PRUDENTIAL UNIT TRUSTS QUARTERLY COMMENTARY
31 MARCH 2019

PRUDENTIAL
INVESTMENT MANAGERS

COMBINED QUARTERLY COMMENTARY

INCOME | MULTI-ASSET | PROPERTY/EQUITY | GLOBAL

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PRUDENTIAL MONEY MARKET FUND
31 MARCH 2019

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME FUND

MARKET OVERVIEW

South African assets were boosted over the quarter primarily by the easier global monetary outlook, recording gains across all asset classes. This mixed with some still-gloomy sentiment locally. The economy emerged with growth of 0.8% in 2018, slightly above expectations. Still, this was a very weak absolute growth level, and the SARB is now projecting only 1.3% GDP growth for 2019 (down from 1.7% previously), not including the negative impact of any ongoing electricity cuts.

Apart from the US Fed emphasizing that it would be "patient" when it came to raising interest rates further, which bolstered bond markets around the world, SA bonds rallied on several local factors, as the BEASSA All Bond Index delivered 3.8% for Q1: the yield on the benchmark R186 bond (due 2032) fell from around 8.9% at the start of the quarter to end at around 8.6%. These supportive factors included good investor demand, subdued inflation (February CPI at 4.1% y/y, below the SARB's 4.5% midpoint target) and the SARB's decision to keep interest rates on hold at both its January and March MPC meetings. The SARB's latest interest rate projection model showed only one 25bp rate hike this year. Also importantly, Finance Minister Tito Mboweni's February Budget was greeted favourably by most analysts, reinforcing the government's commitment to reining in the budget deficit and cutting spending, while also reforming and reducing wastage at the parastatals.

The bond rally also occurred against the backdrop of the expected 29 March Moody's sovereign credit rating report. While many were pessimistic, Moody's final decision not to review the rating and leave it at investment grade with a stable outlook granted the country a big reprieve on the final trading day of the quarter, with the R186 rallying 10bps on the day. Further bond gains were, however, only reflected after quarter-end.

However, the SARB remains concerned about future inflationary pressures arising from the weaker rand, as well as higher costs from fuel and electricity, among other sources. SA inflation-linked bonds, meanwhile, again performed rather poorly in the low-inflation environment, returning 0.5% over the three months, while cash (as measured by the STeFI Composite) delivered 1.8%. Despite US dollar strength, the rand lost only 0.5% versus the greenback, but 2.1% against the UK pound sterling, while gaining 1.3% against the euro, which was hit by growth concerns and more dovish interest rate expectations.

Other worries remained Eskom's generation capacity and the negative impact of load-shedding on growth in 2019, the land expropriation debate, nationalisation of the SARB, and last but not least, the upcoming May elections.

Meanwhile, private sector credit extension (PSCE) decelerated to 6.0% y/y in February from a growth of 6.5% y/y posted in January. The deceleration was on the back of a marked decline in credit extended to companies to 6.1%, while credit extended to households remained unchanged at 5.9% y/y.

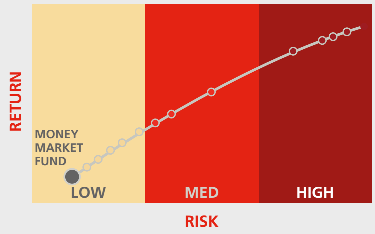
PERFORMANCE

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 31 March 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 65 days relative to the 90-day maximum weighted average duration. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	X CLASS
1 year	7.4%	6.6%	7.5%
3 years	7.5%	6.8%	7.6%
5 years	6.9%	6.4%	7.0%
7 years	6.4%	6.0%	6.5%
10 years	6.4%	6.1%	n/a
Since inception	7.8%	7.6%	6.4%

Inception date X Class: 1 April 2011

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 336 559 327

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

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL HIGH INTEREST FUND
31 MARCH 2019

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME FUND

MARKET OVERVIEW

South African assets were boosted over the quarter primarily by the easier global monetary outlook, recording gains across all asset classes. This mixed with some still-gloomy sentiment locally. The economy emerged with growth of 0.8% in 2018, slightly above expectations. Still, this was a very weak absolute growth level, and the SARB is now projecting only 1.3% GDP growth for 2019 (down from 1.7% previously), not including the negative impact of any ongoing electricity cuts.

Apart from the US Fed emphasizing that it would be "patient" when it came to raising interest rates further, which bolstered bond markets around the world, SA bonds rallied on several local factors, as the BEASSA All Bond Index delivered 3.8% for Q1: the yield on the benchmark R186 bond (due 2032) fell from around 8.9% at the start of the quarter to end at around 8.6%. These supportive factors included good investor demand, subdued inflation (February CPI at 4.1% y/y, below the SARB's 4.5% midpoint target) and the SARB's decision to keep interest rates on hold at both its January and March MPC meetings. The SARB's latest interest rate projection model showed only one 25bp rate hike this year. Also importantly, Finance Minister Tito Mboweni's February Budget was greeted favourably by most analysts, reinforcing the government's commitment to reining in the budget deficit and cutting spending, while also reforming and reducing wastage at the parastatals.

The bond rally also occurred against the backdrop of the expected 29 March Moody's sovereign credit rating report. While many were pessimistic, Moody's final decision not to review the rating and leave it at investment grade with a stable outlook granted the country a big reprieve on the final trading day of the quarter, with the R186 rallying 10bps on the day. Further bond gains were, however, only reflected after quarter-end.

However, the SARB remains concerned about future inflationary pressures arising from the weaker rand, as well as higher costs from fuel and electricity, among other sources. SA inflation-linked bonds, meanwhile, again performed rather poorly in the low-inflation environment, returning 0.5% over the three months, while cash (as measured by the STeFI Composite) delivered 1.8%. Despite US dollar strength, the rand lost only 0.5% versus the greenback, but 2.1% against the UK pound sterling, while gaining 1.3% against the euro, which was hit by growth concerns and more dovish interest rate expectations.

Other worries remained Eskom's generation capacity and the negative impact of load-shedding on growth in 2019, the land expropriation debate, nationalisation of the SARB, and last but not least, the upcoming May elections.

PERFORMANCE

For the quarter, the fund generated a return of 1.82% (net of fees), marginally outperforming its benchmark by 0.05%.

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 34 days.

STRATEGY AND POSITIONING

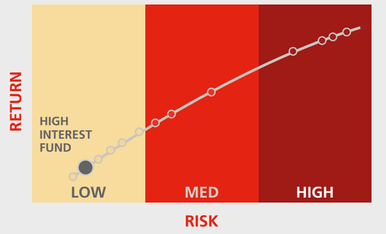
We generally sought to take advantage of the banks' requirements to secure longer-dated funding which better matched the profile of their loan books. This has led to a relatively steep credit curve, whereby banks are prepared to pay significantly more for funding beyond the 12-month point. We prefer 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	7.6%	7.3%	7.8%	7.9%
3 years	8.1%	7.4%	8.3%	8.4%
5 years	7.3%	7.0%	7.5%	7.6%
7 years	6.8%	6.5%	6.9%	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:
R9 002 620 898

PLEASE NOTE:
This fund is capped to new investors

DISCLAIMER

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL INCOME FUND
31 MARCH 2019

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MARKET OVERVIEW

South African assets were boosted over the quarter primarily by the easier global monetary outlook, recording gains across all asset classes. This mixed with some still-gloomy sentiment locally. The economy emerged with growth of 0.8% in 2018, slightly above expectations. Still, this was a very weak absolute growth level, and the SARB is now projecting only 1.3% GDP growth for 2019 (down from 1.7% previously), not including the negative impact of any ongoing electricity cuts.

Apart from the US Fed emphasizing that it would be "patient" when it came to raising interest rates further, which bolstered bond markets around the world, SA bonds rallied on several local factors, as the BEASSA All Bond Index delivered 3.8% for Q1: the yield on the benchmark R186 bond (due 2032) fell from around 8.9% at the start of the quarter to end at around 8.6%. These supportive factors included good investor demand, subdued inflation (February CPI at 4.1% y/y, below the SARB's 4.5% midpoint target) and the SARB's decision to keep interest rates on hold at both its January and March MPC meetings. The SARB's latest interest rate projection model showed only one 25bp rate hike this year. Also importantly, Finance Minister Tito Mboweni's February Budget was greeted favourably by most analysts, reinforcing the government's commitment to reining in the budget deficit and cutting spending, while also reforming and reducing wastage at the parastatals.

The bond rally also occurred against the backdrop of the expected 29 March Moody's sovereign credit rating report. While many were pessimistic, Moody's final decision not to review the rating and leave it at investment grade with a stable outlook granted the country a big reprieve on the final trading day of the quarter, with the R186 rallying 10bps on the day. Further bond gains were, however, only reflected after quarter-end.

However, the SARB remains concerned about future inflationary pressures arising from the weaker rand, as well as higher costs from fuel and electricity, among other sources. SA inflation-linked bonds, meanwhile, again performed rather poorly in the low-inflation environment, returning 0.5% over the three months, while cash (as measured by the STeFI Composite) delivered 1.8%. Despite US dollar strength, the rand lost only 0.5% versus the greenback, but 2.1% against the UK pound sterling, while gaining 1.3% against the euro, which was hit by growth concerns and more dovish interest rate expectations.

Other worries remained Eskom's generation capacity and the negative impact of load-shedding on growth in 2019, the land expropriation debate, nationalisation of the SARB, and last but not least, the upcoming May elections.

PERFORMANCE

For the quarter, the fund generated a return of 2.3% (net of fees), outperforming its benchmark by 0.5%.

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 50 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. ■

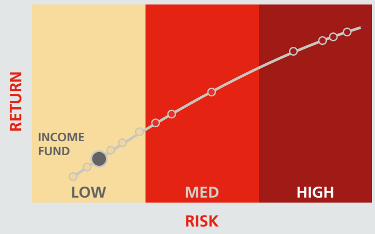
ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	D CLASS
1 year	8.8%	7.3%	8.9%
2 years	8.7%	7.4%	8.9%
Since inception	8.5%	7.4%	8.7%

[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%

INCOME FUND

RISK/RETURN PROFILE:



FUND MANAGERS:
Roshen Harry and Sandile Malinga

ASISA CATEGORY:
South African - Interest Bearing - Short Term

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

INCEPTION DATE:
6 December 2016

FUND SIZE:
R1 266 142 614

DISCLAIMER

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL HIGH YIELD BOND FUND
31 MARCH 2019

QUARTERLY COMMENTARY

INCOME FUND

MARKET OVERVIEW

South African assets were boosted over the quarter primarily by the easier global monetary outlook, recording gains across all asset classes. This mixed with some still-gloomy sentiment locally. The economy emerged with growth of 0.8% in 2018, slightly above expectations. Still, this was a very weak absolute growth level, and the SARB is now projecting only 1.3% GDP growth for 2019 (down from 1.7% previously), not including the negative impact of any ongoing electricity cuts.

Apart from the US Fed emphasizing that it would be "patient" when it came to raising interest rates further, which bolstered bond markets around the world, SA bonds rallied on several local factors, as the BEASSA All Bond Index delivered 3.8% for Q1: the yield on the benchmark R186 bond (due 2032) fell from around 8.9% at the start of the quarter to end at around 8.6%. These supportive factors included good investor demand, subdued inflation (February CPI at 4.1% y/y, below the SARB's 4.5% midpoint target) and the SARB's decision to keep interest rates on hold at both its January and March MPC meetings. The SARB's latest interest rate projection model showed only one 25bp rate hike this year. Also importantly, Finance Minister Tito Mboweni's February Budget was greeted favourably by most analysts, reinforcing the government's commitment to reining in the budget deficit and cutting spending, while also reforming and reducing wastage at the parastatals.

