PRUDENTIAL UNIT TRUSTS QUARTERLY COMMENTARY
31 MARCH 2016

PRUDENTIAL
INVESTMENT MANAGERS

COMBINED QUARTERLY COMMENTARY

INCOME | MULTI-ASSET | PROPERTY/EQUITY | GLOBAL

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PRUDENTIAL MONEY MARKET FUND
31 MARCH 2016

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME FUND

PERFORMANCE

Over the past quarter, the Fund delivered a return of 1.76% (gross) versus its benchmark, the STeFI Call Deposit Index, which returned 1.53%. The current average duration of the Fund is 42 days relative to the 90-day maximum average duration.

It was another eventful quarter in South Africa, with highlights including fears of sovereign credit rating downgrades; a generally welcomed budget presentation by National Treasury; and some theatrics in the political arena. Rating agency Moody's placed South Africa's Baa2 foreign currency credit rating on negative review. The market widely expects a downgrade to Baa3 in the coming weeks, which would still be one notch above junk status, and in line with S&P and Fitch. The latter two agencies could then downgrade the country to junk level following their own reviews in June.

The SARB MPC raised the repo rate by a surprise 50bps in January and by a further 25bps in March to 7.00%, prompted by worsening inflation prospects on the back of the weaker rand and sharply higher food prices.

"Stagflation" concerns mounted as GDP growth came in at 0.6% (q/q annualised) in the last quarter of 2015, for a total of 1.3% for the year, while headline CPI hit 7.0% y/y in February. The SARB now expects CPI to average 6.6% in 2016 and 6.4% in 2017, peaking at 7.3% y/y in the last quarter of this year.

CPI inflation surprised on the upside at 7.0% y/y for February from 6.2% y/y in January, on the back of food inflation adding 8.8% y/y as a consequence of the drought. Core inflation crept up by 0.1% y/y to 5.7% y/y.

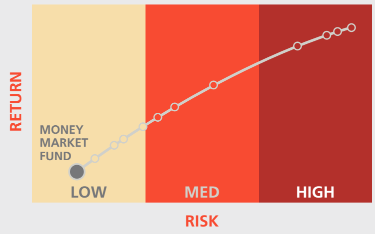
PPI inflation increased to 8.1% y/y in February from 7.6% y/y in January, lower than the market expectation of 8.5%. The climb was fueled by the rising food prices in response to the severe drought. The Agriculture, Forestry and Fishing sub-component added a steep 24.9% y/y and Electricity and Water rose 12.6%.

Private sector credit extension added 0.5% y/y to 9.0% y/y for February. Modest credit up take can at least partially be attributed to the SARB rate hikes exerting additional pressure on arguably already strained consumers. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	X CLASS
1 year	6.4%	5.9%	6.6%
3 years	5.7%	5.3%	5.9%
5 years	5.6%	5.2%	5.7%
7 years	6.0%	5.7%	n/a
10 years	7.2%	6.9%	n/a
Since inception#	7.8%	7.7%	5.7%

Inception date X Class: 1 April 2011

RISK/RETURN PROFILE:



FUND MANAGERS:
Roshen Harry and Sandile Malinga

ASISA CATEGORY:
South African - Interest Bearing - Money Market

BENCHMARK:
STeFI Call Deposit Index

INCEPTION DATE:
9 April 2002

FUND SIZE:
R4 231 381 353

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL HIGH INTEREST FUND
31 MARCH 2016

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME FUND

MARKET OVERVIEW

It was another eventful quarter in South Africa, as fears of a sovereign foreign currency rating downgrade to "junk" (or non-investment grade) status were just one factor casting a shadow over markets. Worsening inflation prospects prompted the South African Reserve Bank (SARB) to hike interest rates by a surprise 50bps in January and another 25bps in March, citing the weaker rand and sharply higher food prices as the major risks. "Stagflation" concerns mounted as GDP growth came in at 0.6% (q/q annualised) in the last quarter of 2015, for a total of 1.3% for the year, while headline CPI hit 7.0% y/y in February. The SARB now expects CPI to average 6.6% in 2016 and 6.4% in 2017, peaking at 7.3% y/y in the last quarter of this year. The Central Bank also lowered its GDP growth forecasts, to 0.8% from 0.9% in 2016, 1.4% from 1.6% in 2017, and 1.8% in 2018.

During the quarter rating agency Moody's placed South Africa's Baa2 foreign currency credit rating on negative review. The market widely expects a downgrade to Baa3 in the coming weeks, which would still be one notch above junk status, and in line with S&P and Fitch. The latter two agencies could then downgrade the country to junk level following their own reviews in June.

The National Treasury's 2016/17 Budget was generally welcomed positively by investors and the ratings agencies, demonstrating more fiscal consolidation than in November's Medium-Term Budget, with the deficit planned to shrink from 3.2% of GDP in the current fiscal year to 2.4% of GDP by 2018/19. However, there was some disappointment over the absence of income tax hikes and other more aggressive measures that would have demonstrated even greater intent by government to maintain fiscal responsibility, and there is scepticism about their ability to rein in expenditure, particular regarding public sector wages.

Having been under considerable pressure in December and January, local bonds managed to stage a recovery in February and March, helped by rising commodity prices and the return of offshore investor demand. The SA 10-year bond rallied about 62bps to reach 9.09% by quarter-end, while shorter-dated bonds lost ground due to the SARB rate hikes. The All Bond Index returned 6.1% in Q1. Yields on inflation-linked bonds (ILBs) were largely unchanged at quarter-end, with the 10-year real yield at 1.8%, while the 15-year yield fell to 1.9% from 2.1% in January.

FUND PERFORMANCE

The Prudential High Interest Fund generated a return of 2.03% (gross) for the quarter compared to its benchmark, the STeFI Composite Index, which returned 1.68% (gross).

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

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

Relative to the 180-day maximum average duration, the Fund currently has a duration of about 138 days.

FUND STRATEGY

The Fund has generally sought to take advantage of banks' requirements to secure longer- dated funding which better matches the profile of their loan books. This has led to a steep credit curve whereby they are prepared to pay significantly more for funding beyond the 12-month point. We prefer these longer-dated securities and have exposure to securities issued by banks such as ABSA, Standard Bank, FirstRand, Nedbank and Investec both in floating and fixed rate securities.

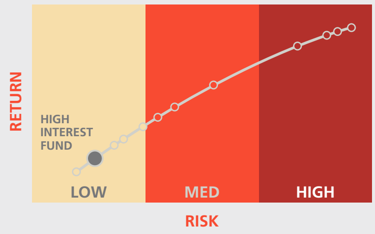
During the quarter, the Fund increased its exposure to longer-dated floating rate securities issued by corporates (including banks) in order to take advantage of the widening of credit spreads, as well as reducing the relative amount of fixed securities in the portfolio. The Fund also increased its exposure to government instruments to 3.5% on the back of a spread pick-up captured from treasury bills above corresponding bank paper.

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

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	X CLASS	D CLASS
1 year	6.4%	6.6%	6.6%	6.7%
2 years	6.2%	6.4%	6.3%	6.5%
3 years	5.9%	6.0%	6.0%	6.4%
5 years	5.9%	5.8%	5.9%	6.2%
Since inception#	5.9%	5.8%	5.9%	6.2%

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

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 530 077 227

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL HIGH YIELD BOND FUND
31 MARCH 2016

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME FUND

PERFORMANCE

Over the first quarter of 2016 the Fund returned 6.4% (after fees). Nominal bonds, which returned 6.1% (as measured by the ALBI), outperformed cash which returned 1.7% (STEFI) and inflation-linked bonds which returned 2.0% (JSE CILI).

Our portfolios maintain an overweight duration position while we continue to look to add to the funds corporate bond exposure. We maintain that the risks over the near-term have been overstated by the market, so that current real yields from long-dated government bonds of over 3% are attractive. Credit spreads continue to push wider and offer an attractive real return particularly for longer dated bonds.

