PRUDENTIAL MONEY MARKET FUND
QUARTERLY COMMENTARY 30 JUNE 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:
R15 642 947 373

Fund managers:


Roshen Harry


Duncan Schwulst

Market overview

The SARB increased rates by 50bp to 5.5% in a move that caught the market by surprise in January. The MPC acknowledged a significant deterioration in the inflation outlook and subsequently increased their inflation projections. The decision, however, was not unanimous with two members voting for rates to remain on hold. The inflation forecast was revised upwards to 6.3% for this year and 6.0% in 2015. This was largely due to a change in foreign exchange assumptions. The hike was also in response to spillover effects from emerging market turbulence and the resultant monetary policy tightening from several EM banks.

At the March MPC meeting, rates were kept on hold as the SARB adopted a measured approach to policy tightening. Governor Marcus stated that future policy action would be "highly data dependent." There was no further deterioration to the SARB's inflation projections as the Rand recovered.

February's CPI inflation came in marginally higher at 5.9% year on year, a rise from 5.8% year on year in January, in line with consensus. The effects of past Rand weakness appeared to not have filtered through to a broad range of consumer prices. The administered prices component showed an increase mostly due to higher medical insurance costs. Another major contributor was the transport component, and this reflected the direct impact of Rand weakness.

PPI inflation, however, came in significantly higher than the market consensus at 7.7% year on year, up from 7.0% year on year in January. The consensus forecast was 7.2% year on year. The largest contributors were fuel, non-alcoholic beverages, chemical, rubber and plastic products. Manufactured food prices also rose in February.

Private sector credit extension increased by more than market expectations in February, growing by 8.7% year on year vs the January number of 8.2% year on year. The consensus expectation was expecting a decline to 7.8% year on year. The main driver was corporate lending, which showed high growth in investment credit although lending to households declined over the period.

Performance

Over the past quarter, the Fund delivered a return of 1.48% (gross of fees) versus its benchmark the Stefi call deposit index, which returned 1.42%. The current average duration of the Fund is 45 days relative to the 90- day maximum average duration.

Annualised performance	A Class	X Class #	Benchmark
1 Years	5.1%	5.3%	4.8%
3 Years	5.2%	5.4%	5.0%
5 Years	6.0%	n/a	5.8%
7 Years	6.0%	n/a	5.8%
10 Years	6.0%	n/a	5.8%
Since Inception	8.1%	5.4%	8.1%

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 JUNE 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 379 211 259

Fund managers:


Roshen Harry   Duncan Schwulst

Market overview

This quarter Standard and Poor's downgraded South Africa in June to BBB- and Moody's currently has South Africa on Baa1 with a negative outlook. One of the most prominent reasons given for the downgrade was the strike in the platinum sector for the first half of 2014 and also the impending NUMSA (National Union of Metal Workers) strike. This combined with the prevailing weak investment climate and the negative strike impact (leading to widening trade and current account deficits) will exacerbate an already slow economic growth environment.

Although headline inflation remained well above the SARB's 6.0% upper target limit at 6.6% in May, the broad market view is that it is likely to have peaked. Importantly, core inflation was unchanged over the quarter at 5.5%, due to inflationary pressures stemming largely from food and fuel (both excluded from the core CPI measure). This, as well as the weak state of the economy, contributed to the SARB refraining from hiking the repo rate further at its May Monetary Policy Committee meeting. However, concerns re-emerged that the Bank could raise rates at its July meeting.

Investors' perceptions of where short- term interest rates would be in 12 months' time have moderated from a peak of 8% in quarter one to just over 7% by the end of quarter two. The good news surrounding the successful national elections was overwhelmed by the lengthy platinum sector strike, a poor quarter one GDP performance (the economy contracted 0.6% quarter on quarter due largely to the strike), sharply higher inflation and a downgrade in South Africa's sovereign credit rating to the bottom of the investment grade scale.

Performance

The Prudential High Interest Fund generated a return of 1.7% (gross of fees) for the quarter compared to its benchmark, the Stefi composite index which returned 1.4% (gross of fees). The 0.3% outperformance was achieved without incurring excessive interest rate risk. Relative to the 180-day maximum average duration, the fund currently has an effective duration of about 131 days.

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.

Annualised performance	A Class	X Class #	D Class #	Benchmark
1 Year	5.6%	5.7%	6.4%	5.4%
2 Years	5.6%	5.7%	6.1%	5.4%
3 Years	5.7%	5.8%	6.1%	5.5%
Since inception	5.7%	5.8%	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, have led to a steep credit curve, whereby they are prepared to pay significantly more for funding beyond the 12-month point. Hence we have preferred these longer maturity securities.

Over the last quarter, we have added to our arsenal 3-year floating rate notes issued by names such as ABSA, Standard Bank 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

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Sources: Prudential & Morningstar

PRUDENTIAL HIGH YIELD BOND FUND
QUARTERLY COMMENTARY 30 JUNE 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:
R393 019 728

Fund managers:


David Knee


Gareth Bern

Market overview

Globally markets benefitted from improving investor sentiment and economic trends in the second quarter of 2014, spurring keen buying of more risky assets. In the US, Federal Reserve Chairman Janet Yellen continued with steady US$10 billion reductions in bond purchases, against a backdrop of mixed economic data supporting her continued "lower for longer" stance on interest rates. The lack of acceleration in the withdrawal of accommodative US monetary policies helped sustain the previous quarter's rally in US Treasuries, as 10-year US Treasury yields fell about 20 basis points (bps) over the second quarter.

In global bond markets, the average spread on EM US$ sovereign bonds versus US Treasuries fell 60 bps over the period. This is the lowest differential since May 2013, just prior to the Fed's "tapering" announcement which first sparked sharp sell-offs in EM assets.

