PRUDENTIAL UNIT TRUSTS QUARTERLY COMMENTARY
30 SEPTEMBER 2019

PRUDENTIAL
INVESTMENT MANAGERS

COMBINED QUARTERLY COMMENTARY

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PRUDENTIAL MONEY MARKET FUND
30 SEPTEMBER 2019

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME

MARKET OVERVIEW

The news that South Africa's Q2 2019 GDP growth came in at a stronger-than-expected 3.1% q/q annualised was widely welcomed, avoiding a technical recession after Q1's 3.2% contraction. This helped to lift market sentiment somewhat, but the very low absolute annual level - at 0.9% y/y - remained a serious concern. Business confidence fell to a record low of 21 and manufacturing production contracted 1.1% y/y in July, down from +3.6% in June. Besides local issues, the economy reflected the deteriorating global conditions, which were negative for emerging markets in general.

The SARB lowered its base interest rate by 25bps to 6.5% at its July MPC meeting as expected, but, concerned about the unfavourable global backdrop and potential rand weakness, it kept rates on hold in September (also as expected). In addition, it cut its GDP growth forecasts for 2020 and 2021 to 1.5% (from 1.8%) and 1.8% (from 2.0%) respectively. Its latest quarterly projection model pointed to no interest rate changes through year-end. Inflation remained well under control, with CPI at 4.3% y/y in August, up from 4.0% in July.

Worries about potential further credit rating downgrades and the rising national budget deficit continued to weigh on the local market as well, as the financing requirements for Eskom and other SOEs mounted. Ratings agency Fitch downgraded its outlook for SA's sovereign rating from stable to negative, while Moody's commented that Eskom's capital structure was "unsustainable". However, Moody's also said there was a "low likelihood" of it downgrading the country at its next review on 1 November, but as analysts pointed out, this was likely due to the stable, rather than negative, outlook it currently has for SA's rating.

Among positive developments, Finance Minister Tito Mboweni unveiled a 77-page economic strategy blueprint in August aimed at reversing the country's fall in growth and competitiveness. It was met with generally positive reviews, although many suggested reforms drew on earlier proposals. President Cyril Ramaphosa also appointed an 18-member Economic Advisory Council (EAC) comprised of both local and foreign well-known experts to help develop reform policies, and he reappointed Lesetja Kganyago to a second five-year term as SARB governor, helping avoid any investor concerns over central bank policy continuity and expertise.

After a strong rally in Q2, SA bond yields rose slightly over the quarter under some selling pressure, but the BEASSA All Bond Index still managed to deliver 0.7% in Q3. The yield on the benchmark R186 bond (due 2026) increased from around 8.1% at the start of the quarter to end at 8.3%. The SA yield curve continued to steepen as longer-dated bond yields (20+ years) rose more (and prices fell more) than their medium-term counterparts (7-12 years). SA inflation-linked bonds returned only 0.2% over the three months as the inflation outlook improved, while cash (as measured by the STeFI Composite) delivered 1.8%. For the rand, another volatile quarter saw the local currency weaken 7.5% against the US dollar, 4.0% against the pound sterling and 2.9% against the euro.

Private sector credit extension (PSCE) decelerated to 6.9% y/y in August, down from 7.2% y/y posted in July. The deceleration was attributed to a decline in credit extended to corporates, which fell from 7.9% in the previous month to 7.0%.

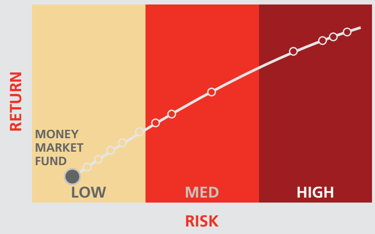
PERFORMANCE

The fund generated a return of 1.8% (net of fees) for the quarter, outperforming its benchmark by 0.2%. For the 12 months ended 30 September 2019, the fund returned 7.5% (net of fees) while the benchmark returned 6.6% over the same period. The average duration of the fund at quarter end was 37 days relative to the 90-day maximum average duration. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	X CLASS
1 year	7.5%	6.6%	7.6%
3 years	7.5%	6.7%	7.6%
5 years	7.1%	6.5%	7.2%
7 years	6.6%	6.1%	6.7%
10 years	6.4%	6.0%	n/a
Since inception	7.7%	7.6%	6.5%

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 456 966 583

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL HIGH INTEREST FUND
30 SEPTEMBER 2019

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME

MARKET OVERVIEW

The news that South Africa's Q2 2019 GDP growth came in at a stronger-than-expected 3.1% q/q annualised was widely welcomed, avoiding a technical recession after Q1's 3.2% contraction. This helped to lift market sentiment somewhat, but the very low absolute level remained a serious concern. Business confidence fell to a record low of 21 and manufacturing production contracted 1.1% y/y in July, down from +3.6% in June. Besides local issues, the economy reflected the deteriorating global conditions, which were negative for emerging markets in general.

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PERFORMANCE

The fund generated a return of 1.9% (net of fees) for the quarter, outperforming its benchmark by 0.1%. For the 12 months ended 30 September 2019, the fund returned 7.7% (net of fees) while the benchmark returned 7.3% over the same period.

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

The maximum term of instruments is limited to 3 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 with a maximum 90-day weighted average maturity.

Relative to the 180-day maximum average duration, the quarter end duration of the fund came in at 35 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 led to a relatively steep credit curve, whereby banks are prepared to pay significantly more for funding beyond the 12-month point. We prefer these longer-dated securities and have exposure to securities issued by banks such as ABSA, Standard Bank, FirstRand, Nedbank and Investec, both in floating- and fixed-rate securities.

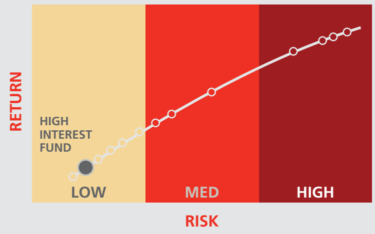
While credit issuance has been scarce since 2016, coupled with a tightening of credit spreads and some hesitance following the downgrade of the sovereign credit rating in 2017, so far 2019 has seen a number of banks and corporates coming to the market. Issuances were generally well supported and largely cleared around the mid- to lower-end of guidance.

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

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	X CLASS	D CLASS
1 year	7.7%	7.3%	7.8%	8.0%
3 years	8.0%	7.4%	8.1%	8.2%
5 years	7.6%	7.1%	7.7%	7.8%
7 years	7.0%	6.6%	7.1%	7.3%
Since inception	6.7%	6.5%	6.9%	7.1%

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:
R8 674 266 152

PLEASE NOTE:
This fund is capped to new investors

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL INCOME FUND
30 SEPTEMBER 2019

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME

MARKET OVERVIEW

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The SARB lowered its base interest rate by 25bps to 6.5% at its July MPC meeting as expected, but, concerned about the unfavourable global backdrop and potential rand weakness, it kept rates on hold in September (also as expected). In addition, it cut its GDP growth forecasts for 2020 and 2021 to 1.5% (from 1.8%) and 1.8% (from 2.0%) respectively. Its latest quarterly projection model pointed to no interest rate changes through year-end. Inflation remained well under control, with CPI at 4.3% y/y in August, up from 4.0% in July.

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PERFORMANCE

The fund generated a return of 2.0% (net of fees) for the quarter, outperforming its benchmark by 0.2%. For the 12 months ended 30 September 2019, the fund returned 8.5% (net of fees) while the benchmark returned 7.3% over the same period.

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 the 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 with a maximum 90-day weighted average maturity.

At quarter-end, the weighted average duration of the fund came in at 46 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 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.

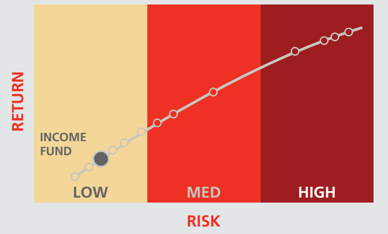
We continue to look for opportunities that will enhance the return to investors without compromising the stability of their capital. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	D CLASS
1 year	8.5%	7.3%	8.7%
2 years	8.6%	7.3%	8.8%
Since inception	8.6%	7.4%	8.7%

Inception date D Class: 6 December 2016

1-YEAR INCOME RETURN	A CLASS	D CLASS
Fund yield (net of fees)	8.1%	8.3%

RISK/RETURN PROFILE:



FUND MANAGERS:
Roshen Harry and Sandile Malinga

ASISA CATEGORY:
South African - Interest Bearing - Short Term

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

INCEPTION DATE:
6 December 2016

FUND SIZE:
R1 380 584 694

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL HIGH YIELD BOND FUND
30 SEPTEMBER 2019

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME

MARKET OVERVIEW

The news that South Africa's Q2 2019 GDP growth came in at a stronger-than-expected 3.1% q/q annualised was widely welcomed, avoiding a technical recession after Q1's 3.2% contraction. This helped to lift market sentiment somewhat, but the very low absolute annual level - at 0.9% y/y - remained a serious concern. Business confidence fell to a record low of 21 and manufacturing production contracted 1.1% y/y in July, down from +3.6% in June. Besides local issues, the economy reflected the deteriorating global conditions, which were negative for emerging markets in general.

The SARB lowered its base interest rate by 25bps to 6.5% at its July MPC meeting as expected, but, concerned about the unfavourable global backdrop and potential rand weakness, it kept rates on hold in September (also as expected). In addition, it cut its GDP growth forecasts for 2020 and 2021 to 1.5% (from 1.8%) and 1.8% (from 2.0%) respectively. Its latest quarterly projection model pointed to no interest rate changes through year-end. Inflation remained well under control, with CPI at 4.3% y/y in August, up from 4.0% in July.

Worries about potential further credit rating downgrades and the rising national budget deficit continued to weigh on the local market as well, as the financing requirements for Eskom and other SOEs mounted. Ratings agency Fitch downgraded its outlook for SA's sovereign rating from stable to negative, while Moody's commented that Eskom's capital structure was "unsustainable". However, Moody's also said there was a "low likelihood" of it downgrading the country at its next review on 1 November, but as analysts pointed out, this was likely due to the stable, rather than negative, outlook it currently has for SA's rating.

Among positive developments, Finance Minister Tito Mboweni unveiled a 77-page economic strategy blueprint in August aimed at reversing the country's fall in growth and competitiveness. It was met with generally positive reviews, although many suggested reforms drew on earlier proposals. President Cyril Ramaphosa also appointed an 18-member Economic Advisory Council (EAC) comprised of both local and foreign well-known experts to help develop reform policies, and he reappointed Lesetja Kganyago to a second five-year term as SARB governor, helping avoid any investor concerns over central bank policy continuity and expertise.

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Primary bond market issuance volume (excluding government issuances) for the third quarter was R34bn, 34% down on the previous quarter (R51bn) and 9% up compared to the third quarter of 2018 (R31bn). The 34% drop in issuance volume compared to Q2 was due to the exceptional volume issued in in the second quarter, which was influenced by the election in May and resulted in issuers bringing forward their issuances in that quarter.

