PRUDENTIAL MONEY MARKET FUND
QUARTERLY COMMENTARY 31 MARCH 2014

PRUDENTIAL
All things considered.

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:
R12 797 865 395

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, coke, 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 1.4% (gross) versus its benchmark the Stefi call deposit index which returned 1.2%. The current average duration of the Fund is 68 days relative to the 90 day maximum average duration.

Annualised performance	A Class	X Class #	Benchmark
1 Years	5.1%	5.3%	4.8%
2 Years	5.2%	5.3%	4.8%
3 Years	5.2%	5.4%	5.0%
5 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.**

Sources: Prudential & Morningstar

PRUDENTIAL HIGH INTEREST FUND
QUARTERLY COMMENTARY 31 MARCH 2014

PRUDENTIAL
All things considered.

Risk profile:

LOW	LOW-MED	MED	MED-HIGH	HIGH

ASISA category:
South African - Multi Asset - Income

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

Inception date:
08 December 2010

Fund size:
R10 876 474 576

Fund managers:


Roshen Harry


Duncan Schwulst

Market overview

The first quarter delivered a significant surprise to the South African Money Market with the first hike in interest rates since 2008, a 50 basis point rise at the meeting of the Monetary Policy Committee (MPC) at the end of January. This followed on from a bout of significant Rand weakness early in the year and, related to this, concerns from the MPC that South African inflation would rise faster and more significantly than they had previously thought. Reserve Bank Governor, Gill Marcus, noted that further rate rises were likely and this spurred a massive re-pricing of interest rate expectations.

Investors' perceptions of where short term interest rates would be in 12 month's time shot up from about 6.5% prior to the rate hike, to 8.0% immediately after. February and March saw some of this increase unwind, ending the quarter at about 7.3%, helped by a recovery in the Rand which appreciated from a January low of 11.23 against the US Dollar to 10.51 by quarter end.

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 1.3% (gross). The 0.1% 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 145 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 #	B Class #	Benchmark
1 Year	5.3%	5.5%	6.2%	5.3%
2 Years	5.6%	5.7%	6.1%	5.3%
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, 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 therefore preferred these longer maturity securities. The surprise interest rate hike by the SARB in January further increased the steepness of the yield curve for short dated maturities and the Fund used this as an opportunity to add 2 and 3 year fixed and floating rate securities, assisted by a flurry of new issuance.

We have added to our arsenal 3 year fixed coupon CDs issued by names such as Standard Bank, Investec and Hospitality Fund. We also added more Anglo American exposure in the 2 year fixed space. On the floating rate front, we included Bank Windhoek (issued in South Africa), Nedbank, Landbank, the Development Bank of South Africa as well as Hospitality Fund, Fortress Income Fund. We also added to the government guaranteed area some 2 year floating rate Denel paper. With the R157 government bond now around 2 years left to maturity we also increased exposure to government paper.

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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Disclaimer

Sources: Prudential & Morningstar

PRUDENTIAL HIGH YIELD BOND FUND
QUARTERLY COMMENTARY 31 MARCH 2014

PRUDENTIAL
All things considered.

INCOME FUNDS

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:
01 November 2000

Fund size:
R370 459 561

Fund managers:


David Knee


Gareth Bern

Market overview

For emerging markets, the year got off to a poor start as negative investor sentiment built up in the wake of the continuing course of monetary policy tapering by the US Fed combined with mounting worries over slowing EM growth. In South Africa gloomy fundamental conditions, including rising inflation, downward revisions to 2014 GDP growth forecasts (to 2.7% by both the World Bank and SA government, from 3.2% and 3.0%, respectively), concerns about economic competitiveness (amid slowing Asian growth), protracted strikes in the mining industry and worries over the upcoming national elections added to investor pessimism.

The Rand also weakened rapidly through this period depreciating 6.8% against the US Dollar in January.

The SA Reserve Bank (SARB) was forced to revise upward its inflation forecasts factoring in the weaker exchange rate. CPI was forecast to average 6.3% for 2014, peaking at 6.6% in the fourth quarter - well above the Bank's upper target limit of 6.0%. As a result, in an attempt to curb inflation expectations and keep inflation in check, at its 27 January meeting the SARB surprised the market by raising the repo rate 50bps – its first increase in six years. The hike followed on the heels of sharp interest rate hikes in Turkey, Brazil, India and other emerging markets.

At this time, many US economic indicators started to disappoint following severe winter weather. Also, in late March, new Federal Reserve Chairman Janet Yellen reinforced the Fed's intentions of providing accommodative policy as long as necessary, citing the "considerable slack" in the labour market as evidence that the US economy was operating well below potential. This coincided with concerns over credit quality and slowing economic activity in China. These developments raised the prospect of a slower pace of monetary policy normalisation in developed markets and were supportive of EM risk appetite.

These global developments together with the interest rate hike helped to stabilise sentiment towards South Africa. The Crimean crisis also helped focus attention on other (geopolitical) risks and away from South Africa and other "fragile" EM economies.

