PRUDENTIAL UNIT TRUSTS QUARTERLY COMMENTARY
31 DECEMBER 2016

PRUDENTIAL
INVESTMENT MANAGERS

COMBINED QUARTERLY COMMENTARY

INCOME | MULTI-ASSET | PROPERTY/EQUITY | GLOBAL

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PRUDENTIAL MONEY MARKET FUND
31 DECEMBER 2016

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME FUND

PERFORMANCE

Over the past quarter, the fund delivered a return of 1.9% (net of fees), while its benchmark, the STeFI Call Deposit Index, returned 1.7%. The average duration of the fund at quarter-end was 31 days relative to the 90-day maximum average duration.

MARKET OVERVIEW

It proved to be another volatile quarter for South Africa, with mixed investment returns as the poor global EM sentiment was offset to a certain extent by favourable local developments, the most important of which was the country managing to retain its investment-grade credit rating from all three ratings agencies (albeit moving closer to non-investment grade status). Despite a deterioration in current economic data, the medium-term macroeconomic outlook improved slightly on the back of diminishing inflationary pressures, a strengthening rand and the increasingly likelihood of no further interest rate hikes. Q3 GDP growth was reported at a disappointing 0.2% (q/q annualised).

At its final meeting of the year in November, as in September, the SARB's Monetary Policy Committee (MPC) left rates on hold while again noting that the end of its interest rate hiking cycle was near. However, it set a high bar for any actual rate cuts. The MPC stressed that it saw its main risk coming from a weaker rand due to the uncertain global policy environment under Trump and Brexit. Consequently, there were no interest rate hikes priced into the Forward Rate Agreements (FRAs) market.

CPI inflation data accelerated to 6.8% y/y in November from 6.6% printed in October – ahead of market expectations of a moderation to 6.5% y/y. Food inflation printed 12% y/y from 11.8% recorded in November – and is expected to have peaked on the back of a deceleration in maize prices from the levels seen in at the start of 2016.

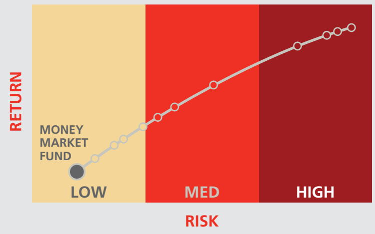
PPI inflation rose to 6.9% y/y in November from 6.6% y/y in October, in line with market expectations, mainly attributed to food products, beverages and tobacco products. Month-on-month, PPI eased to 0.4% from 0.9% recorded for the previous month.

Private sector credit extension moderated to 4.6% y/y for November from 6.3% y/y in October. Modest credit up take can at least partially be attributed to the SARB rate hikes in the first quarter exerting additional pressure on arguably already-strained consumers. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	X CLASS
1 year	7.3%	6.8%	7.4%
3 years	6.3%	6.0%	6.4%
5 years	5.9%	5.5%	6.0%
7 years	5.9%	5.6%	n/a
10 years	7.2%	6.9%	n/a
Since inception	7.8%	7.7%	5.9%

[#] 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:
R3 990 774 671

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL HIGH INTEREST FUND
31 DECEMBER 2016

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME FUND

MARKET OVERVIEW

It proved to be another volatile quarter in South Africa with mixed investment returns, as the poor global EM sentiment was offset to a certain extent by favourable local developments, the most important of which was the country managing to retain its investment-grade credit rating from all three ratings agencies (albeit moving closer to non-investment grade status). Not only did this support the local bond market, but the premium demanded for South African default insurance fell from +320bps to +284bps (the 10-year credit default swap rate).

Despite a deterioration in current economic data, the medium-term macroeconomic outlook improved slightly on the back of diminishing inflationary pressures, a strengthening rand and the increasingly likelihood of no further interest rate hikes. Q3 GDP growth was reported at a disappointing 0.2% (q/q annualised), and November CPI rose to 6.6% y/y, however it was widely believed to have peaked as the impact of the drought continues to dissipate. At its final meeting of the year in November, as in September, the SARB's Monetary Policy Committee (MPC) left rates on hold while again noting that the end of its interest rate hiking cycle was near. However, it set a high bar for any actual rate cuts. The MPC stressed that it saw its main risk coming from a weaker rand due to the uncertain global policy environment under Trump and Brexit. Consequently, there were no interest rate hikes priced into the Forward Rate Agreements (FRAs) market

Although SA political risk remained elevated during the quarter, investor confidence was bolstered by some successes: the charges faced by Finance Minister Pravin Gordhan were dropped; the Public Protector uncovered evidence of potential corruption in her "State of Capture" report which was made public and led to the resignation of the head of Eskom; and the courts proved able to rein in the other branches of government. Another positive came from the government's Medium-Term Budget Policy Statement in October, which signaled the government's intention to maintain fiscal discipline and drive down the budget deficit over the coming three years, despite slow growth.

Nominal bonds ended as 2016's top-returning asset class: the BEASSA All Bond Index delivered a 0.4% total return in Q4 and 15.5% in 2016. Inflation-linked bonds (ILB Composite Index) lost 0.9% in the fourth quarter but returned 6.1% for the year, with the 10-year yield rising about 15bps and 10-year breakeven inflation expected at around 6.8%, little changed from the previous quarter. Cash (the STeFI Composite) delivered a 7.4% return for the year. The rand managed to rebound in December, gaining over 2% versus each of the three major global currencies; for 2016 it gained 11.5% against the US dollar, 26% against UK sterling, and 14.2% versus the euro.

FUND PERFORMANCE

The Prudential High Interest Fund generated a return of 2.0% (net of fees) for the quarter compared to its benchmark, the STeFI Composite Index which returned 1.9%.

The fund was closed to new retail inflows from 15 December 2016 with the aim of making it an exclusive cash pooling vehicle for institutional clients. It was launched in December 2010 with the aim of delivering returns in excess of money market yields without compromising the stability of the capital. Although capital protection is not guaranteed, we highlight the low-risk nature of the portfolio and hence the remote prospect for capital loss over periods exceeding a few days.

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

Relative to the 180-day maximum average duration, the quarter-end duration of the fund came in at 111 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.

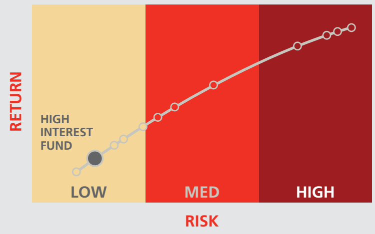
Exposure to floating-rate notes in the three-year maturity was increased over the quarter on the back of attractive pricing. Credit issuance has been scarce this year and as such, while demand to tap into more of that market in order to lock in yield pick-up remains a focus, names we were comfortable investing in at spreads in line with our valuation metrics were limited to two additions over the quarter.

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	8.4%	7.4%	8.6%	8.7%
2 years	7.2%	6.9%	7.4%	7.4%
3 years	6.7%	6.6%	6.8%	7.2%
5 years	6.3%	6.1%	6.4%	6.7%
Since inception	6.2%	6.0%	6.3%	6.6%

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:
R7 292 369 246

PLEASE NOTE: *This fund is capped to new investors.*

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL HIGH YIELD BOND FUND
31 DECEMBER 2016

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME FUND

MARKET OVERVIEW

In the US, stronger-than-expected Q3 GDP growth of 3.2% (q/q annualised) combined with steadily improving employment data along with income growth and slowly rising inflationary pressures in the fourth quarter, to reinforce the widely expected Fed rate hike of 25bps in December. FOMC members incorporated the likelihood of stronger government spending under Trump in their interest rate outlook, lifting their rate expectations to three 25bp increases in 2017, from two previously. In turn, the interest rate market also turned more hawkish, discounting at least another two 25bp increases this year.

In the Eurozone, Q3 GDP growth and inflation remained subdued, the former unchanged at 1.6% q/q annualised and the latter at only 0.6% y/y. The ECB announced its intent to extend its monetary easing programme through the end of 2017, but with reduced bond purchase targets, while keeping its main lending rate at 0%. Germany's 10-year bund yield moved back into positive territory at 0.2%, up from -12bps at 30 September. Brexit worries eased towards year-end on better-than-expected economic data from the UK and some recovery in British markets.

In Japan, deflation continued at -0.4% y/y in November, but Q3 GDP growth was better-than-expected at 2.2% q/q annualised (up from 0.7% in Q2), helped by stronger exports and marking a third straight quarter of expansion.

In China, Q3 GDP growth was reported at 6.7% (q/q annualised) for the third quarter in a row and within the government's 6.5%-7.0% target for the year.

Other emerging market assets, including both bonds and equities, were also sent weaker by the US reflation sentiment during the quarter. Equity losses saw India and South Korea both returning -8.0% and Turkey -13.7%, also hurt by political turmoil. Brazil and Russia managed gains in Q4 with returns of 2.8% and 18.7%, respectively, the latter largely due to the higher oil price.

In commodities, the price of Brent crude oil continued its upward momentum as more non-OPEC members joined the supply agreement, gaining 15.8% in the fourth quarter for a total increase of 52.4% in 2016. Gold lost 12.8% in Q4 and was down 8.1% for the year as its safe-haven status lost its appeal, while platinum fell 12.1% in 2016. Among notable gainers for the year were zinc (60.6%) and tin (45.3%), as well as iron ore, which nearly doubled.

