PRUDENTIAL UNIT TRUSTS QUARTERLY COMMENTARY
31 MARCH 2021

COMBINED QUARTERLY COMMENTARY

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PRUDENTIAL MONEY MARKET FUND
31 MARCH 2021

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME

MARKET OVERVIEW

In South Africa, market sentiment was supported by the government securing a supply of vaccines and kicking off phase one of its three-phase vaccination campaign on 17 February, with the aim of vaccinating roughly 67% of the population by the end of the year. Later in the quarter, investors welcomed the news that local manufacturing of the Johnson & Johnson's Covid-19 vaccine had commenced, with 30 million doses earmarked for use in South Africa. However, questions remained over insufficient supply and the slow pace of the rollout, as well as the impact it could still have on growth.

Also helping the improving environment was news that the South African economy grew by an annualised 6.3% q/q in Q4 2020, beating market expectations of a 5% increase, with eight out of 10 industries reporting positive growth in the fourth quarter. As widely expected, the South African Reserve Bank (SARB) left the repo rate unchanged at 3.5% during its 25 March meeting, while also lowering its economic growth forecast for Q1 2021 to -0.2% from 1%. However, it lifted its projected total 2021 GDP growth to 3.8% from 3.5% previously due largely to accelerating global growth prospects. It also moved forward its projected rising interest rate path slightly, pencilling in 25bp rate hikes in each of the second and fourth quarters of the year, compared to the third and fourth quarters previously. Despite this, Governor Lesetja Kganyago stressed that the pace of the country's economic recovery would largely depend on the government's ability to effectively roll out its vaccine programme and mitigate the onset of a third wave of infections.

Finance Minister Tito Mboweni unveiled a better-than-expected national budget in February, which saw the scrapping of proposed personal tax increases in favour of fiscal consolidation and reined-in expenditure to support the pandemic-battered economy. Mboweni proposed a government wage bill cut to help reduce government debt, and to aid in the funding of the free nationwide vaccine programme. Other highlights included the lowering of the corporate income tax rate to 27% as of 1 April 2022, the first reduction since 2008, while the excise duties on alcohol and tobacco products were raised by 8%. Investors, however, remained cautious over the path of recovery outlined by Mboweni, with Moody's stating that the lower budget deficits were unlikely to prevent debt from rising. Fitch said the country still faced "severe challenges" to implement fiscal consolidation.

In other positive news, inflation remained subdued, with headline CPI slowing to 2.9% in February, below the SARB's 3%-6% target range and below market expectations. Also, the government unveiled plans for eight independent power producers to support the nation's struggling power utility, which will consist of solar energy, wind, liquefied natural gas and battery storage, with renewable energy expected to start adding to the grid from August 2022. The project is expected to inject R45bn of private investments into the economy. Meanwhile, the South African National Treasury published its updated 'Operation Vulindlela' plan, detailing the government's strategy to boost the economy in the wake of the Covid-19 pandemic.

Private sector credit extension (PSCE) decreased considerably from 3.26% y/y in January to 2.62% y/y posted in February. Credit extended to households increased to 2.70% y/y in February from 2.50% y/y, while credit extended to the corporate sector decreased to 2.50% y/y from 3.80% y/y recorded in January.

Government bonds continue to trade higher than bank Negotiable Certificates of Deposits (NCDs), as bank funding requirements have been relatively low and therefore not priced very aggressively. The yields on fixed-rate NCDs have increased over the last quarter, most notably in the six- and twelve-month space, in keeping with interest-rate expectations.

PERFORMANCE

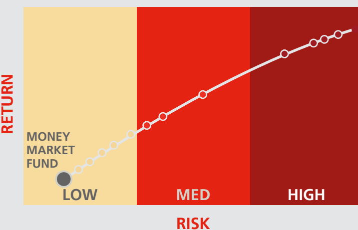
For the first quarter of 2021, the fund delivered a return of 0.8% (net), in line with its benchmark, the STeFI Call Deposit Index. For the 12 months ended 31 March 2021, the fund returned 4.2% (net of fees), 0.4% ahead of its benchmark as measured over the same period.

The average duration of the fund at quarter end was 48 days relative to the 90-day maximum average duration. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	X CLASS
1 year	4.2%	3.8%	4.3%
3 years	6.3%	5.6%	6.4%
5 years	6.8%	6.1%	6.9%
7 years	6.6%	6.0%	6.7%
10 years	6.2%	5.7%	n/a
Since inception	7.5%	7.3%	6.3%

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 338 777 300

DISCLAIMER

Prudential Portfolio Managers Unit Trusts Ltd (Registration number: 1999/0524/06) is an approved CISCA management company (#29). Assets are managed by Prudential Investment Managers (South Africa) (Pty) Ltd, which is an approved discretionary Financial Services Provider (#45199). The Trustee's/Custodian details are: Standard Bank of South Africa limited – Trustees Services & investor Services. 20th Floor, Main Tower, Standard Bank Centre, Heerengracht, Cape Town. Prudential Portfolio Managers (South Africa) (Pty) Ltd ("PPMSA") is part of the same corporate group as the Prudential Assurance Company. The Prudential Assurance Company is a direct subsidiary of M&G plc, a company incorporated in the United Kingdom. Neither PPMSA or the Prudential Assurance Company are affiliated in any manner with Prudential Financial, Inc., a company whose principal place of business is in the United States of America or Prudential plc, an international group incorporated in the United Kingdom.

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

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL HIGH INTEREST FUND
31 MARCH 2021

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME

MARKET OVERVIEW

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Also helping the improving environment was news that the South African economy grew by an annualised 6.3% q/q in Q4 2020, beating market expectations of a 5% increase, with eight out of 10 industries reporting positive growth in the fourth quarter. As widely expected, the South African Reserve Bank (SARB) left the repo rate unchanged at 3.5% during its 25 March meeting, while also lowering its economic growth forecast for Q1 2021 to -0.2% from 1%. However, it lifted its projected total 2021 GDP growth to 3.8% from 3.5% previously due largely to accelerating global growth prospects. It also moved forward its projected rising interest rate path slightly, pencilling in 25bp rate hikes in each of the second and fourth quarters of the year, compared to the third and fourth quarters previously. Despite this, Governor Lesetja Kganyago stressed that the pace of the country's economic recovery would largely depend on the government's ability to effectively roll out its vaccine programme and mitigate the onset of a third wave of infections.

Finance Minister Tito Mboweni unveiled a better-than-expected national budget in February, which saw the scrapping of proposed personal tax increases in favour of fiscal consolidation and reined-in expenditure to support the pandemic-battered economy. Mboweni proposed a government wage bill cut to help reduce government debt, and to aid in the funding of the free nationwide vaccine programme. Other highlights included the lowering of the corporate income tax rate to 27% as of 1 April 2022, the first reduction since 2008, while the excise duties on alcohol and tobacco products were raised by 8%. Investors, however, remained cautious over the path of recovery outlined by Mboweni, with Moody's stating that the lower budget deficits were unlikely to prevent debt from rising. Fitch said the country still faced "severe challenges" to implement fiscal consolidation.

In other positive news, inflation remained subdued, with headline CPI slowing to 2.9% in February, below the SARB's 3%-6% target range and below market expectations. Also, the government unveiled plans for eight independent power producers to support the nation's struggling power utility, which will consist of solar energy, wind, liquefied natural gas and battery storage, with renewable energy expected to start adding to the grid from August 2022. The project is expected to inject R45bn of private investments into the economy. Meanwhile, the South African National Treasury published its updated 'Operation Vulindlela' plan, detailing the government's strategy to boost the economy in the wake of the Covid-19 pandemic.

The FTSE/JSE All Bond Index (ALBI) was in the red for the quarter with a -1.7% return as foreign investor demand waned. The yield curve continued to flatten as bonds in the 1–3-year maturities sold off at a faster pace than longer-dated bonds. SA inflation-linked bonds posted another strong performance, delivering 4.6% after a 5.4% return in the previous quarter, as investors sought some inflation protection. Cash (as measured by the STeFI Composite Index) produced 0.9% for the three-month period.

Finally, the rand put in a mixed performance against the three major global currencies during the quarter, in an environment which saw general US dollar weakness. The local currency lost 0.8% against the US dollar and 1.8% versus the pound sterling but was up 3.5% against the euro.

PERFORMANCE

The Prudential High Interest Fund generated a return of 0.7% (net) for the quarter compared to its benchmark, the STeFI Composite Index, which returned 0.9%. For the 12-month period ending 31 March 2021, the fund delivered 3.5%, underperforming its benchmark by 1.1%.

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

Relative to the 180-day maximum average duration, the quarter-end duration of the fund came in at 107 days.

STRATEGY AND POSITIONING

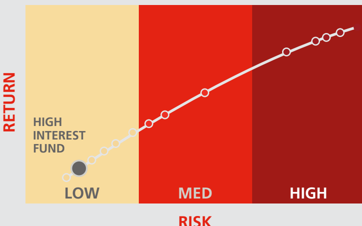
The make-up of corporate issuances for the year followed previous trends (mostly floating-rate notes with banks being the dominant issuers). There was, once again, considerable volume done via private placements, although we did see some sizeable public auctions toward the latter part of the quarter. Meanwhile, bank floating-rate credit spreads appear to have settled back to pre-Covid-19 levels.

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	3.5%	4.6%	3.6%	3.7%
3 years	6.2%	6.3%	6.3%	6.4%
5 years	7.1%	6.8%	7.2%	7.3%
7 years	6.8%	6.7%	6.9%	7.1%
10 years	6.5%	6.3%	n/a	6.8%

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

RISK/RETURN PROFILE:



FUND MANAGERS:
Roshen Harry and Sandile Malinga

ASISA CATEGORY:
South African - Interest Bearing - Short Term

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

INCEPTION DATE:
8 December 2010

FUND SIZE:
R9 553 007 753

PLEASE NOTE:
This fund is capped to new investors

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL INCOME FUND
31 MARCH 2021

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME

MARKET OVERVIEW

In South Africa, market sentiment was supported by the government securing a supply of vaccines and kicking off phase one of its three-phase vaccination campaign on 17 February, with the aim of vaccinating roughly 67% of the population by the end of the year. Later in the quarter, investors welcomed the news that local manufacturing of the Johnson & Johnson's Covid-19 vaccine had commenced, with 30 million doses earmarked for use in South Africa. However, questions remained over insufficient supply and the slow pace of the rollout, as well as the impact it could still have on growth.

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The FTSE/JSE All Bond Index (ALBI) was in the red for the quarter with a -1.7% return as foreign investor demand waned. The yield curve continued to flatten as bonds in the 1–3-year maturities sold off at a faster pace than longer-dated bonds. SA inflation-linked bonds posted another strong performance, delivering 4.6% after a 5.4% return in the previous quarter, as investors sought some inflation protection. Cash (as measured by the STeFI Composite Index) produced 0.9% for the three-month period.

Finally, the rand put in a mixed performance against the three major global currencies during the quarter, in an environment which saw general US dollar weakness. The local currency lost 0.8% against the US dollar and 1.8% versus the pound sterling but was up 3.5% against the euro.

PERFORMANCE

The Prudential Income Fund generated a return of 1.0% (net of fees) for the first quarter of 2021, compared to its benchmark, the STeFI Composite Index, which returned 0.9%. For the 12-month period ending 31 March 2021, the fund delivered 5.0%, outperforming its benchmark by 0.4%.

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 160 days.

STRATEGY AND POSITIONING

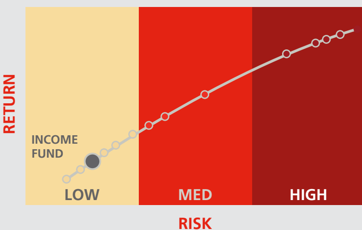
The make-up of corporate issuances for the year followed previous trends (mostly floating-rate notes with banks being the dominant issuers). There was, once again, considerable volume done via private placements although we did see some sizeable public auctions toward the latter part of the quarter. Meanwhile, bank floating-rate credit spreads appear to have settled back to pre-Covid-19 levels.

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	5.0%	4.6%	5.1%
2 years	6.2%	5.9%	6.4%
3 years	7.1%	6.3%	7.2%
Since inception	7.5%	6.7%	7.6%

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:
R934 268 297

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PRUDENTIAL HIGH YIELD BOND FUND
31 MARCH 2021

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME

MARKET OVERVIEW

In South Africa, market sentiment was supported by the government securing a supply of vaccines and kicking off phase one of its three-phase vaccination campaign on 17 February, with the aim of vaccinating roughly 67% of the population by the end of the year. Later in the quarter, investors welcomed the news that local manufacturing of the Johnson & Johnson's Covid-19 vaccine had commenced, with 30 million doses earmarked for use in South Africa. However, questions remained over insufficient supply and the slow pace of the rollout, as well as the impact it could still have on growth.

Also helping the improving environment was news that the South African economy grew by an annualised 6.3% q/q in Q4 2020, beating market expectations of a 5% increase, with eight out of 10 industries reporting positive growth in the fourth quarter. As widely expected, the South African Reserve Bank (SARB) left the repo rate unchanged at 3.5% during its 25 March meeting, while also lowering its economic growth forecast for Q1 2021 to -0.2% from 1%. However, it lifted its projected total 2021 GDP growth to 3.8% from 3.5% previously due largely to accelerating global growth prospects. It also moved forward its projected rising interest rate path slightly, pencilling in 25bp rate hikes in each of the second and fourth quarters of the year, compared to the third and fourth quarters previously. Despite this, Governor Lesetja Kganyago stressed that the pace of the country's economic recovery would largely depend on the government's ability to effectively roll out its vaccine programme and mitigate the onset of a third wave of infections.

Finance Minister Tito Mboweni unveiled a better-than-expected national budget in February, which saw the scrapping of proposed personal tax increases in favour of fiscal consolidation and reined-in expenditure to support the pandemic-battered economy. Mboweni proposed a government wage bill cut to help reduce government debt, and to aid in the funding of the free nationwide vaccine programme. Other highlights included the lowering of the corporate income tax rate to 27% as of 1 April 2022, the first reduction since 2008, while the excise duties on alcohol and tobacco products were raised by 8%. Investors, however, remained cautious over the path of recovery outlined by Mboweni, with Moody's stating that the lower budget deficits were unlikely to prevent debt from rising. Fitch said the country still faced "severe challenges" to implement fiscal consolidation.

In other positive news, inflation remained subdued, with headline CPI slowing to 2.9% in February, below the SARB's 3%-6% target range and below market expectations. Also, the government unveiled plans for eight independent power producers to support the nation's struggling power utility, which will consist of solar energy, wind, liquefied natural gas and battery storage, with renewable energy expected to start adding to the grid from August 2022. The project is expected to inject R45bn of private investments into the economy. Meanwhile, the South African National Treasury published its updated 'Operation Vulindlela' plan, detailing the government's strategy to boost the economy in the wake of the Covid-19 pandemic.

The FTSE/JSE All Bond Index (ALBI) was in the red for the quarter with a -1.7% return as foreign investor demand waned. The yield curve continued to flatten as bonds in the 1–3-year maturities sold off at a faster pace than longer-dated bonds. SA inflation-linked bonds posted another strong performance, delivering 4.6% after a 5.4% return in the previous quarter, as investors sought some inflation protection. Cash (as measured by the STeFI Composite Index) produced 0.9% for the three-month period.

Finally, the rand put in a mixed performance against the three major global currencies during the quarter, in an environment which saw general US dollar weakness. The local currency lost 0.8% against the US dollar and 1.8% versus the pound sterling but was up 3.5% against the euro.

PERFORMANCE

The Prudential High Yield Bond Fund generated a return of -1.6% (net of fees) for the first quarter of 2021, outperforming its benchmark, the FTSE/JSE All Bond Index, by 0.1%. For the 12-month period ending 31 March 2021, the fund delivered 14.2%, underperforming its benchmark by 2.8%.

STRATEGY AND POSITIONING

We began the quarter in a long-duration position. Over the quarter, bond yields sold off, with shorter dated bonds selling off at a faster pace than longer-dated bonds, causing the yield curve to flatten.

Although bonds recorded losses over the quarter due to the sell-off in yields, the flattening of the yield curve favoured our positioning and helped to cushion losses. We used this opportunity to reduce some of the curve positioning in the fund by switching out of very long-dated bonds into bonds in the 7-12-year durations, while retaining a marginally reduced overweight duration position.

As of 31 March 2021, 10-year government bond yields were still elevated compared to their history, offering around 9.5% versus 9.1% at the start of the quarter, and equating to an after-inflation (real) yield of around 4.5% (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.

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

In the first quarter of 2021 primary bond market issuance volume (excluding government issuances) was approximately R17bn, 19% down versus the fourth quarter of 2020 (R21bn) and 39% down compared to the first quarter of 2020 (R28bn).

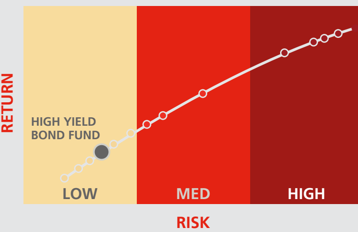
The make-up of corporate issuances followed previous trends (mostly floating-rate notes with banks being the dominant issuers). There was, once again, considerable volume done via private placements, although we did see some sizeable public auctions toward the latter part of the quarter, particularly securitisations from TUHF Ltd and SA Home Loans. The SA Home Loans issuance was well supported, having increased their issuance volume, while TUHF Limited managed to place the majority of their intended issuance volume.

The bank floating-rate credit spreads appear to have settled back to pre-Covid-19 levels. ABSA Bank Limited issued three-year senior unsecured notes at a spread of 78bps in August 2020, and in March 2021 issued a similar note at a spread of 110bps, which was more aligned to the level that banks were issuing towards the end of 2019. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	14.2%	17.0%	14.3%
3 years	3.9%	5.5%	4.1%
5 years	7.6%	8.7%	7.8%
7 years	6.6%	7.8%	6.9%
10 years	7.4%	8.2%	7.7%
Since inception	9.5%	10.0%	8.6%

Inception date B Class: 1 April 2003

RISK/RETURN PROFILE:



FUND MANAGERS:
Roshen Harry and Gareth Bern

ASISA CATEGORY:
South African - Interest Bearing - Variable Term

BENCHMARK:
FTSE/JSE ALL BOND INDEX

INCEPTION DATE:
27 October 2000

FUND SIZE:
R262 742 537

DISCLAIMER

Prudential Portfolio Managers Unit Trusts Ltd (Registration number: 1999/0524/06) is an approved CISCA management company (#29). Assets are managed by Prudential Investment Managers (South Africa) (Pty) Ltd, which is an approved discretionary Financial Services Provider (#45199). The Trustee's/Custodian details are: Standard Bank of South Africa limited – Trustees Services & investor Services. 20th Floor, Main Tower, Standard Bank Centre, Heerengracht, Cape Town. Prudential Portfolio Managers (South Africa) (Pty) Ltd ("PPMSA") is part of the same corporate group as the Prudential Assurance Company. The Prudential Assurance Company is a direct subsidiary of M&G plc, a company incorporated in the United Kingdom. Neither PPMSA or the Prudential Assurance Company are affiliated in any manner with Prudential Financial, Inc., a company whose principal place of business is in the United States of America or Prudential plc, an international group incorporated in the United Kingdom.

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

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL ENHANCED INCOME FUND
31 MARCH 2021

QUARTERLY COMMENTARY

MULTI-ASSET

MARKET OVERVIEW

It was another positive quarter for risk assets around the globe, with investor sentiment supported by progress in vaccine rollouts across many large countries, signs of acceleration in economic growth, and promises of more US government spending in the form of a proposed US$2.25 trillion, eight-year infrastructure spending program by the Biden administration, which would have a positive impact on global growth. However, gains and sentiment were tempered by the continued spread of the Coronavirus and its variants, and their subsequent impact on growth. Another dampener was growing market concerns over higher US inflation and interest rates which led to bond weakness, mainly in the US. However, South African equities outperformed most other emerging and developed markets, recording strong gains for the quarter, coming off low valuations compared to other markets and helped by their Resources exposure.

