PRUDENTIAL UNIT TRUSTS QUARTERLY COMMENTARY
31 MARCH 2018

PRUDENTIAL
INVESTMENT MANAGERS

COMBINED QUARTERLY COMMENTARY

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PRUDENTIAL MONEY MARKET FUND
31 MARCH 2018

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

PERFORMANCE

Over the past quarter, the fund delivered a return of 1.9% (net) versus its benchmark the STeFI Call Deposit Index which returned 1.6%. The average duration of the fund at quarter end was 47 days relative to the 90-day maximum average duration.

MARKET OVERVIEW

It was a mixed quarter as December's positive sentiment continued into the new year and encouraging developments underpinned interest-rate markets, but equities were hurt by the global correction and listed property sold off sharply in the wake of alleged fraudulent activity at the Resilient group of four property companies. Positive offshore returns would have been offset to some extent by the stronger rand, which continued to firm in the aftermath of the "Ramaphosa rally".

Lower-than-expected inflation (at 4.0% y/y in February) and the SARB's 25bp rate cut in March (which had largely been priced into the market) also supported bonds for the quarter, helping produce a remarkable 8.1% return from the BEASSA All Bond Index and 4.1% from inflation-linked bonds. The forward rate agreement (FRA) market is pricing in an almost-even chance of a further 25bp rate cut in the next six months.

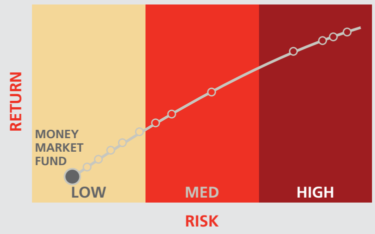
PPI inflation was 4.2% y/y in February compared to 5.1% y/y in January, mainly attributable to food price deflation and base effects. Month-on-month, PPI fell 0.3%. Private sector credit extension (PSCE) rose to 5.7% y/y for February from 5.5% y/y posted in January. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	X CLASS
1 year	7.6%	6.8%	7.7%
3 years	7.2%	6.6%	7.3%
5 years	6.5%	6.0%	6.6%
7 years	6.1%	5.8%	6.2%
10 years	6.9%	6.6%	n/a
Since inception	7.8%	7.6%	6.2%

Inception date X Class: 1 April 2011

INCOME FUND

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 515 052 795

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL HIGH INTEREST FUND
31 MARCH 2018

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME FUND

MARKET OVERVIEW

It was a mixed quarter as December's positive sentiment continued into the new year and encouraging developments underpinned interest-rate markets.

Notable positive developments included the favourable reception by global investors and the credit ratings agencies of February's 2018/19 Budget and the new President's cabinet appointments. Another encouraging milestone came in late March when Moody's decided not to downgrade South Africa's sovereign local currency rating to junk status, while also upgrading its outlook to stable from negative and lifting SA's 2018 GDP growth forecast to 2.0% from 1.0%. S&P Global and other international institutions also lifted their growth expectations to around 2.0%. This brighter outlook stemmed partly from Stats SA's February announcement of 3.1% (q/q saa) GDP growth in Q4 2017 – much higher than the 1.5% market consensus – as well as upward revisions to the previous four quarters of GDP data, which surprisingly confirmed that the country had not experienced a recession in 2017. While the modest recovery was welcomed, economists and investors still worry that much more needs to be done to accelerate growth to a meaningful rate that will create jobs.

Lower-than-expected inflation (at 4.0% y/y in February) and the SARB's 25bp rate cut in March (which had largely been priced into the market) also supported bonds for the quarter, helping produce a remarkable 8.1% return from the BEASSA All Bond Index and 4.1% from inflation-linked bonds. The yield on the benchmark 10-year SA government bond fell to 8.0% at quarter-end, from 8.6% at the start of January. The forward rate agreement (FRA) market is pricing in an almost-even chance of a further 25bp rate cut in the next six months. The rand gained 3.8% against the US dollar for the three months, 0.1% against a rebounding pound sterling and 1.3% versus the euro. This was despite some concerns over the implications of the ANC's potential wider use of land expropriation without compensation.

PERFORMANCE

The Prudential High Interest Fund generated a return of 1.9% for the quarter compared to its benchmark, the STeFI Composite Index, which returned 1.8%. The fund was launched in December 2010 with the aim of delivering returns in excess of money market yields without compromising the stability of the capital. Although capital protection is not guaranteed, we highlight the low risk nature of the portfolio and hence the remote prospect of 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-day weighted average maturity.

Relative to the 180 day maximum average duration, the quarter-end duration of the fund came in at 41 days.

STRATEGY AND POSITIONING

The fund has generally sought to take advantage of the 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.

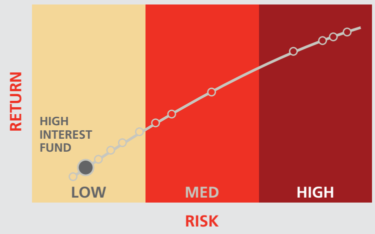
While credit issuance has been scarce since 2016, mixed with a tightening of credit spreads, the quarter did see a number of banks and corporates coming to market, after some hesitance following the downgrade of the sovereign credit rating last year. Issuances were generally well supported and largely cleared around the mid-point of guidance. A marked flattening of the curve was also seen during 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	7.9%	7.5%	8.1%	8.2%
3 years	7.7%	7.2%	7.9%	8.0%
5 years	6.9%	6.6%	7.0%	7.3%
7 years	6.6%	6.3%	6.7%	6.9%
Since inception	6.5%	6.3%	6.7%	6.9%

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

RISK/RETURN PROFILE:



FUND MANAGERS:
Roshen Harry and Sandile Malinga

ASISA CATEGORY:
South African - Interest Bearing - Short Term

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

INCEPTION DATE:
8 December 2010

FUND SIZE:
R11 605 889 251

PLEASE NOTE:
This fund is capped to new investors

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL HIGH YIELD BOND FUND
31 MARCH 2018

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME FUND

PERFORMANCE

The Prudential High Yield Bond Fund returned 7.9% for the first quarter of 2018, marginally underperforming its benchmark, the BEASSA All Bond Index, by 0.2% over the same period. The fund outperformed cash (as measured by the STeFI Composite Index) which returned 1.8%, and inflation-linked bonds (JSE CILI) at 4.1%.

MARKET OVERVIEW

It was a positive quarter for income funds, as December's bullish sentiment continued into the new year and encouraging developments underpinned interest-rate markets.

Notable positive developments included the favourable reception by global investors and the credit ratings agencies of February's 2018/19 Budget and the new President's cabinet appointments, and some progress towards improving state-owned enterprise (SOE) corporate governance. Another encouraging milestone came in late March when Moody's decided not to downgrade South Africa's sovereign local currency rating to junk status, while also upgrading its outlook to stable from negative and lifting SA's 2018 GDP growth forecast to 2.0% from 1.0%. S&P Global and other international institutions also lifted their growth expectations to around 2.0%. This brighter outlook benefited partly from Stats SA's February announcement of 3.1% (q/q saa) GDP growth in Q4 2017 – much higher than the 1.5% market consensus – as well as upward revisions to the previous four quarters of GDP data, which surprisingly confirmed that the country had not experienced a recession in 2017. While the growth upgrade was welcomed, economists and investors still worry that much more needs to be done to accelerate growth to a meaningful rate that will create jobs.

Lower-than-expected inflation (at 4.0% y/y in February) and the SARB's 25bp rate cut in March (which had largely been priced into the market) also supported bonds for the quarter, helping produce a remarkable 8.1% return from the BEASSA All Bond Index and 4.1% from inflation-linked bonds. The yield on the benchmark 10-year SA government bond fell to 8.0% at quarter-end, from 8.6% at the start of January. The forward rate agreement (FRA) market is pricing in an almost-even chance of a further 25bp rate cut in the next six months. The rand gained 3.8% against the US dollar for the three months, 1.3% versus the euro, and was flat against a rebounding pound sterling. This was despite some concerns over the implications of the ANC's potential wider use of land expropriation without compensation.

