PRUDENTIAL UNIT TRUSTS QUARTERLY COMMENTARY
31 DECEMBER 2020

PRUDENTIAL INVESTMENT MANAGERS

COMBINED QUARTERLY COMMENTARY

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

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Equity Fund	View commentary
SA Equity Fund	View commentary

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PRUDENTIAL MONEY MARKET FUND
31 DECEMBER 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME

MARKET OVERVIEW

In South Africa during Q4 2020, a strong resurgence of the Coronavirus locally led to stricter lockdowns, but global risk-on investor sentiment prevailed, putting the local bourse in positive territory for the year. SA GDP growth for Q3 2020 surprised to the upside at 13.5% q/q (66.1% annualised) compared to the 13.1% expected, and Q4 consumer confidence recovered to -12 pts from -23 pts in the third quarter. The South African Reserve Bank (SARB) left the repo rate unchanged at 3.5% during its November meeting, stating that further easing was unlikely in the near term but hinting at increases in Q3 and Q4 of 2021. The central bank is now projecting an 8.0% contraction in the economy for 2020, improving to 3.5% growth in 2021 and a 2.4% expansion in 2022. Inflation also remained subdued, with headline CPI slowing to 3.2% y/y in November from 3.3% y/y in October.

On the credit ratings front, Moody's and Fitch both downgraded SA's sovereign credit rating further into "junk" territory. Moody's lowered the country's rating to Ba2 from Ba1 with a negative outlook, citing further weakening in the country's fiscal strength over the medium term as a main trigger, while Fitch cut the sovereign credit rating to BB- from BB and assigned a negative outlook, citing high and rising government debt as a main trigger behind the cut. Standard & Poor's maintained its credit rating for South Africa at BB- with a stable outlook.

The BEASSA All Bond Index (ALBI) managed to deliver an impressive 6.7% return in Q4 2020, boosted by foreign investors tempted by South Africa's relatively high yields. Bonds in the 1-3 year maturities lagged longer-dated bonds, flattening the yield curve and partly reversing the trend seen in the earlier part of the year. For 2020 as a whole, the ALBI returned 8.7%. SA inflation-linked bonds returned 5.4% for the quarter and 4.2% for 2020, and cash (as measured by the STeFI Composite) produced 1.0% for the three-month period and 5.4% during 2020.

Private sector credit extension (PSCE) increased to 3.38% y/y in November from 3.24% y/y posted in October. Credit extended to households dropped to 2.81% y/y in November from 2.93% y/y, while credit extended to the corporate sector increased to 3.84% y/y from 3.49% y/y recorded in October.

In Q4, South African money market yields increased in the 6- to 12-month tenors from where they were the previous quarter, as banks paid up for term funding. Treasury bills followed suit, with the 9- and 12-month tenors increasing up to 60 basis points at the end of the quarter. Floating rate spreads over three-month JIBAR have also increased by an average of around 20bps the previous quarter.

PERFORMANCE

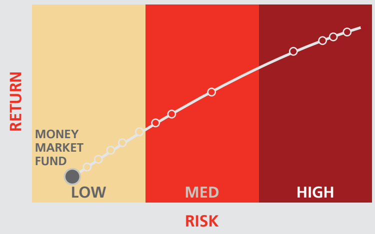
For the fourth quarter, the fund delivered a return of 0.9% (net), in line with its benchmark, the STeFI Call Deposit Index. For the 12 months ended 31 December 2020, the fund returned 5.1% (net of fees), while the benchmark produced 4.5% over the same period.

The average duration of the fund at quarter end was 51 days relative to the 90-day maximum average duration.

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	X CLASS
1 year	5.1%	4.5%	5.2%
3 years	6.6%	5.9%	6.8%
5 years	7.0%	6.3%	7.1%
7 years	6.6%	6.1%	6.8%
10 years	6.2%	5.8%	n/a
Since inception	7.6%	7.4%	6.4%

Inception date X Class: 1 April 2011

RISK/RETURN PROFILE:



FUND MANAGERS:
Roshen Harry and Sandile Malinga

ASISA CATEGORY:
South African - Interest Bearing - Money Market

BENCHMARK:
STeFI Call Deposit Index

INCEPTION DATE:
9 April 2002

FUND SIZE:
R1 371 317 985

Sources: Prudential & Morningstar

PRUDENTIAL HIGH INTEREST FUND
31 DECEMBER 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MARKET OVERVIEW

In South Africa, a strong resurgence of the Coronavirus locally led to stricter lockdowns, but global risk-on investor sentiment prevailed, putting the local bourse in positive territory for the year. The country closed 2020 with over 1 million Coronavirus infections and 30,000 deaths, the highest on the African continent. Amid a dearth of detailed government plans to acquire and roll out one or more vaccines, market participants worried over the impact of possible rollout delays until mid-2021.

In more positive news, SA GDP growth for Q3 2020 surprised to the upside at 13.5% q/q (66.1% annualised) compared to the 13.1% expected, and Q4 consumer confidence recovered to -12 pts from -23 pts in the third quarter. The South African Reserve Bank (SARB) left the repo rate unchanged at 3.5% during its November meeting, stating that further easing was unlikely in the near term but hinting at increases in Q3 and Q4 of 2021. The central bank is now projecting an 8.0% contraction in the economy for 2020, improving to 3.5% growth in 2021 and a 2.4% expansion in 2022. Inflation also remained subdued, with headline CPI slowing to 3.2% y/y in November from 3.3% y/y in October.

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Despite this, Fitch later upgraded South Africa's largest five banks' National Long-Term credit ratings to 'AA+' from 'AA', which it said reflected an improvement in their creditworthiness relative to the best credits in the country. And in another important development, the courts handed the SA government a win in its wage battle against unions, saying that no existing collective agreement with fiscal implications can be enforced if it is not backed by National Treasury.

However, South Africa's manufacturing production fell by 3.4% y/y in October versus -1.9% in September, and the Purchasing Managers Index (PMI), which indicates business activity, edged down to 50.3 pts in November from 51.0 pts in October. It is, however, still above the key 50-point level that separates expansion from contraction.

The BEASSA All Bond Index (ALBI) managed to deliver an impressive 6.7% return in Q4 2020, boosted by foreign investors tempted by South Africa's relatively high yields. Bonds in the 1-3-year maturities lagged longer-dated bonds, flattening the yield curve and partly reversing the trend seen in the earlier part of the year.

For 2020, the ALBI returned 8.7%. SA inflation-linked bonds returned 5.4% for the quarter and 4.2% for 2020, and cash (as measured by the STeFI Composite) produced 1.0% for the three-month period and 5.4% during 2020.

Finally, the rand gained good ground against all three major global currencies during the quarter due to ongoing US dollar weakness and the stronger appetite for risk assets, hitting around R14.6/USD in December and near levels last seen in early 2020. The local currency was up 12.3% against the US dollar, 7.3% versus the pound sterling and 8.2% against the euro. Over 2020, the rand depreciated versus the three currencies, losing 4.6% against the US dollar, 8.1% versus the pound sterling and 14.4% against the euro.

PERFORMANCE

The Prudential High Interest Fund generated a return of 0.8% (net) for the quarter compared to its benchmark, the STeFI Composite Index, which returned 1.0%. For the 12 months ended 31 December 2020, the fund delivered 4.5% versus 5.4% from the benchmark.

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

The maximum term of instruments is limited to 3 years compared to money market funds at 13 months. The fund also has a maximum weighted average duration of 180 days as opposed to a typical money market fund targeting a maximum 90 days weighted average duration.

Relative to the 180-day maximum average duration, the quarter end duration of the fund came in at 97 days.

STRATEGY AND POSITIONING

In December there was some reversal in the tightening trend in bank funding spreads. Senior bank borrowing costs, as seen in 3-year NCD yield spreads over 3-month JIBAR, have moved higher, back in line with pre-Covid levels, after having been around 35 bps below.

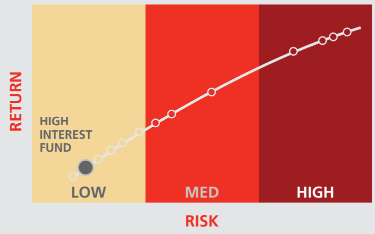
We continue to look for opportunities that will enhance the return to investors without compromising the stability of their capital. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	X CLASS	D CLASS
1 year	4.5%	5.4%	4.6%	4.7%
3 years	6.6%	6.6%	6.7%	6.8%
5 years	7.3%	7.0%	7.4%	7.5%
7 years	6.9%	6.7%	7.0%	7.2%
10 years	6.5%	6.4%	n/a	6.8%
Since inception	6.5%	6.4%	6.7%	6.8%

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

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:
8 December 2010

FUND SIZE:
R8 991 943 488

PLEASE NOTE:
This fund is capped to new investors

Sources: Prudential & Morningstar

PRUDENTIAL INCOME FUND
31 DECEMBER 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME

MARKET OVERVIEW

In South Africa, a strong resurgence of the Coronavirus locally led to stricter lockdowns, but global risk-on investor sentiment prevailed, putting the local bourse in positive territory for the year. The country closed 2020 with over 1 million Coronavirus infections and 30,000 deaths, the highest on the African continent. Amid a dearth of detailed government plans to acquire and roll out one or more vaccines, market participants worried over the impact of possible rollout delays until mid-2021.

In more positive news, SA GDP growth for Q3 2020 surprised to the upside at 13.5% q/q (66.1% annualised) compared to the 13.1% expected, and Q4 consumer confidence recovered to -12 pts from -23 pts in the third quarter. The South African Reserve Bank (SARB) left the repo rate unchanged at 3.5% during its November meeting, stating that further easing was unlikely in the near term but hinting at increases in Q3 and Q4 of 2021. The central bank is now projecting an 8.0% contraction in the economy for 2020, improving to 3.5% growth in 2021 and a 2.4% expansion in 2022. Inflation also remained subdued, with headline CPI slowing to 3.2% y/y in November from 3.3% y/y in October.

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Despite this, Fitch later upgraded South Africa's largest five banks' National Long-Term credit ratings to 'AA+' from 'AA', which it said reflected an improvement in their creditworthiness relative to the best credits in the country. And in another important development, the courts handed the SA government a win in its wage battle against unions, saying that no existing collective agreement with fiscal implications can be enforced if it is not backed by National Treasury.

However, South Africa's manufacturing production fell by 3.4% y/y in October versus -1.9% in September, and the Purchasing Managers Index (PMI), which indicates business activity, edged down to 50.3 pts in November from 51.0 pts in October. It is, however, still above the key 50-point level that separates expansion from contraction.

The BEASSA All Bond Index (ALBI) managed to deliver an impressive 6.7% return in Q4 2020, boosted by foreign investors tempted by South Africa's relatively high yields. Bonds in the 1-3-year maturities lagged longer-dated bonds, flattening the yield curve and partly reversing the trend seen in the earlier part of the year. For 2020, the ALBI returned 8.7%. SA inflation-linked bonds returned 5.4% for the quarter and 4.2% for 2020, and cash (as measured by the STeFI Composite) produced 1.0% for the three-month period and 5.4% during 2020.

Finally, the rand gained good ground against all three major global currencies during the quarter due to ongoing US dollar weakness and the stronger appetite for risk assets, hitting around R14.6/USD in December and near levels last seen in early 2020. The local currency was up 12.3% against the US dollar, 7.3% versus the pound sterling and 8.2% against the euro. Over 2020, the rand depreciated versus the three currencies, losing 4.6% against the US dollar, 8.1% versus the pound sterling and 14.4% against the euro.

PERFORMANCE

The Prudential Income Fund generated a return of 1.2% (net) for the quarter compared to its benchmark, the STeFI Composite Index, which returned 1.0%. For the 12 months to 31 December 2020, the fund delivered 5.1% versus 5.4% from the benchmark.

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

The maximum term of instruments is not limited compared to money market funds at 13 months. The fund also has a maximum weighted average duration of 2 years as opposed to a typical money market fund targeting a maximum 90 days weighted average duration.

The quarter-end average duration of the fund came in at 117 days.

STRATEGY AND POSITIONING

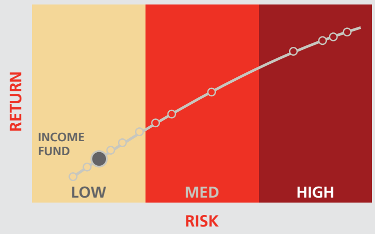
In December there was some reversal in the tightening trend in bank funding spreads. Senior bank borrowing costs, as seen in 3-year NCD yield spreads over 3-month JIBAR, have risen to be back in line with pre-Covid levels after having been approximately 35 bps below.

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	5.1%	5.4%	5.3%
2 years	6.9%	6.3%	7.0%
3 years	7.5%	6.6%	7.7%
Since inception	7.7%	6.9%	7.9%

Inception dates: D Class: 6 December 2016

RISK/RETURN PROFILE:



FUND MANAGERS:
Roshen Harry and Sandile Malinga

ASISA CATEGORY:
South African - Interest Bearing - Short Term

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

INCEPTION DATE:
6 December 2016

FUND SIZE:
R1 030 907 903

Sources: Prudential & Morningstar

PRUDENTIAL HIGH YIELD BOND FUND
31 DECEMBER 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME

MARKET OVERVIEW

Developments in the global Coronavirus pandemic continued to be a central theme in the fourth quarter of 2020 (Q4) for financial markets, both locally and offshore. Further accelerations in US infection numbers and the emergence of second waves of infections in Europe and the UK were accompanied in December by renewed lockdown measures in SA following the start of our own second wave. These negative developments were countered at times by positive sentiment regarding progress in vaccine development, such as after announcements from Pfizer and Moderna in November regarding the effectiveness of their vaccines, which buoyed markets.

Also in early November, the calling of the US election in vice-president Biden's favour caused markets to react positively after much uncertainty given the closely run, and at times chaotic, election.

These positive global developments in November helped local bonds, with the 10-year government bond yield rallying just over 0.5% (from 9.8% to 9.3%) in early November. Longer-dated bonds performed even better, with the 20-year part of the yield curve moving lower by 0.9%.

Later in November the SA Reserve Bank's Monetary Policy Committee again held rates steady. As was the case at September's meeting, 2 of the 5 members did, however, vote for a 0.25% reduction.

Also during the quarter the much anticipated Medium-Term Budget Policy Statement gave more insight into the impact of Covid-19 on the trajectory of government finances, with debt-to-GDP targeted to stabilise at around 95%. Implementation of government's plans to reign in public spending are not helped by additional funding being allocated for the Land Bank and SAA (R7 billion and R10.5 billion respectively).

The state's ability to control the government wage bill was also in the spotlight, with government and unions embroiled in court battles during the quarter over government's decision to unilaterally not adhere to the 2018 wage agreement, which saw public servants not receiving salary increases in the current year. In a positive move for the budget, the Labour Appeal Court ruled in government's favour in December, though further legal challenges and strike action may follow.

SA's credit ratings were dealt a further blow during the quarter as a result of one-notch downgrades from Fitch and Moody's. Fitch lowered the rating from BB to BB-, Moody's from Ba1 to Ba2. Both kept the outlook unchanged at Negative. Meanwhile, S&P affirmed its rating for SA. These changes represented all-time rating lows for South Africa across all three global rating agencies. Despite this, the SA government bond market reaction was muted, implying the expectation for downgrades had already been priced-in earlier by the market.

December saw further yield declines, but not to the same extent as in November, as highlighted above. 10-year government bond yields rallied just under 0.3%, while 20-year bond yields only rallied 0.2%.

As a result of the decline in yields over the quarter, the BEASSA All Bond Index (ALBI) managed to deliver a 6.7% return in Q4 2020. Bonds in the 1-3 year maturities lagged longer-dated bonds, flattening the yield curve and partly reversing the trend seen in the earlier part of the year. For the full year 2020 the ALBI returned 8.7%.

