PRUDENTIAL UNIT TRUSTS QUARTERLY COMMENTARY
31 MARCH 2020

PRUDENTIAL INVESTMENT MANAGERS

COMBINED QUARTERLY COMMENTARY

INCOME | MULTI-ASSET | PROPERTY/EQUITY | GLOBAL

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PRUDENTIAL MONEY MARKET FUND
31 MARCH 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME

MARKET OVERVIEW

The first quarter of 2020 was completely dominated by the rapid spread of the Coronavirus around the globe. Its negative impact made itself felt in every corner of the globe, taking a heavy toll on human lives and economic activity as global lockdowns were implemented. All types of assets, including many traditional safe-havens like government bonds, were hit by wholesale selling, which was exacerbated by forced liquidation of many leveraged investors needing urgent liquidity. Uncertainty pervaded investor sentiment as the extent and severity of the virus and its impact on economic growth remained unknown. The IMF warned of a coming global recession worse that that of the 2008 Global Financial Crisis (GFC), while ratings agency Fitch projected a 1.9% contraction in global growth for 2020.

South African assets and the rand were hit harder by the global sell-off than most emerging markets. This was due to the already-fragile state of the economy, given that it had entered into a recession in Q4 2019 with GDP shrinking by 1.4% q/q annualised. Plus, the more liquid nature of the local financial markets made it an easy option for wholesale selling of emerging market risk by global investors amid the flight to safety.

On top of this, government bond and rand sales were exacerbated by Moody's downgrade of the sovereign credit rating to non-investment grade status on 27 March (a move that was widely expected), as well as by the SA government's announcement of some fiscal tax and spending measures to help individuals and small businesses weather the local shutdown, which are expected to push the government budget deficit further into the red. This extra spending rendered February's National Budget plans to reduce the deficit essentially redundant. The extent of the bond sales attributable to the downgrade was unclear, making it difficult to gauge the amount of selling that will come later once South Africa exits the World Government Bond Index of investment-grade bonds. The latter was postponed until after shutdowns are lifted.

Meanwhile, at its 19 March MPC meeting the SA Reserve Bank revised its GDP growth forecast for SA to -0.2% in 2020 from 1.4% previously, which many believed to be optimistic under the current conditions. It also announced a much larger-than-expected 100-basis point reduction in the repo rate to 5.25% in a bid to offer some economic relief. Additionally, it undertook a bond repurchase programme to support the government bond market for the first time. This helped to pare losses in SA bonds: nominal yields on the 20-year government bond had shot up from around 10% to above 14% briefly, before settling at around 12.3% after the SARB intervention. The BEASSA All Bond Index delivered -8.7% in Q1 2020, while SA inflation-linked bonds returned -6.6%. Cash (as measured by the STeFI Composite) produced 1.7% for the three-month period.

Private sector credit extension accelerated 5.1% y/y in February, slightly higher than the 5.0% y/y posted in January. This was largely due to a rise in credit extended to the corporate sector, which countered the decline in credit extended to households.

PERFORMANCE

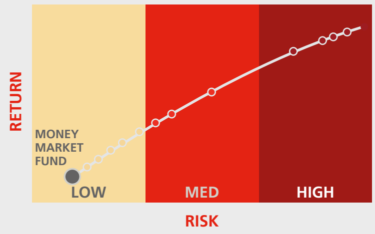
The fund generated a return of 1.7% (net of fees) for the quarter, outperforming its benchmark by 0.2%. For the 12 months ended 31 March 2020, the fund returned 7.3% (net of fees) while the benchmark returned 6.6% over the same period.

The average duration of the fund at quarter end was 41 days relative to the 90-day maximum average duration. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	X CLASS
1 year	7.3%	6.6%	7.5%
3 years	7.4%	6.7%	7.6%
5 years	7.2%	6.6%	7.4%
7 years	6.7%	6.2%	6.8%
10 years	6.4%	5.9%	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 314 305 501

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL HIGH INTEREST FUND
31 MARCH 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME

MARKET OVERVIEW

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PERFORMANCE

The fund generated a return of 1.7% (net of fees) for the quarter, in line with its benchmark, the STeFI Composite Index. For the 12 months ended 31 March 2020, the fund returned 7.6% (net of fees) while the benchmark returned 7.2% over the same period.

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

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

Relative to the 180-day maximum average duration, the quarter-end duration of the fund came in at 29 days.

STRATEGY AND POSITIONING

The fund has generally sought to take advantage of banks' requirements to secure longer-dated funding, which better matches the profile of their loan books. This has led to a mostly steep credit curve whereby they 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.

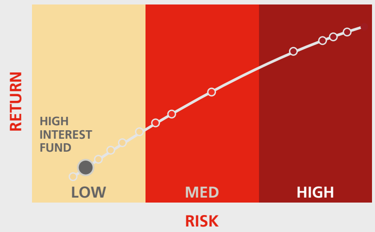
While credit issuance has been scarce since 2016, mixed with a tightening of credit spreads, 2019 saw a number of banks and corporates coming to market, after some hesitance following the downgrade of the sovereign credit rating in 2017. Issuances since the start of 2020 have been scarce again against the backdrop of major uncertainty and the sovereign losing its last investment grade rating from Moody's.

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

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	X CLASS	D CLASS
1 year	7.6%	7.2%	7.6%	7.8%
3 years	7.7%	7.3%	7.8%	7.9%
5 years	7.7%	7.2%	7.8%	7.9%
7 years	7.1%	6.8%	7.2%	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:
R5 278 763 727

PLEASE NOTE:
This fund is capped to new investors

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL INCOME FUND
31 MARCH 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME

MARKET OVERVIEW

The first quarter of 2020 was completely dominated by the rapid spread of the Coronavirus around the globe. Its negative impact made itself felt in every corner of the globe, taking a heavy toll on human lives and economic activity as global lockdowns were implemented. All types of assets, including many traditional safe-havens like government bonds, were hit by wholesale selling, which was exacerbated by forced liquidation of many leveraged investors needing urgent liquidity. Uncertainty pervaded investor sentiment as the extent and severity of the virus and its impact on economic growth remained unknown. The IMF warned of a coming global recession worse that that of the 2008 Global Financial Crisis (GFC), while ratings agency Fitch projected a 1.9% contraction in global growth for 2020.

South African assets and the rand were hit harder by the global sell-off than most emerging markets. This was due to the already-fragile state of the economy, given that it had entered into a recession in Q4 2019 with GDP shrinking by 1.4% q/q annualised. Plus, the more liquid nature of the local financial markets made it an easy option for wholesale selling of emerging market risk by global investors amid the flight to safety.

On top of this, government bond and rand sales were exacerbated by Moody's downgrade of the sovereign credit rating to non-investment grade status on 27 March (a move that was widely expected), as well as by the SA government's announcement of some fiscal tax and spending measures to help individuals and small businesses weather the local shutdown, which are expected to push the government budget deficit further into the red. This extra spending rendered February's National Budget plans to reduce the deficit essentially redundant. The extent of the bond sales attributable to the downgrade was unclear, making it difficult to gauge the amount of selling that will come later once South Africa exits the World Government Bond Index of investment-grade bonds. The latter was postponed until after shutdowns are lifted.

Meanwhile, at its 19 March MPC meeting the SA Reserve Bank revised its GDP growth forecast for SA to -0.2% in 2020 from 1.4% previously, which many believed to be optimistic under the current conditions. It also announced a much larger-than-expected 100-basis point reduction in the repo rate to 5.25% in a bid to offer some economic relief. Additionally, it undertook a bond repurchase programme to support the government bond market for the first time. This helped to pare losses in SA bonds: nominal yields on the 20-year government bond had shot up from around 10% to above 14% briefly, before settling at around 12.3% after the SARB intervention. The BEASSA All Bond Index delivered -8.7% in Q1 2020, while SA inflation-linked bonds returned -6.6%. Cash (as measured by the STeFI Composite) produced 1.7% for the three-month period.

PERFORMANCE

The fund generated a return of 1.1% (net of fees) for the quarter, while its benchmark returned 1.7% over the same period. For the 12 months ended 31 March 2020, the fund returned 7.5% (net of fees) while the benchmark returned 7.2% over the same period.

The Prudential Income 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 quarter-end average duration of the fund came in at 42 days.

STRATEGY AND POSITIONING

The fund has generally sought to take advantage of banks' requirements to secure longer-dated funding, which better matches the profile of their loan books. This has led to a mostly steep credit curve whereby they 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.

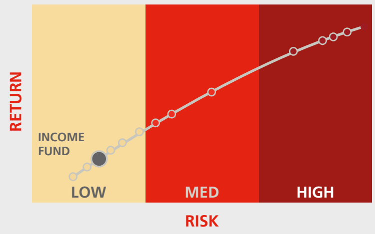
While credit issuance has been scarce since 2016, mixed with a tightening of credit spreads, 2019 saw a number of banks and corporates coming to market, after some hesitance following the downgrade of the sovereign credit rating in 2017. Issuances since the start of 2020 have been scarce again against the backdrop of major uncertainty and the sovereign losing its last investment grade rating from Moody's.

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	7.5%	7.2%	7.6%
2 years	8.1%	7.2%	8.2%
3 years	8.3%	7.3%	8.4%
Since inception	8.3%	7.3%	8.4%

[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 446 620 737

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL HIGH YIELD BOND FUND
31 MARCH 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME

MARKET OVERVIEW

The first quarter of 2020 was completely dominated by the rapid spread of the Coronavirus around the globe. Its negative impact made itself felt in every corner of the globe, taking a heavy toll on human lives and economic activity as global lockdowns were implemented. All types of assets, including many traditional safe-havens like government bonds, were hit by wholesale selling, which was exacerbated by forced liquidation of many leveraged investors needing urgent liquidity. Uncertainty pervaded investor sentiment as the extent and severity of the virus and its impact on economic growth remained unknown. The IMF warned of a coming global recession worse than that of the 2008 Global Financial Crisis (GFC), while ratings agency Fitch projected a 1.9% contraction in global growth for 2020.

South African assets and the rand were hit harder by the global sell-off than most emerging markets. This was due to the already-fragile state of the economy, given that it had entered into a recession in Q4 2019 with GDP shrinking by 1.4% q/q annualised. Plus, the more liquid nature of the local financial markets made it an easy option for wholesale selling of emerging market risk by global investors amid the flight to safety.

On top of this, government bond and rand sales were exacerbated by Moody's downgrade of the sovereign credit rating to non-investment grade status on 27 March (a move that was widely expected), as well as by the SA government's announcement of some fiscal tax and spending measures to help individuals and small businesses weather the local shutdown, which are expected to push the government budget deficit further into the red. This extra spending rendered February's National Budget plans to reduce the deficit essentially redundant. The extent of the bond sales attributable to the downgrade was unclear, making it difficult to gauge the amount of selling that will come later once South Africa exits the World Government Bond Index of investment-grade bonds. The latter was postponed until after shutdowns are lifted.

Meanwhile, at its 19 March MPC meeting the SA Reserve Bank revised its GDP growth forecast for SA to -0.2% in 2020 from 1.4% previously, which many believed to be optimistic under the current conditions. It also announced a much larger-than-expected 100-basis point reduction in the repo rate to 5.25% in a bid to offer some economic relief. Additionally, it undertook a bond repurchase programme to support the government bond market for the first time. This helped to pare losses in SA bonds: nominal yields on the 20-year government bond had shot up from around 10% to above 14% briefly, before settling at around 12.3% after the SARB intervention. The BEASSA All Bond Index delivered -8.7% in Q1 2020, while SA inflation-linked bonds returned -6.6%. Cash (as measured by the STeFI Composite) produced 1.7% for the three-month period.

In the first quarter of 2020, primary bond market issuance volume (excluding government issuances) was approximately R30bn, 40% down from the previous quarter (R49bn) and 17% down compared to the first quarter of 2019 (R36bn). Leading up to the end of February 2020, the quantum of total issuances was in line with the corresponding period in 2019. March 2020 issuances, on the other hand, were 50% down compared to March 2019, due to the disruption caused by COVID-19. Uncertainty around pricing levels, along with constrained liquidity in the market, negatively impacted appetite for credit.