STRATEGY AND POSITIONING

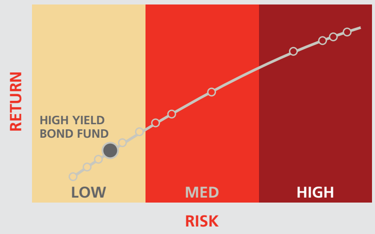
We retained our neutral duration position over the quarter. The primary bond market issuance over the quarter, excluding government issuances, was R31bn. This was marginally lower than the first quarter of 2017 at R34bn, with the trend being in line with market expectation due to lower refinancing needs in 2018.

Issuance volume was dominated by financial issuers and we saw healthy volume from both corporate and state-owned enterprises as well. The market has a clear preference for floating-rate notes, as less than a quarter of total volume related to fixed-rate notes. We therefore had limited opportunity to add to our fixed-rate exposure over the quarter, but we continue to seek opportunities to add to our corporate bond exposure. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	15.6%	16.2%	15.9%
3 years	8.0%	8.6%	8.3%
5 years	7.1%	7.7%	7.5%
7 years	9.0%	9.4%	9.3%
10 years	9.3%	9.6%	9.7%
Since inception	10.6%	10.8%	9.6%

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:

R580 494 212

Sources: Prudential, Morningstar & Deutsche Securities

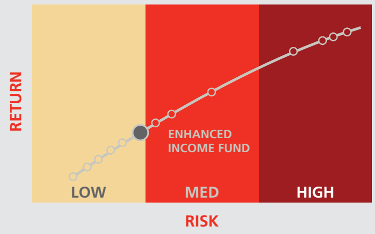
PRUDENTIAL ENHANCED INCOME FUND
31 MARCH 2018

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

RISK/RETURN PROFILE:



FUND MANAGERS:
David Knee and Roshen Harry

ASISA CATEGORY:
South African - Multi-Asset - Income

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

INCEPTION DATE:
1 July 2009

FUND SIZE:
R2 321 518 500

MARKET OVERVIEW

After further strong gains in January, the 15-month global equity bull market came to an abrupt end in February in the form of a sharp market correction. This was brought on by worries over an accelerated pace of US interest rate hikes as the US economic expansion and inflation gathered pace, and later, increasing fears of a global trade war provoked by unpredictable Trump policies and concerns over stricter regulation of the global tech giants like Amazon and Facebook. Although much of the losses were retraced, volatility became a key market feature in February and March. Developed equity markets ended the quarter returning -1.3%, while emerging markets were in the black with a 1.4% total return.

Global bonds, meanwhile, managed to deliver 1.4% over the quarter, helped by gains in European bonds and a weaker US dollar, while US Treasuries were moderately softer in the wake of investor jitters over inflation and the US Federal Reserve's somewhat more hawkish tone under new Fed Chairman Jerome Powell. The Fed met market expectations by hiking interest rates 25bps at its March meeting, and also added extra rate hikes to its expectations for 2019-2020, while confirming its view of a more robust US economy (lifting its forecasts for 2018 GDP growth to 2.7% from 2.5% previously). However, it did keep its 2018 rate predictions unchanged at two further 25bp increases. The yield on the benchmark 10-year UST rose to around 2.8% from 2.4% at the beginning of the quarter. Global property also lost ground, producing -5.5% as it was also dented by worries over rising inflation and interest rates.

For South African investors, it was a mixed quarter as December's positive sentiment continued into the new year and encouraging developments underpinned interest-rate markets, but equities were hurt by the global correction and listed property sold off sharply in the wake of alleged fraudulent activity at the Resilient group of four property companies. Positive offshore returns were more than offset by the stronger rand, which continued to firm in the aftermath of the "Ramaphosa rally".

Notable positive developments included the favourable reception by global investors and the credit ratings agencies of February's 2018/19 Budget and the new President's cabinet appointments, and some progress towards improving state-owned enterprise (SOE) corporate governance. Another encouraging milestone came in late March when Moody's decided not to downgrade South Africa's sovereign local currency rating to junk status, while also upgrading its outlook to stable from negative and lifting SA's 2018 GDP growth forecast to 2.0% from 1.0%. S&P Global and other international institutions also lifted their growth expectations to around 2.0%. This brighter outlook benefited partly from Stats SA's February announcement of 3.1% (q/q saa) GDP growth in Q4 2017 – much higher than the 1.5% market consensus – as well as upward revisions to the previous four quarters of GDP data, which surprisingly confirmed that the country had not experienced a recession in 2017. While the growth upgrade was welcomed, economists and investors still worry that much more needs to be done to accelerate growth to a meaningful rate that will create jobs.

Lower-than-expected inflation (at 4.0% y/y in February) and the SARB's 25bp rate cut in March (which had largely been priced into the market) also supported bonds for the quarter, helping produce a remarkable 8.1% return from the BEASSA All Bond Index and 4.1% from inflation-linked bonds. The yield on the benchmark 10-year SA government bond fell to 8.0% at quarter-end, from 8.6% at the start of January. The forward rate agreement (FRA) market is pricing in an almost-even chance of a further 25bp rate cut in the next six months. The rand gained 3.8% against the US dollar for the three months, 1.3% versus the euro, and was flat against a rebounding pound sterling. This was despite some concerns over the implications of the ANC's potential wider use of land expropriation without compensation.

PERFORMANCE

For the 12 months ended 31 March 2018 the fund delivered 7.0%, underperforming its benchmark as measured by the STeFI Composite Index by 0.5%. For the first quarter of 2018, the fund returned 1.2%, underperforming its benchmark by 0.6%.

The fund's exposure to fixed-rate and floating-rate credit contributed positively to performance. This, however, was offset somewhat by the fall in SA listed property prices and the strengthening rand versus the US dollar, which detracted from offshore asset returns.

During the first quarter of 2018, we maintained our duration position and added floating-rate credit by buying bonds issued by Nedbank and Standard bank.

STRATEGY AND POSITIONING

In global fixed income, as in previous quarters, despite rising government bond yields (including this quarter's sell-off in the US), they continue to trade at very low yields (and high valuations) historically, and remain at risk to rising interest rates in the US and UK, and increasingly in Europe as well. We continue to be underweight global sovereign bonds and underweight duration to reduce interest rate risk, preferring to hold investment-grade US and European corporate bonds.

For global equities, in line with our active management approach, we lowered the global equity exposure in the fund in January as prices ran ahead of fundamentals, only to raise it again in February after the sharp market correction made valuations more attractive - the net result was to return to the same overweight position as in the previous quarter. The outlook for corporate earnings growth remains positive against the backdrop of upside surprises to broad global growth. Our current global equity positioning reflects a preference for cheaper areas where fundamentals are encouraging but valuations

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	X CLASS	D CLASS
1 year	7.0%	7.5%	7.5%	7.3%	7.6%
3 years	6.9%	7.2%	7.4%	7.1%	7.5%
5 years	7.0%	6.6%	n/a	7.2%	7.6%
7 years	7.9%	7.1%	n/a	8.1%	n/a
Since inception	8.5%	7.3%	7.4%	8.1%	8.4%

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

ASSET CLASS RETURNS	TOTAL RETURN Q1 2018
Global equity – MSCI World (US$) (Developed)	-1.3%
Global equity – MSCI Emerging Markets (US$)	1.4%
Global bonds – Bloomberg Barclays Global Aggregate Bond Index (US$)	1.4%
Global property – FTSE EPRA/NAREIT Global Property REIT Index (US$)	-5.5%
SA equity – FTSE/JSE All Share Index	-6.0%
SA bonds – BEASSA All Bond Index	8.1%
SA listed property – SA Listed Property Index	-19.6%
SA inflation-linked bonds – JSE CILI Index	4.1%
SA cash (STeFI Composite Index)	1.8%

Sources: Prudential, Morningstar & Deutsche Securities

remain attractive, including Europe, Japan, the global financial sector and smaller holdings in selected emerging markets such as Korea, Turkey and Indonesia. These positions are financed primarily by global bonds, as well as an underweight in US equities to a lesser extent.

In SA listed property, we continue to have a neutral exposure in the fund. Even though the sector has fallen sharply in value, this is due to the effect of the Resilient group's share prices, whereas the rest of the sector has experienced rising share prices over the quarter (up approximately 4.0%). Excluding the four Resilient companies, we believe the asset class continues to trade around its fair value range. It is priced to deliver attractive low double-digit returns over the medium term. Regarding Resilient group, we remain underweight the four companies in aggregate in our portfolios - we await further clarity on their planned measures to improve governance and we have engaged with the companies with some suggestions in this regard. We believe that even if we do see a re-rating of Resilient group shares, we would not expect their valuations to return to their same previously elevated levels.

