PRUDENTIAL MONEY MARKET FUND
QUARTERLY COMMENTARY 30 JUNE 2015

PRUDENTIAL
INVESTMENT MANAGERS

Risk profile:

LOW	LOW-MED	MED	MED-HIGH	HIGH

ASISA category:
South African - Interest Bearing - Money Market

Benchmark:
STeFI Call Deposit Index

Inception date:
09 April 2002

Fund size:
R7 464 223 675

Fund managers:


Roshen Harry


Sandile Malinga

Market overview

Over the past quarter, the fund delivered a return of 1.6% (gross) versus its benchmark the Stefi call deposit index which returned 1.4%. The current average duration of the fund is 52 days relative to the 90-day maximum average duration.

The SARB MPC left the repo rate unchanged at 5.75% at their May meeting, in line with consensus expectations. The MPC statement had a convincingly more hawkish tone to it and there was another upward revision to the inflation forecast and a modest downward revision to growth. Two of the six MPC members voted in favour of a 25bp rate hike (in contrast to the March meeting where all six members voted in favour of an unchanged repo rate.) The Committee indicated that for headline inflation "the upside risks have increased, mainly due to further possible electricity price increases."

Also of interest was that the National Energy Regulator of South Africa (NERSA) rejected Eskom's application for a near 25% tariff increase as per its recent "re-opener" application. This occurred after the MPC meeting and may have an impact on the SARB's inflation forecast figures at the next meeting.

CPI inflation rose to 4.6% yoy in May from April's 4.5% yoy. The consensus expectation was slightly lower at 4.5% yoy. Food inflation continued to slow broadly while deflation in CPI fuel prices also slowed. However, healthcare prices picked up.

PPI inflation accelerated to 3.6% yoy in May, driven mainly by the food and beverage categories, up from 3.0% yoy in April. The consensus expectation was for an increase of 3.3% yoy. Also contributing to the increase were higher oil and petroleum prices.

Private sector credit extension increased in May 2015 by more than expected, rising by 9.5% yoy compared with the April figure of 9.4% yoy. The expected consensus figure was 9.3% yoy. Although both household and corporate credit growth slowed, strong growth in corporate investments and bills uptake resulted in the overall increase in credit growth.

Annualised performance	A Class	X Class #	Benchmark
1 Year	5.8%	5.9%	5.5%
3 Years	5.4%	5.5%	5.0%
5 Years	5.5%	n/a	5.2%
7 Years	6.6%	n/a	6.3%
10 Years	7.2%	n/a	7.0%
Since Inception	7.9%	5.5%	7.8%

Inception date: 01 April 2011

How to invest

Call us at **0860 105 775** or visit our website at **www.prudential.co.za**. Application forms and all documentation required by FICA, must be faxed to **+27 11 263 61 43** or e-mailed to **instructionsa@myprudential.co.za**. Cheques must be made payable to **Prudential Money Market Fund** and deposited into the following bank account: **Standard Bank, Claremont, Account number: 072538368, Branch code: 025109.**

Sources: Prudential & Morningstar

PRUDENTIAL HIGH INTEREST FUND
QUARTERLY COMMENTARY 30 JUNE 2015

PRUDENTIAL
INVESTMENT MANAGERS

Risk profile:

LOW	LOW-MED	MED	MED-HIGH	HIGH

ASISA category:

South African - Interest Bearing - Short Term

Benchmark:

STeFI Composite Index measured over a rolling 12-month period

Inception date:

08 December 2010

Fund size:

R12 694 841 151

Fund managers:

Roshen Harry

Sandile Malinga

Market overview

The SARB MPC left the repo rate unchanged at 5.75% at their May meeting, in line with consensus expectations. The MPC statement had a convincingly more hawkish tone to it and there was another upward revision to the inflation forecast and a modest downward revision to growth. Two of the six MPC members voted in favour of a 25bp rate hike (in contrast to the March meeting where all six members voted in favour of an unchanged repo rate.) The Committee indicated that for headline inflation "the upside risks have increased, mainly due to further possible electricity price increases."

Also of interest was that the National Energy Regulator of South Africa (NERSA) rejected Eskom's application for a near 25% tariff increase as per its recent "re-opener" application. This occurred after the MPC meeting and may have an impact on the SARB's inflation forecast figures at the next meeting.

Performance

The Prudential High Interest Fund generated a return of 1.7% (gross) for the quarter compared to its benchmark, the Stefi composite index which returned 1.6% (gross).

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

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

Relative to the 180 day maximum average duration, the fund currently has a duration of about 174 days.

Annualised performance	A Class	X Class #	D Class #	Benchmark
1 Year	5.9%	6.0%	6.2%	6.3%
2 Years	5.7%	5.8%	6.3%	5.8%
3 Years	5.7%	5.8%	6.2%	5.7%
Since inception	5.8%	5.8%	6.1%	5.7%

Inception date of X Class and D Class respectively: 01 April 2011, 09 December 2010

Strategy

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

During the quarter, the fund increased its exposure to longer-dated securities issued by the banks (both fixed and floating rate securities) as well as investing about 2% of the fund in longer-dated credit securities such as Mercedes Benz, Toyota Financial Services, Investec Property Fund, Vukile, DBSA and Nitro Securitisation in order to take advantage of the widening of credit spreads. Shorter-dated instruments were purchased additionally (issued by the big four banks) in areas of the curve that showed value, particularly the four-and five-month areas.

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

How to invest

Call us at **0860 105 775** or visit our website at **www.prudential.co.za**. Application forms and all documentation required by FICA, must be faxed to **+27 11 263 61 43** or e-mailed to **instructionsa@myprudential.co.za**. Cheques must be made payable to **Prudential High Interest Fund** and deposited into the following bank account: **Standard Bank, Claremont, Account number: 072528699, Branch code: 025109.**

Sources: Prudential & Morningstar

PRUDENTIAL HIGH YIELD BOND FUND
QUARTERLY COMMENTARY 30 JUNE 2015

PRUDENTIAL
INVESTMENT MANAGERS

Risk profile:

LOW	LOW-MED	MED	MED-HIGH	HIGH

ASISA category:
South African - Interest Bearing - Variable Term

Benchmark:
BEASSA Total Return All Bond Index

Inception date:
27 October 2000

Fund size:
R465 387 256

Fund managers:


David Knee


Gareth Bern

Market overview

In the US, GDP growth forecasts for 2015 were revised downward to around 2.0% from as high as 3.1% previously, after data showed a -0.2% (q/q annualised) contraction in the economy during Q1, due largely to the severe winter weather and lower exports. Q2 data generally surprised to the upside, reflecting an improving economy as household spending gathered pace (up 0.9% in May, the strongest in nearly six years), on the back of rising disposable incomes and increasing employment. Inflation, by contrast, remained exceptionally low at 0.2% y/y (as measured by the US Federal Reserve's preferred price index linked to consumer spending). Unemployment also fell to 5.5%, while wages (a key measure for the Fed) finally started to rise: unemployment costs, which include wages and benefits, were up 2.6% y/y in Q1.

