PRUDENTIAL MONEY MARKET FUND
QUARTERLY COMMENTARY 30 SEPTEMBER 2014

PRUDENTIAL
INVESTMENT MANAGERS

Risk profile:

LOW | LOW-MED | MED | MED-HIGH | HIGH

ASISA category:
South African - Interest Bearing - Money Market

Benchmark:
STeFI Call Deposit Index

Inception date:
09 April 2002

Fund size:
R14 432 523 286

Fund managers:


Roshen Harry   Sandile Malinga

Market overview

The SARB left the repo rate unchanged at 5.75% at its September MPC meeting, which was in line with consensus expectations. The tone of the statement was less hawkish than that of the July meeting (where rates were raised by 25bps), and the governor indicated that South Africa was still in a "hiking cycle" but also emphasized that policy "remains accommodative".

The announcement that SARB governor Gill Marcus will not pursue a second term (her current term expires on Nov 8) raised much speculation that her successor would be potentially more hawkish. The front runners for the leadership are Daniel Mminele or Lesetja Kganyago, both of whom are seen as less dovish than Marcus. An appointment of either contender would push the MPC's case for a hiking cycle despite anaemic growth.

August's CPI inflation increased to 6.4% y/y, higher than consensus at 6.2% y/y, and up from 6.3% y/y in July. The upside surprise was largely due to higher food prices, although core inflation continued to tick up. New vehicle prices also rose slightly more than expected and there is more generalized exchange rate pass-through pushing up core inflation.

PPI inflation fell in August to 7.2% y/y from 8.0% y/y in July. Mining and manufacturing PPI inflation rates slowed, whilst agriculture and utilities PPI rose marginally.

Private sector credit extension in August slowed to 8.8% y/y relative to July's figure of 9.8% y/y and was more or less in line with the consensus forecast of 8.8% y/y. Household credit growth continued to slow under consumption pressures and a tighter domestic lending environment. Although corporate credit growth also slowed slightly, there has been healthy appetite from local businesses related to many companies' expansion plans into sub-Saharan Africa and also South Africa's large infrastructure programmes.

Performance

Over the past quarter, the Fund delivered a return of 1.5% (gross) versus its benchmark the Stefi call deposit index which returned 1.3%. The current average duration of the Fund is 51 days relative to the 90 day maximum average duration.

Annualised performance	A Class	X Class #	Benchmark
1 Year	5.4%	5.5%	5.1%
3 Years	5.3%	5.4%	5.0%
5 Years	5.7%	n/a	5.4%
7 Years	7.1%	n/a	6.9%
10 Years	7.3%	n/a	7.2%
Since Inception	8.0%	5.4%	8.0%

Inception date: 01 April 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**, e-mailed to **instructionsa@myprudential.co.za** or posted to **PO Box 23167, Claremont, 7735**. 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

Sources: Prudential & Morningstar

PRUDENTIAL HIGH INTEREST FUND
QUARTERLY COMMENTARY 30 SEPTEMBER 2014

PRUDENTIAL
INVESTMENT MANAGERS

Risk profile:

LOW | LOW-MED | MED | MED-HIGH | HIGH

ASISA category:

South African - Interest Bearing - Short Tern

Benchmark:

STeFI Composite Index measured over a rolling 12-month period

Inception date:

08 December 2010

Fund size:

R11 990 190 909

Fund managers:

Roshen Harry

Sandile Malinga

Market overview

The SARB left the repo rate unchanged at 5.75% at its September MPC meeting, which was in line with consensus expectations. The tone of the statement was less hawkish than that of the July meeting (where rates were raised by 25bps), and the governor indicated that South Africa was still in a "hiking cycle" but also emphasized that policy "remains accommodative".

The announcement that SARB governor Gill Marcus will not pursue a second term (her current term expires on Nov 8) raised much speculation that her successor would be potentially more hawkish. The front runners for the leadership are Daniel Mminele or Lesetja Kganyago, both of whom are seen as less dovish than Marcus. An appointment of either contender would push the MPC's case for a hiking cycle despite anaemic growth.

The impact on the corporate bond market by the curatorship of African Bank in August was evidenced by credit spreads moving wider.

Investors' perceptions of where short-term interest rates would be in 12 months' time shot up from about 6.6% prior to the rate hike, to 7.2% at the end of the quarter. The volatility in the Rand persisted throughout the quarter, stoked by growing worries about global (and South African) growth. The unit opened the quarter 10.6 and closed at a high of 11.3 versus the US Dollar.

Performance

The Prudential High Interest Fund generated a return of 1.4% (gross) for the quarter compared to its benchmark, the Stefi composite index which returned 1.5% (gross). The main detractor to performance was the Fund's exposure to African Bank where a 0.2% impairment was taken.

The Fund had 2.0% exposure to African Bank Senior Debt instruments which we have impaired by 10%. This is in line with the SARB announcement on 9 August which effectively values all senior debt instruments at 90% of their face value.

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

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

Relative to the 180 day maximum average duration, the Fund currently has a duration of about 121 days.

Annualised performance	A Class	X Class #	D Class #	Benchmark
1 Year	5.5%	5.6%	6.4%	5.6%
2 Years	5.5%	5.6%	6.0%	5.4%
3 Years	5.6%	5.7%	6.1%	5.5%
Since inception	5.7%	5.7%	6.1%	5.5%

Inception date of X Class and D Class respectively: 01 April 2011, 09 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 added securities issued by banks such as ABSA, Standard Bank, FirstRand and Investec.

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

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**, e-mailed to **instructionsa@myprudential.co.za** or posted to **PO Box 23167, Claremont, 7735**. 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.**

Sources: Prudential & Morningstar

PRUDENTIAL HIGH YIELD BOND FUND
QUARTERLY COMMENTARY 30 SEPTEMBER 2014

PRUDENTIAL
INVESTMENT MANAGERS

Risk profile:

LOW | LOW-MED | MED | MED-HIGH | HIGH

ASISA category:
South African - Interest Bearing - Variable Term

Benchmark:
BEASSA Total Return All Bond Index

Inception date:
27 October 2000

Fund size:
R298 119 793

Fund managers:


David Knee


Gareth Bern

Market overview

In the US, the Federal Reserve at its 17 September FOMC meeting maintained its language of keeping rates low for "a considerable time" after ending its bond purchases, as Chairman Janet Yellen continued to cite labour market weakness. However, FOMC members' expectations for median interest rates in 2015 and 2016 (as shown by the Fed's "dots plot") were shown to have moved higher – a clearly more hawkish stance than the previous quarter – fueling expectations of more aggressive interest rate hikes in the US next year.