Market views of future rate hikes also moderated through the second half of the quarter to again be pricing in 200bps of rate hikes (with the repo rate at 7.5% by March 2015). In our view, this is still higher than we think likely, given our continued view of interest rates remaining lower for longer compared to previous rate cycles.

At its meeting on 27 March, the SARB's Monetary Policy Committee did not hike the repo rate further, citing a delicate balancing act between softer economic growth and higher inflation. In comments made the previous week, Governor Gill Marcus emphasized that the new rising rate cycle was likely to be more gradual and less aggressive than previous cycles – confirming our own "lower for longer" view on interest rates that we have held for some time now.

Performance

The Fund achieved a net return of 1.1% for the quarter ranking the Fund 6th out of 20 funds in the South African - Interest Bearing - Variable Term sector, outperforming the JSE All Bond Index (ALBI), which returned 0.9%, by 0.3%.

The Fund started 2014 with a small overall duration overweight position consisting of a duration overweight in the 12 years + sector and offsetting duration underweights in the shorter than 12 years areas.

The early part of the quarter saw 10 year SA bond yields rise 0.9% to peak at 8.8% at the end of January. A gradual recovery in bond yields ensued through to quarter-end with the 10 year yield closing only 0.4% higher than the start of the quarter. During this recovery in the level of yields the yield-curve also flattened by nearly 1.0%.

These moves masked substantial differences in performance between maturities: bonds below 3-years gained 0.7%, 3-12-year bonds lost 0.5%-0.7%, 20-year bonds were up 3.0% and 30-year bonds gained 4.1%. This divergence of performance demonstrates how the high yields which have been prevailing at the long end of the yield curve have protected investors from losses, despite negative market conditions. Prudential's increased exposure to this area benefitted performance.

The sell-off of yields on nominal bonds during the quarter resulted in nominal bonds (measured by the ALBI) underperforming cash (measured by STeFI) which returned 1.3%. Nominal bonds also underperformed inflation linked bonds which returned 1.7%.

Fund performance benefitted from income accrual over the quarter and the increased yield derived from non-government bonds held in the portfolio. We successfully participated in a new corporate bond issue by the Development Bank of Southern Africa (0.5% of the Fund).

At quarter end the Fund had an overall duration overweight position consisting predominantly of a duration overweight in the 12 years + sector with a partially offsetting duration underweight in the 2 – 7 year area.

Annualised performance	A Class	B Class #	Objectives
1 Year	1.3%	1.4%	0.6%
2 Years	7.6%	7.8%	7.3%
3 Years	9.4%	9.7%	9.2%
5 Years	9.3%	9.6%	9.0%
Since inception	11.2%	9.8%	11.2%

Inception date: 01 April 2003

Prospective returns

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

How to invest

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Sources: Prudential & Morningstar

PRUDENTIAL ENHANCED INCOME FUND
QUARTERLY COMMENTARY 31 MARCH 2014

PRUDENTIAL
All things considered.

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 380 202 430

Fund managers:

David Knee

Roshen Harry

Market overview

US investors adjusted to the course of tapering monetary policy under new Federal Reserve Chairman Janet Yellen during the first quarter of 2014. At quarter-end, Fed fund futures were pricing in a slightly more dovish scenario, with the first 25bp rate hike expected only in September 2015, and a total of 200bps in hikes by the end of December 2016.

Mounting negative EM sentiment spurred by tapering by the US Fed and slowing EM growth saw investors deserting EM investments as evidenced in January by the record number of outflows from EM ETFs. The "Fragile Five" economies - Brazil, India, Indonesia, Turkey and South Africa - were particularly hard hit, forcing many (including SA) to hike interest rates amid rapidly depreciating currencies and rising inflation concerns. Over February and March investors were attracted back to certain markets by the relatively high yields on offer.

In South Africa, listed property (+1.7%) outperformed bonds (+0.9%) and cash (+1.3%) for the quarter. After depreciating 6.8% against the US Dollar in January, the SARB's surprise 50bp rate hike helped the Rand end the quarter down only 1.7% in total. At its meeting on 27 March, the SARB did not hike the repo rate further, citing a delicate balancing act between softer economic growth and higher inflation. Governor Gill Marcus had previously emphasized that the new rising rate cycle was likely to be more gradual and less aggressive than previous cycles – confirming our own "lower for longer" view on interest rates.

For SA bonds, after heavy sales in January (for a -3.2% return), the All Bond Index ended the quarter with a total return of 0.9%. This masked substantial differences between maturities: bonds below 3-years gained 0.7%, 3-12-year bonds lost 0.5%-0.7%, 20-year bonds were up 3.0% and 30-year bonds gained 4.1%. This demonstrates how the unusually high yields prevailing at the long end of the yield curve have protected investors from losses, despite negative market conditions, and why Prudential's increased exposure to this area benefitted performance. At quarter-end, forward rate agreements (FRAs) were pricing in 200bps of rate hikes over the next 24 months. In our view, this is still higher than we think likely, given our continued view of interest rates remaining lower for longer compared to previous rising rate cycles.