As a result, the Fed again moderated its interest rate outlook at its June FOMC meeting, with the median view of the Committee for the federal funds rate at the end of 2015 falling to between 0.50%-0.75%. While the FOMC still anticipates a rate hike in 2015, the market consensus has shifted expectations for the first hike out to the first quarter of 2016. With investors now believing in the robustness of the US recovery, combined with a sell-off in the European bond market as deflationary fears abated during the quarter, US Treasuries sold off fairly sharply and the yield curve steepened: the 30-year UST yield jumped from about 2.4% to 3.2%

In Europe, GDP growth forecasts were maintained at 1.5% for 2015, indicating some success for the European Central Bank (ECB)'s QE programme launched in Q1. There was also good news on 17 April in the form of inflation data, with March CPI rising to -0.1% y/y from -0.3% in February. This sparked a major sell-off in European bonds as the deflation risk premium abated. Yields had been at record lows across many national markets, including many in negative territory. The 10-year German bund moved from a record-low yield of 0.1% in mid-April to end the quarter at 0.8%. It was Greece, however, and concerns over the impasse between its government and creditors, that caused the most damage to markets in June.

The local economic environment remained weak in Q2, dominated by the threat of rising inflation in the wake of a weaker rand and higher oil and electricity prices. May CPI rose to 4.6% y/y, and at its 21 May MPC meeting, the SA Reserve Bank (SARB) highlighted increasing upside risks to inflation from the weaker currency, higher wage settlements (averaging 7% and more) and energy costs. It revised its average CPI forecasts higher to 4.9% y/y for 2015 and 6.1% for 2016. On a positive note, the energy regulator's refusal to allow a 25% hike in electricity tariffs helped remove an imminent threat to higher inflationary pressures.

The SARB also revised its GDP growth forecasts lower, to 2.1% in 2015 and 2.2% in 2016, citing weak domestic demand and subdued economic output in the face of regular electricity outages.

International credit rating agencies, Fitch and S&P, both left South Africa's sovereign credit rating unchanged at investment grade levels. However, the agencies do remain concerned over the country's meagre growth prospects and "twin deficits" (budget and current account), and Fitch has retained its negative outlook.

After already having sold off in Q1 on the back of rising inflation expectations from a higher oil price, SA bonds experienced more selling in Q2 in line with other global bond markets. The yield on the 10-year SA government bond rose by about 55bps during the quarter to much more attractive levels, with the yield curve steepening.

The deterioration in inflation expectations over the quarter (on the part of both the SARB and the surveyed public) continued the trend started later in Q1, with forward rate agreements (FRAs) rising by about 40bps. Market participants now see three-month interest rates at 7.65% in two years' time, up from 7.25% at the start of the quarter. The market is also pricing in a SARB rate hike as soon as September, ahead of any hike in the US.

Inflation-linked bond yields, meanwhile, initially rallied in the face of elevated inflation worries but gave up these gains to end the quarter relatively unchanged, posting a total return of 1.4% for the quarter. The inflation break-even rate (as measured by 10-year ILB yields versus conventional bonds) rose to 6.5% at quarter-end from 5.9%, a level we consider relatively high compared to our own longer-term inflation framework.

Having reduced our long-duration position in Q1, the notable weakness in bonds towards the end of Q1 and into Q2 brought bonds to more attractive levels prompting us to increase duration. We continue to retain an overweight exposure to corporate bonds, which offer attractive yields over their government counterparts.

Performance

The fund returned -1.4% for the quarter which was in line with the JSE All Bond Index (ALBI) which also returned -1.4%.

For the quarter nominal bonds (as measured by the ALBI) underperformed both cash (as measured by the STEFI) and inflation linked bonds (as measured by the JSE IGOV) with cash returning 1.6% and inflation linked bonds returning 1.4%. The relative underperformance of nominal bonds versus inflation linked bonds was reflective of the widening of breakeven rates over the quarter from around 5.9% to 6.5% (10 years).

Duration was increased within the fund as yields continued to sell off such that the fund is now 0.25 years long. Fund performance benefitted from income accrual over the quarter and the increased yield derived from non-government bonds held in the portfolio.

Annualised performance	A Class	B Class #	Benchmark
1 Year	6.2%	6.9%	8.2%
3 Years	6.2%	6.6%	6.6%
5 Years	8.9%	9.3%	9.1%
7 Years	10.5%	10.8%	10.6%
10 Years	8.1%	8.4%	8.2%
Since inception	10.8%	9.6%	10.9%

Inception date: 01 April 2003

How to invest

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Sources: Prudential & Morningstar

PRUDENTIAL ENHANCED INCOME FUND
QUARTERLY COMMENTARY 30 JUNE 2015

PRUDENTIAL
INVESTMENT MANAGERS

Risk profile:

LOW	LOW-MED	MED	MED-HIGH	HIGH

ASISA category:
South African - Multi Asset - Income

Benchmark:
BEASSA ALBI 1-3 year Total Return Index

Inception date:
01 July 2009

Fund size:
R2 548 784 741

Fund managers:


David Knee


Roshen Harry

Performance
For the quarter ending June 2015 the fund delivered a return of 0.9% (gross of fees) underperforming cash as measured by the STeFi composite and its benchmark by 0.6% and 0.1% respectively. Year to date the fund returned 3.7% outperforming cash as measured by the STeFi composite and its benchmark by 0.6% and 0.9% respectively.

Market overview
Global markets started the second quarter (Q2) of 2015 reflecting the disappointment of the Q1 contraction in the US economy. The Federal Reserve did further moderate its outlook for interest rates in the face of slower-than-expected growth and low inflation. While the FOMC does still anticipate a rate hike in 2015, the market consensus has now shifted its expectations for the first hike out to the first quarter of 2016. With investors now believing in the robustness of the US recovery, combined with a sell-off in the European bond market as deflationary fears abated during the quarter, US Treasuries sold off fairly sharply and the yield curve steepened: the 30-year UST yield jumped from about 2.4% to 3.20%, and even the 2-year yield saw a significant 30bp repricing.

In Europe, good news on the improving economy was overwhelmed towards the end of the quarter by the growing likelihood of a Greek default. GDP growth forecasts were maintained at 1.5% for 2015, indicating some success for the European Central Bank (ECB)'s QE programme launched in Q1. There was also good news on 17 April in the form of inflation data, with March CPI rising to -0.1% y/y from -0.3% in February. This sparked a major sell-off in European bonds as the deflation risk premium abated.

Emerging markets generally remained in the doldrums, experiencing further currency weakness and lower commodity prices (with the notable exception of oil), while China slowed further (7.0% GDP growth in Q1 from 7.3% in Q4 2014) amid more efforts by the authorities to boost economic activity. And after a strong start to the year during which many financial markets reached very expensive levels, fixed income assets came under pressure from concerns over anticipated higher US interest rates, a reduction in deflationary fears in Europe and worse-than-expected developments in Greece, among other factors.

The local economic environment remained weak in Q2, dominated by the threat of rising inflation in the wake of a weaker rand and higher oil and electricity prices. May CPI rose to 4.6% y/y, and at its 21 May MPC meeting, the SA Reserve Bank (SARB) sounded a more hawkish tone on interest rates, highlighting increasing upside risks to inflation from the weaker currency, higher wage settlements (averaging 7% and more) and energy costs. It revised its average CPI forecasts higher to 4.9% y/y for 2015 and 6.1% for 2016. The SARB also revised its GDP growth forecasts lower, to 2.1% in 2015 and 2.2% in 2016, citing weak domestic demand and subdued economic output in the face of regular electricity outages.

Perhaps the best economic news came from inaction on the part of international credit rating agencies: Fitch and S&P both left South Africa's sovereign credit rating unchanged at investment grade levels, with fundamentals not having deteriorated enough to merit a downgrade. However, the agencies do remain concerned over the country's meagre growth prospects and "twin deficits" (budget and current account), and Fitch has retained its negative outlook.

As in the first quarter, local factors like weak growth, unreliable electricity supply, a high government budget deficit and further inflationary pressures from rising electricity tariffs and above-inflation wage settlements all helped to fuel expectations that the rand could remain under pressure over the near term. This is particularly plausible in the context of continuing speculation over the timing of US interest rate hikes.

