# PRUDENTIAL UNIT TRUSTS QUARTERLY COMMENTARY
## 31 DECEMBER 2015

PRUDENTIAL
INVESTMENT MANAGERS

## COMBINED QUARTERLY COMMENTARY

INCOME | MULTI-ASSET | PROPERTY/ EQUITY | GLOBAL

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# PRUDENTIAL MONEY MARKET FUND
## 31 DECEMBER 2015

PRUDENTIAL
INVESTMENT MANAGERS

## QUARTERLY COMMENTARY

**INCOME FUND**

### PERFORMANCE

Over the past quarter, the fund delivered a return of 1.70% (gross) versus its benchmark the STeFI Call Deposit Index which returned 1.45%. The current average duration of the fund is 47 days relative to the 90 day maximum average duration.

The biggest drivers of market movements in South Africa were the surprise dismissal of Finance Minister Nhlanhla Nene by President Zuma in December and the downgrade of SA's sovereign credit rating to BBB- by Fitch (as well as being placed on negative outlook by S&P). The subsequent sell-off of South African assets saw Zuma respond by appointing Pravin Gordhan in place of the unknown David van Rooyen.

The SARB MPC raised the repo rate by 25bp to 6.25% at their November meeting, surprising the market where the consensus expectation was for rates to remain on hold. The decision was not unanimous, with two MPC members voting for rates to stay unchanged.

Growth projections were marked down again to 1.4% (from 1.5%) in 2015 and 1.5% (from 1.6%) in 2016. The 2017 forecast remained unchanged at 2.1%. The MPC indicated the risks to the inflation outlook remain on the upside. These risks include electricity tariffs, wage settlements, extended droughts in some parts of the country and the exchange rate.

CPI inflation increased slightly to 4.8% yoy in November 2015 from 4.7% yoy in October. This was in line with market consensus. Softer deflation in fuel prices, sticky annual price growth in food and non-alcoholic beverages and gains in restaurant and hotels inflation were the main drivers of the modest rise in headline CPI.

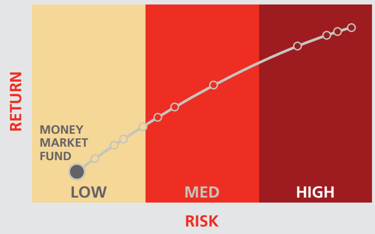
PPI inflation increased marginally to 4.3% yoy in November 2015, lower than the consensus expectation of 4.5% yoy (October's number was 4.2% yoy). November PPI showed some tentative signs of pass-through with petrol and diesel inflation slowing.

Private sector credit extension in November 2015 increased sharply from 8.8% yoy in October 2015 to 9.5% yoy (consensus expectation was 8.6%yoy with even the highest estimate significantly lower than the actual figure at 9.1% yoy). ■

| ANNUALISED PERFORMANCE | A CLASS | BENCHMARK | X CLASS |
|---|---|---|---|
| 1 year | 6.2% | 5.6% | 6.3% |
| 3 years | 5.6% | 5.2% | 5.7% |
| 5 years | 5.5% | 5.2% | n/a |
| 7 years | 6.2% | 5.9% | n/a |
| 10 years | 7.2% | 7.0% | n/a |
| Since inception# | 7.8% | 7.7% | 5.6% |

# 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 656 893 200

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**Sources:** Prudential, Morningstar & Deutsche Securities

# PRUDENTIAL HIGH INTEREST FUND
## 31 DECEMBER 2015

PRUDENTIAL
INVESTMENT MANAGERS

## QUARTERLY COMMENTARY

**INCOME FUND**

### MARKET OVERVIEW

At its November MPC meeting, the SA Reserve Bank (SARB) raised the repo rate by 25bp to 6.25%, surprising the market where the consensus expectation was for rates to remain on hold. The decision was not unanimous, with 2 MPC members voting for rates to stay unchanged.

Growth projections were marked down again to 1.4% (from 1.5%) in 2015 and 1.5% (from 1.6%) in 2016. The 2017 forecast remained unchanged at 2.1%. The MPC indicated the risks to the inflation outlook remain on the upside. These risks include electricity tariffs, wage settlements, extended droughts in some parts of the country and the exchange rate.

The biggest drivers of market movements in South Africa were the surprise dismissal of Finance Minister Nhlanhla Nene by President Zuma in December and the downgrade of SA's sovereign credit rating to BBB- by Fitch (as well as being placed on negative outlook by S&P). The subsequent sell-off of South African assets saw President Zuma respond by appointing Pravin Gordhan in place of the unknown David van Rooyen.

Over the two days of Nene-gate alone, bond yields jumped some 180bps, with the 10-year yield moving from 8.80% to a peak of 10.60%. By quarter-end this had fallen back to around 9.50%, still leaving yields 75-80bps higher than before Nene's dismissal, exacerbated by thin trading conditions. One-year interest rates rocketed even higher, up 120bps and leading to some yield curve flattening. The All Bond Index lost 6.4% in Q4, for a 2015 total return of -3.9%. For the year, 1-3 year fixed rate bonds returned 4.1%. Cash returned 1.1% for the quarter.

The degree to which inflation fears have risen and become endemic is shown by the movement in the FRA market: FRAs for three-month interest rates in two years' time have risen from 8.0% at the start of the quarter to 9.0% at the end of Q4, a full 1.0 percentage point increase in market expectations, reflecting a huge repricing of the money market.

### FUND PERFORMANCE

The Prudential High Interest Fund generated a return of 1.44% (gross) for the quarter compared to its benchmark, the STeFI Composite Index which returned 1.62% (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 162 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.

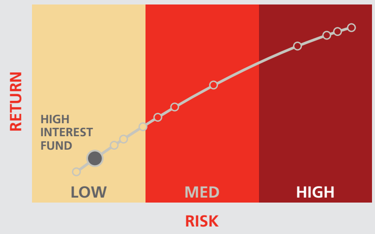
During the quarter, the fund increased its exposure to longer dated floating rate securities issued by corporates (including banks) as well as reducing the relative amount of fixed securities in the portfolio. About 2% of fund was invested in longer dated floating rate securities such as Fortress Income Fund and the Industrial Development Corporation. A further 0.5% was invested in longer dated bank floating rate notes in order to take advantage of the widening of credit spreads.

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 | 6.0% | 6.5% | 6.1% | 6.2% |
| 2 years | 5.9% | 6.2% | 6.0% | 6.4% |
| 3 years | 5.7% | 5.8% | 5.8% | 6.2% |
| 5 years | 5.8% | 5.8% | n/a | 6.1% |
| Since inception# | 5.8% | 5.8% | 5.8% | 6.1% |

# 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 308 130 684

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**Sources:** Prudential, Morningstar & Deutsche Securities

# PRUDENTIAL HIGH YIELD BOND FUND
## 31 DECEMBER 2015

PRUDENTIAL
INVESTMENT MANAGERS

## QUARTERLY COMMENTARY

**INCOME FUND**

### PERFORMANCE

For the quarter nominal bonds, which returned -6.4% (as measured by the ALBI), underperformed cash which returned 1.1% (STEFI) and inflation-linked bonds which returned 0.9% (JSE CILI). We entered the quarter with a small duration overweight. Subsequent to "Nene-gate"- the surprise dismissal of Finance Minister Nhlanhla Nene by President Zuma on 9 December - and the sharp spike in yields we added to this position. We continue to look for opportunities to add to our corporate bond exposure.

Fund performance benefitted from income accrual over the quarter and the increased yield derived from non-government bonds but this was outweighed by the overweight duration position held prior to the "Nene-gate" selloff.

### MARKET OVERVIEW

In the US, GDP growth registered 2.1% (q/q annualised) in the third quarter compared to 3.9% in Q2. Growth has been driven largely by stronger US consumer spending thanks to much cheaper oil and greater job security. Very strong October jobs data bolstered the Fed's case for a rate hike (with non-farm payrolls rising by 271,000 and average hourly earnings growing 2.5%) and December saw the US Federal Reserve raise interest rates 25 basis points (bps).

In the Eurozone, growth remained modest, while inflation was only 0.1% y/y in November. Q3 GDP growth did improve to 1.6% (q/q annualised), while 1.5% is forecast for 2015 as a whole and 1.8% in 2016, boosted by the ECB's QE programme and continuing falls in Eurozone unemployment. A further expansion of the QE programme announced on 3 December disappointed markets: 10-year bond yields sold off by about 20bps, equities fell 2-3% and the euro strengthened as a result. The ECB also lowered the bank deposit rate by 10bps to -0.3%.

In Japan, the growth outlook remained softer than other developed economies due its greater export exposure to weak Asian demand, as well as its fiscal spending constraints caused by high government debt levels. GDP growth is now expected at 0.6% in 2015 and 1.0% in 2016. Despite poor domestic growth, over the quarter the Nikkei returned 9.2%, and 10.6% for 2015, making it the best performing of all the major developed markets, assisted by the weak yen that has boosted exports.