MARKET OVERVIEW

In the US, GDP growth slowed to 1.4% in Q1 2016 (q/q annualised) from 2.1% in the previous quarter. The outlook for headline consumer inflation was also downgraded to 1.3% for the year, versus 1.5% previously. At its 15 March meeting, the US Federal Reserve FOMC left interest rates on hold, citing the weaker global environment and some disappointing data indicating a slowdown in wage growth and jobs growth.

In the Eurozone, inflation fell to -0.2% in February from 0.4% in January – largely due to the drop in the oil price – and growth prospects for 2016 were trimmed to 1.5% from 1.7%. ECB President Mario Draghi cut the central bank's benchmark interest rate to zero, and the overnight bank deposit rate to -0.4%. Monthly bond repurchases were increased, and the stronger-than-expected stimulus helped return some confidence to European markets. German bonds rallied strongly over the quarter, with the 10-year yield falling from 0.63% to 0.17%.

Japan is on the brink of recession after the country posted -0.4% growth in the final quarter of 2015 and the 2016 growth outlook was revised down significantly, to only 0.7% from 1.2% in January. February CPI was only 0.3% y/y. With its aggressive easing policy looking ineffective, the Bank of Japan cut its main interest rate to -0.1% in January in a move that surprised markets.

In China, the government introduced a GDP growth target range of 6.5% -7% for 2016, moving away from a specific target (7% in 2015) for the first time since 1995. The economy expanded 6.9% in 2015 and the consensus forecast is a slowdown to 6.5% this year. The government also announced further expansionary policies, such as cutting the minimum home loan down payment to 20%, and reducing the bank reserve requirement ratio for the fifth time in just over a year.

Other emerging markets were supported by the rally in commodity prices and the weaker US dollar in the quarter.

In South Africa fears of a sovereign foreign currency rating downgrade to "junk" (or non-investment grade) status cast a shadow over markets. Worsening inflation prospects prompted the South African Reserve Bank (SARB) to hike interest rates by a surprise 50bps in January and another 25bps in March, citing the weaker rand and sharply higher food prices as the major risks. "Stagflation" concerns mounted as GDP growth came in at 0.6% (q/q annualised) in the last quarter of 2015, for a total of 1.3% for the year, while headline CPI hit 7.0% y/y in February. The SARB now expects CPI to average 6.6% in 2016 and 6.4% in 2017, peaking at 7.3% y/y in the last quarter of this year. The Central Bank also lowered its GDP growth forecasts, to 0.8% from 0.9% in 2016, 1.4% from 1.6% in 2017, and 1.8% in 2018.

During the quarter rating agency Moody's placed South Africa's Baa2 foreign currency credit rating on negative review. The market widely expects a downgrade to Baa3 in the coming weeks, which would still be one notch above junk status, and in line with S&P and Fitch. The latter two agencies could then downgrade the country to junk level following their own reviews in June.

The rand managed to recover some of its December-January losses later in the quarter, supported by a softer US dollar, stronger commodity prices and higher local interest rates. The 31 March Constitutional Court ruling on Nkandla also proved positive, reinforcing the rule of law and the country's constitutional democracy to ultimately boost investor confidence. This pushed the currency from just above R15/USD on the day to end the quarter well below that key level, at around R14.70/USD. Having started the quarter at around R16.5/USD, it gained 5.4% against the greenback, 0.4% against the euro and 8.0% versus sterling (which was weaker on Brexit concerns) over the three months.

The National Treasury's 2016/17 Budget was generally welcomed positively by investors and the ratings agencies, demonstrating more fiscal consolidation than in November's Medium-Term Budget, with the deficit planned to shrink from 3.2% of GDP in the current fiscal year to 2.4% of GDP by 2018/19. However, there was some disappointment over the absence of income tax hikes and other more aggressive measures that would have demonstrated even greater intent by government to maintain fiscal responsibility, and there is scepticism about their ability to rein in expenditure, particular regarding public sector wages.

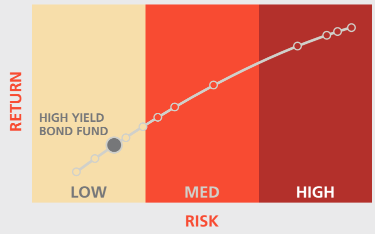
Meanwhile, local bonds managed to stage a recovery in February and March, helped by rising commodity prices and the return of offshore investor demand. The SA 10-year bond rallied about 62bps to reach 9.09% by quarter-end, while shorter-dated bonds lost ground due to the SARB rate hikes.

The risks associated with investing in South Africa remain elevated. With GDP growth slowing further and inflation rising to 7% during the quarter (and forecast higher in coming months), the likelihood of eventually being downgraded to non-investment grade status has risen. Investors can expect continued volatility in financial markets over the medium term. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	-1.7%	-0.6%	-1.4%
3 years	3.2%	4.0%	3.6%
5 years	7.3%	7.8%	7.7%
7 years	7.8%	8.0%	8.2%
10 years	7.3%	7.5%	7.7%
Since inception#	10.2%	10.4%	9.0%

Inception date B Class: 1 April 2003

RISK/RETURN PROFILE:



FUND MANAGERS:

David Knee and Gareth Bern

ASISA CATEGORY:

South African - Interest Bearing - Variable Term

BENCHMARK:

BEASSA Total Return All Bond Index

INCEPTION DATE:

27 October 2000

FUND SIZE:

R559 083 118

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL ENHANCED INCOME FUND
31 MARCH 2016

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME FUND

PERFORMANCE

For the quarter ending March 2016 the Fund delivered a return of 3.5% (gross of fees), outperforming cash as measured by its benchmark, the STeFi composite, by 1.9%.

After recording one of the weakest-ever starts to a year in January 2016, global financial markets managed to recover some ground amid considerable volatility. The quarter was characterised by further downgrades to growth and inflation forecasts on a broad basis, which weighed on developed market equities. This was accompanied by more monetary easing in the major economies, and the US Federal Reserve adopting a more moderate approach in its rate hiking path, which underpinned bonds and led to a softer US dollar. Also notable was a rally in commodity prices later in the quarter that lifted emerging markets equities and currencies.

It was another eventful quarter in South Africa, as fears of a sovereign foreign currency rating downgrade to "junk" (or non-investment grade) status were just one factor casting a shadow over markets. Worsening inflation prospects prompted the South African Reserve Bank (SARB) to hike interest rates by a surprise 50bps in January and another 25bps in March, citing the weaker rand and sharply higher food prices as the major risks. "Stagflation" concerns mounted as GDP growth came in at 0.6% (q/q annualised) in the last quarter of 2015, for a total of 1.3% for the year, while headline CPI hit 7.0% y/y in February. The SARB now expects CPI to average 6.6% in 2016 and 6.4% in 2017, peaking at 7.3% y/y in the last quarter of this year. The Central Bank also lowered its GDP growth forecasts, to 0.8% from 0.9% in 2016, 1.4% from 1.6% in 2017, and 1.8% in 2018.

During the quarter rating agency Moody's placed South Africa's Baa2 foreign currency credit rating on negative review. The market widely expects a downgrade to Baa3 in the coming weeks, which would still be one notch above junk status, and in line with S&P and Fitch. The latter two agencies could then downgrade the country to junk level following their own reviews in June.

On a more positive note, the rand managed to recover some of its December-January losses later in the quarter, supported by a softer US dollar, stronger commodity prices and higher local interest rates. The 31 March Constitutional Court ruling on Nkandla also proved positive, reinforcing the rule of law and the country's constitutional democracy to ultimately boost investor confidence. This pushed the currency from just above R15/USD on the day to end the quarter well below that key level, at around R14.70/USD. Having started the quarter at around R16.5/USD, it gained 5.4% against the greenback, 0.4% against the euro and 8.0% versus sterling (which was weaker on Brexit concerns) over the three months.

The National Treasury's 2016/17 Budget was generally welcomed positively by investors and the ratings agencies, demonstrating more fiscal consolidation than in November's Medium-Term Budget, with the deficit planned to shrink from 3.2% of GDP in the current fiscal year to 2.4% of GDP by 2018/19. However, there was some disappointment over the absence of income tax hikes and other more aggressive measures that would have demonstrated even greater intent by government to maintain fiscal responsibility, and there is scepticism about their ability to rein in expenditure, particular regarding public sector wages.