After already having sold off in Q1 on the back of rising inflation expectations from a higher oil price, SA bonds experienced more selling in Q2 in line with other global bond markets. The yield on the 10-year SA government bond rose by about 55bps during the quarter to much more attractive levels, with the yield curve steepening. Market participants now see three-month interest rates at 7.65% in two years' time, up from 7.25% at the start of the quarter. The market is also pricing in a SARB rate hike as soon as September, ahead of any hike in the US. The more bearish sentiment reflects the SARB's hawkish comments on interest rate policy as their ability to refrain from hiking rates has come under increasing pressure.

Inflation-linked bonds, meanwhile, rallied in the face of elevated inflation worries, posting a total return of 1.6% for the quarter. This equalled cash at 1.6%, making these two asset classes the strongest performers for the quarter. The inflation break-even rate (as measured by 10-year ILB yields versus conventional bonds) rose to 6.5% at quarter-end from 5.9%, a level we consider relatively high compared to our own longer-term inflation framework.

With a total return of -6.2%, listed property was by far the poorest performer among local asset classes for the quarter, after having posted exceptionally strong returns for the past year – it has still returned 27% over the past 12 months. After having reached very expensive levels compared to its own history and relative to long-dated bonds, property was vulnerable to worsening inflation and interest rate expectations, and still faces headwinds from sluggish SA economic growth and higher interest rates, among other factors. The fund reduced its exposure to property in light if the extended valuation.

The notable weakness in bonds in Q2, particularly in the shorter end of the curve, again brought bonds to more attractive levels, prompting us to buy more government bonds. During the quarter we bought government-guaranteed Eskom bonds offering a very attractive yield of nearly 10%.

Annualised performance	A Class	X Class #	D Class #	Benchmark
1 Year	6.8%	7.1%	7.5%	6.5%
2 Years	7.2%	7.5%	7.8%	6.1%
3 Years	7.7%	7.9%	8.3%	5.6%
5 Years	8.5%	n/a	n/a	7.0%
Since Inception	9.0%	8.5%	8.8%	7.2%

Inception date of X Class and D Class respectively: 01 April 2011, 01 July 2011

How to invest
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Sources: Prudential & Morningstar

PRUDENTIAL INFLATION PLUS FUND
QUARTERLY COMMENTARY 30 JUNE 2015

PRUDENTIAL
INVESTMENT MANAGERS

MULTI-ASSET

Risk profile:

LOW	LOW-MED	MED	MED-HIGH	HIGH

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

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

Inception date:
01 June 2001

Fund size:
R33 714 817 888

Awards:
Raging Bull: 2013
Morningstar: 2015

Fund managers:


Michael Moyle


Marc Beckenstrater


David Knee

Market overview

Global markets started the second quarter (Q2) of 2015 reflecting the disappointment of the Q1 contraction in the US economy, but by June sentiment had improved despite mounting worries over Greece. In the US, the Federal Reserve further moderated its outlook for interest rates in the face of slower-than-expected growth and low inflation. In Europe, the improving economy was overwhelmed towards the end of the quarter by the growing likelihood of a Greek default. Emerging markets generally remained in the doldrums, experiencing further currency weakness and lower commodity prices (with the notable exception of oil), while China slowed further (7.0% GDP growth in Q1 from 7.3% in Q4 2014) amid more efforts by the authorities to boost economic activity and a stock market boom and bust that sparked investor jitters. And after a strong start to the year during which many financial markets reached very expensive levels, equities broadly tracked sideways and fixed income assets came under pressure from concerns over anticipated higher US interest rates, a reduction in deflationary fears in Europe and worse-than-expected developments in Greece, among other factors.

In the US, GDP growth forecasts for 2015 were revised downward to around 2.0% from as high as 3.1% previously, after a -0.2% (q/q annualised) contraction in the economy during Q1, due largely to the severe winter weather and lower exports. However, forecasts for 2016 remained largely unchanged. Q2 data generally surprised to the upside, reflecting an improving economy as household spending was up 0.9% in May (the strongest in nearly six years), on the back of rising disposable incomes and increasing employment. May CPI inflation, by contrast, remained exceptionally low at 0.0% y/y.

With investors now believing in the robustness of the US recovery, combined with a sell-off in the European bond market as deflationary fears abated, US Treasuries sold off fairly sharply and the yield curve steepened: the 30-year UST yield jumped from about 2.4% to 3.2%, and even the 2-year yield saw a significant 30bp repricing.

For equities, global markets generally experienced range-trading and, following the Greek debacle, subsequent losses. The US S&P 500 returned 0.3% for the quarter, while US corporate 12-month earnings expectations were revised upward on generally improved growth. Tokyo's Nikkei gained 3.5%, buoyed by Abe's ongoing QE programme and a weaker yen. European equity markets all lost ground in euro terms, with Greece unsurprisingly the worst performer, down 16%. The MSCI Emerging Markets Index recorded a total return of 0.8%, slightly outperforming developed markets (MSCI World Free Index) at 0.5%.

South Africa's economic environment remained weak in Q2, dominated by the threat of rising inflation in the wake of a weaker rand and higher oil and electricity prices. May CPI rose to 4.6% y/y, and the SA Reserve Bank (SARB) sounded a more hawkish tone on interest rates, highlighting increasing upside risks to inflation and revising its average CPI forecasts higher to 4.9% y/y for 2015 and 6.1% for 2016.

The FTSE/JSE All Share Index returned -0.2% for the quarter in volatile trading amid investor fears over US interest rate rises, elevated valuations and a general "risk-off" environment. SA bonds experienced more selling in Q2 in line with other global bond markets: the yield on the 10-year SA government bond rose by about 55bps, with the yield curve steepening. The All Bond Index produced a total return of -1.4% for the quarter.

Inflation expectations deteriorated further, with forward rate agreements (FRAs) rising by about 40bps. Market participants now see three-month interest rates at 7.65% in two years' time, up from 7.25% at the start of the quarter, and are pricing in a SARB rate hike as soon as September, ahead of any hike in the US. Inflation-linked bonds, meanwhile, posted a total return of 1.6% for the quarter. This equalled cash at 1.6%, making these two asset classes the strongest performers for the quarter.. With a total return of -6.2%, listed property was the poorest performer for the quarter, although it has still returned 27% over the past 12 months.

Performance

The Fund returned -0.1% (net of fees) for the second quarter of 2015 and has returned 9.4% for the 12-month period ending June 2015. The Fund's holdings in ILB's were the main contributor to performance, followed by SA cash and international equity. Listed property holdings detracted from value. The Fund has delivered a return of 14.0% per annum since inception (net of fees), while CPI inflation has averaged 5.6% per annum over the same period.

