PRUDENTIAL UNIT TRUSTS QUARTERLY COMMENTARY
31 DECEMBER 2019

COMBINED QUARTERLY COMMENTARY

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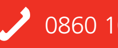
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PRUDENTIAL MONEY MARKET FUND
31 DECEMBER 2019

QUARTERLY COMMENTARY

INCOME

MARKET OVERVIEW

In Q4 2019, negative developments locally came in the form of a bearish, but realistic, Medium-Term Budget Policy Statement (MTBPS) in October which lowered South Africa's growth projections and raised government's debt burden forecasts from around 60% to 71% of GDP in 2022/23 – a worryingly high level that sparked talk of further credit rating downgrades and even possible IMF intervention. Following this, both S&P and Moody's lowered their credit outlook on SA sovereign debt to negative. The resumption of load-shedding in December and the possibility of it extending well into 2020 added further to the gloom, given the negative impact it will have on growth going forward.

As expected, the SARB kept interest rates steady at its November MPC meeting, saying the risks of rand weakness and slow growth outweighed the subdued inflation environment (at only 3.6% in November, a nine-year low). Governor Lesetja Kganyago emphasized the importance of anchoring inflation expectations below the 4.5% midpoint of the SARB's 3-6% inflation target, rather than boosting growth, thereby putting more pressure on the government to enact reforms and a fiscally responsible 2020 budget. The central bank's model is forecasting one 25bp interest rate cut in Q3 2020.

Meanwhile, the SARB lowered its growth forecasts to 0.5% for 2019, 1.4% for 2020 and 1.7% for 2021. This reduction was justified as Q3 GDP growth was announced at a lower-than-expected -0.6% (q/q, annualised), possibly setting the stage for a technical recession. On a brighter note, Q3 business confidence rose to 26pts, its first increase in two years, after hitting a 20-year low of 21pts in the previous quarter.

SA bonds came under selling pressure earlier in the quarter amid the backdrop of rising government debt levels and a deteriorating credit rating outlook. However, this was offset to some extent by the December rally sparked by increased demand among investors looking for attractive real yields, as local bonds offered among some of the highest real yields in the world. The SA yield curve continued to steepen as investors preferred bonds with tenors under 10 years compared to their longer-dated counterparts. The BEASSA All Bond Index managed to deliver 1.7% in Q4 and 10.3% for the year. SA inflation-linked bonds returned -0.9% over the three months, and only 2.6% for the year as the inflation outlook improved, while cash (as measured by the STeFI Composite) delivered 1.7% in Q4 and 7.3% in 2019.

Private sector credit extension (PSCE) decelerated to 6.6% y/y November from 7.3% y/y posted in October.

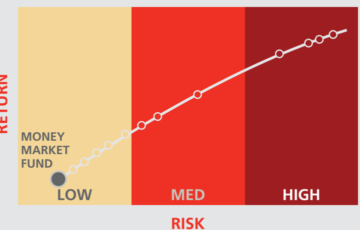
PERFORMANCE

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 31 December 2019, the fund returned 7.4% (net of fees) while the benchmark returned 6.6% over the same period.
The average duration of the fund at quarter end was 36 days relative to the 90 day maximum average duration. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	X CLASS
1 year	7.4%	6.6%	7.5%
3 years	7.5%	6.7%	7.6%
5 years	7.2%	6.5%	7.3%
7 years	6.6%	6.1%	6.8%
10 years	6.4%	6.0%	n/a
Since inception	7.7%	7.5%	6.5%

Inception date X Class: 1 April 2011

RISK/RETURN PROFILE:



FUND MANAGERS:
Roshen Harry and Sandile Malinga

ASISA CATEGORY:
South African - Interest Bearing - Money Market

BENCHMARK:
STeFI Call Deposit Index

INCEPTION DATE:
9 April 2002

FUND SIZE:
R1 398 609 860

DISCLAIMER

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

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL HIGH INTEREST FUND
31 DECEMBER 2019

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME

MARKET OVERVIEW

Negative developments in South Africa in Q4 2019 came in the form of a bearish, but realistic, Medium-Term Budget Policy Statement (MTBPS) in October which lowered South Africa's growth projections and raised government's debt burden forecasts from around 60% to 71% of GDP in 2022/23 – a worryingly high level that sparked talk of further credit rating downgrades and even possible IMF intervention. Following this, both S&P and Moody's lowered their credit outlook on SA sovereign debt to negative. The resumption of load-shedding in December and the possibility of it extending well into 2020 added further to the gloom, given the negative impact it will have on growth going forward.

As expected, the SARB kept interest rates steady at its November MPC meeting, saying the risks of rand weakness and slow growth outweighed the subdued inflation environment (at only 3.6% in November, a nine-year low). Governor Lesetja Kganyago emphasized the importance of anchoring inflation expectations below the 4.5% midpoint of the SARB's 3-6% inflation target, rather than boosting growth, thereby putting more pressure on the government to enact reforms and a fiscally responsible 2020 budget. The central bank's model is forecasting one 25bp interest rate cut in Q3 2020.

Meanwhile, the SARB lowered its growth forecasts to 0.5% for 2019, 1.4% for 2020 and 1.7% for 2021. This reduction was justified as Q3 GDP growth was announced at a lower-than-expected -0.6% (q/q, annualised), possibly setting the stage for a technical recession. On a brighter note, Q3 business confidence rose to 26pts, its first increase in two years, after hitting a 20-year low of 21pts in the previous quarter.

SA bonds came under selling pressure earlier in the quarter amid the backdrop of rising government debt levels and a deteriorating credit rating outlook. However, this was offset to some extent by the December rally sparked by increased demand among investors looking for attractive real yields, as local bonds offered among some of the highest real yields in the world. The SA yield curve continued to steepen as investors preferred bonds with tenors under 10 years compared to their longer-dated counterparts. The BEASSA All Bond Index managed to deliver 1.7% in Q4 and 10.3% for the year. SA inflation-linked bonds returned -0.9% over the three months, and only 2.6% for the year as the inflation outlook improved, while cash (as measured by the STeFI Composite) delivered 1.7% in Q4 and 7.3% in 2019.

PERFORMANCE

The fund generated a return of 1.8% (net of fees) for the quarter, outperforming its benchmark by 0.1%. For the 12 months ended 31 December 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 32 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 mostly steep credit curve, whereby banks are prepared to pay 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.

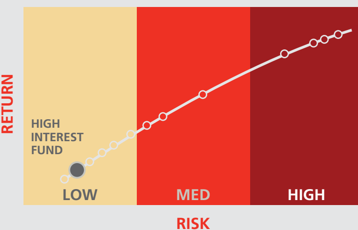
While credit issuance has been scarce since 2016, coupled with a tightening of credit spreads and some hesitance following the downgrade of the sovereign credit rating in 2017, 2019 had a number of banks and corporates coming to the market. Issuances were generally well supported and largely cleared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

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

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	X CLASS	D CLASS
1 year	7.7%	7.3%	7.8%	7.9%
3 years	7.9%	7.4%	8.0%	8.1%
5 years	7.6%	7.2%	7.7%	7.8%
7 years	7.0%	6.7%	7.1%	7.4%
Since inception	6.8%	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:
R9 270 012 201

PLEASE NOTE:
This fund is capped to new investors

DISCLAIMER

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL INCOME FUND
31 DECEMBER 2019

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME

MARKET OVERVIEW

In Q4 2019, negative developments locally came in the form of a bearish, but realistic, Medium-Term Budget Policy Statement (MTBPS) in October which lowered South Africa's growth projections and raised government's debt burden forecasts from around 60% to 71% of GDP in 2022/23 – a worryingly high level that sparked talk of further credit rating downgrades and even possible IMF intervention. Following this, both S&P and Moody's lowered their credit outlook on SA sovereign debt to negative. The resumption of load-shedding in December and the possibility of it extending well into 2020 added further to the gloom, given the negative impact it will have on growth going forward.

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Meanwhile, the SARB lowered its growth forecasts to 0.5% for 2019, 1.4% for 2020 and 1.7% for 2021. This reduction was justified as Q3 GDP growth was announced at a lower-than-expected -0.6% (q/q, annualised), possibly setting the stage for a technical recession. On a brighter note, Q3 business confidence rose to 26pts, its first increase in two years, after hitting a 20-year low of 21pts in the previous quarter.

SA bonds came under selling pressure earlier in the quarter amid the backdrop of rising government debt levels and a deteriorating credit rating outlook. However, this was offset to some extent by the December rally sparked by increased demand among investors looking for attractive real yields, as local bonds offered among some of the highest real yields in the world. The SA yield curve continued to steepen as investors preferred bonds with tenors under 10 years compared to their longer-dated counterparts. The BEASSA All Bond Index managed to deliver 1.7% in Q4 and 10.3% for the year. SA inflation-linked bonds returned -0.9% over the three months, and only 2.6% for the year as the inflation outlook improved, while cash (as measured by the STeFI Composite) delivered 1.7% in Q4 and 7.3% in 2019.

PERFORMANCE

The fund generated a return of 2.1% (net of fees) for the quarter, outperforming its benchmark by 0.3%. For the 12 months ended 31 December 2019, the fund returned 8.7% (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 also 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 49 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 mostly steep credit curve, whereby banks are prepared to pay 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.

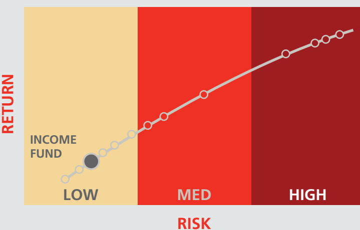
While credit issuance has been scarce since 2016, coupled with a tightening of credit spreads and some hesitance following the downgrade of the sovereign credit rating in 2017, the market experienced more of a recovery in 2019 with a number of banks and corporates coming to the market. Issuances were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

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

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	D CLASS
1 year	8.7%	7.3%	8.8%
2 years	8.7%	7.3%	8.9%
3 years	8.6%	7.4%	8.7%
Since inception	8.6%	7.4%	8.7%

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

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 432 648 288

DISCLAIMER

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL HIGH YIELD BOND FUND
31 DECEMBER 2019

QUARTERLY COMMENTARY

INCOME

MARKET OVERVIEW

In Q4 2019, negative developments locally came in the form of a bearish, but realistic, Medium-Term Budget Policy Statement (MTBPS) in October which lowered South Africa's growth projections and raised government's debt burden forecasts from around 60% to 71% of GDP in 2022/23 – a worryingly high level that sparked talk of further credit rating downgrades and even possible IMF intervention. Following this, both S&P and Moody's lowered their credit outlook on SA sovereign debt to negative. The resumption of load-shedding in December and the possibility of it extending well into 2020 added further to the gloom, given the negative impact it will have on growth going forward.

As expected, the SARB kept interest rates steady at its November MPC meeting, saying the risks of rand weakness and slow growth outweighed the subdued inflation environment (at only 3.6% in November, a nine-year low). Governor Lesetja Kganyago emphasized the importance of anchoring inflation expectations below the 4.5% midpoint of the SARB's 3-6% inflation target, rather than boosting growth, thereby putting more pressure on the government to enact reforms and a fiscally responsible 2020 budget. The central bank's model is forecasting one 25bp interest rate cut in Q3 2020.

Meanwhile, the SARB lowered its growth forecasts to 0.5% for 2019, 1.4% for 2020 and 1.7% for 2021. This reduction was justified as Q3 GDP growth was announced at a lower-than-expected -0.6% (q/q, annualised), possibly setting the stage for a technical recession. On a brighter note, Q3 business confidence rose to 26pts, its first increase in two years, after hitting a 20-year low of 21pts in the previous quarter.

SA bonds came under selling pressure earlier in the quarter amid the backdrop of rising government debt levels and a deteriorating credit rating outlook. However, this was offset to some extent by the December rally sparked by increased demand among investors looking for attractive real yields, as local bonds offered among some of the highest real yields in the world. The SA yield curve continued to steepen as investors preferred bonds with tenors under 10 years compared to their longer-dated counterparts. The BEASSA All Bond Index managed to deliver 1.7% in Q4 and 10.3% for the year, while cash (as measured by the STeFI Composite) delivered 1.7% in Q4 and 7.3% in 2019.