At the same time a raft of positive data surprises in September contributed to short-term US rates rising and bonds weakening. US Q2 GDP data surprised positively being revised up to 4.6% y/y from 4.2% y/y (following a weather affected 2.1% contraction in Q1). Unemployment also fell to 6.1% in August, the lowest since 2008. Meanwhile, inflation pressures remained contained, with September CPI at 1.7% y/y below expectations of 1.9% y/y.

In contrast, Europe (apart from the UK) remains in the doldrums. ECB President Mario Draghi's statement at Jackson Hole calling for additional stimulus sparked a marked reassessment of the Eurozone's longer-term growth prospects. In Q2, Germany barely grew (at 1.2% y/y), French GDP was flat, and Italy contracted 1.2%. Across the region CPI fell to 0.3% in September, a five-year low (0.7% as measured by core CPI).

In South Africa, bearish inflation data weighed on the local market. August CPI came in at 6.4% y/y, above expectations of 6.2%y/y. Core inflation (excluding petrol, food and electricity prices) crept up to 5.8% in August from 5.7% in July.

Meanwhile, the SARB lowered its GDP forecast to 1.5% y/y from 1.7%, with the risks "still on the downside". Analysts have warned that the SA government's deteriorating fiscal balance in the wake of this slower growth will put South Africa's sovereign credit rating under pressure (five months into the 2014/15 fiscal year, revenues are lower, and spending higher, than budgeted). With the weak growth as a backdrop, the SARB left the repo rate unchanged at 5.75% at its September meeting.

Rand weakness was once again highlighted as a key risk to inflation going forward. With the Rand losing 6% against the US Dollar over the quarter, fears of imported inflation gathered pace and in turn pushed interest rate expectations higher. By quarter-end forward rate agreements (FRAs) were pointing to 3-month interest rates at 7.60% in two years' time, up from 7.10% at their best level in August.

The impact on the local corporate bond market by the curatorship of African Bank in August was evidenced by credit spreads versus government bonds moving slightly wider – where bonds traded.

Performance

The Fund achieved a net return of 0.9% for the quarter ranking the Fund 20th out of 21 funds in the South African - Interest Bearing - Variable Term sector, underperforming the JSE All Bond Index (ALBI), which returned 2.2%, by 1.3%. Over a 5 year period the return was 9.2% per annum, ranking the Fund 7th in its peer group, and only 0.1% behind the ALBI return.

The major driver of the negative performance compared to the ALBI was due to the impairment of the Fund's exposures to African Bank which was placed under curatorship on August 10th. The African Bank impairments accounted for 1.2% of the underperformance against the ALBI. Excluding the impact of the African Bank impairments the Fund would have achieved a net return of 2.0% for the quarter underperforming the JSE All Bond Index (ALBI) by 0.2%.

For the quarter nominal bonds (measured by the ALBI) outperformed cash (measured by STEFI, which returned 1.5%) by 0.7%, and inflation-linked bonds (which returned 1.0%). Within the ALBI longer-dated bonds (12+ years) continued to post the best returns at 2.5%, compared to 1.2% for 1-3 year bonds and 1.8% for 7-12 year bonds. The Fund started the quarter slightly long duration through an overweight duration position in the 12 years + sector of the yield curve offset by being underweight duration in the 3 – 7 year area. No changes were made to the Fund's duration position during the course of the quarter.

Annualised performance	A Class	B Class #	Benchmark
1 Year	4.4%	5.1%	5.8%
3 Years	8.1%	8.5%	8.5%
5 Years	9.2%	9.6%	9.3%
7 Years	8.7%	9.1%	8.8%
10 Years	8.8%	9.1%	8.9%
Since inception	11.0%	9.7%	11.1%

Inception date: 01 April 2003

Strategy and positioning

Our views on relative asset class returns remain largely unchanged from the second quarter of 2014. We still prefer equities and listed property over bonds and cash.

Although we see South African equity valuations to be moderately expensive, the potential real returns are still attractive compared to other asset classes. Listed property valuations still look attractive relative to longer bonds. Finally, we continue to believe interest rates are set to stay relatively low for longer, thus cash remains unattractive.

For local bonds we still prefer longer-dated nominal bonds where yields have been remarkably stable around 9.0% (8.9% for the 20-year bond at quarter-end). The difference between cash (3-month JIBAR) rates and the 30-year government bonds is currently 2.6%, having started the quarter 0.5% steeper at 3.1%. This has continued the trend of flattening of the yield curve we have seen since January. Though less steep now it is still considered steep compared with its history.

Given our medium-term views of a relatively subdued interest rate cycle in SA, Inflation-linked bonds (ILBs) continue to be somewhat richly priced against their conventional counterparts. The FRA market's expectations of another 150bps in rate hikes over the next 24 months also appear ambitious, given the local growth outlook.

However, in the short-term, given the sharply weaker Rand and potential for further Rand depreciation, it does make sense that the market would extrapolate a steeper rise in inflation and interest rates – we saw the same market reaction in January this year when the Rand weakened to similar levels.

We remain sceptical that price increases can be pushed through to consumers given the weak consumer demand in SA. As a result, on a medium-term view we see ILBs as expensive and continue to prefer conventional bonds (long-dated) versus ILBs.

Corporate bonds remain attractive in terms of yield enhancement. We remain overweight in this asset class compared to the ALBI. Our credit holdings are expected to continue to add to fund performance.

Sources: Prudential & Morningstar

PRUDENTIAL ENHANCED INCOME FUND
QUARTERLY COMMENTARY 30 SEPTEMBER 2014

PRUDENTIAL
INVESTMENT MANAGERS

Risk profile:

LOW | LOW-MED | MED | MED-HIGH | HIGH

ASISA category:

South African - Multi Asset - Income

Benchmark:

BEASSA ALBI 1-3 year Total Return Index

Inception date:

01 July 2009

Fund size:

R2 074 582 365

Fund managers:

David Knee

Roshen Harry

Market overview

In the US, amid a raft of positive data surprises in September, it was the Federal Reserve's 17 September FOMC meeting that proved to be the tipping point for investor concerns. Although the Fed maintained its language of keeping rates low "for a considerable time" after ending its bond purchases, as Chairman Janet Yellen cited continued labour market weakness, FOMC members' expectations for median interest rates in 2015 and 2016 (as shown by the Fed's "dots plot") moved higher – a clearly more hawkish stance than the previous quarter. This sent the US Dollar higher against most currencies, short-term US rates higher and bonds weaker, and drove selling across emerging market assets.

