

PRUDENTIAL MONEY MARKET FUND

QUARTERLY COMMENTARY 30 SEPTEMBER 2015



Risk profile:



ASISA category:

South African - Interest Bearing - Money Market

Benchmark:

STeFI Call Deposit Index

Inception date:

09 April 2002

Fund size:

R5 802 539 657

Fund managers:



Roshen Harry



Sandile Malinga

Private sector credit extension in August 2015 increased moderately from 8.4% yoy in July 2015 to 8.6% yoy (in line with the consensus expectation). Corporate credit growth slowed marginally but was offset by the moderate increase in household credit growth.

Annualised performance	A Class	X Class*	Benchmark
1 year	6.0%	6.1%	5.5%
3 years	5.5%	5.6%	5.1%
5 years	5.5%	n/a	5.2%
7 years	6.4%	n/a	6.1%
10 years	7.2%	n/a	7.0%
Since inception	7.9%	n/a	7.8%

* Inception date X Class: 1 April 2011

Market overview

Over the past quarter, the Fund delivered a return of 1.7% (gross) versus its benchmark the SteFI call deposit index which returned 1.4%. The current average duration of the fund is 49 days relative to the 90 day maximum average duration.

The SARB MPC left the repo rate unchanged at 6.0% at their September meeting, in line with consensus expectations. The decision was unanimous. The GDP growth forecast was revised downwards to 1.5% (from 2.0%) for 2015 and 1.6% (from 2.1%) for 2016. The inflation forecast was revised upwards to reflect the weaker exchange rate. Although the policy stance was unchanged, the SARB remains in a hiking cycle. The MPC continues to acknowledge the balancing act it must play between the adhering to its core mandate of price stability without unduly undermining short term growth.

CPI inflation slowed to 4.6% yoy in August 2015 from 5.0% yoy in July. The market consensus was for a print of 4.8% yoy. This slowing was supported by falling domestic fuel prices and stable food price inflation, as well as a further moderation in core inflation.

PPI inflation increased to 3.4% yoy in August 2015, marginally lower than the consensus expectation of 3.5% yoy (July's number was 3.3% yoy). The largest category contributors to headline PPI were food, beverages and tobacco; wood and paper; and metals, machinery and equipment. Favourable domestic fuel prices helped contain price pressures.

How to invest

Call us at 0860 105 775 or visit our website at www.prudential.co.za. Application forms and all documentation required by FICA, must be faxed to +27 11 263 61 43 or e-mailed to instructions@myprudential.co.za. Cheques must be made payable to **Prudential Money Market Fund** and deposited into the following bank account: **Standard Bank, Claremont, Account number: 072538368, Branch code: 025109.**

Disclaimer

Prudential Portfolio Managers Unit Trusts Ltd (Registration number: 1999/0524/06) is an approved CISA management company (#29). Assets are managed by Prudential Investment Managers (South Africa) (Pty) Ltd, which is an approved discretionary Financial Services Provider (#45199). Collective Investment Schemes (unit trusts) are generally medium to long-term investments. The value of participatory interest (units) may go down as well as up. Past performance is not necessarily a guide to the future. Unit trust prices are calculated on a net asset value basis, which for money market funds is the total book value of all assets in the portfolio divided by the number of units in issue. Fluctuations or movements in exchange rates may also be the cause of the value of underlying international investments going up or down. Unit trusts are traded at ruling prices. Commissions and incentives may be paid and if so, would be included in the overall costs. Different classes of units apply to the Prudential Collective Investment Scheme Funds and are subject to different fees and charges. A detailed schedule of fees and charges and maximum commissions is available on request from the company. Forward pricing is used. All of the unit trusts may be capped at any time in order for them to be managed in accordance with their mandates. Performance figures are sourced from Morningstar and are based on lump sum investments using NAV prices with gross income reinvested. Purchase and repurchase requests must be received by the Manager by 13h30 (11h30 for Money Market and 10h30 for Dividend Income Funds) SA time each business day. All online purchase and repurchase transactions must be received by the Manager by 10h30 (for all Funds) SA time each business day. General market performance data may have been provided for illustrative and explanatory purposes. This information is not intended to constitute the basis for any specific investment decision. Investors are advised to familiarize themselves with the unique risks pertaining to their investment choices and should seek the advice of a properly qualified financial consultant or adviser before investing.

PRUDENTIAL HIGH INTEREST FUND

QUARTERLY COMMENTARY 30 SEPTEMBER 2015

Risk profile:



ASISA category:

South African - Interest Bearing - Short Term

Benchmark:

STeFI Composite Index measured over a rolling 12-month period

Inception date:

08 December 2010

Fund size:

R12 225 249 195

Fund managers:



Roshen Harry



Sandile Malinga

Market overview

At its July MPC meeting, the SA Reserve Bank (SARB) decided to raise the repo rate by 25bps to 6.0% in the face of the upside risk to inflation from the weaker Rand, higher inflationary expectations, forecast higher food prices and an expected breach in the Bank's upper 6% CPI target band in Q1 2016. However, by the time of its September meeting, inflationary pressures had abated to a certain extent and, combined with the weaker local and global economies, the MPC opted to leave rates on hold. The SARB's latest forecast sees CPI averaging 4.7% in 2015 versus 5.0% previously, and peaking at 6.7% (previously 6.9%) in Q1 2016. The Bank also lowered its GDP growth forecast for the country by 0.5 percentage points in each of the forecast periods: to 1.5% in 2015, 1.6% in 2016 and 2.1% in 2017.

Performance

The Prudential High Interest Fund generated a return of 1.8% (gross) for the quarter compared to its benchmark, the Stefi composite index which returned 1.6% (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.

How to invest

Call us at **0860 105 775** or visit our website at www.prudential.co.za. Application forms and all documentation required by FICA, must be faxed to **+27 11 263 61 43** or e-mailed to instructions@myprudential.co.za. Cheques must be made payable to **Prudential High Interest Fund** and deposited into the following bank account: **Standard Bank, Claremont, Account number: 072528699, Branch code: 025109.**

Disclaimer

Prudential Portfolio Managers Unit Trusts Ltd (Registration number: 1999/0524/06) is an approved CISA management company (#29). Assets are managed by Prudential Investment Managers (South Africa) (Pty) Ltd, which is an approved discretionary Financial Services Provider (#45199). Collective Investment Schemes (unit trusts) are generally medium to long-term investments. The value of participatory interest (units) may go down as well as up. Past performance is not necessarily a guide to the future. Unit trust prices are calculated on a net asset value basis, which for money market funds is the total book value of all assets in the portfolio divided by the number of units in issue. Fluctuations or movements in exchange rates may also be the cause of the value of underlying international investments going up or down. Unit trusts are traded at ruling prices. Commissions and incentives may be paid and if so, would be included in the overall costs. Different classes of units apply to the Prudential Collective Investment Scheme Funds and are subject to different fees and charges. A detailed schedule of fees and charges and maximum commissions is available on request from the company. Forward pricing is used. All of the unit trusts may be capped at any time in order for them to be managed in accordance with their mandates. Performance figures are sourced from Morningstar and are based on lump sum investments using NAV prices with gross income reinvested. Purchase and repurchase requests must be received by the Manager by 13h30 (11h30 for Money Market and 10h30 for Dividend Income Funds) SA time each business day. All online purchase and repurchase transactions must be received by the Manager by 10h30 (for all Funds) SA time each business day. General market performance data may have been provided for illustrative and explanatory purposes. This information is not intended to constitute the basis for any specific investment decision. Investors are advised to familiarize themselves with the unique risks pertaining to their investment choices and should seek the advice of a properly qualified financial consultant or adviser before investing.

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

Relative to the 180 day maximum average duration, the Fund currently has a duration of about 150 days.

Annualised performance	A Class	X Class [#]	D Class [#]	Benchmark
1 year	6.4%	6.5%	6.5%	6.4%
2 years	5.9%	6.0%	6.4%	6.0%
3 years	5.8%	5.9%	6.2%	5.7%
Since inception	5.8%	n/a	n/a	5.7%

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

Strategy

The Fund has generally sought to take advantage of the fact that 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.

During the quarter the Fund increased its exposure to longer dated securities issued by the banks (both fixed and floating rate securities) as well as investing about 1% of the Fund in longer dated credit securities such as Mercedes Benz and Emira Property Fund, and 2% of the Fund in longer dated bank floating notes, in order to take advantage of the widening of credit spreads. Shorter dated instruments were purchased additionally (issued by the big four banks) in areas of the curve that showed value, particularly the four and six month areas.

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

PRUDENTIAL HIGH YIELD BOND FUND

QUARTERLY COMMENTARY 30 SEPTEMBER 2015

Risk profile:



ASISA category:

South African - Interest Bearing - Variable Term

Benchmark:

BEASSA Total Return All Bond Index

Inception date:

27 October 2000

Fund size:

R600 542 044

Fund managers:



David Knee



Gareth Bern

Market overview

For the quarter nominal bonds (as measured by the ALBI) underperformed cash which returned 1.6% (STeFI) and outperformed inflation-linked bonds which returned 0.9% (JSE IGOV). Having added duration during quarter two (Q2) we continued to maintain this overweight position throughout the quarter. We also retain our overweight exposure to corporate bonds, with attractive spreads at around 170bps over their government counterparts, in line with BBB-rated US corporates. We would have preferred to add some exposure to this asset class, but the paucity of new issues has made it difficult to do so.

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

In the US, GDP growth surprised to the upside in Q2 amid healthy consumer and business spending, but there was some softening in the second half of quarter three (Q3). Industrial production slowed, and there was a steady three-month decline in consumer sentiment. Non-farm payrolls data disappointed in August, as did average hourly earnings. At its meeting on 24 September the Federal Reserve's FOMC opted to postpone its first interest rate hike, citing a worsening outlook for global growth and financial market volatility as well as some continuing labour market slack.

In China, the surprise devaluation of the Yuan on 11 and 12 August (by about 3% in total) came as a shock to markets after 20 successive years of Yuan appreciation especially amid stock market volatility. It sparked fears of global currency wars, especially between emerging market exporters. This, in turn, triggered widespread selling of emerging market assets. The Shanghai Composite Index fell 28.6% over the quarter.