For Q4, primary bond market issuance volume (excluding government issuances) was R49bn, 45% up from Q3 (R34bn) and 58% up from Q4 2018 (R31bn). The 45% increase in issuance volume between the third and fourth quarters of 2019 was largely due to a spike in issuance from the State Owned Enterprise (SOE) sector, namely Eskom, which boosted the Q4 2019 issuance volume.

Consistent with previous quarters, bond issuance activity was dominated by the financial sector. Corporate sector issuance followed, with strong volumes from the SOEs, whose bonds were largely privately placed (sold directly to investors rather than using an investor bidding process). SOE issuance was driven mainly by Eskom, Sanral, Transnet and Denel and included some issuance from the Development Funding institutions.

Several companies in the property sector also issued bonds during the quarter.

The demand for credit (corporate bonds) appears to have normalised, evidenced by clearing spreads being more in line with initial guidance than was previously the case. Once again, the market displayed a preference for issuing floating-rate notes, thus allowing for limited opportunities for us to participate in fixed-rate issuances over the quarter.

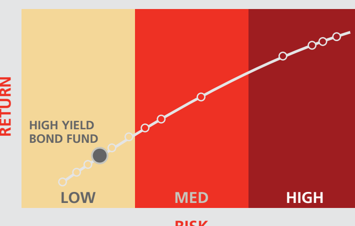
PERFORMANCE

The fund generated a return of 1.5% (net of fees) for the quarter, marginally underperforming its benchmark by 0.2%. For the 12 months ended 31 December 2019, the fund returned 9.7% (net of fees) while the benchmark returned 10.3% 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. There was little opportunity to add to the fund's credit exposure during the quarter, both due to a lack of fixed-rate issuance as well as unfavourable pricing on the fixed-rate issuance that did come to market. We continue to look to add to our credit holdings at an appropriate price. ■

RISK/RETURN PROFILE:



FUND MANAGERS:
Roshen Harry and Gareth Bern

ASISA CATEGORY:
South African - Interest Bearing - Variable Term

BENCHMARK:
BEASSA Total Return All Bond Index

INCEPTION DATE:
27 October 2000

FUND SIZE:
R330 399 633

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	9.7%	10.3%	9.9%
3 years	8.7%	9.4%	9.0%
5 years	7.1%	7.7%	7.4%
7 years	6.4%	7.0%	6.8%
10 years	8.5%	8.9%	8.8%
Since inception	10.0%	10.3%	9.1%

Inception date B Class: 1 April 2003

DISCLAIMER

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

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL ENHANCED INCOME FUND
31 DECEMBER 2019

QUARTERLY COMMENTARY

MULTI-ASSET

MARKET OVERVIEW

During Q4 2019, the IMF lowered its global growth forecasts to 3.0% for 2019 and 3.4% for 2020, based on the broad slowdown in manufacturing and investment seen in the latter part of the year, as well as Brexit uncertainty and the impacts of the US-China trade war. But on 13 December, President Trump announced he was ready to sign a Phase 1 trade pact with China, averting planned new tariffs on another $160bn of Chinese products set to take effect on 15 December. Among other concessions, China has pledged some $400 billion in tariff cuts on 859 types of products from the US and other trading partners starting 1 January, as well as promising to buy more US agricultural products. This sparked a pre-Christmas equity rally in stocks around the world, also boosting emerging market currencies.

In the US, the US Fed cut its base interest rate by 25bps in October, but also suggested that no further cuts were likely for the foreseeable future. As expected, it left rates unchanged at its December meeting, and its "dot plot" forecast pointed to no changes through 2020 and one 25bp rate hike in 2021. The central bank also noted that the US economic outlook was favourable as it went into 2020 with moderate growth (Q3 GDP at 2.1% y/y), historically low unemployment (at 3.5%) and inflation under control (the Fed's benchmark inflation measure at 1.7% y/y in November).

Despite the October rate cut, the improved growth outlook and equity rally saw the 10-year US Treasury yield move higher, from 1.7% at the start of the quarter to 1.9% at end-December. The Barclays US Treasury Index produced -0.8% for Q4 and 6.9% for 2019 in US$. In the equity market, the S&P 500 returned 9.1% for the quarter and 31.5% for the entire year, with technology stocks being the stand-out performers (all in US$).

In the UK, some significant uncertainties around Brexit were alleviated in Q4 after the snap general election called by PM Johnson on 12 December resulted in a resounding win for his Tory party, setting a clear path toward Brexit on 31 January. Although detailed terms must still be negotiated, Johnson has a substantial Parliamentary majority to work with to implement his proposals. In the meantime, Q3 GDP growth fell to 1.0% (y/y) versus 1.3% (y/y) in Q2, its slowest since early 2010, and ratings agency Moody's warned in November that it could downgrade the UK's government debt. The BOE left its base interest rate unchanged at 0.75% in November. The UK equity market and the pound sterling rallied on the added certainty, with the FTSE 100 returning 10.4% for the quarter and 22% for the year in US$.

In the Eurozone, Q3 GDP growth was revised upward to 1.2% y/y, higher than expected and unchanged from Q2, while inflation rose to 1.0% y/y in November from 0.7% y/y previously. Optimism over Brexit clarity would likely help underpin the European economy as well, analysts said. Currently, the European Central Bank (ECB) is projecting Eurozone growth at 1.2% for 2019, 1.1% for 2020 and 1.4% for 2021. Christine Lagarde, the ECB's new President, kept interest rates on hold at its December meeting and confirmed that its bond buying stimulus programme had re-started on 1 November.

Japan's growth accelerated to a stronger-than-expected 1.8% y/y in Q3 despite the US-China trade war. The Bank of Japan left its key interest rate on hold at -0.1% in both October and December, but signalled it could implement more stimulus measures should the recent increase in sales tax start to hurt consumers.

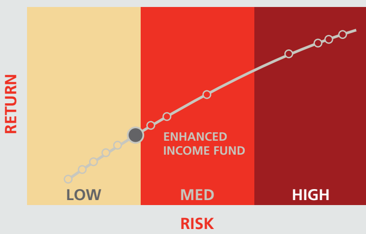
The Chinese economy continued to slow, posting 6.0% y/y GDP growth in Q3 2019 after 6.2% y/y previously. Ongoing democracy protests in central Hong Kong targeting popular shopping areas weighed on consumer spending and tourism, sending the territory into a rare recession. The trade war also had a very negative impact on Chinese exports and manufacturing during Q4, which analysts say could start to turn around – albeit slowly – from 1 January when Phase 1 of the US-China trade agreement takes effect. The government's ongoing stimulus measures, including tax cuts, infrastructure spending and lower bank reserve requirements, have helped to cushion the slowdown, but Q4 saw increasing pressure on the People's Bank of China (PBOC) to initiate further monetary easing.

Positive global investor sentiment lifted South African equities and the rand in Q4, helping to offset some of the foreign outflows experienced earlier in the year, as well as further negative developments locally. These came in the form of a bearish, but realistic, Medium-Term Budget Policy Statement (MTBPS) in October which lowered South Africa's growth projections and raised government's debt burden forecasts from around 60% to 71% of GDP in 2022/23 – a worryingly high level that sparked talk of further credit rating downgrades and even possible IMF intervention. Following this, both S&P and Moody's lowered their credit outlook on SA sovereign debt to negative. The resumption of load-shedding in December and the possibility of it extending well into 2020 added further to the gloom, given the negative impact it will have on growth going forward.

As expected, the SARB kept interest rates steady at its November MPC meeting, saying the risks of rand weakness and slow growth outweighed the subdued inflation environment (at only 3.6% in November, a nine-year low). Governor Lesetja Kganyago emphasized the importance of anchoring inflation expectations below the 4.5% midpoint of the SARB's 3-6% inflation target, rather than boosting growth, thereby putting more pressure on the government to enact reforms and a fiscally responsible 2020 budget. The central bank's model is forecasting one 25bp interest rate cut in Q3 2020.

Meanwhile, the SARB lowered its growth forecasts to 0.5% for 2019, 1.4% for 2020 and 1.7% for 2021. This reduction was justified as

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 959 844 917

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	X CLASS	D CLASS
1 year	7.7%	7.3%	8.1%	7.9%	8.2%
3 years	6.8%	7.4%	7.3%	7.1%	7.4%
5 years	6.9%	7.2%	n/a	7.1%	7.5%
7 years	6.9%	6.7%	n/a	7.1%	7.5%
10 years	8.1%	7.3%	n/a	n/a	n/a
Since inception	8.1%	7.3%	7.2%	7.8%	8.1%

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

ASSET CLASS RETURNS	TOTAL RETURN: Q4 2019 (RAND & US$)	TOTAL RETURN: 2019 (RAND & US$)
SA equity – FTSE/JSE All Share Index (Rand)	4.6%	12.0%
SA equity – FTSE/JSE Capped SWIX All Share (Rand)	5.3%	6.8%
SA listed property – FTSE/JSE All Property Index (Rand)	0.6%	1.9%
SA bonds – BEASSA All Bond Index (Rand)	1.7%	10.3%
SA inflation-linked bonds – JSE CILI Index (Rand)	-0.9%	2.6%
SA cash - STeFI Composite Index (Rand)	1.7%	7.3%
Global equity – MSCI All Country World (Total) (US$ net)	9.0%	26.6%
Global equity – MSCI World (Developed) (US$ net)	8.6%	27.7%
Global equity – MSCI Emerging Markets (US$ net)	11.8%	18.4%
Global bonds – Bloomberg Barclays Global Aggregate Bond Index (US$)	0.5%	6.8%
Global property – FTSE EPRA/NAREIT Global Property REIT Index (US$ net)	0.8%	23.0%

Source: Prudential, Bloomberg, data to 31 December 2019

Sources: Prudential, Morningstar & Deutsche Securities

Q3 GDP growth was announced at a lower-than-expected -0.6% y/y, possibly setting the stage for a technical recession. On a brighter note, Q3 business confidence rose to 26pts, its first increase in two years, after hitting a 20-year low of 21pts in the previous quarter.

SA bonds came under selling pressure earlier in the quarter amid the backdrop of rising government debt levels and a deteriorating credit rating outlook. However, this was offset to some extent by the December rally sparked by increased demand among investors looking for attractive real yields, as local bonds offered among some of the highest real yields in the world. The SA yield curve continued to steepen as investors preferred bonds with tenors under 10 years compared to their longer-dated counterparts. The BEASSA All Bond Index managed to deliver 1.7% in Q4 and 10.3% for the year. SA inflation-linked bonds returned -0.9% over the three months, and only 2.6% for the year as the inflation outlook improved, while cash (as measured by the STeFI Composite) delivered 1.7% in Q4 and 7.3% in 2019.

Finally, the rand rallied against all three major currencies in Q4, along with most other emerging market currencies. It gained 7.6% against the US dollar, 0.9% against a much stronger pound sterling and 4.9% versus the euro. For the year the rand appreciated 2.7% versus the US dollar and 4.5% against the euro, but lost 0.5% against the pound sterling.

PERFORMANCE

For the fourth quarter of 2019, the fund returned 1.4% (net of fees), while the benchmark returned 1.7% over the same period. For the 12 months ending 31 December 2019, the fund delivered 7.7% (net of fees) outperforming its benchmark by 0.3%. Investments in floating-rate notes, fixed-rate bonds, inflation-linked bonds and international assets, contributed positively to overall fund returns, while exposure to SA listed property detracted from performance for the year.

STRATEGY AND POSITIONING

In **global fixed income**, US government bonds became cheaper during the quarter, however this asset class remains unattractive and we prefer to hold investment-grade US corporate bonds and some USD cash. The fund has exposure to offshore South African government bonds issued in US dollars, which are hedged back into rands. We believe these assets to be attractive with the potential to deliver favourable returns.

In **SA listed property** we continue to hold a 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.

