PRUDENTIAL UNIT TRUSTS QUARTERLY COMMENTARY
30 JUNE 2017

PRUDENTIAL
INVESTMENT MANAGERS

COMBINED QUARTERLY COMMENTARY

INCOME | MULTI-ASSET | PROPERTY/EQUITY | GLOBAL

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PRUDENTIAL MONEY MARKET FUND
30 JUNE 2017

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME FUND

PERFORMANCE

Over the past quarter, the fund delivered a return of 1.96% (gross of fees) versus its benchmark, the STeFI Call Deposit Index, which returned 1.70%. After fees, the fund returned 1.85% over the three months. The average duration of the fund at quarter end was 34 days relative to the 90-day maximum average duration.

MARKET OVERVIEW

Global growth maintained a steady pace in the second quarter of 2017 (Q2), making it another positive period for global investors as unemployment rates fell and trade growth accelerated. Bullish investor sentiment continued to drive good demand for both developed and emerging market assets, although later in the quarter equity market momentum lost some steam amid worries over some heady valuations, particularly in the US tech sector. In contrast, in South Africa investment returns were hit by worsening investor sentiment following the June credit rating downgrades and a second quarter of negative GDP growth (-0.7%, following -0.3% in Q4 2016), as well as rising political uncertainty caused by widening government corruption scandals and policy disagreements. Keen foreign investor demand for high-yielding SA bonds drove solid returns in those assets, as well as contributing to rand appreciation for the quarter.

Following 75bps of rate hikes in Q1 last year, the SARB's Monetary Policy Committee (MPC) has since left rates on hold, noting at the May meeting that a sustained improvement in inflation would be essential to consider cutting rates. There are currently however, interest rate cuts priced into the Forward Rate Agreements (FRAs) market.

CPI inflation data increased slightly to 5.4% y/y in May from 5.3% printed in April – in line with market expectations. Core CPI inflation remained steady at 4.8%. The contributors to the slight increase in headline inflation include food & non-alcoholic beverages and transport categories, where meat prices and fuel posted accelerations of 1.3% and 3.3% over the month, respectively.

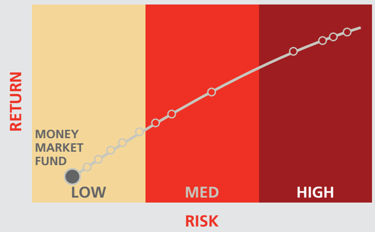
PPI inflation rose marginally to 4.8% y/y in May from 4.6% y/y in April, mainly attributed to food products, beverages and tobacco products. Month-on-month, PPI came in at 0.5% - on the back of increases recorded in petroleum and chemical products, with petrol adding 4.1% over the month.

Private sector credit extension (PSCE) rose to 6.7% y/y for May from 5.9% y/y in April. Corporates remain a driving factor, with growth in PSCE extended to corporates printing 10.1% y/y from 8.5% previously recorded. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	X CLASS
1 year	7.6%	7.0%	7.7%
3 years	6.7%	6.3%	6.8%
5 years	6.1%	5.7%	6.2%
7 years	6.0%	5.6%	n/a
10 years	7.1%	6.8%	n/a
Since inception	7.8%	7.7%	6.1%

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:

R2 638 128 110

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL HIGH INTEREST FUND
30 JUNE 2017

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME FUND

PERFORMANCE

The Prudential High Interest Fund generated a return of 2.1% (gross of fees) for the quarter compared to its benchmark, the STeFI Composite Index, which returned 1.9%. After fees, the fund returned 2.0%.

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

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

Relative to the 180-day maximum average duration, the quarter-end duration of the fund came in at 62 days.

MARKET OVERVIEW

Global growth maintained a steady pace in the second quarter of 2017 (Q2), making it another positive period for global investors as unemployment rates fell and trade growth accelerated. Bullish investor sentiment continued to drive good demand for both developed and emerging market assets, although later in the quarter equity market momentum lost some steam amid worries over some heady valuations, particularly in the US tech sector. In contrast, in South Africa investment returns were hit by worsening investor sentiment following the June credit rating downgrades and a second quarter of negative GDP growth (-0.7% following -0.3% in Q4 2016), as well as rising political uncertainty caused by widening government corruption scandals and policy disagreements. Keen foreign investor demand for high-yielding SA bonds drove solid returns in those assets, as well as contributing to rand appreciation for the quarter.

South Africa moved closer to "full" sub-investment grade status in June as Moody's downgraded the country's sovereign credit rating by one notch from Baa2 to Baa3, with a negative outlook indicating that a further cut – to sub-investment grade level – is likely. The economy also unexpectedly moved into a technical recession with Q2 GDP growth announced at -0.7% (following -0.3% in Q1), and SA's Q2 business confidence fell to its lowest level since 2009. Some good news emerged when both S&P Global and Fitch refrained from further downgrading SA's credit rating on 1 and 2 June, although these foreign currency ratings are already in sub-investment grade territory.

At the SA Reserve Bank's Monetary Policy Committee (MPC) 25 May meeting the MPC left the repo rate unchanged at 7.0%, citing lower inflation (May inflation was 5.4% y/y) and weaker growth and inflation prospects. The central bank lowered its 2017 and 2018 growth forecasts to 1.0% and 1.5%, respectively. While suggesting strongly that the rate hiking cycle was at an end, the Governor also cautioned that any downward move was unlikely in the near term. Nevertheless, the forward rate agreements market is pointing to an increasing likelihood of at least a 25bp rate cut later this year.

Attracted by South Africa's relatively high bond yields following the April downgrades, foreign investors were keen buyers of local bonds during Q2, which helped drive positive returns as well as rand strength in the three months. The BEASSA All Bond Index returned 1.5% in Q2 and 4.0% for the year to date. The 10-year government bond yield fell from around 8.9% to 8.75% by end-June, off its best levels of around 8.4% during the quarter. Inflation-linked bonds (ILB Composite Index) returned 1.0% in the quarter, and cash (the STeFI Composite) returned 1.9%.The rand, meanwhile, continued its appreciation versus the US dollar, gaining 2.6%, while it lost 4.3% against the euro and 1.0% versus the UK pound.

FUND STRATEGY

The Fund has generally sought to take advantage of banks' requirements to secure longer- dated funding which better matches the profile of their loan books. This has led to a steep credit curve whereby they are prepared to pay significantly more for funding beyond the 12-month point. We prefer these longer-dated securities and have exposure to securities issued by banks such as ABSA, Standard Bank, FirstRand, Nedbank and Investec both in floating- and fixed-rate securities.

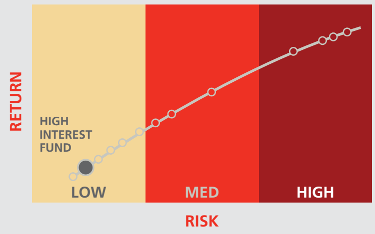
Exposure to floaters in the 3-year space was increased over the quarter on the back of attractive pricing. Credit issuance has been scarce since 2016 as can be seen by the tightening of credit spreads. Demand to tap into more of that market in order to lock in yield pick-up remains a focus, with additions to names we were comfortable investing in at spreads in line with our valuation metrics including two corporates and some banks who came to market over the quarter.

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	8.5%	7.6%	8.7%	8.7%
2 years	7.9%	7.2%	8.0%	8.1%
3 years	7.2%	6.9%	7.3%	7.4%
5 years	6.6%	6.3%	6.7%	6.9%
Since inception	6.4%	6.2%	6.5%	6.7%

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:
R7 968 117 523

PLEASE NOTE:
This fund is capped to new investors

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL HIGH YIELD BOND FUND
30 JUNE 2017

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME FUND

PERFORMANCE

For the quarter, the fund returned 1.5% (net of fees) in line with the 1.5% delivered by its benchmark, the BEASSA All Bond Index. It underperformed cash (as measured by the STeFI Composite Index), which returned 1.9%, and outperformed inflation-linked bonds at 1.0% (JSE CILI). We retained our neutral duration position over the quarter. We continue to look for opportunities to add to our corporate bond exposure.

Fund performance benefitted from income accrual over the quarter and the increased yield derived from non-government bonds.

MARKET OVERVIEW

US markets were stronger during the quarter. For Q2, the S&P 500 returned 3.1% and the Nasdaq 4.2% (but -2.4% in June). As widely expected, the US Federal Reserve hiked interest rates by 25bps at its June FOMC meeting, and continued to signal one further 25bp rate hike in 2017 and three more hikes for 2018. The Fed cited nearly full employment and rising inflation as the main factors behind the rate rise. Analysts considered May's dip in core CPI to 1.4% y/y, along with the softening in Q1 GDP growth to 1.2% (q/q annualised) from 2.1% previously, to be a temporary aberration in the stronger longer-term trend.

The Barclays Global Aggregate Bond Index (US$), a mixture of government and corporate bonds, returned 2.6% in the quarter. US bonds were mixed as sentiment swung between worries over rising US interest rates, the Fed's upcoming bond sales (unwinding of its balance sheet) and growing inflationary pressures, versus more bearish perspectives on the US growth outlook.

In the Eurozone, the French elections saw Emmanuel Macron comfortably win the Presidential vote. The region's Q2 GDP growth came in at 1.7% (q/q annualised), similar to Q1 at 1.8% rate, the latest data confirming a continuing recovery amid rising consumer spending and business investment and falling unemployment across most member states. At its June meeting, the European Central Bank (ECB) left its base interest rate unchanged, ruled out further rate cuts and said it was considering ways to gradually end its bond-buying stimulus.