Annualised performance	A Class	X Class #	B Class #	Objective
1 Year	9.4%	9.7%	10.2%	9.6%
3 Years	14.8%	15.1%	15.7%	10.6%
5 Years	14.4%	n/a	15.3%	10.4%
7 Years	12.1%	n/a	12.9%	10.7%
10 Years	12.9%	n/a	13.6%	11.5%
Since inception	14.0%	14.6%	13.9%	11.3%

Inception date of X Class and B Class respectively: 01 July 2011, 01 July 2002

Asset class returns in Rand	Q2	YTD
SA Equity (FTSE/JSE All Share Index)	-0.2%	5.6%
SA Property (FTSE/JSE SA Listed Property Index)	-6.2%	6.6%
SA Bonds (BESA All Bond Index)	-0.2%	1.6%
SA Inflation Linked Bonds (Barclays/ABSA Government Inflation Linked Bond Index)	0.4%	1.8%
SA Cash (STeFI)	0.5%	3.1%
Global Equity (MSCI All Countries World Index)	-2.3%	3.0%
Global Bonds (Barclays Capital Global Aggregate Bond Index)	-0.4%	3.1%
Rand (Rand per US Dollar)	-0.2%	-5.8%

Strategy and outlook

Our global asset allocation continues to favour global equities over local SA equities, as global equities remain more attractively valued than SA equities. Despite recent weakness, we believe local equities are somewhat expensive, and we remain slightly underweight in this asset class. However, for domestic portfolios, we expect local equities to offer reasonable real returns over the medium-term. We continue to favour certain financial stocks over expensive industrials. Our top overweight positions include Old Mutual, Investec, Barclays Africa and Netcare, while our top underweights comprise Remgro and Sanlam.

We moved underweight in listed property following Q1's strength in which assets reached very expensive levels. Valuations have improved over the quarter, but are not yet attractive enough for us to change our positioning, combined with the headwinds facing growth in the sector. Valuations remain somewhat expensive relative to longer-dated bonds and on an absolute historic basis, but are supported by low real cash rates.

During the quarter we again built up an overweight position in nominal bonds as they reached attractive levels, after having reduced our holdings in Q1. We retain an overweight exposure to corporate bonds, which still offer attractive yields over their government counterparts.

After good gains in the quarter, inflation-linked bonds (ILBs) became expensive again relative to their conventional counterparts. The inflation break-even rate (as measured by 10-year conventional yields versus ILB bonds) rose to 6.5% at quarter-end from 5.9%, a level we consider relatively high compared to our own longer-term inflation framework. We consequently sold some of our holdings and are now underweight in these assets.

With a weighting of over 15%, combined local and offshore cash holdings are now relatively high, giving the fund a defensive positioning. This reflects our view that there are fewer good value opportunities for investing currently, with risks elevated and valuations still high across many markets.

Sources: Prudential & Morningstar

PRUDENTIAL INFLATION PLUS FUND
QUARTERLY COMMENTARY 30 JUNE 2015

PRUDENTIAL
INVESTMENT MANAGERS

How to invest

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Disclaimer

Sources: Prudential & Morningstar

PRUDENTIAL BALANCED FUND
QUARTERLY COMMENTARY 30 JUNE 2015

PRUDENTIAL
INVESTMENT MANAGERS

MULTI-ASSET

Risk profile:

LOW	LOW-MED	MED	MED-HIGH	HIGH

ASISA category:
South African - Multi Asset - High Equity

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

Inception date:
02 August 1999

Fund size:
R11 601 967 268

Fund managers:



Marc Beckenstrater David Knee Michael Moyle

Performance and positioning

At the end of Q2 2015, our preference remains for global equities over local equities in our global portfolios. We have maintained the slight underweight position to local equities. Locally we are underweight listed property despite recent weakness in that asset class. After having reduced our overweight allocation to bonds to neutral in Q1, we have bought back some bonds so that we are slightly overweight in multi-asset portfolios, reflecting the improved value on offer.

Global equities: Our global asset allocation continues to favour equities over bonds or cash, and global equities over local SA equities, as global equities remain more attractively valued than SA equities on measures like Price-Earnings (P/E) and Price-Book value ratios. In our higher return-targeting multi-asset funds we are very near our maximum permitted 25% weighting in this asset class. We continue to favour European markets, which we believe still appear to be fairly valued, particularly after the Greece-related downturn, and remain underweight commodity producers like Australia and Canada, as well as the US.

We remain concerned over the lack of delivery of global equity earnings. From a historic valuation perspective, developed market equities (such as Germany) still appear to be fairly valued to somewhat cheap, while emerging markets continue to be risky. After largely trading sideways during Q2, many market P/Es remain elevated, so in the absence of improving earnings, markets may be vulnerable to disappointment.

Global fixed income: We remain underweight duration and continue to hold floating-rate notes (FRNs) in order to minimize interest rate risk, a position that paid off during Q2 given the sharp bond sell-off (especially in Europe). We remain positive on spread products in both investment-grade and high-yield corporate bond markets, given that we don't see an environment developing in which they would perform poorly (namely, an aggressive interest rate-hiking cycle or a recession that causes default rates to rise sharply).

SA equity: Despite recent weakness, we believe South African equities continue to be somewhat expensive, and so remain slightly underweight to neutral on this asset class. South Africa continues to be one of the most expensive markets on a relative basis, yet actual earnings growth has been largely flat since mid-2013.

For domestic portfolios, we continue to expect local equities to offer reasonable real returns over the medium-term, despite looking somewhat expensive against fixed income assets. We continue to favour certain financial stocks over expensive industrials, a position which has benefited our portfolios over the quarter. Our top overweight positions include Old Mutual, Investec, Barclays Africa and Netcare, while our top underweights comprise MTN, Remgro and Sanlam.

SA listed property: Despite improved valuations in listed property during the quarter, we remain slightly underweight. The sector is expensive relative to longer-dated bonds and compared to its own history, but remains supported by low real cash rates and is expected to deliver double-digit returns over the medium-term thanks to strong distribution growth and higher leverage.

SA nominal bonds: After having reduced our overweight and long-duration positions in nominal bonds in Q1, the notable weakness in bonds in Q2, particularly in the shorter end of the curve, again brought bonds to more attractive levels, prompting us to buy more bonds so that we are now again overweight in our multi-asset portfolios. We retain an overweight exposure to corporate bonds, which offer attractive yields over their government counterparts. During the quarter we bought a new 20-year government-guaranteed bond issue from Eskom, offering a very attractive yield of nearly 10%.

Inflation-linked bonds: In the wake of the strong rally in ILBs during the quarter on the back of rising inflation fears, ILBs now look somewhat expensive versus their conventional counterparts, after having been relatively cheap to fairly valued in Q1. We are therefore somewhat underweight in these assets in our multi-asset portfolios. Break-even inflation is now being priced in at approximately 6.5% (at 10 years), up from 5.9% at the end of March, a level we consider elevated. As such we see ILBs as expensively priced compared to their conventional counterparts.

Annualised performance	A Class	X Class #	B Class #	Benchmark
1 Year	9.7%	10.0%	10.5%	7.4%
3 Years	18.1%	n/a	19.0%	14.3%
5 Years	16.7%	n/a	17.7%	13.0%
7 Years	12.8%	n/a	13.8%	10.1%
10 Years	14.6%	n/a	15.7%	12.3%
Since inception	15.4%	16.3%	15.9%	13.4%

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

How to invest

Call us at **0860 105 775** or visit our website at **www.prudential.co.za**. Application forms and all documentation required by FICA, must be faxed to **+27 11 263 61 43** or e-mailed to **instructionsa@myprudential.co.za**. Cheques must be made payable to **Prudential Balanced Fund** and deposited into the following bank account: **Standard Bank, Claremont, Account number: 072528931, Branch code: 025109**.

Sources: Prudential & Morningstar

PRUDENTIAL EQUITY FUND
QUARTERLY COMMENTARY 30 JUNE 2015

PRUDENTIAL
INVESTMENT MANAGERS

SINGLE-ASSET

Risk profile:

LOW	LOW-MED	MED	MED-HIGH	HIGH

ASISA category:
South African - Equity - General

Benchmark:
ASISA South African – Equity – General Category Mean

Inception date:
02 August 1999

Fund size:
R2 972 642 628

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

Fund managers:


Chris Wood


Rehana Khan


Craig Butters

Performance and positioning

After a strong first quarter, both the JSE Shareholder Weighted Index and the General Equity Unit Trust median ended the second quarter fairly flat, with the Fund outperforming its benchmark. A slowdown in Chinese economic growth was the main protagonist, with concerns around the Greek crisis playing a secondary role towards the end of quarter.