In China, concerns have been mounting over the ability of policy makers to engineer a 'soft landing' and pessimism around the future outlook reflected itself in economic indicators like retail sales and industrial production generally surprising positively against economists' forecasts. Q3 GDP growth at 6.9% (q/q/ annualised) beat the 6.8% consensus. To support the economy, the Chinese central bank cut interest rates for the sixth time in a year in October. Its December Outlook Report for 2016 projected 2015 GDP growth at 6.9% and 6.8% for 2016 but these figures are widely viewed as being heavily 'massaged' and indicators such as bank lending and electricity consumption paint a much bleaker picture.

Other emerging markets, meanwhile, remained under serious pressure from falling commodity prices, the stronger dollar and investor caution, although the Fed's rate hike has finally relieved some uncertainty – there was a small but generally positive response in EM currencies to the actual hike, as it had largely already been priced into assets before the move. It has been a horrible year in general for EM and commodity-driven economies:

In South Africa local markets were hit hard by "Nene-gate". This came shortly after the downgrade of SA's sovereign credit rating to BBB- by Fitch and being placed on negative outlook by S&P, and in reaction the rand, bonds and financial shares all sold off sharply on 10 and 11 December. Zuma then appointed the experienced and well-respected Pravin Gordhan as the new Finance Minister in place of unknown Des van Rooyen. And although markets did subsequently retrace some losses, bonds and the rand remained significantly weaker through December.

For the quarter the rand lost 10.8% versus the US dollar, 8.3% against sterling, and 8.3% versus the euro, and in 2015 it depreciated 25.3% against the US dollar, 21% versus sterling and 16.8% versus the euro.

Bond yields had been grinding higher earlier in the quarter, factoring in the SA Reserve Bank's 25bp rate hike in October (for a cumulative 125bp rise over the cycle to date), the expected US rate hike and the credit rating downgrades. Over the two days of Nene-gate alone, bond yields jumped some 180bps, with the 10-year yield moving from 8.80% to a peak of 10.60%. By quarter-end this had fallen back to around 9.50%, still leaving yields 75-80bps higher than before Nene's dismissal, exacerbated by thin trading conditions. One-year interest rates rocketed even higher, up 120bps and leading to some yield curve flattening.

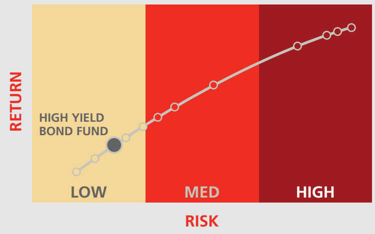
The degree to which inflation fears have risen and become endemic is shown by the movement in the FRA (forward rate agreement) market and break-even inflation rate (the difference in yields between the 10-year conventional and inflation-linked bonds): FRAs for three-month interest rates in two years' time have risen from 8.0% at the start of the quarter to 9.0% at the end of Q4, reflecting a huge repricing of the money market. Break-even inflation has also risen 100bps – from about 6.5% at the start of the quarter to 7.5% by year-end. Such a high level of inflationary fear is surprising given the actual and forecast data: the latest CPI was 4.8% y/y in November and has printed lower than market expectations in seven out of the past nine months while the SARB and independent economist forecasts don't see CPI averaging above 6% in 2016. ■

### ANNUALISED PERFORMANCE

| ANNUALISED PERFORMANCE | A CLASS | BENCHMARK | B CLASS |
|---|---|---|---|
| 1 year | -5.0% | -3.9% | -4.7% |
| 3 years | 1.4% | 2.1% | 1.8% |
| 5 years | 5.7% | 6.1% | 6.0% |
| 7 years | 6.0% | 6.3% | 6.4% |
| 10 years | 6.8% | 7.0% | 7.1% |
| Since inception# | 9.9% | 10.2% | 8.6% |

# 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:**
R650 955 018

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**Sources:** Prudential, Morningstar & Deutsche Securities

# PRUDENTIAL ENHANCED INCOME FUND
## 31 DECEMBER 2015

## QUARTERLY COMMENTARY

## INCOME FUND

### PERFORMANCE

South African assets had a tumultuous quarter, with nominal bonds underperforming both cash and inflation-linked bonds, while listed property ended the quarter down 4.7%. The JSE IGOV returned 0.9%, compared to the Alexander Forbes STEFI returning 1.1% over the quarter, while the JSE All Bond Index returned -6.40%.

For the quarter ending December 2015, the fund returned -0.7% (net of fees), underperforming cash, as measured by the STeFi composite index, by 2.1%. Year-to-date the fund returned 5.2%, underperforming the STeFi by 1.3%.

### PORTFOLIO MANAGER COMMENTS

In the US, GDP growth registered 2.1% (q/q annualised) in the third quarter compared to 3.9% in Q2, which Federal Reserve Chairman Janet Yellen characterised as "moderate" but sustainable in a rising rate environment. Growth has been driven largely by stronger US consumer spending thanks to much cheaper oil and greater job security. Very strong October jobs data bolstered the Fed's case for a rate hike (with non-farm payrolls rising by 271,000 and average hourly earnings growing 2.5%), although economic data surprised increasingly on the downside in the latter half of the quarter.

Yellen reinforced the message that the US rate hiking cycle would be "gradual", helping to reassure investors, and this was reflected in the decline in the Fed's own views of the future path of interest rates (as shown in its "dot plot"): by December 2017 it now projects the Fed Funds rate at 2.4% versus 2.6% previously, and by December 2018 at 3.3% from 3.4% previously. By contrast, market expectations of interest rates remained significantly lower than those of the Fed, as Fed Fund futures show a rate of only 1.3% by December 2017, an indication that the market remains more concerned about growth and less about inflation than the Fed.

In the Eurozone, growth remained modest, while inflation was only 0.1% y/y in November. Q3 GDP growth did improve to 1.6% (q/q annualised), while 1.5% is forecast for 2015 as a whole and 1.8% in 2016, boosted by the ECB's QE programme and continuing falls in Eurozone unemployment.

In China, concerns have been mounting over the ability of policy makers to engineer a 'soft landing' and pessimism around the future outlook reflected itself in economic indicators like retail sales and industrial production generally surprising positively against economists' forecasts. The Chinese central bank has pulled out all the stops to support the economy, including cutting interest rates for the sixth time in a year in October. After its wild gyrations in Q3, Chinese equities were calmer and stronger over the quarter, with the Shanghai Composite Index up about 15% to end the year with a 9.4% gain.

Other emerging markets, meanwhile, remained under serious pressure from falling commodity prices, the stronger dollar and investor caution, although the Fed's rate hike has finally relieved some uncertainty – there was a small but generally positive response in EM currencies to the actual hike, as it had largely already been priced into assets before the move. It has been a horrible year in general for EM and commodity-driven economies: Brazil's economy is now expected to contract by 3.1% in 2015 and 1.2% in 2016, while Russian GDP is seen at -4.0% for 2015 and -0.4% for 2016.

In South Africa, amid the negative global impact from further weakness in commodity prices and the rand, local markets were hit hard by "Nene-gate" - the surprise dismissal of Finance Minister Nhlanhla Nene by President Zuma on 9 December. This came shortly after the downgrade of SA's sovereign credit rating to BBB- by Fitch and being placed on negative outlook by S&P, and in reaction the rand, bonds and financial shares all sold off sharply on 10 and 11 December. Zuma did show that he was receptive to the resulting flood of criticism by his about-face in appointing the experienced and well-respected Pravin Gordhan as the new Finance Minister in place of unknown ANC backbencher Des van Rooyen. Despite markets subsequently retracing some losses, bonds and the rand remained significantly weaker through December. This reflects elevated political risk and a loss of confidence in policymakers among investors, which will be difficult to overcome. Fears of significantly higher inflation on the back of the much-weakened rand and the drought, and even possible irresponsible fiscal policy, have badly dented the bond market.

Inflation fears rose over the quarter, with break-even inflation rising 100bps – from about 6.5% at the start of the quarter to 7.5% by year-end. The degree to which inflation fears have risen and become endemic is also shown by the movement in the FRA (forward rate agreement) market: FRAs for three-month interest rates in two years' time have risen from 8.0% at the start of the quarter to 9.0% at the end of Q4, a full 1.0 percentage point increase in market expectations, reflecting a huge repricing of the money market.

The high level of inflationary fear embedded in the nominal bond market is surprising, given the actual and forecast data: the SARB's latest CPI forecasts call for an average 4.6% y/y in 2015, 6.0% in 2016 and 5.8% in 2017. Independent economists forecast CPI to average 5.9% in 2016 according to Bloomberg's survey. Globally inflation remains low – interestingly, US break-even inflation has been at very low levels recently of about 1.5% compared to an average of 2% over the past 17 years, although it did rise 10-15bps over the quarter.