The make-up of issuances for the year followed previous trends, in that the majority consisted of floating-rate notes and the dominant sectors were banks and property companies. A large proportion of volume was done via private placements instead of public auctions, the majority of which was from Transnet, which had returned to the public market (possibly to limited investor appetite). Transnet had scheduled a public auction towards the end of March, but this was one of several auctions that were cancelled.

PERFORMANCE

The fund generated a return of -9.6% (net of fees) for the quarter, underperforming its benchmark by 0.9 %. For the 12 months ended 31 March 2020, the fund returned -4.3% (net of fees) while the benchmark returned -3.0% over the same period.

There was little opportunity to add to the fund's credit exposure during the quarter, due to both a lack of fixed-rate issuance and unfavourable pricing on the fixed-rate issuance that did come to market. The cancellation of scheduled credit auctions negatively impacted the supply of credit in the market. We have capacity to add to our credit holdings within the fund and current market conditions may provide us with opportunities to add to our credit holdings at attractive prices.

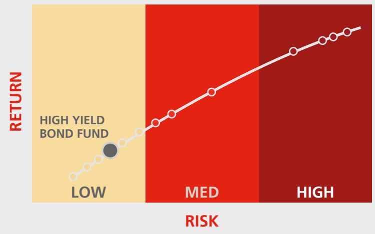
STRATEGY AND POSITIONING

The impact of the Coronavirus pandemic reverberated through global financial markets over the quarter. The local bond market was not spared, with local bond yields increasing 200bps over the quarter. The spike in bond yields afforded us the opportunity to add to our long-duration position in the fund. Prior to the sell-off we believed that bonds were attractively priced; post the sell-off we believe that prospective returns are orders of magnitude higher. While this return profile is likely to be accompanied with significant volatility, we believe investors will be well rewarded over the medium to long term. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	-4.3%	-3.0%	-4.2%
3 years	4.3%	5.3%	4.6%
5 years	4.4%	5.2%	4.6%
7 years	4.8%	5.5%	5.1%
10 years	7.0%	7.4%	7.3%
Since inception	9.3%	9.6%	8.3%

Inception date B Class: 1 April 2003

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:
R303 516 837

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL ENHANCED INCOME FUND
31 MARCH 2020

QUARTERLY COMMENTARY

MULTI-ASSET

MARKET OVERVIEW

The first quarter of 2020 was completely dominated by the rapid spread of the Coronavirus around the globe. Its negative impact made itself felt in every corner of the globe, taking a heavy toll on human lives and economic activity as global lock-downs were implemented. All types of assets, including many traditional safe-havens like government bonds, were hit by wholesale selling, which was exacerbated by forced liquidation of many leveraged investors needing urgent liquidity. Uncertainty pervaded investor sentiment as the extent and severity of the virus and its impact on economic growth remained unknown. The IMF warned of a coming global recession worse than that of the 2008 Global Financial Crisis (GFC), while ratings agency Fitch projected a 1.9% contraction in global growth for 2020.

In US$ terms, global equities (the MSCI All Country World Index, ACWI) returned -21.4% for the quarter, while developed markets delivered -21.1% and emerging markets produced -23.6%. For SA investors, the rand's 27.4% depreciation against the dollar (and by similar amounts against other major currencies) helped to cushion global investments in rand terms – for example, the MSCI ACWI returned 0.2% in rands. Global bonds delivered -0.3% for the quarter in US$ (but 27.0% in rands) and global property returned -30.4%. This was despite widespread emergency monetary easing and market support from the major central banks.

In the US, to counteract the effect of spreading lock-downs across the country, the US Federal Reserve undertook an emergency 100bp interest rate cut and US$700bn in bond buybacks, while the government announced record fiscal stimulus measures to counter the anticipated surge in unemployment and stress on corporate and individual earnings. Markets did not react positively to the Fed's move, with volatility remaining high. Analysts are expecting US GDP growth to contract by around 3.3% for the year, although estimates vary widely.

In the UK and Europe, central banks and governments followed the US's lead, although with interest rates already at record low levels, they were unable to cut interest rates as much. The BoE lowered its base interest rate from 0.75% to 0.25%, and then again to a record-low 0.1% a week later. The ECB established a new 750bn-euro emergency facility to stabilise Eurozone bonds. While both areas announced aggressive fiscal measures, these weaker monetary measures combined with already-lacklustre growth led to fears of worse recessions than the US, with forecasts of -3.9% GDP growth for the UK and -4.2% GDP growth for the EU (by Fitch).

In Japan, the economy was already weak with a much worse-than-expected contraction in GDP growth of -7.1% q/q annualised in Q4 2019, due largely to the impact of the new local consumption tax. With interest rates already at -0.10%, the Bank of Japan left rates on hold but announced a doubling in its purchases of bonds and riskier exchange-traded funds to shore up the economy and markets. However, investors were underwhelmed by the move. Late in March Prime Minister Shinzo Abe unveiled an unprecedented Y60 trillion (US$556 billion) stimulus package to help households and small businesses. In turn, the Chinese government announced a US$7bn support package for the economy, and the PBoC cut its base interest rate by 20bps. In Wuhan province, the epicentre of the outbreak, and other areas of China, some businesses started to reopen as the worst of the pandemic passed, hopefully pointing to the future of other areas of the globe as well. Analysts estimated Chinese economic growth for 2020 would more than halve to around 2.5% from 5.6% previously.

South African assets and the rand were hit harder by the global sell-off than most emerging markets. This was due to the already-fragile state of the economy, given that it had entered into a recession in Q4 2019 with GDP shrinking by 1.4% q/q annualised. Plus, the more liquid nature of the local financial markets made it an easy option for wholesale selling of emerging market risk by global investors amid the flight to safety.

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The local equity market experienced its worst quarter since September 1998, and March saw its weakest monthly performance since the start of the GFC in 2008. Companies with global earnings did fare better than local "SA Inc" shares.

Finally, the rand depreciated sharply against all three major currencies amid the coronavirus sell-off, falling 27.4% against the US dollar, 19.5% against the pound sterling and 24.7% versus the euro.

PERFORMANCE

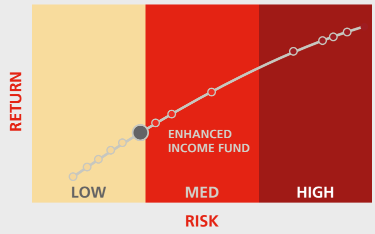
The fund returned -2.3% (after fees) for the first quarter of 2020, while the benchmark has delivered 1.7%. For the 12 months ending 31 March 2020, the fund returned 2.9% (after fees), compared to its benchmark which returned 7.2% over the same period.

Investments in fixed-rate bonds, inflation-linked bonds and SA listed property detracted from performance for the quarter, while exposure to international assets contributed positively to overall fund returns.

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	X CLASS	D CLASS
1 year	2.9%	7.2%	3.2%	3.0%	3.3%
3 years	5.2%	7.3%	5.7%	5.4%	5.8%
5 years	5.9%	7.2%	6.3%	6.1%	6.4%
7 years	6.2%	6.8%	n/a	6.4%	6.8%
10 years	7.4%	7.2%	n/a	n/a	n/a
Since inception	7.6%	7.3%	6.3%	7.3%	7.6%

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

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 853 087 860

Sources: Prudential, Morningstar & Deutsche Securities

STRATEGY AND POSITIONING

Following the rand's sharp depreciation over the quarter, we consider the rand to be on the cheap side of fair value and have hedged the fund's offshore exposure into rand using a combination of options and futures.

We sold our US dollar-denominated South African government bonds in favour of US **investment-grade corporate bonds**. We are cautiously looking to acquire extremely attractive assets in global bonds that offer some of the highest returns that we have seen in our investment careers. We have no direct high-yield bond exposure in the global corporate bond space, and are analysing this sector intently to gauge the opportunities.

We already had exposure to **SA nominal bonds** in our portfolio at the beginning of the year, when longer-dated maturities of 15-20 years were offering very attractive real yields of 4.5-5.0%. This was well above our long-run fair value assumption of 2.5%, and we were happy to own bonds at these levels. Now these bonds are priced to give investors a real yield of nearly 8.0% on a medium-term view, an extraordinary prospective return. A weak economy means inflation is also not likely to be a significant risk factor for some time to come. Consequently, we have been adding modestly to our active nominal bond positions in this portfolio, particularly longer-dated tenors.

We owned a modest amount of **inflation-linked bonds** (ILBs) prior to the market downturn, and ILBs are now offering a very attractive future real return for investors of over 6.0%, which is guaranteed if they are held to maturity. Despite this, we are not accumulating ILBs – this is because we believe better value exists in SA longer-term nominal bonds, given their current extraordinary pricing which has the potential to offer more attractive returns over the medium-term, and because they are much more liquid.

As **SA listed property stocks** have sold off more than other asset classes during the quarter, the property weighting in the portfolio has fallen relative to other asset classes. This reflects significant macroeconomic uncertainty exacerbated by the pandemic. We are comfortable with this reduction, as the risks around property company earnings have worsened given the deterioration in the economic outlook. Some of the companies that we own are now priced at extreme levels of cheapness, with quality listed property companies offering forward dividend yields in excess of 20% and prices at less than 50% of their book value. ■

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL INFLATION PLUS FUND
31 MARCH 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

MARKET OVERVIEW

The first quarter of 2020 was completely dominated by the rapid spread of the Coronavirus around the globe. Its negative impact made itself felt in every corner of the globe, taking a heavy toll on human lives and economic activity as global lockdowns were implemented. All types of assets, including many traditional safe-havens like government bonds, were hit by wholesale selling, which was exacerbated by forced liquidation of many leveraged investors needing urgent liquidity. Uncertainty pervaded investor sentiment as the extent and severity of the virus and its impact on economic growth remained unknown. The IMF warned of a coming global recession worse than that of the 2008 Global Financial Crisis (GFC), while ratings agency Fitch projected a 1.9% contraction in global growth for 2020. South Africa fared worse than most countries due to its already-precarious government finances and recessionary economic environment, which were exacerbated by Moody's downgrade of its sovereign credit rating to below investment-grade status in late March.

In US$ terms, global equities (the MSCI All Country World Index, ACWI) returned -21.4% for the quarter, while developed markets delivered -21.1% and emerging markets produced -23.6%. For SA investors, the rand's 27.4% depreciation against the dollar (and by similar amounts against other major currencies) helped to cushion global investments in rand terms – for example, the MSCI ACWI returned 0.2% in rands. Global bonds delivered -0.3% for the quarter in US$ (but 27.0% in rands) and global property returned -30.4%. This was despite widespread emergency monetary easing and market support from the major central banks.

In the US, to counteract the effect of spreading lockdowns across the country, the US Federal Reserve undertook an emergency 100bp interest rate cut and US$700bn in bond buybacks, while the government announced record fiscal stimulus measures to counter the anticipated surge in unemployment and stress on corporate and individual earnings. Markets did not react positively to the Fed's move, with volatility remaining high. Analysts are expecting US GDP growth to contract by around 3.3% for the year, although estimates vary widely. In the equity market, the S&P 500 lost 19.6% in US$ for the quarter.

In the UK and Europe, central banks and governments followed the US's lead, although with interest rates already at record low levels, they were unable to cut interest rates as much. The BoE lowered its base interest rate from 0.75% to 0.25%, and then again to a record-low 0.1% a week later. The ECB established a new 750bn-euro emergency facility to stabilise Eurozone bonds. While both areas announced aggressive fiscal measures, these weaker monetary measures combined with already-lacklustre growth led to fears of worse recessions than the US, with forecasts of -3.9% GDP growth for the UK and -4.2% GDP growth for the EU (by Fitch). In the equity markets, the FTSE 100 returned -28.7% in US$ for the quarter, while Germany's DAX produced -26.6% and the French CAC 40 delivered -27.8% in US$.