There was again little opportunity to add to the fund's credit exposure during the quarter. Credit activity picked up in October and November, but continues to be almost exclusively of the floating-rate variety. Whereas Q2 and Q3 saw private placements as the main method of raising debt, there has been some recovery in public auction activity, with the majority of deals being done on this basis in the last quarter. It is encouraging that more than 10 different issuers conducted public auctions during the quarter, raising R11.5bn. The largest issue in the quarter was a R2.0bn 5-year floating rate subordinated debt auction from Old Mutual. The auction saw a good depth of support with 27 participating bidders.

PERFORMANCE

The fund returned 7.6% for Q4, outperforming its benchmark, the BEASSA All Bond Index, by 0.9%. For the 12 months ended 31 December 2020, the fund returned 5.0% compared to the benchmark's 8.7%.

STRATEGY AND POSITIONING

During the quarter we maintained the scale of our long duration position in SA nominal bonds and continued to favour longer-dated maturities even as bonds rallied. As a result of this overweight positioning in longer-dated bonds, and their relative out performance in the quarter, the fund outperformed versus the ALBI, returning 7.6%.

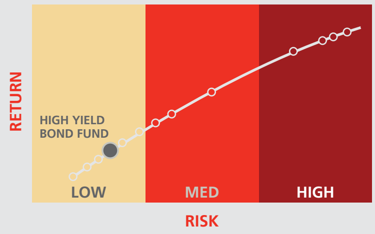
As of 31 December, 10-year government bonds yields were still elevated compared to their history, offering around 9.1% compared to 9.6% at the start of the quarter, and equating to an after-inflation (real) yield of around 4.1% (assuming inflation of 5.0% over the next decade). This is still substantially above our long-run fair value assumption of a 2.5% real yield. We believe these yields more than compensate investors for the risks associated with the government's precarious fiscal position and possible further credit rating downgrades.

We have capacity to add to our fixed rate credit holdings within the fund. Current market conditions are causing issuers to be cautious about approaching the bond market. The return of issuers to the market after the traditionally quiet festive season may provide us with chances to add to our credit holdings at attractive prices given the weakening of credit spreads during 2020. However, the continued weighting of issuance towards floating rate instruments, rather than fixed rate, will likely curb such opportunities. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	5.0%	8.7%	5.1%
3 years	7.2%	8.9%	7.4%
5 years	9.2%	10.4%	9.5%
7 years	7.0%	8.2%	7.3%
10 years	7.5%	8.2%	7.8%
Since inception	9.8%	10.2%	8.8%

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:
R264 454 404

Sources: Prudential & Morningstar

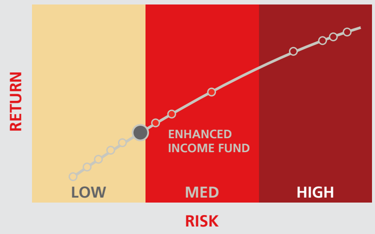
PRUDENTIAL ENHANCED INCOME FUND
31 DECEMBER 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

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 965 910 667

MARKET OVERVIEW

Despite the global pandemic and financial crisis of 2020, it proved to be a surprisingly good year for many investors based solely on the total returns recorded by many different asset classes around the world. The fourth quarter ended on a very buoyant note in financial markets, as investors shrugged off the rising second and third waves of Coronavirus infections and bought up riskier assets, pushing many equity markets to record highs. Investor sentiment was boosted largely by the development and initial rollouts of effective vaccines across large economies like the US, UK, EU, Russia and China, and the election of Democrat Joe Biden as US President. Late December also saw the US Congress' agreement of a fourth stimulus package and the UK and EU's finalisation of a Brexit deal, among other factors. South African equities were carried along by the bullish mood despite the imposition of tighter lockdown conditions, helping the FTSE/JSE All Share Index to end in positive territory for the year (up 7.0% in rand terms).

In the US, investors took heart from President-Elect Joe Biden's Cabinet choices, which partly signalled a return to "safe" Obama-era policies and a vigorous stance on combatting the pandemic. The passage of another round of fiscal stimulus measures, combined with the start of vaccinations country-wide, led many to expect a faster economic recovery.

US equity markets hit fresh record highs in December as the S&P 500 returned 12.2% for the quarter and 18.4% for the year as a whole, while the Dow Jones Industrial 30 delivered 10.7% and 9.7%, respectively, and the technology-heavy Nasdaq 100 produced 13.1% for the quarter and a stunning 48.9% in 2020 (all in US$).

In the UK and EU, news was dominated by the approval of effective Covid-19 vaccines and the start of their distribution in both regions. In the last week of the year, the conclusion of a last-minute Brexit deal after over four years of negotiations also lifted stock markets. In the UK, lockdown restrictions were tightened sharply as a new, more infectious variant of Covid-19 was identified, while many EU countries also introduced various new tightening measures.

For the quarter, the UK's FTSE 100 returned 17.2%, the German DAX 12.7% and France's CAC 40 12.8% (in US$). For 2020, the FTSE 100 badly underperformed its regional counterparts due to the more detrimental impact of Covid-19 in that country and the uncertainty over a no-deal Brexit. UK stocks ended the year in the red with a -8.7% return, while the German bourse delivered 13.7% and French stocks produced 3.6%.

Asian bourses hit record highs in December amid optimism over the new vaccines, as well as accelerating growth in the region on the back of recoveries in consumer demand and business activity. There were even gains for Hong Kong's Hang Seng despite harsh jail sentences given to several high-profile pro-democracy activists under the territory's new security laws. These new laws, introduced earlier in the year, helped keep equity returns for 2020 nearly flat as investors feared further negative repercussions for business activity.

In the fourth quarter, Japan's Nikkei 225 delivered 21.2%, the MSCI China 11.2% and Hong Kong's Hang Seng 16.2% (in US$). For 2020 as a whole, the Nikkei returned 24.5% and the MSCI China 29.7%, while Hong Kong stocks were subdued with a marginally positive 0.2% return.

Among other large emerging equity markets, in US$ terms South Korea's KOSPI was the strongest performer at 35.4%, followed by the MSCI Turkey with 30.3%, the MSCI South Africa with 22.2%, the MSCI Russia with 22.0% and the MSCI India with 21.2%. For the year, it was the South Korean market that came out on top with a 41.1% return in 2020, and the MSCI China also performed strongly with 29.7%. In in US$ terms for the year. The Turkish, South African and Russian markets were in the red, with annual returns of -8.6%, -3.5% and -11.6%, respectively (all in US$).

The spot price of Brent crude oil closed 26.5% higher from the previous quarter at around US$52 per barrel, propelled higher by expectations of a quicker and stronger recovery in global growth. The gold price rose only 0.3% in Q4 as risk-aversion abated during Q4, but still posted a total gain of 24.3% for the year. Platinum and palladium gained ground over the three months, up 23.0% and 1.9%, respectively. Industrial metals also gained strongly in the last quarter of the year on growth optimism, with copper up 17.1%, aluminium 13.9% higher, nickel rising 15.0% and zinc 12.9% higher.

SA buoyed by risk-on sentiment

In South Africa, a strong resurgence of the Coronavirus locally led to stricter lockdowns, but global risk-on investor sentiment prevailed, putting the local bourse in positive territory for the year. SA GDP growth for Q3 2020 surprised to the upside at 13.5% q/q (66.1% annualised) compared to the 13.1% expected, and Q4 consumer confidence recovered to -12 pts from -23 pts in the third quarter. The South African Reserve Bank (SARB) left the repo rate unchanged at 3.5% during its November meeting, stating that further easing was unlikely in the near term but hinting at increases in Q3 and Q4 of 2021. The central bank is now projecting an 8.0% contraction in the economy for 2020, improving to 3.5% growth in 2021 and a 2.4% expansion in 2022. Inflation also remained subdued, with headline CPI slowing to 3.2% y/y in November from 3.3% y/y in October.

On the credit ratings front, Moody's and Fitch both downgraded SA's sovereign credit rating further into "junk" territory. Moody's lowered the country's rating to Ba2 from Ba1 with a negative outlook, citing further weakening in the country's fiscal strength over the medium term as a main trigger, while Fitch cut the sovereign credit rating to BB- from BB and assigned a negative outlook, citing high and rising government debt as a main trigger behind the cut. Standard & Poor's maintained its credit rating for South Africa at BB- with a stable outlook.

The BEASSA All Bond Index (ALBI) managed to deliver an impressive 6.7% return in Q4 2020, boosted by foreign investors tempted by South Africa's relatively high yields. Bonds in the 1-3 year maturities lagged longer-dated bonds, flattening the yield curve and partly reversing the trend seen in the earlier part of the year. For 2020 as a whole, the ALBI returned 8.7%. SA inflation-linked bonds returned 5.4% for the quarter and 4.2% for 2020, and cash (as measured by the STeFI Composite) produced 1.0% for the three-month period and 5.4% during 2020.

Finally, the rand gained good ground against all three major global currencies during the quarter due to ongoing US dollar weakness and the stronger appetite for risk assets, hitting around R14.6/USD in December and near levels last seen in early 2020. The local currency was up 12.3% against the US dollar, 7.3% versus the pound sterling and 8.2% against the euro. Over 2020, the rand depreciated versus the three currencies, losing 4.6% against the US dollar, 8.1% versus the pound sterling and 14.4% against the euro.

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	X CLASS	D CLASS
1 year	4.2%	5.4%	4.4%	4.1%	4.5%
3 years	5.5%	6.6%	5.9%	5.6%	6.0%
5 years	6.9%	7.0%	7.3%	7.1%	7.5%
7 years	6.6%	6.8%	n/a	6.8%	7.2%
10 years	7.3%	6.9%	n/a	n/a	n/a
Since inception	7.7%	7.1%	6.7%	7.4%	7.7%

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

Sources: Prudential & Morningstar

PERFORMANCE

The fund delivered 2.8% (net of fees) for the three months ending December 2020, outperforming its benchmark by 1.8%. For the 12 months ending 31 December 2020, the fund returned 4.2% (net of fees), compared to its benchmark which returned 5.4% over the same period.

Investments in South African fixed-rate bonds, inflation-linked bonds and SA listed property contributed positively to overall fund returns for the quarter, whereas exposure to international assets detracted modestly from performance (due partly to rand appreciation over the period).

STRATEGY AND POSITIONING

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 reduced the fund's exposure to long-dated SA nominal government bonds and purchased shorter-dated SA government bonds, including inflation-linked bonds, as we believer they offer better risk-return attributes.

As a result, the fund's overweight position in SA nominal bonds fell slightly. We believe shorter-dated bonds now offer more 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.

Also as a result, the fund's weighting in SA inflation-linked bonds increased during the quarter, as we bought shorter-dated ILBs out of longer-dated bond holdings. The gap between ILB and cash real yields continues to be very wide, with real yields on cash currently negative, while ILB real yields are also attractive compared to our long-run fair value assumption of 2.25%. ■

Lastly, the SA cash allocation in the fund is relatively low since prospective real returns from this asset class are negative. ■

Sources: Prudential & Morningstar

PRUDENTIAL INFLATION PLUS FUND
31 DECEMBER 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

MARKET OVERVIEW

Despite the global pandemic and financial crisis of 2020, it proved to be a surprisingly good year for many investors based solely on the total returns recorded by many different asset classes around the world. The fourth quarter ended on a very buoyant note in financial markets, as investors shrugged off the rising second and third waves of Coronavirus infections and bought up riskier assets, pushing many equity markets to record highs. Investor sentiment was boosted largely by the development and initial rollouts of effective vaccines across large economies like the US, UK, EU, Russia and China, and the election of Democrat Joe Biden as US President. Late December also saw the US Congress' agreement of a fourth stimulus package and the UK and EU's finalisation of a Brexit deal, among other factors. South African equities were carried along by the bullish mood despite the imposition of tighter lockdown conditions, helping the FTSE/JSE All Share Index to end in positive territory for the year (up 7.0% in rand terms).

In US$ terms, global equities (the MSCI All Country World Index) returned a strong 14.7% for the quarter, with developed market returns lagging emerging markets at 14.0% and 19.7%, respectively. For SA investors, the rand's 12.3% appreciation against a weaker US dollar dented offshore investment returns. Global bonds delivered 3.3% for the quarter, culminating in a surprisingly robust 9.2% return for 2020. And finally, global property posted a significant Q4 rebound with a 13.6% return, but ended the year as the weakest asset class with a return of -11.4%. As in the third quarter, central banks kept interest rates broadly unchanged at very low, accommodative levels, and governments continued to enact fiscal support packages for consumers and businesses.

In the US, investors took heart from President-Elect Joe Biden's Cabinet choices, which partly signalled a return to "safe" Obama-era policies and a vigorous stance on combatting the pandemic. The passage of another round of fiscal stimulus measures, combined with the start of vaccinations country-wide, led many to expect a faster economic recovery.

US equity markets hit fresh record highs in December as the S&P 500 returned 12.2% for the quarter and 18.4% for the year as a whole, while the Dow Jones Industrial 30 delivered 10.7% and 9.7%, respectively, and the technology-heavy Nasdaq 100 produced 13.1% for the quarter and a stunning 48.9% in 2020 (all in US$).

In the UK and EU, news was dominated by the approval of effective Covid-19 vaccines and the start of their distribution in both regions. In the last week of the year, the conclusion of a last-minute Brexit deal after over four years of negotiations also lifted stock markets. In the UK, lockdown restrictions were tightened sharply as a new, more infectious variant of Covid-19 was identified, while many EU countries also introduced various new tightening measures.

For the quarter, the UK's FTSE 100 returned 17.2%, the German DAX 12.7% and France's CAC 40 12.8% (in US$). For 2020, the FTSE 100 badly underperformed its regional counterparts due to the more detrimental impact of Covid-19 in that country and the uncertainty over a no-deal Brexit. UK stocks ended the year in the red with a -8.7% return, while the German bourse delivered 13.7% and French stocks produced 3.6%.

Asian bourses hit record highs in December amid optimism over the new vaccines, as well as accelerating growth in the region on the back of recoveries in consumer demand and business activity. There were even gains for Hong Kong's Hang Seng despite harsh jail sentences given to several high-profile pro-democracy activists under the territory's new security laws. These new laws, introduced earlier in the year, helped keep equity returns for 2020 nearly flat as investors feared further negative repercussions for business activity.

In the fourth quarter, Japan's Nikkei 225 delivered 21.2%, the MSCI China 11.2% and Hong Kong's Hang Seng 16.2% (in US$). For 2020 as a whole, the Nikkei returned 24.5% and the MSCI China 29.7%, while Hong Kong stocks were subdued with a marginally positive 0.2% return.

Among other large emerging equity markets, in US$ terms South Korea's KOSPI was the strongest performer at 35.4%, followed by the MSCI Turkey with 30.3%, the MSCI South Africa with 22.2%, the MSCI Russia with 22.0% and the MSCI India with 21.2%. For the year, it was the South Korean market that came out on top with a 41.1% return in 2020, and the MSCI China also performed strongly with 29.7%. In in US$ terms for the year. The Turkish, South African and Russian markets were in the red, with annual returns of -8.6%, -3.5% and -11.6%, respectively (all in US$).

The spot price of Brent crude oil closed 26.5% higher from the previous quarter at around US$52 per barrel, propelled higher by expectations of a quicker and stronger recovery in global growth. The gold price rose only 0.3% in Q4 as risk-aversion abated during Q4, but still posted a total gain of 24.3% for the year. Platinum and palladium gained ground over the three months, up 23.0% and 1.9%, respectively. Industrial metals also gained strongly in the last quarter of the year on growth optimism, with copper up 17.1%, aluminium 13.9% higher, nickel rising 15.0% and zinc 12.9% higher.