Performance

For the quarter ending 31 March 2014 the Fund delivered a return of 1.6 % (net of fees), beating its benchmark the ALBI 1-3 year total return index by 0.9%. On a 12-month return basis, the Fund delivered 5.5% (net of fees), exceeding its benchmark by 1.4% and cash by 0.2%. Despite the early prevailing negative emerging markets (EM) sentiment, fixed income markets managed to post gains over the quarter.

Annualised performance	A Class	X Class #	B Class #	Benchmark
1 Years	5.5%	5.8%	5.9%	4.2%
2 Years	8.3%	8.6%	8.7%	5.7%
3 Years	8.7%	8.9%	9.0%	7.0%
Since Inception	9.4%	8.9%	9.3%	7.4%

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

Strategy and outlook

Given that the SA yield curve remains steep compared with its history, we believe investors in longer-dated SA bonds are still amply rewarded for the risk taken. We continue to prefer both longer-dated government bonds and corporate credit, and we do expect these fixed income assets to outperform cash over the medium term despite expected volatility. Inflation-linked bonds (ILBs) continue to be somewhat expensive, in our view, against their (long-dated) conventional counterparts, although real yields offer reasonable value as long as the monetary policy tightening is moderate.

Listed property stocks lost 7.1% in January, outpacing bond losses. However, the subsequent attractive yields saw investors return to the market to post a total return of 1.8% for the quarter. Following this performance, we remain neutral on listed property and believe it is capable of delivering low double-digit returns over the medium-term, while being mindful of the higher risks associated with interest-rate-sensitive assets like property currently.

For offshore bonds, we still prefer floating-rate corporate credit – particularly US High Yield assets - despite further gains over the past quarter. During the quarter we switched exposure from fixed-rate to floating-rate US High Yield assets in order to remove some interest rate risk from the portfolio in anticipation of rising US Treasury yields over the medium-term.

How to invest

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Sources: Prudential & Morningstar

PRUDENTIAL INFLATION PLUS FUND
QUARTERLY COMMENTARY 31 MARCH 2014

PRUDENTIAL
All things considered.

MULTI-ASSET

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:
R20 064 214 976

Awards:
Raging Bulls: 2013

Fund managers:


Michael Moyle


Albert Arntz

Market overview

US investors adjusted to the course of tapering monetary policy under new Federal Reserve Chairman Janet Yellen during the first quarter of 2014. At quarter-end, Fed fund futures were pricing in a slightly more dovish scenario, with the first 25bp rate hike expected only in September 2015, and a total of 200bps in hikes by the end of December 2016.

US equities, after exceptional gains in 2013, experienced a slowdown, with the S&P 500 Index up 1.8% (in US Dollars, total return basis). Other developed markets (DM) like the UK and Euro area also recorded marginal moves: the UK's FTSE 100 lost 0.6%, while Germany's Dax 30 reported a 0.1% gain and the French CAC 40 was up 2.4%.

DM equities outperformed emerging markets (EM) over the quarter, with the MSCI World Free Index gaining 1.4% versus the 0.4% lost by the MSCI Emerging Markets Index. Negative EM sentiment spurred by tapering and slowing EM growth saw investors pulling funds out of EM ETFs in record numbers in January. The "Fragile Five" economies - Brazil, India, Indonesia, Turkey and South Africa - were particularly hard hit, forcing many (including SA) to hike interest rates amid rapidly depreciating currencies and rising inflation concerns. Over February and March (particularly) investors were attracted back to certain markets by the relatively high yields on offer.

In South Africa, equities (+4.3%) outperformed listed property (+1.7%), bonds (+0.9%) and cash (+1.3%) for the quarter. After depreciating 6.8% against the US Dollar in January, the SARB's surprise 50bp rate hike helped the Rand end the quarter down only 1.7% in total. At its meeting on 27 March, the SARB did not hike the repo rate further, citing a delicate balancing act between softer economic growth and higher inflation. Governor Gill Marcus had previously emphasized that the new rising rate cycle was likely to be more gradual and less aggressive than previous cycles – confirming our own "lower for longer" view on interest rates.

The FTSE/JSE All Share Index gained 4.3% (on a total return basis) over the quarter as January's loss of 2.4% was more than recouped by buying in February (+4.9%) and March (+1.8%). Corporate earnings proved better than expected, with analysts generally revising upward their earnings expectations for the year ahead.

For bonds, after suffering a -3.2% return in January, the All Bond Index ended the quarter with a total return of 0.9%. This masked substantial differences between maturities: bonds below 3-years gained 0.7%, 3-12-year bonds lost 0.5%-0.7%, 20-year bonds were up 3.0% and 30-year bonds gained 4.1%. This demonstrates how the unusually high yields prevailing at the long end of the yield curve have protected investors from losses, despite negative market conditions, and why Prudential's increased exposure to this area benefitted performance.

