PRUDENTIAL UNIT TRUSTS QUARTERLY COMMENTARY
30 SEPTEMBER 2020

PRUDENTIAL INVESTMENT MANAGERS

COMBINED QUARTERLY COMMENTARY

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

! Please **DOWNLOAD** this PDF pack to make use of the new interactive functionality

Click on the **"View commentary"** button to view the fact sheet of a specific fund.
Click the **"Home"** button to come back to this page.

INCOME FUNDS	
Money Market Fund	View commentary
High Interest Fund	View commentary
Income Fund	View commentary
High Yield Bond Fund	View commentary

MULTI-ASSET FUNDS	
Enhanced Income Fund	View commentary
Inflation Plus Fund	View commentary
Balanced Fund	View commentary

PROPERTY/EQUITY FUNDS	
Enhanced SA Property Tracker Fund	View commentary
Dividend Maximiser Fund	View commentary
Equity Fund	View commentary
SA Equity Fund	View commentary

GLOBAL FEEDER FUNDS	
Global Bond Feeder Fund	View commentary
Glonal Inflation Plus Feeder Fund	View commentary
Global Balanced Feeder Fund	View commentary
Global Equity Feeder Fund	View commentary

TARGET INCOME FUNDS	
2.5% Target Income Fund	View fund fact sheet
5% Target Income Fund	View fund fact sheet
7% Target Income Fund	View fund fact sheet

HOW TO INVEST

- 0860 105 775
- prudential.co.za
- myprudential.co.za
- query@myprudential.co.za
- Application forms
- Invest now

PRUDENTIAL MONEY MARKET FUND
30 SEPTEMBER 2020

QUARTERLY COMMENTARY

MARKET OVERVIEW

The Coronavirus pandemic continued to dominate global headlines in the third quarter (Q3) of 2020, with many countries battling a second wave of infections amid the ongoing re-opening of economies. Financial markets were generally positive across both equities and bonds, helped by ongoing supportive monetary and fiscal policies, although the gains were far lower than the exceptional rallies seen in Q2.

Rising risk-off sentiment in September saw some earlier quarterly gains being retraced. Underpinning market sentiment were rising hopes of the development of an effective vaccine by early 2021, the further opening of markets and an acceleration in trade, as well as improving economic indicators in the largest economies. However, weighing on sentiment were troubling accelerations in infections in key European countries like the UK and France, where stricter lockdowns had to be re-imposed, and the failure by the US to stop the spread of the pandemic in the lead-up to the Presidential election on 3 November. During the quarter the IMF did not revise its projected 4.9% contraction in global growth for 2020, saying it expects the recovery to be "long and bumpy".

Although the country experienced a slowdown in the spread of the Coronavirus and an accompanying acceleration in economic activity during the quarter, this good news was largely offset by weak economic indicators, poor company earnings reports and more load-shedding from Eskom to keep local financial markets and sentiment subdued.

Apart from the sharp 51% q/q contraction in GDP growth for Q2 2020, one of the most important indicators showed the country lost some 2.2 million jobs during the second quarter under the effects of the lockdown. The number of employed persons decreased by 2.2 million to 14.1 million versus the first quarter of 2020. However, this was not reflected in the unemployment rate, which actually improved due to a collapse in the number of people actively seeking work over the period.

At its policy meeting on 17 September, the South African Reserve Bank (SARB) announced a worsening growth outlook for the country, with GDP now expected to contract by 8.2% in 2020, compared to the -7.3% forecast in July. The SARB kept the repo rate unchanged at 3.5%, and its latest interest rate model forecasts no further changes over the near term. However, two rate increases are seen in the second half of 2021. This is in the face of a relatively benign inflation outlook: consumer inflation was largely steady at 3.1% y/y in August from 3.2% in July, and the SARB expects CPI to average 3.3% in 2020. Looking ahead, the SARB lowered its CPI forecasts to 4.0% in 2021 and 4.4% in 2022.

Also during the quarter, the SARB slowed its purchases of government bonds as local bond market liquidity continued to improve, buying only around R350m in August compared to an average of R10bn monthly in the first months of the programme, introduced in March.

The BEASSA All Bond Index managed to deliver 1.5% in Q3 2020; the yield curve steepened further as the shorter end continued to rally while longer-dated bonds weakened. SA inflation-linked bonds returned 1.2%, with the curve also steepening, and cash (as measured by the STeFI Composite) also produced 1.2% for the three-month period. Private sector credit extension slowed to 3.9% y/y in August from 5.1% y/y in July, coming in below consensus. Credit extended to households remained at 3.7% y/y, while credit extended to the corporate sector dropped to 4.6% y/y from 6.7% y/y recorded in July.

PERFORMANCE

The fund generated a return of 1.0% (net of fees) for the third quarter of 2020, while its benchmark, the STeFI Call Deposit, returned 0.9% over the same period. For the 12 months ended 30 September 2020, the fund returned 6.0% (net of fees) while the benchmark returned 5.3 % over the same period.

The average duration of the fund at quarter end was 44 days relative to the 90-day maximum average duration. ■

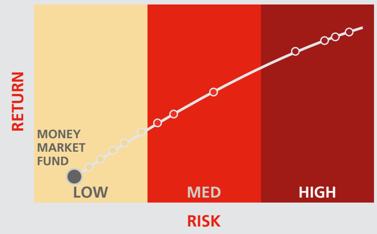
ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	X CLASS
1 year	6.0%	5.3%	6.1%
3 years	7.0%	6.2%	7.1%
5 years	7.1%	6.4%	7.2%
7 years	6.7%	6.1%	6.8%
10 years	6.3%	5.8%	n/a
Since inception	7.7%	7.4%	6.4%

Inception date X Class: 1 April 2011

PRUDENTIAL INVESTMENT MANAGERS

INCOME

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 427 877 342

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL HIGH INTEREST FUND
30 SEPTEMBER 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME

MARKET OVERVIEW

The Coronavirus pandemic continued to dominate global headlines in the third quarter (Q3) of 2020, with many countries battling a second wave of infections amid the ongoing re-opening of economies. Financial markets were generally positive across both equities and bonds, helped by ongoing supportive monetary and fiscal policies, although the gains were far lower than the exceptional rallies seen in Q2.

Rising risk-off sentiment in September saw some earlier quarterly gains being retraced. Underpinning market sentiment were rising hopes of the development of an effective vaccine by early 2021, the further opening of markets and an acceleration in trade, as well as improving economic indicators in the largest economies. However, weighing on sentiment were troubling accelerations in infections in key European countries like the UK and France, where stricter lockdowns had to be re-imposed, and the failure by the US to stop the spread of the pandemic in the lead-up to the Presidential election on 3 November. During the quarter the IMF did not revise its projected 4.9% contraction in global growth for 2020, saying it expects the recovery to be "long and bumpy".

Although the country experienced a slowdown in the spread of the Coronavirus and an accompanying acceleration in economic activity during the quarter, this good news was largely offset by weak economic indicators, poor company earnings reports and more load-shedding from Eskom to keep local financial markets and sentiment subdued.

Apart from the sharp 51% q/q contraction in GDP growth for Q2 2020, one of the most important indicators showed the country lost some 2.2 million jobs during the second quarter under the effects of the lockdown. The number of employed persons decreased by 2.2 million to 14.1 million versus the first quarter of 2020. However, this was not reflected in the unemployment rate, which actually improved due to a collapse in the number of people actively seeking work over the period.

At its policy meeting on 17 September, the South African Reserve Bank (SARB) announced a worsening growth outlook for the country, with GDP now expected to contract by 8.2% in 2020, compared to the -7.3% forecast in July. The SARB kept the repo rate unchanged at 3.5%, and its latest interest rate model forecasts no further changes over the near term. However, two rate increases are seen in the second half of 2021. This is in the face of a relatively benign inflation outlook: consumer inflation was largely steady at 3.1% y/y in August from 3.2% in July, and the SARB expects CPI to average 3.3% in 2020. Looking ahead, the SARB lowered its CPI forecasts to 4.0% in 2021 and 4.4% in 2022.

Also during the quarter, the SARB slowed its purchases of government bonds as local bond market liquidity continued to improve, buying only around R350m in August compared to an average of R10bn monthly in the first months of the programme, introduced in March.

The BEASSA All Bond Index managed to deliver 1.5% in Q3 2020; the yield curve steepened further as the shorter end continued to rally while longer-dated bonds weakened. SA inflation-linked bonds returned 1.2%, with the curve also steepening, and cash (as measured by the STeFI Composite) also produced 1.2% for the three-month period.

PERFORMANCE

The fund generated a return of 1.2% (net of fees) for the third quarter of 2020, matching its benchmark return. For the 12 months ended 30 September 2020, the fund returned 5.6% (net of fees) while the benchmark returned 6.2% over the same period.

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

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

Relative to the 180-day maximum average duration, the quarter-end duration of the fund came in at 53 days.

STRATEGY AND POSITIONING

Spreads were generally higher compared to their pre-Covid-19 levels, except for the banking sector, which was flush with liquidity and had limited appetite to grow assets in the current uncertain and weakening macroeconomic environment. Yet, the elevated liquidity in the banking sector resulted in a collapse in bank funding spreads to levels rarely seen in the last 10 years.

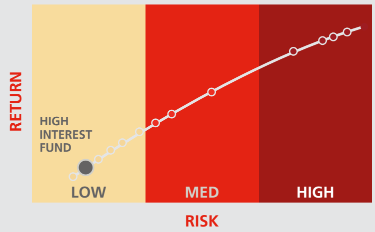
The fund has generally sought to take advantage of banks' requirements to secure longer dated funding which better matches the profile of their loan books. This has led to a mostly steep credit curve, whereby they are prepared to pay more for funding beyond the 12-month point, pre-Covid-19.

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

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	X CLASS	D CLASS
1 year	5.6%	6.2%	5.7%	5.8%
3 years	7.0%	6.9%	7.1%	7.2%
5 years	7.4%	7.1%	7.5%	7.7%
7 years	7.0%	6.8%	7.1%	7.3%
Since inception	6.6%	6.4%	6.8%	6.9%

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

RISK/RETURN PROFILE:



FUND MANAGERS:
Roshen Harry and Sandile Malinga

ASISA CATEGORY:
South African - Interest Bearing - Short Term

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

INCEPTION DATE:
8 December 2010

FUND SIZE:
R8 511 164 485

PLEASE NOTE:
This fund is capped to new investors

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL INCOME FUND
30 SEPTEMBER 2020

QUARTERLY COMMENTARY

MARKET OVERVIEW

The Coronavirus pandemic continued to dominate global headlines in the third quarter (Q3) of 2020, with many countries battling a second wave of infections amid the ongoing re-opening of economies. Financial markets were generally positive across both equities and bonds, helped by ongoing supportive monetary and fiscal policies, although the gains were far lower than the exceptional rallies seen in Q2.

Rising risk-off sentiment in September saw some earlier quarterly gains being retraced. Underpinning market sentiment were rising hopes of the development of an effective vaccine by early 2021, the further opening of markets and an acceleration in trade, as well as improving economic indicators in the largest economies. However, weighing on sentiment were troubling accelerations in infections in key European countries like the UK and France, where stricter lockdowns had to be re-imposed, and the failure by the US to stop the spread of the pandemic in the lead-up to the Presidential election on 3 November. During the quarter the IMF did not revise its projected 4.9% contraction in global growth for 2020, saying it expects the recovery to be "long and bumpy".

Although the country experienced a slowdown in the spread of the Coronavirus and an accompanying acceleration in economic activity during the quarter, this good news was largely offset by weak economic indicators, poor company earnings reports and more load-shedding from Eskom to keep local financial markets and sentiment subdued.

Apart from the sharp 51% q/q contraction in GDP growth for Q2 2020, one of the most important indicators showed the country lost some 2.2 million jobs during the second quarter under the effects of the lockdown. The number of employed persons decreased by 2.2 million to 14.1 million versus the first quarter of 2020. However, this was not reflected in the unemployment rate, which actually improved due to a collapse in the number of people actively seeking work over the period.

At its policy meeting on 17 September, the South African Reserve Bank (SARB) announced a worsening growth outlook for the country, with GDP now expected to contract by 8.2% in 2020, compared to the -7.3% forecast in July. The SARB kept the repo rate unchanged at 3.5%, and its latest interest rate model forecasts no further changes over the near term. However, two rate increases are seen in the second half of 2021. This is in the face of a relatively benign inflation outlook: consumer inflation was largely steady at 3.1% y/y in August from 3.2% in July, and the SARB expects CPI to average 3.3% in 2020. Looking ahead, the SARB lowered its CPI forecasts to 4.0% in 2021 and 4.4% in 2022.

Also during the quarter, the SARB slowed its purchases of government bonds as local bond market liquidity continued to improve, buying only around R350m in August compared to an average of R10bn monthly in the first months of the programme, introduced in March.

The BEASSA All Bond Index managed to deliver 1.5% in Q3 2020; the yield curve steepened further as the shorter end continued to rally while longer-dated bonds weakened. SA inflation-linked bonds returned 1.2%, with the curve also steepening, and cash (as measured by the STeFI Composite) also produced 1.2% for the three-month period.

PERFORMANCE

The fund generated a return of 3.1% (net of fees) for the third quarter of 2020, outperforming its benchmark by 1.9%. For the 12 months ended 30 September 2020, the fund returned 6.0% (net of fees) while the benchmark returned 6.2% over the same period.

The fund was launched in December 2016 with the aim of delivering returns in excess of money market yields by investing in longer-dated liquid paper - without compromising the stability of the capital. Although capital protection is not guaranteed as the fund is exposed to spread risk, we highlight the low sensitivity to interest rate changes on the back of a low duration position.

The maximum term of instruments is not limited compared to money market funds at 13 months.

The quarter end average duration of the fund came in at 115 days.

STRATEGY AND POSITIONING

Spreads were generally higher compared to their pre-Covid-19 levels, except for the banking sector which was flush with liquidity and had limited appetite to grow assets in the current uncertain and weakening macroeconomic environment. Yet, the elevated liquidity in the banking sector resulted in a collapse in bank funding spreads to levels rarely seen in the last 10 years.

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, pre-Covid-19.

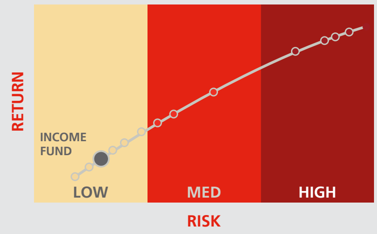
We continue to look for opportunities that will enhance the return to investors without compromising the stability of their capital. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	D CLASS
1 year	6.0%	6.2%	6.1%
2 years	7.3%	6.8%	7.4%
3 years	7.7%	6.9%	7.9%
Since inception	7.9%	7.1%	8.0%

Inception dates: D Class: 6 December 2016

INCOME

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 038 820 529

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL HIGH YIELD BOND FUND
30 SEPTEMBER 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME

MARKET OVERVIEW

The Coronavirus pandemic continued to dominate global headlines in the third quarter (Q3) of 2020, with many countries battling a second wave of infections amid the ongoing re-opening of economies. Financial markets were generally positive across both equities and bonds, helped by ongoing supportive monetary and fiscal policies, although the gains were far lower than the exceptional rallies seen in Q2.

Rising risk-off sentiment in September saw some earlier quarterly gains being retraced. Underpinning market sentiment were rising hopes of the development of an effective vaccine by early 2021, the further opening of markets and an acceleration in trade, as well as improving economic indicators in the largest economies. However, weighing on sentiment were troubling accelerations in infections in key European countries like the UK and France, where stricter lockdowns had to be re-imposed, and the failure by the US to stop the spread of the pandemic in the lead-up to the Presidential election on 3 November. During the quarter the IMF did not revise its projected 4.9% contraction in global growth for 2020, saying it expects the recovery to be "long and bumpy".

Although the country experienced a slowdown in the spread of the Coronavirus and an accompanying acceleration in economic activity during the quarter, this good news was largely offset by weak economic indicators, poor company earnings reports and more load-shedding from Eskom to keep local financial markets and sentiment subdued.

Apart from the sharp 51% q/q contraction in GDP growth for Q2 2020, one of the most important indicators showed the country lost some 2.2 million jobs during the second quarter under the effects of the lockdown. The number of employed persons decreased by 2.2 million to 14.1 million versus the first quarter of 2020. However, this was not reflected in the unemployment rate, which actually improved due to a collapse in the number of people actively seeking work over the period.

At its policy meeting on 17 September, the South African Reserve Bank (SARB) announced a worsening growth outlook for the country, with GDP now expected to contract by 8.2% in 2020, compared to the -7.3% forecast in July. The SARB kept the repo rate unchanged at 3.5%, and its latest interest rate model forecasts no further changes over the near term. However, two rate increases are seen in the second half of 2021. This is in the face of a relatively benign inflation outlook: consumer inflation was largely steady at 3.1% y/y in August from 3.2% in July, and the SARB expects CPI to average 3.3% in 2020. Looking ahead, the SARB lowered its CPI forecasts to 4.0% in 2021 and 4.4% in 2022.

Also during the quarter, the SARB slowed its purchases of government bonds as local bond market liquidity continued to improve, buying only around R350m in August compared to an average of R10bn monthly in the first months of the programme, introduced in March.

The BEASSA All Bond Index managed to deliver 1.5% in Q3 2020; the yield curve steepened further as the shorter end continued to rally while longer-dated bonds weakened. SA inflation-linked bonds returned 1.2%, with the curve also steepening, and cash (as measured by the STeFI Composite) also produced 1.2% for the three-month period.

In the third quarter of 2020, primary bond market issuance volume (excluding government issuances) was approximately R27bn, 40% down from the previous quarter (R45bn) and 18% down compared to the third quarter of 2019 (R33bn).

The make-up of issuances for the year followed previous trends, in that the majority consisted of floating rate notes and the dominant sector was the banking sector. A considerable volume of issuance came from SOEs (namely Eskom, DBSA and Sanral), with most being done via private placement instead of public auction. Two corporates, however, issued via public auction: Mercedes Benz and Standard Bank Group Additional Tier 1 issuance, both of which were well supported and cleared below guidance.