Overall portfolio positioning continues to reflect previous themes of maintaining underweight exposures to single commodity mining stocks, and overweight positions in selected banks, insurance and other financial services stocks.

Amongst industrial stocks, during the quarter we removed the Fund's exposure to global defensive SABMiller, which remains expensive in our view, in favour of selected industrials such as Tiger Brands, the latter being a new addition to the portfolio in the past quarter. The Tiger Brands share has been heavily sold off by the market given ongoing poor performance from its Nigerian subsidiary, Dangote Flour Mills. As a result its core South African business, with strong underlying brands and cash generation, is trading at an attractive discount to other locally listed food producers.

The Fund has reduced its exposure to Mediclinic, following evidence of margin pressure in its Swiss operations in recently reported results. In addition, we went more underweight Richemont on the back of concerns around underlying Asian demand for luxury goods given the slowdown in China's growth. The high valuation on these both companies leaves little room for disappointment.

Commodity prices continued to fall during the second quarter, on the back of lower demand from China where economic growth appears to be slowing. Earnings expectations in the market continue to embed higher commodity prices than the prevailing spot prices, resulting in continued downgrades to consensus earnings forecasts as commodity price weakness persists. Selected commodities such as iron ore are suffering the dual effects of slowing demand with additional new mine supply coming on stream. In the case of platinum, additional metal is now being sourced from the recycling of autocatalytic converters with overall demand remaining muted, keeping the metal prices depressed and impacting platinum producers' profitability.

We have been concerned about the impact of lower commodity prices for some time, and have positioned our portfolios accordingly, avoiding many commodity players and seeking out alternative commodity players such as Sappi and Mondi. The Fund's exposure to mining stocks has primarily been restricted to the diversified miners such as Glencore and BHP Billiton.

Within the financial sector, Investec was a very strong contributor during the quarter. We further increased this overweight position, as the company continues to trade at a discount to the sum of its underlying banking, asset management and wealth management businesses. Investec has also divested from its less profitable divisions in the UK and Australia, which should enhance future returns in focussing on its core operations. Another strong contribution came from the Fund's allocation to JSE Ltd, which has benefited from a pick-up in market trading activity.

Detractors from performance include Tsogo Sun and Sun International. Both these SA consumer stocks have experienced a lack of top line growth, as gross gambling revenues remain subdued, reflecting the lowest level of consumer confidence in SA in almost 15 years, a situation exacerbated by load shedding, increases in petrol and electricity prices, a rise in unemployment, and the prospect of interest rate hikes. Both Tsogo Sun and Sun International are trading on attractive valuations, but in the current environment the opportunity to increase profit margins has been pushed out.

Within retailers, the Fund sold out of its remaining holding in Mr Price. Whilst it is a well-run business that has continued to deliver better-than-expected growth, its valuation is now at a significant premium to other SA clothing retailers. We have reduced the underweight position in Woolworths, whose David Jones stores are showing some evidence of a turnaround in Australia.

In global equity markets, the strong rally of Q1 continued only for the first two weeks of Q2, followed largely by range-trading and later losses on the back of uncertainty over Greece in June. The US S&P 500 returned 0.3% for the quarter (losing 1.9% in June), while the Nasdaq fared better with a 2.0% total return. US corporate 12-month earnings expectations were revised upward on generally improved growth in the US and Europe. Meanwhile, Tokyo's Nikkei recorded a respectable 3.5% for the quarter, buoyed by Abe's ongoing QE programme and a weaker yen.

European equity markets all lost ground for the quarter in euro terms, with Greece unsurprisingly the biggest loser with a 16% loss. Germany was also one of the poorer performers (the Dax fell 8.5%) after being the top performer in the previous quarter. Year to date German equities have still returned 14.9%, however. In US dollar terms, performance was better, with the Dax returning -5.1% and France's CAC 40 +1.0%.

Annualised performance	A Class	B Class #	Benchmark
1 Year	7.0%	7.4%	5.0%
3 Years	20.0%	20.5%	16.3%
5 Years	19.2%	19.9%	15.8%
7 Years	14.8%	15.4%	11.2%
10 Years	18.9%	n/a	15.0%
Since inception	19.4%	14.3%	16.0%

Inception date: 02 January 2007

How to invest

Call us at **0860 105 775** or visit our website at **www.prudential.co.za**. Application forms and all documentation required by FICA, must be faxed to **+27 11 263 61 43** or e-mailed to **instructionsa@myprudential.co.za**. Cheques must be made payable to **Prudential Equity Fund** and deposited into the following bank account: **Standard Bank, Claremont, Account number: 072528990, Branch code: 025109.**

Sources: Prudential & Morningstar

PRUDENTIAL DIVIDEND MAXIMISER FUND
QUARTERLY COMMENTARY 30 JUNE 2015

PRUDENTIAL
INVESTMENT MANAGERS

SINGLE-ASSET

Risk profile:

LOW	LOW-MED	MED	MED-HIGH	HIGH

ASISA category:
South African - Equity - General

Benchmark:
ASISA South African – Equity – General Category Mean

Inception date:
02 August 1999

Fund size:
R5 504 836 382

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

Fund managers:


Marc Beckenstrater Ross Biggs

Performance and positioning

The Fund produced a return of 0.2% for the three months ended June 2015, underperforming the average of the General Equity funds which produced a return of 0.6% for the same period.

The main positive contributors to the performance for the quarter were the Fund's underweight exposure to commodity companies, as well as the underweights to three companies which we consider to be high-quality companies but which we believe are particularly expensive: Sanlam, Mediclinic and Aspen. They have all grown their earnings and dividends at very strong rates, but the market, we believe, is factoring this strong growth into perpetuity and therefore overvaluing them. At the right price and right dividend yield, we would have these companies in the Fund, but for now are happy to wait for better pricing.

The main detractors from performance in the quarter were underweight exposures to Sasol and MTN. During the quarter, the oil price stabilised after having fallen substantially and this provided support for Sasol's share price. We have been increasing the Fund's holdings in Sasol as we believe the share price reflects fair value now and the company has been able to steadily grow its dividends over many years.

In the Industrial sector, certain industrial companies continue to be priced for perfection, and it is difficult to see value. We also see rising risks in some emerging markets and have reduced positions in certain companies which we do not think are priced adequately for these risks. MTN, for example, is a high quality company which has grown dividends steadily, but we think future cash flows and dividends are becoming more risky due to its very large exposure to the Nigerian market. The Nigerian economy is struggling to adapt to the lower oil price. Consumers in Nigeria are under much more pressure and we attach a high probability to the Nigerian Naira depreciating further.

Falling commodity prices continue to lead to falling earnings among miners. Many commodity prices have now however fallen to historically low levels if adjusted for inflation. During the quarter, the iron ore price fell below $50 per ton. At this price we think almost one-third of global iron ore supply is unprofitable and is definitely sending a signal to the market that there are tough times ahead for miners. Chinese demand for iron ore appears to have stopped growing after a decade of massive growth, and Chinese economic growth also appears to be slowing quickly. We think that many commodity markets are entering a phase where growing supply will start to meet demand over the medium term and therefore the long duration of the typical mining cycle may mean lower margins for an extended period of time. While valuations for some mining companies are low relative to history, we remain cognisant that significant restructurings are likely to have to take place to restore profitability, and this is likely to mean cutting dividends and raising more capital from shareholders.