In South Africa, poor global EM sentiment was offset, to an extent, by favorable local developments, the most important of which was the country managing to retain its investment-grade credit rating from all three ratings agencies. Not only did this support the local bond market, but the premium demanded for South African default insurance fell from +320bps to +284bps (the 10-year credit default swap rate). Q3 GDP growth was reported at a disappointing 0.2% (q/q annualised), and November CPI rose to 6.6% y/y, however it was believed to have peaked as the impact of the drought continues to dissipate.

At its November meeting, the SARB's Monetary Policy Committee (MPC) left rates on hold while again noting that the end of its interest rate hiking cycle was near. The MPC stressed that it saw its main risk coming from a weaker rand due to the uncertain global policy environment under Trump and Brexit. Consequently, there were no interest rate hikes priced into the Forward Rate Agreements (FRAs) market.

Although SA political risk remained elevated, investor confidence was bolstered by some successes: the charges faced by Finance Minister Pravin Gordhan were dropped; the Public Protector uncovered evidence of potential corruption in her "State of Capture" report which led to the resignation of the head of Eskom; and the courts proved able to rein in the other branches of government. Another positive came from the government's Medium-Term Budget Policy Statement in October, which signaled the government's intention to maintain fiscal discipline and drive down the budget deficit over the coming three years, despite slow growth.

PERFORMANCE

The Prudential High Yield Bond Fund delivered a total return of 0.33% in the fourth quarter of 2016, for a total return of 15.4% for the year. This compares to the 15.4% returned by its benchmark, the BEASSA All Bond Index, for the year, and the 13.0% returned by the average fund in the ASISA SA Interest-Bearing Variable-Term category.

For the quarter, nominal bonds returned 0.4% (as measured by the ALBI), outperforming inflation-linked bonds (ILBs), which returned -0.9% (JSE CILI) and cash at 1.9% (STeFI).

For the year nominal bonds, which returned 15.4%, were the best performing asset class and outperformed ILB returns of 6.1% and cash at 7.4%.

During the quarter, we took advantage of the post-Trump sell-off to add to duration in the fund, ending the year with a small overweight position. The Fund benefitted from generally being long duration as bond yields rallied through 2016.

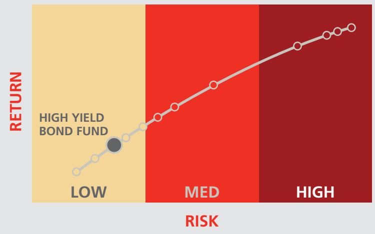
OUTLOOK

In 2017 South African investors can expect continued volatility amid higher levels of global uncertainty and political risk given the unknown impact of the new Trump administration, as well as Brexit and possible populist election results in France, Germany and the Netherlands. Despite the marginally improving outlooks for local inflation, interest rates and growth, material risks remain for a possible credit rating downgrade mid-year. SA bond yields are still pricing in an elevated risk premium (with the 10-year yield around 8.9% at year-end), and as such the fund ended the year with a small duration overweight position. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	15.4%	15.4%	15.7%
3 years	6.0%	6.9%	6.5%
5 years	6.9%	7.4%	7.2%
7 years	8.4%	8.6%	8.8%
10 years	7.7%	8.0%	8.1%
Since inception	10.3%	10.5%	9.1%

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:
R504 338 453

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL ENHANCED INCOME FUND
31 DECEMBER 2016

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

INCOME FUND

PERFORMANCE

The fund returned 1.1% for the final quarter of 2016 versus the benchmark return of 1.9%. For the 12 months ending 31 December 2016 the fund returned a very respectable 10.0% (net of fees), beating its benchmark as measured by the STeFi composite by 2.6%. The fund also outperformed the average return of 7.9% delivered by its ASISA peer category funds for the 12-month period.

MARKET OVERVIEW

The fourth quarter of 2016 (Q4) saw global financial markets driven by two main events: the surprise election of Donald Trump as US President and the increasing certainty of a US interest rate hike at the Federal Reserve's December meeting. The shock November election results sparked a sharp swing in investor expectations towards higher US spending, growth, inflation and interest rates under a Trump administration that lifted US equities and the US dollar, as well as other developed market risk assets. By contrast, bond yields jumped substantially, prompting some to call an end to the 35-year US bond bull market, and emerging market assets also sold off. The Fed's 25 basis point (bp) rate hike and the upward revision to its 2017 interest rate projections further reinforced the "reflationary" outlook. Commodity prices also benefitted, while the successful OPEC (and non-OPEC) member agreement to curtail oil supply sent the price of Brent crude up by nearly 16% to over $56 per barrel by year-end. In South Africa the local market benefitted from an improved outlook thanks to its escape from a sovereign credit rating downgrade and somewhat improving growth and inflation forecasts.

In the US, steadily improving economic data reinforced the widely expected Fed rate hike of 25bps in December. FOMC members incorporated the likelihood of stronger government spending under Trump in their interest rate outlook, lifting their rate expectations to three 25bp increases in 2017, from two previously. The Barclays Global Aggregate Bond Index (US$), a mixture of government and corporate bonds, sold off with a return of -7.1% as a result of the sudden sentiment change among investors. The 10-year US Treasury (UST) bond yield rose from around 1.6% to 2.4%, while US corporate bonds weakened to a lesser extent, benefitting from the improved outlook for the energy sector. In the equity market, all three US indices hit record highs amid the optimism: the S&P 500 returned 3.8%, the Dow Jones 8.7% and the Nasdaq 0.1% for the quarter, and total returns for the year of 12.0%, 16.5% and 7.3%, respectively.

In the Eurozone, growth and inflation remained subdued; however, these did mask a generally improving economy. Germany's 10-year bund yield moved back into positive territory at 0.2%, up from -12bps at 30 September. Brexit worries eased somewhat further, with the FTSE 100 returning 4.1% (in US$) in December, but -0.7% for the quarter and -0.2% for the year. For Q4, France's CAC 40 returned 3.1% and Germany's DAX 2.6% (both in US$).

In China, Q3 GDP growth was reported at 6.7% (q/q annualised) for the third quarter in a row. The financial market volatility of 2015 has been largely absent due to government controls, with the MSCI China returning -7.1% for the quarter and only 1.1% for 2016 (in US$). Other emerging market assets were also sent weaker by the US reflation sentiment. Equity losses saw India and South Korea both returning -8.0% and Turkey -13.7% (in US$), also hurt by political turmoil. Both Brazil and Russia managed to gain ground in Q4, the latter largely due to the higher oil price, with returns of 2.8% and 18.7%, respectively. These were 2016's top-performing large emerging markets, returning 66.5% and 55.9%.

In South Africa, it proved to be another volatile quarter, with the poor global EM sentiment offset to a certain extent by favourable local developments, the most important of which was the country managing to retain its investment-grade credit rating (albeit moving closer to non-investment grade status). Despite a deterioration in current economic data, the medium-term macroeconomic outlook improved slightly on the back of diminishing inflationary pressures, a strengthening rand and the increasingly likelihood of no further interest rate hikes. At its final meeting of the year in November, the SARB's Monetary Policy Committee (MPC) left rates on hold while again noting that the end of its interest rate hiking cycle was near. However, it set a high bar for any actual rate cuts. The MPC stressed that it saw its main risk arising from a weaker rand due to the uncertain global environment.

In SA equities, the FTSE/JSE All Share Index returned -2.1% over the three months, for a total return of 2.6% for 2016, its lowest since 2011. For the year, it was the -6.6% recorded by the heavily weighted industrial stocks that dragged the ALSI lower. Resources shares were by far the strongest performers with a 34.2% total return, while listed property delivered 10.2% and financials gained 5.4% for the year. Nominal bonds ended as 2016's top-returning asset class: the BEASSA All Bond Index delivered a 0.4% total return in Q4 and 15.5% in 2016. Inflation-linked bonds (ILB Composite Index) lost 0.9% in the fourth quarter but returned 6.1% for the year and cash (the STeFI Composite) recorded a 7.4% return in 2016. The rand managed to rebound in December, gaining over 2% versus each of the three major global currencies; for 2016 it gained 11.5% against the US dollar, 26% against UK sterling, and 14.2% versus the euro.

STRATEGY AND OUTLOOK

In global fixed income, although government bond yields have risen considerably in the US (and to a lesser extent in other developed markets), this was from a very low base and so continue to be expensive. We remain underweight duration and continue to hold cash and shorter-term bonds in order to reduce interest rate risk. We are still positive on both investment-grade and high-yield corporate bonds in the US and Europe relative to government bonds.

For SA listed property, while the sector recorded good gains during Q4, valuations remain attractive versus ILBs and nominal bonds. In the absence of a material de-rating in the market's valuation, listed property is still priced to deliver double-digit returns over the medium term, comfortably above inflation.

In SA nominal bonds, we purchased bonds during the quarter following the Trump-related sell-off in the local bond market, given the good value on offer. The portfolio benefitted from our generally overweight bond positioning during the year. Within this, we are also constructive on longer-dated bonds versus shorter paper due to the more attractive yields on offer, while retaining our overweight exposure to corporate bonds. With South Africa's interest rate and inflation outlooks improving, risks to bonds and listed property have moderated somewhat, although the possibility of a credit rating downgrade in 2017 is still a real threat. While SA bond spreads have continued to narrow versus USTs, yields are still pricing in an elevated risk premium (with the 10-year yield around 8.9% at year-end).

