PRUDENTIAL UNIT TRUSTS QUARTERLY COMMENTARY
30 JUNE 2016

PRUDENTIAL
INVESTMENT MANAGERS

COMBINED QUARTERLY COMMENTARY

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PRUDENTIAL MONEY MARKET FUND
30 JUNE 2016

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME FUND

PERFORMANCE

Over the past quarter, the Fund delivered a return of 1.8% (gross) versus its benchmark the STeFI Call Deposit Index, which returned 1.6%. The current average duration of the Fund is 35 days relative to the 90-day maximum average duration.

Following all the negative developments of the first quarter of 2016, Q2 brought some measure of relief for South African markets, driven by positive surprises including the decisions by all three major ratings agencies not to downgrade the sovereign credit rating to "junk" status, but to maintain it at investment grade. While this did not completely relieve bond and interest rate market uncertainties, it did push them out to year-end, when new ratings reviews will be conducted.

Following the 75bps of rate hikes in Q1, the South African Reserve Bank (SARB) kept the benchmark repo rate rates on hold during the quarter amid the improving inflation outlook, stable rand and a weaker local economy – SA GDP growth contracted by a larger-than-expected 1.2% in Q1 2016.

While raising its 2016 CPI forecast to 6.7% year-on-year from 6.6% year-on-year, the SARB lowered its 2017 CPI forecast to 6.2% year-on-year (down from 6.4% year-on-year) and 2018 CPI to 5.4% year-on-year. The Central Bank also lowered its GDP growth forecasts again, to 0.6% from 0.8% in 2016, 1.3% from 1.4% in 2017, and 1.7% from 1.8% in 2018.

CPI inflation data surprised positively over the quarter, coming in at 6.1% year-on-year in May versus 6.4% expected, led by lower-than-expected food inflation. Core inflation came in at 5.5%, flat against April and below consensus expectation of 5.6%.

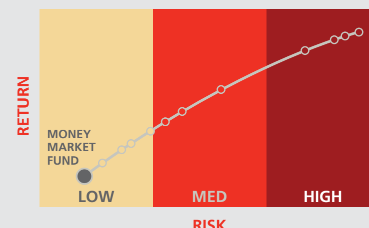
PPI inflation eased to 6.5% year-on-year in May from 7.0% year-on-year in April, surprising positively against the market expectation of 6.9%. Food products, beverages and tobacco products showed a slowing trend – adding 8.3% year-on-year from 9.2% in April.

Private sector credit extension moderated to 6.6% year-on-year for May from 7.1% year-on-year in April. Modest credit uptake can, at least partially, be attributed to the SARB rate hikes in the first quarter exerting additional pressure on arguably already-strained consumers. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	X CLASS
1 year	6.7%	6.2%	6.8%
3 years	5.9%	5.5%	6.0%
5 years	5.6%	5.3%	5.8%
7 years	5.9%	5.6%	n/a
10 years	7.2%	6.9%	n/a
Since inception	7.8%	7.7%	5.8%

[#] 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:
R4 052 453 602

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL HIGH INTEREST FUND
30 JUNE 2016

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME FUND

MARKET OVERVIEW

Following all the negative developments of the first quarter of 2016, Q2 brought some measure of relief for South African markets, driven by positive surprises including the decisions by all three major ratings agencies not to downgrade the sovereign credit rating to "junk" status, but to maintain it at investment grade. While this did not completely relieve bond and interest rate market uncertainties, it did push them out to year-end, when new ratings reviews will be conducted. Inflation data surprised positively over the quarter, coming in at 6.1% year-on-year in May versus 6.4% expected, and led by lower-than-expected food inflation.

The rand also halted its slide against the US dollar and other major currencies, appreciating by 0.3% against the greenback, 2.7% versus the euro and 8.1% against sterling, amid improved sentiment from very oversold levels. Other emerging market currencies saw mixed performances. Somewhat paradoxically, the "lower for longer" view on global interest rates and inflation arising from the Brexit "leave" vote proved positive for South Africa's own currency, interest rate and inflation outlook, helping moderate views on the local interest rate cycle.

Following 75bps of rate hikes in Q1, the South African Reserve Bank (SARB) kept interest rates on hold during the quarter amid the improving inflation outlook, stable rand and a weaker local economy – SA GDP growth contracted by a larger-than-expected 1.2% in Q1 2016. While raising its 2016 CPI forecast to 6.7% year-on-year from 6.6% year-on-year, the SARB lowered its 2017 CPI forecast to 6.2% year-on-year (down from 6.4% year-on-year) and 2018 CPI to 5.4% year-on-year. The Central Bank also lowered its GDP growth forecasts again, to 0.6% from 0.8% in 2016, 1.3% from 1.4% in 2017, and 1.7% from 1.8% in 2018.

Meanwhile, local bonds continued their recovery, which began in February, helped by the improving local interest rate outlook, rising commodity prices and offshore investor demand. The SA 10-year bond rallied about 30bps to 8.8% by quarter-end, finally reaching pre-Nenegate levels, while the All Bond Index returned 4.4% in Q1. Inflation-linked bonds (ILBs) also gained ground, returning 4.4% in the quarter. Looking at the difference in yields between conventional bonds and ILBs, 10-year breakeven inflation expectations fell from 7.3% to 7.0% at quarter-end, after peaking at 7.7% in mid-May. Cash returned 1.8%. In the Forward Rate Agreements (FRAs) market, views on future interest rates have moderated still further: three-month interest rates are now seen at 7.8% in two years' time, down from 8.3% at the end of March, a 45bps decline. The market now expects at the most 2 more 25bps rate hikes from the SARB in just under two years' time.

FUND PERFORMANCE

The Prudential High Interest Fund generated a return of 2.4% (gross) for the quarter compared to its benchmark, the STeFI Composite Index, which returned 1.8% (gross).

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 Fund currently has a duration of about 119 days.

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.

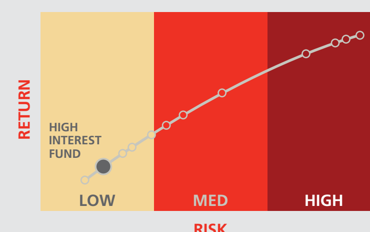
Exposure to floating-rate notes in the 3-year space was increased over the quarter on the back of attractive pricing. Credit issuance has been scarce this year and as such, while demand to tap into more of that market in order to lock in yield pick-up remains a focus, issuers we were comfortable investing in at spreads in line with our valuation metrics were limited to one addition 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	7.2%	6.8%	7.4%	7.4%
2 years	6.5%	6.6%	6.7%	6.8%
3 years	6.2%	6.2%	6.3%	6.7%
5 years	6.0%	5.9%	6.1%	6.4%
Since inception	6.0%	5.9%	6.1%	6.4%

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

RISK/RETURN PROFILE:



FUND MANAGERS:
Roshen Harry and Sandile Malinga

ASISA CATEGORY:
South African - Interest Bearing - Short Term

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

INCEPTION DATE:
8 December 2010

FUND SIZE:
R8 468 744 782

Due to a corporate action involving African Bank Investment Limited instruments, the Fund currently holds an instrument with a tenor of longer than 36 months which is in breach of its supplemental trust deed. This is in the process of being corrected.

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL HIGH YIELD BOND FUND
30 JUNE 2016

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME FUND

PERFORMANCE

The Fund returned 4.4% (net of fees) for the second quarter of 2016, in line with its benchmark, the BEASSA Total Return All Bond Index (also 4.4%).

Inflation-linked bonds also returned 4.4% (JSE CILI), and outperformed cash which returned 1.8% (STEFI) for the three months.