Consistent with previous quarters, issuance activity was dominated by the financial sector. Corporate sector issuance followed with strong volumes from the Property and Automotive sectors, with large volume from Mercedez-Benz South Africa Limited. State-owned enterprise issuance was driven by SANRAL and Eskom.

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

PERFORMANCE

The fund generated a return of 0.6% (net of fees) for the quarter, underperforming its benchmark by 0.1%. For the 12 months ended 30 September 2019, the fund returned 10.8% (net of fees) while the benchmark returned 11.4% over the same period.

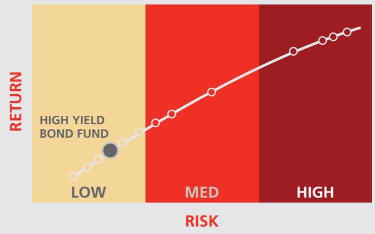
STRATEGY AND POSITIONING

The fund maintained its long duration position over the quarter as we viewed valuations as being cheap when compared to our assessment of their long-term fair value. We added some short-dated bank exposure to the fund over the quarter and continue to look for opportunities to add to the fund's credit holdings. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	10.8%	11.4%	11.0%
3 years	8.3%	8.9%	8.6%
5 years	7.6%	8.3%	7.9%
7 years	6.6%	7.2%	7.0%
10 years	8.4%	8.8%	8.7%
Since inception	10.1%	10.3%	9.1%

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:
R308 319 091

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL ENHANCED INCOME FUND
30 SEPTEMBER 2019

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

MARKET OVERVIEW

A marked escalation in the US-China trade war and further deceleration in global growth, plus the additional uncertainty around the start of efforts to impeach President Trump, kept most global equity returns either flat or in the red in the third quarter of 2019 (Q3). Bond market returns were also subdued as a consequence of the US Federal Reserve (Fed)'s perceived unwillingness to lower interest rates sharply – despite its 50bps of cuts during the quarter and easing measures in several other countries as well. Amid the increasingly bearish environment in July and August, investor sentiment turned even more cautious, to the benefit of safe havens like gold and bonds (the latter to a lesser extent), while emerging markets suffered losses. Only in September was there some relief for equities, with an uptick across most markets as risk appetite improved. However, this wasn't enough to erase the quarter's losses in many markets. For South African investors, local equities posted negative returns, while bonds were only marginally positive, and the rand depreciated notably against all the major currencies for the quarter after having rallied in Q2.

US-China trade hostilities ramped up significantly during the quarter: from 1 September the US imposed new tariffs worth US$112 billion on Chinese goods including clothing, shoes and other basic commodities. China retaliated with a further US$75 billion in tariffs (including on crude oil) and a halt in buying some US agricultural goods.

Meanwhile, the Fed lowered interest rates by 25bps in both July and September, in the face of the prospective negative impacts of the trade war and slower global growth. However, it downplayed the prospect of further cuts given the still-expansionary local economy. The latest Fed inflation-rate forecasts show no rate changes for the rest of 2019 and 2020, although Fed policymakers were divided in September: 7 members wanted at least one more 25bp cut in 2019 versus 10 advocating against. US GDP growth for Q2 2019 surprised positively at 2.0% y/y, with wage and inflationary pressures remaining subdued. The rate cuts combined with the risk-averse sentiment and surplus global capital to send the 10-year US Treasury (UST) yield down from around 2.0% at the start of the quarter to a low of 1.5% in early September, before weakening again to around 1.7% at quarter-end. The 30-year UST yield, meanwhile, dropped very near a historic low of 1.95% in August. In the equity market, the US S&P 500 returned 1.7%, the Nasdaq 1.3% and the Dow Jones Industrial 1.8% - all in US$. The Barclays US Treasury Index returned 2.4% for the quarter, while the Barclays US High Yield Bond Index returned 1.3%. The Bloomberg Barclays Global Aggregate Bond Index (US$) delivered 0.7%.

The UK moved further into a Brexit-related crisis during Q3 as new PM Johnson's move to suspend Parliament was found to be unlawful by the UK Supreme Court, and Parliament reconvened to pass a measure preventing a no-deal Brexit. With Johnson calling for fresh elections and threatening to ignore Parliament, the foundation of British democratic institutions was challenged. Amid the heightened uncertainty, the pound fell to its lowest level in 12 years against the US dollar and Q2 GDP growth slowed to 1.3% (q/q annualised) versus 2.1% (q/q annualised) in Q1. The BOE left its base interest rate unchanged at 0.75% in September. The UK's FTSE 100 returned -2.2% for the quarter in US$, and government gilts (bonds) delivered 3.2%.

In the 19-member Eurozone, growth slowed further as the area's Q2 GDP fell to 1.1% (q/q annualised) from 1.2% previously, impacted significantly by Germany's export-led economy which slumped to 0.4% growth (q/q annualised) vs 0.9% the previous quarter. Germany's September manufacturing PMI dropped to 41.7, its biggest contraction in 10 years. The European Central Bank (ECB) opted to cut interest rates by 10bps to -0.5% (below market expectations of a 20bp cut) and pledged to keep rates at accommodative levels. The ECB also pledged to resume its corporate bond repurchase programme to add stimulus from 1 November. Bond yields across the EU consequently fell further into negative territory. Faced with negative interest rates and relatively high budget deficits in member countries, the EU has little room to add further stimulus should growth falter further. In more positive news, Italy's politicians managed to form a coalition government, and also avoided EU budget deficit sanctions. For the quarter, Germany's DAX produced -4.0% and the French CAC 40 delivered -1.7%, while the Barclays Euro Treasury Index returned -0.6% (all in US$).

Japan's growth decelerated in Q2 2019 to 1.3% (q/q annualised) from 2.2% in Q1 as its export-driven economy continued to be impacted by the US-China trade war and weak business and consumer sentiment. The Bank of Japan left its key interest rate on hold at -0.1% in September, but signalled it could implement more stimulus measures as soon as October. Investors and economists are anxious about the planned imposition of a new consumption tax planned for October. For Q2, the Nikkei 225 returned 2.8% and the Barclays Global Treasury Japan Index posted 0.2% (both in US$).

In China, 16 consecutive weekends of large and increasingly violent protests in central Hong Kong started to make their impact felt on the island's economy in the form of lost consumer sales and business turnover. Although the HK government eventually formally withdrew its bill easing extradition conditions to the mainland, residents' protests swelled over concerns about losing their democratic rights. At the same time, Chinese exports continued their decline, impacting China's overall Q2 GDP growth which came in at 6.2% (q/q annualised), the lowest in 27 years. However, subsequent data showed that the government's stimulus (in the form of tax cuts, infrastructure spending and lower bank reserve requirements) had started to work, as fixed investment, industrial output and retail sales have all risen more recently. Hong Kong's Hang Seng Index returned -7.9% for the quarter, and the MSCI China returned -4.7%, both in US$.

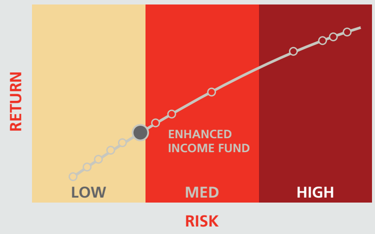
ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	X CLASS	D CLASS
1 year	6.4%	7.3%	6.9%	6.6%	7.0%
3 years	6.8%	7.4%	7.2%	7.0%	7.4%
5 years	7.1%	7.4%	n/a	7.4%	7.8%
7 years	7.0%	6.6%	n/a	7.2%	7.6%
10 years	8.1%	7.3%	n/a	n/a	n/a
Since inception	8.1%	7.3%	7.3%	7.8%	8.2%

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

ASSET CLASS RETURNS	TOTAL RETURN Q3 2019
SA equity – FTSE/JSE All Share Index (Rand)	-4.6%
SA equity – FTSE/JSE Capped SWIX All Share (Rand)	-5.1%
SA listed property – FTSE/JSE All Property Index (Rand)	-4.2%
SA bonds – BEASSA All Bond Index (Rand)	0.7%
SA inflation-linked bonds – JSE CILI Index (Rand)	0.2%
SA cash - STeFI Composite Index (Rand)	1.8%
Global equity – MSCI All Country World (Total) (US$ net)	0.0%
Global equity – MSCI World (Developed) (US$ net)	0.5%
Global equity – MSCI Emerging Markets (US$ net)	-4.2%
Global bonds – Bloomberg Barclays Global Aggregate Bond Index (US$)	0.7%
Global property – FTSE EPRA/NAREIT Global Property REIT Index (US$ net)	5.7%

Source: Prudential, Bloomberg, data to 30 September 2019

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:
R1 970 437 485

The news that South Africa's Q2 2019 GDP growth came in at a stronger-than-expected 3.1% q/q annualised was widely welcomed, avoiding a technical recession after Q1's 3.2% contraction. This helped to lift market sentiment somewhat, but the very low absolute level remained a serious concern. Business confidence fell to a record low of 21 and manufacturing production contracted 1.1% y/y in July, down from +3.6% in June. Besides local issues, the economy reflected the deteriorating global conditions, which were negative for emerging markets in general.

The SARB lowered its base interest rate by 25bps to 6.5% at its July MPC meeting as expected, but, concerned about the unfavourable global backdrop and potential rand weakness, it kept rates on hold in September (also as expected). In addition, it cut its GDP growth forecasts for 2020 and 2021 to 1.5% (from 1.8%) and 1.8% (from 2.0%) respectively. Its latest quarterly projection model pointed to no interest rate changes through year-end. Inflation remained well under control, with CPI at 4.3% y/y in August, up from 4.0% in July.

Worries about potential further credit rating downgrades and the rising national budget deficit continued to weigh on the local market as well, as the financing requirements for Eskom and other SOEs mounted. Ratings agency Fitch downgraded its outlook for SA's sovereign rating from stable to negative, while Moody's commented that Eskom's capital structure was "unsustainable". However, Moody's also said there was a "low likelihood" of it downgrading the country at its next review on 1 November, but as analysts pointed out, this was likely due to the stable, rather than negative, outlook it currently has for SA's rating.

Among positive developments, Finance Minister Tito Mboweni unveiled a 77-page economic strategy blueprint in August aimed at reversing the country's fall in growth and competitiveness. It was met with generally positive reviews, although many suggested reforms drew on earlier proposals. President Cyril Ramaphosa also appointed an 18-member Economic Advisory Council (EAC) comprised of both local and foreign well-known experts to help develop reform policies, and he reappointed Lesetja Kganyago to a second five-year term as SARB governor, helping avoid any investor concerns over central bank policy continuity and expertise.

