

QUARTERLY COMMENTARY

MARKET OVERVIEW

Economic growth surprised to the upside in South Africa as Q1 2021 GDP growth measured 4.6% q/q annualised, notably higher than the 2.5% market forecast. Despite the gradual recovery, Stats SA noted that the economy's absolute size was equivalent to that last seen in Q1 2016, five years earlier. Covid-19 vaccine supplies continued to make their way into the country and the government's vaccination programme made headway, but this progress was overshadowed in June as the third wave of Covid infections gathered pace, driven by the more transmissible Delta variant. This prompted President Cyril Ramaphosa to reintroduce Level 2, and subsequently Level 4, lockdown measures, again curtailing vital economic and social activity.

Meanwhile, the South African Reserve Bank kept its benchmark interest rate unchanged at a record low of 3.5% at its 20 May MPC meeting, warning that slow progress on vaccinations, limited energy supply and policy uncertainty continue to pose downside risks to the economic outlook. This was despite the jump in consumer inflation to 4.4% y/y in April and 5.2% y/y in May, attributed largely to the previous low base. The central bank raised its growth forecasts for 2021 from 3.8% to 4.2%, but lowered its projections for 2022 and 2023 to 2.3% and 2.4% respectively. It is also projecting two 25bps interest rate hikes in 2021.

During the quarter global credit rating agencies S&P and Fitch reaffirmed South Africa's long-term sovereign credit rating at BB-, citing an upturn in near-term economic performance and improved public finances as contributing factors. Moody's, however, postponed its review on South Africa's credit rating, which currently sits at Ba2 with a negative outlook.

SA bonds posted a strong 6.9% return (as measured by the FTSE/JSE All Bond Index), remaining sought-after sources of yield for global investors compared to many other sovereign bonds. The yield curve between 10-year and 20-year bonds also flattened by 34bps, with the spread now down at 120bps from its peak of 216bps during the Coronavirus crisis in May 2020 and highlighting lower investor risk perceptions. Meanwhile, SA inflation-linked bonds produced 3.0% (Composite ILB Index) on the back of somewhat softer demand for inflation protection, and cash (STeFi Composite) delivered 0.9%.

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	X CLASS	D CLASS
1 year	3.8%	4.0%	4.0%	4.1%
3 years	5.9%	6.0%	6.0%	6.1%
5 years	6.8%	6.6%	6.9%	7.1%
7 years	6.7%	6.6%	6.9%	7.0%
10 years	6.4%	6.3%	6.5%	6.7%

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

PERFORMANCE

For the second quarter of 2021, the fund delivered a return of 1.1% (net), marginally outperforming its benchmark, the STeFi Composite Index, by 0.1%. For the 12 months ended 30 June 2021, the fund returned 3.8% (net of fees), while its benchmark delivered 4.0% over the same period.

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 three years compared to money market funds at 13 months. The fund also has a maximum weighted average duration of 180 days as opposed to a typical money market fund targeting a maximum 90-day weighted average duration.

Relative to the 180-day maximum average duration, the quarter-end duration of the fund came in at 156 days.

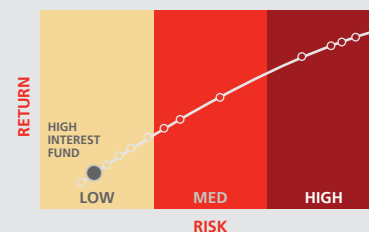
STRATEGY AND POSITIONING

The second quarter saw the return of issuers to the primary bond market after a traditionally quiet first quarter. Issuance volume (excluding government issuances) was R37.5bn, significantly higher than both the previous quarter (R16.5bn) and the corresponding second quarter of 2020 (also R16.5bn). The make-up of issuance for the quarter followed established trends, with the majority being floating rate notes while banks were the largest sector for issuance. We continue to see meaningful volume via private placements, although not to the same extent as was the case in 2020. Issuance activity has for a period been dominated by floating rate placements/auctions rather than fixed rate issuance. The return of issuers to the market, together with somewhat uncertain market conditions, may provide some opportunities to add to our credit holdings at attractive prices. The window of opportunity to accumulate cheap credit may be closing, though, as credit spreads have for the most part been trending lower, towards pre-pandemic levels.