In South Africa, sentiment surrounding successful national elections was overwhelmed by predominantly bearish local news from the lengthy platinum sector strike, a poor first quarter GDP performance (the economy contracted 0.6% quarter on quarter due largely to the strike) and higher inflation.

Although headline inflation remained well above the SARB's 6.0% upper target limit at 6.6% for May, the broad market view is that it is likely to have peaked. Importantly, core inflation was unchanged over the quarter at 5.5%, due to inflationary pressures stemming largely from food and fuel (both excluded from the core CPI measure). This, as well as the weak state of the economy, contributed to a 5-to-2 vote from the Monetary Policy Committee for no increase in the repo rate at its May meeting. Interestingly the March vote had been a closer call for a hike when the split was 4-to-3 in favour of no hike.

Further negative news in the quarter came from South Africa's sovereign credit rating being downgraded by S&P. The agency lowered the foreign currency rating by one notch to BBB- (the bottom of the investment grade scale). S&P did, however, revise their rating outlook to stable from negative. At the same time Fitch maintained their BBB foreign currency SA sovereign rating but revised the outlook to negative from stable leading to concerns of a future downgrade from Fitch to BBB-. The bearish news was partially reflected in a weaker rand performance. The South African rand was among the worst EM performers, weakening 0.9% over the period.

Forward rate agreements (FRAs) reflected an improved interest rate outlook early in the quarter, but then deteriorated under the influence of the poor inflation data. By quarter-end, views were similar to those late in the first quarter, with the consensus of approximately 200bps of rate hikes (with the repo rate near 7.5%) by second quarter 2016. In our opinion, this is still higher than we think likely, given our continued view of interest rates remaining lower for longer compared to previous rate cycles.

Performance

The Fund achieved a net return of 2.4% for the quarter, versus 2.5% for the JSE All Bond Index (ALBI). The rolling 12-month performance of the Fund was 5.5% (net of fees), beating the ALBI by 0.1%. Over a four-year period the return was 11.2% p.a., ranking the Fund fifth out of 19 funds in the South African - Interest Bearing - Variable Term sector.

For the quarter, nominal bonds (measured by the ALBI) outperformed cash (measured by STEFI, which returned 1.4%) by 1.1%. Nominal bonds, however, underperformed inflation linked bonds which returned 5.7%.

The Fund started the quarter with an overall duration overweight position, consisting predominantly of a duration overweight in the 12 years + sector of the yield curve, with a partially offsetting duration underweight in the 3–7 year area. Following a nearly 0.5% rally in bond yields from late April to mid-May (with the yield on the R186 falling to just over 8.0%), we reduced duration slightly by selling some of our longer-dated bond holdings. The rest of the quarter saw bonds unwind most of their earlier gains, with the yield on the R186 ending only 0.3% higher, at 8.3%. At quarter end, the Fund remains slightly long duration as above.

Yield curve steepness increased by 0.3% over the quarter, as a result of which the slight duration overweight to long-dated bonds detracted from performance somewhat.

The Fund performance benefitted from income accrual over the quarter and the increased yield derived from non-government bonds held in the portfolio. Corporate bond issues in which we successfully participated were ABS7 (1.1% of Fund) issued by ABSA Bank, EMM05 (1.1% of Fund) issued by Ekurhuleni, MBSA02 (0.9% of Fund) issued by Mercedes-Benz SA and guaranteed by Daimler AG, and TPDA05 (0.8% of Fund) issued by BMW Financial Services SA and guaranteed by BMW AG.

Annualised performance	A Class	B Class #	Objectives
1 Year	1.3%	1.4%	0.6%
3 Years	9.4%	9.7%	9.2%
5 Years	9.3%	9.6%	9.0%
7 Years	9.3%	9.6%	9.0%
10 Years	9.3%	9.6%	9.0%
Since inception	11.2%	9.8%	11.2%

Inception date: 01 April 2003

Strategy and positioning

Our views on relative asset class returns remain largely unchanged from the first quarter of 2014. We still prefer equities over bonds and cash. Further, listed property has become relatively more attractive versus bonds over the quarter. Since we continue to believe interest rates are set to stay relatively low for longer, cash remains an unattractive option.

For local bonds we still prefer longer-dated (10+ years) nominal bonds. The difference between cash (3-month JIBAR) rates and the 30-year government bonds is currently 3.2%, having started the quarter only slightly steeper at 3.2%. Compared with history this is still considered steep. Attractive yields available in longer-dated bonds help to offset the risk of losses associated with anticipated normalisation of global monetary policy.

Conventional bonds continue to offer somewhat better value compared to inflation-linked bonds (ILBs) in our view. We believe the bond market is still overly pessimistic about SA inflation with break-even inflation at 6.9%. This is a significantly elevated inflation risk premium given the benign global inflation environment. As a result, we prefer conventional bonds over ILBs and cash. 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 JUNE 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 167 416 556

Fund managers:


David Knee


Roshen Harry

Market overview

In the US, Federal Reserve Chairman Janet Yellen continued with steady US$10 billion reductions in bond purchases, while maintaining her "lower for longer" stance on interest rates. This was despite data showing a rapidly improving labour market and rising inflation. Significant upside surprises came from the monthly non-farm employment data, while inflation – both headline and core CPI – also came in consistently higher than expected, rising to 2.1% year on year and 2.0% year on year, respectively, in May. However, retail sales and manufacturing data disappointed, and average hourly earnings growth remained steady at 2.0% year on year. In the US High Yield market, bond spreads versus US Treasuries contracted another 30bps, with the Index at 350bps by quarter-end. Although some have warned that spreads are below long-term fair value, we remain positive given the health of corporate balance sheets and expectations that default rates will remain subdued amid a moderate economic growth, low-interest-rate environment.