After a strong rally in Q2, SA bond yields rose slightly over the quarter under some selling pressure, but the BEASSA All Bond Index still managed to deliver 0.7% in Q3. The yield on the benchmark R186 bond (due 2026) increased from around 8.1% at the start of the quarter to end at 8.3%. The SA yield curve continued to steepen as longer-dated bond yields (20+ years) rose more (and prices fell more) than their medium-term counterparts (7-12 years). SA inflation-linked bonds returned only 0.2% over the three months as the inflation outlook improved, while cash (as measured by the STeFI Composite) delivered 1.8%. For the rand, another volatile quarter saw the local currency weaken 7.5% against the US dollar, 4.0% against the pound sterling and 2.9% against the euro.

PERFORMANCE

The fund returned 1.6% (net of fees) for the third quarter of 2019, underperforming its benchmark by 0.2%. For the 12-month period ending 30 September 2019, the fund returned 6.4% (net of fees), underperforming its benchmark by 0.9%.

Investments in floating-rate notes, fixed-rate and inflation-linked bonds as well as international assets contributed positively to overall fund returns for the quarter, with SA property detracting from performance.

During the quarter we hedged the remainder of the fund's offshore exposure into rands using listed currency options. The offshore exposure in the fund is fully hedged into rands.

STRATEGY AND POSITIONING

In **global fixed income**, US government bonds became more expensive during the quarter, but remain cheaper than other developed markets like the UK, EU and Japan, where a wide range of government bond yields are in negative territory and continued to fall in Q3. Consequently, the asset class remains unattractive and prefer to hold investment-grade US corporate bonds.

The fund has exposure to some South African government bonds issued in US dollars, which are hedged back into rands. These assets are attractive and have the potential for stronger returns going forward now that US interest rates could possibly head lower from here.

In **SA listed property** we continue to hold a very modest position given the higher risks to earnings going forward despite the attractive valuations prevailing in the asset class. We remain concerned about the earnings outlook for the sector, as it faces ongoing 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.

SA nominal bonds offer attractive real returns and we prefer holding a modest position in longer-dated government bonds. We are comfortable with the compensation bonds offer given the risk involved, as yields have risen while the risk of downgrade also rose further during the quarter.

For **SA inflation-linked bonds**, real yields remain attractive for long-dated tenors and we continue to hold bank-issued inflation linked bonds.

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

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL INFLATION PLUS FUND
30 SEPTEMBER 2019

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

MARKET OVERVIEW

A marked escalation in the US-China trade war and further deceleration in global growth, plus the additional uncertainty around the start of efforts to impeach President Trump, kept most global equity returns either flat or in the red in the third quarter of 2019 (Q3). Bond market returns were also subdued as a consequence of the US Federal Reserve (Fed)'s perceived unwillingness to lower interest rates sharply – despite its 50bps of cuts during the quarter and easing measures in several other countries as well. Amid the increasingly bearish environment in July and August, investor sentiment turned even more cautious, to the benefit of safe havens like gold and bonds (the latter to a lesser extent), while emerging markets suffered losses. Only in September was there some relief for equities, with an uptick across most markets as investor sentiment improved. However, this wasn't enough to erase the quarter's losses in many markets. For South African investors, local equities posted negative returns, while bonds were only marginally positive, and the rand depreciated notably against all the major currencies for the quarter after having rallied in Q2. In US$ terms, global equities (the MSCI All Country World Index) were flat for the quarter, with developed markets delivering 0.5% and emerging markets returning -4.2%. Global bonds produced 0.7% and global property 5.7%, buoyed by the Fed's rate cuts.

In the US, the Fed lowered interest rates by 25bps in both July and September, in the face of the prospective negative impacts of the trade war and slower global growth. However, it downplayed the prospect of further cuts given the still-expansionary local economy. The 30-year Treasury yield dropped very near a historic low of 1.95% in August. In the equity market, the US S&P 500 returned 1.7%, the Nasdaq 1.3% and the Dow Jones Industrial 1.8% - all in US$. The Barclays US Treasury Index returned 2.4% for the quarter, while the Barclays US High Yield Bond Index returned 1.3%. The Bloomberg Barclays Global Aggregate Bond Index (US$) delivered 0.7%.

The UK moved further into a Brexit-related crisis during Q3 as new PM Johnson's move to suspend Parliament was found to be unlawful by the UK Supreme Court, and Parliament reconvened to pass a measure preventing a no-deal Brexit. The BOE left its base interest rate unchanged at 0.75% in September. The UK's FTSE 100 returned -2.2% for the quarter in US$, and government gilts (bonds) delivered 3.2%.

In the 19-member Eurozone, growth slowed further as the area's Q2 GDP fell to 1.1% (q/q annualised) from 1.2% previously. The European Central Bank (ECB) opted to cut interest rates by 10bps to -0.5% (below market expectations of a 20bp cut) and pledged to resume its corporate bond repurchase programme from 1 November. For the quarter, Germany's DAX produced -4.0% and the French CAC 40 delivered -1.7%, while the Barclays Euro Treasury Index returned -0.6% (all in US$).

Japan's growth decelerated in Q2 2019 to 1.3% (q/q annualised) from 2.2% in Q1 as its export-driven economy continued to be impacted by the US-China trade war and weak business and consumer sentiment. The Bank of Japan left its key interest rate on hold at -0.1% in September, but signalled it could implement more stimulus measures as soon as October. For Q2, the Nikkei 225 returned 2.8% and the Barclays Global Treasury Japan Index posted 0.2% (both in US$).

In China, 16 consecutive weekends of large and increasingly violent protests in central Hong Kong started to make their impact felt on the island's (and broader Chinese) economy. China's Q2 GDP growth which came in at 6.2% (q/q annualised), the lowest in 27 years. However, subsequent data showed that the government's stimulus (in the form of tax cuts, infrastructure spending and lower bank reserve requirements) had started to work, as fixed investment, industrial output and retail sales have all risen more recently. Hong Kong's Hang Seng Index returned -7.9% for the quarter, and the MSCI China returned -4.7%, both in US$.

Among other emerging markets, the only strong performance in US$ for the quarter came from the MSCI Turkey, with an 11.7% return. The weakest market was the MSCI South Africa at -12.4%, while the MSCI India recorded -5.2%, South Korea's KOSPI -4.8%, Brazil's Bovespa -4.6% and the MSCI Russia -0.9%, all in US$.

South African returns in positive territory

The news that South Africa's Q2 2019 GDP growth came in at a stronger-than-expected 3.1% (q/q annalised) was widely welcomed, avoiding a technical recession after Q1's 3.2% contraction. This helped to lift market sentiment somewhat, but the very low absolute annual level - at 0.9% y/y - remained a serious concern. Business confidence fell to a record low of 21 and manufacturing production contracted 1.1% y/y in July, down from +3.6% in June.

The SARB lowered its base interest rate by 25bps to 6.5% at its July MPC meeting as expected, but, concerned about the unfavourable global backdrop and potential rand weakness, it kept interest rates on hold in September (also as expected). It also cut its GDP growth forecasts for 2020 and 2021 to 1.5% (from 1.8%) and 1.8% (from 2.0%) respectively. Its latest quarterly projection model pointed to no interest rate changes through year-end. Inflation remained well under control, with CPI at 4.3% y/y in August, up from 4.0% in July.

SA equities were volatile and traded lower during the quarter on the negative international sentiment and growth concerns (both global and local). The FTSE/JSE ALSI returned -4.6% for the quarter; Resources was the worst-performing sector with a return of -7.3% (Resources 10 Index). Financials delivered -6.8%, Industrial counters produced -2.5% and Listed Property returned -4.2%. The FTSE/JSE Capped SWIX All Share Index, which we use as the equity benchmark for the majority of our client mandates, returned -5.1%.

After a strong rally in Q2, SA bond yields rose slightly over the quarter under some selling pressure, but the BEASSA All Bond Index still managed to deliver 0.7% in Q3. SA inflation-linked bonds returned

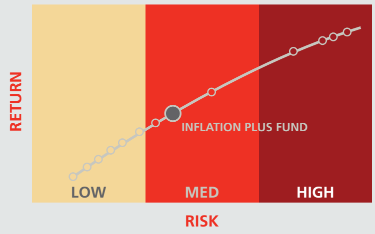
ANNUALISED PERFORMANCE	A CLASS	OBJECTIVE[#]	T CLASS	X CLASS	B CLASS
1 year	1.4%	7.7%	1.9%	1.7%	2.1%
3 years	3.2%	8.1%	3.7%	3.5%	3.9%
5 years	5.2%	8.3%	n/a	5.5%	5.9%
7 years	7.8%	8.7%	n/a	8.0%	8.6%
10 years	9.5%	8.5%	n/a	n/a	10.3%
Since inception	11.6%	9.4%	4.7%	9.4%	11.8%

[#] 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 Q3 2019
SA equity – FTSE/JSE All Share Index (Rand)	-4.6%
SA equity – FTSE/JSE Capped SWIX All Share (Rand)	-5.1%
SA listed property – FTSE/JSE All Property Index (Rand)	-4.2%
SA bonds – BEASSA All Bond Index (Rand)	0.7%
SA inflation-linked bonds – JSE CILI Index (Rand)	0.2%
SA cash - STeFI Composite Index (Rand)	1.8%
Global equity – MSCI All Country World (Total) (US$ net)	0.0%
Global equity – MSCI World (Developed) (US$ net)	0.5%
Global equity – MSCI Emerging Markets (US$ net)	-4.2%
Global bonds – Bloomberg Barclays Global Aggregate Bond Index (US$)	0.7%
Global property – FTSE EPRA/NAREIT Global Property REIT Index (US$ net)	5.7%

Source: Prudential, Bloomberg, data to 30 September 2019

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:
R30 617 982 779

AWARDS:
Raging Bull: 2013
Morningstar: 2015

Sources: Prudential, Morningstar & Deutsche Securities

only 0.2% over the three months as the inflation outlook improved, while cash (as measured by the STeFI Composite) delivered 1.8%. For the rand, another volatile quarter saw the local currency weaken 7.5% against the US dollar, 4.0% against the pound sterling and 2.9% against the euro.

PERFORMANCE

The fund returned -0.1% (after fees) for the third quarter of 2019 and 1.4% for the 12-month period ending 30 September 2019. The fund has delivered a return of 11.6% per annum since inception (after fees), compared to its after-fee objective of 9.4% per annum over the same period.

The largest positive contributors to absolute performance for the period were the fund's exposure to international equity and fixed income, helped by the depreciation of the rand against the major global currencies for the quarter. Other positive contributors included SA nominal bonds and SA cash (to a lesser extent). The largest detractors from absolute performance were the fund's SA equity and listed property holdings.

In terms of specific equity exposure, the fund's holding in BAT was the largest contributor to performance for the quarter, while a strategic exposure to Woolworths also contributed positively. The fund's lack of exposure to retailers like Shoprite, Mr Price and Truworths also boosted performance. Sasol was the largest equity detractor from absolute performance for the quarter, while Sappi, Exxaro and Anglo American also detracted.

STRATEGY AND POSITIONING

As in the previous quarter, the global equity risk premium on offer remains substantially above historic norms, reflecting the extraordinarily low government bond yields, which fell further during the quarter as a result of global interest rate expectations again being lowered.