In SA nominal bonds, following the quarter's rally, valuations are at fair levels. Consequently, we have reduced our allocation to bonds, but remain modestly overweight. We continue to prefer longer-dated government bonds due to the more attractive yields on offer, and are comfortable with the compensation bonds offer. We take comfort from the integrity of the SA Reserve Bank and their stated goal of anchoring inflation expectations around 4.5%, the mid-point of their targeted 3.0-6.0% band. Downside risks have eased somewhat in the wake of the quarter's positive developments, although the ratings agencies have warned that the government and businesses have not yet done enough to eliminate the prospects of further credit rating downgrades. For SA inflation-linked bonds, we continue to hold similar exposure to the previous quarter - real yields are attractive, even after the Q1 rally. ■

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL INFLATION PLUS FUND
31 MARCH 2018

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

PERFORMANCE

The fund returned -3.3% (after fees) for the first quarter of 2018 and has returned 4.9% for the 12-month period ending 31 March 2018. The fund has delivered a return of 12.5% per annum since inception (after fees), compared to its after-fee objective of 9.6% per annum over the same period. To 31 March it retains its top-quartile or better performance over annual periods from 5-10 years, according to Morningstar.

The largest contributors to relative returns for the quarter were the fund's neutral position in SA listed property, its overweight in SA nominal bonds and its underweight in SA equity. The largest relative detractor from performance was its overweight position in international equity. On an absolute basis, the sharp fall in listed property stocks detracted from fund performance over the quarter, as did weakness in Naspers and BAT. Holdings in financial shares like Standard Bank and Old Mutual added to absolute performance.

MARKET OVERVIEW

After further strong gains in January, the 15-month global equity bull market came to an abrupt end in February in the form of a sharp market correction. This was brought on by worries over an accelerated pace of US interest rate hikes as the US economic expansion and inflation gathered pace, and later, increasing fears of a global trade war provoked by unpredictable Trump policies and concerns over stricter regulation of the global tech giants like Amazon and Facebook. Although much of the losses were retraced, volatility became a key market feature in February and March. Developed equity markets ended the quarter returning -1.3%, while emerging markets were in the black with a 1.4% total return.

Global bonds, meanwhile, managed to deliver 1.4% over the quarter, helped by gains in European bonds and a weaker US dollar, while US Treasuries were moderately softer in the wake of investor jitters over inflation and the US Federal Reserve's somewhat more hawkish tone under new Fed Chairman Jerome Powell. The Fed met market expectations by hiking interest rates 25bps at its March meeting, and also added extra rate hikes to its expectations for 2019-2020, while confirming its view of a more robust US economy (lifting its forecasts for 2018 GDP growth to 2.7% from 2.5% previously). However, it did keep its 2018 rate predictions unchanged at two further 25bp increases. The yield on the benchmark 10-year UST rose to around 2.8% from 2.4% at the beginning of the quarter. Global property also lost ground, producing -5.5% as it was also dented by worries over rising inflation and interest rates.

Global economic fundamentals remained supportive, with data broadly stronger. US jobless claims fell to their lowest level in 45 years and unemployment dropped to 4.1%, while February CPI crept up to 2.2% y/y from 2.1% y/y. In Europe, views of an ultra-slow exit by the European Central Bank of its easy monetary policy were reinforced amid accelerating growth but very subdued inflation (at only 1.1% y/y in February). In the UK, meanwhile, prospects brightened thanks to a long-awaited agreement with the EU on a Brexit transition deal and parts of the final exit treaty.

For South African investors, it was a mixed quarter as December's positive sentiment continued into the new year and encouraging developments underpinned interest-rate markets, but equities were hurt by the global correction and listed property sold off sharply in the wake of alleged fraudulent activity at the Resilient group of four property companies. Positive offshore returns were more than offset by the stronger rand, which continued to firm in the aftermath of the "Ramaphosa rally".

Notable positive local developments included the favourable reception by global investors and the credit ratings agencies of February's 2018/19 Budget and the new President's cabinet appointments, and some progress towards improving state-owned enterprise (SOE) corporate governance. Another encouraging milestone came in late March when Moody's decided not to downgrade South Africa's sovereign local currency rating to junk status, while also upgrading its outlook to stable from negative and lifting SA's 2018 GDP growth forecast to 2.0% from 1.0%. S&P Global and other international institutions also lifted their growth expectations to around 2.0%. This brighter outlook stemmed partly from Stats SA's February announcement of 3.1% (q/q saa) GDP growth in Q4 2017 – much higher than the 1.5% market consensus – as well as upward revisions to the previous four quarters of GDP data, which surprisingly confirmed that the country had not experienced a recession in 2017. While the modest recovery was welcomed, economists and investors still worry that much more needs to be done to accelerate growth to a meaningful rate that will create jobs.

Lower-than-expected inflation (at 4.0% y/y in February) and the SARB's 25bp rate cut in March (which had largely been priced into the market) also supported bonds for the quarter, helping produce a remarkable 8.1% return from the BEASSA All Bond Index and 4.1% from inflation-linked bonds. The yield on the benchmark 10-year SA government bond fell to 8.0% at quarter-end, from 8.6% at the start of January. The forward rate agreement (FRA) market is pricing in an almost-even chance of a further 25bp rate cut in the next six months. The rand gained 3.8% against the US dollar for the three months, 1.3% versus the euro, and was flat against a rebounding pound sterling. This was despite some concerns over the implications of the ANC's potential wider use of land expropriation without compensation.

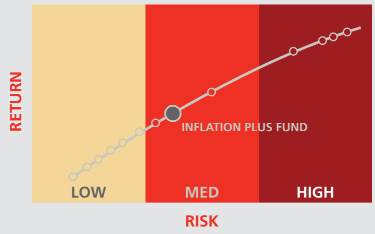
In contrast, local equities could not escape the global downturn, with

ANNUALISED PERFORMANCE	A CLASS	OBJECTIVE#	T CLASS	X CLASS	B CLASS
1 year	4.9%	7.4%	5.4%	5.2%	5.6%
3 years	4.8%	9.2%	5.3%	5.1%	5.6%
5 years	8.2%	8.8%	n/a	8.4%	9.0%
7 years	10.5%	9.0%	n/a	n/a	11.4%
10 years	9.8%	9.3%	n/a	n/a	10.6%
Since inception	12.5%	9.6%	5.5%	10.8%	12.5%

Objective (After A Class Fees) over a rolling 3-year period. Fee adjustment to gross Fund Objective for different classes: A class -1.7%, T class -1% , X class -1.4% , B class
Inception dates: X Class: 1 July 2011, B Class: 1 July 2002, T Class: 2 January 2015

ASSET CLASS RETURNS	TOTAL RETURN Q1 2018
Global equity – MSCI World (US$) (Developed)	-1.3%
Global equity – MSCI Emerging Markets (US$)	1.4%
Global bonds – Bloomberg Barclays Global Aggregate Bond Index (US$)	1.4%
Global property – FTSE EPRA/NAREIT Global Property REIT Index (US$)	-5.5%
SA equity – FTSE/JSE All Share Index	-6.0%
SA bonds – BEASSA All Bond Index	8.1%
SA listed property – SA Listed Property Index	-19.6%
SA inflation-linked bonds – JSE CILI Index	4.1%
SA cash (STeFI Composite Index)	1.8%

RISK/RETURN PROFILE:



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

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:
R36 160 734 932

AWARDS:
Raging Bull: 2013
Morningstar: 2015

Sources: Prudential, Morningstar & Deutsche Securities

the FTSE/JSE All Share Index (ALSI) returning -6.0% for the quarter. The market was partly dragged down by weakness in Naspers (losing 16.2% and with a 17% weighting in the ALSI), but was also caused by a shocking -19.6% return from the listed property sector. The share prices of the four Resilient companies lost over 50% for the quarter, and accounted for over 40% of the SA Listed Property Index's market capitalisation at 1 January 2018. Industrials as a sector delivered -8.0% for the quarter, Financials produced -3.6% and the Resources Top 10 Index returned -2.7%.