Positive EM sentiment also helped buoy the currencies of the "Fragile Five" economies, pummelled in the previous quarter: the Brazilian real was up 2.0% vs the US dollar, the Russian rouble up 3.5% and the Turkish lira up 0.8% over the period. The South African rand, however, was among the worst performers, weakening 0.9%.

Locally the All Bond Index produced a total return of 2.5% in the second quarter 2014, led by longer dated (7-12-year) bonds with a 2.9% return, while 1-3-year bonds produced only 1.8%. While the yield curve managed to flatten slightly, sentiment was dented by the credit rating downgrade (although not severely) and inflationary concerns. This benefitted inflation-linked bonds (ILBs), which saw a strong return of 5.9% for the quarter. Looking at 10-year ILB spreads versus conventional bonds, inflation break-even moved up from 6.7% to 6.85% by the end of the quarter. In our view this remains high, given the subdued global inflation environment, and hence our preference for nominal bonds over inflation linked. The Fund took advantage of the rally in the R186 (10-year) bond to below 8.0% during the quarter and opted to take some profits by selling some of the longer-dated bond holdings.

Forward rate agreements (FRAs) reflected an improved interest rate outlook early in the quarter, but then deteriorated under the influence of the poor inflation data. By quarter-end, views were similar to those late in the first quarter, with the consensus of approximately 200bps of rate hikes (with the repo rate near 7.5%) by June 2016. In our opinion, this is still higher than we think likely, given our continued view of interest rates remaining lower for longer compared to previous rate cycles.

Although headline inflation remained well above the SARB's 6.0% upper target limit at 6.6% in May, the broad market view is that it is likely to have peaked. Importantly, core inflation was unchanged over the quarter at 5.5%, due to inflationary pressures stemming largely from food and fuel (both excluded from the core CPI measure). This, as well as the weak state of the economy, contributed to the SARB refraining from hiking the repo rate further at its May Monetary Policy Committee meeting. However, concerns re-emerged that the Bank could raise rates at its July meeting.

After posting a subdued 1.8% return in the second quarter, SA listed property tracked sideways for most of the quarter before staging a late rally to return a respectable 4.4% in the second quarter. Buyers returned as yields started looking attractive compared to nominal long-dated bonds. With reasonably strong distribution growth expected over the medium-term, it remains an attractive asset. The Fund moved to slightly overweight position in this asset class.

Performance

For the quarter ending June 2014 the Fund delivered a return of 2.6% (gross of fees), outperforming cash and its benchmark by 1.2% and 0.8% respectively.

Annualised performance	A Class	X Class #	B Class #	Benchmark
1 Years	7.6%	7.9%	7.9%	5.6%
2 Years	8.1%	8.3%	8.4%	5.1%
3 Years	8.6%	8.9%	9.0%	6.9%
5 Years	9.4%	n/a	9.4%	7.4%
Since Inception	9.4%	9.0%	9.4%	7.4%

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

Strategy and outlook

Our views on relative asset class (income producing) returns remain largely unchanged through the second quarter of 2014: we still prefer bonds over cash, although listed property has become relatively more attractive versus bonds over the quarter. Since we believe interest rates are set to stay relatively low for longer, cash (both local and offshore) remains an unattractive option.

How to invest

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Sources: Prudential & Morningstar

PRUDENTIAL INFLATION PLUS FUND
QUARTERLY COMMENTARY 30 JUNE 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:
R 24 328 982 548

Awards:
Raging Bulls: 2013

Fund managers:


Michael Moyle


Albert Arntz

Market overview

During the second quarter of 2014, in the US, Federal Reserve Chairman Janet Yellen continued with steady 10 billion US Dollar reductions in bond purchases, while maintaining her "lower for longer" stance on interest rates. This was despite data showing a rapidly improving labour market and rising inflation.

The Fed's still-dovish stance helped sustain the previous quarter's rally in US Treasuries, as 10-year UST yields fell about 20 basis points (bps). Fed fund futures, a measure of the market's expectations for short-term interest rates, were also somewhat more dovish, in line with the fall in longer-dated bond yields, pricing in the first rate hike in the third quarter 2015, but with benchmark rates now projected to end 2016 at 1.6%, versus 1.9% previously. This is somewhat more optimistic than the Fed's own interest rate projections, making the market vulnerable to disappointment should the Fed change its tapering approach unexpectedly.

US equities, and indeed most equity markets around the globe, were underpinned by ongoing easy monetary policies (the ECB implemented negative deposit rates, for example), spurring keen buying of more risky assets. The S&P 500 produced a total return of 5.2% (in US Dollars) to reach fresh record highs (returning 24.6% over 12 months to end June), while the MSCI World Free Index returned 5.1% and the MSCI Emerging Markets Index 6.7% (14.7% over 12 months). The best performing developed markets in US Dollars were the Nasdaq (returning 7.0% for the quarter) and the UK's FTSE 100 (5.8%), while top emerging markets (EM) included Turkey (15.4%), India (12.7%) and Russia (10.8%).

In South Africa, both equities and bonds posted surprisingly good gains in the second quarter 2014 despite predominantly bearish local news, as the global "risk-on" sentiment dominated markets. SA equities (+7.2% on a total return basis in Rand) outperformed listed property (+4.4%), bonds (+2.5%) and cash (+1.5%). The good news surrounding the successful national elections was overwhelmed by the lengthy platinum sector strike, a poor first quarter GDP performance (the economy contracted 0.6% quarter on quarter due largely to the strike), sharply higher inflation and a downgrade in South Africa's sovereign credit rating to the bottom of the investment grade scale. This held back the Rand, which was among the worst performers against the US Dollar for the quarter, weakening 0.9% while other "Fragile Five" economies' currencies gained ground.