SA buoyed by risk-on sentiment

In South Africa, a strong resurgence of the Coronavirus locally led to stricter lockdowns, but global risk-on investor sentiment prevailed, putting the local bourse in positive territory for the year. SA GDP growth for Q3 2020 surprised to the upside at 13.5% q/q (66.1% annualised) compared to the 13.1% expected, and Q4 consumer confidence recovered to -12 pts from -23 pts in the third quarter. The South African Reserve Bank (SARB) left the repo rate unchanged at 3.5% during its November meeting, stating that further easing was unlikely in the near term but hinting at increases in Q3 and Q4 of 2021. The central bank is now projecting an 8.0% contraction in the economy for 2020, improving to 3.5% growth in 2021 and a 2.4% expansion in 2022. Inflation also remained subdued, with headline CPI slowing to 3.2% y/y in November from 3.3% y/y in October.

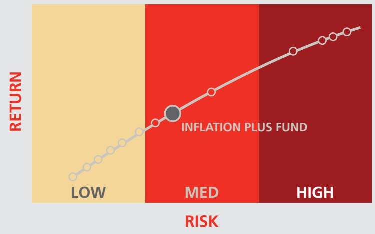
On the credit ratings front, Moody's and Fitch both downgraded SA's sovereign credit rating further into "junk" territory. Moody's lowered the country's rating to Ba2 from Ba1 with a negative outlook, citing further weakening in the country's fiscal strength over the medium term as a main trigger, while Fitch cut the sovereign credit rating to BB- from BB and assigned a negative outlook, citing high and rising government debt as a main trigger behind the cut. Standard & Poor's maintained its credit rating for South Africa at BB- with a stable outlook.

The BEASSA All Bond Index (ALBI) managed to deliver an impressive 6.7% return in Q4 2020, boosted by foreign investors tempted by South Africa's relatively high yields. Bonds in the 1-3 year maturities lagged longer-dated bonds, flattening the yield curve and partly

ANNUALISED PERFORMANCE	A CLASS	OBJECTIVE#	T CLASS	X CLASS	B CLASS
1 year	-0.7%	6.7%	-0.5%	-0.7%	-0.2%
3 years	0.1%	7.4%	0.5%	0.3%	0.8%
5 years	2.8%	8.1%	3.2%	3.0%	3.5%
7 years	4.8%	8.2%	n/a	5.1%	5.6%
10 years	7.9%	8.5%	n/a	n/a	8.6%
Since inception	10.8%	9.2%	3.7%	8.1%	11.0%

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

RISK/RETURN PROFILE:



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

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:
R20 653 833 448

AWARDS:
Raging Bull: 2013
Morningstar: 2015

Sources: Prudential & Morningstar

reversing the trend seen in the earlier part of the year. For 2020 as a whole, the ALBI returned 8.7%. SA inflation-linked bonds returned 5.4% for the quarter and 4.2% for 2020, and cash (as measured by the STeFI Composite) produced 1.0% for the three-month period and 5.4% during 2020.

The FTSE/JSE All Share Index delivered 9.8% in Q4, led by strong gains in Listed Property and Financials. This meant that the ALSI ended 2020 in positive territory, returning 7.0% after losing 30% at its low in mid-March. For the quarter, Listed Property (SAPY Index) was the star performer, returning 22.2%, while Resources shares (J258 Index) delivered 8.3%, Financials (J580 Index) produced 19.5% and Industrials (J257 Index) returned 7.4%.

For 2020 as a whole, the JSE's offshore-focused sectors produced the strongest returns, with Resources at 21.2% and Industrials at 12.0%. Locally-oriented sectors were in the red as Financials delivered -19.7% for the 12 months and Listed Property -34.5%.

Finally, the rand gained good ground against all three major global currencies during the quarter due to ongoing US dollar weakness and the stronger appetite for risk assets, hitting around R14.6/USD in December and near levels last seen in early 2020. The local currency was up 12.3% against the US dollar, 7.3% versus the pound sterling and 8.2% against the euro. Over 2020, the rand depreciated versus the three currencies, losing 4.6% against the US dollar, 8.1% versus the pound sterling and 14.4% against the euro.

PERFORMANCE

The fund returned 5.3% (after fees) for the fourth quarter of 2020 and -0.7% for the 12-month period ending 31 December 2020. The fund has delivered a return of 10.8% per annum since its inception in 1999 (after fees), compared to its objective of 9.2% per annum over the same period.

The largest asset-class contributors to absolute performance for the quarter were the fund's exposure to SA equities, SA bonds, SA ILBs and SA listed property, as offshore gains were offset by rand appreciation. The only significant detractors from absolute returns were the fund's holdings in global bonds.

In terms of specific equity exposure, among the strongest equity contributors to absolute returns for the quarter were the fund's holdings in resources stocks like Implats and Anglo American, as well as SA banks including Absa, Standard Bank, FirstRand and Investec, plus Multichoice. The main detractors from absolute returns were holdings in Gold Fields and British American Tobacco.

STRATEGY AND POSITIONING

Starting with our view on **offshore asset allocation**, during the quarter we added to our US dollar exposure in the fund, selling rand as the rand strengthened against the greenback from around R16.7/US$ to around R14.7/US$ over the three months. This helped to further reduce SA-specific risks and added to portfolio diversification. Otherwise we remained slightly overweight global equities.

Within our global equity positioning, as US equities remained expensive compared to other markets in Q4, our portfolios continue to be underweight the 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**, although during the quarter we added to our holding in 30-year US Treasury bonds as the yield rose, a position we first took in Q2. We are overweight US and European **investment-grade corporate bonds and selected emerging-market government bonds**, which offer much more attractive real yields.

The Prudential Inflation Plus Fund maintained its higher overweight position in SA equities that it added in Q3. SA equity valuations (as measured by the Price/Book value ratio of the FTSE/JSE Capped SWIX Index) were trading at around 1.6X at the end of December, up from around 1.4X at the beginning of the quarter, but still very attractive compared to the 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 Q4. 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 31 December, 10-year government bonds yields were still elevated compared to their history, offering around 9.1% compared to 9.6% at the start of the quarter, and equating to an after-inflation (real) yield of around 4.1% (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 kept our overweight exposure to **SA inflation-linked bonds** during the fourth quarter of 2020. The gap between ILB and cash real yields continues to be very wide, with real yields on cash currently negative. ILB real yields are also attractive compared to their own history and our long-run fair value assumption of 2.25%.

Lastly, as of the end of Q4 2020, the Prudential Inflation Plus Fund was neutral **SA cash** (though in absolute terms this was a relatively small amount). ■

Sources: Prudential & Morningstar

PRUDENTIAL BALANCED FUND
31 DECEMBER 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

MARKET OVERVIEW

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In US$ terms, global equities (the MSCI All Country World Index) returned a strong 14.7% for the quarter, with developed market returns lagging emerging markets at 14.0% and 19.7%, respectively. For SA investors, the rand's 12.3% appreciation against a weaker US dollar dented offshore investment returns. Global bonds delivered 3.3% for the quarter, culminating in a surprisingly robust 9.2% return for 2020. And finally, global property posted a significant Q4 rebound with a 13.6% return, but ended the year as the weakest asset class with a return of -11.4%. As in the third quarter, central banks kept interest rates broadly unchanged at very low, accommodative levels, and governments continued to enact fiscal support packages for consumers and businesses.

In the US, investors took heart from President-Elect Joe Biden's Cabinet choices, which partly signalled a return to "safe" Obama-era policies and a vigorous stance on combatting the pandemic. The passage of another round of fiscal stimulus measures, combined with the start of vaccinations country-wide, led many to expect a faster economic recovery.

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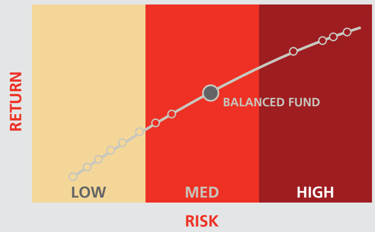
SA buoyed by risk-on sentiment

In South Africa, a strong resurgence of the Coronavirus locally led to stricter lockdowns, but global risk-on investor sentiment prevailed, putting the local bourse in positive territory for the year. SA GDP growth for Q3 2020 surprised to the upside at 13.5% q/q (66.1% annualised) compared to the 13.1% expected, and Q4 consumer confidence recovered to -12 pts from -23 pts in the third quarter. The South African Reserve Bank (SARB) left the repo rate unchanged at 3.5% during its November meeting, stating that further easing was unlikely in the near term but hinting at increases in Q3 and Q4 of 2021. The central bank is now projecting an 8.0% contraction in the economy for 2020, improving to 3.5% growth in 2021 and a 2.4% expansion in 2022. Inflation also remained subdued, with headline CPI slowing to 3.2% y/y in November from 3.3% y/y in October.

On the credit ratings front, Moody's and Fitch both downgraded SA's sovereign credit rating further into "junk" territory. Moody's lowered the country's rating to Ba2 from Ba1 with a negative outlook, citing further weakening in the country's fiscal strength over the medium term as a main trigger, while Fitch cut the sovereign credit rating to BB- from BB and assigned a negative outlook, citing high and rising government debt as a main trigger behind the cut. Standard & Poor's maintained its credit rating for South Africa at BB- with a stable outlook.

The BEASSA All Bond Index (ALBI) managed to deliver an impressive 6.7% return in Q4 2020, boosted by foreign investors tempted by South Africa's relatively high yields. Bonds in the 1-3 year maturities lagged longer-dated bonds, flattening the yield curve and partly reversing the trend seen in the earlier part of the year. For 2020 as a whole, the ALBI returned 8.7%. SA inflation-linked bonds returned 5.4% for the quarter and 4.2% for 2020, and cash (as measured

RISK/RETURN PROFILE:



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

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

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

INCEPTION DATE:
2 August 1999

FUND SIZE:
R19 355 606 892

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	X CLASS	B CLASS
1 year	2.3%	5.2%	2.5%	2.3%	2.8%
3 years	2.5%	3.6%	2.9%	2.7%	3.1%
5 years	4.6%	4.3%	5.0%	4.8%	5.3%
7 years	6.1%	5.5%	n/a	6.3%	6.8%
10 years	9.2%	7.7%	n/a	n/a	10.1%
Since inception	12.6%	11.1%	5.1%	7.9%	13.2%

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

Sources: Prudential & Morningstar

by the STeFI Composite) produced 1.0% for the three-month period and 5.4% during 2020.

The FTSE/JSE All Share Index delivered 9.8% in Q4, led by strong gains in Listed Property and Financials. This meant that the ALSI ended 2020 in positive territory, returning 7.0% after losing 30% at its low in mid-March. For the quarter, Listed Property (SAPY Index) was the star performer, returning 22.2%, while Resources shares (J258 Index) delivered 8.3%, Financials (J580 Index) produced 19.5% and Industrials (J257 Index) returned 7.4%.

For 2020 as a whole, the JSE's offshore-focused sectors produced the strongest returns, with Resources at 21.2% and Industrials at 12.0%. Locally-oriented sectors were in the red as Financials delivered -19.7% for the 12 months and Listed Property -34.5%.

Finally, the rand gained good ground against all three major global currencies during the quarter due to ongoing US dollar weakness and the stronger appetite for risk assets, hitting around R14.6/USD in December and near levels last seen in early 2020. The local currency was up 12.3% against the US dollar, 7.3% versus the pound sterling and 8.2% against the euro. Over 2020, the rand depreciated versus the three currencies, losing 4.6% against the US dollar, 8.1% versus the pound sterling and 14.4% against the euro.

PERFORMANCE

The fund returned 7.0% (after fees) for the fourth quarter of 2020 and 2.3% for the 12-month period ending 31 December 2020. The fund has delivered a return of 12.6% per annum since its inception in 1999 (after fees), compared to its benchmark of 11.1% per annum over the same period.

The largest asset-class contributors to absolute performance for the quarter were the fund's exposure to SA equities, SA bonds and SA listed property, as offshore gains were hurt by rand appreciation. Significant detractors from absolute returns were the fund's holdings in global bonds.

In terms of specific equity exposure, among the strongest equity contributors to absolute returns for the quarter were the fund's holdings in resources stocks like Implats and Anglo American, as well as SA banks including Absa, Standard Bank, FirstRand and Investec, plus Multichoice. The main detractors from absolute returns were holdings in Gold Fields, British American Tobacco and Anglogold Ashanti.

STRATEGY AND POSITIONING

Starting with our view on **offshore asset allocation**, during the quarter we added to our US dollar exposure in the fund, selling rand as the rand strengthened against the greenback from around R16.7/US$ to around R14.7/US$ over the three months. This helped to further reduce SA-specific risks and added to portfolio diversification. Otherwise we remained slightly overweight global equities.

Within our global equity positioning, as US equities remained expensive compared to other markets in Q4, our portfolios continue to be underweight the 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**, although during the quarter we added to our holding in 30-year US Treasury bonds as the yield rose, a position we first took in Q2. We are overweight US and European **investment-grade corporate bonds and selected emerging-market government bonds**, which offer much more 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 1.6X at the end of December, up from around 1.4X at the beginning of the quarter, but still very attractive compared to the 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 added to portfolio value in 2020. We have also maintained our overweight in the local banking sector, with exposures to Absa, Standard Bank and Investec given the attractive valuations they offer. Banking stocks rallied strongly in the fourth quarter as the outlook for the economy and consumer financial health improved markedly.

We have kept our substantially underweight positioning in **SA listed property** in Q4. 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, 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 even as bonds rallied. As of 31 December, 10-year government bonds yields were still elevated compared to their history, offering around 9.1% compared to 9.6% at the start of the quarter, and equating to an after-inflation (real) yield of around 4.1% (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 kept our overweight exposure to **SA inflation-linked bonds** during the fourth quarter of 2020. The gap between ILB and cash real yields continues to be very wide, with real yields on cash currently negative. ILB real yields are also attractive compared to their own history and our long-run fair value assumption of 2.25%.

Lastly, the fund remains underweight **SA cash**, since prospective real returns from this asset class are negative. ■

Sources: Prudential & Morningstar

PRUDENTIAL ENHANCED SA PROPERTY TRACKER FUND
31 DECEMBER 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

PROPERTY

MARKET OVERVIEW

In South Africa, a strong resurgence of the Coronavirus locally led to stricter lockdowns, but global risk-on investor sentiment prevailed, putting the local bourse in positive territory for the year. The country closed 2020 with over 1 million Coronavirus infections and 30,000 deaths, the highest on the African continent. Amid a dearth of detailed government plans to acquire and roll out one or more vaccines, market participants worried over the impact of possible rollout delays until mid-2021.

In more positive news, SA GDP growth for Q3 2020 surprised to the upside at 13.5% q/q (66.1% annualised) compared to the 13.1% expected, and Q4 consumer confidence recovered to -12 pts from -23 pts in the third quarter. The South African Reserve Bank (SARB) left the repo rate unchanged at 3.5% during its November meeting, stating that further easing was unlikely in the near term but hinting at increases in Q3 and Q4 of 2021. The central bank is now projecting an 8.0% contraction in the economy for 2020, improving to 3.5% growth in 2021 and a 2.4% expansion in 2022. Inflation also remained subdued, with headline CPI slowing to 3.2% y/y in November from 3.3% y/y in October.

On the credit ratings front, Moody's and Fitch both downgraded SA's sovereign credit rating further into "junk" territory. Moody's lowered the country's rating to Ba2 from Ba1 with a negative outlook, citing further weakening in the country's fiscal strength over the medium term as a main trigger, while Fitch cut the sovereign credit rating to BB- from BB and assigned a negative outlook, citing high and rising government debt as a main trigger behind the cut. Standard & Poor's maintained its credit rating for South Africa at BB- with a stable outlook.

Despite this, Fitch later upgraded South Africa's largest five banks' National Long-Term credit ratings to 'AA+' from 'AA', which it said reflected an improvement in their creditworthiness relative to the best credits in the country. And in another important development, the courts handed the SA government a win in its wage battle against unions, saying that no existing collective agreement with fiscal implications can be enforced if it is not backed by National Treasury.