The UK, meanwhile, saw a disastrous snap-election outcome for PM Theresa May as her Conservative party lost its Parliamentary majority – forcing her to soften her negotiating stance on exiting the EU (Brexit). Amid Brexit uncertainty, UK growth eased somewhat and sterling continued to weaken, spurring higher inflation.

In Japan, Q1 2017 GDP growth accelerated to 2.2% (q/q annualised) from a revised 1.2% in the previous quarter, as private consumption revived and exports continued to improve. Bank of Japan (BOJ) comments indicated the central bank believes wages and prices will begin to pick up later this year to achieve the bank's 2% inflation target in 2018.

China's good start to the year continued in Q2 as the equity market again posted a strong performance (the MSCI China returned 10.7% in US$), and Q1 GDP growth surprised to the upside at 6.9% (q/q annualised). A negative development was Moody's unexpected one–notch downgrade to the country's sovereign credit rating to A1 from Aa3, citing worries over the government's ability to de-leverage the financial system's high debt levels while maintaining steady growth.

Other emerging market assets, including both bonds and equities, recorded good gains in Q2 amid renewed investor demand for risk assets.

South Africa moved closer to "full" sub-investment grade status in June as Moody's downgraded the country's sovereign credit rating by one notch from Baa2 to Baa3, with a negative outlook indicating that a further cut – to sub-investment grade level – is likely. The economy also unexpectedly moved into a technical recession with Q1 GDP growth announced at -0.7% (following -0.3% in Q4 2016), and SA's Q2 business confidence fell to its lowest level since 2009. Some good news emerged when both S&P Global and Fitch refrained from further downgrading SA's credit rating on 1 and 2 June, although these foreign currency ratings are already in sub-investment grade territory.

At the SA Reserve Bank's Monetary Policy Committee (MPC) 25 May meeting the MPC left the repo rate unchanged at 7.0%, citing lower inflation (May inflation was 5.4% y/y) and weaker growth and inflation prospects. The central bank lowered its 2017 and 2018 growth forecasts to 1.0% and 1.5%, respectively. While suggesting strongly that the rate hiking cycle was at an end, the Governor also cautioned that any downward move was unlikely in the near term. Nevertheless, the forward rate agreements market is pointing to an increasing likelihood of at least a 25bp rate cut later this year.

Attracted by South Africa's relatively high bond yields following the April downgrades, foreign investors were keen buyers of local bonds during Q2, which helped drive positive returns as well as rand strength in the three months. The 10-year government bond yield fell from around 8.9% to 8.75% by end-June, off its best levels of around 8.4% during the quarter. The rand, meanwhile, continued its appreciation versus the US dollar, gaining 2.6%, while it lost 4.3% against the euro and 1.0% versus the UK pound.

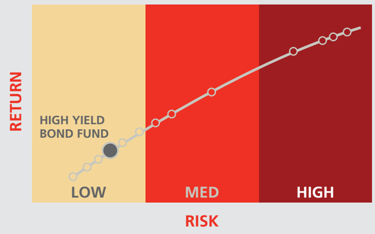
Inflation-linked bonds saw their valuation fall to attractive levels relative to nominal bonds in mid-June (amid the improved inflation outlook) as the 10-year break-even inflation rate dropped briefly below our long-term inflation benchmark of 6.0%.

South Africa's slow growth, the possibility of further credit rating downgrades, and heightened political and policy uncertainty, are local factors that are likely to keep market uncertainty elevated in the months ahead. Globally, the trend of rising interest rates in the US is diverging with South Africa's outlook for steady and possibly falling interest rates; this could deter foreign investment inflows. These factors will all weigh on the direction of the rand and in turn determine local inflation and interest rate trends. However, history shows that asset returns move in cycles, so these trends should eventually turn and asset returns improve over time. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	7.6%	7.9%	7.9%
3 years	6.0%	7.1%	6.5%
5 years	6.1%	6.6%	6.5%
7 years	8.1%	8.4%	8.4%
10 years	8.2%	8.4%	8.5%
Since inception	10.2%	10.4%	9.1%

Inception date B Class: 1 April 2003

RISK/RETURN PROFILE:



FUND MANAGERS:
David Knee and Gareth Bern

ASISA CATEGORY:
South African - Interest Bearing - Variable Term

BENCHMARK:
BEASSA Total Return All Bond Index

INCEPTION DATE:
27 October 2000

FUND SIZE:
R511 563 607

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL ENHANCED INCOME FUND
30 JUNE 2017

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

PERFORMANCE

For the three months ending 30 June 2017 the fund returned 1.9% (gross of fees) beating its benchmark as measured by the STeFi composite by 0.1%. For the six-month period ending 30 June 2017 fund delivered 4.5% (gross of fees), outperforming its benchmark by 0.9%. After fees, the fund returned 1.6% over three months and 3.9% over six months.

MARKET OVERVIEW

Global growth maintained a steady pace in the second quarter of 2017 (Q2), making it another positive period for global investors as unemployment rates fell and trade growth accelerated. Bullish investor sentiment continued to drive good demand for both developed and emerging market assets, although later in the quarter equity market momentum lost some steam amid worries over some heady valuations, particularly in the US tech sector. In contrast, in South Africa investment returns were hit by worsening investor sentiment following the June credit rating downgrades and a second quarter of negative GDP growth, as well as rising political uncertainty caused by widening government corruption scandals and policy disagreements. Keen foreign investor demand for high-yielding SA bonds drove solid returns in those assets, as well as contributing to rand appreciation for the quarter.

US markets were stronger during the quarter although the Trump "reflation" trend lost some steam in June, with President Trump's company-friendly policies looking to be increasingly delayed. The S&P 500 and Dow Jones reached fresh record highs as US corporate earnings continued to grow, but worries grew over high valuations, and tech stocks experienced a sell-off in June amid fears of a bubble. As widely expected, the US Federal Reserve hiked interest rates by 25bps at its June FOMC meeting, and continued to signal one further 25bp rate hike in 2017 and three more hikes for 2018. This is little changed from its (and the market's) previous forecasts, with the market pricing in a 40% chance of a hike in December, and only 20% in September. The Fed cited nearly full employment and rising inflation as the main factors behind the rate rise. Analysts considered May's dip in core CPI to 1.4% y/y, along with the softening in Q1 GDP growth to 1.2% (q/q annualised) from 2.1% previously, to be a temporary aberration in the stronger longer-term trend.

In the Eurozone, the French elections were the latest to sweep away populist fears as reformist Emmanuel Macron comfortably won the Presidential vote and a large Parliamentary majority for his new party – this despite very low voter turnout. The region's Q2 GDP growth came in at 1.7% (q/q annualised), similar to the previous quarter's 1.8% rate, the latest data confirming a continuing recovery amid rising consumer spending and business investment and falling unemployment across most member states. At its June meeting, the European Central Bank (ECB) left its base interest rate unchanged, ruled out further rate cuts and said it was considering ways to gradually end its bond-buying stimulus.

The UK, meanwhile, saw a disastrous snap-election outcome for PM Theresa May as her Conservative party lost its Parliamentary majority – forcing her to soften her negotiating stance on exiting the EU (Brexit). Amid Brexit uncertainty, UK growth eased somewhat and sterling continued to weaken, spurring higher inflation.

South Africa moved closer to "full" sub-investment grade status in June as Moody's downgraded the country's sovereign credit rating by one notch from Baa2 to Baa3, with a negative outlook indicating that a further cut – to sub-investment grade level – is likely. The economy also unexpectedly moved into a technical recession with Q1 GDP growth announced at -0.7% (following -0.3% in Q4 2016), and SA's Q2 business confidence fell to its lowest level since 2009. Some good news emerged when both S&P Global and Fitch refrained from further downgrading SA's credit rating on 1 and 2 June, although these foreign currency ratings are already in sub-investment grade territory.

At the SA Reserve Bank's Monetary Policy Committee (MPC) 25 May meeting the MPC left the repo rate unchanged at 7.0%, citing lower inflation (May inflation was 5.4% y/y) and weaker growth and inflation prospects. The central bank lowered its 2017 and 2018 growth forecasts to 1.0% and 1.5%, respectively. While suggesting strongly that the rate hiking cycle was at an end, the Governor also cautioned that any downward move was unlikely in the near term. Nevertheless, the forward rate agreements market is pointing to an increasing likelihood of at least a 25bp rate cut later this year.

Attracted by South Africa's relatively high bond yields following the April downgrades, foreign investors were keen buyers of local bonds during Q2, which helped drive positive returns as well as rand strength in the three months. The BEASSA All Bond Index returned 1.5% in Q2 and 4.0% for the year to date. The 10-year government bond yield fell from around 8.9% to 8.75% by end-June, off its best levels of around 8.4% during the quarter. Inflation-linked bonds (ILB Composite Index) returned 1.0% in the quarter, and cash (the STeFI Composite) returned 1.9%.The rand, meanwhile, continued its appreciation versus the US dollar, gaining 2.6%, while it lost 4.3% against the euro and 1.0% versus the UK pound.

SA listed property valuations remain somewhat on the cheap side of long-term fair value. At quarter-end, listed property companies (excluding developers) were priced to return approximately 16% p.a. over the medium-term (assuming no change in the market's rating/valuation of property), comfortably above inflation and, we believe, ample compensation for the risk involved. Even with the market pricing in a de-rating of around 4%, somewhat higher than Q1, the medium-term prospective return would be approximately 12% p.a.

Inflation-linked bonds saw their valuation fall to attractive levels relative to nominal bonds in mid-June (amid the improved inflation outlook) as the 10-year break-even inflation rate dropped briefly below our long-term inflation benchmark of 6.0%.