We remain modestly overweight in **SA nominal bonds** given the very attractive yields on offer, particularly in the longer-dated maturities above 10-years where real yields reached 4.5% during the quarter. This is very high relative to most other emerging market bonds, even those with worse credit ratings than ours. It is also well above our long-run fair value assumption of 2.5%. This part of the yield curve has not rallied as much as the R186 (due 2026) for example, nevertheless we are comfortable with the compensation bonds offer given the risk involved (such as a Moody's credit rating downgrade).

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 assumed. These instruments by construction have very little interest-rate risk and suit the risk profile of the fund, consequently a larger proportion of the fund is invested in this asset class. ■

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL INFLATION PLUS FUND
31 DECEMBER 2019

QUARTERLY COMMENTARY

MULTI-ASSET

MARKET OVERVIEW

The year ended on a high note for global equities as investors were able to breathe a sigh of relief on the back of a firm Phase 1 trade agreement between the US and China in December, as well as a decisive Tory victory in the UK's snap general election that paved the way for a less-uncertain Brexit. These December developments helped to improve sentiment towards global growth in 2020, as did the backdrop of easy monetary policy put in place by major central banks.

US equity markets reacted by reaching fresh record highs in late December, while global equities recorded their best annual gains since 2009. Emerging market equities outperformed developed markets after a long period of underperformance. Global bonds, meanwhile, produced marginally positive returns in Q4 as yields drifted higher, as the US Federal Reserve (Fed) signalled in October it was not likely to lower interest rates further and left rates on hold at its 11 December meeting. South African investors also benefitted from the bullish global sentiment, outweighing largely negative local developments as both local equities and bonds delivered positive returns for the quarter, and the rand gained ground against all three major currencies.

In US$ terms, global equities (the MSCI All Country World Index) returned 9.0% for the quarter, while developed markets delivered 8.6% and emerging markets produced 11.8%. Finally, global bonds (Bloomberg Barclays Global Aggregate Bond Index in US$) delivered 0.5% for the quarter and global property returned 0.8%.

In Q4, along with its 25bps rate cut in October and unchanged stance in December, the US Fed strongly suggested that no further cuts were likely for the foreseeable future, and its December "dot plot" forecast pointed to no changes through 2020 and one 25bp rate hike in 2021. The Barclays US Treasury Index produced -0.8% for Q4 in US$. In the equity market, the S&P 500 returned 9.1% for the quarter, the Nasdaq delivered 13.0% and the Dow Jones Industrial produced 6.7% (all in US$).

In the UK, stocks and the pound sterling rallied after PM Johnson's Tory party won a resounding majority in Parliament in the snap general election on 12 December. This set a clear path toward Brexit on 31 January, alleviating much uncertainty. The FTSE 100 returned 10.4% for the quarter in US$.

In the Eurozone, Q3 GDP growth was revised upward to 1.2% y/y, higher than expected and unchanged from Q2, while inflation rose to 1.0% y/y in November from 0.7% y/y previously. Christine Lagarde, the ECB's new President, kept interest rates on hold at its December meeting and confirmed that its bond buying stimulus programme had re-started on 1 November. Germany's DAX produced 9.6% for the quarter and the French CAC 40 delivered 8.6% in US$.

Japan's growth continued to decelerate in Q3 2019 to only 0.2% y/y from 1.3% y/y in the previous quarter as its export-driven economy was hit hard 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 both October and December, but signalled it could implement more stimulus measures. The Nikkei 225 returned 8.3% in Q4 in US$.

The Chinese economy also continued to slow, posting 6.0% y/y GDP growth in Q3 2019 after 6.2% y/y previously. However, this could start to turn around – albeit slowly – from 1 January when Phase 1 of the US-China trade agreement takes effect. Hong Kong's Hang Seng Index returned 9.1% in Q4 and the MSCI China returned 14.7% in US$.

Among other emerging markets, the strongest equity performance for Q4 in US$ came from the MSCI Russia with a 17.1% return, while Brazil's Bovespa posted 14.3% and the MSCI South Africa 13.2%. The weakest market was the MSCI Turkey, which was flat.

South Africa benefits from global rally

Positive global investor sentiment lifted South African assets and the rand in Q4, helping to offset further negative developments locally. These came in the form of a bearish, but realistic, Medium-Term Budget Policy Statement (MTBPS) in October which pointed to slower growth and a rising government debt burden. This was greeted with alarm by the markets and credit rating agencies, with both S&P and Moody's lowering their credit outlook on SA sovereign debt to negative. Then the resumption of load-shedding in December and the possibility of it extending well into 2020 added further to the gloom, given the negative impact it will have on growth going forward.

As expected, the SARB kept interest rates steady at its November MPC meeting, saying the risks of rand weakness and slow growth outweighed the subdued inflation environment (at only 3.6% in November, a nine-year low). The central bank's model is forecasting one 25bp interest rate cut in Q3 2020.

SA bonds came under selling pressure earlier in the quarter amid the backdrop of rising government debt levels, slower growth and a deteriorating credit rating outlook. However, this was offset to some extent in December by increased demand among investors looking for attractive real yields, as local bonds offered among some of the highest real yields in the world. The BEASSA All Bond Index managed to deliver 1.7% in Q4. SA inflation-linked bonds returned -0.9% over the three months, while cash (as measured by the STeFI Composite) delivered 1.7% in Q4.

SA equities were buoyed by the improved global growth outlook and "risk-on" sentiment in Q4, which underpinned technology stocks and resources companies in particular. This made for a relatively narrow rally for the local equity market, where Naspers and resources companies (to a lesser extent) have significant weights. The FTSE/JSE ALSI returned 4.6% for the quarter, with Resources returning an impressive 13.5%. Financials delivered 2.8%, Listed Property (SAPY) produced 0.6% and Industrial counters were flat. The FTSE/JSE Capped SWIX All Share Index, which we use as the equity benchmark for most of our client mandates, returned 5.3%.

Finally, the rand rallied against all three major currencies in Q4, along with most other emerging market currencies. It gained 7.6% against the US dollar, 0.9% against a much stronger pound sterling and 4.9% versus the euro.

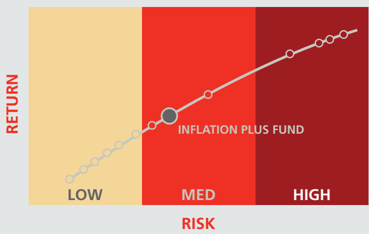
ANNUALISED PERFORMANCE	A CLASS	OBJECTIVE#	T CLASS	X CLASS	B CLASS
1 year	6.4%	7.0%	6.9%	6.6%	7.1%
3 years	3.7%	7.9%	4.2%	4.0%	4.4%
5 years	4.6%	8.3%	n/a	4.9%	5.4%
7 years	7.1%	8.5%	n/a	7.4%	7.9%
10 years	9.1%	8.5%	n/a	n/a	9.9%
Since inception	11.4%	9.4%	4.6%	9.2%	11.7%

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: Q4 2019 (RAND & US$)	TOTAL RETURN: 2019 (RAND & US$)
SA equity – FTSE/JSE All Share Index (Rand)	4.6%	12.0%
SA equity – FTSE/JSE Capped SWIX All Share (Rand)	5.3%	6.8%
SA listed property – FTSE/JSE All Property Index (Rand)	0.6%	1.9%
SA bonds – BEASSA All Bond Index (Rand)	1.7%	10.3%
SA inflation-linked bonds – JSE CILI Index (Rand)	-0.9%	2.6%
SA cash - STeFI Composite Index (Rand)	1.7%	7.3%
Global equity – MSCI All Country World (Total) (US$ net)	9.0%	26.6%
Global equity – MSCI World (Developed) (US$ net)	8.6%	27.7%
Global equity – MSCI Emerging Markets (US$ net)	11.8%	18.4%
Global bonds – Bloomberg Barclays Global Aggregate Bond Index (US$)	0.5%	6.8%
Global property – FTSE EPRA/NAREIT Global Property REIT Index (US$ net)	0.8%	23.0%

Source: Prudential, Bloomberg, data to 31 December 2019

RISK/RETURN PROFILE:



FUND MANAGERS:
David Knee, Johny Lambridis and Michael Moyle

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:
R28 159 649 562

AWARDS:
Raging Bull: 2013
Morningstar: 2015

Sources: Prudential, Morningstar & Deutsche Securities

PERFORMANCE

The fund returned 0.6% (after fees) for the last quarter of 2019 and 6.4% for the 12-month period ending 31 December 2019. The fund has delivered a return of 11.4% per annum since inception (after fees), compared to its after-fee objective of 9.4% per annum over the same period.

The largest positive contributor to absolute performance for the period was the fund's exposure to SA equities, followed by international equity holdings. Other contributions came from SA listed property, SA nominal bonds and SA cash. Detracting from returns were international fixed income, SA inflation-linked bonds and international cash.

In terms of specific equity exposure, the fund's holdings in Implats, Sasol, Anglo American and British American Tobacco were among the strongest contributors to absolute returns for the quarter. Detracting from absolute returns were exposure to MTN, PPC and Prosus.

STRATEGY AND POSITIONING

During the quarter we reduced our overweight exposure to global equities in response to the strong market performance, and on the back of a year of high equity market returns which were not matched by the same extent of improvement in the global macroeconomic environment. However, because the global equity risk premium on offer remains substantially above both historic norms and global government bond yields, we remain overweight global equities. The fund's total offshore exposure remains at around 25%.

In global fixed income, US government bonds became somewhat cheaper 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. 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 reduced our overweight position during the quarter, taking profits on the back of the strong equity rally and in light of our view that the global economic outlook is not as robust as that reflected in current equity valuations. However, we have remained overweight as a whole given the very high risk premium from equities versus global 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 Germany and Japan. 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.

Following December's rally, South African equities became marginally more expensive on most valuation measures: during the quarter the 12-month forward P/E of the FTSE/JSE All Share Index rose from around 10.9X to 11.6X and the earnings yield fell from 8.6% to around 8.1% in December alone. However, both are still cheaper than the market's longer-term fair value, in our view. We remain modestly underweight SA equities in the fund due to the constraint of its overall 40% equity holding limit, although SA equities are looking increasingly attractive on a relative basis. We are 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.

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). All of these overweights added value to the fund for the quarter, with rebounds for Sasol, Sappi and Exxaro after suffering losses in Q3.

We have also 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. While Investec added value to our house view portfolios for Q4, the latter two counters detracted from value. We believe Investec's unbundling and separate listing of Investec Asset Management from the bank operations set for Q1 2020 should unlock value, as the asset management profits and dividends that were historically trapped in the bank will now be distributed directly to shareholders. The unbundling should leave both the UK and the South African banking operations in a well-capitalised position from which they can grow into the future. With a refreshed management team that is now prioritising returns and addressing sub-optimal businesses, we think returns on equity will improve over time. The demerger should also allow for more industry-focused boards and management teams that could unlock further value.

As long-time holders of Trencor, we believe its unbundling of global shipping container group Textainer during the quarter will unlock value -- both stocks could be substantial beneficiaries of improvements in the US-China trade war going forward. Remgro, another group in which the fund is overweight, also announced an unbundling of its stake in First Rand for Q1 2020. We believe this is likely to reduce the discount in the share price of the holding company going forward.

Also supporting returns was the rally in Quilter and Capital & Counties shares, thanks to the strong Brexit-related rebound in the UK market. We took some profits in these holdings in December. Later in the quarter Naspers and Prosus shares fell and then recouped some losses after Prosus failed to win a takeover bid for UK-based food delivery group Just Eat in a bidding war – this as the market had considered the bid too costly. Our overweight Prosus positioning detracted from returns for the three months.

Meanwhile, 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. Strategically, we do have a holding in Woolworths and a small exposure to Pick 'n Pay.

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.

During the quarter we added to the fund's overweight holdings in SA nominal bonds. Local bonds offer very attractive yields, particularly in the longer-dated maturities above 10-years where real yields reached 4.5% during the quarter. This is very high relative to most other emerging market bonds, even those with worse credit ratings than ours. It is also well above our long-run fair value assumption of 2.5%. We are comfortable with the compensation bonds offer given the risk involved (such as a Moody's credit rating downgrade).