How to invest

Call us at **0860 105 775** or visit our website at www.prudential.co.za. Application forms and all documentation required by FICA, must be faxed to **+27 11 263 61 43** or e-mailed to instructions@myprudential.co.za. Cheques must be made payable to **Prudential High Yield Bond Fund** and deposited into the following bank account: **Standard Bank, Claremont, Account number: 071863486, Branch code: 025109.**

Disclaimer

Prudential Portfolio Managers Unit Trusts Ltd (Registration number: 1999/0524/06) is an approved CISA management company (#29). Assets are managed by Prudential Investment Managers (South Africa) (Pty) Ltd, which is an approved discretionary Financial Services Provider (#45199). Collective Investment Schemes (unit trusts) are generally medium to long-term investments. The value of participatory interest (units) may go down as well as up. Past performance is not necessarily a guide to the future. Unit trust prices are calculated on a net asset value basis, which for money market funds is the total book value of all assets in the portfolio divided by the number of units in issue. Fluctuations or movements in exchange rates may also be the cause of the value of underlying international investments going up or down. Unit trusts are traded at ruling prices. Commissions and incentives may be paid and if so, would be included in the overall costs. Different classes of units apply to the Prudential Collective Investment Scheme Funds and are subject to different fees and charges. A detailed schedule of fees and charges and maximum commissions is available on request from the company. Forward pricing is used. All of the unit trusts may be capped at any time in order for them to be managed in accordance with their mandates. Performance figures are sourced from Morningstar and are based on lump sum investments using NAV prices with gross income reinvested. Purchase and repurchase requests must be received by the Manager by 13h30 (11h30 for Money Market and 10h30 for Dividend Income Funds) SA time each business day. All online purchase and repurchase transactions must be received by the Manager by 10h30 (for all Funds) SA time each business day. General market performance data may have been provided for illustrative and explanatory purposes. This information is not intended to constitute the basis for any specific investment decision. Investors are advised to familiarize themselves with the unique risks pertaining to their investment choices and should seek the advice of a properly qualified financial consultant or adviser before investing.

Conditions were somewhat brighter in the Euro area early in the quarter as Greek default worries faded. However, Q2 GDP growth disappointed at 1.2% (q/q annualised), as German, French and Italian growth were all below consensus. Industrial production growth was sluggish, inflation fell 0.1% y/y in September and August unemployment was unchanged at 11%, prompting calls for an expansion of the European Central Bank's quantitative easing programme.

Emerging markets experienced a horrible quarter with emerging market equities, bonds and currencies posting sharp losses. Brazil, as a case in point, experienced a downgrade of its credit rating to junk status by S&P in September to BB+ on the back of the rapid deterioration in the country's economy and public finances.

Locally the economic environment continued to deteriorate in Q3, with the risk of recession growing as Q2 GDP growth came in at a worse-than-expected -1.6% due to significant contractions in the mining, manufacturing and agricultural sectors, exacerbated by the ongoing drought. The sharp fall in commodity prices offset the export benefits of the weaker Rand, while inflationary pressures eased as August CPI surprised at only 4.6%, driven by weak consumer demand, the lower oil price and rising retail competition.

With inflationary pressures having abated to an extent and the weaker local and global economies, the MPC opted to leave rates on hold at the 23 September meeting. The SA Reserve Bank's (SARB) latest forecast sees CPI averaging 4.7% in 2015 versus 5.0% previously. It also lowered its GDP growth forecast for the country by 0.5 percentage points in each of the forecast periods: to 1.5% in 2015, 1.6% in 2016 and 2.1% in 2017.

On a positive note, the current account deficit improved to only -3.1% of GDP in Q2 from -4.8% in Q1, and Moody's confirmed South Africa's credit rating at Baa2 with a stable outlook in September despite the weaker growth outlook, citing the government's commitment to rein in debt and government deficits. This followed similar action from Fitch and S&P earlier in the year.

After weakening for most of 2015 SA bonds sold off further in Q3. The yield curve flattened markedly as we saw a significant re-pricing of risk at the shorter end of the curve. That said SA bonds still managed to produce a total return of 7.0% for the 12-month period, beating equities and cash and second only to listed property. Current yields in our opinion offer value and as such we continue to maintain a long duration position.

The inflation break-even rate (as measured by 10-year ILB yields versus conventional bonds) was largely unchanged at 6.6% at quarter-end after peaking at 7.0% mid-period amid growing concerns over the weaker Rand and inflationary pressures, a level we consider relatively high compared to our own longer-term inflation framework and further highlighting the relative value nominal bonds currently offer.

Annualised performance	A Class	B Class [†]	Benchmark
1 year	6.1%	6.4%	7.0%
3 years	4.8%	5.2%	5.3%
5 years	7.4%	7.8%	7.7%
7 years	8.7%	9.1%	8.9%
10 years	8.0%	8.4%	8.2%
Since inception	10.6%	n/a	10.8%

[†] Inception date B Class: 1 April 2003

PRUDENTIAL ENHANCED INCOME FUND

QUARTERLY COMMENTARY 30 SEPTEMBER 2015

Risk profile:



ASISA category:

South African - Multi Asset - Income

Benchmark:

StEfi Composite Index measured over a rolling 36-month period

Inception date:

01 July 2009

Fund size:

R2 523 699 728

Fund managers:



David Knee



Roshen Harry

Performance

For the quarter ending September 2015 the Fund delivered a return of 1.9% (gross of fees) outperforming cash as measured by its benchmark, the StEfi composite, by 0.3%. Year to date the Fund returned 5.7% outperforming the StEfi composite by 0.9%.

Market overview

It proved to be a difficult third quarter (Q3) of 2015 for investors, with global financial markets buffeted by uncertainty arising from both a slowing Chinese (and global) economy and the postponement of interest rate hikes in the US. In July the successful Greek bailout agreement made for a positive start to the quarter, but the ongoing sharp selloff in the Chinese equity market – which had started in June – proved to be the catalyst for more widespread global selling. A general investor flight to safety materialised in August and continued into September, with emerging markets bearing the brunt of the losses and nearly US\$11 trillion wiped off global equity values over the quarter. Equities have been hit by concerns over deteriorating global growth prospects (and consequently corporate earnings) as Chinese data surprised to the downside, the Japanese economy contracted, emerging market economies weakened and the Euro area remained mired in a zero-inflation environment. Meanwhile, holders of higher-yielding debt became more worried about creditworthiness. Deflationary pressures globally were spurred by a 22.1% drop in the price of Brent crude oil during the quarter, while commodity prices slumped 16% (Bloomberg Commodity Index). Even the US was showing signs of an industrial slowdown after robust 3.9% Q2 growth (q/q annualised), due to the stronger US dollar and weaker global demand.

The local economic environment continued to deteriorate in Q3, with the risk of recession growing as Q2 GDP growth came in at a worse-than-expected -1.6% due to significant contractions in the mining, manufacturing and agricultural sectors and exacerbated by the ongoing drought. The sharp fall in commodity prices offset the export benefits of the weaker Rand, while inflationary pressures eased

as August CPI surprised at only 4.6%, driven by weak consumer demand, the lower oil price and rising retail competition.

At its 23 July MPC meeting, the SA Reserve Bank (SARB) decided to raise the repo rate by 25bps to 6.0% in the face of the upside risk to inflation from the weaker Rand, higher inflationary expectations, forecast higher food prices and an expected breach in the Bank's upper 6% CPI target band in Q1 2016. However, by the time of its 23 September meeting, inflationary pressures had abated to a certain extent and, combined with the weaker local and global economies, the MPC opted to leave rates on hold. The SARB's latest forecast sees CPI averaging 4.7% in 2015 versus 5.0% previously, and peaking at 6.7% (previously 6.9%) in Q1 2016. The Bank also lowered its GDP growth forecast for the country by 0.5 percentage points in each of the forecast periods: to 1.5% in 2015, 1.6% in 2016 and 2.1% in 2017.

On a positive note, the current account deficit improved to only -3.1% of GDP in Q2 from -4.8% in Q1, and Moody's confirmed South Africa's credit rating at Baa2 with a stable outlook in September despite the weaker growth outlook, citing the government's commitment to rein in debt and government deficits. This followed similar action from Fitch and S&P earlier in the year.

After consolidating against the US Dollar in the previous quarter, the Rand was caught up in the emerging markets selloff in Q3, losing 12% against the greenback, 12.4% against the Euro and 8.9% against Sterling. The local currency has now lost 17.2% against the US Dollar in 2015. In the context of deteriorating local and global economic growth, the Rand remains vulnerable to further losses in the near-term, especially in the run-up to the first US interest rate hike.

With the medium-term outlook for inflation remaining poor thanks to Rand depreciation and the impact of the drought, interest rate expectations rose again over the quarter: forward rate agreements (FRAs) increased by about 20bps, indicating that market participants now see three-month interest rates at 7.80% in two years' time, up from 7.60% at the start of the quarter. Compared to Q2, the market is now expecting a more severe magnitude of rate hiking cycle despite weaker economic growth and three months of falling core CPI data which surprised positively.

Inflation-linked bonds gained ground with a total return of 0.9% for the quarter and 5.1% over 12 months. Cash, meanwhile, returned 1.6% for the quarter and 6.4% for 12 months. The inflation break-even rate (as measured by 10-year ILB yields versus conventional bonds) was largely unchanged at 6.6% at quarter-end after peaking at 7.0% mid-period amid growing concerns over the weaker Rand and inflationary pressures, a level we consider relatively high compared to our own longer-term inflation framework.

With a total return of 6.2%, listed property was the stellar performer among local asset classes for the quarter; it has returned 25.8% over the past 12 months. It has also reversed its losses of Q2, meaning it remains on the expensive side of fair value compared to its own long-term history and relative to long-dated bonds. Property is also vulnerable to worsening inflation and interest rate expectations, and still faces headwinds from sluggish SA economic growth and higher interest rates, among other factors.

We are underweight listed property and ILBs, and remain slightly overweight local bonds. During the quarter we bought long-dated Brazilian bonds in the face of the sharp rise in Brazilian yields and underperformance of the Real versus the Rand (the real depreciated some 23% against the Rand). We believe the selling has been overdone and a lot of bad news priced into the Brazilian market.