In Japan, the economy was already weak with a much worse-than-expected contraction in GDP growth of -7.1% q/q annualised in Q4 2019, due largely to the impact of the new local consumption tax. With interest rates already at -0.10%, the Bank of Japan left rates on hold but announced a doubling in its purchases of bonds and riskier exchange-traded funds to shore up the economy and markets. However, investors were underwhelmed by the move. Late in March Prime Minister Shinzo Abe unveiled an unprecedented Y60 trillion (US$556 billion) stimulus package to help households and small businesses. The Nikkei 225 returned -18.7% for the quarter.

In turn, the Chinese government announced a US$7bn support package for the economy, and the PBoC cut its base interest rate by 20bps. In Wuhan province, the epicentre of the outbreak, and other areas of China, some businesses started to reopen as the worst of the pandemic passed, hopefully pointing to the future of other areas of the globe as well. Analysts estimated Chinese economic growth for 2020 would more than halve to around 2.5% from 5.6% previously. Hong Kong's Hang Seng Index returned -15.5% for the three months and the MSCI China returned -10.2% in US$.

Among other emerging equity markets, in US$ terms Brazil's Bovespa proved to be the hardest hit with a -51.0% return for the quarter, while the MSCI South Africa returned -40.3%. The MSCI Russia delivered -36.3% and the MSCI Turkey -30%, also in US$.

The price of Brent crude oil was hammered by both expectations of slowing demand and the start of a price war between OPEC and Russia, in which Russia refused to agree with OPEC's demands to lower its production targets to prevent oversupply. The oil price plummeted by 65.6% during the quarter, starting at approximately US$67 per barrel and then hitting a low of under US$25 per barrel before rebounding to end March at around US$34 per barrel.

As for other commodities, only gold and palladium were immune from the Coronavirus sell-off. Gold gained a mere 6.0% for the quarter, despite its safe-haven status, while palladium was up 19.2%. Platinum fell 25.3%. Industrial metals prices, meanwhile, all lost between 17% and 22% as investors factored in a slowdown in global demand until economies recover from the impact of the shutdowns around the world.

South Africa hit by global and local fears

South African assets and the rand were hit harder by the global sell-off than most emerging markets. This was due to the already-fragile state of the economy, given that it had entered into a recession in Q4 2019 with GDP shrinking by 1.4% q/q annualised. Plus, the more liquid nature of the local financial markets made it an easy option for wholesale selling of emerging market risk by global investors amid the flight to safety.

On top of this, government bond and rand sales were exacerbated by Moody's downgrade of the sovereign credit rating to non-investment grade status on 27 March (a move that was widely expected), as well as by the SA government's announcement of some fiscal tax and spending measures to help individuals and small businesses weather the local shutdown, which are expected to push the government budget deficit further into the red. This extra spending rendered February's National Budget plans to reduce the deficit essentially redundant. The extent of the bond sales attributable to the downgrade was unclear, making it difficult to gauge the amount of selling that will come later once South Africa exits the World Government Bond Index of investment-grade bonds. The latter was postponed until after shutdowns are lifted.

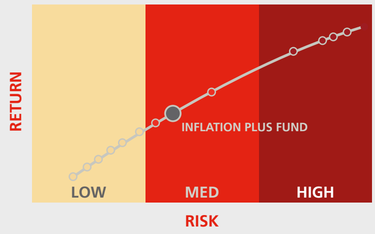
Meanwhile, at its 19 March MPC meeting the SA Reserve Bank revised its GDP growth forecast for SA to -0.2% in 2020 from 1.4% previously, which many believed to be optimistic under the current conditions. It also announced a much larger-than-expected 100-basis point reduction in the repo rate to 5.25% in a bid to offer some economic relief. Additionally, it undertook a bond repurchase programme to support the government bond market for the first time. This helped to pare losses in SA bonds: nominal yields on the 20-year government bond had shot up from around 10% to above 14% briefly, before settling at around 12.3% after the SARB intervention. The BEASSA All Bond Index delivered -8.7% in Q1 2020, while SA inflation-linked bonds returned -6.6%. Cash (as measured by the STeFI Composite) produced 1.7% for the three-month period.

The local equity market experienced its worst quarter since September 1998, and March saw its weakest monthly performance since the start of the GFC in 2008. Companies with global earnings did fare better than local "SA Inc" shares. The FTSE/JSE All Share Index returned -21.4% for Q1 2020, led by Listed Property (SAPY Index) with a -48.2% return. Financials were the second-worst performers with -39.5%, followed by Resources with -25.3% and Industrials at -8.4%.

ANNUALISED PERFORMANCE	A CLASS	OBJECTIVE#	T CLASS	X CLASS	B CLASS
1 year	-13.7%	8.2%	-13.4%	-13.6%	-13.2%
3 years	-2.5%	7.7%	-2.0%	-2.2%	-1.8%
5 years	0.4%	8.6%	0.9%	0.6%	1.1%
7 years	3.9%	8.5%	n/a	4.2%	4.7%
10 years	7.0%	8.6%	n/a	n/a	7.8%
Since inception	10.3%	9.4%	1.1%	6.9%	10.5%

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

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:
R22 305 861 906

AWARDS:
Raging Bull: 2013
Morningstar: 2015

Sources: Prudential, Morningstar & Deutsche Securities

Finally, the rand depreciated sharply against all three major currencies amid the coronavirus sell-off, falling 27.4% against the US dollar, 19.5% against the pound sterling and 24.7% versus the euro.

PERFORMANCE

The fund returned -15.3% (after fees) for the first quarter of 2020 and -13.7% for the 12-month period ending 31 March 2020. The fund has delivered a return of 10.3% per annum since its inception in 1999 (after fees), compared to its objective of 9.4% per annum over the same period.

The largest asset-class contributors to absolute performance for the period were the fund's exposure to international fixed income and SA cash. The primary detractors were the fund's holdings SA listed property, SA equity and SA ILBs.

In terms of specific equity exposure, the fund's holdings in Prosus, Naspers and Reinet were the strongest equity contributors to absolute returns for the quarter, with smaller contributions from Textainer and British American Tobacco. Detracting from absolute returns were holdings in Sasol, Tsogo Sun and Nedbank.

STRATEGY AND POSITIONING

The fund has been overweight **global equities** for some time now and its performance has benefited from this positioning during the quarter. We were underweight the more expensive US market in favour of selected European and emerging market equities. Although global equities were already more expensive than SA equities prior to the downturn, they have fallen less than the local market as a result of this quarter's risk-off sentiment, and this has opened up a larger valuation differential between domestic and offshore equities. We have taken advantage of this by reducing some of our global equity positions to buy more cheaply valued but high-quality SA equities and SA nominal bonds (in the process buying cheap rands with expensive foreign currency). However, the fund remains overweight global equities.

We have been very underweight **developed-market government bonds** given the negative real yields prevailing, and their unattractiveness relative to global equities. Thanks to the flight to safety and aggressive monetary easing by central banks during the quarter, these yields have moved even more negative. For example, 10-year German bunds are yielding -0.5%, 10-year UK gilts 0.3% and 10-year US Treasuries 0.7%, and real returns are even lower after inflation.

We continue to avoid these assets and instead hold US and European **investment-grade corporate bonds and selected emerging-market government bonds** which offer very attractive real yields. For instance, 10-year Mexican government bonds are yielding 7.2%, 10-year Indonesian bonds 7.9% and 10-year Brazilian bonds 7.8% (all in US$). These assets have suffered as investors have sought sanctuary elsewhere, but in some cases they are priced in line with the worst of the GFC conditions. We are cautiously looking to acquire extremely attractive assets in both global equities and global bonds that are offering some of the highest returns that we have seen in our investment careers.

We aim to position the fund with higher weightings of very high-returning assets while maintaining a mix of assets that have diversified return profiles. We have no direct high-yield bond exposure in the global corporate bond space, and are analysing this sector intently to gauge the emerging opportunities, as it has a very different return profile to equity. We will fund these purchases from Japanese yen exposure and from various US and European investment-grade bond holdings.

We have been marginally underweight **SA equities** in the Inflation Plus Fund since 2018, preferring to hold global equities, which have offered better value and prospective returns.

The SA equity market was already trading at a very attractive price-book value ratio of 1.5X in February, and subsequently fell to around 1.0X by the end of March, some 20% cheaper than it was during the GFC. Even though the recent sharp fall in share prices has hurt the fund, when we bought these companies they were already well priced and offered attractive return prospects. They are now priced some 30% cheaper. We think this provides a once-in- a-generation opportunity to acquire selected, good quality domestic stocks that we are now taking advantage of.

We have been using part of the proceeds from our offshore equity sales to buy up exposure to certain SA stocks at excellent valuations as share prices have fallen. We are being careful to choose high-quality businesses that, in our assessment, can survive reduced earnings and cash flows for an extended period of time. We are confident that these positions should add above-market returns to the Inflation Plus Fund over the next five years.

The fund continues to hold resources stocks with exposure to global growth and foreign currency earnings like **Anglo America** and **Exxaro**, as well as global giants such as **Naspers** and **British American Tobacco** (BAT). Naspers (and Prosus) derive the majority of their value from Tencent – the Chinese internet and media giant. E-commerce businesses may prove more resilient in the initial phases of the Coronavirus crisis, as users continue to use if not increase the services they offer. Tencent has one of the most valuable platforms in China, and while some of its revenue streams may suffer (such as advertising), we think the overall business will hold up better than the average South African company.

BAT is another large equity position in the fund. Tobacco tends to be more defensive in downturns – and has so far proven to be so in the current sell-off. BAT was inexpensive going into the crisis and currently trades on a forward P/E of 8X, which we feel is attractive relative to other defensive stocks.

The likes of **Shoprite**, **Spar** and **Pick 'n Pay** have held up remarkably well relative to the rest of the market. This is not surprising given the defensive nature of the sector in general and the hoarding of food stuffs. We currently hold Pick 'n Pay (in an overweight position) and Spar (in an underweight position); however we are assessing whether the market is now not overpaying for near-term certainty over longer-term value. This is relevant as we see once-in-a-lifetime opportunities emerging in other companies that would be regarded as high-quality businesses (in the absence of the Coronavirus panic). Examples here would include Sanlam, Remgro and Bidcorp.

The higher-risk holdings in the Balanced Fund include **Sasol** as well as some of the gaming stocks we hold, where closure of casinos and limited payout slot machines brings a temporary but painful full stop to their businesses. These stocks were very attractively priced going into the Coronavirus episode, but current headwinds, the oil price war and the weak SA economy, respectively, may all create increasing requirements for equity rights issues to pay down debt (Sasol has already flagged its intention to do so). At this stage we are not selling our Sasol exposure, which is now quite small in our portfolios, since we think there is a large potential upside.

As **SA listed property stocks** have sold off more than other asset classes during the quarter, the property weighting in the fund has fallen relative to other asset classes. The fund is now even further underweight, reflecting significant macroeconomic uncertainty exacerbated by the pandemic. We are comfortable with this reduction, as the risks around property company earnings have worsened given the deterioration in the economic outlook. Some of the companies that we own are now priced at extreme levels of cheapness, with quality listed property companies offering forward dividend yields in excess of 20% and prices at less than 50% of their book value.

Stock selection is critical in this sector, as is careful portfolio construction and risk control. The fund is holding very selective property stocks with strong balance sheets like Growthpoint and NEPI Rockcastle.

We were already modestly overweight **SA nominal bonds** in our portfolios at the beginning of the year, when longer-dated maturities of 15-20 years were offering very attractive real yields of 4.5-5.0%. This was well above our long-run fair value assumption of 2.5%, and we were happy to own bonds at these levels. Now these bonds are giving investors a real yield of nearly 8.0% on a medium-term view, an extraordinary prospective return. A weak economy means that inflation is also not likely to be a significant factor for some time to come. Consequently, we have been adding modestly to our active nominal bond positions in the fund, particularly longer-dated tenors, out of the proceeds from our offshore equity holdings.

