

**MARKET OVERVIEW**

Despite the global pandemic and financial crisis of 2020, it proved to be a surprisingly good year for many investors based solely on the total returns recorded by many different asset classes around the world. The fourth quarter ended on a very buoyant note in financial markets, as investors shrugged off the rising second and third waves of Coronavirus infections and bought up riskier assets, pushing many equity markets to record highs. Investor sentiment was boosted largely by the development and initial rollouts of effective vaccines across large economies like the US, UK, EU, Russia and China, and the election of Democrat Joe Biden as US President. Late December also saw the US Congress' agreement of a fourth stimulus package and the UK and EU's finalisation of a Brexit deal, among other factors.

In US\$ terms, global equities (the MSCI All Country World Index) returned a strong 14.7% for the quarter, with developed market returns lagging emerging markets at 14.0% and 19.7%, respectively. Global property, meanwhile, posted a significant Q4 rebound with a 13.6% return, but ended the year as the weakest asset class with a return of -11.4%. As in the third quarter, central banks kept interest rates broadly unchanged at very low, accommodative levels, and governments continued to enact fiscal support packages for consumers and businesses.

In the US, investors took heart from President-Elect Joe Biden's Cabinet choices, which partly signalled a return to "safe" Obama-era policies and a vigorous stance on combatting the pandemic. The passage of another round of fiscal stimulus measures, combined with the start of vaccinations country-wide, led many to expect a faster economic recovery.

In the UK and EU, news was dominated by the approval of effective Covid-19 vaccines and the start of their distribution in both regions. In the last week of the year, the conclusion of a last-minute Brexit deal after over four years of negotiations also lifted stock markets. In the UK, lockdown restrictions were tightened sharply as a new, more infectious variant of Covid-19 was identified, while many EU countries also introduced various new tightening measures.

Asian bourses hit record highs in December amid optimism over the new vaccines, as well as accelerating growth in the region on the back of recoveries in consumer demand and business activity. There were even gains for Hong Kong's Hang Seng despite harsh jail sentences given to several high-profile pro-democracy activists under the territory's new security laws. These new laws, introduced earlier in the year, helped keep equity returns for 2020 nearly flat as investors feared further negative repercussions for business activity.

Finally, the rand gained good ground against all three major global currencies during the quarter due to ongoing US dollar weakness and the stronger appetite for risk assets, hitting around R14.6/USD in December and near levels last seen in early 2020. The local currency was up 12.3% against the US dollar, 7.3% versus the pound sterling and 8.2% against the euro. Over 2020, the rand depreciated versus the three currencies, losing 4.6% against the US dollar, 8.1% versus the pound sterling and 14.4% against the euro.

**ANNUALISED PERFORMANCE**

	A CLASS	BENCHMARK*	B CLASS
1 year	11.4%	5.2%	11.8%
3 years	9.9%	5.0%	10.2%
5 years	4.1%	0.5%	4.5%
7 years	7.7%	5.5%	8.1%
10 years	11.0%	9.2%	n/a
Since inception	7.9%	6.3%	9.1%

Inception date B Class: 1 July 2013

\* The Fund's benchmark changed from the ASISA Global - Multi Asset - Low Equity Category Mean to Global Inflation on 1 November 2018.

**PERFORMANCE**

For SA investors, the rand's sharp appreciation against a weaker US dollar dented offshore investment returns. The fund returned -4.0% (net of fees) in rand for the fourth quarter of 2020, while global inflation expressed in rand measured -12.4%. For the 12 months ending 31 December 2020, the fund returned 11.4% (net of fees) while global inflation measured 5.2%.

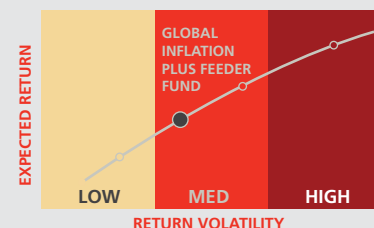
Contributors to absolute performance over the quarter came from the fund's exposure to US, Japanese and European equities, US dollar and European investment grade corporate bonds, emerging market hard currency bonds, as well as property. Exposure to US Treasuries (which the fund held for duration management purposes) was the main detractor from absolute performance over the period.

**STRATEGY AND POSITIONING**

The fund remains tilted in favour of corporate credit and emerging market sovereign bonds. During the quarter, we reduced our exposure to high yield credit as spreads had tightened materially. We increased the fund's exposure to the US dollar, while reducing the underweight exposure to the Chinese renminbi. We also added exposure to the Turkish lira, following its return to a more orthodox monetary policy, and owing to an attractive price and level of carry. We also made a tactical addition to the fund's equity weighting in October, when asset prices fell to what we believed were unjustifiable levels, before reversing this trade after prices recovered.

As we enter 2021, we remain focused, as ever, on the relationship between current expectations, valuations and prices, as we aim to discern where we believe the market might be making a 'mistake'. We believe that this is especially likely where there is a strong consensus; in terms of the outlook for the year, we observe that most investors expect a 'cyclical' recovery in the second half of the year, fuelled by successful vaccine rollouts. A rotation into 'value' segments of the market, which are expected to benefit from a gradual re-opening of economies, is another common theme. It is also possible that, after a year spent grappling with the pandemic and its policy responses, markets may be more vulnerable to surprises from other sources. We are therefore mindful of the potential for surprise market outcomes, and remain positioned accordingly. We retain our focus on diversified equities, credit and emerging market bonds. We have exposure to the long end of the US Treasury curve based on diversification potential and relative value versus the long end of the other mainstream government bond curves. ■

**RISK/RETURN PROFILE:**



**INVESTMENT MANAGER OF THE UNDERLYING FUND:**

M&G Investment Management Limited (UK)

**FUND MANAGERS OF THE UNDERLYING FUND:**

Marc Beckenstrater and Craig Simpson

**ASISA CATEGORY:**

Global - Multi-Asset - Low Equity

**BENCHMARK:**

Global inflation

**INCEPTION DATE:**

1 March 2004

**FUND SIZE:**

R182 536 551

**DISCLAIMER**

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