Annualised performance	A Class	X Class [†]	D Class [†]	Benchmark
1 year	7.5%	7.8%	8.2%	7.6%
2 years	7.2%	7.4%	7.8%	6.4%
3 years	6.9%	7.2%	7.5%	5.7%
5 years	8.0%	n/a	n/a	7.0%
Since inception	8.9%	n/a	n/a	7.3%

[†] Inception dates: X Class: 1 April 2011, D Class: 1 July 2011

How to invest

Call us at **0860 105 775** or visit our website at www.prudential.co.za. Application forms and all documentation required by FICA, must be faxed to **+27 11 263 61 43** or e-mailed to instructions@myprudential.co.za. Cheques must be made payable to **Prudential Enhanced Income Fund** and deposited into the following bank account: **Standard Bank, Claremont, Account number: 240422104, Branch code: 025109.**

Disclaimer

Prudential Portfolio Managers Unit Trusts Ltd (Registration number: 1999/0524/06) is an approved CISA management company (#29). Assets are managed by Prudential Investment Managers (South Africa) (Pty) Ltd, which is an approved discretionary Financial Services Provider (#45199). Collective Investment Schemes (unit trusts) are generally medium to long-term investments. The value of participatory interest (units) may go down as well as up. Past performance is not necessarily a guide to the future. Unit trust prices are calculated on a net asset value basis, which for money market funds is the total book value of all assets in the portfolio divided by the number of units in issue. Fluctuations or movements in exchange rates may also be the cause of the value of underlying international investments going up or down. Unit trusts are traded at ruling prices. Commissions and incentives may be paid and if so, would be included in the overall costs. Different classes of units apply to the Prudential Collective Investment Scheme Funds and are subject to different fees and charges. A detailed schedule of fees and charges and maximum commissions is available on request from the company. Forward pricing is used. All of the unit trusts may be capped at any time in order for them to be managed in accordance with their mandates. Performance figures are sourced from Morningstar and are based on lump sum investments using NAV prices with gross income reinvested. Purchase and repurchase requests must be received by the Manager by 13h30 (11h30 for Money Market and 10h30 for Dividend Income Funds) SA time each business day. All online purchase and repurchase transactions must be received by the Manager by 10h30 (for all Funds) SA time each business day. General market performance data may have been provided for illustrative and explanatory purposes. This information is not intended to constitute the basis for any specific investment decision. Investors are advised to familiarize themselves with the unique risks pertaining to their investment choices and should seek the advice of a properly qualified financial consultant or adviser before investing.

PRUDENTIAL INFLATION PLUS FUND

QUARTERLY COMMENTARY 30 SEPTEMBER 2015

Risk profile:



ASISA category:

South African - Multi-Asset - Low Equity

Objective:

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

Inception date:

01 June 2001

Fund size:

R35 468 163 529

Awards:

Raging Bull: 2013
Morningstar: 2015

Fund managers:



Michael Moyle



Marc Beckenstrater



David Knee

Market overview

It proved to be a difficult third quarter (Q3) of 2015 for investors, with global financial markets buffeted by uncertainty arising from both a slowing Chinese (and global) economy and the postponement of interest rate hikes in the US. In July the successful Greek bailout agreement made for a positive start to the quarter, but the ongoing sharp selloff in the Chinese equity market proved to be the catalyst for more widespread global selling. A general investor flight to safety materialised, with emerging markets bearing the brunt of the losses. Investor concerns centred on deteriorating global growth prospects (and consequently corporate earnings) as Chinese data surprised to the downside, the Japanese economy contracted 1.6% (q/q annualised) in Q2, emerging market economies weakened and the Euro area remained mired in a zero-inflation environment. Meanwhile, holders of higher-yielding debt became more worried about creditworthiness. Deflationary pressures globally were spurred by a 22.1% drop in the price of Brent crude oil during the quarter, while commodity prices slumped 16%.

In the US, there was some softening in the second half of Q3 after robust 3.9% Q2 growth (q/q annualised). Industrial production slowed, and there was a steady three-month decline in consumer sentiment. US equities were impacted by bearish global sentiment, with the S&P 500 losing 6% in August, its worst month since 2012. At its much-anticipated meeting on 24 September the Federal Reserve's FOMC opted to postpone its first interest rate hike, citing a worsening outlook for global growth and financial market volatility, as well as some continuing labour market slack. The S&P 500 returned -6.4% for the quarter, and -0.6% over 12 months. The yield on the 10-year US Treasury bond rallied by about 30 basis points (bps) in the flight to safety, unwinding most of Q2's losses, while investment-grade corporate bonds saw yields rise about 30bps. US high-yield bonds sold off as yields jumped 160bps versus US Treasuries.

In China, the surprise devaluation of the Yuan on 11-12 August (by about 3% in total) came as a shock to markets, especially amid stock market volatility, sparking fears of global currency wars. This, in turn, triggered widespread selling of emerging market assets. The Shanghai Composite Index fell 28.6% over the quarter and was down 41% from its mid-June peak, despite unprecedented government intervention to shore up the market. Its failure to do so further undermined faith in the government's ability to bolster the slowing economy. However, the Chinese government implemented a raft of fresh measures over the quarter to stimulate growth.

In Japan, data was disappointing, fuelling talk of further monetary stimulus and more government spending, despite high debt levels. Citing the poor outlook for growth and inflation, S&P downgraded the country's sovereign rating one notch to A+. The Nikkei returned -11.6% in Q3. In the Euro area Q2 GDP growth disappointed at 1.2% (q/q annualised), inflation fell 0.1% y/y in September and August unemployment was unchanged at 11%, prompting calls for an expansion of the ECB's quantitative easing programme. The Dow Jones Eurostoxx 50 Index returned -9.1% for the quarter, its worst in four years.

Emerging markets experienced a horrible quarter, which included the downgrade of Brazil's credit rating to junk status by S&P in September to BB+ on the back of the rapid deterioration in the country's economy and public finances. The MSCI Emerging Markets Index recorded a total return of -17.8%, while developed markets (MSCI World Free Index) were better at -8.3% (both in US Dollars). The Emerging Markets Bond Index (in US Dollars) saw a 75bps rise in yields to a spread of 475bps over US Treasuries.

Versus the US Dollar, the Brazilian Real was down 21.0%, the Rouble lost 15.7%, the Rand depreciated 12.0% and the Turkish Lira fell 11.6%.

South Africa's economic environment continued to deteriorate in Q3, with the risk of recession growing as Q2 GDP growth came in at a worse-than-expected -1.6% due to significant contractions in the mining, manufacturing and agricultural sectors and exacerbated by the ongoing drought. At its July MPC meeting, the SARB raised the repo rate by 25bps to 6.0% in the face of the rising risk to inflation. However, by the time of its September meeting, inflationary pressures had abated to a certain extent and, combined with the weaker local and global economies, the MPC opted to leave rates on hold while also lowering its CPI and GDP forecasts. On a positive note, Moody's affirmed South Africa's credit rating at Baa2 with a stable outlook in September.

The FTSE/JSE All Share Index returned -2.1% for the quarter in volatile trading, boosted by the jump in the share price of SABMiller following the takeover bid by AB Inbev. SA bonds were marginally stronger in Q3: the All Bond Index returned 1.1% and the yield curve flattened as short-dated bond yields rose in line with worsening inflation expectations, while the 10-year yield was only about 15bps higher. Forward rate agreements (FRAs) rose by about 20bps: the market now sees three-month interest rates at 7.80% in two years' time. Inflation-linked bonds eked out a total return of 0.9% for the quarter. Cash, meanwhile, returned 1.6%. Listed property was the quarter's strongest performer with a total return of 6.2%, reversing its Q2 losses.

Performance

The Fund returned -0.2% (net of fees) for the third quarter of 2015 and has returned 8.9% for the 12-month period ending 30 September 2015. The Fund's holdings in international cash and underweight in SA equity were the main positive contributors to performance, while international fixed income detracted from value. The Fund has delivered a return of 13.7% per annum since inception (net of fees), while CPI inflation has averaged 5.7% per annum over the same period.

Annualised performance	A Class	X Class*	B Class*	Objective
1 year	8.9%	9.3%	9.7%	9.6%
3 years	12.6%	12.9%	13.5%	10.8%
5 years	13.0%	n/a	13.9%	10.6%
7 years	12.4%	n/a	13.3%	10.3%
10 years	12.1%	n/a	12.8%	11.5%
Since inception	13.9%	n/a	n/a	11.3%

* Inception dates: X Class: 1 July 2011, B Class: 1 July 2002

Asset class returns in Rand	Q3	YTD
SA Equity (FTSE/JSE All Share Index)	-2.1%	3.4%
SA Property (FTSE/JSE SA Listed Property Index)	6.2%	13.3%
SA Bonds (BESA All Bond Index)	1.1%	2.7%
SA Inflation-linked Bonds (Barclays/ABSA Government Inflation-linked Bond Index)	0.9%	2.8%
SA Cash (STeFI)	1.6%	4.7%
Global Equity (MSCI World Free Index - USD)	-8.3%	-5.6%
Global Equity (MSCI Emerging Markets Index - USD)	-17.8%	-15.2%
Global Bonds (Barclays Capital Global Aggregate Bond Index - USD)	0.9%	-2.3%
Rand (Rand/USD move)	-12.0%	-17.2%

Strategy and outlook

Our global asset allocation continues to favour global equities over local SA equities, as global equities remain more attractively valued than SA equities. Despite recent weakness, we believe local equities are somewhat expensive, and we remain slightly underweight to neutral in this asset class. However, for domestic portfolios, we expect local equities to offer reasonable real returns over the medium-term. We continue to favour certain financial stocks over expensive industrials. Among our top overweight positions are Old Mutual, Investec, Barclays Africa and Netcare, while our top underweights include Richemont and Sanlam.

In SA listed property, with further gains in Q3 offsetting Q2's weakness, valuations have remained unattractive, leading us to maintain our underweight positioning. Headwinds such as slow growth and higher interest rates also continue. Valuations continue to be somewhat expensive relative to longer-dated bonds and on an absolute historic basis, but are supported by low real cash rates.

During the quarter we added to our overweight position in nominal bonds as yields reached more attractive levels. We retain an overweight exposure to corporate bonds, which still offer attractive yields at around 170bps over their government counterparts.

With ILBs remaining expensive during the quarter versus their conventional counterparts, we have stayed slightly underweight in these assets in our multi-asset portfolios at the end of Q3, where we have opted for cash holdings as an alternative. Break-even inflation is now being priced in at approximately 6.6% (at 10 years), around the same level seen at the end of June, a level we consider elevated compared to our long-term inflation benchmark of 6.0%.