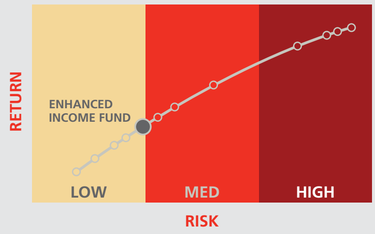
Inflation-linked bonds remained somewhat expensive compared to conventional bonds over the quarter, leading us to maintain our underweight in these assets. The 10-year break-even inflation rate remained at around 6.8%, still elevated compared to our long-term inflation benchmark of 6.0%.

In 2017 South African investors can expect continued volatility amid higher levels of global uncertainty and political risk given the unknown impact of the new Trump administration, as well as Brexit and possible populist election results in France, Germany and the Netherlands. The bullish Trump-related rallies in the US could also prove to be overdone, while US "reflation" could be a cause for concern for emerging markets in the year ahead, with capital flows redirected towards relatively more attractive US assets. Locally, despite the marginally improving outlooks for local inflation, interest rates and growth, material risks remain for a possible credit rating downgrade mid-year. Economic growth remains sluggish and pro-growth reforms difficult to implement. February's 2017-2018 Budget will be the first important indicator of the government's intentions to bring debt ratios down further, as well as its reform plans. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	X CLASS	D CLASS
1 year	10.0%	7.4%	10.5%	10.2%	10.6%
3 years	7.2%	6.8%	n/a	7.5%	7.8%
5 years	7.7%	6.6%	n/a	8.0%	8.3%
7 years	8.6%	7.2%	n/a	n/a	n/a
Since inception	8.6%	7.3%	7.0%	8.2%	8.5%

Inception dates: X Class: 1 April 2011, D Class: 1 July 2011, T Class: 2 January 2015

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 176 543 386

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL INFLATION PLUS FUND
31 DECEMBER 2016

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

MARKET OVERVIEW

The fourth quarter of 2016 (Q4) saw global financial markets driven by two main events: the surprise election of Donald Trump as US President and the increasing certainty of a US interest rate hike at the Federal Reserve's December meeting. The shock November election results sparked a sharp swing in investor expectations towards higher US spending, growth, inflation and interest rates under a Trump administration that lifted US equities and the US dollar, as well as other developed market risk assets. By contrast, bond yields jumped substantially, and emerging market assets also sold off. The Fed's 25 basis point (bp) rate hike and the upward revision to its 2017 interest rate projections further reinforced the "reflationary" outlook. In South Africa the local market benefitted from an improved outlook thanks to its escape from a sovereign credit rating downgrade and somewhat improving growth and inflation forecasts.

In the US, steadily improving economic data reinforced the widely expected Fed rate hike of 25bps in December. FOMC members incorporated the likelihood of stronger government spending under Trump in their interest rate outlook, lifting their rate expectations to three 25bp increases in 2017, from two previously. The Barclays Global Aggregate Bond Index (US$), a mixture of government and corporate bonds, sold off with a return of -7.1% as a result of the sudden sentiment change among investors. The 10-year US Treasury (UST) bond yield rose from around 1.6% to 2.4%, while US corporate bonds weakened to a lesser extent, benefitting from the improved outlook for the energy sector. In the equity market, all three US indices hit record highs amid the optimism: the S&P 500 returned 3.8%, the Dow Jones 8.7% and the Nasdaq 0.1% for the quarter, and total returns for the year of 12.0%, 16.5% and 7.3%, respectively.

In the Eurozone, growth and inflation remained subdued; however, these did mask a generally improving economy. Germany's 10-year bund yield moved back into positive territory at 0.2%, up from -12bps at 30 September. Brexit worries eased somewhat further, with the FTSE 100 returning 4.1% (in US$) in December, but -0.7% for the quarter and -0.2% for the year. For Q4, France's CAC 40 returned 3.1% and Germany's DAX 2.6% (both in US$).

In China, Q3 GDP growth was reported at 6.7% (q/q annualised) for the third quarter in a row. The financial market volatility of 2015 has been largely absent due to government controls, with the MSCI China returning -7.1% for the quarter and only 1.1% for 2016 (in US$). Other emerging market assets were also sent weaker by the US reflation sentiment. Equity losses saw India and South Korean both returning -8.0% and Turkey -13.7% (in US$), also hurt by political turmoil. Both Brazil and Russia managed to gain ground in Q4, the latter largely due to the higher oil price, with returns of 2.8% and 18.7%, respectively. These were 2016's top-performing large emerging markets, returning 66.5% and 55.9%.

In South Africa, it proved to be another volatile quarter, with the poor global EM sentiment offset to a certain extent by favourable local developments, the most important of which was the country managing to retain its investment-grade credit rating (albeit moving closer to non-investment grade status). Despite a deterioration in current economic data, the medium-term macroeconomic outlook improved slightly on the back of diminishing inflationary pressures, a strengthening rand and the increasingly likelihood of no further interest rate hikes. At its final meeting of the year in November, the SARB's Monetary Policy Committee (MPC) left rates on hold while again noting that the end of its interest rate hiking cycle was near. However, it set a high bar for any actual rate cuts. The MPC stressed that it saw its main risk arising from a weaker rand due to the uncertain global environment.

In equities, the FTSE/JSE All Share Index returned -2.1% over the three months, for a total return of 2.6% for 2016, its lowest since 2011. For the year, it was the -6.6% recorded by the heavily weighted industrial stocks that dragged the ALSI lower. Resources shares were by far the strongest performers with a 34.2% total return, while listed property delivered 10.2% and financials gained 5.4% for the year. Nominal bonds ended as 2016's top-returning asset class: the BEASSA All Bond Index delivered a 0.4% total return in Q4 and 15.5% in 2016. Inflation-linked bonds (ILB Composite Index) lost 0.9% in the fourth quarter but returned 6.1% for the year and cash (the STeFI Composite) recorded a 7.4% return in 2016. The rand managed to rebound in December, gaining over 2% versus each of the three major global currencies; for 2016 it gained 11.5% against the US dollar, 26% against UK sterling, and 14.2% versus the euro.

PERFORMANCE

The fund returned -0.9% (net of fees) for the fourth quarter of 2016 and has returned 3.6% for the 12-month period ending 30 September 2016. The fund's absolute performance (-0.9%) reflects the low asset class returns during the quarter and for the year as a whole, where all inflation-targeting funds are struggling to meet their targets. The fund has delivered a return of 13.0% per annum since inception (net of fees), while CPI inflation has averaged 5.7% per annum over the same period. To 30 December 2016 it retains its top-quartile or better performance over annual periods from 3-10 years, according to Morningstar. The largest contributors to absolute returns for the quarter were the fund's holdings in SA cash and international equity, while its international fixed income, listed property and cash holdings detracted from returns. On a relative basis, as in the previous quarter, it was the underweight holdings in international fixed income that added the most relative value to returns, while its overweight holdings in SA nominal bonds and neutral weighting in SA equities also added value. The largest detractors from performance were its international cash and SA cash exposure.

STRATEGY AND OUTLOOK

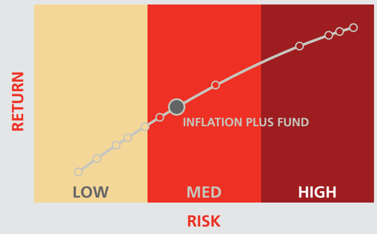
In global fixed income, although government bond yields have risen considerably in the US (and to a lesser extent in other developed markets), this was from a very low base and so they continue to be expensive. We remain underweight duration and continue to hold cash and shorter-term bonds in order to reduce interest rate risk.

For global equities, the rally in many global equity markets (especially the US) has generally brought valuations to levels somewhat more expensive than those of South Africa, whereas in Q3 they had been roughly in line. Despite this, we have retained our neutral positioning in global equities in our portfolios as markets remain generally fairly priced. Our exposures are concentrated in European markets where long-standing growth concerns have kept valuations on the cheap side of fair value, as well as selected emerging markets including India, funded by underweights in the US, Japan and a variety of other smaller markets including Australia.

ANNUALISED PERFORMANCE	A CLASS	OBJECTIVE	T CLASS	X CLASS	B CLASS
1 year	3.6%	11.6%	4.1%	3.9%	4.4%
3 years	8.0%	10.7%	n/a	8.2%	8.8%
5 years	11.7%	10.6%	n/a	12.0%	12.6%
7 years	11.6%	10.4%	n/a	n/a	12.4%
10 years	10.5%	11.5%	n/a	n/a	11.2%
Since inception	13.1%	11.2%	5.3%	12.1%	13.1%

Inception dates: X Class: 1 July 2011, B Class: 1 July 2002, T Class: 2 January 2015

RISK/RETURN PROFILE:



FUND MANAGERS:
Michael Moyle, Duncan Schwulst and Johny Lambridis

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 017 751 387

AWARDS:
Raging Bull: 2013
Morningstar: 2015

Sources: Prudential, Morningstar & Deutsche Securities

QUARTERLY COMMENTARY

MULTI-ASSET

South African equities moved to relatively more attractive valuations over the quarter compared to their long-term fair value, with the FTSE/JSE ALSI 12-month forward P/E falling to 13.8x from 15.2x in Q3. Consequently, we have moved from a neutral to an overweight position in local equities in the Fund. In our domestic portfolios, we remain underweight still-expensive global heavyweights like Aspen and Steinhoff. By contrast, we are holding BAT as one of our top overweights as a solid defensive stock. We also retain our defensive positioning in resources, being underweight specialist miners like Anglogold and Implats, while preferring more diversified companies like Anglo American and non-mining shares such as Sappi. The Fund is also overweight certain financial stocks, which remain attractive on a risk/reward basis, despite the ongoing risks of a sovereign downgrade.