The bond rally also occurred against the backdrop of the expected 29 March Moody's sovereign credit rating report. While many were pessimistic, Moody's final decision not to review the rating and leave it at investment grade with a stable outlook granted the country a big reprieve on the final trading day of the quarter, with the R186 rallying 10bps on the day. Further bond gains were, however, only reflected after quarter-end.

However, the SARB remains concerned about future inflationary pressures arising from the weaker rand, as well as higher costs from fuel and electricity, among other sources. SA inflation-linked bonds, meanwhile, again performed rather poorly in the low-inflation environment, returning 0.5% over the three months, while cash (as measured by the STeFI Composite) delivered 1.8%. Despite US dollar strength, the rand lost only 0.5% versus the greenback, but 2.1% against the UK pound sterling, while gaining 1.3% against the euro, which was hit by growth concerns and more dovish interest rate expectations.

Other worries remained Eskom's generation capacity and the negative impact of load-shedding on growth in 2019, the land expropriation debate, nationalisation of the SARB, and last but not least, the upcoming May elections.

Over the quarter the primary bond market issuance volume (excluding government issuances) was R35,5bn, up from both Q1 2018 and Q4 2018 where the issuance averaged at around R31bn.

As with previous quarters, issuance activity remains dominated by financials. State-owned enterprise issuances continued to gather pace driven by the three Development Funding Institutions coming to the market during the quarter: (IDC issued R2.6bn, split between private placement and public issuance; Land Bank issued R1bn publically and DBSA issued R1.2bn publically at the tail-end of the quarter). Corporate issuance was dominated by the property companies (Redefine, Growthpoint, Premium Properties, Emira, Hyprop and Investec Property Fund). We also saw sizable volume from the automotive sector with Mercedes Benz and Toyota issuing a combined volume of R2.6bn. The remaining issuance activity came from Netcare, Calgro, Telkom and SuperGroup.

PERFORMANCE

For the quarter, the fund generated a return of 3.6% (net of fees), marginally underperforming its benchmark by -0.2%. For the 12 months ended 31 March 2019, the fund returned 2.7% (net of fees) while the benchmark returned 3.5% over the same period.

STRATEGY AND POSITIONING

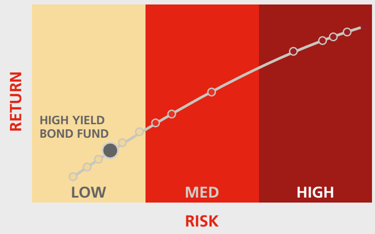
The fund maintained its long duration positon over the quarter as we continue to view current valuations as cheap compared to our assessment of their long-term fair value.

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	2.7%	3.5%	3.0%
3 years	9.6%	10.1%	9.9%
5 years	7.4%	8.3%	7.8%
7 years	7.5%	8.0%	7.8%
10 years	8.4%	8.7%	8.7%
Since inception	10.1%	10.4%	9.2%

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:
R657 636 285

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

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL ENHANCED INCOME FUND
31 MARCH 2019

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

MARKET OVERVIEW

After the sharp losses suffered at the end of 2018, investors were able to take heart in the first quarter (Q1) of 2019 with markets rebounding as a few negative factors appeared to reverse themselves. Although evidence of slowing global growth continued to mount, global equities and bonds rallied strongly after the US Federal Reserve announced a substantial change of view and decided to pause (and perhaps even end) its interest rate hiking cycle. At the same time, other developed market central banks undertook more growth-supportive moves, and considerable progress was reportedly made in resolving the US-China trade dispute. On the negative side, an even more chaotic Brexit environment and the uncertainty engendered by Trump's unpredictability remained bearish factors for markets. Emerging markets also benefitted from the more bullish sentiment and the Fed's rate pause, but some like Turkey and Venezuela faced idiosyncratic challenges. However, for South African investors, local equities and bonds posted respectable gains in rand terms thanks to several positive developments.

In the US, it was the Fed's more dovish rate stance that proved to be the key for turning last year's losses into this quarter's gains. The Bank emphasized that it would be "patient" when it came to further raising interest rates, given that the case for hiking had weakened in the face of slowing global and US growth. This eased fears that inexorably higher rates could choke off growth. US GDP growth for Q4 2018 was revised down to 2.2% (q/q annualised) from 2.6% previously, sharply lower than the 3.4% in Q3 2018. Dismal US retail sales data were a key highlight. Not only did the Fed opt to keep rates on hold at its January and March FOMC meetings, but on 20 March its "dot plot" showed it had slashed its own interest rate expectations from two 25bp rate hikes in 2019 to zero, and only one 25bp hike in 2020. This was very positive for equities, and also helped push longer-dated US Treasury bond yields lower, such that the yield curve "inverted" for the first time since 2007 (where 3-month interest rates were higher than those for 10-year bonds). Some interpreted this as a sign of a looming recession.

Adding to the general positive news was the end of the 35-day US government shutdown in January, and that good progress was reportedly being made in the US-China trade negotiations to avert higher tariffs and a full-blown trade war. This was particularly beneficial for the global growth outlook, especially for trade-dependent countries like China, Japan and South Korea, and helped push the US dollar stronger for the quarter against most other currencies (although not the yen).

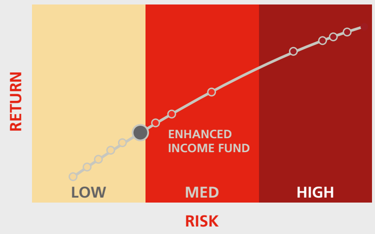
In the UK, agreement was reached with the EU to extend the Brexit deadline into April, and PM Theresa May effectively lost control over determining a way forward, forced to hand over to Parliament. However, MPs rejected every possible option for structuring the future relationship, worsening the chaos within government. Meanwhile, UK GDP growth slowed to 1.4% (q/q annualised) in Q4 2018 from 1.6% previously, with the EU area equally pedestrian at 1.4% for the quarter. This deteriorating growth was a factor in keeping interest rates on hold across both regions, as well as in the US Fed's interest rate view. The European Central Bank even introduced a new cheap long-term loan plan for banks to help avoid further deceleration, as Germany's manufacturing data was negative for three months in a row.

During the quarter it was revealed that the Japanese economy returned to growth in Q4 2018 after a contraction in Q3, although exports remained sluggish amid trade uncertainty and the slowdown in Chinese growth. Japanese GDP is forecast to reach around 1.0% in 2019, supported by the Bank of Japan's ongoing easy monetary policy, but expected to be hit by a new consumption tax on spending and consumer prices to take effect later in 2019. In China, meanwhile, 2018 GDP growth came in at 6.6%, its weakest in 28 years but meeting consensus expectations. The government's new 2019 growth target is even lower at 6.0%-6.5%. There was, however, renewed optimism amid the positive US-China trade news; government pro-growth measures, including easier bank credit, took effect; and manufacturing activity accelerated – China's PMI recorded its highest rise since 2012.

South African assets were boosted over the quarter primarily by the easier global monetary outlook, recording gains across all asset classes. This mixed with some still-gloomy sentiment locally. The economy emerged with growth of 0.8% in 2018, slightly above expectations. Still, this was a very weak absolute growth level, and the SARB is now projecting only 1.3% GDP growth for 2019 (down from 1.7% previously), not including the negative impact of any ongoing electricity cuts. In some growth-positive news, retail sales growth recovered somewhat to 1.2% y/y in January from the shocking -1.6% y/y in December.

Apart from the Fed's rate pause, which bolstered bond markets around the world, SA bonds rallied on several local factors, as the BEASSA All Bond Index delivered 3.8% for Q1: the yield on the benchmark R186 bond (due 2032) fell from around 8.9% at the start of the quarter to end at around 8.6%. These supportive factors included good investor demand, subdued inflation (February CPI at 4.1% y/y, below the SARB's 4.5% midpoint target) and the SARB's decision to keep interest rates on hold at both its January and March MPC meetings. The SARB's latest interest rate projection model showed only one 25bp rate hike this year. Also importantly, Finance Minister Tito Mboweni's February Budget was greeted favourably by most analysts, reinforcing the government's commitment to reining in the budget deficit and cutting spending, while also reforming and reducing wastage at the parastatals.

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 169 042 396

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	X CLASS	D CLASS
1 year	5.9%	7.3%	6.3%	6.1%	6.5%
3 years	7.2%	7.4%	7.7%	7.5%	7.9%
5 years	7.1%	7.3%	n/a	7.3%	7.7%
7 years	7.4%	6.8%	n/a	7.7%	8.0%
Since inception	8.2%	7.3%	7.1%	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 Q1 2019
SA equity – FTSE/JSE All Share Index (Rand)	8.0%
SA equity – FTSE/JSE Capped SWIX All Share (Rand)	3.9%
SA bonds – BEASSA All Bond Index (Rand)	3.8%
SA listed property – SA Listed Property Index (Rand)	1.5%
SA inflation-linked bonds – JSE CILI Index (Rand)	0.5%
SA cash - STeFI Composite Index (Rand)	1.8%
Global equity – MSCI All Country World (Total) (US$ net)	12.2%
Global equity – MSCI World (Developed) (US$ net)	12.5%
Global equity – MSCI Emerging Markets (US$ net)	9.9%
Global bonds – Bloomberg Barclays Global Aggregate Bond Index (US$)	2.2%
Global property – FTSE EPRA/NAREIT Global Property REIT Index (US$ net)	14.3%

Sources: Prudential, Morningstar & Deutsche Securities

The bond rally also occurred against the backdrop of the expected 29 March Moody's sovereign credit rating report. While many were pessimistic, Moody's final decision not to review the rating and leave it at investment grade with a stable outlook granted the country a big reprieve on the final trading day of the quarter, with the R186 rallying 10bps on the day. Further bond gains were, however, only reflected after quarter-end.

However, the SARB remains concerned about future inflationary pressures arising from the weaker rand, as well as higher costs from fuel and electricity, among other sources. SA inflation-linked bonds, meanwhile, again performed rather poorly in the low-inflation environment, returning 0.5% over the three months, while cash (as measured by the STeFI Composite) delivered 1.8%. Despite US dollar strength, the rand lost only 0.5% versus the greenback, but 2.1% against the UK pound sterling, while gaining 1.3% against the euro, which was hit by growth concerns and more dovish interest rate expectations.

Other worries remained Eskom's generation capacity and the negative impact of load-shedding on growth in 2019, the land expropriation debate, nationalisation of the SARB, and last but not least, the upcoming May elections.

PERFORMANCE

The fund returned 2.3% (net of fees) for the first quarter of 2019, outperforming its benchmark by 0.5%. For the 12-month period ending 31 March 2019, the fund returned 5.9% (net of fees), underperforming its benchmark by -1.4%.

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

As the rand weakened to R14.50 to the US dollar, we hedged about a third of the fund's offshore exposure using listed currency options. 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**, despite the rally over the quarter, 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 do not own global sovereign bonds and prefer to hold investment-grade US corporate bonds. These assets are slightly cheap and have the potential for stronger returns going forward now that the US interest rate hiking cycle is on hold.

In **SA listed property** we are neutral and note the higher risks to earnings going forward compared the attractive valuations prevailing in the sector. We remain concerned around the quality of earnings and possibility of further downward revisions to earnings forecasts for listed property. 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 still remained cheap over the quarter compared to their longer-term fair value; however, we hold modest exposure to longer-dated government bonds and prefer to own floating-rate instruments issued by high-quality corporates and the big local banks. 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 suits the risk profile of the fund.