We continue to believe that the banking sector is undervalued, with very attractive dividend yields. Most banks appear to have the strongest balance sheets they have had in the last decade and we are likely to see a strong growth trend in the dividends of the banking sector after many years of stagnation. The Fund holds a selection of banks at varying stages of earnings recovery with a preference for Barclays and Standard Bank.

On market valuations, we think that the increase in the market price is supported by strong fundamentals such as dividends, which have grown strongly post the financial crisis in 2009, and are now back to their normal trend. We currently view the market in South Africa as being slightly expensive and caution that one should certainly expect a more moderate growth in dividends relative to the last 5 years where dividends were recovering post the financial crisis. We still, however, consider many offshore equity markets to be undervalued. The Fund's offshore exposure is close to 25% as we consider global markets to be increasingly attractive relative to South Africa.

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	B Class #	Benchmark
1 Year	6.1%	6.6%	5.0%
3 Years	19.1%	19.7%	16.3%
5 Years	18.1%	18.6%	15.8%
7 Years	14.2%	14.7%	11.2%
10 Years	18.4%	n/a	15.0%
Since inception	19.4%	13.6%	16.0%

Inception date: 02 January 2007

How to invest

Call us at **0860 105 775** or visit our website at **www.prudential.co.za**. Application forms and all documentation required by FICA, must be faxed to **+27 11 263 61 43** or e-mailed to **instructionsa@myprudential.co.za**. Cheques must be made payable to **Prudential Dividend Maximiser Fund** and deposited into the following bank account: **Standard Bank, Claremont, Account number: 072529083, Branch code: 025109.**

Sources: Prudential & Morningstar

PRUDENTIAL ENHANCED SA PROPERTY TRACKER FUND
QUARTERLY COMMENTARY 30 JUNE 2015

PRUDENTIAL
INVESTMENT MANAGERS

SINGLE-ASSET

Risk profile:

LOW	LOW-MED	MED	MED-HIGH	HIGH

ASISA category:
South African - Real Estate - General

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

Inception date:
02 December 2005

Fund size:
R4 876 968 027

Awards:
Morningstar/Standard & Poor's: 2011

Fund managers:


Albert Arntz Duncan Schwulst

Performance
The fund returned -5.9% for the quarter while the SA Listed Property index returned -6.2%. Most of the 0.3% outperformance over this period may be attributed to active stock selection. The fund's cash holding of just under 2% added slightly to outperformance due to the sector underperforming cash returns.

Over the past year the fund returned 27.1%, outperforming the benchmark by 0.1%. The fund's outperformance over this period may be attributed to outperformance from active stock selection with underperformance from cash holdings. In periods of strong property sector performance, such as the last 12 months, cash is a drag on performance due to the comparably low rates of interest earned on cash holdings.

The 7-year track record of the fund ranks it 3rd out of 17 funds in the South African Real Estate – General sector.

Annualised performance	A Class	D Class #	Benchmark
1 Year	27.1%	27.2%	27.0%
3 Years	18.7%	18.8%	18.6%
5 Years	20.2%	20.4%	20.5%
7 Years	22.7%	n/a	23.1%
Since Inception	18.1%	20.3%	18.4%

Inception date D Class: 1 July 2010

Market commentary
Listed Property continued its strong first quarter performance as we started the 2nd quarter of 2015. By the end of April listed property had produced a 12-month total return of 38.2%, far outstripping the 14.8% recorded by the FTSE/JSE All Share Index, the next best performing asset class.

However, with US bond yields on the rise (US 10-year Treasury yields rose from 1.95% to 2.45% during May and early June) and expectations for South African interest rates to move higher due to rising inflation expectations, listed property companies started to come under pressure in the final 2 months of the quarter. The SAPY was the worst performing asset class over this period (being down 10% at one point) with a total return of -6.3%, compared to -4.7% for the FTSE/JSE All Share Index, -0.9% for the All Bond Index, -1.3% for inflation-linked bonds and +0.9% for cash.

Despite the sell-off property companies continued to raise capital from the equity market, the largest transaction being the R2.8bn rights issue by Resilient at the end of May. Such actions may be signs that, from company management's perspective, equity capital is viewed as "cheap".

Strategy and outlook
Prudential's multi-asset funds started the quarter largely at neutral weight in listed property relative to benchmarks. Following continuing strong performance the neutral weight in our portfolios was reduced during the course of April. The slight underweight was then maintained through to quarter-end.

Despite the underperformance of the sector (highlighted above), the universe of SA REITs within the listed property sector remains slightly expensive, especially measured against South African nominal bonds. SA REITs are currently priced to deliver a one year forward distribution yield of 7.1%, above the recent lows seen in the first quarter, and around 1.1% below the yield of SA 10-year government bonds. This level of yield gap to government bonds remains on the expensive side of the longer-term history. Consequently, listed property is still vulnerable to further de-rating.

Though listed property may continue to look somewhat expensive, valuations are supported by low real cash rates. The sector will thus remain at risk to changes in the market's expectations of the trajectory of future cash rates as interest rate normalization, resulting in increased real cash rates, starts to be signaled by the various global monetary policy makers, including the SA Reserve Bank.

In this regard much market focus remains on the timing of the US Fed's first rate hike as well as signs of economic recovery in Europe. Locally, NERSA's rejection at the end of June of Eskom's requested tariff adjustment is positive for the short-term inflation outlook at the expense of higher prospective tariffs next year, worsening the inflation outlook for 2016. We expect more bouts of volatility in the months ahead as expectations for interest rate increases, both locally and internationally, continue adjusting.

Company reported like-for-like growth in net property income during the quarter, a measure of underlying property performance, averaged 6%. With the benefit of leverage distribution per share growth was on average around 9%. Both of these measures were somewhat lower than the previous quarter, although the stocks reporting in Q2 traditionally deliver slightly lower growth than those reporting in the previous quarter as many of the larger high growth stocks report in a Q1 / Q3 cycle. The next quarter should see better distribution growth again. For the coming 12 months sell-side investment analysts forecast a similar level of distribution growth at around 8.5% - noteworthy in that this continues to be in excess of forecast inflation.

The sector, though, faces headwinds for earnings from continued weak economic growth in South Africa. Management teams continue to comment that letting conditions are difficult, especially in the office sector. The retail sector continues to perform well with positive reversions on expiring rentals and reported vacancy rates largely stable. It is difficult, though, to see how the already-low vacancy levels in the retail and industrial sectors, around 3.5% to 5%, can fall further. Meanwhile, office rentals face headwinds from the low-growth economic environment and high vacancies (above 10%).

NERSAs rejection of Eskom's requested tariff increase will also not help alleviate load-shedding, a significant concern for landlords. Installation of generating capacity has been extensively undertaken across the sector and operating costs are largely passed on to tenants. This does, however, only add to the cost of occupancy which is negative for rental growth prospects.

The prospect of rising interest rates also looms over the earnings outlook. Although over 70% of debt within the sector is set at fixed rates, increases in interest rates will lead to higher borrowing costs over time – fixed rate facilities still need to be renegotiated upward over time as they expire.

SA listed property distributions are also vulnerable to an appreciation in the Rand exchange rate. In aggregate, just over a quarter of the value of the SAPY index is invested abroad. A strengthening of the Rand would produce downward revisions to NAV and distribution forecasts.

It is, however, worth noting that property still offers an expected total return in excess of inflation (assuming further de-rating does not materialise). The 6.3% forward distribution yield on the SA listed property index combined with 8.5% forecast growth would produce an estimated total return of around 14.8%. With valuations having retreated slightly from very expensive levels, listed property thus remains attractive, albeit not cheap.