In SA listed property, we continue to hold slightly overweight exposure in the fund, positioning that has added value over the past 12 months. While the sector recorded good gains during Q4, valuations remain attractive versus ILBs and nominal bonds. In the absence of a material de-rating in the market's valuation, listed property is still priced to deliver double-digit returns over the medium term, comfortably above inflation.

In SA nominal bonds, we added to our modestly overweight positioning in our multi-asset funds during the quarter following the Trump-related sell-off in the local bond market, given the good value on offer. Our multi-asset portfolios have benefitted from our generally overweight bond positioning during the year. Within this, we are also overweight longer-dated bonds versus shorter paper, while retaining our overweight exposure to corporate bonds. Risks to bonds and listed property have moderated somewhat, although the possibility of a credit rating downgrade in 2017 is still a real threat. Yields are still pricing in an elevated risk premium, with the 10-year yield around 8.9% at year-end.

Inflation-linked bonds remained somewhat expensive compared to conventional bonds over the quarter, leading us to maintain our underweight in these assets in our multi-asset portfolios. The 10-year break-even inflation rate remained at around 6.8%, still elevated compared to our long-term inflation benchmark of 6.0%.

LOOKING AHEAD

In 2017 South African investors can expect continued volatility amid higher levels of global uncertainty and political risk given the unknown impact of the new Trump administration, as well as Brexit and possible populist, anti-euro election results in Europe. The bullish Trump-related rallies in the US could also prove to be overdone, while US "reflation" could be a cause for concern for emerging markets in the year ahead, with capital flows redirected towards relatively more attractive US assets. Locally, despite the marginally improving outlook, material risks remain for a possible credit rating downgrade. Economic growth remains sluggish and pro-growth reforms difficult to implement. ■

ASSET CLASS RETURNS IN RANDS	Q4 2016	YTD
SA Equity (FTSE/JSE All Share Index)	2.0%	8.2%
SA Property (FTSE/JSE SA Listed Property Index)	-4.1%	11.6%
SA Bonds (BESA All Bond Index)	-7.1%	2.1%
SA Inflation-linked Bonds (RSA Composite Inflation-linked Bond Index)	-2.1%	2.6%
SA Cash (STeFI Composite)	0.4%	15.5%
Global Equity (MSCI World Free Index - US$)	1.3%	10.2%
Global Equity (MSCI Emerging Markets Index – US$)	-0.9%	6.1%
Global Bonds (Barclays Global Aggregate Bond Index – US$)	1.9%	7.4%
Rand (Rand/USD move)	7.3%	12.8%

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL BALANCED FUND
31 DECEMBER 2016

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

PERFORMANCE REVIEW

The fund's return was slightly positive over the quarter at 0.02%, compared to the -1.5% return recorded by the benchmark. The main contributor to absolute performance was the positive return from international equities, where an improved view of the outlook for growth under a Trump presidency lifted spirits. Domestic cash also contributed favourably as it was the best performing local asset class. Negative returns from domestic equities and other international assets detracted from performance. The main contributor to the fund's performance relative to the market was its strong returns from equity stock selection (both domestic and international) that led to outperformance of their respective market indices.

MARKET OVERVIEW

The fourth quarter of 2016 saw global financial markets driven by two main events: the surprise election of Donald Trump as US President and the increasing certainty of a US interest rate hike at the Federal Reserve's December meeting. The shock November election results sparked a sharp swing in investor expectations towards higher US spending, growth, inflation and interest rates under a Trump administration that lifted US equities and the US dollar, as well as other developed market risk assets.

In the US, stronger-than-expected Q3 GDP growth combined with steadily improving employment data and income growth, as well as slowly rising inflationary pressures, in the fourth quarter to reinforce the widely expected Fed rate hike of 25bps in December. The Barclays Global Aggregate Bond Index (US$) experienced significant losses during the quarter, with a total return of -7.1% as a result of the sudden sentiment change among investors. The 10-year US Treasury (UST) bond yield weakened, while US corporate bonds benefitted from the improved outlook for the energy sector. In the equity market, US indices hit record highs near year-end amid the optimism: the S&P 500 returned 3.8% for the quarter and 12.0% for the year. In the Eurozone, Q3 GDP growth and inflation remained subdued. Brexit worries eased somewhat towards year-end on better-than-expected economic data from the UK and some recovery in British markets, with the FTSE 100 returning 4.1% (in US$) in December, but -0.7% for the quarter and -0.2% for the year. France's CAC 40 returned 3.1% and Germany's DAX 2.6% (both in US$) over the quarter. The Nikkei 225 Index returned 1.2% over the quarter and 5.9% for the year (in US$), while the MSCI China returned -7.1% and 1.1% (in US$) respectively. Other emerging market assets were also sent weaker by the US reflation sentiment during the quarter.

In commodities, the price of Brent crude oil continued its upward momentum as more non-OPEC members joined the supply agreement, gaining 15.8% in the fourth quarter for a total increase of 52.4% in 2016. Gold lost 12.8% in Q4 and was down 8.1% for the year as its safe-haven status lost its appeal, while platinum fell 12.1% in 2016

In South Africa, it proved to be another volatile quarter with mixed investment returns as the poor global EM sentiment was offset to a certain extent by favourable local developments, the most important of which was the country managing to retain its investment-grade credit rating from all three ratings agencies (albeit moving closer to non-investment grade status). Despite a deterioration in current economic data, the medium-term macroeconomic outlook improved slightly on the back of diminishing inflationary pressures, a strengthening rand and the increasingly likelihood of no further interest rate hikes. Q3 GDP growth was reported at a disappointing 0.2% (q/q annualised), and November CPI rose to 6.6% y/y, however it was widely believed to have peaked as the impact of the drought continues to dissipate. At its final meeting of the year in November, the SARB's Monetary Policy Committee (MPC) left rates on hold while again noting that the end of its interest rate hiking cycle was near.

In equities, the FTSE/JSE All Share Index returned -2.1% over the three months, for a total return of 2.6% for 2016, its lowest since 2011. For the year, it was the -6.6% recorded by the heavily weighted industrial stocks that dragged the ALSI lower (having started the year at expensive valuations and hurt by the stronger rand, given their significant offshore earnings). Resources shares were by far the strongest performers with a 34.2% total return, while listed property delivered 1.3% in Q4 to return 10.2% in 2016. Financials gained 5.4% for the year.

Nominal bonds ended as 2016's top-returning asset class: the BEASSA All Bond Index delivered a 0.4% total return in Q4 and 15.5% in 2016. Inflation-linked bonds (ILB Composite Index) lost 0.9% in the fourth quarter but returned 6.1% for the year, with the 10-year yield rising about 15bps and 10-year breakeven inflation expected at around 6.8%, little changed from the previous quarter. Cash (the STeFI Composite) delivered a 7.4% return for the year. The rand managed to rebound in December, gaining over 2% versus each of the three major global currencies; for 2016 it gained 11.5% against the US dollar, 26% against UK sterling, and 14.2% versus the euro.

PORTFOLIO MANAGER COMMENTS

In global fixed income, although government bond yields have risen considerably in the US (and to a lesser extent in other developed markets), this was from a very low base and so continue to be expensive. We remain underweight duration and continue to hold cash and shorter-term bonds in order to reduce interest rate risk. We are still positive on both investment-grade and high-yield corporate bonds in the US and Europe relative to government bonds. Losses in global bonds (with government bonds selling off more than the corporate bonds during the quarter) benefited our portfolios.

For global equities, the rally in many global equity markets has generally brought valuations to levels more expensive than those of South Africa. Despite this, we have retained our neutral positioning in global equities in our portfolios as markets remain generally fairly priced. Our overweight exposures are concentrated in European markets where long-standing growth concerns have kept valuations on the cheap side of fair value, as well as selected Emerging Markets including India, funded by underweights in the US, Japan and a variety of other smaller markets including Australia. In Q4 equity risk premiums (the yield on equities vs bonds) narrowed, but still provide some valuation buffer that should help to protect equities in the event of growth disappointment.

South African equities moved to relatively more attractive valuations over the quarter compared to their long-term fair value, with the FTSE/JSE ALSI 12-month forward P/E falling to 13.8x from 15.2x in Q3. The decline stemmed from three factors: the exit of the expensive SABMiller share from the JSE; upward revisions to corporate earnings expectations; and a fall in share prices (the smallest contributor). Consequently, we have moved from a neutral to a slightly overweight position in local equities on an asset allocation basis. The medium-term prospects for SA earnings to recover to their trend level still depend on an ongoing recovery in commodity prices.

In SA listed property, we continue to hold slightly overweight exposure in our multi-asset funds, positioning that has added value over the past 12 months. While the sector recorded good gains during Q4, valuations remain attractive versus ILBs and nominal bonds. In the absence of a material de-rating in the market's valuation, listed property is still priced to deliver double-digit returns over the medium term, comfortably above inflation.