For **SA inflation-linked bonds**, following the quarter's return of 0.5%, the real yield remains very attractive, having risen to 3.3%. Given the significant sensitivity of the asset's price to modest changes in real yields were have limited our exposure to about 9% of the fund. ■

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Sources: Prudential, Morningstar & Deutsche Securities

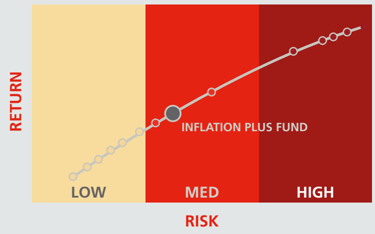
PRUDENTIAL INFLATION PLUS FUND
31 MARCH 2019

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

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 875 158 423

AWARDS:
Raging Bull: 2013
Morningstar: 2015

MARKET OVERVIEW

After the sharp losses suffered at the end of 2018, investors were able to take heart in the first quarter (Q1) of 2019 with markets rebounding as a few negative factors appeared to reverse themselves. Although evidence of slowing global growth continued to mount, global equities and bonds rallied strongly after the US Federal Reserve announced a substantial change of view and decided to pause (and perhaps even end) its interest rate hiking cycle. At the same time, other developed market central banks undertook more growth-supportive moves, and considerable progress was reportedly made in resolving the US-China trade dispute. On the negative side, an even more chaotic Brexit environment and the uncertainty engendered by Trump's unpredictability remained bearish factors for markets. Emerging markets also benefitted from the more bullish sentiment and the Fed's rate pause, but some like Turkey and Venezuela faced idiosyncratic challenges. However, for South African investors, local equities and bonds posted respectable gains in rand terms thanks to several positive developments. In US$ terms, global equity (the MSCI All Country World Index) returned 12.2% for the quarter, with developed markets posting 12.5% and emerging markets producing 9.9%. Global bonds delivered 2.2% and global property 14.3%, buoyed by the Fed's unexpectedly more dovish interest rate outlook.

In the US, it was the Fed's more dovish rate stance that proved to be the key for turning last year's losses into this quarter's gains. The Bank emphasized that it would be "patient" when it came to further raising interest rates, given that the case for hiking had weakened in the face of slowing global and US growth. This eased fears that inexorably higher rates could choke off growth. This was very positive for equities, and also helped push longer-dated US Treasury bond yields lower, such that the yield curve "inverted" for the first time since 2007 (where 3-month interest rates were higher than those for 10-year bonds). For the quarter, the US S&P 500 returned 13.6%, the Nasdaq 16.9% and the Dow Jones Industrial 11.8%.

Other developed and emerging markets also benefited. The UK's FTSE 100 returned 11.6% for the quarter, while the Dow Jones Eurostoxx 50 produced 10.2% and the Nikkei 225 returned 6.5% (all in US$). Renewed policy support from the Chinese government plus progress in the US-China trade negotiations helped the MSCI China post a return of 17.7%, making it the best performing large emerging market in Q1. Among other emerging markets, strong performers for the quarter included the MSCI Russia with 12.2% and Brazil's Bovespa at 8.0%. The weakest markets were the MSCI Turkey (-3.0%), South Korea's KOSPI 200 (3.4%) and the MSCI South Africa (4.6%), all in US$.

SA benefits from global and some local positives

South African assets were boosted over the quarter primarily by the easier global monetary outlook, recording gains across all asset classes. This mixed with some still-gloomy sentiment locally. The economy emerged with growth of 0.8% in 2018, slightly above expectations. Still, this was a very weak absolute growth level, and the SARB is now projecting only 1.3% GDP growth for 2019 (down from 1.7% previously), not including the negative impact of any ongoing electricity cuts. In some growth-positive news, retail sales growth recovered somewhat to 1.2% y/y in January from the shocking -1.6% y/y in December.

While SA's more global-influenced stocks generally posted strong gains, the subdued local economy weighed on "SA Inc." stocks like Financials, Retailers and Listed Property. The FTSE/JSE ALSI returned 8.0% for the quarter, led by Resources stocks with 16.2% and Industrials with 7.4%. Listed Property lagged with a 1.5% return, and Financial counters were in the red with -0.4%. The performance of the FTSE/JSE Capped SWIX All Share Index, which we use as the equity benchmark for the majority of our client mandates, was much less robust, returning 3.9% on the back of its more limited exposure to the larger global stocks like BAT, Naspers and Anglo American, all good performers for the quarter.

Apart from the Fed's rate pause, SA bonds rallied on several local factors, as the BEASSA All Bond Index delivered 3.8% for Q1. These supportive factors included good investor demand, subdued inflation (February CPI at 4.1% y/y, below the SARB's 4.5% midpoint target) and the SARB's decision to keep interest rates on hold at both its January and March MPC meetings. The SARB's latest interest rate projection model showed only one 25bp rate hike this year. Also importantly, Finance Minister Tito Mboweni's February Budget was greeted favourably by most analysts, reinforcing the government's commitment to reining in the budget deficit and cutting spending, while also reforming and reducing wastage at the parastatals.

The bond rally also occurred against the backdrop of the expected 29 March Moody's sovereign credit rating report. While many were pessimistic, Moody's final decision not to review the rating and leave it at investment grade with a stable outlook granted the country a big reprieve on the final trading day of the quarter. Further bond gains were, however, only reflected after quarter-end. SA inflation-linked bonds, meanwhile, again performed rather poorly in the low-inflation environment, returning 0.5% over the three months, while cash (as measured by the STeFI Composite) delivered 1.8%.

However, the SARB remains concerned about future inflationary pressures arising from the weaker rand, as well as higher costs from fuel and electricity, among other sources. Other worries remained Eskom's generation capacity and the negative impact of load-shedding on growth in 2019, the land expropriation debate, nationalisation of the SARB, and last but not least, the upcoming May elections. Despite US dollar strength, the rand lost only 0.5% versus the greenback, but 2.1% against the UK pound sterling, while gaining 1.3% against the euro, which was hit by growth concerns and more dovish interest rate expectations.

PERFORMANCE

The fund returned 4.4% (after fees) for the first quarter of 2019 and produced 2.6% for the 12-month period ending 31 March 2019. The fund has delivered a return of 12.0% per annum since inception (after fees), compared to its after-fee objective of 9.4% per annum over the same period.

ANNUALISED PERFORMANCE	A CLASS	OBJECTIVE#	T CLASS	X CLASS	B CLASS
1 year	2.6%	7.5%	3.1%	2.9%	3.4%
3 years	3.5%	8.2%	4.0%	3.8%	4.3%
5 years	6.2%	8.5%	n/a	6.5%	7.0%
7 years	9.0%	8.7%	n/a	9.3%	9.9%
10 years	10.4%	8.7%	n/a	n/a	11.2%
Since inception	12.0%	9.4%	4.9%	9.8%	12.0%

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

ASSET CLASS RETURNS	TOTAL RETURN Q1 2019
SA equity – FTSE/JSE All Share Index (Rand)	8.0%
SA equity – FTSE/JSE Capped SWIX All Share (Rand)	3.9%
SA bonds – BEASSA All Bond Index (Rand)	3.8%
SA listed property – SA Listed Property Index (Rand)	1.5%
SA inflation-linked bonds – JSE CILI Index (Rand)	0.5%
SA cash - STeFI Composite Index (Rand)	1.8%
Global equity – MSCI All Country World (Total) (US$ net)	12.2%
Global equity – MSCI World (Developed) (US$ net)	12.5%
Global equity – MSCI Emerging Markets (US$ net)	9.9%
Global bonds – Bloomberg Barclays Global Aggregate Bond Index (US$)	2.2%
Global property – FTSE EPRA/NAREIT Global Property REIT Index (US$ net)	14.3%

Sources: Prudential, Morningstar & Deutsche Securities

The largest positive contributors to absolute performance for the period included the fund's exposure to international equity, where the fund is overweight, and international bonds, where it is underweight. SA equity holdings also added significant value, including resources and global shares like BAT, Anglo American, BHP, Sasol and Naspers. Smaller contributions came from SA nominal bonds, listed property and inflation-linked bonds. The largest detractors from absolute performance were the fund's exposures to Sappi and Hyprop.

STRATEGY AND OUTLOOK

Offshore, the 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. The fund remains 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 total offshore exposure remains at around 25% (within Regulation 28 limits).

In **global fixed income**, despite the rally over the quarter, 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 a 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 the US interest rate hiking cycle is on hold.

For **global equities**, some developed markets have become more expensive after the quarter's gains, but 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 and 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 Germany and Japan, and selected emerging markets such as South Korea, Indonesia and China. These overweight positions are financed primarily by an underweight in global bonds, as well as US equities to a lesser extent.

Although **South African equities** became cheaper during the quarter, we did not add to SA equity holdings in the Inflation Plus Fund given the fund's maximum limit of 40% total equity exposure. We still see better equity opportunities offshore.

The fund continues to hold resources stocks with exposure to global growth and foreign currency earnings like Anglo American, BHP, Exxaro, Sasol and Sappi, as well as global giants such as Naspers and British American Tobacco. With the exception of Sappi, these holdings generally benefitted the fund for the quarter. 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. These holdings generally detracted from value over the quarter. Meanwhile, we are still somewhat underweight retail stocks, given the pressure under which local consumers find themselves.

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.

In **SA listed property** we are marginally underweight in the fund given the higher risks to earnings going forward compared to the attractive valuations prevailing in the asset class. We remain concerned around the quality of earnings and possibility of further downward revisions to earnings forecasts for listed property. 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 despite the quarter's 3.8% return from the asset class. We continue to be overweight and still prefer longer-dated government bonds due to the more attractive yields on offer. 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 **inflation-linked bonds**, following the quarter's return of 0.5%, the real yield remains very attractive, having risen to 3.3% for 10-years. However, we remain 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. ■

DISCLAIMER

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Sources: Prudential, Morningstar & Deutsche Securities

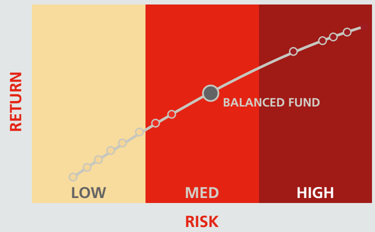
PRUDENTIAL BALANCED FUND
31 MARCH 2019

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

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:
R22 886 808 277

MARKET OVERVIEW

After the sharp losses suffered at the end of 2018, investors were able to take heart in the first quarter (Q1) of 2019 with markets rebounding as a few negative factors appeared to reverse themselves. Although evidence of slowing global growth continued to mount, global equities and bonds rallied strongly after the US Federal Reserve announced a substantial change of view and decided to pause (and perhaps even end) its interest rate hiking cycle. At the same time, other developed market central banks undertook more growth-supportive moves, and considerable progress was reportedly made in resolving the US-China trade dispute. On the negative side, an even more chaotic Brexit environment and the uncertainty engendered by Trump's unpredictability remained bearish factors for markets. Emerging markets also benefitted from the more bullish sentiment and the Fed's rate pause, but some like Turkey and Venezuela faced idiosyncratic challenges. However, for South African investors, local equities and bonds posted respectable gains in rand terms thanks to several positive developments. In US$ terms, global equity (the MSCI All Country World Index) returned 12.2% for the quarter, with developed markets posting 12.5% and emerging markets producing 9.9%. Global bonds delivered 2.2% and global property 14.3%, buoyed by the Fed's unexpectedly more dovish interest rate outlook.

In the US, it was the Fed's more dovish rate stance that proved to be the key for turning last year's losses into this quarter's gains. The Bank emphasized that it would be "patient" when it came to further raising interest rates, given that the case for hiking had weakened in the face of slowing global and US growth. This eased fears that inexorably higher rates could choke off growth. This was very positive for equities, and also helped push longer-dated US Treasury bond yields lower, such that the yield curve "inverted" for the first time since 2007 (where 3-month interest rates were higher than those for 10-year bonds). For the quarter, the US S&P 500 returned 13.6%, the Nasdaq 16.9% and the Dow Jones Industrial 11.8%.