The rand had been trading weaker over the quarter prior to Nene-gate on the back of broader EM currency weakness, moving up from about R13.8/US dollar at the start of October to R14.5 on 9 December. The local currency then peaked at just over R16/US dollar by 11 December before recovering somewhat to trade near R15.5/US dollar at year-end. For the quarter the rand lost 10.8% versus the US dollar, 8.3% against sterling, and 8.3% versus the euro, and in 2015 it depreciated 25.3% against the US dollar, 21% versus sterling and 16.8% versus the euro.

After weakening for most of 2015 so far, bond yields continued their grind higher earlier in the quarter, factoring in the SA Reserve Bank's 25bp rate hike in October (for a cumulative 125bp rise over the cycle to date), the expected US rate hike and the credit rating downgrades. Inflation-linked bonds gained ground with a total return of 0.90% for the quarter and 3.7% over 12 months. Cash, meanwhile, returned 1.1% for the quarter and 5.9% for 12 months.

In SA equities, financial stocks were the worst hit by Nene-gate as investors anticipated higher costs for them in a higher interest rate environment. Share prices of banks like First Rand plummeted nearly 30% over the two days before recovering all but 4% of this later in December. As an interest rate-sensitive asset, listed property also suffered from Nene-gate, with the listed property index having been down 2-3% before the fiasco and plunging 13.9% on 10 and 11 December, before regaining 7.9% on 14 December. By quarter-end it posted a total return of -4.7%, but managed to return 8.0% in 2015 to be the year's top-performing rand asset class yet again.

Looking ahead, there is no denying that the risks associated with investing in South Africa have risen over the quarter, particularly political risk. With GDP growth slowing further and the rand weakening significantly on top of the ongoing drought, there is more upside risk to inflation going forward, and a greater chance of eventually being downgraded to non-investment grade. South Africa's high current account deficit and relatively large budget deficit make it dependent on foreign investment inflows, which have dwindled in recent months. All of this means that South Africa is likely to face similar pressures in 2016 as those in 2015; consequently investors can expect continued volatility in financial markets over the medium term.

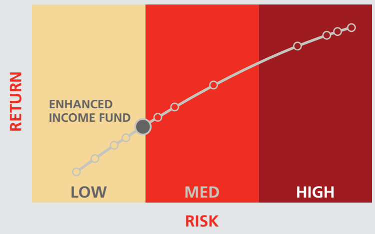
During the fourth quarter, as certain local assets became significantly cheaper, we took advantage of this to adjust the asset allocation in our multi-asset portfolios. However, our views on global assets have changed little compared to the previous quarter. Locally, we have moved from underweight listed property to neutral, and from slightly overweight conventional bonds to more overweight. This has reduced our cash holdings by purchasing bonds and property from cash. Lastly, we remain underweight inflation-linked bonds, given our view that the market is far too pessimistic about long-term inflation in South Africa. ■

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 | 4.0% | 6.5% | 4.2% | 4.6% |
| 2 years | 5.9% | 6.5% | 6.1% | 6.5% |
| 3 years | 5.9% | 5.8% | 6.1% | 6.5% |
| 5 years | 7.6% | 6.9% | n/a | n/a |
| Since inception# | 8.4% | 7.3% | 7.8% | 8.0% |

# 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 427 049 455

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**Sources:** Prudential, Morningstar & Deutsche Securities

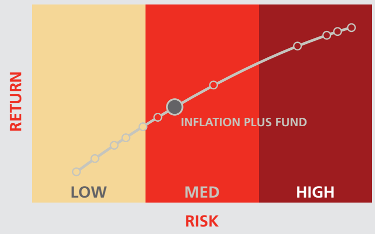
# PRUDENTIAL INFLATION PLUS FUND
## 31 DECEMBER 2015

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

### 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:
R37 593 483 437

### AWARDS:
Raging Bull: 2013
Morningstar: 2015

### MARKET OVERVIEW

The fourth quarter of 2015 (Q4) was generally a more positive one in global financial markets compared to the previous quarter, but for South African investors it was a period best forgotten. Although global growth remained slow, importantly, two major sources of market uncertainty improved: the US Federal Reserve finally raised interest rates 25 basis points (bps) in December as expected, and Chinese economic data stabilised and surprised positively over the three months.

As has been the trend this year, developed markets fared better than emerging markets (EMs), with commodity prices and EM currencies continuing on their weakening path. The price of Brent crude oil fell by 23.6%, while gold was down 4.7% and platinum lost 4.4%. This sustained global deflationary pressures as the European Central Bank expanded its quantitative easing (QE) programme and Japan and China continued with their broader policy support. While there were no significant changes to Chinese GDP growth forecasts during Q4, there were modest but consistent downward revisions for the US, the Eurozone and many emerging markets, with a reduction in the OECD's global 2015 GDP forecast in November to 2.9% from 3.0% and to 3.3% from 3.6% in 2016.

In the US, GDP growth decelerated to 2.1% (q/q annualised) in Q3 compared to 3.9% in Q2, which Federal Reserve Chairman Janet Yellen characterised as "moderate" but sustainable. Growth has been driven largely by stronger US consumer spending thanks to much cheaper oil and greater job security. Yellen reinforced the message that the US rate hiking cycle would be "gradual", helping to reassure investors. The S&P 500 returned 7.0% (in US$) for the quarter, but lost ground in December amid rising investor concerns over earnings – it returned only 1.7% for the year. US Treasuries sold off prior to the Fed's actual rate hike, but subsequently tracking sideways. US high-yield bonds lost more ground, impacted by weaker commodity prices as mining and energy company debt spreads widened. The Barclays Global Aggregate Bond Index (US$), a mixture of government and corporate bonds, posted a total return of -1.2% in the quarter, for a total of -3.2% for the year.

In the Eurozone, growth remained modest and inflation subdued. Q3 GDP growth did improve to 1.6% (q/q annualised), while 1.5% is forecast for 2015 as a whole and 1.8% in 2016, boosted by the ECB's enhanced QE programme and continuing falls in Eurozone unemployment. Over the quarter, the Dow Jones Euro Stoxx 50 Index (US$) returned 2.8%, for a total return of -4.5% for 2015. In Japan, GDP growth is now expected at 0.6% in 2015 and 1.0% in 2016, highlighting the need for Abe's continuing supportive economic policies. Despite poor domestic growth, over the quarter the Nikkei returned 9.2%, and 10.6% for 2015, making it the best performing of all the major developed markets, assisted by the weak yen that has boosted exports.

In China, concerns have been mounting over the ability of policymakers to engineer a 'soft landing' and due to pessimism around the future outlook, although Q3 GDP growth at 6.9% (q/q/ annualised) beat the 6.8% consensus. The Chinese central bank has pulled out all the stops to support the economy, including cutting interest rates for the sixth time in a year in October. Its December Outlook Report for 2016 projected 2015 GDP growth at 6.9% and 6.8% for 2016 but these figures are widely viewed as being heavily 'massaged'; indicators such as bank lending and electricity consumption paint a much bleaker picture. After its wild gyrations in Q3, Chinese equities were calmer and stronger, with the Shanghai Composite Index up about 15% to end the year with a 9.4% gain.

Other emerging markets, meanwhile, remained under serious pressure from falling commodity prices, the stronger dollar and investor caution, although the Fed's rate hike has finally relieved some uncertainty. It has been a horrible year in general for EMs and commodity-driven economies: Brazil's economy is expected to contract by 3.1% in 2015 and 1.2% in 2016, while Russian GDP is seen at -4.0% for 2015 and -0.4% for 2016. In Q4, the MSCI Emerging Markets Index (US$) returned 0.7%, and -14.6% for the year. This compares to -0.3% for developed markets (MSCI World Free Index, US$) in 2015. In US dollar terms, Brazilian equities lost 41.8% for the year, Turkey was down 31.6% and South Africa returned -25.1%.

In South Africa, amid the negative global impact from further weakness in commodity prices and the rand, local markets were hit hard by "Nene-gate" - the surprise dismissal of Finance Minister Nhlanhla Nene by President Zuma on 9 December. This came shortly after SA's credit rating downgrade to BBB- by Fitch. In reaction the rand, bonds and financial shares all sold off sharply. Although markets did subsequently retrace some losses once Pravin Gordhan was named as his replacement, bonds and the rand remained significantly weaker through December and into 2016. This reflects elevated political risk and a loss of investor confidence in policymakers, which will be difficult to overcome. Fears of significantly higher inflation on the back of the much-weakened rand and the drought, and even possible irresponsible fiscal policy, have badly dented the bond market.

For the quarter the rand lost 10.8% versus the US dollar, 8.3% against sterling, and 8.3% versus the euro, and in 2015 it depreciated 25.3% against the US dollar, 21% versus sterling and 16.8% versus the euro. Meanwhile, the All Bond Index lost 6.4% in Q4, for a 2015 total return of -3.9%. For the year, 1-3 year bonds returned 4.1%, while 12+ year bonds returned -7.0%.