Our portfolios are still modestly overweight conventional bonds, having sold down the position from moderately overweight in the previous quarter. Within this, we are also overweight longer-dated bonds versus shorter paper due to the more attractive yields on offer, while retaining our overweight exposure to corporate bonds. The recent fall in yields has been driven predominately by global, rather than local, factors, although avoiding a rating downgrade certainly helped. However, with the 10-year SA bond spread versus the 10-year US Treasury now at 725bps, a full 100bps above its pre-Nenegate level, there is still a significant risk premium priced in.

MARKET OVERVIEW

In the US, the consensus outlook for 2016 GDP growth was revised downward to 1.9% (2.0% previously) while forecasts for 2016 consumer inflation (CPI) fell to 1.3% year-on-year (1.7% year-on-year previously). At its June meeting, just before the UK Brexit vote on 23 June, the US Federal Reserve again left interest rates on hold amid uneven US economic data, slowing exports and the weaker global environment. The Fed policymakers lowered their median forecast for the Fed Funds rate (at end 2018) to 2.4% from 3.0% in March. The surprise Brexit vote sparked severe market turbulence which hit global financial stocks, UK equities and the pound sterling the hardest, caused a flight to safe-haven assets like gold, and prompted the Fed to note that this had further increased risks to global growth. The US market also revised downward its own rate hike expectations: Fed Fund futures are now factoring in a total rate increase of only 50 basis points (bps) over the next 2.5 years.

In the Eurozone, the 2016 GDP growth forecast was revised upward slightly to 1.6% from 1.5%, driven largely by Germany. However, this occurred prior to the Brexit vote. Inflation projections, by contrast, were cut to only 0.2% for the year. The ECB promised to support markets amid the Brexit turbulence, keeping its aggressive easing programme on track.

Japanese growth expectations continued to deteriorate as the 2016 GDP forecast was cut to only 0.5% from 0.7%, and the inflation outlook turned to deflation of -0.5% for the year. May inflation came in at -0.4% year-on-year. As the chances for even more monetary easing increased, Japanese bonds continued to rally.

In China, Q1 GDP growth was reported at 6.7% (q/q annualised), a slight slowdown from 6.8% in Q4 2015, but in line with expectations and comfortably within the government's 6.5%-7.0% target for the year.

Other emerging markets continued to be supported by firmer commodity prices and a general improvement in risk appetite towards emerging markets. Five-year credit default swap spreads (a measure of sovereign default risk) fell across most emerging markets. EM bonds and currencies were also generally stronger.

The price of Brent crude oil gained 25.5% to trade near $50/barrel at quarter end. Gold gained 7.2% to $1,320/ounce, and there were notable moves in nickel (up 11.3%) and zinc (up 16.3%).

Following all the negative developments of the first quarter of 2016, Q2 brought some measure of relief for South African markets, driven by positive surprises including the decisions by all three major ratings agencies not to downgrade the sovereign credit rating to "junk" status, but to maintain it at investment grade. While this did not completely relieve bond and interest rate market uncertainties, it did push them out to year-end, when new ratings reviews will be conducted. Inflation data surprised positively over the quarter, coming in at 6.1% year-on-year in May versus 6.4% expected, and led by lower-than-expected food inflation.

The rand also halted its slide against the US dollar and other major currencies, appreciating by 0.3% against the greenback, 2.7% versus the euro and 8.1% against sterling, amid improved sentiment from very oversold levels.

Following 75bps of rate hikes in Q1, the South African Reserve Bank (SARB) kept interest rates on hold during the quarter amid the improving inflation outlook, stable rand and a weaker local economy – SA GDP growth contracted by a larger-than-expected 1.2% in Q1 2016. While raising its 2016 CPI forecast to 6.7% year-on-year from 6.6% year-on-year, the SARB lowered its 2017 CPI forecast to 6.2% year-on-year (down from 6.4% year-on-year) and 2018 CPI to 5.4% year-on-year. The Central Bank also lowered its GDP growth forecasts again, to 0.6% from 0.8% in 2016, 1.3% from 1.4% in 2017, and 1.7% from 1.8% in 2018.

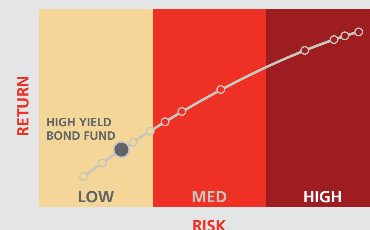
Given that global bond yields are continuing to fall in the wake of Brexit and the outlook for more easing from developed central banks, SA bonds are likely to be a beneficiary of any extended global search for yield among investors going forward. At the same time, the likelihood of rate hikes by the SARB in the second half of 2016 has fallen.

Although this quarter's developments have proved mostly positive for interest rate markets, investment risks remain elevated, particularly with global growth rates even more under threat, and SA GDP growth showing few signs of improvement. The likelihood of eventually being downgraded to non-investment grade status remains real. Investors can expect continued volatility in financial markets over the medium term. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	4.3%	5.2%	4.6%
3 years	5.3%	6.3%	5.7%
5 years	7.4%	7.9%	7.8%
7 years	8.4%	8.7%	8.8%
10 years	8.2%	8.4%	8.5%
Since inception	10.4%	10.6%	9.2%

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:
R513 425 501

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL ENHANCED INCOME FUND
30 JUNE 2016

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME FUND

PERFORMANCE

For the quarter ending June 2016 the Fund delivered a return of 3.6% (gross of fees) outperforming cash as measured by its benchmark the STeFi composite by 1.8%. Year-to-date the Fund returned a respectable 7.3% (gross of fees) beating cash as measured by the STeFi composite by 3.8%.

The second quarter of 2016 was characterised by high volatility in most financial markets, with the UK vote to leave the European Union ending the quarter on a significant negative surprise. This further heightened global uncertainty, fuelling expectations of even slower global growth, and lower inflation and interest rates for longer. Bond markets and gold were among the greatest beneficiaries of this ongoing trend. Emerging market assets benefited from the continuing rally in commodity prices and a sporadic revival of investor risk appetite.

There was again a substantial moderation among Fed policymakers of their views on the future path for US interest rates, lowering their median forecast for the Fed Funds rate (at end 2018) to 2.4% from 3.0% in March. The surprise Brexit vote sparked severe market turbulence which hit global financial stocks, UK equities and the pound sterling the hardest, caused a flight to safe-haven assets like gold, and prompted the Fed to note that this had further increased risks to global growth. The US market also revised downward its own rate hike expectations: Fed Fund futures are now factoring in a total rate increase of only 50 basis points (bps) over the next 2.5 years.

Locally, following all the negative developments of the first quarter of 2016, Q2 brought some measure of relief for South African markets, driven by positive surprises including the decisions by all three major ratings agencies not to downgrade the sovereign credit rating to "junk" status, but to maintain it at investment grade. While this did not completely relieve bond and interest rate market uncertainties, it did push them out to year-end, when new ratings reviews will be conducted. Inflation data surprised positively over the quarter, coming in at 6.1% year-on-year in May versus 6.4% expected, and led by lower-than-expected food inflation.

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Meanwhile local bonds continued their recovery helped by the improving local interest rate outlook, rising commodity prices and offshore investor demand. The SA 10-year bond rallied about 30bps to 8.8% by quarter-end, finally reaching pre-Nenegate levels, while the All Bond Index returned 4.4% in Q1. Inflation-linked bonds (ILBs) also gained ground, returning 4.4% in the quarter. Looking at the difference in yields between conventional bonds and ILBs, 10-year breakeven inflation expectations fell from 7.3% to 7.0% at quarter-end, after peaking at 7.7% in mid-May. Cash returned 1.8%. In the Forward Rate Agreements (FRAs) market, views on future interest rates have moderated still further: three-month interest rates are now seen at 7.8% in two years' time, down from 8.3% at the end of March, a 45bps decline. The market now expects at the most 2 more 25bps rate hikes from the SARB in just under two years' time.