Other developed and emerging markets also benefited. The UK's FTSE 100 returned 11.6% for the quarter, while the Dow Jones Eurostoxx 50 produced 10.2% and the Nikkei 225 returned 6.5% (all in US$). Renewed policy support from the Chinese government plus progress in the US-China trade negotiations helped the MSCI China post a return of 17.7%, making it the best performing large emerging market in Q1. Among other emerging markets, strong performers for the quarter included the MSCI Russia with 12.2% and Brazil's Bovespa at 8.0%. The weakest markets were the MSCI Turkey (-3.0%), South Korea's KOSPI 200 (3.4%) and the MSCI South Africa (4.6%), all in US$.

SA benefits from global and some local positives

South African assets were boosted over the quarter primarily by the easier global monetary outlook, recording gains across all asset classes. This mixed with some still-gloomy sentiment locally. The economy emerged with growth of 0.8% in 2018, slightly above expectations. Still, this was a very weak absolute growth level, and the SARB is now projecting only 1.3% GDP growth for 2019 (down from 1.7% previously), not including the negative impact of any ongoing electricity cuts. In some growth-positive news, retail sales growth recovered somewhat to 1.2% y/y in January from the shocking -1.6% y/y in December.

While SA's more global-influenced stocks generally posted strong gains, the subdued local economy weighed on "SA Inc." stocks like Financials, Retailers and Listed Property. The FTSE/JSE ALSI returned 8.0% for the quarter, led by Resources stocks with 16.2% and Industrials with 7.4%. Listed Property lagged with a 1.5% return, and Financial counters were in the red with -0.4%. The performance of the FTSE/JSE Capped SWIX All Share Index, which we use as the equity benchmark for the majority of our client mandates, was much less robust, returning 3.9% on the back of its more limited exposure to the larger global stocks like BAT, Naspers and Anglo American, all good performers for the quarter.

Apart from the Fed's rate pause, SA bonds rallied on several local factors, as the BEASSA All Bond Index delivered 3.8% for Q1. These supportive factors included good investor demand, subdued inflation (February CPI at 4.1% y/y, below the SARB's 4.5% midpoint target) and the SARB's decision to keep interest rates on hold at both its January and March MPC meetings. The SARB's latest interest rate projection model showed only one 25bp rate hike this year. Also importantly, Finance Minister Tito Mboweni's February Budget was greeted favourably by most analysts, reinforcing the government's commitment to reining in the budget deficit and cutting spending, while also reforming and reducing wastage at the parastatals.

The bond rally also occurred against the backdrop of the expected 29 March Moody's sovereign credit rating report. While many were pessimistic, Moody's final decision not to review the rating and leave it at investment grade with a stable outlook granted the country a big reprieve on the final trading day of the quarter. Further bond gains were, however, only reflected after quarter-end. SA inflation-linked bonds, meanwhile, again performed rather poorly in the low-inflation environment, returning 0.5% over the three months, while cash (as measured by the STeFI Composite) delivered 1.8%.

However, the SARB remains concerned about future inflationary pressures arising from the weaker rand, as well as higher costs from fuel and electricity, among other sources. Other worries remained Eskom's generation capacity and the negative impact of load-shedding on growth in 2019, the land expropriation debate, nationalisation of the SARB, and last but not least, the upcoming May elections. Despite US dollar strength, the rand lost only 0.5% versus the greenback, but 2.1% against the UK pound sterling, while gaining 1.3% against the euro, which was hit by growth concerns and more dovish interest rate expectations.

PERFORMANCE

The fund returned 6.6% (after fees) for the first quarter of 2019, outperforming its benchmark's 5.8% return, and delivered 6.1% for the 12-month period ending 31 March 2019 versus its benchmark's 5.8% return. Since its inception, the fund has posted a return of 13.5% per annum (after fees), compared to its benchmark's return of 11.5% per annum over the same period. To 31 March 2019 it retains its top-quartile or better performance over all annual periods from 2-10 years, according to Morningstar.

The largest contributor to the fund's absolute performance for the quarter was by far its holdings in SA equities, while international equity exposure also contributed significantly. The fund's SA bond holdings

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	X CLASS	B CLASS
1 year	6.1%	5.8%	6.7%	6.4%	6.9%
3 years	5.4%	3.8%	6.0%	5.7%	6.2%
5 years	7.2%	5.5%	n/a	7.5%	8.0%
7 years	10.8%	8.4%	n/a	n/a	11.7%
10 years	12.7%	9.8%	n/a	n/a	13.6%
Since inception	13.5%	11.6%	6.1%	10.0%	13.8%

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

ASSET CLASS RETURNS	TOTAL RETURN Q1 2019
SA equity – FTSE/JSE All Share Index (Rand)	8.0%
SA equity – FTSE/JSE Capped SWIX All Share (Rand)	3.9%
SA bonds – BEASSA All Bond Index (Rand)	3.8%
SA listed property – SA Listed Property Index (Rand)	1.5%
SA inflation-linked bonds – JSE CILI Index (Rand)	0.5%
SA cash - STeFI Composite Index (Rand)	1.8%
Global equity – MSCI All Country World (Total) (US$ net)	12.2%
Global equity – MSCI World (Developed) (US$ net)	12.5%
Global equity – MSCI Emerging Markets (US$ net)	9.9%
Global bonds – Bloomberg Barclays Global Aggregate Bond Index (US$)	2.2%
Global property – FTSE EPRA/NAREIT Global Property REIT Index (US$ net)	14.3%

Sources: Prudential, Morningstar & Deutsche Securities

also added value, although to a lesser extent. The only detractor from value was its listed property holdings. Within SA equity, the fund's overweights in resources stocks and industrials with global earnings generally added significant value, including Naspers, BAT, Anglo American, Exxaro, and Glencore. Another notable contribution came from its underweight in Aspen. Detracting from value was the fund's overweight in SA financial shares like Absa, Nedbank and Standard Bank, as well as in Sappi.

STRATEGY AND POSITIONING

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 extraordinary low government bond yields, which fell further during the quarter as a result of global interest rate expectations being revised downward. The fund's total offshore exposure remains at around 25%.

In **global fixed income**, despite the rally over the quarter, 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 a 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 the US interest rate hiking cycle is on hold.

For **global equities**, some developed markets have become more expensive after the quarter's gains, but 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 and 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 Germany and Japan, and selected emerging markets such as South Korea, Indonesia and China. These overweight positions are financed primarily by an underweight in global bonds, as well as US equities to a lesser extent.

South African equities gained ground over the three months, but this masked some volatility intra-quarter. In mid-February the JSE fell to very attractive levels relative to SA bonds, and we opted to buy more SA equity exposure in the Prudential Balanced Fund, reducing local cash and some bond holdings (to a lesser degree) to fund the purchases. Despite the positive index return over the quarter, valuations on SA equities actually fell as earnings expectations improved: the Capped SWIX's forward price-to-earnings (P/E) ratio fell to 11.2X at end-March from 11.8X in January. On a price-to-book (P/B) valuation measure, the Capped SWIX's current level of 1.6X is now even cheaper versus its longer-term median of 2.1X.

The fund continues to hold resources stocks with exposure to global growth and foreign currency earnings like Anglo American, BHP, Exxaro, Sasol and Sappi, as well as global giants such as Naspers and British American Tobacco. With the exception of Sappi, these holdings generally benefitted our portfolios for the quarter. 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. These holdings generally detracted from value over the quarter. Meanwhile, we are still somewhat underweight retail stocks, given the pressure under which local consumers find themselves.

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.

In **SA listed property** we are marginally underweight in the fund given the higher risks to earnings going forward compared to the attractive valuations prevailing in the asset class. We remain concerned around the quality of earnings and possibility of further downward revisions to earnings forecasts for listed property. 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. This slight underweight generally added value to the fund for the quarter.

In **SA nominal bonds**, valuations remained cheap over the quarter compared to their longer-term fair value despite the quarter's 3.8% return from the asset class. We continue to be overweight, although we trimmed our position slightly to buy even more attractive SA equity during the quarter. We still prefer longer-dated government bonds due to the more attractive yields on offer. 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.

The fund has a very small holding in **inflation-linked bonds**. Following the quarter's return of 0.5%, ILBs' real yields remain very attractive, having risen to 3.3% for 10-years.■

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL ENHANCED SA PROPERTY TRACKER FUND
31 MARCH 2019

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

PROPERTY

MARKET OVERVIEW

South African assets were boosted over the quarter primarily by the easier global monetary outlook, recording gains across all asset classes. This mixed with some still-gloomy sentiment locally. The economy emerged with growth of 0.8% in 2018, slightly above expectations. Still, this was a very weak absolute growth level, and the SARB is now projecting only 1.3% GDP growth for 2019 (down from 1.7% previously), not including the negative impact of any ongoing electricity cuts. In some growth-positive news, retail sales growth recovered somewhat to 1.2% y/y in January from the shocking -1.6% y/y in December.

The SARB decided to keep interest rates on hold at both its January and March MPC meetings, with the latest interest rate projection model showing only one 25bp rate hike this year. Finance Minister Tito Mboweni's February Budget was greeted favourably by most analysts, reinforcing the government's commitment to reining in the budget deficit and cutting spending, while also reforming and reducing wastage at the parastatals.

Moody's sovereign credit rating report was expected on 29 March. While many were pessimistic, Moody's final decision not to review the rating and leave it at investment grade with a stable outlook granted the country a big reprieve on the final trading day of the quarter. However, the SARB remains concerned about future inflationary pressures arising from the weaker rand, as well as higher costs from fuel and electricity, among other sources. Other worries for investors remained Eskom's generation capacity and the negative impact of load-shedding on growth in 2019, the land expropriation debate, nationalisation of the SARB, and last but not least, the upcoming May elections.

Despite US dollar strength, the rand lost only 0.5% versus the greenback, but 2.1% against the UK pound sterling, while gaining 1.3% against the euro, which was hit by growth concerns and more dovish interest rate expectations.

For the major listed property companies, the actual-delivered growth in distributions per share averaged 5.3% for the last six months' reporting cycle. We estimate that one-year forward earnings forecasts for the SAPY, excluding developers, grew by 3.6% on an annualised basis over the quarter. This implies slight downgrades to forecasts for the sector (relative to expectations) given that the consensus forecast for growth rates have been around the 6.0% mark.

The decline in the SAPY index over February and March was largely on the back of the de-rating of Rebosis B, Fortress B, Accelerate and Hyprop. Local property fundamentals appear to have deteriorated further, with the office sector remaining the weakest. In the retail sector, trading density growth weakened marginally. The restructuring of the Edcon group and their brands put further downward pressure on the listed property retail sector.

PERFORMANCE

The fund returned 0.9% (net of fees) for the first quarter of 2019, underperforming its benchmark by 0.6%. This was largely as a result of overweight positions in the Delta Property and Rebosis Property Funds.

These positions are examples of our risk-conscious approach to active stock selection and our fundamental investment strategy; being underweight large-cap and lower-yielding stocks and holding excess weight in higher-yielding stocks. For the 12 months ending 31 March 2019, the fund returned -7.6% (net of fees) while the benchmark returned -5.7% over the same period.

STRATEGY AND POSITIONING

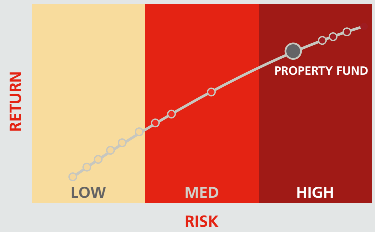
We view current property valuations as attractive relative to inflation-linked bonds (ILBs). In the absence of a material change to the market's valuation (or rating), listed property is priced to deliver double-digit returns (roughly 13.0%) over the medium term, well above inflation.