The FTSE/JSE All Share Index delivered 9.8% in Q4, led by strong gains in Listed Property and Financials. This meant that the ALSI ended 2020 in positive territory, returning 7.0% after losing 30% at its low in mid-March. For the quarter, Listed Property (SAPY Index) was the star performer, returning 22.2%, while Resources shares (J258 Index) delivered 8.3%, Financials (J580 Index) produced 19.5% and Industrials (J257 Index) returned 7.4%.

However, it was most certainly an annus horribilis for property investors in 2020, as Covid 19-induced shutdowns added to negative cyclical and structural factors affecting the listed property sector, such as the high vacancies driven by an oversupply of office property and the impact of e-commerce on retail. Lower retail spending hit property landlords hard, not just in South Africa, but most international markets were also deeply impacted. The UK, for example, suffered its worst drop in retail sales growth in 2020 since record-keeping began in 1995, driven by a slump in demand for fashion and homeware products.

PERFORMANCE

The fund returned 21.4% (net of fees) for the fourth quarter of 2020, marginally underperforming its benchmark by 0.8%. For the 12 months ending 31 December 2020, the fund delivered a negative return of 35.6% (net of fees), trailing its benchmark by 1.1% over the same period. This was disappointing, as the fund's objective is to provide a total return equal to or better than the benchmark (after fees) while providing long-term capital growth.

The major contributors to performance in 2020 were the fund's holdings in Nepi Rockcastle and SA Corporate. The main detractors were Hyprop, as well as our underweight positioning in Sirius and Stenprop – both offshore counters, included in the SAPY Index, which performed significantly better than the domestic counters.

STRATEGY AND POSITIONING

Despite the approximate one-third decline in property indices for the year, the current forward dividend yield on the SAPY of around 10% is at a similar level to the start of 2020. This compares to the yield on the 10-year SA government bond of around 9%. The unchanged forward dividend yield is a result of many property companies suspending or reducing dividends throughout 2020 in order to protect balance sheets, and the corresponding decline in the markets estimates of dividends for 2021.

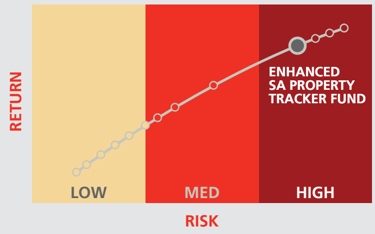
Property companies on average are now paying out around 85% of their distributable earnings versus the historic practice of paying out 100% (and sometimes more). Although investors are receiving less income from property companies, we believe the introduction of payout ratios will make the sector more robust and therefore more investable in the long term.

At the start 2021, the fund's key overweights are SA Corporate, Growthpoint and Nepi Rockcastle with key underweights in Investec Property Fund, Fortress A and EPP. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	D CLASS
1 year	-35.6%	-34.5%	-35.6%	-35.5%
3 years	-21.6%	-20.7%	-21.5%	-21.5%
5 years	-9.4%	-8.4%	-9.4%	-9.3%
7 years	-2.3%	-1.8%	n/a	-2.2%
10 years	3.0%	3.5%	n/a	3.1%
Since inception	7.7%	8.2%	-8.8%	4.0%

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

RISK/RETURN PROFILE:



FUND MANAGERS:
Johny Lambridis and Yusuf Mowlana

ASISA CATEGORY:
South African - Real Estate - General

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

INCEPTION DATE:
2 December 2005

FUND SIZE:
R842 159 223

AWARDS:
Morningstar/Standard & Poor's: 2011

Sources: Prudential & Morningstar

PRUDENTIAL DIVIDEND MAXIMISER FUND
31 DECEMBER 2020

QUARTERLY COMMENTARY

EQUITY

MARKET OVERVIEW

Despite the global pandemic and financial crisis of 2020, it proved to be a surprisingly good year for many investors based solely on the total returns recorded by many different asset classes around the world. The fourth quarter ended on a very buoyant note in financial markets, as investors shrugged off the rising second and third waves of Coronavirus infections and bought up riskier assets, pushing many equity markets to record highs. Investor sentiment was boosted largely by the development and initial rollouts of effective vaccines across large economies like the US, UK, EU, Russia and China, and the election of Democrat Joe Biden as US President. Late December also saw the US Congress' agreement of a fourth stimulus package and the UK and EU's finalisation of a Brexit deal, among other factors. South African equities were carried along by the bullish mood despite the imposition of tighter lockdown conditions, helping the FTSE/JSE All Share Index to end in positive territory for the year (up 7.0% in rand terms).

In US$ terms, global equities (the MSCI All Country World Index) returned a strong 14.7% for the quarter, with developed market returns lagging emerging markets at 14.0% and 19.7%, respectively. For SA investors, the rand's 12.3% appreciation against a weaker US dollar dented offshore investment returns. Global bonds delivered 3.3% for the quarter, culminating in a surprisingly robust 9.2% return for 2020. And finally, global property posted a significant Q4 rebound with a 13.6% return, but ended the year as the weakest asset class with a return of -11.4%. As in the third quarter, central banks kept interest rates broadly unchanged at very low, accommodative levels, and governments continued to enact fiscal support packages for consumers and businesses.

In the US, investors took heart from President-Elect Joe Biden's Cabinet choices, which partly signalled a return to "safe" Obama-era policies and a vigorous stance on combatting the pandemic. The passage of another round of fiscal stimulus measures, combined with the start of vaccinations country-wide, led many to expect a faster economic recovery.

US equity markets hit fresh record highs in December as the S&P 500 returned 12.2% for the quarter and 18.4% for the year as a whole, while the Dow Jones Industrial 30 delivered 10.7% and 9.7%, respectively, and the technology-heavy Nasdaq 100 produced 13.1% for the quarter and a stunning 48.9% in 2020 (all in US$).

In the UK and EU, news was dominated by the approval of effective Covid-19 vaccines and the start of their distribution in both regions. In the last week of the year, the conclusion of a last-minute Brexit deal after over four years of negotiations also lifted stock markets. In the UK, lockdown restrictions were tightened sharply as a new, more infectious variant of Covid-19 was identified, while many EU countries also introduced various new tightening measures.

For the quarter, the UK's FTSE 100 returned 17.2%, the German DAX 12.7% and France's CAC 40 12.8% (in US$). For 2020, the FTSE 100 badly underperformed its regional counterparts due to the more detrimental impact of Covid-19 in that country and the uncertainty over a no-deal Brexit. UK stocks ended the year in the red with a -8.7% return, while the German bourse delivered 13.7% and French stocks produced 3.6%.

Asian bourses hit record highs in December amid optimism over the new vaccines, as well as accelerating growth in the region on the back of recoveries in consumer demand and business activity. There were even gains for Hong Kong's Hang Seng despite harsh jail sentences given to several high-profile pro-democracy activists under the territory's new security laws. These new laws, introduced earlier in the year, helped keep equity returns for 2020 nearly flat as investors feared further negative repercussions for business activity.

In the fourth quarter, Japan's Nikkei 225 delivered 21.2%, the MSCI China 11.2% and Hong Kong's Hang Seng 16.2% (in US$). For 2020 as a whole, the Nikkei returned 24.5% and the MSCI China 29.7%, while Hong Kong stocks were subdued with a marginally positive 0.2% return.

Among other large emerging equity markets, in US$ terms South Korea's KOSPI was the strongest performer at 35.4%, followed by the MSCI Turkey with 30.3%, the MSCI South Africa with 22.2%, the MSCI Russia with 22.0% and the MSCI India with 21.2%. For the year, it was the South Korean market that came out on top with a 41.1% return in 2020, and the MSCI China also performed strongly with 29.7%. In in US$ terms for the year. The Turkish, South African and Russian markets were in the red, with annual returns of -8.6%, -3.5% and -11.6%, respectively (all in US$).

The spot price of Brent crude oil closed 26.5% higher from the previous quarter at around US$52 per barrel, propelled higher by expectations of a quicker and stronger recovery in global growth. The gold price rose only 0.3% in Q4 as risk-aversion abated during Q4, but still posted a total gain of 24.3% for the year. Platinum and palladium gained ground over the three months, up 23.0% and 1.9%, respectively. Industrial metals also gained strongly in the last quarter of the year on growth optimism, with copper up 17.1%, aluminium 13.9% higher, nickel rising 15.0% and zinc 12.9% higher.

SA buoyed by risk-on sentiment

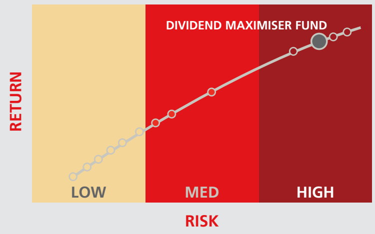
In South Africa, a strong resurgence of the Coronavirus locally led to stricter lockdowns, but global risk-on investor sentiment prevailed, putting the local bourse in positive territory for the year. SA GDP growth for Q3 2020 surprised to the upside at 13.5% q/q (66.1% annualised) compared to the 13.1% expected, and Q4 consumer confidence recovered to -12 pts from -23 pts in the third quarter. The South African Reserve Bank (SARB) left the repo rate unchanged at 3.5% during its November meeting, stating that further easing was unlikely in the near term but hinting at increases in Q3 and Q4 of 2021. The central bank is now projecting an 8.0% contraction in the economy for 2020, improving to 3.5% growth in 2021 and a 2.4% expansion in 2022. Inflation also remained subdued, with headline CPI slowing to 3.2% y/y in November from 3.3% y/y in October.

The FTSE/JSE All Share Index delivered 9.8% in Q4, led by strong gains in Listed Property and Financials. This meant that the ALSI ended 2020 in positive territory, returning 7.0% after losing 30% at its low in mid-March. For the quarter, Listed Property (SAPY Index) was the star performer, returning 22.2%, while Resources shares (J258 Index) delivered 8.3%, Financials (J580 Index) produced 19.5% and Industrials (J257 Index) returned 7.4%.

For 2020 as a whole, the JSE's offshore-focused sectors produced the strongest returns, with Resources at 21.2% and Industrials at 12.0%. Locally-oriented sectors were in the red as Financials delivered -19.7% for the 12 months and Listed Property -34.5%.

Finally, the rand gained good ground against all three major global currencies during the quarter due to ongoing US dollar weakness and the stronger appetite for risk assets, hitting around R14.6/USD in

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 490 122 561

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

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	B CLASS	F CLASS
1 year	4.0%	1.9%	4.1%	4.3%	4.5%
3 years	1.8%	0.1%	2.1%	2.1%	2.5%
5 years	4.2%	3.1%	4.6%	4.6%	n/a
7 years	5.5%	3.8%	n/a	5.9%	n/a
10 years	9.0%	6.9%	n/a	9.5%	n/a
Since inception	15.5%	12.7%	4.2%	9.8%	5.2%

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

Sources: Prudential & Morningstar

December and near levels last seen in early 2020. The local currency was up 12.3% against the US dollar, 7.3% versus the pound sterling and 8.2% against the euro. Over 2020, the rand depreciated versus the three currencies, losing 4.6% against the US dollar, 8.1% versus the pound sterling and 14.4% against the euro.

PERFORMANCE

The Prudential Dividend Maximiser Fund delivered a return of 10.0% (net of fees) for the fourth quarter of 2020, outperforming its benchmark (the average of the general equity funds) by 0.3%. For the year ended 31 December 2020, the fund returned 4.0% (net of fees), outperforming its benchmark by 2.1%.

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

The largest contributor to performance for the quarter was our underweight position to the gold sector. We have consistently been underweight to the gold sector in this fund, mainly due to the very poor cash flows generated by gold companies and consequently the very poor dividend growth that the companies have exhibited over a long period of time. While we are cognisant that low real interest rates in the US provide some support for the gold price, we also observe that US interest rates have been rising over the last six months. These rising rates are likely to be a headwind to the gold price, as the opportunity cost for holding gold has been rising. Our underweight positions to Anglogold and Goldfields specifically helped performance this quarter.

The second largest contributor to performance for the quarter was again 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 a long period of time, as it would mean a slow death of the platinum industry. Today, margins in the sector are near 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 fund has invested more heavily in those platinum companies such as Impala Platinum and Anglo American Platinum (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.

We have commented before that we continue to find very good value in the banking sector, and for this reason, we are overweight to this sector. While the Coronavirus shutdown resulted in significant concern around the potential for higher bad debts in the banking sector, we think that the associated share price falls provide a substantial margin of safety. During the last quarter our overweight position to the ABSA Group was a large contributor to performance. This outperformance was, however, more than offset by our underweight to Firstrand and Nedbank, which were the largest detractors from performance after our offshore allocation. Our preference for ABSA, Investec and Standard Bank over the other banks is informed by the relative value that we see in the sector. While we rate Firstrand and Capitec more highly in terms of quality, we cannot ignore that they are substantially more highly priced/rated than the other banks in the sector.

Most certainly, the major South African banks have gone into this crisis with very strong provisioning and capital positions, and we think that these buffers place them in a good position to absorb significant potential losses which may arise from the impact of the pandemic. As we write, the Price-to-Book valuations of the SA banks are at exceptionally low levels and in our view are pricing in a very negative outcome from the Coronavirus. On balance, we think that this may be a very good point to be buying banks.

We continue to think that offshore equity markets look attractive, but over the last year we have seen opportunities to reduce our offshore weighting based on the relative attractiveness of the SA market. The fund is approximately 25% invested offshore, mainly through the Prudential Global Equity Fund and the M&G Global Dividend Fund. This offshore allocation was the largest detractor for the last quarter, almost entirely due to the strength of the rand, which appreciated by 12.3% relative to the US$ over the quarter.

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

STRATEGY AND POSITIONING

We remain optimistic regarding SA equity market returns over the medium term due to the prevailing excessive levels of pessimism reflected in share prices and valuations. Going into the Coronavirus pandemic, the South African market, in our view, was already undervalued, and has fallen to levels which we think are exceptionally attractive. The price-to-book of the JSE remains close to 1.6X at the end of December 2020. We also note that within the SA market, many commodity companies are experiencing a substantial upgrade in their revenue and earnings, as the prices of platinum group metals and iron ore continue to move strongly upward. These strong commodity prices are not only helpful to the companies mining them, but are also broadly helpful to the South African economy.

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. 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.

On market valuations, we currently view the market in South Africa along with many other emerging markets as being very undervalued. While the 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. There is, however, potential upside to this scenario if the level of some of the commodity prices continues to remain elevated. The profit margins of many mining companies have not only returned to normal over the last two years, but are now reaching levels which could be considered top-of-cycle, particularly in the platinum group metals and iron ore. These high commodity prices are generating substantial cash flows, which are resulting in rapid debt repayments and cash accumulation. There is therefore likely to be a substantial increase in dividends from some of these commodity companies.

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

PRUDENTIAL EQUITY FUND
31 DECEMBER 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

EQUITY

MARKET OVERVIEW

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In US$ terms, global equities (the MSCI All Country World Index) returned a strong 14.7% for the quarter, with developed market returns lagging emerging markets at 14.0% and 19.7%, respectively. For SA investors, the rand's 12.3% appreciation against a weaker US dollar dented offshore investment returns. Global bonds delivered 3.3% for the quarter, culminating in a surprisingly robust 9.2% return for 2020. And finally, global property posted a significant Q4 rebound with a 13.6% return, but ended the year as the weakest asset class with a return of -11.4%. As in the third quarter, central banks kept interest rates broadly unchanged at very low, accommodative levels, and governments continued to enact fiscal support packages for consumers and businesses.

In the US, investors took heart from President-Elect Joe Biden's Cabinet choices, which partly signalled a return to "safe" Obama-era policies and a vigorous stance on combatting the pandemic. The passage of another round of fiscal stimulus measures, combined with the start of vaccinations country-wide, led many to expect a faster economic recovery.