In the wake of the continuing rebound in SA nominal bonds we took some profits and moderately reduced our bond positions in the fund. Within this we retain exposure to longer-dated bonds versus shorter paper due to the more attractive yields on offer, while retaining our overweight exposure to corporate bonds.

The recent fall in yields has been driven predominately by global, rather than local, factors, although avoiding a rating downgrade certainly helped. However, with the 10-year SA bond spread versus the 10-year US Treasury now at 725bps, a full 100bps above its pre-Nenegate level, there is still a significant risk premium priced in. Given that global bond yields are continuing to fall in the wake of Brexit and the outlook for more easing from developed central banks, SA bonds are likely to be a beneficiary of any extended global search for yield among investors going forward. At the same time, the likelihood of rate hikes by the SARB in the second half of 2016 has fallen.

SA listed property became cheaper over the quarter and we took advantage of this by buying property out of the Funds' cash allocation. Listed property companies (excluding developers) continue to be priced to return approximately 15% p.a. over the medium-term (assuming no change in the market's valuation of property), with no real pricing change from the previous quarter. The earnings outlook for these companies improved somewhat over the quarter given the lowered expectations for inflation and interest rates, although the weak economic environment remains a challenge, particularly for those exposed to the office sector where there is over-supply.

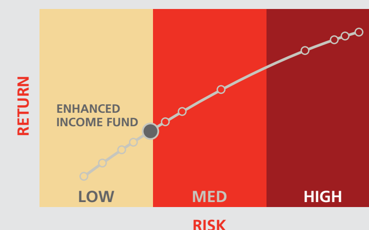
Inflation-linked bonds remained somewhat expensive compared to conventional bonds over the quarter, leading us to maintain our underweight position in these assets in the portfolio. Although the break-even inflation rate has fallen to 7.0%, it still appears elevated compared to our long-term inflation benchmark of 6.0%.

Although this quarter's developments have proved mostly positive for interest rate markets, investment risks remain elevated, particularly with global growth rates even more under threat, and SA GDP growth showing few signs of improvement. The likelihood of eventually being downgraded to non-investment grade status remains real. Investors can expect continued volatility in financial markets over the medium term. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	X CLASS	D CLASS
1 year	7.5%	6.8%	8.0%	7.8%	8.1%
3 years	7.3%	6.5%	n/a	7.6%	7.9%
5 years	8.1%	6.9%	n/a	8.3%	8.6%
7 years	8.8%	7.3%	n/a	n/a	n/a
Since inception	8.8%	7.3%	7.0%	8.4%	8.6%

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

RISK/RETURN PROFILE:



FUND MANAGERS:
David Knee and Roshen Harry

ASISA CATEGORY:
South African - Multi-Asset - Income

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

INCEPTION DATE:
1 July 2009

FUND SIZE:
R2 306 987 946

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL INFLATION PLUS FUND
30 JUNE 2016

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

MARKET OVERVIEW

Investors grappled with more surprises and volatility in the April-June quarter of 2016, ending with the largest negative surprise of them all - the UK vote to leave the European Union on 23 June. The Brexit vote further heightened global uncertainty, fuelling expectations of even slower global growth, and lower inflation and interest rates for longer, including in South Africa. Bond markets and gold were among the greatest beneficiaries of this ongoing trend, while equity returns were muted. Emerging market assets benefited from the continuing rally in commodity prices and a general improvement in investor views on emerging markets.

In the US, the outlook for 2016 growth was lowered to 1.8% from 2.0%, while the consumer inflation forecast fell to 1.3% year-on-year from 1.7% year-on-year. At its 14-15 June meeting, just before the UK Brexit vote, the US Federal Reserve again left interest rates unchanged amid uneven US economic data, slowing exports and the weaker global environment. There was again a substantial moderation of Fed policymakers' views on interest rates, lowering their forecast for the Fed Funds rate (at end 2018) to 2.4% from 3.0% in March. The surprise Brexit vote sparked severe market turbulence, erasing some $2 trillion in value from global equity markets in the first days, with financial and property counters hard hit.

The Barclays Global Aggregate Bond Index (US$), a mixture of government and corporate bonds, returned 2.9% in the quarter. US Treasury (UST) bonds rallied in response to the lower interest rate outlook, while the S&P 500 returned 2.5%, underpinned by the prospect of easier monetary conditions. The price of Brent crude oil gained 25.5% to trade near $50/barrel, while gold was up 7.2% to $1,320/ounce.

In the Eurozone, the 2016 GDP growth forecast was revised upward slightly to 1.6% from 1.5%, driven largely by Germany. However, this occurred prior to the Brexit vote. Inflation projections, by contrast, were cut to only 0.2% for the year. German bunds rallied and the 10-year yield turned negative for the first time, ending the quarter at -12bps. European equities were hit by Brexit: the Dow Jones Euro Stoxx 50 Index (US$) returned -5.1% for the three months, France's CAC 40 -3.3% and Germany's DAX -5.5%. In the UK, the FTSE 100 returned -1.8% and economists predicted a recession as the elevated uncertainty prompted businesses to postpone planned investment and expansion plans.

Japan and China were two other large economies where growth further deteriorated, although Chinese Q1 GDP growth of 6.7% was in line with expectations and within the government's 6.5%-7.0% target. The Nikkei 225 Index returned 1.5%, while the MSCI China returned 0.3% over the three months. Other emerging markets continued to be supported by firmer commodity prices and a general improvement in risk appetite towards emerging markets. Brazil's Ibovespa was again the strongest performer in US dollar terms, returning 14.1%. The MSCI South Africa gained 7.7%, MSCI Russia returned 4.2% and MSCI India 3.7%, while the MSCI Turkey lost 7.7% (all in US$). Emerging market bonds and currencies were also generally stronger.

Following the negative developments of the first quarter of 2016, Q2 brought some measure of relief for South African markets, driven by positive surprises including the decisions by all three major ratings agencies not to downgrade the sovereign credit rating to "junk" status. This pushed interest rate market uncertainties out to December, when new ratings reviews will be conducted. Inflation data also surprised positively, at 6.1% year-on-year in May versus 6.4% expected.

The rand also halted its slide, appreciating by 0.3% against the US dollar, 2.7% versus the euro and 8.1% against sterling, amid improved sentiment from very oversold levels. This dented rand returns from offshore investments. The "lower for longer" view on global interest rates and inflation arising from the Brexit "leave" vote proved positive for South Africa's own currency, interest rate and inflation outlook, helping moderate views on the local interest rate cycle. In the Forward Rate Agreements (FRAs) market, views on future interest rates have moderated still further: three-month interest rates are now seen at 7.8% in two years' time, down from 8.3% at the end of March, a 45bps decline. The market now expects at the most 2 more 25bps rate hikes from the SARB in just under two years' time.

Following 75bps of rate hikes in Q1, the South African Reserve Bank (SARB) kept interest rates on hold amid the improving inflation outlook, stable rand and a weaker local economy – SA GDP growth contracted by a larger-than-expected 1.2% in Q1 2016. The SARB also lowered its inflation and economic growth forecasts for 2017 and 2018. Meanwhile, local bonds continued to recover, helped by the improving local interest rate outlook, rising commodity prices and offshore investor demand. The SA 10-year bond rallied about 30bps to 8.8% by quarter-end, finally reaching pre-Nenegate levels, while the All Bond Index returned 4.4% in Q1. Inflation-linked bonds (ILBs) also returned 4.4%. SA cash returned 1.8%.

The FTSE/JSE All Share Index managed to return 0.4% for the quarter, driven by a 3.0% decline in June as UK-related shares and financial stocks suffered in the wake of Brexit. Total return from the ALSI year to date is 4.3%. Although Resources shares returned 6.4% as commodity prices gained ground, Financials lost 4.3% (partly due to the Brexit effect), Listed Property lost 0.4% and Industrials eked out a 0.5% gain.