Meanwhile, having been under considerable pressure in December and January, local bonds managed to stage a recovery in February and March, helped by rising commodity prices and the return of offshore investor demand. The SA 10-year bond rallied about 62bps to reach 9.09% by quarter-end, while shorter-dated bonds lost ground due to the SARB rate hikes. The All Bond Index returned 6.1% in Q1. Yields on inflation-linked bonds (ILBs) were largely unchanged at quarter-end, with the 10-year real yield at 1.8%, while the 15-year yield fell to 1.9% from 2.1% in January. ILBs returned 2.0% in the quarter, while cash returned 1.7%.

Break-even inflation expectations for 10 years started the quarter at 7.5% and spiked to around 8% as inflation concerns grew, before ending the quarter back around 7.5%. Over the quarter, forward rate agreements (FRAs) priced in the SARB's rate hikes in the shorter dates, while 24-month interest rate expectations were largely unchanged at still-elevated levels around 8.5%. This indicates the market has "frontloaded" the SARB's rate hikes and not raised its views on interest rate levels in two years' time, although it still implies substantial further monetary tightening to come, an expectation we are doubtful will be realised.

Listed property, after suffering sharp losses last quarter following Nene-gate, saw a very strong rebound in the past three months, with the listed property index posting a total return of 10.1% (9.5% in March alone).

We are constructive on longer-dated bonds versus shorter paper due to the more attractive yields on offer, while retaining our overweight exposure to corporate bonds. We would maintain that the risks over the near-term have been overstated by the market, so that current real yields from long-dated government bonds of over 3% are very attractive. Longer dated corporate bonds offer even more attractive real yields of over 5% over the medium-term, compensating for the risk, and so offer an attractive opportunity as well.

Inflation-linked bonds remained relatively expensive compared to conventional bonds over the quarter, leading us to remain underweight in these assets. The break-even inflation rate of 7.5% appears exceptionally elevated compared to our long-term inflation benchmark of 6.0%.

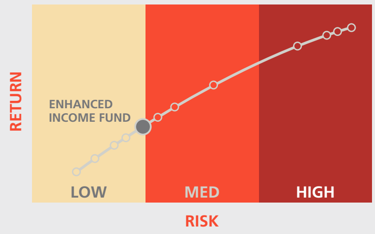
The risks associated with investing in South Africa remain elevated. With GDP growth slowing further and inflation rising to 7% during the quarter (and forecast higher in coming months), the likelihood of eventually being downgraded to non-investment grade status has risen. Investors can expect continued volatility in financial markets over the medium term. ■

The commentary is based on the intended model portfolio, however client-specific portfolio management may deviate slightly.

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	X CLASS	D CLASS
1 year	4.8%	6.6%	5.0%	5.4%
2 years	6.8%	7.0%	7.0%	7.4%
3 years	6.3%	6.0%	6.6%	6.9%
5 years	7.9%	7.0%	8.1%	n/a
Since inception#	8.6%	7.3%	8.1%	8.4%

Inception dates: X Class: 1 April 2011, D Class: 1 July 2011

RISK/RETURN PROFILE:



FUND MANAGERS:
David Knee and Roshen Harry

ASISA CATEGORY:
South African - Multi-Asset - Income

BENCHMARK:
STeFI Composite Index measured over a rolling 36-month period

INCEPTION DATE:
1 July 2009

FUND SIZE:
R2 300 978 858

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL INFLATION PLUS FUND
31 MARCH 2016

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

MARKET OVERVIEW

After recording one of the weakest-ever starts to a year in January 2016, global financial markets managed to recover some ground amid considerable volatility. The quarter was characterised by further downgrades to growth and inflation forecasts on a broad basis, which weighed on developed market equities. This was accompanied by more monetary easing in the major economies, and the US Federal Reserve adopting a more moderate approach in its rate hiking path, which underpinned bonds and led to a softer US dollar. Also notable was a rally in commodity prices later in the quarter that lifted emerging markets equities and currencies. While developed market equities broadly experienced losses amid earnings concerns, emerging markets (with some exceptions like China) saw strong gains as sentiment improved.

In the US, GDP growth slowed to 1.4% in Q1 2016 (q/q annualised), and forecasts for 2016 were revised downward to 2.1% from 2.4% previously. In the face of the weaker global and local environment, the US Federal Reserve effectively eliminated two 25bp rate hikes from their interest rate forecast. The Fed Funds futures market followed suit, helping push the dollar weaker and supporting US equity and bond markets.

The Barclays Global Aggregate Bond Index (US$) posted a total return of 5.9% in the quarter. US Treasury (UST) bonds rallied, and US high-yield bond spreads vs USTs improved slightly, but this masked considerable volatility. In the equity market, the S&P 500 started the year losing about 9% (in price terms), and then rebounded to end the quarter with a 1.3% total return.

In the Eurozone, inflation fell to -0.2% in February and 2016 growth prospects were trimmed to 1.5%. The ECB responded with more interest rate cuts and bond repurchases, spurring a bond rally. In contrast, poorer growth prospects weighed on European equity markets: the Dow Jones Euro Stoxx 50 Index (US$) returned -3.3% for the three months.

Japan is on the brink of recession with -0.4% growth in Q4 2015 and a forecast of only 0.7% for 2016. With its aggressive easing policy looking ineffective, the Bank of Japan cut its main interest rate to -0.1%. Over the quarter the Nikkei returned -5.0%. In China, the economy expanded 6.9% in 2015 and the consensus forecast is a slowdown to 6.5% this year. The government also announced further expansionary policies. The MSCI China returned -4.8%.

Other emerging markets were supported by the rally in commodity prices and the weaker US dollar in the quarter. Brazil's Ibovespa was the strongest performer in US dollar terms, gaining 28.9%. The MSCI Turkey gained 21.7%, MSCI Russia 15.8% and MSCI South Africa 13.9%.

In South Africa, worsening inflation prospects prompted the SARB to hike interest rates by a surprise 50bps in January and another 25bps in March, citing the weaker rand and sharply higher food prices as the major risks. GDP growth came in at 0.6% (q/q annualised) in Q4 2015, for a total of 1.3% for the year, while headline CPI hit 7.0% y/y in February.

During the quarter rating agency Moody's placed South Africa's Baa2 foreign currency credit rating on negative review. The market widely expects a downgrade to Baa3, which would still be one notch above junk status, and in line with S&P and Fitch. The latter two agencies could then downgrade the country to junk level following their own reviews in June.

On a more positive note, the rand managed to gain ground, supported by a softer US dollar, stronger commodity prices and higher local interest rates. The Constitutional Court ruling on Nkandla also boosted investor confidence. The local currency gained 5.4% against the US dollar, 0.4% against the euro and 8.0% versus sterling (which was weaker on Brexit concerns) over the three months.

The National Treasury's 2016/17 Budget was generally welcomed positively by investors and the ratings agencies, demonstrating more fiscal consolidation than in November's Medium-Term Budget, with the deficit planned to shrink from 3.2% of GDP in the current fiscal year to 2.4% of GDP by 2018/19. However, there was some disappointment over the absence of income tax hikes and other more aggressive measures that would have demonstrated even greater intent by government to maintain fiscal responsibility, and there is scepticism about their ability to rein in expenditure, particular regarding public sector wages.

Meanwhile, local bonds managed to stage a recovery, helped by rising commodity prices and the return of offshore investor demand. The SA 10-year bond rallied about 62bps to reach 9.09% by quarter-end, while shorter-dated bonds lost ground due to the SARB rate hikes. The All Bond Index returned 6.1% in Q1. Yields on inflation-linked bonds (ILBs) were largely unchanged at quarter-end, with the 10-year real yield at 1.8%, while the 15-year yield fell to 1.9% from 2.1% in January. ILBs returned 2.0% in the quarter, while cash returned 1.7%.