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. ■

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL BALANCED FUND
31 DECEMBER 2019

QUARTERLY COMMENTARY

MULTI-ASSET

MARKET OVERVIEW

The year ended on a high note for global equities as investors were able to breathe a sigh of relief on the back of a firm Phase 1 trade agreement between the US and China in December, as well as a decisive Tory victory in the UK's snap general election that paved the way for a less-uncertain Brexit. These December developments helped to improve sentiment towards global growth in 2020, as did the backdrop of easy monetary policy put in place by major central banks.

US equity markets reacted by reaching fresh record highs in late December, while global equities recorded their best annual gains since 2009. Emerging market equities outperformed developed markets after a long period of underperformance. Global bonds, meanwhile, produced marginally positive returns in Q4 as yields drifted higher, as the US Federal Reserve (Fed) signalled in October it was not likely to lower interest rates further and left rates on hold at its 11 December meeting. South African investors also benefitted from the bullish global sentiment, outweighing largely negative local developments as both local equities and bonds delivered positive returns for the quarter, and the rand gained ground against all three major currencies.

In US$ terms, global equities (the MSCI All Country World Index) returned 9.0% for the quarter, while developed markets delivered 8.6% and emerging markets produced 11.8%. Finally, global bonds (Bloomberg Barclays Global Aggregate Bond Index in US$) delivered 0.5% for the quarter and global property returned 0.8%.

In Q4, along with its 25bps rate cut in October and unchanged stance in December, the US Fed strongly suggested that no further cuts were likely for the foreseeable future, and its December "dot plot" forecast pointed to no changes through 2020 and one 25bp rate hike in 2021. The Barclays US Treasury Index produced -0.8% for Q4 in US$. In the equity market, the S&P 500 returned 9.1% for the quarter, the Nasdaq delivered 13.0% and the Dow Jones Industrial produced 6.7% (all in US$).

In the UK, stocks and the pound sterling rallied after PM Johnson's Tory party won a resounding majority in Parliament in the snap general election on 12 December. This set a clear path toward Brexit on 31 January, alleviating much uncertainty. The FTSE 100 returned 10.4% for the quarter in US$.

In the Eurozone, Q3 GDP growth was revised upward to 1.2% y/y, higher than expected and unchanged from Q2, while inflation rose to 1.0% y/y in November from 0.7% y/y previously. Christine Lagarde, the ECB's new President, kept interest rates on hold at its December meeting and confirmed that its bond buying stimulus programme had re-started on 1 November. Germany's DAX produced 9.6% for the quarter and the French CAC 40 delivered 8.6% in US$.

Japan's growth continued to decelerate in Q3 2019 to only 0.2% y/y from 1.3% y/y in the previous quarter as its export-driven economy was hit hard 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 both October and December, but signalled it could implement more stimulus measures. The Nikkei 225 returned 8.3% in Q4 in US$.

The Chinese economy also continued to slow, posting 6.0% y/y GDP growth in Q3 2019 after 6.2% y/y previously. However, this could start to turn around – albeit slowly – from 1 January when Phase 1 of the US-China trade agreement takes effect. Hong Kong's Hang Seng Index returned 9.1% in Q4 and the MSCI China returned 14.7% in US$.

Among other emerging markets, the strongest equity performance for Q4 in US$ came from the MSCI Russia with a 17.1% return, while Brazil's Bovespa posted 14.3% and the MSCI South Africa 13.2%. The weakest market was the MSCI Turkey, which was flat.

South Africa benefits from global rally

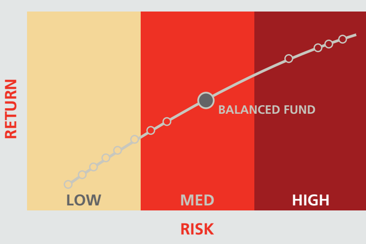
Positive global investor sentiment lifted South African assets and the rand in Q4, helping to offset further negative developments locally. These came in the form of a bearish, but realistic, Medium-Term Budget Policy Statement (MTBPS) in October which pointed to slower growth and a rising government debt burden. This was greeted with alarm by the markets and credit rating agencies, with both S&P and Moody's lowering their credit outlook on SA sovereign debt to negative. Then the resumption of load-shedding in December and the possibility of it extending well into 2020 added further to the gloom, given the negative impact it will have on growth going forward.

As expected, the SARB kept interest rates steady at its November MPC meeting, saying the risks of rand weakness and slow growth outweighed the subdued inflation environment (at only 3.6% in November, a nine-year low). The central bank's model is forecasting one 25bp interest rate cut in Q3 2020.

SA bonds came under selling pressure earlier in the quarter amid the backdrop of rising government debt levels, slower growth and a deteriorating credit rating outlook. However, this was offset to some extent in December by increased demand among investors looking for attractive real yields, as local bonds offered among some of the highest real yields in the world. The BEASSA All Bond Index managed to deliver 1.7% in Q4. SA inflation-linked bonds returned -0.9% over the three months, while cash (as measured by the STeFI Composite) delivered 1.7% in Q4.

SA equities were buoyed by the improved global growth outlook and "risk-on" sentiment in Q4, which underpinned technology stocks and resources companies in particular. This made for a relatively narrow rally

RISK/RETURN PROFILE:



FUND MANAGERS:
David Knee, Johny Lambridis and Michael Moyle

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

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

INCEPTION DATE:
2 August 1999

FUND SIZE:
R22 296 575 921

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	X CLASS	B CLASS
1 year	8.8%	9.5%	9.3%	9.1%	9.6%
3 years	5.5%	5.1%	6.1%	6.9%	6.3%
5 years	5.8%	4.8%	n/a	6.1%	6.6%
7 years	9.1%	7.3%	n/a	n/a	9.9%
10 years	10.4%	8.4%	n/a	n/a	11.3%
Since inception	13.2%	11.4%	5.6%	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: Q4 2019 (RAND & US$)	TOTAL RETURN: 2019 (RAND & US$)
SA equity – FTSE/JSE All Share Index (Rand)	4.6%	12.0%
SA equity – FTSE/JSE Capped SWIX All Share (Rand)	5.3%	6.8%
SA listed property – FTSE/JSE All Property Index (Rand)	0.6%	1.9%
SA bonds – BEASSA All Bond Index (Rand)	1.7%	10.3%
SA inflation-linked bonds – JSE CILI Index (Rand)	-0.9%	2.6%
SA cash - STeFI Composite Index (Rand)	1.7%	7.3%
Global equity – MSCI All Country World (Total) (US$ net)	9.0%	26.6%
Global equity – MSCI World (Developed) (US$ net)	8.6%	27.7%
Global equity – MSCI Emerging Markets (US$ net)	11.8%	18.4%
Global bonds – Bloomberg Barclays Global Aggregate Bond Index (US$)	0.5%	6.8%
Global property – FTSE EPRA/NAREIT Global Property REIT Index (US$ net)	0.8%	23.0%

Source: Prudential, Bloomberg, data to 31 December 2019

Sources: Prudential, Morningstar & Deutsche Securities

for the local equity market, where Naspers and resources companies (to a lesser extent) have significant weights. The FTSE/JSE ALSI returned 4.6% for the quarter, with Resources returning an impressive 13.5%. Financials delivered 2.8%, Listed Property (SAPY) produced 0.6% and Industrial counters were flat. The FTSE/JSE Capped SWIX All Share Index, which we use as the equity benchmark for most of our client mandates, returned 5.3%.

Finally, the rand rallied against all three major currencies in Q4, along with most other emerging market currencies. It gained 7.6% against the US dollar, 0.9% against a much stronger pound sterling and 4.9% versus the euro.

PERFORMANCE

The fund returned 2.2% (after fees) for the fourth quarter of 2019 and 8.8% for the 12-month period ending 31 December 2019. The fund has delivered a return of 13.2% per annum since its inception in 1999 (after fees), compared to its benchmark of 11.4% per annum over the same period.

The largest asset-class contributor to absolute performance for the period was the fund's exposure to SA equities, followed by international equity holdings. Other positive contributions came from SA nominal bonds and SA cash. Minor detractors were the fund's holdings in international fixed income and cash.

In terms of specific equity exposure, the fund's holdings in Implats, Sasol, Anglo American and British American Tobacco were the strongest equity contributors to absolute returns for the quarter, with smaller contributions from Amplats, Remgro, Sappi, Exxaro and Quilter. Detracting from absolute returns were holdings in MTN, PPC and Prosus.

STRATEGY AND POSITIONING

During the quarter we reduced our overweight exposure to global equities in response to the strong market performance, and on the back of a year of high equity market returns which were not matched by the same extent of improvement in the global macroeconomic environment. However, because the global equity risk premium on offer remains substantially above both historic norms and global government bond yields, we remain overweight global equities. The fund's total offshore exposure remains at around 25%.

In **global fixed income**, US government bonds became somewhat cheaper 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. 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 reduced our overweight position during the quarter, taking profits on the back of the strong equity rally and in light of our view that the global economic outlook is not as robust as that reflected in current equity valuations. However, we have remained overweight as a whole given the very high risk premium from equities versus global 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 still prefer the global banking sector, which has underperformed the broader market, as well as certain developed markets where equities are undervalued but fundamentals for earnings growth remain positive, including Germany and Japan. 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.

Following December's rally, **South African equities** became marginally more expensive on most valuation measures: during the quarter the 12-month forward P/E of the FTSE/JSE All Share Index rose from around 10.9X to 11.6X and the earnings yield fell from 8.6% to around 8.1% in December alone. However, both are still cheaper than the market's longer-term fair value, in our view. We remain overweight SA equities in the fund and are comfortable with our equity allocation levels. We are 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.

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). All of these overweights added value to the fund for the quarter, with rebounds for Sasol, Sappi and Exxaro after suffering losses in Q3.

We have also 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. While Investec added value to our house view portfolios for Q4, the latter two counters detracted from value. We believe Investec's unbundling and separate listing of Investec Asset Management from the bank operations set for Q1 2020 should unlock value, as the asset management profits and dividends that were historically trapped in the bank will now be distributed directly to shareholders. The unbundling should leave both the UK and the South African banking operations in a well-capitalised position from which they can grow into the future. With a refreshed management team that is now prioritising returns and addressing sub-optimal businesses, we think returns on equity will improve over time. The demerger should also allow for more industry-focused boards and management teams that could unlock further value.

As long-time holders of Trencor, we believe its unbundling of global shipping container group Textainer during the quarter will unlock value -- both stocks could be substantial beneficiaries of improvements in the US-China trade war going forward. Remgro, another group in which we are overweight, also announced an unbundling of its stake in First Rand for Q1 2020. We believe this is likely to reduce the discount in the share price of the holding company going forward.

Also supporting returns was the rally in Quilter and Capital & Counties shares, thanks to the strong Brexit-related rebound in the UK market. We took some profits in these holdings in December. Later in the quarter Naspers and Prosus shares fell and then recouped some losses after Prosus failed to win a takeover bid for UK-based food delivery group Just Eat in a bidding war – this as the market had considered the bid too costly. Our overweight Prosus positioning detracted from returns for the three months.

Meanwhile, 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. Strategically, we do have a holding in Woolworths and a small exposure to Pick 'n Pay.

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.

We remain modestly overweight in **SA nominal bonds** based on the very attractive yields on offer, particularly in the longer-dated maturities above 10-years where real yields reached 4.5% during the quarter. This is very high relative to most other emerging market bonds, even those with worse credit ratings than ours. It is also well above our long-run fair value assumption of 2.5%. We are comfortable with the compensation bonds offer given the risk involved (such as a Moody's credit rating downgrade).