SA equities continued to scale fresh record highs, driven principally by the large global Rand-hedge industrial shares. The ALSI has now posted a 12-month total return of 32.7%. Gains in the All Bond Index were led by longer dated (7-12-year) bonds with a 2.9% return, while 1-3-year bonds produced only 1.8%. Inflationary concerns benefitted inflation-linked bonds (ILBs), which saw a strong return of 5.9% for the quarter. Looking at 10-year ILB spreads versus conventional bonds, inflation break-even moved up from 6.7% to 6.9% by the end of the quarter. In our view this remains high, given the subdued global inflation environment, and hence our preference for nominal bonds over inflation linked.

Performance

The Fund earned 4.5% (net of fees) for the second quarter of 2014. Both local and international equity holdings contributed to the performance, as did strong returns from inflation-linked bonds. The Fund has delivered a return of 14.4% 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 #	Objectives
1 Year	16.6%	16.9%	17.5%	12.0%
3 Years	16.1%	16.3%	17.0%	11.2%
5 Years	15.3%	n/a	16.1%	10.7%
7 Years	11.4%	n/a	12.2%	11.8%
10 Years	14.5%	n/a	15.1%	11.2%
Since inception	14.4%	16.3%	14.3%	11.1%

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

Asset class returns in Rand	Q2	2014
SA Equity (FTSE/JSE All Share Index)	7.2%	11.8%
SA Property (FTSE/JSE SA Listed Property Index)	4.4%	6.3%
SA Bonds (BESA All Bond Index)	2.5%	3.4%
SA Inflation Linked Bonds (Barclays/ABSA Government Inflation Linked Bond Index)	5.9%	7.6%
SA Cash (STeFI)	1.4%	2.8%
Global Equity (MSCI All Countries World Index)	6.4%	7.6%
Global Bonds (Barclays Capital Global Aggregate Bond Index)	3.6%	6.0%
Rand (rand per US dollar)	-1.1%	-1.0%

Strategy and outlook

Our views on relative asset class returns remain largely unchanged through the second quarter of 2014: we still prefer equities over bonds and cash, although listed property has become relatively more attractive versus bonds over the quarter. Despite the second quarter's strong gains in international equity markets, from a long-term valuation perspective developed market equities still appear to be fairly valued to somewhat cheap, both in absolute terms and relative to cash and bonds. As multiples continue to expand, earnings growth needs to keep pace: we are keeping a close eye on corporate earnings.

We view SA equity as moderately expensive (by 10%-15%) on any measure, and so remain underweight. However, this is more than offset by an overweight position in international equity, resulting in the portfolio being overweight SA and international equity combined. With listed property yields having become more attractive relative to bonds and cash in the second quarter, we moved to slightly overweight in this asset class in our multi-asset funds from neutral previously. For SA nominal bonds, we opted to take some profits by selling some of our longer-dated bond holdings over the period. This reduced the scale of our long duration, although our portfolios remain slightly long duration.

How to invest

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Sources: Prudential & Morningstar

PRUDENTIAL BALANCED FUND
QUARTERLY COMMENTARY 30 JUNE 2014

PRUDENTIAL
INVESTMENT MANAGERS

MULTI-ASSET

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:
R6 899 096 450

Fund managers:

Marc Beckenstrater

Albert Arntz

Cromwell Mashengete

Strategy and outlook

Our views on relative asset class returns remain largely unchanged through the second quarter of 2014: we still prefer equities over bonds and cash, although listed property has become relatively more attractive versus bonds over the quarter. Since we believe interest rates are set to stay relatively low for longer, cash (both local and offshore) remains an unattractive option.

Despite continuing strong gains in international equity markets, from a long-term valuation perspective developed market equities still appear to be fairly valued to somewhat cheap, both in absolute terms and relative to cash and bonds. As multiples continue to expand, earnings growth needs to keep pace: we are keeping a close eye on corporate earnings. As in the first quarter, emerging market equities, while still offering value, present risks as emerging markets transition to new, slower growth models, and are faced with continuing pressures from falling resource prices, credit bubbles, and negative demographic trends.

We believe South African equities continue to be moderately expensive (by 10%-15%) on any measure, and so remain neutral on this asset class.

With listed property yields having become more attractive relative to bonds and cash in the second quarter, we moved to slightly overweight in this asset class in our multi-asset funds from neutral previously. Despite the impact of negative office rental reversions, the consensus distribution growth projection for SA REITS still exceeds CPI inflation over the next two years. In light of these growth prospects, it is noteworthy that SA REIT yields exceed those from ILBs by a wide margin.

Our preference within the global fixed income space remains floating-rate corporate credit, even as spreads on US investment-grade and high-yield bonds versus government bonds tightened by about 30bps over the quarter. While some warnings surfaced that spread levels are low compared to history, we remain positive. This is based on relatively healthy corporate balance sheets, the benign growth outlook, and an absence of significant refinancing needs, all of which should keep default rates below their long-term average.

Taking advantage of the rally in the R186 (10-year) bond to below 8.0% during the quarter, we opted to take some profits by selling some of our longer-dated bond holdings. This reduced the scale of our long duration, although our portfolios remain slightly long duration, expressed by our ongoing overweight in the long end of the yield curve. We also still prefer long-dated corporate bonds.

ILBs continue to be somewhat expensive, in our view, against their (long-dated) conventional counterparts, but are not unattractively priced relative to cash. We believe the bond market is still overly pessimistic about SA inflation with break-even at 6.9%, pricing in a significantly elevated inflation risk premium given the benign global inflation environment. As a result, we prefer conventional bonds versus ILBs.