STRATEGY AND OUTLOOK

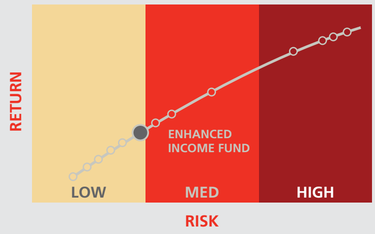
South Africa's slow growth, the possibility of further credit rating downgrades, and heightened political and policy uncertainty, are local factors that are likely to keep market uncertainty elevated in the months ahead. Globally, the trend of rising interest rates in the US is diverging with South Africa's outlook for steady and possibly falling interest rates; this could deter foreign investment inflows. These factors will all weigh on the direction of the rand and in turn determine local inflation and interest rate trends. However, history shows that asset returns move in cycles, so these trends should eventually turn and asset returns improve over time. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	X CLASS	D CLASS
1 year	7.2%	7.6%	7.7%	7.4%	7.8%
3 years	7.2%	7.2%	n/a	7.4%	7.8%
5 years	7.5%	6.3%	n/a	7.8%	8.1%
7 years	8.2%	7.1%	n/a	n/a	n/a
Since inception	8.6%	7.3%	7.3%	8.2%	8.5%

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

ASSET CLASS RETURNS	Q2 2017	YTD
SA Equity (FTSE/JSE All Share Index)	-0.4%	3.4%
SA Property (FTSE/JSE SA Listed property Index)	0.9%	2.3%
SA Bonds (BEASSA All Bond Index)	1.5%	4.0%
SA Inflation-linked Bonds (RSA Composite Inflation-linked Bond Index)	1.0%	0.4%
SA Cash (STeFI Composite)	1.9%	3.7%
Global Equity (MSCI World Index - USD)	4.0%	10.7%
Global Equity (MSCI Emerging Markets Index – USD)	6.3%	18.4%
Global Bonds (Barclays Global Aggregate Bond Index – USD)	2.6%	14.4%
Rand (Rand/USD move)	-2.3%	-4.4%

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:
R2 293 856 743

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL INFLATION PLUS FUND
30 JUNE 2017

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

MARKET OVERVIEW

Global growth maintained a steady pace in the second quarter of 2017 (Q2), making it another positive period for global investors as unemployment rates fell and trade accelerated. In contrast, in South Africa investment returns were hit by worsening investor sentiment following the June credit rating downgrades and a second quarter of negative GDP growth, as well as rising political uncertainty caused by widening government corruption scandals and policy disagreements. Keen foreign investor demand for high-yielding SA bonds drove solid returns in those assets, as well as contributing to rand appreciation for the quarter.

US markets were stronger during the quarter although the Trump "reflation" trend lost some steam in June. The S&P 500 and Dow Jones reached fresh record highs as US corporate earnings continued to grow, but worries grew over high valuations, and tech stocks experienced a sell-off in June amid fears of a bubble. For Q2, the S&P 500 returned 3.1% and the Nasdaq 4.2% (but -2.4% in June). As widely expected, the US Federal Reserve hiked interest rates by 25bps at its June FOMC meeting, and continued to signal one further 25bp rate hike in 2017 and three more hikes for 2018. This is little changed from its (and the market's) previous forecasts, with the market pricing in a 40% chance of a hike in December, and only 20% in September.

The Barclays Global Aggregate Bond Index (US$), a mixture of government and corporate bonds, returned 2.6% in the quarter. US Treasuries returned 1.2%, while investment-grade corporate bond spreads narrowed slightly to 112bps over USTs from 120bps at the beginning of the quarter, and high-yield spreads widened to 408bps from 391bps previously.

In the Eurozone, the French elections were the latest to sweep away populist fears and the region's Q2 GDP growth came in mostly steady at 1.7% (q/q annualised), the latest data confirming a continuing recovery. The Dow Jones Eurostoxx 50 returned 6.5% in US$. The UK, meanwhile, saw a disastrous snap-election outcome for PM Theresa May as her Conservative party lost its Parliamentary majority. Amid Brexit uncertainty, UK growth eased somewhat and sterling continued to weaken. The FTSE 100 returned 4.7% (in US$) over the quarter, but -1.5% in June. The Nikkei 225 Index returned 5.2% over the quarter (in US$). China's good start to the year continued in Q2 as Q1 GDP growth surprised to the upside at 6.9% (q/q annualised). Many analysts do expect a slowdown later in the year as the effects of government stimulus fade.

Emerging market assets recorded good gains in Q2 amid continuing investor demand for risk assets. The MSCI Emerging Markets Index returned 6.3% in US$, compared to 4.0% from the MSCI World Index for developed markets. Among the larger EM equity markets in US$ terms, the MSCI Turkey was by far the strongest performer with a 19.8% total return, followed by the MSCI China with 10.7% and South Korea's KOSPI (8.6%). The poorest Q2 returns (in US$) came from the MSCI Russia (-9.8%) and Brazil's Bovespa (-7.3%). The MSCI South Africa returned 3.6% in US$.

South Africa moved closer to "full" sub-investment grade status in June following Moody's downgrade from Baa2 to Baa3, with a negative outlook indicating that a further cut – to sub-investment grade level – is likely. The economy also unexpectedly moved into a technical recession with Q1 GDP growth of -0.7% (following -0.3% in Q4 2016). Some good news emerged when both S&P Global and Fitch refrained from further downgrades, although these foreign currency ratings are already in sub-investment grade territory.

At the SA Reserve Bank's Monetary Policy Committee (MPC) 25 May meeting the MPC left the repo rate unchanged at 7.0%, citing lower inflation (May inflation was 5.4% y/y) and weaker growth and inflation prospects. While suggesting strongly that the rate hiking cycle was at an end, the Governor also cautioned that a cut was unlikely in the near term. Nevertheless, markets are pricing in an increasing likelihood of at least a 25bp rate cut later this year.

Attracted by South Africa's relatively high bond yields following the April downgrades, foreign investors were keen buyers of local bonds during Q2, which helped drive positive returns as well as rand strength in the three months. The BEASSA All Bond Index returned 1.5% in Q2 and 4.0% for the year to date. Inflation-linked bonds (ILB Composite Index) returned 1.0% in the quarter, and cash (the STeFI Composite) returned 1.9%.The rand, meanwhile, continued its appreciation versus the US dollar, gaining 2.6%, while it lost 4.3% against the euro and 1.0% versus the UK pound.

The FTSE/JSE All Share Index returned -0.4% for Q2 (and 3.4% year to date), dragged lower by a confluence of factors. With a return of -7.0%, Resources shares were the worst performers due to the fall in commodity prices. Industrial shares delivered 2.2%, helped by strong gains in Naspers, while Financials were flat at 0.0%, dented by the downgrades. Listed property, meanwhile, returned 0.9%, underpinned partly by falling inflation and an improved interest rate outlook.

PERFORMANCE

The fund returned 0.4% (after fees) for the first quarter of 2016 and has returned 1.9% for the 12-month period ending 30 June 2017. The fund has delivered a return of 12.9% per annum since inception (after fees), compared to its after-fee objective of 9.7% per annum over the same period. To 30 June 2017 it retains its top-quartile or better performance over annual periods from 4-10 years, according to Morningstar. The largest contributors to absolute returns for the quarter were the fund's holdings in international fixed income and equities, followed by SA cash. SA equities detracted from returns following their weak performance for the quarter, although the fund's exposure to large global stocks like Naspers, BAT and Richemont, and selection of financial shares, offset some of this weakness. Overweight holdings in SA listed property and local nominal bonds also added value.

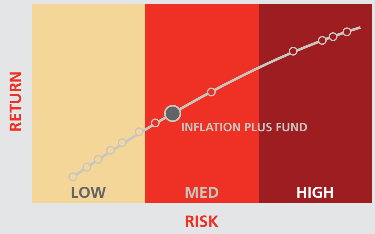
STRATEGY AND OUTLOOK

In **global fixed income**, government bond yields continue to be expensive given the very low levels at which they are trading from an historic perspective. They are also at risk to rising interest rates in the US, and increasingly in Europe as well. We remain underweight sovereign bonds and underweight duration, and continue to hold cash and shorter-term bonds in order to reduce interest rate risk. During the quarter we bought more corporate bonds (mainly investment-grade) in the US and Europe out of global cash holdings, as these assets moved to more attractive valuations. We are now overweight corporate bonds from a neutral position previously.

ANNUALISED PERFORMANCE	A CLASS	OBJECTIVE#	T CLASS	X CLASS	B CLASS
1 year	1.9%	8.9%	2.4%	2.1%	2.6%
3 years	6.4%	8.8%	n/a	6.7%	7.2%
5 years	10.8%	9.1%	n/a	11.1%	11.6%
7 years	11.6%	8.9%	n/a	n/a	12.5%
10 years	9.9%	9.8%	n/a	n/a	10.7%
Since inception	12.9%	9.7%	5.2%	11.4%	12.8%

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

RISK/RETURN PROFILE:



FUND MANAGERS:
Michael Moyle, David Knee, Duncan Schwulst and Johny Lambridis

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

OBJECTIVE:
CPI+5% p.a. over a rolling 3-year period

INCEPTION DATE:
1 June 2001

FUND SIZE:
R37 030 713 368

AWARDS:
Raging Bull: 2013
Morningstar: 2015

Sources: Prudential, Morningstar & Deutsche Securities

For **global equities**, despite strong market performance over the past 12 months or so, many regions remain attractively valued, particularly given the fundamental backdrop of broad global macroeconomic improvement, with strong economic indicators feeding through to company earnings. As such, the fund has moved overweight global equities from a neutral position in the previous quarter. We have a preference for certain markets where we see good value and fundamentals remain encouraging, including Europe, Japan, Korea, Turkey and Indonesia, as well as the global financial sector, compared to global indices and the broad US market.