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In the UK and EU, news was dominated by the approval of effective Covid-19 vaccines and the start of their distribution in both regions. In the last week of the year, the conclusion of a last-minute Brexit deal after over four years of negotiations also lifted stock markets. In the UK, lockdown restrictions were tightened sharply as a new, more infectious variant of Covid-19 was identified, while many EU countries also introduced various new tightening measures.

For the quarter, the UK's FTSE 100 returned 17.2%, the German DAX 12.7% and France's CAC 40 12.8% (in US$). For 2020, the FTSE 100 badly underperformed its regional counterparts due to the more detrimental impact of Covid-19 in that country and the uncertainty over a no-deal Brexit. UK stocks ended the year in the red with a -8.7% return, while the German bourse delivered 13.7% and French stocks produced 3.6%.

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Among other large emerging equity markets, in US$ terms South Korea's KOSPI was the strongest performer at 35.4%, followed by the MSCI Turkey with 30.3%, the MSCI South Africa with 22.2%, the MSCI Russia with 22.0% and the MSCI India with 21.2%. For the year, it was the South Korean market that came out on top with a 41.1% return in 2020, and the MSCI China also performed strongly with 29.7%. In in US$ terms for the year. The Turkish, South African and Russian markets were in the red, with annual returns of -8.6%, -3.5% and -11.6%, respectively (all in US$).

The spot price of Brent crude oil closed 26.5% higher from the previous quarter at around US$52 per barrel, propelled higher by expectations of a quicker and stronger recovery in global growth. The gold price rose only 0.3% in Q4 as risk-aversion abated during Q4, but still posted a total gain of 24.3% for the year. Platinum and palladium gained ground over the three months, up 23.0% and 1.9%, respectively. Industrial metals also gained strongly in the last quarter of the year on growth optimism, with copper up 17.1%, aluminium 13.9% higher, nickel rising 15.0% and zinc 12.9% higher.

SA buoyed by risk-on sentiment

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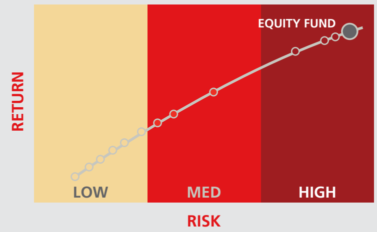
Finally, the rand gained good ground against all three major global currencies during the quarter due to ongoing US dollar weakness

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS	F CLASS
1 year	9.2%	1.9%	9.6%	9.6%
3 years	2.3%	0.1%	2.7%	3.1%
5 years	5.4%	3.1%	5.8%	n/a
7 years	6.0%	3.8%	6.4%	n/a
10 years	9.7%	6.9%	10.2%	n/a
Since inception	15.6%	12.7%	10.2%	6.6%

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:
R3 038 787 707

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

Sources: Prudential & Morningstar

and the stronger appetite for risk assets, hitting around R14.6/USD in December and near levels last seen in early 2020. The local currency was up 12.3% against the US dollar, 7.3% versus the pound sterling and 8.2% against the euro. Over 2020, the rand depreciated versus the three currencies, losing 4.6% against the US dollar, 8.1% versus the pound sterling and 14.4% against the euro.

PERFORMANCE

The fund performed well since its March lows by actively buying companies on inexpensive valuations. For the fourth quarter of 2020, the fund delivered a return of 12.6% (net of fees), outperforming its benchmark's 9.6% return. For the year ended 31 December 2020, the fund returned 9.2% (net of fees), outperforming the 1.9% recorded by the benchmark.

During the quarter, the fund increased exposure to Astral, Growthpoint and Absa, and sold Firstrand, Goldfields and Stor-age.

Among the largest contributors to performance for the quarter was our underweight position to the gold sector. We have consistently been underweight to the gold sector in the fund, mainly due to the very poor cash flows generated by gold companies and consequently the very poor dividend growth that gold companies have exhibited over a long period of time. While we are cognisant that low real interest rates in the US provide some support for the gold price, we also observe that US interest rates have been rising over the last six months. These rising interest rates are likely to be a headwind to the gold price, as the opportunity cost to holding gold has been rising. Our underweight positions to **Anglogold and Goldfields** specifically helped performance this quarter.

Another contributor to performance for the quarter was our overweight position to **Multichoice Group**. Multichoice is the dominant Pay-TV operator in sub-Saharan Africa, and its South African business has demonstrated exceptionally strong and stable cash generation. We rate the South African business highly and think that it will continue to generate strong and growing cash flows into the future. The subsidiaries of Multichoice in the rest of Africa have been making losses, however, largely due to unfavourable currency moves. The company is addressing these losses by lowering costs through a number of initiatives. We find the valuation of this company very compelling, as we think that over the medium term the company will be able to return the businesses in the rest of Africa back to profitability, and we do not think that we are paying for these businesses in the current valuation. Over the last quarter, we also witnessed Canal+, owned by Vivendi, starting to acquire shares in Multichoice. They have managed to buy a 12% stake in the company and clearly also see value in it. Canal+ operate the dominant Pay-TV operator in French-speaking Africa.

Another meaningful contributor in Q4 was Altron, which listed its Bytes UK business during the period.

We have commented before that we continue to find very good value in the banking sector, and for this reason we have one of our larger sector overweights to this sector. While the COVID-19 shutdown resulted in significant concern around the potential for higher bad debts in the banking sector, we think that the associated share price falls have provided a substantial margin of safety. During the last quarter, three of our larger bank overweight positions contributed to outperformance. Our overweight positions to **ABSA Group**, **Investec and Standard Bank** more than offset our underweights to Firstrand and Capitec. Our preference for ABSA, Investec and Standard Bank over the other banks is informed by the relative value that we see in the sector. While we rate Firstrand and Capitec more highly in terms of quality, we cannot ignore that that they are substantially more highly priced/rated than other banks in the sector.

Most certainly, the major South African banks have gone into this crisis with very strong provisioning and capital positions and we think that these buffers place them in a good position to absorb significant potential losses which may arise from the impact of the pandemic. The Price-to-Book valuations of the SA banks remain at attractively low levels, and in our view are pricing in a very negative outcome from the Coronavirus.

While **Impala Platinum and Northam Platinum**, which the fund owns in overweight positions, contributed strongly for the quarter, this outperformance was partly offset by our underweight in another platinum and palladium company, **Sibanye Stillwater**, which is benefiting even from the rapid de-leveraging of its balance sheet.

The platinum sector has experienced a resurgence in the last year, supported by substantially higher palladium and rhodium prices which are mined with platinum. 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 a long period of time, as it would mean a slow death of 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 and Sibanye Stillwater have recently seen very strong price performance as the risk associated with their debt levels has disappeared.

Sibanye Stillwater was the third largest detractor from performance after FirstRand and British American Tobacco (BAT) for the quarter.

Our overweight position in **BAT** was the second largest 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% and we expect this dividend 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 continue to fund investment into next generation low-risk 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 lagged the strong market and sentiment improvement over the last quarter.

STRATEGY AND POSITIONING

We remain optimistic regarding SA equity market returns over the medium term due to valuations which compare favourably with history. Going into the Coronavirus pandemic, the South African market was inexpensive in our view, and fell to exceptionally attractive levels. The Price-to-Book value of the JSE remains close to 1.6X at the end of December 2020, still far below its long-term average. We also note that within the SA market, many commodity companies are experiencing a substantial upgrade in their revenue and earnings, as the prices of platinum group metals and iron ore continue to move strongly upward. These strong commodity prices are not only helpful to the companies mining them, but are also broadly helpful to the South African economy.

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 downgrades. 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.

On market valuations, we currently view the market in South Africa along with many other emerging markets as being very undervalued. While the 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.

In terms of positioning, our top overweights within the Resources sector remain Exxaro, Impala Platinum and Northam. Within the Industrials sector, our top picks include Naspers/Prosus, Multichoice Group and Textainer, and within Financials we remain overweight banks as a sector. Our preferences within this sector are the well-capitalised and inexpensive banks, Standard Bank, Absa and Investec. ■

Sources: Prudential & Morningstar

PRUDENTIAL SA EQUITY FUND
31 DECEMBER 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

EQUITY

MARKET OVERVIEW

In South Africa, a strong resurgence of the Coronavirus locally led to stricter lockdowns, but global risk-on investor sentiment prevailed, putting the local bourse in positive territory for the year. SA GDP growth for Q3 2020 surprised to the upside at 13.5% q/q (66.1% annualised) compared to the 13.1% expected, and Q4 consumer confidence recovered to -12 pts from -23 pts in the third quarter. The South African Reserve Bank (SARB) left the repo rate unchanged at 3.5% during its November meeting, stating that further easing was unlikely in the near term but hinting at increases in Q3 and Q4 of 2021. The central bank is now projecting an 8.0% contraction in the economy for 2020, improving to 3.5% growth in 2021 and a 2.4% expansion in 2022. Inflation also remained subdued, with headline CPI slowing to 3.2% y/y in November from 3.3% y/y in October.

The FTSE/JSE All Share Index delivered 9.8% in Q4, led by strong gains in Listed Property and Financials. This meant that the ALSI ended 2020 in positive territory, returning 7.0% after losing 30% at its low in mid-March. For the quarter, Listed Property (SAPY Index) was the star performer, returning 22.2%, while Resources shares (J258 Index) delivered 8.3%, Financials (J580 Index) produced 19.5% and Industrials (J257 Index) returned 7.4%.

For 2020 as a whole, the JSE's offshore-focused sectors produced the strongest returns, with Resources at 21.2% and Industrials at 12.0%. Locally-oriented sectors were in the red as Financials delivered -19.7% for the 12 months and Listed Property -34.5%.

PERFORMANCE

The fund delivered a return of 12.0% (net of fees) for the fourth quarter of 2020, outperforming its benchmark by 0.5%. For the 12 months ending 31 December 2020, the fund returned -4.1% (net of fees), underperforming its benchmark by 4.7%.

The largest contributor to performance for the quarter was our underweight position to the gold sector. We have consistently been underweight to the gold sector in the fund, mainly due to the very poor cash flows generated by gold companies and consequently the very poor dividend growth that gold companies have exhibited over a long period of time. While we are cognisant that low real interest rates in the US provide some support for the gold price, we also observe that US interest rates have been rising over the last six months. These rising interest rates are likely to be a headwind to the gold price, as the opportunity cost to holding gold has been rising. Our underweight positions to Anglogold and Goldfields specifically helped performance this quarter.

Our second largest contributor to performance for the quarter was our overweight position to the Multichoice Group. Multichoice is the dominant Pay-TV operator in sub-Saharan Africa, and its South African business has demonstrated exceptionally strong and stable cash generation. We rate the South African business highly and think that it will continue to generate strong and growing cash flows into the future. The subsidiaries of Multichoice in the rest of Africa have been making losses, however, largely due to unfavourable currency moves. The company is addressing these losses by lowering costs through a number of initiatives. We find the valuation of this company very compelling, as we think that over the medium term the company will be able to return the businesses in the rest of Africa back to profitability, and we do not think that we are paying for these businesses in the current valuation. Over the last quarter, we also witnessed Canal+, owned by Vivendi, starting to acquire shares in Multichoice. They have managed to buy a 12% stake in the company and clearly also see value in it. Canal+ operate the dominant Pay-TV operator in French-speaking Africa.

We have commented before that we continue to find very good value in the banking sector, and for this reason we have one of our larger sector overweights to this sector. While the COVID-19 shutdown resulted in significant concern around the potential for higher bad debts in the banking sector, we think that the associated share price falls have provided a substantial margin of safety. During the last quarter, three of our larger bank overweight positions contributed to outperformance. Our overweight position to ABSA Group, Investec and Standard Bank more than offset our underweight to Firstrand and Capitec. Our preference for ABSA, Investec and Standard Bank over the other banks is informed by the relative value that we see in the sector. While we rate Firstrand and Capitec more highly in terms of quality, we cannot ignore that that they are substantially more highly priced/rated than other banks in the sector.

Most certainly, the major South African banks have gone into this crisis with very strong provisioning and capital positions and we think that these buffers place them in a good position to absorb significant potential losses which may arise from the impact of the Coronavirus. As we write, the Price-to-Book valuations of the SA banks are at exceptionally low levels, and in our view are pricing in a very negative outcome from the Coronavirus. On balance, we think that this may be a very good point to be buying banks.

While Impala Platinum, which the fund owns in an overweight position, contributed strongly for the quarter, this outperformance was offset by another platinum and palladium company, Sibanye Stillwater, which is benefiting even more from the de-risking of their businesses. 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 a long period of time, as it would mean a slow death of 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 and Sibanye Stillwater have recently seen very strong price performance as the risk associated with their debt levels has disappeared.

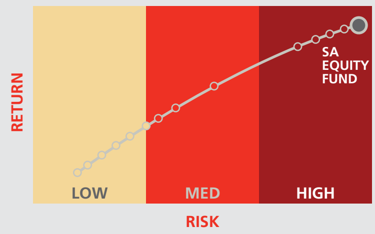
The fund has invested more heavily in those platinum companies such as Impala Platinum and Anglo-American Platinum (Amplats) where the balance sheets have in general been stronger. While we are very cognisant of the high margins that companies are currently earning, we do not think that platinum companies are overvalued and so we continue to hold a neutral to slightly overweight position in the sector.

Sibanye Stillwater was the third largest detractor from performance after British American Tobacco (BAT) and Capitec for the quarter.

ANNUALISED PERFORMANCE	B CLASS	BENCHMARK*	F CLASS
1 year	-3.0%	0.6%	-4.1%
3 years	-2.0%	-1.5%	-3.1%
5 years	3.0%	3.1%	n/a
7 years	4.6%	4.5%	n/a
10 years	8.8%	7.9%	n/a
Since inception	14.3%	12.8%	1.7%

* 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

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:
R26 339 630 806

Sources: Prudential & Morningstar

Our overweight position in BAT was the largest 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% and we expect this dividend 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 continue to fund investment into next generation low-risk 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 lagged the strong market and sentiment improvement over the last quarter.

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

STRATEGY AND POSITIONING

We remain optimistic regarding SA equity market returns over the medium term due to the prevailing excessive levels of pessimism reflected in share prices and valuations. Going into the Coronavirus pandemic, the South African market in our view was already undervalued, and has fallen to levels which we think are exceptionally attractive. The Price-to-Book value of the JSE remains close to 1.6X at the end of December 2020. We also note that within the SA market, many commodity companies are experiencing a substantial upgrade in their revenue and earnings, as the prices of platinum group metals and iron ore continue to move strongly upward. These strong commodity prices are not only helpful to the companies mining them, but are also broadly helpful to the South African economy.

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 downgrades. 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.

On market valuations, we currently view the market in South Africa along with many other emerging markets as being very undervalued. While the Coronavirus 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 the pandemic on banking clients were being determined.

The focus of the fund continues to be on finding companies that are undervalued and which can grow earnings and dividends over the long run. ■

Sources: Prudential & Morningstar

PRUDENTIAL GLOBAL BOND FEEDER FUND
31 DECEMBER 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL INCOME

MARKET OVERVIEW

Despite the global pandemic and financial crisis of 2020, it proved to be a surprisingly good year for many investors based solely on the total returns recorded by many different asset classes around the world. The fourth quarter ended on a very buoyant note in financial markets, as investors shrugged off the rising second and third waves of Coronavirus infections and bought up riskier assets, pushing many equity markets to record highs. Investor sentiment was boosted largely by the development and initial rollouts of effective vaccines across large economies like the US, UK, EU, Russia and China, and the election of Democrat Joe Biden as US President. Late December also saw the US Congress' agreement of a fourth stimulus package and the UK and EU's finalisation of a Brexit deal, among other factors.

In the US, investors took heart from President-Elect Joe Biden's Cabinet choices, which partly signalled a return to "safe" Obama-era policies and a vigorous stance on combatting the pandemic. The passage of another round of fiscal stimulus measures, combined with the start of vaccinations country-wide, led many to expect a faster economic recovery.