In SA equities, financial stocks were the worst hit by Nene-gate as investors anticipated higher costs for them in a higher interest rate environment. The FTSE/JSE All Share Index returned 1.7% in Q4 for a total return of 5.1% in 2015 in rand terms. As an interest rate-sensitive asset, SA listed property also suffered from Nene-gate, with the listed property index posting a total return of -4.7% in Q4. For the year it returned 8.0% to be the year's top-performing rand asset class yet again.

Inflation fears have risen and become endemic during quarter, as shown by the movement in the FRA (forward rate agreement) market and break-even inflation rate (the difference in yields between the 10-year conventional and inflation-linked bonds). FRAs for three-month interest rates in two years' time have risen from 8.0% to 9.0%, reflecting a huge repricing of the money market. Break-even inflation has also risen 100bps to 7.5%. This is approaching the 8.0% level seen in 2008 when headline inflation was at an elevated 12% y/y; yet the latest CPI remained subdued at 4.8% y/y in November. Such a high level of inflationary fear is surprising given the actual data and the SARB's latest CPI forecasts, which call for an average 4.6% y/y in 2015, 6.0% in 2016 and 5.8% in 2017. Independent economists forecast CPI to average 5.9% in 2016, according to Bloomberg's survey. Globally, inflation remains low.

### PERFORMANCE

The Fund returned 2.9% (net of fees) for the fourth quarter of 2015 and has returned 8.7% for the 12-month period ending 31 December 2015. The Fund's holdings in international equity and cash and underweight in SA equity were the main positive contributors to performance, while its SA nominal bond exposure 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 local SA equities, as global equities remain more attractively valued than SA equities. Despite recent weakness, we believe local equities are somewhat expensive, and we remain neutral in this asset class.

| ANNUALISED PERFORMANCE | A CLASS | OBJECTIVE | X CLASS | B CLASS |
|---|---|---|---|---|
| 1 year | 8.7% | 9.8% | 9.0% | 9.5% |
| 3 years | 12.0% | 10.3% | 12.3% | 12.8% |
| 5 years | 13.2% | 10.5% | n/a | 14.0% |
| 7 years | 12.6% | 10.2% | n/a | 13.4% |
| 10 years | 11.9% | 11.5% | n/a | 12.6% |
| Since inception# | 13.8% | 11.2% | 14.0% | 13.8% |

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



**Sources:** Prudential, Morningstar & Deutsche Securities

# PRUDENTIAL INFLATION PLUS FUND
## 31 DECEMBER 2015

PRUDENTIAL INVESTMENT MANAGERS

## QUARTERLY COMMENTARY

MULTI-ASSET

However, for domestic portfolios, we 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, all positions that added value to our portfolios in 2015. Notwithstanding, December saw an acceleration in the depreciation of the rand, which hurt the banks (in which we hold an overweight position), while benefitting from some resource counters such as gold stocks (where we are underweight). Among our top overweight positions are British American Tobacco, Investec, Sappi and Old Mutual (most of which have quite significant offshore operations that will provide some hedge against the weakening rand), while our top underweights include Aspen, Medi-Clinic, Remgro and Sanlam.

In SA listed property, Q4 weakness led us to close our underweight position so that we are now neutral in this asset class. However, listed property remains expensive versus longer-dated bonds given the latter's extreme weakness, and headwinds such as slow growth and rising interest rates continue. During the quarter we also added to our overweight position in nominal bonds given the spike in yields. We also retain an overweight exposure to corporate bonds, which still offer attractive yields over their government counterparts.

With ILBs becoming more expensive versus their conventional counterparts, we have stayed underweight in these assets at the end of Q4. We believe the market's inflation expectations are unreasonably high at 7.5%. The fund's cash holdings have fallen from 13% to 6.6% at quarter-end as we bought more nominal bonds and listed property at attractive levels. However the fund does retain its defensive positioning given its maximum offshore exposure and holdings of large global stocks like Naspers and BAT. ■

| ASSET CLASS RETURNS IN RANDS | Q4 2015 | 2015 |
|---|---|---|
| SA Equity (FTSE/JSE All Share Index) | 1.7% | 5.1% |
| SA Property (FTSE/JSE SA Listed property Index) | -4.7% | 8.0% |
| SA Bonds (BESA All Bond Index) | -6.4% | -3.9% |
| SA Inflation-linked Bonds (Barclays/ABSA Government Inflation Linked Bond Index) | 0.9% | 3.7% |
| SA Cash (STeFI) | 1.5% | 5.6% |
| Global Equity (MSCI World Free Index - US$) | 5.6% | -0.3% |
| Global Equity (MSCI Emerging Markets Index – US$) | 0.7% | -14.9% |
| Global Bonds (Barclays Global Aggregate Bond Index – US$) | -0.9% | -3.2% |
| Rand (Rand/US$ move) | -10.8% | -25.3% |

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**Sources:** Prudential, Morningstar & Deutsche Securities

# PRUDENTIAL BALANCED FUND
## 31 DECEMBER 2015

PRUDENTIAL INVESTMENT MANAGERS

## QUARTERLY COMMENTARY

MULTI-ASSET

### PERFORMANCE AND PORTFOLIO MANAGER COMMENTS

The Fund delivered a positive return over the quarter, even against the backdrop of extreme volatile markets. The main contributor to its absolute return was the strong performance from the international equity holdings that, on the back of rand weakness against developed market currencies, delivered a return over 17% in rand terms for the quarter. The other international asset classes – fixed income, cash and alternatives, together with local equities, also contributed positively. Local bonds detracted from the Fund's overall return over the quarter.

Developed markets fared better than emerging markets (EMs), with commodity prices and EM currencies continuing on their weakening path. Brent crude oil and iron ore prices fell by 23.6% and 25% respectively, while gold and platinum lost 4.7% and 4.4%. This sustained global deflationary pressures as the European Central Bank expanded its quantitative easing (QE) programme and Japan and China continued with their broader policy support. While there were no significant changes to Chinese GDP growth forecasts during Q4, there were modest but consistent downward revisions for the US, the Eurozone and many emerging markets.

The S&P 500 returned 7.0% (in US dollars) for the quarter, returning only 1.7% for the year. US Treasuries sold off prior to the Fed's actual rate hike, in response to the central bank's clear hiking signal in its 29 October statement, but subsequently tracked sideways. US high-yield bonds lost more ground, impacted by weaker commodity prices. In the Eurozone, the further expansion of the QE programme announced in December disappointed markets: 10-year bond yields sold off, equities fell and the euro strengthened as a result.

In Japan, the growth outlook remained softer than other developed economies due to its greater export exposure to weak Asian demand, as well as its fiscal spending constraints. Over the quarter the Nikkei returned 9.2%, and 10.6% for 2015, making it the best performing of all the major developed markets. In China, concerns have been mounting over the ability of policy makers to engineer a 'soft landing'. Over the quarter, the MSCI Emerging Markets Index (US$) recorded a total return of 0.7%, while developed markets (MSCI World Free Index, US$) gained 5.6%. These indices lost 14.6% and 0.3% respectively for the year.

In South Africa, amid the negative global impact from further weakness in commodity prices and the rand, local markets were hit hard by "Nene-gate" - the surprise dismissal of Finance Minister Nhlanhla Nene by President Zuma on 9 December. This came shortly after the downgrade of SA's sovereign credit rating to BBB- by Fitch and being placed on negative outlook by S&P, and in reaction the rand, bonds and financial shares all sold off sharply Although markets did subsequently retrace some losses, bonds and the rand remained significantly weaker through December. The All Bond Index lost 6.4% in Q4, for a 2015 total return of -3.9%. ILBs returned 0.9% in the quarter and 3.7% for the year, while cash returned 1.1% for the quarter and 5.9% for the year.

In SA equities, financial stocks were the worst hit by Nene-gate as investors anticipated higher costs for them in a higher interest rate environment. The FTSE/JSE All Share Index returned 1.7% in Q4 for a total return of 5.1% for the year. Listed property also suffered from Nene-gate, with the listed property index plunging 4.7% for the quarter, but managed to return 8.0% in 2015 to be the year's top-performing rand asset class yet again.

The top contributors to relative performance were the fund's overweight positions in Sappi, British American Tobacco and Naspers, which ended the period up 55%, 15% and 22% respectively. On the downside, the Fund's overweight exposure to SA banks contributed negatively to absolute and relative performance, as the banking sector fell 14% in a volatile and macro-driven quarter.

During the fourth quarter, as certain local assets became significantly cheaper, we took advantage of this to adjust the asset allocation in our multi-asset portfolios. However, our views on global assets have changed little compared to the previous quarter: we still prefer global equities over local equities in our global portfolios, and we remain overweight global equities and largely neutral SA equities. We moved from slightly overweight conventional bonds to more overweight, and remain underweight inflation-linked bonds, given our view that the market is far too pessimistic about long-term inflation in South Africa. We are slightly underweight property.

