PRUDENTIAL UNIT TRUSTS QUARTERLY COMMENTARY
30 JUNE 2020

PRUDENTIAL INVESTMENT MANAGERS

COMBINED QUARTERLY COMMENTARY

INCOME | MULTI-ASSET | PROPERTY/ EQUITY | GLOBAL | TARGET INCOME

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PRUDENTIAL MONEY MARKET FUND
30 JUNE 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME

MARKET OVERVIEW

It was a mixed picture in South Africa for Q2 2020: although local equities rebounded more than those in many other countries, the economic picture worsened despite the gradual re-opening of the economy from June. Data showed SA GDP shrank by 2.0% q/q in Q1 2020 (better than the -3.8% q/q expected), but the Treasury forecast a sharp -7.2% contraction for 2020 as a whole. The already-recessionary conditions were exacerbated by the lockdown, drastically curbing consumer and business spending, investment and industrial production. Although the government implemented fiscal tax relief and spending programmes to help cushion the economy, these were necessarily relatively modest due to budget constraints.

At its policy meeting on 21 May, the SARB cut the repo rate by a further 50bps to 3.75%, an historic low. This brought the total reduction to 275bps for 2020 so far. This was reinforced by the latest inflation data, as April CPI came in at 3.0% y/y, its lowest level since 2005. The SARB also lowered its GDP growth forecast to -7.0% for the year, versus -6.1% in April, while expecting 3.8% growth in 2021 and 2.9% growth in 2022. In addition to this, the central bank bought back large amounts of government bonds for the first time to support the market during the quarter.

Meanwhile, Finance Minister Tito Mboweni's Supplementary Budget unveiled in mid-June highlighted at least part of the extent of damage done by the pandemic. The government budget deficit is now expected at 15.7% of GDP in the current 2020-21 financial year, more than double the previous forecast of 6.8%. The budget did aim to stabilise the government's growing debt burden, but at 87% of GDP by 2023/24, this is still a worryingly high level. Still, financial market reaction to the details contained in the Supplementary Budget was subdued as most of the bad news had already been priced into bond yields.

The BEASSA All Bond Index rebounded from its -8.7% loss in Q1, returning 9.9% in Q2 2020 as some investors snapped up what they thought to be attractively high yields, while SA inflation-linked bonds returned 4.7%. Cash (as measured by the STeFI Composite) produced 1.5% for the three-month period.

Rates across the spectrum of bank-issued instruments rallied over the quarter by around 170bps, more than the combined 150bp cut delivered by the SARB over the same period. The Forward Rate Agreement (FRA) curve, however, suggests that the rate cutting cycle still has some way to go, pricing in further rate cuts over the next few months. Treasury bills, which were initially priced in-line with bank bonds at the start of the quarter, have rallied less since, resultantly offering yields higher than the corresponding bank bonds.

PERFORMANCE

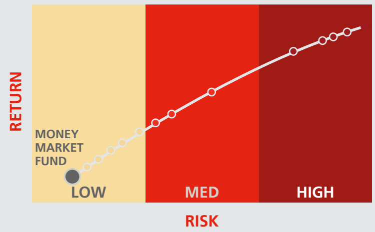
The fund generated a return of 1.4% (net of fees) for the second quarter of 2020, while its benchmark, the STeFI Call Deposit, returned 1.1% over the same period. For the 12 months ended 30 June 2020, the fund returned 6.8% (net of fees) while the benchmark returned 6.0 % over the same period.

The average duration of the fund at quarter end was 56 days relative to the 90-day maximum average duration. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	X CLASS
1 year	6.8%	6.0%	7.0%
3 years	7.3%	6.5%	7.4%
5 years	7.2%	6.5%	7.3%
7 years	6.7%	6.2%	6.9%
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 460 316 046

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL HIGH INTEREST FUND
30 JUNE 2020

QUARTERLY COMMENTARY

INCOME

MARKET OVERVIEW

It was a mixed picture in South Africa for Q2 2020: although local equities rebounded more than those in many other countries, the economic picture worsened despite the gradual re-opening of the economy from June. Data showed SA GDP shrank by 2.0% q/q in Q1 2020 (better than the -3.8% q/q expected), but the Treasury forecast a sharp -7.2% contraction for 2020 as a whole. The already-recessionary conditions were exacerbated by the lockdown, drastically curbing consumer and business spending, investment and industrial production. Although the government implemented fiscal tax relief and spending programmes to help cushion the economy, these were necessarily relatively modest due to budget constraints.

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The BEASSA All Bond Index rebounded from its -8.7% loss in Q1, returning 9.9% in Q2 2020 as some investors snapped up what they thought to be attractively high yields, while SA inflation-linked bonds returned 4.7%. Cash (as measured by the STeFI Composite) produced 1.5% for the three-month period.

PERFORMANCE

The fund generated a return of 0.7% (net of fees) for the quarter, while its benchmark returned 1.5% over the same period. For the 12 months ended 30 June 2020, the fund returned 6.3% (net of fees) while the benchmark returned 6.9% 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 55 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.

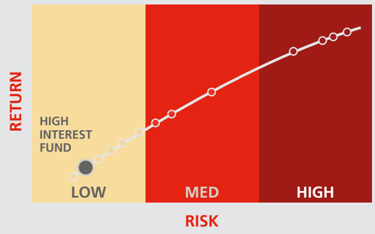
While credit issuance has been scarce since 2016, mixed with a tightening of credit spreads, 2019 saw a number of banks and corporates coming to market, after some hesitance following the downgrade of the sovereign credit rating in 2017. Issuances since the start of 2020 have been scarce again against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

The yields on the majority of South African corporate bond spreads haven't moved wider during the current global crisis (as has been the case in global markets), due to illiquidity in our local secondary bond market. However, we believe credit risk is higher for all issuers of debt (including the SA government). If we were to buy corporate debt now it would be at wider spreads than at the start of the year. However, as of yet there have been no primary market issuances, so it is difficult to gauge exactly where yields should be trading. We have therefore made downward "fair value" adjustments to the valuation of corporate bonds in all our portfolios to reflect a more realistic view of credit risk and the lack of liquidity in the market. This includes all Land Bank bonds held in our portfolios, given the current event of default incurred by Land Bank listed bonds. We suspect that many of our competitors haven't lowered the value of their bond holdings, meaning that our short-term relative performance is likely to be weaker as a result. However, we believe that implementing these adjustments represents a better reflection of the true market values of these assets in our portfolios, thereby ensuring all clients entering, leaving or remaining in our funds do so at fair market prices. At the same time, these adjustments ensure our clients aren't overcharged because of inflated, stale market prices. We continuously review these fair value adjustments with the aim of returning to market pricing as soon as it is prudent to do so, and 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	6.3%	6.9%	6.4%	6.5%
3 years	7.3%	7.2%	7.4%	7.5%
5 years	7.5%	7.2%	7.6%	7.7%
7 years	7.0%	6.8%	7.1%	7.3%
Since inception	6.7%	6.5%	6.8%	7.0%

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

RISK/RETURN PROFILE:



FUND MANAGERS:
Roshen Harry and Sandile Malinga

ASISA CATEGORY:
South African - Interest Bearing - Short Term

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

INCEPTION DATE:
8 December 2010

FUND SIZE:
R9 799 430 235

PLEASE NOTE:
This fund is capped to new investors

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL INCOME FUND
30 JUNE 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME

MARKET OVERVIEW

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The BEASSA All Bond Index rebounded from its -8.7% loss in Q1, returning 9.9% in Q2 2020 as some investors snapped up what they thought to be attractively high yields, while SA inflation-linked bonds returned 4.7%. Cash (as measured by the STeFI Composite) produced 1.5% for the three-month period.

PERFORMANCE

The fund generated a return of -0.3% (net of fees) for the quarter, while its benchmark returned 1.5% over the same period. For the 12 months ended 30 June 2020, the fund returned 4.9% (net of fees) while the benchmark returned 6.9% 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 49 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.

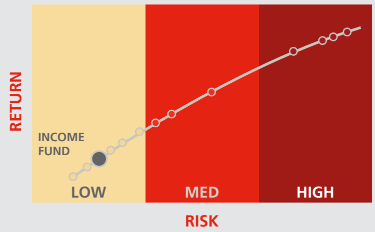
While credit issuance has been scarce since 2016, mixed with a tightening of credit spreads, 2019 saw a number of banks and corporates coming to market, after some hesitance following the downgrade of the sovereign credit rating in 2017. Issuances since the start of 2020 have been scarce again against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

The yields on the majority of South African corporate bond spreads haven't moved wider during the current global crisis (as has been the case in global markets), due to illiquidity in our local secondary bond market. However, we believe credit risk is higher for all issuers of debt (including the SA government). If we were to buy corporate debt now it would be at wider spreads than at the start of the year. However, as of yet there have been no primary market issuances, so it is difficult to gauge exactly where yields should be trading. We have therefore made downward "fair value" adjustments to the valuation of corporate bonds in all our portfolios to reflect a more realistic view of credit risk and the lack of liquidity in the market. This includes all Land Bank bonds held in our portfolios, given the current event of default incurred by Land Bank listed bonds. We suspect that many of our competitors haven't lowered the value of their bond holdings, meaning that our short-term relative performance is likely to be weaker as a result. However, we believe that implementing these adjustments represents a better reflection of the true market values of these assets in our portfolios, thereby ensuring all clients entering, leaving or remaining in our funds do so at fair market prices. At the same time, these adjustments ensure our clients aren't overcharged because of inflated, stale market prices. We continuously review these fair value adjustments with the aim of returning to market pricing as soon as it is prudent to do so and 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	4.9%	6.9%	5.0%
2 years	6.8%	7.1%	6.9%
3 years	7.5%	7.2%	7.6%
Since inception	7.6%	7.2%	7.7%

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 309 158 251

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL HIGH YIELD BOND FUND
30 JUNE 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME

MARKET OVERVIEW

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Meanwhile, Finance Minister Tito Mboweni's Supplementary Budget unveiled in mid-June highlighted at least part of the extent of damage done by the pandemic. The government budget deficit is now expected at 15.7% of GDP in the current 2020-21 financial year, more than double the previous forecast of 6.8%. The budget did aim to stabilise the government's growing debt burden, but at 87% of GDP by 2023/24, this is still a worryingly high level. Still, financial market reaction to the details contained in the Supplementary Budget was subdued as most of the bad news had already been priced into bond yields.

The BEASSA All Bond Index rebounded from its -8.7% loss in Q1, returning 9.9% in Q2 2020 as some investors snapped up what they thought to be attractively high yields, while SA inflation-linked bonds returned 4.7%. Cash (as measured by the STeFI Composite) produced 1.5% for the three-month period.

After the wild sell off of mid-March, SA government bonds continued to rally through April and May – the SA 10-year bond yield falling from just under 11.0% at the start of the quarter to almost 8.6% in early June. From there the 10-year bond drifted slightly weaker to end the quarter at 9.25%, lower by 1.7% over the quarter. Longer-dated bonds did not benefit to the same degree in the rally however – the 20-year bond yield falling only 0.5%. As a result, the long-end of the bond yield curve underperformed over the quarter.

SA's credit ratings were dealt further blows during the quarter as a result of downgrades from Fitch and later S&P. Fitch lowered the foreign-currency rating to 'BB' from 'BB+'; the outlook remained negative. S&P meanwhile lowered the foreign-currency rating to 'BB-' from 'BB'; the outlook moved to stable from negative.

The local credit market was shocked in April by the unexpected announcement of a credit default by Land Bank. The crisis would appear to have been liquidity related as Land Bank experienced difficulty in refinancing maturing debt. Solvency and the performance of their lending book does not seem to be to blame. Prudential has been monitoring developments via the noteholder committee and will be engaging as appropriate as Land Bank tries to reach a resolution to the issue. A solution is complicated by the governing framework of Land Bank being the Land Bank Act instead of the Companies Act, as is the case with non-SOE corporates in South Africa. The Companies Act allows for debt providers to initiate winding-up of the entity while the Land Bank Act requires legislative approval for a winding-up. In line with our approach to taking measured exposure and diversifying our credit holdings, Land Bank comprised 0.36% of the fund at the time of the default.

The default has called into question the notion of implicit government willingness and ability to support parastatals, which many unguaranteed SOEs have benefitted from historically. Late in the quarter, Moody's downgraded both IDC and DBSA's ratings reducing the uplift for government support to one notch from two, citing the Land Bank default as having informed their decision. Clearly government finances, which were already weak before Covid-19, will be further weakened in the wake of the pandemic. This will no doubt complicate the state's ability to support parastatals. There is however evidence that National Treasury is looking to support Land Bank through an appropriation in the recently announced Supplementary Budget, which will inject equity into Land Bank. Such signs of support are positive. Exposure to SOEs (unguaranteed) amounts to 2.1% of the fund.

PERFORMANCE

The fund generated a return of 7.2% (net of fees) for the quarter, while its benchmark returned 9.9% over the same period. For the 12 months ended 30 June 2020, the fund returned -1.0% (net of fees) while the benchmark returned 2.8% over the same period.

At the start of the quarter the fund was overweight in the long end of the yield curve (long duration). We purchased additional long-dated bonds in April, while bond yields were still elevated, increasing the fund's duration to +0.8yrs overweight versus the benchmark. Towards the end of May, we reduced duration modestly to +0.7yrs in response to the rally in bond yields.

Given the steepness of the yield curve (20-year bonds giving almost 2.0% additional yield over 10-year bonds), we remain convinced that investors will be well rewarded on a medium- to long-term investment time horizon from being exposed to the long-dated government bonds.

As a result of the overweight to longer-dated bonds, and the underperformance of this sector highlighted above, performance of the fund lagged the ALBI by 3.8%.

STRATEGY AND POSITIONING

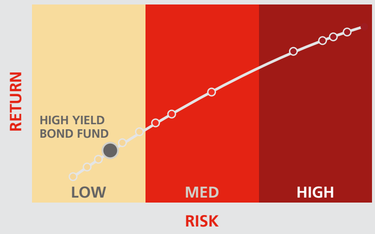
There was little opportunity to add to the fund's credit exposure during the quarter. The Covid-19 market disruptions resulted in scheduled credit auctions being cancelled, negatively impacting the supply of credit in the market. At the same time, demand for credit was affected by many market participants experiencing constrained liquidity. Uncertainty around pricing levels also negatively impacted demand.

Total 2020 issuance for the six months to June has been R45bn, 48% down on 2019 levels. The only public auction in the quarter was R3.5bn of floating-rate Tier-2 subordinated debt issued by Standard Bank. Standard Bank was the largest issuer in the quarter, closely followed by Northam.

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	-1.0%	2.8%	-0.9%
3 years	6.3%	8.1%	6.5%
5 years	6.2%	7.5%	6.4%
7 years	6.1%	7.3%	6.4%
10 years	7.6%	8.3%	7.9%
Since inception	9.6%	10.0%	8.6%

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:
R279 433 126

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME

We have capacity to add to our fixed-rate credit holdings within the fund and current market conditions may provide us with opportunities to do so at attractive prices. Of the just over R10bn of private placements in the quarter, only the City of Ekurhuleni (CoE) issued fixed-rate bonds. Although pricing indications from CoE were attractive, we were already at our credit limits in terms of exposure, having supported the city in the past, and opted to not participate in this auction.