Performance

The Fund realised a total return of 4.7% for the quarter. This brings the one-year performance of the Fund to 22.3% (after fees).

Annualised performance	A Class	X Class #	B Class #	Benchmark
1 Year	22.3%	22.6%	23.2%	19.5%
3 Years	18.3%	n/a	19.3%	15.0%
5 Years	18.2%	n/a	19.3%	14.2%
7 Years	11.1%	n/a	12.2%	9.2%
10 Years	17.1%	n/a	18.2%	14.7%
Since inception	15.7%	20.7%	16.4%	13.8%

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

How to invest

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Sources: Prudential & Morningstar

PRUDENTIAL EQUITY FUND
QUARTERLY COMMENTARY 30 JUNE 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 911 404 840

Fund managers:

Chris Wood

Rehana Khan

Market overview
The FTSE/JSE All Share Index was one of the better-performing markets over the quarter, gaining 7.2% (on a total return basis) for a 12-month return of 32.7%. The Index continued to scale fresh record highs, driven principally by the large global rand-hedge industrial shares like British American Tobacco, Naspers, Richemont and SABMiller. By sector, top returns came from Consumer Goods (+13.4%), Healthcare (+9.7%) and Oil & Gas (+8.8%), while Basic Materials proved to be the laggard (+1.8%).

Performance
The Fund performed slightly under its benchmark over the period, but still returned a healthy 5.7% for the three months ending 30 June 2014.

Sectors exposed to strikes, or potential strikes, fell over the period; platinum mining by nearly 6% and automotive engineering by nearly 5%. The Fund has benefited through its underweight position in the platinum sector, holding only exposure to Lonmin - being the cheapest producer on an EV per ounce produced basis. The strike has affected the price by 14%. Despite the re-rating of this sector, we still have a negative view on platinum miners, and the position in Lonmin remains the best option to retain a small amount of exposure.

An overweight position in Netcare was a very strong performer, delivering 22% on the period. Its South African operations delivered a better-than-expected performance, causing a re-rating of this stock. Netcare has often been discounted by the market because of the debt in its UK operations, even though this debt is completely ring-fenced from the South African operations and entities. We like the implied discount, and with UK property prices strengthening, and much of the UK debt secured against its properties, the UK business has potential upside. Netcare is the only position we hold in this sub-sector, and despite the re-rating it still looks relatively undervalued to its peers.

One of the biggest portfolio moves during the quarter was the position in Woolworths, which, after being underweight, has been sold entirely following its Australian deal to acquire the retailer David Jones for R23.3 billion. We believe David Jones was purchased at a full valuation, and the accompanying expected rights issue will dilute the additional earnings. The exit of Woolworths from the portfolio sees the return of Foschini and an increase in Pick ’n Pay. Credit retailers still require a healthy dose of circumspection, but Foschini has de-rated to the point where any bad news on the consumer front is already reflected in the price. The increased position in Pick ’n Pay assists in closing a long-term underweight

Annualised performance	A Class	B Class #	Benchmark
1 Year	29.2%	29.8%	28.6%
3 Years	21.3%	21.9%	17.4%
5 Years	21.5%	22.1%	18.6%
7 Years	13.2%	13.8%	9.9%
10 Years	22.8%	n/a	18.9%
Since inception	20.2%	15.2%	17.0%

Inception date: 01 January 2007

Strategy and positioning
In terms of consumer stocks with global exposure, we have up-weighted our position in British American Tobacco (BTI) at the expense of further down-weighting positions in SAB. SAB was moved further underweight given its very high relative valuation to the market and its historical valuation: SAB is at an all-time high forward PE and all-time low projected future earnings growth. Much of the current market valuation also appears to be driven by rumours of potential M&A activity with Anheuser-Busch. BTI has managed to grow its dividends at a faster pace than most other global consumer staples companies, and is able to generate substantial cash flows and more than offset cigarette volume declines with price increases.

In the current market environment 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% overvalued.

The overall market is, however, a tale of two components at present. The JSE is increasingly dominated by companies whose overall revenue has little to do with South Africa due to offshore operations. Examples include large market-cap players such as BHP Billiton, SAB and BTI. We are seeing such stocks command a higher multiple than other South African peers. Once such companies are removed from the JSE, the collective residual stocks are not looking as expensive as a group.

The market is also to some extent pricing on forward earnings, and there is a need for these earnings to ‘catch up’. Market participants are going to need to use moderation in their earnings expectations following the spectacular growth of recent years, but at present we see no pressing factors that may cause these earnings to collapse.

How to invest
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Sources: Prudential & Morningstar

PRUDENTIAL DIVIDEND MAXIMISER FUND
QUARTERLY COMMENTARY 30 JUNE 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 273 571 113

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

Fund managers:


Marc Beckenstrater


Ross Biggs

Market overview

The FTSE/JSE All Share Index was one of the better-performing markets over the quarter, gaining 7.2% (on a total return basis) for a 12-month return of 32.7%. The Index continued to scale fresh record highs, driven principally by the large global rand-hedge industrial shares like British American Tobacco, Naspers, Richemont and SABMiller. By sector, top returns came from Consumer Goods (+13.4%), Healthcare (+9.7%) and Oil & Gas (+8.8%), while Basic Materials proved to be the laggard (+1.8%).

Performance and positioning

The Fund performed largely in line with its benchmark over the period, returning close to 6% for the three months ending 30 June 2014.

Falling commodity prices over the quarter, particularly the iron ore price, has had a material impact on many of the mining companies listed on the JSE, with the effect that the earnings of many these companies continue to fall. On aggregate, we remain underweight to mining companies exposed to iron ore. Strike activity, particularly in the platinum sector, has also impacted the earnings of these miners and has put their balance sheets under significant strain with mounting levels of debt. The Fund has benefited through its underweight position in the platinum sector and we remain underweight as we do not think the share prices adequately reflect the range of risks. We continue to favour those miners which have strong balance sheets and appear to have the best possibility for improving cash flows.