Break-even inflation expectations for 10 years started the quarter at 7.5% and spiked to around 8% as inflation concerns grew, before ending the quarter back around 7.5%. This is still too high in our view, implying a failure by the SARB in its inflation-targeting mission, and not taking account of low global inflation and weak local growth. Over the quarter, forward rate agreements (FRAs) priced in the SARB's rate hikes in the shorter dates, while 24-month interest rate expectations were largely unchanged at still-elevated levels around 8.5%. This indicates the market has "frontloaded" the SARB's rate hikes and not raised its views on interest rate levels in two years' time, although it still implies substantial further monetary tightening to come, an expectation we are doubtful will be realised.

In SA equities, the FTSE/JSE All Share Index returned 3.9% for the quarter, underpinned by a surge in resources counters, particularly gold (+93%), platinum (+75%) and industrial metals miners (+93%). For the quarter, the best-performing sectors were basic materials (+18.1%), industrials (+7.6%) and telecoms (+6.7%). The worst-performing sectors were consumer goods (-2.8%) and consumer services (-1.0%). Listed property, after suffering sharp losses last quarter, saw a very strong rebound, with the listed property index posting a total return of 10.1%.

PERFORMANCE

The Fund returned 2.2% (net of fees) for the first quarter of 2016 and has returned 6.5% for the 12-month period ending 31 March 2016. The Fund's overweight holdings in SA nominal bonds and in cash were the largest contributors to performance, while its international and SA equity holdings detracted from value. The Fund has delivered a return of 13.7% per annum since inception (net of fees), while CPI inflation has averaged 5.7% per annum over the same period.

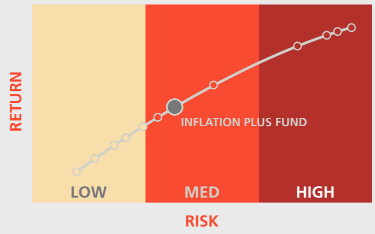
STRATEGY AND OUTLOOK

Our global asset allocation continues to favour global equities over sovereign bonds and cash, and global equities over local SA equities, as global equities remain more attractively valued than SA equities.

ANNUALISED PERFORMANCE	A CLASS	OBJECTIVE	X CLASS	B CLASS
1 year	6.4%	12.0%	6.8%	7.2%
3 years	11.0%	10.6%	11.3%	11.9%
5 years	13.3%	10.8%	n/a	14.1%
7 years	13.5%	10.5%	n/a	14.3%
10 years	11.3%	11.6%	n/a	12.1%
Since inception#	13.7%	11.3%	13.7%	13.7%

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

RISK/RETURN PROFILE:



FUND MANAGERS:
Michael Moyle, David Knee and Marc Beckenstrater

ASISA CATEGORY:
South African - Multi-Asset - Low Equity

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

INCEPTION DATE:
1 June 2001

FUND SIZE:
R38 322 174 882

AWARDS:
Raging Bull: 2013
Morningstar: 2015

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL INFLATION PLUS FUND
31 MARCH 2016

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

Given our preference for international equity, we are underweight SA equities in the Fund. However, for domestic portfolios, we do expect local equities to offer reasonable real returns over the medium-term. We continue to favour certain financial stocks over expensive industrials, and remain underweight resources. We believe the recent commodity rally has not been underpinned by fundamentals: we remain concerned that there is a commodity supply overhang that will continue to put downward pressure on most commodity shares. Naspers is the Fund's largest equity holding, and among our top overweight positions are companies that have offshore operations that provide some hedge against slow local growth and a weaker rand, like Investec, Sappi and Old Mutual. Our top underweights include Steinhoff, Aspen and Sanlam.

In SA listed property, the quarter's strong rally made listed property even more expensive compared to longer-dated bonds, and property companies continue to face headwinds to growth. We therefore moved underweight listed property during the quarter. Amid more weakness in bonds early in the quarter, with real yields of well over 3%, we added to our overweight position in long-dated nominal bonds. We also retain an overweight exposure to corporate bonds, which offer attractive real yields of over 5%.

We have maintained our underweight in ILBs at the end of Q1, as we believe the market's 10-year inflation expectations continue to be unreasonably high at 7.5% (see commentary above). Our SA cash holdings are neutrally positioned, while we are underweight offshore cash. ■

ASSET CLASS RETURNS IN RANDS	Q1 2016	2015
SA Equity (FTSE/JSE All Share Index)	3.9%	5.1%
SA Property (FTSE/JSE SA Listed property Index)	10.1%	8.0%
SA Bonds (BESA All Bond Index)	6.6%	-3.9%
SA Inflation-linked Bond (RSA Composite Inflation-linked Bond Index)	2.0%	3.7%
SA Cash (STeFI Call Deposit)	1.5%	5.6%
Global Equity (MSCI World Free Index - US$)	-0.2%	-0.3%
Global Equity (MSCI Emerging Markets Index – US$)	5.8%	-14.9%
Global Bonds (Barclays Global Aggregate Bond Index – US$)	5.9%	-3.2%
Rand (Rand/USD move)	5.4%	-25.3%

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL BALANCED FUND
31 MARCH 2016

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

PERFORMANCE AND PORTFOLIO MANAGER COMMENTS

The Fund delivered a positive return over the quarter, against the backdrop of continued volatile markets. The main contribution to its absolute return came from the large exposure to local equities that gained approximately 5%. This was followed by the positions held in nominal bonds and property that delivered even stronger returns than local equity. The international equity exposure was the biggest detractor from the Fund's return, on the back of poor performance from developed equity markets and a stronger rand. Return contributions from the other asset classes were mostly flat. The biggest contribution to the Fund's performance relative to its peers came from its underweight position to poorer-performing international equities. However, the underweight position to local resources stocks was a detractor from relative performance.

After recording one of the weakest-ever starts to a year in January 2016, global financial markets managed to recover some ground amid considerable volatility. The quarter was characterised by further downgrades to growth and inflation forecasts on a broad basis, which weighed on developed market equities. This was accompanied by more monetary easing in the major economies, and the US Federal Reserve adopting a more moderate approach in its rate hiking path, which underpinned bonds and led to a softer US dollar. Also notable was a rally in commodity prices later in the quarter that lifted emerging markets equities and currencies.

It was another eventful quarter in South Africa, as fears of a sovereign foreign currency rating downgrade to "junk" (or non-investment grade) status were just one factor casting a shadow over markets. Worsening inflation prospects prompted the South African Reserve Bank (SARB) to hike interest rates by a surprise 50bps in January and another 25bps in March, citing the weaker rand and sharply higher food prices as the major risks. "Stagflation" concerns mounted as GDP growth came in at 0.6% (q/q annualised) in the last quarter of 2015, while headline CPI hit 7.0% y/y in February.

During the quarter rating agency Moody's placed South Africa's Baa2 foreign currency credit rating on negative review. The market widely expects a downgrade to Baa3 in the coming weeks, which would still be one notch above junk status, and in line with S&P and Fitch. The latter two agencies could then downgrade the country to junk level following their own reviews in either June or December.

The rand managed to recover some of its losses later in the quarter, supported by a softer US dollar, stronger commodity prices and higher local interest rates. The Constitutional Court ruling on Nkandla also proved positive. The rand gained 5.4% against the greenback, 0.4% against the euro and 8.0% versus sterling (which was weaker on Brexit concerns) over the three months.

Meanwhile, local bonds managed to stage a recovery, helped by rising commodity prices and the return of offshore investor demand. The All Bond Index returned 6.1% in Q1, while ILBs returned 2.0% and cash returned 1.7%. Listed property saw a very strong rebound with the index posting a total return of 10.1%.

In SA equities, the FTSE/JSE All Share Index returned 3.9% for the quarter, underpinned by a surge in resources counters, particularly gold, platinum and industrial metals miners. The top contributors to relative performance was the Fund's overweight positions to banks, in particular Standard Bank and Firstrand. The Fund's underweight exposure to resources stocks detracted negatively from absolute and relative performance, as these stocks enjoyed a strong rally over the quarter.