The yields on the majority of South African corporate bond spreads haven't moved wider during the current global crisis (as has been the case in global markets), due to illiquidity in our local secondary bond market. However, we believe credit risk is higher for all issuers of debt (including the SA government). If we were to buy corporate debt now it would be at wider spreads than at the start of the year. However, as of yet there have been no primary market issuances, so it is difficult to gauge exactly where yields should be trading. We have therefore made downward "fair value" adjustments to the valuation of corporate bonds in all our portfolios to reflect a more realistic view of credit risk and the lack of liquidity in the market. This includes all Land Bank bonds held in our portfolios, given the current event of default incurred by Land Bank listed bonds. We suspect that many of our competitors haven't lowered the value of their bond holdings, meaning that our short-term relative performance is likely to be weaker as a result. However, we believe that implementing these adjustments represents a better reflection of the true market values of these assets in our portfolios, thereby ensuring all clients entering, leaving or remaining in our funds do so at fair market prices. At the same time, these adjustments ensure our clients aren't overcharged because of inflated, stale market prices. We continuously review these fair value adjustments with the aim of returning to market pricing as soon as it is prudent to do so. ■

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL ENHANCED INCOME FUND
30 JUNE 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

MARKET OVERVIEW

In the US, Q1 2020 GDP contracted by 5.0% q/q and inflation fell to 0.1% y/y in May, its third straight month of decline. However, Q3 and Q4 data are expected to reflect strong positive growth off a low base as various states started to reopen in June.

After its emergency 100bp interest rate cut in mid-March, at its June policy meeting the US Federal Reserve left the benchmark interest rate unchanged at near 0%, saying it expected rates to remain around zero through 2022. It also said it would continue to buy back bonds to support the economy. The growth outlook deteriorated further as the Fed lowered its GDP forecast to a 6.5% contraction for 2020, but it expects 5.0% growth in 2021. In the equity market, the S&P 500 gained 20.5% in US$ for the quarter, while the Nasdaq shot up 30.3%, making it one of the only equity markets to fully regain its Q1 losses.

In the UK and European Union, governments also started to reopen their economies, with the UK lagging Europe. Like the US, the Bank of England and European Central Bank (ECB) maintained record-low interest rates and supportive bond buying programmes. For the first time, the ECB launched a backstop facility to provide euro-denominated repo lines to countries outside the euro area. For Q1 2020, the UK reported a -2.2% q/q contraction in its GDP, the largest in 40 years, while the EU's economy was even weaker with a 3.3% q/q contraction over the quarter. In the equity markets, the FTSE 100 returned 8.8% in US$ for the quarter, while Germany's DAX produced 26.8% and the French CAC 40 delivered 16.2% in US$.

In Japan, the economy was already weak going into 2020 with a much worse-than-expected contraction in GDP growth of -7.2% y/y in Q4 2019, due largely to the impact of the new local consumption tax and the US-China trade war. For Q1 2020 the economy slumped by 2.2% y/y, putting the country in recession. The latest consumer spending, exports and output data are pointing to the worst growth performance for the country since World War II in Q2 2020. The Nikkei 225 returned 18.1% for the quarter.

China, meanwhile, reported a 6.8% y/y contraction in GDP for Q1 2020, even though the economy had started to reopen as early as March. This was the country's first decline in growth since 1992. Industrial production fell 8.4% over the quarter, while retail sales were down 19%. However, analysts were increasingly optimistic that China would escape a technical recession, forecasting 1.5% y/y GDP growth in Q2 and a 1.8% y/y expansion for 2020 as a whole thanks to stimulus measures from the government and PBOC. At the same time, China's move to impose new restrictions on Hong Kong's democratic freedoms through new legislation around treason, sedition and other forms of anti-government protest was met with widespread condemnation, both local and international, dampening investor sentiment. Despite this, the legislation was passed. Consequently, Hong Kong's Hang Seng Index returned a subdued 4.8% for the three months and the MSCI China returned 15.4% in US$.

It was a mixed picture in South Africa for Q2 2020: although local equities rebounded more than those in many other countries, the economic picture worsened despite the gradual re-opening of the economy from June. Data showed SA GDP shrank by 2.0% q/q in Q1 2020 (better than the -3.8% q/q expected), but the Treasury forecast a sharp -7.2% contraction for 2020 as a whole. The already-recessionary conditions were exacerbated by the lockdown, drastically curbing consumer and business spending, investment and industrial production. Although the government implemented fiscal tax relief and spending programmes to help cushion the economy, these were necessarily relatively modest due to budget constraints.

At its policy meeting on 21 May, the SARB cut the repo rate by a further 50bps to 3.75%, an historic low. This brought the total reduction to 275bps for 2020 so far, and its interest rate model is projecting two further 25bp interest rate cuts in 2020. This was reinforced by the latest inflation data, as April CPI came in at 3.0% y/y, its lowest level since 2005. The SARB also lowered its GDP growth forecast to -7.0% for the year, versus -6.1% in April, while expecting 3.8% growth in 2021 and 2.9% growth in 2022. In addition to this, the central bank bought back large amounts of government bonds for the first time to support the market during the quarter.

Meanwhile, Finance Minister Tito Mboweni's Supplementary Budget unveiled in mid-June highlighted at least part of the extent of damage done by the pandemic. The government budget deficit is now expected at 15.7% of GDP in the current 2020-21 financial year, more than double the previous forecast of 6.8%. The budget did aim to stabilise the government's growing debt burden, but at 87% of GDP by 2023/24, this is still a worryingly high level. Still, financial market reaction to the details contained in the Supplementary Budget was subdued as most of the bad news had already been priced into bond yields.

The BEASSA All Bond Index rebounded from its -8.7% loss in Q1, returning 9.9% in Q2 2020 as some investors snapped up what they thought to be attractively high yields, while SA inflation-linked bonds returned 4.7%. Cash (as measured by the STeFI Composite) produced 1.5% for the three-month period.

The local equity market experienced a very strong quarter after the indiscriminate selling in March that saw the FTSE/JSE All Share Index (ALSI) return -21.4% for Q1 2020. Companies with global earnings held up better than local "SA Inc" shares, as the ALSI delivered a 23.2% return for Q2. This was led by Resources stocks with a 41.2% return, followed by Listed Property (SAPY Index) with 20.4%. Industrial stocks produced 16.6% and Financials returned 12.9%.

Finally, along with other emerging market currencies, the rand posted small gains in Q2 against all three major currencies after its drastic sell-off in Q1, appreciating 2.7% against the US dollar, 3.0% against the pound sterling and 0.4% versus the euro.

PERFORMANCE

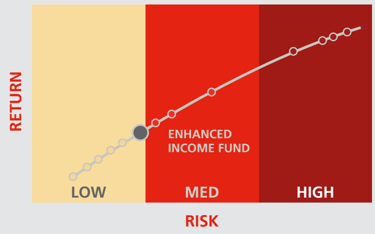
The fund delivered 1.9% (after fees) for the second quarter of 2020, outperforming its benchmark by 0.4%. For the 12 months ending 30 June 2020, the fund returned 2.6% (after fees), compared to its benchmark which returned 6.9% over the same period.

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

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	X CLASS	D CLASS
1 year	2.6%	6.9%	2.9%	2.7%	3.0%
3 years	5.3%	7.2%	5.7%	5.5%	5.9%
5 years	6.1%	7.2%	6.6%	6.3%	6.7%
7 years	6.5%	7.0%	n/a	6.7%	7.0%
10 years	7.3%	7.2%	n/a	n/a	n/a
Since inception	7.6%	7.3%	6.4%	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 921 101 722

Sources: Prudential, Morningstar & Deutsche Securities

STRATEGY AND POSITIONING

Starting with our view on offshore assets, **developed market government bonds** are unattractively priced given the negative real yields prevailing. As such, we remained underweight in these assets and instead used our SA cash holdings to increase exposure to US **investment-grade and US high yield corporate bonds**, as we assessed the prospective medium-term returns to be beneficial to the fund. The fund has already benefitted from a rebound in many of these assets during the quarter, after having sold off indiscriminately in March.

We maintained our modest **SA listed property** exposure in the fund. This positioning reflects the significant macroeconomic uncertainty exacerbated by the pandemic in South Africa, and surrounding the outlook for distributions, as well as the relatively high debt levels in the sector. The risks around property company earnings remain high given the deterioration in the economic outlook, although share prices did rebound over the quarter.

During the quarter we purchased **SA nominal government bonds**, buying mostly long-dated bonds with maturities of 20+ years out of the proceeds of our corporate floating rate instrument sales and some cash balances. The longer maturity bonds have higher prospective returns than their shorter-dated counterparts and have lagged the gains seen in the latter in recent months. The yields of 20+ year bonds rose to exceptionally attractive levels of over 13% in March, subsequently recovering to trade at over 11% in April and through the rest of the second quarter. This is still cheap compared to their pre-Coronavirus yield of 10%. We believe these yields will more than compensate investors for the risk associated with the government debt burden, especially in light of the plans included in the Supplementary Budget (assuming the government is able to adhere to this). If inflation averages 4.5% y/y (the mid-point of the SARB's targeted inflation range) going forward, bonds offer investors a prospective real return that is well over their historic average of 2.5% p.a.- somewhere around 6.5% p.a., depending on when they were purchased during the quarter.

The yields on the majority of South African corporate bond spreads haven't moved wider during the current global crisis (as has been the case in global markets), due to illiquidity in our local secondary bond market. However, we believe credit risk is higher for all issuers of debt (including the SA government). If we were to buy corporate debt now it would be at wider spreads than at the start of the year. However, as of yet there have been no primary market issuances, so it is difficult to gauge exactly where yields should be trading. We have therefore made downward "fair value" adjustments to the valuation of corporate bonds in all our portfolios to reflect a more realistic view of credit risk and the lack of liquidity in the market. This includes all Land Bank bonds held in our portfolios, given the current event of default incurred by Land Bank listed bonds. We suspect that many of our competitors haven't lowered the value of their bond holdings, meaning that our short-term relative performance is likely to be weaker as a result. However, we believe that implementing these adjustments represents a better reflection of the true market values of these assets in our portfolios, thereby ensuring all clients entering, leaving or remaining in our funds do so at fair market prices. At the same time, these adjustments ensure our clients aren't overcharged because of inflated, stale market prices. We continuously review these fair value adjustments with the aim of returning to market pricing as soon as it is prudent to do so.

We continue to hold a modest exposure to **inflation-linked bonds** as of the end of the second quarter of 2020. At the end of March ILBs were offering a very attractive future return for investors of over 6.0%, which is guaranteed if they are held to maturity. During the second quarter ILBs recovered some ground, with 10-year real yields falling to around 4.5%. With real cash yields currently around 0%, the gap between ILB and cash real yields has never been wider. Nevertheless, we are comfortable with our current positioning because we believe better value exists in SA longer-term nominal bonds, given their extraordinary pricing and have the potential to offer more attractive returns over the medium-term and are much more liquid. ■

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

MARKET OVERVIEW

As the world continued to battle the Coronavirus in the second quarter of 2020, countries started to reopen gradually and financial markets rebounded; however, by the end of the quarter the pandemic was still a long way from being conquered, nor did markets fully regain their losses. It continued to take a heavy toll on human lives even as lockdowns were lifted, and caution prevailed as estimates started to emerge regarding the extent and severity of its impact on economic growth. The IMF projected a 4.9% contraction in global growth for 2020, depending on how quickly countries and industries were able to open safely. Yet financial markets bounced back from oversold levels, with most global assets posting strong gains for the three-month period.

In US$ terms, global equities (the MSCI All Country World Index) returned 19.2% for the quarter, while developed markets delivered 19.4% and emerging markets produced 18.1%. For SA investors, the rand's 2.7% appreciation against the US dollar trimmed offshore investment returns somewhat. Global bonds delivered 3.3% for the quarter and global property returned 10.5% (both in US$). This was helped by further widespread emergency monetary easing and market support from the major central banks, and large fiscal support packages from governments.

In the US, Q1 2020 GDP contracted by 5.0% q/q and inflation fell to 0.1% y/y in May, its third straight month of decline. However, Q3 and Q4 data are expected to reflect strong positive growth off a low base as various states started to reopen in June.

After its emergency 100bp interest rate cut in mid-March, at its June policy meeting the US Federal Reserve left the benchmark interest rate unchanged at near 0%, saying it expected rates to remain around zero through 2022. The growth outlook deteriorated further as the Fed lowered its GDP forecast to a 6.5% contraction for 2020, but it expects 5.0% growth in 2021. In the equity market, the S&P 500 gained 20.5% in US$ for the quarter, while the Nasdaq shot up 30.3%, making it one of the only equity markets to fully regain its Q1 losses.

In the UK and European Union, governments also started to reopen their economies, with the UK lagging Europe. Like the US, the Bank of England and European Central Bank (ECB) maintained record-low interest rates and supportive bond buying programmes. For Q1 2020, the UK reported a -2.2% q/q contraction in its GDP, the largest in 40 years, while the EU's economy was even weaker with a 3.3% q/q contraction over the quarter. In the equity markets, the FTSE 100 returned 8.8% in US$ for the quarter, while Germany's DAX produced 26.8% and the French CAC 40 delivered 16.2% in US$.

In Japan, the economy was already weak going into 2020, and for Q1 2020 the economy slumped by 2.2% y/y, putting the country in recession. For Q2 2020, the latest consumer spending, exports and output data are pointing to the worst growth performance for the country since World War II. The Nikkei 225 returned 18.1% for the quarter.

China, meanwhile, reported a 6.8% y/y contraction in GDP for Q1 2020, even though the economy had started to reopen as early as March. This was the country's first decline in growth since 1992. However, analysts were increasingly optimistic that China would escape a technical recession, forecasting 1.5% y/y GDP growth in Q2 and a 1.8% y/y expansion for 2020 as a whole thanks to stimulus measures from the government and PBOC. At the same time, China's move to impose new restrictions on Hong Kong's democratic freedoms was met with widespread condemnation, dampening investor sentiment. Despite this, the legislation was passed. Consequently, Hong Kong's Hang Seng Index returned a subdued 4.8% for the three months and the MSCI China returned 15.4% in US$.

Among other large emerging equity markets, in US$ terms the MSCI South Africa was the top performer with a 27.5% return, followed by Brazil's Bovespa with 23%. The MSCI China recorded the weakest return at 15.4%.

The price of Brent crude oil ended the quarter at around US$42 per barrel, up from US$34 at the end of March as markets anticipated more demand as the global economy opened up and OPEC and Russia negotiated further reductions in supply. As for other commodities, palladium was the only major commodity that lost ground over the quarter, down 16.4%, while gold gained 9.8% and copper shot up 25.9%.

South Africa rebounds with rest of the world

It was a mixed picture in South Africa for Q2 2020: although local equities rebounded more than those in many other countries, the economic picture worsened despite the gradual re-opening of the economy from June. Data showed SA GDP shrank by 2.0% q/q in Q1 2020 (better than the -3.8% q/q expected), but the Treasury forecast a sharp -7.2% contraction for 2020 as a whole. Although the government implemented fiscal tax relief and spending programmes to help cushion the economy, these were necessarily relatively modest due to budget constraints.

At its policy meeting on 21 May, the SARB cut the repo rate by a further 50bps to 3.75%, an historic low. This brought the total reduction to 275bps for 2020 so far. This was reinforced by the latest inflation data, as April CPI came in at 3.0% y/y, its lowest level since 2005. The SARB also lowered its GDP growth forecast to -7.0% for the year, versus -6.1% in April, while expecting 3.8% growth in 2021 and 2.9% growth in 2022.

Meanwhile, Finance Minister Tito Mboweni's Supplementary Budget unveiled in mid-June highlighted at least part of the extent of damage done by the pandemic. The government budget deficit is now expected at 15.7% of GDP in the current 2020-21 financial year, more than double the previous forecast of 6.8%. The budget did aim to stabilise the government's growing debt burden, but at 87% of GDP by 2023/24, this is still a worryingly high level. Still, financial market reaction to the details contained in the Supplementary Budget was subdued as most of the bad news had already been priced into bond yields.

The BEASSA All Bond Index rebounded from its 8.7% loss in Q1, returning 9.9% in Q2 2020 as some investors snapped up what they thought to be attractively high yields, while SA inflation-linked bonds returned 4.7%. Cash (as measured by the STeFI Composite) produced 1.5% for the three-month period.