In **global fixed income,** US government bonds became more expensive during the quarter, but remain less expensive than other developed markets like the UK, EU and Japan – in the latter two a wide range of government bond yields are in negative territory and continued to fall in Q3. Consequently, the asset class remains unattractive versus equities. We are underweight global sovereign bonds and underweight duration, preferring to hold investment-grade US and European corporate bonds.

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

We continue to prefer the global banking sector, which has underperformed the broader market, as well as certain developed markets where equities are undervalued but fundamentals for earnings growth remain positive, including Italy, Germany, Japan and Singapore. We also find selected emerging markets attractive, including South Korea, Indonesia and China. These overweight positions are financed primarily by an underweight in global bonds, as well as US equities to a lesser extent.

South African equities moved cheaper during Q3 on most valuation measures: the 12-month forward P/E of the Capped SWIX Index (the benchmark for most of our equity mandates) fell from around 12.0X to around 10.9X at quarter-end. On a price/book (P/B) basis, the Capped SWIX ended the quarter at 1.6X, cheaper than the longer-term median of around 2.1X. The Inflation Plus Fund remained underweight SA equities during the quarter given our preference to hold global equities, which are even more attractive, and the total 40% equity exposure allowed in the fund.

The fund continues to hold resources stocks with exposure to global growth and foreign currency earnings like Anglo American, Exxaro, Sasol and Sappi, as well as global giants such as Naspers and British American Tobacco (BAT). In general these stocks recorded a mixed performance during the quarter, helped by the weaker rand. However, the Sasol, Sappi and Exxaro share prices came under selling pressure on the back of earnings concerns. For Sasol this was due to continued cost and related concerns at its Lake Charles cracker project in the US, as explained in our Q2 commentary. Sappi reported weaker-than-expected earnings on the back of poor graphic paper demand and falling prices of dissolving wood pulp. Meanwhile, Exxaro suffered from the sharp fall of the iron ore price and higher costs over the quarter.

In September, Naspers successfully moved its non-South African assets, including its 31% stake in Tencent, into a separate listed company, Prosus. Through a corporate restructuring it effectively unbundled part of Prosus to shareholders, while retaining approximately 74% of Prosus. Upon listing, the Inflation Plus Fund's holding in Naspers was exchanged for an equivalent holding in Naspers and a holding in Prosus.

For the Inflation Plus Fund, the impact was an increase in weighting of Naspers to 16.0% of total South African equity exposure. This was because its weighting in the Capped SWIX Index (the fund's equity sub-benchmark) also increased. For the Capped SWIX, the JSE Index Committee decided not to treat Naspers and Prosus as one company for capping purposes – despite pushback from asset managers, including Prudential. As a result, the weight of Naspers increased from around 10% in the Capped SWIX Index prior to the corporate restructuring to 10% in Naspers plus around 4% in Prosus afterwards. As Prosus is virtually identical to Naspers, the weight of Naspers/Prosus in the Capped SWIX index has increased from 10% to 14%. As of 30 September and as a percentage of its South African equity holdings, the Inflation Plus Fund held a 10.4% exposure to Naspers and a 5.6% exposure to Prosus, for a combined 16.0% exposure.

We have also maintained our overweight exposure to financial shares including Old Mutual, Investec plc, Standard Bank and Absa, which have offered attractive valuations with relatively high dividend yields. At the same time we are still underweight retail stocks like Clicks, Mr Price, Shoprite, and Truworths in our house view portfolios, given the pressure under which local consumers find themselves.

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

In **SA listed property** we continue to be underweight in the fund given the higher risks to earnings going forward despite the attractive valuations prevailing in the asset class. We remain concerned about the earnings outlook for the sector, as it faces ongoing 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.

SA nominal bonds rallied early in Q3 with the R186 (due 2026) trading below 8% from 8.5% in the previous quarter. As a consequence, we reduced exposure to this part of the curve and bought longer-dated 2044 debt yielding 1.6% more. We therefore increased portfolio duration slightly. We continue to be overweight SA bonds, and still prefer longer-dated government bonds due to the more attractive yields on offer. 10-year real (above inflation) yields ended the quarter at 3.8%-3.9%, well above our long-run fair value assumption of 2.5%. We are comfortable with the compensation bonds offer given the risk involved, as yields have risen while the risk of downgrade also rose further during the quarter.

For **SA inflation-linked bonds**, real yields remain attractive for long-dated tenors. However, we continue to be neutrally positioned in this asset class as we believe better value exists in SA equity and nominal bonds, where long-dated nominal bonds have the potential to offer more attractive value over the medium-term and are much more liquid. ■

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL BALANCED FUND
30 SEPTEMBER 2019

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

MARKET OVERVIEW

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In the US, the Fed lowered interest rates by 25bps in both July and September, in the face of the prospective negative impacts of the trade war and slower global growth. However, it downplayed the prospect of further cuts given the still-expansionary local economy. The 30-year Treasury yield dropped very near a historic low of 1.95% in August. In the equity market, the US S&P 500 returned 1.7%, the Nasdaq 1.3% and the Dow Jones Industrial 1.8% - all in US$. The Barclays US Treasury Index returned 2.4% for the quarter, while the Barclays US High Yield Bond Index returned 1.3%. The Bloomberg Barclays Global Aggregate Bond Index (US$) delivered 0.7%.

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Among other emerging markets, the only strong performance in US$ for the quarter came from the MSCI Turkey, with an 11.7% return. The weakest market was the MSCI South Africa at -12.4%, while the MSCI India recorded -5.2%, South Korea's KOSPI -4.8%, Brazil's Bovespa -4.6% and the MSCI Russia -0.9%, all in US$.

South African returns in positive territory

The news that South Africa's Q2 2019 GDP growth came in at a stronger-than-expected 3.1% (q/q annualised) was widely welcomed, avoiding a technical recession after Q1's 3.2% contraction. This helped to lift market sentiment somewhat, but the very low absolute annual level - at 0.9% y/y - remained a serious concern. Business confidence fell to a record low of 21 and manufacturing production contracted 1.1% y/y in July, down from +3.6% in June.

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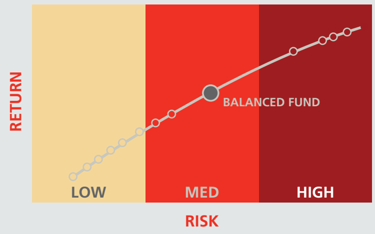
ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	X CLASS	B CLASS
1 year	-0.3%	2.0%	0.2%	-0.1%	0.4%
3 years	4.8%	3.7%	5.3%	5.0%	5.6%
5 years	5.9%	4.8%	n/a	6.2%	6.7%
7 years	9.6%	7.7%	n/a	n/a	10.4%
10 years	10.8%	8.5%	n/a	n/a	11.7%
Since inception	13.2%	11.3%	5.4%	8.8%	13.8%

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

ASSET CLASS RETURNS	TOTAL RETURN Q3 2019
SA equity – FTSE/JSE All Share Index (Rand)	-4.6%
SA equity – FTSE/JSE Capped SWIX All Share (Rand)	-5.1%
SA listed property – FTSE/JSE All Property Index (Rand)	-4.2%
SA bonds – BEASSA All Bond Index (Rand)	0.7%
SA inflation-linked bonds – JSE CILI Index (Rand)	0.2%
SA cash - STeFI Composite Index (Rand)	1.8%
Global equity – MSCI All Country World (Total) (US$ net)	0.0%
Global equity – MSCI World (Developed) (US$ net)	0.5%
Global equity – MSCI Emerging Markets (US$ net)	-4.2%
Global bonds – Bloomberg Barclays Global Aggregate Bond Index (US$)	0.7%
Global property – FTSE EPRA/NAREIT Global Property REIT Index (US$ net)	5.7%

Source: Prudential, Bloomberg, data to 30 September 2019

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:
R21 978 102 746

Sources: Prudential, Morningstar & Deutsche Securities

After a strong rally in Q2, SA bond yields rose slightly over the quarter under some selling pressure, but the BEASSA All Bond Index still managed to deliver 0.7% in Q3. SA inflation-linked bonds returned only 0.2% over the three months as the inflation outlook improved, while cash (as measured by the STeFI Composite) delivered 1.8%. For the rand, another volatile quarter saw the local currency weaken 7.5% against the US dollar, 4.0% against the pound sterling and 2.9% against the euro.

PERFORMANCE

The fund returned -1.3% (after fees) for the third quarter of 2019 and -0.3% for the 12-month period ending 30 September 2019. The fund has delivered a return of 13.2% per annum since its inception in 1999 (after fees), compared to its benchmark's return of 11.3% per annum over the same period.

The largest positive contributors to absolute performance for the period were the fund's holdings in international assets (across equity and fixed income), helped by the depreciation of the rand against the major global currencies for the quarter. Other positive contributions came from SA nominal bonds and SA cash (to a lesser extent). The largest detractor from absolute performance was the fund's SA equity exposure.

In terms of specific equity exposure, the fund's holding in British American Tobacco (BAT) was the largest contributor to performance for the quarter, while a strategic exposure to Woolworths also contributed positively. The fund's lack of exposure to retailers like Shoprite, Mr Price and Truworths also boosted performance. Sasol was the largest equity detractor from absolute performance for the quarter, while Sappi, Exxaro and Anglo American also detracted.

STRATEGY AND POSITIONING

As in the previous quarter, the prevailing global equity risk premium on offer remains substantially above historic norms, reflecting the extraordinarily low government bond yields, which fell further during the quarter as a result of global interest rate expectations again being lowered.

In **global fixed income**, US government bonds became more expensive during the quarter, but remain less expensive than other developed markets like the UK, EU and Japan, where a wide range of government bond yields are in negative territory and continued to fall in Q3. Consequently, the asset class remains unattractive versus equities. We are underweight global sovereign bonds and underweight duration, preferring to hold investment-grade US and European corporate bonds.

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

We continue to prefer the global banking sector, which has underperformed the broader market, as well as certain developed markets where equities are undervalued but fundamentals for earnings growth remain positive, including Italy, Germany, Japan and Singapore. We also find selected emerging markets attractive, including South Korea, Indonesia and China. These overweight positions are financed primarily by an underweight in global bonds, as well as US equities to a lesser extent.

South African equities moved cheaper during Q3 on most valuation measures: the 12-month forward P/E of the Capped SWIX Index (the benchmark for most of our equity mandates) fell from around 12.0X to around 10.9X at quarter-end. On a price/book (P/B) basis, the Capped SWIX ended the quarter at 1.6X, cheaper than the longer-term median of around 2.1X. We were already overweight SA equities in the Prudential Balanced Fund, and remain comfortable with our equity allocation levels.