In the first quarter of 2016, SA nominal bonds continued to offer very good value compared to listed property and cash, so we took advantage of this to buy more bonds, moving from slightly to moderately overweight in our multi-asset portfolios. Other local asset classes either remained expensive or fairly valued on a medium-term view: we continue to be underweight listed property and inflation-linked bonds, considering them expensive. Our views on global assets remain: we still prefer global equities over local equities, and we remain overweight global equities and global corporate bonds, and underweight global sovereign bonds and cash.

In global fixed income, we are underweight duration and continue to hold floating-rate notes in order to reduce interest rate risk. We remain positive on both investment-grade and high-yield corporate bond markets, and bought back some US high-yield bond exposure during the quarter as yields rose to very attractive levels.

For global equities, in our higher return-targeting multi-asset funds we continue to be very near our maximum permitted 25% offshore weighting. From an historic valuation perspective, developed market equities (such as Germany) still appear to be the best value, while emerging market risks are elevated. We also remain underweight commodity producers like Australia and Canada, as well as the US. Given slowing global economic growth, corporate earnings growth remains vulnerable to downward revisions.

South African equities were trading largely around their longer-term fair value at the end of the quarter. Economic growth prospects for 2016 continue to be downgraded, increasing the risk of earnings disappointments. We continue to prefer certain financial stocks over expensive industrials, and remain underweight resources. We believe the recent commodity rally has not been underpinned by fundamentals: we remain concerned that there is a commodity supply overhang that will continue to put downward pressure on most commodity shares. In our view, gold, iron ore and platinum are particularly challenged. Among our top overweight positions on a medium-term view are British American Tobacco, Investec, Sappi and Old Mutual, while our top underweights include Aspen, Medi-Clinic, Remgro and Steinhoff.

As the SA listed property sector became more expensive over the quarter, we took advantage of this to move underweight and buy more attractive local longer-dated nominal bonds. Listed property companies (excluding developers) are currently priced to return approximately 15% p.a. over the medium-term (assuming no change in the market's valuation of property). Earnings remain challenged by the rising interest rate environment and weak economic growth outlook.

In SA nominal bonds, our portfolios are now moderately overweight conventional bonds, from being only slightly overweight in the previous quarter. We are also overweight longer-dated bonds versus shorter paper due to the more attractive yields on offer, while retaining our overweight exposure to corporate bonds. We would maintain that the risks over the near-term have been overstated by the market, so that current real yields from long-dated government bonds of over 3% are very attractive. Longer dated corporate bonds offer even more attractive real yields of over 5% over the medium-term.

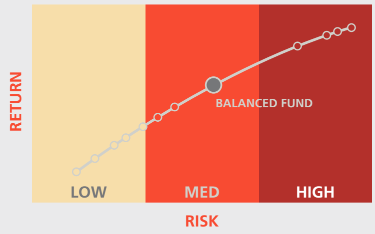
Inflation-linked bonds remained relatively expensive compared to conventional bonds over the quarter, leading us to remain underweight in these assets. The break-even inflation rate of 7.5% appears exceptionally elevated compared to our long-term inflation benchmark of 6.0%. ■

The commentary is based on the intended model portfolio, however client-specific portfolio management may deviate slightly.

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	X CLASS	B CLASS
1 year	5.3%	4.6%	5.6%	6.1%
3 years	13.3%	10.6%	13.6%	14.2%
5 years	14.1%	11.5%	n/a	15.0%
7 years	15.9%	12.5%	n/a	17.0%
10 years	12.1%	10.0%	n/a	13.1%
Since inception#	15.0%	13.0%	14.1%	15.5%

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

RISK/RETURN PROFILE:



FUND MANAGERS:
Marc Beckenstrater, David Knee and Michael Moyle

ASISA CATEGORY:
South African - Multi-Asset - High Equity

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

INCEPTION DATE:
2 August 1999

FUND SIZE:
R13 656 157 976

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL BALANCED FUND
31 MARCH 2016

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

ASSET CLASS RETURNS IN RANDS	Q1 2016	2015
SA Equity (FTSE/JSE All Share Index)	3.9%	5.1%
SA Property (FTSE/JSE SA Listed property Index)	10.1%	8.0%
SA Bonds (BESA All Bond Index)	6.6%	-3.9%
SA Inflation-linked Bond (RSA Composite Inflation-linked Bond Index)	2.0%	3.7%
SA Cash (STeFI Call Deposit)	1.5%	5.6%
Global Equity (MSCI World Free Index - US$)	-0.2%	-0.3%
Global Equity (MSCI Emerging Markets Index – US$)	5.8%	-14.9%
Global Bonds (Barclays Global Aggregate Bond Index – US$)	5.9%	-3.2%
Rand (Rand/USD move)	5.4%	-25.3%

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL ENHANCED SA PROPERTY TRACKER FUND
31 MARCH 2016

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

PROPERTY

PERFORMANCE

The Fund returned 9.7% for the quarter while the SA Listed Property Index returned 10.1%. Despite lagging the benchmark, the return still ranked the Fund 3rd out of its peers in the South African Real Estate – General sector.

Nearly half of the 0.4% underperformance versus the benchmark over this period is attributable to the impact of cash held for liquidity purposes (just over 1.5% of Fund value). Cash was a drag on performance due to the low rates of interest earned on cash holdings (cash returning 8.5% less than the SA Listed Property index over the quarter).

Over the past year the Fund returned 6.5%, outperforming the benchmark by 1.9%. The 10-year track record of the Fund ranks it 1st out of its peers, with the Fund having matched the performance of the benchmark (after fees) over this period.

MARKET COMMENTARY

Global financial markets got off to a particularly weak start in January amid considerable volatility. The quarter saw a continuation of downgrades to growth and inflation forecasts on a broad basis, followed later by more monetary easing in the major economies. With few exceptions, Emerging Markets then saw strong gains in sentiment as the quarter came to a close boosted by rallying crude oil and commodities and a weaker US dollar.

In the US, GDP growth slowed in Q1, and forecasts for 2016 were revised downward. The outlook for inflation was also downgraded. At its March meeting, the US Federal Reserve left interest rates on hold. Fed policymakers also moderated their views for future US interest rates effectively eliminating two 25bp rate hikes from their forecast, raising the prospect of easier monetary conditions.

In the Eurozone, falling inflation and growth prompted the ECB to cut the central bank's benchmark interest rate and the overnight bank deposit rate. Monthly bond repurchases were also increased.

In South Africa concerns around growth continued to build as GDP growth came in at 0.6% (q/q annualised) for Q4 2015, while the SARB lowered its GDP growth forecasts (0.8% in 2016, 1.4% in 2017, and 1.8% in 2018).

The National Treasury 2016/17 Budget was generally welcomed positively, demonstrating more fiscal consolidation than in November's Medium-Term Budget. However, there was some disappointment over the absence of income tax hikes and other more aggressive measures that would have demonstrated even greater intent to maintain fiscal responsibility. Also, scepticism about government's ability to rein in expenditure, particular public sector wages, remains.

Worsening inflation prospects prompted the South African Reserve Bank (SARB) to hike interest rates by a surprise 50bps in January and another 25bps in March, citing the weaker rand and sharply higher food prices as the major risks.

Despite the two interest rate increases bonds and listed property saw very strong rebounds in the quarter, with the listed property index posting a total return of 10.1% (19.8% being returned from late January to quarter end) to be the best performing domestic asset class for the quarter - SA nominal bonds next best returning 6.1%.

Property companies reported December period-end distribution growth averaging 21.5%. While this is a very strong result, underlying earnings were boosted by one-off impacts from currency translation gains following the rand's depreciation in December, as well as the earnings-accretive Fortress-Capital merger in November.

STRATEGY AND OUTLOOK

Following the recovery in SA listed property in the second half of December valuations started the year slightly expensive, especially against conventional bonds. Early in the quarter continued expensiveness against bonds together with a much weaker earnings outlook lead to the implementation of a small underweight in listed property in favour of conventional bonds - Prudential's multi asset funds having started the quarter at neutral weight in listed property.