Sources: Prudential & Morningstar

PRUDENTIAL ENHANCED SA PROPERTY TRACKER FUND
QUARTERLY COMMENTARY 30 JUNE 2015

PRUDENTIAL
INVESTMENT MANAGERS

How to invest

Call us at **0860 105 775** or visit our website at **www.prudential.co.za**. Application forms and all documentation required by FICA, must be faxed to **+27 11 263 61 43** or e-mailed to **instructionsa@myprudential.co.za**. Cheques must be made payable to **Prudential Enhanced SA Property Tracker Fund** and deposited into the following bank account: **Standard Bank, Claremont, Account number: 072654171, Branch code: 025109.**

Disclaimer

Sources: Prudential & Morningstar

PRUDENTIAL GLOBAL HIGH YIELD BOND FUND OF FUNDS
QUARTERLY COMMENTARY 30 JUNE 2015

PRUDENTIAL
INVESTMENT MANAGERS

Risk profile:

LOW	LOW-MED	MED	MED-HIGH	HIGH

(In Sterling or US Dollar terms)

ASISA category:
Global - Interest Bearing - Variable Term

Benchmark:
Barclays Capital Global Aggregate Bond Index

Inception date:
01 November 2000

Fund size:
R234 085 790

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

Fund managers:


David Knee


Michael Moyle

Market overview

Global markets started the second quarter (Q2) of 2015 reflecting the disappointment of the Q1 contraction in the US economy, but by June sentiment had improved despite mounting worries over Greece. In the US, the Federal Reserve further moderated its outlook for interest rates in the face of slower-than-expected growth and low inflation. In Europe, good news on the improving economy was overwhelmed towards the end of the quarter by the growing likelihood of a Greek default. Emerging markets generally remained in the doldrums, experiencing further currency weakness and lower commodity prices (with the notable exception of oil), while China slowed further (7.0% GDP growth in Q1 from 7.3% in Q4 2014) amid more efforts by the authorities to boost economic activity, as well as an equity market boom and bust. And after a strong start to the year during which many financial markets reached very expensive levels, equities broadly tracked sideways and fixed income assets came under pressure from concerns over anticipated higher US interest rates, a reduction in deflationary fears in Europe and worse-than-expected developments in Greece, among other factors.

In the US, GDP growth forecasts for 2015 were revised downward to around 2.0% from as high as 3.1% previously, after a -0.2% (q/q annualised) contraction in the economy during Q1, due largely to the severe winter weather and lower exports. However, forecasts for 2016 remained largely unchanged. Q2 data generally surprised to the upside, reflecting an improving economy as household spending was up 0.9% in May (the strongest in nearly six years), on the back of rising disposable incomes and increasing employment. May CPI inflation, by contrast, remained exceptionally low at 0.0% y/y.

In Europe, an improvement in inflation from -0.3% to -0.1% y/'y during the quarter sparked a sharp sell-off from record-low yield levels as the deflation risk premium abated: the 10-year German bund yield rose from a low of 0.1% to 0.8% by quarter-end, a huge move for that market. In June, however, yields weakened from the contagion effect of the Greek debt impasse. In the UK, the strong pound amid an improving economy helped boost most rand-denominated holdings, despite some bond market weakness stemming from speculation over when the first interest rate hike will occur.

With investors now believing in the robustness of the US recovery, combined with the European bond sell-off, US Treasuries sold off fairly sharply and the yield curve steepened: the 30-year UST yield jumped from about 2.4% to 3.20%, and even the 2-year yield saw a significant 30bp repricing. Investment-grade and high-yield bond spreads widened by approximately 15bps and 20bps versus USTs, respectively.

General investor risk aversion sent many emerging market (EM) currencies and bond markets weaker, while the rebound in the oil price amid slow economic growth left some EMs with policy dilemmas over interest rate increases. Commodity prices generally remained under pressure, with the exceptions of oil and iron ore. The price of Brent crude rose by about 14% in US dollar terms to trade at $62/barrel at the end of June, while iron ore gained 12.2% for the quarter. Over the quarter the rand weakened by 0.3% against the US dollar, by 2.9% against the euro, and by 5.9% versus the pound sterling.

Performance

For the quarter ending June 2015, the Fund returned -1.1% (net of fees, in rand), roughly in line with the -1.0% performance of its benchmark, the Barclays Capital Global Aggregate Bond Index. Relative to the benchmark, the main positive performance driver was the short duration position reflected in increased holdings of cash and short dated bonds – which benefitted the fund given the generalized sell off in global bond market. Counterbalancing this was the fact that the fund's overweight position in corporate bonds performed poorly, particularly some of the high yield exposures.

In absolute performance terms, the main contributor to the performance was the Fund's holdings of UK high yield and investment grade bonds, mainly as a result of the strength of sterling, while the primary detractors were US corporate investment grade bonds and yen cash holdings, as the Japanese currency depreciated nearly 2% against the rand over the quarter. For the past 12 months, the Fund has returned 4.0% (net of fees), while since inception the Fund has returned 9.0% p.a.

Annualised performance	A Class	Benchmark
1 Year	4.0%	6.0%
3 Years	14.9%	13.3%
5 Years	13.0%	11.0%
7 Years	10.1%	9.2%
10 Years	10.4%	10.0%
Since Inception	9.0%	8.9%

Strategy and outlook

To mitigate the rising risks from expensive global bond markets in the face of the impending rise in US interest rates, we were underweight duration and had earlier reduced interest rate risk on our US and European bond holdings through our allocation to floating-rate notes (FRNs) and cash. We have maintained this defensive positioning in Q2. Despite recent bond market weakness, in the medium-term we continue to see little value in developed market government bonds. We remain positive on spread products in both investment-grade and high-yield corporate bond markets. The spread over government bonds has become even more attractive in the past quarter, but in the main our view is predicated on the fact that we don't see an environment developing in which they would perform very poorly (namely, an aggressive interest rate-hiking cycle or a recession) as a result of a sharp rise in defaults.

How to invest

Call us at **0860 105 775** or visit our website at **www.prudential.co.za**. Application forms and all documentation required by FICA, must be faxed to **+27 11 263 61 43** or e-mailed to **instructionsa@myprudential.co.za**. Cheques must be made payable to **Prudential Global High Yield Bond Fund of Funds** and deposited into the following bank account: **Standard Bank, Claremont, Account number: 071863443, Branch code: 025109.**

Sources: Prudential & Morningstar

PRUDENTIAL GLOBAL CAUTIOUS MANAGED FUND OF FUNDS
QUARTERLY COMMENTARY 30 JUNE 2015

PRUDENTIAL
INVESTMENT MANAGERS

Risk profile:

LOW	LOW-MED	MED	MED-HIGH	HIGH

(In Sterling or US Dollar terms)

ASISA category:
Global - Multi Asset - Low Equity

Benchmark:
ASISA Global – Multi-Asset – Low Equity Category Mean

Inception date:
01 March 2004

Fund size:
R74 217 967

Fund managers:



Marc Beckenstrater David Knee Michael Moyle

Market overview

Global markets started the second quarter (Q2) of 2015 reflecting the disappointment of the Q1 contraction in the US economy, but by June sentiment had improved despite mounting worries over Greece. In the US, the Federal Reserve further moderated its outlook for interest rates in the face of slower-than-expected growth and low inflation. In Europe, the improving economy was overwhelmed towards the end of the quarter by the growing likelihood of a Greek default. Emerging markets generally remained in the doldrums, experiencing further currency weakness and lower commodity prices (with the notable exception of oil), while China slowed further (7.0% GDP growth in Q1 from 7.3% in Q4 2014) amid more efforts by the authorities to boost economic activity and a stock market boom and bust that sparked investor jitters. And after a strong start to the year during which many financial markets reached very expensive levels, equities broadly tracked sideways and fixed income assets came under pressure from concerns over anticipated higher US interest rates, a reduction in deflationary fears in Europe and worse-than-expected developments in Greece, among other factors.