PERFORMANCE

The Fund returned 1.6% (net of fees) for the second quarter of 2016 and has returned 8.2% for the 12-month period ending 30 June 2016. The Fund's overweight holdings in SA nominal bonds were the largest relative contributor to performance, followed by its underweight in SA equities. The largest detractor from performance was international equity, hurt by the stronger rand and poor equity returns over the period. The Fund has delivered a return of 13.5% per annum since inception (net of fees), while CPI inflation has averaged 5.8% per annum over the same period.

STRATEGY AND OUTLOOK

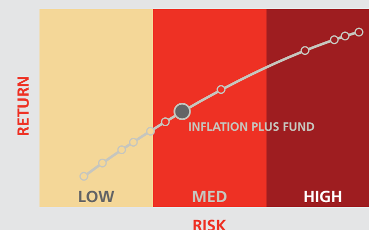
Our global asset allocation continues to favour global equities over sovereign bonds and cash, and global equities over local SA equities, as global equities remain more attractively valued than SA equities.

Given our preference for international equity, we are underweight SA equities in the Fund. South African equities were trading at a forward P/E of 15.6x at quarter-end, a level we find slightly expensive compared to their longer-term fair value, and compared to certain offshore equity markets. By sector, Financial stocks remain attractive on a risk/reward basis, despite the risks of a sovereign downgrade and other potential challenges. Key overweights remain Investec and Old Mutual. We also have strong overweights in Barclays Africa and First Rand, followed by Standard Bank. We retain our defensive positioning in Resources stocks, given concerns over balance sheet strength. We did add gold company exposure given the boost to earnings from the higher rand gold price during the quarter. Among our other top overweight positions on a medium-term view are Sappi, Tiger Brands and Netcare, while our top underweights include Aspen, Medi-Clinic, Remgro and Steinhoff.

ANNUALISED PERFORMANCE	A CLASS	OBJECTIVE	T CLASS	X CLASS	B CLASS
1 year	8.2%	11.1%	8.8%	8.5%	9.0%
3 years	11.3%	10.8%	n/a	11.6%	12.2%
5 years	13.1%	10.7%	n/a	13.4%	14.0%
7 years	13.4%	10.4%	n/a	n/a	14.2%
10 years	11.7%	11.6%	n/a	n/a	12.4%
Since inception	13.6%	11.3%	7.4%	13.4%	13.6%

Inception dates: X Class: 1 July 2011, B Class: 1 July 2002, T Class: 2 January 2015

RISK/RETURN PROFILE:



FUND MANAGERS:
Michael Moyle, 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:
R38 873 436 786

AWARDS:
Raging Bull: 2013
Morningstar: 2015

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL INFLATION PLUS FUND
30 JUNE 2016

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

In **SA listed property,** we took advantage of the cheaper valuation over the quarter to buy more listed property and close our underweight in the Fund: we are now neutral in this asset class. Listed property companies (excluding developers) continue to be priced to return approximately 15% p.a. over the medium-term (assuming no change in the market's valuation of property).

In **SA bonds,** our portfolios are modestly overweight, having sold down some of the position during the quarter as bonds rallied. Within this, we are also overweight longer-dated bonds versus shorter paper due to the more attractive yields on offer, while retaining our overweight exposure to corporate bonds. The demand for SA bonds, with their relatively high yields, should be underpinned by the "lower for longer" global interest rate environment. At the same time, the outlook for rate hikes by the SARB in the second half of 2016 has moderated.

Inflation-linked bonds remained somewhat expensive compared to conventional bonds over the quarter, leading us to maintain our underweight in these assets. Although the market's 10-year inflation expectations fell to 7.0% during the quarter, they are still unreasonably high compared to our long-term inflation benchmark of 6.0%. Our SA cash holdings are neutrally positioned, while we are underweight offshore cash. ■

ASSET CLASS RETURNS IN RANDS	Q2 2016	YTD
SA Equity (FTSE/JSE All Share Index)	0.4%	4.3%
SA Property (FTSE/JSE SA Listed Property Index)	-0.4%	9.6%
SA Bonds (BESA All Bond Index)	4.4%	11.2%
SA Inflation-linked Bonds (RSA Composite Inflation-linked Bond Index)	4.4%	6.6%
SA Cash (STeFI Composite)	1.8%	3.5%
Global Equity (MSCI World Free Index - US$)	1.2%	1.0%
Global Equity (MSCI Emerging Markets Index – US$)	0.7%	6.4%
Global Bonds (Barclays Global Aggregate Bond Index – US$)	2.9%	9.0%
Rand (Rand/USD move)	-0.3%	-5.3%

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL BALANCED FUND
30 JUNE 2016

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

PERFORMANCE REVIEW

The Fund delivered a return of 0.3% for the quarter, compared to 0.6% for its benchmark, the average of the ASISA Multi-Asset High Equity category. This was against the backdrop of continued volatile markets. The main contributor to its return was the relatively big exposure to nominal bonds and cash, as domestic fixed interest assets were the top-performing domestic asset classes over the quarter. The Fund's international equity exposure detracted. Contributions from the other asset classes were relatively flat. Relative to the market, the main detractor from the Fund's performance were the lower returns from equity (both domestic and international), while its stronger returns from fixed income assets (both domestic and international) contributed to its relative performance.

The past quarter was another characterised by high volatility in most financial markets, with the UK vote to leave the European Union ending the quarter on a significant negative surprise. This further heightened global uncertainty, fuelling expectations of even slower global growth, and lower inflation and interest rates for longer. Bond markets and gold were among the greatest beneficiaries of this ongoing trend, while equity returns were muted. Emerging market assets benefited from the continuing rally in commodity prices and a sporadic revival of investor risk appetite.

The US Federal Reserve again left interest rates on hold amid uneven US economic data, slowing exports and the weaker global environment. The surprise Brexit vote sparked severe market turbulence which hit global financial stocks, UK equities and the pound sterling the hardest. The US market also revised its own rate hike expectations downward. The Barclays Global Aggregate Bond Index (US$) gained 2.9% over the quarter. US high-yield bond spreads vs USTs improved, led by a rally in the energy sector on the back of the higher oil price. The S&P 500 returned 2.5%, underpinned by the prospect of easier monetary conditions.

In the Eurozone, growth prospects were weighed down by Brexit, while inflation projections were cut. German bunds rallied and the 10-year yield turned negative for the first time. European equities were hit by Brexit, with the major indices losing ground. Japanese and Chinese growth expectations continued to deteriorate, but equity indices gained slightly. Other emerging markets continued to be supported by firmer commodity prices and a general improvement in risk appetite towards emerging markets. EM bonds and currencies were also generally stronger.

The past quarter brought some relief for South African markets, driven by positive surprises including the decisions by all three major ratings agencies not to downgrade the sovereign credit rating to "junk" status. The rand also halted its slide, appreciating by 0.3% against the US dollar, 2.7% versus the euro and 8.1% against sterling, amid improved sentiment from very oversold levels. Other EM currencies saw mixed performances. Somewhat paradoxically, the "lower for longer" view on global interest rates and inflation arising from the Brexit "leave" vote proved positive for South Africa's own currency, interest rate and inflation outlook.

Meanwhile, local bonds continued their recovery begun in February. The All Bond Index returned 4.4%, Inflation-linked bonds gained 4.4% and cash returned 1.8% over the quarter.

The FTSE/JSE All Share Index only gained 0.4% over the quarter, as UK-related shares suffered in the wake of Brexit. Resources shares returned 6.4%, Financials lost 4.3%, Listed Property lost 0.4% and Industrials gained 0.5%. The Fund's equities underperformed the SWIX return, as good gains from overweight positions in British American Tobacco, Sun International and Tiger Brands were offset by the Fund's holdings in Investec plc, which suffered from its large UK exposure.

STRATEGY AND OUTLOOK

In the second quarter of 2016, in the wake of the continuing rebound in SA nominal bonds, we took some profits and reduced our moderately overweight bond positions, but remain modestly overweight.