STRATEGY AND OUTLOOK

In global fixed income, as in previous quarters, despite rising government bond yields, they continue to trade at very low levels (and high valuations) historically, and remain at risk to rising interest rates in the US and UK, and increasingly in Europe as well. We continue to be underweight global sovereign bonds and underweight duration in the fund to reduce interest rate risk, preferring to hold investment-grade US and European corporate bonds.

For global equities, in line with our active management approach, we lowered the global equity exposure in the fund in January as prices ran ahead of fundamentals, only to raise it again in February after the sharp market correction made valuations more attractive - the net result was to return to the same overweight position as in the previous quarter. The outlook for corporate earnings growth remains positive against the backdrop of upside surprises to broad global growth. At the same time, we see better value in many regions compared to South Africa, which is why we prefer global equities to SA equities, given the fund's total 40% equity limit. SA equity earnings have been depressed relative to their long-term trends, particularly in Resources and Financials.

Our current global equity positioning reflects a preference for cheaper areas where fundamentals are encouraging but valuations remain attractive, including Europe, Japan, the global financial sector and smaller holdings in selected emerging markets such as Korea, Turkey and Indonesia. These positions are financed by an underweight in US equities and in global bonds.

South African equities moved to more attractive levels during the quarter, more in line with, to somewhat cheaper than, their long-term fair value. The FTSE/JSE ALSI 12-month forward P/E fell to around 14.1X at quarter-end from around 15.4X in Q4 2017. At current levels the market is still priced to deliver attractive medium-term returns. However, in the context of the Inflation Plus Fund's 40% total equity exposure limit (a limit set by the ASISA category), we see better opportunities offshore. Consequently we continue to be slightly underweight SA equities in the Prudential Inflation Plus Fund and overweight global equities, with total equity exposure close to the maximum allowed.

Our individual equity exposure is similar to the previous quarter. We sold all of our small (underweight) Steinhoff holdings in December, cushioning our portfolios from further losses in 2018. Equally, we were underweight the Resilient group of four companies and sold those holdings in many of our client portfolios. Currently, our portfolios hold stocks with potential upside to strong global growth like Naspers, British American Tobacco, Richemont, Anglo American and BHP Billiton – the latter two representing lower risk to commodity price weakness given their diversification. Over the quarter, rand strength and the global selloff in tech stocks (and others) negatively impacted these companies. We also hold non-mining resources stocks like Sappi, as well as international container transport group Trencor, which has upside to improving global trade trends. We remain overweight in well-priced and high-yielding Financials including Old Mutual, Investec, Standard Bank and First Rand, which have offered relatively high dividend yields while also providing a valuation cushion in the event of further credit rating downgrades. These stocks performed positively over the quarter. Offsetting this overweight position, we have chosen to remain underweight in retail stocks given the challenging local consumer environment.

In SA listed property, we continue to have a neutral exposure in the Inflation Plus Fund. Even though the sector has fallen sharply in value, this is due almost entirely to the decline in the share prices of the Resilient group of four property companies, whereas the rest of the sector has experienced rising share prices over the quarter (up an average of approximately 4.0%). Excluding these companies, we believe the asset class continues to trade around its fair value range and is priced to deliver attractive returns in the low double-digits over the medium term. Regarding Resilient group, we remain underweight the four companies in aggregate in our portfolios - we await further clarity on their planned measures to improve governance and we have engaged with the companies with some suggestions in this regard. We believe that even if we do see a re-rating of Resilient group shares, we would not expect their valuations to return to their same previously elevated levels

In SA nominal bonds, following the quarter's rally valuations are at fair levels. Consequently, we have reduced our allocation to bonds, but remain modestly overweight. We continue to prefer longer-dated government bonds due to the more attractive yields on offer, and are comfortable with the compensation bonds offer. We take comfort from the integrity of the SA Reserve Bank and their stated goal of anchoring inflation expectations around 4.5%, the mid-point of their targeted 3.0-6.0% band. Downside risks have eased somewhat in the wake of the quarter's positive developments, although the ratings agencies have warned that the government and businesses have not yet done enough to eliminate the prospect of further credit rating downgrades.

For inflation-linked bonds, we continue to be neutrally positioned in this asset class. Real yields are attractive, even after this quarter's rally, but we still believe that better value exists elsewhere – in long-dated SA nominal bonds and equities. Going forward, the relatively low inflation environment will depress nominal returns from these instruments. ■

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL BALANCED FUND
31 MARCH 2018

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

MARKET OVERVIEW

After further strong gains in January, the 15-month global equity bull market came to an abrupt end in February in the form of a sharp market correction. This was brought on by worries over an accelerated pace of US interest rate hikes as the US economic expansion and inflation gathered pace, and later, increasing fears of a global trade war provoked by unpredictable Trump policies and concerns over stricter regulation of the global tech giants like Amazon and Facebook. Although much of the losses were retraced, volatility became a key market feature in February and March. Developed equity markets ended the quarter returning -1.3%, while emerging markets were in the black with a 1.4% total return.

Global bonds, meanwhile, managed to deliver 1.4% over the quarter, helped by gains in European bonds and a weaker US dollar, while US Treasuries were moderately softer in the wake of investor jitters over inflation and the US Federal Reserve's somewhat more hawkish tone under new Fed Chairman Jerome Powell. The Fed met market expectations by hiking interest rates 25bps at its March meeting, and also added extra rate hikes to its expectations for 2019-2020, while confirming its view of a more robust US economy (lifting its forecasts for 2018 GDP growth to 2.7% from 2.5% previously). However, it did keep its 2018 rate predictions unchanged at two further 25bp increases. The yield on the benchmark 10-year UST rose to around 2.8% from 2.4% at the beginning of the quarter. Global property also lost ground, producing -5.5% as it was also dented by worries over rising inflation and interest rates.

Global economic fundamentals remained supportive, with data broadly stronger. US jobless claims fell to their lowest level in 45 years and unemployment dropped to 4.1%, while February CPI crept up to 2.2% y/y from 2.1% y/y. In Europe, views of an ultra-slow exit by the European Central Bank from its easy monetary policy were reinforced amid accelerating growth but very subdued inflation (at only 1.1% y/y in February). In the UK, meanwhile, prospects brightened thanks to a long-awaited agreement with the EU on a Brexit transition deal and parts of the final exit treaty.

For South African investors, it was a mixed quarter as December's positive sentiment continued into the new year and encouraging developments underpinned interest-rate markets, but equities were hurt by the global correction and listed property sold off sharply in the wake of alleged fraudulent activity at the Resilient group of four property companies. Positive offshore returns were more than offset by the stronger rand, which continued to firm in the aftermath of the "Ramaphosa rally".

Notable positive local developments included the favourable reception by global investors and the credit ratings agencies of February's 2018/19 Budget and the new President's cabinet appointments, and some progress towards improving state-owned enterprise (SOE) corporate governance. Another encouraging milestone came in late March when Moody's decided not to downgrade South Africa's sovereign local currency rating to junk status, while also upgrading its outlook to stable from negative and lifting SA's 2018 GDP growth forecast to 2.0% from 1.0%. S&P Global and other international institutions also lifted their growth expectations to around 2.0%. This brighter outlook benefitted from Stats SA's February announcement of 3.1% (q/q saa) GDP growth in Q4 2017 – much higher than the 1.5% market consensus – as well as upward revisions to the previous four quarters of GDP data, which surprisingly confirmed that the country had not experienced a recession in 2017. While the modest recovery was welcomed, economists and investors still worry that much more needs to be done to accelerate growth to a meaningful rate that will create jobs.

Lower-than-expected inflation (at 4.0% y/y in February) and the SARB's 25bp rate cut in March (which had largely been priced into the market) also supported bonds for the quarter, helping produce a remarkable 8.1% return from the BEASSA All Bond Index and 4.1% from inflation-linked bonds. The yield on the benchmark 10-year SA government bond fell to 8.0% at quarter-end, from 8.6% at the start of January. The forward rate agreement (FRA) market is pricing in an almost-even chance of a further 25bp rate cut in the next six months. The rand gained 3.8% against the US dollar for the three months,1.3% versus the Euro and was flat against a rebounding pound sterling. This was despite some concerns over the implications of the ANC's potential wider use of land expropriation without compensation.