An important aspect of the investment case for listed property is illustrated by comparing property yields to those of inflation-linked bonds (ILBs). Currently the SAPY is priced to deliver a one-year forward distribution yield of 10%. This yield exceeds the 10-year ILB yield by over 6.0%, assuming property yields remain constant. In our view, this return premium is commensurate with the elevated risks of investing in listed property at present. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	D CLASS
1 year	-7.6%	-5.7%	-7.6%	-7.5%
3 years	-4.6%	-3.8%	-4.6%	-4.5%
5 years	5.4%	5.6%	n/a	5.5%
7 years	8.8%	9.0%	n/a	8.9%
10 years	12.1%	12.4%	n/a	n/a
Since inception	12.5%	12.8%	-1.8%	10.9%

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

RISK/RETURN PROFILE:



FUND MANAGERS:
Jeanne-Marie Snalam

ASISA CATEGORY:
South African - Real Estate - General

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

INCEPTION DATE:
2 December 2005

FUND SIZE:
R3 419 140 755

AWARDS:
Morningstar/Standard & Poor's: 2011

DISCLAIMER

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Sources: Prudential, Morningstar & Deutsche Securities

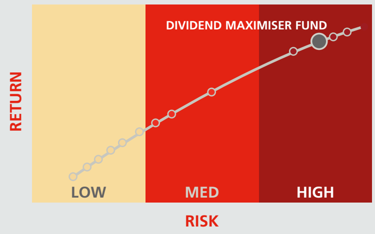
PRUDENTIAL DIVIDEND MAXIMISER FUND
31 MARCH 2019

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

EQUITY

RISK/RETURN PROFILE:



FUND MANAGERS:
Ross Biggs, Craig Butters and Rehana Khan

ASISA CATEGORY:
South African - Equity - General

BENCHMARK:
ASISA South African – Equity - General Category Mean

INCEPTION DATE:
2 August 1999

FUND SIZE:
R4 535 355 265

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

MARKET OVERVIEW

After the sharp losses suffered at the end of 2018, investors were able to take heart in the first quarter (Q1) of 2019 with markets rebounding as a few negative factors appeared to reverse themselves. Although evidence of slowing global growth continued to mount, global equities and bonds rallied strongly after the US Federal Reserve announced a substantial change of view and decided to pause (and perhaps even end) its interest rate hiking cycle. At the same time, other developed market central banks undertook more growth-supportive moves, and considerable progress was reportedly made in resolving the US-China trade dispute. On the negative side, an even more chaotic Brexit environment and the uncertainty engendered by Trump's unpredictability remained bearish factors for markets. Emerging markets also benefitted from the more bullish sentiment and the Fed's rate pause, but some like Turkey and Venezuela faced idiosyncratic challenges. However, for South African investors, local equities and bonds posted respectable gains in rand terms thanks to several positive developments.

In the US, it was the Fed's more dovish rate stance that proved to be the key for turning last year's losses into this quarter's gains. The Bank emphasized that it would be "patient" when it came to further raising interest rates, given that the case for hiking had weakened in the face of slowing global and US growth. This eased fears that inexorably higher rates could choke off growth. US GDP growth for Q4 2018 was revised down to 2.2% (q/q annualised) from 2.6% previously, sharply lower than the 3.4% in Q3 2018. Dismal US retail sales data were a key highlight. Not only did the Fed opt to keep rates on hold at its January and March FOMC meetings, but on 20 March its "dot plot" showed it had slashed its own interest rate expectations from two 25bp rate hikes in 2019 to zero, and only one 25bp hike in 2020. Adding to the general positive news was the end of the 35-day US government shutdown in January, and that good progress was reportedly being made in the US-China trade negotiations to avert higher tariffs and a full-blown trade war. This was particularly beneficial for the global growth outlook, especially for trade-dependent countries like China, Japan and South Korea, and helped push the US dollar stronger for the quarter against most other currencies (although not the yen).

In the UK, agreement was reached with the EU to extend the Brexit deadline into April, and PM Theresa May effectively lost control over determining a way forward, forced to hand over to Parliament. However, MPs rejected every possible option for structuring the future relationship, worsening the chaos within government. Meanwhile, UK GDP growth slowed to 1.4% (q/q annualised) in Q4 2018 from 1.6% previously, with the EU area equally pedestrian at 1.4% for the quarter. This deteriorating growth was a factor in keeping interest rates on hold across both regions, as well as in the US Fed's interest rate view. The European Central Bank even introduced a new cheap long-term loan plan for banks to help avoid further deceleration, as Germany's manufacturing data was negative for three months in a row.

During the quarter it was revealed that the Japanese economy returned to growth in Q4 2018 after a contraction in Q3, although exports remained sluggish amid trade uncertainty and the slowdown in Chinese growth. Japanese GDP is forecast to reach around 1.0% in 2019, supported by the Bank of Japan's ongoing easy monetary policy, but expected to be hit by a new consumption tax on spending and consumer prices to take effect later in 2019. In China, meanwhile, 2018 GDP growth came in at 6.6%, its weakest in 28 years but meeting consensus expectations. The government's new 2019 growth target is even lower at 6.0%-6.5%. There was, however, renewed optimism amid the positive US-China trade news; government pro-growth measures, including easier bank credit, took effect; and manufacturing activity accelerated – China's PMI recorded its highest rise since 2012.

South African assets were boosted over the quarter primarily by the easier global monetary outlook, recording gains across all asset classes. This mixed with some still-gloomy sentiment locally. The economy emerged with growth of 0.8% in 2018, slightly above expectations. Still, this was a very weak absolute growth level, and the SARB is now projecting only 1.3% GDP growth for 2019 (down from 1.7% previously), not including the negative impact of any ongoing electricity cuts. In some growth-positive news, retail sales growth recovered somewhat to 1.2% y/y in January from the shocking -1.6% y/y in December.

The SARB decided to keep interest rates on hold at both its January and March MPC meetings, with the latest interest rate projection model showing only one 25bp rate hike this year. Finance Minister Tito Mboweni's February Budget was greeted favourably by most analysts, reinforcing the government's commitment to reining in the budget deficit and cutting spending, while also reforming and reducing wastage at the parastatals.

Moody's sovereign credit rating report was expected on 29 March. While many were pessimistic, Moody's final decision not to review the rating and leave it at investment grade with a stable outlook granted the country a big reprieve on the final trading day of the quarter. However, the SARB remains concerned about future inflationary pressures arising from the weaker rand, as well as higher costs from fuel and electricity, among other sources. Other worries for investors remained Eskom's generation capacity and the negative impact of load-shedding on growth in 2019, the land expropriation debate, nationalisation of the SARB, and last but not least, the upcoming May elections.

Despite US dollar strength, the rand lost only 0.5% versus the greenback, but 2.1% against the UK pound sterling, while gaining 1.3% against the euro, which was hit by growth concerns and more dovish interest rate expectations.

PERFORMANCE

The fund produced a return of 7.6% (net of fees) for the first quarter of 2019, outperforming its benchmark by 1.8%. For the year ended 31 March 2019, the fund returned 3.8% (net of fees), outperforming its benchmark by 2.8%.

The fund's dual focus of buying undervalued companies with strong cash flows and dividends remains intact. In the last quarter, many of the contributors to outperformance came from:

- **Companies that we own**
  Where we believe the companies to be particularly undervalued with strong cash flows, like British American Tobacco (BAT) and Anglo American.

- **Companies that we don't own**
  Where we have deliberately avoided companies due to cash flow concerns and where there is a risk that dividends may fall in the coming years, like Aspen and Tongaat Hulett.

In the last quarter of 2018, we added to our already overweight position in BAT due to the aggressive price fall. This felt like a difficult trade as we were adding to a share which the market was very worried about, and where there is a multiplicity of risks. BAT is often viewed as a "defensive" stock due to the stability of its cash flows, but the emergence of multiple possible risks for the Tobacco sector,

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	B CLASS
1 year	3.8%	1.0%	4.3%	4.2%
3 years	4.6%	2.3%	5.0%	5.0%
5 years	5.6%	3.7%	n/a	6.0%
7 years	10.3%	7.8%	n/a	10.8%
10 years	13.3%	11.5%	n/a	13.8%
Since inception	16.4%	13.2%	4.4%	10.8%

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

Sources: Prudential, Morningstar & Deutsche Securities

the notable one being the possible banning of menthol cigarettes in the US, made the market focus on these risks and reprice the share substantially lower. We view BAT as a very high-quality company with exceptionally strong cash flows and are of the view that even after taking into account all these risks, BAT is trading on valuations now which we would regard as exceptionally attractive. In fact, BAT's dividend yield is now one of the most attractive in the South African market at around 7% - 8%. We think that we are being more than suitably compensated for the re-emergence of risks and continue to think it extremely unlikely that BAT's dividend will be cut. During the first quarter of 2019, the BAT share price rallied some 30% and was one of the fund's largest contributors to outperformance.

Anglo American is a large overweight position in the fund which contributed to outperformance in the quarter. Only a few years ago in 2016, Anglo American had cut its dividend to zero and the market focused its worry on Anglo American's balance sheet. We believed Anglo American was protecting the future of its cash flows and that dividends would resume. The market appeared though to be overly concerned and many commentators referred back to the pain of holding commodity companies during the financial crisis in 2009. Over the last two years, the cash flows in Anglo American have come roaring back, debt is no longer an issue and dividends have resumed. Despite all this good news, the market in our view has been slow to rerate Anglo American and we still think it is undervalued.

Avoiding Aspen continued to contribute to relative performance for the quarter. We do not own this company due to its poor cash flow, dividend growth and dividend yield. We continue to think that Aspen trades on the expensive side of fair value, and given its poor cash flows and indebted balance sheet, we see limited scope for strong dividend growth going forward. Aspen has been very acquisitive over time and has exhibited relatively poor dividend yields.

We continue to think that offshore equity markets look very attractive, certainly relative to bond markets and also 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 these funds were top contributors to the outperformance for the quarter.

Some of the larger detractors from performance over the last quarter were investments in Sappi and Tsogo Sun Holdings. Sappi 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. Sappi is currently investing in several projects which we think will generate strong future cash flows and dividends. We think that despite the significant improvement in the return on equity for the business, the company is significantly undervalued. Sappi's share price fell 16% over the quarter, which we believe was mainly due to market concerns over the effect that potential trade disputes between China and the US might have on some of Sappi's sales in Europe and the US.

Tsogo Sun's share price fell 10% for the quarter. We continue to find Tsogo Sun undervalued despite a strong indication from management of a much tighter focus on capital allocation and a move to pay a substantially increased dividend to shareholders. Despite the pressure on the South African consumer over the last few years, Tsogo Sun has managed to tightly control costs and maintain a high margin. While we still expect the SA consumer to be under pressure and spend at casinos to be fairly static, we think that this risk is adequately compensated for in the share price as the dividend yield for 2019 is expected to be over 8%.

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 make money for our clients through these cycles and continue to try to buy companies that have proven dividend and cash flow track records and which can withstand the normal upheavals that occur in markets over time. We aim to continue building risk-cognisant portfolios that seek to add value through stock selection relative to the benchmark.

STRATEGY AND POSITIONING

At the time of writing, we still have no more clarity on Brexit (originally voted on by a "misled" UK electorate back in June 2016). UK Prime Minister Theresa May appears to be running out of time. Variants of her proposed deal have been continually rejected by a majority parliament – while the EU's patience to facilitate a "soft" exit is now wearing thin. An unplanned "hard" exit poses risks to the South African equity market given that a large number of companies derive meaningful exposure from the UK. We would expect our overweight positions in Investec plc and Quilter plc to be particularly sensitive to the final Brexit outcome.