With listed property moving weaker during the quarter and improving in value after strong gains in Q1, we closed our previously underweight position and are now neutral listed property. Our views on other local asset classes have not changed.

For global assets, we added to global equities, funded from the sale of global high-yield bonds. The bonds had benefitted both from the rally in government securities as well as the compression in credit spreads. In equities we added to defensive, high-quality cash flow-generating assets.

In global fixed income, we are underweight duration and continue to hold cash and floating-rate notes in order to reduce interest rate risk. We remain positive on both investment-grade and high-yield corporate bond markets relative to government bonds where we see yields as unsustainable in the medium term.

For global equities, our global asset allocation continues to favour equities over bonds and cash, and global equities over local SA equities, as global equities remain more attractively valued than SA equities on measures like Price-Earnings (P/E) and Price-Book value ratios. In our higher return-targeting multi-asset funds we continue to be very near our maximum permitted 25% offshore weighting. Our overweight exposures tend to be concentrated in European markets where long-standing growth concerns have kept valuations on the cheap side of fair value, as well as selected Emerging Markets including India, funded by underweights in the US, Japan and a variety of other smaller markets including Australia. While we acknowledge earnings remain vulnerable to slowing global growth, equity risk premiums (the yield on equities vs bonds) are in some cases close to the peaks seen in the Global Financial Crisis, providing a huge valuation buffer that will protect equities in the event of growth disappointment.

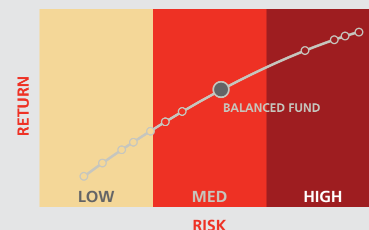
At quarter-end South African equities were trading at a slightly expensive level compared to their longer-term fair value, and compared to certain offshore equity markets. The medium-term prospects for SA earnings to recover to their trend level depend extensively on a recovery in commodity prices. In general we are neutrally weighted in local equities.

We increased gold exposure during the quarter, as the combination of a stronger gold price and generally weaker rand have made gold shares look attractively priced, given significant expected upgrades to earnings and free cash flow generation. Our preference for the diversified miners over single commodity mining stocks is retained. We remain overweight the financial sector, in particular Old Mutual, Barclays Africa, Firstrand and Standard Bank.

Inflation-linked bonds remained somewhat expensive compared to conventional bonds over the quarter, leading us to maintain our underweight in these assets in our multi-asset portfolios. ■

The commentary is based on the intended model portfolio, however client-specific portfolio management may deviate slightly.

RISK/RETURN PROFILE:



FUND MANAGERS:
David Knee, Duncan Schwulst 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:
R13 962 164 489

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	X CLASS	B CLASS
1 year	5.5%	5.3%	6.1%	5.8%	6.3%
3 years	12.3%	10.5%	n/a	12.6%	13.1%
5 years	13.9%	11.5%	n/a	n/a	14.8%
7 years	15.1%	11.9%	n/a	n/a	16.1%
10 years	12.1%	10.1%	n/a	n/a	13.1%
Since inception	14.8%	12.9%	5.5%	13.2%	15.2%

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

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL BALANCED FUND
30 JUNE 2016

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

ASSET CLASS RETURNS IN RANDS	Q2 2016	YTD
SA Equity (FTSE/JSE All Share Index)	0.4%	4.3%
SA Property (FTSE/JSE SA Listed Property Index)	-0.4%	9.6%
SA Bonds (BESA All Bond Index)	4.4%	11.2%
SA Inflation-linked Bonds (RSA Composite Inflation-linked Bond Index)	4.4%	6.6%
SA Cash (STeFI Composite)	1.8%	3.5%
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Global Equity (MSCI Emerging Markets Index – US$)	0.7%	6.4%
Global Bonds (Barclays Global Aggregate Bond Index – US$)	2.9%	9.0%
Rand (Rand/USD move)	-0.3%	-5.3%

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL ENHANCED SA PROPERTY TRACKER FUND
30 JUNE 2016

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

PROPERTY

PERFORMANCE

The Fund recorded a negative return of 0.3% for the quarter while the SA Listed Property (SAPY) index declined 0.4%. The Fund's marginal out-performance versus the benchmark over this period can be attributed to the impact of cash held in the Fund for liquidity purposes.

Over the past year the Fund returned 12.8%, outperforming the benchmark by 1.8%. The 10-year track record of the Fund ranks it 1st out of its peers in the ASISA real estate category, with the Fund having broadly matched the performance of the benchmark (after fees) over this period.

MARKET COMMENTARY

The second quarter of 2016 was another characterised by high volatility in most financial markets, with the UK vote to leave the European Union ending the quarter on a significant negative surprise. This further heightened global uncertainty, fuelling expectations of even slower global growth, and lower inflation and interest rates for longer. Bond markets and gold were among the greatest beneficiaries of this ongoing trend, while equity returns were muted. Emerging market assets benefited from the continuing rally in commodity prices and a sporadic revival of investor risk appetite.

Following all the negative developments of the first quarter of 2016, Q2 brought some measure of relief for South African markets, driven by positive surprises including the decisions by all three major ratings agencies not to downgrade the sovereign credit rating to "junk" status, but to maintain it at investment grade. While this did not completely relieve bond and interest rate market uncertainties, it did push them out to year-end, when new ratings reviews will be conducted. Inflation data surprised positively over the quarter, coming in at 6.1% year-on-year in May versus 6.4% expected, and led by lower-than-expected food inflation.

The rand also halted its slide against the US dollar and other major currencies, appreciating by 0.3% against the greenback, 2.7% versus the euro and 8.1% against sterling, amid improved sentiment from very oversold levels. Other emerging market currencies saw mixed performances. Somewhat paradoxically, the "lower for longer" view on global interest rates and inflation arising from the Brexit "leave" vote proved positive for South Africa's own currency, interest rate and inflation outlook, helping moderate views on the local interest rate cycle.

Following 75bps of rate hikes in Q1, the South African Reserve Bank (SARB) kept interest rates on hold during the quarter amid the improving inflation outlook, stable rand and a weaker local economy – SA GDP growth contracted by a larger-than-expected -1.2% in Q1 2016. While raising its 2016 CPI forecast to 6.7% year-on-year from 6.6% year-on-year, the SARB lowered its 2017 CPI forecast to 6.2% year-on-year (down from 6.4% year-on-year) and 2018 CPI to 5.4% year-on-year (down from 5.5% year-on-year). The Central Bank also lowered its GDP growth forecasts again, to 0.6% from 0.8% in 2016, 1.3% from 1.4% in 2017, and 1.7% from 1.8% in 2018.

Meanwhile, local bonds continued their recovery which begun in February, helped by the improving local interest rate outlook, rising commodity prices and offshore investor demand. The SA 10-year bond rallied about 30bps to 8.8% by quarter-end, finally reaching pre-Nenegate levels, while the All Bond Index returned 4.4% in Q1. Inflation-linked bonds (ILBs) also gained ground, returning 4.4% in the quarter. Looking at the difference in yields between conventional bonds and ILBs, 10-year breakeven inflation expectations fell from 7.3% to 7.0% at quarter-end, after peaking at 7.7% in mid-May. Cash returned 1.8%. In the Forward Rate Agreements (FRAs) market, views on future interest rates have moderated still further: three-month interest rates are now seen at 7.8% in two years' time, down from 8.3% at the end of March, a 45bp decline. The market now expects at the most 2 more 25bp rate hikes from the SARB in just under two years' time.