PERFORMANCE

The fund generated a return of 0.7% (net of fees) for the third quarter of 2020, underperforming its benchmark by 0.8%. For the 12 months ended 30 September 2020, the fund returned -1.0% (net of fees) while the benchmark returned 3.6% over the same period.

Spreads were generally higher compared to their pre-Covid-19 levels, except for the banking sector which was flush with liquidity and had limited appetite to grow assets in the current uncertain and weakening macroeconomic environment. Yet, the elevated liquidity in the banking sector resulted in a collapse in bank funding spreads to levels rarely seen in the last 10 years.

In September, Moody's downgraded the City of Ekurhuleni and the City of Tshwane's credit ratings. The City of Ekurhuleni's global scale rating was downgraded from Ba1 to Ba3, while its national scale rating was downgraded to A2.za, from Aa1.za.

The City of Tshwane's global scale rating was downgraded by one notch to Ba2 and its national scale rating to Aa3.za.

Moody's highlighted that the ratings reflected the weaker credit profiles expected to persist over the medium term. The Coronavirus shock significantly dampened revenue and reduced cash buffers, raising liquidity risks. Moody's considers the budget management practices at City of Ekurhuleni to have weakened due to the recurrent operating deficits and the significant decline in the city's liquidity position.

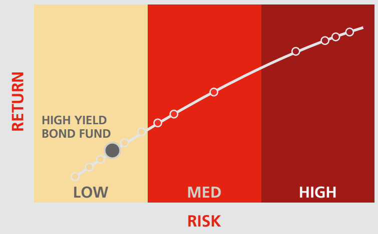
The City of Tshwane, meanwhile, is faced with uncertainty regarding the political administration of the city, which Moody's believes may contribute to the delayed approval of decisions which have an impact on municipal operations.

The fund has 0.36% exposure to the City of Ekurhuleni. Despite the downgrade, we view the spreads on the instruments the fund holds as being more than adequate for the risks. The fund has no exposure to the City of Tshwane.

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	-1.0%	3.6%	-0.9%
3 years	5.3%	7.3%	5.5%
5 years	6.2%	7.6%	6.4%
7 years	5.9%	7.2%	6.2%
10 years	6.8%	7.6%	7.1%
Since inception	9.5%	10.0%	8.5%

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:
FTSE/JSE ALL BOND INDEX

INCEPTION DATE:
27 October 2000

FUND SIZE:
R300 598 445

Sources: Prudential, Morningstar & Deutsche Securities

STRATEGY AND POSITIONING

Over the quarter we saw short-dated bonds rally as a result of the accommodative measures by the Monetary Policy Committee while, in contrast, long-dated bonds sold off.

Given the further steepening of the curve we remain convinced that investors will be well rewarded for holding long-dated government bonds over the medium to long term. The fund has therefore maintained the long-duration position which it held at the beginning of the quarter.

There was little opportunity to add to the fund's credit exposure during the quarter due to limited fixed-rate issuance. We have capacity to add to our credit holdings within the fund and current market conditions may provide us with opportunities to add to our credit holdings at attractive prices. ■

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL ENHANCED INCOME FUND
30 SEPTEMBER 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

MARKET OVERVIEW

The Coronavirus pandemic continued to dominate global headlines in the third quarter (Q3) of 2020, with many countries battling a second wave of infections amid the ongoing re-opening of economies. Financial markets were generally positive across both equities and bonds, helped by ongoing supportive monetary and fiscal policies, although the gains were far lower than the exceptional rallies seen in Q2. Rising risk-off sentiment in September saw some earlier quarterly gains being retraced. Underpinning market sentiment were rising hopes of the development of an effective vaccine by early 2021, the further opening of markets and an acceleration in trade, as well as improving economic indicators in the largest economies. However, weighing on sentiment were troubling accelerations in infections in key European countries like the UK and France, where stricter lockdowns had to be re-imposed, and the failure by the US to stop the spread of the pandemic in the lead-up to the Presidential election on 3 November. During the quarter the IMF did not revise its projected 4.9% contraction in global growth for 2020, saying it expects the recovery to be "long and bumpy".

In the US, it was reported that GDP contracted by 31.4% q/q in Q2 2020 following a 5.0% contraction in Q1, with the second quarter being the hardest hit by the pandemic lockdowns. The latest estimates show the economy is expected to shrink by 3.7% in 2020 before rebounding by 4% in 2021, but, more positively, the economy added 1.4m jobs in August and the unemployment rate fell to 8.4%. At its August policy meeting the US Federal Reserve left the benchmark interest rate unchanged at near 0%, adding that it now expected rates to remain around zero for the next three years. It also said it would continue to buy back bonds to support the economy. The US dollar continued to weaken against other major currencies as the government grappled with high budget deficits and a failure to contain the pandemic. In the equity market, the S&P 500 gained 8.9% in US$ for the quarter, while the Nasdaq was up 12.6%, giving it a total return for 2020 so far of 31.7%.

In the UK, sentiment was subdued as the government failed to make progress with its Brexit negotiations, sparking more talk of a "no deal" Brexit and its negative consequences. Equally, a return to more strict lockdown measures in some cities caused concerns that growth would suffer more than expected. The UK's GDP contracted by 19.8% q/q in Q2 2020, the largest quarterly contraction on record.

Like the US, the Bank of England and European Central Bank (ECB) maintained record-low interest rates and supportive bond buying programmes, with the ECB pledging to buy up to EUR1.35trn worth of debt through June 2021 under the Pandemic Emergency Purchase Programme. Meanwhile, Euro area unemployment rose to 7.9% in July from 7.7% previously, and the area recorded an 11.8% q/q contraction in GDP. In the equity markets, the FTSE 100 returned 0.4% in US$ for the quarter, while Germany's DAX produced 8.2% and the French CAC 40 delivered 2.3% in US$.

In Japan, Prime Minister Shinzo Abe, the country's longest-serving leader, announced his surprise resignation for health reasons in September, and was replaced by his chief cabinet secretary and expected successor, Yoshihide Suga. Markets took this in stride as Suga is widely expected to continue with Abe's economic policies. Japan's GDP shrank by 7.9% q/q in Q2 2020, marking the third consecutive quarter of contraction and the steepest on record. The Nikkei 225 returned 7.0% for the quarter.

Meanwhile, China's economic data continued showing signs of further economic acceleration, with manufacturing activity, industrial output, services and exports continuing to expand. The country reported 3.2% y/y GDP growth for Q2 2020, rebounding from a record 6.8% y/y contraction in Q1 and recovering earlier than other large economies due its earlier reopening. At the same time, Hong Kong financial markets were in the red following the authorities' quick moves to arrest and prosecute local pro-democracy protesters under the territory's strict new security law. Hong Kong's Hang Seng Index returned -2.6% for the three months and the MSCI China returned 12.6% in US$.

Among other large emerging equity markets, in US$ terms the MSCI India was the quarter's strongest performer with a 15.1% return, followed by South Korea's KOSPI at 13.6%, the MSCI China with 12.6% and the MSCI South Africa at 3.7%. Lagging were the MSCI Turkey with a -15.6% return and Brazil's Bovespa with -3.1% (both in US$).

The price of Brent crude oil ended the quarter at around US$42.50 per barrel, very near where it started. The price remains under pressure from ongoing slow global growth and steady supply. As for other commodities, palladium was among the star performers over the period, gaining some 21.8%, while gold was up 6.5% and platinum rose 7.1%. Among industrial metals, copper rose 9.5%, aluminium increased 8.4% and nickel was up 12.5%.

South African financial markets were marginally positive over the quarter, helped by higher commodity prices. This was despite the country posting a shocking 51% q/q annualised contraction in GDP in Q2 2020, worse than market estimates of a 47.3% decline. GDP is now expected to contract by 8.2% in 2020, before rebounding by 3.9% in 2021 and 2.6% in 2022.

Although the country experienced a slowdown in the spread of the Coronavirus and an accompanying acceleration in economic activity during the quarter, this good news was largely offset by weak economic indicators, poor company earnings reports and more load-shedding from Eskom to keep local financial markets and sentiment subdued.

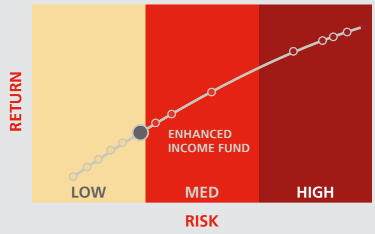
One of the most important indicators showed the country lost some 2.2 million jobs during the second quarter under the effects of the lockdown. However, this was not reflected in the unemployment rate, which actually improved due to a collapse in the number of people actively seeking work over the period.

At its policy meeting on 17 September, the South African Reserve Bank (SARB) announced a worsening growth outlook for the country, with GDP now expected to contract by 8.2% in 2020, compared to the -7.3% forecast in July. The SARB kept the repo rate unchanged at 3.5%, and its latest interest rate model forecasts no further changes over the near term. However, two rate increases are seen in the second half of 2021. This is in the face of a relatively benign inflation outlook: consumer inflation was largely steady at 3.1% y/y in August from 3.2% in July, and the SARB expects CPI to average 3.3% in 2020. Looking ahead, the SARB lowered its CPI forecasts to 4.0% in 2021 and 4.4% in 2022.

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	X CLASS	D CLASS
1 year	2.7%	6.2%	3.0%	2.7%	3.0%
3 years	5.0%	6.9%	5.4%	5.1%	5.5%
5 years	6.2%	7.1%	6.6%	6.4%	6.7%
7 years	6.4%	6.9%	n/a	6.7%	7.0%
10 years	7.1%	7.0%	n/a	n/a	n/a
Since inception	7.6%	7.2%	6.5%	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 946 800 005

Sources: Prudential, Morningstar & Deutsche Securities

Also during the quarter, the SARB slowed its purchases of government bonds as local bond market liquidity continued to improve, buying only around R350m in August compared to an average of R10bn monthly in the first months of the programme, introduced in March.

The BEASSA All Bond Index managed to deliver 1.5% in Q3 2020; the yield curve steepened further as the shorter end continued to rally while longer-dated bonds weakened. SA inflation-linked bonds returned 1.2%, with the curve also steepening, and cash (as measured by the STeFI Composite) also produced 1.2% for the three-month period.

The local equity market finished in the black thanks solely to Resources stocks, with other sectors losing ground. The FTSE/JSE All Share Index (ALSI) returned 0.7% for Q3 2020. The Resources 10 Index returned 5.7%, Financials -1.6%, Industrials -2.3% and Listed Property (SAPY Index) was the poorest performer with -14.1%.

Finally, the rand put in a mixed performance in Q3, gaining 3.9% against a weaker US dollar but depreciating 0.5% against the pound sterling and 0.3% versus the euro.

PERFORMANCE

The fund delivered 1.7% (net of fees) for the third quarter of 2020, outperforming its benchmark by 0.6%. For the 12 months ending 30 September 2020, the fund returned 2.7% (net of fees), compared to its benchmark which returned 6.2% over the same period.

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

STRATEGY AND POSITIONING

During the third quarter the fund increased its offshore equity exposure, thereby further enhancing the benefits of diversification. We consider the rand to be on the cheap side of fair value and have hedged the fund's offshore exposure into rand using a combination of options and futures.

Developed market government bonds continue to be unattractively priced and we maintain our exposure to **US investment-grade and high yield corporate bonds** which offer attractive real yields and the prospective returns in the medium term should be beneficial to overall fund performance.

We maintained the fund's minor position in **SA listed property** over the quarter, which reflects the significant uncertainty surrounding the outlook for the SA economy and property company 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, and as such we have ensured that we are holding high-quality companies with strong balance sheets within our small exposure to the sector.

During the quarter we maintained our overweight position in **SA nominal bonds**, switching from long- dated tenors into shorter dated SA government bonds. We believe the shorter-dated bonds offer attractive returns given the objectives of this fund. These bonds are yielding more than our long-run fair value assumption of a 2.5% real yield and we believe investors are compensated for the risks associated with the government's precarious fiscal position.

We increased our exposure to **inflation-linked bonds** during the third quarter of 2020, buying shorter-dated ILBs out of cash holdings. The gap between ILB and cash real yields continues to be very wide, with real yields on cash currently negative, while current ILB real yields of 0.9%–4.85% across the curve are also attractive compared to our long-run fair value assumption of 2.25%.

Lastly, cash is the one SA asset class where prospective returns have fallen sharply, due to the large interest rate cuts from the SARB. Consequently, we have reduced the SA cash allocation in the fund since prospective real returns from this asset class are negative. ■

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL INFLATION PLUS FUND
30 SEPTEMBER 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

MARKET OVERVIEW

The Coronavirus pandemic continued to dominate global headlines in the third quarter (Q3) of 2020, with many countries battling a second wave of infections amid the ongoing re-opening of economies. Financial markets were generally positive across both equities and bonds, helped by ongoing supportive monetary and fiscal policies, although the gains were far lower than the exceptional rallies seen in Q2. Rising risk-off sentiment in September saw some earlier quarterly gains being retraced. Underpinning market sentiment were rising hopes of the development of an effective vaccine by early 2021, the further opening of markets and an acceleration in trade, as well as improving economic indicators in the largest economies. However, weighing on sentiment were troubling accelerations in infections in key European countries like the UK and France, where stricter lockdowns had to be re-imposed, and the failure by the US to stop the spread of the pandemic in the lead-up to the Presidential election on 3 November.

South African financial markets were marginally positive over the quarter, helped by higher commodity prices. This was despite the country posting a shocking 51% q/q annualised contraction in GDP in Q2 2020, worse than market estimates of a 47.3% decline. GDP is now expected to contract by 8.2% in 2020, before rebounding by 3.9% in 2021 and 2.6% in 2022.

In US$ terms, global equities (the MSCI All Country World Index, ACWI) returned 8.1% for the quarter, as developed markets delivered 7.9% and emerging markets produced 9.6%. Global bonds delivered 2.7% for the quarter and global property returned 1.4% (both in US$). Central banks generally kept interest rates at very low, accommodative levels, and governments continued to enact fiscal support packages for consumers.

In the US, GDP contracted by 31.4% q/q in Q2 2020 following a 5.0% contraction in Q1. The latest estimates show the economy is expected to shrink by 3.7% in 2020 before rebounding by 4% in 2021, but, more positively, the economy added 1.4m jobs in August and the unemployment rate fell to 8.4%. At its August policy meeting the US Federal Reserve left the benchmark interest rate unchanged at near 0%, adding that it now expected rates to remain around zero for the next three years. The US dollar continued to weaken against other major currencies. In the equity markets, the S&P 500 gained 8.9% in US$ for the quarter, while the Nasdaq was up 12.6%, giving it a total return for 2020 so far of 31.7%.

In the UK, sentiment was subdued as the government failed to make progress with its Brexit negotiations, sparking more talk of a "no deal" Brexit and its negative consequences. Equally, a return to more strict lockdown measures in some cities caused concerns that growth would suffer more than expected. The UK's GDP contracted by 19.8% q/q in Q2 2020, the largest quarterly contraction on record.

Like the US, the Bank of England and European Central Bank (ECB) maintained record-low interest rates and supportive bond buying programmes. Meanwhile, Euro area unemployment rose to 7.9% in July from 7.7% previously, and the area recorded an 11.8% q/q contraction in GDP for Q2 2020. In the equity markets, the FTSE 100 returned 0.4% in US$ for the quarter, while Germany's DAX produced 8.2% and the French CAC 40 delivered 2.3% in US$.

In Japan, Prime Minister Shinzo Abe, the country's longest-serving leader, announced his surprise resignation for health reasons in September, and was replaced by his chief cabinet secretary and expected successor, Yoshihide Suga. Markets took this in stride as Suga is widely expected to continue with Abe's economic policies. Japan's GDP shrank by 7.9% q/q in Q2 2020, marking the third consecutive quarter of contraction and the steepest on record. The Nikkei 225 returned 7.0% for the quarter.

Meanwhile, China's economic data continued showing signs of further economic acceleration, with manufacturing activity, industrial output, services and exports continuing to expand. The country reported 3.2% y/y GDP growth for Q2 2020, rebounding from a record 6.8% y/y contraction in Q1 and recovering earlier than other large economies due its earlier reopening. At the same time, Hong Kong financial markets were in the red following the authorities' quick moves to arrest and prosecute local pro-democracy protesters under the territory's strict new security law. Hong Kong's Hang Seng Index returned -2.6% for the three months and the MSCI China returned 12.6% in US$.

Among other large emerging equity markets, in US$ terms the MSCI India was the quarter's strongest performer with a 15.1% return, followed by South Korea's KOSPI at 13.6%, the MSCI China with 12.6% and the MSCI South Africa at 3.7%. Lagging were the MSCI Turkey with a -15.6% return and Brazil's Bovespa with -3.1% (both in US$).

The price of Brent crude oil ended the quarter at around US$42.50 per barrel, very near where it started. The price remains under pressure from ongoing slow global growth and steady supply. As for other commodities, palladium was one of the star performers over the period, gaining some 21.8%, while gold was up 6.5% and platinum rose 7.1%. Among industrial metals, copper rose 9.5%, aluminium increased 8.4% and nickel was up 12.5%.

South Africa sees a tepid performance

Although the country experienced a slowdown in the spread of the Coronavirus and an accompanying acceleration in economic activity during the quarter, this good news was largely offset by weak economic indicators, poor company earnings reports and more load-shedding from Eskom to keep local financial markets and sentiment subdued.

At its policy meeting on 17 September, the South African Reserve Bank (SARB) announced a worsening growth outlook for the country, with GDP now expected to contract by 8.2% in 2020, compared to the -7.3% forecast in July. The SARB kept the repo rate unchanged at 3.5%, and its latest interest rate model forecasts no further changes over the near term. However, two rate increases are seen in the second half of 2021. This is in the face of a relatively benign inflation outlook: CPI was largely steady at 3.1% y/y in August and the SARB lowered its CPI forecasts to 4.0% in 2021 and 4.4% in 2022.

The All Bond Index managed to deliver 1.5% in Q3 2020; the yield curve steepened further as the shorter end continued to rally while longer-dated bonds weakened. SA inflation-linked bonds returned 1.2%, with the curve also steepening, and cash (as measured by the STeFI Composite) also produced 1.2% for the three-month period.