At home, Eskom's load shedding has battered consumer and business confidence, while Eskom's debt problems pose the single biggest risk to the economy. As we head into elections we remain underweight many of the consumer facing sectors of the market. The ANC is expected to win the upcoming elections but a bigger challenge for the governing party and President Ramaphosa will be to navigate the Eskom "tight rope". On the one hand, the country desperately needs Eskom to return to financial and operational health but that will require graft and excessive remuneration at the parastatal to be reined in. ■

DISCLAIMER

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

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL EQUITY FUND
31 MARCH 2019

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

EQUITY

MARKET OVERVIEW

After the sharp losses suffered at the end of 2018, investors were able to take heart in the first quarter (Q1) of 2019 with markets rebounding as a few negative factors appeared to reverse themselves. Although evidence of slowing global growth continued to mount, global equities and bonds rallied strongly after the US Federal Reserve announced a substantial change of view and decided to pause (and perhaps even end) its interest rate hiking cycle. At the same time, other developed market central banks undertook more growth-supportive moves, and considerable progress was reportedly made in resolving the US-China trade dispute. On the negative side, an even more chaotic Brexit environment and the uncertainty engendered by Trump's unpredictability remained bearish factors for markets. Emerging markets also benefitted from the more bullish sentiment and the Fed's rate pause, but some like Turkey and Venezuela faced idiosyncratic challenges. However, for South African investors, local equities and bonds posted respectable gains in rand terms thanks to several positive developments.

In the US, it was the Fed's more dovish rate stance that proved to be the key for turning last year's losses into this quarter's gains. The Bank emphasized that it would be "patient" when it came to further raising interest rates, given that the case for hiking had weakened in the face of slowing global and US growth. This eased fears that inexorably higher rates could choke off growth. US GDP growth for Q4 2018 was revised down to 2.2% (q/q annualised) from 2.6% previously, sharply lower than the 3.4% in Q3 2018. Dismal US retail sales data were a key highlight. Not only did the Fed opt to keep rates on hold at its January and March FOMC meetings, but on 20 March its "dot plot" showed it had slashed its own interest rate expectations from two 25bp rate hikes in 2019 to zero, and only one 25bp hike in 2020. Adding to the general positive news was the end of the 35-day US government shutdown in January, and that good progress was reportedly being made in the US-China trade negotiations to avert higher tariffs and a full-blown trade war. This was particularly beneficial for the global growth outlook, especially for trade-dependent countries like China, Japan and South Korea, and helped push the US dollar stronger for the quarter against most other currencies (although not the yen).

In the UK, agreement was reached with the EU to extend the Brexit deadline into April, and PM Theresa May effectively lost control over determining a way forward, forced to hand over to Parliament. However, MPs rejected every possible option for structuring the future relationship, worsening the chaos within government. Meanwhile, UK GDP growth slowed to 1.4% (q/q annualised) in Q4 2018 from 1.6% previously, with the EU area equally pedestrian at 1.4% for the quarter. This deteriorating growth was a factor in keeping interest rates on hold across both regions, as well as in the US Fed's interest rate view. The European Central Bank even introduced a new cheap long-term loan plan for banks to help avoid further deceleration, as Germany's manufacturing data was negative for three months in a row.

During the quarter it was revealed that the Japanese economy returned to growth in Q4 2018 after a contraction in Q3, although exports remained sluggish amid trade uncertainty and the slowdown in Chinese growth. Japanese GDP is forecast to reach around 1.0% in 2019, supported by the Bank of Japan's ongoing easy monetary policy, but expected to be hit by a new consumption tax on spending and consumer prices to take effect later in 2019. In China, meanwhile, 2018 GDP growth came in at 6.6%, its weakest in 28 years but meeting consensus expectations. The government's new 2019 growth target is even lower at 6.0%-6.5%. There was, however, renewed optimism amid the positive US-China trade news; government pro-growth measures, including easier bank credit, took effect; and manufacturing activity accelerated – China's PMI recorded its highest rise since 2012.

South African assets were boosted over the quarter primarily by the easier global monetary outlook, recording gains across all asset classes. This mixed with some still-gloomy sentiment locally. The economy emerged with growth of 0.8% in 2018, slightly above expectations. Still, this was a very weak absolute growth level, and the SARB is now projecting only 1.3% GDP growth for 2019 (down from 1.7% previously), not including the negative impact of any ongoing electricity cuts. In some growth-positive news, retail sales growth recovered somewhat to 1.2% y/y in January from the shocking -1.6% y/y in December. The SARB decided to keep interest rates on hold at both its January and March MPC meetings, with the latest interest rate projection model showing only one 25bp rate hike this year. Finance Minister Tito Mboweni's February Budget was greeted favourably by most analysts, reinforcing the government's commitment to reining in the budget deficit and cutting spending, while also reforming and reducing wastage at the parastatals.

Moody's sovereign credit rating report was expected on 29 March. While many were pessimistic, Moody's final decision not to review the rating and leave it at investment grade with a stable outlook granted the country a big reprieve on the final trading day of the quarter. However, the SARB remains concerned about future inflationary pressures arising from the weaker rand, as well as higher costs from fuel and electricity, among other sources. Other worries for investors remained Eskom's generation capacity and the negative impact of load-shedding on growth in 2019, the land expropriation debate, nationalisation of the SARB, and last but not least, the upcoming May elections.

Despite US dollar strength, the rand lost only 0.5% versus the greenback, but 2.1% against the UK pound sterling, while gaining 1.3% against the euro, which was hit by growth concerns and more dovish interest rate expectations.

PERFORMANCE

The fund delivered a return of 9.4% (net of fees) for the first quarter of 2019, while the benchmark returned 5.8% over the same period. For the 12 months ended March 2019, the fund delivered a total return of 6.1% (net of fees), outperforming the benchmark by 5.1%. This is an exceptional result for the fund and investors alike, although this level of outperformance is unlikely to be repeated.

Our overweight exposure to Altron, Datatec and Old Mutual were significant contributors to the fund's relative outperformance (to its benchmark) over the last 12 months. We have patiently held Old Mutual through its managed separation (announced in early 2016), and it is pleasing that we have been rewarded with some "unlock of value", albeit lower than what we would have initially expected.

Naspers, the largest holding in the fund, contributed positively to performance in the first quarter, partly aided by corporate restructuring which saw the company unbundle MultiChoice Group to its shareholders. The fund acquired further MultiChoice post the unbundling as our work suggested that the price at which MultiChoice initially traded (below R105 per share, presumably as offshore shareholders could not, or did not, want to receive the unbundled share price) was at a substantial discount to our valuation of the group.

The biggest contributor to relative performance in the first quarter came from our overweight position in British American Tobacco (BAT), which increased some 30%. This, to some extent, reversed the losses it inflicted on the fund in the fourth quarter of 2018, when BAT de-rated significantly in the face of a possible ban of menthol cigarettes in the US by a more aggressive FDA. We continued to hold BAT (and acquired more during Q4 2018) as we felt the valuation (with the dividend yield around 7% - 8%) suitably compensated us for the re-emergence of risks in the tobacco sector. Furthermore the market's fear that BAT would be forced to cut its dividend to address its debt load did not materialise – indeed the group increased its dividend with the release of its FY18 results in February.

One of the biggest detractors from performance in the first quarter was the fund's underweight position in BHP, which rallied over 20% given the sharp rise in the iron ore price. The latter in turn was driven higher by supply disruptions following the Brumadinho dam disaster in January, which saw the bursting of an iron ore tailings dam in Brazil operated by Vale. The disaster claimed over 200 lives and brought into question the continued use of upstream tailings dams. Vale, which was also involved in the 2015 Samarco dam failure, was rightly forced to close some of its iron ore operations that operate such dams. The fund did, however, benefit from overweight positions in Anglo American, African Rainbow Minerals and Exxaro that similarly benefited from a more buoyant iron ore market.

STRATEGY AND POSITIONING

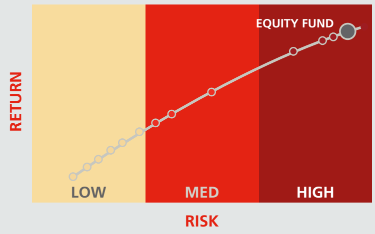
At the time of writing, we still have no more clarity on Brexit (originally voted on by a "misled" UK electorate back in June 2016). UK Prime Minister Theresa May appears to be running out of time. Variants of her proposed deal have been continually rejected by a majority parliament – while the EU's patience to facilitate a "soft" exit is now wearing thin. An unplanned "hard" exit poses risks to the South African equity market given that a large number of companies derive meaningful exposure from the UK. We would expect our overweight positions in Investec plc and Quilter plc to be particularly sensitive to the final Brexit outcome.

At home, Eskom's load shedding has battered consumer and business confidence, while Eskom's debt problems pose the single biggest risk to the economy. As we head into elections we remain underweight many of the consumer-facing sectors of the market. The ANC is expected to win the upcoming elections, but a bigger challenge for the governing party and President Ramaphosa will be to navigate the Eskom "tight rope". On the one hand, the country desperately needs Eskom to return to financial and operational health but that will require graft and excessive remuneration at the parastatal to be reined in. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	6.1%	1.0%	6.6%
3 years	6.4%	2.3%	6.8%
5 years	6.4%	3.7%	6.8%
7 years	11.1%	7.8%	11.6%
10 years	14.0%	11.5%	14.5%
Since inception	16.5%	13.2%	11.5%

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 357 028 935

AWARDS:

Raging Bull: 2006, 2007, 2008

Morningstar/Standard & Poor's: 2007, 2008

DISCLAIMER

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL BOND FEEDER FUND
31 MARCH 2019

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL INCOME

MARKET OVERVIEW

After the sharp losses suffered at the end of 2018, investors were able to take heart in the first quarter (Q1) of 2019 with markets rebounding as a few negative factors appeared to reverse themselves. Although evidence of slowing global growth continued to mount, global bonds rallied strongly after the US Federal Reserve announced a substantial change of view and decided to pause (and perhaps even end) its interest rate hiking cycle. At the same time, other developed market central banks undertook more growth-supportive moves, and considerable progress was reportedly made in resolving the US-China trade dispute. On the negative side, an even more chaotic Brexit environment and the uncertainty engendered by Trump's unpredictability remained bearish factors for markets. Emerging markets also benefitted from the more bullish sentiment and the Fed's rate pause, but some like Turkey and Venezuela faced idiosyncratic challenges.

In the US, it was the Fed's more dovish rate stance that proved to be the key for turning last year's losses into this quarter's gains. The Bank emphasized that it would be "patient" when it came to further raising interest rates, given that the case for hiking had weakened in the face of slowing global and US growth. This eased fears that inexorably higher rates could choke off growth. US GDP growth for Q4 2018 was revised down to 2.2% (q/q annualised) from 2.6% previously, sharply lower than the 3.4% in Q3 2018. Dismal US retail sales data were a key highlight. Not only did the Fed opt to keep rates on hold at its January and March FOMC meetings, but on 20 March its "dot plot" showed it had slashed its own interest rate expectations from two 25bp rate hikes in 2019 to zero, and only one 25bp hike in 2020. This was very positive for equities, and also helped push longer-dated US Treasury bond yields lower, such that the yield curve "inverted" for the first time since 2007 (where 3-month interest rates were higher than those for 10-year bonds). Some interpreted this as a sign of a looming recession. For the quarter, the US 10-year Treasury yield fell from around 2.68% to end at 2.41%.

Adding to the general positive news was the end of the 35-day US government shutdown in January, and that good progress was reportedly being made in the US-China trade negotiations to avert higher tariffs and a full-blown trade war. This was particularly beneficial for the global growth outlook, especially for trade-dependent countries like China, Japan and South Korea, and helped push the US dollar stronger for the quarter against most other currencies (although not the yen).