The Banking sector continues to attract our interest as banks appear undervalued, especially relative to the Industrials sector, and the Fund has added to its position in banks over the quarter. Top-tier South African banks have demonstrated the ability to grow dividends over the long-run, and after five years of fairly flat dividends, we expect banking dividends to again start growing strongly.

A focus of the Dividend Maximiser Fund is to buy undervalued companies where the strong cash flow generation of the company has not been fully recognised and priced in by the market. We believe one such company is Netcare, in which we have been long-standing shareholders. The South African operation of Netcare continues to generate strong and better-than-expected cash flows. The UK operation of Netcare has been considered risky by the market due to the large amount of debt in this business. The UK operations are, however, ring-fenced from the South African operations and currently we think the outlook for the UK operations are improving and could contribute a significant portion to the value of the group in the future.

We continue to increase the Fund's holding in British American Tobacco (BTI) and find it substantially better valued than SABMiller. BTI has substantially lower capital expenditure requirements versus sales compared to SAB and it is therefore able to deploy this strong cash flow to pay dividends, buy back shares and make strategic acquisitions. Many people assume that as cigarette volumes are flat or declining, the dividend growth from BAT must also be flat or declining. This could not be further from the truth: BAT has managed to grow its dividends at a faster pace than most other large global staples companies. BAT is able to generate substantial cash flows and more than offset cigarette volume declines with price increases.

The Fund's offshore exposure continues to remain at just over 20% of the Fund, as we still consider global markets to be attractively priced relative to South Africa. There has been considerable comment in the press about the valuation of the market given how much the FTSE/JSE All Share Index has risen. 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. 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 five years, when 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, which currently indicates the market is around 10% overvalued.

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	28.9%	29.5%	28.6%
3 Years	20.4%	20.9%	17.4%
5 Years	21.1%	21.6%	18.6%
7 Years	13.2%	13.6%	9.9%
10 Years	22.6%	n/a	18.9%
Since inception	20.3%	14.6%	17.0%

Inception date: 02 January 2007

How to invest

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Sources: Prudential & Morningstar

PRUDENTIAL ENHANCED SA PROPERTY TRACKER FUND

QUARTERLY COMMENTARY 30 JUNE 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:
R2 890 716 193

Awards:
Morningstar/Standard & Poor's: 2011

Fund managers:

Albert Arntz

Performance

The Fund returned 4.3% for the quarter and 6.4% over the past year. The Fund outperformed the benchmark over the past year but underperformed the ASISA category peer group.

Our analysis indicates that the Fund's underperformance of the peer group is largely attributable to the impact of three UK-based stocks: INTU Properties, Capital and Counties (Capco) and Redefine International. These stocks benefited from a 21% strengthening in the GBPZAR exchange rate over the past year. Shares in both Capco and Redefine International also rerated significantly relative to the underlying net asset values of their respective property portfolios. Although these stocks have significant local shareholdings and are listed on the JSE they are not included in the SA Listed Property Index. Because the Fund is benchmarked and managed relative to the SA Listed Property Index, it has not followed the ASISA peer group allocation to these foreign property stocks.

Annualised performance	A Class	D Class	Benchmark
1 Years	6.4%	6.5%	6.0%
3 Years	17.8%	17.9%	18.4%
5 Years	20.5%	n/a	20.9%
7 Years	14.8%	n/a	14.8%
Since Inception	17.8%	18.6%	18.5%

Inception date D Class: 1 July 2010

Strategy and outlook

Prudential has recently raised its weighting in SA listed property in many of its multi-asset funds, moving to overweight in this asset class from neutral previously. This move was prompted by listed property's underperformance relative to longer-dated bonds recently. We see prospective property returns of around 9-12% p.a. over the next five years, making it attractive relative to cash and bonds.

Our primary concerns regarding the investment case for property are the impact of rising interest rates and weak office property fundamentals. The impact of higher rates on listed property companies is generally negative. This is particularly the case in the scenario where the SARB is forced to raise rates in response to high inflation in the absence of stronger economic growth. The impact of rate hikes is however, in our view, not as negative as generally perceived as it is mitigated by the following factors:

- 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 70%) 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 the rate hike.
- Rising interest rates undermine the feasibility of new property developments. Less new supply of space helps protect the rental income of existing commercial properties.

Weak office property fundamentals are evidenced by high vacancy factors. Hindered by poor private sector employment growth, the performance of office property continues to lag that of the retail and industrial sectors. High vacancies, increased supply, and continued negative rental reversions on expired leases suggest that a near to medium term office market recovery is unlikely.

Despite the impact of negative office rental reversions the consensus distribution growth projection for SA REITS still exceeds CPI inflation over the next two years. In light of these growth prospects it is noteworthy that SA REIT yields exceeds those from inflation linked bonds (ILBs) by a wide margin. At the end of the quarter SA REITS were priced to deliver a one year forward distribution yield of 7.8%, which exceeds ILB yields by close to 6.0%. This comparison underscores the merits of the investment case of property relative to bonds i.e. while property continues to deliver inflation beating distribution growth and assuming existing yields stay constant, it would outperform ILBs by around 6.0% per annum.