The fund continues to hold resources stocks with exposure to global growth and foreign currency earnings like Anglo American, Exxaro, Sasol and Sappi, as well as global giants such as Naspers and BAT. In general these stocks recorded a mixed performance during the quarter, helped by the weaker rand. However, the Sasol, Sappi and Exxaro share prices came under selling pressure on the back of earnings concerns. For Sasol this was due to continued cost and related concerns at its Lake Charles cracker project in the US, as explained in our Q2 commentary. Sappi reported weaker-than-expected earnings on the back of poor graphic paper demand and falling prices of dissolving wood pulp. Meanwhile, Exxaro suffered from the sharp fall of the iron ore price and higher costs over the quarter.

In September, Naspers successfully moved its non-South African assets, including its 31% stake in Tencent, into a separate listed company, Prosus. Through a corporate restructuring it effectively unbundled part of Prosus to shareholders, while retaining approximately 74% of Prosus. Upon listing, the Balanced Fund's holding in Naspers was exchanged for an equivalent holding in Naspers and a holding in Prosus.

For the Balanced Fund, the impact was an increase in the weighting of Naspers to 15.9% of total South African equity exposure. This was because its weighting in the Capped SWIX Index (the fund's equity sub-benchmark) also increased. For the Capped SWIX, the JSE Index Committee decided not to treat Naspers and Prosus as one company for capping purposes – despite pushback from asset managers, including Prudential. As a result, the weight of Naspers increased from around 10% in the Capped SWIX Index prior to the corporate restructuring to 10% in Naspers plus around 4% in Prosus afterwards. As Prosus is virtually identical to Naspers, the weight of Naspers/Prosus in the Capped SWIX index has increased from 10% to 14%. As of 30 September and as a percentage of its South African equity holdings, the Balanced Fund held a 10.2% exposure to Naspers and a 5.7% exposure to Prosus, for a combined 15.9% exposure.

During the quarter we maintained our overweight exposure to financial shares including Old Mutual, Investec plc, Standard Bank and Absa, which offer attractive valuations with relatively high dividend yields. At the same time we are still underweight retail stocks like Clicks, Mr Price, Shoprite, and Truworths in our house view portfolios, given the pressure under which local consumers find themselves.

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

In **SA listed property** we continue to be underweight in the fund given the higher risks to earnings going forward despite the attractive valuations prevailing in the asset class. We remain concerned about the earnings outlook for the sector, as it faces ongoing 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.

SA nominal bonds rallied early in Q3 with the R186 (due 2026) trading below 8% from 8.5% in the previous quarter. As a consequence, we reduced exposure to this part of the curve and bought longer-dated 2044 debt yielding 1.6% more. We therefore increased portfolio duration slightly. We continue to be overweight SA bonds, and still prefer longer-dated government bonds due to the more attractive yields on offer. 10-year real yields ended the quarter at 3.8%-3.9%, well above our long-run fair value assumption of 2.5%. We are comfortable with the compensation bonds offer given the risk involved, as yields have risen while the risk of downgrade also rose further during the quarter.

For **SA inflation-linked bonds**, real yields remain attractive for long-dated tenors. However, we have very little exposure to this asset class in the Balanced Fund - we believe better value exists in SA equity and nominal bonds, where long-dated nominal bonds have the potential to offer more attractive value over the medium-term and are much more liquid. ■

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL ENHANCED SA PROPERTY TRACKER FUND
30 SEPTEMBER 2019

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

PROPERTY

MARKET OVERVIEW

The news that South Africa's Q2 2019 GDP growth came in at a stronger-than-expected 3.1% (q/q annualised) was widely welcomed, avoiding a technical recession after Q1's 3.2% contraction. This helped to lift market sentiment somewhat, but the very low absolute annual level - at 0.9% y/y - remained a serious concern. Business confidence fell to a record low of 21 and manufacturing production contracted 1.1% y/y in July, down from +3.6% in June. Besides local issues, the economy reflected the deteriorating global conditions, which were negative for emerging markets in general.

The SARB lowered its base interest rate by 25bps to 6.5% at its July MPC meeting as expected, but, concerned about the unfavourable global backdrop and potential rand weakness, it kept rates on hold in September (also as expected). In addition, it cut its GDP growth forecasts for 2020 and 2021 to 1.5% (from 1.8%) and 1.8% (from 2.0%) respectively. Its latest quarterly projection model pointed to no interest rate changes through year-end. Inflation remained well under control, with CPI at 4.3% y/y in August, up from 4.0% in July.

Worries about potential further credit rating downgrades and the rising national budget deficit continued to weigh on the local market as well, as the financing requirements for Eskom and other SOEs mounted. Ratings agency Fitch downgraded its outlook for SA's sovereign rating from stable to negative, while Moody's commented that Eskom's capital structure was "unsustainable". However, Moody's also said there was a "low likelihood" of it downgrading the country at its next review on 1 November, but as analysts pointed out, this was likely due to the stable, rather than negative, outlook it currently has for SA's rating.

Among positive developments, Finance Minister Tito Mboweni unveiled a 77-page economic strategy blueprint in August aimed at reversing the country's fall in growth and competitiveness. It was met with generally positive reviews, although many suggested reforms drew on earlier proposals. President Cyril Ramaphosa also appointed an 18-member Economic Advisory Council (EAC) comprised of both local and foreign well-known experts to help develop reform policies, and he reappointed Lesetja Kganyago to a second five-year term as SARB governor, helping avoid any investor concerns over central bank policy continuity and expertise.

PERFORMANCE

Property as an asset class continued to struggle. The third quarter saw the fund's benchmark, the FTSE/JSE SA Listed Property Index (SAPY), decline 4.4%, bringing the year-to-date return to a mere 1.3%. The SAPY Index performed better than the All Property Index since the beginning of 2019, which declined 1.5% year-to-date due to exposure to certain poor performing UK stocks.

The fund had a satisfactory third quarter in terms of being able to outperform its benchmark, returning -4.1% (net of fees) for the three months ending 30 September 2019, outperforming its benchmark by 0.3%. However, as detailed in the previous quarter's fund commentary, the fund's strategy of targeting higher-yielding property companies did not deliver acceptable returns in the latter part of 2018 and in 2019 to date.

STRATEGY AND POSITIONING

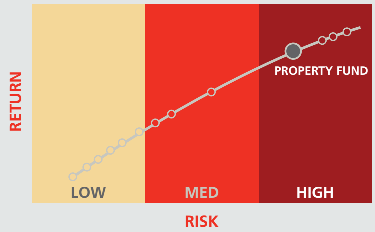
Local property fundamentals remain under pressure as tenant retention comes at a cost, while growth on property operating costs outpaces growth in revenue. Recent results confirmed our expectations of continued weakness across all three major property sectors (retail, commercial and industrial). In addition, dividends declared and dividend guidance generally disappointed market expectations, which resulted in the yield on many companies moving towards 10% (and well above in some cases), while the majority of the sector continues to trade at discounts to their net asset values.

While high yield is normally a good indicator of potentially strong future returns, it may also indicate the market's concern around the sustainability of the yield. As detailed in the previous quarter's fund commentary, we have taken steps to address the positioning of the fund, principally by reducing exposure to certain higher-yielding property companies. We are encouraged that the third-quarter returns for the fund have been above the benchmark, but we still have some way to go to recover the recent period of underperformance. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	D CLASS
1 year	-5.1%	-2.7%	-5.0%	-5.0%
3 years	-4.8%	-3.5%	-4.8%	-4.7%
5 years	2.9%	3.2%	n/a	3.0%
7 years	5.6%	5.9%	n/a	5.8%
10 years	10.8%	11.2%	n/a	n/a
Since inception	11.9%	12.3%	-2.0%	9.6%

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

RISK/RETURN PROFILE:



FUND MANAGERS:
Johny Lambridis and Yusuf Mowlana

ASISA CATEGORY:
South African - Real Estate - General

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

INCEPTION DATE:
2 December 2005

FUND SIZE:
R2 379 771 957

AWARDS:
Morningstar/Standard & Poor's: 2011

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL DIVIDEND MAXIMISER FUND
30 SEPTEMBER 2019

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

EQUITY

MARKET OVERVIEW

A marked escalation in the US-China trade war and further deceleration in global growth, plus the additional uncertainty around the start of efforts to impeach President Trump, kept most global equity returns either flat or in the red in the third quarter of 2019 (Q3). Amid the increasingly bearish environment in July and August, investor sentiment turned even more cautious, to the benefit of safe havens like gold and bonds (the latter to a lesser extent), while emerging markets suffered losses. Only in September was there some relief for equities, with an uptick across most markets as risk appetite improved. However, this wasn't enough to erase the quarter's losses in many markets. For South African investors, local equities posted negative returns, while bonds were only marginally positive, and the rand depreciated notably against all the major currencies for the quarter after having rallied in Q2.

US-China trade hostilities ramped up significantly during the quarter: from 1 September the US imposed new tariffs worth US$112 billion on Chinese goods including clothing, shoes and other basic commodities. China retaliated with a further US$75 billion in tariffs (including on crude oil) and a halt in buying some US agricultural goods.

Meanwhile, the Fed lowered interest rates by 25bps in both July and September, in the face of the prospective negative impacts of the trade war and slower global growth. However, it downplayed the prospect of further cuts given the still-expansionary local economy. In the equity market, the US S&P 500 returned 1.7%, the Nasdaq 1.3% and the Dow Jones Industrial 1.8% - all in US$.

The UK moved further into a Brexit-related crisis during Q3 as new PM Johnson's move to suspend Parliament was found to be unlawful by the UK Supreme Court, and Parliament reconvened to pass a measure preventing a no-deal Brexit. Amid the heightened uncertainty, the pound fell to its lowest level in 12 years against the US dollar and Q2 GDP growth slowed to 1.3% (q/q annualised) versus 2.1% (q/q annualised) in Q1. The FTSE 100 returned -2.2% for the quarter in US$, and government gilts (bonds) delivered 3.2%.

In the 19-member Eurozone, growth slowed further as the area's Q2 GDP fell to 1.1% (q/q annualised) from 1.2% previously, impacted significantly by Germany's export-led economy which slumped to 0.4% growth (q/q annualised) vs 0.9% the previous quarter. The European Central Bank (ECB) opted to cut interest rates by 10bps to -0.5% (below market expectations of a 20bp cut) and pledged to resume its corporate bond repurchase programme. For the quarter, Germany's DAX produced -4.0% and the French CAC 40 delivered -1.7%.

Japan's growth decelerated in Q2 2019 to 1.3% (q/q annualised) from 2.2% in Q1 as its export-driven economy continued to be impacted by the US-China trade war and weak business and consumer sentiment. For Q3, the Nikkei 225 returned 2.8% and the Barclays Global Treasury Japan Index posted 0.2% (both in US$).

In China, 16 consecutive weekends of large and increasingly violent protests in central Hong Kong started to make their impact felt on the island's economy. Although the HK government eventually formally withdrew its bill easing extradition conditions to the mainland, residents' protests swelled over concerns about losing their democratic rights. At the same time, Chinese exports continued their decline, impacting China's overall Q2 GDP growth which came in at 6.2% (q/q annualised), the lowest in 27 years. Hong Kong's Hang Seng Index returned -7.9% for the quarter, and the MSCI China returned -4.7%, both in US$.