In the UK, agreement was reached with the EU to extend the Brexit deadline into April, and PM Theresa May effectively lost control over determining a way forward, forced to hand over to Parliament. However, MPs rejected every possible option for structuring the future relationship, worsening the chaos within government. Meanwhile, UK GDP growth slowed to 1.4% (q/q annualised) in Q4 2018 from 1.6% previously, with the EU area equally pedestrian at 1.4% for the quarter. This deteriorating growth was a factor in keeping interest rates on hold across both regions, as well as in the US Fed's interest rate view. The European Central Bank even introduced a new cheap long-term loan plan for banks to help avoid further deceleration, as Germany's manufacturing data was negative for three months in a row.

During the quarter it was revealed that the Japanese economy returned to growth in Q4 2018 after a contraction in Q3, although exports remained sluggish amid trade uncertainty and the slowdown in Chinese growth. Japanese GDP is forecast to reach around 1.0% in 2019, supported by the Bank of Japan's ongoing easy monetary policy, but expected to be hit by a new consumption tax on spending and consumer prices to take effect later in 2019. In China, 2018 GDP growth came in at 6.6%, its weakest in 28 years but meeting consensus expectations. The government's new 2019 growth target is even lower at 6.0%-6.5%. There was, however, renewed optimism amid the positive US-China trade news; government pro-growth measures, including easier bank credit, took effect; and manufacturing activity accelerated – China's PMI recorded its highest rise since 2012.

Despite US dollar strength, the rand lost only 0.5% versus the greenback, but 2.1% against the UK pound sterling, while gaining 1.3% against the euro, which was hit by growth concerns and more dovish interest rate expectations.

PERFORMANCE

The fund produced a return of 3.6% (net of fees) for the first quarter of 2019, outperforming its benchmark by 0.8%. For the year ended 31 March 2019, the fund returned 19.2% (net of fees), underperforming its benchmark by 2.5%.

Contributing to performance over the quarter were overweight positions US investment grade bonds, with exposure to emerging market government bonds (including selected Mexican treasuries) also adding to performance.

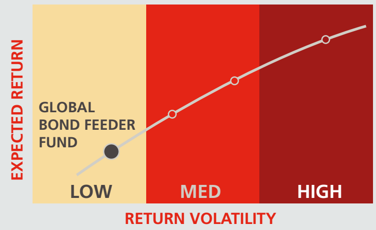
STRATEGY AND POSITIONING

We remain highly active within the global bond asset class, seeking positive positions on emerging market government bonds due to their diversification qualities and their potential for better real yields compared to mainstream bonds. In terms of trades over the period, we added exposure to the high-carrying Turkish lira out of an existing short-dated Turkey bond holding. We also added a new position in global resources group Vale's 2032 bond following a sharp sell-off in the South American miner's debt during January.

The fund continues to reflect our preference for selected areas of credit and emerging market bonds through selected exposures issued by Mexico, South Africa and Brazil governments, based on the view that these offer better value than mainstream government bonds at present. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK
1 year	19.2%	21.6%
3 years	1.0%	0.9%
5 years	6.3%	7.7%
7 years	10.7%	10.8%
10 years	8.3%	7.4%
Since inception	8.5%	8.7%

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 596 778

DISCLAIMER

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

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL INFLATION PLUS FEEDER FUND
31 MARCH 2019

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL MULTI-ASSET

MARKET OVERVIEW

After the sharp losses suffered at the end of 2018, investors were able to take heart in the first quarter (Q1) of 2019 with markets rebounding as a few negative factors appeared to reverse themselves. Although evidence of slowing global growth continued to mount, global equities and bonds rallied strongly after the US Federal Reserve announced a substantial change of view and decided to pause (and perhaps even end) its interest rate hiking cycle. At the same time, other developed market central banks undertook more growth-supportive moves, and considerable progress was reportedly made in resolving the US-China trade dispute. On the negative side, an even more chaotic Brexit environment and the uncertainty engendered by Trump's unpredictability remained bearish factors for markets. Emerging markets also benefitted from the more bullish sentiment and the Fed's rate pause, but some like Turkey and Venezuela faced idiosyncratic challenges.

In the US, it was the Fed's more dovish rate stance that proved to be the key for turning last year's losses into this quarter's gains. The Bank emphasized that it would be "patient" when it came to further raising interest rates, given that the case for hiking had weakened in the face of slowing global and US growth. This eased fears that inexorably higher rates could choke off growth. US GDP growth for Q4 2018 was revised down to 2.2% (q/q annualised) from 2.6% previously, sharply lower than the 3.4% in Q3 2018. Dismal US retail sales data were a key highlight. Not only did the Fed opt to keep rates on hold at its January and March FOMC meetings, but on 20 March its "dot plot" showed it had slashed its own interest rate expectations from two 25bp rate hikes in 2019 to zero, and only one 25bp hike in 2020. This was very positive for equities, and also helped push longer-dated US Treasury bond yields lower, such that the yield curve "inverted" for the first time since 2007 (where 3-month interest rates were higher than those for 10-year bonds). Some interpreted this as a sign of a looming recession. For the quarter, the US 10-year Treasury yield fell from around 2.68% to end at 2.41%.

Adding to the general positive news was the end of the 35-day US government shutdown in January, and that good progress was reportedly being made in the US-China trade negotiations to avert higher tariffs and a full-blown trade war. This was particularly beneficial for the global growth outlook, especially for trade-dependent countries like China, Japan and South Korea, and helped push the US dollar stronger for the quarter against most other currencies (although not the yen). For the quarter, the US S&P 500 returned 13.6%, the Nasdaq 16.9% and the Dow Jones Industrial 11.8%.

In the UK, agreement was reached with the EU to extend the Brexit deadline into April, and PM Theresa May effectively lost control over determining a way forward, forced to hand over to Parliament. However, MPs rejected every possible option for structuring the future relationship, worsening the chaos within government. Meanwhile, UK GDP growth slowed to 1.4% (q/q annualised) in Q4 2018 from 1.6% previously, with the EU area equally pedestrian at 1.4% for the quarter. This deteriorating growth was a factor in keeping interest rates on hold across both regions, as well as in the US Fed's interest rate view. The European Central Bank even introduced a new cheap long-term loan plan for banks to help avoid further deceleration, as Germany's manufacturing data was negative for three months in a row. The UK's FTSE 100 returned 11.6% for the quarter, while the Dow Jones Eurostoxx 50 produced 10.2% (both in US$).

During the quarter it was revealed that the Japanese economy returned to growth in Q4 2018 after a contraction in Q3, although exports remained sluggish amid trade uncertainty and the slowdown in Chinese growth. Japanese GDP is forecast to reach around 1.0% in 2019, supported by the Bank of Japan's ongoing easy monetary policy, but expected to be hit by a new consumption tax on spending and consumer prices to take effect later in 2019. For Q1, the Nikkei 225 returned 6.5% in US$. In China, meanwhile, 2018 GDP growth came in at 6.6%, its weakest in 28 years but meeting consensus expectations. The government's new 2019 growth target is even lower at 6.0%-6.5%. There was, however, renewed optimism amid the positive US-China trade news; government pro-growth measures, including easier bank credit, took effect; and manufacturing activity accelerated – China's PMI recorded its highest rise since 2012. This helped the MSCI China post a return of 17.7%, making it the best performing large emerging market in Q1.

Among other emerging markets, strong performers for the quarter included the MSCI Russia with 12.2% and Brazil's Bovespa at 8.0%. The weakest markets were the MSCI Turkey (-3.0%), South Korea's KOSPI 200 (3.4%) and the MSCI South Africa (4.6%), all in US$.

The price of Brent crude oil recovered sharply in Q1 2019 to gain 27%, ending March at around US$67 per barrel. This was attributable to additional sanctions on Iran being considered by the US and a halt in operations from a key Venezuelan export terminal. Looking at other commodities, gold gained 0.8%, palladium was up 9.5% and platinum rose 6.8% for the three months. Industrial metals prices were broadly higher, especially nickel (21.6%) and zinc (19.1%).

Despite US dollar strength, the rand lost only 0.5% versus the greenback, but 2.1% against the UK pound sterling, while gaining 1.3% against the euro, which was hit by growth concerns and more dovish interest rate expectations.

PERFORMANCE

The fund produced a return of 6.7% (net of fees) for the first quarter of 2019 and 19.7% (net of fees) for the year ended 31 March 2019.

The fund benefited from a strong equity performance over the quarter, however overweight positions in selected emerging markets detracted from performance. The fund's preference for investment grade credit over treasuries, particularly in the US, added to performance as did selected emerging market government bonds.

STRATEGY AND POSITIONING

Over the quarter the fund decreased its exposure to Russian equities in favour of US equities on the view that prices have peaked in the former, particularly as sentiment around sanctions has improved.

So far in 2019 we have seen an unwinding of the exaggerated risk aversion that took hold in late 2018, although this may not continue. At the moment the most compelling opportunities still appear to be in equities. As a result, the fund remains diversified across developed and emerging markets.

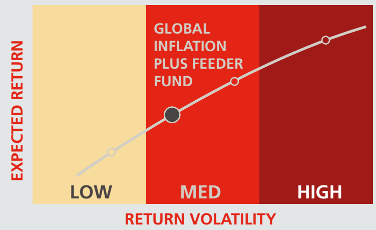
While we continue to see low inflation rates in both developed and emerging markets, and strong employment levels – with wage growth also starting to pick up – there has been weak data from a trade and manufacturing perspective. The easing of pressure from rising interest rates coming from the Fed – and other central banks – is likely to be a major driving force for markets prospectively. In this regard, we will continue to monitor changes in the fundamentals and prevailing asset valuations when deciding how to best position the fund in the future.

As in the previous quarter, we remain active within the global bond asset class, seeking positive bets on emerging market government bonds because of the diversification qualities and because of the better real yields they can offer compared to mainstream bonds. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK*	B CLASS
1 year	19.7%	17.6%	20.1%
3 years	2.9%	1.1%	3.2%
5 years	7.8%	7.0%	8.1%
7 years	11.1%	10.3%	n/a
10 years	7.1%	5.4%	n/a
Since inception	7.6%	6.9%	9.0%

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:
R110 619 598

DISCLAIMER

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL BALANCED FEEDER FUND
31 MARCH 2019

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL MULTI-ASSET

MARKET OVERVIEW

After the sharp losses suffered at the end of 2018, investors were able to take heart in the first quarter (Q1) of 2019 with markets rebounding as a few negative factors appeared to reverse themselves. Although evidence of slowing global growth continued to mount, global equities and bonds rallied strongly after the US Federal Reserve announced a substantial change of view and decided to pause (and perhaps even end) its interest rate hiking cycle. At the same time, other developed market central banks undertook more growth-supportive moves, and considerable progress was reportedly made in resolving the US-China trade dispute. On the negative side, an even more chaotic Brexit environment and the uncertainty engendered by Trump's unpredictability remained bearish factors for markets. Emerging markets also benefitted from the more bullish sentiment and the Fed's rate pause, but some like Turkey and Venezuela faced idiosyncratic challenges.