The local equity market finished in the black thanks solely to Resources stocks, with other sectors losing ground. The FTSE/JSE All Share Index (ALSI) returned 0.7% for Q3 2020. The Resources 10 Index returned 5.7%, Financials -1.6%, Industrials -2.3% and Listed Property (SAPY Index) was the poorest performer with -14.1%. Finally, the rand put in a mixed performance in Q3, gaining 3.9% against a weaker US dollar but depreciating 0.5% against the pound sterling and 0.3% versus the euro.

PERFORMANCE

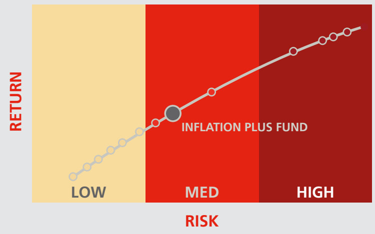
The Inflation Plus Fund returned 0.2% (after fees) for the third quarter of 2020 and -5.1% for the 12-month period ending 30 September 2020. The fund has delivered a return of 10.6% per annum since its inception in 2001 (after fees), compared to its objective of 9.3% per annum over the same period.

The largest asset-class contributors to absolute performance for the period were the fund's exposure to international equities, followed by SA ILBs and SA bonds. SA listed property holdings were the only significant detractors from the fund's absolute performance.

ANNUALISED PERFORMANCE	A CLASS	OBJECTIVE#	T CLASS	X CLASS	B CLASS
1 year	-5.1%	6.6%	-4.9%	-5.1%	-4.6%
3 years	-0.5%	7.6%	-0.1%	-0.3%	0.1%
5 years	2.3%	8.0%	2.8%	2.5%	3.0%
7 years	4.7%	8.3%	n/a	5.0%	5.4%
10 years	7.5%	8.5%	n/a	n/a	8.3%
Since inception	10.6%	9.3%	2.9%	7.7%	10.8%

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

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:
R21 503 708 392

AWARDS:
Raging Bull: 2013
Morningstar: 2015

Sources: Prudential, Morningstar & Deutsche Securities

In terms of specific equity exposure, the fund's holdings in Implats, Gold Fields and Northam were among the strongest contributors to absolute returns for the quarter. The larger detractors from absolute returns for the period were holdings in Nepi Rockcastle, Naspers and British American Tobacco. Underweight positions that added relative value included those in Sanlam, Anglogold, and Aspen, while underweights that detracted from value were Shoprite, Sibanye Stillwater and Capitec.

STRATEGY AND POSITIONING

Starting with our view on the **offshore asset allocation**, during the quarter we reduced **global equities** from a neutral to an underweight position, in favour of buying more SA equities. This was due to SA equities' relatively more attractive valuations, as offshore equity valuations became more expensive over the period, and keeping in mind the fund's total 40% equity exposure limit. We also bought US$ futures during the quarter, in order to increase the fund's diversification and offset SA-specific risk in the portfolio.

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**, and overweight US and European **investment-grade corporate bonds and selected emerging-market government bonds**, which offer attractive real yields. The portfolio has benefitted from a rebound in many of these assets during the quarter, after having sold off indiscriminately in March.

The Prudential Inflation Plus Fund increased its overweight position in **SA equities** during the quarter, out of its SA cash holdings. SA equity valuations as measured by the Price/Book value ratio of the FTSE/JSE Capped SWIX Index were trading at around 1.4X at the end of September, very similar to the level seen at the start of the quarter. This continues to be exceptionally attractive relative to offshore equities and compared to the local market's long-term P/B average of around 2.1X.

Within SA equities we continue to prefer large, global companies that offer sound, high-quality diversification such as Naspers, British American Tobacco, Anglo American, Remgro and MTN. Implats is another overweight holding that has added to portfolio value so far this year. We have also sustained our overweight in the local banking sector with exposures to Absa, Standard Bank and Investec given the attractive valuations they offer.

We have kept our substantially underweight positioning in **SA listed property** in the fund in Q3. This positioning reflects the significant uncertainty surrounding the outlook for the SA economy and property company 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, and as such we have ensured that we are holding high-quality companies with strong balance sheets within our small exposure to the sector, like Growthpoint.

During the quarter we maintained our overweight in **SA nominal bonds** and continue to favour longer-dated maturities. As of 30 September, 10-year government bonds yields were still elevated compared to their history, offering around 9.6%, which equates to an after-inflation (real) yield of around 4.6% (assuming inflation of 5.0% over the next decade). This is substantially above our long-run fair value assumption of a 2.5% real yield. We believe these yields will more than compensate investors for the risks associated with the government's precarious fiscal position and possible further credit rating downgrades.

We increased our exposure to **inflation-linked bonds** during the third quarter of 2020, buying shorter-dated (five-year) ILBs with a real yield of around 3.7% out of cash holdings to move to an overweight position from neutral. The gap between ILB and cash real yields continues to be very wide, with real yields on cash currently negative, while current ILB real yields of 0.9% – 4.85% across the curve are also attractive compared to our long-run fair value assumption of 2.25%.

Lastly, as of the end of Q3 2020, the Prudential Inflation Plus Fund was overweight SA cash (though in absolute terms this was a relatively small amount). During the quarter the position reduced, as we were net purchasers of assets during the quarter. The fund is positioned to take advantage of any appropriate buying opportunities that become available. ■

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL BALANCED FUND
30 SEPTEMBER 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

MARKET OVERVIEW

The Coronavirus pandemic continued to dominate global headlines in the third quarter (Q3) of 2020, with many countries battling a second wave of infections amid the ongoing re-opening of economies. Financial markets were generally positive across both equities and bonds, helped by ongoing supportive monetary and fiscal policies, although the gains were far lower than the exceptional rallies seen in Q2. Underpinning market sentiment were rising hopes of the development of an effective vaccine by early 2021, the further opening of markets and an acceleration in trade, as well as improving economic indicators in the largest economies. However, weighing on sentiment were troubling accelerations in infections in key European countries like the UK and France, where stricter lockdowns had to be re-imposed, and the failure by the US to stop the spread of the pandemic in the lead-up to the Presidential election on 3 November.

South African financial markets were marginally positive over the quarter, helped by higher commodity prices. This was despite the country posting a shocking 51% q/q annualised contraction in GDP in Q2 2020. GDP is now expected to contract by 8.2% in 2020, before rebounding by 3.9% in 2021 and 2.6% in 2022.

In US$ terms, global equities (the MSCI All Country World Index, ACWI) returned 8.1% for the quarter, as developed markets delivered 7.9% and emerging markets produced 9.6%. Global bonds delivered 2.7% for the quarter and global property returned 1.4% (both in US$). Central banks generally kept interest rates at very low, accommodative levels, and governments continued to enact fiscal support packages for consumers.

In the US, GDP contracted by 31.4% q/q in Q2 2020 following a 5.0% contraction in Q1. The latest estimates show the economy is expected to shrink by 3.7% in 2020 before rebounding by 4% in 2021, but, more positively, the unemployment rate fell to 8.4%. At its August policy meeting the US Federal Reserve left the benchmark interest rate unchanged at near 0%, adding that it now expected rates to remain around zero for the next three years. The US dollar continued to weaken against other major currencies. In the equity markets, the S&P 500 gained 8.9% in US$ for the quarter, while the Nasdaq was up 12.6%, giving it a total return for 2020 so far of 31.7%.

In the UK, sentiment was subdued as the government failed to make progress with its Brexit negotiations. Equally, a return to more strict lockdown measures in some cities caused concerns that growth would suffer more than expected. The UK's GDP contracted by 19.8% q/q in Q2 2020, the largest quarterly contraction on record.

Like the US, the Bank of England and European Central Bank (ECB) maintained record-low interest rates and supportive bond buying programmes. Meanwhile, Euro area unemployment rose to 7.9% in July from 7.7% previously, and the area recorded an 11.8% q/q contraction in GDP for Q2 2020. In the equity markets, the FTSE 100 returned 0.4% in US$ for the quarter, while Germany's DAX produced 8.2% and the French CAC 40 delivered 2.3% in US$.

In Japan, Prime Minister Shinzo Abe, the country's longest-serving leader, announced his surprise resignation for health reasons in September, and was replaced by his chief cabinet secretary and expected successor, Yoshihide Suga. Markets took this in stride as Suga is widely expected to continue with Abe's economic policies. Japan's GDP shrank by 7.9% q/q in Q2 2020, marking the third consecutive quarter of contraction and the steepest on record. The Nikkei 225 returned 7.0% for the quarter.

Meanwhile, China's economic data continued showing signs of further economic acceleration, with manufacturing activity, industrial output, services and exports continuing to expand. The country reported 3.2% y/y GDP growth for Q2 2020, rebounding from a record 6.8% y/y contraction in Q1 and recovering earlier than other large economies due its earlier reopening. At the same time, Hong Kong financial markets were in the red following the authorities' quick moves to arrest and prosecute local pro-democracy protesters under the territory's strict new security law. Hong Kong's Hang Seng Index returned -2.6% for the three months and the MSCI China returned 12.6% in US$.

Among other large emerging equity markets, in US$ terms the MSCI India was the quarter's strongest performer with a 15.1% return, followed by South Korea's KOSPI at 13.6%, the MSCI China with 12.6% and the MSCI South Africa at 3.7%. Lagging were the MSCI Turkey with a -15.6% return and Brazil's Bovespa with -3.1% (both in US$).

The price of Brent crude oil ended the quarter at around US$42.50 per barrel, very near where it started. The price remains under pressure from ongoing slow global growth and steady supply. As for other commodities, palladium was one of the star performers over the period, gaining some 21.8%, while gold was up 6.5% and platinum rose 7.1%. Among industrial metals, copper rose 9.5%, aluminium increased 8.4% and nickel was up 12.5%.

South Africa sees a tepid performance

Although the country experienced a slowdown in the spread of the Coronavirus and an accompanying acceleration in economic activity during the quarter, this good news was largely offset by weak economic indicators, poor company earnings reports and more load-shedding from Eskom to keep local financial markets and sentiment subdued.

At its policy meeting on 17 September, the South African Reserve Bank (SARB) announced a worsening growth outlook for the country, with GDP now expected to contract by 8.2% in 2020, compared to the -7.3% forecast in July. The SARB kept the repo rate unchanged at 3.5%, and its latest interest rate model forecasts no further changes over the near term. However, two rate increases are seen in the second half of 2021. This is in the face of a relatively benign inflation outlook: CPI was largely steady at 3.1% y/y in August and the SARB lowered its CPI forecasts to 4.0% in 2021 and 4.4% in 2022.

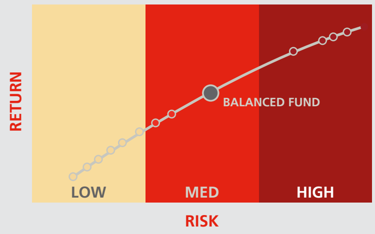
The All Bond Index managed to deliver 1.5% in Q3 2020; the yield curve steepened further as the shorter end continued to rally while longer-dated bonds weakened. SA inflation-linked bonds returned 1.2%, with the curve also steepening, and cash (as measured by the STeFI Composite) also produced 1.2% for the three-month period.

The local equity market finished in the black thanks solely to Resources stocks, with other sectors losing ground. The FTSE/JSE All Share Index (ALSI) returned 0.7% for Q3 2020. The Resources 10 Index returned 5.7%, Financials -1.6%, Industrials -2.3% and Listed Property (SAPY Index) was the poorest performer with -14.1%. Finally, the rand put in a mixed performance in Q3, gaining 3.9% against a weaker US dollar but depreciating 0.5% against the pound sterling and 0.3% versus the euro.

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	X CLASS	B CLASS
1 year	-2.2%	1.8%	-2.0%	-2.2%	-1.7%
3 years	1.3%	2.3%	1.7%	1.5%	1.9%
5 years	3.9%	3.9%	4.4%	4.1%	4.6%
7 years	5.9%	5.3%	n/a	6.2%	6.7%
10 years	8.9%	7.6%	n/a	n/a	9.8%
Since inception	12.4%	11.0%	4.1%	7.3%	12.9%

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:
R18 838 079 336

Sources: Prudential, Morningstar & Deutsche Securities

PERFORMANCE

The fund returned 0.6% (after fees) for the third quarter of 2020 and -2.2% for the 12-month period ending 30 September 2020. The fund has delivered a return of 12.4% per annum since its inception in 1999 (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 international equities (by far), followed by SA equities and SA bonds. The only significant detractor from absolute returns was its holding in SA listed property.

In terms of specific equity exposure, the fund's holdings in Implats, Goldfields and Northam were among the strongest equity contributors to absolute returns for the quarter. The main detractors from absolute returns were holdings in Naspers, Old Mutual and British American Tobacco. Meanwhile, some underweight positions that contributed value included Sanlam and Aspen, while detractors from value included Shoprite, Sibanye Stillwater and Capitec.

STRATEGY AND POSITIONING

Starting with our view on **offshore asset allocation**, during the quarter we added to **global equities**, moving back to an overweight position from being neutral in Q2. This was as the rand/US$ exchange rate became less undervalued, while adding to diversification in the portfolio and helping reduce SA-specific risks. We also bought US$ futures during the quarter, also to add to portfolio diversification and offset SA-specific risk in the portfolio.

Within our global equity positioning, our portfolios continue to be underweight the more expensive US market in favour of selected European and emerging market equities. We have been aiming to position the portfolios 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**, and 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 Balanced Fund continues to be overweight **SA equities**. SA equity valuations as measured by the Price/Book value ratio of the FTSE/JSE Capped SWIX Index were trading at around 1.4X at the end of September, very similar to the level seen at the start of the quarter. This continues to be exceptionally attractive relative to offshore equities and compared to the local market's long-term P/B average of around 2.1X.

Within SA equities we continue to prefer large, global companies that offer sound, high-quality diversification such as Naspers, British American Tobacco, Anglo American, Remgro and MTN. Implats is another overweight holding that has added to portfolio value so far this year. We have also sustained our overweight in the local banking sector with exposures to Absa, Standard Bank and Investec given the attractive valuations they offer.

We have kept our substantially underweight positioning in **SA listed property** in Q3. This positioning reflects the significant uncertainty surrounding the outlook for the SA economy and property company 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, and as such we have ensured that we are holding high-quality companies with strong balance sheets within our small exposure to the sector, like Growthpoint.

During the quarter we maintained our overweight in **SA nominal bonds**, and continue to favour longer-dated maturities. As of 30 September, 10-year government bonds yields were still elevated compared to their history, offering around 9.6%, which equates to an after-inflation (real) yield of around 4.6% (assuming inflation of 5.0% over the next decade). This is substantially above our long-run fair value assumption of a 2.5% real yield. We believe these yields will more than compensate investors for the risks associated with the government's precarious fiscal position and possible further credit rating downgrades.

We increased our exposure to **inflation-linked bonds** during the third quarter of 2020, buying shorter-dated (five-year) ILBs with a real yield of around 3.7% out of cash holdings to move to an overweight position from neutral. The gap between ILB and cash real yields continues to be very wide, with real yields on cash currently negative, while current ILB real yields of 0.9% – 4.85% across the curve are also attractive compared to our long-run fair value assumption of 2.25%.

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 negative. ■

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL ENHANCED SA PROPERTY TRACKER FUND
30 SEPTEMBER 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

PROPERTY

MARKET OVERVIEW

South African financial markets were marginally positive over the quarter, helped by higher commodity prices. This was despite the country posting a shocking 51% q/q annualised contraction in GDP in Q2 2020, worse than market estimates of a 47.3% decline. GDP is now expected to contract by 8.2% in 2020, before rebounding by 3.9% in 2021 and 2.6% in 2022.

Although the country experienced a slowdown in the spread of the Coronavirus and an accompanying acceleration in economic activity during the quarter, this good news was largely offset by weak economic indicators, poor company earnings reports and more load-shedding from Eskom to keep local financial markets and sentiment subdued.

Apart from the sharp contraction in GDP growth, one of the most important indicators showed the country lost some 2.2 million jobs during the second quarter under the effects of the lockdown. The number of employed persons decreased to 14.1 million versus the first quarter of 2020. However, this was not reflected in the unemployment rate, which actually improved due to a collapse in the number of people actively seeking work over the period.

At its policy meeting on 17 September, the South African Reserve Bank (SARB) announced a worsening growth outlook for the country, with GDP now expected to contract by 8.2% in 2020, compared to the -7.3% forecast in July. The SARB kept the repo rate unchanged at 3.5%, and its latest interest rate model forecasts no further changes over the near term. However, two rate increases are seen in the second half of 2021. This is in the face of a relatively benign inflation outlook: consumer inflation was largely steady at 3.1% y/y in August from 3.2% in July, and the SARB expects CPI to average 3.3% in 2020. Looking ahead, the SARB lowered its CPI forecasts to 4.0% in 2021 and 4.4% in 2022.

Also during the quarter, the SARB slowed its purchases of government bonds as local bond market liquidity continued to improve, buying only around R350m in August compared to an average of R10bn monthly in the first months of the programme, introduced in March.

The local equity market finished in the black thanks solely to Resources stocks, with other sectors losing ground. The FTSE/JSE All Share Index (ALSI) returned 0.7% for Q3 2020. The Resources 10 Index returned 5.7%, Financials -1.6%, Industrials -2.3% and Listed Property (SAPY Index) was the poorest performer with -14.1%.

PERFORMANCE

The property sector experienced another disappointing quarter for the three months ending 30 September 2020, with the FTSE/JSE South African Listed Property Index returning -14.1%. While it is cold comfort for investors given the poor absolute returns for the fund, the fund was able to generate a return of -13.8% (net of fees) over this period, outperforming its benchmark by 0.3%. For the 12 months ending 30 September 2020, the fund returned -46.7% (net of fees), marginally underperforming its benchmark by 0.6%

Underweight positions in Fortress B and Attacq, and an overweight to Equites, contributed to relative performance over the quarter. Meanwhile, underweight positions in Fortress A and Stenprop and an overweight position in Lighthouse Capital detracted from relative performance.