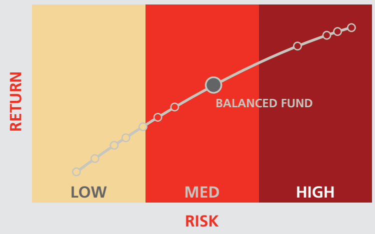
In SA nominal bonds, we added to our modestly overweight positioning in our multi-asset funds during the quarter following the Trump-related sell-off in the local bond market, given the good value on offer. Our multi-asset portfolios have benefitted from our generally overweight bond positioning during the year. Within this, 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. With South Africa's interest rate and inflation outlooks improving, risks to bonds and listed property have moderated somewhat, although the possibility of a credit rating downgrade in 2017 is still a real threat. While SA bond spreads have continued to narrow versus USTs, yields are still pricing in an elevated risk premium.

Inflation-linked bonds remained somewhat expensive compared to conventional bonds over the quarter, leading us to maintain our underweight in these assets in our multi-asset portfolios. The 10-year break-even inflation rate remained around 6.8%, still elevated compared to our long-term inflation benchmark of 6.0%. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	X CLASS	B CLASS
1 year	3.9%	1.3%	4.5%	1.0%	4.7%
3 years	8.0%	6.1%	n/a	7.1%	8.8%
5 years	13.5%	10.4%	n/a	n/a	14.4%
7 years	12.5%	9.8%	n/a	n/a	13.5%
10 years	10.6%	8.6%	n/a	n/a	11.6%
Since inception	14.4%	12.4%	4.9%	11.0%	14.8%

Inception dates: X Class: 2 January 2013, B Class: 1 July 2002, T Class: 2 January 2015

RISK/RETURN PROFILE:



FUND MANAGERS:

David Knee, Duncan Schwulst, Michael Moyle and Johny Lambridis

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:

R15 153 825 996

Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL BALANCED FUND
31 DECEMBER 2016

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

MULTI-ASSET

ASSET CLASS RETURNS IN RANDS	Q4 2016	YTD
SA Equity (FTSE/JSE All Share Index)	-2.1%	2.6%
SA Property (FTSE/JSE SA Listed Property Index)	1.3%	10.2%
SA Bonds (BESA All Bond Index)	0.3%	15.5%
SA Inflation-linked Bonds (RSA Composite Inflation-linked Bond Index)	-0.9%	6.1%
SA Cash (STeFI Composite)	1.9%	7.4%
Global Equity (MSCI World Free Index - US$)	2.0%	8.2%
Global Equity (MSCI Emerging Markets Index – US$)	-4.2%	11.2%
Global Bonds (Barclays Global Aggregate Bond Index – US$)	-7.5%	-9.6%
Rand (Rand/USD move)	-6.0%	-0.4%

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL ENHANCED SA PROPERTY TRACKER FUND
31 DECEMBER 2016

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

PROPERTY

PERFORMANCE

The fund returned 1.2% (net of fees) for the quarter while the SA Listed Property (SAPY) index increased by 1.3%. The fund's 0.1% under-performance versus the benchmark over this period was attributable to the impact of management fees, partly offset by positive performance generated from active stock selection.

Over the past 12 months to 31 December 2016, the fund returned 10.4%, outperforming the benchmark by 0.2%. The 2016 performance of the fund ranked it 4th out of 39 funds in the ASISA South African Real Estate General peer group.

The 10-year track record of the fund ranks it 3rd out of its peers, with the fund having outperformed the benchmark (after fees) over this period.

MARKET COMMENTARY

The final quarter of 2016 saw global financial markets driven by two main events: the surprise election of Donald Trump as US President in November, and the increasing certainty, over the course of the quarter, of a US interest rate hike.

Stronger-than-expected US GDP growth in Q3 of 3.2% (q/q annualised) combined with steadily improving employment data and income growth, as well as slowly rising inflationary pressures to reinforce the widely expected Fed rate hike of 25bps in December. FOMC members incorporated the likelihood of stronger government spending under Trump in their interest rate outlook, lifting their rate expectations to three 25bp increases in 2017, from two previously. The US interest rate market also turned more hawkish, discounting at least two 25bp increases in 2017.

These developments proved to be negative in general for emerging markets, including South Africa. Despite certain favourable local developments - the most important of which was the country retaining its investment-grade credit rating from all three ratings agencies (albeit moving closer to non-investment grade status) - only modest investment returns could be delivered by domestic asset classes. A strong run by SA listed property in December, gaining close to 5% in the month, managed to undo very poor returns in the first half of the quarter, leaving the property return for Q4 of 1.26% second only to cash. Over 2016, SA listed property's return of 10.2% was also beaten into second place, in this case by conventional bonds, which returned 15.5%.

Despite a deterioration in current economic data, the medium-term macroeconomic outlook improved slightly on the back of diminishing inflationary pressures, a strengthening rand and the increasingly likelihood of no further interest rate hikes. Q3 GDP growth was reported at a disappointing 0.2% (q/q annualised), and November CPI rose to 6.6% y/y, however inflation is widely believed to have peaked as the impact of the drought continues to dissipate.

At its final meeting of the year in November, as in September, the SARB's Monetary Policy Committee (MPC) left rates on hold while again noting that the end of its interest rate hiking cycle was near. However, it set a high bar for any actual rate cuts. The MPC stressed that it saw its main risk coming from a weaker rand due to the uncertain global policy environment under Trump and Brexit. Consequently, there are currently no interest rate movements priced into the Forward Rate Agreements (FRAs) market.

Despite some volatility in the exchange rate during the quarter, the rand ended 2016 little changed versus Q3 at R13.70/$, this still being 11.5% stronger than at the end of 2015. Rand strength continues to be a headwind to the translation of offshore property earnings – representing close to 35% of sector earnings.

We estimate that one-year forward earnings forecasts for the SAPY, excluding developers, grew by just over 6% on an annualized basis over the quarter. This implies slight downgrades to forecasts for the sector (relative to expectations) given that consensus forecasts have been for growth rates of the order of 8%.

Within the major listed property sectors, office fundamentals remain fragile as a result of the weak SA economic environment and the sector's macro drivers. Although retail trading densities (turnover per retail space) have increased ahead of inflation levels for the first half of the year, results from retail-focused Hyprop confirm that retailers' costs of occupancy (measured by rental-to-turnover ratios) have crept up over the last few years as a result of turnover growth rates slipping below rental growth rates. Cannibalization of sales from new and competing centres is a factor contributing to this phenomenon.

STRATEGY AND OUTLOOK

Following the negative performance of SA listed property in the first half of Q4, sector valuations had improved, leading Prudential to seek to increase our property asset allocations across multi-asset funds. As highlighted above, SA listed property recovered very strongly in December, and with reduced market liquidity at that time of the year we were only able to marginally increase our property exposures beyond the 1% overweight position at the start of Q4.

We view the current valuations as fair-to-slightly expensive relative to ILBs and nominal bonds. However, in the absence of a material de-rating in the market's valuation, listed property is still priced to comfortably deliver double-digit returns over the medium term, well above inflation.

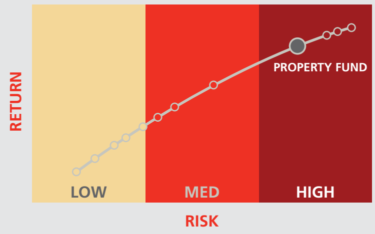
An important aspect of the investment case for listed property is illustrated by comparing property yields to those from ILBs. At quarter end the SAPY, excluding developers, was priced to deliver a one-year forward distribution yield of 7.2%. This yield exceeded 10-year ILB yields by more than 5%. Assuming yields remain constant, property should outperform ILBs by at least 5%. In our view, this return premium is commensurate with the elevated risks of investing in listed property at present.

With South Africa's interest rate and inflation outlooks improving, risks to bond and listed property valuations have moderated somewhat. However, the threat of a credit rating downgrade has not entirely gone away, and political risks remain unresolved as we enter 2017. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	D CLASS
1 year	10.4%	10.2%	10.4%	10.5%
3 years	15.4%	14.7%	n/a	15.5%
5 years	17.6%	17.3%	n/a	17.7%
7 years	17.9%	17.7%	n/a	n/a
10 years	15.9%	15.8%	n/a	n/a
Since inception	16.8%	16.9%	4.3%	17.6%

Inception date D Class: 1 July 2010, T Class: 1 April 2015

RISK/RETURN PROFILE:



FUND MANAGERS:
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:
R6 529 607 785

AWARDS:
Morningstar/Standard & Poor's: 2011

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL DIVIDEND MAXIMISER FUND
31 DECEMBER 2016

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

EQUITY

PERFORMANCE

The fund produced a return of -0.1% for the three months ended December 2016, outperforming the -2.4% return of the average of the ASISA General Equity funds category for the same period. For 2016, the fund returned 1.4% compared to the benchmark return of 3.1% over the 12 months.

MARKET OVERVIEW

The FTSE/JSE All Share Index returned -2.1% over the three months, for a total return of 2.6% for 2016, its lowest since 2011. In Q4 the local equity market did not escape the broader sell-off in emerging market equities, as capital shifted to the US in anticipation of a more expansionary US economy under the new Trump administration. However, local sentiment turned more favourable thanks to South Africa's avoidance of a sovereign credit rating downgrade and improved medium-term outlooks for growth, inflation and interest rates, as well as a stronger rand. For the year, it was the -6.6% recorded by the heavily weighted industrial stocks that dragged the ALSI lower (having started the year at expensive valuations and hurt by the stronger rand, given their significant offshore earnings). Resources shares were by far the strongest performers with a 34.2% total return on the back of the rise in commodity prices during the year, while listed property delivered 1.3% in Q4 to return 10.2% in 2016. Financials gained 5.4% for the year. This large sector divergence made it a stock-pickers' year.