Performance

The Fund earned 2.3% (net of fees) for the first quarter of 2014. While local equity remained one of the main contributors to performance, inflation-linked bonds also underpinned returns for the quarter. The Fund has delivered a return of 14.3% per annum since inception (net of fees), while CPI inflation has averaged 5.7% per annum over the same period.

Annualised performance	A Class	X Class #	B Class #	Objectives
1 Year	15.6%	15.7%	16.4%	10.3%
2 Years	17.6%	17.8%	18.5%	10.5%
3 Years	15.3%	n/a	16.1%	10.7%
5 Years	13.6%	n/a	14.4%	10.2%
Since inception	14.4%	16.8%	14.5%	11.4%

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

Asset class returns in Rand	Q1	2013
SA Equity (FTSE/JSE All Share Index)	4.3%	21.4%
SA Property (FTSE/JSE SA Listed Property Index)	1.8%	8.4%
SA Bonds (BESA All Bond Index)	0.9%	0.6%
SA Inflation Linked Bonds (Barclays/ABSA Government Inflation Linked Bond Index)	1.5%	0.8%
SA Cash (STeFI)	1.3%	5.2%
Global Equity (MSCI All Countries World Index)	1.3%	58.2%
Global Bonds (Barclays Capital Global Aggregate Bond Index)	2.3%	21.0%
Rand (rand per US dollar)	-1.8%	-19.0%

Strategy and outlook

Despite further gains over the past quarter, we remain overweight offshore equity. From a long-term valuation perspective, developed market equities still appear to be on the cheap side of fair value. For offshore bonds, we prefer floating-rate corporate credit – particularly US High Yield assets. During the quarter we switched exposure from fixed-rate to floating-rate US High Yield assets in order to remove some interest rate risk from the portfolio.

SA equity, meanwhile, we view as slightly expensive as it remains on an overall price-to-book ratio of about 2.3x, and so we are slightly underweight local equities. We are neutral on listed property but continue to believe that it can produce attractive low-single-digit annual returns over the medium-term. For SA bonds, investors in longer-dated bonds are still amply rewarded for the risk taken. We continue to prefer both longer-dated government bonds and corporate credit, and we do expect these fixed income assets to outperform cash over the medium term despite expected volatility. Inflation-linked bonds (ILBs) continue to be somewhat expensive, in our view, against their (long-dated) conventional counterparts, although real yields offer reasonable value as long as the monetary policy tightening is moderate. We believe the bond market is still overly pessimistic about SA inflation (with break-even at 6.75%), pricing in a significantly elevated inflation risk premium given the benign global inflation environment.

How to invest

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Disclaimer

Sources: Prudential & Morningstar

PRUDENTIAL BALANCED FUND
QUARTERLY COMMENTARY 31 MARCH 2014

PRUDENTIAL
All things considered.

Risk profile:

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

ASISA category:
South African - Multi Asset - High Equity

Benchmark:
Alexander Forbes Global Large Manager Watch - Median

Inception date:
02 August 1999

Fund size:
R5 950 365 181

Fund managers:


Marc Beckenstrater


Albert Arntz


Cromwell Mashengete

Strategy and outlook

Our views on relative asset class returns remain largely unchanged over the first quarter of 2014: we still prefer foreign equity over local equity and prefer local long dated bonds to cash, the latter remaining an unattractive option. It is not clear that short rates will rise as much as market commentators believe they will.

For SA equity, the ALSI's price-to-book ratio stood at 2.3x at quarter-end, basically unchanged from the end of December as companies continued to deliver good earnings in tandem with their share price gains. At the current level, we believe South African equities continue to be modestly expensive and remain neutral on this asset class.

Following its weak performance in the first quarter, we remain neutral on listed property in our multi-asset funds. At quarter-end, SA REITs were trading on a forward yield of 7.8%, with valuations little changed. We believe listed property is capable of delivering low double-digit returns over the medium-term, while being mindful of the higher risks currently associated with interest-rate-sensitive assets like property.

For SA bonds, despite the rate hike the local yield curve remains steep when compared with its own history, so that investors in longer-dated bonds are still amply rewarded for the risk taken. We continue to prefer both longer-dated government bonds and corporate credit, and we do expect these fixed income assets to outperform cash over the medium term, given the attractive combination of assets we hold in our portfolios.

Inflation-linked bonds (ILBs) continue to be somewhat expensive, in our view, against their (long-dated) conventional counterparts although in an absolute sense real yields offer reasonable value as long as the monetary policy tightening is moderate in pace and magnitude. We believe the bond market is still overly pessimistic about SA inflation (with break-even at 6.8%), pricing in a significantly elevated inflation risk premium given the benign global inflation environment. As a result, we remain underweight both ILBs and cash.

Our preference in the global fixed income space remains floating-rate corporate credit, even as spreads on US investment-grade and high-yield bonds versus government bonds continued to tighten over the quarter. In our view, this reflects 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. According to Moody's, the default rate on high yield debt in 2013 was 2.9% compared with a long-term average of 4.7%, and a forecast for 2014 of 2.2%. Further modest spread compression is very possible over the next 18 months.