STRATEGY AND POSITIONING

The last quarter saw a further gradual return to normal activity as property companies reported incremental increases in footfall and spending growth since the lockdown was first instituted. The recovery, if any, will take some years given the damage done to the economy during the lockdown.

We are often asked about the prospects for the various sectors given the economic environment -- in particular, trends such as work-from-home and online shopping. Readers may be interested to listen to our views on the listed property sector in which we address some of these questions: **https://prudential.co.za/insights/articlesreleases/video-investing-in-listed-property-choosing-wisely-in-a-risky-market/**.

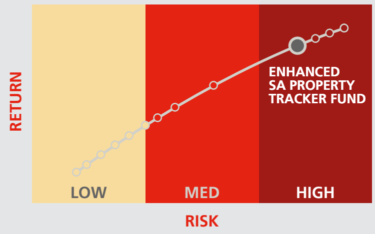
The SA property market remains oversupplied relative to current demand, in our view. An equilibrium, where demand and supply are balanced, may take some time to materialise, and in the intervening period we are likely to see pressure on rents in oversupplied sectors. Conversely, development activity has reduced substantially to the point where there is little new supply. Given valuation declines, it is likely that development activity will remain subdued, which is positive for rental prospects.

We view listed property valuations as attractively priced, though tenant and vacancy risks remain. Investors with a longer-term view should be well-rewarded should management teams be successful in de-leveraging. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	D CLASS
1 year	-46.7%	-46.1%	-46.6%	-46.6%
3 years	-25.0%	-23.8%	-25.0%	-25.0%
5 years	-13.4%	-12.9%	-13.3%	-13.3%
7 years	-4.8%	-4.4%	n/a	-4.7%
10 years	1.4%	1.8%	n/a	1.5%
Since inception	6.4%	6.8%	-12.4%	2.1%

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:
R875 739 273

AWARDS:
Morningstar/Standard & Poor's: 2011

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL DIVIDEND MAXIMISER FUND
30 SEPTEMBER 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

EQUITY

MARKET OVERVIEW

The Coronavirus pandemic continued to dominate global headlines in the third quarter (Q3) of 2020, with many countries battling a second wave of infections amid the ongoing re-opening of economies. Financial markets were generally positive across both equities and bonds, helped by ongoing supportive monetary and fiscal policies, although the gains were far lower than the exceptional rallies seen in Q2. Rising risk-off sentiment in September saw some earlier quarterly gains being retraced. Underpinning market sentiment were rising hopes of the development of an effective vaccine by early 2021, the further opening of markets and an acceleration in trade, as well as improving economic indicators in the largest economies. However, weighing on sentiment were troubling accelerations in infections in key European countries like the UK and France, where stricter lockdowns had to be re-imposed, and the failure by the US to stop the spread of the pandemic in the lead-up to the Presidential election on 3 November. During the quarter the IMF did not revise its projected 4.9% contraction in global growth for 2020, saying it expects the recovery to be "long and bumpy".

In US$ terms, global equities (the MSCI All Country World Index, ACWI) returned 8.1% for the quarter, as developed markets delivered 7.9% and emerging markets produced 9.6%. For SA investors, the rand's 3.9% appreciation against a weaker US dollar trimmed offshore investment returns somewhat. Global bonds delivered 2.7% for the quarter and global property returned 1.4% (both in US$). Central banks generally kept interest rates at very low, accommodative levels, and governments continued to enact fiscal support packages for consumers.

In the US, it was reported that GDP contracted by 31.4% q/q in Q2 2020 following a 5.0% contraction in Q1, with the second quarter being the hardest hit by the pandemic lockdowns. The latest estimates show the economy is expected to shrink by 3.7% in 2020 before rebounding by 4% in 2021, but, more positively, the economy added 1.4m jobs in August and the unemployment rate fell to 8.4%.

At its August policy meeting the US Federal Reserve left the benchmark interest rate unchanged at near 0%, adding that it now expected rates to remain around zero for the next three years. It also said it would continue to buy back bonds to support the economy. The US dollar continued to weaken against other major currencies as the government grappled with high budget deficits and a failure to contain the pandemic. In the equity market, the S&P 500 gained 8.9% in US$ for the quarter, while the Nasdaq was up 12.6%, giving it a total return for 2020 so far of 31.7%.

In the UK, sentiment was subdued as the government failed to make progress with its Brexit negotiations, sparking more talk of a "no deal" Brexit and its negative consequences. Equally, a return to more strict lockdown measures in some cities caused concerns that growth would suffer more than expected. The UK's GDP contracted by 19.8% q/q in Q2 2020, the largest quarterly contraction on record.

Like the US, the Bank of England and European Central Bank (ECB) maintained record-low interest rates and supportive bond buying programmes, with the ECB pledging to buy up to EUR1.35trn worth of debt through June 2021 under the Pandemic Emergency Purchase Programme. Meanwhile, Euro area unemployment rose to 7.9% in July from 7.7% previously, and the area recorded an 11.8% q/q contraction in GDP. In the equity markets, the FTSE 100 returned 0.4% in US$ for the quarter, while Germany's DAX produced 8.2% and the French CAC 40 delivered 2.3% in US$.

In Japan, Prime Minister Shinzo Abe, the country's longest-serving leader, announced his surprise resignation for health reasons in September, and was replaced by his chief cabinet secretary and expected successor, Yoshihide Suga. Markets took this in stride as Suga is widely expected to continue with Abe's economic policies. Japan's GDP shrank by 7.9% q/q in Q2 2020, marking the third consecutive quarter of contraction and the steepest on record. The Nikkei 225 returned 7.0% for the quarter.

Meanwhile, China's economic data continued showing signs of further economic acceleration, with manufacturing activity, industrial output, services and exports continuing to expand. The country reported 3.2% y/y GDP growth for Q2 2020, rebounding from a record 6.8% y/y contraction in Q1 and recovering earlier than other large economies due its earlier reopening. At the same time, Hong Kong financial markets were in the red following the authorities' quick moves to arrest and prosecute local pro-democracy protesters under the territory's strict new security law. Hong Kong's Hang Seng Index returned -2.6% for the three months and the MSCI China returned 12.6% in US$.

Among other large emerging equity markets, in US$ terms the MSCI India was the quarter's strongest performer with a 15.1% return, followed by South Korea's KOSPI at 13.6%, the MSCI China with 12.6% and the MSCI South Africa at 3.7%. Lagging were the MSCI Turkey with a -15.6% return and Brazil's Bovespa with -3.1% (both in US$).

The price of Brent crude oil ended the quarter at around US$42.50 per barrel, very near where it started. The price remains under pressure from ongoing slow global growth and steady supply. As for other commodities, palladium was among the star performers over the period, gaining some 21.8%, while gold was up 6.5% and platinum rose 7.1%. Among industrial metals, copper rose 9.5%, aluminium increased 8.4% and nickel was up 12.5%.

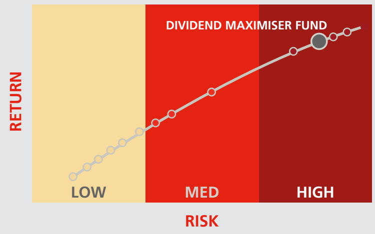
South African financial markets were marginally positive over the quarter, helped by higher commodity prices. This was despite the country posting a shocking 51% q/q annualised contraction in GDP in Q2 2020, worse than market estimates of a 47.3% decline. GDP is now expected to contract by 8.2% in 2020, before rebounding by 3.9% in 2021 and 2.6% in 2022.

Although the country experienced a slowdown in the spread of the Coronavirus and an accompanying acceleration in economic activity during the quarter, this good news was largely offset by weak economic indicators, poor company earnings reports and more load-shedding from Eskom to keep local financial markets and sentiment subdued.

Apart from the sharp contraction in GDP growth, one of the most important indicators showed the country lost some 2.2 million jobs during the second quarter under the effects of the lockdown. The number of employed persons decreased to 14.1 million versus the first quarter of 2020. However, this was not reflected in the unemployment rate, which actually improved due to a collapse in the number of people actively seeking work over the period.

At its policy meeting on 17 September, the South African Reserve Bank (SARB) announced a worsening growth outlook for the country, with GDP now expected to contract by 8.2% in 2020, compared to the -7.3% forecast in July. The SARB kept the repo rate unchanged at 3.5%, and its latest interest rate model forecasts no further changes over the near term. However, two rate increases are seen in the second half of 2021. This is in the face of a relatively benign inflation outlook: consumer inflation was largely steady at 3.1% y/y in August from 3.2% in July, and the SARB expects CPI to average 3.3% in 2020. Looking ahead, the SARB lowered its CPI forecasts to 4.0% in 2021 and 4.4% in 2022.

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 347 978 543

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

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	B CLASS	F CLASS
1 year	-1.8%	-2.9%	-1.5%	-1.4%	-1.2%
3 years	0.3%	-1.2%	0.7%	0.7%	1.0%
5 years	3.2%	1.4%	3.6%	3.6%	n/a
7 years	5.0%	3.2%	n/a	5.4%	n/a
10 years	8.7%	6.8%	n/a	9.2%	n/a
Since inception	15.2%	12.3%	2.6%	9.2%	3.2%

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

Sources: Prudential, Morningstar & Deutsche Securities

The local equity market finished in the black thanks solely to Resources stocks, with other sectors losing ground. The FTSE/JSE All Share Index (ALSI) returned 0.7% for Q3 2020. The Resources 10 Index returned 5.7%, Financials -1.6%, Industrials -2.3% and Listed Property (SAPY Index) was the poorest performer with -14.1%.

Finally, the rand put in a mixed performance in Q3, gaining 3.9% against a weaker US dollar but depreciating 0.5% against the pound sterling and 0.3% versus the euro.

PERFORMANCE

The fund delivered a return of 0.6% (net of fees) for the third quarter of 2020, underperforming its benchmark by 0.5%. For the year ended 30 September 2020, the fund returned -1.8% (net of fees), outperforming its benchmark by 1.1%.

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

The fund's overweight position to Textainer Group Holdings was the largest contributor to performance over the last quarter. Textainer is one of the world's largest container leasing companies and leases containers to shipping companies. The company has had a difficult few years with one of its larger customers, the Hanjin shipping company, declaring bankruptcy in 2016. This put it under some financial stress, but the company has since done a lot of work in improving the strength of its balance sheet and funding. This has enabled the business to emerge in a strong position to take advantage of opportunities that have emerged during the Covid-19 lockdown. It has been able to buy-back a substantial number of shares at extremely attractive prices, and we think this smart allocation of cash should further accelerate the improvement of returns from the company. As it became evident over the last quarter that container shipping volumes were returning to normal and the risk of stress in the shipping market was dissipating, the share price of the company rallied strongly and was up over 65%. As the company's return on equity continues to improve, we think that there is still considerable upside to the share price at the end of September.

The second-largest contributor to performance for the quarter was Impala Platinum. The platinum sector has experienced a resurgence in the last year, supported by substantially higher palladium and rhodium prices which most platinum miners also produce. This sector's fortunes have rapidly improved after many years of earning margins which on average were not high enough to even compensate the mines for ongoing maintenance capex. This situation could not exist for an extended period of time as it would mean a slow death for the platinum industry. Today, margins in the sector are nearing record highs and cash generation is very strong. Once-indebted companies have been able to substantially pay down or pay-off all the debt they had accumulated. The most highly indebted companies such as Northam Platinum have recently seen very strong price performance as the risk associated with their debt levels has disappeared. The fund has invested more heavily in those platinum companies such as Impala Platinum and Amplats where the balance sheets have in general been stronger. While we are very cognisant of the high margins that companies are currently earning, we do not think that platinum companies are overvalued, and so we continue to hold a neutral to slightly overweight position in the sector.

While Impala Platinum contributed strongly for the quarter, this outperformance was more than offset by Northam and Royal Bafokeng Platinum, which are benefiting even more from the de-risking of their businesses. Northam and Royal Bafokeng were the largest and second largest detractors from the fund's performance for the quarter.

Shoprite was the third-largest detractor from performance for the quarter as it surprised the market with strong cash flows when it released its results. We have not held a position in this company for several years for several reasons. Firstly, the valuation of Shoprite has over time been very full and provided little margin of safety for investment. The market, after initially being very wary of Shoprite's expansion into the rest of Africa, in our view became overly optimistic about its operations in Angola and Nigeria. The second reason for us being cautious about Shoprite was the increasing capital intensity of the business. For every rand of revenue, they were 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, which required us to factor this into a lower valuation for it. While the valuation of Shoprite has come down significantly to where we stand today, we still think that there is risk around the cash flows of the business and the risk around their investments in the rest of Africa. Our preferences among the grocery retailers are Pick n Pay and Spar.

We continue to find very good value in the banking sector and some of the local consumer- facing businesses in SA. The Covid-19 shutdown resulted in significant concern around the potential for bad debts in the banking sector, and this has resulted in large share price falls. We think the current low share prices now provide a substantial risk premium that more than compensate us for the likelihood that dividends will be materially cut or be reduced to zero by many banks for the next couple of years. Our main preference for the banking sector has been due to the good valuations and the very strong capital positions of the banks. Most certainly, the major South African banks have gone into this crisis with very strong provisioning and capital positions, and we think that these buffers place them in a good position to absorb significant potential losses which may arise from the impact of Covid-19. It seems sensible to us that all banks should not 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. As we write, the price-to-book valuations of SA banks are at exceptionally low levels, and in our view are pricing in a very negative outcome from Covid-19. On balance we think that this may be a very good point to be buying banks.

We also think that certain companies exposed to the South African consumer, whose disposable income and confidence to spend is under significant pressure now, may be looking very attractive. We will write more on these companies in the next quarterly reports.

We continue to think that offshore equity markets look attractive, certainly relative to bond markets. The fund is approximately 25% invested offshore mainly through the Prudential Global Equity Fund and the M&G Global Dividend Fund.

We acknowledge that while it is very difficult to forecast the future and we do not make any attempt to do this, we do spend a lot of time thinking about the economic cycles that various sectors are in, and where valuations are. In this way, we aim to try make money for our clients through these cycles and continue to try buy companies that have proven dividend and 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 Covid-19 pandemic, the South African market, in our view, was already undervalued and has now fallen to levels which we think are exceptionally attractive. In fact, if we look at the price-to-book value (P/B) multiple of the South African market over the last 40 years, the market has not traded more cheaply. The P/B of the JSE remains close to 1.4X at the end of September 2020. South African assets and the rand appear to be undervalued relative to Emerging and Developed markets. South African bonds also appear to be priced very attractively, and we think that the yields on offer more than compensate investors for the deteriorating fiscal position in SA and credit downgrade. We are cognisant, however, that these high yields present a challenge for the equity market, as the prospective returns from equities need to compensate investors for the alternative of earning a more certain return in similar duration bonds.

On market valuations, we currently view the market in South Africa along with many other emerging markets as being very undervalued. While the Covid-19 pandemic 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 among the mining companies and related industries, which we are already witnessing, as well as a resumption of dividends from banks after the temporary suspensions while the effects of Covid-19 on banking clients has been determined.

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 SEPTEMBER 2020

QUARTERLY COMMENTARY

EQUITY

MARKET OVERVIEW

The Coronavirus pandemic continued to dominate global headlines in the third quarter (Q3) of 2020, with many countries battling a second wave of infections amid the ongoing re-opening of economies. Financial markets were generally positive across both equities and bonds, helped by ongoing supportive monetary and fiscal policies, although the gains were far lower than the exceptional rallies seen in Q2. Rising risk-off sentiment in September saw some earlier quarterly gains being retraced. Underpinning market sentiment were rising hopes of the development of an effective vaccine by early 2021, the further opening of markets and an acceleration in trade, as well as improving economic indicators in the largest economies. However, weighing on sentiment were troubling accelerations in infections in key European countries like the UK and France, where stricter lockdowns had to be re-imposed, and the failure by the US to stop the spread of the pandemic in the lead-up to the Presidential election on 3 November. During the quarter the IMF did not revise its projected 4.9% contraction in global growth for 2020, saying it expects the recovery to be "long and bumpy".

In US$ terms, global equities (the MSCI All Country World Index, ACWI) returned 8.1% for the quarter, as developed markets delivered 7.9% and emerging markets produced 9.6%. For SA investors, the rand's 3.9% appreciation against a weaker US dollar trimmed offshore investment returns somewhat. Global bonds delivered 2.7% for the quarter and global property returned 1.4% (both in US$). Central banks generally kept interest rates at very low, accommodative levels, and governments continued to enact fiscal support packages for consumers.

In the US, it was reported that GDP contracted by 31.4% q/q in Q2 2020 following a 5.0% contraction in Q1, with the second quarter being the hardest hit by the pandemic lockdowns. The latest estimates show the economy is expected to shrink by 3.7% in 2020 before rebounding by 4% in 2021, but, more positively, the economy added 1.4m jobs in August and the unemployment rate fell to 8.4%.

At its August policy meeting the US Federal Reserve left the benchmark interest rate unchanged at near 0%, adding that it now expected rates to remain around zero for the next three years. It also said it would continue to buy back bonds to support the economy. The US dollar continued to weaken against other major currencies as the government grappled with high budget deficits and a failure to contain the pandemic. In the equity market, the S&P 500 gained 8.9% in US$ for the quarter, while the Nasdaq was up 12.6%, giving it a total return for 2020 so far of 31.7%.

In the UK, sentiment was subdued as the government failed to make progress with its Brexit negotiations, sparking more talk of a "no deal" Brexit and its negative consequences. Equally, a return to more strict lockdown measures in some cities caused concerns that growth would suffer more than expected. The UK's GDP contracted by 19.8% q/q in Q2 2020, the largest quarterly contraction on record.

Like the US, the Bank of England and European Central Bank (ECB) maintained record-low interest rates and supportive bond buying programmes, with the ECB pledging to buy up to EUR1.35trn worth of debt through June 2021 under the Pandemic Emergency Purchase Programme. Meanwhile, Euro area unemployment rose to 7.9% in July from 7.7% previously, and the area recorded an 11.8% q/q contraction in GDP. In the equity markets, the FTSE 100 returned 0.4% in US$ for the quarter, while Germany's DAX produced 8.2% and the French CAC 40 delivered 2.3% in US$.