Among other emerging markets, the only strong performance in US$ for the quarter came from the MSCI Turkey, with an 11.7% return. The weakest market was the MSCI South Africa at -12.4%, while the MSCI India recorded -5.2%, South Korea's KOSPI -4.8%, Brazil's Bovespa -4.6% and the MSCI Russia -0.9%, all in US$. The price of Brent crude oil fell during Q3, starting off July at around US$65 per barrel and ending September at around US$62 per barrel. Other commodity prices were mixed, as gold gained 5.8% (up 25% in the past year on its safe-haven status), palladium jumped 10%, platinum rose 11.7% and lead was up 8.9%. However, the prices of aluminium, copper and zinc were all down between 4-8%.

The news that South Africa's Q2 2019 GDP growth came in at a stronger-than-expected 3.1% (q/q annualised) was widely welcomed, avoiding a technical recession after Q1's 3.2% contraction. This helped to lift market sentiment somewhat, but the very low absolute level (at only 0.9% y/y) remained a serious concern.

The SARB lowered its base interest rate by 25bps to 6.5% at its July MPC meeting as expected, but, concerned about the unfavourable global backdrop and potential rand weakness, it kept rates on hold in September (also as expected). In addition, it cut its GDP growth forecasts for 2020 and 2021 to 1.5% (from 1.8%) and 1.8% (from 2.0%) respectively. Its latest quarterly projection model pointed to no interest rate changes through year-end. Inflation remained well under control, with CPI at 4.3% y/y in August, up from 4.0% in July.

Worries about potential further credit rating downgrades and the rising national budget deficit continued to weigh on the local market as well, as the financing requirements for Eskom and other SOEs mounted. Ratings agency Fitch downgraded its outlook for SA's sovereign rating from stable to negative, while Moody's commented that Eskom's capital structure was "unsustainable".

Among positive developments, Finance Minister Tito Mboweni unveiled a 77-page economic strategy blueprint in August aimed at reversing the country's fall in growth and competitiveness. It was met with generally positive reviews, although many suggested reforms drew on earlier proposals. President Cyril Ramaphosa also appointed an 18-member Economic Advisory Council (EAC) comprised of both local and foreign well-known experts to help develop reform policies, and he reappointed Lesetja Kganyago to a second five-year term as SARB governor, helping avoid any investor concerns over central bank policy continuity and expertise.

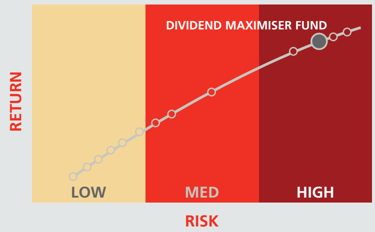
SA equities were volatile and traded lower during the quarter on the negative international sentiment and growth concerns (both global and local). The FTSE/JSE ALSI returned -4.6% for the quarter; Resources was the worst-performing sector with a return of -7.3% (Resources 10 Index). Financials delivered -6.8%, Industrial counters produced -2.5% and Listed Property returned -4.2%.

For the rand, another volatile quarter saw the local currency weaken 7.5% against the US dollar, 4.0% against the pound sterling and 2.9% against the euro.

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	B CLASS
1 year	-3.5%	-1.6%	-3.1%	-3.1%
3 years	3.9%	1.2%	4.3%	4.3%
5 years	4.1%	2.4%	n/a	4.5%
7 years	9.0%	6.7%	n/a	9.5%
10 years	10.8%	8.7%	n/a	11.2%
Since inception	16.1%	13.2%	3.6%	10.1%

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

RISK/RETURN PROFILE:



FUND MANAGERS:
Ross Biggs and Rehana Khan

ASISA CATEGORY:
South African - Equity - General

BENCHMARK:
ASISA South African – Equity - General Category Mean

INCEPTION DATE:
2 August 1999

FUND SIZE:
R4 047 687 423

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

Sources: Prudential, Morningstar & Deutsche Securities

PERFORMANCE

The fund delivered a return of -1.7% (net of fees) for the third quarter of 2019, outperforming its benchmark by 2.0%. For the 12 months ending 30 September 2019, the fund returned -3.5% (net of fees), underperforming its benchmark by 1.9%.

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

The fund's overweight position in Sappi Limited, the South African-based paper company was one of the main detractors from relative performance for the quarter. The fund has held Sappi for several years now based on the investment case that the company was paying down its large debt balance and had considerably lowered the cost of this debt, which it accumulated during the financial crisis. We also recognised that Sappi was aggressively allocating capital away from its declining paper business and investing heavily in its dissolving pulp business. The product produced by dissolving pulp is mainly used in the production of clothing and has been growing quickly as a cheaper alternative to cotton. The investment case has played out well, as Sappi has paid off and refinanced debt to much lower levels of interest and is now making well over half its profits from dissolving pulp and most importantly for the fund has resumed paying dividends. We believe therefore that Sappi is today in a far better position than it has been for the last decade but currently is suffering from a downturn in dissolving pulp prices. We believe Sappi represents excellent value at the levels where it is currently trading.

Another large detractor from relative performance for the quarter was our underweight position to Anheuser-Busch, which recovered as the company announced asset sales to help pay down some of the large debt position that it had built up after buying SAB Miller. Although we think Anheuser-Busch is a good quality company, we think that the company has accumulated a very large amount of debt and depending on growth in beer sales, may find it difficult to materially grow cash flows. Our preference of the large consumer companies is British American Tobacco (BAT), which has much stronger cash flows in relation to its earnings and which is priced considerably cheaper than Anheuser-Busch. At a dividend yield of 7%, we think that BAT is priced at half the price of Anheuser-Busch.

One of the largest contributors to relative performance over the last quarter in South Africa was the fund's holding in Trencor. Trencor was listed in 1955 on the JSE as a transport company and is based out of a small head office in Cape Town. The company has been simplified over the years and today its main asset is its 48% share in Textainer, which is one of the world's largest container leasing companies. We would regard Textainer as a high-quality leasing company due to its competitive position in the global container leasing markets. Over many years, Textainer has held conservative levels of debt and steadily grown the scale of the business. A few years ago, as a result of the bankruptcy of one of their shipping clients, Textainer was forced to slow the growth of the business while trying to speedily recover from this setback. The share price fell dramatically as a result and we used this opportunity to acquire shares in this high-quality business at what we considered to be a very undervalued price. Trencor, the ultimate owner of Textainer, was also trading at a substantial discount to its value, and so by buying Trencor, we were able to buy an already undervalued company at a further discount. We anticipate that we will be able to realise this discount at which Trencor trades to its underlying assets, as the company announced over the last quarter that it intends to unbundle its shares in Textainer to Trencor shareholders by also listing Textainer on the JSE. The share price reacted very positively to this news.

Metrofile was one of the main contributors to relative performance for the quarter. This company is focused on the storage of both physical paper and data. The company is a very strong cash generator and has been a steady dividend payer over several years. It is the largest storage company of its type in Africa and has recently announced that it intends to focus on its core businesses and is realising some value by selling some of its non-core businesses. We think this restructuring will likely increase its fundamental value and improve cash flows and dividends. Over the last quarter, it also announced that it had received interest from a buyer for the possible purchase of the company.

We continue to believe that offshore equity markets look very attractive, certainly relative to bond markets and when compared to South Africa. The fund is approximately 30% invested offshore mainly through the Prudential Global Equity Fund and the M&G Global Dividend Fund. Both these funds were the top contributors to relative outperformance for the quarter as the rand weakened. Our investment in Africa through the Prudential Africa Equity Fund also did particularly well and was up by 7.5% over the quarter.

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

STRATEGY AND POSITIONING

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

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

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

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

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL EQUITY FUND
30 SEPTEMBER 2019

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

EQUITY

MARKET OVERVIEW

A marked escalation in the US-China trade war and further deceleration in global growth, plus the additional uncertainty around the start of efforts to impeach President Trump, kept most global equity returns either flat or in the red in the third quarter of 2019 (Q3). Amid the increasingly bearish environment in July and August, investor sentiment turned even more cautious, to the benefit of safe havens like gold and bonds (the latter to a lesser extent), while emerging markets suffered losses. Only in September was there some relief for equities, with an uptick across most markets as risk appetite improved. However, this wasn't enough to erase the quarter's losses in many markets. For South African investors, local equities posted negative returns, while bonds were only marginally positive, and the rand depreciated notably against all the major currencies for the quarter after having rallied in Q2.

US-China trade hostilities ramped up significantly during the quarter: from 1 September the US imposed new tariffs worth US$112 billion on Chinese goods including clothing, shoes and other basic commodities. China retaliated with a further US$75 billion in tariffs (including on crude oil) and a halt in buying some US agricultural goods.

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In the 19-member Eurozone, growth slowed further as the area's Q2 GDP fell to 1.1% (q/q annualised) from 1.2% previously, impacted significantly by Germany's export-led economy which slumped to 0.4% growth (q/q annualised) vs 0.9% the previous quarter. The European Central Bank (ECB) opted to cut interest rates by 10bps to -0.5% (below market expectations of a 20bp cut) and pledged to resume its corporate bond repurchase programme. For the quarter, Germany's DAX produced -4.0% and the French CAC 40 delivered -1.7%.

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The news that South Africa's Q2 2019 GDP growth came in at a stronger-than-expected 3.1% (q/q annualised) was widely welcomed, avoiding a technical recession after Q1's 3.2% contraction. This helped to lift market sentiment somewhat, but the very low absolute level (at only 0.9% y/y) remained a serious concern.

The SARB lowered its base interest rate by 25bps to 6.5% at its July MPC meeting as expected, but, concerned about the unfavourable global backdrop and potential rand weakness, it kept rates on hold in September (also as expected). In addition, it cut its GDP growth forecasts for 2020 and 2021 to 1.5% (from 1.8%) and 1.8% (from 2.0%) respectively. Its latest quarterly projection model pointed to no interest rate changes through year-end. Inflation remained well under control, with CPI at 4.3% y/y in August, up from 4.0% in July.

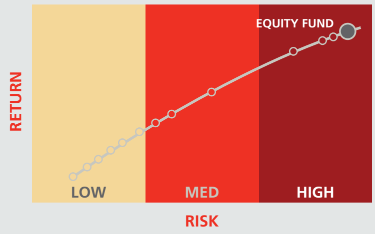
Worries about potential further credit rating downgrades and the rising national budget deficit continued to weigh on the local market as well, as the financing requirements for Eskom and other SOEs mounted. Ratings agency Fitch downgraded its outlook for SA's sovereign rating from stable to negative, while Moody's commented that Eskom's capital structure was "unsustainable".