We estimate that one-year forward earnings forecasts for the listed property index (SAPY), excluding developers, increased by 2.7% during the quarter. It is encouraging that earnings growth over the past year and quarter (q/q annualised) has exceeded CPI inflation. However, we caution investors that earnings were boosted by one-off impacts from currency translation gains following the rand's depreciation, as well as the earnings-accretive Fortress-Capital merger, over the past year. The rand exchange rate is now a significant driver of SAPY earnings growth, since roughly one-third of earnings is derived from offshore property. The weak SA economic environment remains a challenge for many SAPY constituent companies, particularly those exposed to the local office sector where there is over-supply. Evidence of strain in the office sector was provided in a profit warning released by Emira Property Fund. As a result, distribution forecasts for Emira were reduced by around 10% during the quarter.

STRATEGY AND OUTLOOK

Prudential's multi-asset funds increased their allocation to listed property during the quarter. The move was prompted by sharp price declines following the release of weak SA GDP figures and more recently the results of the UK Brexit vote. Recent purchases have shifted our multi-asset funds from underweight to neutral weight in listed property.

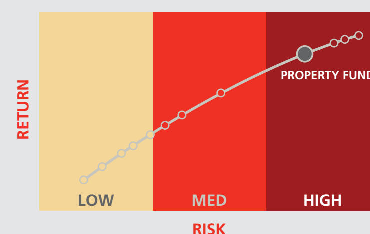
An important aspect of the investment case for listed property is illustrated by comparing property yields to those from ILBs. At quarter end the SAPY, excluding developers, was priced to deliver a one-year forward distribution yield of 6.9%. This yield exceeded ten-year ILB yields by more than 5%. Therefore while property continues to deliver inflation beating distribution growth, and 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.

Low real cash rates have for an extended period of time been supporting listed property valuations. Global macro developments over the quarter have prolonged this tailwind for now. However, the medium term outlook for cash rates is less supportive and should not be ignored. The impact of higher interest rates locally result in the risk to SA property earnings and valuations being to the downside. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	D CLASS
1 year	12.8%	11.0%	12.8%	12.9%
3 years	15.1%	14.3%	n/a	15.2%
5 years	18.6%	18.5%	n/a	18.7%
7 years	20.3%	20.3%	n/a	n/a
10 years	18.7%	18.8%	n/a	n/a
Since inception	17.6%	17.7%	5.3%	19.0%

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:
R5 343 912 509

AWARDS:
Morningstar/Standard & Poor's: 2011

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL DIVIDEND MAXIMISER FUND
30 JUNE 2016

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

EQUITY

PERFORMANCE AND POSITIONING

The Fund produced a flat return for the three months ended June 2016, underperforming the average of the ASISA General Equity funds by 0.4% for the same period.

The past quarter was characterised by high volatility in most financial markets, including the JSE, with the UK vote to leave the European Union ending the quarter on a significant negative surprise. The effect of this was to heighten global uncertainty and fuel expectations of slower global growth and lower inflation and interest rates for longer. Bond markets and gold were amongst the biggest beneficiaries of this trend. The opportunity cost of holding gold is low when interest rates are expected to be low, and this is therefore often supportive of the gold price and gold shares. Commodity prices over the quarter remained generally strong as demand from China appears to have rebounded and comforted the market. We remain cautious that this may be seasonal or speculative demand or demand fuelled by stronger credit growth in China and is unlikely to be reflective of sustained growth.

We have highlighted previously that we think that many of the commodity markets are entering a phase where growing supply will exceed demand over the medium term, and therefore the long duration of the typical mining cycle may mean lower margins for an extended period of time. We remain conservatively positioned in the resources sector, with a focus on companies with strong balance sheets that should be able to continue paying dividends. Gold shares, to which the Fund has a fairly neutral weight, were some of the strongest performers during the quarter.

The Fund continues to hold exposure of approximately 30% to global equities, which detracted slightly from performance over the last quarter. The rand and emerging market currencies in general have continued to strengthen on the back of increased risk appetite and strongly rising commodity prices. We continue to find global equities more attractively valued than South African equities.

On a stock level, the main positive contributors to the performance for the quarter were the Fund's underweight positions to Steinhoff and Richemont. We have taken advantage of lower share prices to increase both these positions. The positions in hotel and gaming shares Sun International and Tsogo Holdings also contributed positively. While the outlook for the gaming industry remains difficult, the tourism hotel market appears to be enjoying good demand due to the weaker rand. The Fund's underweights to Mediclinic International and Aspen were detractors from performance for the quarter, as they outperformed Netcare, which is our preferred holding in the sector.

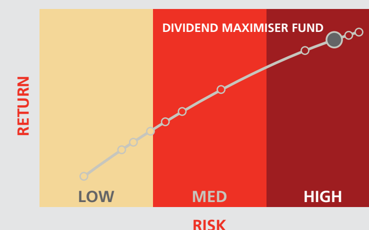
On market valuations, we currently view the market in South Africa as being fair value and caution that one should certainly expect a more moderate growth in dividends relative to the last five years where dividends were recovering post the financial crisis. Earnings growth has been slowing, and this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

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	B CLASS
1 year	2.1%	1.3%	2.8%	2.5%
3 years	11.8%	11.0%	n/a	12.2%
5 years	13.6%	11.8%	n/a	14.1%
7 years	16.0%	14.1%	n/a	16.5%
10 years	13.7%	11.2%	n/a	n/a
Since inception	18.3%	15.0%	2.0%	12.4%

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

RISK/RETURN PROFILE:



FUND MANAGERS:
Ross Biggs 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 892 578 020

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

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL EQUITY FUND
30 JUNE 2016

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

EQUITY

PERFORMANCE AND PORTFOLIO MANAGER COMMENTS

The Fund underperformed its benchmark over the period. In an extremely challenging quarter, the main reason for this was the underweight exposure to gold and other mining stocks, as basic resources accounted for the largest portion of the relative underperformance. In addition, an overweight position in Investec plc was the biggest single detractor from performance, as the fallout from the shock Brexit vote took its toll on the UK banking sector, taking Investec sharply down with it. The Fund's holdings in PPC, Netcare and Mpact also came under pressure during the quarter, contributing negatively to performance.

Against this, our underweight holding in Steinhoff benefitted the Fund, as did an overweight position in the JSE and previous quarters' consistent laggards, Sun International and Tsogo Sun. In addition, a longstanding overweight exposure to the global defensive British American Tobacco again performed well in the quarter under review.

Much effort has been spent evaluating the impact of a low and even negative global interest rate regime, and the rising anti-establishment sentiment across the globe. Despite this, the Brexit vote came as a big surprise to the market, with significant potential ramifications for the future of the UK and Europe, and associated impact on emerging economies. This could have a profound impact on many of the JSE-listed companies with exposure to the UK and Europe. Imperial's £163m acquistion of Palletways Group could not have been worse timed, especially given its expensive valuation. Market volatility has been extreme, with 23% in a week from peak to trough and back again post Brexit.

Domestically, it was also an extremely eventful period. MTN performed well, as certainty around the better-than-expected Nigerian fine payable (N330bn or $1.7bn) was followed by news that the Central Bank of Nigeria would permit the Naira to float. Further news on the appointment of new group CEO was well received. Apart from the impact that a depreciating Naira will have on the Nigerian consumer and therefore on MTN's operations, we believe material uncertainties overhanging the stock have been removed.

We retained an overweight exposure to SA banks throughout the quarter, as in our view these stocks had fully priced in the risks of a sovereign downgrade in June 2016. Performance of these stocks subsequent to favourable announcements on the soverign credit rating by both S&P and Fitch has been disappointing, but has made these stocks even more attractive on a risk-reward basis. Despite lower growth forecasts, our banks possess strong balance sheets and capital ratios, and the investment case is underpinned by solid dividend yields. They continue to trade at almost record P/E discounts of nearly 40% to the ALSI .