The local equity market experienced a very strong quarter after the indiscriminate selling in March that saw the FTSE/JSE All Share Index (ALSI) return -21.4% for Q1 2020. Companies with global earnings held up better than local "SA Inc" shares, as the ALSI delivered a 23.2% return for Q2. This was led by Resources stocks with a 41.2% return, followed by Listed Property (SAPY Index) with 20.4%. Industrial stocks produced 16.6% and Financials returned 12.9%.

Finally, along with other emerging market currencies, the rand posted small gains in Q2 against all three major currencies after its drastic sell-off in Q1, appreciating 2.7% against the US dollar, 3.0% against the pound sterling and 0.4% against the euro.

PERFORMANCE

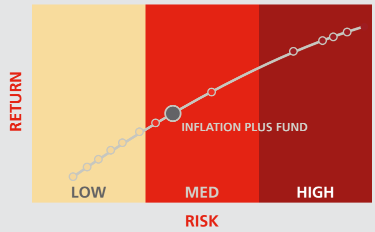
The Inflation Plus Fund returned 11.0% (after fees) for the second quarter of 2020 and -5.4% for the 12-month period ending 30 June 2020. The fund has delivered a return of 10.8% per annum since its inception in 2001 (after fees), compared to its objective of 9.2% per annum over the same period.

ANNUALISED PERFORMANCE	A CLASS	OBJECTIVE#	T CLASS	X CLASS	B CLASS
1 year	-5.4%	5.7%	-5.1%	-5.3%	-4.9%
3 years	0.9%	7.1%	1.3%	1.1%	1.6%
5 years	2.5%	7.9%	3.0%	2.8%	3.2%
7 years	5.4%	8.2%	n/a	5.6%	6.1%
10 years	8.3%	8.4%	n/a	n/a	9.1%
Since inception	10.8%	9.2%	3.0%	7.9%	11.0%

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

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

RISK/RETURN PROFILE:



FUND MANAGERS:

David Knee, Johny Lambridis, Michael Moyle and Sandile Malinga

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:

R23 164 896 329

AWARDS:

Raging Bull: 2013
Morningstar: 2015

Sources: Prudential, Morningstar & Deutsche Securities

The largest asset-class contributors to absolute performance for the period were the fund's exposure to SA equities (by far), followed by international equities, SA bonds and SA listed property. International cash holdings detracted only very slightly from absolute performance.

In terms of specific equity exposure, the fund's holdings in Naspers, Sasol, Anglo American and Implats were the strongest equity contributors to absolute returns for the quarter, with smaller contributions from BAT, Growthpoint, Bidcorp and MTN. The larger detractors from absolute returns for the period were holdings in PPC, Pick 'n Pay and Investec plc.

STRATEGY AND POSITIONING

Starting with our view on **the offshore asset allocation**, during the quarter we reduced **global equities** from an overweight to a neutral position, in favour of buying more SA nominal bonds and SA equities due to their relatively more attractive valuations. Developed market equity valuations fell less than those in SA in March, and following this we took the opportunity to reduce some of our global equity positions to buy more cheaply valued but high-quality SA equities and SA nominal bonds.

Within our global equity positioning, the fund has been underweight the more expensive US market in favour of selected European and emerging market equities. We have been aiming to position the portfolio with higher weightings of very high-returning global assets while maintaining a mix of assets that have diversified return profiles.

We remain underweight **developed market government bonds**, though less so now than at the beginning of the quarter, as we established a position in 30-year US Treasury bonds for risk diversification purposes. We remain overweight US and European **investment-grade corporate bonds and selected emerging-market government bonds**, which offer attractive real yields. Our portfolios have already benefitted from a rebound in many of these assets during the quarter, after having sold off indiscriminately in March.

The Prudential Inflation Plus Fund is overweight in **SA equities**, having added some exposure to our positions during the quarter. After falling to an exceptionally low price-book value ratio of around 1.0X during March, SA equity valuations rose over the quarter to trade at around 1.3X by the end of April and 1.4X by the end of June, a still-attractive level compared to the market's long-term average of around 2.2X. During the quarter, we used part of the proceeds of our offshore equity sales to take advantage of some rare opportunities that arose to acquire normally expensive, high-quality shares at very attractive valuations. We were mindful of the importance of maintaining a prudent approach, to ensure that the companies we chose were able to endure a prolonged shutdown.

For example, we added **Bidcorp** exposure to the fund. Bidcorp is a high-quality business, as demonstrated by its history of delivering steady compound growth in profits over time, as well as having a strong balance sheet. We also increased our holdings in **Remgro** and **MTN** after their shares reached substantial discounts. Remgro had the additional attraction of the unbundling of its stake in RMH during the quarter, while for MTN we saw nearly 40% upside potential in its share price, even after incorporating further discounts for future currency depreciation and other potential negative developments. A final example is **Growthpoint**, where we had calculated that its SA portfolio of properties (including the V&A Waterfront) was trading at a 61% discount to its net asset value at its low point. At the same time, its implied distribution yield was over 50%, and although this subsequently halved to around 27% over the quarter as the Growthpoint share price recovered, this was still very attractive for investors, even considering a very negative scenario for the company going forward.

Meanwhile, the fund's top holdings continue to include global giants like **Naspers**, **British American Tobacco (BAT)** and **Anglo American**, all of whose share prices held up well during the March sell-off - and should continue to do so. Naspers' online gaming and other services benefited from the global lockdowns, especially in China, while BAT has solid, defensive-quality earnings and Anglo American's operations are highly diversified across commodities and geographies. These equity holdings, among others, give the fund the potential to deliver above-market returns going forward.

Our higher-risk holdings continue to include **Sasol** (now with a quite small overweight exposure), as well as some of the gaming stocks, where closure of casinos and limited payout slot machines brought a temporary but painful full stop to their earnings. During the quarter Sasol was one of the top-performing shares on the JSE as it rebounded following the partial recovery in the oil price and announced significant cost-cutting and other measures to improve its balance sheet. This contributed to portfolio performance during the quarter.

As for gaming companies, these businesses have done a good job cutting costs and renegotiating debt repayments during the quarter, and from July will be able to open their doors again, albeit at reduced capacity. We do not believe the pandemic will cause permanent damage to this highly cash-generative sector, although it will take some time for the businesses to regain their pre-pandemic profit levels.

We were already substantially underweight **SA listed property** in the Inflation Plus Fund in Q1 2020 as the sector continued to sell off sharply, and we reduced our exposure further in Q2 through a combination of sales and market value movements. This positioning reflects the significant macroeconomic uncertainty exacerbated by the pandemic in South Africa, and surrounding the outlook for distributions, as well as the relatively high debt levels in the sector. The risks around property company earnings remain high given the deterioration in the economic outlook, although share prices did rebound over the quarter.

During the quarter we moved further overweight in **SA nominal bonds** in the fund, buying mostly long-dated bonds with maturities of 20+ years out of the proceeds of our offshore equity sales. We are overweight in these longer maturities, which have higher prospective returns than their shorter-dated counterparts and have lagged the gains seen in the latter in recent months. The yields of 20+year bonds rose to exceptionally attractive levels of over 13% in March, subsequently recovering to trade at over 11% in April and through the rest of the second quarter. This is still cheap compared to their pre-Coronavirus yield of 10%. We believe these yields will more than compensate investors for the risk associated with the government debt burden, especially in light of the plans included in the Supplementary Budget (assuming the government is able to adhere to this). If inflation averages 4.5% y/y (the mid-point of the SARB's targeted inflation range) going forward, bonds offer investors a prospective real return that is well over their historic average of 2.5% p.a.- somewhere around 6.5% p.a., depending on when they were purchased during the quarter.

The fund remained neutral in **inflation-linked bonds** as of the end of the second quarter of 2020. At the end of March ILBs were offering a very attractive future real return for investors of over 6.0%, which is guaranteed if they are held to maturity. During the second quarter ILBs recovered some ground, with 10-year real yields falling to around 4.5%. With real cash yields currently around 0%, the gap between ILB and cash real yields has never been wider. We are comfortable with this neutral positioning because we believe better value exists in SA equity and SA longer-term nominal bonds, given their extraordinary pricing: both have the potential to offer more attractive returns over the medium-term and are much more liquid.

Lastly, cash is the one SA asset class where prospective returns are now much lower than before the Coronavirus market crash, due to the large interest rate cuts from the SARB. The Prudential Inflation Plus Fund holds little **SA cash**, though the cash weighting has increased over the quarter as a consequence of our sales of SA listed property. ■

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL BALANCED FUND
30 JUNE 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

MARKET OVERVIEW

As the world continued to battle the Coronavirus in the second quarter of 2020, countries started to reopen gradually and financial markets rebounded; however, by the end of the quarter the pandemic was still a long way from being conquered, nor did markets fully regain their losses. It continued to take a heavy toll on human lives even as lockdowns were lifted, and caution prevailed as estimates started to emerge regarding the extent and severity of its impact on economic growth. The IMF projected a 4.9% contraction in global growth for 2020, depending on how quickly countries and industries were able to open safely. Yet financial markets bounced back from oversold levels, with most global assets posting strong gains for the three-month period.

In US$ terms, global equities (the MSCI All Country World Index) returned 19.2% for the quarter, while developed markets delivered 19.4% and emerging markets produced 18.1%. For SA investors, the rand's 2.7% appreciation against the US dollar trimmed offshore investment returns somewhat. Global bonds delivered 3.3% for the quarter and global property returned 10.5% (both in US$). This was helped by further widespread emergency monetary easing and market support from the major central banks, and large fiscal support packages from governments.

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South Africa rebounds with rest of the world

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Meanwhile, Finance Minister Tito Mboweni's Supplementary Budget unveiled in mid-June highlighted at least part of the extent of damage done by the pandemic. The government budget deficit is now expected at 15.7% of GDP in the current 2020-21 financial year, more than double the previous forecast of 6.8%. The budget did aim to stabilise the government's growing debt burden, but at 87% of GDP by 2023/24, this is still a worryingly high level. Still, financial market reaction to the details contained in the Supplementary Budget was subdued as most of the bad news had already been priced into bond yields.

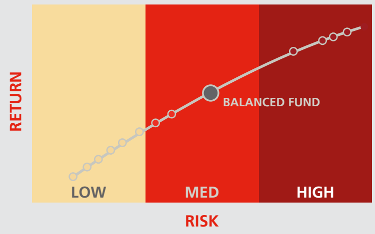
The BEASSA All Bond Index rebounded from its 8.7% loss in Q1, returning 9.9% in Q2 2020 as some investors snapped up what they thought to be attractively high yields, while SA inflation-linked bonds returned 4.7%. Cash (as measured by the STeFI Composite) produced 1.5% for the three-month period.

The local equity market experienced a very strong quarter after the indiscriminate selling in March that saw the FTSE/JSE All Share Index (ALSI) return -21.4% for Q1 2020. Companies with global earnings held up better than local "SA Inc" shares, as the ALSI delivered a

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	X CLASS	B CLASS
1 year	-4.0%	0.5%	-3.7%	-3.9%	-3.5%
3 years	2.8%	3.6%	3.3%	3.1%	3.6%
5 years	3.6%	3.5%	4.1%	3.9%	4.4%
7 years	7.0%	6.2%	n/a	7.2%	7.8%
10 years	10.0%	8.1%	n/a	n/a	10.8%
Since inception	12.5%	11.0%	4.1%	7.4%	13.1%

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, Michael Moyle and Sandile Malinga

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:
R19 627 841 839

Sources: Prudential, Morningstar & Deutsche Securities

23.2% return for Q2. This was led by Resources stocks with a 41.2% return, followed by Listed Property (SAPY Index) with 20.4%. Industrial stocks produced 16.6% and Financials returned 12.9%.

Finally, along with other emerging market currencies, the rand posted small gains in Q2 against all three major currencies after its drastic sell-off in Q1, appreciating 2.7% against the US dollar, 3.0% against the pound sterling and 0.4% against the euro.

PERFORMANCE

The fund returned 16.5% (after fees) for the second quarter of 2020 and -4.0% for the 12-month period ending 30 June 2020. The fund has delivered a return of 12.5% per annum since its inception (after fees), compared to its benchmark of 11.0% per annum over the same period.

The largest asset-class contributors to absolute performance for the quarter were the fund's exposure to SA equities (by far), followed by international equities and SA bonds. International cash holdings were the only (very minor) detractor.

In terms of specific equity exposure, the fund's holdings in Sasol, Anglo American, Naspers and Implats were the strongest equity contributors to absolute returns for the quarter, with smaller contributions from British American Tobacco, MTN, Bidcorp and Exxaro. The main detractors from absolute returns were holdings in PPC, Pick 'n Pay and Investec plc.

STRATEGY AND POSITIONING

Starting with our view on **offshore asset portfolios**, during the quarter we reduced **global equities** from an overweight to a neutral position in the Balanced Fund, in favour of buying more SA nominal bonds and SA equities due to their relatively more attractive valuations. Developed market equity valuations fell less than those in SA in March, and following this we took the opportunity to reduce some of our global equity positions to buy more cheaply valued but high-quality SA equities and SA nominal bonds.

Within our global equity positioning, the fund has been underweight the more expensive US market in favour of selected European and emerging market equities. We have been aiming to position the portfolio with higher weightings of very high-returning global assets while maintaining a mix of assets that have diversified return profiles.

We remain underweight **developed market government bonds**, though less so now than at the beginning of the quarter as we established a position in 30-year US Treasury bonds as a risk diversifier for the portfolio. We remain overweight US and European i**nvestment-grade corporate bonds and selected emerging-market government bonds**, which offer attractive real yields. Our portfolios have already benefitted from a rebound in many of these assets during the quarter, after having sold off indiscriminately in March.

The Prudential Balanced Fund continues to be overweight in **SA equities**. After falling to an exceptionally low price-book value ratio of around 1.0X during March, SA equity valuations rose over the quarter to trade at around 1.3X by the end of April and 1.4X by the end of June, a still-attractive level compared to the market's long-term average of around 2.2X. During the quarter, we used part of the proceeds of our offshore equity sales to take advantage of some rare opportunities that arose to acquire normally expensive, high-quality shares at very attractive valuations. We were mindful of the importance of maintaining a prudent approach, to ensure that the companies we chose were able to endure a prolonged shutdown.

For example, we added **Bidcorp** exposure to the fund. Bidcorp is a high-quality business, as demonstrated by its history of delivering steady compound growth in profits over time, as well as having a strong balance sheet. We also increased our holdings in **Remgro** and **MTN** after their shares reached substantial discounts. Remgro had the additional attraction of the unbundling of its stake in RMH during the quarter, while for MTN we saw nearly 40% upside potential in its share price, even after incorporating further discounts for future currency depreciation and other potential negative developments. A final example is **Growthpoint**, where we had calculated that its SA portfolio of properties (including the V&A Waterfront) was trading at a 61% discount to its net asset value at its low point. At the same time, its implied distribution yield was over 50%, and although this subsequently halved to around 27% over the quarter as the Growthpoint share price recovered, this was still very attractive for investors, even considering a very negative scenario for the company going forward.

Meanwhile, the fund's top holdings continue to include global giants like **Naspers**, **British American Tobacco (BAT)** and **Anglo American**, all of whose share prices held up well during the March sell-off - and should continue to do so. Naspers' online gaming and other services benefited from the global lockdowns, especially in China, while BAT has solid, defensive-quality earnings and Anglo American's operations are highly diversified across commodities and geographies. These equity holdings, among others, give the fund the potential to deliver above-market returns going forward.

Our higher-risk holdings continue to include **Sasol** (now with a quite small overweight exposure), as well as some of the gaming stocks, where closure of casinos and limited payout slot machines brought a temporary but painful full stop to their earnings. During the quarter Sasol was one of the top-performing shares on the JSE as it rebounded following the partial recovery in the oil price and announced significant cost-cutting and other measures to improve its balance sheet. This contributed to portfolio performance during the quarter.