We were neutral in **inflation-linked bonds** prior to the market downturn, and ILBs are now offering a very attractive future real return for investors of over 6.0%, which is guaranteed if they are held to maturity. Despite this, we are comfortable with this neutral positioning because we believe better value exists in SA equity and SA longer-term nominal bonds, given their current extraordinary pricing: both have the potential to offer more attractive returns over the medium-term and are much more liquid. ■

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL BALANCED FUND
31 MARCH 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

MARKET OVERVIEW

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In the US, to counteract the effect of spreading lockdowns across the country, the US Federal Reserve undertook an emergency 100bp interest rate cut and US$700bn in bond buybacks, while the government announced record fiscal stimulus measures to counter the anticipated surge in unemployment and stress on corporate and individual earnings. Markets did not react positively to the Fed's move, with volatility remaining high. Analysts are expecting US GDP growth to contract by around 3.3% for the year, although estimates vary widely. In the equity market, the S&P 500 lost 19.6% in US$ for the quarter.

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The price of Brent crude oil was hammered by both expectations of slowing demand and the start of a price war between OPEC and Russia, in which Russia refused to agree with OPEC's demands to lower its production targets to prevent oversupply. The oil price plummeted by 65.6% during the quarter, starting at approximately US$67 per barrel and then hitting a low of under US$25 per barrel before rebounding to end March at around US$34 per barrel.

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South Africa hit by global and local fears

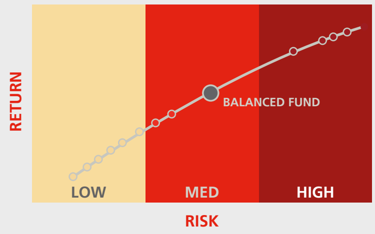
South African assets and the rand were hit harder by the global sell-off than most emerging markets. This was due to the already-fragile state of the economy, given that it had entered into a recession in Q4 2019 with GDP shrinking by 1.4% q/q annualised. Plus, the more liquid nature of the local financial markets made it an easy option for wholesale selling of emerging market risk by global investors amid the flight to safety.

On top of this, government bond and rand sales were exacerbated by Moody's downgrade of the sovereign credit rating to non-investment grade status on 27 March (a move that was widely expected), as well as by the SA government's announcement of some fiscal tax and spending measures to help individuals and small businesses weather the local shutdown, which are expected to push the government budget deficit further into the red. This extra spending rendered February's National Budget plans to reduce the deficit essentially redundant. The extent of the bond sales attributable to the downgrade was unclear, making it difficult to gauge the amount of selling that will come later once South Africa exits the World Government Bond Index of investment-grade bonds. The latter was postponed until after shutdowns are lifted.

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	X CLASS	B CLASS
1 year	-16.7%	-10.4%	-16.4%	-16.6%	-16.2%
3 years	-2.1%	-0.7%	-1.7%	-1.9%	-1.4%
5 years	0.5%	0.9%	1.0%	0.8%	1.3%
7 years	5.1%	4.4%	n/a	5.4%	5.9%
10 years	7.6%	6.5%	n/a	n/a	8.5%
Since inception	11.9%	10.5%	1.2%	5.4%	12.3%

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

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:
R17 717 428 695

Sources: Prudential, Morningstar & Deutsche Securities

Meanwhile, at its 19 March MPC meeting the SA Reserve Bank revised its GDP growth forecast for SA to -0.2% in 2020 from 1.4% previously, which many believed to be optimistic under the current conditions. It also announced a much larger-than-expected 100-basis point reduction in the repo rate to 5.25% in a bid to offer some economic relief. Additionally, it undertook a bond repurchase programme to support the government bond market for the first time. This helped to pare losses in SA bonds: nominal yields on the 20-year government bond had shot up from around 10% to above 14% briefly, before settling at around 12.3% after the SARB intervention. The BEASSA All Bond Index delivered -8.7% in Q1 2020, while SA inflation-linked bonds returned -6.6%. Cash (as measured by the STeFI Composite) produced 1.7% for the three-month period.

The local equity market experienced its worst quarter since September 1998, and March saw its weakest monthly performance since the start of the GFC in 2008. Companies with global earnings did fare better than local "SA Inc" shares. The FTSE/JSE All Share Index returned -21.4% for Q1 2020, led by Listed Property (SAPY Index) with a -48.2% return. Financials were the second-worst performers with -39.5%, followed by Resources with -25.3% and Industrials at -8.4%.

Finally, the rand depreciated sharply against all three major currencies amid the coronavirus sell-off, falling 27.4% against the US dollar, 19.5% against the pound sterling and 24.7% versus the euro.

PERFORMANCE

The fund returned -18.4% (after fees) for the first quarter of 2020 and -16.7% for the 12-month period ending 31 March 2020. The fund has delivered a return of 11.9% per annum since its inception in 1999 (after fees), compared to its benchmark of 10.5% per annum over the same period.

The largest asset-class contributors to absolute performance for the quarter were the fund's exposure to international fixed income, international cash and SA cash. The main detractors from absolute performance over the period came from exposure to SA equity, SA listed property and SA nominal bonds.

In terms of specific equity exposure, the fund's holdings in Prosus, Naspers and Reinet were the strongest equity contributors to absolute returns for the quarter, with smaller contributions from Textainer and British American Tobacco. Detracting from absolute returns were holdings in Sasol, Tsogo Sun and Nedbank.

STRATEGY AND POSITIONING

The fund has been overweight **global equities** for some time now and its performance has benefited from this positioning during the quarter. We were underweight the more expensive US market in favour of selected European and emerging market equities. Although global equities were already more expensive than SA equities prior to the downturn, they have fallen less than the local market as a result of this quarter's risk-off sentiment, and this has opened up a larger valuation differential between domestic and offshore equities. We have taken advantage of this by reducing some of our global equity positions to buy more cheaply valued but high-quality SA equities and SA nominal bonds (in the process buying cheap rands with expensive foreign currency). However, the fund remains overweight global equities.

We have been very underweight **developed-market government bonds** given the negative real yields prevailing, and their unattractiveness relative to global equities. Thanks to the flight to safety and aggressive monetary easing by central banks during the quarter, these yields have moved even more negative. For example, 10-year German bunds are yielding -0.5%, 10-year UK gilts 0.3% and 10-year US Treasuries 0.7%, and real returns are even lower after inflation.

We continue to avoid these assets and instead hold US and European **investment-grade corporate bonds and selected emerging-market government bonds** which offer very attractive real yields. For instance, 10-year Mexican government bonds are yielding 7.2%, 10-year Indonesian bonds 7.9% and 10-year Brazilian bonds 7.8% (all in US$). These assets have suffered as investors have sought sanctuary elsewhere, but in some cases they are priced in line with the worst of the GFC conditions. We are cautiously looking to acquire extremely attractive assets in both global equities and global bonds that are offering some of the highest returns that we have seen in our investment careers.

We aim to position the fund with higher weightings of very high-returning assets while maintaining a mix of assets that have diversified return profiles. We have no direct high-yield bond exposure in the global corporate bond space, and are analysing this sector intently to gauge the emerging opportunities, as it has a very different return profile to equity. We will fund these purchases from Japanese yen exposure and from various US and European investment-grade bond holdings.

The **SA equity market** was already trading at a very attractive price-book value ratio of 1.5X in February, and subsequently fell to around 1.0X by the end of March, some 20% cheaper than it was during the GFC. Even though the recent sharp fall in share prices has hurt the fund, when we bought these companies they were already well priced and offered attractive return prospects. They are now priced some 30% cheaper. We think this provides a once-in- a-generation opportunity to acquire selected, good quality domestic stocks that we are now taking advantage of.

The fund continues to hold resources stocks with exposure to global growth and foreign currency earnings like **Anglo America** and **Exxaro**, as well as global giants such as **Naspers** and **British American Tobacco** (BAT). Naspers (and Prosus) derive the majority of their value from Tencent – the Chinese internet and media giant. E-commerce businesses may prove more resilient in the initial phases of the Coronavirus crisis, as users continue to use if not increase the services they offer. Tencent has one of the most valuable platforms in China, and while some of its revenue streams may suffer (such as advertising), we think the overall business will hold up better than the average South African company.

BAT is another large equity position in the fund. Tobacco tends to be more defensive in downturns – and has so far proven to be so in the current sell-off. BAT was inexpensive going into the crisis and currently trades on a forward P/E of 8X, which we feel is attractive relative to other defensive stocks.

The likes of **Shoprite**, **Spar** and **Pick 'n Pay** have held up remarkably well relative to the rest of the market. This is not surprising given the defensive nature of the sector in general and the hoarding of food stuffs. We currently hold Pick 'n Pay (in an overweight position) and Spar (in an underweight position); however we are assessing whether the market is now not overpaying for near-term certainty over longer-term value. This is relevant as we see once-in-a-lifetime opportunities emerging in other companies that would be regarded as high-quality businesses (in the absence of the Coronavirus panic). Examples here would include Sanlam, Remgro and Bidcorp.

The higher-risk holdings in the Balanced Fund include **Sasol** as well as some of the gaming stocks we hold, where closure of casinos and limited payout slot machines brings a temporary but painful full stop to their businesses. These stocks were very attractively priced going into the Coronavirus episode, but current headwinds, the oil price war and the weak SA economy, respectively, may all create increasing requirements for equity rights issues to pay down debt (Sasol has already flagged its intention to do so). At this stage we are not selling our Sasol exposure, which is now quite small in our portfolios, since we think there is a large potential upside.

We have been using part of the proceeds from our offshore equity sales to buy up exposure to certain SA stocks at excellent valuations as share prices have fallen to levels even lower than those seen during 2008. We are being careful to choose high-quality businesses that, in our assessment, can survive reduced earnings and cash flows for an extended period of time. We are confident that these positions should add above-market returns to the Balanced Fund over the next five years.

As **SA listed property stocks** have sold off more than other asset classes during the quarter, the property weighting in the fund has fallen relative to other asset classes. The fund is now even further underweight, reflecting significant macroeconomic uncertainty exacerbated by the pandemic. We are comfortable with this reduction,

Sources: Prudential, Morningstar & Deutsche Securities

as the risks around property company earnings have worsened given the deterioration in the economic outlook. Some of the companies that we own are now priced at extreme levels of cheapness, with quality listed property companies offering forward dividend yields in excess of 20% and prices at less than 50% of their book value.

Stock selection is critical in this sector, as is careful portfolio construction and risk control. The fund is holding very selective property stocks with strong balance sWheets like Growthpoint and NEPI Rockcastle.

We were already modestly overweight **SA nominal bonds** in our portfolios at the beginning of the year, when longer-dated maturities of 15-20 years were offering very attractive real yields of 4.5-5.0%. This was well above our long-run fair value assumption of 2.5%, and we were happy to own bonds at these levels. Now these bonds are giving investors a real yield of nearly 8.0% on a medium-term view, an extraordinary prospective return. A weak economy means inflation is also not likely to be a significant risk factor for some time to come. Consequently, we have been adding modestly to our active nominal bond positions in the fund, particularly longer-dated tenors, out of the proceeds from our offshore equity holdings.

For **inflation-linked bonds**, real yields are offering a very attractive future return for investors of over 6.0% for long-dated tenors. However, the fund has very little exposure to this asset class as we believe better value exists in SA equity and nominal bonds, where the March sell-off has left them with extraordinarily attractive potential returns over the medium-term, and they are much more liquid. ■

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL ENHANCED SA PROPERTY TRACKER FUND
31 MARCH 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

PROPERTY

MARKET OVERVIEW

The first quarter of 2020 was completely dominated by the rapid spread of the Coronavirus around the globe. Its negative impact made itself felt in every corner of the globe, taking a heavy toll on human lives and economic activity as global lockdowns were implemented. All types of assets, including many traditional safe-havens like government bonds, were hit by wholesale selling, which was exacerbated by forced liquidation of many leveraged investors needing urgent liquidity. Uncertainty pervaded investor sentiment as the extent and severity of the virus and its impact on economic growth remained unknown. The IMF warned of a coming global recession worse than that of the 2008 Global Financial Crisis (GFC), while ratings agency Fitch projected a 1.9% contraction in global growth for 2020.