In the US, it was the Fed's more dovish rate stance that proved to be the key for turning last year's losses into this quarter's gains. The Bank emphasized that it would be "patient" when it came to further raising interest rates, given that the case for hiking had weakened in the face of slowing global and US growth. This eased fears that inexorably higher rates could choke off growth. US GDP growth for Q4 2018 was revised down to 2.2% (q/q annualised) from 2.6% previously, sharply lower than the 3.4% in Q3 2018. Dismal US retail sales data were a key highlight. Not only did the Fed opt to keep rates on hold at its January and March FOMC meetings, but on 20 March its "dot plot" showed it had slashed its own interest rate expectations from two 25bp rate hikes in 2019 to zero, and only one 25bp hike in 2020. This was very positive for equities, and also helped push longer-dated US Treasury bond yields lower, such that the yield curve "inverted" for the first time since 2007 (where 3-month interest rates were higher than those for 10-year bonds). Some interpreted this as a sign of a looming recession. For the quarter, the US 10-year Treasury yield fell from around 2.68% to end at 2.41%.

Adding to the general positive news was the end of the 35-day US government shutdown in January, and that good progress was reportedly being made in the US-China trade negotiations to avert higher tariffs and a full-blown trade war. This was particularly beneficial for the global growth outlook, especially for trade-dependent countries like China, Japan and South Korea, and helped push the US dollar stronger for the quarter against most other currencies (although not the yen). For the quarter, the US S&P 500 returned 13.6%, the Nasdaq 16.9% and the Dow Jones Industrial 11.8%.

In the UK, agreement was reached with the EU to extend the Brexit deadline into April, and PM Theresa May effectively lost control over determining a way forward, forced to hand over to Parliament. However, MPs rejected every possible option for structuring the future relationship, worsening the chaos within government. Meanwhile, UK GDP growth slowed to 1.4% (q/q annualised) in Q4 2018 from 1.6% previously, with the EU area equally pedestrian at 1.4% for the quarter. This deteriorating growth was a factor in keeping interest rates on hold across both regions, as well as in the US Fed's interest rate view. The European Central Bank even introduced a new cheap long-term loan plan for banks to help avoid further deceleration, as Germany's manufacturing data was negative for three months in a row. The UK's FTSE 100 returned 11.6% for the quarter, while the Dow Jones Eurostoxx 50 produced 10.2% (both in US$).

During the quarter it was revealed that the Japanese economy returned to growth in Q4 2018 after a contraction in Q3, although exports remained sluggish amid trade uncertainty and the slowdown in Chinese growth. Japanese GDP is forecast to reach around 1.0% in 2019, supported by the Bank of Japan's ongoing easy monetary policy, but expected to be hit by a new consumption tax on spending and consumer prices to take effect later in 2019. For Q1, the Nikkei 225 returned 6.5% in US$. In China, meanwhile, 2018 GDP growth came in at 6.6%, its weakest in 28 years but meeting consensus expectations. The government's new 2019 growth target is even lower at 6.0%-6.5%. There was, however, renewed optimism amid the positive US-China trade news; government pro-growth measures, including easier bank credit, took effect; and manufacturing activity accelerated – China's PMI recorded its highest rise since 2012. This helped the MSCI China post a return of 17.7%, making it the best performing large emerging market in Q1.

Among other emerging markets, strong performers for the quarter included the MSCI Russia with 12.2% and Brazil's Bovespa at 8.0%. The weakest markets were the MSCI Turkey (-3.0%), South Korea's KOSPI 200 (3.4%) and the MSCI South Africa (4.6%), all in US$.

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Despite US dollar strength, the rand lost only 0.5% versus the greenback, but 2.1% against the UK pound sterling, while gaining 1.3% against the euro, which was hit by growth concerns and more dovish interest rate expectations.

PERFORMANCE

The fund produced a return of 8.8% (net of fees) for the first quarter of 2019, underperforming its benchmark by 0.9%. This new unit trust does not yet have a one-year track record.

The fund benefited from a strong equity performance over the quarter, however overweight positions to selected emerging markets detracted from performance. Also contributing to performance over the period was the fund exposure to emerging market bonds and US investment grade credit.

STRATEGY AND POSITIONING

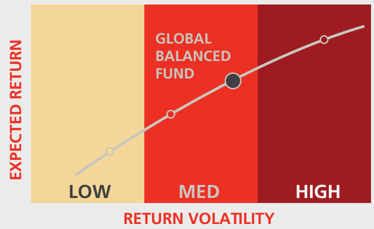
The fund remains overweight equities and underweight bonds (and more cautious on developed government bonds compared to the benchmark), as the size of the equity risk premium remains the most obvious opportunity on offer across the global investment landscape today. Over the quarter the fund decreased its exposure to Russian equities in favour of US equities on the view that prices have peaked in the former, particularly as sentiment around sanctions has improved.

So far in 2019 we have seen an unwinding of the exaggerated risk aversion that took hold in late 2018, although this may not continue. At the moment the most compelling opportunities still appear to be in equities. As a result, the fund remains diversified across developed and emerging markets.

While we continue to see low inflation rates in both developed and emerging markets, and strong employment levels – with wage growth also starting to pick up – there has been weak data from a trade and manufacturing perspective. The easing of pressure from rising interest rates coming from the Fed – and other central banks – is likely to be a major driving force for markets prospectively. In this regard, we will continue to monitor changes in the fundamentals and prevailing asset valuations when deciding how to best position the fund in the future. ■

PERFORMANCE	A CLASS	BENCHMARK	B CLASS
Since inception of class	3.6%	8.2%	3.7%

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

DISCLAIMER

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL EQUITY FEEDER FUND
31 MARCH 2019

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL EQUITY

MARKET OVERVIEW

After the sharp losses suffered at the end of 2018, investors were able to take heart in the first quarter (Q1) of 2019 with markets rebounding as a few negative factors appeared to reverse themselves. Although evidence of slowing global growth continued to mount, global equities and bonds rallied strongly after the US Federal Reserve announced a substantial change of view and decided to pause (and perhaps even end) its interest rate hiking cycle. At the same time, other developed market central banks undertook more growth-supportive moves, and considerable progress was reportedly made in resolving the US-China trade dispute. On the negative side, an even more chaotic Brexit environment and the uncertainty engendered by Trump's unpredictability remained bearish factors for markets. Emerging markets also benefitted from the more bullish sentiment and the Fed's rate pause, but some like Turkey and Venezuela faced idiosyncratic challenges.

In the US, it was the Fed's more dovish rate stance that proved to be the key for turning last year's losses into this quarter's gains. The Bank emphasized that it would be "patient" when it came to further raising interest rates, given that the case for hiking had weakened in the face of slowing global and US growth. This eased fears that inexorably higher rates could choke off growth. US GDP growth for Q4 2018 was revised down to 2.2% (q/q annualised) from 2.6% previously, sharply lower than the 3.4% in Q3 2018. Dismal US retail sales data were a key highlight. Not only did the Fed opt to keep rates on hold at its January and March FOMC meetings, but on 20 March its "dot plot" showed it had slashed its own interest rate expectations from two 25bp rate hikes in 2019 to zero, and only one 25bp hike in 2020. This was very positive for equities, and also helped push longer-dated US Treasury bond yields lower, such that the yield curve "inverted" for the first time since 2007 (where 3-month interest rates were higher than those for 10-year bonds). Some interpreted this as a sign of a looming recession.

Adding to the general positive news was the end of the 35-day US government shutdown in January, and that good progress was reportedly being made in the US-China trade negotiations to avert higher tariffs and a full-blown trade war. This was particularly beneficial for the global growth outlook, especially for trade-dependent countries like China, Japan and South Korea, and helped push the US dollar stronger for the quarter against most other currencies (although not the yen). For the quarter, the US S&P 500 returned 13.6%, the Nasdaq 16.9% and the Dow Jones Industrial 11.8%.

In the UK, agreement was reached with the EU to extend the Brexit deadline into April, and PM Theresa May effectively lost control over determining a way forward, forced to hand over to Parliament. However, MPs rejected every possible option for structuring the future relationship, worsening the chaos within government. Meanwhile, UK GDP growth slowed to 1.4% (q/q annualised) in Q4 2018 from 1.6% previously, with the EU area equally pedestrian at 1.4% for the quarter. This deteriorating growth was a factor in keeping interest rates on hold across both regions, as well as in the US Fed's interest rate view. The European Central Bank even introduced a new cheap long-term loan plan for banks to help avoid further deceleration, as Germany's manufacturing data was negative for three months in a row. The UK's FTSE 100 returned 11.6% for the quarter, while the Dow Jones Eurostoxx 50 produced 10.2% (both in US$).

During the quarter it was revealed that the Japanese economy returned to growth in Q4 2018 after a contraction in Q3, although exports remained sluggish amid trade uncertainty and the slowdown in Chinese growth. Japanese GDP is forecast to reach around 1.0% in 2019, supported by the Bank of Japan's ongoing easy monetary policy, but expected to be hit by a new consumption tax on spending and consumer prices to take effect later in 2019. For Q1, the Nikkei 225 returned 6.5% in US$. In China, meanwhile, 2018 GDP growth came in at 6.6%, its weakest in 28 years but meeting consensus expectations. The government's new 2019 growth target is even lower at 6.0%-6.5%. There was, however, renewed optimism amid the positive US-China trade news; government pro-growth measures, including easier bank credit, took effect; and manufacturing activity accelerated – China's PMI recorded its highest rise since 2012. This helped the MSCI China post a return of 17.7%, making it the best performing large emerging market in Q1.

Among other emerging markets, strong performers for the quarter included the MSCI Russia with 12.2% and Brazil's Bovespa at 8.0%. The weakest markets were the MSCI Turkey (-3.0%), South Korea's KOSPI 200 (3.4%) and the MSCI South Africa (4.6%), all in US$.

The price of Brent crude oil recovered sharply in Q1 2019 to gain 27%, ending March at around US$67 per barrel. This was attributable to additional sanctions on Iran being considered by the US and a halt in operations from a key Venezuelan export terminal. Looking at other commodities, gold gained 0.8%, palladium was up 9.5% and platinum rose 6.8% for the three months. Industrial metals prices were broadly higher, especially nickel (21.6%) and zinc (19.1%).

Despite US dollar strength, the rand lost only 0.5% versus the greenback, but 2.1% against the UK pound sterling, while gaining 1.3% against the euro, which was hit by growth concerns and more dovish interest rate expectations.

PERFORMANCE

The fund produced a return of 11.2% (net of fees) for the first quarter of 2019, underperforming its benchmark by 1.6%. For the year ended 31 March 2019, the fund returned 19.4% (net of fees), underperforming its benchmark by 5.8%.

Detracting from relative performance were underweight positions in US equities and overweight position in Financials globally.

STRATEGY AND POSITIONING

So far in 2019 we have seen an unwinding of the exaggerated risk aversion that took hold in late 2018, although this may not continue. At the moment, the most compelling opportunities still appear to be in cheaper equities where the market remains sceptical on global growth.

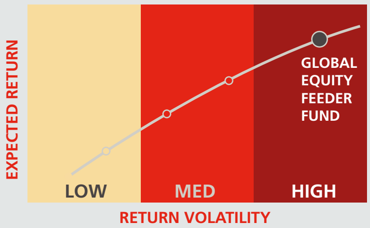
In terms of trades over the period, we reduced the fund's exposure to Korean equities by a modest amount, and increased China equity exposure via an ETF holding.

While we continue to see low inflation rates in both developed and emerging markets, and strong employment levels – with wage growth also starting to pick up – there has been weak data from a trade and manufacturing perspective. The easing of pressure from rising interest rates coming from the Fed – and other central banks – is likely to be a major driving force for markets prospectively. In this regard, we will continue to monitor changes in the fundamentals and prevailing equity valuations when deciding how to best position the fund in the future. ■

ANNUALISED PERFORMANCE

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK
1 year	19.4%	25.3%
3 years	7.7%	10.1%
5 years	11.0%	13.5%
7 years	16.4%	18.7%
10 years	14.6%	16.8%
Since inception	7.0%	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:

R295 439 668

DISCLAIMER

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Sources: Prudential, Morningstar & Deutsche Securities