A positive surprise came from US Q2 GDP data (notably off of a very low base), revised up to 4.6% y/y from 4.2% y/y, after contracting 2.1% in Q1, while unemployment fell to 6.1% in August, the lowest since 2008. Meanwhile, inflation pressures were still contained, with September CPI at 1.7% y/y below expectations of 1.9% y/y. Overall, GDP growth expectations for 2014 were downgraded by about 1.0% across the main emerging markets, with the consensus for China's 2014 GDP growth revised down to 7.3%, below the government's 7.5% target.

Significantly lower commodity prices were also a major theme of Q3 on the back of slower Chinese and global growth, as well as the resurgence of the US Dollar. The combination of weaker commodity prices and "risk-off" sentiment proved to be a "double whammy" for South African markets in the third quarter. With the Rand losing about 6% against the US Dollar over the period, fears of imported inflation gathered pace and in turn pushed interest rate expectations higher: by quarter-end forward rate agreements (FRAs) were pointing to 3-month interest rates at 7.6% in two years' time, up from 7.1% at their best level in August.

Bearish economic data also weighed on local markets. The Q2 current account balance widened to 6.2% of GDP, above the consensus forecast of 5.6%, and August CPI came in at 6.4% y/y, also above expectations of 6.2%y/y. Food prices unexpectedly remained stubbornly high in SA despite maize prices having fallen globally about 20% since the start of the year. At some point this should filter through, putting downward pressure on the local food price basket. Core inflation (excluding petrol, food and electricity prices) crept up to 5.8% in August from 5.7% in July.

Meanwhile, a broad consensus of private economists downgraded SA's 2014 GDP growth forecast to 1.7% from 1.9% previously, while the SARB lowered its own GDP forecast to 1.5% y/y from 1.7%, with the risks "still on the downside". Given the above, the SARB left the repo rate unchanged at 5.75% at its September meeting, citing the "anaemic" state of the economy, but also warned of the weak Rand as a key risk to inflation going forward.

Bonds also came under selling pressure with net outflows from foreigners only partially offset by equity purchases. Although losing 1.6% in September, the All Bond Index managed to return 2.2% over the quarter, with year-to-date returns now at 5.7%. Longer-dated bonds (12+ years) generated a return of 2.5%, compared to 1.2% for 1-3 year bonds and 1.8% for 7-12 year bonds.

Although the yield curve has been flattening since January, it still remains steep by historic terms – reflecting the low level of the repo rate which is still below inflation. Long-dated bond yields have been remarkably stable, retaining relatively attractive yields of around 9.0% (8.9% for the 20-year bond) and still representing good medium-term value, in our opinion. The Fund has however sold some holdings mid-quarter following the strong market rally.

Inflation-linked bonds, meanwhile, continued to benefit somewhat from heightened inflationary concerns, recording a total return of 1.0% for the quarter. This was lower than cash at 1.5%. Looking at 10-year ILB spreads versus conventional bonds at quarter end, inflation break-even was at 6.7%, very similar to the previous quarter. Our view remains unchanged that this is relatively elevated, given the subdued global inflation environment, and hence our preference for nominal bonds over inflation linked.

The impact on the corporate bond market by the curatorship of African Bank in August was evidenced by credit spreads moving wider. We noted that some primary bond issues by smaller, lower-rated borrowers were delayed.

Performance

For the quarter ending September 2014 the Fund delivered a return of 1.2% (gross of fees) underperforming cash by 0.3% and outperforming the benchmark by 0.1%. The Fund had exposure to African Bank which resulted in a loss of about 1.0%.

Annualised performance	A Class	X Class #	B Class #	Benchmark
1 Year	6.8%	7.0%	7.1%	5.2%
2 Years	6.6%	6.9%	7.0%	4.8%
3 Years	8.2%	8.5%	8.6%	6.2%
5 Years	9.0%	n/a	9.3%	7.2%
Since Inception	9.1%	8.6%	9.1%	7.2%

Inception date of X Class and B Class respectively: 01 April 2011, 01 July 2009

Strategy and outlook

Listed property was the star performer among local asset classes in Q3, managing to post a positive total return of 2.2% in September and 7.2% for the quarter. As investors we like listed property for its strong distribution growth prospects over the medium term. After having moved to slightly overweight in this asset class, listed property's outperformance in Q3 has benefitted our fund performance. With valuations still looking attractive relative to longer dated bonds, and expected to continue to deliver inflation-beating distribution growth, we remain moderately overweight.

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**, e-mailed to **instructionsa@myprudential.co.za** or posted to **PO Box 23167, Claremont, 7735**. 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.**

Sources: Prudential & Morningstar

PRUDENTIAL INFLATION PLUS FUND
QUARTERLY COMMENTARY 30 SEPTEMBER 2014

PRUDENTIAL
INVESTMENT MANAGERS

Risk profile:

LOW | LOW-MED | MED | MED-HIGH | HIGH

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:
R25 998 695 716

Awards:
Raging Bulls: 2013

Fund managers:


Michael Moyle


Albert Arntz

Market overview

Although the first two months of the third quarter saw continued market strength as a result of the same sanguine investor sentiment that dominated the second quarter of the year, in September nerves came to the fore amid mounting expectations of more aggressive interest rate hikes in the US next year. Combined with a continued slowing of growth globally (apart from the US and UK), this sparked fairly heavy selling across equity and bond markets, both developed and emerging, reversing much of the previous two months' gains. Easier monetary policy continued in Europe and Japan, where the former reported ever-worsening growth and deflationary concerns, while China also responded to more evidence of growth slowing below the government's 7.5% y/y target for 2014.

In the US, amid a raft of positive data surprises, it was the Federal Reserve's 17 September FOMC meeting that proved to be the tipping point for investor concerns. Although the Fed maintained its language of keeping rates low "for a considerable time" after ending its bond purchases, FOMC members' expectations for median interest rates in 2015 and 2016 (as shown by the Fed's "dots plot") moved higher – a clearly more hawkish stance than the previous quarter. This sent the US Dollar higher against most currencies, short-term US rates higher and bonds weaker, and drove selling across emerging market assets. Commodity prices were also sent lower on the stronger US Dollar and weaker global growth, combined with oversupply in certain commodities.