In global fixed income, we are underweight duration and continue to hold floating-rate notes in order to minimize interest rate risk. This risk has fallen to an extent now that the Federal Reserve has implemented its first rate hike. 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, our global asset allocation continues to favour equities over bonds and cash, and 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. In our higher return-targeting multi-asset funds we continue to be very near our maximum permitted 25% weighting. From a historic valuation perspective, developed market equities (such as Germany) still appear to be the best value, given that EM equities remain very risky since macroeconomic risks still appear to be skewed to the downside. 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.

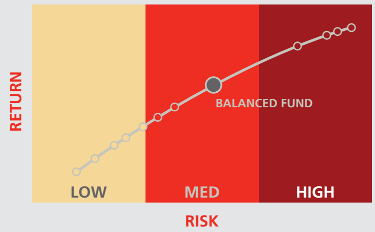
Despite recent weakness, we believe South African equities continue to be somewhat expensive, and so remain neutral in this asset class in our multi-asset portfolios. South Africa continues to be one of the more expensive emerging markets on a relative basis, yet actual earnings growth has been disappointing, with the commodity stocks worst hit. Economic growth prospects for 2016 have been downgraded. Given the more bearish outlook we have increased our holdings of equity put options as insurance in a downturn. We continue to favour certain financial stocks over expensive industrials, and remain underweight resources, all positions that added value to our portfolios in 2015. Among our top overweight positions are British American Tobacco, Investec, Sappi and Old Mutual (most of which have quite significant offshore operations that will provide some hedge against the weakening rand), while our top underweights include Aspen, Remgro and Richemont.

In SA listed property, we took advantage of the weakness in the sector during the quarter to close our underweight position and buy more listed property assets out of cash holdings as valuations reached attractive levels. Subsequent to year-end, we moved slightly underweight again.

| ANNUALISED PERFORMANCE | A CLASS | BENCHMARK | X CLASS | B CLASS |
|---|---|---|---|---|
| 1 year | 8.4% | 7.7% | 8.7% | 9.2% |
| 3 years | 14.5% | 11.6% | 14.8% | 15.4% |
| 5 years | 14.1% | 11.2% | n/a | 15.1% |
| 7 years | 14.6% | 11.8% | n/a | 15.7% |
| 10 years | 13.0% | 10.8% | n/a | 14.0% |
| Since inception# | 15.1% | 13.1% | 14.5% | 15.6% |

# 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 170 754 979



**Sources:** Prudential, Morningstar & Deutsche Securities

# PRUDENTIAL BALANCED FUND
## 31 DECEMBER 2015

PRUDENTIAL
INVESTMENT MANAGERS

## QUARTERLY COMMENTARY

MULTI-ASSET

In SA nominal bonds, we had already begun buying bonds into weakness during the quarter, ahead of Nene-gate, and bought more subsequent to this. Portfolios are now more overweight conventional bonds. 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.

Inflation-linked bonds became even more expensive relative to conventional bonds over the quarter, leading us to remain underweight in these assets in our multi-asset portfolios. ■

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

| ASSET CLASS RETURNS IN RANDS | Q4 2015 | 2015 |
|---|---|---|
| SA Equity (FTSE/JSE All Share Index) | 1.7% | 5.1% |
| SA Property (FTSE/JSE SA Listed property Index) | -4.7% | 8.0% |
| SA Bonds (BESA All Bond Index) | -6.4% | -3.9% |
| SA Inflation-linked Bonds (Barclays/ABSA Government Inflation Linked Bond Index) | 0.9% | 3.7% |
| SA Cash (STeFI) | 1.5% | 5.6% |
| Global Equity (MSCI World Free Index - US$) | 5.6% | -0.3% |
| Global Equity (MSCI Emerging Markets Index – US$) | 0.7% | -14.9% |
| Global Bonds (Barclays Global Aggregate Bond Index – US$) | -0.9% | -3.2% |
| Rand (Rand/US$ move) | -10.8% | -25.3% |

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**Sources:** Prudential, Morningstar & Deutsche Securities

# PRUDENTIAL ENHANCED SA PROPERTY TRACKER FUND
## 31 DECEMBER 2015

PRUDENTIAL
INVESTMENT MANAGERS

## QUARTERLY COMMENTARY

PROPERTY

### PERFORMANCE

The fund returned -2.7% for the quarter while the SA Listed Property index returned -4.7%. Of the 2% outperformance over this period 0.9% came about from stock positioning ahead of the merger between Capital & Counties Fortress Income Fund in November. A further 0.2% of outperformance was generated from exposure to Stenprop ahead of its inclusion in the benchmark. The balance of outperformance was generated by other active stock selections.

Over the past year the fund returned 10.1%, outperforming the benchmark by 2.1%.The 10-year track record of the fund ranks it 2nd out of its peers in the South African Real Estate – General sector, with the fund having matched the performance of the benchmark (after fees) over this period.

### MARKET COMMENTARY

Internationally the final quarter of 2015 saw downward revisions to GDP growth forecasts for many emerging markets (EM). EM risks appear to be skewed to the downside given pressure from falling commodity prices, weaker currencies and investor caution.

In China concerns continued to mount over the ability of policy makers to engineer a 'soft landing' in the face of pessimism around the outlook. The Chinese central bank cut interest rates for the sixth time in a year in October.

In developed markets inflationary pressures remained low in an environment of slow growth. Although US GDP growth slowed slightly in the third quarter, strong October jobs data bolstered the US Federal Reserve's case for a rate hike. The much anticipated "Fed-Liftoff" finally took place in December – a "gradual" US rate hiking cycle being emphasized by the Fed governor.

In South Africa SA Listed Property started the final quarter of the year positively, supported by a 50 basis point rally in SA nominal bond yields. The Medium Term Budget Policy Statement in October contained few surprises, continuing government's three-year budgetary plans. No headway made, though, in reducing the budget deficit further below 5% of GDP.

From November the momentum in listed property started fading. The SA Reserve Bank raised the repo rate 25 basis points (bps). EM-wide currency weakness driven by weak commodity prices and the anticipated US rate hike, together with concerns around the impact of worsening local drought conditions, were the major factors in the rate decision.

The downgrade of SA's sovereign credit rating to BBB- by Fitch in early December, and the move to "negative outlook" by S&P, further weakened the rand and bond yields - SA nominal bond yields being up 70 bps over the quarter at that point. By the end of the first week of December property had lost 3.6% since the start of the quarter.

Local markets were then hit by the surprise replacement by President Zuma of Finance Minister Nhlanhla Nene on 9 December - the rand and bonds selling off sharply on 10 and 11 December. Interest rate sensitive equities like banks and property were also hit hard as investors anticipated a higher interest rate environment - property plunging 13.8% over 10 and 11 December.

Within the property benchmark individual stock returns diverged dramatically. Several local-focused stocks were down close to 20% while foreign stocks performed better (some posting slight gains).

The subsequent appointment of the well-respected Pravin Gordhan as the new Finance Minister and ensuing government statements emphasising the maintenance of a responsible fiscal framework helped markets regain some of their losses - property gaining 13.2% by the end of December.

Conventional bonds were nonetheless still left worse-off, with 10-year nominal bond yields ending December 90bps higher than before Nene's dismissal. One-year interest rates were up 120bps. The rand also did not recover fully, ending the year close to R15.50 from R14.90 before the dismissal.

### STRATEGY AND OUTLOOK

Prudential's multi-asset funds started the quarter slightly underweight in listed property.

Following the underperformance of property in the first week of December we closed the underweight position, buying more listed property out of cash, as valuations had reached attractive levels. The funds then ended the quarter at neutral weight in listed property.

Following the recovery in SA listed property prices in the second half of December, we now view the asset class as slightly expensive, especially versus long-dated nominal bonds and less so against inflation-linked bonds and cash.

SA Listed Property (excluding developers) is currently priced to deliver a one-year forward distribution yield of 7.4%. This combines with 8.9% forecast distribution growth, to produce an estimated total return of around 16.3% (assuming no change in the markets valuation of property). The forward distribution yield of 7.4% is now around 2.4% below the yield of SA 10-year government bonds, this differential having widened a full percentage point over the quarter.

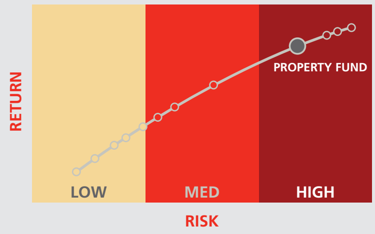
There is no denying that the risks associated with investing in South Africa have risen over the quarter. Elevated political risk and a loss of confidence in responsible fiscal policymaking will be difficult to overcome. Meanwhile fears of upside risks to inflation on the back of the weaker rand and ongoing drought have badly dented the local interest rate markets. Slowing SA GDP growth also makes a sovereign rating downgrade to non-investment grade more likely for SA in 2016.