In contrast, local equities could not escape the global downturn, with the FTSE/JSE All Share Index (ALSI) returning -6.0% for the quarter. The market was partly dragged down by weakness in Naspers (dropping 16.2% with a 17% weighting in the ALSI), but was also caused by a shocking -19.6% return from the listed property sector. This arose from persistent worries over alleged fraudulent practices at the Resilient group of four property companies, which drove their share prices down by over 50% for the quarter. Industrials as a sector delivered -8.0% for the quarter, Financials produced -3.6% and the Resources Top 10 Index returned -2.7%.

PERFORMANCE

The fund returned -2.8% over the quarter, while for the 12 months to 31 March it returned 6.1% (both net of fees). The main contributors to relative returns versus the benchmark were the fund's overweight position in domestic bonds, and its underweight in SA cash. Its neutral position in SA listed property also added some relative value. The primary detractor from relative performance was the fund's overweight in global equity. In absolute return terms, it was listed property holdings that detracted the most over the quarter, while Resources shares also broadly detracted from value, as did the fund's exposure to Naspers. The fund's financial shares like Standard Bank and Old Mutual added value.

STRATEGY AND POSITIONING

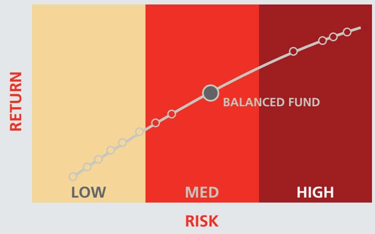
In global fixed income, as in previous quarters, despite rising government bond yields, they continue to trade at very low levels (and high valuations) historically, and remain at risk to rising interest rates in the US and UK, and increasingly in Europe as well. We continue to be underweight global sovereign bonds and underweight duration in the fund to reduce interest rate risk, preferring to hold investment-grade US and European corporate bonds.

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	X CLASS	B CLASS
1 year	6.1%	3.4%	6.6%	6.4%	6.9%
3 years	5.2%	3.4%	5.7%	5.4%	5.9%
5 years	9.9%	7.4%	n/a	10.2%	10.8%
7 years	11.4%	8.9%	n/a	n/a	12.3%
10 years	10.1%	7.9%	n/a	n/a	11.1%
Since inception	13.9%	11.9%	5.9%	10.7%	14.2%

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

ASSET CLASS RETURNS	TOTAL RETURN Q1 2018
Global equity – MSCI World (US$) (Developed)	-1.3%
Global equity – MSCI Emerging Markets (US$)	1.4%
Global bonds – Bloomberg Barclays Global Aggregate Bond Index (US$)	1.4%
Global property – FTSE EPRA/NAREIT Global Property REIT Index (US$)	-5.5%
SA equity – FTSE/JSE All Share Index	-6.0%
SA bonds – BEASSA All Bond Index	8.1%
SA listed property – SA Listed Property Index	-19.6%
SA inflation-linked bonds – JSE CILI Index	4.1%
SA cash (STeFI Composite Index)	1.8%

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:
R18 675 184 508

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL ENHANCED SA PROPERTY TRACKER FUND
31 MARCH 2018

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

PROPERTY

MARKET COMMENTARY

The SA Listed Property Index (SAPY) delivered a shocking -19.6% return over the first quarter of 2018. This stemmed from persistent worries over alleged fraudulent practices at the Resilient group of four property companies, which drove their share prices down by over 50% for the quarter. With these companies' weightings comprising over 40% of the Index as of 1 January, they had a significant impact on investor returns.

Notably, property companies other than those associated with Resilient managed to gain around 4.0% for the period and are trading around their long-term fair value levels. Although there may be some support for Resilient stocks over the short-term, we would not expect their valuations to return to the elevated levels that they attracted previously. Consequently we maintained a neutral exposure in our multi-asset funds through the quarter and into April. Yields are currently considered to be at elevated levels following the sell-off in January and February. At quarter-end, listed property companies (excluding developers) were priced to return approximately 17% p.a. over the medium term (assuming no change in the market's valuation of property), comfortably above inflation and, we believe, appropriate compensation for the risk involved.

Actual delivered growth in distributions per share for the major listed property companies averaged 10.5% for the last six month's reporting cycle.

We estimate that one-year forward earnings forecasts for the SAPY, excluding developers, contracted by 2.1% on an annualised 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 8.5%. The decline in the SAPY index is largely explained by the de-rating of Resilient, Fortress, Greenbay and NEPI Rockcastle. At 1 January 2018, the four companies represented approximately 42% of the SAPY index, but after the sell-off of these four companies over the quarter, their weight within the SAPY declined to around 25%.

Although the domestically-focussed property companies were the outperformers over this period, within the major listed property sub-sectors retail remains under pressure as a result of consumer spending headwinds and low consumer confidence. Retail is also affected by increased supply of retail space contributing to the decrease in trading density growth rates (turnover/retail space). The office sector was the weakest of the sectors due to corporate consolidation and low business confidence, as well as an increase in supply in key nodes. In addition, in industrial property, recently reported vacancy rates from the listed property sector have, for the most part, shown an increasing trend.

PERFORMANCE

The Prudential Enhanced SA Property Tracker Fund's 1.2% outperformance versus the benchmark over the quarter was largely as a result of underweight positions in Resilient and NEPI Rockcastle of over 1% and 1.5% respectively. These positions are examples of the active stock selection of our fundamental strategy; being underweight large cap and lower yielding stocks and holding excess weight in higher-yielding stocks.

STRATEGY AND POSITIONING

We view the current valuations as attractive relative to inflation-linked bonds (ILBs). In the absence of a material change in the market's valuation (or rating), listed property is priced to deliver attractive low double-digit returns over the medium term, well above inflation.

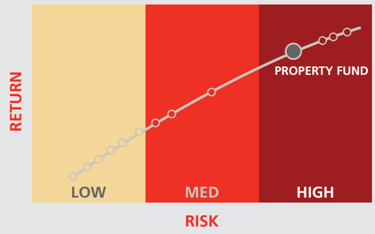
An important aspect of the investment case for listed property is illustrated by comparing property yields to those from ILBs. Currently the SAPY, excluding developers, is priced to deliver a one-year forward distribution yield of 8.3%. This yield exceeded 10-year ILB yields by close to 5.8%. Assuming yields remain constant, property should outperform ILBs by at least 5.8%. In our view, this return premium is commensurate with the elevated risks of investing in listed property at present.

Regarding Resilient group, we remain underweight the four companies in aggregate in our portfolios - we await further clarity on their planned measures to improve governance and we have engaged with the companies with some suggestions in this regard. We believe that even if we do see a re-rating of Resilient group shares, we would not expect their valuations to return to their same previously elevated levels. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	D CLASS
1 year	-8.3%	-7.1%	-8.2%	-8.2%
3 years	0.0%	0.5%	n/a	0.1%
5 years	7.5%	7.1%	n/a	7.6%
7 years	12.7%	12.8%	n/a	12.9%
10 years	13.8%	13.7%	n/a	n/a
Since inception	14.3%	14.5%	0.2%	13.6%

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

RISK/RETURN PROFILE:



FUND MANAGERS:
Duncan Schwulst and Jeanne-Marie Snalam

ASISA CATEGORY:
South African - Real Estate - General

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

INCEPTION DATE:
2 December 2005

FUND SIZE:
R4 154 407 880

AWARDS:
Morningstar/Standard & Poor's: 2011

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL DIVIDEND MAXIMISER FUND
31 MARCH 2018

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

EQUITY

PERFORMANCE

In a challenging quarter, the Fund produced a return of -4.5% for the three months ended March 2018, outperforming the average of the General Equity funds by 0.3% for the same period.

Over the 12 months ended 31 March 2018, the Prudential Dividend Maximiser Fund has outperformed the average of the General Equity funds by a pleasing 2.2% and returned a total return of 7.0%.

Some of the main contributors to the outperformance over the last quarter were the fund's increased underweight position to Naspers during the quarter. Naspers fell 16.2% for the quarter from levels which we thought were slightly overvalued. The fund also benefited from holding very little property, and specifically no property companies in the Resilient and NEPI Rockcastle stable.

The main detractor from performance was the fund's position in the container lessor Trencor and its main subsidiary Textainer, which we still think are substantially undervalued. During the quarter, their share prices were impacted by the escalating tensions around trade barriers.