For **SA inflation-linked bonds**, real yields remain attractive for long-dated tenors. However, we have very little exposure to 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. ■

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL ENHANCED SA PROPERTY TRACKER FUND
31 DECEMBER 2019

QUARTERLY COMMENTARY

PROPERTY

MARKET OVERVIEW

In Q4 2019, positive global investor sentiment lifted South African equities and the rand, helping to offset some of the foreign outflows experienced earlier in the year, as well as further negative developments locally. These came in the form of a bearish, but realistic, Medium-Term Budget Policy Statement (MTBPS) in October which lowered South Africa's growth projections and raised government's debt burden forecasts from around 60% to 71% of GDP in 2022/23 – a worryingly high level that sparked talk of further credit rating downgrades and even possible IMF intervention. Following this, both S&P and Moody's lowered their credit outlook on SA sovereign debt to negative. The resumption of load-shedding in December and the possibility of it extending well into 2020 added further to the gloom, given the negative impact it will have on growth going forward.

As expected, the SARB kept interest rates steady at its November MPC meeting, saying the risks of rand weakness and slow growth outweighed the subdued inflation environment (at only 3.6% in November, a nine-year low). Governor Lesetja Kganyago emphasized the importance of anchoring inflation expectations below the 4.5% midpoint of the SARB's 3-6% inflation target, rather than boosting growth, thereby putting more pressure on the government to enact reforms and a fiscally responsible 2020 budget. The central bank's model is forecasting one 25bp interest rate cut in Q3 2020.

Meanwhile, the SARB lowered its growth forecasts to 0.5% for 2019, 1.4% for 2020 and 1.7% for 2021. This reduction was justified as Q3 GDP growth was announced at a lower-than-expected -0.6% (q/q, annualised), possibly setting the stage for a technical recession. On a brighter note, Q3 business confidence rose to 26pts, its first increase in two years, after hitting a 20-year low of 21pts in the previous quarter.

SA bonds came under selling pressure earlier in the quarter amid the backdrop of rising government debt levels and a deteriorating credit rating outlook. However, this was offset to some extent by the December rally sparked by increased demand among investors looking for attractive real yields, as local bonds offered among some of the highest real yields in the world.

Finally, the rand rallied against all three major currencies in Q4, along with most other emerging market currencies. It gained 7.6% against the US dollar, 0.9% against a much stronger pound sterling and 4.9% versus the euro. For the year the rand appreciated 2.7% versus the US dollar and 4.5% against the euro, but lost 0.5% against the pound sterling.

PERFORMANCE

For the fourth quarter of 2019 the fund returned 0.5% (net of fees), while its benchmark (the FTSE/JSE Listed Property Index) returned 0.6%. For the 12 months ending 31 December 2019, the fund returned 0.3% (net of fees), underperforming its benchmark by 1.6% over the same period.

2019 proved to be yet another difficult year for the SA listed property market, with property underperforming inflation as well as general equities. The FTSE/JSE SA Listed Property Index returned just 1.9% for the year, while the FTSE/JSE All Property Index returned -0.4%.

Performance within the sector was divergent, with companies in niche sectors with robust balance sheets and business models outperforming significantly. Conversely, companies with heavy debt burdens, questionable distribution policies and weak fundamentals underperformed.

The fund had a satisfactory second half of 2019 in terms of being able to outperform its benchmark by 0.2% net of fees, following changes implemented at midyear to deliver improved results. However, as detailed in the previous fund commentary, the fund's strategy of targeting higher-yielding property companies did not deliver acceptable returns towards the end of 2018 and first half of 2019, with the latter resulting in the fund lagging its benchmark over one year.

STRATEGY AND POSITIONING

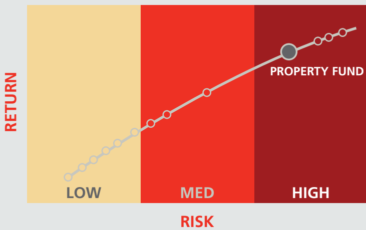
There appears to be no immediate respite from the weak fundamentals of the SA property sector. Reversions have largely turned negative across the board and for the larger SA landlords, vacancies have ticked up – a sign that certain properties will struggle to let in the current environment. We are witnessing the result of years of oversupply, which would likely take time to fix itself. However, perhaps what matters most is that the starting yields in the case of many of the SA-centric stocks exceed 10%, meaning that if there is no deterioration in SA bond yields and property company earnings do not deteriorate materially, there remains a decent prospect of double-digit returns.

The property fundamentals in some of the companies operating in offshore jurisdictions appear comparatively healthier. Though developed-market property yields have compressed significantly over the last 10 years, supply has been kept in check as a result of more conservative lending practices and the fact that in certain cases, such as Investec Australia and Sirius Real Estate, the properties trade below replacement cost and there is decent demand for space. However, with the strong performance year-to-date in these companies, there is a chance that prices have run ahead of the admittedly favourable fundamentals. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	D CLASS
1 year	0.3%	1.9%	0.4%	0.4%
3 years	-5.0%	-3.7%	-5.0%	-4.9%
5 years	0.8%	1.2%	n/a	0.9%
7 years	5.3%	5.5%	n/a	5.4%
10 years	10.5%	10.8%	n/a	n/a
Since inception	11.7%	12.1%	-1.8%	9.4%

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:
R 2 286 830 566

AWARDS:
Morningstar/Standard & Poor's: 2011

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL DIVIDEND MAXIMISER FUND
31 DECEMBER 2019

QUARTERLY COMMENTARY

EQUITY

MARKET OVERVIEW

During Q4 2019, the IMF lowered its global growth forecasts to 3.0% for 2019 and 3.4% for 2020, based on the broad slowdown in manufacturing and investment seen in the latter part of the year, as well as Brexit uncertainty and the impacts of the US-China trade war. But on 13 December, President Trump announced he was ready to sign a Phase 1 trade pact with China, averting planned new tariffs on another $160bn of Chinese products set to take effect on 15 December. Among other concessions, China has pledged some $400 billion in tariff cuts on 859 types of products from the US and other trading partners starting 1 January, as well as promising to buy more US agricultural products. This sparked a pre-Christmas equity rally in stocks around the world, also boosting emerging market currencies.

In the US, the US Fed cut its base interest rate by 25bps in October, but also suggested that no further cuts were likely for the foreseeable future. As expected, it left rates unchanged at its December meeting, and its "dot plot" forecast pointed to no changes through 2020 and one 25bp rate hike in 2021. The central bank also noted that the US economic outlook was favourable as it went into 2020 with moderate growth (Q3 GDP at 2.1% y/y), historically low unemployment (at 3.5%) and inflation under control (the Fed's benchmark inflation measure at 1.7% y/y in November).

In the UK, some significant uncertainties around Brexit were alleviated in Q4 after the snap general election called by PM Johnson on 12 December resulted in a resounding win for his Tory party, setting a clear path toward Brexit on 31 January. Although detailed terms must still be negotiated, Johnson has a substantial Parliamentary majority to work with to implement his proposals. In the meantime, Q3 GDP growth fell to 1.0% (y/y) versus 1.3% (y/y) in Q2, its slowest since early 2010, and ratings agency Moody's warned in November that it could downgrade the UK's government debt. The BOE left its base interest rate unchanged at 0.75% in November. The UK equity market and the pound sterling rallied on the added certainty, with the FTSE 100 returning 10.4% for the quarter and 22% for the year in US$.

In the Eurozone, Q3 GDP growth was revised upward to 1.2% y/y, higher than expected and unchanged from Q2, while inflation rose to 1.0% y/y in November from 0.7% y/y previously. Optimism over Brexit clarity would likely help underpin the European economy as well, analysts said. Currently, the European Central Bank (ECB) is projecting Eurozone growth at 1.2% for 2019, 1.1% for 2020 and 1.4% for 2021. Christine Lagarde, the ECB's new President, kept interest rates on hold at its December meeting and confirmed that its bond buying stimulus programme had re-started on 1 November. In European equity markets (in US$), Germany's DAX produced 9.6% for the quarter and 22.9% for the year and the French CAC 40 delivered 8.6% and 28.1%, respectively.

Japan's growth accelerated to a stronger-than-expected 1.8% y/y in Q3 despite the US-China trade war. The Bank of Japan left its key interest rate on hold at -0.1% in both October and December, but signalled it could implement more stimulus measures should the recent increase in sales tax start to hurt consumers. The Nikkei 225 returned 8.3% in Q4 and 21.9% for the year in US$.

The Chinese economy continued to slow, posting 6.0% y/y GDP growth in Q3 2019 after 6.2% y/y previously. Ongoing democracy protests in central Hong Kong targeting popular shopping areas weighed on consumer spending and tourism, sending the territory into a rare recession. The trade war also had a very negative impact on Chinese exports and manufacturing during Q4, which analysts say could start to turn around – albeit slowly – from 1 January when Phase 1 of the US-China trade agreement takes effect. The government's ongoing stimulus measures, including tax cuts, infrastructure spending and lower bank reserve requirements, have helped to cushion the slowdown, but Q4 saw increasing pressure on the People's Bank of China (PBOC) to initiate further monetary easing. Hong Kong's Hang Seng Index returned 9.1% for the quarter and 13.7% for the year, and the MSCI China returned 14.7% and 23.7%, respectively, all in US$.

Positive global investor sentiment lifted South African equities and the rand in Q4, helping to offset some of the foreign outflows experienced earlier in the year, as well as further negative developments locally. These came in the form of a bearish, but realistic, Medium-Term Budget Policy Statement (MTBPS) in October which lowered South Africa's growth projections and raised government's debt burden forecasts from around 60% to 71% of GDP in 2022/23 – a worryingly high level that sparked talk of further credit rating downgrades and even possible IMF intervention. Following this, both S&P and Moody's lowered their credit outlook on SA sovereign debt to negative. The resumption of load-shedding in December and the possibility of it extending well into 2020 added further to the gloom, given the negative impact it will have on growth going forward.

As expected, the SARB kept interest rates steady at its November MPC meeting, saying the risks of rand weakness and slow growth outweighed the subdued inflation environment (at only 3.6% in November, a nine-year low). Governor Lesetja Kganyago emphasized the importance of anchoring inflation expectations below the 4.5% midpoint of the SARB's 3-6% inflation target, rather than boosting growth, thereby putting more pressure on the government to enact reforms and a fiscally responsible 2020 budget. The central bank's model is forecasting one 25bp interest rate cut in Q3 2020.

Meanwhile, the SARB lowered its growth forecasts to 0.5% for 2019, 1.4% for 2020 and 1.7% for 2021. This reduction was justified as Q3 GDP growth was announced at a lower-than-expected -0.6% y/y, possibly setting the stage for a technical recession. On a brighter note, Q3 business confidence rose to 26pts, its first increase in two years, after hitting a 20-year low of 21pts in the previous quarter.

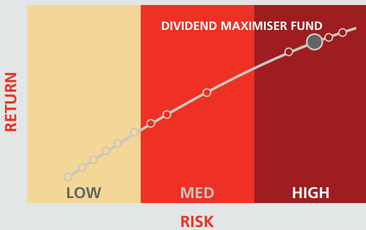
SA equities were buoyed by the improved global growth outlook and "risk-on" sentiment in Q4, which underpinned technology stocks and resources companies in particular. This made for a relatively narrow rally for the local equity market. The FTSE/JSE ALSI returned 4.6% for the quarter, with Resources returning an impressive 13.8%. Financials delivered 2.8%, Listed Property produced 0.6% and Industrial counters were flat. The FTSE/JSE Capped SWIX All Share Index, which we use as the equity benchmark for most of our client mandates, returned 5.3%. For the year, the ALSI returned 12.0%, thanks largely to the Resources sector which delivered 28.5%. This far outpaced the 8.9% from Industrials, 0.6% from Financials and 1.9% from Listed Property.

Finally, the rand rallied against all three major currencies in Q4, along with most other emerging market currencies. It gained 7.6% against the US dollar, 0.9% against a much stronger pound sterling and 4.9% versus the euro. For the year the rand appreciated 2.7% versus the US dollar and 4.5% against the euro, but lost 0.5% against the pound sterling.

PERFORMANCE

For the fourth quarter of 2019, the fund returned 3.9% (net of fees), while the benchmark (the ASISA South African - Equity – General Category mean) returned 4.4% over the same period. For the 12 months ending 31 December 2019, the fund delivered 10.0% (net of fees), outperforming its benchmark by 2.0% over the same period.