As for gaming companies, these businesses have done a good job cutting costs and renegotiating debt repayments during the quarter, and from July will be able to open their doors again, albeit at reduced capacity. We do not believe the pandemic will cause permanent damage to this highly cash-generative sector, although it will take some time for the businesses to regain their pre-pandemic profit levels.

We were already substantially underweight **SA listed property** in the Balanced Fund in Q1 2020 as the sector continued to sell off sharply, and we remained underweight in Q2. This positioning reflects the significant macroeconomic uncertainty exacerbated by the pandemic in South Africa, and surrounding the outlook for distributions, as well as the relatively high debt levels in the sector. The risks around property company earnings remain high given the deterioration in the economic outlook, although share prices did rebound over the quarter.

During the quarter we moved further overweight in **SA nominal bonds** in the fund, buying mostly long-dated bonds with maturities of 20+ years out of the proceeds of our offshore equity sales. We are overweight in these longer maturities, which have higher prospective returns than their shorter-dated counterparts and have lagged the gains seen in the latter in recent months. The yields of 20+year bonds rose to exceptionally attractive levels of over 13% in March, subsequently recovering to trade at over 11% in April and through the rest of the second quarter. This is still cheap compared to their pre-Coronavirus yield of 10%. We believe these yields will more than compensate investors for the risk associated with the government debt burden, especially in light of the plans included in the Supplementary Budget (assuming the government is able to adhere to this). If inflation averages 4.5% y/y (the mid-point of the SARB's targeted inflation range) going forward, bonds offer investors a prospective real return that is well over their historic average of 2.5% p.a.- somewhere around 6.5% p.a., depending on when they were purchased during the quarter.

The fund continues to have very little exposure to **inflation-linked bonds** as of the end of the second quarter of 2020. At the end of March ILBs were offering a very attractive future real return for investors of over 6.0%, which is guaranteed if they are held to maturity. During the second quarter ILBs recovered some ground, with 10-year real yields falling to around 4.5%. With real cash yields currently around 0%, the gap between ILB and cash real yields has never been wider. We are comfortable with the fund's limited exposure to ILBs as we believe better value exists in SA equity and SA longer-term nominal bonds, given their extraordinary pricing: both have the potential to offer more attractive returns over the medium-term and are much more liquid.

Lastly, cash is the one SA asset class where prospective returns are now much lower than before the Coronavirus market crash, due to the large interest rate cuts from the SARB. The Prudential Balanced Fund remains underweight **SA cash**, since prospective real returns from this asset class are now negative -- no longer even beating inflation. ■

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL ENHANCED SA PROPERTY TRACKER FUND
30 JUNE 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

PROPERTY

MARKET OVERVIEW

It was a mixed picture in South Africa for Q2 2020: although local equities rebounded more than those in many other countries, the economic picture worsened despite the gradual re-opening of the economy from June. Data showed SA GDP shrank by 2.0% q/q in Q1 2020 (better than the -3.8% q/q expected), but the Treasury forecast a sharp -7.2% contraction for 2020 as a whole. The already-recessionary conditions were exacerbated by the lockdown, drastically curbing consumer and business spending, investment and industrial production. Although the government implemented fiscal tax relief and spending programmes to help cushion the economy, these were necessarily relatively modest due to budget constraints.

At its policy meeting on 21 May, the SARB cut the repo rate by a further 50bps to 3.75%, an historic low. This brought the total reduction to 275bps for 2020 so far. This was reinforced by the latest inflation data, as April CPI came in at 3.0% y/y, its lowest level since 2005. The SARB also lowered its GDP growth forecast to -7.0% for the year, versus -6.1% in April, while expecting 3.8% growth in 2021 and 2.9% growth in 2022. In addition to this, the central bank bought back large amounts of government bonds for the first time to support the market during the quarter.

Meanwhile, Finance Minister Tito Mboweni's Supplementary Budget unveiled in mid-June highlighted at least part of the extent of damage done by the pandemic. The government budget deficit is now expected at 15.7% of GDP in the current 2020-21 financial year, more than double the previous forecast of 6.8%. The budget did aim to stabilise the government's growing debt burden, but at 87% of GDP by 2023/24, this is still a worryingly high level. Still, financial market reaction to the details contained in the Supplementary Budget was subdued as most of the bad news had already been priced into bond yields.

The local equity market experienced a very strong quarter after the indiscriminate selling in March that saw the FTSE/JSE All Share Index (ALSI) return -21.4% for Q1 2020. Companies with global earnings held up better than local "SA Inc" shares, as the ALSI delivered a 23.2% return for Q2. This was led by Resources stocks with a 41.2% return, followed by Listed Property (SAPY Index) with 20.4%. Industrial stocks produced 16.6% and Financials returned 12.9%.

PERFORMANCE

The property sector had a strong bounce off its March lows and returned 20.4%, as measured by the FTSE/JSE South African Listed Property Index. The fund underperformed its benchmark by 2.4% (net of fees) over the quarter as it was more defensively positioned by virtue of being underweight highly leveraged companies and overweight secular winners. For the 12 months ending 30 June 2020, the fund returned -40.7%, marginally underperforming its benchmark by 0.7%.

Underweight positions in Fortress B, Investec Property Fund and EPP detracted from relative performance, as did cash held for liquidity purposes. Relative positioning in Growthpoint, Lighthouse Capital, Attacq and Nepi Rockcastle added to relative returns.

STRATEGY AND POSITIONING

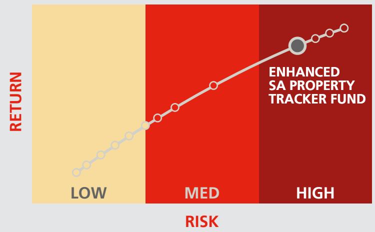
We currently view valuations as attractive relative to history and in absolute terms, though acknowledge that fundamentals do not necessarily support a re-rating of the sector in the near-term. Several companies have elected to defer or effectively cancel the payment of dividends in order to protect their balance sheets. Many companies that had run excessive risk by having high levels of hard-currency debt have learned the hard way and, in some cases, resolved to convert hard-currency debt into rand debt, thereby reducing the risk of a depreciating rand and adversely affecting loan-to value-ratios. These actions serve to reduce risk and are value-enhancing in our view. What is less certain is the level at which rentals and occupancy levels settle over the next couple of years. There is little doubt that the current malaise will result in rentals settling lower and also valuations reverting to more realistic levels. This will push the reported loan-to-value ratios higher for many companies, though more positively, would give investors better certainty over what a sustainable level of income from the sector would be.

We are able to find good value in companies with decent balance sheets, reasonable fundamental prospects and attractive valuations, and are optimistic that the sector's returns are likely to be better in the future than the past. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	D CLASS
1 year	-40.7%	-40.0%	-40.7%	-40.6%
3 years	-19.9%	-18.3%	-19.8%	-19.8%
5 years	-9.7%	-9.1%	-9.7%	-9.6%
7 years	-2.9%	-2.5%	n/a	-2.8%
10 years	4.2%	4.7%	n/a	n/a
Since inception	7.6%	8.1%	-10.4%	3.7%

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:

R1 082 823 410

AWARDS:

Morningstar/Standard & Poor's: 2011

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL DIVIDEND MAXIMISER FUND
30 JUNE 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

EQUITY

MARKET OVERVIEW

In the US, Q1 2020 GDP contracted by 5.0% q/q and inflation fell to 0.1% y/y in May, its third straight month of decline. However, Q3 and Q4 data are expected to reflect strong positive growth off a low base as all states started to reopen in June.

After its emergency 100bp interest rate cut in mid-March, at its June policy meeting the US Federal Reserve left the benchmark interest rate unchanged at near 0%, saying it expected rates to remain around zero through 2022. It also said it would continue to buy back bonds to support the economy. The growth outlook deteriorated further as the Fed lowered its GDP forecast to a 6.5% contraction for 2020, but it expects 5.0% growth in 2021. In the equity market, the S&P 500 gained 20.5% in US$ for the quarter, while the Nasdaq shot up 30.3%, making it one of the only equity markets to fully regain its Q1 losses.

In the UK and European Union, governments also started to reopen their economies, with the UK lagging Europe. Like the US, the Bank of England and European Central Bank (ECB) maintained record-low interest rates and supportive bond buying programmes. For the first time, the ECB launched a backstop facility to provide euro-denominated repo lines to countries outside the euro area. For Q1 2020, the UK reported a -2.2% q/q contraction in its GDP, the largest in 40 years, while the EU's economy was even weaker with a 3.3% q/q contraction over the quarter. In the equity markets, the FTSE 100 returned 8.8% in US$ for the quarter, while Germany's DAX produced 26.8% and the French CAC 40 delivered 16.2% in US$.

In Japan, the economy was already weak going into 2020 with a much worse-than-expected contraction in GDP growth of -7.2% y/y in Q4 2019, due largely to the impact of the new local consumption tax and the US-China trade war. For Q1 2020 the economy slumped by 2.2% y/y, putting the country in recession. The latest consumer spending, exports and output data are pointing to the worst growth performance for the country since World War II in Q2 2020. The Nikkei 225 returned 18.1% for the quarter.

China, meanwhile, reported a 6.8% y/y contraction in GDP for Q1 2020, even though the economy had started to reopen as early as March. This was the country's first decline in growth since 1992. Industrial production fell 8.4% over the quarter, while retail sales were down 19%. However, analysts were increasingly optimistic that China would escape a technical recession, forecasting 1.5% y/y GDP growth in Q2 and a 1.8% y/y expansion for 2020 as a whole thanks to stimulus measures from the government and PBOC. At the same time, China's move to impose new restrictions on Hong Kong's democratic freedoms through new legislation around treason, sedition and other forms of anti-government protest was met with widespread condemnation, both local and international, dampening investor sentiment. Despite this, the legislation was passed. Consequently, Hong Kong's Hang Seng Index returned a subdued 4.8% for the three months and the MSCI China returned 15.4% in US$.

It was a mixed picture in South Africa for Q2 2020: although local equities rebounded more than those in many other countries, the economic picture worsened despite the gradual re-opening of the economy from June. Data showed SA GDP shrank by 2.0% q/q in Q1 2020 (better than the -3.8% q/q expected), but the Treasury forecast a sharp -7.2% contraction for 2020 as a whole. The already-recessionary conditions were exacerbated by the lockdown, drastically curbing consumer and business spending, investment and industrial production. Although the government implemented fiscal tax relief and spending programmes to help cushion the economy, these were necessarily relatively modest due to budget constraints.

At its policy meeting on 21 May, the SARB cut the repo rate by a further 50bps to 3.75%, an historic low. This brought the total reduction to 275bps for 2020 so far. This was reinforced by the latest inflation data, as April CPI came in at 3.0% y/y, its lowest level since 2005. The SARB also lowered its GDP growth forecast to -7.0% for the year, versus -6.1% in April, while expecting 3.8% growth in 2021 and 2.9% growth in 2022. In addition to this, the central bank bought back large amounts of government bonds for the first time to support the market during the quarter.

Meanwhile, Finance Minister Tito Mboweni's Supplementary Budget unveiled in mid-June highlighted at least part of the extent of damage done by the pandemic. The government budget deficit is now expected at 15.7% of GDP in the current 2020-21 financial year, more than double the previous forecast of 6.8%. The budget did aim to stabilise the government's growing debt burden, but at 87% of GDP by 2023/24, this is still a worryingly high level. Still, financial market reaction to the details contained in the Supplementary Budget was subdued as most of the bad news had already been priced into bond yields.

The local equity market experienced a very strong quarter after the indiscriminate selling in March that saw the FTSE/JSE All Share Index (ALSI) return -21.4% for Q1 2020. Companies with global earnings held up better than local "SA Inc" shares, as the ALSI delivered a 23.2% return for Q2. This was led by Resources stocks with a 41.2% return, followed by Listed Property (SAPY Index) with 20.4%. Industrial stocks produced 16.6% and Financials returned 12.9%.

PERFORMANCE

The fund delivered a return of 20.4% (net of fees) for the second quarter of 2020, outperforming its benchmark by 0.9%. For the year ended 30 June 2020, the fund returned -4.0% (net of fees), outperforming its benchmark by 3.5%.

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

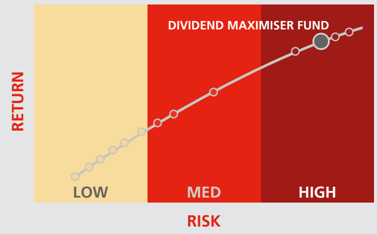
The fund's underweight position to South African interest-rate-sensitive sectors, such as the retail sector, was one of its largest contributors to performance for the last quarter. In particular, the fund does not hold positions in Shoprite, Clicks, or Spar, each of which underperformed for the quarter. Shoprite, which was one of the largest contributors to performance, is a company that we have avoided for many years, for several reasons. Firstly, the valuation of Shoprite has been very expensive over time, providing little margin of safety. The market, after initially being wary of Shoprite's expansion into the rest of Africa, became in our view, overly optimistic about the operations in Angola and Nigeria. The second reason we were cautious was the increasing capital intensity of the business. For every rand of revenue, it was having to invest more and more capital into the business, with the effect that returns started steadily declining. We therefore saw that the quality of the business was steadily declining, and led us to factor this into a lower valuation for this business. While the valuation of Shoprite has fallen significantly to where we stand today, we still think that we are not adequately compensated for the risk around its investments in the rest of Africa.

We have also been underweight Clicks for a number of years mainly due to its expensive valuation, and this position was a major contributor to outperformance for the quarter. Clicks has improved the quality of its business to a point where we think it is now substantially more difficult to improve much further. We therefore think that, relative to market expectations, future outcomes are more likely to be skewed

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	B CLASS	F CLASS
1 year	-4.0%	-7.5%	-3.6%	-3.6%	-3.3%
3 years	2.3%	0.4%	2.7%	2.7%	3.0%
5 years	2.4%	0.3%	2.9%	2.8%	n/a
7 years	6.4%	4.6%	n/a	6.8%	n/a
10 years	10.0%	7.8%	n/a	10.4%	n/a
Since inception	15.3%	12.4%	2.7%	9.3%	3.2%

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

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 481 872 064

AWARDS:
Raging Bull: 2006, 2008

Morningstar/Standard & Poor's: 2007, 2009

Sources: Prudential, Morningstar & Deutsche Securities

to the downside. So, while we have no quarrel with the quality and efficiency of the Clicks business, we think that the market has come to expect this quality and is now overpaying for this comfort.

Our overweight position to Sasol was a substantial contributor to performance for this quarter after having been a substantial detractor from performance for the previous quarter. Sasol's underperformance is well-known to the market and has been mainly due to the uncertainty around the operational challenges in bringing the Lake Charles Chemical Project (LCCP) to successful completion. This substantial project increased the financial leverage of the business and increased the risk to the investment case of the company. The latest significant downturn in the Sasol share price has been due to the large drop in the oil price, which is likely to impact Sasol's core business. The confluence of reduced consumption and a price war between Saudi Arabia and Russia resulted in the oil price falling from over US$60 per barrel at the beginning of the year to almost US$20 at the end of March, and it has subsequently recovered to only around US$42 per barrel at the end of June. While this is likely to be an unsustainably low oil price, it will no doubt place further pressure on Sasol given its financial leverage. We have no strong view on where the oil price could or should be in the short term, but think that in the medium- to long term, given market dynamics, we should expect the oil price to range between US$40/barrel and US$60/barrel. To date our assessment is that our Sasol investment case has been delayed and become riskier (the additional approximate US$1.0bn LCCP capex overrun has put additional strain on the balance sheet). Nevertheless, we think that in an oil price environment where the oil price stays over US$40 per barrel, we still expect a significant "cashflow inflection point" for Sasol in 2020/21 (i.e. when positive operating profit from LCCP replaces significant capex to build the plant). We think that the probability distribution around potential outcomes for Sasol remains fairly wide, but skewed to a more positive outcome, and for this reason we maintain a fairly modest overweight position in Sasol. The company is looking at sensible options to reduce costs and sell-off some of its non-core assets to reduce debt levels.