In the US, GDP growth forecasts for 2015 were revised downward to around 2.0% from as high as 3.1% previously, after a -0.2% (q/q annualised) contraction in the economy during Q1, due largely to the severe winter weather and lower exports. However, forecasts for 2016 remained largely unchanged. Q2 data generally surprised to the upside, reflecting an improving economy as household spending was up 0.9% in May (the strongest in nearly six years), on the back of rising disposable incomes and increasing employment. May CPI inflation, by contrast, remained exceptionally low at 0.0% y/y.

In Europe, an improvement in inflation from -0.3% to -0.1% y/'y during the quarter sparked a sharp sell-off from record-low yield levels as the deflation risk premium abated: the 10-year German bund yield rose from a low of 0.1% to 0.8% by quarter-end, a huge move for that market. In June, however, yields weakened from the contagion effect of the Greek debt impasse. In the UK, the strong pound amid an improving economy helped boost most rand-denominated holdings, despite some bond market weakness stemming from speculation over when the first interest rate hike will occur.

With investors now believing in the robustness of the US recovery, combined with the European bond sell-off, US Treasuries sold off fairly sharply and the yield curve steepened: the 30-year UST yield jumped from about 2.4% to 3.2%, and even the 2-year yield saw a significant 30bp repricing. Investment-grade and high-yield bond spreads widened by approximately 15bps and 20bps versus USTs, respectively.

For equities, global markets generally experienced range-trading and, following the Greek debacle, subsequent losses. The US S&P 500 returned 0.3% for the quarter, while US corporate 12-month earnings expectations were revised upward on generally improved growth. Tokyo's Nikkei gained 3.5%, buoyed by Abe's ongoing QE programme and a weaker yen. European equity markets all lost ground in euro terms, with Greece unsurprisingly the worst performer, down 16%. The MSCI Emerging Markets Index recorded a total return of 0.8%, slightly outperforming developed markets (MSCI World Free Index) at 0.5%.

General investor risk aversion sent many emerging market (EM) currencies and bond markets weaker, while the rebound in the oil price amid slow economic growth in many EMs left some with policy dilemmas over interest rate increases. Commodity prices generally remained under pressure, with the exceptions of oil and iron ore. The price of Brent crude rose by about 14% in US dollar terms to trade at $62/barrel at the end of June, while iron ore gained 12.2% for the quarter. Over the quarter the rand weakened by 0.3% against the US dollar, by 2.9% against the euro, and by 5.9% versus the pound sterling.

Performance

For the quarter ending 30 June 2015, the fund returned -0.2% (net of fees in rand), compared to an average return of 0.04% from the ASISA Global Multi-Asset Low Equity sector. Rand weakness against most major currencies (except the yen) added to performance but did not outweigh widespread negative returns from many global assets. In rand terms, the top contributors to absolute performance were UK bonds and money market holdings, largely thanks to the strong performance from the pound, while global equities in general (European and Asian equities to a greater degree) and US listed property were the largest detractors.

Annualised performance	A Class	Benchmark
1 Year	9.1%	10.4%
3 Years	16.0%	15.7%
5 Years	11.8%	11.4%
7 Years	5.2%	4.9%
10 Years	8.0%	7.9%
Since Inception	7.7%	7.3%

Strategy and outlook

Despite widespread market weakness during the quarter, our views on relative asset class returns remain largely unchanged: we still prefer global equities over bonds and cash in our global portfolios. Our equity allocations continue to be weighted broadly towards developed markets, since from a long-term valuation perspective developed market equities (such as Germany) still appear to be fairly valued to somewhat cheap - both in absolute terms and relative to cash and bonds.

In global fixed income, we are underweight duration and previously reduced interest rate risk on our US holdings in our specialist portfolios through our allocation to floating-rate notes (FRNs). We have maintained this defensive positioning in Q2, given our ongoing concern about the impact of US Federal Reserve tightening. We remain positive on spread products in both investment-grade and high-yield corporate bond markets, given that we don't see an environment developing in which they would perform very poorly (namely, an aggressive interest rate-hiking cycle or a recession in which default rates would rise sharply).

How to invest

Call us at **0860 105 775** or visit our website at **www.prudential.co.za**. Application forms and all documentation required by FICA, must be faxed to **+27 11 263 61 43** or e-mailed to **instructionsa@myprudential.co.za**. Cheques must be made payable to **Prudential Global Cautious Managed Fund of Funds** and deposited into the following bank account: **Standard Bank, Claremont, Account number: 071863575, Branch code: 025109.**

Sources: Prudential & Morningstar

PRUDENTIAL GLOBAL VALUE FUND OF FUNDS
QUARTERLY COMMENTARY 30 JUNE 2015

PRUDENTIAL
INVESTMENT MANAGERS

Risk profile:

LOW	LOW-MED	MED	MED-HIGH	HIGH

(In Sterling or US Dollar terms)

ASISA category:
Global - Equity - General

Benchmark:
MSCI All Country World Index (Net)

Inception date:
18 February 2000

Fund size:
R208 120 999

Fund managers:

Marc Beckenstrater

Michael Moyle

Annualised performance	A Class	Benchmark
1 Year	11.6%	14.9%
3 Years	27.5%	29.1%
5 Years	19.2%	22.7%
7 Years	9.1%	11.6%
10 Years	10.0%	13.0%
Since Inception	6.3%	7.6%

Market overview
Global markets started the second quarter (Q2) of 2015 reflecting the disappointment of the Q1 contraction in the US economy, but by June sentiment had improved despite mounting worries over Greece. In the US, the Federal Reserve further moderated its outlook for interest rates in the face of slower-than-expected growth and low inflation. In Europe, good news on the improving economy was overwhelmed towards the end of the quarter by the growing likelihood of a Greek default. Emerging markets generally remained in the doldrums, experiencing further currency weakness and lower commodity prices (with the notable exception of oil), while China slowed further (7.0% GDP growth in Q1 from 7.3% in Q4 2014) amid more efforts by the authorities to boost economic activity.

Performance
The Fund returned 0.2% in Rand for the quarter versus the 0.6% returned by its benchmark, the MSCI All Countries World Index.

The underperformance is explained by our country allocation, in particular our overweight positions in Germany and Korea. Positive stock selection alpha in most of the underlying funds were offset by negative relative returns in the US and global funds.

Strategy and outlook
Our global asset allocation has not changed since Q1 and continues to favour equities over bonds or cash, and global equities over local SA equities, as global equities remain more attractively valued than SA equities on measures like price-earnings and price-book value ratios. We continue to favour European markets, which we believe to be fairly valued, particularly after the Greece-related downturn, and remain underweight commodity producers like Australia and Canada, as well as the US.

From an historic valuation perspective, developed market equities (such as Germany) still appear to be fairly valued to somewhat cheap, while emerging markets continue to be risky. We remain concerned over the lack of delivery of global equity earnings. After largely trading sideways during Q2, many market PE ratios remain elevated, so in the absence of improving earnings, markets may be vulnerable to disappointment.

How to invest
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Sources: Prudential & Morningstar