In the UK and EU, news was dominated by the approval of effective Covid-19 vaccines and the start of their distribution in both regions. In the last week of the year, the conclusion of a last-minute Brexit deal after over four years of negotiations also lifted stock markets. In the UK, lockdown restrictions were tightened sharply as a new, more infectious variant of Covid-19 was identified, while many EU countries also introduced various new tightening measures.

Finally, the rand gained good ground against all three major global currencies during the quarter due to ongoing US dollar weakness and the stronger appetite for risk assets, hitting around R14.6/USD in December and near levels last seen in early 2020. The local currency was up 12.3% against the US dollar, 7.3% versus the pound sterling and 8.2% against the euro. Over 2020, the rand depreciated versus the three currencies, losing 4.6% against the US dollar, 8.1% versus the pound sterling and 14.4% against the euro.

PERFORMANCE

For SA investors, the rand's sharp appreciation against a weaker US dollar dented offshore investment returns. The fund returned -7.3% (net of fees) in rand for the fourth quarter of 2020, outperforming its benchmark by 2.1%. For the 12 months ending 31 December 2020, the fund returned 14.2% (net of fees) on par with the benchmark.

Contributors to absolute performance over 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 (US dollar, euro, sterling). Exposure to US Treasuries (which the fund held for duration management purposes) was the main detractor from absolute performance over the period.

STRATEGY AND POSITIONING

The fund's positioning continues to reflect our preference for selected areas of investment grade credit, and emerging market government bonds, both local (e.g. South African bonds) and hard currency.

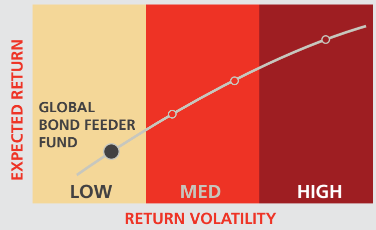
During the quarter, we reduced our exposure to high yield credit as spreads had tightened materially. We increased the fund's exposure to the US dollar, while reducing the underweight exposure to the Chinese renminbi. We also added exposure to the Turkish lira, following its return to a more orthodox monetary policy, and owing to an attractive price and level of carry.

We remain highly active within the global bond asset class, seeking positive bets on emerging market government bonds, hard currency and soft currency investment grade corporate 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, 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 other mainstream government bond curves. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	14.2%	14.2%	14.6%
3 years	10.4%	11.1%	n/a
5 years	3.5%	3.6%	n/a
7 years	7.1%	8.0%	n/a
10 years	11.6%	11.3%	n/a
Since inception	8.6%	8.7%	12.1%

Inception date B Class: 2 July 2018

RISK/RETURN PROFILE:



INVESTMENT MANAGER OF THE UNDERLYING FUND:
M&G Investment Management Limited (UK)

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

ASISA CATEGORY:
Global - Interest Beating - Variable Term

BENCHMARK:
Bloomberg Barclays Global Aggregate Bond Index

INCEPTION DATE:
27 October 2000

FUND SIZE:
R568 533 918

Sources: Prudential & Morningstar

PRUDENTIAL GLOBAL INFLATION PLUS FEEDER FUND
31 DECEMBER 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL MULTI-ASSET

MARKET OVERVIEW

Despite the global pandemic and financial crisis of 2020, it proved to be a surprisingly good year for many investors based solely on the total returns recorded by many different asset classes around the world. The fourth quarter ended on a very buoyant note in financial markets, as investors shrugged off the rising second and third waves of Coronavirus infections and bought up riskier assets, pushing many equity markets to record highs. Investor sentiment was boosted largely by the development and initial rollouts of effective vaccines across large economies like the US, UK, EU, Russia and China, and the election of Democrat Joe Biden as US President. Late December also saw the US Congress' agreement of a fourth stimulus package and the UK and EU's finalisation of a Brexit deal, among other factors.

In US$ terms, global equities (the MSCI All Country World Index) returned a strong 14.7% for the quarter, with developed market returns lagging emerging markets at 14.0% and 19.7%, respectively. Global property, meanwhile, posted a significant Q4 rebound with a 13.6% return, but ended the year as the weakest asset class with a return of -11.4%. As in the third quarter, central banks kept interest rates broadly unchanged at very low, accommodative levels, and governments continued to enact fiscal support packages for consumers and businesses.

In the US, investors took heart from President-Elect Joe Biden's Cabinet choices, which partly signalled a return to "safe" Obama-era policies and a vigorous stance on combatting the pandemic. The passage of another round of fiscal stimulus measures, combined with the start of vaccinations country-wide, led many to expect a faster economic recovery.

In the UK and EU, news was dominated by the approval of effective Covid-19 vaccines and the start of their distribution in both regions. In the last week of the year, the conclusion of a last-minute Brexit deal after over four years of negotiations also lifted stock markets. In the UK, lockdown restrictions were tightened sharply as a new, more infectious variant of Covid-19 was identified, while many EU countries also introduced various new tightening measures.

Asian bourses hit record highs in December amid optimism over the new vaccines, as well as accelerating growth in the region on the back of recoveries in consumer demand and business activity. There were even gains for Hong Kong's Hang Seng despite harsh jail sentences given to several high-profile pro-democracy activists under the territory's new security laws. These new laws, introduced earlier in the year, helped keep equity returns for 2020 nearly flat as investors feared further negative repercussions for business activity.

Finally, the rand gained good ground against all three major global currencies during the quarter due to ongoing US dollar weakness and the stronger appetite for risk assets, hitting around R14.6/USD in December and near levels last seen in early 2020. The local currency was up 12.3% against the US dollar, 7.3% versus the pound sterling and 8.2% against the euro. Over 2020, the rand depreciated versus the three currencies, losing 4.6% against the US dollar, 8.1% versus the pound sterling and 14.4% against the euro.

PERFORMANCE

For SA investors, the rand's sharp appreciation against a weaker US dollar dented offshore investment returns. The fund returned -4.0% (net of fees) in rand for the fourth quarter of 2020, while global inflation expressed in rand measured -12.4%. For the 12 months ending 31 December 2020, the fund returned 11.4% (net of fees) while global inflation measured 5.2%.

Contributors to absolute performance over the quarter came from the fund's exposure to US, Japanese and European equities, US dollar and European investment grade corporate bonds, emerging market hard currency bonds, as well as property. Exposure to US Treasuries (which the fund held for duration management purposes) was the main detractor from absolute performance over the period.

STRATEGY AND POSITIONING

The fund remains tilted in favour of corporate credit and emerging market sovereign bonds. During the quarter, we reduced our exposure to high yield credit as spreads had tightened materially. We increased the fund's exposure to the US dollar, while reducing the underweight exposure to the Chinese renminbi. We also added exposure to the Turkish lira, following its return to a more orthodox monetary policy, and owing to an attractive price and level of carry. We also made a tactical addition to the fund's equity weighting in October, when asset prices fell to what we believed were unjustifiable levels, before reversing this trade after prices recovered.

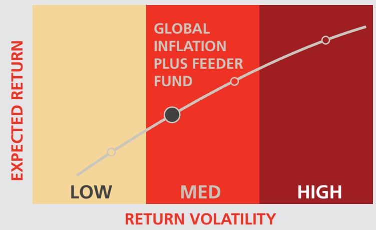
As we enter 2021, we remain focused, as ever, on the relationship between current expectations, valuations and prices, as we aim to discern where we believe the market might be making a 'mistake'. We believe that this is especially likely where there is a strong consensus; in terms of the outlook for the year, we observe that most investors expect a 'cyclical' recovery in the second half of the year, fuelled by successful vaccine rollouts. A rotation into 'value' segments of the market, which are expected to benefit from a gradual re-opening of economies, is another common theme. It is also possible that, after a year spent grappling with the pandemic and its policy responses, markets may be more vulnerable to surprises from other sources. We are therefore mindful of the potential for surprise market outcomes, and remain positioned accordingly. We 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 other mainstream government bond curves. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK*	B CLASS
1 year	11.4%	5.2%	11.8%
3 years	9.9%	5.0%	10.2%
5 years	4.1%	0.5%	4.5%
7 years	7.7%	5.5%	8.1%
10 years	11.0%	9.2%	n/a
Since inception	7.9%	6.3%	9.1%

Inception date B Class: 1 July 2013

* The Fund's benchmark changed from the ASISA Global - Multi Asset - Low Equity Category Mean to Global Inflation on 1 November 2018.

RISK/RETURN PROFILE:



INVESTMENT MANAGER OF THE UNDERLYING FUND:
M&G Investment Management Limited (UK)

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

ASISA CATEGORY:
Global - Multi-Asset - Low Equity

BENCHMARK:
Global inflation

INCEPTION DATE:
1 March 2004

FUND SIZE:
R182 536 551

Sources: Prudential & Morningstar

PRUDENTIAL GLOBAL BALANCED FEEDER FUND
31 DECEMBER 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL MULTI-ASSET

MARKET OVERVIEW

Despite the global pandemic and financial crisis of 2020, it proved to be a surprisingly good year for many investors based solely on the total returns recorded by many different asset classes around the world. The fourth quarter ended on a very buoyant note in financial markets, as investors shrugged off the rising second and third waves of Coronavirus infections and bought up riskier assets, pushing many equity markets to record highs. Investor sentiment was boosted largely by the development and initial rollouts of effective vaccines across large economies like the US, UK, EU, Russia and China, and the election of Democrat Joe Biden as US President. Late December also saw the US Congress' agreement of a fourth stimulus package and the UK and EU's finalisation of a Brexit deal, among other factors.

In US$ terms, global equities (the MSCI All Country World Index) returned a strong 14.7% for the quarter, with developed market returns lagging emerging markets at 14.0% and 19.7%, respectively. Global property, meanwhile, posted a significant Q4 rebound with a 13.6% return, but ended the year as the weakest asset class with a return of -11.4%. As in the third quarter, central banks kept interest rates broadly unchanged at very low, accommodative levels, and governments continued to enact fiscal support packages for consumers and businesses.

In the US, investors took heart from President-Elect Joe Biden's Cabinet choices, which partly signalled a return to "safe" Obama-era policies and a vigorous stance on combatting the pandemic. The passage of another round of fiscal stimulus measures, combined with the start of vaccinations country-wide, led many to expect a faster economic recovery.

In the UK and EU, news was dominated by the approval of effective Covid-19 vaccines and the start of their distribution in both regions. In the last week of the year, the conclusion of a last-minute Brexit deal after over four years of negotiations also lifted stock markets. In the UK, lockdown restrictions were tightened sharply as a new, more infectious variant of Covid-19 was identified, while many EU countries also introduced various new tightening measures.

Asian bourses hit record highs in December amid optimism over the new vaccines, as well as accelerating growth in the region on the back of recoveries in consumer demand and business activity. There were even gains for Hong Kong's Hang Seng despite harsh jail sentences given to several high-profile pro-democracy activists under the territory's new security laws. These new laws, introduced earlier in the year, helped keep equity returns for 2020 nearly flat as investors feared further negative repercussions for business activity.

Finally, the rand gained good ground against all three major global currencies during the quarter due to ongoing US dollar weakness and the stronger appetite for risk assets, hitting around R14.6/USD in December and near levels last seen in early 2020. The local currency was up 12.3% against the US dollar, 7.3% versus the pound sterling and 8.2% against the euro. Over 2020, the rand depreciated versus the three currencies, losing 4.6% against the US dollar, 8.1% versus the pound sterling and 14.4% against the euro.

PERFORMANCE

For SA investors, the rand's sharp appreciation against a weaker US dollar dented offshore investment returns. The fund returned -1.1% (net of fees) in rand for the fourth quarter of 2020, outperforming its benchmark by 1.6%. For the 12 months ending 31 December 2020, the fund returned 10.4% (net of fees) while its benchmark returned 18.3%.

Contributors to absolute performance over the quarter came from the fund's broad exposure to global equities (particularly from the US), European corporate bonds and emerging market hard currency government bonds as well as property. Exposure to US Treasuries (which the fund held for duration management purposes) was the main detractor from absolute performance over the period.

STRATEGY AND POSITIONING

The fund continues to have a clear preference for equities over government bonds, particularly underweight to Japanese and European government bonds. We are constructive on emerging market hard currency and local debt, both government and corporate exposure.

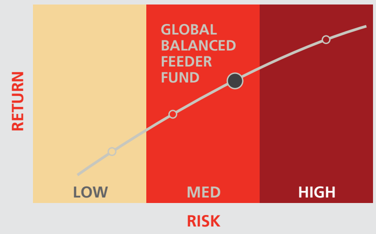
During the quarter, we took advantage of a significant sell-off to increase exposure to US Treasuries, and reduced our exposure to high yield credit as spreads had tightened materially. We increased the fund's exposure to the US dollar, while reducing the underweight exposure to the Chinese renminbi. We also added exposure to the Turkish lira, following its return to a more orthodox monetary policy, and owing to an attractive price and level of carry. We also made a tactical addition to the fund's equity weighting in October, when asset prices fell to what we believed were unjustifiable levels, before reversing this trade after prices recovered.

As we enter 2021, we remain focused, as ever, on the relationship between current expectations, valuations and prices, as we aim to discern where we believe the market might be making a 'mistake'. We believe that this is especially likely where there is a strong consensus; in terms of the outlook for the year, we observe that most investors expect a 'cyclical' recovery in the second half of the year, fueled by successful vaccine rollouts. A rotation into 'value' segments of the market, which are expected to benefit from a gradual re-opening of economies, is another common theme. It is also possible that, after a year spent grappling with the pandemic and its policy responses, markets may be more vulnerable to surprises from other sources. We are therefore mindful of the potential for surprise market outcomes, and remain positioned accordingly. We 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 other mainstream government bond curves. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	10.4%	18.3%	10.4%
2 years	13.1%	17.6%	13.1%
Since inception	8.2%	13.2%	8.2%

Inception date B Class: 28 June 2018

RISK/RETURN PROFILE:



INVESTMENT MANAGER OF THE UNDERLYING FUND:
M&G Investment Management Limited (UK)

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

ASISA CATEGORY:
Global - Multi Asset - High Equity

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

INCEPTION DATE:
28 June 2018

FUND SIZE:
R26 025 763

Sources: Prudential & Morningstar

PRUDENTIAL GLOBAL BALANCED FEEDER FUND
31 DECEMBER 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL MULTI-ASSET

MARKET OVERVIEW

Despite the global pandemic and financial crisis of 2020, it proved to be a surprisingly good year for many investors based solely on the total returns recorded by many different asset classes around the world. The fourth quarter ended on a very buoyant note in financial markets, as investors shrugged off the rising second and third waves of Coronavirus infections and bought up riskier assets, pushing many equity markets to record highs. Investor sentiment was boosted largely by the development and initial rollouts of effective vaccines across large economies like the US, UK, EU, Russia and China, and the election of Democrat Joe Biden as US President. Late December also saw the US Congress' agreement of a fourth stimulus package and the UK and EU's finalisation of a Brexit deal, among other factors.

In US$ terms, global equities (the MSCI All Country World Index) returned a strong 14.7% for the quarter, with developed market returns lagging emerging markets at 14.0% and 19.7%, respectively. Global property, meanwhile, posted a significant Q4 rebound with a 13.6% return, but ended the year as the weakest asset class with a return of -11.4%. As in the third quarter, central banks kept interest rates broadly unchanged at very low, accommodative levels, and governments continued to enact fiscal support packages for consumers and businesses.

In the US, investors took heart from President-Elect Joe Biden's Cabinet choices, which partly signalled a return to "safe" Obama-era policies and a vigorous stance on combatting the pandemic. The passage of another round of fiscal stimulus measures, combined with the start of vaccinations country-wide, led many to expect a faster economic recovery.