South African equity valuations improved marginally over the quarter to become slightly cheaper versus their long-term fair value, as future corporate earnings growth estimates increased slightly and equity prices declined slightly. The FTSE/JSE ALSI 12-month forward P/E fell to 13.9x at quarter-end from 14.1x in Q1 2016. We retained our overweight exposure in the Prudential Inflation Plus Fund during the quarter based on these valuations and their relatively higher long-term prospective returns compared to other local asset classes.

The fund is overweight stocks with solid foreign currency earnings like British American Tobacco, Anglo American, Exxaro and Sasol, as well as international container transport group Trencor, which has upside to improving global trade trends. We also hold non-mining global stocks like Sappi. We remain overweight in well-priced and high-yielding Financials including Old Mutual, Investec, Standard Bank and Barclays Group Africa. We maintained our underweight in Retail stocks given the challenging consumer environment, but do continue to hold selective overweights in Foschini and Pick 'n Pay. We have preferred to gain our consumer exposure via well-priced and more defensive consumer services providers like Sun International.

In **SA listed property**, we retained our overweight exposure in the fund during the quarter, with valuations remaining somewhat on the cheap side of long-term fair value. At quarter-end, listed property companies (excluding developers) were priced to return around 16% p.a. over the medium-term (assuming no change in the market's rating/ valuation of property), comfortably above inflation and, we believe, ample compensation for the risk involved. Even with the market pricing in a de-rating of around 4%, somewhat higher than Q1, the medium-term prospective return would be approximately 12% p.a.

In **SA nominal bonds**, we took some profits over the quarter amid the market rally, trimming our moderately overweight position in favour of buying more inflation-linked bonds. However, we are still modestly overweight nominal bonds. Within this exposure, we prefer longer-dated bonds versus shorter paper due to the more attractive yields on offer, while retaining our overweight exposure to corporate bonds.

Inflation-linked bonds saw their valuation fall to attractive levels relative to nominal bonds in mid-June (amid the improved inflation outlook) as the 10-year break-even inflation rate dropped briefly below our long-term inflation benchmark of 6.0%. We took advantage of this to buy more ILBs around this level and sell nominal bonds, although we remain underweight ILBs in the fund. ■

ASSET CLASS RETURNS	Q2 2017	YTD
SA Equity (FTSE/JSE All Share Index)	-0.4%	3.4%
SA Property (FTSE/JSE SA Listed property Index)	0.9%	2.3%
SA Bonds (BEASSA All Bond Index)	1.5%	4.0%
SA Inflation-linked Bonds (RSA Composite Inflation-linked Bond Index)	1.0%	0.4%
SA Cash (STeFI Composite)	1.9%	3.7%
Global Equity (MSCI World Index - USD)	4.0%	10.7%
Global Equity (MSCI Emerging Markets Index – USD)	6.3%	18.4%
Global Bonds (Barclays Global Aggregate Bond Index – USD)	2.6%	14.4%
Rand (Rand/USD move)	-2.3%	-4.4%

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL BALANCED FUND
30 JUNE 2017

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

PERFORMANCE

The fund returned -1.8% for the quarter ending 30 June 2017 (net of fees), in line with its benchmark, the average of the ASISA Multi-Asset High Equity category. Over one year the fund's 4.1% return has outperformed the 1.5% from the benchmark, and over five years it has outperformed with 12.6% p.a. versus the benchmark's 9.8% p.a. The main contributors to performance were the fund's holdings of international equity and listed property, and to a lesser extent, South African listed property, bonds and cash. The main detractor was its exposure to South African equity, where the local market posted losses for the period.

MARKET OVERVIEW

Global growth maintained a steady pace in the second quarter of 2017 (Q2), making it another positive period for global investors as unemployment rates fell and trade accelerated. In contrast, in South Africa investment returns were hit by worsening investor sentiment following the June credit rating downgrades and a second quarter of negative GDP growth, as well as rising political uncertainty caused by widening government corruption scandals and policy disagreements. Keen foreign investor demand for high-yielding SA bonds drove solid returns in those assets, as well as contributing to rand appreciation for the quarter.

US markets were stronger during the quarter although the Trump "reflation" trend lost some steam in June. The S&P 500 and Dow Jones reached fresh record highs as US corporate earnings continued to grow, but worries grew over high valuations, and tech stocks experienced a sell-off in June amid fears of a bubble. For Q2, the S&P 500 returned 3.1% and the Nasdaq 4.2% (but -2.4% in June). As widely expected, the US Federal Reserve hiked interest rates by 25bps at its June FOMC meeting, and continued to signal one further 25bp rate hike in 2017 and three more hikes for 2018. This is little changed from its (and the market's) previous forecasts, with the market pricing in a 40% chance of a hike in December, and only 20% in September.

The Barclays Global Aggregate Bond Index (US$), a mixture of government and corporate bonds, returned 2.6% in the quarter. US Treasuries returned 1.2%, while investment-grade corporate bond spreads narrowed slightly to 112bps over USTs from 120bps at the beginning of the quarter, and high-yield spreads widened to 408bps from 391bps previously.

In the Eurozone, the French elections were the latest to sweep away populist fears and the region's Q2 GDP growth came in mostly steady at 1.7% (q/q annualised), the latest data confirming a continuing recovery. The Dow Jones Eurostoxx 50 returned 6.5% in US$. The UK, meanwhile, saw a disastrous snap-election outcome for PM Theresa May as her Conservative party lost its Parliamentary majority. Amid Brexit uncertainty, UK growth eased somewhat and sterling continued to weaken. The FTSE 100 returned 4.7% (in US$) over the quarter, but -1.5% in June. The Nikkei 225 Index returned 5.2% over the quarter (in US$). China's good start to the year continued in Q2 as Q1 GDP growth surprised to the upside at 6.9% (q/q annualised). Many analysts do expect a slowdown later in the year as the effects of government stimulus fade.

Emerging market assets recorded good gains in Q2 amid continuing investor demand for risk assets. The MSCI Emerging Markets Index returned 6.3% in US$, compared to 4.0% from the MSCI World Index for developed markets. Among the larger EM equity markets in US$ terms, the MSCI Turkey was by far the strongest performer with a 19.8% total return, followed by the MSCI China with 10.7% and South Korea's KOSPI (8.6%). The poorest Q2 returns (in US$) came from the MSCI Russia (-9.8%) and Brazil's Bovespa (-7.3%). The MSCI South Africa returned 3.6% in US$.

South Africa moved closer to "full" sub-investment grade status in June following Moody's downgrade from Baa2 to Baa3, with a negative outlook indicating that a further cut – to sub-investment grade level – is likely. The economy also unexpectedly moved into a technical recession with Q1 GDP growth of -0.7% (following -0.3% in Q4 2016). Some good news emerged when both S&P Global and Fitch refrained from further downgrades, although these foreign currency ratings are already in sub-investment grade territory.

At the SA Reserve Bank's Monetary Policy Committee (MPC) 25 May meeting the MPC left the repo rate unchanged at 7.0%, citing lower inflation (May inflation was 5.4% y/y) and weaker growth and inflation prospects. While suggesting strongly that the rate hiking cycle was at an end, the Governor also cautioned that a cut was unlikely in the near term. Nevertheless, markets are pricing in an increasing likelihood of at least a 25bp rate cut later this year.

Attracted by South Africa's relatively high bond yields following the April downgrades, foreign investors were keen buyers of local bonds during Q2, which helped drive positive returns as well as rand strength in the three months. The BEASSA All Bond Index returned 1.5% in Q2 and 4.0% for the year to date. Inflation-linked bonds (ILB Composite Index) returned 1.0% in the quarter, and cash (the STeFI Composite) returned 1.9%.The rand, meanwhile, continued its appreciation versus the US dollar, gaining 2.6%, while it lost 4.3% against the euro and 1.0% versus the UK pound.

The FTSE/JSE All Share Index returned -0.4% for Q2 (and 3.4% year to date), dragged lower by a confluence of factors. With a return of -7.0%, Resources shares were the worst performers due to the fall in commodity prices. Industrial shares delivered 2.2%, helped by strong gains in Naspers, while Financials were flat at 0.0%, dented by the downgrades. Listed property, meanwhile, returned 0.9%, underpinned partly by falling inflation and an improved interest rate outlook.

STRATEGY AND OUTLOOK

In global fixed income, government bond yields continue to be expensive given the very low levels at which they are trading from an historic perspective. They are also at risk to rising interest rates in the US, and increasingly in Europe as well. We remain underweight sovereign bonds and underweight duration, and continue to hold cash and shorter-term bonds in order to reduce interest rate risk. The fund continues to hold corporate bonds (largely investment-grade US and European credit) where we see value, and some emerging market government bonds (most notably, Mexican).

For global equities, despite strong market performance over the past 12 months or so, many regions remain attractively valued, particularly given the fundamental backdrop of broad global macroeconomic improvement, with strong economic indicators feeding through to company earnings. As such, the fund is overweight global equities. We have a preference for certain markets where we see good value and fundamentals remain encouraging, including Europe, Japan, Korea, Turkey and Indonesia, as well as the global financial sector, compared to global indices and the broad US market.

South African equity valuations improved marginally over the quarter to become slightly cheaper versus their long-term fair value, as future corporate earnings growth estimates increased slightly and equity prices declined slightly. The FTSE/JSE ALSI 12-month forward P/E fell to 13.9x at quarter-end from 14.1x in Q1 2016. The fund is broadly neutrally positioned based on these valuations.