MARKET OVERVIEW

The market continued to digest the political shakeup following the ANC's elective conference held in December. The resignation of Jacob Zuma and swearing in of Cyril Ramaphosa as President in February provided firm support to existing positive sentiment, and the rand strengthened to R11.84 to the dollar by quarter-end. This, despite increasingly loud calls for land expropriation without compensation from the opposition EFF party. The rand and interest-sensitive sectors performed strongly, driven largely by banks and general retailers which delivered returns of 4.2% and 4.4% respectively in a declining market.

US Treasuries were moderately softer in the wake of investor jitters over inflation and the US Federal Reserve's somewhat more hawkish tone under new Fed Chairman Jerome Powell. The yield on the benchmark 10-year UST rose to around 2.8% from 2.4% at the beginning of the quarter. This, together with prospects for a global trade war induced by none other than US president Donald Trump, weighed on global equity markets, with the MSCI All Country World Index declining 6.1% in February and March after a strong January. Commodity prices also came under some pressure as a result.

The wake of destruction caused by the fallout from the Steinhoff scandal and resignation of CEO Markus Jooste has been severe. We do not think there is any value in Steinhoff given the extent and time period over which this corporate fraud has taken place. There are very likely to be some significant unrecorded liabilities in this group and we expect there to be a further fallout from this value destruction. This was closely followed by a spectacular plunge in the share prices of the Resilient group of companies, following a leaked report from a local hedge fund manager, highlighting concerns about corporate governance issues, potential share price manipulation and the lack of sustainability of the group's above-market dividend distribution growth, mainly due to an innovative BEE structure in Resilient Group and Fortress. The level of corporate arrogance and intolerance for analysts being free to express negative views on their companies has been embarrassing and disappointing.

The performance of the basic materials stocks fell 7.2% over the quarter, due mainly to weaker commodity prices and a firmer rand.

STRATEGY AND POSITIONING

The past few reporting periods have shown that avoiding the mistakes and the companies built of straw are as important as selecting the winners. In 2014, the fund avoided the impact of the African Bank fallout. In the past few reporting periods, the negative impact from Steinhoff and the Resilient group of companies has been minimal, as any minor exposure has largely been due to our risk- conscious approach. While we are proud to be able to make this statement, the reality means that we need be on constant lookout for similar possible drawdowns from unexpected sources, particularly given the intense and increasing market scrutiny. We remain as vigilant and risk-conscious as ever and continually evaluate the downside risk and risk of capital loss to our clients' investments. The fund's dual focus of buying undervalued companies with strong cash flows and dividends has put it in good stead during these periods of market turmoil. We aim to 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 remain encouraged by positive recent developments in SA, despite significant challenges ahead, and political manoeuvring ahead of the 2019 general elections. As mentioned last quarter, we believe that the domestic retailers and SA banks should benefit from a dramatic improvement in sentiment and the likely tailwind from a resumption in the interest rate cutting cycle. For this reason we have positioned the fund to be overweight in banks and retailers, and much prefer these sectors over the property sector.

On the other hand, the underperformance of the diversified miners has left the valuation of these stocks at attractive levels. We have increased our exposure to these stocks, as well as to Sasol on the back of a firmer oil price and the nearing completion of the Lake Charles ethane cracker.

We believe the outlook ahead will be challenging, as the recent increase in volatility in global markets is likely to persist due to the threat of global trade wars, heightened inflation concerns and an increase in global interest rates. The SA equity market is unlikely to escape these changes in risk perceptions, despite improved prospects into 2019 on the back of increasing business and consumer confidence.

Valuations in certain sectors appear compelling, and erstwhile bellwether defensive stocks such as British American Tobacco have de-rated markedly. The extent to which these represent compelling opportunities as opposed to structural shifts remains a key issue, however.

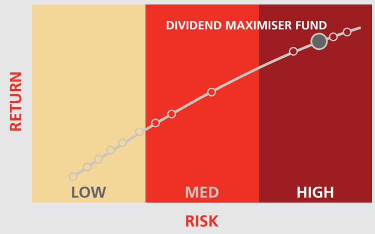
On market valuations, we currently view the market in South Africa as being fair value to somewhat undervalued. While we have been cautious regarding dividend growth in the South African market over the last five years, we now have more conviction that earnings and dividends should show a return to growth. This growth in dividends is based mainly on a return to more normal profit margins among the mining companies and related industries. 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	7.0%	4.8%	7.3%	7.4%
3 years	4.1%	2.1%	4.5%	4.5%
5 years	9.7%	7.4%	n/a	10.1%
7 years	11.3%	9.1%	n/a	11.8%
10 years	11.2%	8.3%	n/a	11.6%
Since inception	17.1%	13.9%	4.4%	11.4%

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 824 766 200

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

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL EQUITY FUND
31 MARCH 2018

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

EQUITY

PERFORMANCE

The fund returned -5.1% for the first quarter of 2018, underperforming the general equity fund average by 0.4% over the same period. The Prudential Equity Fund has, however, still managed to outperform its benchmark by 2.1% for 12 months, with a total return of 6.9%.

MARKET OVERVIEW

After further strong gains in January, the 15-month global equity bull market came to an abrupt end in February in the form of a sharp market correction. This was brought on by worries over an accelerated pace of US interest rate hikes as the US economic expansion and inflation gathered pace, and later, increasing fears of a global trade war provoked by unpredictable Trump policies and concerns over stricter regulation of the global tech giants like Amazon and Facebook. Although much of the losses were retraced, volatility became a key market feature in February and March. Developed equity markets ended the quarter returning -1.3%, while emerging markets were in the black with a 1.4% total return.

For South African investors, it was a mixed quarter as December's positive sentiment continued into the new year and encouraging developments underpinned interest-rate markets, but equities were hurt by the global correction and listed property sold off sharply in the wake of alleged fraudulent activity at the Resilient group of four property companies. Notable positive developments included the favourable reception by global investors and the credit ratings agencies of February's 2018/19 Budget and the new President's cabinet appointments, and some progress towards improving state-owned enterprise (SOE) corporate governance. Another encouraging milestone came in late March when Moody's decided not to downgrade South Africa's sovereign local currency rating to junk status, while also upgrading its outlook to stable from negative and lifting SA's 2018 GDP growth forecast to 2.0% from 1.0%. S&P Global and other international institutions also lifted their growth expectations to around 2.0%. This brighter outlook benefitted partly from Stats SA's February announcement of 3.1% (q/q saa) GDP growth in Q4 2017 – much higher than the 1.5% market consensus – as well as upward revisions to the previous four quarters of GDP data, which surprisingly confirmed that the country had not experienced a recession in 2017. While the growth upgrade was welcomed, economists and investors still worry that much more needs to be done to accelerate growth to a meaningful rate that will create jobs.

In contrast, SA equities could not escape the global downturn, with the FTSE/JSE All Share Index (ALSI) returning -6.0% for the quarter. The market was partly dragged down by weakness in heavyweight Naspers (losing 16.2% during the quarter and with a 17% weighting in the ALSI), but was also caused by a shocking -19.6% return from the listed property sector. This arose from persistent worries over alleged fraudulent practices at the Resilient group of four property companies, which drove their share prices down by over 50% for the quarter. Industrials as a sector delivered -8.0% for the quarter, Financials produced -3.6% and Resources returned -2.7%.

PERFORMANCE

The fund returned -5.1% for the first quarter of 2018, underperforming the general equity fund average by 0.4% over the same period. The Prudential Equity Fund has, however, still managed to outperform its benchmark by 2.1% for 12 months, with a total return of 6.9%.

STRATEGY AND POSITIONING

The early part of the first quarter saw a continuation of the Ramaphosa rally with domestic sectors, particularly the Retailers and Banks, rallying. While the fund benefited from its recently scaled back overweight position in the banks, this was not enough to offset the fund's long-standing underweight position in retailers. Although South Africa was able to avert a downgrade from Moody's, which surprisingly (and positively for South Africa) upgraded the outlook from negative to stable, we remain sceptical about the prospects for a quick fix for the domestic economy.