On the equity front, the US S&P 500 posted a 1.1% total return for the quarter, and 19.7% over 12 months. Developed market equities, as measured by the MSCI World Free Index (in US Dollar), at -2.1%, outperformed the MSCI Emerging Markets Index with -3.4%. This drop was led by Russia (-15.1%), Turkey (-11.8%) and Brazil (-8.4%), while South Africa was down 6.5% (US Dollar total returns). India was the best performer, at +2.3%.

The combination of weaker commodity prices and "risk-off" sentiment proved to be a "double whammy" for South African markets. With the Rand losing 5.8% against the US Dollar, fears of imported inflation gathered pace and in turn pushed interest rate expectations higher: by quarter-end forward rate agreements (FRAs) were pointing to 3-month interest rates at 7.6% in two years' time, up from 7.1% at their best level in August.

The FTSE/JSE All Share Index retreated from its previous highs, losing 2.6% on a total return basis in September alone to record a return of -2.1% for the quarter, and 15.4% over 12 months. The All Bond Index managed to return 2.2% over the quarter, with year-to-date returns now at 5.7%. Longer-dated bonds (12+ years) continued to outperform shorter dates. Inflation-linked bonds (ILBs), meanwhile, benefitted somewhat from heightened inflationary concerns, recording a total return of 1.0% for the quarter. This was lower than cash at 1.5%.

Looking at 10-year ILB spreads versus conventional bonds, inflation break-even was mostly unchanged at 6.7%. Our view remains unchanged that this is relatively elevated, given the subdued global inflation environment, and hence our preference for nominal bonds over inflation-linked. Listed property was the star performer in Q3, returning 7.2%. This gives it a year-to-date return of 14%, and 15.1% over 12 months.

Performance

The Fund earned 1.7% (net of fees) for the third quarter of 2014. The Fund's overweight in SA listed property was the main contributor to the performance, while its holdings in international equity and local bonds also bolstered returns. The Fund has delivered a return of 14.2% per annum since inception (net of fees), while CPI inflation has averaged 5.8% per annum over the same period.

Annualised performance	A Class	X Class #	B Class #	Objective
1 Year	13.0%	13.3%	13.9%	11.4%
3 Years	16.1%	16.4%	17.0%	10.9%
5 Years	14.0%	n/a	14.8%	10.3%
7 Years	11.0%	n/a	11.8%	11.7%
10 Years	13.8%	n/a	14.4%	11.6%
Since inception	14.2%	15.6%	14.1%	11.4%

Inception date of X Class and B Class respectively: 01 July 2011, 01 July 2002

Asset class returns in Rand	Q3	YTD
SA Equity (FTSE/JSE All Share Index)	-2.1%	9.4%
SA Property (FTSE/JSE SA Listed Property Index)	7.2%	14.0%
SA Bonds (BESA All Bond Index)	2.2%	5.7%
SA Inflation Linked Bonds (Barclays/ABSA Government Inflation Linked Bond Index)	1.0%	8.6%
SA Cash (STeFI)	1.5%	4.3%
Global Equity (MSCI All Countries World Index)	4.1%	12.0%
Global Bonds (Barclays Capital Global Aggregate Bond Index)	2.9%	9.1%
Rand (Rand per US Dollar)	-6.3%	-7.3%

Strategy and outlook

Our global asset allocation continues 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 and Price-Book value ratios. Meanwhile, at quarter end, SA equities remained moderately expensive on most metrics, with a 12-month forward price/earnings ratio of 14 times and a 2.3 times price-to-book value ratio. As a result, we are neutral in this asset class.

We also remain overweight listed property due to its favourable distribution growth and inflation-protection characteristics, as distributions are underpinned by rental agreements: at 7.5%, the one-year forward distribution yield from listed property (specifically SA REITs) is nearly 6% higher than ILBs. This suggests that, while REIT distribution growth continues to beat inflation (and assuming yields stay constant), property should outperform ILBs by a similar margin.

For conventional bonds, we have maintained the Fund's neutral duration position. We do, however, still prefer long-dated corporate bonds, which offer attractive yields over their government counterparts.

Given our medium-term views of a relatively subdued interest rate cycle in SA, ILBs continue to be somewhat richly priced against their conventional counterparts. The FRA market's expectations of another 150bps in rate hikes over the next 24 months also appear ambitious, given the local growth outlook. As a result, on a medium-term view we see ILBs as expensive and continue to prefer conventional bonds versus ILBs.

Sources: Prudential & Morningstar

PRUDENTIAL BALANCED FUND
QUARTERLY COMMENTARY 30 SEPTEMBER 2014

PRUDENTIAL
INVESTMENT MANAGERS

Risk profile:

LOW | LOW-MED | MED | MED-HIGH | HIGH

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:
R7 577 815 886

Fund managers:


Marc Beckenstrater


Albert Arntz


Cromwell Mashengete

Strategy and outlook

Our views on relative asset class returns remain largely unchanged through the third quarter of 2014: we still prefer equities and listed property over bonds and cash, and global equities over local equities in our global portfolios.

Despite the bearish moves in the global bond markets over the quarter, with credit spreads under pressure, we have not changed our view – we had already reduced interest rate risk on our US holdings in the previous quarter. We do not expect a sharp increase in corporate default rates as US interest rates rise, since this is typically due to a deteriorating macroeconomic environment, rather than being attributable to Fed rate hikes. So, we are content to remain modestly overweight floating-rate credit assets versus government bonds.

Our global asset allocation continues 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 and Price-Book value ratios. In our multi-asset funds we are very near our maximum permitted 25% weighting in this asset class. From a long-term valuation perspective, developed market equities (such as Germany) still appear to be fairly valued to somewhat cheap, both in absolute terms and relative to cash and bonds. Emerging market equities, although offering even better value, generally present higher risks from slowing growth and falling commodity prices. In our fund positioning, we are overweight Korea, Germany and Italy, and underweight commodity producers like Australia and Canada.

We believe South African equities continue to be moderately expensive, and so remain neutral on this asset class. However, for domestic portfolios, local equities' potential real returns are attractive compared to other asset classes. We continue to favour certain financial stocks over expensive industrials. Our top overweight positions include Old Mutual, Investec and British American Tobacco (BAT), while our top underweights comprise Steinhoff, Remgro and Sanlam. In September's sell-off, our exposure to the Consumer sector added value through holdings such as AVI and BAT. Our underweight to gold stocks also added relative value, but this was offset to some extent by our position in Lonmin.