The fund is overweight global stocks like British American Tobacco, Anglo American, Exxaro and Sasol. We also hold non-mining global stocks like Naspers and Sappi. We remain overweight in well-priced and high-yielding Financials including Old Mutual, Investec, Standard Bank and Barclays Group Africa. We maintained our underweight in Retail stocks given the challenging consumer environment, but do continue to hold selective overweights in Foschini and Pick 'n Pay. We have preferred to gain our consumer exposure via well-priced and more defensive consumer services providers like Sun International.

In SA listed property, we retained our overweight exposure in the fund during the quarter, with valuations at around long-term fair value. At quarter-end, listed property companies (excluding developers) were priced to return around 16% p.a. over the medium-term (assuming no change in the market's rating/valuation of property), comfortably above inflation and, we believe, ample compensation for the risk involved. Even with the market pricing in a de-rating of around 4%, somewhat higher than Q1, the medium-term prospective return would be approximately 12% p.a.

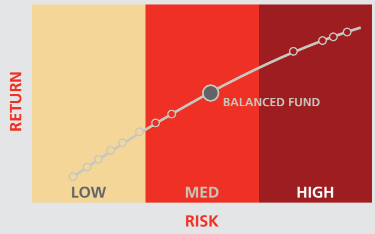
In SA nominal bonds, the fund is overweight as valuations remain on the cheap side of fair value. Within this exposure, we prefer longer-dated bonds versus shorter paper due to the more attractive yields on offer, while retaining our overweight exposure to corporate bonds. The fund remains underweight inflation-linked bonds and SA cash. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	X CLASS	B CLASS
1 year	4.1%	1.5%	4.6%	4.3%	4.9%
3 years	6.4%	4.7%	n/a	6.7%	7.2%
5 years	12.6%	9.8%	n/a	n/a	13.4%
7 years	13.1%	10.1%	n/a	n/a	14.1%
10 years	9.7%	7.8%	n/a	n/a	10.7%
Since inception	14.1%	12.2%	5.2%	11.1%	14.5%

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

ASSET CLASS RETURNS	Q2 2017	YTD
SA Equity (FTSE/JSE All Share Index)	-0.4%	3.4%
SA Property (FTSE/JSE SA Listed property Index)	0.9%	2.3%
SA Bonds (BEASSA All Bond Index)	1.5%	4.0%
SA Inflation-linked Bonds (RSA Composite Inflation-linked Bond Index)	1.0%	0.4%
SA Cash (STeFI Composite)	1.9%	3.7%
Global Equity (MSCI World Index - USD)	4.0%	10.7%
Global Equity (MSCI Emerging Markets Index – USD)	6.3%	18.4%
Global Bonds (Barclays Global Aggregate Bond Index – USD)	2.6%	14.4%
Rand (Rand/USD move)	-2.3%	-4.4%

RISK/RETURN PROFILE:



FUND MANAGERS:

David Knee, Duncan Schwulst, Michael Moyle and Johny Lambridis

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:

R15 888 605 887

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL ENHANCED SA PROPERTY TRACKER FUND
30 JUNE 2017

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

PROPERTY

PERFORMANCE

The fund recorded a positive return of 0.7% (net of fees) for the quarter, in trailing the SA Listed Property (SAPY) index which returned 0.9%. Over the past year the fund returned 3.4%, outperforming the benchmark by 0.6%. The fund's outperformance versus the benchmark over this period is attributed to the active stock selection of our fundamental strategy of holding excess weight in higher-yielding stocks. The rolling 12 months performance of the fund ranked it 17th out of 38 funds in the ASISA South African Real Estate General peer group.

The 10-year track record of the fund ranks it 3rd out of its peers, with the fund having outperformed the benchmark (after fees) over this period.

MARKET COMMENTARY

Global growth maintained a steady pace in the second quarter of 2017 (Q2), making it another positive period for global investors as unemployment rates fell and trade growth accelerated. US markets were stronger during the quarter although the Trump "reflation" trend lost some steam in June, with President Trump's company-friendly policies looking to be increasingly delayed. As widely expected, the US Federal Reserve hiked interest rates by 25bps at its June FOMC meeting, and continued to signal one further 25bp rate hike in 2017 and three more hikes for 2018.

In the Eurozone, the region's Q2 GDP growth came in at 1.7% (q/q annualised), similar to the previous quarter's 1.8% rate, the latest data confirming a continuing recovery amid rising consumer spending and business investment and falling unemployment across most member states.

In contrast, in South Africa investment returns were hit by worsening investor sentiment following the June credit rating downgrades and a second quarter of negative GDP growth, as well as rising political uncertainty caused by widening government corruption scandals and policy disagreements. Keen foreign investor demand for high-yielding SA bonds drove solid returns in those assets, as well as contributing to rand appreciation for the quarter.

South Africa moved closer to "full" sub-investment grade status in June as Moody's downgraded the country's sovereign credit rating by one notch from Baa2 to Baa3, with a negative outlook indicating that a further cut – to sub-investment grade level – is likely. The economy also unexpectedly moved into a technical recession with Q1 GDP growth announced at -0.7% (following -0.3% in Q4 2016), and SA's Q2 business confidence fell to its lowest level since 2009. Some good news emerged when both S&P Global and Fitch refrained from further downgrading SA's credit rating on 1 and 2 June, although these foreign currency ratings are already in sub-investment grade territory.

At the SA Reserve Bank's Monetary Policy Committee (MPC) 25 May meeting the MPC left the repo rate unchanged at 7.0%, citing lower inflation (May inflation was 5.4% y/y) and weaker growth and inflation prospects. The central bank lowered its 2017 and 2018 growth forecasts to 1.0% and 1.5%, respectively. While suggesting strongly that the rate hiking cycle was at an end, the Governor also cautioned that any downward move was unlikely in the near term. Nevertheless, the forward rate agreements market is pointing to an increasing likelihood of at least a 25bp rate cut later this year.

Attracted by South Africa's relatively high bond yields following the April downgrades, foreign investors were keen buyers of local bonds during Q2, which helped drive positive returns as well as rand strength in the three months. The BEASSA All Bond Index returned 1.5% in Q2 and 4.0% for the year to date. The 10-year government bond yield fell from around 8.9% to 8.75% by end-June, off its best levels of around 8.4% during the quarter. Inflation-linked bonds (ILB Composite Index) returned 1.0% in the quarter, and cash (the STeFI Composite) returned 1.9%.The rand, meanwhile, continued its appreciation versus the US dollar, gaining 2.6%, while it lost 4.3% against the euro and 1.0% versus the UK pound.

In SA listed property, we retained our overweight exposure in our multi-asset funds during the quarter, with valuations remaining on the fair to slightly cheap side of long-term fair value for most of the month. At quarter-end, listed property companies (excluding developers) were priced to return approximately 16% p.a. over the medium-term (assuming no change in the market's rating/valuation of property), comfortably above inflation and, we believe, ample compensation for the risk involved. Even with the market pricing in a de-rating of around 4%, somewhat higher than Q1, the medium-term prospective return would be approximately 12% p.a.

Actual delivered growth in distributions per share for the major listed property companies averaged 8.3% for the quarter.

We estimate that one-year forward earnings forecasts for listed property companies (the SAPY Index), excluding developers, grew by 5.9% on an annualized basis over the quarter. This implies slight downgrades to forecasts for the sector (relative to expectations) given that consensus forecasts have been for growth rates of the order of 9.5%.

Within the major listed property sectors, office fundamentals remain fragile as a result of the weak SA economic environment and the sector's macro drivers. In retail, growth in trading densities (turnover/retail space) has declined to levels below that of inflation for the first quarter of the year. Results from retail-focused Hyprop confirm this downward pressure, with trading density growth of 3.4%. Cannibalization of sales from new and competing centres is a factor contributing to this phenomenon.

STRATEGY AND OUTLOOK

As prudent valuation-based investment managers we know how important it is to maintain a broadly diversified portfolio in uncertain conditions, and stay invested in growth assets like equities and listed property through the current low-return market cycle, to build a successful investment portfolio over the long term. We will continue to take advantage of the opportunities created to buy assets at attractive valuations where the risks are appropriate.

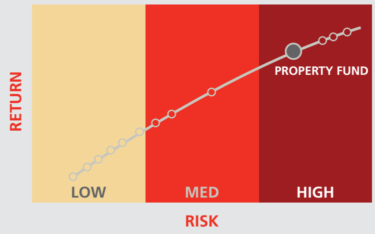
We view the current valuations of SA Listed Property as slightly expensive–to-fairly valued relative to ILBs. In the absence of a material de-rating in the market's valuation, listed property is priced to comfortably deliver double-digit returns over the medium term, well above inflation.

An important aspect of the investment case for listed property is illustrated by comparing property yields to those from ILBs. At quarter-end the SAPY, excluding developers, was priced to deliver a one-year forward distribution yield of 8.1%. This yield exceeded 10-year ILB yields by more than 5%. Assuming yields remain constant, property should outperform ILBs by at least 5%. In our view, this return premium is commensurate with the elevated risks of investing in listed property at present. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	D CLASS
1 year	3.4%	2.8%	3.5%	3.5%
3 years	14.0%	13.2%	n/a	14.1%
5 years	14.3%	13.8%	n/a	14.4%
7 years	16.6%	16.4%	n/a	16.7%
10 years	14.5%	14.3%	n/a	n/a
Since inception	16.3%	16.3%	4.5%	16.6%

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

RISK/RETURN PROFILE:



FUND MANAGERS:
Duncan Schwulst

ASISA CATEGORY:
South African - Real Estate - General

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

INCEPTION DATE:
2 December 2005

FUND SIZE:
R6 946 628 125

AWARDS:
Morningstar/Standard & Poor's: 2011

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL DIVIDEND MAXIMISER FUND
30 JUNE 2017

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

EQUITY

PERFORMANCE

The fund produced a return of -0.3% for the three months ended June 2017, outperforming the average of the General Equity funds by 1.5% for the same period. On a rolling 12-month basis, the Prudential Dividend Maximiser Fund has outperformed the average of the General Equity funds by just over 4%.