For global equities, this quarter has seen DM (developed market) stocks become more expensive, and EM (emerging market) stocks cheaper: at quarter-end, DM stocks were trading at a forward P/E ratio of 15.4x, versus EM stocks at 10.3x. Despite the DM gains, from a long-term valuation perspective DM equities still appear to be on the cheap side of fair value, both in absolute terms and relative to cash and bonds. EM equities, while 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 structural re-adjustment.

During January we took the opportunity to reduce some of our overweight foreign exposure in funds where it had moved above our strategic benchmark, with the Rand having weakened to what we saw as fundamentally cheap levels (see comment in Trades section below). Our global asset allocation continues to favour equities over bonds or cash.

Performance

The Fund realised a total return of 1.3% for the month. This brings the one year performance of the Fund to 20.4% (after fees).

Annualised performance	A Class	B Class #	Benchmark
1 Year	20.4%	21.3%	15.5%
2 Years	20.5%	21.4%	16.2%
3 Years	16.9%	18.0%	13.8%
5 Years	18.4%	19.6%	14.8%
Since inception	15.7%	17.1%	14.0%

Inception date: 01 July 2002

How to invest

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Sources: Prudential & Morningstar

PRUDENTIAL EQUITY FUND
QUARTERLY COMMENTARY 31 MARCH 2014

PRUDENTIAL
All things considered.

SINGLE-ASSET

Risk profile:

LOW	LOW-MED	MED	MED-HIGH	HIGH

ASISA category:
South African - Equity - General

Benchmark:
South African Equity General Portfolios Unit Trust Mean

Inception date:
02 August 1999

Fund size:
R2 758 869 948

Fund managers:


Chris Wood


Rehana Khan

Market overview

The SA equity market delivered a strong performance over the first quarter, with the FTSE/JSE Shareholders Weighted Index (SWIX) ending the period up 4.8%. The market's performance was led by the resource shares; in particular the gold sector which contributed the strongest gains after delivering a negative return in the prior quarter.

However, the good performance belies a tough environment for resource companies, with an ongoing labour strike impacting the SA platinum industry and further concerns about the demand outlook as a result of global macro developments. During the quarter, we observed economic growth concerns emerge in the US and China, geopolitical risk associated with Ukraine and financial systemic risk associated with Chinese shadow banking. These macro concerns had a negative impact on industrial commodities, such as iron ore, copper and manganese but enhanced the safe-haven status of gold.

Performance

The Fund delivered a total return of 3.6% (net of fees) for the quarter, slightly underperforming both the 3.9% return of the General Equity peers and the SWIX return. It is worth noting that the Fund's 12-month return of 26.7% remains well ahead of both the market's return and that of the peer group.

Over the quarter, the Fund benefitted from its lack of exposure to poor performing Pinnacle Technology, Kumba, Impala Platinum, Life Healthcare and Vodacom, as well as from its overweight position in Barclays Africa. However, these positive contributions were offset by the Fund's underweight position to the gold sector, which rallied 42% over the quarter. Additional detractors to performance came from the Fund's overweight exposure to Netcare and Adcock Ingram, whose share prices fell following the unsuccessful bid by CFR Pharma.

Annualised performance	A Class	B Class [#]	Benchmark
1 Year	26.7%	27.3%	20.8%
2 Years	24.0%	24.7%	19.1%
3 Years	19.7%	20.3%	15.9%
5 Years	22.2%	22.8%	20.2%
Since inception	20.2%	14.9%	17.3%

[#] Inception date: 01 January 2007

Strategy and positioning

Within the Fund's allocation to the resources sector we remain defensively positioned with exposure to diversified mining houses BHP Billiton and Anglo American. In addition we retain a preference for those shares where our analysis indicates a higher probability of earnings upgrades should the prevailing commodity prices persist, and as a result increased the Fund's Sasol holding, whose earnings should benefit from the weaker Rand. In contrast, we remain underweight the gold and platinum sectors where, in our opinion, the share prices and forecast earnings continue to embed higher than spot commodity prices.

In the Financials and Industrials sectors, the Fund's largest overweight positioning remains to the Banks and General Financial sectors. The banks remain attractively valued relative to the overall market, and most have repaired their balance sheets and can now focus on growing their earnings bases. Our preferred exposure within financials remains to domestic banks, Firstrand and Barclays Africa, as well as to both Investec plc and Old Mutual plc. We added to the holding of JSE that was introduced during the previous quarter, given that we find the valuation attractive and expect the earnings to be underpinned by the increased trading activity on the local exchange.

During the quarter, changes made to the Fund included selling Imperial, given that the valuation of the company exceeded our estimate of fair value, coupled with concerns that new car sales in SA have peaked and Imperial's sales and margins may come under pressure on the back of Rand weakness. In addition, the Fund scaled back its active position in Richemont while increasing the overweight in British American Tobacco, following the tobacco stock's continued de-rating relative to other global consumer staple stocks.