South African assets and the rand were hit harder by the global sell-off than most emerging markets. This was due to the already-fragile state of the economy, given that it had entered into a recession in Q4 2019 with GDP shrinking by 1.4% q/q annualised. Plus, the more liquid nature of the local financial markets made it an easy option for wholesale selling of emerging market risk by global investors amid the flight to safety.

On top of this, government bond and rand sales were exacerbated by Moody's downgrade of the sovereign credit rating to non-investment grade status on 27 March (a move that was widely expected), as well as by the SA government's announcement of some fiscal tax and spending measures to help individuals and small businesses weather the local shutdown, which are expected to push the government budget deficit further into the red. This extra spending rendered February's National Budget plans to reduce the deficit essentially redundant. The extent of the bond sales attributable to the downgrade was unclear, making it difficult to gauge the amount of selling that will come later once South Africa exits the World Government Bond Index of investment-grade bonds. The latter was postponed until after shutdowns are lifted.

Meanwhile, at its 19 March MPC meeting the SA Reserve Bank revised its GDP growth forecast for SA to -0.2% in 2020 from 1.4% previously, which many believed to be optimistic under the current conditions. It also announced a much larger-than-expected 100-basis point reduction in the repo rate to 5.25% in a bid to offer some economic relief. Additionally, it undertook a bond repurchase programme to support the government bond market for the first time. This helped to pare losses in SA bonds: nominal yields on the 20-year government bond had shot up from around 10% to above 14% briefly, before settling at around 12.3% after the SARB intervention. The BEASSA All Bond Index delivered -8.7% in Q1 2020, while SA inflation-linked bonds returned -6.6%. Cash (as measured by the STeFI Composite) produced 1.7% for the three-month period.

The local equity market experienced its worst quarter since September 1998, and March saw its weakest monthly performance since the start of the GFC in 2008. Companies with global earnings did fare better than local "SA Inc" shares. The FTSE/JSE All Share Index returned -21.4% for Q1 2020, led by Listed Property (SAPY Index) with a -48.2% return. Financials were the second-worst performers with -39.5%, followed by Resources with -25.3% and Industrials at -8.4%.

Finally, the rand depreciated sharply against all three major currencies amid the coronavirus sell-off, falling 27.4% against the US dollar, 19.5% against the pound sterling and 24.7% versus the euro.

PERFORMANCE

For the first quarter of 2020 the fund returned -47.9% (net of fees), while its benchmark (the FTSE/JSE Listed Property Index) returned -48.2%. For the 12 months ending 31 March 2020, the fund returned -48.2% (net of fees), underperforming its benchmark by 0.3% over the same period

Contributors to relative performance include overweight positions in Nepi Rockcastle, Equites Property Fund and Capital and Counties. Detractors from performance include underweight positions in Sirius Real Estate, Stenprop and Liberty Two Degrees.

The fund continues to be overweight lower-leveraged companies and those with secular growth trajectories, including logistics and self-storage.

STRATEGY AND POSITIONING

The current disruption to markets is perhaps distinguished from other crises in that it is both a financial crisis as well as a widespread crisis in the real economy. The effects of the lockdowns globally have halted the normal operations of the global economy. We are unsure as to the optimal length of time required in order for a lockdown to effectively curtail the spread of the Coronavirus, or whether the current 'hard' lockdown is converted to a 'soft' one in the coming months. Therefore, the question of 'when' the lockdown ends is perhaps less important a question than the lockdown's potential effect on the intrinsic value of the companies under coverage. Some businesses will emerge weaker than before and others come out perhaps in no worse a position. Unfortunately, the likely cost to jobs and livelihoods will be high.

Valuations in the property sector are exceptionally attractive in our view. Though balance sheets need repair and net rentals for the sector as a whole may well be flat for a number of years, the total returns on offer by virtue of the cash flow generation of the sector are attractive versus the sector's history and alternate asset classes.

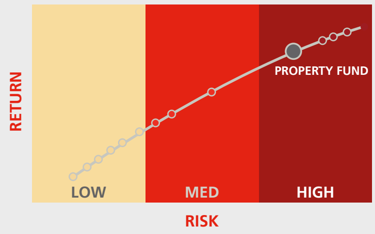
The market has rewarded companies with strong balance sheets and those whose business models do not suffer from social distancing requirements. The major contributors to the decline in the index over the quarter were companies with excessive debt levels and a substantial portion of their assets in retail.

Conversely, there are potentially exceptional opportunities in companies whose operations have been disrupted by the current lockdowns. We are mindful of the risks in these companies and will remain disciplined in limiting portfolio exposure appropriately in context of the fund's enhanced tracker mandate. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	D CLASS
1 year	-48.2%	-47.9%	-48.2%	-48.1%
3 years	-24.0%	-23.0%	-24.0%	-23.9%
5 years	-13.7%	-13.5%	n/a	-13.6%
7 years	-5.2%	-5.1%	n/a	-5.1%
10 years	2.6%	2.8%	n/a	n/a
Since inception	6.5%	6.8%	-13.9%	2.0%

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:
R996 061 290

AWARDS:
Morningstar/Standard & Poor's: 2011

DISCLAIMER

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

Sources: Prudential, Morningstar & Deutsche Securities

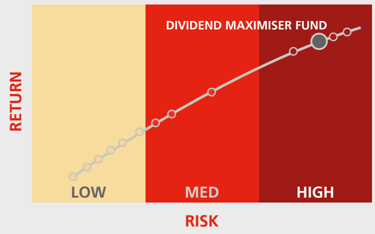
PRUDENTIAL DIVIDEND MAXIMISER FUND
31 MARCH 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

EQUITY

RISK/RETURN PROFILE:



FUND MANAGERS:
Ross Biggs and Kaitlin Byrne

ASISA CATEGORY:
South African - Equity - General

BENCHMARK:
ASISA South African – Equity - General Category Mean

INCEPTION DATE:
2 August 1999

FUND SIZE:
R3 028 470 302

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

MARKET OVERVIEW

The first quarter of 2020 was completely dominated by the rapid spread of the Coronavirus around the globe. Its negative impact made itself felt in every corner of the globe, taking a heavy toll on human lives and economic activity as global lockdowns were implemented. All types of assets, including many traditional safe-havens like government bonds, were hit by wholesale selling, which was exacerbated by forced liquidation of many leveraged investors needing urgent liquidity. Uncertainty pervaded investor sentiment as the extent and severity of the virus and its impact on economic growth remained unknown. The IMF warned of a coming global recession worse than that of the 2008 Global Financial Crisis (GFC), while ratings agency Fitch projected a 1.9% contraction in global growth for 2020. South Africa fared worse than most countries due to its already-precarious government finances and recessionary economic environment, which were exacerbated by Moody's downgrade of its sovereign credit rating to below investment-grade status in late March.

In the US, to counteract the effect of spreading lockdowns across the country, the US Federal Reserve undertook an emergency 100bp interest rate cut and US$700bn in bond buybacks, while the government announced record fiscal stimulus measures to counter the anticipated surge in unemployment and stress on corporate and individual earnings. Markets did not react positively to the Fed's move, with volatility remaining high. Analysts are expecting US GDP growth to contract by around 3.3% for the year, although estimates vary widely.

In the UK and Europe, central banks and governments followed the US's lead, although with interest rates already at record low levels, they were unable to cut interest rates as much. The BoE lowered its base interest rate from 0.75% to 0.25%, and then again to a record-low 0.1% a week later. The ECB established a new 750bn-euro emergency facility to stabilise Eurozone bonds. While both areas announced aggressive fiscal measures, these weaker monetary measures combined with already-lacklustre growth led to fears of worse recessions than the US, with forecasts of -3.9% GDP growth for the UK and -4.2% GDP growth for the EU (by Fitch).

In Japan, the economy was already weak with a much worse-than-expected contraction in GDP growth of -7.1% q/q annualised in Q4 2019, due largely to the impact of the new local consumption tax. With interest rates already at -0.10%, the Bank of Japan left rates on hold but announced a doubling in its purchases of bonds and riskier exchange-traded funds to shore up the economy and markets. However, investors were underwhelmed by the move. Late in March Prime Minister Shinzo Abe unveiled an unprecedented Y60 trillion (US$556 billion) stimulus package to help households and small businesses. In turn, the Chinese government announced a US$7bn support package for the economy, and the PBoC cut its base interest rate by 20bps. In Wuhan province, the epicentre of the outbreak, and other areas of China, some businesses started to reopen as the worst of the pandemic passed, hopefully pointing to the future of other areas of the globe as well. Analysts estimated Chinese economic growth for 2020 would more than halve to around 2.5% from 5.6% previously.

South African assets and the rand were hit harder by the global sell-off than most emerging markets. This was due to the already-fragile state of the economy, given that it had entered into a recession in Q4 2019 with GDP shrinking by 1.4% q/q annualised. Plus, the more liquid nature of the local financial markets made it an easy option for wholesale selling of emerging market risk by global investors amid the flight to safety.

On top of this, government bond and rand sales were exacerbated by Moody's downgrade of the sovereign credit rating to non-investment grade status on 27 March (a move that was widely expected), as well as by the SA government's announcement of some fiscal tax and spending measures to help individuals and small businesses weather the local shutdown, which are expected to push the government budget deficit further into the red. This extra spending rendered February's National Budget plans to reduce the deficit essentially redundant. The extent of the bond sales attributable to the downgrade was unclear, making it difficult to gauge the amount of selling that will come later once South Africa exits the World Government Bond Index of investment-grade bonds. The latter was postponed until after shutdowns are lifted.

Meanwhile, at its 19 March MPC meeting the SA Reserve Bank revised its GDP growth forecast for SA to -0.2% in 2020 from 1.4% previously, which many believed to be optimistic under the current conditions. It also announced a much larger-than-expected 100-basis point reduction in the repo rate to 5.25% in a bid to offer some economic relief. Additionally, it undertook a bond repurchase programme to support the government bond market for the first time.

The local equity market experienced its worst quarter since September 1998, and March saw its weakest monthly performance since the start of the GFC in 2008. Companies with global earnings did fare better than local "SA Inc" shares. The FTSE/JSE All Share Index returned -21.4% for Q1 2020, led by Listed Property (SAPY Index) with a -48.2% return. Financials were the second-worst performers with -39.5%, followed by Resources with -25.3% and Industrials at -8.4%.

Finally, the rand depreciated sharply against all three major currencies amid the coronavirus sell-off, falling 27.4% against the US dollar, 19.5% against the pound sterling and 24.7% versus the euro.

PERFORMANCE

The fund delivered a return of -21.9% (net of fees) for the first quarter of 2020, outperforming its benchmark (the average of the general equity funds) by 1.1%. For the 12 months ending 31 March 2020, the fund returned -20.2% (net of fees), outperforming its benchmark by 1.2%.

Over the quarter the fund's offshore exposure was a significant contributor to outperformance, given the weakness of the rand. Within domestic stocks, overweight positions in British American Tobacco and Naspers contributed positively to relative performance, while overweight positions in Sasol and Tsogo Sun detracted from relative performance.

STRATEGY AND POSITIONING

Naspers has been a substantial holding in the fund and we view it as a high-quality company due to the strong cashflow that its main investment, Tencent, generates. The cashflows of both Tencent and Naspers have, however, been mainly diverted to new investments in technology and internet-based companies. This has resulted in a potentially increased capital allocation risk in both Tencent and Naspers, as it is difficult for investors and management to assess the potential for success in these relatively-higher risk investments. Shareholders of Tencent and Naspers therefore receive lower dividend flows as cashflows are diverted to these newer investments. However, we are enthusiastic about the recent share buybacks that the management of Naspers has announced and we think that this return of capital to shareholders is sensible.