The Fund's relatively high cash holdings, at over 15% in Q2, have fallen to just over 13% currently as we bought more nominal bonds during the quarter. However the Fund does retain its defensive positioning given the ongoing lack of value opportunities in the local equity market.

PRUDENTIAL INFLATION PLUS FUND

QUARTERLY COMMENTARY 30 SEPTEMBER 2015



How to invest

Call us at 0860 105 775 or visit our website at www.prudential.co.za. Application forms and all documentation required by FICA, must be faxed to +27 11 263 61 43 or e-mailed to instructions@myprudential.co.za. Cheques must be made payable to **Prudential Inflation Plus Fund** and deposited into the following bank account: **Standard Bank, Claremont, Account number: 072508434, Branch code: 025109.**

Disclaimer

Prudential Portfolio Managers Unit Trusts Ltd (Registration number: 1999/0524/06) is an approved CISA management company (#29). Assets are managed by Prudential Investment Managers (South Africa) (Pty) Ltd, which is an approved discretionary Financial Services Provider (#45199). Collective Investment Schemes (unit trusts) are generally medium to long-term investments. The value of participatory interest (units) may go down as well as up. Past performance is not necessarily a guide to the future. Unit trust prices are calculated on a net asset value basis, which for money market funds is the total book value of all assets in the portfolio divided by the number of units in issue. Fluctuations or movements in exchange rates may also be the cause of the value of underlying international investments going up or down. Unit trusts are traded at ruling prices. Commissions and incentives may be paid and if so, would be included in the overall costs. Different classes of units apply to the Prudential Collective Investment Scheme Funds and are subject to different fees and charges. A detailed schedule of fees and charges and maximum commissions is available on request from the company. Forward pricing is used. All of the unit trusts may be capped at any time in order for them to be managed in accordance with their mandates. Performance figures are sourced from Morningstar and are based on lump sum investments using NAV prices with gross income reinvested. Purchase and repurchase requests must be received by the Manager by 13h30 (11h30 for Money Market and 10h30 for Dividend Income Funds) SA time each business day. All online purchase and repurchase transactions must be received by the Manager by 10h30 (for all Funds) SA time each business day. General market performance data may have been provided for illustrative and explanatory purposes. This information is not intended to constitute the basis for any specific investment decision. Investors are advised to familiarize themselves with the unique risks pertaining to their investment choices and should seek the advice of a properly qualified financial consultant or adviser before investing.

PRUDENTIAL BALANCED FUND

QUARTERLY COMMENTARY 30 SEPTEMBER 2015

Risk profile:



ASISA category:

South African - Multi Asset - High Equity

Benchmark:

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

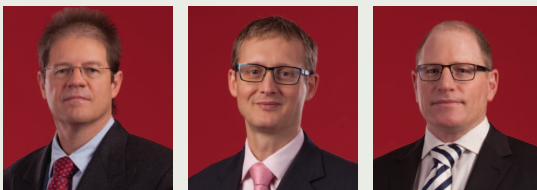
Inception date:

02 August 1999

Fund size:

R12 325 140 022

Fund managers:



Marc Beckenstrater

David Knee

Michael Moyle

Performance and positioning

The Fund delivered a negative return of -0.5% over the quarter, outperforming the benchmark of -0.8%. The main detractor from its absolute performance was the large exposure to local equities that delivered a negative return over this time. International assets were in turn the strongest contributors to the Fund's absolute performance, delivering positive returns in Rand terms as the Rand weakened against developed market currencies over the quarter. The main contributor to the Fund's performance relative to the market, was its good stock selection locally, while its selection within internationally equity and bonds detracted from the Fund's performance relative to the market.

At the end of quarter three, we still have a preference for global equities over local equities in our global portfolios, and we remain overweight global equities and largely neutral local equities. Locally we are underweight listed property and inflation-linked bonds (ILBs), and remain slightly overweight local bonds. During the quarter we bought long-dated Brazilian bonds in the face of the sharp rise in Brazilian yields and underperformance of the Real versus the Rand (the Real depreciated some 23% against the Rand). We believe the selling has been overdone with a lot of bad news priced into the Brazilian market.

Annualised performance	A Class	X Class*	B Class*	Benchmark
1 year	7.8%	8.1%	8.6%	6.2%
3 years	15.4%	n/a	16.2%	12.1%
5 years	14.2%	n/a	15.2%	11.3%
7 years	13.4%	n/a	14.4%	10.8%
10 years	13.3%	n/a	14.3%	11.0%
Since inception	15.1%	n/a	n/a	13.1%

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

Asset class returns in Rand	Q3	YTD
SA Equity (FTSE/JSE All Share Index)	-2.1%	3.4%
SA Property (FTSE/JSE SA Listed Property Index)	6.2%	13.3%
SA Bonds (BESA All Bond Index)	1.1%	2.7%
SA Inflation-linked Bonds (Barclays/ABSA Government Inflation-linked Bond Index)	0.9%	2.8%
SA Cash (STeFI)	1.6%	4.7%
Global Equity (MSCI World Free Index - USD)	-8.3%	-5.6%
Global Equity (MSCI Emerging Markets Index - USD)	-17.8%	-15.2%
Global Bonds (Barclays Capital Global Aggregate Bond Index - USD)	0.9%	-2.3%
Rand (Rand/USD move)	-12.0%	-17.2%

Global fixed income: We remain underweight duration and continue to hold floating-rate notes (FRNs) in order to minimize interest rate risk. We remain positive on spread products in both investment-grade and high-yield corporate bond markets, and bought back some US high-yield bond exposure during the quarter as these instrument rose to very attractive levels.

Global equities: Within global assets, we continue to favour equities over bonds or 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% weighting in this asset class. We continue to favour European markets, which we believe still appear to be fairly valued, particularly after the Greece-related downturn, and remain underweight commodity producers like Australia and Canada, as well as the US.

Following this quarter's sell-off, equity market valuations have moved to more attractive valuations; however, the most attractive (i.e. emerging markets) also remain the most risky, and we are still cautious in this area. Given slowing global economic growth, corporate earnings growth remains vulnerable to downward revisions. From a historic valuation perspective, developed market equities (such as Germany) still appear to be the best value.

SA equity: Despite recent weakness, we believe South African equities continue to be somewhat expensive, and so remain slightly underweight to neutral in this asset class in our multi-asset portfolios. We have opted to hold additional cash in the face of a lack of sufficiently attractive opportunities on the JSE. South Africa continues to be one of the most expensive markets on a relative basis, yet actual earnings growth has been disappointing.

We continue to favour certain financial stocks over expensive industrials, and remain underweight resources. Among our top overweight positions are Standard Bank, Old Mutual, Barclays Capital and British American Tobacco, while our top underweights include MTN, Aspen and Remgro.

SA listed property: We have been slightly underweight listed property for much of the year in our multi-asset portfolios, and this quarter's strong performance has led us to maintain this positioning. The sector is expensive relative to longer-dated bonds and compared to its own history, but remains supported by low real cash rates. It is expected to deliver double-digit returns over the medium-term thanks to strong distribution growth and higher leverage.

SA nominal bonds: After having bought back bonds following the weakness seen in quarter two, this quarter's weakness has prompted us to maintain this position as well as being long duration. We also retain our overweight exposure to corporate bonds, with attractive spreads at around 170bps over their government counterparts, in line with BBB-rated US corporates. Having looked somewhat cheap over the quarter, we would have preferred to add some exposure to this asset class, but the paucity of new issues has made it difficult to do so. We did invest in bond issues from Toyota Financial Services and Investec Bank over the quarter.

Inflation-linked bonds: With ILBs remaining expensive during the quarter versus their conventional counterparts, we have remained slightly underweight in these assets in our multi-asset portfolios at the end of quarter three, where we have opted for cash holdings as an alternative. Break-even inflation is now being priced in at approximately 6.6% (at 10 years), around the same level seen at the end of June, a level we consider elevated compared to our long-term inflation benchmark of 6.0%.

PRUDENTIAL BALANCED FUND

QUARTERLY COMMENTARY 30 SEPTEMBER 2015



How to invest

Call us at **0860 105 775** or visit our website at www.prudential.co.za. Application forms and all documentation required by FICA, must be faxed to **+27 11 263 61 43** or e-mailed to instructions@myprudential.co.za. Cheques must be made payable to **Prudential Balanced Fund** and deposited into the following bank account: **Standard Bank, Claremont, Account number: 072528931, Branch code: 025109.**

Disclaimer

Prudential Portfolio Managers Unit Trusts Ltd (Registration number: 1999/0524/06) is an approved CISA management company (#29). Assets are managed by Prudential Investment Managers (South Africa) (Pty) Ltd, which is an approved discretionary Financial Services Provider (#45199). Collective Investment Schemes (unit trusts) are generally medium to long-term investments. The value of participatory interest (units) may go down as well as up. Past performance is not necessarily a guide to the future. Unit trust prices are calculated on a net asset value basis, which for money market funds is the total book value of all assets in the portfolio divided by the number of units in issue. Fluctuations or movements in exchange rates may also be the cause of the value of underlying international investments going up or down. Unit trusts are traded at ruling prices. Commissions and incentives may be paid and if so, would be included in the overall costs. Different classes of units apply to the Prudential Collective Investment Scheme Funds and are subject to different fees and charges. A detailed schedule of fees and charges and maximum commissions is available on request from the company. Forward pricing is used. All of the unit trusts may be capped at any time in order for them to be managed in accordance with their mandates. Performance figures are sourced from Morningstar and are based on lump sum investments using NAV prices with gross income reinvested. Purchase and repurchase requests must be received by the Manager by 13h30 (11h30 for Money Market and 10h30 for Dividend Income Funds) SA time each business day. All online purchase and repurchase transactions must be received by the Manager by 10h30 (for all Funds) SA time each business day. General market performance data may have been provided for illustrative and explanatory purposes. This information is not intended to constitute the basis for any specific investment decision. Investors are advised to familiarize themselves with the unique risks pertaining to their investment choices and should seek the advice of a properly qualified financial consultant or adviser before investing.