In the US, consumers started receiving stimulus checks from the government amid a much faster-than-expected vaccination programme rollout that encouraged a more positive outlook among consumers and investors. This was further boosted by the potential of a huge infrastructure spending programme that would add another US$2.25 trillion to the economy over the next eight years.

At its 17 March policy meeting, the US Federal Reserve (Fed) left interest rates unchanged, even as it revised its GDP growth forecast for 2021 sharply higher to 6.5% from 4.2% in the previous quarter. Chairman Jerome Powell indicated that despite rising US Treasury (UST) yields, and a rise in February CPI to 1.7% y/y from 1.5% in January, the central bank was not worried about inflation and would likely keep rates on hold through 2023. This was because they estimate it would take some three years for inflation to return to within the Fed's target range, and because they would tolerate inflation rising above its 2% target for a period of time before raising rates.

Meanwhile, the yield on the 10-year US Treasury bond rose to over 1.7% during the quarter, reaching a one-year high as the yield curve continued to steepen to reflect investors' inflation worries. The difference between the 2-year and 10-year UST yields rose to around 2.3%, its highest level since 2014. However, other developed countries' bonds did not follow suit, with only Canada seeing a small rise, due to their much weaker recoveries.

In the UK, the mood was buoyed by the exceptionally fast implementation of the country's vaccination programme, which lifted hopes of accelerated growth to come. The government unveiled plans to lift all pandemic restrictions by 21 June, should all things go to plan. Better-than-expected Q4 2020 GDP figures also helped lift sentiment, with the UK economy expanding by 1.0% q/q. At the same time, the Bank of England left its key interest rate unchanged as expected, however reiterated that it would ease monetary policy if needed. February consumer inflation was very subdued at only 0.4% y/y, down from 0.7% the previous month and reflecting the strict lockdown conditions in place over much of the period.

In the EU, the European Commission lowered its GDP forecasts for 2021 from 4.2% to 3.8%, stating that the resurgence of Covid-19 infections and the appearance of more contagious variants had forced many countries to reintroduce lockdown measures. Among the bloc's largest economies, Spain and France are expected to expand at the steepest rates for 2021, with GDP growth forecast at 5.6% and 5.5% respectively. The risks surrounding the Eurozone growth outlook remained tilted to the downside, but became less pronounced due to prospects of a global economic recovery and the launch of vaccination campaigns. Sentiment, however, remained under pressure due to the slow pace at which vaccinations have been rolled out and the impact this would have on the Eurozone's economic recovery. Eurozone GDP shrank by 0.6% q/q in Q4 2020.

Meanwhile, the European Central Bank (ECB) left interest rates on hold at its 11 March policy meeting, emphasizing it would continue its bond purchases and other supportive monetary measures until inflation reached its 2.0% target. Consumer inflation in the Euro area remained steady at 0.9% y/y in February, indicating very little cost pressure in the region.

In Japan the economy advanced at a strong 3.0% q/q pace in Q4 2020, beating market estimates of a 2.3% expansion. For the year 2020, the economy shrank 4.8%, marking the first contraction since 2009. The Bank of Japan left its key short-term interest rate unchanged at -0.1% and maintained the target for the 10-year Japanese government bond yield at around 0%. The central bank also upped its GDP growth projection for the next fiscal year to 3.9% from 3.6%, while the forecast for the current fiscal year shifted marginally from -5.6% to -5.5%. Deflation persisted as consumer prices declined 0.4% y/y in February, however there was a slowdown in the pace of the drop as energy prices rose.

In China, the government's crackdown on large tech companies like Tencent towards the end of the quarter created investor worries of further curbs and tighter regulation to come on other companies, weighing heavily on the local equity market, while Hong Kong equities fared better despite the introduction of further measures to curb democracy in the special administrative region.

News that the People's Bank of China (PBoC) would continue to provide economic support in 2021 helped to counterbalance the negative sentiment, along with reports that it would refrain from sudden shifts in order to provide stability. The PBoC left its benchmark interest rates steady at its February policy meeting, as consumer inflation (deflation) for February was reported at -0.2% y/y and producer inflation came in at 1.7% y/y as months of strong manufacturing growth pushed the costs of raw material higher. In fact, positive data saw non-manufacturing and services PMI both bouncing back sharply in March to 56.3 (from 51.4) and 54.3 (from 51.5) respectively.

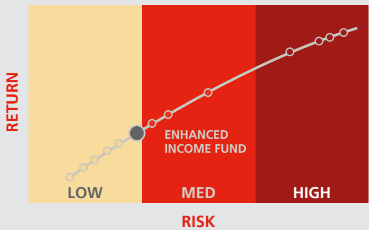
In South Africa, market sentiment was supported by the government securing a supply of vaccines and kicking off phase one of its three-phase vaccination campaign on 17 February, with the aim of vaccinating roughly 67% of the population by the end of the year. Later in the quarter, investors welcomed the news that local manufacturing of the Johnson & Johnson's Covid-19 vaccine had commenced, with 30 million doses earmarked for use in South Africa. However, questions remained over insufficient supply and the slow pace of the rollout, as well as the impact it could still have on growth.

Also helping the improving environment was news that the South African economy grew by an annualised 6.3% q/q in Q4 2020, beating market expectations of a 5% increase, with eight out of 10 industries reporting positive growth in the fourth quarter. As widely expected, the South African Reserve Bank (SARB) left the repo rate unchanged at 3.5% during its 25 March meeting, while also lowering its economic growth forecast for Q1 2021 to -0.2% from 1%. However, it lifted its projected total 2021 GDP growth to 3.8% from 3.5% previously

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	X CLASS	D CLASS
1 year	6.6%	4.6%	6.8%	6.5%	6.9%
3 years	5.1%	6.3%	5.4%	5.2%	5.6%
5 years	6.2%	6.8%	6.6%	6.4%	6.7%
7 years	6.4%	6.9%	n/a	6.6%	6.9%
10 years	7.1%	6.9%	n/a	n/a	n/a
Since inception	7.5%	7.1%	6.4%	7.2%	7.5%

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

RISK/RETURN PROFILE:



FUND MANAGERS:
David Knee and Roshen Harry

ASISA CATEGORY:
South African - Multi-Asset - Income

BENCHMARK:
STeFI Composite Index measured over a rolling 36-month period

INCEPTION DATE:
1 July 2009

FUND SIZE:
R1 385 241 643

Sources: Prudential, Morningstar & Deutsche Securities

due largely to accelerating global growth prospects. It also moved forward its projected rising interest rate path slightly, pencilling in 25bp rate hikes in each of the second and fourth quarters of the year, compared to the third and fourth quarters previously. Despite this, Governor Lesetja Kganyago stressed that the pace of the country's economic recovery would largely depend on the government's ability to effectively roll out its vaccine programme and mitigate the onset of a third wave of infections.

Finance Minister Tito Mboweni unveiled a better-than-expected national budget in February, which saw the scrapping of proposed personal tax increases in favour of fiscal consolidation and reined-in expenditure to support the pandemic-battered economy. Mboweni proposed a government wage bill cut to help reduce government debt, and to aid in the funding of the free nationwide vaccine programme. Other highlights included the lowering of the corporate income tax rate to 27% as of 1 April 2022, the first reduction since 2008, while the excise duties on alcohol and tobacco products were raised by 8%. Investors, however, remained cautious over the path of recovery outlined by Mboweni, with Moody's stating that the lower budget deficits were unlikely to prevent debt from rising. Fitch said the country still faced "severe challenges" to implement fiscal consolidation.

In other positive news, inflation remained subdued, with headline CPI slowing to 2.9% in February, below the SARB's 3%-6% target range and below market expectations. Also, the government unveiled plans for eight independent power producers to support the nation's struggling power utility, which will consist of solar energy, wind, liquefied natural gas and battery storage, with renewable energy expected to start adding to the grid from August 2022. The project is expected to inject R45bn of private investments into the economy. Meanwhile, the South African National Treasury published its updated 'Operation Vulindlela' plan, detailing the government's strategy to boost the economy in the wake of the Covid-19 pandemic.

PERFORMANCE

The fund's performance was flat (net of fees) for the first quarter of 2021, underperforming the benchmark by 0.9%. For the 12 months ending 31 March 2021, the fund generated a return of 6.6% (net of fees), outperforming its benchmark by 2.0% over the same period.

Investments in SA property and inflation-linked bonds were among the largest contributors to absolute performance for the first quarter of 2021, whereas exposure to fixed-rate bonds was the largest detractor from performance.

STRATEGY AND POSITIONING

We made some changes to our offshore positioning during the quarter in order to reduce some portfolio risk and take advantage of valuation opportunities in SA. We sold all our exposure to US investment-grade corporate credit and invested the proceeds into short dated SA nominal bonds. We, however, maintained our exposure to US high yield corporate bonds.

We have also kept our modest positioning in SA listed property in Q1 2021. This positioning reflects the ongoing 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.

During the quarter we increased our exposure to SA nominal bonds. The portfolio continues to be tilted towards shorter-dated maturities as we believe the shorter dated bonds offer attractive returns given the objectives of this fund.

We maintained our exposure to inflation-linked bonds during the quarter. The gap between inflation-linked bonds and cash real yields continues to be very wide, with real yields on cash currently negative. Real yields on inflation-linked bonds are also attractive compared to their history and our long-run fair value assumption of 2.25%.

Finally, prospective real returns from SA cash are negative and we have reduced the SA cash allocation in the fund and purchased SA government bonds for their attractive return prospects over the medium term. ■

DISCLAIMER

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL INFLATION PLUS FUND
31 MARCH 2021

QUARTERLY COMMENTARY

MULTI-ASSET

MARKET OVERVIEW

It was another positive quarter for risk assets around the globe, with investor sentiment supported by progress in vaccine rollouts across many large countries, signs of acceleration in economic growth, and promises of more US government spending in the form of a proposed US$2.25 trillion infrastructure spending program over the next eight years by the Biden administration, which would have a positive impact on global growth. However, gains and sentiment were tempered by the continued spread of the Coronavirus and its variants, and their subsequent impact on growth. Another dampener was growing market concerns over higher US inflation and interest rates, which led to bond weakness, especially in the US. However, South African equities outperformed most other emerging and developed markets, recording strong gains for the quarter, coming off low valuations compared to other markets and helped by their Resources exposure.

In US$ terms, global equities (the MSCI All Country World Index) returned 4.6% for the quarter, with emerging markets lagging developed markets at 2.3% and 4.9%, respectively. For SA investors, the rand's marginal 0.8% depreciation against the US dollar would have slightly helped investment returns. Global bonds delivered -4.5% for the quarter, hit by rising longer-dated US Treasury yields. And finally, global property posted good gains with a 7.0% return. As in the previous quarter, central banks kept interest rates broadly unchanged at very low, accommodative levels – seemingly less concerned about inflation than investors – and governments continued to enact fiscal support packages for consumers and businesses.

In the US, consumers started receiving stimulus checks from the government amid a much faster-than-expected vaccination programme rollout that encouraged a more positive outlook among consumers and investors. This was further boosted by the potential of a huge infrastructure spending programme that would add another US$2.25 trillion to the economy over the next eight years.

At its 17 March policy meeting, the US Federal Reserve (Fed) left interest rates unchanged, even as it revised its GDP growth forecast for 2021 sharply higher to 6.5% from 4.2% in the previous quarter. Meanwhile, the yield on the 10-year US Treasury bond rose to over 1.7% during the quarter, reaching a one-year high as the yield curve continued to steepen to reflect investors' inflation worries.US equity markets continued to perform well despite their more expensive valuations, as the S&P 500 returned 6.2% for the quarter, the Dow Jones Industrial 30 delivered 8.3%, and the technology-heavy Nasdaq 100 produced 1.8% (all in US$).

In the UK, the mood was buoyed by the exceptionally fast implementation of the country's vaccination programme, which lifted hopes of accelerated growth to come. The government unveiled plans to lift all pandemic restrictions by 21 June, should all things go to plan. Better-than-expected Q4 2020 GDP figures also helped lift sentiment, with the UK economy expanding by 1.0% q/q.

In the EU, the European Commission lowered its GDP forecasts for 2021 from 4.2% to 3.8%, due to the resurgence of Covid-19 infections and reintroductions of lockdown measures. Sentiment remained under pressure due to the slow pace at which vaccinations have been rolled out. Eurozone GDP shrank by 0.6% q/q in Q4 2020.

Meanwhile, the European Central Bank (ECB) left interest rates on hold at its 11 March policy meeting, emphasizing it would continue its bond purchases and other supportive monetary measures until inflation reached its 2.0% target.

For the quarter, UK equities outperformed their regional counterparts, helped by the better valuations on offer and its better vaccinations progress. The UK's FTSE 100 returned 5.9%, the German DAX 4.5% and France's CAC 40 5.3% (in US$).

Meanwhile, in Japan the economy advanced at a strong 3.0% q/q pace in Q4 2020, beating market estimates of a 2.3% expansion. For the year 2020, the economy shrank 4.8%, marking the first contraction since 2009. The Bank of Japan left its key short-term interest rate unchanged at -0.1% and maintained the target for the 10-year Japanese government bond yield at around 0%. The central bank also upped its GDP growth projection for the next fiscal year to 3.9% from 3.6%.

In China, the government's crackdown on large tech companies like Tencent towards the end of the quarter created investor worries of further curbs and tighter regulation to come on other companies, weighing heavily on the local equity market, while Hong Kong equities fared better despite the introduction of further measures to curb democracy in the special administrative region. The PBoC left its benchmark interest rates steady at its February policy meeting, while consumer inflation (deflation) for February was reported at -0.2% y/y and producer inflation came in at 1.7% y/y as months of strong manufacturing growth pushed the costs of raw material higher.

For the first quarter of 2021, Japan's Nikkei 225 was flat, delivering 0.0%, the MSCI China returned -0.4% and Hong Kong's Hang Seng produced 4.3% (in US$).

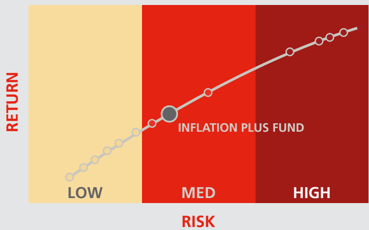
Among other large emerging equity markets, in US$ terms the MSCI South Africa was by far the top performer for the three months with a 12.3% return, followed by the MSCI India with 5.2% and MSCI Russia with 5.0%. South Korea's KOSPI recorded a 2.3% return, but Brazil's Bovespa lost 9.8% on the back of the uncontrolled spread of the Coronavirus there, and the MSCI Turkey had a disastrous quarter with a -20.2% return following the President's dismissal of the central bank governor and most of his top cabinet officials, among other measures.

After gaining over 26% in the last quarter of 2020, the spot price of Brent crude oil closed 22.7% higher in Q1 2021 at around US$60 per barrel, propelled higher by expectations of a quicker and stronger recovery in global growth and curbs on supply. The gold price lost ground as risk-aversion continued to abate, down 11% for the quarter. However, most other commodities were stronger, as platinum and palladium rose 8.2% and 9.4%, respectively, while copper was up 14.3% and aluminium 11.9% higher.

South Africa

In South Africa, market sentiment was supported by the government kicking off phase one of its three-phase vaccination campaign on 17 February, while later in the quarter investors welcomed the news that local manufacturing of the Johnson & Johnson's Covid-19 vaccine had

RISK/RETURN PROFILE:



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

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 587 296 830

AWARDS:
Raging Bull: 2013
Morningstar: 2015

ANNUALISED PERFORMANCE	A CLASS	OBJECTIVE#	T CLASS	X CLASS	B CLASS
1 year	23.8%	6.3%	24.1%	23.8%	24.4%
3 years	3.1%	7.3%	3.5%	3.3%	3.7%
5 years	3.4%	7.8%	3.9%	3.7%	4.1%
7 years	5.4%	8.1%	n/a	5.6%	6.1%
10 years	8.3%	8.5%	n/a	n/a	9.0%
Since inception	10.9%	9.2%	4.5%	8.5%	11.2%

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

Sources: Prudential, Morningstar & Deutsche Securities

commenced, with 30 million doses earmarked for use in South Africa. However, questions remained over insufficient supply and the slow pace of the rollout, as well as the impact it could still have on growth.

Also helping the improving environment was news that the South African economy grew by an annualised 6.3% q/q in Q4 2020, beating market expectations of a 5% increase. As widely expected, the South African Reserve Bank (SARB) left the repo rate unchanged at 3.5%, while lifting its projected total 2021 GDP growth to 3.8% from 3.5% previously due largely to accelerating global growth prospects. Despite this, Governor Lesetja Kganyago stressed that the pace of the country's economic recovery would largely depend on the government's ability to effectively roll out its vaccine programme and mitigate the onset of a third wave of infections. In other positive news, inflation remained subdued, with headline CPI slowing to 2.9% in February, below the SARB's 3%-6% target range and below market expectations.

Finance Minister Tito Mboweni unveiled a better-than-expected national budget in February, which saw the scrapping of proposed personal tax increases in favour of fiscal consolidation and reined-in expenditure to support the pandemic-battered economy. Investors, however, remained cautious over the path of recovery outlined by Mboweni, with Moody's stating that the lower budget deficits were unlikely to prevent debt from rising. Fitch said the country still faced "severe challenges" to implement fiscal consolidation.

The FTSE/JSE All Bond Index (ALBI) was in the red for the quarter with a -1.7% return as foreign investor demand spluttered. The yield curve continued to flatten as bonds in the 1-3 year maturities sold off more than longer-dated bonds. SA inflation-linked bonds posted another strong performance, delivering 4.6% after 5.4% in the previous quarter as investors sought some inflation protection, and cash (as measured by the STeFI Composite) produced 0.9% for the three-month period.

The FTSE/JSE All Share Index delivered an impressive 13.1% return in rand terms for Q1 2021, benefitting from higher commodity prices and the stronger global and local growth outlooks, as well as re-rating. Gains were led by a strong performance from Resources shares (J258 Index) at 18.7%, while Industrials (J257 Index) delivered 13.0%. More locally-focused sectors were not as impressive but still in the black, with Property (All Property Index) posting an 8.1% return and Financials (J580 Index) producing 3.8%.

Finally, the rand put in a mixed performance against the three major global currencies during the quarter, in an environment which saw general US dollar weakness. The local currency lost 0.8% against the US dollar and 1.8% versus the pound sterling, but was up 3.5% against the euro.

PERFORMANCE

The fund returned 5.6% (after fees) for the first quarter of 2021 and 23.8% for the 12-month period ending 31 March 2021. The fund has delivered a return of 10.9% 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 (by far), followed by SA ILBs and global equities. Global fixed income and SA nominal bonds were the largest detractors from absolute returns.

In terms of specific equity exposure, among the strongest equity contributors to absolute returns for the quarter were the fund's holdings in MTN and Naspers, as well as resources stocks like Implats, Amplats, Anglo American, Sasol and Sappi. One of the very few detractors from absolute returns was Multichoice Group.

STRATEGY AND POSITIONING

Starting with our view on **offshore asset allocation**, we made some small changes to our positioning during the quarter in order to reduce some portfolio risk and still take advantage of valuation opportunities. Within our global equity positioning, as US equities were expensive compared to other markets during the quarter, our portfolios continued 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.

During the quarter we took advantage of the strong global equity market recovery and took some profit on our equity position. We continue to be underweight **global government bonds**, adding select exposure, with emerging market government bonds having been particularly attractive. We also opportunistically adjusted exposure to **investment grade corporate credit**, ending the quarter underweight in this asset class. This overall positioning would benefit portfolio returns in the event of a sell-off in risk assets, as fixed interest assets would gain ground.

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 1.8X at the end of March, up from around 1.6X at the beginning of the quarter, but still attractive compared to the market's long-term P/B average of around 2.1X. This positioning contributed strongly to both absolute returns and relative alpha in the fund for the quarter. Forward earnings yield upgrades have started to come through in the local market, especially for Resources companies, and to a lesser extent for Industrials. Even SA bank forward earnings have experienced upgrades, although to a smaller degree.