Another significant change was to reduce the Fund's holding in Naspers, following an extensive period of strong outperformance, largely attributable to its investment in the listed Chinese internet company, Tencent. While we continue to consider the rump assets of Naspers as being undervalued by the market, our key reason for moving underweight is driven by our view that the market has re-rated Tencent without any observable change to the forecast earnings growth of the company. With Tencent today dwarfing the other assets within the Naspers Group, we are concerned that should the market re-evaluate the valuation multiples currently attached to global internet assets, it would be negative for both the Tencent and Naspers share prices.

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 31 MARCH 2014

PRUDENTIAL
All things considered.

Risk profile:

LOW	LOW-MED	MED	MED-HIGH	HIGH

ASISA category:
South African - Equity - General

Benchmark:
South African Equity General Portfolios Unit Trust Mean

Inception date:
02 August 1999

Fund size:
R4 985 640 200

Fund managers:


Marc Beckenstrater


Ross Biggs

Performance and positioning

The Fund produced a return of 4.4% for the first quarter of 2014, slightly underperforming by 0.6% relative to the average of the General Equity funds.

The good performance of the market belies a tough environment for resource companies. Domestically, the platinum industry has been impacted by major industrial action. At the global level we saw economic growth concerns emerge in the US and China, geopolitical risk related to Ukraine and financial systemic risk related to Chinese shadow banking. While weighing on industrial commodities, these macro concerns enhanced the safe-haven case for gold. The biggest detractor from performance for the quarter was therefore our underweight holding to the gold sector. Gold and Platinum companies in particular appear to be facing poor cash flows as a result of ever increasing costs. We continue to favour those miners which have strong balance sheets and appear to have the best possibility for improving cash flows. In the general resources sector, we increased our overweight positions in Sasol and added to Sappi where we think cash flows should improve over the medium term. Sasol is the largest holding in the Fund, and while its earnings are cyclical, dividends have generally grown steadily and well ahead of inflation over the last couple of decades. Sasol appears to be undervalued given its impressive history of dividend flows.

The Banking sector continues to appear undervalued, especially relative to the Industrials sector, and the Fund remains overweight to banks. Most banks have now repaired their balance sheets and can focus on growing their earnings bases and increasing lending. The Fund holds a selection of banks which are at varying stages of earnings recovery. After approximately 5 years of slow or flat growth, the trend in earnings and dividends, however, appears to be upward.

During the quarter, changes made to the Fund included materially reducing exposure to Naspers as we believe this company, after having enjoyed an extensive period of strong gains and positive earnings growth, is reaching an overvalued level as its valuation began to discount a very optimistic outlook. We also reduced the Richemont overweight position as the company has reached our estimation of fair value.

The main beneficiary of the selling went to increasing the Fund's holding in British American Tobacco which had come under some pressure. The reported earnings of BAT are expected to decline in the current year as a result of weaker currencies in many of the emerging markets where BAT sells cigarettes. We decided to take advantage of what is a short-term fall in earnings to increase the holding in BAT. We do not expect this currency impact to have any bearing on BAT's ability to continue to pay very healthy and increasing dividends over the medium term. BAT is able to generate substantial cash flows and is able to 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.

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	25.4%	26.0%	20.8%
2 Years	23.0%	23.6%	19.1%
3 Years	18.7%	19.2%	15.9%
5 Years	21.7%	22.2%	20.2%
Since inception	20.3%	14.2%	17.3%

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 31 MARCH 2014

PRUDENTIAL
All things considered.

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:
06 December 2005

Fund size:
R3 139 977 008

Fund managers:

Albert Arntz

Market overview

Several major listed property stocks recently reported financial results. The results were positive and largely exceeded analyst expectations, with weighted average distribution growth well above CPI. Distribution growth over the past year was bolstered by yield-enhancing acquisitions, financial leverage, lower funding costs, 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% but net rental margins are being squeezed as either the non-recoverable portion of property expenses increases or base rentals are undermined.

Merger and acquisition activity in the listed property sector has been significant. Acucap recently announced its merger with Sycom. The combined entity would have a market cap of around R10bn and rank as the seventh-largest property company in South Africa. Growthpoint has subsequently acquired significant stakes in Acucap and Sycom with a view to ultimately merging all three entities. The benefits of such mergers may include increased liquidity, access to cheaper debt funding and lower operating costs due to economies of scale. But there are also downside risks. These include loss of staff and the associated commercial property management skills, reduced competition at industry level and inefficient capital allocation in large diversified companies.

Performance

The Fund returned 1.7% for the quarter, in line with its benchmark.

Annualised performance	A Class	D Class	Benchmark
1 Years	1.8%	1.9%	1.1%
2 Years	17.8%	17.9%	17.8%
3 Years	18.0%	18.2%	18.6%
5 Years	19.3%	n/a	19.6%
Since Inception	17.0%	18.6%	17.4%

Strategy and outlook

Despite the earlier-than-expected start of the rising interest rate cycle in South Africa in January, the impact of higher rates on listed property companies is not, in our view, as negative as generally perceived. Currently Prudential's multi-asset funds are broadly neutral in terms of their property weighting, and we see prospective returns of around 9-12% p.a. over the next five years, which is attractive relative to cash and bonds. We believe the negative impact of rising rates will be 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 SA listed property companies 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.