PRUDENTIAL EQUITY FUND

QUARTERLY COMMENTARY 30 SEPTEMBER 2015

Risk profile:



ASISA category:

South African - Equity - General

Benchmark:

ASISA South African – Equity – General Category Mean

Inception date:

02 August 1999

Fund size:

R2 766 704 163

Awards:

Raging Bull: 2006, 2007, 2008

Morningstar/Standard & Poor's: 2007, 2008

Fund managers:



Chris Wood



Rehana Khan



Craig Butters

Performance and positioning

The past quarter proved to be an eventful period for global equity markets, including the JSE, as renewed concerns around a slowing Chinese economy and weaker global growth in general resulted in risk assets selling off sharply in August.

Noteworthy developments during the quarter included further weakness in the Chinese stock market that culminated with a surprise decision by PBOC to devalue the Chinese currency; pushing out of expectations around timing of the first US rate hike; ongoing commodity price and emerging market currency weakness; VW's admission they had cheated to meet US diesel emissions standards and confirmation that the much speculated mega-brewery deal between AB-Inbev and SABMiller was in play.

Against this backdrop, the FTSE/JSE Shareholder Weighted Index ended the quarter in negative territory with a total return of -4.2%, paring its 2015 year-to-date gains to 2.2% and 6.1% over the 12-month period. The ASISA General Equity mean return, the Fund's benchmark, returned -4.2% for the quarter.

While the Fund delivered a healthy outperformance relative to its benchmark, it ended the quarter with a negative return. Key positive contributions came from the Fund's overweight positions in British American Tobacco and Pick 'n Pay which ended the period up 17% and 15% respectively. In addition, the Fund benefitted from having no holding in Aspen with the stock falling 18% over the quarter.

In light of the September announcement that Anheuser Busch (AB) Inbev had approached SABMiller's board with an offer, the Fund's underweight position in the JSE-listed brewer was the biggest detractor to performance over the quarter. Furthermore, the Fund's holding in Lonmin as well as its underweight position in Steinhoff also detracted over the period.

With AB-Inbev confirming its interest in pursuing a bid for SABMiller, we elected to close our underweight position in SAB in order to mitigate any further underperformance given our assessment of the purchase price AB-Inbev could potentially pay as a result of their ability to fund the deal with cheap debt and cut costs post acquisition.

Within the resources sector, ongoing commodity price weakness saw the market's focus shift from evaluating the near term earnings downside risk for commodity producers to instead assessing balance sheets and availability to service and refinance existing debt facilities. Those commodity companies, such as Glencore and Lonmin, with high levels of net debt in relation to their market capitalisation, were sold off aggressively.

Lonmin ended the quarter down 84% after the company disclosed in its July production update that it was experiencing negative cash flow at the prevailing commodity prices and were considering the full range of options to secure long term capital ahead of maturing debt facilities in 2016. The increased likelihood of a highly dilutive capital raising when taking into consideration the quantum of Lonmin's debt, prompted us to exit our holding in the company. Independent of this, news that Volkswagen had used software to cheat emissions compliance of its diesel engine vehicles in the United States, saw the market interpret this news as negative for platinum demand adding to the woes of the South African platinum miners.

While we typically look to take advantage of the type of share price disruption seen during this period, we view it premature to call the bottom of the commodity cycle, as the demand and growth outlook for the sector remains weak.

Outside of the resources sector, a selection of new industrial stocks have been introduced to the Fund that we believe achieve our objective of constructing a portfolio of stocks that is in aggregate cheaper than the market benchmark yet capable of delivering superior growth in earnings.

One such idea is to increase exposure to cement producer, PPC, which we believe is offering a good entry pricing point for a company that retains a dominant position in the South African market, with 'optionality' on a number of projects in the rest of Africa. It has an aspect of 'turnaround' story as PPC, under new management, is focused on reducing costs in its SA operations in response to a weak demand environment that has been exacerbated by the introduction of product from new entrant Sefshaku Cement.

In coming quarters, we will report on some of the other new ideas that we have added to the portfolio.

The Fund's offshore component was a strong contributor during the quarter, with the Rand depreciating markedly against the US Dollar (12.0%), Euro (12.4%) and British Pound (8.9%). Foreign equity returns were mostly negative in their own currencies over the quarter, following investment sentiment around recent GDP and other economic data in Europe and in the US.

Global equities nonetheless remain more attractively valued than SA equities on measures like Price-Earnings (P/E) and Price-Book value ratios. We continue to favour European markets, which we believe still appear to be fairly valued, particularly after the Greece-related downturn, and remain underweight commodity producers like Australia and Canada, as well as the US.

Annualised performance	A Class	B Class [†]	Benchmark
1 year	2.6%	3.0%	2.0%
3 years	15.8%	16.3%	12.6%
5 years	15.3%	15.8%	12.4%
7 years	15.8%	16.4%	12.4%
10 years	16.2%	n/a	12.7%
Since inception	18.7%	n/a	15.4%

[†] Inception date B Class: 2 January 2007

How to invest

Call us at 0860 105 775 or visit our website at www.prudential.co.za. Application forms and all documentation required by FICA, must be faxed to +27 11 263 61 43 or e-mailed to instructions@myprudential.co.za. Cheques must be made payable to **Prudential Equity Fund** and deposited into the following bank account: Standard Bank, Claremont, Account number: 072528990, Branch code: 025109.

Disclaimer

Prudential Portfolio Managers Unit Trusts Ltd (Registration number: 1999/0524/06) is an approved CISA management company (#29). Assets are managed by Prudential Investment Managers (South Africa) (Pty) Ltd, which is an approved discretionary Financial Services Provider (#45199). Collective Investment Schemes (unit trusts) are generally medium to long-term investments. The value of participatory interest (units) may go down as well as up. Past performance is not necessarily a guide to the future. Unit trust prices are calculated on a net asset value basis, which for money market funds is the total book value of all assets in the portfolio divided by the number of units in issue. Fluctuations or movements in exchange rates may also be the cause of the value of underlying international investments going up or down. Unit trusts are traded at ruling prices. Commissions and incentives may be paid and if so, would be included in the overall costs. Different classes of units apply to the Prudential Collective Investment Scheme Funds and are subject to different fees and charges. A detailed schedule of fees and charges and maximum commissions is available on request from the company. Forward pricing is used. All of the unit trusts may be capped at any time in order for them to be managed in accordance with their mandates. Performance figures are sourced from Morningstar and are based on lump sum investments using NAV prices with gross income reinvested. Purchase and repurchase requests must be received by the Manager by 13h30 (11h30 for Money Market and 10h30 for Dividend Income Funds) SA time each business day. All online purchase and repurchase transactions must be received by the Manager by 10h30 (for all Funds) SA time each business day. General market performance data may have been provided for illustrative and explanatory purposes. This information is not intended to constitute the basis for any specific investment decision. Investors are advised to familiarize themselves with the unique risks pertaining to their investment choices and should seek the advice of a properly qualified financial consultant or adviser before investing.

PRUDENTIAL DIVIDEND MAXIMISER FUND

QUARTERLY COMMENTARY 30 SEPTEMBER 2015

Risk profile:



ASISA category:

South African - Equity - General

Benchmark:

ASISA South African – Equity – General Category Mean

Inception date:

02 August 1999

Fund size:

R5 225 085 801

Awards:

Raging Bull: 2006, 2008

Morningstar/Standard & Poor's: 2007, 2009

Fund managers:



Marc Beckenstrater



Ross Biggs

Performance and positioning

The Fund produced a return of -2.9% for the three months ended September 2015, outperforming the average of the General Equity funds by 1.3% for the same period.

The past quarter proved to be an eventful period for global equity markets, including the JSE, as renewed concerns around a slowing Chinese economy and weaker global growth in general resulted in equities selling off sharply in August. Over the quarter, both the average of the General Equity funds and the FTSE/JSE Shareholder Weighted Index ended the quarter in negative territory with returns of -4.2%.

Noteworthy developments during the quarter included further weakness in the Chinese stock market that culminated with a surprise decision by China to devalue its currency; and ongoing commodity price and emerging market currency weakness, which caused the US to further delay its first interest rate hike.

The main positive contributor to the performance for the quarter was the Funds' substantial exposure of approximately 25% to global equities, which was helped in part due to the weaker Rand. We continue to find global equities more attractive than South African equities, despite this outperformance. The underweight exposure to Anglo American also contributed positively. We continue to believe that commodity companies will be faced with a difficult cycle which we expect to last many years. In Anglo American's case, this may mean that they will need to conserve cash by cutting their dividend and we therefore remain underweight this company. We mentioned previously that we were concerned with companies that were overvalued because the market was factoring in strong growth in dividends and earnings into perpetuity just because this had been the case in the recent past. We considered MTN and Aspen to be two such companies. We outperformed from being underweight these two companies in the quarter as growth in both has started to disappoint. At the right price and right dividend yield, we would have large positions in these companies in the Fund, but for now are happy to wait for better pricing. MTN is a high-quality company which has grown dividends steadily, but we think future cash flows and dividends are becoming

more risky due to its very large exposure to the Nigerian market. The Nigerian economy is struggling to adapt to the lower oil price. Consumers in Nigeria are under a lot more pressure and we attach a high probability to the Nigerian Naira depreciating further.

The main detractor from performance in the quarter was underweight exposure to SABMiller. In light of the September announcement that Anheuser Busch (AB) Inbev had approached SABMiller's board with an offer, the Fund's underweight position in the JSE-listed brewer was the biggest detractor from performance over the quarter. With AB-Inbev confirming its interest in pursuing a bid for SABMiller, we added to our position in SAB as we considered the purchase price AB-Inbev could potentially pay to be a lot higher.

Furthermore, the Fund's holding in Lonmin, as well as its underweight position in Steinhoff, also detracted over the period.

Lonmin disclosed in its July production update that it was experiencing negative cash flow at the prevailing commodity prices and was considering the full range of options to secure long-term capital ahead of maturing debt facilities in 2016. The increased likelihood of a highly dilutive capital raising (when taking into consideration the quantum of Lonmin's debt) prompted us to exit our small holding in the company. Independent of this, news that Volkswagen had used software to cheat emissions compliance of its diesel engine vehicles in the United States saw the market interpret this news as negative for platinum demand, adding to the woes of the South African platinum miners.

In the resources sector, ongoing commodity price weakness saw the market start to focus on the commodity companies' balance sheets and the ability to service and refinance existing debt facilities. Those commodity companies, such as Glencore and Lonmin, with high levels of net debt in relation to their market capitalisation, were sold off aggressively. We think that many of the commodity markets are entering a phase where growing supply will start to meet 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. While valuations for some mining companies are low relative to history, we remain cognisant that significant restructurings are likely to have to take place to restore profitability; and this is likely to mean cutting dividends and raising more capital from shareholders.