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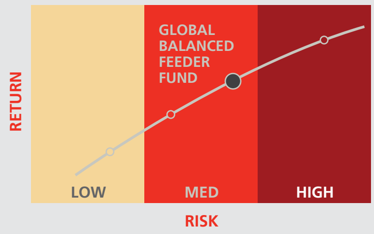
Inception date B Class: 28 June 2018

RISK/RETURN PROFILE:



INVESTMENT MANAGER OF THE UNDERLYING FUND:
M&G Investment Management Limited (UK)

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

ASISA CATEGORY:
Global - Multi Asset - High Equity

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

INCEPTION DATE:
28 June 2018

FUND SIZE:
R26 025 763

Sources: Prudential & Morningstar

PRUDENTIAL GLOBAL EQUITY FEEDER FUND
31 DECEMBER 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL EQUITY

MARKET OVERVIEW

Despite the global pandemic and financial crisis of 2020, it proved to be a surprisingly good year for many investors based solely on the total returns recorded by many different asset classes around the world. The fourth quarter ended on a very buoyant note in financial markets, as investors shrugged off the rising second and third waves of Coronavirus infections and bought up riskier assets, pushing many equity markets to record highs. Investor sentiment was boosted largely by the development and initial rollouts of effective vaccines across large economies like the US, UK, EU, Russia and China, and the election of Democrat Joe Biden as US President. Late December also saw the US Congress' agreement of a fourth stimulus package and the UK and EU's finalisation of a Brexit deal, among other factors.

In US$ terms, global equities (the MSCI All Country World Index) returned a strong 14.7% for the quarter, with developed market returns lagging emerging markets at 14.0% and 19.7%, respectively. Global property, meanwhile, posted a significant Q4 rebound with a 13.6% return, but ended the year as the weakest asset class with a return of -11.4%. As in the third quarter, central banks kept interest rates broadly unchanged at very low, accommodative levels, and governments continued to enact fiscal support packages for consumers and businesses.

In the US, investors took heart from President-Elect Joe Biden's Cabinet choices, which partly signalled a return to "safe" Obama-era policies and a vigorous stance on combatting the pandemic. The passage of another round of fiscal stimulus measures, combined with the start of vaccinations country-wide, led many to expect a faster economic recovery.

In the UK and EU, news was dominated by the approval of effective Covid-19 vaccines and the start of their distribution in both regions. In the last week of the year, the conclusion of a last-minute Brexit deal after over four years of negotiations also lifted stock markets. In the UK, lockdown restrictions were tightened sharply as a new, more infectious variant of Covid-19 was identified, while many EU countries also introduced various new tightening measures.

Asian bourses hit record highs in December amid optimism over the new vaccines, as well as accelerating growth in the region on the back of recoveries in consumer demand and business activity. There were even gains for Hong Kong's Hang Seng despite harsh jail sentences given to several high-profile pro-democracy activists under the territory's new security laws. These new laws, introduced earlier in the year, helped keep equity returns for 2020 nearly flat as investors feared further negative repercussions for business activity.

Finally, the rand gained good ground against all three major global currencies during the quarter due to ongoing US dollar weakness and the stronger appetite for risk assets, hitting around R14.6/USD in December and near levels last seen in early 2020. The local currency was up 12.3% against the US dollar, 7.3% versus the pound sterling and 8.2% against the euro. Over 2020, the rand depreciated versus the three currencies, losing 4.6% against the US dollar, 8.1% versus the pound sterling and 14.4% against the euro.

PERFORMANCE

For SA investors, the rand's sharp appreciation against a weaker US dollar dented offshore investment returns. The fund returned 1.5% (net of fees) in rand for the fourth quarter of 2020, outperforming its benchmark by 0.9%. For the 12 months ending 31 December 2020, the fund returned 15.8% (net of fees) while its benchmark returned 21.6%.

The fund outperformed its benchmark on 37 of 66 days, offering a hit rate for the entire quarter of around 56%, which resulted in the outperformance of the fund over the period. Style had a positive contribution over the quarter, with exposure to smaller companies more than compensating the performance drag from being exposed to stocks with high momentum.

STRATEGY AND POSITIONING

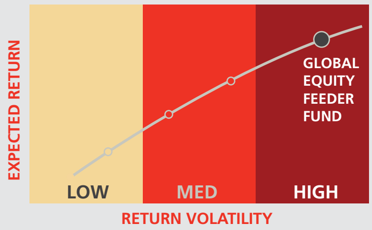
The portion of the fund managed using its proprietary machine learning model is approximately 80%, with the balance of approximately 20% remaining in strategic ETFs. The ETF allocation is primarily used for liquidity purposes and is expected to fall over time. At the factor level, the fund currently exhibits positive active exposure to momentum and smaller cap companies, while being relative neutral to value.

As we enter 2021, we remain focused, as ever, on the relationship between current expectations, valuations and prices, as we aim to discern where we believe the market might be making a 'mistake'. We believe that this is especially likely where there is a strong consensus; in terms of the outlook for the year, we observe that most investors expect a 'cyclical' recovery in the second half of the year, fuelled by successful vaccine rollouts. A rotation into 'value' segments of the market, which are expected to benefit from a gradual re-opening of economies, is another common theme. It is also possible that, after a year spent grappling with the pandemic and its policy responses, markets may be more vulnerable to surprises from other sources. We are therefore mindful of the potential for surprise market outcomes, and remain positioned accordingly, retaining our focus on diversified equities. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	15.8%	21.6%	16.2%
3 years	11.6%	16.6%	n/a
5 years	8.1%	11.0%	n/a
7 years	11.3%	14.1%	n/a
10 years	15.2%	18.1%	n/a
Since inception	7.5%	9.3%	12.4%

Inception date B Class: 2 July 2018

RISK/RETURN PROFILE:



INVESTMENT MANAGER OF THE UNDERLYING FUND:
M&G Investment Management Limited (UK)

FUND MANAGERS OF THE UNDERLYING FUND:
Marc Beckenstrater and Gautam Samarth

ASISA CATEGORY:
Global - Equity - General

BENCHMARK:
MSCI All Country World Index (Net)

INCEPTION DATE:
18 February 2000

FUND SIZE:
R367 718 223

Sources: Prudential & Morningstar

PRUDENTIAL 2.5% TARGET INCOME FUND
31 DECEMBER 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

TARGET INCOME

MARKET OVERVIEW

Despite the global pandemic and financial crisis of 2020, it proved to be a surprisingly good year for many investors based solely on the total returns recorded by many different asset classes around the world. The fourth quarter ended on a very buoyant note, as investors shrugged off the rising second and third waves of Coronavirus infections and bought up riskier assets, pushing many equity markets to record highs. Investor sentiment was boosted largely by the development and initial rollouts of effective vaccines across large economies like the US, UK, EU, Russia and China, and the election of Democrat Joe Biden as US President. Late December also saw the US Congress' agreement of a fourth stimulus package and the UK and EU's finalisation of a Brexit deal, among other factors. South African equities were carried along by the bullish mood despite the imposition of tighter lockdown conditions, helping the FTSE/JSE All Share Index to end in positive territory for the year (up 7.0% in rand terms).

In US$ terms, global equities (the MSCI All Country World Index) returned a strong 14.7% for the quarter, with developed market returns lagging emerging markets at 14.0% and 19.7%, respectively. For SA investors, the rand's 12.3% appreciation against a weaker US dollar dented offshore investment returns. Global bonds delivered 3.3% for the quarter, culminating in a surprisingly robust 9.2% return for 2020. And finally, global property posted a significant Q4 rebound with a 13.6% return, but ended the year as the weakest asset class with a return of -11.4%. As in the third quarter, central banks kept interest rates broadly unchanged at very low, accommodative levels, and governments continued to enact fiscal support packages for consumers and businesses.

In the US, investors took heart from President-Elect Joe Biden's Cabinet choices, which partly signalled a return to "safe" Obama-era policies and a vigorous stance on combatting the pandemic. The passage of another round of fiscal stimulus measures, combined with the start of vaccinations country-wide, led many to expect a faster economic recovery.

US equity markets hit fresh record highs in December as the S&P 500 returned 12.2% for the quarter and 18.4% for the year as a whole, while the Dow Jones Industrial 30 delivered 10.7% and 9.7%, respectively, and the technology-heavy Nasdaq 100 produced 13.1% for the quarter and a stunning 48.9% in 2020 (all in US$).

In the UK and EU, news was dominated by the approval of effective Covid-19 vaccines and the start of their distribution in both regions. In the last week of the year, the conclusion of a last-minute Brexit deal after over four years of negotiations also lifted stock markets. In the UK, lockdown restrictions were tightened sharply as a new, more infectious variant of Covid-19 was identified, while many EU countries also introduced various new tightening measures.

For the quarter, the UK's FTSE 100 returned 17.2%, the German DAX 12.7% and France's CAC 40 12.8% (in US$). For 2020, the FTSE 100 badly underperformed its regional counterparts due to the more detrimental impact of Covid-19 in that country and the uncertainty over a no-deal Brexit. UK stocks ended the year in the red with a -8.7% return, while the German bourse delivered 13.7% and French stocks produced 3.6%.

Asian bourses hit record highs in December amid optimism over the new vaccines, as well as accelerating growth in the region on the back of recoveries in consumer demand and business activity. There were even gains for Hong Kong's Hang Seng despite harsh jail sentences given to several high-profile pro-democracy activists under the territory's new security laws. These new laws, introduced earlier in the year, helped keep equity returns for 2020 nearly flat as investors feared further negative repercussions for business activity.

In the fourth quarter, Japan's Nikkei 225 delivered 21.2%, the MSCI China 11.2% and Hong Kong's Hang Seng 16.2% (in US$). For 2020 as a whole, the Nikkei returned 24.5% and the MSCI China 29.7%, while Hong Kong stocks were subdued with a marginally positive 0.2% return.

Among other large emerging equity markets, in US$ terms South Korea's KOSPI was the strongest performer at 35.4%, followed by the MSCI Turkey with 30.3%, the MSCI South Africa with 22.2%, the MSCI Russia with 22.0% and the MSCI India with 21.2%. For the year, it was the South Korean market that came out on top with a 41.1% return in 2020, and the MSCI China also performed strongly with 29.7%. In in US$ terms for the year. The Turkish, South African and Russian markets were in the red, with annual returns of -8.6%, -3.5% and -11.6%, respectively (all in US$).

The spot price of Brent crude oil closed 26.5% higher from the previous quarter at around US$52 per barrel, propelled higher by expectations of a quicker and stronger recovery in global growth. The gold price rose only 0.3% in Q4 as risk-aversion abated during Q4, but still posted a total gain of 24.3% for the year. Platinum and palladium gained ground over the three months, up 23.0% and 1.9%, respectively. Industrial metals also gained strongly in the last quarter of the year on growth optimism, with copper up 17.1%, aluminium 13.9% higher, nickel rising 15.0% and zinc 12.9% higher.

SA buoyed by risk-on sentiment

In South Africa, a strong resurgence of the Coronavirus locally led to stricter lockdowns, but global risk-on investor sentiment prevailed, putting the local bourse in positive territory for the year. SA GDP growth for Q3 2020 surprised to the upside at 13.5% q/q (66.1% annualised) compared to the 13.1% expected, and Q4 consumer confidence recovered to -12 pts from -23 pts in the third quarter. The South African Reserve Bank (SARB) left the repo rate unchanged at 3.5% during its November meeting, stating that further easing was unlikely in the near term but hinting at increases in Q3 and Q4 of 2021. The central bank is now projecting an 8.0% contraction in the economy for 2020, improving to 3.5% growth in 2021 and a 2.4% expansion in 2022. Inflation also remained subdued, with headline CPI slowing to 3.2% y/y in November from 3.3% y/y in October.

On the credit ratings front, Moody's and Fitch both downgraded SA's sovereign credit rating further into "junk" territory. Moody's lowered the country's rating to Ba2 from Ba1 with a negative outlook, citing further weakening in the country's fiscal strength over the medium term as a main trigger, while Fitch cut the sovereign credit rating to BB- from BB and assigned a negative outlook, citing high and rising government debt as a main trigger behind the cut. Standard & Poor's maintained its credit rating for South Africa at BB- with a stable outlook.

The BEASSA All Bond Index (ALBI) managed to deliver an impressive 6.7% return in Q4 2020, boosted by foreign investors tempted by South Africa's relatively high yields. Bonds in the 1-3 year maturities lagged longer-dated bonds, flattening the yield curve and partly reversing the trend seen in the earlier part of the year. For 2020 as a whole, the ALBI returned 8.7%. SA inflation-linked bonds returned 5.4% for the quarter and 4.2% for 2020, and cash (as measured by the STeFI Composite) produced 1.0% for the three-month period and 5.4% during 2020.

The FTSE/JSE All Share Index delivered 9.8% in Q4, led by strong gains in Listed Property and Financials. This meant that the ALSI ended 2020 in positive territory, returning 7.0% after losing 30% at its low in mid-March. For the quarter, Listed Property (SAPY Index) was the star performer, returning 22.2%, while Resources shares (J258 Index) delivered 8.3%, Financials (J580 Index) produced 19.5% and Industrials (J257 Index) returned 7.4%.

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:
R91 664 537

ANNUALISED PERFORMANCE	A CLASS	CPI	B CLASS
1 year	-1.3%	3.2%	-0.9%
Since inception	-2.1%	3.3%	-0.5%

Inception date: B Class: 2 April 2019

Sources: Prudential & Morningstar

For 2020 as a whole, the JSE's offshore-focused sectors produced the strongest returns, with Resources at 21.2% and Industrials at 12.0%. Locally-oriented sectors were in the red as Financials delivered -19.7% for the 12 months and Listed Property -34.5%.

Finally, the rand gained good ground against all three major global currencies during the quarter due to ongoing US dollar weakness and the stronger appetite for risk assets, hitting around R14.6/USD in December and near levels last seen in early 2020. The local currency was up 12.3% against the US dollar, 7.3% versus the pound sterling and 8.2% against the euro. Over 2020, the rand depreciated versus the three currencies, losing 4.6% against the US dollar, 8.1% versus the pound sterling and 14.4% against the euro.

PERFORMANCE

The Prudential 2.5% Target Income Fund returned 7.8% (after fees) for the fourth quarter of 2020 and -1.3% for the 12-month period ending 31 December 2020. The largest asset-class contributors to the fund's absolute performance for the quarter were its exposure to SA equities, SA bonds, and SA listed property, as global asset returns were hurt by rand appreciation. Holdings in global bonds detracted the most from value.

In terms of specific equity exposure, among the strongest equity contributors to absolute returns for the quarter were the fund's holdings in resources stocks like Implats and Anglo American, as well as SA banks including Absa, Standard Bank, FirstRand and Investec, plus Multichoice. The main detractors from absolute returns were holdings in Gold Fields, British American Tobacco and Anglogold Ashanti.

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 3% is in SA listed property, 10% in SA nominal bonds and 5% in SA cash. The equity allocation remains the primary driver of returns.

Starting with our view on **offshore asset allocation**, during the quarter we added to our US dollar exposure in the fund, selling rand as the rand strengthened against the greenback from around R16.7/US$ to around R14.7/US$ over the three months. This helped to further reduce SA-specific risks and added to portfolio diversification. Otherwise we remained slightly overweight global equities.

Within our global equity positioning, as US equities remained expensive compared to other markets in Q4, our portfolios continue to be underweight the 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**, although during the quarter we added to our holding in 30-year US Treasury bonds as the yield rose, a position we first took in Q2. We are overweight US and European **investment-grade corporate bonds and selected emerging-market government bonds**, which offer much more 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 1.6X at the end of December, up from around 1.4X at the beginning of the quarter, but still very attractive compared to the 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 added to portfolio value in 2020. We have also maintained our overweight in the local banking sector, with exposures to Absa, Standard Bank and Investec given the attractive valuations they offer. Banking stocks rallied strongly in the fourth quarter as the outlook for the economy and consumer financial health improved markedly.

We have kept our substantially underweight positioning in **SA listed property** in Q4. 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, 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 even as bonds rallied. As of 31 December, 10-year government bonds yields were still elevated compared to their history, offering around 9.1% compared to 9.6% at the start of the quarter, and equating to an after-inflation (real) yield of around 4.1% (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.