Within SA equities our stock picking has led to above-market performance in the fund for the quarter thanks to contributions from Resources groups like Anglo American, Implats, Sasol and Amplats. We also continue to prefer large companies that offer sound, high-quality diversification such as Naspers, British American Tobacco, Remgro and MTN. 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 continued to recover over the quarter as the outlook for the economy and consumer financial health improved.

We have kept our substantially underweight positioning in **SA listed property** in Q1 2021. This positioning reflects the ongoing 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 added around 1% in exposure to our holdings as yields rose in March. Funding came from proceeds of trimming our overweight ILB position. The fund continues to be tilted towards longer-dated maturities. Although bonds recorded losses over the quarter, the flattening of the yield curve favoured our positioning and helped to cushion losses. As of 31 March, 10-year government bonds yields were still elevated compared to their history, offering around 9.5% versus 9.1% at the start of the quarter, and equating to an after-inflation (real) yield of around 4.5% (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 **inflation-linked bonds (ILBs)** during the quarter, and our client portfolios benefited from this positioning given these assets' significant outperformance versus nominal bonds (nearly 5 percentage points) over the period. We used the opportunity to take some profits, trimming this exposure and using the proceeds to increase our SA nominal bond exposure. The gap between ILB and cash real yields continues to be wide, with real yields on cash currently negative. ILB real yields, at 4.2% for the 10-year maturity as of end March, are also attractive compared to their own history and our long-run fair value assumption of 2.25%.

Lastly, the portfolio holds very little **SA cash**, since prospective real returns from this asset class are negative and other SA assets relatively more attractive. ■

DISCLAIMER

Prudential Portfolio Managers Unit Trusts Ltd (Registration number: 1999/0524/06) is an approved CISCA management company (#29). Assets are managed by Prudential Investment Managers (South Africa) (Pty) Ltd, which is an approved discretionary Financial Services Provider (#45199). The Trustee's/Custodian details are: Standard Bank of South Africa limited – Trustees Services & investor Services. 20th Floor, Main Tower, Standard Bank Centre, Heerengracht, Cape Town. Prudential Portfolio Managers (South Africa) (Pty) Ltd ("PPMSA") is part of the same corporate group as the Prudential Assurance Company. The Prudential Assurance Company is a direct subsidiary of M&G plc, a company incorporated in the United Kingdom. Neither PPMSA or the Prudential Assurance Company are affiliated in any manner with Prudential Financial, Inc., a company whose principal place of business is in the United States of America or Prudential plc, an international group incorporated in the United Kingdom.

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

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL BALANCED FUND
31 MARCH 2021

QUARTERLY COMMENTARY

MULTI-ASSET

MARKET OVERVIEW

It was another positive quarter for risk assets around the globe, with investor sentiment supported by progress in vaccine rollouts across many large countries, signs of acceleration in economic growth, and promises of more US government spending in the form of a proposed US$2.25 trillion infrastructure spending programme over the next eight years by the Biden administration, which would have a positive impact on global growth. However, gains and sentiment were tempered by the continued spread of the Coronavirus and its variants, and their subsequent impact on growth. Another dampener was growing market concerns over higher US inflation and interest rates, which led to bond weakness, especially in the US. However, South African equities outperformed most other emerging and developed markets, recording strong gains for the quarter, coming off low valuations compared to other markets and helped by their Resources exposure.

In US$ terms, global equities (the MSCI All Country World Index) returned 4.6% for the quarter, with emerging markets lagging developed markets at 2.3% and 4.9%, respectively. For SA investors, the rand's marginal 0.8% depreciation against the US dollar would have slightly helped investment returns. Global bonds delivered -4.5% for the quarter, hit by rising longer-dated US Treasury yields. And finally, global property posted good gains with a 7.0% return. As in the previous quarter, central banks kept interest rates broadly unchanged at very low, accommodative levels – seemingly less concerned about inflation than investors – and governments continued to enact fiscal support packages for consumers and businesses.

In the US, consumers started receiving stimulus checks from the government amid a much faster-than-expected vaccination programme rollout that encouraged a more positive outlook among consumers and investors. This was further boosted by the potential of a huge infrastructure spending programme that would add another US$2.25 trillion to the economy over the next eight years.

At its 17 March policy meeting, the US Federal Reserve (Fed) left interest rates unchanged, even as it revised its GDP growth forecast for 2021 sharply higher to 6.5% from 4.2% in the previous quarter. Meanwhile, the yield on the 10-year US Treasury bond rose to over 1.7% during the quarter, reaching a one-year high as the yield curve continued to steepen to reflect investors' inflation worries.US equity markets continued to perform well despite their more expensive valuations, as the S&P 500 returned 6.2% for the quarter, the Dow Jones Industrial 30 delivered 8.3%, and the technology-heavy Nasdaq 100 produced 1.8% (all in US$).

In the UK, the mood was buoyed by the exceptionally fast implementation of the country's vaccination programme, which lifted hopes of accelerated growth to come. The government unveiled plans to lift all pandemic restrictions by 21 June, should all things go to plan. Better-than-expected Q4 2020 GDP figures also helped lift sentiment, with the UK economy expanding by 1.0% q/q.

In the EU, the European Commission lowered its GDP forecasts for 2021 from 4.2% to 3.8%, due to the resurgence of Covid-19 infections and reintroductions of lockdown measures. Sentiment remained under pressure due to the slow pace at which vaccinations have been rolled out. Eurozone GDP shrank by 0.6% q/q in Q4 2020.

Meanwhile, the European Central Bank (ECB) left interest rates on hold at its 11 March policy meeting, emphasizing it would continue its bond purchases and other supportive monetary measures until inflation reached its 2.0% target.

For the quarter, UK equities outperformed their regional counterparts, helped by the better valuations on offer and its better vaccinations progress. The UK's FTSE 100 returned 5.9%, the German DAX 4.5% and France's CAC 40 5.3% (in US$).

Meanwhile, in Japan the economy advanced at a strong 3.0% q/q pace in Q4 2020, beating market estimates of a 2.3% expansion. For the year 2020, the economy shrank 4.8%, marking the first contraction since 2009. The Bank of Japan left its key short-term interest rate unchanged at -0.1% and maintained the target for the 10-year Japanese government bond yield at around 0%. The central bank also upped its GDP growth projection for the next fiscal year to 3.9% from 3.6%.

In China, the government's crackdown on large tech companies like Tencent towards the end of the quarter created investor worries of further curbs and tighter regulation to come on other companies, weighing heavily on the local equity market, while Hong Kong equities fared better despite the introduction of further measures to curb democracy in the special administrative region. The PBoC left its benchmark interest rates steady at its February policy meeting, while consumer inflation (deflation) for February was reported at -0.2% y/y and producer inflation came in at 1.7% y/y as months of strong manufacturing growth pushed the costs of raw material higher.

For the first quarter of 2021, Japan's Nikkei 225 was flat, delivering 0.0%, the MSCI China returned -0.4% and Hong Kong's Hang Seng produced 4.3% (in US$).

Among other large emerging equity markets, in US$ terms the MSCI South Africa was by far the top performer for the three months with a 12.3% return, followed by the MSCI India with 5.2% and MSCI Russia with 5.0%. South Korea's KOSPI recorded a 2.3% return, but Brazil's Bovespa lost 9.8% on the back of the uncontrolled spread of the Coronavirus there, and the MSCI Turkey had a disastrous quarter with a -20.2% return following the President's dismissal of the central bank governor and most of his top cabinet officials, among other measures.

After gaining over 26% in the last quarter of 2020, the spot price of Brent crude oil closed 22.7% higher in Q1 2021 at around US$60 per barrel, propelled higher by expectations of a quicker and stronger recovery in global growth and curbs on supply. The gold price lost ground as risk-aversion continued to abate, down 11% for the quarter. However, most other commodities were stronger, as platinum and palladium rose 8.2% and 9.4%, respectively, while copper was up 14.3% and aluminium 11.9% higher.

South Africa

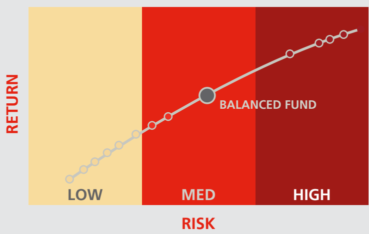
In South Africa, market sentiment was supported by the government kicking off phase one of its three-phase vaccination campaign on 17 February, while later in the quarter investors welcomed the news that local manufacturing of the Johnson & Johnson's Covid-19 vaccine had commenced, with 30 million doses earmarked for use in South Africa. However, questions remained over insufficient supply and the slow pace of the rollout, as well as the impact it could still have on growth.

Also helping the improving environment was news that the South African economy grew by an annualised 6.3% q/q in Q4 2020, beating

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	X CLASS	B CLASS
1 year	36.0%	30.7%	36.3%	36.0%	36.6%
3 years	6.3%	7.4%	6.7%	6.5%	7.0%
5 years	5.8%	5.5%	6.3%	6.0%	6.5%
7 years	7.0%	6.3%	n/a	7.2%	7.7%
10 years	9.9%	8.4%	n/a	n/a	10.7%
Since inception	12.9%	11.4%	6.3%	8.8%	13.5%

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

RISK/RETURN PROFILE:



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

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:
R20 641 774 561

Sources: Prudential, Morningstar & Deutsche Securities

market expectations of a 5% increase. As widely expected, the South African Reserve Bank (SARB) left the repo rate unchanged at 3.5%, while lifting its projected total 2021 GDP growth to 3.8% from 3.5% previously due largely to accelerating global growth prospects. Despite this, Governor Lesetja Kganyago stressed that the pace of the country's economic recovery would largely depend on the government's ability to effectively roll out its vaccine programme and mitigate the onset of a third wave of infections. In other positive news, inflation remained subdued, with headline CPI slowing to 2.9% in February, below the SARB's 3%-6% target range and below market expectations.

Finance Minister Tito Mboweni unveiled a better-than-expected national budget in February, which saw the scrapping of proposed personal tax increases in favour of fiscal consolidation and reined-in expenditure to support the pandemic-battered economy. Investors, however, remained cautious over the path of recovery outlined by Mboweni, with Moody's stating that the lower budget deficits were unlikely to prevent debt from rising. Fitch said the country still faced "severe challenges" to implement fiscal consolidation.

The FTSE/JSE All Bond Index (ALBI) was in the red for the quarter with a -1.7% return as foreign investor demand spluttered. The yield curve continued to flatten as bonds in the 1-3 year maturities sold off more than longer-dated bonds. SA inflation-linked bonds posted another strong performance, delivering 4.6% after 5.4% in the previous quarter as investors sought some inflation protection, and cash (as measured by the STeFI Composite) produced 0.9% for the three-month period.

The FTSE/JSE All Share Index delivered an impressive 13.1% return in rand terms for Q1 2021, benefitting from higher commodity prices and the stronger global and local growth outlooks, as well as re-rating. Gains were led by a strong performance from Resources shares (J258 Index) at 18.7%, while Industrials (J257 Index) delivered 13.0%. More locally-focused sectors were not as impressive but still in the black, with Property (All Property Index) posting an 8.1% return and Financials (J580 Index) producing 3.8%.

Finally, the rand put in a mixed performance against the three major global currencies during the quarter, in an environment which saw general US dollar weakness. The local currency lost 0.8% against the US dollar and 1.8% versus the pound sterling, but was up 3.5% against the euro.

PERFORMANCE

The fund returned 8.5% (after fees) for the first quarter of 2021 and 36.0% for the 12-month period ending 31 March 2021. The fund has delivered a return of 12.9% per annum since its inception in 1999 (after fees), compared to its benchmark of 11.4% per annum over the same period.

The largest asset-class contributors to absolute performance for the quarter were the fund's exposure to SA equities (by far), followed by global equities, and SA listed property to a lesser extent. Global fixed income and SA nominal bonds were the largest detractors from absolute returns.

In terms of specific equity exposure, among the strongest equity contributors to absolute returns for the quarter were the fund's holdings in MTN, as well as resources stocks like Implats, Amplats, Anglo American, Sasol and Exxaro. One of the very few detractors from absolute returns was Multichoice Group.

STRATEGY AND POSITIONING

Starting with our view on **offshore asset allocation**, we made some small changes to our positioning during the quarter in order to reduce some portfolio risk and still take advantage of valuation opportunities. However, we remained slightly overweight global equities versus global bonds, global property and cash. Within our global equity positioning, as US equities were expensive compared to other markets during the quarter, our portfolios continued 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.

During the quarter we took advantage of the strong global equity market recovery and took some profit on our overweight equity position, but remained slightly overweight. At the same time, we also shifted to a neutral weighting from underweight **global government bonds**, adding select exposure, with emerging market government bonds having been particularly attractive. We also opportunistically adjusted exposure to **investment grade corporate credit**, ending the quarter underweight in this asset class. This overall positioning would benefit portfolio returns in the event of a sell-off in risk assets, as fixed interest assets would gain ground.

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 1.8X at the end of March, up from around 1.6X at the beginning of the quarter, but still attractive compared to the market's long-term P/B average of around 2.1X. This positioning contributed strongly to both absolute returns and relative alpha in the fund for the quarter. Forward earnings yield upgrades have started to come through in the local market, especially for Resources companies, and to a lesser extent for Industrials. Even SA bank forward earnings have experienced upgrades, although to a smaller degree.

Within SA equities our stock picking has led to above-market performance in the fund for the quarter thanks to contributions from Resources groups like Anglo American, Implats, Sasol and Amplats. We also continue to prefer large companies that offer sound, high-quality diversification such as Naspers, British American Tobacco, Remgro and MTN. 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 continued to recover over the quarter as the outlook for the economy and consumer financial health improved.

We have kept our substantially underweight positioning in **SA listed property** in Q1 2021. This positioning reflects the ongoing 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 added around 1% in exposure to our holdings as yields rose in March. The fund continues to be tilted towards longer-dated maturities. Although bonds recorded losses over the quarter, the flattening of the yield curve favoured our positioning and helped to cushion losses. As of 31 March, 10-year government bonds yields were still elevated compared to their history, offering around 9.5% versus 9.1% at the start of the quarter, and equating to an after-inflation (real) yield of around 4.5% (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 **inflation-linked bonds (ILBs)** during the quarter, and our client portfolios benefited from this positioning given these assets' significant outperformance versus nominal bonds (nearly 5 percentage points) over the period. The gap between ILB and cash real yields continues to be wide, with real yields on cash currently negative. ILB real yields – at 4.2% for the 10-year maturity as of end March – 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 and other SA assets relatively more attractive. ■

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL ENHANCED SA PROPERTY TRACKER FUND
31 MARCH 2021

QUARTERLY COMMENTARY

PROPERTY

MARKET OVERVIEW

In South Africa, market sentiment was supported by the government securing a supply of vaccines and kicking off phase one of its three-phase vaccination campaign on 17 February, with the aim of vaccinating roughly 67% of the population by the end of the year. Later in the quarter, investors welcomed the news that local manufacturing of the Johnson & Johnson's Covid-19 vaccine had commenced, with 30 million doses earmarked for use in South Africa. However, questions remained over insufficient supply and the slow pace of the rollout, as well as the impact it could still have on growth.

Also helping the improving environment was news that the South African economy grew by an annualised 6.3% q/q in Q4 2020, beating market expectations of a 5% increase, with eight out of 10 industries reporting positive growth in the fourth quarter. As widely expected, the South African Reserve Bank (SARB) left the repo rate unchanged at 3.5% during its 25 March meeting, while also lowering its economic growth forecast for Q1 2021 to -0.2% from 1%. However, it lifted its projected total 2021 GDP growth to 3.8% from 3.5% previously due largely to accelerating global growth prospects. It also moved forward its projected rising interest rate path slightly, pencilling in 25bp rate hikes in each of the second and fourth quarters of the year, compared to the third and fourth quarters previously. Despite this, Governor Lesetja Kganyago stressed that the pace of the country's economic recovery would largely depend on the government's ability to effectively roll out its vaccine programme and mitigate the onset of a third wave of infections.

Finance Minister Tito Mboweni unveiled a better-than-expected national budget in February, which saw the scrapping of proposed personal tax increases in favour of fiscal consolidation and reined-in expenditure to support the pandemic-battered economy. Mboweni proposed a government wage bill cut to help reduce government debt, and to aid in the funding of the free nationwide vaccine programme. Other highlights included the lowering of the corporate income tax rate to 27% as of 1 April 2022, the first reduction since 2008, while the excise duties on alcohol and tobacco products were raised by 8%. Investors, however, remained cautious over the path of recovery outlined by Mboweni, with Moody's stating that the lower budget deficits were unlikely to prevent debt from rising. Fitch said the country still faced "severe challenges" to implement fiscal consolidation.

In other positive news, inflation remained subdued, with headline CPI slowing to 2.9% in February, below the SARB's 3%-6% target range and below market expectations. Also, the government unveiled plans for eight independent power producers to support the nation's struggling power utility, which will consist of solar energy, wind, liquefied natural gas and battery storage, with renewable energy expected to start adding to the grid from August 2022. The project is expected to inject R45bn of private investments into the economy.

Meanwhile, the South African National Treasury published its updated 'Operation Vulindlela' plan, detailing the government's strategy to boost the economy in the wake of the Covid-19 pandemic.

The FTSE/JSE All Share Index delivered an impressive 13.1% return in rand terms for Q1 2021, benefitting from higher commodity prices and the stronger global and local growth outlooks, as well as re-rating. Gains were led by a strong performance from Resources shares (J258 Index) at 18.7%, while Industrials (J257 Index) delivered 13.0%. More locally-focused sectors were not as impressive but still in the black, with Property (All Property Index) posting an 8.1% return and Financials (J580 Index) producing 3.8%.

PERFORMANCE

The fund returned 6.3% (net of fees) for the first quarter of 2021, marginally underperforming its benchmark by 0.1%. For the 12 months ending 31 March 2021, the fund delivered a return of and 31.3%, which is a pleasing recovery following the lows experienced last year. The South African Listed Property Index, meanwhile, returned 34.4% over the same period.

Positive contributors to relative performance over the quarter came from the fund's overweight positions in Tsogo Sun Hotels, Growthpoint Properties and the Dipula Income Fund, with underweight positions in Nepi Rockcastle, EPP and Sirius also adding value over the period. Detracting from relative performance were the fund's underweight positions in Emira, MAS and Resilient.

STRATEGY AND POSITIONING

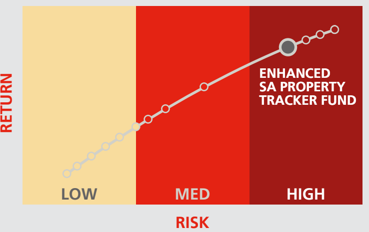
The South African Listed Property Index trades at a forward earnings yield of approximately 11.3% and a forward dividend yield of 9.3%, which we view as attractive given that many companies have resolved to deleverage and retain earnings, which makes them more attractive from a capital structure point of view.

This month we bid farewell to Johny Lambridis, the former co-Fund Manager of the Prudential Enhanced SA Property Tracker Fund, who has emigrated to Australia with his family. We wish Johny and his family all the best in their future endeavours and thank him for his contribution. Yusuf Mowlana will continue managing the fund following Johny's departure. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	D CLASS
1 year	31.3%	34.4%	31.4%	31.5%
3 years	-14.3%	-12.9%	-14.3%	-14.2%
5 years	-10.0%	-9.0%	-10.0%	-9.9%
7 years	-1.7%	-1.2%	n/a	-1.6%
10 years	3.8%	4.4%	n/a	3.9%
Since inception	8.0%	8.5%	-7.5%	4.5%

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

RISK/RETURN PROFILE:



FUND MANAGERS:

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:

R631 816 314

AWARDS:

Morningstar/Standard & Poor's: 2011

DISCLAIMER

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

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL DIVIDEND MAXIMISER FUND
31 MARCH 2021

QUARTERLY COMMENTARY

EQUITY

MARKET OVERVIEW

It was another positive quarter for risk assets around the globe, with investor sentiment supported by progress in vaccine rollouts across many large countries, signs of acceleration in economic growth, and promises of more US government spending in the form of a proposed US$2.25 trillion, eight-year infrastructure spending program by the Biden administration, which would have a positive impact on global growth. However, gains and sentiment were tempered by the continued spread of the Coronavirus and its variants, and their subsequent impact on growth. Another dampener was growing market concerns over higher US inflation and interest rates which led to bond weakness, mainly in the US. However, South African equities outperformed most other emerging and developed markets, recording strong gains for the quarter, coming off low valuations compared to other markets and helped by their Resources exposure.