RISK/RETURN PROFILE:



FUND MANAGERS:
Ross Biggs

ASISA CATEGORY:
South African - Equity - General

BENCHMARK:
ASISA South African – Equity - General Category Mean

INCEPTION DATE:
2 August 1999

FUND SIZE:
R4 052 123 031

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

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	B CLASS
1 year	10.0%	8.0%	10.5%	10.5%
3 years	5.3%	3.5%	5.7%	5.7%
5 years	4.7%	2.9%	n/a	5.2%
7 years	8.5%	6.2%	n/a	8.9%
10 years	10.4%	8.5%	n/a	10.8%
Since inception	16.1%	13.2%	4.2%	10.2%

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

Sources: Prudential, Morningstar & Deutsche Securities

The main detractor from relative performance for the quarter came from the fund's offshore exposure. While offshore returns were the main contributors to outperformance for the year, over the last quarter the rand appreciated by approximately 7.6% versus the US dollar, which detracted from overall performance.

The second-largest detractors from relative performance for the quarter came from our underweight positions to the more leveraged platinum and palladium companies, Sibanye and Northam. The strength of the platinum group metals, and in particular rhodium and palladium, have substantially improved the fortunes of these companies due to their operational and financial leverage to an upcycle. While we do hold a position in Sibanye, our preference in the platinum sector has been an investment in Impala Platinum and Amplats, which we believe are higher quality companies with stronger balance sheets and more sustainable dividends.

We have also viewed Anglo American as a partial investment in the platinum/palladium sector due to its 79% shareholding in the high-quality platinum and palladium producer Amplats. Anglo American has substantially turned around its business and has not only focused on reducing the debt on its balance sheet, but has also focused on improving the efficiency and cost effectiveness of its operations. We view this progression as important in ensuring that they can remain competitive over the long-run in the cyclical commodities in which they are invested.

Sappi, the South African-based paper company, was one of the top contributors to performance for the quarter, but remained the largest detractor from performance for the year, accounting for 1.1% of underperformance over this period. The fund has held Sappi for several years now based on an 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. Sappi had also recommenced paying dividends after many years of rebuilding its balance sheet. We recognised that Sappi was aggressively allocating capital away from its declining paper business and investing heavily in its dissolving pulp business. Dissolving pulp is the product 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. Most importantly for the fund, it 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 where its share price is currently trading.

The largest contributor to performance for the quarter was our underweight position to Anheuser-Busch (AB Inbev). Anheuser-Busch had recovered in the previous quarter 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. It is becoming evident though that the prices being realised from many of the asset sales are not optimal and are being done to help reduce debt rather than for long-term shareholder value creation. Although we believe 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 among 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 believe that BAT is priced at half the price of Anheuser-Busch.

BAT continued to be a strong contributor to performance for the quarter, and for the full year was the largest stock contributor to outperformance. We believe that the investment case remains strong. BAT is making substantial progress and is at the forefront, together with Philip Morris International, in developing harm reduction products for their customers in order to provide them with options to quit smoking combustible cigarettes. It is likely that there will be much more stringent regulatory environment around these products. We think that this will be good for consumers and the tobacco industry and would strongly encourage more regulation over tobacco products. We and many tobacco investors are putting significant pressure on tobacco companies to further develop harm-reduction products and are penalising tobacco companies that are falling behind.

We believe that the substantial decline in the BAT share price during 2018/2019 (due to the risks described above) provided an exceptional opportunity to buy shares in this very high-quality company at very low prices. The dividend yield of BAT is currently around 7% in GBP and we think that the BAT dividend could comfortably grow at around 10% per year for the next five years. This would translate to a total return of approximately 17% per year in GBP. To put the 8-10% dividend growth in context, for the 15 years to the end of 2018, BAT has been able to grow its dividend by 12% per year in GBP. BAT is also currently only paying out 2/3 of its earnings as dividends, and this could foreseeably increase to close to 100% when the debt levels of BAT return to normal levels in the next three years. The current low pay-out ratio therefore provides a strong base from which to increase dividends or recommence with more share buybacks.

Metrofile was the second largest contributor to performance for the quarter. The 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 believe this restructuring will likely increase its fundamental value and improve cash flows and dividends. They have received interest from a buyer for the possible purchase of the company and are currently evaluating this offer.

Offshore equity markets continue to look attractive, but given the outperformance of some offshore markets - in particular the US over the last year relative to South Africa – we believe that South Africa now represents more relative value, even given the negative economic outlook. We therefore reduced the offshore weighting of the fund over the last quarter and increased the weighting to the South African market.

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

STRATEGY AND POSITIONING

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, in particular, the valuations of companies which are focused on South Africa. We are starting to find value in these types of companies that we last saw in the financial crisis in 2009 and in the undervalued market of the early 2000's.

On market valuations, we currently view the market in South Africa along with many other emerging markets as being undervalued. We think that despite the difficult economic outlook for South Africa, earnings and dividends are likely to grow over the next five years. This growth in dividends is based mainly on a return to more normal profit margins among the mining companies and related industries. This growth in earnings and dividends, together with current low valuations, should be supportive of much improved equity market returns over the next five years.

We still consider 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 in the JSE, that they are not only buying South African exposure, but also shares in globally competitive and exposed businesses such as Richemont, Naspers and BAT. In the case of the Prudential Dividend Maximiser Fund, we have in addition viewed foreign stocks as being relatively attractive and 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 are paying good dividend yields with the potential to pay growing dividends over the long run. We are confident that we have built a portfolio of attractively priced stocks that in aggregate is cheaper than owning the index, yet still capable of delivering attractive underlying growth independent of the economic cycle in which we find ourselves. ■

DISCLAIMER

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL EQUITY FUND
31 DECEMBER 2019

QUARTERLY COMMENTARY

EQUITY

MARKET OVERVIEW

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Positive global investor sentiment lifted South African equities and the rand in Q4, helping to offset some of the foreign outflows experienced earlier in the year, as well as further negative developments locally. These came in the form of a bearish, but realistic, Medium-Term Budget Policy Statement (MTBPS) in October which lowered South Africa's growth projections and raised government's debt burden forecasts from around 60% to 71% of GDP in 2022/23 – a worryingly high level that sparked talk of further credit rating downgrades and even possible IMF intervention. Following this, both S&P and Moody's lowered their credit outlook on SA sovereign debt to negative. The resumption of load-shedding in December and the possibility of it extending well into 2020 added further to the gloom, given the negative impact it will have on growth going forward.

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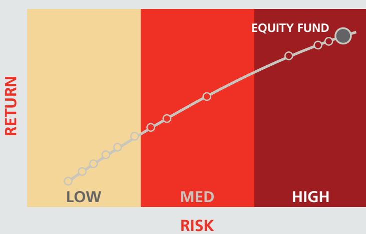
Finally, the rand rallied against all three major currencies in Q4, along with most other emerging market currencies. It gained 7.6% against the US dollar, 0.9% against a much stronger pound sterling and 4.9% versus the euro. For the year the rand appreciated 2.7% versus the US dollar and 4.5% against the euro, but lost 0.5% against the pound sterling.

RISK/RETURN PROFILE:



FUND MANAGERS:
Johny Lambridis, Chris Wood 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 171 469 242

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

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	6.6%	8.0%	7.1%
3 years	4.5%	3.5%	5.0%
5 years	4.4%	2.9%	4.8%
7 years	8.5%	6.2%	8.9%
10 years	10.7%	8.5%	11.2%
Since inception	15.9%	13.2%	10.3%

Inception dates: B Class: 2 January 2007

Sources: Prudential, Morningstar & Deutsche Securities

PERFORMANCE

For the fourth quarter of 2019, the fund returned 2.4% (net of fees), while the benchmark (the ASISA South African - Equity – General Category mean) returned 4.4% over the same period. For the 12 months ending 31 December 2019, the fund delivered 6.6% (net of fees), versus the benchmark, which delivered 8.0% over the same period. The fund's relative underperformance largely stemmed from a disappointing fourth quarter, where the fund's underweight exposure to precious metals stocks (such as Sibanye, Northam and Anglo American Platinum – all up over 40% in the last quarter) detracted from performance relative to the benchmark.

Global markets, particularly developed markets and specifically the US, performed significantly better. The MSCI All Country World Index (gross) retuned 27.3% in US dollars on a total return basis and 23.9% in rands, given a surprisingly resilient rand. Indeed, the rand strengthened marginally in 2019 despite continued negative news flow and a disappointing MTBPS in October, which confirmed SA's continued fiscal decline.

Over the year the fund benefited from its approximate 16% allocation to the Prudential Global Equity Fund and maintaining its overweight position in British American Tobacco (BAT). BAT was clouded in uncertainty at the end of 2018, largely as a result of regulatory uncertainty emanating from the US Food and Drug Administration (FDA). The "smoke" lifted as 2019 progressed and the stock gained 35%. The group continues to report and guide to healthy organic revenue growth and earnings-per-share growth. Importantly, cash flow generation remains robust, enabling the group to maintain its high dividend yield, while simultaneously reducing debt and allaying any misguided concerns around the strength of its balance sheet.

As mentioned in previous fund commentaries, our overweight positions in Sasol and Sappi were a drag on absolute and relative performance in 2019. There was some positive relief in Sasol in the latter part of the fourth quarter of 2019, with the successful replacement of the acetylene reactor catalyst at the ethane cracker of the Lake Charles chemicals project (LCCP). The LCCP has been a continual disappointment for the company and shareholders – as it has run over budget and behind schedule – and now runs the risk of ramping up production into a weak chemicals market. On the positive front, Sasol was able to increase its debt covenants and the strength of the oil markets in the fourth quarter of 2019 should lower the risk of a capital call for shareholders.

STRATEGY AND POSITIONING

For global equities, we continue to prefer the global banking sector, which has underperformed the broader market, as well as certain developed markets where equities are undervalued but fundamentals for earnings growth remain positive, including Germany and Japan. We also find selected emerging markets attractive, including South Korea, Indonesia and China.

Following December's rally, South African equities became marginally more expensive during Q4 on most valuation measures: the 12-month forward P/E of the FTSE/JSE All Share Index rose from around 10.9X to 11.6X and the earnings yield fell from 8.6% to around 8.1% in December alone. However, both are still cheaper than the market's longer-term fair value, in our view.

We continue 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. All of these positions added value to our portfolios for the quarter, with rebounds for Sasol, Sappi and Exxaro after suffering losses in Q3.

We have also 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. While Investec added value for Q4, the latter two counters detracted from value. We believe Investec's unbundling and separate listing of Investec Asset Management from the bank operations set for Q1 2020 should unlock value, as the asset management profits and dividends that were historically trapped in the bank will now be distributed directly to shareholders. The unbundling should leave both the UK and the South African banking operations in a well-capitalised position from which they can grow into the future. With a refreshed management team that is now prioritising returns and addressing sub-optimal businesses, we think returns on equity will improve over time. The demerger should also allow for more industry-focused boards and management teams that could unlock further value.

As long-time holders of Trencor, we believe its unbundling of global shipping container group Textainer during the quarter will unlock value – both stocks could be substantial beneficiaries of improvements in the US-China trade war going forward. Remgro, another group which the fund holds, also announced an unbundling of its stake in First Rand for Q1 2020. We believe this is likely to reduce the discount in the share price of the holding company going forward.

Also supporting returns was the rally in Quilter and Capital & Counties shares, thanks to the strong Brexit-related rebound in the UK market. We took some profits in these holdings in December. Later in the quarter Naspers and Prosus shares fell and then recouped some losses after Prosus failed to win a takeover bid for UK-based food delivery group Just Eat in a bidding war – this as the market had considered the bid too costly. On a net basis, our Prosus positioning detracted from returns for the three months.

Meanwhile, we are still underweight retail stocks like Clicks, Mr Price, Shoprite and Truworths, given the pressure under which local consumers find themselves. Strategically, we do have a holding in Woolworths.