Among positive developments, Finance Minister Tito Mboweni unveiled a 77-page economic strategy blueprint in August aimed at reversing the country's fall in growth and competitiveness. It was met with generally positive reviews, although many suggested reforms drew on earlier proposals. President Cyril Ramaphosa also appointed an 18-member Economic Advisory Council (EAC) comprised of both local and foreign well-known experts to help develop reform policies, and he reappointed Lesetja Kganyago to a second five-year term as SARB governor, helping avoid any investor concerns over central bank policy continuity and expertise.

SA equities were volatile and traded lower during the quarter on the negative international sentiment and growth concerns (both global and local). The FTSE/JSE ALSI returned -4.6% for the quarter; Resources was the worst-performing sector with a return of -7.3% (Resources 10 Index). Financials delivered -6.8%, Industrial counters produced -2.5% and Listed Property returned -4.2%.

For the rand, another volatile quarter saw the local currency weaken 7.5% against the US dollar, 4.0% against the pound sterling and 2.9% against the euro.

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 236 811 698

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

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	-3.4%	-1.6%	-3.0%
3 years	4.2%	1.2%	4.7%
5 years	4.2%	2.4%	4.6%
7 years	9.3%	6.7%	9.7%
10 years	11.2%	8.7%	11.7%
Since inception	16.0%	13.2%	10.3%

Inception dates: B Class: 2 January 2007

Sources: Prudential, Morningstar & Deutsche Securities

PERFORMANCE

Equity markets pulled back sharply during the third quarter of 2019. Consequently, the fund delivered a -4.3% negative return (net of fees), versus the benchmark that declined by 3.7% over the same period. Given a strong first quarter, year-to-date the fund has still marginally outperformed the benchmark after fees, however absolute returns at 4.1% (net of fees) remain disappointingly low.

Our overweight exposure to British American Tobacco (BAT), Capital & Counties and Trencor were significant contributors to the fund's performance over the last quarter. These "rand hedge" stocks benefited from the weakening of the rand over the quarter (from around R14/US$ to approx. R15/US$), as did our direct offshore holdings in the fund.

Trencor and Capital & Counties both benefited from further clarity around corporate restructurings. Trencor announced that it is looking to unbundle its holding in Textainer directly to its shareholders (via Textainer looking to inward list on the JSE), which would have the effect of narrowing the discount at which Trencor trades to its underlying assets. Capital & Counties is expected to announce before the end of October whether it will sell or demerge its Earls Court Properties from the rest of its property portfolio (primally the highly coveted Covent Garden Estate in the West End of London).

Sasol and Sappi's performances remained disappointing – with both counters falling in excess of 25% in the third quarter. Sasol's underperformance stems from continued uncertainty around the operational challenges in bringing the Lake Charles Chemical Project (LCCP) to successful completion. To date our assessment is that our Sasol investment case is not broken but has been delayed and become riskier (the additional c$1bn LCCP capex overrun has put additional strain on the balance sheet). We still expect a significant "cashflow inflection point" for Sasol in 2020/21 (i.e. when positive operating profit from LCCP replaces significant capex to build the plant). The cash flows that we think the project will generate should be able to adequately be able to pay down debt. We believe that the risk of the dividend being cut at Sasol is however increasing and it might be the best course of action to suspend the dividend in order to protect the value of the company.

STRATEGY AND POSITIONING

The fund continues to hold resources stocks with exposure to global growth and foreign currency earnings like Anglo American, Exxaro, Sasol and Sappi, as well as global giants such as Naspers and British American Tobacco (BAT). We await Sasol's FY19 results, which have been delayed as a result of the operational LCCP challenges, to affirm our investment case. To date, our assessment is that the Sasol investment case is not broken but has been delayed and become riskier (the additional C$1bn LCCP capex overrun has put additional strain on the balance sheet). Indeed, we still expect a significant "cashflow inflection point" for Sasol in 2020/21 (i.e. when positive operating profit from LCCP replaces significant capex to build the plant).

We have maintained our overweight exposure to financial shares including Old Mutual, Standard Bank, Investec and Absa, which have offered attractive valuations with relatively high dividend yields. At the same time, we are still underweight retail stocks like Mr Price, Shoprite and Truworths given the pressure under which local consumers find themselves.

The market awaits the upcoming Medium-Term Budget Policy Statement (scheduled for the end of October) and clarity on how government plans to deal with Eskom and its related debt problems. To date, the ANC and President Ramaphosa – despite a renewed mandate from the electorate in May – have been painfully slow to address the multitude of factors facing the economy. Pronouncements from the governing party and its National Executive Committee (NEC) are not bold enough on structural reforms (of SOEs in particular) and naively assume the market will fund new initiatives (such as NHI) before seeing progress on previous commitments.

Globally, Brexit and the Trump trade wars have dominated headlines in 2019 and the fourth quarter will be no different, particularly with the self-imposed 31 October Brexit deadline. Any positive news could potentially benefit the South Africa market, which appears attractive on a number of valuation metrics: the 12-month forward P/E of the Capped SWIX Index fell from around 12.0X to around 10.9X at quarter-end. On a price/book value (P/B) basis, the Capped SWIX ended the quarter at 1.6X, cheaper than the longer-term median of around 2.1X. ■

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL BOND FEEDER FUND
30 SEPTEMBER 2019

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL INCOME

MARKET OVERVIEW

A marked escalation in the US-China trade war and further deceleration in global growth, plus the additional uncertainty around the start of efforts to impeach President Trump, kept most global equity returns either flat or in the red in the third quarter of 2019 (Q3). Amid the increasingly bearish environment in July and August, investor sentiment turned even more cautious, to the benefit of safe havens like gold and bonds (the latter to a lesser extent), while emerging markets suffered losses. Only in September was there some relief for equities, with an uptick across most markets as risk appetite improved. However, this wasn't enough to erase the quarter's losses in many markets.

US-China trade hostilities ramped up significantly during the quarter: from 1 September the US imposed new tariffs worth US$112 billion on Chinese goods including clothing, shoes and other basic commodities. China retaliated with a further US$75 billion in tariffs (including on crude oil) and a halt in buying some US agricultural goods. Meanwhile, the Fed lowered interest rates by 25bps in both July and September, in the face of the prospective negative impacts of the trade war and slower global growth. However, it downplayed the prospect of further cuts given the still-expansionary local economy.

The UK moved further into a Brexit-related crisis during Q3 as new PM Johnson's move to suspend Parliament was found to be unlawful by the UK Supreme Court, and Parliament reconvened to pass a measure preventing a no-deal Brexit. Amid the heightened uncertainty, the pound fell to its lowest level in 12 years against the US dollar and Q2 GDP growth slowed to 1.3% (q/q annualised) versus 2.1% (q/q annualised) in Q1. Government gilts (bonds) delivered 3.2% in US$ for the quarter.

In the 19-member Eurozone, growth slowed further as the area's Q2 GDP fell to 1.1% (q/q annualised) from 1.2% previously, impacted significantly by Germany's export-led economy which slumped to 0.4% growth (q/q annualised) vs 0.9% the previous quarter. The European Central Bank (ECB) opted to cut interest rates by 10bps to -0.5% (below market expectations of a 20bp cut) and pledged to resume its corporate bond repurchase programme.

Japan's growth decelerated in Q2 2019 to 1.3% (q/q annualised) from 2.2% in Q1 as its export-driven economy continued to be impacted by the US-China trade war and weak business and consumer sentiment. For Q3 the Barclays Global Treasury Japan Index posted 0.2% (both in US$).

In China, 16 consecutive weekends of large and increasingly violent protests in central Hong Kong started to make their impact felt on the island's economy. Although the HK government eventually formally withdrew its bill easing extradition conditions to the mainland, residents' protests swelled over concerns about losing their democratic rights. At the same time, Chinese exports continued their decline, impacting China's overall Q2 GDP growth which came in at 6.2% (q/q annualised), the lowest in 27 years.

For the rand, another volatile quarter saw the local currency weaken 7.5% against the US dollar, 4.0% against the pound sterling and 2.9% against the euro.

PERFORMANCE

The fund produced a return of 7.7% (net of fees) in rand for the third quarter of 2019, underperforming its benchmark by 0.6%. For the 12 months ending 30 September 2019, the fund returned 13.8% (net of fees) while the benchmark returned 15.4%.

Contributing to absolute performance for the quarter were the fund's government bond exposures to Turkey and Mexico, as well as corporate credit via the Eastspring Investments US Investment Grade Bond Fund. However, this was negated by exposure to South African government and European corporate bond exposures.

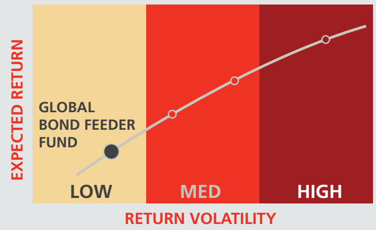
STRATEGY AND POSITIONING

We remain highly active within the global bond asset class, seeking positive bets on emerging market government bonds because of their diversification qualities and the better real yields they can offer compared to Western government bonds, where we tend to be underweight compared to the benchmark. As such the fund positioning include exposure to government bonds issued by Mexico, South Africa and Brazil as well as selected areas of corporate credit.

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	13.8%	15.4%	14.2%
3 years	4.1%	4.9%	n/a
5 years	6.8%	8.2%	n/a
7 years	10.2%	10.3%	n/a
10 years	10.0%	9.8%	n/a
Since inception	8.7%	8.9%	18.2%

Inception date B Class: 2 July 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 - Interest Beating - Variable Term

BENCHMARK:
Bloomberg Barclays Global Aggregate Bond Index

INCEPTION DATE:
27 October 2000

FUND SIZE:
R496 534 053

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL INFLATION PLUS FEEDER FUND
30 SEPTEMBER 2019

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL MULTI-ASSET

MARKET OVERVIEW

A marked escalation in the US-China trade war and further deceleration in global growth, plus the additional uncertainty around the start of efforts to impeach President Trump, kept most global equity returns either flat or in the red in the third quarter of 2019 (Q3). Amid the increasingly bearish environment in July and August, investor sentiment turned even more cautious, to the benefit of safe havens like gold and bonds (the latter to a lesser extent), while emerging markets suffered losses. Only in September was there some relief for equities, with an uptick across most markets as risk appetite improved. However, this wasn't enough to erase the quarter's losses in many markets.

US-China trade hostilities ramped up significantly during the quarter: from 1 September the US imposed new tariffs worth US$112 billion on Chinese goods including clothing, shoes and other basic commodities. China retaliated with a further US$75 billion in tariffs (including on crude oil) and a halt in buying some US agricultural goods. Meanwhile, the Fed lowered interest rates by 25bps in both July and September, in the face of the prospective negative impacts of the trade war and slower global growth. However, it downplayed the prospect of further cuts given the still-expansionary local economy. In the equity market, the US S&P 500 returned 1.7%, the Nasdaq 1.3% and the Dow Jones Industrial 1.8% - all in US$.