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	B CLASS	F CLASS
1 year	-20.2%	-21.4%	-19.8%	-19.9%	-19.6%
3 years	-3.9%	-5.9%	-3.5%	-3.6%	-3.2%
5 years	-1.4%	-3.3%	-0.9%	-1.0%	n/a
7 years	4.0%	1.8%	n/a	4.4%	n/a
10 years	7.1%	5.2%	n/a	7.5%	n/a
Since inception	14.5%	11.6%	-0.9%	7.9%	-1.6%

Inception date B Class: 2 January 2007, T Class: 2 January 2015, F Class: 1 June 2016

Sources: Prudential, Morningstar & Deutsche Securities

The second largest detractor from relative performance for the quarter was the fund's holdings in Tsogo Sun. Tsogo Sun's main investment is in casinos in South Africa. As a result of the Coronavirus shutdown, casinos have been hit hard, as revenues will decline to zero during the shutdown and many of the costs of running a casino will continue to be incurred. This is likely to result in Tsogo Sun having to take on increased levels of debt over the next year, which will increase the financial gearing of the company. While the company has incurred debt over the last few years due to the expansion of the Sun Coast casino, we think that the company still has adequate debt capacity to withstand a prolonged period of shutdown. The completion of the Suncoast casino and major capex projects should see substantially reduced capital expenditures in the future, which should improve cash flows and enable a steady pay down of the debt balance. We believe that given the large drop in the company's share price, future returns from this company may be significant.

A large contributor to relative performance over the last quarter was the fund's underweight exposure to FirstRand. While we are overweight the banking sector, we view FirstRand as being priced too expensively. Although we think FirstRand is a very high-quality bank with high returns on equity, we believe that there is much better relative value in other banking shares including Standard Bank and ABSA. The fund does, however, hold an indirect stake in FirstRand through its holding in Remgro, which is a substantial shareholder in Rand Merchant Holdings and FirstRand. Remgro trades at a discount in excess of 30% of the value of its underlying assets, and intends to unbundle its shareholding in RMH, which in turn owns FirstRand. This will result in shareholders in Remgro effectively receiving FirstRand shares at a substantial discount.

The Coronavirus shutdown has resulted in significant concern around the potential for bad debts in the banking sector, and this has resulted in large share price falls. The substantial rise in bond yields in South Africa over the last month has also impacted on the valuations of the banks. Banks, property and clothing retailers are typically the most interest-rate sensitive sectors in the South African economy. The fund has been overweight in the banking sector, while underweight the property and clothing retail sectors. Our main preference for the banking sector has been due to the good valuations and the very strong capital positions of the banks. Most certainly, the major South African banks have gone into this crisis with very strong provisioning and capital positions and we think that these buffers place them in a good position to absorb significant potential losses which may arise from the impact of the Coronavirus. It seems sensible to us that all banks should not pay dividends for 2020 in order to ensure an even stronger capital position in advance of the high levels of bad debts that are likely to arise. As we write, the price-to-book valuations of the SA banks are at exceptionally low levels and in our view are pricing in a very negative outcome from the Coronavirus. On balance we think that this may be a very good point to be buying banks.

One of the largest stock contributors to performance for the quarter was the fund's overweight position in Textainer, one of the largest container lessors in the world. It has held conservative levels of debt for a leasing company and steadily grown the scale of the business over many years. A few years ago, as a result of the bankruptcy of one of their shipping clients, Textainer was forced to slow the growth of the business while trying to speedily recover from this setback. The share price fell dramatically as a result, and we used this opportunity to acquire shares in this high-quality business at what we considered to be a very undervalued price. We think that the business is now well placed, even in this difficult environment, to continue to grow shareholder value. The share price represents a very significant discount to the net asset value of the business. We think that the recent share buybacks that the company has been doing will significantly enhance shareholder returns in the future.

We continue to think that offshore equity markets look attractive, certainly relative to bond markets and when compared to South Africa. The fund is approximately 30% invested offshore, mainly through the Prudential Global Equity Fund and the M&G Global Dividend Fund. Both these funds were the top contributors to outperformance for this quarter as the rand weakened by almost 25% and offshore markets substantially outperformed the South African market. The outperformance of the offshore markets relative to South Africa, and the weaker rand, means that South Africa has become relatively more attractive than before.

We acknowledge that while it is very difficult to forecast the future and we do not make any attempt to do this, we do spend a lot of time thinking about the economic cycles that various sectors are in, and where valuations are. In this way, we aim to try make money for our clients through these cycles and continue to try buy companies that have proven dividend and cashflow 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.

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. Going into the Coronavirus pandemic, the South African market was already undervalued, in our view, and has now fallen to levels which we think are exceptionally attractive. In fact, if we look at the price-to-book multiple of the South African market over the last 40 years, the market has never traded more cheaply, having fallen to close to 1X. South African assets and the rand have been hit harder by the global sell-off than most of the emerging market economies. This is likely due to the already difficult economic environment in South Africa and the more liquid South African currency, equity and bond markets relative to other emerging markets. The rapid sell-off of the South African bond market, where we have seen the benchmark 10-year bond trade at an almost 12% yield, is likely to present some headwind to the equity market, given how the cost of capital has risen. We have not seen these levels of bond yields since 2002. We think, however, that these bond yields are exceptionally attractive, especially given that inflation is unlikely to be a significant risk factor over the medium term given the weak economy.

On market valuations, we currently view the market in South Africa along with many other emerging markets as being very undervalued. While the Coronavirus is likely to mean lower dividends over the next year or two for the South African market, we think that earnings and dividends should show a return to growth over the medium term. This growth in dividends is based mainly on a return to more normal profit margins amongst the mining companies and related industries.

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

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL EQUITY FUND
31 MARCH 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

EQUITY

MARKET OVERVIEW

The first quarter of 2020 was completely dominated by the rapid spread of the Coronavirus around the globe. Its negative impact made itself felt in every corner of the globe, taking a heavy toll on human lives and economic activity as global lockdowns were implemented. All types of assets, including many traditional safe-havens like government bonds, were hit by wholesale selling, which was exacerbated by forced liquidation of many leveraged investors needing urgent liquidity. Uncertainty pervaded investor sentiment as the extent and severity of the virus and its impact on economic growth remained unknown. The IMF warned of a coming global recession worse than that of the 2008 Global Financial Crisis (GFC), while ratings agency Fitch projected a 1.9% contraction in global growth for 2020. South Africa fared worse than most countries due to its already-precarious government finances and recessionary economic environment, which were exacerbated by Moody's downgrade of its sovereign credit rating to below investment-grade status in late March.

In the US, to counteract the effect of spreading lockdowns across the country, the US Federal Reserve undertook an emergency 100bp interest rate cut and US$700bn in bond buybacks, while the government announced record fiscal stimulus measures to counter the anticipated surge in unemployment and stress on corporate and individual earnings. Markets did not react positively to the Fed's move, with volatility remaining high. Analysts are expecting US GDP growth to contract by around 3.3% for the year, although estimates vary widely.

In the UK and Europe, central banks and governments followed the US's lead, although with interest rates already at record low levels, they were unable to cut interest rates as much. The BoE lowered its base interest rate from 0.75% to 0.25%, and then again to a record-low 0.1% a week later. The ECB established a new 750bn-euro emergency facility to stabilise Eurozone bonds. While both areas announced aggressive fiscal measures, these weaker monetary measures combined with already-lacklustre growth led to fears of worse recessions than the US, with forecasts of -3.9% GDP growth for the UK and -4.2% GDP growth for the EU (by Fitch).

In Japan, the economy was already weak with a much worse-than-expected contraction in GDP growth of -7.1% q/q annualised in Q4 2019, due largely to the impact of the new local consumption tax. With interest rates already at -0.10%, the Bank of Japan left rates on hold but announced a doubling in its purchases of bonds and riskier exchange-traded funds to shore up the economy and markets. However, investors were underwhelmed by the move. Late in March Prime Minister Shinzo Abe unveiled an unprecedented Y60 trillion (US$556 billion) stimulus package to help households and small businesses. In turn, the Chinese government announced a US$7bn support package for the economy, and the PBoC cut its base interest rate by 20bps. In Wuhan province, the epicentre of the outbreak, and other areas of China, some businesses started to reopen as the worst of the pandemic passed, hopefully pointing to the future of other areas of the globe as well. Analysts estimated Chinese economic growth for 2020 would more than halve to around 2.5% from 5.6% previously.

South African assets and the rand were hit harder by the global sell-off than most emerging markets. This was due to the already-fragile state of the economy, given that it had entered into a recession in Q4 2019 with GDP shrinking by 1.4% q/q annualised. Plus, the more liquid nature of the local financial markets made it an easy option for wholesale selling of emerging market risk by global investors amid the flight to safety.

On top of this, government bond and rand sales were exacerbated by Moody's downgrade of the sovereign credit rating to non-investment grade status on 27 March (a move that was widely expected), as well as by the SA government's announcement of some fiscal tax and spending measures to help individuals and small businesses weather the local shutdown, which are expected to push the government budget deficit further into the red. This extra spending rendered February's National Budget plans to reduce the deficit essentially redundant. The extent of the bond sales attributable to the downgrade was unclear, making it difficult to gauge the amount of selling that will come later once South Africa exits the World Government Bond Index of investment-grade bonds. The latter was postponed until after shutdowns are lifted.

Meanwhile, at its 19 March MPC meeting the SA Reserve Bank revised its GDP growth forecast for SA to -0.2% in 2020 from 1.4% previously, which many believed to be optimistic under the current conditions. It also announced a much larger-than-expected 100-basis point reduction in the repo rate to 5.25% in a bid to offer some economic relief. Additionally, it undertook a bond repurchase programme to support the government bond market for the first time.

The local equity market experienced its worst quarter since September 1998, and March saw its weakest monthly performance since the start of the GFC in 2008. Companies with global earnings did fare better than local "SA Inc" shares. The FTSE/JSE All Share Index returned -21.4% for Q1 2020, led by Listed Property (SAPY Index) with a -48.2% return. Financials were the second-worst performers with -39.5%, followed by Resources with -25.3% and Industrials at -8.4%.

Finally, the rand depreciated sharply against all three major currencies amid the coronavirus sell-off, falling 27.4% against the US dollar, 19.5% against the pound sterling and 24.7% versus the euro.

PERFORMANCE

The fund delivered a return of -21.9% (net of fees) for the first quarter of 2020, outperforming its benchmark by 1.1%. For the 12 months ending 31 March 2020, the fund returned -23.9% (net of fees), while the benchmark returned -21.4%.

Over the quarter the fund's offshore exposure was a significant contributor to outperformance, given the weakness of the rand. Within domestic stocks, overweight positions in British American Tobacco and Naspers contributed positively to relative performance, while overweight positions in Sasol, Absa and Standard Bank detracted from relative performance.

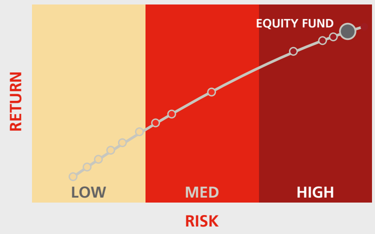
STRATEGY AND POSITIONING

The current disruption to markets is perhaps distinguished from other crises in that it is both a financial crisis as well as a widespread crisis in the real economy. The effects of the lockdowns globally have halted the normal operations of the global economy. We are unsure as to the optimal length of time required in order for a lockdown to effectively curtail the spread of the Coronavirus, or whether the current 'hard' lockdown is converted to a 'soft' one in the coming months. Therefore, the question of 'when' the lockdown ends is perhaps less important a question than the lockdown's potential

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS	F CLASS
1 year	-23.9%	-21.4%	-23.6%	-23.3%
3 years	-4.8%	-5.9%	-4.4%	-4.0%
5 years	-1.8%	-3.3%	-1.4%	n/a
7 years	4.0%	1.8%	4.4%	n/a
10 years	7.3%	5.2%	7.8%	n/a
Since inception	14.3%	11.6%	8.1%	-1.4%

Inception dates: B Class: 2 January 2007, F Class: 1 June 2016

RISK/RETURN PROFILE:



FUND MANAGERS:
Chris Wood, Aadil Omar and Yusuf Mowlana

ASISA CATEGORY:
South African - Equity - General

BENCHMARK:
ASISA South African - Equity - General Category Mean

INCEPTION DATE:
2 August 1999

FUND SIZE:
R2 492 767 311

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

Sources: Prudential, Morningstar & Deutsche Securities

effect on the intrinsic value of the companies under coverage. Some businesses will emerge weaker than before and others come out perhaps in no worse a position. Unfortunately, the likely cost to jobs and livelihoods will be high.