It is disappointing that nearly two years after Ramaphoria little to no progress has been made on structural reforms or state-owned enterprises (SOEs) – and Eskom blackouts seems to be intensifying. Not surprisingly, consumer and business confidence remain depressed and we suspect the consumer will remain under continual pressure in 2020. Notwithstanding, the equity market looks to price the future, and with valuations approaching all-time lows, perhaps even modest indications of progress could produce reasonably good returns for investors. ■

DISCLAIMER

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL BOND FEEDER FUND
31 DECEMBER 2019

QUARTERLY COMMENTARY

MARKET OVERVIEW

The year ended on a high note for global equities as investors were able to breathe a sigh of relief on the back of a firm Phase 1 trade agreement between the US and China in December, as well as a decisive Tory victory in the UK's snap general election that paved the way for a less-uncertain Brexit. These December developments helped to improve sentiment towards global growth in 2020, as did the backdrop of easy monetary policy put in place by major central banks.

US equity markets reacted by reaching fresh record highs in late December, while global equities recorded their best annual gains since 2009. Emerging market equities outperformed developed markets after a long period of underperformance. Global bonds, meanwhile, produced marginally positive returns in Q4 as yields drifted higher, as the US Federal Reserve (Fed) signalled in October it was not likely to lower interest rates further and left rates on hold at its 11 December meeting. Global bonds (Bloomberg Barclays Global Aggregate Bond Index in US$) delivered 0.5% for the quarter.

In Q4, along with its 25bps rate cut in October and unchanged stance in December, the US Fed strongly suggested that no further cuts were likely for the foreseeable future, and its December "dot plot" forecast pointed to no changes through 2020 and one 25bp rate hike in 2021. The Barclays US Treasury Index produced -0.8% for Q4 in US$.

In the UK, stocks and the pound sterling rallied after PM Johnson's Tory party won a resounding majority in Parliament in the snap general election on 12 December. This set a clear path toward Brexit on 31 January, alleviating much uncertainty.

In the Eurozone, Q3 GDP growth was revised upward to 1.2% y/y, higher than expected and unchanged from Q2, while inflation rose to 1.0% y/y in November from 0.7% y/y previously. Christine Lagarde, the ECB's new President, kept interest rates on hold at its December meeting and confirmed that its bond buying stimulus programme had re-started on 1 November.

Japan's growth continued to decelerate in Q3 2019 to only 0.2% y/y from 1.3% y/y in the previous quarter as its export-driven economy was hit hard 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 both October and December, but signalled it could implement more stimulus measures.

The Chinese economy also continued to slow, posting 6.0% y/y GDP growth in Q3 2019 after 6.2% y/y previously. However, this could start to turn around – albeit slowly – from 1 January when Phase 1 of the US-China trade agreement takes effect.

Finally, the rand rallied against all three major currencies in Q4, along with most other emerging market currencies. It gained 7.6% against the US dollar, 0.9% against a much stronger pound sterling and 4.9% versus the euro.

PERFORMANCE

Given the strong performance of the rand relative to the US dollar over the period, the fund returned -5.4% (net of fees) in rand for the fourth quarter of 2019, while the benchmark returned -7.2%. For the 12 months ending 31 December 2019, the fund returned 5.9% (net of fees) while benchmark returned 4.0%.

The main contributors to absolute performance over the quarter came from exposure to US investment-grade corporate bonds, and exposure to Mexican and South African government bonds. The fund's exposure to Japanese government bonds detracted from performance.

STRATEGY AND POSITIONING

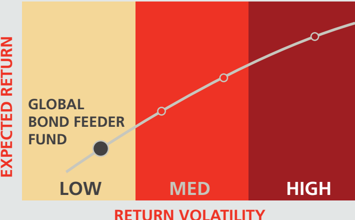
The fund's positioning continues to reflect our preference for selected areas of global credit and emerging-market government bonds, such as by Mexico and South Africa, based on the view that these assets offer better value than mainstream developed-government bonds at present.

We remain highly active within the global bond asset class, seeking positive bets on emerging-market government bonds because of the better real yields they can offer compared to developed-government bonds, where we tend to be underweight versus the benchmark. However, the combination of government bonds selling off and great performance from investment-grade and high-yield corporate bonds has meant that the returns available in developed markets have become constrained. The same is true of hard and soft currency emerging-market bonds, although specific opportunities are available in countries such as South Africa and Turkey, which have the potential for lucrative returns relative to the to the opportunity set. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	5.9%	4.0%	6.3%
3 years	4.5%	5.0%	n/a
5 years	5.5%	6.3%	n/a
7 years	8.6%	8.9%	n/a
10 years	9.5%	9.2%	n/a
Since inception	8.3%	8.4%	10.4%

Inception date B Class: 2 July 2018

RISK/RETURN PROFILE:



INVESTMENT MANAGER OF THE UNDERLYING FUND:
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:
R519 692 327

DISCLAIMER

Prudential Portfolio Managers Unit Trusts Ltd (Registration number: 1999/0524/06) is an approved CISCA management company (#29). Assets are managed by Prudential Investment Managers (South Africa) (Pty) Ltd, which is an approved discretionary Financial Services Provider (#45199). The Trustee's/ Custodian details are: Standard Bank of South Africa limited – Trustees Services & investor Services. 20th Floor, Main Tower, Standard Bank Centre, Heerengracht, Cape Town.

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

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL INFLATION PLUS FEEDER FUND
31 DECEMBER 2019

QUARTERLY COMMENTARY

GLOBAL MULTI-ASSET

MARKET OVERVIEW

The year ended on a high note for global equities as investors were able to breathe a sigh of relief on the back of a firm Phase 1 trade agreement between the US and China in December, as well as a decisive Tory victory in the UK's snap general election that paved the way for a less-uncertain Brexit. These December developments helped to improve sentiment towards global growth in 2020, as did the backdrop of easy monetary policy put in place by major central banks.

US equity markets reacted by reaching fresh record highs in late December, while global equities recorded their best annual gains since 2009. Emerging market equities outperformed developed markets after a long period of underperformance. Global bonds, meanwhile, produced marginally positive returns in Q4 as yields drifted higher, as the US Federal Reserve (Fed) signalled in October it was not likely to lower interest rates further and left rates on hold at its 11 December meeting.

In US$ terms, global equities (the MSCI All Country World Index) returned 9.0% for the quarter, while developed markets delivered 8.6% and emerging markets produced 11.8%. Finally, global bonds (Bloomberg Barclays Global Aggregate Bond Index in US$) delivered 0.5% for the quarter and global property returned 0.8%.

In Q4, along with its 25bps rate cut in October and unchanged stance in December, the US Fed strongly suggested that no further cuts were likely for the foreseeable future, and its December "dot plot" forecast pointed to no changes through 2020 and one 25bp rate hike in 2021. The Barclays US Treasury Index produced -0.8% for Q4 in US$. In the equity market, the S&P 500 returned 9.1% for the quarter, the Nasdaq delivered 13.0% and the Dow Jones Industrial produced 6.7% (all in US$).

In the UK, stocks and the pound sterling rallied after PM Johnson's Tory party won a resounding majority in Parliament in the snap general election on 12 December. This set a clear path toward Brexit on 31 January, alleviating much uncertainty. The FTSE 100 returned 10.4% for the quarter in US$.

In the Eurozone, Q3 GDP growth was revised upward to 1.2% y/y, higher than expected and unchanged from Q2, while inflation rose to 1.0% y/y in November from 0.7% y/y previously. Christine Lagarde, the ECB's new President, kept interest rates on hold at its December meeting and confirmed that its bond buying stimulus programme had re-started on 1 November. Germany's DAX produced 9.6% for the quarter and the French CAC 40 delivered 8.6% in US$.

Japan's growth continued to decelerate in Q3 2019 to only 0.2% y/y from 1.3% y/y in the previous quarter as its export-driven economy was hit hard 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 both October and December, but signalled it could implement more stimulus measures. The Nikkei 225 returned 8.3% in Q4 in US$.

The Chinese economy also continued to slow, posting 6.0% y/y GDP growth in Q3 2019 after 6.2% y/y previously. However, this could start to turn around – albeit slowly – from 1 January when Phase 1 of the US-China trade agreement takes effect. Hong Kong's Hang Seng Index returned 9.1% in Q4 and the MSCI China returned 14.7% in US$.

Finally, the rand rallied against all three major currencies in Q4, along with most other emerging market currencies. It gained 7.6% against the US dollar, 0.9% against a much stronger pound sterling and 4.9% versus the euro.

PERFORMANCE

Given the strong performance of the rand relative to the US dollar over the period, the fund returned -3.4% (net of fees) in rand for the fourth quarter of 2019, while global inflation printed –7.6%. For the 12 months ending 31 December 2019, the fund returned 11.7% while global inflation produced -1.1%.

Both equity and fixed income exposure contributed to absolute fund performance over the quarter. Within fixed income, contributions came from investment-grade corporate bonds and emerging-market sovereign bonds. Within equities, the fund's exposure to US, Europe, Asia and emerging markets contributed to absolute returns.

STRATEGY AND POSITIONING

The fund's bond exposure remains tilted towards global corporate bonds and emerging-market sovereign bonds. During the quarter we scaled back the overall equity weighting and changed the emphasis by moving some equity allocation into two new M&G systematic equity funds, as well as adding diversification and potential return by slightly increasing a position in Greencoat Renewables.

In terms of medium-term valuations, we continue to believe that equities offer the most compelling returns. The key valuation signal for us remains the attractiveness of the equity market globally – which we believe is fair to cheaply priced - versus cash and fixed income assets, particularly markets in Europe and Asia. The potential yield from equities (both earnings and dividend yield) currently far outweighs that from fixed income markets, particularly developed-market government bond markets, where yields remain close to record lows.

Meanwhile, although emerging market bonds offer attractive levels of yield and scope for more significant rate cuts if necessary, developed-market government bonds offer very asymmetric return profiles from such low prevailing levels of yield.

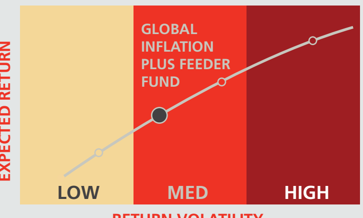
Sentiment has improved from very depressed, to more optimistic, although not to the heights of January 2018. The mantra of low growth/imminent recession has faded as risky assets have outperformed. Some of the returns we suspected would be available if the global cyclical data surprised to the upside have transpired with the swing in sentiment. The price action we have seen has been more from the change in sentiment than from actual fundamental shifts in earnings expectations. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK*	B CLASS
1 year	11.7%	-1.1%	12.0%
3 years	6.5%	2.3%	6.8%
5 years	7.0%	4.9%	7.3%
7 years	10.1%	8.4%	n/a
10 years	8.7%	7.2%	n/a
Since inception	7.7%	6.4%	8.7%

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:
R117 831 032

DISCLAIMER

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL BALANCED FEEDER FUND
31 DECEMBER 2019

QUARTERLY COMMENTARY

GLOBAL MULTI-ASSET

MARKET OVERVIEW

The year ended on a high note for global equities as investors were able to breathe a sigh of relief on the back of a firm Phase 1 trade agreement between the US and China in December, as well as a decisive Tory victory in the UK's snap general election that paved the way for a less-uncertain Brexit. These December developments helped to improve sentiment towards global growth in 2020, as did the backdrop of easy monetary policy put in place by major central banks.

US equity markets reacted by reaching fresh record highs in late December, while global equities recorded their best annual gains since 2009. Emerging market equities outperformed developed markets after a long period of underperformance. Global bonds, meanwhile, produced marginally positive returns in Q4 as yields drifted higher, as the US Federal Reserve (Fed) signalled in October it was not likely to lower interest rates further and left rates on hold at its 11 December meeting.

In US$ terms, global equities (the MSCI All Country World Index) returned 9.0% for the quarter, while developed markets delivered 8.6% and emerging markets produced 11.8%. Finally, global bonds (Bloomberg Barclays Global Aggregate Bond Index in US$) delivered 0.5% for the quarter and global property returned 0.8%.