Low real cash rates have for an extended period of time been supporting elevated listed property valuations. However, the outlook for cash rates looks far less supportive now compared to only a few months ago.

While the earnings outlook for the sector is protected somewhat from a weaker rand by virtue of the 30% weighting of the sector to offshore assets (benefitting from the 10.8% depreciation of the rand against the USD in the quarter) the rest of the index will face 2016 on the back foot. Weaker SA fundamentals and expectations for a higher trajectory in interest rates (driven by heightened inflation fears) result in the risk to SA property earnings being to the downside.

Negative investor sentiment towards emerging markets in general, and South Africa specifically, will also weigh on valuations. ■

### 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 024 538 088

### AWARDS:
Morningstar/Standard & Poor's: 2011

| ANNUALISED PERFORMANCE | A CLASS | BENCHMARK | D CLASS |
|---|---|---|---|
| 1 year | 10.1% | 8.0% | 10.2% |
| 3 years | 15.0% | 14.0% | 15.1% |
| 5 years | 17.2% | 17.0% | 17.4% |
| 7 years | 18.5% | 18.3% | n/a |
| 10 years | 17.5% | 17.5% | n/a |
| Since inception# | 17.5% | 17.5% | 18.9% |

# Inception date D Class: 1 July 2010

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**Sources:** Prudential, Morningstar & Deutsche Securities

# PRUDENTIAL DIVIDEND MAXIMISER FUND
## 31 DECEMBER 2015

PRUDENTIAL
INVESTMENT MANAGERS

## QUARTERLY COMMENTARY

EQUITY

### PERFORMANCE AND POSITIONING

The Fund produced a return of 4.5% for the three months ended December 2015, outperforming the average of the General Equity funds by 3.7% for the same period. For the year, the Fund returned 6.5%, outperforming the average of the General Equity funds by 5.6%.

The past quarter again proved to be an eventful period for global equity markets, including the JSE, as renewed concerns around a slowing Chinese economy and weaker global growth in general resulted in volatility in equity prices. Amid the negative global impact from further weakness in commodity prices and the rand, local markets were hit hard by the surprise dismissal of Finance Minister Nhlanhla Nene by President Zuma on 9 December 2015. This came shortly after the downgrade of SA's sovereign credit rating to BBB- by Fitch and being placed on negative outlook by S&P. In reaction, the rand, bonds and financial shares all sold off sharply. These events do necessitate a reassessment of the risk-free rates that we use to value equities. The risk remains that South Africa's reputation for prudent and stable macro-economic policy has been tarnished. That said, the recent appointment of proven Finance Minister Gordhan provides an opportunity to stabilise investor sentiment and market prices. Confidence is likely to be rebuilt slowly, but has been undermined.

Although markets did subsequently retrace some losses, bonds and the rand remained significantly weaker through December. While we continue to believe South Africa's key macro-economic institutions will continue to act with independence and credibility, recent events have, at the margin, lessened our conviction over the medium term. We believe the worsening growth outlook will likely pressure South Africa's ability to maintain its investment grade credit rating. We now see GDP growth at less than 1% in 2016, well below our long-run estimate for potential growth of around 2.0%.

SA equities have also started to price the higher bond yields into equity prices. Financial stocks, for example, have underperformed as investors anticipated higher costs for them in a higher interest rate environment. The main detractor from the fund's performance over the last quarter was therefore the overweight positions in SA banks: Standard Bank, FirstRand and Barclays. The share prices of banks fell as the market began to anticipate interest rate rises and growing bad debts. We continue to believe that the banking sector is undervalued with very attractive dividend yields. Most banks appear to have the strongest balance sheets they have had in the last decade, and we are likely to see a growth trend in the dividends of the banking sector after many years of stagnation. The fund holds a selection of banks at varying stages of earnings recovery, with a preference for Barclays and Standard Bank.

The main positive contributor to performance for the quarter was the fund's substantial exposure of approximately 30% to global equities, which was helped mainly by a weaker rand. Even given this quarter's outperformance, 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 holdings in British American Tobacco, Naspers and Sappi.

The main focus of the Dividend Maximiser fund is to buy undervalued companies where the strong cash flow generation of the company has not been fully recognised and priced in by the market. We believe one such company is British American Tobacco, in which we have been long-standing shareholders. BAT has substantially lower capital expenditure requirements versus the average company; it is therefore able to deploy this strong cash flow to pay dividends, buy back shares and make strategic acquisitions. Many people assume that as cigarette volumes are flat or declining, the dividend growth from BAT must also be flat or declining. This could not be further from the truth as BAT has managed to grow its dividends at a faster pace than most other large global staples companies. BAT is able to generate substantial cash flows and is able to more than offset cigarette volume declines with price increases.

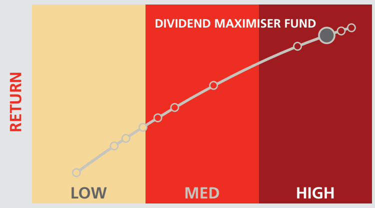
The overweight exposure to Sappi also contributed positively. We believe Sappi to be one of the best positioned companies in SA to take advantage of the weak rand, as it has mainly rand costs in SA and sells its major product, dissolving wood pulp, in dollars. Although Sappi is currently not paying a dividend, we anticipate that the strong cash flows it is now generating will accelerate the repayment of debt and lead to the declaration of a dividend within the next two years. This should send a very positive signal to the market. We think Sappi continues to be very undervalued.

In the resources sector, ongoing commodity price weakness saw the market start to focus on the commodity companies' balance sheets and their ability to service and refinance existing debt facilities. Those commodity companies, such as Glencore and Anglo American, with high levels of net debt in relation to their market capitalisation, continue to be sold off aggressively. 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. Although 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.

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. We still, however, 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 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 311 722 006

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

| ANNUALISED PERFORMANCE | A CLASS | BENCHMARK | B CLASS |
|---|---|---|---|
| 1 year | 6.5% | 1.0% | 7.0% |
| 3 years | 14.3% | 10.0% | 14.8% |
| 5 years | 14.1% | 10.8% | 14.6% |
| 7 years | 16.4% | 14.0% | 16.9% |
| 10 years | 15.7% | 11.9% | n/a |
| Since inception# | 18.8% | 15.2% | 13.0% |

# Inception date B Class: 2 January 2007

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Sources: Prudential, Morningstar & Deutsche Securities

# PRUDENTIAL EQUITY FUND
## 31 DECEMBER 2015

PRUDENTIAL
INVESTMENT MANAGERS

## QUARTERLY COMMENTARY

**EQUITY**

### PERFORMANCE AND PORTFOLIO MANAGER COMMENTS

The FTSE/JSE Shareholder Weighted Index gained 1.4% over the quarter, posting a modest total return of 3.6% for the calendar year.

The Fund achieved a strong final quarter performance of 3.4% (2.8% net of fees).

During the final quarter, key positive contributions to the Fund's relative performance came from overweight positions in Sappi, Supergroup and British American Tobacco, which ended the period up 54%, 31% and 15% respectively. In addition, the Fund benefitted from its underweight exposure to MTN, as the stock fell 25% over the quarter.

On the downside, the Fund's overweight exposure to SA banks contributed negatively to absolute and relative performance, as the banking sector fell 14% in a volatile and macro-driven quarter.

The President's dramatic and unexpected firing of the well regarded Minister of Finance Nhlanhla Nene shook the market badly, as bond yields spiked and the rand plunged to all-time record lows. In an already brittle political and macroeconomic environment with existing downside risk to sovereign credit ratings, banking shares were particularly severely hit. These companies rely on offshore funding and any ratings downgrade or crisis of confidence could have a significant impact on their operations.

While we have not yet seen any material downgrades to banks' forward earnings estimates, the risk to earnings is now to the downside. In addition, a key consideration is whether the risk-free rate, as evidenced by bond yields, has structurally risen. Despite this, the valuation of our banks looks compelling, with Barclays Africa on a forward PE of 7.1 and dividend yield of 8.2%. We therefore retain an overweight exposure to the sector, despite increased risks.

Commodity prices continued to weaken on the back of continued concerns of weaker global growth, in particular the Chinese economy. At spot commodity prices, we expect further downgrades to earnings forecasts, despite a significantly weaker rand. The balance sheets and debt levels of mining stocks are receiving increased scrutiny, as evidenced by announcements of strategic reviews by both Anglo American and Glencore. The near-term outlook for dividends from these companies and fellow diversified miner BHP Billiton is looking increasingly bleak.