The market has rewarded companies with strong balance sheets, globally diversified income streams and business models which are resilient to the current, hopefully temporary, conditions. Conversely, there are potentially exceptional opportunities in companies whose operations have been disrupted by the current lockdowns. We are mindful of the risks in these companies and will remain disciplined in limiting portfolio exposure appropriately.

During the quarter the fund purchased Remgro, FirstRand and Growthpoint and sold some if its holdings in British American Tobacco, Prosus and Pick 'n Pay.

The fund has retained its large absolute weight in globally diversified, multinational companies such as Naspers, BAT and Anglo American. These companies provide exposure to economies other than South Africa and trade at undemanding valuations. The fund has also retained its overweight position in South African banks. Our research suggests that the banks are well-capitalised and well-provisioned going into this period. Further, banks have not grown advances as strongly in this period as they had leading up to 2008, which may mean the lockdown could result in a benign bad debt experience for them.

We are seeing exceptional opportunities in companies and are optimistic at the potential for high absolute returns given current valuations. ■

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL BOND FEEDER FUND
31 MARCH 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL INCOME

MARKET OVERVIEW

The first quarter of 2020 was completely dominated by the rapid spread of the Coronavirus around the globe. Its negative impact made itself felt in every corner of the globe, taking a heavy toll on human lives and economic activity as global lockdowns were implemented. All types of assets, including many traditional safe-havens like government bonds, were hit by wholesale selling, which was exacerbated by forced liquidation of many leveraged investors needing urgent liquidity. Uncertainty pervaded investor sentiment as the extent and severity of the virus and its impact on economic growth remained unknown. The IMF warned of a coming global recession worse than that of the 2008 Global Financial Crisis (GFC), while ratings agency Fitch projected a 1.9% contraction in global growth for 2020.

In the US, to counteract the effect of spreading lockdowns across the country, the US Federal Reserve undertook an emergency 100bp interest rate cut and US$700bn in bond buybacks, while the government announced record fiscal stimulus measures to counter the anticipated surge in unemployment and stress on corporate and individual earnings. Markets did not react positively to the Fed's move, with volatility remaining high. Analysts are expecting US GDP growth to contract by around 3.3% for the year, although estimates vary widely.

In the UK and Europe, central banks and governments followed the US's lead, although with interest rates already at record low levels, they were unable to cut interest rates as much. The BoE lowered its base interest rate from 0.75% to 0.25%, and then again to a record-low 0.1% a week later. The ECB established a new 750bn-euro emergency facility to stabilise Eurozone bonds. While both areas announced aggressive fiscal measures, these weaker monetary measures combined with already-lacklustre growth led to fears of worse recessions than the US, with forecasts of -3.9% GDP growth for the UK and -4.2% GDP growth for the EU (by Fitch).

In Japan, the economy was already weak with a much worse-than-expected contraction in GDP growth of -7.1% q/q annualised in Q4 2019, due largely to the impact of the new local consumption tax. With interest rates already at -0.10%, the Bank of Japan left rates on hold but announced a doubling in its purchases of bonds and riskier exchange-traded funds to shore up the economy and markets. However, investors were underwhelmed by the move. Late in March Prime Minister Shinzo Abe unveiled an unprecedented Y60 trillion (US$556 billion) stimulus package to help households and small businesses.

In turn, the Chinese government announced a US$7bn support package for the economy, and the PBoC cut its base interest rate by 20bps. In Wuhan province, the epicentre of the outbreak, and other areas of China, some businesses started to reopen as the worst of the pandemic passed, hopefully pointing to the future of other areas of the globe as well. Analysts estimated Chinese economic growth for 2020 would more than halve to around 2.5% from 5.6% previously.

Finally, the rand depreciated sharply against all three major currencies amid the coronavirus sell-off, falling 27.4% against the US dollar, 19.5% against the pound sterling and 24.7% versus the euro.

PERFORMANCE

Given the weak performance of the rand relative to the US dollar over the period, the fund returned 17.9% (net of fees) in rand for the first quarter of 2020, the benchmark returned 27.0%. For the 12 months ending 31 March 2020, the fund returned 20.6% (net of fees) while benchmark produced 28.6%.

The main contributors to absolute performance over the quarter were the fund's holdings in Japanese and Mexican government bonds. Detracting from absolute performance were the fund's broad exposure to mainstream and emerging-market government bonds and investment-grade corporate credit.

STRATEGY AND POSITIONING

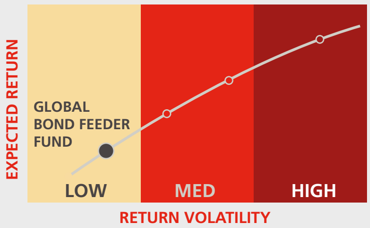
Fund positioning continues to reflect our preference for selected areas of credit and emerging-market government bonds both local (e.g. South African bonds) and hard currency. We sold our Mexican bonds earlier in the quarter as the yield had declined significantly. We have subsequently repurchased them. We have also added high yield corporate bonds to the portfolio both via ETFs and through the underlying funds, which have also purchased some high-yield bond exposure. We see exceptional opportunities ahead in the credit markets generally across investment grade, high-yield and emerging-market hard currency and local debt. Mainstream developed government bonds, especially Japanese and Euro issues, may have reached the end of their journey to ever-lower real yields as they have been unable to sustain the lows in yields.

We remain highly active within the global bond asset class, seeking positive bets on emerging-market government bonds, investment grade, corporate and high-yield bonds because of the better real yields they can offer compared to developed government bonds, where we tend to be underweight versus the benchmark. We believe that the fundamental value of the non-safe haven assets will reassert itself when normal economic conditions start to resume. The liquidity pressures that were evident in US investment-grade bonds have subsided as the Federal Reserve has started to purchase bonds other than Treasuries and guaranteed mortgage-backed securities to relieve the liquidity pressure. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	20.6%	28.6%	21.0%
3 years	10.5%	13.9%	n/a
5 years	8.6%	10.9%	n/a
7 years	10.1%	11.6%	n/a
10 years	11.3%	12.1%	n/a
Since inception	9.1%	9.6%	20.1%

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:
R559 845 016

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL INFLATION PLUS FEEDER FUND
31 MARCH 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL MULTI-ASSET

MARKET OVERVIEW

The first quarter of 2020 was completely dominated by the rapid spread of the Coronavirus around the globe. Its negative impact made itself felt in every corner of the globe, taking a heavy toll on human lives and economic activity as global lockdowns were implemented. All types of assets, including many traditional safe-havens like government bonds, were hit by wholesale selling, which was exacerbated by forced liquidation of many leveraged investors needing urgent liquidity. Uncertainty pervaded investor sentiment as the extent and severity of the virus and its impact on economic growth remained unknown. The IMF warned of a coming global recession worse than that of the 2008 Global Financial Crisis (GFC), while ratings agency Fitch projected a 1.9% contraction in global growth for 2020.

In US$ terms, global equities (the MSCI All Country World Index, ACWI) returned -21.4% for the quarter, while developed markets delivered -21.1% and emerging markets produced -23.6%. For SA investors, the rand's 27.4% depreciation against the dollar (and by similar amounts against other major currencies) helped to cushion global investments in rand terms – for example, the MSCI ACWI returned 0.2% in rands. Global bonds delivered -0.3% for the quarter in US$ (but 27.0% in rands) and global property returned -30.4%. This was despite widespread emergency monetary easing and market support from the major central banks.

In the US, to counteract the effect of spreading lockdowns across the country, the US Federal Reserve undertook an emergency 100bp interest rate cut and US$700bn in bond buybacks, while the government announced record fiscal stimulus measures to counter the anticipated surge in unemployment and stress on corporate and individual earnings. Markets did not react positively to the Fed's move, with volatility remaining high. Analysts are expecting US GDP growth to contract by around 3.3% for the year, although estimates vary widely. In the equity market, the S&P 500 lost 19.6% in US$ for the quarter.

In the UK and Europe, central banks and governments followed the US's lead, although with interest rates already at record low levels, they were unable to cut interest rates as much. The BoE lowered its base interest rate from 0.75% to 0.25%, and then again to a record-low 0.1% a week later. The ECB established a new 750bn-euro emergency facility to stabilise Eurozone bonds. While both areas announced aggressive fiscal measures, these weaker monetary measures combined with already-lacklustre growth led to fears of worse recessions than the US, with forecasts of -3.9% GDP growth for the UK and -4.2% GDP growth for the EU (by Fitch). In the equity markets, the FTSE 100 returned -28.7% in US$ for the quarter, while Germany's DAX produced -26.6% and the French CAC 40 delivered -27.8% in US$.

In Japan, the economy was already weak with a much worse-than-expected contraction in GDP growth of -7.1% q/q annualised in Q4 2019, due largely to the impact of the new local consumption tax. With interest rates already at -0.10%, the Bank of Japan left rates on hold but announced a doubling in its purchases of bonds and riskier exchange-traded funds to shore up the economy and markets. However, investors were underwhelmed by the move. Late in March Prime Minister Shinzo Abe unveiled an unprecedented Y60 trillion (US$556 billion) stimulus package to help households and small businesses. The Nikkei 225 returned -18.7% for the quarter.

In turn, the Chinese government announced a US$7bn support package for the economy, and the PBoC cut its base interest rate by 20bps. In Wuhan province, the epicentre of the outbreak, and other areas of China, some businesses started to reopen as the worst of the pandemic passed, hopefully pointing to the future of other areas of the globe as well. Analysts estimated Chinese economic growth for 2020 would more than halve to around 2.5% from 5.6% previously. Hong Kong's Hang Seng Index returned -15.5% for the three months and the MSCI China returned -10.2% in US$.

Among other emerging equity markets, in US$ terms Brazil's Bovespa proved to be the hardest hit with a -51.0% return for the quarter, while the MSCI South Africa returned -40.3%. The MSCI Russia delivered -36.3% and the MSCI Turkey -30%, also in US$.

Finally, the rand depreciated sharply against all three major currencies amid the coronavirus sell-off, falling 27.4% against the US dollar, 19.5% against the pound sterling and 24.7% versus the euro.

PERFORMANCE

Given the weak performance of the rand relative to the US dollar over the period, the fund returned 7.3% (net of fees) in rand for the first quarter of 2020, compared to global inflation at 27.9%. For the 12 months ending 31 March 2020, the fund returned 12.3% (net of fees) while global inflation was 25.7%.

The main contributors to absolute performance over the quarter were the fund's holdings in Japanese and Mexican government bonds. Detracting from absolute performance were the fund's exposure to European, US and Asian equities, broad exposure to mainstream and emerging-market government bonds, investment-grade credit and exposure to property.

STRATEGY AND POSITIONING

The fund remains tilted in favour of corporate credit and emerging-market sovereign bonds in the fixed-income portion given attractive prospective return profile of these assets.