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 JUNE 2014

PRUDENTIAL
INVESTMENT MANAGERS

Risk profile:

LOW	LOW-MED	MED	MED-HIGH	HIGH

(In Sterling or US$ terms)

ASISA category:
Global - Interest Bearing - Variable Term

Benchmark:
Barclays Capital Global Aggregate Bond Index

Inception date:
01 November 2000

Fund size:
R171 357 222

Fund managers:


David Knee


Michael Moyle

Market overview

Global markets generally benefitted from improving investor sentiment and economic trends in the second quarter of 2014. Equities in particular continued to post strong gains amid this "risk-on" environment, but bonds also experienced good demand. Geopolitical concerns sparked in the first quarter by the Ukraine crisis faded, markets shrugged off increasing turmoil in Iraq, and confidence was underpinned by clear signs of a rebound in the US after its severe winter. Meanwhile, the European Central Bank and Chinese government both took further measures to boost flagging economic growth – the ECB through easier monetary policy and China through targeted lending strategies. This seemed to pay off in China, as officials pointed to higher second quarter growth than the 7.4% reported for the first quarter.

In the US, Federal Reserve Chairman Janet Yellen continued with steady 10 billion US Dollar reductions in bond purchases, while maintaining her "lower for longer" stance on interest rates. This was despite data showing a rapidly improving labour market and rising inflation. Significant upside surprises came from the monthly non-farm employment data, while inflation – both headline and core CPI – also came in consistently higher than expected, rising to 2.1% year on year and 2.0% year on year respectively, in May. However, retail sales and manufacturing data disappointed, and average hourly earnings growth remained steady at 2.0% year on year. The latter is being watched closely by the Fed to provide an indication of how much slack persists in the labour market even as unemployment fell to 6.1% in May – and its weakness helped reinforce the central bank's continued accommodative policy.

The Fed's still-dovish stance helped sustain the previous quarter's rally in US Treasuries, as 10-year UST yields fell about 20 basis points (bps) over the second quarter. Banks also continued to seek UST's for capital requirements. In the US High Yield market, bond spreads versus USTs contracted another 30bps, with the Index at 350bps by quarter-end.

Fed fund futures, a measure of the market's expectations for short-term interest rates, were also somewhat more dovish, in line with the fall in longer-dated bond yields, pricing in the first rate hike in the third quarter of 2015, but with benchmark rates now projected to end 2016 at 1.6%, versus 1.9% previously. This is somewhat more optimistic than the Fed's own interest rate projections; making the market vulnerable to disappointment should the Fed change its tapering approach unexpectedly.

Non-government bonds once again outperformed their government counterparts, as demand for risk assets supported these higher-yielding securities. US Investment Grade Corporate bonds returned 3.3% for the quarter and US High Yield 3.1% against 2.0% from US Treasuries (all in ZAR). The Rand ended the quarter 0.9% weaker versus the US Dollar, having first strengthened in the wake of strong demand for risk assets.

Performance

For the quarter ending June 2014, the Fund returned 3.1% (net of fees, ZAR), below the 3.6% performance of its benchmark, the Barclays Capital Global Aggregate Bond Index. As in the first quarter, holdings of US investment grade bonds and European corporate bonds proved to be the main drivers of performance, while the primary detractor was exposure to US floating rate high yield bonds. Floating rate bonds did not benefit from falling long-term interest rates, and while they returned 2.1% in the quarter, ahead of US government bonds, they underperformed other longer-dated corporate bonds. For the past 12 months, the Fund has returned 17.4% (net of fees) versus the benchmark's 15.0%, continuing to outperform due to its exposure to global corporate bonds.

Annualised performance	A Class	Benchmark
1 Years	17.4%	15.1%
3 Years	22.0%	19.2%
5 Years	13.8%	11.5%
7 Years	13.1%	11.9%
10 Years	11.6%	10.9%
Since Inception	9.4%	8.9%

Strategy and Outlook

Despite the rally in corporate bonds versus government bonds seen so far this year, we remain significantly overweight floating rate corporate credit versus government bonds in our offshore fixed interest holdings. Although we acknowledge that spreads are below long-term fair value, we are positive on the outlook given the health of corporate balance sheets and expectations that default rates will remain subdued amid a moderate economic growth, low-interest-rate environment. We have also sought to protect the portfolio against the possibility of rising government bond yields, through an allocation to floating rate notes, short maturity high yield bonds and global cash. The possibility of acceleration in US growth in the second half of this year leaves the US Treasury market vulnerable, and insurance against this is prudent, in our view.

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 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 JUNE 2014

PRUDENTIAL
INVESTMENT MANAGERS

Risk profile:

LOW	LOW-MED	MED	MED-HIGH	HIGH

(In Sterling or US$ terms)

ASISA category:
Global - Multi Asset - Low Equity

Benchmark:
ASISA Global – Multi-Asset – Low Equity Category Mean

Inception date:
01 March 2004

Fund size:
R72 329 939

Fund managers:


David Knee


Michael Moyle

Market overview

Global markets generally benefitted from improving investor sentiment and economic trends in the second quarter of 2014, with equities in particular continuing to post good gains amid this "risk-on" environment. Geopolitical concerns sparked in the first quarter by the Ukraine crisis faded, markets shrugged off increasing turmoil in Iraq, and confidence was underpinned by clear signs of a rebound in the US after its severe winter. Meanwhile, the European Central Bank and Chinese government both took further measures to boost flagging economic growth – the ECB through easier monetary policy and China through targeted lending strategies. This seemed to pay off in China, as officials pointed to higher second quarter growth than the 7.4% reported for the first quarter.

In the US, Federal Reserve Chairman Janet Yellen continued with steady 10 billion US Dollar reductions in bond purchases, while maintaining her "lower for longer" stance on interest rates. This was despite data showing a rapidly improving labour market and rising inflation. The Fed's still-dovish stance helped sustain the previous quarter's rally in US Treasuries, as 10-year UST yields fell about 20 basis points (bps). In the US High Yield market, bond spreads versus USTs contracted another 30bps, with the Index at 350bps by quarter-end.