In the US, consumers started receiving stimulus checks from the government amid a much faster-than-expected vaccination programme rollout that encouraged a more positive outlook among consumers and investors. This was further boosted by the potential of a huge infrastructure spending programme that would add another US$2.25 trillion to the economy over the next eight years.

At its 17 March policy meeting, the US Federal Reserve (Fed) left interest rates unchanged, even as it revised its GDP growth forecast for 2021 sharply higher to 6.5% from 4.2% in the previous quarter. Chairman Jerome Powell indicated that despite rising US Treasury (UST) yields, and a rise in February CPI to 1.7% y/y from 1.5% in January, the central bank was not worried about inflation and would likely keep rates on hold through 2023. This was because they estimate it would take some three years for inflation to return to within the Fed's target range, and because they would tolerate inflation rising above its 2% target for a period of time before raising rates.

Meanwhile, the yield on the 10-year US Treasury bond rose to over 1.7% during the quarter, reaching a one-year high as the yield curve continued to steepen to reflect investors' inflation worries. The difference between the 2-year and 10-year UST yields rose to around 2.3%, its highest level since 2014. However, other developed countries' bonds did not follow suit, with only Canada seeing a small rise, due to their much weaker recoveries.

US equity markets continued to perform well despite their more expensive valuations, as the S&P 500 returned 6.2% for the quarter, the Dow Jones Industrial 30 delivered 8.3%, and the technology-heavy Nasdaq 100 produced 1.8% (all in US$).

In the UK, the mood was buoyed by the exceptionally fast implementation of the country's vaccination programme, which lifted hopes of accelerated growth to come. The government unveiled plans to lift all pandemic restrictions by 21 June, should all things go to plan. Better-than-expected Q4 2020 GDP figures also helped lift sentiment, with the UK economy expanding by 1.0% q/q. At the same time, the Bank of England left its key interest rate unchanged as expected, however reiterated that it would ease monetary policy if needed. February consumer inflation was very subdued at only 0.4% y/y, down from 0.7% the previous month and reflecting the strict lockdown conditions in place over much of the period.

In the EU, the European Commission lowered its GDP forecasts for 2021 from 4.2% to 3.8%, stating that the resurgence of Covid-19 infections and the appearance of more contagious variants had forced many countries to reintroduce lockdown measures. Among the bloc's largest economies, Spain and France are expected to expand at the steepest rates for 2021, with GDP growth forecast at 5.6% and 5.5% respectively. The risks surrounding the Eurozone growth outlook remained tilted to the downside, but became less pronounced due to prospects of a global economic recovery and the launch of vaccination campaigns. Sentiment, however, remained under pressure due to the slow pace at which vaccinations have been rolled out and the impact this would have on the Eurozone's economic recovery. Eurozone GDP shrank by 0.6% q/q in Q4 2020.

Meanwhile, the European Central Bank (ECB) left interest rates on hold at its 11 March policy meeting, emphasizing it would continue its bond purchases and other supportive monetary measures until inflation reached its 2.0% target. Consumer inflation in the Euro area remained steady at 0.9% y/y in February, indicating very little cost pressure in the region.

For the quarter, UK equities outperformed their regional counterparts, helped by the better valuations on offer and its better vaccinations progress. The UK's FTSE 100 returned 5.9%, the German DAX 4.5% and France's CAC 40 5.3% (in US$).

Meanwhile, in Japan the economy advanced at a strong 3.0% q/q pace in Q4 2020, beating market estimates of a 2.3% expansion. For the year 2020, the economy shrank 4.8%, marking the first contraction since 2009. The Bank of Japan left its key short-term interest rate unchanged at -0.1% and maintained the target for the 10-year Japanese government bond yield at around 0%. The central bank also upped its GDP growth projection for the next fiscal year to 3.9% from 3.6%, while the forecast for the current fiscal year shifted marginally from -5.6% to -5.5%. Deflation persisted as consumer prices declined 0.4% y/y in February, however there was a slowdown in the pace of the drop as energy prices rose.

In China, the government's crackdown on large tech companies like Tencent towards the end of the quarter created investor worries of further curbs and tighter regulation to come on other companies, weighing heavily on the local equity market, while Hong Kong equities fared better despite the introduction of further measures to curb democracy in the special administrative region.

News that the People's Bank of China (PBoC) would continue to provide economic support in 2021 helped to counterbalance the negative sentiment, along with reports that it would refrain from sudden shifts in order to provide stability. The PBoC left its benchmark interest rates steady at its February policy meeting, as consumer inflation (deflation) for February was reported at -0.2% y/y and producer inflation came in at 1.7% y/y as months of strong manufacturing growth pushed the costs of raw material higher. In fact, positive data saw non-manufacturing and services PMI both bouncing back sharply in March to 56.3 (from 51.4) and 54.3 (from 51.5) respectively.

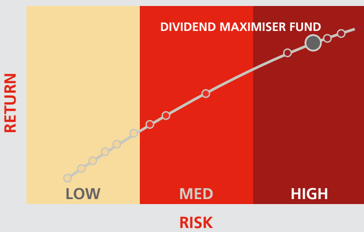
For the first quarter of 2021, Japan's Nikkei 225 was flat, delivering 0.0%, the MSCI China returned -0.4% and Hong Kong's Hang Seng produced 4.3% (in US$).

Among other large emerging equity markets, in US$ terms the MSCI South Africa was by far the top performer for the three months with a 12.3% return, followed by the MSCI India with 5.2% and MSCI Russia with 5.0%. South Korea's KOSPI recorded a 2.3% return, but Brazil's Bovespa lost 9.8% on the back of the uncontrolled spread of the Coronavirus there, and the MSCI Turkey had a disastrous

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	B CLASS	F CLASS
1 year	53.2%	48.5%	53.4%	53.7%	53.8%
3 years	8.3%	5.6%	8.7%	8.7%	9.0%
5 years	7.0%	4.6%	7.3%	7.4%	n/a
7 years	7.0%	4.9%	n/a	7.4%	n/a
10 years	10.4%	8.1%	n/a	10.8%	n/a
Since inception	16.0%	13.1%	6.5%	10.7%	8.1%

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

RISK/RETURN PROFILE:



FUND MANAGERS:
Ross Biggs and Kaitlin Byrne

ASISA CATEGORY:
South African - Equity - General

BENCHMARK:
ASISA South African – Equity - General Category Mean

INCEPTION DATE:
2 August 1999

FUND SIZE:
R3 870 968 696

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

Sources: Prudential, Morningstar & Deutsche Securities

quarter with a -20.2% return following the President's dismissal of the central bank governor and most of his top cabinet officials, among other measures.

South Africa

In South Africa, market sentiment was supported by the government securing a supply of vaccines and kicking off phase one of its three-phase vaccination campaign on 17 February, with the aim of vaccinating roughly 67% of the population by the end of the year. Later in the quarter, investors welcomed the news that local manufacturing of the Johnson & Johnson's Covid-19 vaccine had commenced, with 30 million doses earmarked for use in South Africa. However, questions remained over insufficient supply and the slow pace of the rollout, as well as the impact it could still have on growth.

Also helping the improving environment was news that the South African economy grew by an annualised 6.3% q/q in Q4 2020, beating market expectations of a 5% increase, with eight out of 10 industries reporting positive growth in the fourth quarter. As widely expected, the South African Reserve Bank (SARB) left the repo rate unchanged at 3.5% during its 25 March meeting, while also lowering its economic growth forecast for Q1 2021 to -0.2% from 1%. However, it lifted its projected total 2021 GDP growth to 3.8% from 3.5% previously due largely to accelerating global growth prospects. It also moved forward its projected rising interest rate path slightly, pencilling in 25bp rate hikes in each of the second and fourth quarters of the year, compared to the third and fourth quarters previously. Despite this, Governor Lesetja Kganyago stressed that the pace of the country's economic recovery would largely depend on the government's ability to effectively roll out its vaccine programme and mitigate the onset of a third wave of infections.

Finance Minister Tito Mboweni unveiled a better-than-expected national budget in February, which saw the scrapping of proposed personal tax increases in favour of fiscal consolidation and reined-in expenditure to support the pandemic-battered economy. Mboweni proposed a government wage bill cut to help reduce government debt, and to aid in the funding of the free nationwide vaccine programme. Other highlights included the lowering of the corporate income tax rate to 27% as of 1 April 2022, the first reduction since 2008, while the excise duties on alcohol and tobacco products were raised by 8%. Investors, however, remained cautious over the path of recovery outlined by Mboweni, with Moody's stating that the lower budget deficits were unlikely to prevent debt from rising. Fitch said the country still faced "severe challenges" to implement fiscal consolidation.

In other positive news, inflation remained subdued, with headline CPI slowing to 2.9% in February, below the SARB's 3%-6% target range and below market expectations. Also, the government unveiled plans for eight independent power producers to support the nation's struggling power utility, which will consist of solar energy, wind, liquefied natural gas and battery storage, with renewable energy expected to start adding to the grid from August 2022. The project is expected to inject R45bn of private investments into the economy. Meanwhile, the South African National Treasury published its updated 'Operation Vulindlela' plan, detailing the government's strategy to boost the economy in the wake of the Covid-19 pandemic.

The FTSE/JSE All Share Index delivered an impressive 13.1% return in rand terms for Q1 2021, benefitting from higher commodity prices and the stronger global and local growth outlooks, as well as re-rating. Gains were led by a strong performance from Resources shares (J258 Index) at 18.7%, while Industrials (J257 Index) delivered 13.0%. More locally-focused sectors were not as impressive but still in the black, with Property (All Property Index) posting an 8.1% return and Financials (J580 Index) producing 3.8%.

Finally, the rand put in a mixed performance against the three major global currencies during the quarter, in an environment which saw general US dollar weakness. The local currency lost 0.8% against the US dollar and 1.8% versus the pound sterling, but was up 3.5% against the euro.

PERFORMANCE

The fund delivered a return of 15.1% (net of fees) for the first quarter of 2021, outperforming its benchmark (the average of the general equity funds) by 2.9%. For the year ended 31 March 2021, the fund returned 53.2% (net of fees), outperforming its benchmark by 4.7%.

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

The fund's overweight postion to Textainer Group Holdings was the largest contributor to performance over quarter. Textainer is one of the world's largest container leasing companies and leases containers to shipping companies. The company has had a difficult few years with one of its larger customers, the Hanjin shipping company, declaring bankruptcy in 2016. This put the company under some financial stress, but the company has since done a lot of work in making its balance sheet and funding of the business much stronger. This has enabled it to emerge in a strong position to take advantage of opportunities that have emerged during the Covid-19 lockdown.

We have been exceptionally impressed with how Textainer's management has allocated capital. The company has been able to buy back a substantial number of shares at extremely attractive prices and we think this smart allocation of cash should further accelerate the improvement of returns from the company. The container leasing market's fortunes have rapidly improved over the last year and we think that Textainer's return on equity will also substantially improve. We expect Textainer to resume the payment of dividends this year, which is indeed an exciting milestone for the company and our clients. The share price was up 50% over the quarter and we think that there is still considerable upside.

Motus Holdings was the fund's second largest contributor to performance. We were able to buy a position in the motor car retail and rental company at exceptional prices last year as the market feared the worst for this sector of the market. The company has come through the Covid-19 pandemic exceptionally well and has managed to generate a significant amount of cash flow over the last year. We expect exceptionally low interest rates to be very supportive of car retail in the coming years and expect strong dividend growth from this company over the next three years. The share price appreciated by 57% over the last quarter.

Our underweight position to Royal Bafokeng Platinum was the largest stock detractor from performance over the quarter.The platinum sector has experienced a resurgence in the last two years, supported by substantially higher palladium and rhodium prices, which most platinum miners also produce. This sector's fortunes have rapidly improved where 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. Companies such as Royal Bafokeng and Northam Platinum are bringing on new mines into an exceptionally strong market, with the result that they can rapidly pay down debt. We are very cognisant of the high margins that companies are currently earning, and if these margins persist, we may see further strength in the platinum sector. However, share prices in the platinum sector have now reached a level which discounts a lot of good news. We have therefore moved to an underweight position in the platinum sector.

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 banks. While the Covid-19 shutdown resulted in significant concern around the potential for bad debts in the banking sector, we think that the associated share price falls provide a substantial risk premium. Our preferences in the banking sector remain ABSA, Investec and Standard Bank. While we rate FirstRand and Capitec more highly in terms of quality, we cannot ignore that that they are substantially more highly rated than other banks in the sector.

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 relatively higher attractiveness of the South African market. The fund is approximately 20% invested offshore, mainly through the Prudential Global Equity Fund and the M&G Global Dividend Fund. This offshore allocation was a large detractor for the last quarter, due mainly to the outperformance of the South African equity market relative to offshore markets.

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

Sources: Prudential, Morningstar & Deutsche Securities

STRATEGY AND POSITIONING

We remain optimistic regarding SA equity market returns over the medium term due to the prevailing excessive levels of pessimism reflected in share prices and valuations. Going into the Covid-19 pandemic, the South African market was, in our view, already undervalued and has fallen to levels which we think are exceptionally attractive. The Price-to-Book valuation of the FTSE/JSE Capped SWIX Index remains close to 1.7X at the end of March 2021. 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, in our view, continue to be elevated. These strong commodity prices are not only helpful to the companies mining them, but are also broadly helpful to the South African economy. We have therefore reallocated some capital out of the mining sector and into some SA economy-focused companies.

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 country's deteriorating fiscal position and the potential for further 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. We think that earnings and dividends should show a strong 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 and SA industrial companies.

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.

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. 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. ■

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL EQUITY FUND
31 MARCH 2021

QUARTERLY COMMENTARY

EQUITY

MARKET OVERVIEW

It was another positive quarter for risk assets around the globe, with investor sentiment supported by progress in vaccine rollouts across many large countries, signs of acceleration in economic growth, and promises of more US government spending in the form of a proposed US$2.25 trillion, eight-year infrastructure spending program by the Biden administration, which would have a positive impact on global growth. However, gains and sentiment were tempered by the continued spread of the Coronavirus and its variants, and their subsequent impact on growth. Another dampener was growing market concerns over higher US inflation and interest rates which led to bond weakness, mainly in the US. However, South African equities outperformed most other emerging and developed markets, recording strong gains for the quarter, coming off low valuations compared to other markets and helped by their Resources exposure.

In the US, consumers started receiving stimulus checks from the government amid a much faster-than-expected vaccination programme rollout that encouraged a more positive outlook among consumers and investors. This was further boosted by the potential of a huge infrastructure spending programme that would add another US$2.25 trillion to the economy over the next eight years.

At its 17 March policy meeting, the US Federal Reserve (Fed) left interest rates unchanged, even as it revised its GDP growth forecast for 2021 sharply higher to 6.5% from 4.2% in the previous quarter. Chairman Jerome Powell indicated that despite rising US Treasury (UST) yields, and a rise in February CPI to 1.7% y/y from 1.5% in January, the central bank was not worried about inflation and would likely keep rates on hold through 2023. This was because they estimate it would take some three years for inflation to return to within the Fed's target range, and because they would tolerate inflation rising above its 2% target for a period of time before raising rates.

Meanwhile, the yield on the 10-year US Treasury bond rose to over 1.7% during the quarter, reaching a one-year high as the yield curve continued to steepen to reflect investors' inflation worries. The difference between the 2-year and 10-year UST yields rose to around 2.3%, its highest level since 2014. However, other developed countries' bonds did not follow suit, with only Canada seeing a small rise, due to their much weaker recoveries.

US equity markets continued to perform well despite their more expensive valuations, as the S&P 500 returned 6.2% for the quarter, the Dow Jones Industrial 30 delivered 8.3%, and the technology-heavy Nasdaq 100 produced 1.8% (all in US$).

In the UK, the mood was buoyed by the exceptionally fast implementation of the country's vaccination programme, which lifted hopes of accelerated growth to come. The government unveiled plans to lift all pandemic restrictions by 21 June, should all things go to plan. Better-than-expected Q4 2020 GDP figures also helped lift sentiment, with the UK economy expanding by 1.0% q/q. At the same time, the Bank of England left its key interest rate unchanged as expected, however reiterated that it would ease monetary policy if needed. February consumer inflation was very subdued at only 0.4% y/y, down from 0.7% the previous month and reflecting the strict lockdown conditions in place over much of the period.

In the EU, the European Commission lowered its GDP forecasts for 2021 from 4.2% to 3.8%, stating that the resurgence of Covid-19 infections and the appearance of more contagious variants had forced many countries to reintroduce lockdown measures. Among the bloc's largest economies, Spain and France are expected to expand at the steepest rates for 2021, with GDP growth forecast at 5.6% and 5.5% respectively. The risks surrounding the Eurozone growth outlook remained tilted to the downside, but became less pronounced due to prospects of a global economic recovery and the launch of vaccination campaigns. Sentiment, however, remained under pressure due to the slow pace at which vaccinations have been rolled out and the impact this would have on the Eurozone's economic recovery. Eurozone GDP shrank by 0.6% q/q in Q4 2020.

Meanwhile, the European Central Bank (ECB) left interest rates on hold at its 11 March policy meeting, emphasizing it would continue its bond purchases and other supportive monetary measures until inflation reached its 2.0% target. Consumer inflation in the Euro area remained steady at 0.9% y/y in February, indicating very little cost pressure in the region.

For the quarter, UK equities outperformed their regional counterparts, helped by the better valuations on offer and its better vaccinations progress. The UK's FTSE 100 returned 5.9%, the German DAX 4.5% and France's CAC 40 5.3% (in US$).

Meanwhile, in Japan the economy advanced at a strong 3.0% q/q pace in Q4 2020, beating market estimates of a 2.3% expansion. For the year 2020, the economy shrank 4.8%, marking the first contraction since 2009. The Bank of Japan left its key short-term interest rate unchanged at -0.1% and maintained the target for the 10-year Japanese government bond yield at around 0%. The central bank also upped its GDP growth projection for the next fiscal year to 3.9% from 3.6%, while the forecast for the current fiscal year shifted marginally from -5.6% to -5.5%. Deflation persisted as consumer prices declined 0.4% y/y in February, however there was a slowdown in the pace of the drop as energy prices rose.

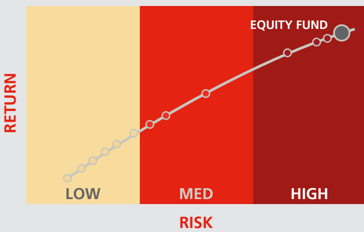
In China, the government's crackdown on large tech companies like Tencent towards the end of the quarter created investor worries of further curbs and tighter regulation to come on other companies, weighing heavily on the local equity market, while Hong Kong equities fared better despite the introduction of further measures to curb democracy in the special administrative region.

News that the People's Bank of China (PBoC) would continue to provide economic support in 2021 helped to counterbalance the negative sentiment, along with reports that it would refrain from sudden shifts in order to provide stability. The PBoC left its benchmark interest rates steady at its February policy meeting, as consumer inflation (deflation) for February was reported at -0.2% y/y and producer inflation came in at 1.7% y/y as months of strong manufacturing growth pushed the costs of raw material higher. In fact, positive data saw non-manufacturing and services PMI both bouncing back sharply in March to 56.3 (from 51.4) and 54.3 (from 51.5) respectively.

For the first quarter of 2021, Japan's Nikkei 225 was flat, delivering 0.0%, the MSCI China returned -0.4% and Hong Kong's Hang Seng produced 4.3% (in US$).