The fund's underweight position to FirstRand Bank continued to be a large contributor to performance over the quarter. While the fund has an overweight in the banking sector, we viewed FirstRand as being priced too expensively. Although we believe FirstRand is a very high-quality bank with high returns on equity, we think that there is much better relative value in Standard and ABSA banks. The fund did, however, hold an indirect stake in FirstRand bank through its holding in Remgro, which was a substantial shareholder in Rand Merchant Holdings and FirstRand. As a result of the large discount of almost 30% that Remgro trades to the value of the underlying assets it holds, we were able to unlock the discount attributable to FirstRand, when Remgro decided to unbundle its shareholding in RMH during the quarter, which then unbundled its shares in FirstRand to us.

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 during late March and April impacted substantially on the valuations of banks. However, we observe that since this period, bond yields in South Africa have come back down to the same levels where they were trading before this crisis, and yet the valuations of banks have not improved. We therefore observe that the risk premium that the market is requiring from banks has materially increased. We think that this risk premium is more than compensating us for the likelihood that dividends will be materially cut (or reduced to zero) by many banks for the next couple of years, and have therefore increased the fund's overweight to the banking sector.

Our main preference for the banking sector has been due to the good valuations and the very strong capital positions of 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 pandemic. It seems sensible to us that no banks should declare dividends for the 2020 year in order to ensure an even stronger capital position in advance of the high levels of bad debts that are likely to arise going forward. 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 impact of the Coronavirus. On balance we think that this may be a very good point to be buying banks.

One of the largest detractors from performance for this quarter was the fund's underweight position to the gold sector. We have fairly consistently been underweight to the gold sector in the fund, mainly due to the very poor cash flows generated by gold companies and consequently the very poor dividend growth that gold companies have exhibited over a long period of time. We are, however, cognisant that in the current environment where real interest rates are very low, and given that gold is a fairly unanchored asset in terms of valuation, that it does make sense to hold some gold, albeit in an underweight position. We therefore do have positions in Anglogold and Goldfields.

We continue to think that offshore equity markets look attractive, certainly relative to offshore bond markets and when compared to South Africa. The fund is approximately 30% invested offshore, mainly through the Prudential Global Equity Fund and the M&G Global Dividend Fund. Both these funds were the top contributors to outperformance for the first quarter of the year as the rand weakened by almost 25% and offshore markets substantially outperformed the South African market. We used that outperformance of the offshore markets relative to South Africa to reduce the fund's offshore weight by repatriating some capital back to South Africa. As the rand strengthened somewhat in this quarter, the fund's holding in the Prudential Global Equity Fund was the largest detractor from performance.

We acknowledge that while it is very difficult to forecast the future and we do not make any attempt to do so, 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 cash flow track records and which can withstand the normal upheavals that occur in markets over time. We aim to continue building risk-cognisant portfolios that seek to add value through stock selection relative to the benchmark.

STRATEGY AND POSITIONING

We remain optimistic regarding SA equity market returns over the medium term due to the prevailing excessive levels of pessimism reflected in share prices and valuations. Going into the Coronavirus pandemic, the South African market was, in our view, already undervalued and in March fell to levels which we think are exceptionally attractive. In fact, if we look at the price-to-book value multiple of the South African market over the last 40 years, the market has not traded more cheaply. From the JSE's 1.0X price-to-book value level in March, it has only recovered to near a 1.4X price-to-book value at the end of June 2020. 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.

On market valuations, we currently view the market in South Africa along with many other emerging markets as being very undervalued. While the economic impact of 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
30 JUNE 2020

QUARTERLY COMMENTARY

EQUITY

MARKET OVERVIEW

In the US, Q1 2020 GDP contracted by 5.0% q/q and inflation fell to 0.1% y/y in May, its third straight month of decline. However, Q3 and Q4 data are expected to reflect strong positive growth off a low base as all states started to reopen in June.

After its emergency 100bp interest rate cut in mid-March, at its June policy meeting the US Federal Reserve left the benchmark interest rate unchanged at near 0%, saying it expected rates to remain around zero through 2022. It also said it would continue to buy back bonds to support the economy. The growth outlook deteriorated further as the Fed lowered its GDP forecast to a 6.5% contraction for 2020, but it expects 5.0% growth in 2021. In the equity market, the S&P 500 gained 20.5% in US$ for the quarter, while the Nasdaq shot up 30.3%, making it one of the only equity markets to fully regain its Q1 losses.

In the UK and European Union, governments also started to reopen their economies, with the UK lagging Europe. Like the US, the Bank of England and European Central Bank (ECB) maintained record-low interest rates and supportive bond buying programmes. For the first time, the ECB launched a backstop facility to provide euro-denominated repo lines to countries outside the euro area. For Q1 2020, the UK reported a -2.2% q/q contraction in its GDP, the largest in 40 years, while the EU's economy was even weaker with a 3.3% q/q contraction over the quarter. In the equity markets, the FTSE 100 returned 8.8% in US$ for the quarter, while Germany's DAX produced 26.8% and the French CAC 40 delivered 16.2% in US$.

In Japan, the economy was already weak going into 2020 with a much worse-than-expected contraction in GDP growth of -7.2% y/y in Q4 2019, due largely to the impact of the new local consumption tax and the US-China trade war. For Q1 2020 the economy slumped by 2.2% y/y, putting the country in recession. The latest consumer spending, exports and output data are pointing to the worst growth performance for the country since World War II in Q2 2020. The Nikkei 225 returned 18.1% for the quarter.

China, meanwhile, reported a 6.8% y/y contraction in GDP for Q1 2020, even though the economy had started to reopen as early as March. This was the country's first decline in growth since 1992. Industrial production fell 8.4% over the quarter, while retail sales were down 19%. However, analysts were increasingly optimistic that China would escape a technical recession, forecasting 1.5% y/y GDP growth in Q2 and a 1.8% y/y expansion for 2020 as a whole thanks to stimulus measures from the government and PBOC. At the same time, China's move to impose new restrictions on Hong Kong's democratic freedoms through new legislation around treason, sedition and other forms of anti-government protest was met with widespread condemnation, both local and international, dampening investor sentiment. Despite this, the legislation was passed. Consequently, Hong Kong's Hang Seng Index returned a subdued 4.8% for the three months and the MSCI China returned 15.4% in US$.

It was a mixed picture in South Africa for Q2 2020: although local equities rebounded more than those in many other countries, the economic picture worsened despite the gradual re-opening of the economy from June. Data showed SA GDP shrank by 2.0% q/q in Q1 2020 (better than the -3.8% q/q expected), but the Treasury forecast a sharp -7.2% contraction for 2020 as a whole. The already-recessionary conditions were exacerbated by the lockdown, drastically curbing consumer and business spending, investment and industrial production. Although the government implemented fiscal tax relief and spending programmes to help cushion the economy, these were necessarily relatively modest due to budget constraints.

At its policy meeting on 21 May, the SARB cut the repo rate by a further 50bps to 3.75%, an historic low. This brought the total reduction to 275bps for 2020 so far. This was reinforced by the latest inflation data, as April CPI came in at 3.0% y/y, its lowest level since 2005. The SARB also lowered its GDP growth forecast to -7.0% for the year, versus -6.1% in April, while expecting 3.8% growth in 2021 and 2.9% growth in 2022. In addition to this, the central bank bought back large amounts of government bonds for the first time to support the market during the quarter.

Meanwhile, Finance Minister Tito Mboweni's Supplementary Budget unveiled in mid-June highlighted at least part of the extent of damage done by the pandemic. The government budget deficit is now expected at 15.7% of GDP in the current 2020-21 financial year, more than double the previous forecast of 6.8%. The budget did aim to stabilise the government's growing debt burden, but at 87% of GDP by 2023/24, this is still a worryingly high level. Still, financial market reaction to the details contained in the Supplementary Budget was subdued as most of the bad news had already been priced into bond yields.

The local equity market experienced a very strong quarter after the indiscriminate selling in March that saw the FTSE/JSE All Share Index (ALSI) return -21.4% for Q1 2020. Companies with global earnings held up better than local "SA Inc" shares, as the ALSI delivered a 23.2% return for Q2. This was led by Resources stocks with a 41.2% return, followed by Listed Property (SAPY Index) with 20.4%. Industrial stocks produced 16.6% and Financials returned 12.9%.

PERFORMANCE

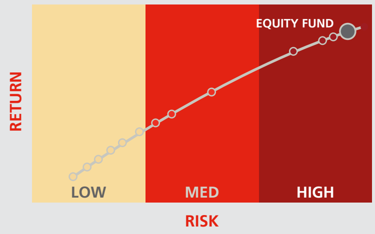
The fund had an excellent quarter in terms of relative and absolute returns, as the market bounced off its March lows, with the fund returning 22.4% compared to the benchmark return of 19.5%. Unfortunately, the returns for the year are still negative at -6.4% for the 12 months ending 30 June 2020, compared to the benchmark return of -7.5%.

Within the SA portion of the portfolio, the major contributors to the relative performance were overweight positions in both Sasol and African Rainbow Minerals, as well as an underweight position to Shoprite. Underweight positions in the gold sector, BHP and Anglo Platinum detracted from value. Within the offshore portion, the Sasol 2024 USD bonds added significantly to performance as they pulled closer to par value, whereas global equity holdings broadly detracted due to rand strength.

STRATEGY AND POSITIONING

During the quarter, the fund sold a portion of its exposure to the Prudential Global Equity Fund given rand weakness, to reinvest into the domestic equity market given attractive relative valuations. The largest purchases were Northam, Truworths and Goldfields, while the fund sold British American Tobacco, Woolworths and African Rainbow Minerals.

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 990 410 249

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

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS	F CLASS
1 year	-6.4%	-7.5%	-6.0%	-5.8%
3 years	2.2%	0.4%	2.6%	3.0%
5 years	2.4%	0.3%	2.8%	n/a
7 years	6.5%	4.6%	7.0%	n/a
10 years	10.5%	7.8%	11.0%	n/a
Since inception	15.2%	12.4%	9.5%	3.9%

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

Sources: Prudential, Morningstar & Deutsche Securities

In terms of positioning, Anglo American, Exxaro and Impala Platinum are our top overweights within the Resources sector. Within the Industrials sector, our top picks remain Naspers, Multichoice Group and MTN. Within Financials, we remain overweight banks as a sector based on valuation multiples being at multi-decade lows. Within the banks our preferences are Standard Bank and Absa.

Despite the strong absolute performance of the fund over the quarter, we remain optimistic about the potential for superior returns from the market going forward, especially after a number of years of below-inflation returns and the fact that valuations in the case of many domestic-focused companies reflect trough valuations. We continue to work hard to uncover new investment opportunities for our clients. ■

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL INCOME

MARKET OVERVIEW

As the world continued to battle the Coronavirus in the second quarter of 2020, countries started to reopen gradually and financial markets rebounded; however, by the end of the quarter the pandemic was still a long way from being conquered, nor did markets fully regain their losses. It continued to take a heavy toll on human lives even as lockdowns were lifted, and caution prevailed as estimates started to emerge regarding the extent and severity of its impact on economic growth. The IMF projected a 4.9% contraction in global growth for 2020, depending on how quickly countries and industries were able to open safely. Yet financial markets bounced back from oversold levels, with most global assets posting strong gains for the three-month period.

For SA investors, the rand's 2.7% appreciation against the US dollar trimmed offshore investment returns somewhat. In US$ terms, global bonds delivered 3.3% for the quarter. This was helped by further widespread emergency monetary easing and market support from the major central banks, and large fiscal support packages from governments.

In the US, Q1 2020 GDP contracted by 5.0% q/q and inflation fell to 0.1% y/y in May, its third straight month of decline. However, Q3 and Q4 data are expected to reflect strong positive growth off a low base as various states started to reopen in June.

After its emergency 100bp interest rate cut in mid-March, at its June policy meeting the US Federal Reserve left the benchmark interest rate unchanged at near 0%, saying it expected rates to remain around zero through 2022. The growth outlook deteriorated further as the Fed lowered its GDP forecast to a 6.5% contraction for 2020, but it expects 5.0% growth in 2021.

In the UK and European Union, governments also started to reopen their economies, with the UK lagging Europe. Like the US, the Bank of England and European Central Bank (ECB) maintained record-low interest rates and supportive bond buying programmes. For Q1 2020, the UK reported a -2.2% q/q contraction in its GDP, the largest in 40 years, while the EU's economy was even weaker with a 3.3% q/q contraction over the quarter.

In Japan, the economy was already weak going into 2020, and for Q1 2020 the economy slumped by 2.2% y/y, putting the country in recession. For Q2 2020, the latest consumer spending, exports and output data are pointing to the worst growth performance for the country since World War II.

China, meanwhile, reported a 6.8% y/y contraction in GDP for Q1 2020, even though the economy had started to reopen as early as March. This was the country's first decline in growth since 1992. However, analysts were increasingly optimistic that China would escape a technical recession, forecasting 1.5% y/y GDP growth in Q2 and a 1.8% y/y expansion for 2020 as a whole thanks to stimulus measures from the government and PBOC. At the same time, China's move to impose new restrictions on Hong Kong's democratic freedoms was met with widespread condemnation, dampening investor sentiment. Despite this, the legislation was passed.

Finally, along with other emerging market currencies, the rand posted small gains in Q2 against all three major currencies after its drastic sell-off in Q1, appreciating 2.7% against the US dollar, 3.0% against the pound sterling and 0.4% against the euro.

PERFORMANCE

Despite the stronger performance of the rand relative to the US dollar over the period, the fund returned 5.7% (net of fees) in rand for the second quarter of 2020, outperforming its benchmark by 5.1%. For the 12 months ending 30 June 2020, the fund returned 26.9% (net of fees) while the benchmark returned 28.3%.

Contributors to absolute performance for the quarter were the fund's holdings in emerging market hard currency government bonds (in both US dollar and euro hedged share classes), investment-grade corporate bonds (exposure to US dollar, euro and pound sterling) and US floating-rate investment-grade corporate bonds. There were no significant detractors from performance over the period.

STRATEGY AND POSITIONING

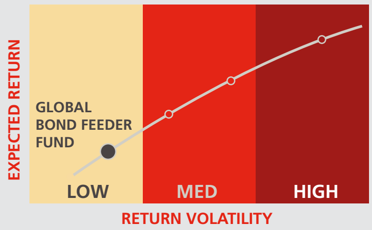
The fund's positioning continues to reflect our preference for selected areas of credit, both high yield and investment grade, "fallen angels" and emerging market government bonds both local (e.g. South African bonds) and hard currency. During the quarter, we sold our Mexican bonds as the yield had declined considerably. We added more high-yield credit and local and hard currency government bonds as we believe these offer highly attractive medium-term returns. We also added long-dated South African government bonds as these currently offer an attractive yield combined with a very steep yield curve. Finally, we added some 30-year US government bonds which currently offer relatively attractive yields in light of the low-inflation backdrop, while their diversification properties in stressed periods continue to be useful.