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.**

Disclaimer

Sources: Prudential & Morningstar

PRUDENTIAL GLOBAL HIGH YIELD BOND FUND OF FUNDS
QUARTERLY COMMENTARY 31 MARCH 2014

PRUDENTIAL
All things considered.

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 402 770

Fund managers:


David Knee


Michael Moyle

Market overview
The first quarter of 2014 proved to be one of contrasting sentiments in global markets. Developed markets started the year bullishly, but sentiment was subsequently dampened by poor weather in the US, slowing growth in China and rising geopolitical concerns in Ukraine. In contrast, January started very bearishly for emerging markets in the wake of the US Fed's tapering, but the balance of the quarter saw gradually improving investor sentiment.

In the US, investors adjusted to the course of tapering monetary policy under new Federal Reserve Chairman Janet Yellen, as she continued with steady 10 billion US Dollar reductions in bond purchases. In late March her messaging reinforced the Fed's intentions of providing accommodative policy as long as necessary, citing the "considerable slack" in the labour market as evidence that the US economy was operating well below potential. US Treasuries saw a significant re-pricing as the 10-year yield fell about 30bps in January before stabilising around 2.7% for the remainder of the quarter. At the same time, spreads on US investment-grade and high-yield bonds versus government bonds continued to tighten. At quarter-end, Fed fund futures were pricing in a slightly more dovish scenario, with the first 25bp rate hike expected only in September 2015, and a total of 200bps in hikes by the end of December 2016.

This occurred against the backdrop of somewhat weaker US growth. Many US economic indicators disappointed over the quarter as severe winter weather held back sales growth, production and hiring. This coincided with concerns over credit quality and slowing economic activity in China, as that country also reported below-consensus data including industrial production, February exports and a weaker PMI. This, in turn, raised broader concerns about growth in Asia in general.

Non-government bonds once again outperformed their government counterparts. US Investment Grade Corporate bonds returned 3.0% for the quarter (as did US High Yield) against 1.6% from US Treasuries. The Rand was essentially unchanged over the quarter; it weakened sharply in January but reversed almost all of these losses before quarter end.

Performance
For the quarter ending December 2013, the Fund returned 2.3% (net of fees), matching the performance of its benchmark, the Barclays Capital Global Aggregate Bond Index. Once again, holdings of US investment grade bonds and European corporate bonds proved to be the main drivers of performance, with the Rand's depreciation having only a small impact over the period. Over the past 12 months, the Fund has returned 19.8% (net of fees) versus the benchmark's 16.1%, continuing to outperform due to its exposure to global corporate bonds and its underweight exposure to the Japanese Yen which weakened significantly at the end of 2013.

Annualised performance	A Class	Benchmark
1 Years	19.8%	16.2%
2 Years	22.7%	19.0%
3 Years	21.7%	19.2%
5 Years	10.4%	7.1%
Since Inception	9.3%	9.0%

Strategy and Outlook
We remain significantly overweight corporate credit versus government bonds in our offshore fixed interest holdings, even as corporate spreads versus government bonds continue to narrow. In our view, this reflects 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. According to Moody's, the default rate on high yield debt in 2013 was 2.9% compared with a long-term average of 4.7%, and a forecast for 2014 of 2.2%. During the quarter we switched our exposure from fixed-rate to floating-rate US High Yield assets in order to remove some interest rate risk from the portfolio. Further modest spread compression is very possible over the next 18 months in anticipation of rising US Treasury yields over the medium-term.

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 31 MARCH 2014

PRUDENTIAL
All things considered.

Risk profile:

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

In Sterling or US$ terms

ASISA category:
Global - Multi Asset - Low Equity

Benchmark:
Composite LIBOR Index (1/3 Euro, 1/3 USD and 1/3 Sterling)

Inception date:
01 March 2004

Fund size:
R75 838 998

Fund managers:


David Knee


Michael Moyle

Market overview
US investors adjusted to the course of tapering monetary policy under new Federal Reserve Chairman Janet Yellen during the first quarter of 2014. At quarter-end, Fed fund futures were pricing in a slightly more dovish scenario, with the first 25bp rate hike expected only in September 2015, and a total of 200bps in hikes by the end of December 2016.

US Treasuries saw a significant re-pricing as the 10-year yield fell about 30bps in January before stabilising around 2.7% for the remainder of the quarter. At the same time, spreads on US investment-grade and high-yield bonds versus government bonds continued to tighten. The US High Yield Index posted a return of 3.0% (in USD) for the quarter, outperforming the 1.6% (in USD) recorded by the US Treasury Market.