Among other large emerging equity markets, in US$ terms the MSCI South Africa was by far the top performer for the three months with a 12.3% return, followed by the MSCI India with 5.2% and MSCI Russia with 5.0%. South Korea's KOSPI recorded a 2.3% return, but

RISK/RETURN PROFILE:



FUND MANAGERS:
Chris Wood 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 537 999 296

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

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS	F CLASS
1 year	62.6%	48.5%	63.0%	63.3%
3 years	9.5%	5.6%	9.9%	10.3%
5 years	8.3%	4.6%	8.7%	n/a
7 years	7.7%	4.9%	8.2%	n/a
10 years	11.2%	8.1%	11.7%	n/a
Since inception	16.2%	13.1%	11.2%	9.7%

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

Sources: Prudential, Morningstar & Deutsche Securities

Brazil's Bovespa lost 9.8% on the back of the uncontrolled spread of the Coronavirus there, and the MSCI Turkey had a disastrous quarter with a -20.2% return following the President's dismissal of the central bank governor and most of his top cabinet officials, among other measures.

South Africa

In South Africa, market sentiment was supported by the government securing a supply of vaccines and kicking off phase one of its three-phase vaccination campaign on 17 February, with the aim of vaccinating roughly 67% of the population by the end of the year. Later in the quarter, investors welcomed the news that local manufacturing of the Johnson & Johnson's Covid-19 vaccine had commenced, with 30 million doses earmarked for use in South Africa. However, questions remained over insufficient supply and the slow pace of the rollout, as well as the impact it could still have on growth.

Also helping the improving environment was news that the South African economy grew by an annualised 6.3% q/q in Q4 2020, beating market expectations of a 5% increase, with eight out of 10 industries reporting positive growth in the fourth quarter. As widely expected, the South African Reserve Bank (SARB) left the repo rate unchanged at 3.5% during its 25 March meeting, while also lowering its economic growth forecast for Q1 2021 to -0.2% from 1%. However, it lifted its projected total 2021 GDP growth to 3.8% from 3.5% previously due largely to accelerating global growth prospects. It also moved forward its projected rising interest rate path slightly, pencilling in 25bp rate hikes in each of the second and fourth quarters of the year, compared to the third and fourth quarters previously. Despite this, Governor Lesetja Kganyago stressed that the pace of the country's economic recovery would largely depend on the government's ability to effectively roll out its vaccine programme and mitigate the onset of a third wave of infections.

Finance Minister Tito Mboweni unveiled a better-than-expected national budget in February, which saw the scrapping of proposed personal tax increases in favour of fiscal consolidation and reined-in expenditure to support the pandemic-battered economy. Mboweni proposed a government wage bill cut to help reduce government debt, and to aid in the funding of the free nationwide vaccine programme. Other highlights included the lowering of the corporate income tax rate to 27% as of 1 April 2022, the first reduction since 2008, while the excise duties on alcohol and tobacco products were raised by 8%. Investors, however, remained cautious over the path of recovery outlined by Mboweni, with Moody's stating that the lower budget deficits were unlikely to prevent debt from rising. Fitch said the country still faced "severe challenges" to implement fiscal consolidation.

In other positive news, inflation remained subdued, with headline CPI slowing to 2.9% in February, below the SARB's 3%-6% target range and below market expectations. Also, the government unveiled plans for eight independent power producers to support the nation's struggling power utility, which will consist of solar energy, wind, liquefied natural gas and battery storage, with renewable energy expected to start adding to the grid from August 2022. The project is expected to inject R45bn of private investments into the economy. Meanwhile, the South African National Treasury published its updated 'Operation Vulindlela' plan, detailing the government's strategy to boost the economy in the wake of the Covid-19 pandemic.

The FTSE/JSE All Share Index delivered an impressive 13.1% return in rand terms for Q1 2021, benefitting from higher commodity prices and the stronger global and local growth outlooks, as well as re-rating. Gains were led by a strong performance from Resources shares (J258 Index) at 18.7%, while Industrials (J257 Index) delivered 13.0%. More locally-focused sectors were not as impressive but still in the black, with Property (All Property Index) posting an 8.1% return and Financials (J580 Index) producing 3.8%.

Finally, the rand put in a mixed performance against the three major global currencies during the quarter, in an environment which saw general US dollar weakness. The local currency lost 0.8% against the US dollar and 1.8% versus the pound sterling, but was up 3.5% against the euro.

PERFORMANCE

The fund delivered a return of 16.2% (net of fees) for the first quarter of 2021, outperforming its benchmark by 4.0%. For the 12 months ending 31 March 2021, the fund returned 62.6% (net of fees), outperforming its benchmark by 14.1%.

It is particularly pleasing to report that against this period of robust market returns, post the March 2020 sell-off, our stockpicking abilities have delivered alpha both over the three-month and 12-month periods ending 31 March 2021.

During the quarter, key commodity prices either sustained the high prices achieved during the second half of last year (for example iron ore and thermal coal), or rallied further (in the case of rhodium, palladium, copper and crude oil). The strong commodity prices resulted in meaningful earnings upgrades to consensus estimates for the JSE-listed mining stocks (including Sasol), which in turn provided support for further share price gains. In contrast, the gold price fell during the quarter as the safe-haven metal of choice fell out of favour, as risk fears abated, and global bond yields rose.

Within the industrial sectors, the domestic retailers performed well on the back of better-than-expected December trading updates and financial results for those that reported. As a general comment, we have observed many SA-listed businesses that have emerged from last year's Covid-19 induced lockdowns in a stronger position than when they went in. We attribute this to proactive management teams that sought to right-size cost bases in response to the reduced revenues, such that as sales activity returns to pre-lockdown levels, the companies are leaner and more profitable than they were before.

Among the financial shares, the banks and life insurers lagged the broader market performance. The pace of profit recovery and concerns for further bad debts arising from Covid-19-related constraints weighed on the SA banks' share performance, despite the resumption of dividends for Standard Bank and FirstRand.

The fund's overweight positions in MTN (up 44%), Sasol (up 58%) and Impala (up 40%) were key contributors to the outperformance achieved over the quarter.

The primary detractors, offsetting the positive contributions above, came from our overweight positions in Standard Bank (down 1%) and Absa (up 5%), as well as from Multichoice (down 4%) and British American Tobacco (up 5%).

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 banks. While the Covid-19 shutdown resulted in significant concern around the potential for bad debts in the banking sector, we think that the associated share price falls provide a substantial risk premium. During the last quarter one of our largest underperformers was Standard Bank, which is our largest single bank overweight position. We have observed some substantial price volatility between some of the bank share prices over the last year and have opportunistically re-allocated capital between some of the banks while maintaining our overweight positions to the banking sector. Our preferences in the banking sector remain ABSA, Investec and Standard Bank. We also saw opportunity to switch out of Ninety-One in favour of adding to our holding in Coronation, as a result of the more attractive valuation of the latter, while recognising both companies are beneficiaries of increasing assets under management resulting from the rally in underlying asset prices.

While we rate FirstRand and Capitec more highly in terms of quality, we cannot ignore that that they are substantially more highly rated than other banks in the sector.

One of the largest detractors from 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, though mainly due to unfavourable currency moves. The company is addressing these losses by lowering costs though 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. Canal +, owned by

Sources: Prudential, Morningstar & Deutsche Securities

Vivendi, have managed to buy a 12% stake in the company. They are likely to not only see value in the MultiChoice group, but also the potential synergies from co-operation as Canal + operate the dominant pay-TV operator in French- speaking Africa.

STRATEGY AND POSITIONING

The portfolio continues to hold a combination of both Naspers and Prosus, but early in the quarter we elected to reflect stronger preference for Naspers, given the wide discount at which it trades to its 72% stake in Prosus. This was achieved by switching a portion of our holding in Prosus into Naspers, such that the net exposure to the combined companies was maintained while increasing the active position at a Naspers level. Management have been working on what they described as a "substantive transaction" that seeks to unlock value from the discounts that persist between Naspers and its holding in Prosus, and the additional discount between Prosus and its underlying internet investments (of which Tencent is by far the largest).

We remain optimistic regarding SA equity market returns over the medium term due to the prevailing excessive levels of pessimism reflected in share prices and valuations. Going into the Covid-19 pandemic, the South African market in our view was already undervalued and has fallen to levels which we think are exceptionally attractive. The Price-to-Book of the FTSE/JSE Capped SWIX Index remains close to 1.7X at the end of March 2021. 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 remain elevated, in our view. These strong commodity prices are not only helpful to the companies mining them but are also broadly helpful to the South African economy. We have therefore reallocated some capital out of the mining sector and into some SA economy- focused companies.

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 country's deteriorating fiscal position and the potential for further credit downgrades. We are cognisant, however, that these high yields present a challenge for the equity market, as the prospective returns from equities need to compensate investors for the alternative of earning a more certain return in similar- duration bonds.

On market valuations, we currently view the market in South Africa along with many other emerging markets as being very undervalued. We think that earnings and dividends should show a strong 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 and SA industrial companies.

We acknowledge that while it is very difficult to forecast the future and we do not make any attempt to do so, we do spend a lot of time thinking about the economic cycles that various sectors are in, and where valuations are. In this way, we aim to 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. 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. ■

DISCLAIMER

Prudential Portfolio Managers Unit Trusts Ltd (Registration number: 1999/0524/06) is an approved CISCA management company (#29). Assets are managed by Prudential Investment Managers (South Africa) (Pty) Ltd, which is an approved discretionary Financial Services Provider (#45199). The Trustee's/Custodian details are: Standard Bank of South Africa limited – Trustees Services & investor Services. 20th Floor, Main Tower, Standard Bank Centre, Heerengracht, Cape Town. Prudential Portfolio Managers (South Africa) (Pty) Ltd ("PPMSA") is part of the same corporate group as the Prudential Assurance Company. The Prudential Assurance Company is a direct subsidiary of M&G plc, a company incorporated in the United Kingdom. Neither PPMSA or the Prudential Assurance Company are affiliated in any manner with Prudential Financial, Inc., a company whose principal place of business is in the United States of America or Prudential plc, an international group incorporated in the United Kingdom.

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

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL SA EQUITY FUND
31 MARCH 2021

QUARTERLY COMMENTARY

EQUITY

MARKET OVERVIEW

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PERFORMANCE

The fund delivered a return of 15.9% (net of fees) for the first quarter of 2021, outperforming its benchmark by 3.3%. For the 12 months ending 31 March 2021, the fund returned 57.1% (net of fees), outperforming its benchmark by 2.9%. It is particularly pleasing to report that against this period of robust market returns, post the March 2020 sell-off, our stock-picking abilities have delivered alpha both over the three-month and 12-month periods ending 31 March 2021.

During the quarter, key commodity prices either sustained the high prices achieved during the second half of last year (for example iron ore and thermal coal), or rallied further (in the case of rhodium, palladium, copper and crude oil). The strong commodity prices resulted in meaningful earnings upgrades to consensus estimates for the JSE-listed mining stocks (including Sasol), which in turn provided support for further share price gains. In contrast, the gold price fell during the quarter as the safe-haven metal of choice fell out of favour, as risk fears abated, and global bond yields rose.

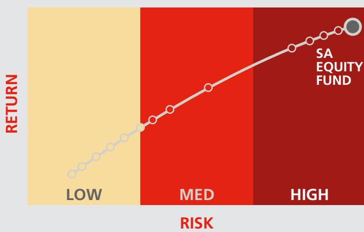
Within the industrial sectors, the domestic retailers performed well on the back of better-than-expected December trading updates and financial results for those that reported. As a general comment, we have observed many SA-listed businesses that have emerged from last year's Covid-19 induced lockdowns in a stronger position than when they went in. We attribute this to proactive management teams that sought to right-size cost bases in response to the reduced revenues, such that as sales activity returns to pre-lockdown levels, the companies are leaner and more profitable than they were before.

Among the financial shares, the banks and life insurers lagged the broader market performance. The pace of profit recovery and concerns for further bad debts arising from Covid-19-related constraints weighed on the SA banks' share performance, despite the resumption of dividends for Standard Bank and FirstRand.

The fund's overweight positions in MTN (up 44%), Sasol (up 58%) and Impala (up 40%) were key contributors to the outperformance achieved over the quarter.

The primary detractors, offsetting the positive contributions above, came from our overweight positions in Standard Bank (down 1%) and Absa (up 5%), as well as from MultiChoice (down 4%) and British American Tobacco (up 5%). In addition, the fund's underweight

RISK/RETURN PROFILE:



FUND MANAGERS:
Ross Biggs, Chris Wood, Leonard Krüger and Aadil Omar

ASISA CATEGORY:
South African - Equity - General

BENCHMARK:
FTSE/JSE Capped SWIX All Share Index

INCEPTION DATE:
21 September 2000

FUND SIZE:
R36 405 842 899

ANNUALISED PERFORMANCE	B CLASS	BENCHMARK*	F CLASS
1 year	58.9%	54.2%	57.1%
3 years	4.5%	4.3%	3.3%
5 years	5.8%	4.8%	n/a
7 years	6.3%	5.6%	n/a
10 years	10.1%	9.1%	n/a
Since inception	15.0%	13.3%	4.9%

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

Sources: Prudential, Morningstar & Deutsche Securities

position in Northam Platinum detracted over the quarter following a strong rally in the rhodium price. However, the fund still achieved an overall positive contribution from the platinum sector given our larger weightings to our preferred platinum counters, Impala and Anglo Platinum.

Our overweight position to Impala Platinum was the third-largest contributor to performance over the last quarter. 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 sectors' fortunes have rapidly improved after many years of earning margins which, on average, were not high enough to 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 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. We are very cognisant of the high margins that companies are currently earning, and if these margins persist, we may see further strength in the platinum sector. Share prices in the platinum sector have now reached a level which discounts a lot of good news. We have therefore moved to an underweight position in the platinum sector.

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 banks. While the Covid-19 shutdown resulted in significant concern around the potential for bad debts in the banking sector, we think that the associated share price falls provide a substantial risk premium. During the last quarter our largest underperformer was Standard Bank, which is our largest single bank overweight position. We have observed some substantial price volatility between some of the bank share prices over the last year and have opportunistically re-allocated capital between some of the banks while maintaining our overweight positions to the banking sector. Our preferences in the banking sector remain ABSA, Investec and Standard Bank. We also saw opportunity to switch out of Ninety-One in favour of adding to our holding in Coronation, as a result of the more attractive valuation of the latter, while recognising both companies are beneficiaries of increasing assets under management resulting from the rally in underlying asset prices.

While we rate FirstRand and Capitec more highly in terms of quality, we cannot ignore that that they are substantially more highly rated than other banks in the sector. Our underweight position to Capitec was in the top five contributors to outperformance over the last quarter.

Our second largest detractor from 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, though mainly due to unfavourable currency moves. The company is addressing these losses by lowering costs though 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. Canal +, owned by Vivendi, have managed to buy a 12% stake in the company. They are likely to not only see value in the Multichoice group, but also the potential synergies from co-operation as Canal + operate the dominant pay-TV operator in French- speaking Africa.

STRATEGY AND POSITIONING

The portfolio continues to hold a combination of both Naspers and Prosus, but early in the quarter we elected to reflect stronger preference for Naspers, given the wide discount at which it trades to its 72% stake in Prosus. This was achieved by switching a portion of our holding in Prosus into Naspers, such that the net exposure to the combined companies was maintained while increasing the active position at a Naspers level. Management have been working on what they described as a "substantive transaction" that seeks to unlock value from the discounts that persist between Naspers and its holding in Prosus, and the additional discount between Prosus and its underlying internet investments (of which Tencent is by far the largest).

We remain optimistic regarding SA equity market returns over the medium term due to the prevailing excessive levels of pessimism reflected in share prices and valuations. Going into the Covid-19 pandemic, the South African market in our view was already undervalued and has fallen to levels which we think are exceptionally attractive. The Price-to-Book valuation of the FTSE/JSE Capped SWIX Index remains close to 1.7X at the end of March 2021. 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 remain elevated, in our view. These strong commodity prices are not only helpful to the companies mining them but are also broadly helpful to the South African economy. We have therefore reallocated some capital out of the mining sector and into some SA economy-focused companies.

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 country's deteriorating fiscal position and the potential for further credit downgrades. We are cognisant, however, that these high yields present a challenge for the equity market, as the prospective returns from equities need to compensate investors for the alternative of earning a more certain return in similar- duration bonds.

On market valuations, we currently view the market in South Africa along with many other emerging markets as being very undervalued. We think that earnings and dividends should show a strong 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 and SA industrial companies.

We acknowledge that while it is very difficult to forecast the future and we do not make any attempt to do so, we do spend a lot of time thinking about the economic cycles that various sectors are in, and where valuations are. In this way, we aim to 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. 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. ■

DISCLAIMER

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

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL BOND FEEDER FUND
31 MARCH 2021

QUARTERLY COMMENTARY | GLOBAL INCOME

MARKET OVERVIEW

It was another positive quarter for risk assets around the globe, with investor sentiment supported by progress in vaccine rollouts across many large countries, signs of acceleration in economic growth, and promises of more US government spending in the form of a proposed US$2.25 trillion, eight-year infrastructure spending program by the Biden administration, which would have a positive impact on global growth. However, gains and sentiment were tempered by the continued spread of the Coronavirus and its variants, and their subsequent impact on growth. Another dampener was growing market concerns over higher US inflation and interest rates which led to bond weakness, mainly in the US. However, South African equities outperformed most other emerging and developed markets, recording strong gains for the quarter, coming off low valuations compared to other markets and helped by their Resources exposure.

In the US, consumers started receiving stimulus checks from the government amid a much faster-than-expected vaccination programme rollout that encouraged a more positive outlook among consumers and investors. This was further boosted by the potential of a huge infrastructure spending programme that would add another US$2.25 trillion to the economy over the next eight years.

At its 17 March policy meeting, the US Federal Reserve (Fed) left interest rates unchanged, even as it revised its GDP growth forecast for 2021 sharply higher to 6.5% from 4.2% in the previous quarter. Chairman Jerome Powell indicated that despite rising US Treasury (UST) yields, and a rise in February CPI to 1.7% y/y from 1.5% in January, the central bank was not worried about inflation and would likely keep rates on hold through 2023. This was because they estimate it would take some three years for inflation to return to within the Fed's target range, and because they would tolerate inflation rising above its 2% target for a period of time before raising rates.

Meanwhile, the yield on the 10-year US Treasury bond rose to over 1.7% during the quarter, reaching a one-year high as the yield curve continued to steepen to reflect investors' inflation worries. The difference between the 2-year and 10-year UST yields rose to around 2.3%, its highest level since 2014. However, other developed countries' bonds did not follow suit, with only Canada seeing a small rise, due to their much weaker recoveries.

In the UK, the mood was buoyed by the exceptionally fast implementation of the country's vaccination programme, which lifted hopes of accelerated growth to come. The government unveiled plans to lift all pandemic restrictions by 21 June, should all things go to plan. Better-than-expected Q4 2020 GDP figures also helped lift sentiment, with the UK economy expanding by 1.0% q/q. At the same time, the Bank of England left its key interest rate unchanged as expected, however reiterated that it would ease monetary policy if needed. February consumer inflation was very subdued at only 0.4% y/y, down from 0.7% the previous month and reflecting the strict lockdown conditions in place over much of the period.

In the EU, the European Commission lowered its GDP forecasts for 2021 from 4.2% to 3.8%, stating that the resurgence of Covid-19 infections and the appearance of more contagious variants had forced many countries to reintroduce lockdown measures. Among the bloc's largest economies, Spain and France are expected to expand at the steepest rates for 2021, with GDP growth forecast at 5.6% and 5.5% respectively. The risks surrounding the Eurozone growth outlook remained tilted to the downside, but became less pronounced due to prospects of a global economic recovery and the launch of vaccination campaigns. Sentiment, however, remained under pressure due to the slow pace at which vaccinations have been rolled out and the impact this would have on the Eurozone's economic recovery. Eurozone GDP shrank by 0.6% q/q in Q4 2020.

Meanwhile, the European Central Bank (ECB) left interest rates on hold at its 11 March policy meeting, emphasizing it would continue its bond purchases and other supportive monetary measures until inflation reached its 2.0% target. Consumer inflation in the Euro area remained steady at 0.9% y/y in February, indicating very little cost pressure in the region.