During the quarter, we added to our overweight position in British American Tobacco, a quality global defensive stock trading at an attractive multiple relative to comparable consumer staples. In addition, we cut our underweight position in MTN and moved overweight, following the sharp share price fall resulting from the news that the group's Nigerian subsidiary had been issued a massive potential fine for breaching the subscriber registration regulations. Our decision to buy MTN was based on our assessment that the market had fully discounted the announced fine and that, given the unprecedented magnitude of the fine, there was the likelihood of a reduced settlement being agreed. We also increased exposure to Supergroup by following our rights and supporting the equity raising in connection with its acquisition of a European logistics and Australian fleet leasing business respectively. We further increased our holding in Tiger Brands, after the company announced that its current CEO would be stepping down and that the board had decided it would no longer fund, but instead look to exit, its disastrous Nigerian investment in Dangote Flour Mills. We believe that renewed focus on the company's strong brands and dominant market position in South Africa, without the associated operating losses from Nigeria going forward, will result in the market closing the discount at which Tiger Brands trades to its listed food producer peers.

The Fund's offshore component was again a very strong contributor during the quarter, with the rand depreciating markedly against the US dollar (10.8%), euro (8.3%) and British pound (8.3%). In addition to the depreciation, foreign equity returns delivered mostly positive returns in developed markets, with notable returns over the quarter from the US S&P 500 (7.0% in USD), the German Dax 30 (8.2%) and the Japanese Nikei (9.2%). The Fund's offshore equity component returned 15.7% for the quarter in rand terms.

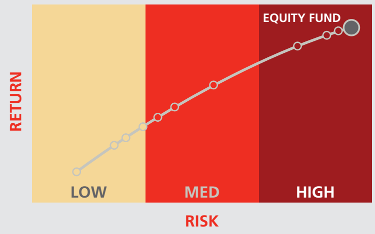
Global equities nonetheless remain more attractively valued than SA equities on measures like Price-Earnings (P/E) and Price-Book value ratios. From an historic valuation perspective, developed market equities (such as Germany) still appear to be the best value, given that EM equities remain vulnerable since macroeconomic risks that remain skewed to the downside. 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.

| ANNUALISED PERFORMANCE | A CLASS | BENCHMARK | B CLASS |
|---|---|---|---|
| 1 year | 4.2% | 1.0% | 4.5% |
| 3 years | 14.0% | 10.0% | 14.5% |
| 5 years | 14.2% | 10.8% | 14.8% |
| 7 years | 16.4% | 14.0% | 17.0% |
| 10 years | 15.6% | 11.9% | n/a |
| Since inception# | 18.6% | 15.2% | 13.3% |

# Inception date B Class: 2 January 2007

### 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 871 295 562

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

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**Sources:** Prudential, Morningstar & Deutsche Securities

# PRUDENTIAL GLOBAL HIGH YIELD BOND FUND OF FUNDS
## 31 DECEMBER 2015

PRUDENTIAL
INVESTMENT MANAGERS

## QUARTERLY COMMENTARY

## GLOBAL INCOME

### MARKET OVERVIEW

The fourth quarter of 2015 (Q4) was generally a more positive one in global financial markets compared to the previous quarter, but for South African investors it was a period best forgotten. Although global growth remained slow, importantly, two major sources of market uncertainty improved: the US Federal Reserve finally raised interest rates 25 basis points (bps) in December as expected, and Chinese economic data stabilised and surprised positively over the three months.

As has been the trend this year, developed markets fared better than emerging markets (EMs), with commodity prices and EM currencies continuing on their weakening path. The price of Brent crude oil fell by 23.6%, while gold was down 4.7% and platinum lost 4.4%. This sustained global deflationary pressures as the European Central Bank expanded its quantitative easing (QE) programme and Japan and China continued with their broader policy support. While there were no significant changes to Chinese GDP growth forecasts during Q4, there were modest but consistent downward revisions for the US, the Eurozone and many emerging markets, with a reduction in the OECD's global 2015 GDP forecast in November to 2.9% from 3.0% and to 3.3% from 3.6% in 2016.

In the US, GDP growth decelerated to 2.1% (q/q annualised) in Q3, which Federal Reserve Chairman Janet Yellen characterised as "moderate" but sustainable. Growth has been driven largely by stronger US consumer spending thanks to much cheaper oil and greater job security. Yellen reinforced the message that the US rate hiking cycle would be "gradual", helping to reassure investors. The S&P500 returned 7.0% (in US$) for the quarter, but returned only 1.7% for the year. US Treasuries sold off prior to the Fed's actual rate hike, but subsequently tracked sideways. US high-yield bonds lost more ground, impacted by weaker commodity prices as mining and energy company debt spreads widened. The Barclays Global Aggregate Bond Index (US$), a mixture of government and corporate bonds, posted a total return of -1.2% in the quarter, for a total of -3.2% for the year.

In the Eurozone, growth remained modest and inflation subdued. Q3 GDP growth did improve to 1.6% (q/q annualised), while 1.5% is forecast for 2015 and 1.8% in 2016, boosted by the ECB's enhanced QE programme and continuing falls in Eurozone unemployment. In Japan, GDP growth is now expected at 0.6% in 2015 and 1.0% in 2016, highlighting the need for Abe's continuing supportive economic policies.

In China, concerns have been mounting over the ability of policymakers to engineer a 'soft landing, although Q3 GDP growth at 6.9% (q/q/ annualised) beat the 6.8% consensus. The Chinese central bank has pulled out all the stops to support the economy, including cutting interest rates for the sixth time in a year in October. Its December Outlook Report for 2016 projected 2015 GDP growth at 6.9% and 6.8% for 2016, but these figures are widely viewed as being heavily 'massaged'; indicators such as bank lending and electricity consumption paint a much bleaker picture.

Other emerging markets, meanwhile, remained under serious pressure from falling commodity prices, the stronger dollar and investor caution, although the Fed's rate hike has finally relieved some uncertainty. It has been a horrible year in general for EMs and commodity-driven economies: The most recent forecasts show Brazil's economy contracting by 3.7% in 2015 and 2.8% in 2016, while Russian GDP is seen at -3.7% for 2015 and -0.5% for 2016. In Q4, the MSCI Emerging Markets Index (US$) returned 0.7%, and -14.6% for the year. This compares to -0.3% for developed markets (MSCI World Free Index, US$) in 2015. .

After a sharp rise in the yields of the Emerging Markets Bond Index (in US dollars) in Q3 , the final quarter of the year saw a modest retracement, with yields on US Dollar denominated EM bonds falling about 30bps. The rand lost 10.8% against the US dollar over the quarter and 25.3% in 2015, while it depreciated 21% against sterling and 16.8% against the euro in 2015.

### PERFORMANCE

For the quarter ending 31 December 2015, the Fund returned 10.4% (net of fees, in rand), versus the 10.9% returned by its benchmark, the Barclays Capital Global Aggregate Bond Index (in rand). In absolute return terms, the fund benefitted significantly from the rand's depreciation against major currencies during the period. Relative to the benchmark, the fund benefitted from its substantial holding of cash as bond yields generally rose over the quarter. The main detractor was its holdings of high yield corporate bonds which have a modest exposure to the energy and mining sectors, where the dramatic falls in commodity prices have hit companies' earnings. As ever in such periods of volatility, risk sentiment has played a large part in moving prices, and we believe there is fundamental value to be found in these areas although stock selection is, as ever, key.

For the past 12 months, the Fund has returned 25.8% (net of fees), while since inception the Fund has returned 10.3% p.a.

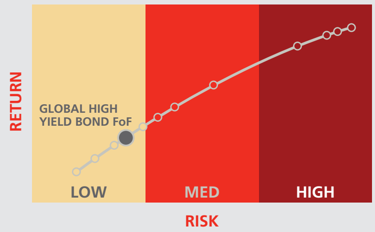
### STRATEGY AND OUTLOOK

To mitigate the rising risks from expensive global bond markets prior to the US Federal Reserve's first interest rate hike in December, we have been underweight duration in the Fund and had earlier reduced interest rate risk on our US and European bond holdings through our allocation to floating-rate notes (FRNs) and a substantial allocation to cash. We have maintained this defensive positioning in Q4, although we did increase our allocation to fixed-rate US high-yield bonds during the quarter as the yields on these assets rose to even more attractive levels following further weakness.

We continue to see limited value in developed market government bonds in the medium term, with yields remaining very low. Whilst global growth concerns appear elevated, economic data in developed markets suggests an ongoing expansion with potential for upside surprise. Consequently, we remain positive on spread products like investment-grade and high-yield 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 said they continue to expect a "gradual" rate rise. ■

| ANNUALISED PERFORMANCE | A CLASS | BENCHMARK |
| --- | --- | --- |
| 1 year | 25.7% | 29.5% |
| 3 years | 19.8% | 20.1% |
| 5 years | 20.4% | 19.6% |
| 7 years | 11.8% | 9.7% |
| 10 years | 13.7% | 13.5% |
| Since inception | 10.3% | 10.4% |

### 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:**
R274 805 665

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

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Sources: Prudential, Morningstar & Deutsche Securities

# PRUDENTIAL GLOBAL CAUTIOUS MANAGED FUND OF FUNDS
## 31 DECEMBER 2015

PRUDENTIAL
INVESTMENT MANAGERS

## QUARTERLY COMMENTARY

## GLOBAL MULTI-ASSET

### MARKET OVERVIEW

The fourth quarter of 2015 (Q4) was generally a more positive one in global financial markets compared to the previous quarter, but for South African investors it was a period best forgotten. Although global growth remained slow, importantly, two major sources of market uncertainty improved: the US Federal Reserve finally raised interest rates 25 basis points (bps) in December as expected, and Chinese economic data stabilised and surprised positively over the three months.