STRATEGY AND POSITIONING

International

The fund ended the quarter with a 22.7% exposure to international equities, compared to approximately 25% in Q3. Given the rise in global equity valuations in Q4 (particularly in the US) and the fall in SA equity valuations, we now find SA equities somewhat more attractive than their offshore counterparts, although there are still opportunities to find good value across many markets.

South Africa

Resources: Resource stocks continued to benefit from rising commodity prices in dollar terms in Q4, although the stronger rand has offset this positive impact in rand terms to an extent. We continue to prefer the diversified miners like Anglo American to the single-commodity companies such as the platinum and gold counters, where earnings are more vulnerable to rand strength. This positioning proved favourable for the fund in the quarter: our underweight in Implats was one of the larger contributors to the fund's outperformance relative to the benchmark.

The largest contributor to the fund's performance for both the year and the quarter was our overweight position in Sappi. The share was up over 37% for the year and almost 27% in Q4. Sappi's annual results were underpinned by a further reduction in the cost of its debt, together with improved operating returns from prior investment into its dissolving pulp operations.

Financials: Another strong theme of the fourth quarter was the rally in the banking sector, which benefitted the fund as a result of our overweight positions in FirstRand, Barclays Africa and Standard Bank. All three holdings contributed to the fund's outperformance versus the benchmark, while our underweight to RMB Holdings was the largest detractor from returns for the quarter. Sentiment towards SA banks improved as the market factored in the postponement of a sovereign rating downgrade and an improved inflation outlook that has reduced expectations for further interest rate hikes. Going into 2017, there has been a convergence in the prospective earnings growth of the big four domestic banks that has led us to adjust our positioning within the sector, favouring Barclays Africa and Standard Bank over FirstRand, with the latter no longer justifying its premium. Valuations remain attractive despite their rise in 2016, while strong dividend growth is also likely.

Industrials: Other contributors to relative outperformance in the quarter came from our underweight positions in MediClinic and Aspen (to a lesser extent). MediClinic had a particularly challenging period, with the share down 34% over the quarter. The share reacted to negative news relating to the threat of a proposed increased tax in Zurich, departure of doctors and key staff within its newly acquired Al Noor Hospital Group, as well as the potential reduction of coverage by the health authorities in Abu Dhabi. Collectively these negative developments, together with the dilution associated with a capital raising to fund the acquisition of a stake in UK-listed Spire, resulted in Mediclinic's premium rating to both Netcare and Life Healthcare narrowing.

As for Aspen, although it is a high-quality company, we still view its valuation as too demanding and do not think there is any margin of safety in the share price. Our preference in the hospital sector remains Netcare, with its well-positioned UK operations and signs of progress with respect to a rental reduction transaction in the UK which could result in significant cost savings.

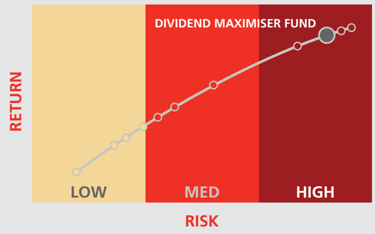
Given the rally in the shares of most retailers over the quarter, our underweight position in clothing retailers detracted from performance, particularly our underweight in Truworths. However, our selective overweight in Foschini added value for both the quarter and the year as a whole. We still prefer Pick 'n Pay in the food retailing space, where margins are well below competitors and are likely to improve.

On market valuations, South African equities moved to relatively more attractive valuations over the quarter compared to their long-term fair value, with the FTSE/JSE ALSI 12-month forward P/E falling to 13.8x from 15.2x in Q3. The decline stemmed from three factors: the exit of the expensive SABMiller share from the JSE; upward revisions to corporate earnings expectations; and a fall in share prices (the smallest contributor). We currently view the market as being somewhat cheap relative to fair value, but caution that one should certainly expect a more moderate growth in dividends relative to the last five years, when dividends were recovering post the financial crisis. Earnings growth has been slowing and this may cause dividend growth to slow in the medium term. 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. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	T CLASS	B CLASS
1 year	1.4%	3.1%	1.8%	1.8%
3 years	6.2%	4.7%	n/a	6.6%
5 years	13.3%	10.7%	n/a	13.8%
7 years	12.6%	10.7%	n/a	13.1%
10 years	11.4%	8.9%	n/a	11.8%
Since inception	17.8%	14.5%	1.9%	11.8%

\# Inception date B Class: 2 January 2007, T Class: 2 January 2015

RISK/RETURN PROFILE:



FUND MANAGERS:
Ross Biggs and Rehana Khan

ASISA CATEGORY:
South African - Equity - General

BENCHMARK:
ASISA South African – Equity - General Category Mean

INCEPTION DATE:
2 August 1999

FUND SIZE:
R4 562 465 439

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

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL EQUITY FUND
31 DECEMBER 2016

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

EQUITY

PERFORMANCE

The fund produced a total return of 1.5% for the three months ended December 2016, outperforming the -2.4% return delivered by the average of the ASISA General Equity funds category in the same period. For 2016, the fund returned 4.2% versus the category average return of 3.1%, outperforming the majority of its peers.

2016 was a challenging year for the fund, particularly in the first half of the year given our initial underweight position to the resources sector, which experienced a strong rally on the back of a recovery in commodity prices. However, it is pleasing to report that after a difficult start, our repositioning of exposures within resources during the year resulted in strong fourth-quarter alpha generation, with a 4.2% return in 2016. By comparison, the All Share Index delivered a disappointing total return for the year of only 2.6%, with a strong divergence in returns between sectors and individual stocks which made it a stock-pickers market. Alpha generation can be sporadic, and it was only in the fourth quarter that underweight positions in precious metals began to deliver strong relative performance. The gold mining and platinum mining sectors fell 35% and 33% respectively during the quarter, supporting our view that markets had been pricing in too much optimism for a recovery in profitability, and helping drive the fund's performance to the 12th percentile in its ASISA category for the quarter.

STRATEGY

Resources

During 2016, we chose to favour the diversified miners like Anglo American over the more specialised precious metal producers - this benefitted the fund over in the second half of the year. Further exposure to diversified resources was added with the inclusion of Glencore during the fourth quarter. The recovery in underlying commodities to which both Anglo American and Glencore are exposed, such as iron ore, coal, manganese and copper, provides a near-term underpin to the consensus forecasts which embed below-spot commodity prices.

The largest contributor to the fund's performance for both the year and the quarter, was our overweight position in Sappi. The share was up over 37% for the year and almost 27% in Q4. Sappi's annual results were underpinned by a further reduction in the cost of its debt, together with improved operating returns from prior investment into its dissolving pulp operations.

Sasol has been moved to an overweight position following the late-year confirmation that both OPEC and non-OPEC oil producers have agreed to temporarily reduce production in order to improve the supply/demand fundamentals. This development has seen the dollar oil price move higher and resulting in an upgrade in Sasol's earnings forecasts. Glencore, Sasol and Anglo American are good examples of resource stocks where the prevailing spot commodity prices provide support for further earnings upgrades that don't appear to have been fully discounted by the market.

It is worth noting that the strengthening rand has offset some of the benefit of the improved dollar commodity prices. This is particularly an issue for the gold and platinum producers, where the prevailing rand commodity prices are significantly below the levels realised during 2016.

Financials

Another strong theme of the fourth quarter was the rally in the banking sector, which benefitted the fund as a result of our overweight positions in FirstRand, Barclays Africa and Standard Bank. Sentiment towards SA banks improved as the market factored in further postponing of a sovereign rating downgrade and an improved inflation outlook that has reduced expectations for further interest rate hikes. Going into 2017, there has been a convergence in the prospective earnings growth of the big four domestic banks that has led us to adjust our positioning within the sector, favouring Barclays Africa and Standard Bank over FirstRand, with the latter no longer justifying its premium.

Staying with financials, our position in Old Mutual was further strengthened. Old Mutual continues to offer a compelling value unlock associated with the Group's announced 'managed separation' into four standalone business units. Old Mutual remains one of the fund's largest overweight positions.

Industrials

We remain fairly heavily underweight the retail sector as a whole, with concerns that consumers are still under pressure and over-indebted. Earnings expectations from general retailers have been downgraded, moving from double- to single-digit growth. This sector was one of the strongest contributors to relative outperformance, not only due to the fund's underweight position to the sub-sector, but the fund has benefited from stock picking. An overweight position in Foschini was one of the stronger contributors for the quarter.

Our preferred position within healthcare remains Netcare, and while it delivered an average performance in Q4, the fund benefitted primarily from having no exposure to either Mediclinic or Aspen. Mediclinic had a particularly challenging period, with the share down 34% over the quarter. The share reacted to negative news relating to the threat of a proposed increased tax in Zurich, departure of doctors and key staff within its newly acquired Al Noor Hospital Group, as well as the potential reduction of coverage by the health authorities in Abu Dhabi. Collectively these negative developments, together with the dilution associated with a capital raising to fund the acquisition of a stake in UK-listed Spire, resulted in Mediclinic's premium rating to both Netcare and Life Healthcare narrowing.