After having moved to slightly overweight listed property in our multi-asset funds in Q2, its outperformance in Q3 has benefitted our fund performance. With valuations still looking attractive relative to longer bonds, and expected to continue to deliver inflation-beating distribution growth, we remain moderately overweight.

Although the yield curve has been flattening since January, it still remains steep by historic terms – reflecting the low level of the repo rate (still below inflation). Long-dated bond yields have been remarkably stable, retaining relatively attractive yields of around 9.0% and still representing good medium-term value, in our opinion. Its yield above cash and shorter-dated bonds provides sufficient reward for the risk over the medium-term. We also still prefer long-dated corporate bonds, which offer attractive yields over their government counterparts.

Given our medium-term views of a relatively subdued interest rate cycle in SA, Inflation-linked bonds continue to be somewhat richly priced against their conventional counterparts. The FRA market's expectations of another 150bps in rate hikes over the next 24 months also appear ambitious, given the local growth outlook. On a medium-term view we see ILBs as expensive and continue to prefer (long-dated) conventional bonds versus ILBs

Performance

The Fund realised a total return of 1.3% for the quarter. This brings the one-year performance of the Fund to 14.8% (after fees).

Annualised performance	A Class	X Class #	B Class #	Benchmark
1 Year	14.8%	15.1%	15.7%	11.7%
3 Years	19.8%	n/a	20.8%	15.4%
5 Years	15.9%	n/a	17.0%	12.4%
7 Years	10.9%	n/a	11.9%	8.9%
10 Years	15.9%	n/a	17.1%	13.6%
Since inception	15.6%	18.3%	16.2%	13.5%

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

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**, e-mailed to **instructionsa@myprudential.co.za** or posted to **PO Box 23167, Claremont, 7735**. 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**.

Sources: Prudential & Morningstar

PRUDENTIAL EQUITY FUND
QUARTERLY COMMENTARY 30 SEPTEMBER 2014

PRUDENTIAL
INVESTMENT MANAGERS

Risk profile:

LOW | LOW-MED | MED | MED-HIGH | **HIGH**

ASISA category:
South African - Equity - General

Benchmark:
ASISA South African – Equity – General Category Mean

Inception date:
02 August 1999

Fund size:
R2 657 618 855

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

Fund managers:


Chris Wood


Rehana Khan


Craig Butters

Market overview
Like most other equity markets, during the quarter the FTSE/JSE Shareholder Weighted Index retreated from its previous highs, falling 2.4% in September, with the Index returning to levels last seen in mid-May.

Performance
The Fund outperformed its benchmark over the quarter by over 2.7%, but returns were still relatively flat in absolute terms. Strong performers and detractors were a mixed bag across a wide range of sectors.

The overweight position in Netcare was again a very strong performer, delivering 11% over the period. We still believe that the market is attaching little or no value to its UK operations as a result of the high level of debt, but with UK property prices continuing to strengthen and much of the UK debt secured against its properties, the UK business has potential upside. Netcare remains our only position within the Healthcare sub-sector, and despite the share's continued re-rating it still ranks favourably on a valuation basis relative to the alternative listed hospitals.

Lonmin was one of the larger detractors, being the only stock we hold in our underweight exposure in the platinum mining sector. This unfortunately to some extent offset the underweight positions the Fund has to precious metals. In general we remain concerned about the ongoing risk of earnings downgrades to the resource consensus forecasts as a result of the prevailing spot commodity prices. Commodity prices have continued to fall as the market focuses on weakening demand from both China and slowing economic growth in Europe. Where we do have resource exposure we continue to favour mining stocks that offer both diversification in terms of geographic and commodity exposure. Glencore and Billiton are our preferred exposures within General Mining and both offer this diversification, with Glencore having a further advantage of not having exposure to the declining iron ore price.

Sappi is also a good example of a stock that falls within the resource sector but does not have typical mining commodity exposure. Improved capital allocation has seen it convert some of its paper mills into low cost chemical cellulose production and establish a dominant share of this market. Sappi was one of the strongest attributors to performance, returning 16% over the quarter.

The other areas of concern for us are domestic consumer-related stocks. The SA consumer is under pressure from rising food inflation and the negative pass-through effect of a weaker Rand on imported goods, with the added threat of potential interest rate hikes on the horizon. As a result, the Fund retains an underweight position in both general retail and food retailers.

Within the retail segment we have moved overweight Pick 'n Pay on the back of an expected turnaround in profitability of the Group under new management. Pick 'n Pay operates on a similar valuation to its closest peer, Shoprite, but underlying operating margins are at trough levels versus Shoprite's peak margins. New management are focused on managing the cost base and driving improved efficiency, and the full benefit of a successful turnaround is not, in our opinion, reflected in the present stock price.

Other interesting portfolio movements included increasing the Fund's exposure to the SA gaming sector with the purchase of Tsogo Sun, in addition to the Fund's existing holding in Sun International. We took advantage of SABMiller's decision to dispose of its large non-core holding in Tsogo Sun, that resulted in SABMiller placing the shares in a book build process at an attractive discount to the prevailing price.

In terms of other main sectors the Fund retains an overweight bias towards financials with key overweight positions in Old Mutual, Investec and the domestic banking stocks First Rand, Barclays Africa. During the quarter the Fund increased its existing overweight position in Old Mutual following its recent under-performance. We estimate that Old Mutual's core business is trading on a forward PE of less than 9 times, if one adjusts both the market cap and earnings contributions associated with their holdings in Nedbank, the recently listed US asset management business and Group cash held in Bermuda. In addition, Old Mutual trades close to parity to its embedded value, whereas insurance peer Sanlam is trading at a premium to its embedded value.

The Fund's offshore component generally added to performance. Whilst currencies and markets delivered mixed returns over the period, a weak US Dollar and exposure to the S&P 100 were strong contributors.

