PRUDENTIAL GLOBAL INFLATION PLUS FEEDER FUND
31 DECEMBER 2020

PRUDENTIAL INVESTMENT MANAGERS

QUARTERLY COMMENTARY

GLOBAL MULTI-ASSET

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.

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

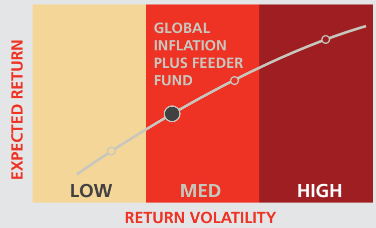
The fund remains tilted in favour of corporate credit and emerging market sovereign bonds. During the quarter, we reduced our exposure to high yield credit as spreads had tightened materially. We increased the fund's exposure to the US dollar, while reducing the underweight exposure to the Chinese renminbi. 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. ■

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.

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

Sources: Prudential & Morningstar