In the Industrial sector, certain industrial companies continue to be priced for perfection and it is difficult to see value. We also see rising risks in some emerging markets and have reduced positions in certain companies which we do not think are priced adequately for these risks.

We continue to believe that the banking sector is undervalued with very attractive dividend yields. Most banks appear to have the strongest balance sheets they have had in the last decade, and we are likely to see a strong growth trend in the dividends after many years of stagnation. The Fund holds a selection of banks at varying stages of earnings recovery, with a preference for Barclays and Standard Bank. We do note, however, that South African banks have fared very well relative to other emerging market banks and their ratings relative to emerging banks are now high.

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 5 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. We still, however, consider many offshore equity markets to be undervalued and therefore maintain the Fund's offshore exposure at close to 25% of the Fund as we consider global markets to be attractive relative to South Africa.

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	B Class*	Benchmark
1 year	2.8%	3.3%	2.0%
3 years	15.5%	16.0%	12.6%
5 years	14.6%	15.1%	12.4%
7 years	15.5%	16.0%	12.4%
10 years	16.0%	n/a	12.7%
Since inception	18.8%	n/a	15.4%

* Inception date B Class: 2 January 2007

How to invest

Call us at 0860 105 775 or visit our website at www.prudential.co.za. Application forms and all documentation required by FICA, must be faxed to +27 11 263 61 43 or e-mailed to instructions@myprudential.co.za. Cheques must be made payable to **Prudential Dividend Maximiser Fund** and deposited into the following bank account: **Standard Bank, Claremont, Account number: 072529083, Branch code: 025109.**

Disclaimer

Prudential Portfolio Managers Unit Trusts Ltd (Registration number: 1999/0524/06) is an approved CISA management company (#29). Assets are managed by Prudential Investment Managers (South Africa) (Pty) Ltd, which is an approved discretionary Financial Services Provider (#45199). Collective Investment Schemes (unit trusts) are generally medium to long-term investments. The value of participatory interest (units) may go down as well as up. Past performance is not necessarily a guide to the future. Unit trust prices are calculated on a net asset value basis, which for money market funds is the total book value of all assets in the portfolio divided by the number of units in issue. Fluctuations or movements in exchange rates may also be the cause of the value of underlying international investments going up or down. Unit trusts are traded at ruling prices. Commissions and incentives may be paid and if so, would be included in the overall costs. Different classes of units apply to the Prudential Collective Investment Scheme Funds and are subject to different fees and charges. A detailed schedule of fees and charges and maximum commissions is available on request from the company. Forward pricing is used. All of the unit trusts may be capped at any time in order for them to be managed in accordance with their mandates. Performance figures are sourced from Morningstar and are based on lump sum investments using NAV prices with gross income reinvested. Purchase and repurchase requests must be received by the Manager by 13h30 (11h30 for Money Market and 10h30 for Dividend Income Funds) SA time each business day. All online purchase and repurchase transactions must be received by the Manager by 10h30 (for all Funds) SA time each business day. General market performance data may have been provided for illustrative and explanatory purposes. This information is not intended to constitute the basis for any specific investment decision. Investors are advised to familiarize themselves with the unique risks pertaining to their investment choices and should seek the advice of a properly qualified financial consultant or adviser before investing.

PRUDENTIAL ENHANCED SA PROPERTY TRACKER FUND

QUARTERLY COMMENTARY 30 SEPTEMBER 2015

Risk profile:



ASISA category:

South African - Real Estate - General

Benchmark:

FTSE/JSE South African Listed Property Index (J253)

Inception date:

02 December 2005

Fund size:

R5 167 996 813

Awards:

Morningstar/Standard & Poor's: 2011

Fund managers:



Albert Arntz

Duncan Schwulst

Performance

The Fund returned 6.0% for the quarter while the SA Listed Property index returned 6.2%. Half of the 0.2% underperformance over this period may be attributed to the impact of cash held in the fund for liquidity purposes (just over 1.5% of Fund value). Cash is a drag on performance due to comparably low rates of interest earned on cash holdings (cash returned 4.6% less than the SA Listed Property index over the quarter).

Over the past year the Fund returned 25.9%, outperforming the benchmark by 0.1%. The fund's outperformance over this period may be attributed to outperformance from active stock selection, partly offset by the underperformance from the cash holdings. The 7-year track record of the fund ranks it second out of 17 funds in the South African Real Estate – General sector.

Annualised performance	A Class	D Class*	Benchmark
1 year	25.9%	26.0%	25.8%
3 years	17.0%	17.2%	16.9%
5 years	18.6%	18.7%	18.9%
7 years	20.4%	n/a	20.5%
Since inception	18.3%	n/a	18.6%

* Inception date D Class: 1 July 2010

Market commentary

Listed Property had a good start to the third quarter of 2015 following a weak second quarter. By early in August the SA Listed Property index was up a little over 8% from the start of the quarter, with the rolling 12-month return touching 35% at that point (far outstripping the 9.1% recorded by the FTSE/JSE All Share Index, the next best performing asset class, over the same period).

The surprise devaluation of the Chinese Yuan on 11 and 12 August amid Chinese stock market volatility and the country's relative economic slowdown, together with signs of deteriorating global economic growth, triggered widespread selling of emerging market assets. Over the subsequent few weeks property managed to decline over 5%. By the end of September most of those losses were regained, with Listed Property returning 6.2% for the quarter.

Strategy and outlook

Prudential's multi-asset funds started the quarter slightly underweight in listed property relative to benchmarks. Following the overall stronger

performance of listed property over the third quarter the sector is once again expensive, especially measured against South African nominal bonds. As such, the slight underweight has been maintained at quarter-end.

SA Listed Property (excluding developers) is currently priced to deliver a one year forward distribution yield of 6.8%. This combines with 8.2% forecast distribution growth, to produce an estimated total return of around 15% - well in excess of inflation. However, the forward distribution yield of 6.8% is only slightly above the lows seen in the first quarter of the year, and around 1.35% below the yield of SA 10-year government bonds. This level of yield gap versus government bonds remains on the expensive side of the longer-term history, leaving listed property vulnerable to de-rating, in which case the 15% expected total return would be at risk.

Though listed property may continue to look somewhat expensive, valuations continue to be supported by low real cash rates. The sector thus remains at risk to changes in the market's expectations of the trajectory of future cash rates.

In this regard markets were focused on the September US Federal Reserves' FOMC meeting. The Committee opted to maintain the level of US interest rates, and revised downward its own expectations for the trajectory of future rate hikes, such that by mid-2018 the Fed Funds rate is forecast at only 1.3%, compared to 2.0% per the previous meeting. The market is now only pricing in a 40% chance of the first US rate hike coming in December.

Locally, at the July MPC meeting, the SA Reserve Bank (SARB) raised the repo rate by 25bps to 6.0% in the face of upside risks to inflation from a weaker Rand, higher near-term inflation expectations, and an expected breach in the Bank's upper 6% CPI target band in Q1 2016. However, by the time of the September meeting, inflationary pressures had abated to a certain extent and, combined with weaker local and global economies, the MPC opted to leave rates on hold. The SARB's latest forecasts see CPI averaging 4.7% in 2015 versus 5.0% previously, peaking at 6.7% (previously 6.9%). The Bank also lowered its GDP growth forecast by 0.5% in each of the forecast periods: to 1.5% in 2015, 1.6% in 2016 and 2.1% in 2017.

For now then, interest rate normalisation (locally and abroad), resulting in increased real cash rates, seems to have been pushed down the road – a positive for income-producing assets such as listed property. However, we continue to expect further bouts of volatility in the coming quarter, and into 2016, as expectations for interest rate increases, both locally and internationally, continue to change in response to economic data. Any signs of stronger global economic growth will prompt speculation once again of rising interest rates. Rising interest rates coinciding with a weak domestic economy would be negative for SA listed property.

On the earnings front the sector continues to face headwinds from the continuing weak economic growth in South Africa. Vacancies remain relatively stable overall, however management teams continue to be downbeat on the prospects for the local property sector.

Company-reported like-for-like growth in net property income during the quarter, a measure of underlying property performance, was in line with previous quarters at around 6%. Weighted average year-on-year reported distribution per share growth was an impressive 13.2%. This was driven in large part by positive surprises resulting from currency translation gains (against the US Dollar and Euro) and from reduced costs of borrowing from the use of currency swaps to effectively swap Rand-based borrowings into USD/Euro/GBP debt (at lower interest rates).

Despite meeting earnings expectations for the current year, sector heavyweight Growthpoint surprised investors by guiding the market to muted 5%-6% distribution per share growth for its June 2016 year-end. Though several company-specific factors are contributing to this negative surprise, management did also highlight a lack of acquisitive SA growth opportunities as a headwind to growth.

With limited opportunities for attractive growth in South Africa, many companies have been looking to non-traditional property sectors to enhance growth prospects. SA residential property (mainly low to mid-LSM CBD apartment exposures), Europe and Africa are being targeted.

The continued shift of focus offshore is for the most part being motivated by the positive spread (typically in excess of 2%) between initial yields on acquisitions and offshore debt funding costs. Already close to 30% of the value of the SAPY index represents foreign property exposure.

PRUDENTIAL ENHANCED SA PROPERTY TRACKER FUND

QUARTERLY COMMENTARY 30 SEPTEMBER 2015



How to invest

Call us at **0860 105 775** or visit our website at www.prudential.co.za. Application forms and all documentation required by FICA, must be faxed to **+27 11 263 61 43** or e-mailed to instructions@myprudential.co.za. Cheques must be made payable to **Prudential Enhanced SA Property Tracker Fund** and deposited into the following bank account: **Standard Bank, Claremont, Account number: 072654171, Branch code: 025109.**

Disclaimer

Prudential Portfolio Managers Unit Trusts Ltd (Registration number: 1999/0524/06) is an approved CISA management company (#29). Assets are managed by Prudential Investment Managers (South Africa) (Pty) Ltd, which is an approved discretionary Financial Services Provider (#45199). Collective Investment Schemes (unit trusts) are generally medium to long-term investments. The value of participatory interest (units) may go down as well as up. Past performance is not necessarily a guide to the future. Unit trust prices are calculated on a net asset value basis, which for money market funds is the total book value of all assets in the portfolio divided by the number of units in issue. Fluctuations or movements in exchange rates may also be the cause of the value of underlying international investments going up or down. Unit trusts are traded at ruling prices. Commissions and incentives may be paid and if so, would be included in the overall costs. Different classes of units apply to the Prudential Collective Investment Scheme Funds and are subject to different fees and charges. A detailed schedule of fees and charges and maximum commissions is available on request from the company. Forward pricing is used. All of the unit trusts may be capped at any time in order for them to be managed in accordance with their mandates. Performance figures are sourced from Morningstar and are based on lump sum investments using NAV prices with gross income reinvested. Purchase and repurchase requests must be received by the Manager by 13h30 (11h30 for Money Market and 10h30 for Dividend Income Funds) SA time each business day. All online purchase and repurchase transactions must be received by the Manager by 10h30 (for all Funds) SA time each business day. General market performance data may have been provided for illustrative and explanatory purposes. This information is not intended to constitute the basis for any specific investment decision. Investors are advised to familiarize themselves with the unique risks pertaining to their investment choices and should seek the advice of a properly qualified financial consultant or adviser before investing.