Fed fund futures, a measure of the market's expectations for short-term interest rates, were also somewhat more dovish, in line with the fall in longer-dated bond yields, pricing in the first rate hike in the third quarter 2015, but with benchmark rates now projected to end 2016 at 1.6%, versus 1.9% previously. This is somewhat more optimistic than the Fed's own interest rate projections; making the market vulnerable to disappointment should the Fed change its tapering approach unexpectedly.

US equities, and indeed most equity markets around the globe, were underpinned by ongoing easy monetary policies (the ECB implemented negative deposit rates, for example), spurring keen buying of more risky assets. The S&P 500 produced a total return of 5.2% (in US Dollars) to reach fresh record highs (returning 24.6% over 12 months to end June), while the MSCI World Free Index returned 5.1% and the MSCI Emerging Markets Index 6.7% (14.7% over 12 months). The best performing developed markets in US Dollars were the Nasdaq (returning 7.0% for the quarter) and the UK's FTSE 100 (5.8%), while top emerging markets (EM) included Turkey (15.4%), India (12.7%) and Russia (10.8%).

In global bond markets, the average spread on EM sovereign bond issues in US Dollars versus US Treasuries fell 60bps over the period, a measure of the prevailing bullish sentiment. This is the lowest differential since May 2013, when the Fed's "tapering" announcement first sparked sharp sell-offs in EM assets.

Performance

For the quarter ending June 2014, the fund returned 3.6% (net of fees), compared to an average return of 2.8% from the ASISA Global Multi-Asset Low Equity sector. Prior to the second quarter the Fund was managed against a benchmark that comprised equal weights of Euro, Sterling and US Dollar cash.

Annualised performance	A Class	Benchmark
1 Years	15.2%	14.5%
3 Years	17.9%	19.7%
5 Years	9.4%	11.2%
7 Years	5.6%	7.3%
10 Years	8.5%	9.1%
Since Inception	7.6%	8.2%

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. We believe interest rates globally are set to stay relatively low for longer – a view that was reinforced by central bank comments over the quarter. Cash remains an unattractive option.

The Fund's asset allocation in the quarter changed to reflect the move to benchmarking against the ASISA Global Multi-Asset Low Equity Sector Mean, from its previous benchmark of 1/3 Euro, Sterling and US Dollar cash. The weight in global equities was raised to 32%, from 23% at the end of the first quarter, funded from a decrease in cash holdings. This represents a broadly neutral view against the sector as a whole, with exposure in the main to developed equity markets where valuations remain on the cheap side of fair value, but also a small allocation to selected emerging markets.

The Fund also deployed around 11% from cash into US high yield floating rate securities, 5% into short maturity global high yield bonds, as well as more modest increases in UK, European and US Investment Grade fixed-rate corporate bonds. In our view, although we acknowledge that corporate bond spreads are below their long-term fair value, we remain positive given the health of corporate balance sheets and expectations that default rates will remain subdued amid a moderate economic growth, low-interest-rate environment. In aggregate, exposure to fixed and floating rate bonds increased 19%. Holdings of cash were reduced 31%.

How to invest

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Sources: Prudential & Morningstar

PRUDENTIAL GLOBAL VALUE FUND OF FUNDS
QUARTERLY COMMENTARY 30 JUNE 2014

PRUDENTIAL
INVESTMENT MANAGERS

FUND OF FUNDS

Risk profile:

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

(In Sterling or US$ terms)

ASISA category:
Global - Equity - General

Benchmark:
MSCI All Country World Index

Inception date:
18 February 2000

Fund size:
R184 060 962

Fund managers:

Marc Beckenstrater

Michael Moyle

Annualised performance	A Class	Benchmark
1 Years	31.9%	32.4%
3 Years	25.5%	28.8%
5 Years	19.7%	22.5%
7 Years	6.1%	10.1%
10 Years	10.6%	14.0%
Since Inception	6.2%	8.3%

Market overview
Global markets generally benefitted from improving investor sentiment and economic trends in the second quarter of 2014, with equities in particular continuing to post good gains amid this “risk-on” environment. Geopolitical concerns sparked in Q1 by the Ukraine crisis faded, markets shrugged off increasing turmoil in Iraq, and confidence was underpinned by clear signs of a rebound in the US after its severe winter.

US equities, and indeed most equity markets around the globe, were supported by ongoing easy monetary policies (the ECB implemented negative deposit rates, for example), spurring keen buying of more risky assets. The S&P 500 produced a total return of 5.2% (in US dollars) to reach fresh record highs (returning 24.6% over 12 months to end June), while the MSCI World Free Index returned 5.1% and the MSCI Emerging Markets Index 6.7% (14.7% over 12 months). The best performing developed markets in USD were the Nasdaq (returning 7.0% for the quarter) and the UK’s FTSE 100 (5.8%), while top emerging markets (EM) included Turkey (15.4%), India (12.7%) and Russia (10.8%).

Performance
The Fund returned 6.2% for the quarter in rand, in line with the benchmark, while the currency depreciated 1.1% against the US dollar. Stock positions in Indian equities added to performance, while negative stock selection in information technology in the UK United offset a positive contribution from the same sector in Japan. Country overweight exposure in Germany detracted from overall performance.

Strategy and outlook
World equities remain the better choice for investors compared to South African market exposure. Unlike many commentators we did not and still do not believe that the rally of the last 5 years in global equities was a result of global liquidity. We believe it was result of a depressed earnings base and cheap valuations.

While an increase in global interest rates to positive real rates remain a risk for equities, the economic reasons that will spark the rate hikes (more robust economic growth, improving labour markets, rising inflation, etc…) will determine the outcome for equities.

We are less sanguine about global equities today, as rising valuations have done their work and equities now require earnings growth for further meaningful performance.

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