In Japan the economy advanced at a strong 3.0% q/q pace in Q4 2020, beating market estimates of a 2.3% expansion. For the year 2020, the economy shrank 4.8%, marking the first contraction since 2009. The Bank of Japan left its key short-term interest rate unchanged at -0.1% and maintained the target for the 10-year Japanese government bond yield at around 0%. The central bank also upped its GDP growth projection for the next fiscal year to 3.9% from 3.6%, while the forecast for the current fiscal year shifted marginally from -5.6% to -5.5%. Deflation persisted as consumer prices declined 0.4% y/y in February, however there was a slowdown in the pace of the drop as energy prices rose.

In China, the government's crackdown on large tech companies like Tencent towards the end of the quarter created investor worries of further curbs and tighter regulation to come on other companies, weighing heavily on the local equity market, while Hong Kong equities fared better despite the introduction of further measures to curb democracy in the special administrative region.

News that the People's Bank of China (PBoC) would continue to provide economic support in 2021 helped to counterbalance the negative sentiment, along with reports that it would refrain from sudden shifts in order to provide stability. The PBoC left its benchmark interest rates steady at its February policy meeting, as consumer inflation (deflation) for February was reported at -0.2% y/y and producer inflation came in at 1.7% y/y as months of strong manufacturing growth pushed the costs of raw material higher. In fact, positive data saw non-manufacturing and services PMI both bouncing back sharply in March to 56.3 (from 51.4) and 54.3 (from 51.5) respectively.

Finally, the rand put in a mixed performance against the three major global currencies during the quarter, in an environment which saw general US dollar weakness. The local currency lost 0.8% against the US dollar and 1.8% versus the pound sterling, but was up 3.5% against the euro.

PERFORMANCE

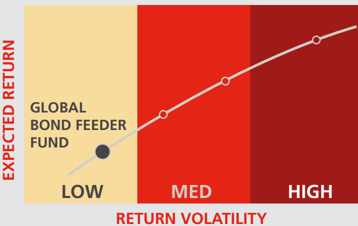
The fund delivered a return of -5.1% (net of fees) for the first quarter of 2021, underperforming its benchmark by 1.4%. For the year ended 31 March 2021, the fund returned -8.1% (net of fees), outperforming its benchmark by 5.3%.

Detracting from absolute performance over the quarter was the fund's exposure to investment grade bonds (US dollar, euro and pound sterling), US Treasuries, Japanese government bonds, and emerging market hard-currency bonds (in both US dollar and euro hedged share classes).

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	-8.1%	-13.4%	-7.8%
3 years	9.7%	10.6%	n/a
5 years	2.7%	2.7%	n/a
7 years	6.0%	7.1%	n/a
10 years	10.5%	10.5%	n/a
Since inception	8.2%	8.4%	8.8%

Inception date B Class: 2 July 2018

RISK/RETURN PROFILE:



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

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

ASISA CATEGORY:
Global - Interest Beating - Variable Term

BENCHMARK:
Bloomberg Barclays Global Aggregate Bond Index

INCEPTION DATE:
27 October 2000

FUND SIZE:
R605 086 190

Sources: Prudential, Morningstar & Deutsche Securities

STRATEGY AND POSITIONING

The fund positioning continues to reflect our preference for emerging market government bonds, both local (e.g. South African rand denominated bonds) and hard currency.

During the quarter, we initially reduced our exposure to investment grade credit, as spreads had tightened materially. Later in the quarter, upon further tightening, we again reduced the investment grade credit position in favour of local currency emerging market bonds. In order to maintain portfolio duration, we also increased exposure to 30-year US Treasuries.

We remain highly active within the global bond asset class, seeking positive bets on emerging market government bonds, both hard and soft currency, and soft currency investment grade corporate bonds due to the better real yields on offer compared to developed market government bonds (where we tend to be underweight versus the benchmark). Spreads in developed market investment grade and high yield credit have become increasingly tight, leaving only emerging market hard currency and local currency debt as offering fair yields, in our view. We also 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. ■

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Sources: Prudential, Morningstar & Deutsche Securities

QUARTERLY COMMENTARY

GLOBAL MULTI-ASSET

MARKET OVERVIEW

It was another positive quarter for risk assets around the globe, with investor sentiment supported by progress in vaccine rollouts across many large countries, signs of acceleration in economic growth, and promises of more US government spending in the form of a proposed US$2.25 trillion, eight-year infrastructure spending program by the Biden administration, which would have a positive impact on global growth. However, gains and sentiment were tempered by the continued spread of the Coronavirus and its variants, and their subsequent impact on growth. Another dampener was growing market concerns over higher US inflation and interest rates which led to bond weakness, mainly in the US. However, South African equities outperformed most other emerging and developed markets, recording strong gains for the quarter, coming off low valuations compared to other markets and helped by their Resources exposure.

In the US, consumers started receiving stimulus checks from the government amid a much faster-than-expected vaccination programme rollout that encouraged a more positive outlook among consumers and investors. This was further boosted by the potential of a huge infrastructure spending programme that would add another US$2.25 trillion to the economy over the next eight years.

At its 17 March policy meeting, the US Federal Reserve (Fed) left interest rates unchanged, even as it revised its GDP growth forecast for 2021 sharply higher to 6.5% from 4.2% in the previous quarter. Chairman Jerome Powell indicated that despite rising US Treasury (UST) yields, and a rise in February CPI to 1.7% y/y from 1.5% in January, the central bank was not worried about inflation and would likely keep rates on hold through 2023. This was because they estimate it would take some three years for inflation to return to within the Fed's target range, and because they would tolerate inflation rising above its 2% target for a period of time before raising rates.

Meanwhile, the yield on the 10-year US Treasury bond rose to over 1.7% during the quarter, reaching a one-year high as the yield curve continued to steepen to reflect investors' inflation worries. The difference between the 2-year and 10-year UST yields rose to around 2.3%, its highest level since 2014. However, other developed countries' bonds did not follow suit, with only Canada seeing a small rise, due to their much weaker recoveries.

US equity markets continued to perform well despite their more expensive valuations, as the S&P 500 returned 6.2% for the quarter, the Dow Jones Industrial 30 delivered 8.3%, and the technology-heavy Nasdaq 100 produced 1.8% (all in US$).

In the UK, the mood was buoyed by the exceptionally fast implementation of the country's vaccination programme, which lifted hopes of accelerated growth to come. The government unveiled plans to lift all pandemic restrictions by 21 June, should all things go to plan. Better-than-expected Q4 2020 GDP figures also helped lift sentiment, with the UK economy expanding by 1.0% q/q. At the same time, the Bank of England left its key interest rate unchanged as expected, however reiterated that it would ease monetary policy if needed. February consumer inflation was very subdued at only 0.4% y/y, down from 0.7% the previous month and reflecting the strict lockdown conditions in place over much of the period.

In the EU, the European Commission lowered its GDP forecasts for 2021 from 4.2% to 3.8%, stating that the resurgence of Covid-19 infections and the appearance of more contagious variants had forced many countries to reintroduce lockdown measures. Among the bloc's largest economies, Spain and France are expected to expand at the steepest rates for 2021, with GDP growth forecast at 5.6% and 5.5% respectively. The risks surrounding the Eurozone growth outlook remained tilted to the downside, but became less pronounced due to prospects of a global economic recovery and the launch of vaccination campaigns. Sentiment, however, remained under pressure due to the slow pace at which vaccinations have been rolled out and the impact this would have on the Eurozone's economic recovery. Eurozone GDP shrank by 0.6% q/q in Q4 2020.

Meanwhile, the European Central Bank (ECB) left interest rates on hold at its 11 March policy meeting, emphasizing it would continue its bond purchases and other supportive monetary measures until inflation reached its 2.0% target. Consumer inflation in the Euro area remained steady at 0.9% y/y in February, indicating very little cost pressure in the region.

For the quarter, UK equities outperformed their regional counterparts, helped by the better valuations on offer and its better vaccinations progress. The UK's FTSE 100 returned 5.9%, the German DAX 4.5% and France's CAC 40 5.3% (in US$).

Meanwhile, in Japan the economy advanced at a strong 3.0% q/q pace in Q4 2020, beating market estimates of a 2.3% expansion. For the year 2020, the economy shrank 4.8%, marking the first contraction since 2009. The Bank of Japan left its key short-term interest rate unchanged at -0.1% and maintained the target for the 10-year Japanese government bond yield at around 0%. The central bank also upped its GDP growth projection for the next fiscal year to 3.9% from 3.6%, while the forecast for the current fiscal year shifted marginally from -5.6% to -5.5%. Deflation persisted as consumer prices declined 0.4% y/y in February, however there was a slowdown in the pace of the drop as energy prices rose.

In China, the government's crackdown on large tech companies like Tencent towards the end of the quarter created investor worries of further curbs and tighter regulation to come on other companies, weighing heavily on the local equity market, while Hong Kong equities fared better despite the introduction of further measures to curb democracy in the special administrative region.

News that the People's Bank of China (PBoC) would continue to provide economic support in 2021 helped to counterbalance the negative sentiment, along with reports that it would refrain from sudden shifts in order to provide stability. The PBoC left its benchmark interest rates steady at its February policy meeting, as consumer inflation (deflation) for February was reported at -0.2% y/y and producer inflation came in at 1.7% y/y as months of strong manufacturing growth pushed the costs of raw material higher. In fact, positive data saw non-manufacturing and services PMI both bouncing back sharply in March to 56.3 (from 51.4) and 54.3 (from 51.5) respectively.

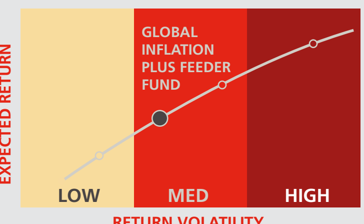
For the first quarter of 2021, Japan's Nikkei 225 was flat, delivering 0.0%, the MSCI China returned -0.4% and Hong Kong's Hang Seng produced 4.3% (in US$).

Among other large emerging equity markets, in US$ terms the MSCI South Africa was by far the top performer for the three months with a 12.3% return, followed by the MSCI India with 5.2% and MSCI Russia with 5.0%. South Korea's KOSPI recorded a 2.3% return, but Brazil's Bovespa lost 9.8% on the back of the uncontrolled spread

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK*	B CLASS
1 year	3.3%	-16.3%	3.7%
3 years	11.6%	7.3%	12.0%
5 years	4.8%	1.6%	5.1%
7 years	7.8%	5.7%	8.1%
10 years	10.4%	8.9%	n/a
Since inception	7.8%	6.4%	8.7%

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

RISK/RETURN PROFILE:



INVESTMENT MANAGER 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:

R187 424 269

Sources: Prudential, Morningstar & Deutsche Securities

of the Coronavirus there, and the MSCI Turkey had a disastrous quarter with a -20.2% return following the President's dismissal of the central bank governor and most of his top cabinet officials, among other measures.

Finally, the rand put in a mixed performance against the three major global currencies during the quarter, in an environment which saw general US dollar weakness. The local currency lost 0.8% against the US dollar and 1.8% versus the pound sterling, but was up 3.5% against the euro.

PERFORMANCE

The fund delivered a return of -0.4% (net of fees) for the first quarter of 2021, while global inflation, expressed in rands, measured 1.7%. For the year ended 31 March 2021, the fund returned 3.3% (net of fees), while global inflation measured -16.3% year-on-year.

Contributors to absolute performance over the quarter came from the fund's exposure to US, Japanese and European equities. Exposure to US Treasuries, US and European investment grade corporate bonds, and Indonesian equities were the main detractors from absolute performance over the period.

STRATEGY AND POSITIONING

The fund remains tilted in favour of corporate credit and emerging market sovereign bonds in the fixed income portion, whilst also remaining constructive on equities.

Early in the quarter, we reduced equity exposure following very strong price performance. We also scaled back exposure to investment grade credit, as spreads had tightened materially. In order to maintain portfolio duration, we also increased exposure to 30-year US Treasuries.

A year after the coronavirus pandemic began, the world economy appears to be recovering from the depths of the crisis. Economies are starting to reopen, supported by monetary and fiscal stimulus, together with the vaccination programme. However, the rebound has not been uniform; the US seems to be leading the way while Europe lags behind, both in terms of the size of the stimulus being offered and the vaccine rollout. Furthermore, some countries in Europe are having to re-enter lockdown while the US and, to some extent, the UK are reopening their economies.

While there is certainly a possibility that the massive stimulus package in the US could lead to overheating and higher inflation, the disinflationary forces that have suppressed inflation for decades still persist. However, we do not know if and when inflation might increase, though, in our view, it seems unlikely that we will see significantly higher US interest rates in the short term.

Given the generally buoyant expectations for economic growth and corporate earnings, we are alert to the possibility of increased volatility should this perception be challenged. Potential triggers seem likely to include inflation, the timing of the first Fed rate increase, and equity valuations in a higher-rate environment. ■

DISCLAIMER

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

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL BALANCED FEEDER FUND
31 MARCH 2021

QUARTERLY COMMENTARY

GLOBAL MULTI-ASSET

MARKET OVERVIEW

It was another positive quarter for risk assets around the globe, with investor sentiment supported by progress in vaccine rollouts across many large countries, signs of acceleration in economic growth, and promises of more US government spending in the form of a proposed US$2.25 trillion, eight-year infrastructure spending program by the Biden administration, which would have a positive impact on global growth. However, gains and sentiment were tempered by the continued spread of the Coronavirus and its variants, and their subsequent impact on growth. Another dampener was growing market concerns over higher US inflation and interest rates which led to bond weakness, mainly in the US. However, South African equities outperformed most other emerging and developed markets, recording strong gains for the quarter, coming off low valuations compared to other markets and helped by their Resources exposure.

In the US, consumers started receiving stimulus checks from the government amid a much faster-than-expected vaccination programme rollout that encouraged a more positive outlook among consumers and investors. This was further boosted by the potential of a huge infrastructure spending programme that would add another US$2.25 trillion to the economy over the next eight years.

At its 17 March policy meeting, the US Federal Reserve (Fed) left interest rates unchanged, even as it revised its GDP growth forecast for 2021 sharply higher to 6.5% from 4.2% in the previous quarter. Chairman Jerome Powell indicated that despite rising US Treasury (UST) yields, and a rise in February CPI to 1.7% y/y from 1.5% in January, the central bank was not worried about inflation and would likely keep rates on hold through 2023. This was because they estimate it would take some three years for inflation to return to within the Fed's target range, and because they would tolerate inflation rising above its 2% target for a period of time before raising rates.

Meanwhile, the yield on the 10-year US Treasury bond rose to over 1.7% during the quarter, reaching a one-year high as the yield curve continued to steepen to reflect investors' inflation worries. The difference between the 2-year and 10-year UST yields rose to around 2.3%, its highest level since 2014. However, other developed countries' bonds did not follow suit, with only Canada seeing a small rise, due to their much weaker recoveries.

US equity markets continued to perform well despite their more expensive valuations, as the S&P 500 returned 6.2% for the quarter, the Dow Jones Industrial 30 delivered 8.3%, and the technology-heavy Nasdaq 100 produced 1.8% (all in US$).

In the UK, the mood was buoyed by the exceptionally fast implementation of the country's vaccination programme, which lifted hopes of accelerated growth to come. The government unveiled plans to lift all pandemic restrictions by 21 June, should all things go to plan. Better-than-expected Q4 2020 GDP figures also helped lift sentiment, with the UK economy expanding by 1.0% q/q. At the same time, the Bank of England left its key interest rate unchanged as expected, however reiterated that it would ease monetary policy if needed. February consumer inflation was very subdued at only 0.4% y/y, down from 0.7% the previous month and reflecting the strict lockdown conditions in place over much of the period.

In the EU, the European Commission lowered its GDP forecasts for 2021 from 4.2% to 3.8%, stating that the resurgence of Covid-19 infections and the appearance of more contagious variants had forced many countries to reintroduce lockdown measures. Among the bloc's largest economies, Spain and France are expected to expand at the steepest rates for 2021, with GDP growth forecast at 5.6% and 5.5% respectively. The risks surrounding the Eurozone growth outlook remained tilted to the downside, but became less pronounced due to prospects of a global economic recovery and the launch of vaccination campaigns. Sentiment, however, remained under pressure due to the slow pace at which vaccinations have been rolled out and the impact this would have on the Eurozone's economic recovery. Eurozone GDP shrank by 0.6% q/q in Q4 2020.

Meanwhile, the European Central Bank (ECB) left interest rates on hold at its 11 March policy meeting, emphasizing it would continue its bond purchases and other supportive monetary measures until inflation reached its 2.0% target. Consumer inflation in the Euro area remained steady at 0.9% y/y in February, indicating very little cost pressure in the region.

For the quarter, UK equities outperformed their regional counterparts, helped by the better valuations on offer and its better vaccinations progress. The UK's FTSE 100 returned 5.9%, the German DAX 4.5% and France's CAC 40 5.3% (in US$).

Meanwhile, in Japan the economy advanced at a strong 3.0% q/q pace in Q4 2020, beating market estimates of a 2.3% expansion. For the year 2020, the economy shrank 4.8%, marking the first contraction since 2009. The Bank of Japan left its key short-term interest rate unchanged at -0.1% and maintained the target for the 10-year Japanese government bond yield at around 0%. The central bank also upped its GDP growth projection for the next fiscal year to 3.9% from 3.6%, while the forecast for the current fiscal year shifted marginally from -5.6% to -5.5%. Deflation persisted as consumer prices declined 0.4% y/y in February, however there was a slowdown in the pace of the drop as energy prices rose.

In China, the government's crackdown on large tech companies like Tencent towards the end of the quarter created investor worries of further curbs and tighter regulation to come on other companies, weighing heavily on the local equity market, while Hong Kong equities fared better despite the introduction of further measures to curb democracy in the special administrative region.

News that the People's Bank of China (PBoC) would continue to provide economic support in 2021 helped to counterbalance the negative sentiment, along with reports that it would refrain from sudden shifts in order to provide stability. The PBoC left its benchmark interest rates steady at its February policy meeting, as consumer inflation (deflation) for February was reported at -0.2% y/y and producer inflation came in at 1.7% y/y as months of strong manufacturing growth pushed the costs of raw material higher. In fact, positive data saw non-manufacturing and services PMI both bouncing back sharply in March to 56.3 (from 51.4) and 54.3 (from 51.5) respectively.

For the first quarter of 2021, Japan's Nikkei 225 was flat, delivering 0.0%, the MSCI China returned -0.4% and Hong Kong's Hang Seng produced 4.3% (in US$).

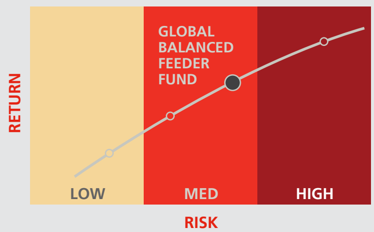
Among other large emerging equity markets, in US$ terms the MSCI South Africa was by far the top performer for the three months with a 12.3% return, followed by the MSCI India with 5.2% and MSCI Russia with 5.0%. South Korea's KOSPI recorded a 2.3% return, but Brazil's Bovespa lost 9.8% on the back of the uncontrolled spread of the Coronavirus there, and the MSCI Turkey had a disastrous quarter with a -20.2% return following the President's dismissal of the central bank governor and most of his top cabinet officials, among other measures.

Finally, the rand put in a mixed performance against the three major global currencies during the quarter, in an environment which saw

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	14.1%	13.2%	14.1%
2 years	10.2%	13.9%	10.2%
Since inception	8.7%	13.1%	8.8%

Inception date B Class: 28 June 2018

RISK/RETURN PROFILE:



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

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

ASISA CATEGORY:
Global - Multi Asset - High Equity

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

INCEPTION DATE:
28 June 2018

FUND SIZE:
R30 332 463

Sources: Prudential, Morningstar & Deutsche Securities

general US dollar weakness. The local currency lost 0.8% against the US dollar and 1.8% versus the pound sterling, but was up 3.5% against the euro.

PERFORMANCE

The fund delivered a return of 3.3% (net of fees) for the first quarter of 2021, outperforming its benchmark by 0.3%. For the year ended 31 March 2021, the fund returned 14.1% (net of fees), outperforming its benchmark by 0.9%.