In Japan, Prime Minister Shinzo Abe, the country's longest-serving leader, announced his surprise resignation for health reasons in September, and was replaced by his chief cabinet secretary and expected successor, Yoshihide Suga. Markets took this in stride as Suga is widely expected to continue with Abe's economic policies. Japan's GDP shrank by 7.9% q/q in Q2 2020, marking the third consecutive quarter of contraction and the steepest on record. The Nikkei 225 returned 7.0% for the quarter.

Meanwhile, China's economic data continued showing signs of further economic acceleration, with manufacturing activity, industrial output, services and exports continuing to expand. The country reported 3.2% y/y GDP growth for Q2 2020, rebounding from a record 6.8% y/y contraction in Q1 and recovering earlier than other large economies due its earlier reopening. At the same time, Hong Kong financial markets were in the red following the authorities' quick moves to arrest and prosecute local pro-democracy protesters under the territory's strict new security law. Hong Kong's Hang Seng Index returned -2.6% for the three months and the MSCI China returned 12.6% in US$.

Among other large emerging equity markets, in US$ terms the MSCI India was the quarter's strongest performer with a 15.1% return, followed by South Korea's KOSPI at 13.6%, the MSCI China with 12.6% and the MSCI South Africa at 3.7%. Lagging were the MSCI Turkey with a -15.6% return and Brazil's Bovespa with -3.1% (both in US$).

The price of Brent crude oil ended the quarter at around US$42.50 per barrel, very near where it started. The price remains under pressure from ongoing slow global growth and steady supply. As for other commodities, palladium was among the star performers over the period, gaining some 21.8%, while gold was up 6.5% and platinum rose 7.1%. Among industrial metals, copper rose 9.5%, aluminium increased 8.4% and nickel was up 12.5%.

South African financial markets were marginally positive over the quarter, helped by higher commodity prices. This was despite the country posting a shocking 51% q/q annualised contraction in GDP in Q2 2020, worse than market estimates of a 47.3% decline. GDP is now expected to contract by 8.2% in 2020, before rebounding by 3.9% in 2021 and 2.6% in 2022.

Although the country experienced a slowdown in the spread of the Coronavirus and an accompanying acceleration in economic activity during the quarter, this good news was largely offset by weak economic indicators, poor company earnings reports and more load-shedding from Eskom to keep local financial markets and sentiment subdued.

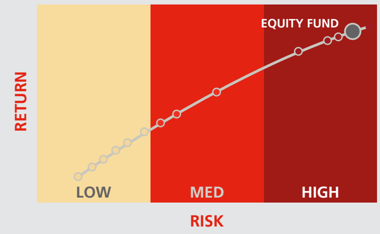
Apart from the sharp contraction in GDP growth, one of the most important indicators showed the country lost some 2.2 million jobs during the second quarter under the effects of the lockdown. The number of employed persons decreased to 14.1 million versus the first quarter of 2020. However, this was not reflected in the unemployment rate, which actually improved due to a collapse in the number of people actively seeking work over the period.

At its policy meeting on 17 September, the South African Reserve Bank (SARB) announced a worsening growth outlook for the country, with GDP now expected to contract by 8.2% in 2020, compared to the -7.3% forecast in July. The SARB kept the repo rate unchanged at 3.5%, and its latest interest rate model forecasts no further changes over the near term. However, two rate increases are seen

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS	F CLASS
1 year	-0.7%	-2.9%	-0.4%	-0.3%
3 years	0.5%	-1.2%	0.9%	1.3%
5 years	3.5%	1.4%	3.9%	n/a
7 years	5.1%	3.2%	5.6%	n/a
10 years	9.2%	6.8%	9.7%	n/a
Since inception	15.1%	12.3%	9.5%	4.0%

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

RISK/RETURN PROFILE:



FUND MANAGERS:
Chris Wood, Aadil Omar and Yusuf Mowlana

ASISA CATEGORY:
South African - Equity - General

BENCHMARK:
ASISA South African - Equity - General Category Mean

INCEPTION DATE:
2 August 1999

FUND SIZE:
R2 946 239 711

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

Sources: Prudential, Morningstar & Deutsche Securities

in the second half of 2021. This is in the face of a relatively benign inflation outlook: consumer inflation was largely steady at 3.1% y/y in August from 3.2% in July, and the SARB expects CPI to average 3.3% in 2020. Looking ahead, the SARB lowered its CPI forecasts to 4.0% in 2021 and 4.4% in 2022.

The local equity market finished in the black thanks solely to Resources stocks, with other sectors losing ground. The FTSE/JSE All Share Index (ALSI) returned 0.7% for Q3 2020. The Resources 10 Index returned 5.7%, Financials -1.6%, Industrials -2.3% and Listed Property (SAPY Index) was the poorest performer with -14.1%.

Finally, the rand put in a mixed performance in Q3, gaining 3.9% against a weaker US dollar but depreciating 0.5% against the pound sterling and 0.3% versus the euro.

PERFORMANCE

The fund performed well since its March lows by actively buying companies on inexpensive valuations. For the third quarter of 2020, the fund delivered a return of 1.5% (net of fees), underperforming its benchmark by 0.5%. For the year ended 30 September 2020, the fund returned -0.7% (net of fees), outperforming its benchmark by 2.2%.

During the quarter, the fund increased exposure to British American Tobacco, Northam and Remgro, and sold Bidcorp, Richemont and Impala Platinum.

The fund's overweight position to Textainer Group Holdings was the largest contributor to relative performance over the last quarter. Textainer is one of the world's largest container leasing companies and leases containers to shipping companies. The company has had a difficult few years, with one of its larger customers, the Hanjin shipping company, declaring bankruptcy in 2016. This put the company under some financial stress, but it has since done a lot of work in improving the strength of its balance sheet and funding. This has enabled the business to emerge in a strong position to take advantage of opportunities that have emerged during the Covid-19 lockdown. The company has been able to buy-back a substantial number of shares at extremely attractive prices, and we think this smart allocation of cash should further accelerate the improvement of returns from the company. As it became evident over the last quarter that container shipping volumes were returning to normal and the risk of stress in the shipping market was dissipating, the share price of the company rallied strongly and was up over 65%. As its return on equity continues to improve, we think that there is still considerable upside to the share price at the end of September.

The second largest contributor to relative performance for the quarter was the fund's overweight position in Impala Platinum. The platinum sector has experienced a resurgence in the last year, supported by substantially higher palladium and rhodium prices, which most platinum miners also produce. This sector's fortunes have rapidly improved after many years of earning margins which on average were not high enough to even compensate the mines for ongoing maintenance capex. This situation could not exist for an extended period of time, as it would mean a slow death for the platinum industry. Today, margins in the sector are nearing record highs and cash generation is very strong. Once-indebted companies have been able to substantially pay down or pay-off all the debt they had accumulated. The most highly indebted companies such as Northam Platinum have recently seen very strong price performance as the risk associated with their debt levels has disappeared. The fund has invested more heavily in those platinum companies (such as Impala Platinum and Northam) where the balance sheets have in general been stronger. While we are very cognisant of the high margins that companies are currently earning, we do not think that platinum companies are overvalued and so we continue to hold a neutral to slightly overweight position in the sector.

Shoprite was also a large detractor from the fund's relative performance for the quarter as it surprised the market with strong cash flows when it released its results. We have not held a position in this company for several years due to several reasons. Firstly, the valuation of Shoprite has over time been very full and provided little margin of safety for investment. The market, after initially being very wary of Shoprite's expansion into the rest of Africa, in our view became overly optimistic about the operations in Angola and Nigeria. The second reason for us being cautious about Shoprite was the increasing capital intensity of the business. For every rand of revenue, they were 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 required us to factor this into a lower valuation for this business. While the valuation of Shoprite has come down significantly to where we stand today, we still think that there is risk around the cash flows of the business, and risk around their investments in the rest of Africa. Our preferences among the grocery retailers are Pick n Pay and Spar.

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 Covid-19 pandemic, the South African market in our view was already undervalued and has now fallen to levels which we think are exceptionally attractive. In fact, if we look at the price-to-book value (P/B) multiple of the South African market over the last 40 years, the market has not traded more cheaply. The P/B of the JSE remains close to 1.4X at the end of September 2020. South African assets and the rand appear to be undervalued relative to Emerging and Developed markets. South African bonds also appear to be priced very attractively and we think that the yields on offer more than compensate investors for the deteriorating fiscal position in SA and credit downgrade. We are cognisant, though, that these high yields present a challenge for the equity market, as the prospective returns from equities need to compensate investors for the alternative of earning a more certain return in similar duration bonds.

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

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL SA EQUITY FUND
30 SEPTEMBER 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

EQUITY

MARKET OVERVIEW

South African financial markets were marginally positive over the quarter, helped by higher commodity prices. This was despite the country posting a shocking 51% q/q annualised contraction in GDP in Q2 2020, worse than market estimates of a 47.3% decline. GDP is now expected to contract by 8.2% in 2020, before rebounding by 3.9% in 2021 and 2.6% in 2022.

Although the country experienced a slowdown in the spread of the Coronavirus and an accompanying acceleration in economic activity during the quarter, this good news was largely offset by weak economic indicators, poor company earnings reports and more load-shedding from Eskom to keep local financial markets and sentiment subdued.

Apart from the sharp contraction in GDP growth, one of the most important indicators showed the country lost some 2.2 million jobs during the second quarter under the effects of the lockdown. The number of employed persons decreased to 14.1 million versus the first quarter of 2020. However, this was not reflected in the unemployment rate, which actually improved due to a collapse in the number of people actively seeking work over the period.

At its policy meeting on 17 September, the South African Reserve Bank (SARB) announced a worsening growth outlook for the country, with GDP now expected to contract by 8.2% in 2020, compared to the -7.3% forecast in July. The SARB kept the repo rate unchanged at 3.5%, and its latest interest rate model forecasts no further changes over the near term. However, two rate increases are seen in the second half of 2021. This is in the face of a relatively benign inflation outlook: consumer inflation was largely steady at 3.1% y/y in August from 3.2% in July, and the SARB expects CPI to average 3.3% in 2020. Looking ahead, the SARB lowered its CPI forecasts to 4.0% in 2021 and 4.4% in 2022.

The local equity market finished in the black thanks solely to Resources stocks, with other sectors losing ground. The FTSE/JSE All Share Index (ALSI) returned 0.7% for Q3 2020. The Resources 10 Index returned 5.7%, Financials -1.6%, Industrials -2.3% and Listed Property (SAPY Index) was the poorest performer with -14.1%.

PERFORMANCE

The fund delivered a return of 0.9% (net of fees) for the third quarter of 2020, underperforming its benchmark by 1.9%. For the year ended 30 September 2020, the fund returned -11.0% (net of fees), underperforming its benchmark by 6.0%.

The largest contributor to performance for the quarter was the fund's overweight position to Impala Platinum. The platinum sector has experienced a resurgence in the last year, supported by substantially higher palladium and rhodium prices, which most platinum miners also produce. This sector's fortunes have rapidly improved after many years of earning margins which on average were not high enough to even compensate the mines for ongoing maintenance capex. This situation could not exist for an extended period of time as it would mean a slow death for the platinum industry. Today, margins in the sector are nearing record highs and cash generation is very strong. Once-indebted companies have been able to substantially pay down or pay-off all the debt they had accumulated. The most highly indebted companies such as Northam Platinum have recently seen very strong price performance as the risk associated with their debt levels has disappeared. The fund has invested more heavily in those platinum companies such as Impala Platinum and Amplats where the balance sheets have in general been stronger. While we are very cognisant of the high margins that companies are currently earning, we do not think that platinum companies are overvalued, and so we continue to hold a neutral to slightly overweight position in the sector.

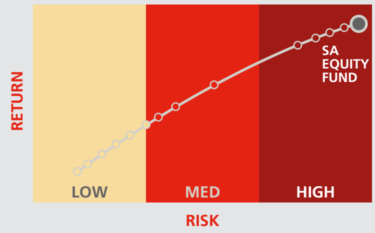
Staying in the mining sector, another large contributor to performance for this quarter was the fund's underweight position to the gold sector. The fund has consistently been underweight gold mainly due to the very poor cash flows generated by gold companies, and consequently, the very poor dividend 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 less dependent on supply-demand dynamics in terms of its valuation, it does make sense to hold some gold – albeit underweight. Our underweight positions to Anglogold and DRDGold specifically helped performance this quarter.

While the fund's overweight position in Impala Platinum contributed strongly for the quarter, this outperformance was offset by the fund's underweight position in another platinum and palladium company, Sibanye Stillwater, which is benefiting even more from the de-risking of their businesses. Sibanye Stillwater was the second largest detractor from performance after Shoprite for the quarter.

Shoprite was the largest detractor from performance for the quarter, as it surprised the market with strong cash flows when it released its results. We have not held a position in this company for several years for several reasons. Firstly, the valuation of Shoprite has over time been very full and provided little margin of safety for investment. The market, after initially being very wary of Shoprite's expansion into the rest of Africa, in our view became overly optimistic about its operations in Angola and Nigeria. The second reason for us being cautious about Shoprite was the increasing capital intensity of the business. For every rand of revenue, they were 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, which required us to factor this into a lower valuation for it. While the valuation of Shoprite has come down significantly to where we stand today, we still think that there is risk around the cash flows of the business and the risk around their investments in the rest of Africa. Our preferences among the grocery retailers are Pick n Pay and Spar.

Our overweight position in British American Tobacco (BAT) was the third largest relative detractor from performance for the quarter. We believe that the investment case remains very strong as the company is trading with an exceptionally attractive dividend yield of 7%, which we expect to grow in the region of 10% per year for the next five years, despite the risks which tobacco companies face. We anticipate continued strong cash flows from BAT's core business in the United States to drive a repayment of debt, as well as to continue funding investments into next-generation low-risk

RISK/RETURN PROFILE:



FUND MANAGERS:
Ross Biggs, Johny Lambridis, Chris Wood, Simon Kendall and Aadil Omar

ASISA CATEGORY:
South African - Equity - General

BENCHMARK:
FTSE/JSE Capped SWIX All Share Index

INCEPTION DATE:
21 September 2000

FUND SIZE:
R23 467 450 589

ANNUALISED PERFORMANCE	B CLASS	BENCHMARK*	F CLASS
1 year	-9.9%	-5.0%	-11.0%
3 years	-3.1%	-2.4%	-4.2%
5 years	1.2%	1.2%	n/a
7 years	3.8%	3.7%	n/a
10 years	8.4%	7.7%	n/a
Since inception	13.8%	12.3%	-0.9%

* The Fund's benchmark changed from the FTSE/JSE All Share Index (TR) to the FTSE/JSE Capped SWIX All Share Index (TR) on 1 July 2017.
Inception date F Class: 1 July 2016

Sources: Prudential, Morningstar & Deutsche Securities

products. We have witnessed strong price increases over the last two years in the United States due to the affordability of cigarettes in this market. These price increases are more than offsetting declining volumes. BAT is at the forefront of offering its customers alternative products which reduce harm, and we expect this trend to continue. We think that BAT can continue to grow profits while helping its customers switch to much lower-risk and less harmful products. BAT has been a strong relative performer over the last year as the market has appreciated its defensive cash flows amid the Covid-19 pandemic.

It is worth mentioning that the fund's overweight position in Textainer Group Holdings was also a large contributor to performance over the last quarter. Textainer is one of the world's largest container leasing companies and leases containers to shipping companies. The company has had a difficult few years with one of its larger customers, the Hanjin shipping company, declaring bankruptcy in 2016. This put it under some financial stress, but the company has since done a lot of work in improving the strength of its balance sheet and funding. This has enabled the business to emerge in a strong position to take advantage of opportunities that have emerged during the Covid-19 lockdown. It has been able to buy-back a substantial number of shares at extremely attractive prices, and we think this smart allocation of cash should further accelerate the improvement of returns from the company. As it became evident over the last quarter that container shipping volumes were returning to normal and the risk of stress in the shipping market was dissipating, the share price of the company rallied strongly and was up over 65%. As the company's return on equity continues to improve, we think that there is still considerable upside to the share price at the end of September.

We continue to find very good value in the banking sector and some of the local consumer- facing businesses in SA. The Covid-19 shutdown resulted in significant concern around the potential for bad debts in the banking sector, and this has resulted in large share price falls. We think the current low share prices now provide a substantial risk premium that more than compensate us for the likelihood that dividends will be materially cut or be reduced to zero by many banks for the next couple of years. Our main preference for the banking sector has been due to the good valuations and the very strong capital positions of the banks. Most certainly, the major South African banks have gone into this crisis with very strong provisioning and capital positions, and we think that these buffers place them in a good position to absorb significant potential losses which may arise from the impact of Covid-19. It seems sensible to us that all banks should not 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. As we write, the price-to-book valuations of SA banks are at exceptionally low levels, and in our view are pricing in a very negative outcome from Covid-19. On balance we think that this may be a very good point to be buying banks.

We also think that certain companies exposed to the South African consumer, whose disposable income and confidence to spend is under significant pressure now, may be looking very attractive. We will write more on these companies in the next quarterly reports.

We acknowledge that while it is very difficult to forecast the future and we do not make any attempt to do this, we do spend a lot of time thinking about the economic cycles that various sectors are in, and where valuations are. In this way, we aim to try make money for our clients through these cycles and continue to try buy companies that have proven dividend and 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 Covid-19 pandemic, the South African market, in our view, was already undervalued and has now fallen to levels which we think are exceptionally attractive. In fact, if we look at the price-to-book value (P/B) multiple of the South African market over the last 40 years, the market has not traded more cheaply. The P/B of the JSE remains close to 1.4X at the end of September 2020. South African assets and the rand appear to be undervalued relative to Emerging and Developed markets. South African bonds also appear to be priced very attractively, and we think that the yields on offer more than compensate investors for the deteriorating fiscal position in SA and credit downgrade. We are cognisant, however, that these high yields present a challenge for the equity market, as the prospective returns from equities need to compensate investors for the alternative of earning a more certain return in similar duration bonds.