A key contributor to performance over the quarter was the fund's overweight position in Old Mutual. We have held this position for some time as we expect the group to benefit from the proposed separation of Old Mutual plc into two separately listed entities: a South African focused insurer and a UK wealth manager. While Old Mutual's recent FY17 results disappointed by not setting a date for the managed separation, we do expect it to occur in the current year. However, the results confirmed our thesis that Old Mutual is undervalued with improved disclosure showing that the South African unit makes more profits than erstwhile competitor Sanlam, despite Old Mutual and Sanlam having similar market capitalisations. This suggests the market is paying nothing for the UK wealth manager (which manages in excess of £100bn of assets) or is overly penal on the conglomerate discount it is applying to Old Mutual – despite the imminent separation.

Speaking of discounts, the discount to which Naspers trades relative to its holding in Tencent (the Chinese tech giant) continued to widen despite Naspers monetising US$10bn by reducing its stake in Tencent from 33.2% to 31.2%. The funds raised from the Tencent disposal will be used to bolster the balance sheet and will be invested to accelerate the growth of Naspers' classifieds, online food delivery and fintech businesses globally. Any success in narrowing the losses from these ventures should lead to a narrowing of the wide discount, but the widening of the discount in the first quarter of 2018 resulted in Naspers detracting from performance given the fund's large active and absolute position.

The continued strength of the rand continued to weigh on the fund's 20% offshore allocation, as well as rand hedges held within the domestic allocation. As a result British American Tobacco and Capital & Counties were significant detractors from performance.

South African equities moved to more attractive valuations during the quarter, to a level somewhat cheaper than their long-term fair value: the FTSE/JSE ALSI 12-month forward P/E fell to around 14.1X at quarter-end from around 15.4X in Q4. At current levels the market is priced to deliver attractive medium-term returns.

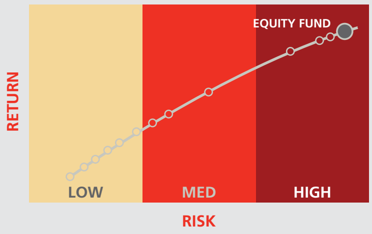
Our individual equity holdings are similar to the previous quarter. We sold all of our small (underweight) Steinhoff holdings in December, cushioning our portfolios from further losses in 2018. Equally, we were underweight the Resilient group of four companies and sold down those holdings across our client portfolios. Currently, our portfolios hold stocks with exposure to strong global growth like Naspers, British American Tobacco, Richemont, Anglo American and BHP Billiton – the latter two representing lower risk to commodity price weakness given their diversification.

We also hold non-mining resources stocks like Sappi, as well as international container transport group Trencor, which has upside to improving global trade trends. During the quarter we trimmed our long-standing overweight position in Financials in our house view portfolios, but still hold overweight exposure to financial shares including Old Mutual, Investec and Standard Bank, which have offered relatively high dividend yields that should benefit if SA economic growth continues to improve. Offsetting this overweight position, we have chosen to remain underweight in retail stocks in our house view portfolios given the challenging local consumer environment. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	6.9%	4.8%	7.4%
3 years	4.2%	2.1%	4.6%
5 years	10.2%	7.4%	10.7%
7 years	11.9%	9.1%	12.4%
10 years	11.6%	8.3%	12.1%
Since inception	17.1%	13.9%	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 994 996 764

AWARDS:

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

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL CAUTIOUS MANAGED FUND OF FUNDS
31 MARCH 2018

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL MULTI-ASSET

MARKET OVERVIEW

After further strong gains in January, the 15-month global equity bull market came to an abrupt end in February in the form of a sharp market correction. This was brought on by worries over an accelerated pace of US interest rate hikes as the US economic expansion and inflation gathered pace, and later, increasing fears of a global trade war provoked by unpredictable Trump policies and concerns over stricter regulation of the global tech giants like Amazon and Facebook. Although much of the losses were retraced, volatility became a key market feature in February and March. Developed equity markets ended the quarter returning -1.3%, while emerging markets were in the black with a 1.4% total return.

Global bonds managed to deliver 1.4% over the quarter, helped by gains in European bonds and a weaker US dollar, while US Treasuries were moderately softer in the wake of investor jitters over inflation and the US Federal Reserve's somewhat more hawkish tone under new Fed Chairman Jerome Powell. The Fed met market expectations by hiking interest rates 25bps at its March meeting, and also added extra rate hikes to its expectations for 2019-2020, while confirming its view of a more robust US economy (lifting its forecasts for 2018 GDP growth to 2.7% from 2.5% previously). However, it did keep its 2018 rate predictions unchanged at two further 25bp increases. Global economic fundamentals remained supportive, with data broadly stronger. US jobless claims fell to their lowest level in 45 years and unemployment dropped to 4.1%, while February CPI crept up to 2.2% y/y from 2.1% y/y. In Europe, views of an ultra-slow exit by the European Central Bank of its easy monetary policy were reinforced amid accelerating growth but very subdued inflation (at only 1.1% y/y in February). In the UK, meanwhile, prospects brightened thanks to a long-awaited agreement with the EU on a Brexit transition deal and parts of the final exit treaty.

The Japanese economy slowed in Q4 2017 to 0.1% (q/q, saa), but still notched up an eighth consecutive quarter of growth, the best since 1989. In China, GDP growth was reported at a stronger-than-expected 6.9% for 2017, better than the government's annual target of 6.5% and up from 6.7% in 2016. The government has kept its target unchanged for 2018, while economists expect a slowdown to around 6.5% for the year, as lending tightens and investment slows as the government's efforts to lower financial risks take further effect.

The rand gained 3.8% against the US dollar for the three months, 1.3% versus the euro, and was flat against a rebounding pound sterling. This was despite some concerns over the implications of the ANC's potential wider use of land expropriation without compensation.

PERFORMANCE

The fund returned -1.2% in US dollar terms for the quarter. Given the strong performance of the rand relative to the US dollar, the fund returned -4.9% in rand terms, underperforming its benchmark (the average return of the ASISA Global Multi-Asset Low Equity sector) by 0.3% as it generated -4.6%.

For the year, the fund earned 7.9% in US dollar terms. In rand terms, the fund returned -4.6% for the year compared to the benchmark's -7.0% over the same period.

Treasuries were the best performing asset class for the quarter. As a consequence the fund's underweight treasuries and overweight credit detracted from overall fund performance. Furthermore, the fund's overweight equity position did not contribute materially to the fund's relative performance, though detracted from absolute performance.

STRATEGY AND POSITIONING

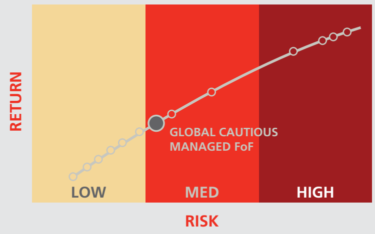
For global equities, the correction experienced in many markets made valuations more attractive in most countries, with global markets roughly 10% cheap on a broad basis at quarter-end. However, this masks individual market differences – for example, the US S&P 500 is trading close to its long-term fair value, while South Korea is about 30% cheap. In line with our active management approach, we lowered the global equity exposure in our portfolio in January as prices ran ahead of fundamentals, only to raise it again in February after the sharp market correction, so the net result was to return to the same overweight position as in the previous quarter. The outlook for corporate earnings growth remains positive against the backdrop of upside surprises to broad global growth.

Our global equity positioning continues to reflect a preference for cheaper areas where fundamentals are encouraging but valuations remain attractive, including Europe, Japan, the global financial sector and smaller holdings in selected emerging markets such as South Korea, Turkey and Indonesia. These positions are financed primarily by an underweight in global bonds, as well as US equities to a lesser extent.

In global fixed income, as in previous quarters, despite rising government bond yields (including this quarter's sell-off in the US), they continue to trade at very low yields (and high valuations) historically, and remain at risk to rising interest rates in the US and UK, and increasingly in Europe as well. We therefore continue to be underweight global sovereign bonds and underweight duration to reduce interest rate risk, preferring to hold investment-grade US and European corporate bond. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	-4.6%	-7.0%	-4.3%
3 years	2.5%	1.7%	2.8%
5 years	7.8%	7.6%	n/a
7 years	9.9%	9.5%	n/a
10 years	4.1%	3.8%	n/a
Since inception	6.7%	6.2%	6.7%

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:
R96 618 370

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL HIGH YIELD BOND FUND OF FUNDS
31 MARCH 2018

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL INCOME

MARKET OVERVIEW

Global bonds managed to deliver 1.4% over the quarter, helped by gains in European bonds and a weaker US dollar, while US Treasuries were moderately softer in the wake of investor jitters over inflation and the US Federal Reserve's somewhat more hawkish tone under new Fed Chairman Jerome Powell. The Fed met market expectations by hiking interest rates 25bps at its March meeting, and also added extra rate hikes to its expectations for 2019-2020, while confirming its view of a more robust US economy (lifting its forecasts for 2018 GDP growth to 2.7% from 2.5% previously). However, it did keep its 2018 rate predictions unchanged at two further 25bp increases. The yield on the benchmark 10-year UST rose to around 2.8% from 2.4% at the beginning of the quarter.