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

INCOME

RISK/RETURN PROFILE:



FUND MANAGERS:

Roshen Harry and Sandile Malinga

ASISA CATEGORY:

South African - Interest Bearing - Short Term

BENCHMARK:

STeFi Composite Index measured over a rolling 12-month period

INCEPTION DATE:

8 December 2010

FUND SIZE:

R8 494 340 815

PLEASE NOTE:

This fund is capped to new investors

DISCLAIMER

Prudential Portfolio Managers Unit Trusts Ltd (Registration number: 1999/0524/06) is an approved CISA management company (#29). Assets are managed by Prudential Investment Managers (South Africa) (Pty) Ltd, which is an approved discretionary Financial Services Provider (#45199). The Trustee's/Custodian details are: Standard Bank of South Africa limited – Trustees Services & Investor Services, 20th Floor, Main Tower, Standard Bank Centre, Heerengracht, Cape Town. Prudential Portfolio Managers (South Africa) (Pty) Ltd ("PPMSA") is part of the same corporate group as the Prudential Assurance Company. The Prudential Assurance Company is a direct subsidiary of M&G plc, a company incorporated in the United Kingdom. Neither PPMSA or the Prudential Assurance Company are affiliated in any manner with Prudential Financial, Inc., a company whose principal place of business is in the United States of America or Prudential plc, an international group incorporated in the United Kingdom.

Collective Investment Schemes (Unit trusts) are generally medium-to long-term investments. Past performance is not necessarily a guide to future investment performance. Unit trust prices are calculated on a net asset value basis. This means the price is the total net market value of all assets of the unit trust fund divided by the total number of units of the fund. Any market movements – for example in share prices, bond prices, money market prices or currency fluctuations – relevant to the underlying assets of the fund may cause the value of the underlying assets to go up or down. As a result, the price of your units may go up or down. Unit trusts are traded at the ruling forward price of the day, meaning that transactions are processed during the day before you or the Manager know what the price at the end of the day will be. The price and therefore the number of units involved in the transaction are only known on the following day. The unit trust fund may borrow up to 10% of the fund value, and it may also lend any scrip (proof of ownership of an investment instrument) that it holds to earn additional income. A Prudential unit trust fund may consist of different fund classes that are subject to different fees and charges. Where applicable, the Manager will pay your financial adviser an agreed standard ongoing adviser fee, which is included in the overall costs of the fund. A Collective Investment Schemes (CIS) summary with all fees and maximum initial and ongoing adviser fees is available on our website. One can also obtain additional information on Prudential products on the Prudential website. The Fund may hold foreign securities including foreign CIS funds. As a result, the fund may face material risks. The volatility of the fund may be higher and the liquidity of the underlying securities may be restricted due to relative market sizes and market conditions. The fund's ability to settle securities and to repatriate investment income, capital or the proceeds of sales of securities may be adversely affected for multiple reasons including market conditions, macro-economic and political circumstances. Further, the return on the security may be affected (positively or negatively) by the difference in tax regimes between the domestic and foreign tax jurisdictions. The availability of market information and information on any underlying sub-funds may be delayed. The Manager may, at its discretion, close your chosen unit trust fund to new investors and to additional investments by existing investors to make sure that it is managed in accordance with its mandate. It may also stop your existing debit order investment. The Manager makes no guarantees as to the capital invested in the fund or the returns of the fund. Excessive withdrawals from the fund may place the fund under liquidity pressure and, in certain circumstances, a process of ring fencing withdrawal instructions may be followed. Fund prices are published daily on the Prudential website. These are also available upon request. The performance is calculated for the portfolio. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. Purchase and repurchase requests must be received by the Manager by 13h30 (11h30 for the Money Market Fund) SA time each business day. All online purchase and repurchase transactions must be received by the Manager by 10h30 (for all Funds) SA time each business day.