On market valuations, we currently view the market in South Africa along with many other emerging markets as being very undervalued. While the Covid-19 pandemic 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 among the mining companies and related industries, which we are already witnessing, as well as a resumption of dividends from banks after the temporary suspensions once the effects of Covid-19 on banking clients have been determined.

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 GLOBAL BOND FEEDER FUND
30 SEPTEMBER 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL INCOME

MARKET OVERVIEW

The Coronavirus pandemic continued to dominate global headlines in the third quarter (Q3) of 2020, with many countries battling a second wave of infections amid the ongoing re-opening of economies. Financial markets were generally positive across both equities and bonds, helped by ongoing supportive monetary and fiscal policies, although the gains were far lower than the exceptional rallies seen in Q2. Underpinning market sentiment were rising hopes of the development of an effective vaccine by early 2021, the further opening of markets and an acceleration in trade, as well as improving economic indicators in the largest economies. However, weighing on sentiment were troubling accelerations in infections in key European countries like the UK and France, where stricter lockdowns had to be re-imposed, and the failure by the US to stop the spread of the pandemic in the lead-up to the Presidential election on 3 November.

The rand's mixed performance over the period meant that rand investors in US dollar assets would have seen some benefit from the stronger rand versus that currency, but lost some value in the UK and European currencies given the weaker rand against the pound sterling and euro. The rand gained 3.9% against a weaker US dollar but depreciated 0.5% against the pound sterling and 0.3% versus the euro.

Investors initially favoured risk assets as sentiment continued to improve. Against this backdrop, risk assets gained ground, particularly US equity indices. Shares of global technology companies were once again some of the best-performing over the period, reflecting the world's growing reliance on their products and services during the pandemic. Conversely, mainstream government bonds, particularly gilts, sold off, with yields peaking towards the end of August. However, these gains were partially offset by a reversal during September. A number of factors caused investors to become more cautious. These included the potential for a second lockdown in some regions as the number of COVID-19 cases again began to rise sharply, and a rise in unemployment as government support schemes started to come to an end. Political uncertainty also played a part. Within corporate credit, high yield bonds typically outperformed their investment grade counterparts, while amid mixed returns in emerging markets, hard currency debt generally outperformed local currency bonds.

In US$ terms, global bonds delivered 2.7% for the quarter Central banks generally kept interest rates at very low, accommodative levels, and governments continued to enact fiscal support packages for consumers.

In the US, GDP contracted by 31.4% q/q in Q2 2020 following a 5.0% contraction in Q1. The latest estimates show the economy is expected to shrink by 3.7% in 2020 before rebounding by 4% in 2021, but, more positively, the unemployment rate fell to 8.4%. At its August policy meeting the US Federal Reserve left the benchmark interest rate unchanged at near 0%, adding that it now expected rates to remain around zero for the next three years. The US dollar continued to weaken against other major currencies.

In the UK, sentiment was subdued as the government failed to make progress with its Brexit negotiations. Equally, a return to more strict lockdown measures in some cities caused concerns that growth would suffer more than expected. Like the US, the Bank of England and European Central Bank (ECB) maintained record-low interest rates and supportive bond buying programmes. Meanwhile, Euro area unemployment rose to 7.9% in July from 7.7% previously, and the area recorded an 11.8% q/q contraction in GDP for Q2 2020.

In Japan, Prime Minister Shinzo Abe, the country's longest-serving leader, announced his surprise resignation for health reasons in September, and was replaced by his chief cabinet secretary and expected successor, Yoshihide Suga. Markets took this in stride as Suga is widely expected to continue with Abe's economic policies. Japan's GDP shrank by 7.9% q/q in Q2 2020, marking the third consecutive quarter of contraction and the steepest on record.

Meanwhile, China's economic data continued showing signs of further economic acceleration, with manufacturing activity, industrial output, services and exports continuing to expand. The country reported 3.2% y/y GDP growth for Q2 2020, rebounding from a record 6.8% y/y contraction in Q1 and recovering earlier than other large economies due its earlier reopening. At the same time, Hong Kong financial markets were in the red following the authorities' quick moves to arrest and prosecute local pro-democracy protesters under the territory's strict new security law.

The price of Brent crude oil ended the quarter at around US$42.50 per barrel, very near where it started. The price remains under pressure from ongoing slow global growth and steady supply. As for other commodities, palladium was one of the star performers over the period, gaining some 21.8%, while gold was up 6.5% and platinum rose 7.1%. Among industrial metals, copper rose 9.5%, aluminium increased 8.4% and nickel was up 12.5%.

PERFORMANCE

The fund returned -1.1% (net of fees) in rand for the third quarter of 2020, outperforming its benchmark by 0.2%. For the 12 months ending 30 September 2020, the fund returned 16.6% (net of fees) while the benchmark returned 17.0%.

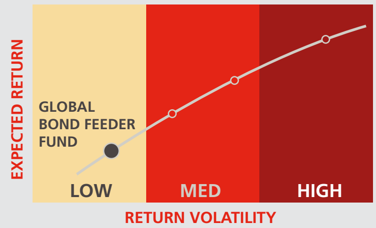
Contributors to absolute performance for the quarter were the fund's holdings in emerging market hard-currency government bonds (in both US dollar and euro-hedged share classes), and investment-grade corporate bonds (exposure to US dollar, euro and pound sterling). The primary detractor from performance over the period was the fund's exposure to Brazilian government bonds.

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 closed our short bond positions to bring the duration of the fund closer to neutral. During the quarter, we bought long-dated Australian government bonds for their attractive yield and steep yield curve. We also bought a 20-year Mexican government bond in place of shorter-dated exposure, to move further up the yield curve, as it had steepened. We reduced the fund's exposure to sterling in favour of the euro via the US dollar base currency, in order to bring the sterling position in line.

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:
R581 383 551

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	16.6%	17.0%	17.0%
3 years	10.1%	11.7%	n/a
5 years	7.2%	7.9%	n/a
7 years	9.3%	10.2%	n/a
10 years	11.5%	11.7%	n/a
Since inception	9.1%	9.3%	17.6%

Inception date B Class: 2 July 2018

Sources: Prudential, Morningstar & Deutsche Securities

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 opportunities ahead in credit markets, across investment grade, high yield and emerging market hard currency and local debt. We have exposure to the long end of the US Treasury curve based on diversification potential and relative value versus the long end of the mainstream government bond curve. ■

Sources: Prudential, Morningstar & Deutsche Securities

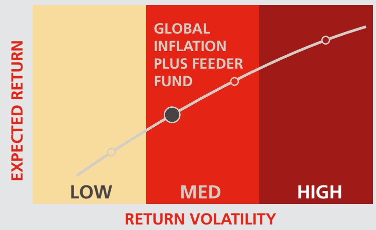
PRUDENTIAL GLOBAL INFLATION PLUS FEEDER FUND
30 SEPTEMBER 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL MULTI-ASSET

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:
R173 205 009

MARKET OVERVIEW

The Coronavirus pandemic continued to dominate global headlines in the third quarter (Q3) of 2020, with many countries battling a second wave of infections amid the ongoing re-opening of economies. Financial markets were generally positive across both equities and bonds, helped by ongoing supportive monetary and fiscal policies, although the gains were far lower than the exceptional rallies seen in Q2. Underpinning market sentiment were rising hopes of the development of an effective vaccine by early 2021, the further opening of markets and an acceleration in trade, as well as improving economic indicators in the largest economies. However, weighing on sentiment were troubling accelerations in infections in key European countries like the UK and France, where stricter lockdowns had to be re-imposed, and the failure by the US to stop the spread of the pandemic in the lead-up to the Presidential election on 3 November.

The rand's mixed performance over the period meant that rand investors in US dollar assets would have seen some benefit from the stronger rand versus that currency, but lost some value in the UK and European currencies given the weaker rand against the pound sterling and euro. The rand gained 3.9% against a weaker US dollar but depreciated 0.5% against the pound sterling and 0.3% versus the euro.

Global investors initially favoured risk assets as sentiment continued to improve. Against this backdrop, risk assets gained ground, particularly US equity indices. Shares of global technology companies were once again some of the best-performing over the period, reflecting the world's growing reliance on their products and services during the pandemic. Conversely, mainstream government bonds, particularly gilts, sold off, with yields peaking towards the end of August. However, these gains were partially offset by a reversal during September. A number of factors caused investors to become more cautious. These included the potential for a second lockdown in some regions as the number of COVID-19 cases again began to rise sharply, and a rise in unemployment as government support schemes started to come to an end. Political uncertainty also played a part. Within corporate credit, high yield bonds typically outperformed their investment grade counterparts, while amid mixed returns in emerging markets, hard currency debt generally outperformed local currency bonds.

In US$ terms, global equities (the MSCI All Country World Index, ACWI) returned 8.1% for the quarter, as developed markets delivered 7.9% and emerging markets produced 9.6%. Global bonds delivered 2.7% for the quarter and global property returned 1.4% (both in US$). Central banks generally kept interest rates at very low, accommodative levels, and governments continued to enact fiscal support packages for consumers.

In the US, GDP contracted by 31.4% q/q in Q2 2020 following a 5.0% contraction in Q1. The latest estimates show the economy is expected to shrink by 3.7% in 2020 before rebounding by 4% in 2021, but, more positively, the unemployment rate fell to 8.4%. At its August policy meeting the US Federal Reserve left the benchmark interest rate unchanged at near 0%, adding that it now expected rates to remain around zero for the next three years. The US dollar continued to weaken against other major currencies. In the equity markets, the S&P 500 gained 8.9% in US$ for the quarter, while the Nasdaq was up 12.6%, giving it a total return for 2020 so far of 31.7%.

In the UK, sentiment was subdued as the government failed to make progress with its Brexit negotiations. Equally, a return to more strict lockdown measures in some cities caused concerns that growth would suffer more than expected. The UK's GDP contracted by 19.8% q/q in Q2 2020, the largest quarterly contraction on record.

Like the US, the Bank of England and European Central Bank (ECB) maintained record-low interest rates and supportive bond buying programmes. Meanwhile, Euro area unemployment rose to 7.9% in July from 7.7% previously, and the area recorded an 11.8% q/q contraction in GDP for Q2 2020. In the equity markets, the FTSE 100 returned 0.4% in US$ for the quarter, while Germany's DAX produced 8.2% and the French CAC 40 delivered 2.3% in US$.

In Japan, Prime Minister Shinzo Abe, the country's longest-serving leader, announced his surprise resignation for health reasons in September, and was replaced by his chief cabinet secretary and expected successor, Yoshihide Suga. Markets took this in stride as Suga is widely expected to continue with Abe's economic policies. Japan's GDP shrank by 7.9% q/q in Q2 2020, marking the third consecutive quarter of contraction and the steepest on record. The Nikkei 225 returned 7.0% for the quarter.

Meanwhile, China's economic data continued showing signs of further economic acceleration, with manufacturing activity, industrial output, services and exports continuing to expand. The country reported 3.2% y/y GDP growth for Q2 2020, rebounding from a record 6.8% y/y contraction in Q1 and recovering earlier than other large economies due its earlier reopening. At the same time, Hong Kong financial markets were in the red following the authorities' quick moves to arrest and prosecute local pro-democracy protesters under the territory's strict new security law. Hong Kong's Hang Seng Index returned -2.6% for the three months and the MSCI China returned 12.6% in US$.

Among other large emerging equity markets, in US$ terms the MSCI India was the quarter's strongest performer with a 15.1% return, followed by South Korea's KOSPI at 13.6%, the MSCI China with 12.6% and the MSCI South Africa at 3.7%. Lagging were the MSCI Turkey with a -15.6% return and Brazil's Bovespa with -3.1% (both in US$).

The price of Brent crude oil ended the quarter at around US$42.50 per barrel, very near where it started. The price remains under pressure from ongoing slow global growth and steady supply. As for other commodities, palladium was one of the star performers over the period, gaining some 21.8%, while gold was up 6.5% and platinum rose 7.1%. Among industrial metals, copper rose 9.5%, aluminium increased 8.4% and nickel was up 12.5%.

PERFORMANCE

For Q3 2020, the fund returned -0.1% in rands (net of fees), while global inflation measured -3.0% (expressed in rands). For the 12 months ending 30 September 2020, the fund returned 12.0% (net of fees) and global inflation was 11.0% year-on-year (expressed in rands).

The main contributors to absolute performance for the quarter included the fund's exposure to US and Japanese equities US; US and European investment-grade corporate bonds and emerging market hard-currency bonds. The main detractor from absolute performance was equity exposure to Indonesia.

In terms of relative performance, at the asset class level the fund's equity selection detracted from value, although its overall equity allocation was positive over the quarter. Its overweight to corporate debt and the underweight to securitised debt contributed to performance.

The fund's underweight to government debt detracted from relative value based on selection. Detractors included its overweights to 30-year US Treasuries and to Turkish government bonds (US dollar-denominated), and the underweight to European sovereign debt.

Looking at equity, among the primary contributors to value was the fund's overweight to the UK consumer discretionary sector. Detractors

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK*	B CLASS
1 year	12.0%	11.0%	12.4%
3 years	9.2%	7.3%	9.5%
5 years	7.7%	6.0%	8.0%
7 years	9.4%	8.4%	9.7%
10 years	10.8%	10.1%	n/a
Since inception	8.3%	7.3%	10.0%

Inception date B Class: 1 July 2013
* The Fund's benchmark changed from the ASISA Global - Multi Asset - Low Equity Category Mean to Global Inflation on 1 November 2018.

Sources: Prudential, Morningstar & Deutsche Securities

at sector level were the fund's underweights to IT and consumer discretionary stocks in the US.

STRATEGY AND POSITIONING

Overall, the fund remains tilted in favour of corporate credit and emerging market sovereign bonds in the fixed income portion, with a preference for equities relative to the reference index at the asset class level. For context, global inflation (based on the OECD Major 7 CPI Total Index) was 0.8% for the rolling 12 months ended 31 August 2020.

During the quarter we closed our short bond positions to bring the duration of the fund closer to neutral. Meanwhile, we bought long-dated Australian government bonds for their attractive yield and steep yield curve. We sold our Turkish equity as the country's economic fundamentals were deteriorating from a current account perspective, undermining support for the currency. The real yield was being (and continues to be) eroded, and the currency manipulated rather than being allowed to trade as a free-floating currency.

In terms of concrete facts concerning the future paths of profits and economies, it is very difficult to say that the situation has deteriorated in recent months. In fact, if anything, our sense is that the macroeconomic data has broadly positively surprised compared with expectations in the spring. The policy response has continued to be very supportive and politicians have generally reaffirmed desires to avoid the economically damaging measures that were taken earlier in the year.

As ever, we believe that the outlook is unknowable, and alongside known risks, the marketplace could easily be surprised by any number of issues. As asset allocators, our preference is to look for opportunities where we feel we are being well compensated for the risks we're taking. We therefore retain our focus on diversified equities, credit and emerging market bonds. We have exposure to the long end of the US Treasury curve based on diversification potential and relative value versus the long end of the mainstream government bond curve. ■

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL BALANCED FEEDER FUND
30 SEPTEMBER 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MARKET OVERVIEW

The Coronavirus pandemic continued to dominate global headlines in the third quarter (Q3) of 2020, with many countries battling a second wave of infections amid the ongoing re-opening of economies. Financial markets were generally positive across both equities and bonds, helped by ongoing supportive monetary and fiscal policies, although the gains were far lower than the exceptional rallies seen in Q2. Underpinning market sentiment were rising hopes of the development of an effective vaccine by early 2021, the further opening of markets and an acceleration in trade, as well as improving economic indicators in the largest economies. However, weighing on sentiment were troubling accelerations in infections in key European countries like the UK and France, where stricter lockdowns had to be re-imposed, and the failure by the US to stop the spread of the pandemic in the lead-up to the Presidential election on 3 November.

The rand's mixed performance over the period meant that rand investors in US dollar assets would have seen some benefit from the stronger rand versus that currency, but lost some value in the UK and European currencies given the weaker rand against the pound sterling and euro. The rand gained 3.9% against a weaker US dollar but depreciated 0.5% against the pound sterling and 0.3% versus the euro.

Global investors initially favoured risk assets as sentiment continued to improve. Against this backdrop, risk assets gained ground, particularly US equity indices. Shares of global technology companies were once again some of the best-performing over the period, reflecting the world's growing reliance on their products and services during the pandemic. Conversely, mainstream government bonds, particularly gilts, sold off, with yields peaking towards the end of August. However, these gains were partially offset by a reversal during September. A number of factors caused investors to become more cautious. These included the potential for a second lockdown in some regions as the number of COVID-19 cases again began to rise sharply, and a rise in unemployment as government support schemes started to come to an end. Political uncertainty also played a part. Within corporate credit, high yield bonds typically outperformed their investment grade counterparts, while amid mixed returns in emerging markets, hard currency debt generally outperformed local currency bonds.

In US$ terms, global equities (the MSCI All Country World Index, ACWI) returned 8.1% for the quarter, as developed markets delivered 7.9% and emerging markets produced 9.6%. Global bonds delivered 2.7% for the quarter and global property returned 1.4% (both in US$). Central banks generally kept interest rates at very low, accommodative levels, and governments continued to enact fiscal support packages for consumers.

In the US, GDP contracted by 31.4% q/q in Q2 2020 following a 5.0% contraction in Q1. The latest estimates show the economy is expected to shrink by 3.7% in 2020 before rebounding by 4% in 2021, but, more positively, the unemployment rate fell to 8.4%. At its August policy meeting the US Federal Reserve left the benchmark interest rate unchanged at near 0%, adding that it now expected rates to remain around zero for the next three years. The US dollar continued to weaken against other major currencies. In the equity markets, the S&P 500 gained 8.9% in US$ for the quarter, while the Nasdaq was up 12.6%, giving it a total return for 2020 so far of 31.7%.

In the UK, sentiment was subdued as the government failed to make progress with its Brexit negotiations. Equally, a return to more strict lockdown measures in some cities caused concerns that growth would suffer more than expected. The UK's GDP contracted by 19.8% q/q in Q2 2020, the largest quarterly contraction on record.