Contributors to absolute performance over the quarter came from the fund's broad exposure to global equities (particularly from the US), as well as property. Exposure to US Treasuries as well as US and European investment grade corporate bonds were the main detractors from absolute performance over the period.

STRATEGY AND POSITIONING

The fund continues to have a clear preference for equities over government bonds, particularly those from Japan, Europe and the UK. We are constructive on emerging market hard currency and local debt. Early in the quarter, we reduced the fund's equity exposure following very strong price performance. We also scaled back exposure to investment grade credit, as spreads had tightened materially.

A year after the coronavirus pandemic began, the world economy appears to be recovering from the depths of the crisis. Economies are starting to reopen, supported by monetary and fiscal stimulus, together with the vaccination programme. However, the rebound has not been uniform; the US seems to be leading the way while Europe lags behind, both in terms of the size of the stimulus being offered and the vaccine rollout. Furthermore, some countries in Europe are having to re-enter lockdown while the US and, to some extent, the UK are reopening their economies.

While there is certainly a possibility that the massive stimulus package in the US could lead to overheating and higher inflation, the disinflationary forces that have suppressed inflation for decades still persist. However, we do not know if and when inflation might increase, though, in our view, it seems unlikely that we will see significantly higher US interest rates in the short term.

Given the generally buoyant expectations for economic growth and corporate earnings, we are alert to the possibility of increased volatility should this perception be challenged. Potential triggers seem likely to include inflation, the timing of the first Fed rate increase, and equity valuations in a higher-rate environment. ■

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL EQUITY FEEDER FUND
31 MARCH 2021

QUARTERLY COMMENTARY

GLOBAL EQUITY

MARKET OVERVIEW

It was another positive quarter for risk assets around the globe, with investor sentiment supported by progress in vaccine rollouts across many large countries, signs of acceleration in economic growth, and promises of more US government spending in the form of a proposed US$2.25 trillion, eight-year infrastructure spending program by the Biden administration, which would have a positive impact on global growth. However, gains and sentiment were tempered by the continued spread of the Coronavirus and its variants, and their subsequent impact on growth. Another dampener was growing market concerns over higher US inflation and interest rates which led to bond weakness, mainly in the US. However, South African equities outperformed most other emerging and developed markets, recording strong gains for the quarter, coming off low valuations compared to other markets and helped by their Resources exposure.

In the US, consumers started receiving stimulus checks from the government amid a much faster-than-expected vaccination programme rollout that encouraged a more positive outlook among consumers and investors. This was further boosted by the potential of a huge infrastructure spending programme that would add another US$2.25 trillion to the economy over the next eight years.

At its 17 March policy meeting, the US Federal Reserve (Fed) left interest rates unchanged, even as it revised its GDP growth forecast for 2021 sharply higher to 6.5% from 4.2% in the previous quarter. Chairman Jerome Powell indicated that despite rising US Treasury (UST) yields, and a rise in February CPI to 1.7% y/y from 1.5% in January, the central bank was not worried about inflation and would likely keep rates on hold through 2023. This was because they estimate it would take some three years for inflation to return to within the Fed's target range, and because they would tolerate inflation rising above its 2% target for a period of time before raising rates.

Meanwhile, the yield on the 10-year US Treasury bond rose to over 1.7% during the quarter, reaching a one-year high as the yield curve continued to steepen to reflect investors' inflation worries. The difference between the 2-year and 10-year UST yields rose to around 2.3%, its highest level since 2014. However, other developed countries' bonds did not follow suit, with only Canada seeing a small rise, due to their much weaker recoveries.

US equity markets continued to perform well despite their more expensive valuations, as the S&P 500 returned 6.2% for the quarter, the Dow Jones Industrial 30 delivered 8.3%, and the technology-heavy Nasdaq 100 produced 1.8% (all in US$).

In the UK, the mood was buoyed by the exceptionally fast implementation of the country's vaccination programme, which lifted hopes of accelerated growth to come. The government unveiled plans to lift all pandemic restrictions by 21 June, should all things go to plan. Better-than-expected Q4 2020 GDP figures also helped lift sentiment, with the UK economy expanding by 1.0% q/q. At the same time, the Bank of England left its key interest rate unchanged as expected, however reiterated that it would ease monetary policy if needed. February consumer inflation was very subdued at only 0.4% y/y, down from 0.7% the previous month and reflecting the strict lockdown conditions in place over much of the period.

In the EU, the European Commission lowered its GDP forecasts for 2021 from 4.2% to 3.8%, stating that the resurgence of Covid-19 infections and the appearance of more contagious variants had forced many countries to reintroduce lockdown measures. Among the bloc's largest economies, Spain and France are expected to expand at the steepest rates for 2021, with GDP growth forecast at 5.6% and 5.5% respectively. The risks surrounding the Eurozone growth outlook remained tilted to the downside, but became less pronounced due to prospects of a global economic recovery and the launch of vaccination campaigns. Sentiment, however, remained under pressure due to the slow pace at which vaccinations have been rolled out and the impact this would have on the Eurozone's economic recovery. Eurozone GDP shrank by 0.6% q/q in Q4 2020.

Meanwhile, the European Central Bank (ECB) left interest rates on hold at its 11 March policy meeting, emphasizing it would continue its bond purchases and other supportive monetary measures until inflation reached its 2.0% target. Consumer inflation in the Euro area remained steady at 0.9% y/y in February, indicating very little cost pressure in the region.

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Meanwhile, in Japan the economy advanced at a strong 3.0% q/q pace in Q4 2020, beating market estimates of a 2.3% expansion. For the year 2020, the economy shrank 4.8%, marking the first contraction since 2009. The Bank of Japan left its key short-term interest rate unchanged at -0.1% and maintained the target for the 10-year Japanese government bond yield at around 0%. The central bank also upped its GDP growth projection for the next fiscal year to 3.9% from 3.6%, while the forecast for the current fiscal year shifted marginally from -5.6% to -5.5%. Deflation persisted as consumer prices declined 0.4% y/y in February, however there was a slowdown in the pace of the drop as energy prices rose.

In China, the government's crackdown on large tech companies like Tencent towards the end of the quarter created investor worries of further curbs and tighter regulation to come on other companies, weighing heavily on the local equity market, while Hong Kong equities fared better despite the introduction of further measures to curb democracy in the special administrative region.

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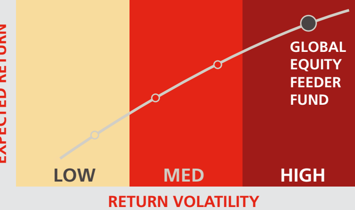
For the first quarter of 2021, Japan's Nikkei 225 was flat, delivering 0.0%, the MSCI China returned -0.4% and Hong Kong's Hang Seng produced 4.3% (in US$).

Among other large emerging equity markets, in US$ terms the MSCI South Africa was by far the top performer for the three months with a 12.3% return, followed by the MSCI India with 5.2% and MSCI Russia with 5.0%. South Korea's KOSPI recorded a 2.3% return, but Brazil's Bovespa lost 9.8% on the back of the uncontrolled spread of the Coronavirus there, and the MSCI Turkey had a disastrous

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	34.5%	27.9%	35.0%
3 years	18.2%	20.6%	n/a
5 years	11.6%	13.3%	n/a
7 years	12.9%	14.8%	n/a
10 years	15.7%	18.0%	n/a
Since inception	8.0%	9.4%	15.9%

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:
R425 726 098

Sources: Prudential, Morningstar & Deutsche Securities

quarter with a -20.2% return following the President's dismissal of the central bank governor and most of his top cabinet officials, among other measures.

Finally, the rand put in a mixed performance against the three major global currencies during the quarter, in an environment which saw general US dollar weakness. The local currency lost 0.8% against the US dollar and 1.8% versus the pound sterling, but was up 3.5% against the euro.

PERFORMANCE

The fund delivered a return of 11.7% (net of fees) for the first quarter of 2021, outperforming its benchmark by 6.3%. For the year ended 31 March 2021, the fund returned 34.5% (net of fees), outperforming its benchmark by 6.7%.

Style had a small but positive contribution over the quarter, with exposure to smaller companies, cheap value and high trading activity more than compensating for 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, high volatility and smaller cap companies, while being relatively neutral to value.

A year after the Coronavirus pandemic began, the world economy appears to be recovering from the depths of the crisis. Economies are starting to reopen, supported by monetary and fiscal stimulus, together with the vaccination programme. However, the rebound has not been uniform; the US seems to be leading the way while Europe lags behind, both in terms of the size of the stimulus being offered and the vaccine rollout. Furthermore, some countries in Europe are having to re-enter lockdown while the US and, to some extent, the UK are reopening their economies.

While there is certainly a possibility that the massive stimulus package in the US could lead to overheating and higher inflation, the disinflationary forces that have suppressed inflation for decades still persist. However, we do not know if and when inflation might increase, though, in our view, it seems unlikely that we will see significantly higher US interest rates in the short term.

Given the generally buoyant expectations for economic growth and corporate earnings, we are alert to the possibility of increased volatility should this perception be challenged. Potential triggers seem likely to include inflation, the timing of the first Fed rate increase, and equity valuations in a higher-rate environment. ■

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Sources: Prudential, Morningstar & Deutsche Securities

QUARTERLY COMMENTARY

TARGET INCOME

MARKET OVERVIEW

It was another positive quarter for risk assets around the globe, with investor sentiment supported by progress in vaccine rollouts across many large countries, signs of acceleration in economic growth, and promises of more US government spending in the form of a proposed US$2.25 trillion infrastructure spending programme over the next eight years by the Biden administration, which would have a positive impact on global growth. However, gains and sentiment were tempered by the continued spread of the Coronavirus and its variants, and their subsequent impact on growth. Another dampener was growing market concerns over higher US inflation and interest rates, which led to bond weakness, especially in the US. However, South African equities outperformed most other emerging and developed markets, recording strong gains for the quarter, coming off low valuations compared to other markets and helped by their Resources exposure.

In US$ terms, global equities (the MSCI All Country World Index) returned 4.6% for the quarter, with emerging markets lagging developed markets at 2.3% and 4.9%, respectively. For SA investors, the rand's marginal 0.8% depreciation against the US dollar would have slightly helped investment returns. Global bonds delivered -4.5% for the quarter, hit by rising longer-dated US Treasury yields. And finally, global property posted good gains with a 7.0% return. As in the previous quarter, central banks kept interest rates broadly unchanged at very low, accommodative levels – seemingly less concerned about inflation than investors – and governments continued to enact fiscal support packages for consumers and businesses.

In the US, consumers started receiving stimulus checks from the government amid a much faster-than-expected vaccination programme rollout that encouraged a more positive outlook among consumers and investors. This was further boosted by the potential of a huge infrastructure spending programme that would add another US$2.25 trillion to the economy over the next eight years.

At its 17 March policy meeting, the US Federal Reserve (Fed) left interest rates unchanged, even as it revised its GDP growth forecast for 2021 sharply higher to 6.5% from 4.2% in the previous quarter. Meanwhile, the yield on the 10-year US Treasury bond rose to over 1.7% during the quarter, reaching a one-year high as the yield curve continued to steepen to reflect investors' inflation worries.US equity markets continued to perform well despite their more expensive valuations, as the S&P 500 returned 6.2% for the quarter, the Dow Jones Industrial 30 delivered 8.3%, and the technology-heavy Nasdaq 100 produced 1.8% (all in US$).

In the UK, the mood was buoyed by the exceptionally fast implementation of the country's vaccination programme, which lifted hopes of accelerated growth to come. The government unveiled plans to lift all pandemic restrictions by 21 June, should all things go to plan. Better-than-expected Q4 2020 GDP figures also helped lift sentiment, with the UK economy expanding by 1.0% q/q.

In the EU, the European Commission lowered its GDP forecasts for 2021 from 4.2% to 3.8%, due to the resurgence of Covid-19 infections and reintroductions of lockdown measures. Sentiment remained under pressure due to the slow pace at which vaccinations have been rolled out. Eurozone GDP shrank by 0.6% q/q in Q4 2020.

Meanwhile, the European Central Bank (ECB) left interest rates on hold at its 11 March policy meeting, emphasizing it would continue its bond purchases and other supportive monetary measures until inflation reached its 2.0% target.

For the quarter, UK equities outperformed their regional counterparts, helped by the better valuations on offer and its better vaccinations progress. The UK's FTSE 100 returned 5.9%, the German DAX 4.5% and France's CAC 40 5.3% (in US$).

Meanwhile, in Japan the economy advanced at a strong 3.0% q/q pace in Q4 2020, beating market estimates of a 2.3% expansion. For the year 2020, the economy shrank 4.8%, marking the first contraction since 2009. The Bank of Japan left its key short-term interest rate unchanged at -0.1% and maintained the target for the 10-year Japanese government bond yield at around 0%. The central bank also upped its GDP growth projection for the next fiscal year to 3.9% from 3.6%.

In China, the government's crackdown on large tech companies like Tencent towards the end of the quarter created investor worries of further curbs and tighter regulation to come on other companies, weighing heavily on the local equity market, while Hong Kong equities fared better despite the introduction of further measures to curb democracy in the special administrative region. The PBoC left its benchmark interest rates steady at its February policy meeting, while consumer inflation (deflation) for February was reported at -0.2% y/y and producer inflation came in at 1.7% y/y as months of strong manufacturing growth pushed the costs of raw material higher.

For the first quarter of 2021, Japan's Nikkei 225 was flat, delivering 0.0%, the MSCI China returned -0.4% and Hong Kong's Hang Seng produced 4.3% (in US$).

Among other large emerging equity markets, in US$ terms the MSCI South Africa was by far the top performer for the three months with a 12.3% return, followed by the MSCI India with 5.2% and MSCI Russia with 5.0%. South Korea's KOSPI recorded a 2.3% return, but Brazil's Bovespa lost 9.8% on the back of the uncontrolled spread of the Coronavirus there, and the MSCI Turkey had a disastrous quarter with a -20.2% return following the President's dismissal of the central bank governor and most of his top cabinet officials, among other measures.

After gaining over 26% in the last quarter of 2020, the spot price of Brent crude oil closed 22.7% higher in Q1 2021 at around US$60 per barrel, propelled higher by expectations of a quicker and stronger recovery in global growth and curbs on supply. The gold price lost ground as risk-aversion continued to abate, down 11% for the quarter. However, most other commodities were stronger, as platinum and palladium rose 8.2% and 9.4%, respectively, while copper was up 14.3% and aluminium 11.9% higher.

South Africa

In South Africa, market sentiment was supported by the government kicking off phase one of its three-phase vaccination campaign on 17 February, while later in the quarter investors welcomed the news that local manufacturing of the Johnson & Johnson's Covid-19 vaccine had commenced, with 30 million doses earmarked for use in South Africa. However, questions remained over insufficient supply and the slow pace of the rollout, as well as the impact it could still have on growth.

Also helping the improving environment was news that the South African economy grew by an annualised 6.3% q/q in Q4 2020, beating market expectations of a 5% increase. As widely expected, the South African Reserve Bank (SARB) left the repo rate unchanged at 3.5%, while lifting its projected total 2021 GDP growth to 3.8% from 3.5% previously due largely to accelerating global growth prospects. Despite this, Governor Lesetja Kganyago stressed that the pace of the country's

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

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:
R100 235 728

ANNUALISED PERFORMANCE	A CLASS	CPI	B CLASS
1 year	39.1%	2.9%	39.5%
Since inception	3.1%	3.5%	4.6%

Inception date: B Class: 2 April 2019

Sources: Prudential, Morningstar & Deutsche Securities

economic recovery would largely depend on the government's ability to effectively roll out its vaccine programme and mitigate the onset of a third wave of infections. In other positive news, inflation remained subdued, with headline CPI slowing to 2.9% in February, below the SARB's 3%-6% target range and below market expectations.

Finance Minister Tito Mboweni unveiled a better-than-expected national budget in February, which saw the scrapping of proposed personal tax increases in favour of fiscal consolidation and reined-in expenditure to support the pandemic-battered economy. Investors, however, remained cautious over the path of recovery outlined by Mboweni, with Moody's stating that the lower budget deficits were unlikely to prevent debt from rising. Fitch said the country still faced "severe challenges" to implement fiscal consolidation.

The FTSE/JSE All Bond Index (ALBI) was in the red for the quarter with a -1.7% return as foreign investor demand spluttered. The yield curve continued to flatten as bonds in the 1-3 year maturities sold off more than longer-dated bonds. SA inflation-linked bonds posted another strong performance, delivering 4.6% after 5.4% in the previous quarter as investors sought some inflation protection, and cash (as measured by the STeFI Composite) produced 0.9% for the three-month period.

The FTSE/JSE All Share Index delivered an impressive 13.1% return in rand terms for Q1 2021, benefitting from higher commodity prices and the stronger global and local growth outlooks, as well as re-rating. Gains were led by a strong performance from Resources shares (J258 Index) at 18.7%, while Industrials (J257 Index) delivered 13.0%. More locally-focused sectors were not as impressive but still in the black, with Property (All Property Index) posting an 8.1% return and Financials (J580 Index) producing 3.8%.

Finally, the rand put in a mixed performance against the three major global currencies during the quarter, in an environment which saw general US dollar weakness. The local currency lost 0.8% against the US dollar and 1.8% versus the pound sterling, but was up 3.5% against the euro.

PERFORMANCE

The Prudential 2.5% Target Income Fund returned 9.8% (after fees) for the first quarter of 2021 and 39.1% for the 12-month period ending 31 March 2021. The largest asset-class contributors to the fund's absolute performance for the quarter were its exposure to SA equities and global equities, while its holdings in global bonds and SA 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 Naspers and MTN, as well as resources stocks like Implats, Amplats, Sasol, Anglo American, Sappi and Exxaro. The main detractor from absolute returns was its exposure to Multichoice.

STRATEGY AND POSITIONING

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.

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

Because of its relatively low income target, the 2.5% Target Income Fund is the most aggressive of the range of our target income funds in terms of asset allocation. Currently over 70% of the portfolio is exposed to local and offshore equities, while around 5% is in SA listed property, 18% in local and offshore bonds and 7% in cash. The equity allocation remains the primary driver of returns.

Starting with our view on **offshore asset allocation**, we made some small changes to our positioning during the quarter in order to take profits, reduce some portfolio risk and still take advantage of valuation opportunities. Within our global equity positioning, as US equities were expensive compared to other markets during the quarter, our portfolios continued 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.

During the quarter we took advantage of the strong global equity market recovery and took some profit on our equity position. We continue to be underweight **global government bonds**, adding select exposure, with emerging market government bonds having been particularly attractive. We also opportunistically adjusted exposure to **investment grade corporate credit**, ending the quarter underweight in this asset class. This overall positioning would benefit portfolio returns in the event of a sell-off in risk assets, as fixed interest assets would gain ground.

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 1.7X at the end of March, up from around 1.6X at the beginning of the quarter, but still attractive compared to the market's long-term P/B average of around 2.1X. This positioning contributed strongly to both absolute returns and relative alpha in the fund for the quarter. Forward earnings yield upgrades have started to come through in the local market, especially for Resources companies, and to a lesser extent for Industrials. Even SA bank forward earnings have experienced upgrades, although to a smaller degree.

Within SA equities our stock picking has led to above-market performance in the fund for the quarter thanks to contributions from Resources groups like Anglo American, Implats, Sasol and Amplats. We also continue to prefer large companies that offer sound, high-quality diversification such as Naspers, British American Tobacco, Remgro and MTN. 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 continued to recover over the quarter as the outlook for the economy and consumer financial health improved.

We have kept our substantially underweight positioning in **SA listed property** in Q1 2021. This positioning reflects the ongoing 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**. The fund continues to be tilted towards longer-dated maturities. Although bonds recorded losses over the quarter, the flattening of the yield curve favoured our positioning and helped to cushion losses. As of 31 March, 10-year government bonds yields were still elevated compared to their history, offering around 9.6% versus 9.1% at the start of the quarter, and equating to an after-inflation (real) yield of around 4.6% (assuming inflation of 5.0% over the next decade). This is substantially above our long-run fair value assumption of a 2.5% real yield. We believe these yields will more than compensate investors for the risks associated with the government's precarious fiscal position and possible further credit rating downgrades.