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

PRUDENTIAL 5% TARGET INCOME FUND
31 DECEMBER 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

TARGET INCOME

MARKET OVERVIEW

Despite the global pandemic and financial crisis of 2020, it proved to be a surprisingly good year for many investors based solely on the total returns recorded by many different asset classes around the world. The fourth quarter ended on a very buoyant note in financial markets, as investors shrugged off the rising second and third waves of Coronavirus infections and bought up riskier assets, pushing many equity markets to record highs. Investor sentiment was boosted largely by the development and initial rollouts of effective vaccines across large economies like the US, UK, EU, Russia and China, and the election of Democrat Joe Biden as US President. Late December also saw the US Congress' agreement of a fourth stimulus package and the UK and EU's finalisation of a Brexit deal, among other factors. South African equities were carried along by the bullish mood despite the imposition of tighter lockdown conditions, helping the FTSE/JSE All Share Index to end in positive territory for the year (up 7.0% in rand terms).

In US$ terms, global equities (the MSCI All Country World Index) returned a strong 14.7% for the quarter, with developed market returns lagging emerging markets at 14.0% and 19.7%, respectively. For SA investors, the rand's 12.3% appreciation against a weaker US dollar dented offshore investment returns. Global bonds delivered 3.3% for the quarter, culminating in a surprisingly robust 9.2% return for 2020. And finally, global property posted a significant Q4 rebound with a 13.6% return, but ended the year as the weakest asset class with a return of -11.4%. As in the third quarter, central banks kept interest rates broadly unchanged at very low, accommodative levels, and governments continued to enact fiscal support packages for consumers and businesses.

In the US, investors took heart from President-Elect Joe Biden's Cabinet choices, which partly signalled a return to "safe" Obama-era policies and a vigorous stance on combatting the pandemic. The passage of another round of fiscal stimulus measures, combined with the start of vaccinations country-wide, led many to expect a faster economic recovery.

US equity markets hit fresh record highs in December as the S&P 500 returned 12.2% for the quarter and 18.4% for the year as a whole, while the Dow Jones Industrial 30 delivered 10.7% and 9.7%, respectively, and the technology-heavy Nasdaq 100 produced 13.1% for the quarter and a stunning 48.9% in 2020 (all in US$).

In the UK and EU, news was dominated by the approval of effective Covid-19 vaccines and the start of their distribution in both regions. In the last week of the year, the conclusion of a last-minute Brexit deal after over four years of negotiations also lifted stock markets. In the UK, lockdown restrictions were tightened sharply as a new, more infectious variant of Covid-19 was identified, while many EU countries also introduced various new tightening measures.

For the quarter, the UK's FTSE 100 returned 17.2%, the German DAX 12.7% and France's CAC 40 12.8% (in US$). For 2020, the FTSE 100 badly underperformed its regional counterparts due to the more detrimental impact of Covid-19 in that country and the uncertainty over a no-deal Brexit. UK stocks ended the year in the red with a -8.7% return, while the German bourse delivered 13.7% and French stocks produced 3.6%.

Asian bourses hit record highs in December amid optimism over the new vaccines, as well as accelerating growth in the region on the back of recoveries in consumer demand and business activity. There were even gains for Hong Kong's Hang Seng despite harsh jail sentences given to several high-profile pro-democracy activists under the territory's new security laws. These new laws, introduced earlier in the year, helped keep equity returns for 2020 nearly flat as investors feared further negative repercussions for business activity.

In the fourth quarter, Japan's Nikkei 225 delivered 21.2%, the MSCI China 11.2% and Hong Kong's Hang Seng 16.2% (in US$). For 2020 as a whole, the Nikkei returned 24.5% and the MSCI China 29.7%, while Hong Kong stocks were subdued with a marginally positive 0.2% return.

Among other large emerging equity markets, in US$ terms South Korea's KOSPI was the strongest performer at 35.4%, followed by the MSCI Turkey with 30.3%, the MSCI South Africa with 22.2%, the MSCI Russia with 22.0% and the MSCI India with 21.2%. For the year, it was the South Korean market that came out on top with a 41.1% return in 2020, and the MSCI China also performed strongly with 29.7%. In in US$ terms for the year. The Turkish, South African and Russian markets were in the red, with annual returns of -8.6%, -3.5% and -11.6%, respectively (all in US$).

The spot price of Brent crude oil closed 26.5% higher from the previous quarter at around US$52 per barrel, propelled higher by expectations of a quicker and stronger recovery in global growth. The gold price rose only 0.3% in Q4 as risk-aversion abated during Q4, but still posted a total gain of 24.3% for the year. Platinum and palladium gained ground over the three months, up 23.0% and 1.9%, respectively. Industrial metals also gained strongly in the last quarter of the year on growth optimism, with copper up 17.1%, aluminium 13.9% higher, nickel rising 15.0% and zinc 12.9% higher.

SA buoyed by risk-on sentiment

In South Africa, a strong resurgence of the Coronavirus locally led to stricter lockdowns, but global risk-on investor sentiment prevailed, putting the local bourse in positive territory for the year. SA GDP growth for Q3 2020 surprised to the upside at 13.5% q/q (66.1% annualised) compared to the 13.1% expected, and Q4 consumer confidence recovered to -12 pts from -23 pts in the third quarter. The South African Reserve Bank (SARB) left the repo rate unchanged at 3.5% during its November meeting, stating that further easing was unlikely in the near term but hinting at increases in Q3 and Q4 of 2021. The central bank is now projecting an 8.0% contraction in the economy for 2020, improving to 3.5% growth in 2021 and a 2.4% expansion in 2022. Inflation also remained subdued, with headline CPI slowing to 3.2% y/y in November from 3.3% y/y in October.

On the credit ratings front, Moody's and Fitch both downgraded SA's sovereign credit rating further into "junk" territory. Moody's lowered the country's rating to Ba2 from Ba1 with a negative outlook, citing further weakening in the country's fiscal strength over the medium term as a main trigger, while Fitch cut the sovereign credit rating to BB- from BB and assigned a negative outlook, citing high and rising government debt as a main trigger behind the cut. Standard & Poor's maintained its credit rating for South Africa at BB- with a stable outlook.

The BEASSA All Bond Index (ALBI) managed to deliver an impressive 6.7% return in Q4 2020, boosted by foreign investors tempted by South Africa's relatively high yields. Bonds in the 1-3 year maturities lagged longer-dated bonds, flattening the yield curve and partly reversing the trend seen in the earlier part of the year. For 2020 as a whole, the ALBI returned 8.7%. SA inflation-linked bonds returned 5.4% for the quarter and 4.2% for 2020, and cash (as measured by the STeFI Composite) produced 1.0% for the three-month period and 5.4% during 2020.

The FTSE/JSE All Share Index delivered 9.8% in Q4, led by strong gains in Listed Property and Financials. This meant that the ALSI ended 2020 in positive territory, returning 7.0% after losing 30% at its low in mid-March. For the quarter, Listed Property (SAPY Index) was the star performer, returning 22.2%, while Resources shares (J258 Index) delivered 8.3%, Financials (J580 Index) produced 19.5% and Industrials (J257 Index) returned 7.4%.

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

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

PRIMARY OBJECTIVE:
5% Income return p.a.

INCEPTION DATE:
2 April 2019

FUND SIZE:
R194 704 948

ANNUALISED PERFORMANCE	A CLASS	CPI	B CLASS
1 year	0.8%	3.2%	1.1%
Since inception	1.7%	3.3%	2.4%

Inception date: B Class: 2 April 2019

Sources: Prudential & Morningstar

For 2020 as a whole, the JSE's offshore-focused sectors produced the strongest returns, with Resources at 21.2% and Industrials at 12.0%. Locally-oriented sectors were in the red as Financials delivered -19.7% for the 12 months and Listed Property -34.5%.

Finally, the rand gained good ground against all three major global currencies during the quarter due to ongoing US dollar weakness and the stronger appetite for risk assets, hitting around R14.6/USD in December and near levels last seen in early 2020. The local currency was up 12.3% against the US dollar, 7.3% versus the pound sterling and 8.2% against the euro. Over 2020, the rand depreciated versus the three currencies, losing 4.6% against the US dollar, 8.1% versus the pound sterling and 14.4% against the euro.

PERFORMANCE

The Prudential 5% Target Income Fund returned 5.3% (after fees) for the fourth quarter of 2020 and 0.8% for the 12-month period ending 31 December 2020. For Q4 2020, the largest asset-class contributors to the fund's absolute performance were its exposure to South African equities, SA bonds and SA listed property, while global returns were hurt by rand appreciation over the period. Global bond exposure detracted the most from absolute performance.

In terms of specific equity exposure, among the strongest equity contributors to absolute returns for the quarter were the fund's holdings in resources stocks like Implats and Anglo American, as well as SA banks including Absa, Standard Bank, FirstRand and Investec, plus Multichoice. The main detractors from absolute returns were holdings in Gold Fields and British American Tobacco.

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 34% of the portfolio is exposed to local and offshore equities, while around 5% is invested in SA listed property, 39% in SA nominal bonds and 12% in SA cash.

Starting with our view on **offshore asset allocation**, during the quarter we added to our US dollar exposure in the fund, selling rand as the rand strengthened against the greenback from around R16.7/US$ to around R14.7/US$ over the three months. This helped to further reduce SA-specific risks and added to portfolio diversification. Otherwise we remained slightly overweight global equities.

Within our global equity positioning, as US equities remained expensive compared to other markets in Q4, our portfolios continue to be underweight the 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**, although during the quarter we added to our holding in 30-year US Treasury bonds as the yield rose, a position we first took in Q2. We are overweight US and European **investment-grade corporate bonds and selected emerging-market government bonds**, which offer much more attractive real yields.

The fund maintained its overweight position in **SA equities**. SA equity valuations (as measured by the Price/Book value ratio of the FTSE/JSE Capped SWIX Index) were trading at around 1.6X at the end of December, up from around 1.4X at the beginning of the quarter, but still very attractive compared to the 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 in 2020. 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 Q4. 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 31 December, 10-year government bonds yields were still elevated compared to their history, offering around 9.1% compared to 9.6% at the start of the quarter, and equating to an after-inflation (real) yield of around 4.1% (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 kept our exposure to **SA inflation-linked bonds** during the fourth quarter of 2020, which we introduced into the fund in the previous quarter. The gap between ILB and cash real yields continues to be very wide, and ILB real yields are also attractive compared to their own history and 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

PRUDENTIAL 7% TARGET INCOME FUND
31 DECEMBER 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MARKET OVERVIEW

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In the US, investors took heart from President-Elect Joe Biden's Cabinet choices, which partly signalled a return to "safe" Obama-era policies and a vigorous stance on combatting the pandemic. The passage of another round of fiscal stimulus measures, combined with the start of vaccinations country-wide, led many to expect a faster economic recovery.

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SA buoyed by risk-on sentiment

In South Africa, a strong resurgence of the Coronavirus locally led to stricter lockdowns, but global risk-on investor sentiment prevailed, putting the local bourse in positive territory for the year. SA GDP growth for Q3 2020 surprised to the upside at 13.5% q/q (66.1% annualised) compared to the 13.1% expected, and Q4 consumer confidence recovered to -12 pts from -23 pts in the third quarter. The South African Reserve Bank (SARB) left the repo rate unchanged at 3.5% during its November meeting, stating that further easing was unlikely in the near term but hinting at increases in Q3 and Q4 of 2021. The central bank is now projecting an 8.0% contraction in the economy for 2020, improving to 3.5% growth in 2021 and a 2.4% expansion in 2022. Inflation also remained subdued, with headline CPI slowing to 3.2% y/y in November from 3.3% y/y in October.

On the credit ratings front, Moody's and Fitch both downgraded SA's sovereign credit rating further into "junk" territory. Moody's lowered the country's rating to Ba2 from Ba1 with a negative outlook, citing further weakening in the country's fiscal strength over the medium term as a main trigger, while Fitch cut the sovereign credit rating to BB- from BB and assigned a negative outlook, citing high and rising government debt as a main trigger behind the cut. Standard & Poor's maintained its credit rating for South Africa at BB- with a stable outlook.

The BEASSA All Bond Index (ALBI) managed to deliver an impressive 6.7% return in Q4 2020, boosted by foreign investors tempted by South Africa's relatively high yields. Bonds in the 1-3 year maturities lagged longer-dated bonds, flattening the yield curve and partly reversing the trend seen in the earlier part of the year. For 2020 as a whole, the ALBI returned 8.7%. SA inflation-linked bonds returned 5.4% for the quarter and 4.2% for 2020, and cash (as measured by the STeFI Composite) produced 1.0% for the three-month period and 5.4% during 2020.

The FTSE/JSE All Share Index delivered 9.8% in Q4, led by strong gains in Listed Property and Financials. This meant that the ALSI ended 2020 in positive territory, returning 7.0% after losing 30% at its low in mid-March. For the quarter, Listed Property (SAPY Index) was the star performer, returning 22.2%, while Resources shares (J258 Index) delivered 8.3%, Financials (J580 Index) produced 19.5% and Industrials (J257 Index) returned 7.4%.

ANNUALISED PERFORMANCE	A CLASS	CPI	B CLASS
1 year	0.9%	3.2%	1.3%
Since inception	2.3%	3.3%	3.3%

Inception date: B Class: 2 April 2019

TARGET INCOME

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

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:
R404 927 861

Sources: Prudential & Morningstar

For 2020 as a whole, the JSE's offshore-focused sectors produced the strongest returns, with Resources at 21.2% and Industrials at 12.0%. Locally-oriented sectors were in the red as Financials delivered -19.7% for the 12 months and Listed Property -34.5%.

Finally, the rand gained good ground against all three major global currencies during the quarter due to ongoing US dollar weakness and the stronger appetite for risk assets, hitting around R14.6/USD in December and near levels last seen in early 2020. The local currency was up 12.3% against the US dollar, 7.3% versus the pound sterling and 8.2% against the euro. Over 2020, the rand depreciated versus the three currencies, losing 4.6% against the US dollar, 8.1% versus the pound sterling and 14.4% against the euro.

PERFORMANCE

The Prudential 7% Target Income Fund returned 6.9% (after fees) for the fourth quarter of 2020 and 0.9% for the 12-month period ending 31 December 2020. For Q4 2020, the largest asset-class contributors to the fund's absolute performance were its exposure to South African equities and SA bonds, as well as SA listed property to a much lesser extent.

In terms of specific equity exposure, among the strongest equity contributors to absolute returns for the quarter were the fund's holdings in resources stocks like Implats and Anglo American, as well as SA banks including Absa, Standard Bank, FirstRand and Investec, plus Multichoice. The main detractors from absolute returns were holdings in Gold Fields and British American Tobacco.

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 11% of the portfolio is exposed to local equities, while around 5% is invested in SA listed property, 60% in SA nominal bonds, 22% in SA cash, and around 2% in inflation-linked bonds. The fund has no international exposure.

During Q4, the fund kept is overweight exposure to **SA equities**. SA equity valuations (as measured by the Price/Book value ratio of the FTSE/JSE Capped SWIX Index) were trading at around 1.6X at the end of December, up from around 1.4X at the beginning of the quarter, but still very attractive compared to the 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 in 2020. We have also sustained our overweight in the local banking sector with exposures to Absa, Standard Bank, FirstRand and Investec given the attractive valuations they offer.

We have kept our substantially underweight positioning in **SA listed property** in Q4. 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 December, 10-year government bonds yields were still elevated compared to their history, offering around 9.1% compared to 9.6% at the start of the quarter, and equating to an after-inflation (real) yield of around 4.1% (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 kept our exposure to **SA inflation-linked bonds** during the fourth quarter of 2020, which we introduced into the fund in the previous quarter. The gap between ILB and cash real yields continues to be very wide, and ILB real yields are also attractive compared to their own history and 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