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 market government bonds, where we tend to be underweight versus the benchmark. We continue to see exceptional opportunities ahead in credit markets, across investment-grade, high-yield and emerging market hard currency and local debt. However, we believe that, having experienced a strong recovery following the price falls of the first quarter, 'non-safe haven' assets, while still offering very lucrative returns, no longer have the potential to deliver the exceptional returns that were available in March. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	26.9%	28.3%	27.3%
3 years	12.2%	14.0%	n/a
5 years	10.0%	11.3%	n/a
7 years	10.2%	11.0%	n/a
10 years	11.5%	11.6%	n/a
Since inception	9.3%	9.5%	20.7%

Inception date B Class: 2 July 2018

RISK/RETURN PROFILE:



INVESTMENT MANAGER OF THE UNDERLYING FUND:

M&G Investment Management Limited (UK)

FUND MANAGERS OF THE UNDERLYING FUND:

Marc Beckenstrater and Craig Simpson

ASISA CATEGORY:

Global - Interest Beating - Variable Term

BENCHMARK:

Bloomberg Barclays Global Aggregate Bond Index

INCEPTION DATE:

27 October 2000

FUND SIZE:

R559 324 424

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL INFLATION PLUS FEEDER FUND
30 JUNE 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL MULTI-ASSET

MARKET OVERVIEW

As the world continued to battle the Coronavirus in the second quarter of 2020, countries started to reopen gradually and financial markets rebounded; however, by the end of the quarter the pandemic was still a long way from being conquered, nor did markets fully regain their losses. It continued to take a heavy toll on human lives even as lockdowns were lifted, and caution prevailed as estimates started to emerge regarding the extent and severity of its impact on economic growth. The IMF projected a 4.9% contraction in global growth for 2020, depending on how quickly countries and industries were able to open safely. Yet financial markets bounced back from oversold levels, with most global assets posting strong gains for the three-month period.

In US$ terms, global equities (the MSCI All Country World Index) returned 19.2% for the quarter, while developed markets delivered 19.4% and emerging markets produced 18.1%. For SA investors, the rand's 2.7% appreciation against the US dollar trimmed offshore investment returns somewhat. Global bonds delivered 3.3% for the quarter and global property returned 10.5% (both in US$). This was helped by further widespread emergency monetary easing and market support from the major central banks, and large fiscal support packages from governments.

In the US, Q1 2020 GDP contracted by 5.0% q/q and inflation fell to 0.1% y/y in May, its third straight month of decline. However, Q3 and Q4 data are expected to reflect strong positive growth off a low base as various states started to reopen in June.

After its emergency 100bp interest rate cut in mid-March, at its June policy meeting the US Federal Reserve left the benchmark interest rate unchanged at near 0%, saying it expected rates to remain around zero through 2022. The growth outlook deteriorated further as the Fed lowered its GDP forecast to a 6.5% contraction for 2020, but it expects 5.0% growth in 2021. In the equity market, the S&P 500 gained 20.5% in US$ for the quarter, while the Nasdaq shot up 30.3%, making it one of the only equity markets to fully regain its Q1 losses.

In the UK and European Union, governments also started to reopen their economies, with the UK lagging Europe. Like the US, the Bank of England and European Central Bank (ECB) maintained record-low interest rates and supportive bond buying programmes. For Q1 2020, the UK reported a -2.2% q/q contraction in its GDP, the largest in 40 years, while the EU's economy was even weaker with a 3.3% q/q contraction over the quarter. In the equity markets, the FTSE 100 returned 8.8% in US$ for the quarter, while Germany's DAX produced 26.8% and the French CAC 40 delivered 16.2% in US$.

In Japan, the economy was already weak going into 2020, and for Q1 2020 the economy slumped by 2.2% y/y, putting the country in recession. For Q2 2020, the latest consumer spending, exports and output data are pointing to the worst growth performance for the country since World War II. The Nikkei 225 returned 18.1% for the quarter.

China, meanwhile, reported a 6.8% y/y contraction in GDP for Q1 2020, even though the economy had started to reopen as early as March. This was the country's first decline in growth since 1992. However, analysts were increasingly optimistic that China would escape a technical recession, forecasting 1.5% y/y GDP growth in Q2 and a 1.8% y/y expansion for 2020 as a whole thanks to stimulus measures from the government and PBOC. At the same time, China's move to impose new restrictions on Hong Kong's democratic freedoms was met with widespread condemnation, dampening investor sentiment. Despite this, the legislation was passed. Consequently, Hong Kong's Hang Seng Index returned a subdued 4.8% for the three months and the MSCI China returned 15.4% in US$.

Among other large emerging equity markets, in US$ terms the MSCI South Africa was the top performer with a 27.5% return, followed by Brazil's Bovespa with 23%. The MSCI China recorded the weakest return at 15.4%.

The price of Brent crude oil ended the quarter at around US$42 per barrel, up from US$34 at the end of March as markets anticipated more demand as the global economy opened up and OPEC and Russia negotiated further reductions in supply. As for other commodities, palladium was the only major commodity that lost ground over the quarter, down 16.4%, while gold gained 9.8% and copper shot up 25.9%.

Finally, along with other emerging market currencies, the rand posted small gains in Q2 against all three major currencies after its drastic sell-off in Q1, appreciating 2.7% against the US dollar, 3.0% against the pound sterling and 0.4% against the euro.

PERFORMANCE

Despite the stronger performance of the rand relative to the US dollar over the period, the fund returned 8.2% (net of fees) in rand for the second quarter of 2020 (compared to 11.4% in US dollar terms), while global inflation expressed in rand measured -3.2%. For the 12 months ending 30 June 2020, the fund returned 21.4% (net of fees) while global inflation measured 23.3%.

The main contributors to absolute performance over the quarter were the fund's exposure to emerging market hard currency government bonds, investment grade corporate bonds (US dollar and euro exposures) and broad exposure to global equities. There were no significant detractors from absolute performance over the quarter.

STRATEGY AND POSITIONING

The fund remains weighted in favour of corporate credit and emerging market sovereign bonds in the fixed income portion, with a preference for equities relative to its strategic asset allocation. During the quarter we added high-yield credit, more specifically exposure to "fallen angels" as we believe this currently offers very attractive medium-term returns. We also de-risked the fund following strong price recovery by reducing the fund's allocation to equities and adding some 30-year US government bonds. These currently offer relatively attractive yields in light of the low-inflation backdrop, while their diversification properties in stressed periods continue to be useful. In addition, we added long-dated South African government bonds as these currently offer an attractive yield combined with a very steep yield curve.

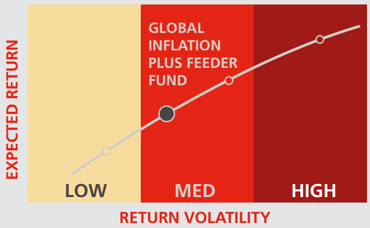
We continue to closely observe the status of economic re-openings and shutdowns around the world and the impact they have on global profitability, growth, inflation and interest rates. We believe that there are compelling returns on offer across a range of diversified global equities, credit, emerging market government bonds and currencies, as well as certain mainstream government bonds. We expect to be pleasantly surprised by the outcomes as economies start to reopen and macroeconomic data continues to improve, albeit from very depressed levels. We believe that ongoing support from government and central banks is likely to have a meaningful influence not only on the economic fundamentals, but also on the risk appetite of investors, and the highly important global risk-free rate. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK*	B CLASS
1 year	21.4%	23.3%	21.8%
3 years	11.2%	10.0%	11.6%
5 years	9.4%	8.5%	9.7%
7 years	10.2%	9.6%	n/a
10 years	10.6%	9.9%	n/a
Since inception	8.5%	7.6%	10.4%

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:

R141 358 512

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL BALANCED FEEDER FUND
30 JUNE 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL MULTI-ASSET

MARKET OVERVIEW

As the world continued to battle the Coronavirus in the second quarter of 2020, countries started to reopen gradually and financial markets rebounded; however, by the end of the quarter the pandemic was still a long way from being conquered, nor did markets fully regain their losses. It continued to take a heavy toll on human lives even as lockdowns were lifted, and caution prevailed as estimates started to emerge regarding the extent and severity of its impact on economic growth. The IMF projected a 4.9% contraction in global growth for 2020, depending on how quickly countries and industries were able to open safely. Yet financial markets bounced back from oversold levels, with most global assets posting strong gains for the three-month period.

In US$ terms, global equities (the MSCI All Country World Index) returned 19.2% for the quarter, while developed markets delivered 19.4% and emerging markets produced 18.1%. For SA investors, the rand's 2.7% appreciation against the US dollar trimmed offshore investment returns somewhat. Global bonds delivered 3.3% for the quarter and global property returned 10.5% (both in US$). This was helped by further widespread emergency monetary easing and market support from the major central banks, and large fiscal support packages from governments.

In the US, Q1 2020 GDP contracted by 5.0% q/q and inflation fell to 0.1% y/y in May, its third straight month of decline. However, Q3 and Q4 data are expected to reflect strong positive growth off a low base as various states started to reopen in June.

After its emergency 100bp interest rate cut in mid-March, at its June policy meeting the US Federal Reserve left the benchmark interest rate unchanged at near 0%, saying it expected rates to remain around zero through 2022. The growth outlook deteriorated further as the Fed lowered its GDP forecast to a 6.5% contraction for 2020, but it expects 5.0% growth in 2021. In the equity market, the S&P 500 gained 20.5% in US$ for the quarter, while the Nasdaq shot up 30.3%, making it one of the only equity markets to fully regain its Q1 losses.

In the UK and European Union, governments also started to reopen their economies, with the UK lagging Europe. Like the US, the Bank of England and European Central Bank (ECB) maintained record-low interest rates and supportive bond buying programmes. For Q1 2020, the UK reported a -2.2% q/q contraction in its GDP, the largest in 40 years, while the EU's economy was even weaker with a 3.3% q/q contraction over the quarter. In the equity markets, the FTSE 100 returned 8.8% in US$ for the quarter, while Germany's DAX produced 26.8% and the French CAC 40 delivered 16.2% in US$.

In Japan, the economy was already weak going into 2020, and for Q1 2020 the economy slumped by 2.2% y/y, putting the country in recession. For Q2 2020, the latest consumer spending, exports and output data are pointing to the worst growth performance for the country since World War II. The Nikkei 225 returned 18.1% for the quarter.

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Among other large emerging equity markets, in US$ terms the MSCI South Africa was the top performer with a 27.5% return, followed by Brazil's Bovespa with 23%. The MSCI China recorded the weakest return at 15.4%.

The price of Brent crude oil ended the quarter at around US$42 per barrel, up from US$34 at the end of March as markets anticipated more demand as the global economy opened up and OPEC and Russia negotiated further reductions in supply. As for other commodities, palladium was the only major commodity that lost ground over the quarter, down 16.4%, while gold gained 9.8% and copper shot up 25.9%.

Finally, along with other emerging market currencies, the rand posted small gains in Q2 against all three major currencies after its drastic sell-off in Q1, appreciating 2.7% against the US dollar, 3.0% against the pound sterling and 0.4% against the euro.

PERFORMANCE

Despite the stronger performance of the rand relative to the US dollar over the period, the fund returned 10.6% (net of fees) in rand for the second quarter of 2020, while its benchmark returned 10.8%. For the 12 months ending 30 June 2020, the fund returned 18.2% (net of fees) while the benchmark returned 26.1%.

The main contributors to absolute performance over the quarter were the fund's exposure to emerging market hard currency government bonds, US investment grade corporate bonds, selected Turkish and South African government bonds and broad exposure to global equities, particularly from the US. Detracting from absolute performance were its holdings in US Treasuries, which the fund held for duration management purposes.

STRATEGY AND POSITIONING

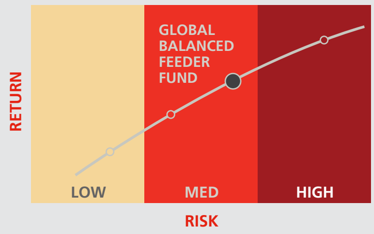
The fund continues to have a clear preference for equities over government bonds, particularly Japanese and European government bonds. We are very constructive on investment grade, high yield and emerging market hard currency and local government debt. During the quarter we added further high-yield credit and local and hard currency bonds as we believe these offer highly attractive medium-term returns. We also de-risked the fund following strong price recovery by reducing the allocation to equities and adding some 30-year US government bonds. These currently offer relatively attractive yields in light of the low-inflation backdrop, while their diversification properties in stressed periods continue to be useful. In addition, we added long-dated South African government bonds as these currently offer an attractive yield combined with a very steep yield curve.

We continue to closely observe the status of economic re-openings and shutdowns around the world, and the impact they have on global profitability, growth, inflation and interest rates. We believe that there are compelling returns on offer across a range

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	18.2%	26.1%	18.0%
2 years	10.5%	17.2%	10.5%

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:
R15 289 171

Sources: Prudential, Morningstar & Deutsche Securities

of diversified global equities, credit, emerging market government bonds and currencies, as well as certain mainstream government bonds. We expect to be pleasantly surprised by the outcomes as economies start to reopen and macroeconomic data continues to improve, albeit from very depressed levels. We believe that ongoing support from government and central banks is likely to have a meaningful influence not only on the economic fundamentals, but also on the risk appetite of investors, and the highly important global risk-free rate. ■

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL EQUITY FEEDER FUND
30 JUNE 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL EQUITY

MARKET OVERVIEW

As the world continued to battle the Coronavirus in the second quarter of 2020, countries started to reopen gradually and financial markets rebounded; however, by the end of the quarter the pandemic was still a long way from being conquered, nor did markets fully regain their losses. It continued to take a heavy toll on human lives even as lockdowns were lifted, and caution prevailed as estimates started to emerge regarding the extent and severity of its impact on economic growth. The IMF projected a 4.9% contraction in global growth for 2020, depending on how quickly countries and industries were able to open safely. Yet financial markets bounced back from oversold levels, with most global assets posting strong gains for the three-month period.

In US$ terms, global equities (the MSCI All Country World Index) returned 19.2% for the quarter, while developed markets delivered 19.4% and emerging markets produced 18.1%. For SA investors, the rand's 2.7% appreciation against the US dollar trimmed offshore investment returns somewhat. Global bonds delivered 3.3% for the quarter and global property returned 10.5% (both in US$). This was helped by further widespread emergency monetary easing and market support from the major central banks, and large fiscal support packages from governments.

In the US, Q1 2020 GDP contracted by 5.0% q/q and inflation fell to 0.1% y/y in May, its third straight month of decline. However, Q3 and Q4 data are expected to reflect strong positive growth off a low base as various states started to reopen in June.

After its emergency 100bp interest rate cut in mid-March, at its June policy meeting the US Federal Reserve left the benchmark interest rate unchanged at near 0%, saying it expected rates to remain around zero through 2022. The growth outlook deteriorated further as the Fed lowered its GDP forecast to a 6.5% contraction for 2020, but it expects 5.0% growth in 2021. In the equity market, the S&P 500 gained 20.5% in US$ for the quarter, while the Nasdaq shot up 30.3%, making it one of the only equity markets to fully regain its Q1 losses.

In the UK and European Union, governments also started to reopen their economies, with the UK lagging Europe. Like the US, the Bank of England and European Central Bank (ECB) maintained record-low interest rates and supportive bond buying programmes. For Q1 2020, the UK reported a -2.2% q/q contraction in its GDP, the largest in 40 years, while the EU's economy was even weaker with a 3.3% q/q contraction over the quarter. In the equity markets, the FTSE 100 returned 8.8% in US$ for the quarter, while Germany's DAX produced 26.8% and the French CAC 40 delivered 16.2% in US$.

In Japan, the economy was already weak going into 2020, and for Q1 2020 the economy slumped by 2.2% y/y, putting the country in recession. For Q2 2020, the latest consumer spending, exports and output data are pointing to the worst growth performance for the country since World War II. The Nikkei 225 returned 18.1% for the quarter.

China, meanwhile, reported a 6.8% y/y contraction in GDP for Q1 2020, even though the economy had started to reopen as early as March. This was the country's first decline in growth since 1992. However, analysts were increasingly optimistic that China would escape a technical recession, forecasting 1.5% y/y GDP growth in Q2 and a 1.8% y/y expansion for 2020 as a whole thanks to stimulus measures from the government and PBOC. At the same time, China's move to impose new restrictions on Hong Kong's democratic freedoms was met with widespread condemnation, dampening investor sentiment.

Despite this, the legislation was passed. Consequently, Hong Kong's Hang Seng Index returned a subdued 4.8% for the three months and the MSCI China returned 15.4% in US$.