Our basic materials exposure has largely been achieved via overweight holdings in the non-mining stocks such as Sappi, where we believe a compelling investment case exists. We look to maintain a fairly neutral exposure to diversified mining stocks Anglo American and BHP-Billiton, while gold stocks have become more attractive given the increase in the rand gold price and resultant impact on their cash generation during the quarter. Platinum stocks look more challenged in our view, and continue to discount higher underlying PGM prices. Given the global uncertainty and elevated risk premiums post Brexit however, we may see a correlated rally in the platinum price as gold looks increasingly attractive.

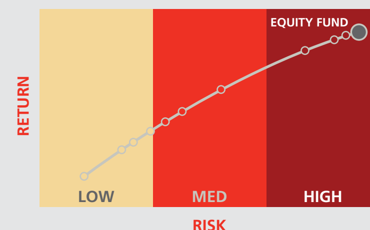
The Fund's offshore component detracted from performance. The rand strengthened 2.7% against the euro, 8.1% against the pound, and 0.3% against the US dollar. The effect of Brexit also left many European markets in negative territory for the quarter. ■

The commentary is based on the intended model portfolio, however client-specific portfolio management may deviate slightly.

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	-0.5%	1.3%	-0.1%
3 years	11.2%	11.0%	11.7%
5 years	13.7%	11.8%	14.2%
7 years	15.9%	14.1%	16.5%
10 years	14.0%	11.2%	n/a
Since inception	18.1%	15.0%	12.7%

Inception date B Class: 2 January 2007

RISK/RETURN PROFILE:



FUND MANAGERS:
Chris Wood and Johny Lambridis

ASISA CATEGORY:
South African - Equity - General

BENCHMARK:
ASISA South African - Equity - General Category Mean

INCEPTION DATE:
2 August 1999

FUND SIZE:
R2 680 534 638

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

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL HIGH YIELD BOND FUND OF FUNDS
30 JUNE 2016

QUARTERLY COMMENTARY

GLOBAL INCOME

MARKET OVERVIEW

Investors grappled with more surprises and volatility in the April-June quarter of 2016, ending with the largest negative surprise of them all - the UK vote to leave the European Union on 23 June. The Brexit vote further heightened global uncertainty, fuelling expectations of even slower global growth, and lower inflation and interest rates for longer, including in South Africa. Bond markets and gold were among the greatest beneficiaries of this ongoing trend, while equity returns were muted. Emerging market assets benefited from the continuing rally in commodity prices and a general improvement in investor views on emerging markets.

In the US, the outlook for 2016 growth was lowered to 1.8% from 2.0%, while the consumer inflation forecast fell to 1.25% year-on-year from 1.7% year-on-year. At its 14-15 June meeting, just before the UK Brexit vote, the US Federal Reserve again left interest rates unchanged amid uneven US economic data, slowing exports and the weaker global environment. There was again a substantial moderation of Fed policymakers' views on interest rates, lowering their forecast for the Fed Funds rate (at end 2018) to 2.4% from 3.0% in March. The surprise Brexit vote sparked severe market turbulence, erasing some $2 trillion in value from global equity markets in the first days, with financial and property counters hard hit.

The Barclays Global Aggregate Bond Index (US$), a mixture of government and corporate bonds, returned 2.9% in the quarter. US Treasury (UST) bonds rallied in response to the lower interest rate outlook, reaching ever-lower levels. The price of Brent crude oil gained 25.5% to trade near $50/barrel, while gold was up 7.2% to $1,320/ounce.

In the Eurozone, the 2016 GDP growth forecast was revised upward slightly to 1.6% from 1.5%, driven largely by Germany. However, this occurred prior to the Brexit vote. Inflation projections, by contrast, were cut to only 0.24% for the year. German bunds rallied and the 10-year yield turned negative for the first time, ending the quarter at -12bps. In the UK, economists predicted a recession as the elevated uncertainty prompted businesses to postpone planned investment and expansion plans.

Japan and China were two other large economies where growth further deteriorated, although Chinese Q1 GDP growth of 6.7% was in line with expectations and within the government's 6.5%-7.0% target. Other emerging markets continued to be supported by firmer commodity prices and a general improvement in risk appetite towards emerging markets. Emerging market bonds and currencies were also generally stronger.

The rand also halted its slide amid improved sentiment toward emerging markets generally and South Africa's escape from a "junk" credit rating. It appreciated by 0.3% against the US dollar, 2.7% versus the euro and 8.1% against the embattled pound sterling. This dented rand-denominated returns from offshore investments.

PERFORMANCE

For the quarter ending 30 June 2016, the Fund returned 2.1% (net of fees, in rand), in line with the Global Interest Bearing Variable Term sector average but less than the 2.6% returned by its benchmark, the Barclays Capital Global Aggregate Bond Index (in rand). In absolute return terms, the rand's appreciation against major currencies during the period detracted from value, apart from yen cash holdings, which added to value. In relative rand terms, among the largest positive contributions came from a purchase of South Africa bonds in the quarter which was done on the basis of the cheapness of SA bonds vs their global counterparts. Also contributing positively were US investment-grade bonds, while European and UK corporate bonds detracted from value. US high yield corporate bond holdings added value following an improvement in the energy and mining sectors over the quarter as the prices of commodities rose sharply. For the past 12 months, the Fund has returned 25.4% p.a. (net of fees), while since inception the Fund has returned 10.0% p.a.

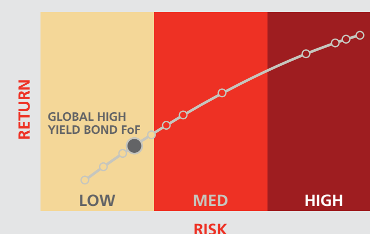
STRATEGY AND OUTLOOK

We maintained the Fund's defensive positioning during the quarter, remaining underweight duration to mitigate the rising risks from expensive global bond markets, as well as keeping a substantial allocation to cash (at 19.1% at quarter-end). Floating-rate notes (FRNs) are key holdings, to reduce capital risk, although we do also hold fixed-rate high-yield corporate bonds due to the attractive yields they offer on a risk/reward basis. The fund benefited from these high yield holdings during the quarter.

With US Treasuries reaching record low levels and German 10-year bund yields falling into negative territory along with those in many other markets like Japan and Switzerland, we continue to see limited value in developed market government bonds in the medium term. Brexit has added to concerns over the global growth outlook, suggesting interest rates in developed economies will remain lower for longer – even in the US the pace of the hiking cycle was revised to a far more moderate path post Brexit. Consequently, we remain positive on spread products like investment-grade and high-yield corporate bonds that offer more attractive relative yields and valuations. Outside of energy and mining, we expect any rise in defaults to be modest absent a recession.

As noted, the Fund established a 5% tactical exposure to South Africa bonds funded from sales of European and US global bonds. This was both a view on the cheapness of the currency and on the underperformance of SA bonds that had occurred at the time of Nenegate. With the additional SA yield over US bonds exceeding 7% this still looks compelling as a tactical trade. ■

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:
R252 544 071

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

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK
1 year	25.4%	31.4%
3 years	15.3%	17.0%
5 years	18.8%	18.8%
7 years	13.9%	13.4%
10 years	12.4%	12.2%
Since inception	10.0%	10.3%

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL CAUTIOUS MANAGED FUND OF FUNDS
30 JUNE 2016

PRUDENTIAL
INVESTMENT MANAGERS

MARKET OVERVIEW

Investors grappled with more surprises and volatility in the April-June quarter of 2016, ending with the largest negative surprise of them all - the UK vote to leave the European Union on 23 June. The Brexit vote further heightened global uncertainty, fuelling expectations of even slower global growth, and lower inflation and interest rates for longer, including in South Africa. Bond markets and gold were among the greatest beneficiaries of this ongoing trend, while equity returns were muted. Emerging market assets benefited from the continuing rally in commodity prices and a general improvement in investor views on emerging markets.