Despite listed property performing strongly in February and March the level of expensiveness has increased only somewhat - the impressive price performance has been accompanied to some extent by positive earnings surprises – primarily related to currency depreciation. As a result we maintained the underweight at the close of the quarter.

SA Listed Property (excluding developers) is currently priced to deliver a one year forward distribution yield of 6.6%. This combines with 8.4% forecast distribution growth, to produce an estimated total return of around 15.0% (assuming no change in the market's valuation of property). The forward distribution yield of 6.6% is now around 2.3% below the yield of SA 10-year government bonds, this differential having narrowed only slightly over the quarter.

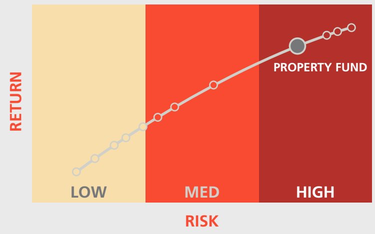
The risks associated with investing in South Africa remain elevated. With GDP growth slowing further, inflation rising to 7% during the quarter (and forecast higher in coming months), and rising political tensions, the likelihood of being downgraded to non-investment grade status has risen.

Low real cash rates have for an extended period of time been supporting listed property valuations. Global macro developments over the quarter have prolonged this tailwind for now. However, the medium term outlook for cash rates is less supportive and should not be ignored. The impact of higher interest rates locally result in the risk to SA property earnings and valuations being to the downside. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	D CLASS
1 year	6.5%	4.6%	6.6%
3 years	15.1%	14.4%	15.3%
5 years	19.8%	19.8%	19.9%
7 years	20.2%	20.2%	n/a
10 years	16.4%	16.4%	n/a
Since inception#	18.1%	18.2%	19.9%

Inception date D Class: 1 July 2010

RISK/RETURN PROFILE:



FUND MANAGERS:
Albert Arntz and Duncan Schwulst

ASISA CATEGORY:
South African - Real Estate - General

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

INCEPTION DATE:
2 December 2005

FUND SIZE:
R5 227 044 807

AWARDS:
Morningstar/Standard & Poor's: 2011

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL DIVIDEND MAXIMISER FUND
31 MARCH 2016

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

EQUITY

PERFORMANCE AND POSITIONING

The Fund produced a return of 1.1% for the three months ended March 2016, underperforming the average of the General Equity funds by 3.4% for the same period. For the year to March 2016, the Fund return was 2.2%, outperforming the average of the General Equity funds by 1.8%.

The past quarter proved to be an eventful period for global equity markets, including the JSE, resulting in volatility in equity prices. The first half of the quarter was characterised by renewed concerns around a slowing Chinese economy and weaker global growth in general. Falling commodity prices and a plummeting oil price reinforced risk perceptions and worries of a recession. The second half of the quarter was then a complete reversal, as a rising iron ore price and oil price allayed these fears and risk appetites rose quickly. Chinese demand appears to have rebounded and comforted the market.

South African equities - particularly commodity shares with iron ore exposure - have rebounded strongly as the iron ore price at the time of writing hovers around $60 per ton. We think this price is high and reflects short-term demand rather than a longer-term equilibrium price. Analysis of the iron ore market indicates that new supply continues to enter the market at a low cost price of around $30 per ton, which should continue to push those iron ore producers at the high end of the cost curve out of business. This is likely to mean a lower, more stable iron ore price in the future. We think that many of the commodity markets are entering a phase where growing supply will exceed demand over the medium term, and therefore the long duration of the typical mining cycle may mean lower margins for an extended period of time. While valuations for some mining companies are low relative to history, we remain cognisant that significant restructurings are likely to have to take place to restore profitability, and this is likely to mean cutting dividends and raising more capital from shareholders.

We remain conservatively positioned in the resources sector, with a focus on companies with strong balance sheets and which should be able to continue paying dividends. For the quarter, the Fund's underweight position to the resources sector was a major detractor from performance as commodity prices rallied.

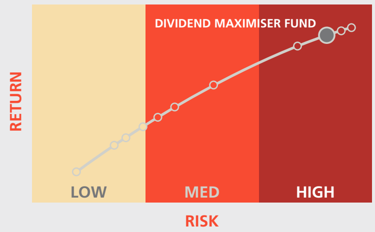
While the Fund's exposure of approximately 30% to global equities was a major contributor to outperformance in the prior year, some of this performance was reversed in this quarter. Rand strength during the quarter was the main contributor for this underperformance, as commodity-focused emerging markets saw their currencies rally strongly on the back of increased risk appetite and strongly rising commodity prices. We continue to find global equities more attractive than South African equities.

On a stock level, the main positive contributors to the performance for the quarter were the Fund's underweight positions to Naspers and Richemont. We have taken advantage of lower share prices to increase both these positions.

On market valuations, we currently view the market in South Africa as being fair value, and caution that one should certainly expect a more moderate growth in dividends relative to the last five years, where dividends were recovering post the financial crisis. Earnings growth has been slowing and this may cause dividend growth to slow in the medium term. However, we still consider many offshore equity markets to be undervalued and therefore maintain the Fund's offshore exposure.

The focus of the Fund continues to be on finding companies that are undervalued and which are paying good dividend yields with the potential to pay growing dividends over the long run. ■

RISK/RETURN PROFILE:



FUND MANAGERS:
Marc Beckenstrater and Ross Biggs

ASISA CATEGORY:
South African - Equity - General

BENCHMARK:
ASISA South African – Equity - General Category Mean

INCEPTION DATE:
2 August 1999

FUND SIZE:
R5 155 477 698

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

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	2.2%	0.4%	2.7%
3 years	12.9%	10.5%	13.4%
5 years	13.9%	11.7%	14.4%
7 years	17.3%	15.7%	17.8%
10 years	14.0%	11.0%	n/a
Since inception#	18.6%	15.3%	12.8%

Inception date B Class: 2 January 2007

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL EQUITY FUND
31 MARCH 2016

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

EQUITY

PERFORMANCE AND PORTFOLIO MANAGER COMMENTS

While ending the first quarter on a positive return, the Fund underpeformed its benchmark over the period. The primary contributor to the underperformance over the quarter came from the Fund's underweight position to the resources sector. In hindsight, we missed an opportuntiy in January to lock in the gains achieved last year from being underweight iron ore, gold and platinum stocks. During the quarter, an improvement in the price of key commodities such as iron ore and oil shifted the market's focus back on the possibility of improved free cash flow generation, while concerns around company balance sheets and the need for capital raising abated. Whether the rebound in commodity prices is simply a function of seasonal restocking of inventories, or that underlying demand in China has turned and can be sustained, remains to be seen.

The Fund continues to be defensively positioned within resources. We have remained underweight platinum and gold stocks given that the market continues to price the shares off consensus forecasts that are embeding significantly higher-than-spot commodity prices.

The other strong theme during the quarter was in the financial sector, although gains from this sector were undermined by the price volatility in resources. Banking stocks FirstRand and Standard Bank each returned over 16%, and Barclays Africa returned 4% in spite of the announcement of the intended sale by its parent company. Banking stocks had fallen considerably in December on the back of the sharp move in SA bond yields post Nene-gate, as well as heightened concerns that a sovereign ratings downgrade was increasingly likely.

There is no doubt some uncertainty remains, and until such time as there is clarity on a potential sovereign downgrade, which is expected following ratings agency reviews in June, we see limited scope for the banks' valuation multiples to re-rate back to historical levels. Nonetheless, we remain overweight domestic banks, and despite having seen earnings growth expectations for the sector downgraded to mid- to high-single digits, the combination of this modest growth and high dividend yields provides an attractive return package without any need for a re-rating.

In terms of postion changes within financials, the Fund has reduced its overweight position in Old Mutual and added Liberty Holdings within our allocation to the insurance sector. The restructuring announcement from Old Mutual is likely to unlock value for shareholders, and some of this upside was realised in a re-rating during the quarter. As a result the holding has been trimmed to spread some of the risk within the sector to Liberty, which was trading at a larger discount to its underlying embedded value.