Among other large emerging equity markets, in US$ terms the MSCI South Africa was the top performer with a 27.5% return, followed by Brazil's Bovespa with 23%. The MSCI China recorded the weakest return at 15.4%.

The price of Brent crude oil ended the quarter at around US$42 per barrel, up from US$34 at the end of March as markets anticipated more demand as the global economy opened up and OPEC and Russia negotiated further reductions in supply. As for other commodities, palladium was the only major commodity that lost ground over the quarter, down 16.4%, while gold gained 9.8% and copper shot up 25.9%.

Finally, along with other emerging market currencies, the rand posted small gains in Q2 against all three major currencies after its drastic sell-off in Q1, appreciating 2.7% against the US dollar, 3.0% against the pound sterling and 0.4% against the euro.

PERFORMANCE

Despite the stronger performance of the rand relative to the US dollar over the period, the fund returned 15.2% (net of fees) in rand for the second quarter of 2020, while its benchmark returned 16.0%. For the 12 months ending 30 June 2020, the fund returned 18.8% (net of fees) while the benchmark returned 25.7%.

The portfolio outperformed its benchmark on 26 out of 43 days from 1 May (the date on which it was restructured to have a greater portion of the fund managed using its proprietary machine-learning model) to the end of the quarter on a gross basis, offering a hit rate of 60.5%. Over the period, style biases had a positive contribution to returns with exposure to smaller size companies and momentum assisting performance, while a bias towards lower volatility stocks detracted from performance.

STRATEGY AND POSITIONING

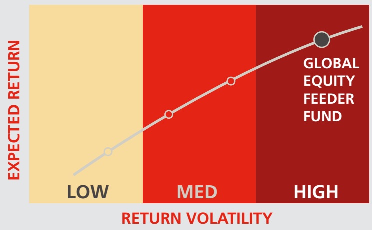
From 1 May 2020, the portion of the fund managed using its proprietary machine- learning model was increased from around 30% to approximately 80% currently. At the same time, the portion pooled in the M&G equity funds was reduced to zero, with the balance of approximately 20% remaining in strategic ETFs. The ETF allocation is primarily used for liquidity purposes and is expected to fall over time. The model is currently designed to select companies with positive exposure to momentum and growth styles, as well as positive exposure to volatility.

We continue to closely observe the status of economic re-openings and shutdowns around the world, and the impact they have on global profitability, growth, inflation and interest rates. We believe that there are compelling returns on offer across a range of diversified global equities. We expect to be pleasantly surprised by the outcomes as economies start to reopen and macroeconomic data continues to improve, albeit from very depressed levels. We believe that ongoing support from government and central banks is likely to have a meaningful influence not only on the economic fundamentals, but also on the risk appetite of investors, and the highly important global risk-free rate. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	18.8%	25.7%	19.2%
3 years	11.5%	16.6%	n/a
5 years	11.1%	14.4%	n/a
7 years	13.9%	16.8%	n/a
10 years	15.1%	18.5%	n/a
Since inception	7.5%	9.3%	13.1%

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 Gautam Samarth

ASISA CATEGORY:
Global - Equity - General

BENCHMARK:
MSCI All Country World Index (Net)

INCEPTION DATE:
18 February 2000

FUND SIZE:
R339 448 107

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL 2.5% TARGET INCOME FUND
30 JUNE 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

TARGET INCOME

MARKET OVERVIEW

As the world continued to battle the Coronavirus in the second quarter of 2020, countries started to reopen gradually and financial markets rebounded; however, by the end of the quarter the pandemic was still a long way from being conquered, nor did markets fully regain their losses. It continued to take a heavy toll on human lives even as lockdowns were lifted, and caution prevailed as estimates started to emerge regarding the extent and severity of its impact on economic growth. The IMF projected a 3% contraction in global growth for 2020, depending on how quickly countries and industries were able to open safely. Yet financial markets bounced back from oversold levels, with most global assets posting strong gains for the three-month period.

In US$ terms, global equities (the MSCI All Country World Index) returned 19.2% for the quarter, while developed markets delivered 19.4% and emerging markets produced 18.1%. For SA investors, the rand's 2.7% appreciation against the US dollar trimmed offshore investment returns somewhat. Global bonds delivered 3.3% for the quarter and global property returned 10.5% (both in US$). This was helped by further widespread emergency monetary easing and market support from the major central banks, and large fiscal support packages from governments.

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After its emergency 100bp interest rate cut in mid-March, at its June policy meeting the US Federal Reserve left the benchmark interest rate unchanged at near 0%, saying it expected rates to remain around zero through 2022. The growth outlook deteriorated further as the Fed lowered its GDP forecast to a 6.5% contraction for 2020, but it expects 5.0% growth in 2021. In the equity market, the S&P 500 gained 20.5% in US$ for the quarter, while the Nasdaq shot up 30.3%, making it one of the only equity markets to fully regain its Q1 losses.

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In Japan, the economy was already weak going into 2020, and for Q1 2020 the economy slumped by 2.2% y/y, putting the country in recession. For Q2 2020, the latest consumer spending, exports and output data are pointing to the worst growth performance for the country since World War II. The Nikkei 225 returned 18.1% for the quarter.

China, meanwhile, reported a 6.8% y/y contraction in GDP for Q1 2020, even though the economy had started to reopen as early as March. This was the country's first decline in growth since 1992. However, analysts were increasingly optimistic that China would escape a technical recession, forecasting 1.5% y/y GDP growth in Q2 and a 1.8% y/y expansion for 2020 as a whole thanks to stimulus measures from the government and PBOC. At the same time, China's move to impose new restrictions on Hong Kong's democratic freedoms was met with widespread condemnation, dampening investor sentiment. Despite this, the legislation was passed. Consequently, Hong Kong's Hang Seng Index returned a subdued 4.8% for the three months and the MSCI China returned 15.4% in US$.

Among other large emerging equity markets, in US$ terms the MSCI South Africa was the top performer with a 27.5% return, followed by Brazil's Bovespa with 23%. The MSCI China recorded the weakest return at 15.4%.

The price of Brent crude oil ended the quarter at around US$42 per barrel, up from US$34 at the end of March as markets anticipated more demand as the global economy opened up and OPEC and Russia negotiated further reductions in supply. As for other commodities, palladium was the only major commodity that lost ground over the quarter, down 16.4%, while gold gained 9.8% and copper shot up 25.9%.

South Africa rebounds with rest of the world

It was a mixed picture in South Africa for Q2 2020: although local equities rebounded more than those in many other countries, the economic picture worsened despite the gradual re-opening of the economy from June. Data showed SA GDP shrank by 2.0% q/q in Q1 2020 (better than the -3.8% q/q expected), but the Treasury forecast a sharp -7.2% contraction for 2020 as a whole. Although the government implemented fiscal tax relief and spending programmes to help cushion the economy, these were necessarily relatively modest due to budget constraints.

At its policy meeting on 21 May, the SARB cut the repo rate by a further 50bps to 3.75%, an historic low. This brought the total reduction to 275bps for 2020 so far, and its interest rate model is projecting two further 25bp interest rate cuts in 2020. This was reinforced by the latest inflation data, as April CPI came in at 3.0% y/y, its lowest level since 2005. The SARB also lowered its GDP growth forecast to -7.0% for the year, versus -6.1% in April, while expecting 3.8% growth in 2021 and 2.9% growth in 2022.

Meanwhile, Finance Minister Tito Mboweni's Supplementary Budget unveiled in mid-June highlighted at least part of the extent of damage done by the pandemic. The government budget deficit is now expected at 15.7% of GDP in the current 2020-21 financial year, more than double the previous forecast of 6.8%. The budget did aim to stabilise the government's growing debt burden, but at 87% of GDP by 2023/24, this is still a worryingly high level. Still, financial market reaction to the details contained in the Supplementary Budget was subdued as most of the bad news had already been priced into bond yields.

The BEASSA All Bond Index rebounded from its 8.7% loss in Q1, returning 9.9% in Q2 2020 as some investors snapped up what they thought to be attractively high yields, while SA inflation-linked bonds returned 4.7%. Cash (as measured by the STeFI Composite) produced 1.5% for the three-month period.

The local equity market experienced a very strong quarter after the indiscriminate selling in March that saw the FTSE/JSE All Share Index (ALSI) return -21.4% for Q1 2020. Companies with global earnings held up better than local "SA Inc" shares, as the ALSI delivered a 23.2% return for Q2. This was led by Resources stocks with a 41.2% return, followed by Listed Property (SAPY Index) with 20.4%. Industrial stocks produced 16.6% and Financials returned 12.9%.

Finally, along with other emerging market currencies, the rand posted small gains in Q2 against all three major currencies after its drastic sell-off in Q1, appreciating 2.7% against the US dollar, 3.0% against the pound sterling and 0.4% against the euro.

FUND MANAGERS:
David Knee, Johny Lambridis, Michael Moyle and Sandile Malinga

ASISA CATEGORY:
The Fund is unclassified given its unique investment objective.

PRIMARY OBJECTIVE:
2.5% Income return p.a.

INCEPTION DATE:
2 April 2019

FUND SIZE:
R89 220 007

ANNUALISED PERFORMANCE	A CLASS	CPI	B CLASS
1 year	-8.5%	2.1%	-8.2%
Since inception	-9.1%	2.6%	-7.0%

Inception date: B Class: 2 April 2019

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

TARGET INCOME

PERFORMANCE

The Prudential 2.5% Target Income Fund returned 17.5% (after fees) for the second quarter of 2020 and -8.5% for the 12-month period ending 30 June 2020. For Q2 2020, the largest asset-class contributors to the fund's absolute performance for the quarter were its exposure to SA equities (by far), followed by its international holdings, SA bonds and SA listed property. There were no meaningful asset-class detractors from absolute performance due to the strong gains recorded by most assets over the quarter.

In terms of specific equity exposure, the fund's holdings in Naspers, Sasol, Anglo American, and Implats were the strongest equity contributors to absolute returns for the quarter, with smaller contributions from British American Tobacco, MTN, Bidcorp and Exxaro. The main (but minor) detractors from absolute returns were the fund's exposures to PPC, Pick 'n Pay and Investec plc.

The fund recently marked its one-year anniversary after having been launched in April 2019 as a restructured successor to the 2.5% Prudential Income Portfolio (PIP) solution, which had built up a successful track record since 2007. The restructuring was undertaken to improve certain aspects of our PIP range of income solutions to make them more understandable for clients, more efficient from an investment point of view and, where relevant, potentially more tax efficient.

STRATEGY AND POSITIONING

It is important to remember that by definition, the Prudential Target Income Funds are managed as long-term strategies that aim to, firstly, deliver their income requirement, and secondly, grow capital in order to meet future income requirements.

Because of its relatively low income target, the 2.5% Target Income Fund is the most aggressive of the range of our income funds in terms of asset allocation. Currently over 70% of the portfolio is exposed to local and offshore equities, while around 5.0% is in SA listed property, 8.5% in SA nominal bonds and 6% in SA cash. The equity allocation remains the primary driver of returns.

Looking at the international holdings of the fund, during the quarter we sold some **global equity** exposure, in favour of buying more SA nominal bonds and SA equities due to their relatively more attractive valuations. Developed market equity valuations fell less than those in SA in March, and following this we took the opportunity to reduce some of our global equity positions to buy more cheaply valued but high-quality SA equities and SA nominal bonds.

Within our global equity positioning, the fund has been underweight the more expensive US market in favour of selected European and emerging market equities. We have been aiming to position the portfolio with higher weightings of very high-returning global assets while maintaining a mix of assets that have diversified return profiles.

The fund has a small exposure to **developed market government bonds**. We established a position in 30 year US Treasury bonds as an important risk diversifying asset. We continue to hold US and European **investment-grade corporate bonds and selected emerging-market government bonds** which offer attractive real yields. The portfolio has already benefitted from a rebound in many of these assets during the quarter, after having sold off indiscriminately in March.

The fund added to its **SA equity** exposure during the quarter. After falling to an exceptionally low price-book value ratio of around 1.0X during March, SA equity valuations rose over the quarter to trade at around 1.3X by the end of April and 1.4X by the end of June, a still-attractive level compared to the market's long-term average of around 2.2X. During the quarter, we used part of the proceeds of our offshore equity sales to take advantage of some rare opportunities that arose to acquire normally expensive, high-quality shares at very attractive valuations. We were mindful of the importance of maintaining a prudent approach, to ensure that the companies we chose were able to endure a prolonged shutdown.

For example, we added Bidcorp exposure to the fund. **Bidcorp** is a high-quality business, as demonstrated by its history of delivering steady compound growth in profits over time, as well as having a strong balance sheet. We also increased our holdings in **MTN** after its shares reached a substantial discount -- we saw nearly 40% upside potential in its share price, even after incorporating further discounts for future currency depreciation and other potential negative developments.

Meanwhile, the fund's top holdings continue to include global giants like **Naspers, British American Tobacco (BAT)** and **Anglo American**, all of whose share prices held up well during the March sell-off - and should continue to do so. Naspers' online gaming and other services benefited from the global lockdowns, especially in China, while BAT has solid, defensive-quality earnings and Anglo American's operations are highly diversified across commodities and geographies. These equity holdings, among others, give the fund the potential to deliver above-market returns going forward.

Our higher-risk holdings continue to include **Sasol** (now with a quite small overweight exposure), as well as some of the gaming stocks, where closure of casinos and limited payout slot machines brought a temporary but painful full stop to their earnings. During the quarter Sasol was one of the top-performing shares on the JSE as it rebounded following the partial recovery in the oil price and announced significant cost-cutting and other measures to improve its balance sheet. This contributed to portfolio performance during the quarter.

The fund reduced its exposure to **SA listed property** to 5% in Q2 2020, reflecting the significant macroeconomic uncertainty exacerbated by the pandemic in South Africa, and surrounding the outlook for distributions, as well as the relatively high debt levels in the sector. The risks around property company earnings remain high given the deterioration in the economic outlook, although share prices did rebound over the quarter.

During the quarter we bought more **SA nominal bonds** in the fund, adding mostly long-dated bonds with maturities of 20+ years out of the proceeds of our offshore equity sales. These longer maturities higher prospective returns than their shorter-dated counterparts and have lagged the gains seen in the latter in recent months. The yields of 20+year bonds rose to exceptionally attractive levels of over 13% in March, subsequently recovering to trade at over 11% in April and through the rest of the second quarter. This is still cheap compared to their pre-Coronavirus yield of 10%. We believe these yields will more than compensate investors for the risk associated with the government debt burden, especially in light of the plans included in the Supplementary Budget (assuming the government is able to adhere to this). If inflation averages 4.5% y/y (the mid-point of the SARB's targeted inflation range) going forward, bonds offer investors a prospective real return that is well over their historic average of 2.5% p.a.- somewhere around 6.5% p.a., depending on when they were purchased during the quarter.

Although market volatility remains high in the short term, we believe the fund is well-positioned to meet its objectives over the next three to five years, and we continue to take advantage of opportunities to enhance long-term returns. ■

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL 5% TARGET INCOME FUND
30 JUNE 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

TARGET INCOME

MARKET OVERVIEW

As the world continued to battle the Coronavirus in the second quarter of 2020, countries started to reopen gradually and financial markets rebounded; however, by the end of the quarter the pandemic was still a long way from being conquered, nor did markets fully regain their losses. It continued to take a heavy toll on human lives even as lockdowns were lifted, and caution prevailed as estimates started to emerge regarding the extent and severity of its impact on economic growth. The IMF projected a 3% contraction in global growth for 2020, depending on how quickly countries and industries were able to open safely. Yet financial markets bounced back from oversold levels, with most global assets posting strong gains for the three-month period.