Annualised performance	A Class	B Class #	Benchmark
1 Year	16.5%	17.0%	13.9%
3 Years	23.7%	24.4%	19.2%
5 Years	18.7%	19.3%	15.5%
7 Years	12.6%	13.2%	9.4%
10 Years	21.1%	n/a	17.0%
Since inception	19.9%	14.7%	16.3%

Inception date: 02 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**, e-mailed to **instructionsa@myprudential.co.za** or posted to **PO Box 23167, Claremont, 7735**. 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.**

Sources: Prudential & Morningstar

PRUDENTIAL DIVIDEND MAXIMISER FUND
QUARTERLY COMMENTARY 30 SEPTEMBER 2014

PRUDENTIAL
INVESTMENT MANAGERS

Risk profile:

LOW	LOW-MED	MED	MED-HIGH	HIGH

ASISA category:
South African - Equity - General

Benchmark:
ASISA South African – Equity – General Category Mean

Inception date:
02 August 1999

Fund size:
R5 196 928 185

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 0.6% for the three months ended September 2014, outperforming the average of the General Equity funds by over 2.6%.

The main contributors to the outperformance for the quarter were the Funds' underweight exposure to platinum and gold companies, overweight exposure to foreign markets and from having no exposure to African Bank equity which was placed under curatorship during the quarter.

The Fund continues to hold an underweight position to the platinum sector as we still do not think the share prices of these companies adequately reflect the range of risks facing these companies. The extended strikes earlier in the year placed the balance sheets of platinum companies under significant stress and they now are facing increased operational risks as a result of a rising cost base and lower platinum price, which has been weak even in the face of lower production as a result of the strikes and monetary easing across many developed markets. Our main position in the platinum sector continues to be Lonmin which has managed to ramp up their production on a tight schedule post the strike and has one of the strongest balance sheets in the sector.

In the general resources sector, we continue to be overweight Sasol. While Sasol faces headwinds as a result of the lower oil price, dividends have generally grown steadily and well ahead of inflation over the last couple of decades and we believe it is undervalued given its impressive history of dividend flows. The Fund has increased its position in paper and pulp company Sappi where we think cash flows should improve over the medium term as a result of substantially improved capital allocation in the company. We expect these cash flows to help in reducing the debt in the company and to potentially fund resumed dividends in the medium term.

Falling commodity prices and the iron ore price in particular continue to lead to falling earnings amongst miners exposed to the iron ore market. We think that the iron ore market is entering a phase where growing supply will start to meet demand over the medium term and we therefore expect lower profit margins for these companies. The long duration of the typical mining cycle may mean lower margins for an extended period of time.

The Banking sector continues to appear undervalued, especially relative to the industrials sector and the Fund remains overweight banks. Most banks have now repaired their balance sheets and can focus on increasing lending and growing their earnings bases. The Fund holds a selection of banks at varying stages of earnings recovery. After 5 years of slow or flat growth, the trend in earnings and dividends appears to be upward. This sector is offering one of the highest dividend yields on the market.

There has been considerable comment in the press about the valuation of the market given how much the market has gone up. Our view is that the fundamentals such as dividends have grown strongly after the financial crisis in 2009 and are now back to their normal trend. Over the last 12 months we have seen dividends from the market growing in excess of 15% which has been achieved partly from the weaker rand over the period. We therefore think that the increase in the market price is supported by strong fundamentals, but that one should expect a more moderate growth in dividends relative to the last 5 years where dividends were recovering post the financial crisis. Our preferred measure for ascertaining whether the market as a whole is favourably priced is on a price to book basis. This measure currently indicates the market is around 10% over valued. We still however consider many offshore equity markets to be undervalued. The Funds' offshore exposure continues to remain over 20% of the Fund as we consider global markets to be increasingly 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.

Annualised performance	A Class	B Class #	Benchmark
1 Year	16.8%	17.4%	13.9%
3 Years	22.8%	23.3%	19.2%
5 Years	17.9%	18.5%	15.5%
7 Years	13.0%	13.4%	9.4%
10 Years	20.9%	n/a	17.0%
Since inception	20.0%	14.1%	16.3%

Inception date: 02 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**, e-mailed to **instructionsa@myprudential.co.za** or posted to **PO Box 23167, Claremont, 7735**. 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.**

Sources: Prudential & Morningstar

PRUDENTIAL ENHANCED SA PROPERTY TRACKER FUND
QUARTERLY COMMENTARY 30 SEPTEMBER 2014

PRUDENTIAL
INVESTMENT MANAGERS

Risk profile:

LOW | LOW-MED | MED | MED-HIGH | HIGH

ASISA category:
South African - Real Estate - General

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

Inception date:
02 December 2005

Fund size:
R3 905 753 643

Awards:
Morningstar/Standard & Poor's: 2011

Fund managers:

Albert Arntz

Performance

The Fund returned 7.0% for the quarter while the SA Listed Property index returned 7.2%. Property returns exceeded those of the other major asset classes for the quarter. In the absence of a material move in bond yields during the quarter, we believe that the strong performance of property may be attributed to better than expected financial results.

Several major listed property stocks recently reported financial results. The results were positive and largely exceeded analyst expectations. Weighted average distribution growth above CPI was achieved. Distribution growth over the past year was bolstered by yield enhancing acquisitions, financial leverage, unit repurchases and foreign earnings which benefitted from a weaker Rand. The majority of companies reported increasing cost to income ratios, escalation rates remain stable at around 8.0% but net rental margins are being squeezed as either the non-recoverable portion of property expenses increases or base rentals are undermined.

Annualised performance	A Class	D Class #	Benchmark
1 Year	15.1%	15.2%	15.1%
3 Years	19.7%	19.9%	20.3%
5 Years	19.4%	n/a	19.8%
7 Years	14.4%	n/a	14.4%
Since Inception	18.2%	19.3%	17.8%

Inception date D Class: 1 July 2010

Strategy and outlook

Prudential's multi-asset funds remain overweight SA Listed Property. The investment case for property may be illustrated by comparing property and inflation-linked bond (ILB) yields. The one-year forward distribution yield from the universe of SA REITs exceeds ILBs by close to 6.0%. This suggests that while SA REIT distribution growth continues to exceed inflation and assuming yields stay constant, property should outperform ILBs by a similar margin.