MARKET OVERVIEW

The second quarter of 2017 saw a very tepid performance from the market in South Africa, as returns were weighed down by the generally difficult economic environment and negative sentiment. Investment conditions appeared to be improving for most of the emerging markets, however South Africa was impacted by the South African Cabinet reshuffle in the last week of March and the consequent downgrades of the country's sovereign credit rating to non-investment grade status by S&P Global and Fitch in April. The FTSE/JSE All Share Index delivered a total return of -0.4% for Q2, dragged lower by a combination of rand/US dollar strength, commodity price softness and credit rating downgrades. The local market has returned 3.4% year to date. With a return of -7.0%, Resources shares were the worst performers due to the fall in commodity prices. Industrial shares delivered 2.2%, helped by strong gains in Naspers, while Financials were flat at 0.0%, dented by the downgrades. Listed property, meanwhile, returned 0.9%, underpinned partly by falling inflation and an improved interest rate outlook.

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 therefore see the more difficult economic outlook as 'business as usual' and aim to continue building risk-cognisant portfolios that seek to add value through stock selection relative to benchmark.

STRATEGY AND POSITIONING

The fund has been underweight the retail and property sectors, where the consumer continues to be under pressure and where valuations appear fairly full. Recent results from the retail sector confirm that the South African consumer is purchasing less and trading densities are starting to fall. We think this increases the risk of falling margins for retailers. Consequently, we believe that property owners whose rental income is tied to the turnover of retailers may also experience some pressure.

Those stocks that performed well during this period have been stocks that have foreign currency exposures such as Naspers and Bidcorp. Naspers' Tencent continues to deliver strong results in all divisions. The more slowly growing gaming division has started to accelerate again with a strong launch of a new game. Tencent's advertising and payments businesses continue to grow rapidly, and it continues to look for new avenues to expand its business and grow its subscriber base. The discount that Naspers trades at relative to the value of the underlying companies continues to be exceptionally wide and we think this large discount should reduce over time, enhancing returns to Naspers shareholders.

A company we have not discussed in our commentary before is Bidcorp. We think Bidcorp is one of the highest-quality companies trading on the JSE. It is a global food service business delivering food to restaurants and hotels across Europe, Australasia, South Africa and South America. As a newly listed company spun out of Bidvest, we think the company has an outstanding ability to strongly grow its dividends as the business does not need substantial amounts of cash to grow. It generates very high returns and has a strong competitive advantage in many of the countries in which it operates due to its large size. While the valuation of the company appears full, we think long-term shareholders in this company will enjoy ever-increasing dividends and we think is a strong qualifier for inclusion in the fund.

The strongest contributor to performance over the quarter was the fund's offshore investments - in particular the fund's overweight to financials and leasing companies which we think are exceptionally cheap contributed to performance. Our overweight to the Turkish market, which has been able to grow its market dividends over time, also performed strongly. We took advantage of the very negative market sentiment and weak currency around the end of 2016 to add to this position.

We would like to remind our investors that when investing in the JSE, that they are not only buying South African exposure, but also shares in globally competitive and exposed businesses such as BHP Billiton, Naspers and BAT. In the case of the Prudential Dividend Maximiser Fund, we have in addition viewed foreign stocks as being relatively more attractive and currently over 25% of the fund is directly invested offshore across various markets. The fund's effective exposure to offshore cash flow and dividends is therefore well over 50%.

The largest detractor from performance for the quarter was our investment in basic resources, particularly Anglo American and Exxaro. Both these companies were impacted by the lower iron ore price. We think that both these companies present very good value, with the potential to increase dividends as their balance sheets have been growing stronger.

OUTLOOK

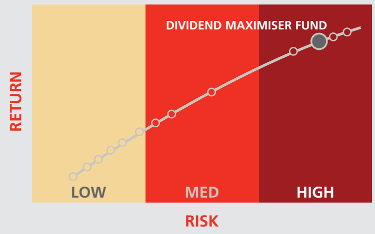
On market valuations, we currently view the market in South Africa as being fair value and caution that one should certainly expect a more moderate growth in dividends relative to the last five years, where dividends were recovering post the financial crisis. Earnings growth has been slowing and this may cause dividend growth to slow in the medium term. However, we still consider some offshore equity markets to be relatively undervalued and attractive, and therefore maintain the fund's offshore exposure.

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

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	B CLASS
1 year	3.2%	-1.1%	3.4%	3.6%
3 years	3.8%	1.7%	n/a	4.2%
5 years	12.2%	9.5%	n/a	12.7%
7 years	13.4%	11.1%	n/a	13.9%
10 years	10.3%	7.5%	n/a	10.7%
Since inception	17.4%	14.1%	2.6%	11.5%

Inception date B Class: 2 January 2007, T Class: 2 January 2015

RISK/RETURN PROFILE:



FUND MANAGERS:
Ross Biggs, Craig Butters and Rehana Khan

ASISA CATEGORY:
South African - Equity - General

BENCHMARK:
ASISA South African – Equity - General Category Mean

INCEPTION DATE:
2 August 1999

FUND SIZE:
R4 428 043 454

AWARDS:
Raging Bull: 2006, 2008

Morningstar/Standard & Poor's: 2007, 2009

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL EQUITY FUND
30 JUNE 2017

QUARTERLY COMMENTARY

PERFORMANCE

While clawing back some performance in June, over the quarter ending 30 June 2017 the Fund mildly underperformed its benchmark. However, over one year the fund has returned 5.8% compared to -1.1% from its benchmark, the mean of the ASISA General Equity category. And over five years to 30 June 2017 the fund has returned 12.7%p.a., outperforming the benchmark's 9.5% p.a.

The majority of the underperformance for the quarter stemmed from overweight positions in stocks that have 'recovery' stories which typically only bear fruit over the medium term. Investors also remain skittish in light of the current domestic environment and there is uncertainty around global resource prices that company earnings may have peaked in this short cycle; this lead to generally muted or mixed returns across the local market.

Contributors

The fund's position in banks proved to be a strong contributor over the period. Most notable was the position in Barclays Group Africa. Barclays had been trading at discount given its pending placement to allow its UK parent to break away. Based on its keen valuation, strong dividend yield and earnings outlook (given non-recurring impairments from the previous period), it was already keenly priced, and the fund took the opportunity to participate in this placement at a further discount to the current market price. The successful placement saw a rebound in the share price over the quarter during a period in which many bank share prices showed little movement. An underweight position in Nedbank, which has challenges in growing earnings, further contributed to fund performance, as Nedbank's share price fell 11% over the three months.

A mild overweight in Naspers over the period was another contributor, although this position is being trimmed (discussed elsewhere in this report). An overweight position in Datatec (16% on the period) was also a strong contributor. Datatec had received an offer for their Westcon business at an attractive valuation, and while the initial approach was made before this quarter, additional detail on this offer was provided during the period which lifted the share price. Datatec has also been a re-rating story for us, based on a number of factors such as having traded at very low price-to-book ratio, offering opportunity for significant margin recovery as restructuring costs work out of the system, and the business mix is also moving to higher-margin operations.

Underweight positions in Northham (platinum mining) and Sibanye Gold also contributed, with these stocks falling 21% and 19% respectively during the quarter.

Detractors

Sun International, an overweight holding in the fund, had another poor quarter. Our investment case in Sun International is not premised on a return to growth in their existing casinos, but instead we project revenue growth to come from the newly built Menlyn Maine casino in Pretoria, their Latam venture, and recently acquired GP Slots business. This revenue growth will take some time to reflect, and in the interim the share price has been somewhat battered by perceptions around the current domestic consumer market, with the share price of peers such as Tsogo Sun also having suffered a similarly rough quarter.

After being a very strong contributor in Q1 (with its share price up 17% in that period), PPC fell close to the same amount in Q2. As mentioned in prior commentary, PPC is an example of where the market is not attaching much value to sunk capital in projects that will bring new income streams online in the future. Political developments in the DRC have sell- side analysts concerned about projects in that region. Nonetheless, projects in Rwanda and ramp-ups in Zimbabwe and in Ethiopia look to make positive contributions.

Market concerns around the South African economic environment, weak domestic cement demand, and intense market competition have weighed on the share price. In spite of this, cement prices seem to be stabilizing, and are now increasing after declining for the past two years. On a valuation basis PPC remains a compelling investment for the longer-term investor despite the current headwinds.

Overweight positions in Pick 'n Pay and the Foschini Group also hampered fund performance. We wish to retain some exposure to retailers, though overall we remain underweight in the retail sector, and also reduced exposure to Massmart over the period. This overall underweight exposure has benefited the fund. Retailers find themselves in a difficult consumer market at present, with earnings growth likely to be challenging. Stock picking in the residual exposure the fund is retaining is important, and we like Pick 'n Pay's focus on supply chain improvement and cost control, and see room for long-term margin improvement.

International Assets

The first quarter of 2017 (Q1) saw a very positive start to the year as global financial markets were underpinned by generally improving macroeconomic data and bullish investor sentiment that drove good demand for both developed and emerging market assets. International equity was a solid contributor as equity markets rallied, overshadowing the general rand appreciation over the quarter.