Over the quarter, a number of industrial stocks delivered strong relative performances, with the result that positions in a number of these stocks have been reduced. Examples include Bidvest, AVI, Mpact and SABMiller. Some of these were trimmed in favour of alternative stocks within their respective sectors, such as switching from AVI in favour of an increased holding in Tiger Brands, a stock we believe is well positioned to benefit from a recent change in management, and a renewed focus on its core SA business having exited a less successful operation in Nigeria. Other key changes included reducing our holding in SABMiller, where the upside to the AB Inbev offer price has narrowed to the extent that it is a quasi-offshore cash holding. Proceeds have been used to fund an active overweight position in Naspers, which had behaved as a poor rand hedge over quarter given its massive Tencent operations, leaving the rump of its operations trading in strongly negative territory.

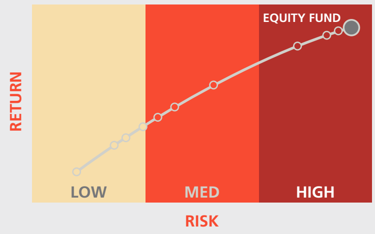
Other notable portfolio movements include the sale of Spar to fund further positions in Pick 'n Pay and MTN. Spar is a high-quality business at a fair price, but the announcement of an acquisition which would require raising capital left more viable options. Pick 'n Pay remains a turnaround story with profit margins below both its own historic levels and those of its competitors, and we remain confident in the initiatives of new management to drive improved profitability. MTN's share price has been heavily punished for its Nigerian transgression, and presents an opportunity -- the market value has declined by more than the full value of the current fine, despite the likelihood in our view of a negotiated reduced settlement.

The Fund's international equity component was a significant detractor from performance over the quarter. This was due to the rand strengthening against major currencies such as the US dollar (5.4%) and sterling (8.0%), and generally poor equity returns in many developed markets where economic data has not been as favourable as the markets would have hoped.

For global equities, our global asset allocation continues to favour global equities over local SA equities, as global equities remain more attractively valued than SA equities on measures like Price-Earnings (P/E) and Price-Book value ratios. From an historic valuation perspective, developed market equities (such as Germany) still appear to be the best value, while emerging market risks are elevated. We also remain underweight commodity producers like Australia and Canada, as well as the US. Given slowing global economic growth, corporate earnings growth remains vulnerable to downward revisions. ■

The commentary is based on the intended model portfolio, however client-specific portfolio management may deviate slightly.

RISK/RETURN PROFILE:



FUND MANAGERS:
Chris Wood, Rehana Khan and Craig Butters

ASISA CATEGORY:
South African - Equity - General

BENCHMARK:
ASISA South African - Equity - General Category Mean

INCEPTION DATE:
2 August 1999

FUND SIZE:
R2 790 195 656

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

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	-0.3%	0.4%	0.0%
3 years	12.7%	10.5%	13.2%
5 years	14.2%	11.7%	14.7%
7 years	17.4%	15.7%	18.0%
10 years	13.9%	11.0%	n/a
Since inception#	18.4%	15.3%	13.1%

Inception date B Class: 2 January 2007

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL HIGH YIELD BOND FUND OF FUNDS
31 MARCH 2016

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL INCOME

MARKET OVERVIEW

After recording one of the weakest-ever starts to a year in January 2016, global financial markets managed to recover some ground amid considerable volatility. The quarter was characterised by further downgrades to growth and inflation forecasts on a broad basis, which weighed on developed market equities. This was accompanied by more monetary easing in the major economies, and the US Federal Reserve adopting a more moderate approach in its rate hiking path, which underpinned bonds and led to a softer US dollar. Also notable was a rally in commodity prices later in the quarter that lifted emerging markets equities and currencies. While developed market equities broadly experienced losses amid earnings concerns, emerging markets (with some exceptions like China) saw strong gains as sentiment improved.

In the US, GDP growth slowed to 1.4% in Q1 2016 (q/q annualised), and forecasts for 2016 were revised downward to 2.1% from 2.4% previously. In the face of the weaker global and local environment, the US Federal Reserve effectively eliminated two 25bp rate hikes from their interest rate forecast. The Fed Funds futures market followed suit, helping push the dollar weaker and supporting US equity and bond markets.

The Barclays Global Aggregate Bond Index (US$) posted a total return of 5.9% in the quarter. US Treasury (UST) bonds rallied, and US high-yield bond spreads vs USTs improved slightly, but this masked considerable volatility. In the Eurozone, inflation fell to -0.2% in February and 2016 growth prospects were trimmed to 1.5%. The ECB responded with more interest rate cuts and bond repurchases, spurring a bond rally.

Japan is on the brink of recession with -0.4% growth in Q4 2015 and a forecast of only 0.7% for 2016. With its aggressive easing policy looking ineffective, the Bank of Japan cut its main interest rate to -0.1%. In China, the economy expanded 6.9% in 2015 and the consensus forecast is a slowdown to 6.5% this year. The government also announced further expansionary policies. Other emerging markets were supported by the rally in commodity prices and the weaker US dollar in the quarter.

Over the quarter, the rand managed to gain ground, supported by a softer US dollar, stronger commodity prices and higher local interest rates. The Constitutional Court ruling on Nkandla also boosted investor confidence. The local currency gained 5.4% against the US dollar, 0.4% against the euro and 8.0% versus sterling (which was weaker on Brexit concerns) over the three months, all of which pared the Fund's offshore investment returns.

PERFORMANCE

For the quarter ending 31 March 2016, the Fund returned -1.3% (net of fees, in rand), versus the 0.6% returned by its benchmark, the Barclays Capital Global Aggregate Bond Index (in rand). In absolute return terms, the rand's appreciation against major currencies during the period detracted significantly from value, apart from yen cash holdings, which added to value as the yen outperformed the rand. In to the Fund's benchmark, among the detractors were US investment-grade bonds and European corporate bonds. The main detractor was holdings of high yield corporate bonds, which have a modest exposure to the energy and mining sectors and these were under stress in the first quarter as a result of sharp falls in global commodity prices.

For the past 12 months, the Fund has returned 21.4% (net of fees), while since inception the Fund has returned 10.0% p.a.

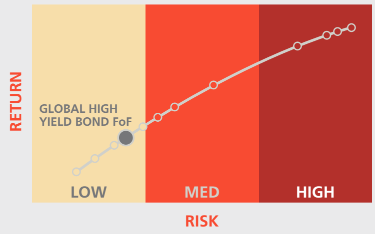
STRATEGY AND OUTLOOK

We have been underweight duration in the Fund to mitigate the rising risks from expensive global bond markets, and had earlier increased our holdings of floating-rate notes (FRNs) and maintained a substantial allocation to cash. We have continued this defensive positioning in the first quarter of 2016, although we still hold fixed-rate global investment grade and high-yield bonds as the yields on these assets remain at attractive levels.

We continue to see limited value in developed market government bonds in the medium term, with yields remaining very low (and even negative in certain cases). While global growth concerns appear elevated, economic data in developed markets suggests an ongoing expansion with potential for upside surprise given the current degree of pessimism. Consequently, we remain positive on corporate bonds that offer more attractive relative yields and valuations. Outside of energy and mining, we do not expect a poor performance or sharp rise in defaults in these assets, especially now that the hiking cycle is underway and the Fed has confirmed they continue to expect a "gradual" rate hiking path. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK
1 year	21.4%	27.0%
3 years	16.4%	17.8%
5 years	18.9%	19.0%
7 years	11.6%	10.3%
10 years	13.9%	13.9%
Since inception	10.0%	10.2%

RISK/RETURN PROFILE:



FUND MANAGERS:
David Knee and Michael Moyle

ASISA CATEGORY:
Global - Interest Bearing - Variable Term

BENCHMARK:
Barclays Capital Global Aggregate Bond Index

INCEPTION DATE:
1 November 2000

FUND SIZE:
R260 609 597

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

HOW TO INVEST

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL CAUTIOUS MANAGED FUND OF FUNDS
31 MARCH 2016

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL MULTI-ASSET

MARKET OVERVIEW

After recording one of the weakest-ever starts to a year in January 2016, global financial markets managed to recover some ground amid considerable volatility. The quarter was characterised by further downgrades to growth and inflation forecasts on a broad basis, which weighed on developed market equities. This was accompanied by more monetary easing in the major economies, and the US Federal Reserve adopting a more moderate approach in its rate hiking path, which underpinned bonds and led to a softer US dollar. Also notable was a rally in commodity prices later in the quarter that lifted emerging markets equities and currencies. While developed market equities broadly experienced losses amid earnings concerns, emerging markets (with some exceptions like China) saw strong gains as sentiment improved.