We are concerned about the negative impact of potential interest rates hikes on property. In our view, however, the negative impact may be mitigated by the following factors:

- A significant re-pricing of SA REITS has occurred over the past eighteen months. One year forward SA REIT distribution yields have risen from lows of 6.0% in May 2013 to current levels of around 7.5%. In our view, the negative impact of rate hikes has thus to some extent already been discounted by markets.
- Listed property companies have downside earnings protection in the form of contractual lease agreements with built-in contractual escalations. In aggregate less than one third of their property portfolios are typically re-let every year. Rising rates are negative for economic growth and market rentals. But leases generally mean that property company's earnings are only exposed to the risk of declining market rentals on the portion of leases that expire each year.
- Currently, a relatively high proportion (more than 75%) of total listed property company debt is effectively fixed rate. This limits the direct earnings impact of higher interest charges on distributions.
- Many constituents of the SA listed property index have significant foreign property holdings, which aren't affected by local rate hikes.
- Rising interest rates undermine the feasibility of new property developments. Less new supply of space helps protect the rental income of existing commercial properties.

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**, e-mailed to **instructionsa@myprudential.co.za** or posted to **PO Box 23167, Claremont, 7735**. 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.**

Sources: Prudential & Morningstar

PRUDENTIAL GLOBAL HIGH YIELD BOND FUND OF FUNDS
QUARTERLY COMMENTARY 30 SEPTEMBER 2014

PRUDENTIAL
INVESTMENT MANAGERS

Risk profile:

LOW	LOW-MED	MED	MED-HIGH	HIGH

(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:
R186 593 159

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

Fund managers:

David Knee

Michael Moyle

Market overview

Although the first two months of the third quarter saw continued market strength as a result of the same sanguine investor sentiment that dominated the second quarter of the year, in September nerves came to the fore amid mounting expectations of more aggressive interest rate hikes in the US next year. Combined with a continued slowing of growth globally (apart from the US and UK), this sparked fairly heavy selling across equity and bond markets, both developed and emerging, reversing much of the previous two months' gains. Easier monetary policy continued in Europe and Japan, where the former reported ever-worsening growth and deflationary concerns, while China also provided ongoing stimulus in response to more evidence of a slowdown in growth below the government's 7.5% y/y target for 2014.

In the US, amid a raft of positive data surprises in September, it was the Federal Reserve's 17 September FOMC meeting that proved to be the tipping point for investor concerns. Although the Fed maintained its language of keeping rates low "for a considerable time" after ending its bond purchases, as Chairman Janet Yellen cited continued labour market weakness, FOMC members' expectations for median interest rates in 2015 and 2016 (as shown by the Fed's "dots plot") moved higher – a clearly more hawkish stance than the previous quarter. This sent the US Dollar higher against most currencies, short-term US rates higher and bonds weaker, and drove selling across emerging market assets. Commodity prices also dropped on the stronger US Dollar and weaker global growth, combined with oversupply in certain commodities.

A positive surprise came from US Q2 GDP data (notably off of a very low base), revised up to 4.6% y/y from 4.2% y/y, after contracting 2.1% in Q1, while unemployment fell to 6.1% in August, the lowest since 2008. Meanwhile, inflation pressures were still contained, with September CPI at 1.7% y/y below expectations of 1.9% y/y. The US Dollar rallied against most currencies on interest rate expectations: from 1.37 to 1.26 USD/Euro, from 102 to 110 Yen/USD, and from 10.60 to 11.30 Rand/USD (5.8% weaker over the quarter).

In contrast, Europe remained in the doldrums. ECB President Mario Draghi's statement at Jackson Hole calling for additional stimulus signalled a marked reassessment of the Eurozone's longer-term growth prospects (although it is yet to be seen how much stimulus will be deployed). In Q2, Germany was barely growing (at 1.2% y/y), French GDP was flat, and Italy contracted 1.2%, although Spain and Portugal showed some signs of recovery. A number of European countries were also in outright deflation, while across the region CPI fell to 0.3% in September, a five-year low (0.7% as measured by core CPI).

Reflecting the new "risk-off" sentiment, US Fed Funds futures, a measure of the market's expectations for short-term interest rates, moved up 15bps to reflect the benchmark interest rate at 1.8% by December 2016, while 10-year US Treasury yields rose from 2.3% to 2.5%, reversing all of their previous gains earlier in the quarter. US high-yield bond spreads over Treasuries widened significantly, from +350bps to +440bps, amid concerns that rising interest rates would detract from the attractiveness of high-yield assets, while investment-grade corporate bonds fared better, moving from +110bps to +120bps.

Performance

For the quarter ending September 2014, the Fund returned 2.3% (net of fees, in Rand), below the 2.9% performance of its benchmark, the Barclays Capital Global Aggregate Bond Index. The Fund has less interest rate risk than its benchmark and this drove most of the underperformance. To a lesser extent, overweight positions in corporate bonds also detracted given the widening in credit spreads that we saw. In absolute performance terms, the main contributor to the performance was the Fund's holdings of US investment grade bonds, while the primary detractor was exposure to European corporate bonds, the latter hit by the depreciation of the Euro. For the past 12 months, the Fund has returned 14.8% (net of fees) versus the benchmark's 13.6%, continuing to outperform due to its exposure to global corporate bonds.

Annualised performance	A Class	Benchmark
1 Year	14.8%	13.6%
3 Years	16.8%	13.1%
5 Years	13.3%	11.4%
7 Years	13.1%	11.9%
10 Years	11.0%	10.5%
Since Inception	9.4%	9.2%

Strategy and Outlook

Following the correction in corporate (and to a lesser extent government) bond markets over the quarter, with credit spreads under pressure, we have not changed our view. We had already taken precautionary measures to reduce interest rate risk on our US holdings in the previous quarter through raising the Fund's exposure to floating rate notes, short-maturity high-yield bonds and global cash. We do not expect a sharp increase in corporate default rates as US interest rates rise, since this is typically due to a deteriorating macroeconomic environment, rather than being attributable to Fed rate hikes. Consequently, we are content to remain modestly overweight floating-rate credit assets versus government bonds.

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**, e-mailed to **instructionsa@myprudential.co.za** or posted to **PO Box 23167, Claremont, 7735**. 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.**

Sources: Prudential & Morningstar

PRUDENTIAL GLOBAL CAUTIOUS MANAGED FUND OF FUNDS
QUARTERLY COMMENTARY 30 SEPTEMBER 2014

PRUDENTIAL
INVESTMENT MANAGERS

Risk profile:

LOW | LOW-MED | MED | MED-HIGH | HIGH

(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:
R69 448 714

Fund managers:

David Knee

Michael Moyle

Market overview

Although the first two months of the third quarter saw continued market strength as a result of the same sanguine investor sentiment that dominated the second quarter of the year, in September nerves came to the fore amid mounting expectations of more aggressive interest rate hikes in the US next year. Combined with a continued slowing of growth globally (apart from the US and UK), this sparked fairly heavy selling across equity and bond markets, both developed and emerging, reversing much of the previous two months' gains. Easier monetary policy continued in Europe and Japan, where the former reported ever-worsening growth and deflationary concerns, while China also provided ongoing stimulus in response to more evidence of a slowdown in growth below the government's 7.5% y/y target for 2014.