PRUDENTIAL GLOBAL HIGH YIELD BOND FUND OF FUNDS

QUARTERLY COMMENTARY 30 SEPTEMBER 2015



Risk profile:



(In Sterling or US Dollar terms)

ASISA category:

Global - Interest Bearing - Variable Term

Benchmark:

Barclays Capital Global Aggregate Bond Index

Inception date:

01 November 2000

Fund size:

R252 905 711

Awards:

Raging Bull: 2006, 2008, 2013

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

Fund managers:



David Knee



Michael Moyle

Market overview

It proved to be a difficult third quarter (Q3) of 2015 for investors, with global financial markets buffeted by uncertainty arising from both a slowing Chinese (and global) economy and the postponement of interest rate hikes in the US. In July the successful Greek bailout agreement made for a positive start to the quarter, but the ongoing sharp selloff in the Chinese equity market proved to be the catalyst for more widespread global selling. A general investor flight to safety materialised, with emerging markets bearing the brunt of the losses. Investor concerns centred on deteriorating global growth prospects (and consequently corporate earnings) as Chinese data surprised to the downside, the Japanese economy contracted 1.6% (q/q annualised) in Q2, emerging market economies weakened and the Euro area remained mired in a zero-inflation environment. Meanwhile, holders of higher-yielding debt became more worried about creditworthiness. Deflationary pressures globally were spurred by a 22.1% drop in the price of Brent crude oil during the quarter, while commodity prices in general slumped 16%.

In the US, there was some softening in the second half of Q3 after robust 3.9% Q2 growth (q/q annualised). Industrial production slowed, and there was a steady three-month decline in consumer sentiment. US equities were impacted by bearish global sentiment, with the S&P 500 losing 6% in August, its worst month since 2012. At its much-anticipated meeting on 24 September the Federal Reserve's FOMC opted to postpone its first interest rate hike, citing a worsening outlook for global growth and financial market volatility, as well as some continuing labour market slack. The S&P 500 returned -6.4% for the quarter, and -0.6% over 12 months. The yield on the 10-year US Treasury bond rallied by about 30 basis points (bps) in the flight to safety, unwinding most of Q2's losses, while investment-grade corporate bonds saw yields rise about 30bps. US high-yield bonds sold off as yields jumped 160bps versus US Treasuries.

How to invest

Call us at 0860 105 775 or visit our website at www.prudential.co.za. Application forms and all documentation required by FICA, must be faxed to +27 11 263 61 43 or e-mailed to instructions@myprudential.co.za. Cheques must be made payable to **Prudential Global High Yield Bond Fund of Funds** and deposited into the following bank account: **Standard Bank, Claremont, Account number: 071863443, Branch code: 025109.**

Disclaimer

Prudential Portfolio Managers Unit Trusts Ltd (Registration number: 1999/0524/06) is an approved CISA management company (#29). Assets are managed by Prudential Investment Managers (South Africa) (Pty) Ltd, which is an approved discretionary Financial Services Provider (#45199). Collective Investment Schemes (unit trusts) are generally medium to long-term investments. The value of participatory interest (units) may go down as well as up. Past performance is not necessarily a guide to the future. Unit trust prices are calculated on a net asset value basis, which for money market funds is the total book value of all assets in the portfolio divided by the number of units in issue. Fluctuations or movements in exchange rates may also be the cause of the value of underlying international investments going up or down. Unit trusts are traded at ruling prices. Commissions and incentives may be paid and if so, would be included in the overall costs. Different classes of units apply to the Prudential Collective Investment Scheme Funds and are subject to different fees and charges. A detailed schedule of fees and charges and maximum commissions is available on request from the company. Forward pricing is used. All of the unit trusts may be capped at any time in order for them to be managed in accordance with their mandates. Performance figures are sourced from Morningstar and are based on lump sum investments using NAV prices with gross income reinvested. Purchase and repurchase requests must be received by the Manager by 13h30 (11h30 for Money Market and 10h30 for Dividend Income Funds) SA time each business day. All online purchase and repurchase transactions must be received by the Manager by 10h30 (for all Funds) SA time each business day. General market performance data may have been provided for illustrative and explanatory purposes. This information is not intended to constitute the basis for any specific investment decision. Investors are advised to familiarize themselves with the unique risks pertaining to their investment choices and should seek the advice of a properly qualified financial consultant or adviser before investing.

In China, the surprise devaluation of the Yuan on 11-12 August (by about 3% in total) came as a shock to markets, especially amid stock market volatility, sparking fears of global currency wars. This, in turn, triggered widespread selling of emerging market assets. The Shanghai Composite Index was down 41% from its mid-June peak, despite extensive government intervention to shore up the market. Its failure to do so further undermined faith in the government's ability to bolster the slowing economy. However, the Chinese government did implement a raft of fresh measures over the quarter to stimulate growth.

In Japan, data was disappointing, fuelling talk of further monetary stimulus and more government spending, despite high debt levels. Citing the poor outlook for growth and inflation, S&P downgraded the country's sovereign credit rating one notch to A+. In the Euro area Q2 GDP growth disappointed at 1.2% (q/q annualised), inflation fell 0.1% year-on-year in September and August unemployment was unchanged at 11%, prompting calls for an expansion of the ECB's quantitative easing programme.

Emerging markets experienced a horrible quarter, which included the downgrade of Brazil's credit rating to junk status by S&P in September to BB+ on the back of the rapid deterioration in the country's economy and public finances. The Emerging Markets Bond Index (in US Dollars) saw a 75bp rise in yields to a spread of 475bps over US Treasuries. Versus the US Dollar, the Brazilian Real was down 21%, the Rouble lost 15.7%, the Rand depreciated 12.0% and the Turkish Lira fell 11.6%. The Rand also lost 12.4% against the Euro and 8.9% versus the Pound Sterling during the quarter.

Performance

For the quarter ending 30 September 2015, the Fund returned 12.7% (net of fees, in Rand), versus the 14.8% returned by its benchmark, the Barclays Capital Global Aggregate Bond Index. The Fund benefitted significantly from the Rand's depreciation against most major currencies during the period. Relative to the benchmark, the two main detractors from performance were its short duration position, reflected in its higher holdings of cash and short dated bonds as well as the Fund's overweight position in corporate bonds.

In absolute performance terms, the main contributor was the depreciation of the Rand, with the Fund's US dollar bond holdings consequently performing best. For the past 12 months, the Fund has returned 14.6% (net of fees), while since inception the Fund has returned 9.7% p.a.

Annualised performance	A Class	Benchmark
1 year	14.6%	18.3%
3 years	17.5%	16.6%
5 years	16.1%	15.7%
7 years	11.9%	11.2%
10 years	12.3%	12.1%
Since inception	9.7%	9.8%

Strategy and outlook

To mitigate the rising risks from expensive global bond markets in the face of the impending rise in US interest rates, we have been underweight duration in the Fund and had earlier reduced interest rate risk on our US and European bond holdings through our allocation to floating-rate notes (FRNs) and cash. We have maintained this defensive positioning in Q3 as the US Federal Reserve postponed its first hike although we did increase our allocation to fixed rate US high yield largely funded from floating rate bonds, reflecting the extent of the sell-off in this asset class in Q3.

In light of the ongoing strength in developed market government bonds over the period, we continue to see little value in these assets in the medium term. We remain positive on spread products in both investment-grade and high-yield corporate bond markets. The yield offered in excess of government bonds has become even more attractive in the past quarter, but in the main our positive view is predicated on the fact that we don't foresee an environment developing in which they would perform very poorly (such as an aggressive interest rate-hiking cycle or a recession) as a result of a sharp rise in defaults.

PRUDENTIAL GLOBAL CAUTIOUS MANAGED FUND OF FUNDS

QUARTERLY COMMENTARY 30 SEPTEMBER 2015

Risk profile:



(In Sterling or US Dollar terms)

ASISA category:

Global - Multi Asset - Low Equity

Benchmark:

ASISA Global – Multi-Asset – Low Equity Category Mean

Inception date:

01 March 2004

Fund size:

R87 599 498

Fund managers:



Marc Beckenstrater



David Knee



Michael Moyle

Market overview

It proved to be a difficult third quarter (Q3) of 2015 for investors, with global financial markets buffeted by uncertainty arising from both a slowing Chinese (and global) economy and the postponement of interest rate hikes in the US. In July the successful Greek bailout agreement made for a positive start to the quarter, but the ongoing sharp selloff in the Chinese equity market proved to be the catalyst for more widespread global selling. A general investor flight to safety materialised, with emerging markets bearing the brunt of the losses. Investor concerns centred on deteriorating global growth prospects (and consequently corporate earnings) as Chinese data surprised to the downside, the Japanese economy contracted 1.6% (q/q annualised) in Q2, emerging market economies weakened and the Euro area remained mired in a zero-inflation environment. Meanwhile, holders of higher-yielding debt became more worried about creditworthiness. Deflationary pressures globally were spurred by a 22.1% drop in the price of Brent crude oil during the quarter, while commodity prices in general slumped 16%.