In the US, the outlook for 2016 growth was lowered to 1.8% from 2.0%, while the consumer inflation forecast fell to 1.3% year-on-year from 1.7% year-on-year. At its 14-15 June meeting, just before the UK Brexit vote, the US Federal Reserve again left interest rates unchanged amid uneven US economic data, slowing exports and the weaker global environment. There was again a substantial moderation of Fed policymakers' views on interest rates, lowering their forecast for the Fed Funds rate (at end 2018) to 2.4% from 3.0% in March. The surprise Brexit vote sparked severe market turbulence, erasing some $2 trillion in value from global equity markets in the first days, with financial and property counters hard hit.

The Barclays Global Aggregate Bond Index (US$), a mixture of government and corporate bonds, returned 2.9% in the quarter. US Treasury (UST) bonds rallied in response to the lower interest rate outlook, while the S&P 500 returned 2.5%, underpinned by the prospect of easier monetary conditions. The price of Brent crude oil gained 25.5% to trade near $50/barrel, while gold was up 7.2% to $1,320/ounce.

In the Eurozone, the 2016 GDP growth forecast was revised upward slightly to 1.6% from 1.5%, driven largely by Germany. However, this occurred prior to the Brexit vote. Inflation projections, by contrast, were cut to only 0.2% for the year. German bunds rallied and the 10-year yield turned negative for the first time, ending the quarter at -12bps. European equities were hit by Brexit: the Dow Jones Euro Stoxx 50 Index (US$) returned -5.1% for the three months, France's CAC 40 -3.3% and Germany's DAX -5.5%. In the UK, the FTSE 100 returned -1.8% and economists predicted a recession as the elevated uncertainty prompted businesses to postpone planned investment and expansion plans.

Japan and China were two other large economies where growth further deteriorated, although Chinese Q1 GDP growth of 6.7% was in line with expectations and within the government's 6.5%-7.0% target. The Nikkei 225 Index returned 1.5%, while the MSCI China returned 0.3% over the three months. Other emerging markets continued to be supported by firmer commodity prices and a general improvement in risk appetite towards emerging markets. Brazil's Ibovespa was again the strongest performer in US dollar terms, returning 14.1%. The MSCI South Africa gained 7.7%, MSCI Russia returned 4.2% and MSCI India 3.7%, while the MSCI Turkey lost 7.7% (all in US$). Emerging market bonds and currencies were also generally stronger.

The rand also halted its slide amid improving sentiment toward emerging markets generally and South Africa's escape from a "junk" credit rating. The currency appreciated by 0.3% against the US dollar, 2.7% versus the euro and 8.1% against sterling. This dented rand returns from offshore investments.

PERFORMANCE

For the quarter ending 30 June 2016, the Fund returned -1.0% (net of fees in rand), compared to 0.2% from its benchmark (the average return of the ASISA Global Multi-Asset Low Equity sector). Absolute returns were low in the quarter as a result of virtually zero hard currency returns from both equities and cash, compounded by a stronger rand. In rand terms, US listed property was among the largest relative contributors to the Fund's performance, as well as US high-yield and investment-grade corporate bond holdings, with the former bolstered by higher commodity prices. Global equities generally detracted from performance. Within equities, Japanese stocks were among the worst performers, as well as UK holdings. Overweight exposure to India added to performance as did holdings of global financials, but this was outweighed by allocations to value orientated equities across a number of regions that performed poorly relative to the market. Within the Fund's fixed income holdings, cash investments again failed to add value due to the very low yields on offer and the rand's appreciation. Lack of exposure to global government bonds detracted from performance, since these markets performed well following the Brexit vote.

STRATEGY AND OUTLOOK

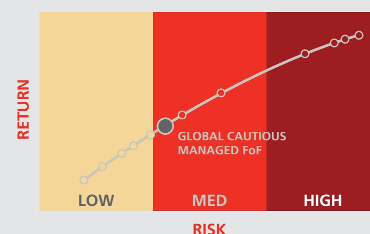
We continue to prefer global equities over bonds and cash in our global portfolios, given their superior return potential. So far this year most developed equity markets have produced very low (and in some cases negative) returns, as downgrades to growth prospects continued: in the first six months of this year, corporate earnings from the S&P 500-listed companies have fallen about 2%. However, we continue to believe that these growth risks in developed markets are overdone, and so have maintained our equity exposure in these markets. Emerging market equities did rally amid more favourable investor risk appetite, and although they remain relatively cheap and carry higher risks. We have a tactical exposure to India. Our equity allocations therefore continue to be weighted broadly towards developed markets, since from a long-term valuation perspective developed market equities (such as Germany) are somewhat cheap - both in absolute terms and relative to cash and bonds.

In global fixed income, we are underweight duration and continue to hold floating-rate notes (FRNs) in order to reduce interest rate risk. We remain positive on both investment-grade and high-yield corporate bond markets relative to government bonds, where we see the exceptionally low yields as unsustainable in the medium term; credit spreads, the additional yield over government bonds, stand above their long term averages and represent decent medium term value.

The portfolio has a 9% weight to global property where yields are mid-single digit and consequently significantly higher than what is achievable from global government bonds (where, as noted, the Fund is underweight). ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK
1 year	17.3%	19.9%
3 years	13.8%	15.0%
5 years	16.0%	16.4%
7 years	10.5%	9.6%
10 years	8.2%	8.2%
Since inception	8.5%	8.2%

RISK/RETURN PROFILE:



FUND MANAGERS:
Michael Moyle, David Knee and Marc Beckenstrater

ASISA CATEGORY:
Global - Multi-Asset - Low Equity

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

INCEPTION DATE:
1 March 2004

FUND SIZE:
R115 767 637

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL VALUE FUND OF FUNDS
30 JUNE 2016

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL EQUITY

MARKET OVERVIEW

The second quarter of 2016 was another characterised by high volatility in most financial markets, with the UK vote to leave the European Union ending the quarter on a significant negative surprise. This further heightened global uncertainty, fuelling expectations of even slower global growth, and lower inflation and interest rates for longer. Bond markets and gold were among the greatest beneficiaries of this ongoing trend, while global equity returns were muted. Emerging market assets benefited from the continuing rally in commodity prices and a revival of investor risk appetite.

PERFORMANCE

The Fund underperformed the benchmark, the MSCI All Countries World Index, for the quarter by 2.8% where USD assets again reigned supreme.

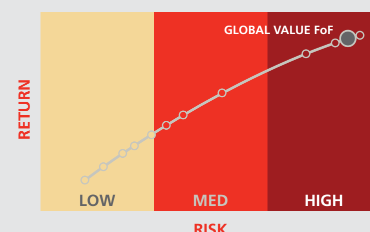
Stock selection by our managers in the US and East detracted from performance as quality value struggled. However, our continental European fund managers as well as our global manager, First Eagle, continued to add value.

STRATEGY AND OUTLOOK

We continue to favour selected European markets such as the DAX (Germany) where long-standing growth concerns and Brexit fears have pushed equity risk premiums to extremes. We also continue to favour selected Emerging Markets including India. While we acknowledge earnings remain vulnerable to slowing global growth (earnings across the S&P 500-listed companies have fallen approximately 2% since January), equity risk premiums (the yield on equities vs bonds) are in some cases close to the peaks seen in the Global Financial Crisis, providing a huge valuation buffer that will protect equities in the event of growth disappointment. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK
1 year	11.5%	16.2%
3 years	17.9%	20.7%
5 years	19.7%	23.0%
7 years	17.3%	20.0%
10 years	9.2%	12.0%
Since inception	6.6%	8.1%

RISK/RETURN PROFILE:



FUND MANAGERS:
Michael Moyle and Marc Beckenstrater

ASISA CATEGORY:
Global - Equity - General

BENCHMARK:
MSCI All Country World Index (Net)

INCEPTION DATE:
18 February 2000

FUND SIZE:
R225 082 484

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