Like the US, the Bank of England and European Central Bank (ECB) maintained record-low interest rates and supportive bond buying programmes. Meanwhile, Euro area unemployment rose to 7.9% in July from 7.7% previously, and the area recorded an 11.8% q/q contraction in GDP for Q2 2020. In the equity markets, the FTSE 100 returned 0.4% in US$ for the quarter, while Germany's DAX produced 8.2% and the French CAC 40 delivered 2.3% in US$.

In Japan, Prime Minister Shinzo Abe, the country's longest-serving leader, announced his surprise resignation for health reasons in September, and was replaced by his chief cabinet secretary and expected successor, Yoshihide Suga. Markets took this in stride as Suga is widely expected to continue with Abe's economic policies. Japan's GDP shrank by 7.9% q/q in Q2 2020, marking the third consecutive quarter of contraction and the steepest on record. The Nikkei 225 returned 7.0% for the quarter.

Meanwhile, China's economic data continued showing signs of further economic acceleration, with manufacturing activity, industrial output, services and exports continuing to expand. The country reported 3.2% y/y GDP growth for Q2 2020, rebounding from a record 6.8% y/y contraction in Q1 and recovering earlier than other large economies due its earlier reopening. At the same time, Hong Kong financial markets were in the red following the authorities' quick moves to arrest and prosecute local pro-democracy protesters under the territory's strict new security law. Hong Kong's Hang Seng Index returned -2.6% for the three months and the MSCI China returned 12.6% in US$.

Among other large emerging equity markets, in US$ terms the MSCI India was the quarter's strongest performer with a 15.1% return, followed by South Korea's KOSPI at 13.6%, the MSCI China with 12.6% and the MSCI South Africa at 3.7%. Lagging were the MSCI Turkey with a -15.6% return and Brazil's Bovespa with -3.1% (both in US$).

The price of Brent crude oil ended the quarter at around US$42.50 per barrel, very near where it started. The price remains under pressure from ongoing slow global growth and steady supply. As for other commodities, palladium was one of the star performers over the period, gaining some 21.8%, while gold was up 6.5% and platinum rose 7.1%. Among industrial metals, copper rose 9.5%, aluminium increased 8.4% and nickel was up 12.5%.

PERFORMANCE

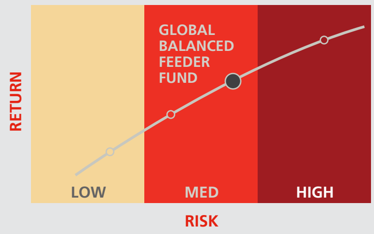
For Q3 2020, the fund returned 0.9% in rands (net of fees), compared to the benchmark's 2.0%, largely driven by its equity positioning. For the 12 months ending 30 September 2020, the fund returned 9.7% (net of fees), while its benchmark returned 19.0%.

The main contributors to absolute performance for the quarter included the fund's broad exposure to global equities, particularly from the US; equity exposure to the M&G fund incorporating machine-learning and M&G quantitative risk premia fund; and European corporate bonds. The main detractor from absolute performance was equity exposure to Indonesia.

In terms of relative performance, at the asset class level the fund's overweight to corporate debt and the underweight to

GLOBAL MULTI-ASSET

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:
R21 278 874

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	9.7%	19.0%	9.7%
2 years	8.0%	15.1%	7.9%
Since inception	9.7%	16.2%	9.7%

Inception date B Class: 28 June 2018

Sources: Prudential, Morningstar & Deutsche Securities

securitised debt contributed to performance. However, the overweight to fixed income detracted from performance, owing to a combination of allocation and selection.

The underweight to government debt detracted from relative value based on selection. The main detractors here were the overweights to 30-year US Treasuries and to Turkish government bonds (US dollar-denominated), and the underweight to Europe.

Looking at equity, at country level, the underweights to US equity and overweights to Indonesia, Hong Kong and Japan detracted from relative value. For US equities, the main detractors at sector level were IT and consumer discretionary stocks (both underweight).

STRATEGY AND POSITIONING

The portfolio continues to have a clear preference for equities over government bonds, particularly Japanese and European equities. We are very constructive on investment-grade, high-yield and emerging-market hard-currency and local debt. During the quarter we closed our short bond positions to bring the duration of the fund closer to neutral. We bought long-dated Australian government bonds for their attractive yield and steep yield curve.

We sold our Turkish equity position as the country's economic fundamentals were deteriorating from a current account perspective, undermining support for the currency. The real yield was being (and continues to be) eroded, and the currency manipulated rather than being allowed to trade as a free-floating currency. We increased our exposure to the S&P 500 following weak price action.

In terms of concrete facts concerning the future paths of profits and economies, it is very difficult to say that the situation has deteriorated in recent months. In fact, if anything, our sense is that the macroeconomic data has broadly positively surprised compared with expectations in the spring. The policy response has continued to be very supportive and politicians have generally reaffirmed desires to avoid the economically damaging measures that were taken earlier in the year.

As ever, we believe that the outlook is unknowable, and alongside known risks, the marketplace could easily be surprised by any number of issues. As asset allocators, our preference is to look for opportunities where we feel we are being well compensated for the risks we're taking. We therefore retain our focus on diversified equities, credit and emerging market bonds. We have exposure to the long end of the US Treasury curve based on diversification potential and relative value versus the long end of the mainstream government market curve. ■

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL EQUITY FEEDER FUND
30 SEPTEMBER 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL EQUITY

MARKET OVERVIEW

The Coronavirus pandemic continued to dominate global headlines in the third quarter (Q3) of 2020, with many countries battling a second wave of infections amid the ongoing re-opening of economies. Financial markets were generally positive across both equities and bonds, helped by ongoing supportive monetary and fiscal policies, although the gains were far lower than the exceptional rallies seen in Q2. Underpinning market sentiment were rising hopes of the development of an effective vaccine by early 2021, the further opening of markets and an acceleration in trade, as well as improving economic indicators in the largest economies. However, weighing on sentiment were troubling accelerations in infections in key European countries like the UK and France, where stricter lockdowns had to be re-imposed, and the failure by the US to stop the spread of the pandemic in the lead-up to the Presidential election on 3 November.

The rand's mixed performance over the period meant that rand investors in US dollar assets would have seen some benefit from the stronger rand versus that currency, but lost some value in the UK and European currencies given the weaker rand against the pound sterling and euro. The rand gained 3.9% against a weaker US dollar but depreciated 0.5% against the pound sterling and 0.3% versus the euro.

Global investors initially favoured risk assets as sentiment continued to improve. Against this backdrop, risk assets gained ground, particularly US equity indices. Shares of global technology companies were once again some of the best-performing over the period, reflecting the world's growing reliance on their products and services during the pandemic. Conversely, mainstream government bonds, particularly gilts, sold off, with yields peaking towards the end of August. However, these gains were partially offset by a reversal during September. A number of factors caused investors to become more cautious. These included the potential for a second lockdown in some regions as the number of COVID-19 cases again began to rise sharply, and a rise in unemployment as government support schemes started to come to an end. Political uncertainty also played a part. In US$ terms, global equities (the MSCI All Country World Index, ACWI) returned 8.1% for the quarter, as developed markets delivered 7.9% and emerging markets produced 9.6%.

In the US, GDP contracted by 31.4% q/q in Q2 2020 following a 5.0% contraction in Q1. The latest estimates show the economy is expected to shrink by 3.7% in 2020 before rebounding by 4% in 2021, but, more positively, the unemployment rate fell to 8.4%. At its August policy meeting the US Federal Reserve left the benchmark interest rate unchanged at near 0%, adding that it now expected rates to remain around zero for the next three years. The US dollar continued to weaken against other major currencies. In the equity markets, the S&P 500 gained 8.9% in US$ for the quarter, while the Nasdaq was up 12.6%, giving it a total return for 2020 so far of 31.7%.

In the UK, sentiment was subdued as the government failed to make progress with its Brexit negotiations. Equally, a return to more strict lockdown measures in some cities caused concerns that growth would suffer more than expected. The UK's GDP contracted by 19.8% q/q in Q2 2020, the largest quarterly contraction on record.

Like the US, the Bank of England and European Central Bank (ECB) maintained record-low interest rates and supportive bond buying programmes. Meanwhile, Euro area unemployment rose to 7.9% in July from 7.7% previously, and the area recorded an 11.8% q/q contraction in GDP for Q2 2020. In the equity markets, the FTSE 100 returned 0.4% in US$ for the quarter, while Germany's DAX produced 8.2% and the French CAC 40 delivered 2.3% in US$.

In Japan, Prime Minister Shinzo Abe, the country's longest-serving leader, announced his surprise resignation for health reasons in September, and was replaced by his chief cabinet secretary and expected successor, Yoshihide Suga. Markets took this in stride as Suga is widely expected to continue with Abe's economic policies. Japan's GDP shrank by 7.9% q/q in Q2 2020, marking the third consecutive quarter of contraction and the steepest on record. The Nikkei 225 returned 7.0% for the quarter.

Meanwhile, China's economic data continued showing signs of further economic acceleration, with manufacturing activity, industrial output, services and exports continuing to expand. The country reported 3.2% y/y GDP growth for Q2 2020, rebounding from a record 6.8% y/y contraction in Q1 and recovering earlier than other large economies due its earlier reopening. At the same time, Hong Kong financial markets were in the red following the authorities' quick moves to arrest and prosecute local pro-democracy protesters under the territory's strict new security law. Hong Kong's Hang Seng Index returned -2.6% for the three months and the MSCI China returned 12.6% in US$.

Among other large emerging equity markets, in US$ terms the MSCI India was the quarter's strongest performer with a 15.1% return, followed by South Korea's KOSPI at 13.6%, the MSCI China with 12.6% and the MSCI South Africa at 3.7%. Lagging were the MSCI Turkey with a -15.6% return and Brazil's Bovespa with -3.1% (both in US$).

The price of Brent crude oil ended the quarter at around US$42.50 per barrel, very near where it started. The price remains under pressure from ongoing slow global growth and steady supply. As for other commodities, palladium was one of the star performers over the period, gaining some 21.8%, while gold was up 6.5% and platinum rose 7.1%. Among industrial metals, copper rose 9.5%, aluminium increased 8.4% and nickel was up 12.5%.

PERFORMANCE

The fund returned 3.0% (net of fees) in rand for the third quarter of 2020, while its benchmark returned 4.0%. For the 12 months ending 30 September 2020, the fund returned 14.9% (net of fees) while the benchmark returned 21.6%.

The portfolio outperformed its benchmark on 33 of 66 days, offering a hit rate for the entire quarter of 50% at the fund level. We would expect a hit rate above 50% over the longer term. Style had a negligible contribution over the period, as a sizeable positive contribution from momentum-style investments was offset by headwinds from the small-size, high trading activity, profitability and value styles.

STRATEGY AND POSITIONING

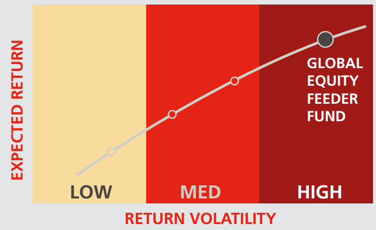
The portion of the fund managed using its proprietary machine learning model is approximately 80%, with the balance of approximately 20% remaining in strategic ETFs. The ETF allocation is primarily used for liquidity purposes and is expected to fall over time. At the factor level, the fund currently exhibits positive active exposure to the value and momentum factors, while having a bias for smaller cap companies. These are subject to change over time with market conditions, but factor exposures can impact the shorter-term performance of the fund.

In terms of concrete facts concerning the future paths of profits and economies, it is very difficult to say that the situation has deteriorated in recent months. In fact, if anything, our sense is that the macroeconomic data has broadly positively surprised compared with expectations in the spring. The policy response has continued to be very supportive and politicians have generally reaffirmed desires to avoid the economically damaging measures that were taken earlier in the year. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	14.9%	21.6%	15.3%
3 years	10.0%	15.0%	n/a
5 years	11.3%	14.6%	n/a
7 years	12.9%	15.9%	n/a
10 years	15.3%	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:
R349 090 041

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL 2.5% TARGET INCOME FUND
30 SEPTEMBER 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

TARGET INCOME

MARKET OVERVIEW

The Coronavirus pandemic continued to dominate global headlines in the third quarter (Q3) of 2020, with many countries battling a second wave of infections amid the ongoing re-opening of economies. Financial markets were generally positive across both equities and bonds, helped by ongoing supportive monetary and fiscal policies, although the gains were far lower than the exceptional rallies seen in Q2. Underpinning market sentiment were rising hopes of the development of an effective vaccine by early 2021, the further opening of markets and an acceleration in trade, as well as improving economic indicators in the largest economies. However, weighing on sentiment were troubling accelerations in infections in key European countries like the UK and France, where stricter lockdowns had to be re-imposed, and the failure by the US to stop the spread of the pandemic in the lead-up to the Presidential election on 3 November.

South African financial markets were marginally positive over the quarter, helped by higher commodity prices. This was despite the country posting a shocking 51% q/q annualised contraction in GDP in Q2 2020. GDP is now expected to contract by 8.2% in 2020, before rebounding by 3.9% in 2021 and 2.6% in 2022.

In US$ terms, global equities (the MSCI All Country World Index, ACWI) returned 8.1% for the quarter, as developed markets delivered 7.9% and emerging markets produced 9.6%. Global bonds delivered 2.7% for the quarter and global property returned 1.4% (both in US$). Central banks generally kept interest rates at very low, accommodative levels, and governments continued to enact fiscal support packages for consumers.

In the US, GDP contracted by 31.4% q/q in Q2 2020 following a 5.0% contraction in Q1. The latest estimates show the economy is expected to shrink by 3.7% in 2020 before rebounding by 4% in 2021, but, more positively, the unemployment rate fell to 8.4%. At its August policy meeting the US Federal Reserve left the benchmark interest rate unchanged at near 0%, adding that it now expected rates to remain around zero for the next three years. The US dollar continued to weaken against other major currencies. In the equity markets, the S&P 500 gained 8.9% in US$ for the quarter, while the Nasdaq was up 12.6%, giving it a total return for 2020 so far of 31.7%.

In the UK, sentiment was subdued as the government failed to make progress with its Brexit negotiations. Equally, a return to more strict lockdown measures in some cities caused concerns that growth would suffer more than expected. The UK's GDP contracted by 19.8% q/q in Q2 2020, the largest quarterly contraction on record.

Like the US, the Bank of England and European Central Bank (ECB) maintained record-low interest rates and supportive bond buying programmes. Meanwhile, Euro area unemployment rose to 7.9% in July from 7.7% previously, and the area recorded an 11.8% q/q contraction in GDP for Q2 2020. In the equity markets, the FTSE 100 returned 0.4% in US$ for the quarter, while Germany's DAX produced 8.2% and the French CAC 40 delivered 2.3% in US$.

In Japan, Prime Minister Shinzo Abe, the country's longest-serving leader, announced his surprise resignation for health reasons in September, and was replaced by his chief cabinet secretary and expected successor, Yoshihide Suga. Markets took this in stride as Suga is widely expected to continue with Abe's economic policies. Japan's GDP shrank by 7.9% q/q in Q2 2020, marking the third consecutive quarter of contraction and the steepest on record. The Nikkei 225 returned 7.0% for the quarter.

Meanwhile, China's economic data continued showing signs of further economic acceleration, with manufacturing activity, industrial output, services and exports continuing to expand. The country reported 3.2% y/y GDP growth for Q2 2020, rebounding from a record 6.8% y/y contraction in Q1 and recovering earlier than other large economies due its earlier reopening. At the same time, Hong Kong financial markets were in the red following the authorities' quick moves to arrest and prosecute local pro-democracy protesters under the territory's strict new security law. Hong Kong's Hang Seng Index returned -2.6% for the three months and the MSCI China returned 12.6% in US$.

Among other large emerging equity markets, in US$ terms the MSCI India was the quarter's strongest performer with a 15.1% return, followed by South Korea's KOSPI at 13.6%, the MSCI China with 12.6% and the MSCI South Africa at 3.7%. Lagging were the MSCI Turkey with a -15.6% return and Brazil's Bovespa with -3.1% (both in US$).

The price of Brent crude oil ended the quarter at around US$42.50 per barrel, very near where it started. The price remains under pressure from ongoing slow global growth and steady supply. As for other commodities, palladium was one of the star performers over the period, gaining some 21.8%, while gold was up 6.5% and platinum rose 7.1%. Among industrial metals, copper rose 9.5%, aluminium increased 8.4% and nickel was up 12.5%.

South Africa sees a tepid performance

Although the country experienced a slowdown in the spread of the Coronavirus and an accompanying acceleration in economic activity during the quarter, this good news was largely offset by weak economic indicators, poor company earnings reports and more load-shedding from Eskom to keep local financial markets and sentiment subdued.

At its policy meeting on 17 September, the South African Reserve Bank (SARB) announced a worsening growth outlook for the country, with GDP now expected to contract by 8.2% in 2020, compared to the -7.3% forecast in July. The SARB kept the repo rate unchanged at 3.5%, and its latest interest rate model forecasts no further changes over the near term. However, two rate increases are seen in the second half of 2021. This is in the face of a relatively benign inflation outlook: CPI was largely steady at 3.1% y/y in August and the SARB lowered its CPI forecasts to 4.0% in 2021 and 4.4% in 2022.

The All Bond Index managed to deliver 1.5% in Q3 2020; the yield curve steepened further as the shorter end continued to rally while longer-dated bonds weakened. SA inflation-linked bonds returned 1.2%, with the curve also steepening, and cash (as measured by the STeFI Composite) also produced 1.2% for the three-month period.

The local equity market finished in the black thanks solely to Resources stocks, with other sectors losing ground. The FTSE/JSE All Share Index (ALSI) returned 0.7% for Q3 2020. The Resources 10 Index returned 5.7%, Financials -1.6%, Industrials -2.3% and Listed Property (SAPY Index) was the poorest performer with -14.1%. Finally, the rand put in a mixed performance in Q3, gaining 3.9% against a weaker US dollar but depreciating 0.5% against the pound sterling and 0.3% versus the euro.