In the US, there was some softening in the second half of Q3 after robust Q2 growth of 3.9% (q/q annualised). Industrial production slowed, and there was a steady three-month decline in consumer sentiment. US equities were impacted by bearish global sentiment, with the S&P 500 losing 6% in August, its worst month since 2012. At its much-anticipated meeting on 24 September the Federal Reserve's FOMC opted to postpone its first interest rate hike, citing a worsening outlook for global growth and financial market volatility, as well as some continuing labour market slack. The S&P 500 returned -6.4% for the quarter, and -0.6% over 12 months. The yield on the 10-year US Treasury bond rallied by about 30 basis points (bps) in the flight to safety, unwinding most of Q2's losses, while investment-grade corporate bonds saw yields rise about 30bps. US high-yield bonds sold off as yields jumped 160bps versus US Treasuries.

In China, the surprise devaluation of the Yuan on 11-12 August (by about 3% in total) came as a shock to markets, especially amid stock market volatility, sparking fears of global currency wars. This, in turn, triggered widespread selling of emerging market

assets. The Shanghai Composite Index fell 28.6% over the quarter and was down 41% from its mid-June peak, despite extensive government intervention to shore up the market. Its failure to do so further undermined faith in the government's ability to bolster the slowing economy. However, the Chinese government did implement a raft of fresh measures over the quarter to stimulate growth.

In Japan, data was disappointing, fuelling talk of further monetary stimulus and more government spending, despite high debt levels. Citing the poor outlook for growth and inflation, S&P downgraded the country's sovereign rating one notch to A+. The Nikkei returned -11.6% in Q3. In the Euro area Q2 GDP growth disappointed at 1.2% (q/q annualised), inflation fell 0.1% year-on-year in September and August unemployment was unchanged at 11%, prompting calls for an expansion of the ECB's quantitative easing programme. The Dow Jones Eurostoxx 50 Index returned -9.1% for the quarter, its worst in four years.

Emerging markets experienced a horrible quarter, which included the downgrade of Brazil's credit rating to junk status by S&P in September to BB+ on the back of the rapid deterioration in the country's economy and public finances. The MSCI Emerging Markets Index recorded a total return of -17.8%, while developed markets (MSCI World Free Index) were better at -8.3% (both in US dollars). The Emerging Markets Bond Index (in US Dollars) saw a 75bp rise in yields to a spread of 475bps over US Treasuries. Versus the US Dollar, the Brazilian Real was down 21%, the Rouble lost 15.7%, the Rand depreciated 12.0% and the Turkish lira fell 11.6%. The Rand also lost 12.4% against the Euro and 8.9% versus the Pound Sterling during the quarter.

Performance

For the quarter ending 30 September 2015, the fund returned 8.1% (net of fees in Rand), compared to an average return of 8.6% from the ASISA Global Multi-Asset Low Equity sector. Rand weakness against most major currencies added significantly to performance from most fixed-income assets, but in many cases did not outweigh the negative returns from equities. In Rand terms, the top contributor to absolute performance was the Fund's money market holdings, followed by US listed property, US fixed income assets including investment grade corporate bonds, and European corporate bonds. Japanese and other Asian equities proved to be the largest detractors.

Annualised performance	A Class	Benchmark
1 year	15.1%	15.3%
3 years	17.3%	17.5%
5 years	14.1%	14.3%
7 years	7.2%	6.9%
10 years	9.1%	9.3%
Since inception	8.3%	7.9%

Strategy and outlook

The fall in global equities left most markets modestly cheaper from a valuation perspective, supporting our ongoing view that: we still prefer global equities over bonds and cash in our global portfolios. Our equity allocations 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 remain underweight duration and previously reduced interest rate risk on our US holdings in our specialist portfolios through our allocation to floating-rate notes (FRNs). We have maintained this defensive positioning in Q3 in the wake of the US Federal Reserve's postponement of the start of its rate hiking cycle, and the possible impact of rising interest rates on fixed income assets, although we did add exposure to fixed rate US high yield during the quarter, funded from cash, given the extent of the sell off in this asset class. We do continue to be positive on spread products in both investment-grade and high-yield corporate bond markets, given that we don't see an environment developing in which they would perform very poorly (namely, an aggressive interest rate-hiking cycle or a recession in which default rates would rise sharply).

How to invest

Call us at 0860 105 775 or visit our website at www.prudential.co.za. Application forms and all documentation required by FICA, must be faxed to +27 11 263 61 43 or e-mailed to instructions@myprudential.co.za. Cheques must be made payable to **Prudential Global Cautious Managed Fund of Funds** and deposited into the following bank account: Standard Bank, Claremont, Account number: 071863575, Branch code: 025109.

Disclaimer

Prudential Portfolio Managers Unit Trusts Ltd (Registration number: 1999/0524/06) is an approved CISA management company (#29). Assets are managed by Prudential Investment Managers (South Africa) (Pty) Ltd, which is an approved discretionary Financial Services Provider (#45199). Collective Investment Schemes (unit trusts) are generally medium to long-term investments. The value of participatory interest (units) may go down as well as up. Past performance is not necessarily a guide to the future. Unit trust prices are calculated on a net asset value basis, which for money market funds is the total book value of all assets in the portfolio divided by the number of units in issue. Fluctuations or movements in exchange rates may also be the cause of the value of underlying international investments going up or down. Unit trusts are traded at ruling prices. Commissions and incentives may be paid and if so, would be included in the overall costs. Different classes of units apply to the Prudential Collective Investment Scheme Funds and are subject to different fees and charges. A detailed schedule of fees and charges and maximum commissions is available on request from the company. Forward pricing is used. All of the unit trusts may be capped at any time in order for them to be managed in accordance with their mandates. Performance figures are sourced from Morningstar and are based on lump sum investments using NAV prices with gross income reinvested. Purchase and repurchase requests must be received by the Manager by 13h30 (11h30 for Money Market and 10h30 for Dividend Income Funds) SA time each business day. All online purchase and repurchase transactions must be received by the Manager by 10h30 (for all Funds) SA time each business day. General market performance data may have been provided for illustrative and explanatory purposes. This information is not intended to constitute the basis for any specific investment decision. Investors are advised to familiarize themselves with the unique risks pertaining to their investment choices and should seek the advice of a properly qualified financial consultant or adviser before investing.

PRUDENTIAL GLOBAL VALUE FUND OF FUNDS

QUARTERLY COMMENTARY 30 SEPTEMBER 2015

Risk profile:



(In Sterling or US Dollar terms)

ASISA category:

Global - Equity - General

Benchmark:

MSCI All Country World Index (Net)

Inception date:

18 February 2000

Fund size:

R211 012 871

Fund managers:



Marc Beckenstrater



Michael Moyle

Annualised performance

	A Class	Benchmark
1 year	10.9%	14.2%
3 years	24.9%	26.7%
5 years	19.4%	22.5%
7 years	11.0%	14.2%
10 years	10.1%	13.1%
Since inception	6.4%	7.7%

Strategy and outlook

Our global asset allocation remains unchanged and continues to favour equities over bonds or cash, and global equities over local SA equities. Global equities are more attractively valued than SA equities on measures like price-earnings and price-book value ratios. We continue to favour European markets, which we believe to be fairly valued, particularly after the Greece-related downturn, and remain underweight commodity producers like Australia and Canada, as well as the US.

Following this quarter's sell-off, equity market valuations have moved to more attractive valuations. However, the most attractive markets (i.e. emerging markets) remain the most risky, and we are still cautious in this area. Given slowing global economic growth, corporate earnings growth remains vulnerable to downward revisions. From an historic valuation perspective, developed market equities still appear to be the best value.

Market overview

It proved to be a difficult third quarter (Q3) of 2015 for investors, with global financial markets buffeted by uncertainty arising from both a slowing Chinese (and global) economy and the postponement of interest rate hikes in the US. In July the successful Greek bailout agreement made for a positive start to the quarter, but the ongoing sharp selloff in the Chinese equity market – which had started in June – proved to be the catalyst for more widespread global selling. A general investor flight to safety materialised in August and continued into September, with emerging markets bearing the brunt of the losses and nearly US\$11 trillion wiped off global equity values over the quarter. The US has been showing signs of an industrial slowdown after robust 3.9% Q2 growth (q/q annualised), due to the stronger US Dollar and weaker global demand.

Performance

The Fund returned 2.0% (net) in Rand for the quarter versus 3.1% returned by its benchmark, the MSCI All Countries World Index.

The main contributor to underperformance was stock selection in US and UK as quality and value stocks struggled given prevailing market conditions. The underperformance was in part offset by good stock selection in Korea and country selection in Europe where we have been overweight Germany and Italy.

How to invest

Call us at **0860 105 775** or visit our website at www.prudential.co.za. Application forms and all documentation required by FICA, must be faxed to **+27 11 263 61 43** or e-mailed to instructions@myprudential.co.za. Cheques must be made payable to **Prudential Global Value Fund of Funds** and deposited into the following bank account: **Standard Bank, Claremont, Account number: 072578580, Branch code: 025109.**

Disclaimer

Prudential Portfolio Managers Unit Trusts Ltd (Registration number: 1999/0524/06) is an approved CISA management company (#29). Assets are managed by Prudential Investment Managers (South Africa) (Pty) Ltd, which is an approved discretionary Financial Services Provider (#45199). Collective Investment Schemes (unit trusts) are generally medium to long-term investments. The value of participatory interest (units) may go down as well as up. Past performance is not necessarily a guide to the future. Unit trust prices are calculated on a net asset value basis, which for money market funds is the total book value of all assets in the portfolio divided by the number of units in issue. Fluctuations or movements in exchange rates may also be the cause of the value of underlying international investments going up or down. Unit trusts are traded at ruling prices. Commissions and incentives may be paid and if so, would be included in the overall costs. Different classes of units apply to the Prudential Collective Investment Scheme Funds and are subject to different fees and charges. A detailed schedule of fees and charges and maximum commissions is available on request from the company. Forward pricing is used. All of the unit trusts may be capped at any time in order for them to be managed in accordance with their mandates. Performance figures are sourced from Morningstar and are based on lump sum investments using NAV prices with gross income reinvested. Purchase and repurchase requests must be received by the Manager by 13h30 (11h30 for Money Market and 10h30 for Dividend Income Funds) SA time each business day. All online purchase and repurchase transactions must be received by the Manager by 10h30 (for all Funds) SA time each business day. General market performance data may have been provided for illustrative and explanatory purposes. This information is not intended to constitute the basis for any specific investment decision. Investors are advised to familiarize themselves with the unique risks pertaining to their investment choices and should seek the advice of a properly qualified financial consultant or adviser before investing.