PORTFOLIO CHANGES

Of the portfolio changes, the more notable included selling down Glencore plc in favour of positions in BHP Billiton and Exxaro Resources. Glencore has been a strong (relative to its peers) performer on the lack of iron ore exposure. With the fall in ore prices, miners with strong iron ore exposure such as BHP Billiton and Exxarro Resources have become sufficiently de-risked on a valuation point to offer a good entry point. As resources begin to move through the cycle (and earnings growth momentum begins to taper), we are also looking to move to high-quality stocks with higher margins and less leverage.

Other major movements saw a down-weighting in Tiger Brands. We entered Tiger Brands when the news flow around its Nigerian operations had tainted its valuation, in spite of a strong core earnings base in South Africa. This stock has appreciated significantly, to the point where food producers are generally appearing expensive, and the weighting was cut to fund alternative investment ideas.

One of these alternate ideas was closing the underweight position in Aspen, which was also partly funded by a reduction in Naspers. Aspen offers an interesting non-resource based rand hedge, with over 80% of its earnings in foreign currencies. Aspen is a solid company with an improving cash flow of late, though not without potential challenges; nonetheless we feel comfortable in closing the long-held underweight position.

Naspers exposure was reduced in the fund during the quarter to a more neutral or even slightly underweight position. Even though Naspers trades at an attractive discount given its exposure to Tencent, the latter component is becoming expensive on its PEG (price/ earnings to growth) ratio.

OUTLOOK

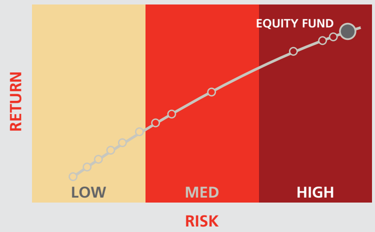
SA equities continue to be viewed as marginally cheap. On Price-to-Book multiples the current level of 1.9x is cheap against a longer-term history of 2.1x. The current prospective real return at 6.8% is also slightly above our estimated long-run anchor of 6.5%. SA equities are also still cheap on trend-earnings multiples, being below a 12x P/E ratio (14.5x being "fair"). However, in our view there is uncertainty that earnings will revert to trend in the short-term. Currently the earnings of Industrials and Financials have shown little recovery, with only Resources earnings having improved.

We remain 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. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	5.8%	-1.1%	6.3%
3 years	4.0%	1.7%	4.5%
5 years	12.7%	9.5%	13.2%
7 years	14.2%	11.1%	14.8%
10 years	10.4%	7.5%	10.9%
Since inception	17.4%	14.1%	12.0%

Inception date B Class: 2 January 2007

RISK/RETURN PROFILE:



FUND MANAGERS:

Chris Wood, Johny Lambridis and Simon Kendall

ASISA CATEGORY:

South African - Equity - General

BENCHMARK:

ASISA South African - Equity - General Category Mean

INCEPTION DATE:

2 August 1999

FUND SIZE:

R2 591 206 994

AWARDS:

Raging Bull: 2006, 2007, 2008

Morningstar/Standard & Poor's: 2007, 2008

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL CAUTIOUS MANAGED FUND OF FUNDS
30 JUNE 2017

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL MULTI-ASSET

MARKET OVERVIEW

Global growth maintained a steady pace in the second quarter of 2017 (Q2), making it another positive period for global investors as unemployment rates fell and trade growth accelerated. Bullish investor sentiment continued to drive good demand for both developed and emerging market assets, although later in the quarter both equity and bond market momentum lost some steam amid worries over some heady valuations and debate over the pace of interest rate increases, particularly in the US.

US markets were stronger during the quarter, although the Trump "reflation" trend lost some steam in June, with President Trump's company-friendly policies looking to be increasingly delayed. The S&P 500 and Dow Jones reached fresh record highs as US corporate earnings continued to grow, but worries grew over high valuations, and tech stocks experienced a sell-off in June amid fears of a bubble. For Q2, the S&P 500 returned 3.1% and the Nasdaq 4.2% (but -2.4% in June). As widely expected, the US Federal Reserve hiked interest rates by 25bps at its June FOMC meeting, and continued to signal one further 25bp rate hike in 2017 and three more hikes for 2018. This is little changed from its (and the market's) previous forecasts, with the market pricing in a 40% chance of a hike in December, and only 20% in September. The Fed cited nearly full employment and rising inflation as the main factors behind the rate rise. Analysts considered May's dip in core CPI to 1.4% y/y, along with the softening in Q1 GDP growth to 1.2% (q/q annualised) from 2.1% previously, to be a temporary aberration in the stronger longer-term trend.

The Barclays Global Aggregate Bond Index (US$), a mixture of government and corporate bonds, returned 2.6% in the quarter. US bonds were mixed as sentiment swung between worries over rising US interest rates, the Fed's upcoming bond sales (unwinding of its balance sheet) and growing inflationary pressures, versus more bearish perspectives on the US growth outlook. US Treasuries returned 1.2% for the quarter, while the 10-year UST yield was barely changed at 2.31% from 2.39% at the end of Q1. For US corporate bonds, investment-grade bond spreads narrowed slightly to 112bps over USTs from 120bps at the beginning of the quarter, while high-yield spreads widened to 408bps from 391bps previously.

In the Eurozone, the French elections were the latest to sweep away populist fears as reformist Emmanuel Macron comfortably won the Presidential vote and a large Parliamentary majority for his new party – this despite very low voter turnout. The region's Q2 GDP growth came in at 1.7% (q/q annualised), similar to the previous quarter's 1.8% rate, the latest data confirming a continuing recovery amid rising consumer spending and business investment and falling unemployment across most member states. At its June meeting, the European Central Bank (ECB) left its base interest rate unchanged, ruled out further rate cuts and said it was considering ways to gradually end its bond-buying stimulus.The Dow Jones Eurostoxx 50 returned 6.5%, while Germany's DAX delivered 6.8% and the French CAC 9.2% (all in US$). The UK, meanwhile, saw a disastrous snap-election outcome for PM Theresa May as her Conservative party lost its Parliamentary majority – forcing her to soften her negotiating stance on exiting the EU (Brexit). Amid Brexit uncertainty, UK growth eased somewhat and sterling continued to weaken, spurring higher inflation. The FTSE 100 returned 4.7% (in US$) over the quarter, but -1.5% in June.

In Japan, Q1 2017 GDP growth accelerated to 2.2% (q/q annualised) from a revised 1.2% in the previous quarter, as private consumption revived and exports continued to improve. Bank of Japan (BOJ) comments indicated the central bank believes wages and prices will begin to pick up later this year to achieve the bank's 2% inflation target in 2018. Yet analysts agree that the BOJ is unlikely to ease off of its monetary stimulus any time soon given the country's past 20 years of very low growth and inflation levels. The Nikkei 225 Index returned 5.2% over the quarter (in US$).

China's good start to the year continued in Q2 as the equity market again posted a strong performance (the MSCI China returned 10.7% in US$), and Q1 GDP growth surprised to the upside at 6.9% (q/q annualised). A negative development was Moody's unexpected one–notch downgrade to the country's sovereign credit rating to A1 from Aa3, citing worries over the government's ability to de-leverage the financial system's high debt levels while maintaining steady growth. However, government officials discounted this concern amid strong growth in exports and other firm data. However, many analysts do expect a slowdown later in the year as the effects of government stimulus fade.

Other emerging market assets, including both bonds and equities, recorded good gains in Q2 amid renewed investor demand for risk assets. Overall, the MSCI Emerging Markets Index returned 6.3% in US$, compared to 4.0% from the MSCI World Free Index for developed markets. Among the larger EM equity markets in US$ terms for the quarter, the MSCI Turkey was by far the strongest performer with a 19.8% total return, followed by China (as above) and South Korea's KOSPI (8.6%). The poorest Q2 returns (in US$) came from the MSCI Russia (-9.8%) and Brazil's Bovespa (-7.3%). The MSCI South Africa returned 3.6% for Q2 in US$.

Finally, amid keen foreign investor demand for high-yielding SA bonds during the quarter, the rand continued its appreciation versus the US dollar, gaining 2.6%, while it lost 4.3% against the euro and 1.0% versus the UK pound.

PERFORMANCE

For the quarter ending 30 June 2017, the fund returned 1.0 % (net of fees in rand), outperforming the -0.1% from its benchmark (the average return of the ASISA Global Multi-Asset Low Equity sector). In absolute terms in rand, strong returns from European investment-grade corporate bonds (ex-UK) contributed to the fund's positive performance, as well as the overweight allocations to European equity and listed property. These were partially offset by negative returns from US and UK investment-grade bonds and US floating-rate notes. For the 12 months to 30 June 2017, the fund has returned -2.8% p.a., compared to the benchmark's -5.9% p.a.

STRATEGY AND OUTLOOK

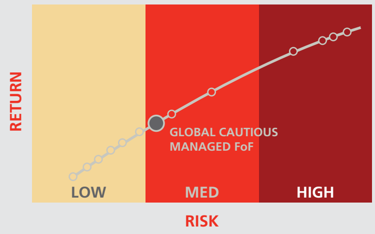
The portfolio is positioned broadly overweight equity versus underweight bonds. This reflects our view that the relatively large equity risk premium versus bonds remains the most obvious opportunity on offer across the global investment landscape today.

