIBOR

INCEPTION DATE:
28 June 2018

FUND SIZE:
R4 908 231

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL EQUITY FEEDER FUND
30 JUNE 2019

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL EQUITY

MARKET OVERVIEW

The second quarter of 2019 (Q2) was a true rollercoaster for investors around the world, as market sentiment seemed to whipsaw from positive to negative on the back of ever-changing US-China trade news and evolving central bank policy. April's solid equity gains turned into sharp losses in May, only to rebound again in June, leaving investors with good returns across the board, although not as strong as those recorded in Q1. Propelling gains were the easier monetary outlooks adopted by many central banks in the face of building evidence of a growth slowdown, as well as better news on US-China trade negotiations seeming to outweigh the negative news on that front by the end of the quarter. Emerging markets also benefitted somewhat from the more bullish sentiment and the lower global interest rate outlook.

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PERFORMANCE

The fund produced a return of -0.2% (net of fees) in rand for the second quarter of 2019, underperforming its benchmark by 1.2%. For the 12 months ending 30 June 2019, the fund returned 4.4% (net of fees) while the benchmark returned 8.8%.

Global equities were broadly positive over the quarter in line with the broader "risk on" sentiment, with the fund's exposure to emerging markets boosting returns. Detracting from absolute performance was the fund's exposure to South Korean equities, which disappointed due to challenges facing its export sector.

STRATEGY AND POSITIONING

The fund's positioning reflects a preference for attractively-valued equities from Europe and Asia ex-Japan. The fund remains underweight in the US and slightly underweight in Japan and the UK. There were no meaningful portfolio trades during the quarter, although we continue to monitor for attractive opportunities in light of an elevated equity risk premium.

The relative appeal of equities compared to bonds has not changed, despite the strongly correlated performance of these two assets recently. We believe it is a good environment to be invested in global equities, especially within European and Asian markets. The positive tailwind following the recent softening in interest rate expectations supports this view, with valuations in the majority of equity markets looking attractive and priced to hopefully provide the expected level of return given their risk properties. ■

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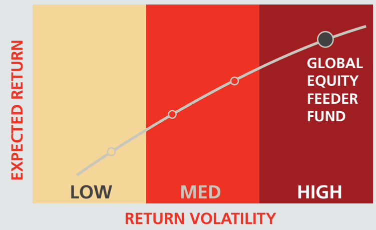
5 years	9.7%	12.3%
7 years	16.7%	18.8%
10 years	14.6%	17.0%
Since inception	6.9%	8.5%

RISK/RETURN PROFILE:



INVESTMENT MANAGER:
M&G Investment Management Limited (UK)

FUND MANAGERS OF THE UNDERLYING FUND:
Marc Beckenstrater and Craig Simpson

ASISA CATEGORY:
Global - Equity - General

BENCHMARK:
MSCI All Country World Index TR Net

INCEPTION DATE:
18 February 2000

FUND SIZE:
R290 381 590

Sources: Prudential, Morningstar & Deutsche Securities