Global economic fundamentals remained supportive, with data broadly stronger. US jobless claims fell to their lowest level in 45 years and unemployment dropped to 4.1%, while February CPI crept up to 2.2% y/y from 2.1% y/y. In Europe, views of an ultra-slow exit by the European Central Bank of its easy monetary policy were reinforced amid accelerating growth but very subdued inflation (at only 1.1% y/y in February). In the UK, meanwhile, prospects brightened thanks to a long-awaited agreement with the EU on a Brexit transition deal and parts of the final exit treaty.

The Japanese economy slowed in Q4 2017 to 0.1% (q/q, saa), but still notched up an eighth consecutive quarter of growth, the best since 1989. In China, GDP growth was reported at a stronger-than-expected 6.9% for 2017, better than the government's annual target of 6.5% and up from 6.7% in 2016. The government has kept its target unchanged for 2018, while economists expect a slowdown to around 6.5% for the year, as lending tightens and investment slows as the government's efforts to lower financial risks take further effect.

The rand gained 3.8% against the US dollar for the three months, 1.3% versus the euro, and was flat against a rebounding pound sterling. This was despite some concerns over the implications of the ANC's potential wider use of land expropriation without compensation.

PERFORMANCE

The fund returned 0.3% in US dollar terms for the quarter. Given the strong performance of the rand relative to the US dollar, the fund returned -3.5% in rand terms, underperforming its benchmark (the Bloomberg Barclays Global Aggregate Bond Index) by 1.0% as it generated –2.5%.

For the year, the fund earned 6.0% in US dollar terms. In rand terms, the fund returned –6.2% for the year compared to the benchmark's -5.4% over the same period.

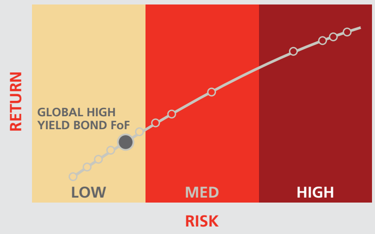
Treasuries outperformed credit and high yield bonds for the quarter and thus the fund's underweight treasuries and overweight credit detracted from the fund's relative performance. This was in part offset by selected exposures to emerging market local currency bonds via Mexico and Brazil, as well as specific exposure to Japanese government bonds.

STRATEGY AND POSITIONING

In global fixed income, as in previous quarters, despite rising government bond yields (including this quarter's sell-off in the US), they continue to trade at very low yields (and high valuations) historically, and remain at risk to rising interest rates in the US and UK, and increasingly in Europe as well. We continue to be underweight global sovereign bonds and underweight duration to reduce interest rate risk, preferring to hold investment-grade US and European corporate bonds. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK
1 year	-6.2%	-5.4%
3 years	1.6%	2.4%
5 years	6.4%	6.7%
7 years	10.8%	10.5%
10 years	7.0%	6.6%
Since inception	7.9%	8.0%

RISK/RETURN PROFILE:



FUND MANAGERS:
David Knee and Michael Moyle

ASISA CATEGORY:
Global - Interest Bearing - Variable Term

BENCHMARK:
Bloomberg Barclays Global Aggregate Bond Index

INCEPTION DATE:
1 November 2000

FUND SIZE:
R354 938 953

AWARDS:
Raging Bull: 2006, 2008, 2013
Morningstar/Standard & Poor's: 2007, 2009, 2013

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL VALUE FUND OF FUNDS
31 MARCH 2018

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL EQUITY

MARKET OVERVIEW

After further strong gains in January, the 15-month global equity bull market came to an abrupt end in February in the form of a sharp market correction. This was brought on by worries over an accelerated pace of US interest rate hikes as the US economic expansion and inflation gathered pace, and later, increasing fears of a global trade war provoked by unpredictable Trump policies and concerns over stricter regulation of the global tech giants like Amazon and Facebook. Although much of the losses were retraced, volatility became a key market feature in February and March. Developed equity markets ended the quarter returning -1.3%, while emerging markets were in the black with a 1.4% total return.

The US Federal Reserve met market expectations by hiking interest rates 25bps at its March meeting, and also added extra rate hikes to its expectations for 2019-2020, while confirming its view of a more robust US economy (lifting its forecasts for 2018 GDP growth to 2.7% from 2.5% previously). However, it did keep its 2018 rate predictions unchanged at two further 25bp increases. Global economic fundamentals remained supportive, with data broadly stronger. US jobless claims fell to their lowest level in 45 years and unemployment dropped to 4.1%, while February CPI crept up to 2.2% y/y from 2.1% y/y. In Europe, views of an ultra-slow exit by the European Central Bank of its easy monetary policy were reinforced amid accelerating growth but very subdued inflation (at only 1.1% y/y in February). In the UK, meanwhile, prospects brightened thanks to a long-awaited agreement with the EU on a Brexit transition deal and parts of the final exit treaty.

The Japanese economy slowed in Q4 2017 to 0.1% (q/q, saa), but still notched up an eighth consecutive quarter of growth, the best since 1989. In China, GDP growth was reported at a stronger-than-expected 6.9% for 2017, better than the government's annual target of 6.5% and up from 6.7% in 2016. The government has kept its target unchanged for 2018, while economists expect a slowdown to around 6.5% for the year, as lending tightens and investment slows as the government's efforts to lower financial risks take further effect.

The rand gained 3.8% against the US dollar for the three months, 1.3% versus the euro, and was flat against a rebounding pound sterling. This was despite some concerns over the implications of the ANC's potential wider use of land expropriation without compensation.

PERFORMANCE

The fund returned -2.3% in US dollar terms for the quarter. Given the strong performance of the rand relative to the US dollar, the fund returned -6.0% in rand terms, underperforming its benchmark (the MSCI All Countries World Index) by 1.3% as it generated -4.7%.

For the 12 months to 31 March 2018, the fund earned 12.0% in US dollar terms. In rand terms, the fund returned -1.0% for the year compared to the benchmark's 1.6% over the same period.

The US was the best performing market in local currency terms for the quarter though US dollar weakness across developed market currencies offset negative returns from these regions to help boost overall returns. The fund's underweight to US as well as tactical overweight to Indonesia detracted from relative performance. This was in part offset by positive stock selection from M&G Global Emerging Markets fund.

STRATEGY AND POSITIONING

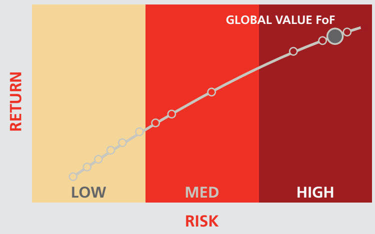
For global equities, the correction experienced in many markets made valuations more attractive in most countries, with global markets roughly 10% cheap on a broad basis at quarter-end. However, this masks individual market differences – for example, the US S&P 500 is trading close to its long-term fair value, while South Korea is about 30% cheap. The outlook for corporate earnings growth remains positive against the backdrop of upside surprises to broad global growth.

Our current global equity positioning reflects a preference for cheaper areas where fundamentals are encouraging but valuations remain attractive, including Europe, Japan, the global financial sector and smaller holdings in selected emerging markets such as South Korea, Turkey and Indonesia. These positions are financed primarily by an underweight in global bonds, as well as US equities to a lesser extent. ■

ANNUALISED PERFORMANCE

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK
1 year	-1.0%	1.6%
3 years	6.1%	7.3%
5 years	13.7%	14.9%
7 years	14.7%	16.9%
10 years	7.4%	9.7%
Since inception	6.4%	7.7%

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:
R266 899 125

Sources: Prudential, Morningstar & Deutsche Securities