Our overweight position in Barloworld was one of the strongest contributors to performance over the quarter, as the stock rallied some 41%. Throughout most of the year the company remained attractively valued, despite limited earnings downside risk, enabling us to accumulate the position at attractive levels. The rally in the share price appears to have been more to do with the improvement in cash flows and a better outlook in the mining sector to which it supplies capital equipment, rather than any positive earnings surprise in its results reported in November.

Another stock that started 2016 out of favour with the market was MTN, given the overhang of the large Nigerian fine and concerns around Naira currency devaluation. The fund took advantage of the prevailing negative sentiment and attractive valuation to increase exposure to MTN, which was another contributor to Q4's outperformance.

International

In international markets, our overweight exposure is primarily concentrated in the US and Germany, where long-standing growth concerns have kept valuations on the cheap side of fair value. The strongest contributor to the offshore component came from the fund's exposure to the US banks ETF. Offshore performance was tempered as a result of further rand strength in December, gaining over 2% versus each of the three major global currencies; for 2016 it gained 11.5% against the US dollar, 26% against UK sterling, and 14.2% versus the euro.

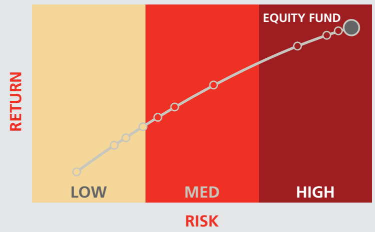
OUTLOOK

The relatively flat equity market returns witnessed over the past two years have resulted in the SA equity market valuation offering better prospective returns should the current consensus for a resources-led earnings recovery prove correct. The large relative share price moves during 2016 have presented an increased number of opportunities that have prompted us to increase the active risk within the portfolio and take more aggressive positions in select stocks in South Africa. Internationally, in Q4 equity risk premiums (the yield on equities vs bonds) narrowed, but still provide some valuation buffer that should help to protect equities in the event of growth disappointment. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK	B CLASS
1 year	4.2%	3.1%	4.6%
3 years	6.4%	4.7%	6.8%
5 years	14.1%	10.7%	14.5%
7 years	13.4%	10.7%	14.0%
10 years	12.0%	8.9%	12.5%
Since inception	17.7%	14.5%	12.4%

Inception date B Class: 2 January 2007

RISK/RETURN PROFILE:



FUND MANAGERS:
Chris Wood and Johny Lambridis

ASISA CATEGORY:
South African - Equity - General

BENCHMARK:
ASISA South African - Equity - General Category Mean

INCEPTION DATE:
2 August 1999

FUND SIZE:
R2 523 216 190

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 2016

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL INCOME

MARKET OVERVIEW

The fourth quarter of 2016 (Q4) saw global financial markets driven by two main events: the surprise election of Donald Trump as US President and the increasing certainty of a US interest rate hike at the Federal Reserve's December meeting. The shock November election results sparked a sharp swing in investor expectations towards higher US spending, growth, inflation and interest rates under a Trump administration that lifted US equities and the US dollar, as well as other developed market risk assets. By contrast, bond yields jumped substantially, and emerging market assets also sold off. The Fed's 25 basis point (bp) rate hike and the upward revision to its 2017 interest rate projections further reinforced the "reflationary" outlook. In South Africa the local market benefitted from an improved outlook thanks to its escape from a sovereign credit rating downgrade and somewhat improving growth and inflation forecasts.

In the US, steadily improving economic data reinforced the widely expected Fed rate hike of 25bps in December. FOMC members incorporated the likelihood of stronger government spending under Trump in their interest rate outlook, lifting their rate expectations to three 25bp increases in 2017, from two previously. The Barclays Global Aggregate Bond Index (US$), a mixture of government and corporate bonds, sold off with a return of -7.1% as a result of the sudden sentiment change among investors. The 10-year US Treasury (UST) bond yield rose from around 1.6% to 2.4%, while US corporate bonds weakened to a lesser extent, benefitting from the improved outlook for the energy sector.

In the Eurozone, growth and inflation remained subdued; however, these did mask a generally improving economy. Germany's 10-year bund yield moved back into positive territory at 0.2%, up from -12bps at 30 September, while Brexit worries eased somewhat further, although sterling remained weak. In Japan, deflation continued at -0.4% y/y in November, but Q3 GDP growth was better-than-expected at 2.2% q/q annualised (up from 0.7% in Q2), marking a third straight quarter of expansion. In China, Q3 GDP growth was reported at 6.7% (q/q annualised) for the third quarter in a row. The government has emphasised economic stability in 2016, and the financial market volatility of 2015 has been largely absent due to government controls. Other emerging market bonds and currencies were also sent weaker by the US reflation sentiment during the quarter. Meanwhile, the rand managed to rebound in December, gaining over 2% versus each of the three major global currencies; for 2016 it gained 11.5% against the US dollar, 26% against UK sterling, and 14.2% versus the euro.

In commodities, the price of Brent crude oil gained nearly 16% in Q4 on the back of the oil producers' agreement to curtail supply, rising over 52% for the year. Gold lost 12.8% in Q4 and was down 8.1% for the year as its safe-haven status lost its appeal, while platinum fell 12.1% in 2016. Among notable gainers were zinc (60.6%) and tin (45.3%), as well as iron ore, which nearly doubled.

PERFORMANCE

For the quarter ending 31 December 2016, the fund's returns were dented by the global bond sell-off on the back of the Trump reflationary sentiment, as well as the weaker rand. It returned -6.6% (net of fees, in rand), better than the average -7.4% recorded by the Global Interest Bearing Variable Term sector, as well as the -7.5% returned by its benchmark, the Barclays Capital Global Aggregate Bond Index (in rand). The outperformance vs the benchmark was a function of the short duration position that the fund has held for some time, in the belief that global bond yields are unsustainably low, and also the high exposure to corporate bonds which we see as attractive relative to their government peers. In absolute return terms, the depreciation of the major currencies versus the rand detracted from value. Among the largest negative contributions was the Fund's Japanese yen cash exposure which returned -14% in rand entirely due to weakness of the Japanese currency, and to a lesser extent, its holdings of US investment-grade and European corporate bonds, where a combination of rising bond yields and weaker currencies drove weak rand returns. For the past 12 months, the fund has returned -8.9% p.a. (net of fees), outperforming its Benchmark which returned -9.6% while over the past five years the fund has returned a net 12.6% p.a., above its benchmark of 11.4%.

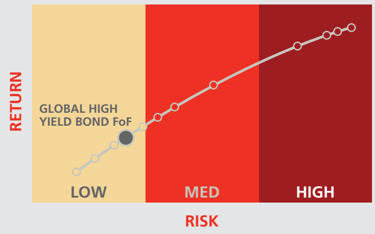
OUTLOOK

We maintained the Fund's defensive positioning during Q4, remaining underweight duration to mitigate the risks from still-expensive global government bond markets. This positioning proved to be correct in light of the Trump-related sell-off in these markets. We also maintained our substantial allocation to cash (at 23% of the fund at quarter-end from 22.7% previously).

Although yields have risen in many developed country bond markets over the quarter, this comes off very low (and even negative) levels. As such, we still regard these assets as expensive in the medium term. Global growth forecasts and inflationary pressures have risen slightly, and the US Federal Reserve has lifted its interest rate outlook on top of its 25bp December rate hike, bringing the risk of tightening interest rate policies more to the fore. However, it is important to note again that this is off very subdued levels. Investors buying bonds at the current expensive valuations are likely to be disappointed with returns going forward. Consequently, we prefer higher-yielding spread products like investment-grade and high-yield corporate bonds that offer more attractive relative yields and valuations. US high-yield bonds in particular benefited from the improved outlook for energy prices following the OPEC agreement and proved to be (in US dollars) one of the best performing fixed income markets worldwide – rand-based investors did not participate due to the appreciation of the rand over the period. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK
1 year	-8.9%	-9.6%
3 years	7.6%	9.0%
5 years	12.6%	11.4%
7 years	11.7%	11.1%
10 years	10.8%	10.5%
Since inception	9.0%	9.0%

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:
R233 774 429

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 2016

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL MULTI-ASSET

MARKET OVERVIEW

The fourth quarter of 2016 (Q4) saw global financial markets driven by two main events: the surprise election of Donald Trump as US President and the increasing certainty of a US interest rate hike at the Federal Reserve's December meeting. The shock November election results sparked a sharp swing in investor expectations towards higher US spending, growth, inflation and interest rates under a Trump administration that lifted US equities and the US dollar, as well as other developed market risk assets. By contrast, bond yields jumped substantially, and emerging market assets also sold off. The Fed's 25 basis point (bp) rate hike and the upward revision to its 2017 interest rate projections further reinforced the "reflationary" outlook. In South Africa the local market benefitted from an improved outlook thanks to its escape from a sovereign credit rating downgrade and somewhat improving growth and inflation forecasts.

In the US, steadily improving economic data reinforced the widely expected Fed rate hike of 25bps in December. FOMC members incorporated the likelihood of stronger government spending under Trump in their interest rate outlook, lifting their rate expectations to three 25bp increases in 2017, from two previously. The Barclays Global Aggregate Bond Index (US$), a mixture of government and corporate bonds, sold off with a return of -7.1% as a result of the sudden sentiment change among investors. The 10-year US Treasury (UST) bond yield rose from around 1.6% to 2.4%, while US corporate bonds weakened to a lesser extent, benefitting from the improved outlook for the energy sector. In the equity market, all three US indices hit record highs amid the optimism: the S&P 500 returned 3.8%, the Dow Jones 8.7% and the Nasdaq 0.1% for the quarter, and total returns for the year of 12.0%, 16.5% and 7.3%, respectively.