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. ■

DISCLAIMER

Prudential Portfolio Managers Unit Trusts Ltd (Registration number: 1999/0524/06) is an approved CISCA management company (#29). Assets are managed by Prudential Investment Managers (South Africa) (Pty) Ltd, which is an approved discretionary Financial Services Provider (#45199). The Trustee's/Custodian details are: Standard Bank of South Africa limited – Trustees Services & investor Services. 20th Floor, Main Tower, Standard Bank Centre, Heerengracht, Cape Town. Prudential Portfolio Managers (South Africa) (Pty) Ltd ("PPMSA") is part of the same corporate group as the Prudential Assurance Company. The Prudential Assurance Company is a direct subsidiary of M&G plc, a company incorporated in the United Kingdom. Neither PPMSA or the Prudential Assurance Company are affiliated in any manner with Prudential Financial, Inc., a company whose principal place of business is in the United States of America or Prudential plc, an international group incorporated in the United Kingdom.

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

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL 5% TARGET INCOME FUND
31 MARCH 2021

QUARTERLY COMMENTARY

TARGET INCOME

MARKET OVERVIEW

It was another positive quarter for risk assets around the globe, with investor sentiment supported by progress in vaccine rollouts across many large countries, signs of acceleration in economic growth, and promises of more US government spending in the form of a proposed US$2.25 trillion infrastructure spending programme over the next eight years by the Biden administration, which would have a positive impact on global growth. However, gains and sentiment were tempered by the continued spread of the Coronavirus and its variants, and their subsequent impact on growth. Another dampener was growing market concerns over higher US inflation and interest rates, which led to bond weakness, especially in the US. However, South African equities outperformed most other emerging and developed markets, recording strong gains for the quarter, coming off low valuations compared to other markets and helped by their Resources exposure.

In US$ terms, global equities (the MSCI All Country World Index) returned 4.6% for the quarter, with emerging markets lagging developed markets at 2.3% and 4.9%, respectively. For SA investors, the rand's marginal 0.8% depreciation against the US dollar would have slightly helped investment returns. Global bonds delivered -4.5% for the quarter, hit by rising longer-dated US Treasury yields. And finally, global property posted good gains with a 7.0% return. As in the previous quarter, central banks kept interest rates broadly unchanged at very low, accommodative levels – seemingly less concerned about inflation than investors – and governments continued to enact fiscal support packages for consumers and businesses.

In the US, consumers started receiving stimulus checks from the government amid a much faster-than-expected vaccination programme rollout that encouraged a more positive outlook among consumers and investors. This was further boosted by the potential of a huge infrastructure spending programme that would add another US$2.25 trillion to the economy over the next eight years.

At its 17 March policy meeting, the US Federal Reserve (Fed) left interest rates unchanged, even as it revised its GDP growth forecast for 2021 sharply higher to 6.5% from 4.2% in the previous quarter. Meanwhile, the yield on the 10-year US Treasury bond rose to over 1.7% during the quarter, reaching a one-year high as the yield curve continued to steepen to reflect investors' inflation worries.US equity markets continued to perform well despite their more expensive valuations, as the S&P 500 returned 6.2% for the quarter, the Dow Jones Industrial 30 delivered 8.3%, and the technology-heavy Nasdaq 100 produced 1.8% (all in US$).

In the UK, the mood was buoyed by the exceptionally fast implementation of the country's vaccination programme, which lifted hopes of accelerated growth to come. The government unveiled plans to lift all pandemic restrictions by 21 June, should all things go to plan. Better-than-expected Q4 2020 GDP figures also helped lift sentiment, with the UK economy expanding by 1.0% q/q.

In the EU, the European Commission lowered its GDP forecasts for 2021 from 4.2% to 3.8%, due to the resurgence of Covid-19 infections and reintroductions of lockdown measures. Sentiment remained under pressure due to the slow pace at which vaccinations have been rolled out. Eurozone GDP shrank by 0.6% q/q in Q4 2020.

Meanwhile, the European Central Bank (ECB) left interest rates on hold at its 11 March policy meeting, emphasizing it would continue its bond purchases and other supportive monetary measures until inflation reached its 2.0% target.

For the quarter, UK equities outperformed their regional counterparts, helped by the better valuations on offer and its better vaccinations progress. The UK's FTSE 100 returned 5.9%, the German DAX 4.5% and France's CAC 40 5.3% (in US$).

Meanwhile, in Japan the economy advanced at a strong 3.0% q/q pace in Q4 2020, beating market estimates of a 2.3% expansion. For the year 2020, the economy shrank 4.8%, marking the first contraction since 2009. The Bank of Japan left its key short-term interest rate unchanged at -0.1% and maintained the target for the 10-year Japanese government bond yield at around 0%. The central bank also upped its GDP growth projection for the next fiscal year to 3.9% from 3.6%.

In China, the government's crackdown on large tech companies like Tencent towards the end of the quarter created investor worries of further curbs and tighter regulation to come on other companies, weighing heavily on the local equity market, while Hong Kong equities fared better despite the introduction of further measures to curb democracy in the special administrative region. The PBoC left its benchmark interest rates steady at its February policy meeting, while consumer inflation (deflation) for February was reported at -0.2% y/y and producer inflation came in at 1.7% y/y as months of strong manufacturing growth pushed the costs of raw material higher.

For the first quarter of 2021, Japan's Nikkei 225 was flat, delivering 0.0%, the MSCI China returned -0.4% and Hong Kong's Hang Seng produced 4.3% (in US$).

Among other large emerging equity markets, in US$ terms the MSCI South Africa was by far the top performer for the three months with a 12.3% return, followed by the MSCI India with 5.2% and MSCI Russia with 5.0%. South Korea's KOSPI recorded a 2.3% return, but Brazil's Bovespa lost 9.8% on the back of the uncontrolled spread of the Coronavirus there, and the MSCI Turkey had a disastrous quarter with a -20.2% return following the President's dismissal of the central bank governor and most of his top cabinet officials, among other measures.

After gaining over 26% in the last quarter of 2020, the spot price of Brent crude oil closed 22.7% higher in Q1 2021 at around US$60 per barrel, propelled higher by expectations of a quicker and stronger recovery in global growth and curbs on supply. The gold price lost ground as risk-aversion continued to abate, down 11% for the quarter. However, most other commodities were stronger, as platinum and palladium rose 8.2% and 9.4%, respectively, while copper was up 14.3% and aluminium 11.9% higher.

South Africa

In South Africa, market sentiment was supported by the government kicking off phase one of its three-phase vaccination campaign on 17 February, while later in the quarter investors welcomed the news that local manufacturing of the Johnson & Johnson's Covid-19 vaccine had commenced, with 30 million doses earmarked for use in South Africa. However, questions remained over insufficient supply and the slow pace of the rollout, as well as the impact it could still have on growth.

Also helping the improving environment was news that the South African economy grew by an annualised 6.3% q/q in Q4 2020, beating market expectations of a 5% increase. As widely expected, the South African Reserve Bank (SARB) left the repo rate unchanged at 3.5%, while lifting its projected total 2021 GDP growth to 3.8% from 3.5% previously due largely to accelerating global growth prospects. Despite

ANNUALISED PERFORMANCE	A CLASS	CPI	B CLASS
1 year	21.0%	2.9%	21.5%
Since inception	3.0%	3.5%	3.7%

Inception date: B Class: 2 April 2019

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

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:
R196 643 376

Sources: Prudential, Morningstar & Deutsche Securities

this, Governor Lesetja Kganyago stressed that the pace of the country's economic recovery would largely depend on the government's ability to effectively roll out its vaccine programme and mitigate the onset of a third wave of infections. In other positive news, inflation remained subdued, with headline CPI slowing to 2.9% in February, below the SARB's 3%-6% target range and below market expectations.

Finance Minister Tito Mboweni unveiled a better-than-expected national budget in February, which saw the scrapping of proposed personal tax increases in favour of fiscal consolidation and reined-in expenditure to support the pandemic-battered economy. Investors, however, remained cautious over the path of recovery outlined by Mboweni, with Moody's stating that the lower budget deficits were unlikely to prevent debt from rising. Fitch said the country still faced "severe challenges" to implement fiscal consolidation.

The FTSE/JSE All Bond Index (ALBI) was in the red for the quarter with a -1.7% return as foreign investor demand spluttered. The yield curve continued to flatten as bonds in the 1-3 year maturities sold off more than longer-dated bonds. SA inflation-linked bonds posted another strong performance, delivering 4.6% after 5.4% in the previous quarter as investors sought some inflation protection, and cash (as measured by the STeFI Composite) produced 0.9% for the three-month period.

The FTSE/JSE All Share Index delivered an impressive 13.1% return in rand terms for Q1 2021, benefitting from higher commodity prices and the stronger global and local growth outlooks, as well as re-rating. Gains were led by a strong performance from Resources shares (J258 Index) at 18.7%, while Industrials (J257 Index) delivered 13.0%. More locally-focused sectors were not as impressive but still in the black, with Property (All Property Index) posting an 8.1% return and Financials (J580 Index) producing 3.8%.

Finally, the rand put in a mixed performance against the three major global currencies during the quarter, in an environment which saw general US dollar weakness. The local currency lost 0.8% against the US dollar and 1.8% versus the pound sterling, but was up 3.5% against the euro.

PERFORMANCE

The Prudential 5% Target Income Fund returned 2.9% (after fees) for the first quarter of 2021 and 21.0% for the 12-month period ending 31 March 2021. The largest asset-class contributors to the fund's absolute performance for the quarter were its exposure to SA equities, global equities and SA property. Exposure to global bonds and SA bonds detracted the most from value for the period.

In terms of specific equity exposure, among the strongest equity contributors to absolute returns for the quarter were the fund's holdings in Naspers and MTN, as well as resources stocks like Implats, Amplats, Sasol, Anglo American, Sappi and Exxaro. The main detractor from absolute returns was its exposure to Multichoice.

STRATEGY AND POSITIONING

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.

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 32% of the portfolio is exposed to local and offshore equities, while around 5% is invested in SA listed property, 53% in local and offshore bonds and 9% in cash.

Starting with our view on **offshore asset allocation**, we made some small changes to our positioning during the quarter in order to reduce some portfolio risk and still take advantage of valuation opportunities. Within our global equity positioning, as US equities were expensive compared to other markets during the quarter, our portfolios continued 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.

During the quarter we took advantage of the strong global equity market recovery and took some profit on our equity position. We continue to be underweight **global government bonds**, adding select exposure, with emerging market government bonds having been particularly attractive. We also opportunistically adjusted exposure to **investment grade corporate credit**, ending the quarter underweight in this asset class. This overall positioning would benefit portfolio returns in the event of a sell-off in risk assets, as fixed interest assets would gain ground.

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 1.8X at the end of March, up from around 1.6X at the beginning of the quarter, but still attractive compared to the market's long-term P/B average of around 2.1X. This positioning contributed strongly to both absolute returns and relative alpha in the fund for the quarter. Forward earnings yield upgrades have started to come through in the local market, especially for Resources companies, and to a lesser extent for Industrials. Even SA bank forward earnings have experienced upgrades, although to a smaller degree.

Within SA equities our stock picking has led to above-market performance in the fund for the quarter thanks to contributions from Resources groups like Anglo American, Implats, Sasol and Amplats. We also continue to prefer large companies that offer sound, high-quality diversification such as Naspers, British American Tobacco, Remgro and MTN. 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 continued to recover over the quarter as the outlook for the economy and consumer financial health improved.

We have kept our substantially underweight positioning in **SA listed property** in Q1 2021. This positioning reflects the ongoing 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 added to our overweight in **SA nominal bonds**. We added around 1% in 10 year maturity bonds as yields rose in March. We also added exposure to the short dated R186 bond which is yielding in excess of 7% with limited sensitivity to rising rates. Overall, the fund continues to be tilted towards longer-dated maturities. Although bonds recorded losses over the quarter, the flattening of the yield curve favoured our positioning and helped to cushion losses. As of 31 March, 10-year government bonds yields were still elevated compared to their history, offering around 9.5% versus 9.1% at the start of the quarter, and equating to an after-inflation (real) yield of around 4.5% (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 added to our overweight exposure to **inflation-linked bonds** (ILBs) during the quarter. The gap between ILB and cash real yields continues to be wide, with real yields on cash currently negative. ILB real yields – at 4.2% for the 10-year maturity as of end March – are also attractive compared to their own history and our long-run fair value assumption of 2.0%. The fund benefited from our exposure to these assets as they outperformed nominal bonds by nearly 5 percentage points over the period.

Lastly, the portfolio is underweight **SA cash**, since prospective real returns from this asset class are negative and other SA assets relatively more attractive.

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. ■

DISCLAIMER

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

Sources: Prudential, Morningstar & Deutsche Securities

QUARTERLY COMMENTARY

TARGET INCOME

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

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:
R386 751 759

MARKET OVERVIEW

It was another positive quarter for risk assets around the globe, with investor sentiment supported by progress in vaccine rollouts across many large countries, signs of acceleration in economic growth, and promises of more US government spending in the form of a proposed US$2.25 trillion infrastructure spending programme over the next eight years by the Biden administration, which would have a positive impact on global growth. However, gains and sentiment were tempered by the continued spread of the Coronavirus and its variants, and their subsequent impact on growth. Another dampener was growing market concerns over higher US inflation and interest rates, which led to bond weakness, especially in the US. However, South African equities outperformed most other emerging and developed markets, recording strong gains for the quarter, coming off low valuations compared to other markets and helped by their Resources exposure.

In US$ terms, global equities (the MSCI All Country World Index) returned 4.6% for the quarter, with emerging markets lagging developed markets at 2.3% and 4.9%, respectively. For SA investors, the rand's marginal 0.8% depreciation against the US dollar would have slightly helped investment returns. Global bonds delivered -4.5% for the quarter, hit by rising longer-dated US Treasury yields. And finally, global property posted good gains with a 7.0% return. As in the previous quarter, central banks kept interest rates broadly unchanged at very low, accommodative levels – seemingly less concerned about inflation than investors – and governments continued to enact fiscal support packages for consumers and businesses.

After gaining over 26% in the last quarter of 2020, the spot price of Brent crude oil closed 22.7% higher in Q1 2021 at around US$60 per barrel, propelled higher by expectations of a quicker and stronger recovery in global growth and curbs on supply. The gold price lost ground as risk-aversion continued to abate, down 11% for the quarter. However, most other commodities were stronger, as platinum and palladium rose 8.2% and 9.4%, respectively, while copper was up 14.3% and aluminium 11.9% higher.

South Africa

In South Africa, market sentiment was supported by the government kicking off phase one of its three-phase vaccination campaign on 17 February, while later in the quarter investors welcomed the news that local manufacturing of the Johnson & Johnson's Covid-19 vaccine had commenced, with 30 million doses earmarked for use in South Africa. However, questions remained over insufficient supply and the slow pace of the rollout, as well as the impact it could still have on growth.

Also helping the improving environment was news that the South African economy grew by an annualised 6.3% q/q in Q4 2020, beating market expectations of a 5% increase. As widely expected, the South African Reserve Bank (SARB) left the repo rate unchanged at 3.5%, while lifting its projected total 2021 GDP growth to 3.8% from 3.5% previously due largely to accelerating global growth prospects. Despite this, Governor Lesetja Kganyago stressed that the pace of the country's economic recovery would largely depend on the government's ability to effectively roll out its vaccine programme and mitigate the onset of a third wave of infections. In other positive news, inflation remained subdued, with headline CPI slowing to 2.9% in February, below the SARB's 3%-6% target range and below market expectations.

Finance Minister Tito Mboweni unveiled a better-than-expected national budget in February, which saw the scrapping of proposed personal tax increases in favour of fiscal consolidation and reined-in expenditure to support the pandemic-battered economy. Investors, however, remained cautious over the path of recovery outlined by Mboweni, with Moody's stating that the lower budget deficits were unlikely to prevent debt from rising. Fitch said the country still faced "severe challenges" to implement fiscal consolidation.

The FTSE/JSE All Bond Index (ALBI) was in the red for the quarter with a -1.7% return as foreign investor demand spluttered. The yield curve continued to flatten as bonds in the 1-3 year maturities sold off more than longer-dated bonds. SA inflation-linked bonds posted another strong performance, delivering 4.6% after 5.4% in the previous quarter as investors sought some inflation protection, and cash (as measured by the STeFI Composite) produced 0.9% for the three-month period.

The FTSE/JSE All Share Index delivered an impressive 13.1% return in rand terms for Q1 2021, benefitting from higher commodity prices and the stronger global and local growth outlooks, as well as re-rating. Gains were led by a strong performance from Resources shares (J258 Index) at 18.7%, while Industrials (J257 Index) delivered 13.0%. More locally-focused sectors were not as impressive but still in the black, with Property (All Property Index) posting an 8.1% return and Financials (J580 Index) producing 3.8%.

PERFORMANCE

The Prudential 7% Target Income Fund returned 1.1% (after fees) for the first quarter of 2021 and 17.6% for the 12-month period ending 31 March 2021. The largest asset-class contributors to the fund's absolute performance for the quarter were its exposure to SA equities and SA property, while SA cash also added marginally. Exposure to SA bonds detracted from value for the period.

In terms of specific equity exposure, among the strongest equity contributors to absolute returns for the quarter were the fund's holdings in Naspers and MTN, as well as resources stocks like Implats, Amplats, Sasol, Anglo American, Sappi and Exxaro. The main detractor from absolute returns was its exposure to Multichoice.

STRATEGY AND POSITIONING

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.

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 higher exposure to income assets, such as bonds, and lower exposure to growth assets, such as equity, than the 5% Target Income Fund. Currently around 10% of the portfolio is exposed to local equities, while around 5% is invested in SA listed property, 70% in SA bonds and around 14% in SA cash. The fund has no international exposure.

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 1.7X at the end of March, up from around 1.6X at the beginning of the quarter, but still attractive compared to the market's long-term P/B average of around 2.1X. This positioning contributed strongly to both absolute returns and relative alpha in the fund for the quarter. Forward earnings yield upgrades have started to come through in the local market, especially for Resources companies, and to a lesser extent for Industrials. Even SA bank forward earnings have experienced upgrades, although to a smaller degree.

ANNUALISED PERFORMANCE	A CLASS	CPI	B CLASS
1 year	17.6%	2.9%	18.0%
Since inception	2.6%	3.5%	3.5%

Inception date: B Class: 2 April 2019

Sources: Prudential, Morningstar & Deutsche Securities

Within SA equities our stock picking has led to above-market performance in the fund for the quarter thanks to contributions from Resources groups like Anglo American, Implats, Sasol and Amplats. We also continue to prefer large companies that offer sound, high-quality diversification such as Naspers, British American Tobacco, Remgro and MTN. 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 continued to recover over the quarter as the outlook for the economy and consumer financial health improved.

We have kept our substantially underweight positioning in **SA listed property** in Q1 2021. This positioning reflects the ongoing 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 added to our overweight in **SA nominal bonds**. We added around 1% in 10-year maturity bonds as yields rose in March. We also added exposure to the short- dated R186 bond, which is yielding in excess of 7% with limited sensitivity to rising rates. Overall, the fund continues to be tilted towards longer-dated maturities. Although bonds recorded losses over the quarter, the flattening of the yield curve favoured our positioning and helped to cushion losses. As of 31 March, 10-year government bonds yields were still elevated compared to their history, offering around 9.6% versus 9.1% at the start of the quarter, and equating to an after-inflation (real) yield of around 4.6% (assuming inflation of 5.0% over the next decade). This is substantially above our long-run fair value assumption of a 2.5% real yield. We believe these yields will more than compensate investors for the risks associated with the government's precarious fiscal position and possible further credit rating downgrades.

We added to our overweight exposure to **inflation-linked bonds (ILBs)** during the quarter. The gap between ILB and cash real yields continues to be wide, with real yields on cash currently negative. ILB real yields – at 4.2% for the 10-year maturity as of end March – are also attractive compared to their own history and our long-run fair value assumption of 2.0%. The fund benefited from our exposure to these assets as they outperformed nominal bonds by nearly 5 percentage points over the period.

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. ■

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