This occurred against the backdrop of somewhat weaker US growth. Many US economic indicators disappointed over the quarter as severe winter weather held back sales growth, production and hiring. This coincided with concerns over credit quality and slowing economic activity in China, as that country also reported below-consensus data including industrial production, February exports and a weaker PMI. This, in turn, raised broader concerns about growth in Asia in general.

US equities, after exceptional gains in 2013, experienced a slowdown on the back of below-expected economic data and some profit-taking, with the S&P 500 Index up 1.8% (in US Dollars, total return basis). Other developed markets (DM) like the UK and Euro area also recorded marginal moves: the UK's FTSE 100 lost 0.6%, while Germany's Dax 30 reported a 0.1% gain and the French CAC 40 was up 2.4%.

DM equities outperformed emerging markets (EM) over the quarter, with the MSCI World Free Index gaining 1.4% versus the 0.4% lost by the MSCI Emerging Markets Index. Negative EM sentiment spurred by tapering and slowing EM growth saw investors pulling funds out of EM ETFs in record volumes in January. The "Fragile Five" economies - Brazil, India, Indonesia, Turkey and South Africa - were particularly hard hit, forcing many (including SA) to hike interest rates amid rapidly depreciating currencies and rising inflation concerns. Over February and March (particularly) investors were attracted back to certain markets by the relatively high yields on offer. The best performing EM equities for the quarter (in US Dollars) were the MSCI India (+8.2%), MSCI South Africa (+4.9%) and MSCI Turkey (+4.8%). The worst included the MSCI Russia (-14.4%), MSCI China (-5.9%) and South Korea's KOSPI 200 (-1.9%).

Performance
For the quarter ending March 2014, the Fund returned -0.7% (net of fees), compared to 0.3% from its benchmark of 1/3 each in US Dollar, Euro and Sterling cash. An overweight position in the US Dollar relative to the benchmark detracted from performance as the Dollar depreciated versus the other two currencies through the period. Adding to this was a large withdrawal from the Fund during market weakness. Over the past 12 months, the Fund has returned 19.6% (net of fees) versus the benchmark's 20.9%.

Annualised performance	A Class	Benchmark
1 Years	19.6%	20.9%
2 Years	19.8%	19.2%
3 Years	16.8%	16.7%
5 Years	6.4%	3.9%
Since Inception	7.4%	7.4%

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 still believe interest rates globally are set to stay relatively low for longer – a view that was reinforced by central bank comments over the quarter, combined with very subdued inflation data in developed markets. Cash remains an unattractive option.

In our offshore bond holdings, we remain significantly overweight corporate credit versus cash, even as corporate spreads versus government bonds continued to narrow over the quarter. In our view, this reflects 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. According to Moody's, the default rate on high yield debt in 2013 was 2.9% compared with a long-term average of 4.7%, and a forecast for 2014 of 2.2%. Further modest spread compression is very possible over the next 18 months. Despite further gains over the past quarter, we remain overweight offshore equity. From a long-term valuation perspective, developed market equities still appear to be on the cheap side of fair value, while we continue to be cautious on EM equities despite their improving valuations. Hence, the Fund is primarily exposed to a diversified basket of Developed Market equities, with a small exposure to Korean equities and to Global Financials, both of which our analysis suggests are favourably priced.

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 Cautious Managed Fund of Funds** and deposited into the following bank account: **Standard Bank, Claremont, Account number: 071863575, Branch code: 025109.**

Sources: Prudential & Morningstar

PRUDENTIAL GLOBAL VALUE FUND OF FUNDS
QUARTERLY COMMENTARY 31 MARCH 2014

PRUDENTIAL
All things considered.

FUND OF FUNDS

Risk profile:

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

ASISA category:
Global - Equity - General

Benchmark:
MSCI All Country World Index

Inception date:
18 February 2000

Fund size:
R149 728 595

Fund managers:

Marc Beckenstrater

Michael Moyle

Annualised performance	A Class	Benchmark
1 Years	34.3%	32.9%
2 Years	20.8%	33.0%
3 Years	22.6%	25.8%
5 Years	18.2%	20.0%
Since Inception	5.8%	6.8%

Market overview

Developed markets outperformed emerging markets for the quarter. Poor weather in the US at the start of the year, slowing growth in China and rising geopolitical concerns in Ukraine dampened optimism in developed world, while sentiment remained negative towards emerging markets with mounting worries over slowing growth prospects. The "Fragile Five" economies - Brazil, India, Indonesia, Turkey and South Africa - were hard hit, forcing many (including SA) to hike interest rates amid rapidly depreciating currencies and rising inflation concerns.

Global equities remain preferred over local South African equities and are fairly valued versus historical norms of consensus earnings projections.

Performance

The Fund returned 1.0% for the quarter in Rand against the benchmark of 1.0% with the currency flat against the US Dollar. Stock positions in consumer discretionary and information technology sectors in the US and Japan as well as industrials sector in the UK added to performance. Country overweight exposures in Germany detracted from overall performance.

How to invest

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Sources: Prudential & Morningstar