PERFORMANCE

The Prudential 2.5% Target Income Fund returned -0.1% (after fees) for the third quarter of 2020 and -6.5% for the 12-month period ending 30 September2020. For Q3 2020, the largest asset-class contributors to the fund's absolute performance for the quarter were its exposure to international equities, followed by SA equity and SA bonds. Holdings in SA listed property detracted the most from value.

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:
R87 493 123

ANNUALISED PERFORMANCE	A CLASS	CPI	B CLASS
1 year	-6.5%	3.1%	-6.2%
Since inception	-7.6%	3.5%	-5.8%

Inception date: B Class: 2 April 2019

Sources: Prudential, Morningstar & Deutsche Securities

In terms of specific equity exposure, the fund's holdings in Implats, Goldfields and Northam were among the strongest equity contributors to absolute returns for the quarter. The main detractors from absolute returns were the fund's exposures to Naspers, British American Tobacco and Old Mutual.

The fund was launched in April 2019 as a restructured successor to the 2.5% Prudential Income Portfolio (PIP) range, 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 target 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, 10% in SA nominal bonds and 5% in SA cash. The equity allocation remains the primary driver of returns.

We remain overweight **global equity**. 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**, although we retain a small holding in 30-year US Treasuries to add diversification to the portfolio. The fund is overweight US and European **investment-grade corporate bonds and selected emerging-market government bonds**, which offer attractive real yields.

The fund continues to be overweight **SA equities**. SA equity valuations as measured by the Price/Book value ratio of the FTSE/JSE Capped SWIX Index were trading at around 1.4X at the end of September, very similar to the level seen at the start of the quarter. This continues to be exceptionally attractive relative to offshore equities and compared to the local market's long-term P/B average of around 2.1X.

Within SA equities we continue to prefer large, global companies that offer sound, high-quality diversification such as Naspers, British American Tobacco, Anglo American, Remgro and MTN. Implats is another overweight holding that has added to portfolio value so far this year. We have also sustained our overweight in the local banking sector with exposures to Absa, Standard Bank and Investec given the attractive valuations they offer.

We have kept our substantially underweight positioning in **SA listed property** in Q3. This positioning reflects the significant uncertainty surrounding the outlook for the SA economy and property company 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, and as such we have ensured that we are holding high-quality companies with strong balance sheets within our small exposure to the sector, like Growthpoint.

During the quarter we increased our overweight in **SA nominal bonds** and continue to favour longer-dated maturities. As of 30 September, 10-year government bonds yields were still elevated compared to their history, offering around 9.6%, which equates to an after-inflation (real) yield of around 4.6% (assuming inflation of 5.0% over the next decade). This is substantially above our long-run fair value assumption of a 2.5% real yield. We believe these yields will more than compensate investors for the risks associated with the government's precarious fiscal position and possible further credit rating downgrades.

We introduced **inflation-linked bonds** into the fund during the third quarter of 2020, buying shorter-dated (five-year) ILBs with a real yield of around 3.7% out of cash. The gap between ILB and cash real yields continues to be very wide, with real yields on cash currently negative, while current ILB real yields of 0.9% – 4.85% across the curve are also attractive compared to our long-run fair value assumption of 2.25%.

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 SEPTEMBER 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

TARGET INCOME

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:
R189 568 324

MARKET OVERVIEW

The Coronavirus pandemic continued to dominate global headlines in the third quarter (Q3) of 2020, with many countries battling a second wave of infections amid the ongoing re-opening of economies. Financial markets were generally positive across both equities and bonds, helped by ongoing supportive monetary and fiscal policies, although the gains were far lower than the exceptional rallies seen in Q2. Underpinning market sentiment were rising hopes of the development of an effective vaccine by early 2021, the further opening of markets and an acceleration in trade, as well as improving economic indicators in the largest economies. However, weighing on sentiment were troubling accelerations in infections in key European countries like the UK and France, where stricter lockdowns had to be re-imposed, and the failure by the US to stop the spread of the pandemic in the lead-up to the Presidential election on 3 November.

South African financial markets were marginally positive over the quarter, helped by higher commodity prices. This was despite the country posting a shocking 51% q/q annualised contraction in GDP in Q2 2020. GDP is now expected to contract by 8.2% in 2020, before rebounding by 3.9% in 2021 and 2.6% in 2022.

In US$ terms, global equities (the MSCI All Country World Index, ACWI) returned 8.1% for the quarter, as developed markets delivered 7.9% and emerging markets produced 9.6%. Global bonds delivered 2.7% for the quarter and global property returned 1.4% (both in US$). Central banks generally kept interest rates at very low, accommodative levels, and governments continued to enact fiscal support packages for consumers.

In the US, GDP contracted by 31.4% q/q in Q2 2020 following a 5.0% contraction in Q1. The latest estimates show the economy is expected to shrink by 3.7% in 2020 before rebounding by 4% in 2021, but, more positively, the unemployment rate fell to 8.4%. At its August policy meeting the US Federal Reserve left the benchmark interest rate unchanged at near 0%, adding that it now expected rates to remain around zero for the next three years. The US dollar continued to weaken against other major currencies. In the equity markets, the S&P 500 gained 8.9% in US$ for the quarter, while the Nasdaq was up 12.6%, giving it a total return for 2020 so far of 31.7%.

In the UK, sentiment was subdued as the government failed to make progress with its Brexit negotiations. Equally, a return to more strict lockdown measures in some cities caused concerns that growth would suffer more than expected. The UK's GDP contracted by 19.8% q/q in Q2 2020, the largest quarterly contraction on record.

Like the US, the Bank of England and European Central Bank (ECB) maintained record-low interest rates and supportive bond buying programmes. Meanwhile, Euro area unemployment rose to 7.9% in July from 7.7% previously, and the area recorded an 11.8% q/q contraction in GDP for Q2 2020. In the equity markets, the FTSE 100 returned 0.4% in US$ for the quarter, while Germany's DAX produced 8.2% and the French CAC 40 delivered 2.3% in US$.

In Japan, Prime Minister Shinzo Abe, the country's longest-serving leader, announced his surprise resignation for health reasons in September, and was replaced by his chief cabinet secretary and expected successor, Yoshihide Suga. Markets took this in stride as Suga is widely expected to continue with Abe's economic policies. Japan's GDP shrank by 7.9% q/q in Q2 2020, marking the third consecutive quarter of contraction and the steepest on record. The Nikkei 225 returned 7.0% for the quarter.

Meanwhile, China's economic data continued showing signs of further economic acceleration, with manufacturing activity, industrial output, services and exports continuing to expand. The country reported 3.2% y/y GDP growth for Q2 2020, rebounding from a record 6.8% y/y contraction in Q1 and recovering earlier than other large economies due its earlier reopening. At the same time, Hong Kong financial markets were in the red following the authorities' quick moves to arrest and prosecute local pro-democracy protesters under the territory's strict new security law. Hong Kong's Hang Seng Index returned -2.6% for the three months and the MSCI China returned 12.6% in US$.

Among other large emerging equity markets, in US$ terms the MSCI India was the quarter's strongest performer with a 15.1% return, followed by South Korea's KOSPI at 13.6%, the MSCI China with 12.6% and the MSCI South Africa at 3.7%. Lagging were the MSCI Turkey with a -15.6% return and Brazil's Bovespa with -3.1% (both in US$).

The price of Brent crude oil ended the quarter at around US$42.50 per barrel, very near where it started. The price remains under pressure from ongoing slow global growth and steady supply. As for other commodities, palladium was one of the star performers over the period, gaining some 21.8%, while gold was up 6.5% and platinum rose 7.1%. Among industrial metals, copper rose 9.5%, aluminium increased 8.4% and nickel was up 12.5%.

South Africa sees a tepid performance

Although the country experienced a slowdown in the spread of the Coronavirus and an accompanying acceleration in economic activity during the quarter, this good news was largely offset by weak economic indicators, poor company earnings reports and more load-shedding from Eskom to keep local financial markets and sentiment subdued.

At its policy meeting on 17 September, the South African Reserve Bank (SARB) announced a worsening growth outlook for the country, with GDP now expected to contract by 8.2% in 2020, compared to the -7.3% forecast in July. The SARB kept the repo rate unchanged at 3.5%, and its latest interest rate model forecasts no further changes over the near term. However, two rate increases are seen in the second half of 2021. This is in the face of a relatively benign inflation outlook: CPI was largely steady at 3.1% y/y in August and the SARB lowered its CPI forecasts to 4.0% in 2021 and 4.4% in 2022.

The All Bond Index managed to deliver 1.5% in Q3 2020; the yield curve steepened further as the shorter end continued to rally while longer-dated bonds weakened. SA inflation-linked bonds returned 1.2%, with the curve also steepening, and cash (as measured by the STeFI Composite) also produced 1.2% for the three-month period.

The local equity market finished in the black thanks solely to Resources stocks, with other sectors losing ground. The FTSE/JSE All Share Index (ALSI) returned 0.7% for Q3 2020. The Resources 10 Index returned 5.7%, Financials -1.6%, Industrials -2.3% and Listed Property (SAPY Index) was the poorest performer with -14.1%. Finally, the rand put in a mixed performance in Q3, gaining 3.9% against a weaker US dollar but depreciating 0.5% against the pound sterling and 0.3% versus the euro.

PERFORMANCE

The Prudential 5% Target Income Fund returned 0.3% (after fees) for the third quarter of 2020 and -3.1% for the 12-month period ending 30 September 2020. For Q3 2020, the largest asset-class contributors to the fund's absolute performance were its exposure to international and South African equities, while its SA listed property exposure detracted from absolute performance.

ANNUALISED PERFORMANCE	A CLASS	CPI	B CLASS
1 year	-3.1%	3.1%	-2.8%
Since inception	-1.7%	3.5%	-0.9%

Inception date: B Class: 2 April 2019

Sources: Prudential, Morningstar & Deutsche Securities

Among the largest contributors to the fund's absolute performance for the quarter were its holdings in Implats, Gold Fields and Northam, while the biggest detractors included Nepi Rockcastle, British American Tobacco and Naspers.

The fund was launched in April 2019 as a restructured successor to the 5% Prudential Income Portfolio (PIP) range, 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 15% in SA cash.

We remain overweight **global equity**. 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**, although we retain a small holding in 30-year US Treasuries to add diversification to the portfolio. The fund is overweight US and European **investment-grade corporate bonds and selected emerging-market government bonds**, which offer attractive real yields.

The fund reduced its exposure to **SA equities** slightly in favour of attractively priced lower risk inflation-linked bonds, but remains overweight the asset class. SA equity valuations as measured by the Price/Book value ratio of the FTSE/JSE Capped SWIX Index were trading at around 1.4X at the end of September, very similar to the level seen at the start of the quarter. This continues to be exceptionally attractive relative to offshore equities and compared to the local market's long-term P/B average of around 2.1X.

Within SA equities we continue to prefer large, global companies that offer sound, high-quality diversification such as Naspers, British American Tobacco, Anglo American, Remgro and MTN. Implats is another overweight holding that has added to portfolio value so far this year. We have also sustained our overweight in the local banking sector with exposures to Absa, Standard Bank and Investec given the attractive valuations they offer.

We have kept our substantially underweight positioning in **SA listed property** in Q3. This positioning reflects the significant uncertainty surrounding the outlook for the SA economy and property company 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, and as such we have ensured that we are holding high-quality companies with strong balance sheets within our small exposure to the sector, like Growthpoint.

During the quarter we maintained our overweight in **SA nominal bonds**, and continue to favour longer-dated maturities. As of 30 September, 10-year government bonds yields were still elevated compared to their history, offering around 9.6%, which equates to an after-inflation (real) yield of around 4.6% (assuming inflation of 5.0% over the next decade). This is substantially above our long-run fair value assumption of a 2.5% real yield. We believe these yields will more than compensate investors for the risks associated with the government's precarious fiscal position and possible further credit rating downgrades.

We introduced **inflation-linked bonds** into the fund during the third quarter of 2020, buying shorter-dated (five-year) ILBs with a real yield of around 3.7%. The gap between ILB and cash real yields continues to be very wide, with real yields on cash currently negative, while current ILB real yields of 0.9% – 4.85% across the curve are also attractive compared to our long-run fair value assumption of 2.25%.

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 SEPTEMBER 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

TARGET INCOME

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:
R407 261 087

MARKET OVERVIEW

The Coronavirus pandemic continued to dominate global headlines in the third quarter (Q3) of 2020, with many countries battling a second wave of infections amid the ongoing re-opening of economies. Financial markets were generally positive across both equities and bonds, helped by ongoing supportive monetary and fiscal policies, although the gains were far lower than the exceptional rallies seen in Q2. Underpinning market sentiment were rising hopes of the development of an effective vaccine by early 2021, the further opening of markets and an acceleration in trade, as well as improving economic indicators in the largest economies. However, weighing on sentiment were troubling accelerations in infections in key European countries like the UK and France, where stricter lockdowns had to be re-imposed, and the failure by the US to stop the spread of the pandemic in the lead-up to the Presidential election on 3 November.

South African financial markets were marginally positive over the quarter, helped by higher commodity prices. This was despite the country posting a shocking 51% q/q annualised contraction in GDP in Q2 2020. GDP is now expected to contract by 8.2% in 2020, before rebounding by 3.9% in 2021 and 2.6% in 2022.

The price of Brent crude oil ended the quarter at around US$42.50 per barrel, very near where it started. The price remains under pressure from ongoing slow global growth and steady supply. As for other commodities, palladium was one of the star performers over the period, gaining some 21.8%, while gold was up 6.5% and platinum rose 7.1%. Among industrial metals, copper rose 9.5%, aluminium increased 8.4% and nickel was up 12.5%.

South Africa sees a tepid performance

Although the country experienced a slowdown in the spread of the Coronavirus and an accompanying acceleration in economic activity during the quarter, this good news was largely offset by weak economic indicators, poor company earnings reports and more load-shedding from Eskom to keep local financial markets and sentiment subdued.

At its policy meeting on 17 September, the South African Reserve Bank (SARB) announced a worsening growth outlook for the country, with GDP now expected to contract by 8.2% in 2020, compared to the -7.3% forecast in July. The SARB kept the repo rate unchanged at 3.5%, and its latest interest rate model forecasts no further changes over the near term. However, two rate increases are seen in the second half of 2021. This is in the face of a relatively benign inflation outlook: CPI was largely steady at 3.1% y/y in August and the SARB lowered its CPI forecasts to 4.0% in 2021 and 4.4% in 2022.

The All Bond Index managed to deliver 1.5% in Q3 2020; the yield curve steepened further as the shorter end continued to rally while longer-dated bonds weakened. SA inflation-linked bonds returned 1.2%, with the curve also steepening, and cash (as measured by the STeFI Composite) also produced 1.2% for the three-month period.

The local equity market finished in the black thanks solely to Resources stocks, with other sectors losing ground. The FTSE/JSE All Share Index (ALSI) returned 0.7% for Q3 2020. The Resources 10 Index returned 5.7%, Financials -1.6%, Industrials -2.3% and Listed Property (SAPY Index) was the poorest performer with -14.1%. Finally, the rand put in a mixed performance in Q3, gaining 3.9% against a weaker US dollar but depreciating 0.5% against the pound sterling and 0.3% versus the euro.

PERFORMANCE

The Prudential 7% Target Income Fund returned 0.4% (after fees) for the third quarter of 2020 and -3.9% for the 12-month period ending 30 September 2020. For Q3 2020, the largest asset-class contributors to the fund's absolute performance were its exposure to SA cash, followed by its SA equity holdings and SA bonds. SA listed property holdings detracted from absolute returns.

In terms of specific equity exposure, the fund's holdings in Implats, Northam and Gold Fields were among the strongest equity contributors to absolute returns for the quarter, while the main detractors from absolute returns were the fund's exposures to Nepi Rockcastle, British American Tobacco and Redefine.

The fund was launched in April 2019 as a restructured successor to the 7% Prudential Income Portfolio (PIP) range, 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 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% 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 reduced its exposure to **SA equities** slightly in favour of attractively priced lower-risk inflation-linked bonds, but remains overweight the asset class. SA equity valuations as measured by the Price/Book value ratio of the FTSE/JSE Capped SWIX Index were trading at around 1.4X at the end of September, very similar to the level seen at the start of the quarter. This continues to be exceptionally attractive relative to offshore equities and compared to the local market's long-term P/B average of around 2.1X.

Within SA equities we continue to prefer large, global companies that offer sound, high-quality diversification such as Naspers, British American Tobacco, Anglo American, Remgro and MTN. Implats is another overweight holding that has added to portfolio value so far this year. We have also sustained our overweight in the local banking sector with exposures to Absa, Standard Bank and Investec given the attractive valuations they offer.

We have kept our substantially underweight positioning in **SA listed property** in Q3. This positioning reflects the significant uncertainty surrounding the outlook for the SA economy and property company 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, and as such we have ensured that we are holding high-quality companies with strong balance sheets within our small exposure to the sector, like Growthpoint.

ANNUALISED PERFORMANCE	A CLASS	CPI	B CLASS
1 year	-3.9%	3.1%	-3.5%
Since inception	-2.0%	3.5%	-0.9%

Inception date: B Class: 2 April 2019

Sources: Prudential, Morningstar & Deutsche Securities

During the quarter we maintained our overweight in **SA nominal bonds**, and continue to favour longer-dated maturities. As of 30 September, 10-year government bonds yields were still elevated compared to their history, offering around 9.6%, which equates to an after-inflation (real) yield of around 4.6% (assuming inflation of 5.0% over the next decade). This is substantially above our long-run fair value assumption of a 2.5% real yield. We believe these yields will more than compensate investors for the risks associated with the government's precarious fiscal position and possible further credit rating downgrades.

We introduced **inflation-linked bonds** into the fund during the third quarter of 2020, buying shorter-dated (five-year) ILBs with a real yield of around 3.7%. The gap between ILB and cash real yields continues to be very wide, with real yields on cash currently negative, while current ILB real yields of 0.9% – 4.85% across the curve are also attractive compared to our long-run fair value assumption of 2.25%.

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