In the US, amid a raft of positive data surprises in September, it was the Federal Reserve's 17 September FOMC meeting that proved to be the tipping point for investor concerns. Although the Fed maintained its language of keeping rates low "for a considerable time" after ending its bond purchases, as Chairman Janet Yellen cited continued labour market weakness, FOMC members' expectations for median interest rates in 2015 and 2016 (as shown by the Fed's "dots plot") moved higher – a clearly more hawkish stance than the previous quarter. This sent the US Dollar higher against most currencies, short-term US rates higher and bonds weaker, and drove selling across emerging market assets. Commodity prices were also sent lower on the stronger US Dollar and weaker global growth, combined with oversupply in certain commodities.

Reflecting the new "risk-off" sentiment, US Fed Funds futures, a measure of the market's expectations for short-term interest rates, moved up 15bps to reflect the benchmark interest rate at 1.8% by December 2016, while 10-year US Treasury yields rose from 2.3% to 2.5%, reversing all of their previous gains earlier in the quarter. US high-yield bond spreads over Treasuries widened significantly, from +350bps to +440bps, amid concerns that rising interest rates would detract from the attractiveness of high-yield assets, while investment-grade corporate bonds fared better, moving from +110bps to +120bps.

On the equity front, the US S&P 500 posted a -1.4% total return in September, but still managed to end the quarter with a positive 1.1%.Year to date the total return is 8.3%, and over 12 months still a strong 19.7%. Developed market equities, as measured by the MSCI World Free Index (in US Dollar), posted a -2.1% total return for the third quarter (-2.7% in September alone). Germany's Dax was the worst performer at -11.1%, followed by France's Cac 40 (-7.7%), and the UK FTSE 100 (-6.0%). The best performer was the US Nasdaq 100, up 5.4%. Emerging market equities, as measured by the MSCI Emerging Markets Index, recorded a -3.4% total return for the quarter, led by Russia (-15.1%), Turkey (-11.8%) and Brazil (-8.4%), while South Africa was down 6.5% (US Dollar total returns). India was the best performer, at +2.3%.

Performance

For the quarter ending September 2014, the Fund returned 2.4% (net of fees), compared to an average return of 4.0% from the ASISA Global Multi-Asset Low Equity sector. A sharply weaker Rand versus the US Dollar boosted generally lacklustre Dollar asset returns; in contrast a weaker Euro detracted. In Rand terms, top contributors to performance included holdings in longer-dated US bonds, developed market equities and global property. Prior to April 2014, this Fund was managed against a benchmark that comprised equal weights of Euro, Sterling and US Dollar cash.

Annualised performance	A Class	Benchmark
1 Year	12.3%	13.8%
3 Years	14.3%	13.2%
5 Years	9.6%	8.8%
7 Years	5.7%	6.3%
10 Years	8.1%	7.8%
Since Inception	7.7%	7.2%

Strategy and Outlook

Recent global events have not changed our medium-term views on relative asset class returns: we still prefer equities over bonds and cash in our global portfolios. Our equity exposure remains weighted towards developed markets broadly, as valuations remain on the cheap side of fair value. We also have a small allocation to selected emerging markets, but are wary of the risks inherent in many emerging markets given their slower growth prospects, unfavourable demographics and structural adjustments taking place, and the time it may take for recovery.

In global bonds, despite the bearish moves over the quarter, with credit spreads under pressure, we have not changed our view – we had already reduced interest rate risk on our US holdings in the previous quarter. We do not expect a sharp increase in corporate default rates as US interest rates rise, since higher defaults are typically due to a deteriorating macroeconomic environment, rather than being attributable to Fed rate hikes. So, we are content to remain modestly overweight both fixed rate and floating-rate credit assets versus government bonds.

How to invest

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Sources: Prudential & Morningstar

PRUDENTIAL GLOBAL VALUE FUND OF FUNDS

QUARTERLY COMMENTARY 30 SEPTEMBER 2014

PRUDENTIAL
INVESTMENT MANAGERS

Risk profile:

LOW | LOW-MED | MED | MED-HIGH | HIGH

(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:
R189 223 547

Fund managers:

Marc Beckenstrater

Michael Moyle

Market overview

The first two months of the third quarter saw continued market strength as a result of the same sanguine investor sentiment that dominated the second quarter of the year. However in September nerves came to the fore amid mounting expectations of more aggressive interest rate hikes in the US next year. Combined with a continued slowing of growth globally (apart from the US and UK), this sparked fairly heavy selling across equity and bond markets, both developed and emerging, reversing much of the previous two months' gains. The MSCI ACWI ended the quarter down -2.3% in USD terms whilst the S&P 500 increased 1.1%, German DAX decreased 11.1%, French CAC40 fell 7.9% and Nikkei 225 declined 1.5%.

Easier monetary policy continued in Europe and Japan, where the former reported ever-worsening growth and deflationary concerns, while China also provided ongoing stimulus in response to more evidence of a slowdown in growth below the government's 7.5% y/y target for 2014.

Performance

The Fund returned 2.6% for the quarter in Rands.

Most of the underperformance against the benchmark this quarter can be attributed to the US. This was due to stock positions in information technology companies. Furthermore the Fund's overweight position to Germany and stock selection in United Kingdom detracted from performance but was in part offset by strong contribution from stock selection across the Asian region.

Annualised performance	A Class	Benchmark
1 Year	23.7%	25.0%
3 Years	28.4%	30.3%
5 Years	16.3%	19.4%
7 Years	6.8%	10.0%
10 Years	10.4%	13.4%
Since Inception	6.0%	7.3%

Strategy and outlook

We remain constructive on the choice of global equities as the preferred asset class on a medium term view. The implied equity risk premium on global stocks remain elevated and will cushion rising global bond yields as longs as earning growth holds up.

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**, e-mailed to **instructionsa@myprudential.co.za** or posted to **PO Box 23167, Claremont, 7735**. 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.**

Sources: Prudential & Morningstar