In the Eurozone, growth and inflation remained subdued; however, these did mask a generally improving economy. Germany's 10-year bund yield moved back into positive territory at 0.2%, up from -12bps at 30 September. Brexit worries eased somewhat further, with the FTSE 100 returning 4.1% (in US$) in December, but -0.7% for the quarter and -0.2% for the year. For Q4, France's CAC 40 returned 3.1% and Germany's DAX 2.6% (both in US$).

In Japan, deflation continued at -0.4% y/y in November, but Q3 GDP growth was better-than-expected at 2.2% q/q annualised (up from 0.7% in Q2), helped by stronger exports and marking a third straight quarter of expansion. The Nikkei 225 Index returned 1.2% over the quarter and 5.9% for the year (in US$).

In China, Q3 GDP growth was reported at 6.7% (q/q annualised) for the third quarter in a row and within the government's 6.5%-7.0% target for the year. The government has emphasised economic stability in 2016, relying on credit expansion to buoy the economy amid some concerns over a weaker property market. The financial market volatility of 2015 has been largely absent due to government controls, with the MSCI China returning -7.1% for the quarter and only 1.1% for 2016 (in US$).

Other emerging market assets, including both bonds and equities, were also sent weaker by the US reflation sentiment during the quarter. Equity losses saw India and South Korea both returning -8.0% and Turkey -13.7%, also hurt by political turmoil. Both Brazil and Russia managed to gain ground in Q4, the latter largely due to the higher oil price, with returns of 2.8% and 18.7%, respectively. These were the top-performing large emerging markets for the year, returning 66.5% and 55.9%.The MSCI South Africa returned -4.0% in Q4 but a respectable 18.4% for 2016 in US dollars.

In commodities, the price of Brent crude oil continued its upward momentum as more non-OPEC members joined the supply agreement, gaining 15.8% in the fourth quarter for a total increase of 52.4% in 2016. Gold lost 12.8% in Q4 and was down 8.1% for the year as its safe-haven status lost its appeal, while platinum fell 12.1% in 2016. Among notable gainers for the year were zinc (60.6%) and tin (45.3%), as well as iron ore, which nearly doubled.

PERFORMANCE

For the quarter ending 31 December 2016, the fund returned -1.6% (net of fees in rand), ahead of the -2.4% from its benchmark (the average return of the ASISA Global Multi-Asset Low Equity sector) driven by favourable equity stock selection, and in bonds from the allocation to corporate bonds at the expense of government bonds, which Prudential view as less attractive. In rand terms, as already noted, the fund's international equity exposures, especially to US equities, contributed positively to returns but were offset by holdings of investment-grade global bonds, which comprise approximately 30% of the fund. Global listed property and cash also delivered negative rand-based returns. As in Q3, in equities, the fund's underlying managers' tilts towards value-orientated equities did well.

STRATEGY AND OUTLOOK

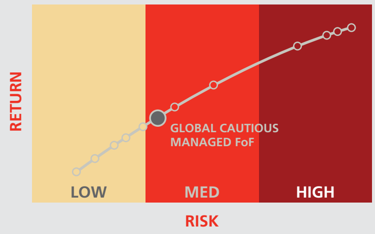
Following Q4's rally in global equity markets (particularly the US), and the weakness in global bond markets, we no longer prefer global equities to bonds and cash in our global portfolios. In global fixed income, although government bond yields have risen considerably in the US (and to a lesser extent in other developed markets), this was from a very low base and they continue to be expensive. As such we are underweight global government bonds in the portfolio. We remain underweight duration and continue to hold cash and shorter-term bonds (including floating-rate notes) in order to reduce interest rate risk. We are still positive on both investment-grade and high-yield corporate bonds in the US and Europe relative to government bonds. Losses in global bonds (with government bonds selling off more than the corporate bonds during the quarter) benefitted the fund, although we now see corporate spreads versus USTs as slightly expensive, rather than at fair value as previously

For global equities, despite the rally (especially in the US) markets remain generally fairly priced from a long-term valuation perspective and therefore we remain neutrally positioned in the fund. Our exposures are concentrated in European markets like Germany where long-standing growth concerns have kept valuations on the cheap side of fair value, as well as selected emerging markets including India, funded by underweights in the US, Japan and a variety of other smaller markets including Australia.

The portfolio has maintained an 8.9% weighting to global listed property, where yields are mid-single digit and consequently higher than what is achievable from global government bonds (where, as noted, the fund is underweight). ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK
1 year	-8.9%	-9.0%
3 years	7.8%	8.8%
5 years	12.2%	12.1%
7 years	9.6%	9.4%
10 years	6.6%	7.0%
Since inception	7.7%	7.4%

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:

R95 594 491

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Sources: Prudential, Morningstar & Deutsche Securities

PRUDENTIAL GLOBAL VALUE FUND OF FUNDS
31 DECEMBER 2016

PRUDENTIAL
INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL EQUITY

MARKET OVERVIEW

The fourth quarter of 2016 (Q4) saw global financial markets driven by two main events: the surprise election of Donald Trump as US President and the increasing certainty of a US interest rate hike at the Federal Reserve's December meeting. The shock November election results sparked a sharp swing in investor expectations towards higher US spending, growth, inflation and interest rates under a Trump administration that lifted US equities and the US dollar, as well as other developed market risk assets. The Fed's 25 basis point rate hike and the upward revision to its 2017 interest rate projections further reinforced the "reflationary" outlook. Commodity prices also benefitted, while the successful OPEC (and non-OPEC) member agreement to curtail oil supply sent the price of Brent crude up by nearly 16% to over $56 per barrel by year-end.

In the US equity market, all three indices hit record highs near year-end amid the optimism: the S&P 500 returned 3.8%, the Dow Jones 8.7% and the Nasdaq 0.1% for the quarter, making all among the top-performing markets for the year with total returns of 12.0%, 16.5% and 7.3%, respectively.

Brexit worries eased somewhat towards year-end on better-than-expected economic data from the UK and some recovery in British markets, with the FTSE 100 returning 4.1% (in US$) in December, but -0.7% for the quarter and -0.2% for the year. Sterling remained weak, spurring more inflation worries for 2017. For Q4, France's CAC 40 returned 3.1% and Germany's DAX 2.6% (both in US$).

In Japan, deflation continued at -0.4% y/y in November, but Q3 GDP growth was better-than-expected at 2.2% q/q annualised (up from 0.7% in Q2), helped by stronger exports and marking a third straight quarter of expansion. The Nikkei 225 Index returned 1.2% over the quarter and 5.9% for the year (in US$).

In China, the financial market volatility of 2015 has been largely absent due to government controls, with the MSCI China returning -7.1% for the quarter and only 1.1% for 2016 (in US$). Other emerging market assets, including both bonds and equities, were also sent weaker by the US reflation sentiment during the quarter. Equity losses saw India and South Korea both returning -8.0% and Turkey -13.7%, also hurt by political turmoil. Both Brazil and Russia managed to gain ground in Q4, the latter largely due to the higher oil price, with returns of 2.8% and 18.7%, respectively. These were the top-performing large emerging markets for the year, returning 66.5% and 55.9%. The MSCI South Africa returned -4.0% in Q4 but a respectable 18.4% for 2016 in US dollars.

PERFORMANCE

The fund outperformed its benchmark, the MSCI All Countries World Index, by 2.0% in rand terms over the quarter, returning +2.7% in rand (net of fees).

For the year, the fund earned +8.7% in US dollar terms while the rand gained 11.5% against the US dollar, resulting in a return of -3.8% in rand terms (net of fees).

The fund outperformed its benchmark by 0.7% for the year. Stock selection across most of our managers added to performance, most notably from the US and Japan. The largest detractor from performance was our tactical overweight position in Italy.

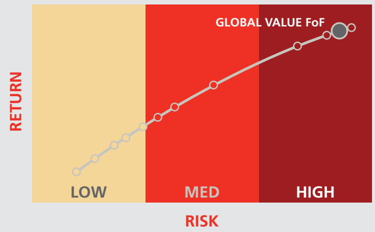
STRATEGY AND OUTLOOK

Our overweight exposures are concentrated in European markets where long-standing growth concerns have kept valuations on the cheap side of fair value, as well as selected emerging markets including India, funded by underweights in the US, Japan and a variety of other smaller markets including Australia. In Q4 equity risk premiums (the yield on equities vs bonds) narrowed, but still provide some valuation buffer that should help to protect equities in the event of growth disappointment.

Looking ahead to 2017, investors can expect continued volatility amid higher levels of global uncertainty and political risk given the unknown impact of the new Trump administration, as well as Brexit and possible populist election results in France, Germany and the Netherlands. The bullish Trump-related rallies in the US could also prove to be overdone, while US "reflation" could be a cause for concern for emerging markets in the year ahead, with capital flows redirected towards relatively more attractive US assets. ■

ANNUALISED PERFORMANCE	A CLASS	BENCHMARK
1 year	-3.8%	-4.5%
3 years	11.3%	12.6%
5 years	20.3%	21.6%
7 years	14.6%	17.1%
10 years	8.0%	10.8%
Since inception	6.6%	7.8%

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:
R223 442 235

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Sources: Prudential, Morningstar & Deutsche Securities