As has been the trend this year, developed markets fared better than emerging markets (EMs), with commodity prices and EM currencies continuing on their weakening path. The price of Brent crude oil fell by 23.6%, while gold was down 4.7% and platinum lost 4.4%. This sustained global deflationary pressures as the European Central Bank expanded its quantitative easing (QE) programme and Japan and China continued with their broader policy support. While there were no significant changes to Chinese GDP growth forecasts during Q4, there were modest but consistent downward revisions for the US, the Eurozone and many emerging markets, with a reduction in the OECD's global 2015 GDP forecast in November to 2.9% from 3.0% and to 3.3% from 3.6% in 2016.

In the US, GDP growth decelerated to 2.1% (q/q annualised) in Q3, which Federal Reserve Chairman Janet Yellen characterised as "moderate" but sustainable. Growth has been driven largely by stronger US consumer spending thanks to much cheaper oil and greater job security. Yellen reinforced the message that the US rate hiking cycle would be "gradual", helping to reassure investors. The S&P500 returned 7.0% (in US$) for the quarter, but returned only 1.7% for the year. US Treasuries sold off prior to the Fed's actual rate hike, and subsequently tracked sideways. US high-yield bonds lost more ground, impacted by weaker commodity prices as mining and energy company debt spreads widened. The Barclays Global Aggregate Bond Index (US$), a mixture of government and corporate bonds, posted a total return of -1.2% in the quarter, for a total of -3.2% for the year.

In the Eurozone, growth remained modest and inflation subdued. Q3 GDP growth did improve to 1.6% (q/q annualised), while 1.5% is forecast for 2015 and 1.8% in 2016, boosted by the ECB's enhanced QE programme and continuing falls in Eurozone unemployment. Over the quarter, the Dow Jones Euro Stoxx 50 Index (US$) returned 2.8%, for a total return of -4.5% for 2015. In Japan, GDP growth is now expected at 0.6% in 2015 and 1.0% in 2016, highlighting the need for Abe's continuing supportive economic policies. Despite poor domestic growth, over the quarter the Nikkei returned 9.2%, and 10.6% for 2015, making it the best performing of all the major developed markets, assisted by the weak yen that has boosted exports.

In China, concerns have been mounting over the ability of policymakers to engineer a "soft landing", although Q3 GDP growth at 6.9% (q/q/annualised) beat the 6.8% consensus. The Chinese central bank has pulled out all the stops to support the economy, including cutting interest rates for the sixth time in a year in October. Its December Outlook Report for 2016 projected 2015 GDP growth at 6.9% and 6.8% for 2016, but these figures are widely viewed as being heavily "massaged"; indicators such as bank lending and electricity consumption paint a much bleaker picture. After the wild gyrations of Q3, Chinese equities were calmer and stronger, with the Shanghai Composite Index up about 15% to end the year with a 9.4% total return.

Other emerging markets, meanwhile, remained under serious pressure from falling commodity prices, the stronger dollar and investor caution, although the Fed's rate hike has finally relieved some uncertainty. It has been a horrible year in general for EMs and commodity-driven economies: The most recent forecasts show Brazil's economy contracting by 3.7% in 2015 and 2.8% in 2016, while Russian GDP is seen at -3.7% for 2015 and -0.5% for 2016. In Q4, the MSCI Emerging Markets Index (US$) returned 0.7%, and -14.6% for the year. This compares to -0.3% for developed markets (MSCI World Free Index, US$) in 2015. In US dollar terms, Brazilian equities lost 41.8% for the year, Turkey was down 31.6% and South Africa returned -25.1%.

### PERFORMANCE

For the quarter ending 31 December 2015, the fund returned 13.6% (net of fees in rand), compared to an average return of 14.5% from the ASISA Global Multi-Asset Low Equity sector. Rand weakness against the major currencies added significantly to performance from most assets, both equities and fixed income. In rand terms, the top contributors to absolute performance were the fund's Japanese and German equity holdings along with an exposure to US commercial property. Overweight exposures to Italy and India both detracted from performance when compared to the peer group, 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, the high allocation to cash was helpful as bond markets generally posted negative return in hard currency terms, whilst our allocation to fixed and floating rate US high yield detracted.

### STRATEGY AND OUTLOOK

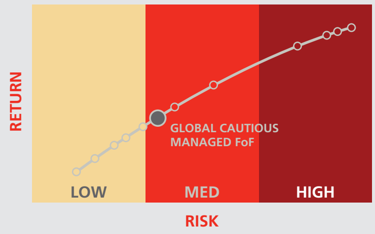
We continue to prefer global equities over bonds and cash in our global portfolios, given their superior return potential. Most developed equity markets produced good returns in Q4, becoming more expensive, although they looked to have run out of steam in December amid concerns over global economic growth and a lack of corporate earnings growth. Our sense for now is that the growth risks in developed markets are overdone and we have maintained our equity exposure in these markets. Emerging market equities lost further ground, and although are 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 in Q4 following the US Federal Reserve's rate hike. We continue to be positive on spread products in both investment-grade and high-yield corporate bond markets, given their attractive yields and 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

| ANNUALISED PERFORMANCE | A CLASS | BENCHMARK |
|---|---|---|
| 1 year | 27.6% | 30.2% |
| 3 years | 21.2% | 21.6% |
| 5 years | 18.4% | 18.7% |
| 7 years | 9.1% | 7.8% |
| 10 years | 10.6% | 11.0% |
| Since inception | 9.3% | 8.9% |

### 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:**
R105 841 679

## HOW TO INVEST

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### DISCLAIMER





**Sources:** Prudential, Morningstar & Deutsche Securities

# PRUDENTIAL GLOBAL VALUE FUND OF FUNDS
## 31 DECEMBER 2015

PRUDENTIAL
INVESTMENT MANAGERS

## QUARTERLY COMMENTARY

GLOBAL EQUITY

### MARKET OVERVIEW

The fourth quarter of 2015 (Q4) was generally a more positive one in global financial markets compared to the previous quarter, but for South African investors it was a period best forgotten. Although global growth remained slow, importantly, two major sources of market uncertainty improved: the US Federal Reserve finally raised interest rates 25 basis points (bps) in December as expected, and Chinese economic data stabilised and surprised positively over the three months.

As has been the trend during 2015, developed markets fared better than emerging markets (EMs), with commodity prices and EM currencies continuing on their weakening path. Over the quarter, the price of Brent crude oil fell by 23.6%, and iron ore declined a disastrous 25%. Gold, meanwhile, was down 4.7% and platinum lost 4.4%. This sustained global deflationary pressures as the European Central Bank expanded its quantitative easing (QE) programme and Japan and China continued with their broader policy support. While there were no significant changes to Chinese GDP growth forecasts during Q4, there were modest but consistent downward revisions for the US, the Eurozone and many emerging markets.

### PORTFOLIO MANAGER COMMENTS

The Fund was flat against its benchmark, the MSCI All Countries World Index, for the quarter, returning +17.5% in Rand.

For the year, the Fund's positive return in Rand of +27.8% was all achieved by currency depreciation. The fund earned -4.5% in US Dollar terms, underperforming the benchmark by 2.1%. Stock selection by our US quality value fund manager, Vulcan, in the consumer discretionary sector hurt performance but was in part offset by stellar performance from our European fund managers. We are also pleased by the performance from our global defensively positioned fund manager, First Eagle, who has started to contribute to performance of late.

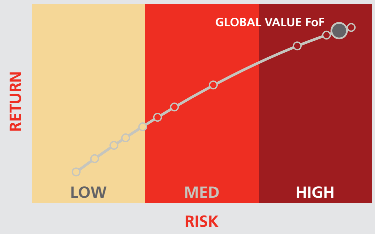
### STRATEGY AND OUTLOOK

Global equities remain more attractively valued compared to SA equities on measures like price-earnings and price-book value ratios.

Developed market equities (such as Germany) still appear to be the best value from an historic valuation perspective. EM equities remain very risky since macroeconomic risks still appear to be skewed to the downside. 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. ■

### 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:
R253 941 225

| ANNUALISED PERFORMANCE | A CLASS | BENCHMARK |
|---|---|---|
| 1 year | 27.8% | 30.6% |
| 3 years | 30.1% | 31.6% |
| 5 years | 22.8% | 25.7% |
| 7 years | 16.9% | 18.7% |
| 10 years | 11.7% | 14.6% |
| Since inception | 7.3% | 8.7% |

### HOW TO INVEST

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