The UK moved further into a Brexit-related crisis during Q3 as new PM Johnson's move to suspend Parliament was found to be unlawful by the UK Supreme Court, and Parliament reconvened to pass a measure preventing a no-deal Brexit. Amid the heightened uncertainty, the pound fell to its lowest level in 12 years against the US dollar and Q2 GDP growth slowed to 1.3% (q/q annualised) versus 2.1% (q/q annualised) in Q1. The FTSE 100 returned -2.2% for the quarter in US$, and government gilts (bonds) delivered 3.2%.

In the 19-member Eurozone, growth slowed further as the area's Q2 GDP fell to 1.1% (q/q annualised) from 1.2% previously, impacted significantly by Germany's export-led economy which slumped to 0.4% growth (q/q annualised) vs 0.9% the previous quarter. The European Central Bank (ECB) opted to cut interest rates by 10bps to -0.5% (below market expectations of a 20bp cut) and pledged to resume its corporate bond repurchase programme. For the quarter, Germany's DAX produced -4.0% and the French CAC 40 delivered -1.7%.

Japan's growth decelerated in Q2 2019 to 1.3% (q/q annualised) from 2.2% in Q1 as its export-driven economy continued to be impacted by the US-China trade war and weak business and consumer sentiment. For Q3, the Nikkei 225 returned 2.8% and the Barclays Global Treasury Japan Index posted 0.2% (both in US$).

In China, 16 consecutive weekends of large and increasingly violent protests in central Hong Kong started to make their impact felt on the island's economy. Although the HK government eventually formally withdrew its bill easing extradition conditions to the mainland, residents' protests swelled over concerns about losing their democratic rights. At the same time, Chinese exports continued their decline, impacting China's overall Q2 GDP growth which came in at 6.2% (q/q annualised), the lowest in 27 years. Hong Kong's Hang Seng Index returned -7.9% for the quarter, and the MSCI China returned -4.7%, both in US$.

Among other emerging markets, the only strong performance in US$ for the quarter came from the MSCI Turkey, with an 11.7% return. The weakest market was the MSCI South Africa at -12.4%, while the MSCI India recorded -5.2%, South Korea's KOSPI -4.8%, Brazil's Bovespa -4.6% and the MSCI Russia -0.9%, all in US$. The price of Brent crude oil fell during Q3, starting off July at around US$65 per barrel and ending September at around US$62 per barrel. Other commodity prices were mixed, as gold gained 5.8% (up 25% in the past year on its safe-haven status), palladium jumped 10%, platinum rose 11.7% and lead was up 8.9%. However, the prices of aluminium, copper and zinc were all down between 4-8%.

For the rand, another volatile quarter saw the local currency weaken 7.5% against the US dollar, 4.0% against the pound sterling and 2.9% against the euro.

PERFORMANCE

The fund produced a return of 8.3% (net of fees) in rand for the third quarter of 2019, whilst global inflation printed 7.8% in rand. For the 12 months ending 30 September 2019, the fund returned 10.7% (net of fees) while global inflation produced 5.6%.

For the quarter the fund's fixed income positions contributed to overall returns while the equity exposure detracted. Within fixed income, the main contributors to performance were holdings in Turkish and Mexican government bonds and the Eastspring US Investment Grade Bond Fund, while exposure to South African government bonds detracted from performance. Within equity exposure, the main detractors were exposure to European resources and smaller companies as well as Indonesia and China country exposure. Exposure to Turkish equity offset these losses to a certain extent.

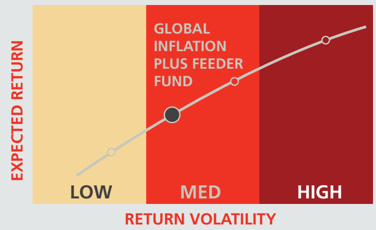
STRATEGY AND POSITIONING

In our analysis equity markets are fair to cheaply priced particularly in markets in Europe and Asia. Furthermore we prefer equities to cash and fixed income assets as the potential yield from equities (both earnings and dividend yield) currently far outweighs that from fixed income markets, particularly developed market government bonds, where yields remain close to record lows. Emerging market bonds offer attractive levels of yield and scope for more significant rate cuts if necessary, whereas developed market government bonds offer very asymmetric return profiles from such low prevailing levels of yield. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK*	B CLASS
1 year	10.7%	5.6%	11.1%
3 years	7.1%	4.2%	7.5%
5 years	8.3%	6.8%	8.6%
7 years	11.1%	10.1%	n/a
10 years	9.0%	7.8%	n/a
Since inception	8.1%	7.1%	9.7%

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:
R116 827 623

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL BALANCED FEEDER FUND
30 SEPTEMBER 2019

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL MULTI-ASSET

MARKET OVERVIEW

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In the 19-member Eurozone, growth slowed further as the area's Q2 GDP fell to 1.1% (q/q annualised) from 1.2% previously, impacted significantly by Germany's export-led economy which slumped to 0.4% growth (q/q annualised) vs 0.9% the previous quarter. The European Central Bank (ECB) opted to cut interest rates by 10bps to -0.5% (below market expectations of a 20bp cut) and pledged to resume its corporate bond repurchase programme. For the quarter, Germany's DAX produced -4.0% and the French CAC 40 delivered -1.7%.

Japan's growth decelerated in Q2 2019 to 1.3% (q/q annualised) from 2.2% in Q1 as its export-driven economy continued to be impacted by the US-China trade war and weak business and consumer sentiment. For Q3, the Nikkei 225 returned 2.8% and the Barclays Global Treasury Japan Index posted 0.2% (both in US$).

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Among other emerging markets, the only strong performance in US$ for the quarter came from the MSCI Turkey, with an 11.7% return. The weakest market was the MSCI South Africa at -12.4%, while the MSCI India recorded -5.2%, South Korea's KOSPI -4.8%, Brazil's Bovespa -4.6% and the MSCI Russia -0.9%, all in US$. The price of Brent crude oil fell during Q3, starting off July at around US$65 per barrel and ending September at around US$62 per barrel. Other commodity prices were mixed, as gold gained 5.8% (up 25% in the past year on its safe-haven status), palladium jumped 10%, platinum rose 11.7% and lead was up 8.9%. However, the prices of aluminium, copper and zinc were all down between 4-8%.

For the rand, another volatile quarter saw the local currency weaken 7.5% against the US dollar, 4.0% against the pound sterling and 2.9% against the euro.

PERFORMANCE

The fund produced a return of 8.7% (net of fees) in rand for the third quarter of 2019, outperforming its benchmark by 0.7%. For the 12 months ending 30 September 2019, the fund returned 6.3% (net of fees) while the benchmark returned 11.3%.

Equities dragged on performance for the quarter with exposure to European resources and smaller companies, as well as China and Indonesian country exposure being the main detractors. Exposure to Turkey via equities and government bonds as well as Mexican government bond exposure contributed to returns. Within fixed income, the main detractors were exposure to South African government and European corporate bonds.

STRATEGY AND POSITIONING

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

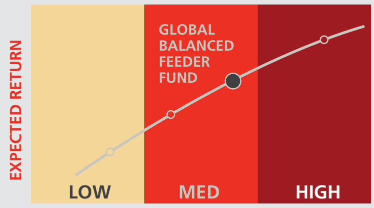
In our analysis equity markets are fair to cheaply priced, particularly in markets in Europe and Asia. Furthermore we prefer equities to cash and fixed income assets as the potential yield from equities (both earnings and dividend yield) currently far outweighs that from fixed income markets, particularly developed market government bonds, where yields remain close to record lows.

Within government bonds, emerging market bonds offer attractive levels of yield and scope for more significant rate cuts if necessary, whereas developed market government bonds offer very asymmetric return profiles from such low prevailing levels of yield. We therefore prefer the former to the latter in the fund. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	6.3%	11.3%	6.2%
Since inception	9.7%	14.0%	9.7%

Inception date B Class: 28 June 2018

RISK/RETURN PROFILE:



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

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

ASISA CATEGORY:
Global - Multi Asset - High Equity

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

INCEPTION DATE:
28 June 2018

FUND SIZE:
R5 453 926

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL EQUITY FEEDER FUND
30 SEPTEMBER 2019

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL EQUITY

MARKET OVERVIEW

A marked escalation in the US-China trade war and further deceleration in global growth, plus the additional uncertainty around the start of efforts to impeach President Trump, kept most global equity returns either flat or in the red in the third quarter of 2019 (Q3). Amid the increasingly bearish environment in July and August, investor sentiment turned even more cautious, to the benefit of safe havens like gold and bonds (the latter to a lesser extent), while emerging markets suffered losses. Only in September was there some relief for equities, with an uptick across most markets as risk appetite improved. However, this wasn't enough to erase the quarter's losses in many markets.

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In the 19-member Eurozone, growth slowed further as the area's Q2 GDP fell to 1.1% (q/q annualised) from 1.2% previously, impacted significantly by Germany's export-led economy which slumped to 0.4% growth (q/q annualised) vs 0.9% the previous quarter. The European Central Bank (ECB) opted to cut interest rates by 10bps to -0.5% (below market expectations of a 20bp cut) and pledged to resume its corporate bond repurchase programme. For the quarter, Germany's DAX produced -4.0% and the French CAC 40 delivered -1.7%.

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For the rand, another volatile quarter saw the local currency weaken 7.5% against the US dollar, 4.0% against the pound sterling and 2.9% against the euro.

PERFORMANCE

The fund produced a return of 6.5% (net of fees) in rand for the third quarter of 2019, underperforming its benchmark by 1.0%. For the 12 months ending 30 September 2019, the fund returned 3.9% (net of fees) while the benchmark returned 8.7%.

The bouts of risk aversion during the quarter cost the fund. The main detractors came from exposure to European basic resources and an overweight position to South Korea and Indonesia. Turkey exposure did however contribute positively to returns.

STRATEGY AND POSITIONING

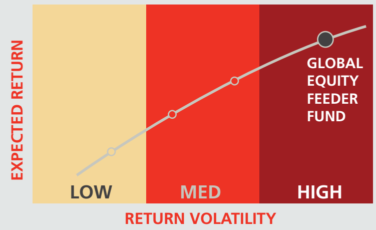
The fund's positioning reflects our preference for attractively-valued equities from Europe and Asia ex-Japan. We remain underweight in the US and slightly underweight in Japan and the UK. There were no meaningful portfolio trades during the quarter, although we continue to look for attractive opportunities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

In terms of medium-term valuations, non-US equities appear relatively attractive as pessimism over global growth recession continues to dominate equity market sentiment. Given the current sentiment and valuations, we would expect significant market returns if global cyclical data over the next year surprises to the upside from very low expectation levels. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	3.9%	8.7%	4.3%
3 years	10.5%	13.3%	n/a
5 years	10.5%	13.1%	n/a
7 years	16.4%	18.7%	n/a
10 years	13.4%	16.2%	n/a
Since inception	7.2%	8.8%	11.2%

Inception date B Class: 2 July 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 - Equity - General

BENCHMARK:
MSCI All Country World Index (Net)

INCEPTION DATE:
18 February 2000

FUND SIZE:
R300 435 637

Sources: Prudential, Morningstar & Deutsche Securities