In global fixed income, government bond yields continue to be expensive given the very low levels at which they are trading from an historic perspective. They are also at risk to rising interest rates in the US, and increasingly in Europe as well. We remain underweight sovereign bonds and underweight duration, and continue to hold cash and shorter-term bonds in order to reduce interest rate risk. During the quarter we did buy attractively priced government bonds in selected emerging markets including Mexico, although this position is of a more modest size in recognition of the higher level of genuine fundamental risk. We also bought more corporate bonds (mainly US and European investment-grade) out of global cash holdings, as these assets moved to more attractive valuations.

For global equities, despite strong market performance over the past 12 months or so, many regions remain attractively valued, particularly given the fundamental backdrop of broad global macroeconomic improvement, with strong economic indicators feeding through to company earnings. We have a preference for certain markets where we see good value and fundamentals remain encouraging, including Europe, Japan, Korea, Turkey and Indonesia, as well as the global financial sector, compared to global indices and the broad US market. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK
1 year	-2.8%	-5.9%
3 years	7.5%	7.6%
5 years	12.2%	11.8%
7 years	10.4%	9.9%
10 years	6.2%	6.3%
Since inception	7.6%	7.1%

RISK/RETURN PROFILE:



FUND MANAGERS:
Michael Moyle and David Knee

ASISA CATEGORY:
Global - Multi-Asset - Low Equity

BENCHMARK:
ASISA Global - Multi-Asset - Low Equity Category Mean

INCEPTION DATE:
1 March 2004

FUND SIZE:
R93 170 772

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL HIGH YIELD BOND FUND OF FUNDS
30 JUNE 2017

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL INCOME

PERFORMANCE

For the quarter ending 30 June 2017, the fund returned 0.7% (net of fees, in rand), compared to 0.3% from its benchmark, the Barclays Capital Global Aggregate Bond Index (in rand). Global bonds largely posted positive returns over the quarter in US$ terms, but some of these were offset by the rand appreciation versus the dollar over the period. In absolute performance terms, the fund's holdings in US and European investment-grade corporate bonds contributed the most to returns for the quarter, but Japanese yen cash holdings detracted from value. The fund's outperformance versus the benchmark was a function of the fund's higher exposure to corporate bonds, which performed better over the quarter than their sovereign counterparts. For the past 12 months, the fund has returned -9% p.a. (net of fees), outperforming its benchmark which returned -12.6% while over the past five years the fund has returned a net 11.6% p.a., above its benchmark of 10.8%.

MARKET OVERVIEW

Global growth maintained a steady pace in the second quarter of 2017 (Q2), making it another positive period for global investors as unemployment rates fell and trade growth accelerated. Bullish investor sentiment continued to drive good demand for both developed and emerging market assets, although later in the quarter both equity and bond market momentum lost some steam amid worries over some heady valuations and the pace of interest rate increases, particularly in the US.

As widely expected, the US Federal Reserve hiked interest rates by 25bps at its June FOMC meeting, and continued to signal one further 25bp rate hike in 2017 and three more hikes for 2018. This is little changed from its (and the market's) previous forecasts, with the market pricing in a 40% chance of a hike in December, and only 20% in September. The Fed cited nearly full employment and rising inflation as the main factors behind the rate rise. Analysts considered May's dip in core CPI to 1.4% y/y, along with the softening in Q1 GDP growth to 1.2% (q/q annualised) from 2.1% previously, to be a temporary aberration in the stronger longer-term trend.

The Barclays Global Aggregate Bond Index (US$), a mixture of government and corporate bonds, returned 2.6% in the quarter. US bonds were mixed as sentiment swung between worries over rising US interest rates, the Fed's upcoming bond sales (unwinding of its balance sheet) and growing inflationary pressures, versus more bearish perspectives on the US growth outlook. US Treasuries returned 1.2% for the quarter. For US corporate bonds, investment-grade bond spreads narrowed slightly to 112bps over USTs from 120bps at the beginning of the quarter, while high-yield spreads widened to 408bps from 391bps previously.

In the Eurozone, the French elections were the latest to sweep away populist fears as reformist Emmanuel Macron comfortably won the Presidential vote and a large Parliamentary majority for his new party – this despite very low voter turnout. The region's Q2 GDP growth came in at 1.7% (q/q annualised), similar to the previous quarter's 1.8% rate, the latest data confirming a continuing recovery amid rising consumer spending and business investment and falling unemployment across most member states. At its June meeting, the European Central Bank (ECB) left its base interest rate unchanged, ruled out further rate cuts and said it was considering ways to gradually end its bond-buying stimulus. The UK, meanwhile, saw a disastrous snap-election outcome for PM Theresa May as her Conservative party lost its Parliamentary majority – forcing her to soften her negotiating stance on exiting the EU (Brexit). Amid Brexit uncertainty, UK growth eased somewhat and sterling continued to weaken, spurring higher inflation.

In Japan, Q1 2017 GDP growth accelerated to 2.2% (q/q annualised) from a revised 1.2% in the previous quarter, as private consumption revived and exports continued to improve. Bank of Japan (BOJ) comments indicated the central bank believes wages and prices will begin to pick up later this year to achieve the bank's 2% inflation target in 2018. Yet analysts agree that the BOJ is unlikely to ease off of its monetary stimulus any time soon given the country's past 20 years of very low growth and inflation.

China's good start to the year continued in Q2 as the equity market again posted a strong performance (the MSCI China returned 10.7% in US$), and Q1 GDP growth surprised to the upside at 6.9% (q/q annualised). A negative development was Moody's unexpected one–notch downgrade to the country's sovereign credit rating to A1 from Aa3, citing worries over the government's ability to de-leverage the financial system's high debt levels while maintaining steady growth. However, government officials discounted this concern amid strong growth in exports and other firm data. However, many analysts do expect a slowdown later in the year as the effects of government stimulus fade – in May the Chinese Premier ruled out further large fiscal stimulus as unnecessary.

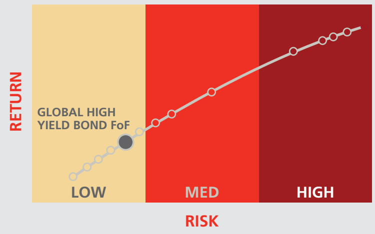
Finally, amid keen foreign investor demand for high-yielding SA bonds during the quarter, the rand continued its appreciation versus the US dollar, gaining 2.6%, while it lost 4.3% against the euro and 1.0% versus the UK pound.

OUTLOOK

We remain concerned about prospective returns from global sovereign bonds (particularly in mainstream developed markets) given their low yields compared to the rising pace of global economic growth. The fund therefore continues to be underweight sovereign bonds and underweight duration. During the quarter we trimmed the fund's cash holdings to buy attractively priced government bonds in selected emerging markets including Turkey and Mexico, although these positions are of a more modest size in recognition of the higher level of genuine fundamental risk. We remain overweight corporate bonds (mainly US and European investment-grade) that offer more attractive relative yields and valuations. The fund holds very little exposure to high-yield corporate bonds after having taken profits in the previous quarter. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK
1 year	-9.0%	-12.6%
3 years	5.9%	6.8%
5 years	11.6%	10.8%
7 years	11.2%	10.5%
10 years	10.9%	10.3%
Since inception	8.7%	8.7%

RISK/RETURN PROFILE:



FUND MANAGERS:

David Knee and Michael Moyle

ASISA CATEGORY:

Global - Interest Bearing - Variable Term

BENCHMARK:

Barclays Capital Global Aggregate Bond Index

INCEPTION DATE:

1 November 2000

FUND SIZE:

R353 407 590

AWARDS:

Raging Bull: 2006, 2008, 2013

Morningstar/Standard & Poor's: 2007, 2009, 2013

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL VALUE FUND OF FUNDS
30 JUNE 2017

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL EQUITY

MARKET OVERVIEW

Global growth maintained a steady pace in the second quarter of 2017 (Q2), making it another positive period for global investors as unemployment rates fell and trade growth accelerated. Bullish investor sentiment continued to drive good demand for both developed and emerging market assets, although later in the quarter equity market momentum lost some steam amid worries over some heady valuations, particularly in the US tech sector.

PERFORMANCE

The Fund lagged the benchmark, the MSCI All Countries World Index, by 0.7%, returning +1.2% in rand over the quarter (net of fees).

Stock selection from our continental European managers, as well as an overweight allocation to the region, added to performance during the quarter. However, this positive contribution was more than offset by value detractors including poor stock performance from our Asian and US managers.

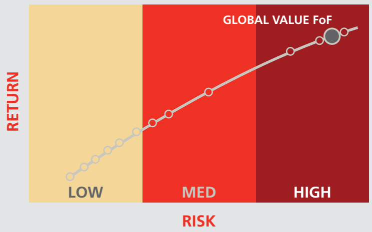
STRATEGY AND OUTLOOK

Despite strong market performance over the past 12 months or so, many regions remain attractively valued, particularly given the fundamental backdrop of broad global macroeconomic improvement, with strong economic indicators feeding through to company earnings.

Our current equity positioning reflects a preference for cheaper areas where fundamentals remain encouraging including Europe, Japan, the global financial sector and selected emerging markets such as Korea, Turkey and Indonesia, compared to global indices and the broad US market. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK
1 year	9.4%	6.1%
3 years	10.8%	12.3%
5 years	20.4%	21.6%
7 years	16.6%	19.3%
10 years	7.5%	10.4%
Since inception	6.8%	8.0%

RISK/RETURN PROFILE:



FUND MANAGERS:
David Knee and Michael Moyle

ASISA CATEGORY:
Global - Equity - General

BENCHMARK:
MSCI All Country World Index (Net)

INCEPTION DATE:
18 February 2000

FUND SIZE:
R225 347 247

Sources: Prudential, Morningstar & Deutsche Securities