In US$ terms, global equities (the MSCI All Country World Index) returned 19.2% for the quarter, while developed markets delivered 19.4% and emerging markets produced 18.1%. For SA investors, the rand's 2.7% appreciation against the US dollar trimmed offshore investment returns somewhat. Global bonds delivered 3.3% for the quarter and global property returned 10.5% (both in US$). This was helped by further widespread emergency monetary easing and market support from the major central banks, and large fiscal support packages from governments.

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In the UK and European Union, governments also started to reopen their economies, with the UK lagging Europe. Like the US, the Bank of England and European Central Bank (ECB) maintained record-low interest rates and supportive bond buying programmes. For Q1 2020, the UK reported a -2.2% q/q contraction in its GDP, the largest in 40 years, while the EU's economy was even weaker with a 3.3% q/q contraction over the quarter. In the equity markets, the FTSE 100 returned 8.8% in US$ for the quarter, while Germany's DAX produced 26.8% and the French CAC 40 delivered 16.2% in US$.

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South Africa rebounds with rest of the world

It was a mixed picture in South Africa for Q2 2020: although local equities rebounded more than those in many other countries, the economic picture worsened despite the gradual re-opening of the economy from June. Data showed SA GDP shrank by 2.0% q/q in Q1 2020 (better than the -3.8% q/q expected), but the Treasury forecast a sharp -7.2% contraction for 2020 as a whole. Although the government implemented fiscal tax relief and spending programmes to help cushion the economy, these were necessarily relatively modest due to budget constraints.

At its policy meeting on 21 May, the SARB cut the repo rate by a further 50bps to 3.75%, an historic low. This brought the total reduction to 275bps for 2020 so far, and its interest rate model is projecting two further 25bp interest rate cuts in 2020. This was reinforced by the latest inflation data, as April CPI came in at 3.0% y/y, its lowest level since 2005. The SARB also lowered its GDP growth forecast to -7.0% for the year, versus -6.1% in April, while expecting 3.8% growth in 2021 and 2.9% growth in 2022.

Meanwhile, Finance Minister Tito Mboweni's Supplementary Budget unveiled in mid-June highlighted at least part of the extent of damage done by the pandemic. The government budget deficit is now expected at 15.7% of GDP in the current 2020-21 financial year, more than double the previous forecast of 6.8%. The budget did aim to stabilise the government's growing debt burden, but at 87% of GDP by 2023/24, this is still a worryingly high level. Still, financial market reaction to the details contained in the Supplementary Budget was subdued as most of the bad news had already been priced into bond yields.

The BEASSA All Bond Index rebounded from its 8.7% loss in Q1, returning 9.9% in Q2 2020 as some investors snapped up what they thought to be attractively high yields, while SA inflation-linked bonds returned 4.7%. Cash (as measured by the STeFI Composite) produced 1.5% for the three-month period.

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Finally, along with other emerging market currencies, the rand posted small gains in Q2 against all three major currencies after its drastic sell-off in Q1, appreciating 2.7% against the US dollar, 3.0% against the pound sterling and 0.4% against the euro.

FUND MANAGERS:
David Knee, Johny Lambridis, Michael Moyle and Sandile Malinga

ASISA CATEGORY:
The Fund is unclassified given its unique investment objective.

PRIMARY OBJECTIVE:
5% Income return p.a.

INCEPTION DATE:
2 April 2019

FUND SIZE:
R194 527 004

ANNUALISED PERFORMANCE	A CLASS	CPI	B CLASS
1 year	-2.5%	2.1%	-2.2%
Since inception	-2.3%	2.6%	-1.4%

Inception date: B Class: 2 April 2019

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL 5% TARGET INCOME FUND
30 JUNE 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

TARGET INCOME

PERFORMANCE

The Prudential 5% Target Income Fund returned 11.4% (after fees) for the second quarter of 2020 and -2.5% for the 12-month period ending 30 June 2020. For Q2 2020, the largest asset-class contributors to the fund's absolute performance were its exposure to SA equities, followed by its SA nominal bond holdings and SA listed property. There were no meaningful asset-class detractors from absolute performance due to the strong gains recorded by most assets over the quarter.

In terms of specific equity exposure, the fund's holdings in Naspers, Sasol, Anglo American, and British American Tobacco were the strongest equity contributors to absolute returns for the quarter, with smaller contributions from Nepi Rockcastle, Growthpoint and MTN. The main (but minor) detractors from absolute returns were the fund's exposures to PPC, Pick 'n Pay and Investec plc.

The fund recently marked its one-year anniversary after having been launched in April 2019 as a restructured successor to the 5% Prudential Income Portfolio (PIP) solution, which had built up a successful track record since 2003. The restructuring was undertaken to improve certain aspects of our PIP range of income solutions to make them more understandable for clients, more efficient from an investment point of view and, where relevant, potentially more tax efficient.

STRATEGY AND POSITIONING

It is important to remember that by definition, the Prudential Target Income Funds are managed as long-term strategies that aim to, firstly, deliver their income requirement, and secondly, grow capital in order to meet future income requirements.

Because of its 5% income target, the fund has a moderately aggressive asset allocation positioning, with a lower exposure to equities, and higher exposure to bonds, than the 2.5% Target Income Fund. Currently over 40% of the portfolio is exposed to local and offshore equities, while around 5.0% is invested in SA listed property, 40% in SA nominal bonds and 14% in SA cash.

Looking at the international holdings of the fund, during the quarter we sold some **global equity** exposure in favour of buying more SA nominal bonds and SA equities due to their relatively more attractive valuations. Developed market equity valuations fell less than those in SA in March, and following this we took the opportunity to reduce some of our global equity positions to buy more cheaply valued but high-quality SA equities and SA nominal bonds.

Within our global equity positioning, the fund has been underweight the more expensive US market in favour of selected European and emerging market equities. We have been aiming to position the portfolio with higher weightings of very high-returning global assets while maintaining a mix of assets that have diversified return profiles.

The fund has a small exposure to **developed market government bonds**. We established a position in 30 year US Treasury bonds as an important risk diversifying asset. We continue to hold US and European **investment-grade corporate bonds and selected emerging-market government bonds** which offer attractive real yields. The portfolio has already benefitted from a rebound in many of these assets during the quarter, after having sold off indiscriminately in March.

The fund added to its **SA equity** exposure during the quarter. After falling to an exceptionally low price-book value ratio of around 1.0X during March, SA equity valuations rose over the quarter to trade at around 1.3X by the end of April and 1.4X by the end of June, a still-attractive level compared to the market's long-term average of around 2.2X. During the quarter, we used part of the proceeds of our offshore equity sales to take advantage of some rare opportunities that arose to acquire normally expensive, high-quality shares at very attractive valuations. We were mindful of the importance of maintaining a prudent approach, to ensure that the companies we chose were able to endure a prolonged shutdown.

For example, we added **Bidcorp** exposure to the fund. Bidcorp is a high-quality business, as demonstrated by its history of delivering steady compound growth in profits over time, as well as having a strong balance sheet. We also increased our holdings in **MTN** after its shares reached a substantial discount -- we saw nearly 40% upside potential in its share price, even after incorporating further discounts for future currency depreciation and other potential negative developments.

Meanwhile, the fund's top holdings continue to include global giants like **Naspers, British American Tobacco (BAT)** and **Anglo American**, all of whose share prices held up well during the March sell-off - and should continue to do so. Naspers' online gaming and other services benefited from the global lockdowns, especially in China, while BAT has solid, defensive-quality earnings and Anglo American's operations are highly diversified across commodities and geographies. These equity holdings, among others, give the fund the potential to deliver above-market returns going forward.

Our higher-risk holdings continue to include **Sasol** (now with a quite small overweight exposure), as well as some of the gaming stocks, where closure of casinos and limited payout slot machines brought a temporary but painful full stop to their earnings. During the quarter Sasol was one of the top-performing shares on the JSE as it rebounded following the partial recovery in the oil price and announced significant cost-cutting and other measures to improve its balance sheet. This contributed to portfolio performance during the quarter.

The fund reduced its exposure to **SA listed property** to 5% in Q2 2020, reflecting the significant macroeconomic uncertainty exacerbated by the pandemic in South Africa, and surrounding the outlook for distributions, as well as the relatively high debt levels in the sector. The risks around property company earnings remain high given the deterioration in the economic outlook, although share prices did rebound over the quarter.

During the quarter we bought more **SA nominal bonds** in the fund, adding mostly long-dated bonds with maturities of 20+ years out of the proceeds of our offshore equity sales. These longer maturities higher prospective returns than their shorter-dated counterparts and have lagged the gains seen in the latter in recent months. The yields of 20+year bonds rose to exceptionally attractive levels of over 13% in March, subsequently recovering to trade at over 11% in April and through the rest of the second quarter. This is still cheap compared to their pre-Coronavirus yield of 10%. We believe these yields will more than compensate investors for the risk associated with the government debt burden, especially in light of the plans included in the Supplementary Budget (assuming the government is able to adhere to this). If inflation averages 4.5% y/y (the mid-point of the SARB's targeted inflation range) going forward, bonds offer investors a prospective real return that is well over their historic average of 2.5% p.a.- somewhere around 6.5% p.a., depending on when they were purchased during the quarter.

Although market volatility remains high in the short term, we believe the fund is well-positioned to meet its objectives over the next three to five years, and we continue to take advantage of opportunities to enhance long-term returns. ■

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL 7% TARGET INCOME FUND
30 JUNE 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

TARGET INCOME

MARKET OVERVIEW

As the world continued to battle the Coronavirus in the second quarter of 2020, countries started to reopen gradually and financial markets rebounded; however, by the end of the quarter the pandemic was still a long way from being conquered, nor did markets fully regain their losses. It continued to take a heavy toll on human lives even as lockdowns were lifted, and caution prevailed as estimates started to emerge regarding the extent and severity of its impact on economic growth. The IMF projected a 3% contraction in global growth for 2020, depending on how quickly countries and industries were able to open safely. Yet financial markets bounced back from oversold levels, with most global assets posting strong gains for the three-month period.

In US$ terms, global equities (the MSCI All Country World Index) returned 19.2% for the quarter, while developed markets delivered 19.4% and emerging markets produced 18.1%. For SA investors, the rand's 2.7% appreciation against the US dollar trimmed offshore investment returns somewhat. Global bonds delivered 3.3% for the quarter and global property returned 10.5% (both in US$). This was helped by further widespread emergency monetary easing and market support from the major central banks, and large fiscal support packages from governments.

The price of Brent crude oil ended the quarter at around US$42 per barrel, up from US$34 at the end of March as markets anticipated more demand as the global economy opened up and OPEC and Russia negotiated further reductions in supply. As for other commodities, palladium was the only major commodity that lost ground over the quarter, down 16.4%, while gold gained 9.8% and copper shot up 25.9%.

South Africa rebounds with rest of the world

It was a mixed picture in South Africa for Q2 2020: although local equities rebounded more than those in many other countries, the economic picture worsened despite the gradual re-opening of the economy from June. Data showed SA GDP shrank by 2.0% q/q in Q1 2020 (better than the -3.8% q/q expected), but the Treasury forecast a sharp -7.2% contraction for 2020 as a whole. Although the government implemented fiscal tax relief and spending programmes to help cushion the economy, these were necessarily relatively modest due to budget constraints.

At its policy meeting on 21 May, the SARB cut the repo rate by a further 50bps to 3.75%, an historic low. This brought the total reduction to 275bps for 2020 so far, and its interest rate model is projecting two further 25bp interest rate cuts in 2020. This was reinforced by the latest inflation data, as April CPI came in at 3.0% y/y, its lowest level since 2005. The SARB also lowered its GDP growth forecast to -7.0% for the year, versus -6.1% in April, while expecting 3.8% growth in 2021 and 2.9% growth in 2022.

Meanwhile, Finance Minister Tito Mboweni's Supplementary Budget unveiled in mid-June highlighted at least part of the extent of damage done by the pandemic. The government budget deficit is now expected at 15.7% of GDP in the current 2020-21 financial year, more than double the previous forecast of 6.8%. The budget did aim to stabilise the government's growing debt burden, but at 87% of GDP by 2023/24, this is still a worryingly high level. Still, financial market reaction to the details contained in the Supplementary Budget was subdued as most of the bad news had already been priced into bond yields.

The BEASSA All Bond Index rebounded from its 8.7% loss in Q1, returning 9.9% in Q2 2020 as some investors snapped up what they thought to be attractively high yields, while SA inflation-linked bonds returned 4.7%. Cash (as measured by the STeFI Composite) produced 1.5% for the three-month period.

The local equity market experienced a very strong quarter after the indiscriminate selling in March that saw the FTSE/JSE All Share Index (ALSI) return -21.4% for Q1 2020. Companies with global earnings held up better than local "SA Inc" shares, as the ALSI delivered a 23.2% return for Q2. This was led by Resources stocks with a 41.2% return, followed by Listed Property (SAPY Index) with 20.4%. Industrial stocks produced 16.6% and Financials returned 12.9%.

Finally, along with other emerging market currencies, the rand posted small gains in Q2 against all three major currencies after its drastic sell-off in Q1, appreciating 2.7% against the US dollar, 3.0% against the pound sterling and 0.4% against the euro.

PERFORMANCE

The Prudential 7% Target Income Fund returned 8.3% (after fees) for the second quarter of 2020 and -4.4% for the 12-month period ending 30 June 2020. For Q2 2020, the largest asset-class contributors to the fund's absolute performance were its exposure to SA nominal bonds, followed by its SA equity holdings and SA listed property. There were no meaningful asset-class detractors from absolute performance due to the strong gains recorded by most assets over the quarter.

In terms of specific equity exposure, the fund's holdings in Naspers, Nepi Rockcastle. Growthpoint and Resilient were the strongest equity contributors to absolute returns for the quarter, with smaller contributions from Sasol and Anglo American. The main (but minor) detractors from absolute returns were the fund's exposures to PPC, Pick 'n Pay and Investec plc.

The fund recently marked its one-year anniversary after having been launched in April 2019 as a restructured successor to the 7% Prudential Income Portfolio (PIP) solution, which had built up a successful track record since 2003. The restructuring was undertaken to improve certain aspects of our PIP range of income solutions to make them more understandable for clients, more efficient from an investment point of view and, where relevant, potentially more tax efficient

STRATEGY AND POSITIONING

It is important to remember that by definition, the Prudential Target Income Funds are managed as long-term strategies that aim to, firstly, deliver their income requirement, and secondly, grow capital in order to meet future income requirements.

Because of its relatively high 7% income target, the fund has a relatively conservative asset allocation positioning, with a lower exposure to equities, and higher exposure to bonds, than the 5% Target Income Fund. Currently around 10% of the portfolio is exposed to local equities, while around 5.0% is invested in SA listed property, 60% in SA nominal bonds and around 25% in SA cash. The fund has no international exposure.

The fund added to its **SA equity** exposure during the quarter. After falling to an exceptionally low price-book value ratio of around 1.0X during March, SA equity valuations rose over the quarter to trade at around 1.3X by the end of April and 1.4X by the end of June, a still-attractive level compared to the market's long-term average of around 2.2X. During the quarter, we took advantage of some rare opportunities that arose to acquire normally expensive, high-quality shares at very attractive valuations. We were mindful of the importance of maintaining a prudent approach, to ensure that the companies we chose were able to endure a prolonged shutdown.

ANNUALISED PERFORMANCE	A CLASS	CPI	B CLASS
1 year	-4.4%	2.1%	-4.1%
Since inception	-2.8%	2.6%	-1.6%

Inception date: B Class: 2 April 2019

FUND MANAGERS:
David Knee, Johny Lambridis, Michael Moyle and Sandile Malinga

ASISA CATEGORY:
The Fund is unclassified given its unique investment objective.

PRIMARY OBJECTIVE:
7% Income return p.a.

INCEPTION DATE:
2 April 2019

FUND SIZE:
R431 860 761

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL 7% TARGET INCOME FUND
30 JUNE 2020

PRUDENTIAL INVESTMENT MANAGERS

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