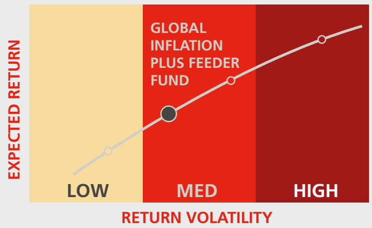
In attempting to analyse today's challenging environment, our sense is that this phase is very different from previous recessions. We believe that because it represents an enforced, temporary shutdown in economic activity rather than a 'traditional' recession, this should hasten the return of normal economic conditions. While the current macroeconomic situation is highly uncertain, the extreme nature of the price moves and shifts in valuation lead us to think that the current disruption is not all fundamental. There are therefore some very significant opportunities for those able to tolerate the short-term volatility. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK*	B CLASS
1 year	12.3%	25.7%	12.7%
3 years	8.7%	11.1%	9.0%
5 years	7.7%	9.2%	8.0%
7 years	10.1%	11.4%	n/a
10 years	9.8%	10.4%	n/a
Since inception	8.1%	8.0%	9.5%

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 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 - Low Equity

BENCHMARK:

Global inflation

INCEPTION DATE:

1 March 2004

FUND SIZE:

R133 063 207

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL BALANCED FEEDER FUND
31 MARCH 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL MULTI-ASSET

MARKET OVERVIEW

The first quarter of 2020 was completely dominated by the rapid spread of the Coronavirus around the globe. Its negative impact made itself felt in every corner of the globe, taking a heavy toll on human lives and economic activity as global lockdowns were implemented. All types of assets, including many traditional safe-havens like government bonds, were hit by wholesale selling, which was exacerbated by forced liquidation of many leveraged investors needing urgent liquidity. Uncertainty pervaded investor sentiment as the extent and severity of the virus and its impact on economic growth remained unknown. The IMF warned of a coming global recession worse than that of the 2008 Global Financial Crisis (GFC), while ratings agency Fitch projected a 1.9% contraction in global growth for 2020.

In US$ terms, global equities (the MSCI All Country World Index, ACWI) returned -21.4% for the quarter, while developed markets delivered -21.1% and emerging markets produced -23.6%. For SA investors, the rand's 27.4% depreciation against the dollar (and by similar amounts against other major currencies) helped to cushion global investments in rand terms – for example, the MSCI ACWI returned 0.2% in rands. Global bonds delivered -0.3% for the quarter in US$ (but 27.0% in rands) and global property returned -30.4%. This was despite widespread emergency monetary easing and market support from the major central banks.

In the US, to counteract the effect of spreading lockdowns across the country, the US Federal Reserve undertook an emergency 100bp interest rate cut and US$700bn in bond buybacks, while the government announced record fiscal stimulus measures to counter the anticipated surge in unemployment and stress on corporate and individual earnings. Markets did not react positively to the Fed's move, with volatility remaining high. Analysts are expecting US GDP growth to contract by around 3.3% for the year, although estimates vary widely. In the equity market, the S&P 500 lost 19.6% in US$ for the quarter.

In the UK and Europe, central banks and governments followed the US's lead, although with interest rates already at record low levels, they were unable to cut interest rates as much. The BoE lowered its base interest rate from 0.75% to 0.25%, and then again to a record-low 0.1% a week later. The ECB established a new 750bn-euro emergency facility to stabilise Eurozone bonds. While both areas announced aggressive fiscal measures, these weaker monetary measures combined with already-lacklustre growth led to fears of worse recessions than the US, with forecasts of -3.9% GDP growth for the UK and -4.2% GDP growth for the EU (by Fitch). In the equity markets, the FTSE 100 returned -28.7% in US$ for the quarter, while Germany's DAX produced -26.6% and the French CAC 40 delivered -27.8% in US$.

In Japan, the economy was already weak with a much worse-than-expected contraction in GDP growth of -7.1% q/q annualised in Q4 2019, due largely to the impact of the new local consumption tax. With interest rates already at -0.10%, the Bank of Japan left rates on hold but announced a doubling in its purchases of bonds and riskier exchange-traded funds to shore up the economy and markets. However, investors were underwhelmed by the move. Late in March Prime Minister Shinzo Abe unveiled an unprecedented Y60 trillion (US$556 billion) stimulus package to help households and small businesses. The Nikkei 225 returned -18.7% for the quarter.

In turn, the Chinese government announced a US$7bn support package for the economy, and the PBoC cut its base interest rate by 20bps. In Wuhan province, the epicentre of the outbreak, and other areas of China, some businesses started to reopen as the worst of the pandemic passed, hopefully pointing to the future of other areas of the globe as well. Analysts estimated Chinese economic growth for 2020 would more than halve to around 2.5% from 5.6% previously. Hong Kong's Hang Seng Index returned -15.5% for the three months and the MSCI China returned -10.2% in US$.

Among other emerging equity markets, in US$ terms Brazil's Bovespa proved to be the hardest hit with a -51.0% return for the quarter, while the MSCI South Africa returned -40.3%. The MSCI Russia delivered -36.3% and the MSCI Turkey -30%, also in US$.

Finally, the rand depreciated sharply against all three major currencies amid the coronavirus sell-off, falling 27.4% against the US dollar, 19.5% against the pound sterling and 24.7% versus the euro.

PERFORMANCE

Given the weak performance of the rand relative to the US dollar over the period, the fund returned 0.03% (net of fees) in rand for the first quarter of 2020, while its benchmark returned 7.6%. For the 12 months ending 31 March 2020, the fund returned 6.5% (net of fees) while the benchmark returned 14.6%.

The main contributor to absolute performance over the quarter was the fund's exposure to Mexican government bonds. Detracting from absolute performance were its holdings in European, US and Asian equities, mainstream and emerging-market government bonds and investment-grade corporate credit, government bond exposure to Turkey and South Africa, as well as exposure to property.

STRATEGY AND POSITIONING

The fund continues to have a clear preference for equities over government bonds, particularly Japanese and European equities. We are very constructive on investment-grade, high-yield and emerging-market hard currency and local debt. We also believe the size of the equity-risk premium remains one of the most obvious opportunities on offer across the global investment landscape today.

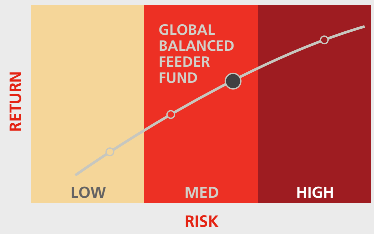
In attempting to analyse today's challenging environment, our sense is that this phase is very different from previous recessions. We believe that because it represents an enforced, temporary shutdown in economic activity rather than a 'traditional' recession, this should hasten the return of normal economic conditions.

While the current macroeconomic situation is highly uncertain, the extreme nature of the price moves and shifts in valuation lead us to think that the current disruption is not all fundamental. There are therefore some very significant opportunities for those able to tolerate the short-term volatility. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	6.5%	14.6%	6.5%
Since inception	5.8%	13.1%	5.8%

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:
R13 480 188

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL EQUITY FEEDER FUND
31 MARCH 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL EQUITY

MARKET OVERVIEW

The first quarter of 2020 was completely dominated by the rapid spread of the Coronavirus around the globe. Its negative impact made itself felt in every corner of the globe, taking a heavy toll on human lives and economic activity as global lockdowns were implemented. All types of assets, including many traditional safe-havens like government bonds, were hit by wholesale selling, which was exacerbated by forced liquidation of many leveraged investors needing urgent liquidity. Uncertainty pervaded investor sentiment as the extent and severity of the virus and its impact on economic growth remained unknown. The IMF warned of a coming global recession worse than that of the 2008 Global Financial Crisis (GFC), while ratings agency Fitch projected a 1.9% contraction in global growth for 2020.

In US$ terms, global equities (the MSCI All Country World Index, ACWI) returned -21.4% for the quarter, while developed markets delivered -21.1% and emerging markets produced -23.6%. For SA investors, the rand's 27.4% depreciation against the dollar (and by similar amounts against other major currencies) helped to cushion global investments in rand terms – for example, the MSCI ACWI returned 0.2% in rands. Global bonds delivered -0.3% for the quarter in US$ (but 27.0% in rands) and global property returned -30.4%. This was despite widespread emergency monetary easing and market support from the major central banks.

In the US, to counteract the effect of spreading lockdowns across the country, the US Federal Reserve undertook an emergency 100bp interest rate cut and US$700bn in bond buybacks, while the government announced record fiscal stimulus measures to counter the anticipated surge in unemployment and stress on corporate and individual earnings. Markets did not react positively to the Fed's move, with volatility remaining high. Analysts are expecting US GDP growth to contract by around 3.3% for the year, although estimates vary widely. In the equity market, the S&P 500 lost 19.6% in US$ for the quarter.

In the UK and Europe, central banks and governments followed the US's lead, although with interest rates already at record low levels, they were unable to cut interest rates as much. The BoE lowered its base interest rate from 0.75% to 0.25%, and then again to a record-low 0.1% a week later. The ECB established a new 750bn-euro emergency facility to stabilise Eurozone bonds. While both areas announced aggressive fiscal measures, these weaker monetary measures combined with already-lacklustre growth led to fears of worse recessions than the US, with forecasts of -3.9% GDP growth for the UK and -4.2% GDP growth for the EU (by Fitch). In the equity markets, the FTSE 100 returned -28.7% in US$ for the quarter, while Germany's DAX produced -26.6% and the French CAC 40 delivered -27.8% in US$.

In Japan, the economy was already weak with a much worse-than-expected contraction in GDP growth of -7.1% q/q annualised in Q4 2019, due largely to the impact of the new local consumption tax. With interest rates already at -0.10%, the Bank of Japan left rates on hold but announced a doubling in its purchases of bonds and riskier exchange-traded funds to shore up the economy and markets. However, investors were underwhelmed by the move. Late in March Prime Minister Shinzo Abe unveiled an unprecedented Y60 trillion (US$556 billion) stimulus package to help households and small businesses. The Nikkei 225 returned -18.7% for the quarter.

In turn, the Chinese government announced a US$7bn support package for the economy, and the PBoC cut its base interest rate by 20bps. In Wuhan province, the epicentre of the outbreak, and other areas of China, some businesses started to reopen as the worst of the pandemic passed, hopefully pointing to the future of other areas of the globe as well. Analysts estimated Chinese economic growth for 2020 would more than halve to around 2.5% from 5.6% previously. Hong Kong's Hang Seng Index returned -15.5% for the three months and the MSCI China returned -10.2% in US$.

Among other emerging equity markets, in US$ terms Brazil's Bovespa proved to be the hardest hit with a -51.0% return for the quarter, while the MSCI South Africa returned -40.3%. The MSCI Russia delivered -36.3% and the MSCI Turkey -30%, also in US$.

Finally, the rand depreciated sharply against all three major currencies amid the coronavirus sell-off, falling 27.4% against the US dollar, 19.5% against the pound sterling and 24.7% versus the euro.

PERFORMANCE

Given the weak performance of the rand relative to the US dollar over the period, the fund returned -3.8% (net of fees) in rand for the first quarter of 2020, while the benchmark returned 0.2%. For the 12 months ending 31 March 2020, the fund returned 2.9% (net of fees) while the benchmark returned 9.5%.

The main detractors from absolute performance were the fund's exposure to European, US and Asian equities.

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 given its less attractive pricing compared to other markets, and overweight in Japan and the UK.

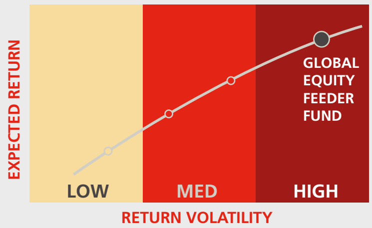
In attempting to analyse today's challenging environment, our sense is that this phase is very different from previous recessions. We believe that because it represents an enforced, temporary shutdown in economic activity rather than a 'traditional' recession, this should hasten the return of normal economic conditions.

While the current macroeconomic situation is highly uncertain, the extreme nature of the price moves and shifts in valuation lead us to think that the current disruption is not all fundamental. There are therefore some very significant opportunities for those able to tolerate the short-term volatility. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	2.9%	9.5%	3.2%
3 years	6.8%	11.7%	n/a
5 years	8.0%	11.1%	n/a
7 years	12.9%	15.5%	n/a
10 years	12.5%	15.8%	n/a
Since inception	6.8%	8.6%	5.8%

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:

R298 089 186

Sources: Prudential, Morningstar & Deutsche Securities