In Q4, along with its 25bps rate cut in October and unchanged stance in December, the US Fed strongly suggested that no further cuts were likely for the foreseeable future, and its December "dot plot" forecast pointed to no changes through 2020 and one 25bp rate hike in 2021. The Barclays US Treasury Index produced -0.8% for Q4 in US$. In the equity market, the S&P 500 returned 9.1% for the quarter, the Nasdaq delivered 13.0% and the Dow Jones Industrial produced 6.7% (all in US$).

In the UK, stocks and the pound sterling rallied after PM Johnson's Tory party won a resounding majority in Parliament in the snap general election on 12 December. This set a clear path toward Brexit on 31 January, alleviating much uncertainty. The FTSE 100 returned 10.4% for the quarter in US$.

In the Eurozone, Q3 GDP growth was revised upward to 1.2% y/y, higher than expected and unchanged from Q2, while inflation rose to 1.0% y/y in November from 0.7% y/y previously. Christine Lagarde, the ECB's new President, kept interest rates on hold at its December meeting and confirmed that its bond buying stimulus programme had re-started on 1 November. Germany's DAX produced 9.6% for the quarter and the French CAC 40 delivered 8.6% in US$.

Japan's growth continued to decelerate in Q3 2019 to only 0.2% y/y from 1.3% y/y in the previous quarter as its export-driven economy was hit hard 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 both October and December, but signalled it could implement more stimulus measures. The Nikkei 225 returned 8.3% in Q4 in US$.

The Chinese economy also continued to slow, posting 6.0% y/y GDP growth in Q3 2019 after 6.2% y/y previously. However, this could start to turn around – albeit slowly – from 1 January when Phase 1 of the US-China trade agreement takes effect. Hong Kong's Hang Seng Index returned 9.1% in Q4 and the MSCI China returned 14.7% in US$.

Finally, the rand rallied against all three major currencies in Q4, along with most other emerging market currencies. It gained 7.6% against the US dollar, 0.9% against a much stronger pound sterling and 4.9% versus the euro.

PERFORMANCE

Given the strong performance of the rand relative to the US dollar over the period, the fund returned -1.7% (net of fees) in rand for the fourth quarter of 2019, while its benchmark returned -2.1%. For the 12 months ending 31 December 2019, the fund returned 15.9% (net of fees) while the benchmark returned 16.8%.

Both equity and fixed income exposure contributed to absolute fund performance over the quarter. Within fixed income, most significant contributions came from investment-grade corporate bonds and emerging-market sovereign bonds. Within equities, the fund's exposure to US, Europe, Asia and emerging markets contributed to absolute returns.

STRATEGY AND POSITIONING

The fund remains positioned overweight equities versus underweight bonds (and more cautious on developed-market government bonds compared to the benchmark) as we believe the size of the equity-risk premium remains the most obvious opportunity on offer across the global investment landscape today. However, during the quarter we scaled back the overall equity weighting and changed the emphasis by moving some equity allocation into two new M&G systematic equity funds, as well as adding diversification by slightly increasing a position in Greencoat Renewables.

In terms of medium-term valuations, we continue to believe that equities offer the most compelling returns. The key valuation signal for us remains the attractiveness of the equity market globally – which we believe is fair to cheaply priced - versus cash and fixed income assets, particularly markets in Europe and Asia. The potential yield from equities (both earnings and dividend yield) currently far outweighs that from fixed income markets, particularly developed-market government bond markets, where yields remain close to record lows.

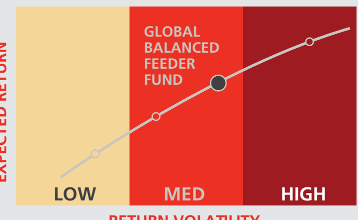
Meanwhile, although emerging market bonds offer attractive levels of yield and scope for more significant rate cuts if necessary, developed-market government bonds offer very asymmetric return profiles from such low prevailing levels of yield.

Sentiment has improved from very depressed, to more optimistic, although not to the heights of January 2018. The mantra of low growth/imminent recession has faded as risky assets have outperformed. Some of the returns we suspected would be available if the global cyclical data surprised to the upside have transpired with the swing in sentiment. The price action we have seen has been more from the change in sentiment than from actual fundamental shifts in earnings expectations. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	15.9%	16.8%	15.9%
Since inception	6.8%	9.9%	6.8%

Inception date B Class: 28 June 2018

RISK/RETURN PROFILE:



INVESTMENT MANAGER OF THE UNDERLYING FUND:
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:
R10 355 656

DISCLAIMER

Prudential Portfolio Managers Unit Trusts Ltd (Registration number: 1999/0524/06) is an approved CISCA management company (#29). Assets are managed by Prudential Investment Managers (South Africa) (Pty) Ltd, which is an approved discretionary Financial Services Provider (#45199).

The Trustee's/Custodian details are: Standard Bank of South Africa Limited - Trustee Services & Investor Services. 20th Floor, Main Tower, Standard Bank Centre, Heerengracht, Cape Town. Collective Investment Schemes (unit trusts) are generally medium-to long-term investments. Past performance is not necessarily a guide to future investment performance. Unit trust prices are calculated on a net asset value basis. This means the price is the total net market value of all assets of the unit trust fund divided by the total number of units of the fund. Any market movements – for example in share prices, bond prices, money market prices or currency fluctuations - relevant to the underlying assets of the fund may cause the value of the underlying assets to go up or down. As a result, the price of your units may go up or down. Unit trusts are traded at the ruling forward price of the day, meaning that transactions are processed during the day, before you or the Manager know what the price at the end of the day will be. The price and therefore the number of units involved in the transaction are only known on the following day. The unit trust fund may borrow up to 10% of the fund value, and it may also lend any scrip (proof of ownership of an investment instrument) that it holds to earn additional income. A Prudential unit trust fund may consist of different fund classes that are subject to different fees and charges. Where applicable, the Manager will pay your financial adviser an agreed standard ongoing adviser fee, which is included in the overall costs of the fund. A Collective Investment Schemes (CIS) summary with all fees and maximum initial and ongoing adviser fees is available on our website. One can also obtain additional information on Prudential products on the Prudential website. The Manager may, at its discretion, close your chosen unit trust fund to new investors and to additional investments by existing investors to make sure that it is managed in accordance with its mandate. It may also stop your existing debit order investment. The Manager makes no guarantees as to the capital invested in the fund or the returns of the fund. Excessive withdrawals from the fund may place the fund under liquidity pressure and, in certain circumstances; a process of ring fencing withdrawal instructions may be followed. The Fund may hold foreign securities including foreign CIS funds. As a result, the fund may face material risks. The volatility of the fund may be higher and the liquidity of the underlying securities may be restricted due to relative market sizes and market conditions. The fund's ability to settle securities and to repatriate investment income, capital or the proceeds of sales of securities may be adversely affected for multiple reasons including market conditions, macro-economic and political circumstances. Further, the return on the security may be affected (positively or negatively) by the difference in tax regimes between the domestic and foreign tax jurisdictions. The availability of market information and information on any underlying sub-funds may be delayed. Fund prices are published daily on the Prudential website. These are also available upon request. The performance is calculated for the portfolio. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. Purchase and repurchase requests must be received by the Manager by 13h30 (11h30 for the Money Market Fund) SA time each business day. All online purchase and repurchase transactions must be received by the Manager by 10h30 (for all Funds) SA time each business day.

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL EQUITY FEEDER FUND
31 DECEMBER 2019

QUARTERLY COMMENTARY

GLOBAL EQUITY

MARKET OVERVIEW

The year ended on a high note for global equities as investors were able to breathe a sigh of relief on the back of a firm Phase 1 trade agreement between the US and China in December, as well as a decisive Tory victory in the UK's snap general election that paved the way for a less-uncertain Brexit. These December developments helped to improve sentiment towards global growth in 2020, as did the backdrop of easy monetary policy put in place by major central banks.

US equity markets reacted by reaching fresh record highs in late December, while global equities recorded their best annual gains since 2009. Emerging market equities outperformed developed markets after a long period of underperformance. Global bonds, meanwhile, produced marginally positive returns in Q4 as yields drifted higher, as the US Federal Reserve (Fed) signalled in October it was not likely to lower interest rates further and left rates on hold at its 11 December meeting. In US$ terms, global equities (the MSCI All Country World Index) returned 9.0% for the quarter, while developed markets delivered 8.6% and emerging markets produced 11.8%.

In Q4, along with its 25bps rate cut in October and unchanged stance in December, the US Fed strongly suggested that no further cuts were likely for the foreseeable future, and its December "dot plot" forecast pointed to no changes through 2020 and one 25bp rate hike in 2021. In the equity market, the S&P 500 returned 9.1% for the quarter, the Nasdaq delivered 13.0% and the Dow Jones Industrial produced 6.7% (all in US$).

In the UK, stocks and the pound sterling rallied after PM Johnson's Tory party won a resounding majority in Parliament in the snap general election on 12 December. This set a clear path toward Brexit on 31 January, alleviating much uncertainty. The FTSE 100 returned 10.4% for the quarter in US$.

In the Eurozone, Q3 GDP growth was revised upward to 1.2% y/y, higher than expected and unchanged from Q2, while inflation rose to 1.0% y/y in November from 0.7% y/y previously. Christine Lagarde, the ECB's new President, kept interest rates on hold at its December meeting and confirmed that its bond buying stimulus programme had re-started on 1 November. Germany's DAX produced 9.6% for the quarter and the French CAC 40 delivered 8.6% in US$.

Japan's growth continued to decelerate in Q3 2019 to only 0.2% y/y from 1.3% y/y in the previous quarter as its export-driven economy was hit hard 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 both October and December, but signalled it could implement more stimulus measures. The Nikkei 225 returned 8.3% in Q4 in US$.

The Chinese economy also continued to slow, posting 6.0% y/y GDP growth in Q3 2019 after 6.2% y/y previously. However, this could start to turn around – albeit slowly – from 1 January when Phase 1 of the US-China trade agreement takes effect. Hong Kong's Hang Seng Index returned 9.1% in Q4 and the MSCI China returned 14.7% in US$.

Finally, the rand rallied against all three major currencies in Q4, along with most other emerging market currencies. It gained 7.6% against the US dollar, 0.9% against a much stronger pound sterling and 4.9% versus the euro.

PERFORMANCE

Given the strong performance of the rand relative to the US dollar over the period, the fund returned 0.7% (net of fees) in rand for the fourth quarter of 2019, while the benchmark returned 0.6%. For the 12 months ending 31 December 2019, the fund returned 18.9% (net of fees) while benchmark returned 23.2%.

The fund's exposure to North American and Europe contributed to absolute performance over the quarter, while exposure to emerging markets and Japan contributed to a lesser extent.

STRATEGY AND POSITIONING

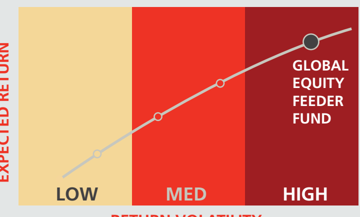
The fund's positioning reflects a preference for attractively-valued equities from Europe and Asia ex-Japan. We remain underweight in the US and overweight in Japan and the UK. There were no meaningful portfolio trades during the quarter at the country or sector level, although we continue to monitor for attractive opportunities in light of an elevated – albeit less so than previously – equity risk premium.

In terms of medium-term valuations, non-US equities appear relatively attractive. Sentiment has improved from very depressed, to more optimistic, although not to the heights of January 2018. The mantra of low growth/imminent recession has faded as risky assets have outperformed. Some of the returns we suspected would be available if the global cyclical data surprised to the upside have transpired with the swing in sentiment. The price action we have seen has been more from the change in sentiment than from actual fundamental shifts in earnings expectations. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	18.9%	23.2%	19.4%
3 years	9.7%	13.3%	n/a
5 years	10.2%	12.6%	n/a
7 years	15.9%	17.9%	n/a
10 years	13.1%	16.0%	n/a
Since inception	7.1%	8.7%	9.7%

Inception date B Class: 2 July 2018

RISK/RETURN PROFILE:



INVESTMENT MANAGER OF THE UNDERLYING FUND:

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:

R310 194 156

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