In the US, GDP growth slowed to 1.4% in Q1 2016 (q/q annualised), and forecasts for 2016 were revised downward to 2.1% from 2.4% previously. In the face of the weaker global and local environment, the US Federal Reserve effectively eliminated two 25bp rate hikes from their interest rate forecast. The Fed Funds futures market followed suit, helping push the dollar weaker and supporting US equity and bond markets.

The Barclays Global Aggregate Bond Index (US$) posted a total return of 5.9% in the quarter. US Treasury (UST) bonds rallied, and US high-yield bond spreads vs USTs improved slightly, but this masked considerable volatility. In the equity market, the S&P 500 started the year losing about 9% (in price terms), and then rebounded to end the quarter with a 1.3% total return.

In the Eurozone, inflation fell to -0.2% in February and 2016 growth prospects were trimmed to 1.5%. The ECB responded with more interest rate cuts and bond repurchases, spurring a bond rally. In contrast, poorer growth prospects weighed on European equity markets: the Dow Jones Euro Stoxx 50 Index (US$) returned -3.3% for the three months

Japan is on the brink of recession with -0.4% growth in Q4 2015 and a forecast of only 0.7% for 2016. With its aggressive easing policy looking ineffective, the Bank of Japan cut its main interest rate to -0.1%. Over the quarter the Nikkei returned -5.0%. In China, the economy expanded 6.9% in 2015 and the consensus forecast is a slowdown to 6.5% this year. The government also announced further expansionary policies. The MSCI China returned -4.8%.

Other emerging markets were supported by the rally in commodity prices and the weaker US dollar in the quarter. Brazil's Ibovespa was the strongest performer in US dollar terms, gaining 28.9%. The MSCI Turkey gained 21.7%, MSCI Russia 15.8% and MSCI South Africa 13.9%.

Over the quarter, the rand managed to gain ground, supported by a softer US dollar, stronger commodity prices and higher local interest rates. The Constitutional Court ruling on Nkandla also boosted investor confidence. The local currency gained 5.4% against the US dollar, 0.4% against the euro and 8.0% versus sterling (which was weaker on Brexit concerns) over the three months. This detracted significantly from the Fund's foreign-currency-denominated investment returns.

PERFORMANCE

For the quarter ending 31 March 2016, the Fund returned -3.5% (net of fees in rand), outperforming the -3.8% from its benchmark (the average return of the ASISA Global Multi-Asset Low Equity sector). The main driver of negative rand returns for the Fund and across the sector was rand strength. Few global assets managed to post a positive rand return; the Fund's overweight allocation to Korea equities was one of the few along with US listed property exposure. In contrast, Japanese holdings were among the worst performers, as well as UK holdings. Overweight exposures to Italy and India equities also detracted, as did an allocation to value orientated equities in a number of regions. Value has generally struggled as financial and resource companies have lagged general market performance, Within the Fund's fixed income holdings, as with equities the currency effect dominated total returns. Only holdings of European corporate bonds produced a positive rand return, with US Investment Grade Corporates not far behind. Bonds generally outperformed equities and therefore the Fund's weighting to these assets helped overall.

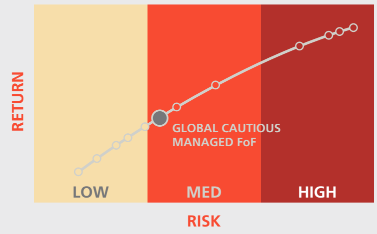
STRATEGY AND OUTLOOK

We continue to prefer global equities over bonds and cash in our global portfolios, given their superior return potential. Most developed equity markets produced very low (and negative) returns in Q1 amid further downgrades to growth prospects and concerns over corporate earnings growth. However, we continue to believe that these growth risks in developed markets are overdone, and so have maintained our equity exposure in these markets. Emerging market equities did rally amid more favourable investor risk appetite, and although they remain relatively cheap, carry higher risks. We have a tactical exposure to India and Korea. Our equity allocations therefore continue to be weighted broadly towards developed markets, since from a long-term valuation perspective developed market equities (such as Germany) are somewhat cheap - both in absolute terms and relative to cash and bonds.

In global fixed income, we remain underweight duration and previously reduced interest rate risk on our US holdings in our specialist portfolios through our allocation to floating-rate notes (FRNs). We have maintained this defensive positioning during the quarter We continue to be positive on spread products in both investment-grade and high-yield corporate bond markets, given both their attractive yields and the fact that we don't see an environment developing in which they would perform very poorly (namely, an aggressive interest rate-hiking cycle or a recession in which generally default rates would rise sharply, beyond energy and mining companies that are specifically struggling as a result of the dramatic collapse in commodity prices). ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK
1 year	18.2%	19.7%
3 years	17.0%	18.0%
5 years	16.3%	16.6%
7 years	9.0%	7.3%
10 years	10.2%	10.7%
Since inception	8.7%	8.4%

RISK/RETURN PROFILE:



FUND MANAGERS:
Michael Moyle, David Knee and Marc Beckenstrater

ASISA CATEGORY:
Global - Multi-Asset - Low Equity

BENCHMARK:
ASISA Global - Multi-Asset - Low Equity Category Mean

INCEPTION DATE:
1 March 2004

FUND SIZE:
R89 065 001

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL VALUE FUND OF FUNDS
31 MARCH 2016

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL EQUITY

MARKET OVERVIEW

After recording one of the weakest-ever starts to a year in January 2016, global financial markets managed to recover some ground amid considerable volatility. The quarter was characterised by further downgrades to growth and inflation forecasts on a broad basis, which weighed on developed market equities. This was accompanied by more monetary easing in the major economies, and the US Federal Reserve adopting a more moderate approach in its rate hiking path, which underpinned bonds and led to a softer US dollar. Also notable was a rally in commodity prices later in the quarter that lifted emerging markets equities and currencies.

The S&P 500 started the year losing about 9% (in price terms) through mid-February, and then rebounded about 11% to end the quarter in positive territory with a 1.3% total return. Fears of negative corporate earnings revisions due to growth concerns proved to be overdone and were finally overcome by bargain-hunting and the prospect of easier monetary conditions.

PERFORMANCE

The Fund lagged the benchmark, the MSCI All Countries World Index, by 0.2% for the quarter.

Stock selection in the US through both our US manager, Vulcan, and global manager, First Eagle, added to performance for the quarter. The stellar performance from our European fund managers continued.

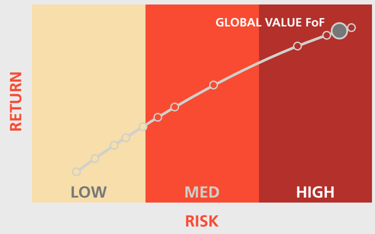
STRATEGY AND OUTLOOK

Downward earnings revisions appear to have stabilised, helped by the improvement in the oil price and stabilisation in currencies other than the US dollar.

Markets may be reaching an inflection point where the underperformance of non-dollar denominated assets may be ending. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK
1 year	14.2%	16.1%
3 years	21.9%	23.3%
5 years	20.0%	22.9%
7 years	17.6%	19.7%
10 years	10.7%	13.6%
Since inception	6.9%	8.2%

RISK/RETURN PROFILE:



FUND MANAGERS:
Michael Moyle and Marc Beckenstrater

ASISA CATEGORY:
Global - Equity - General

BENCHMARK:
MSCI All Country World Index (Net)

INCEPTION DATE:
18 February 2000

FUND SIZE:
R231 050 882

HOW TO INVEST

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Sources: Prudential, Morningstar & Deutsche Securities