Letter from the CEO

Benard Fick
CHIEF EXECUTIVE

As we move into the third quarter of 2020, we remain concerned about the high numbers of people, businesses and communities still being impacted by the Coronavirus pandemic and the resultant lockdown regulations. Many lives have been lost due to the virus, and livelihoods severely affected by the repercussions of the continuing regulations. Investors should know that we expect prolonged volatility ahead given the weaker economic growth outlook and general uncertainty prevailing around the world. That said, investment markets are forward looking, and will begin to reflect improved economic activity well before we turn the corner. To some extent this already happened during the second quarter, on the back of the reopening of many of the world's largest economies and some promising news concerning the development of COVID-19 vaccines.

At Prudential our business continues to operate smoothly. Our teams are working successfully and efficiently between and among each other from many disparate places, and we have been able to keep ourselves as closely focused on actively managing our clients' assets as ever.

Communicating with our clients

During the quarter we enhanced our communications with our clients and financial advisers through offering in-depth client Q&A webinars with our CIO David Knee (covering the Prudential Inflation Plus Fund), Head of Fixed Income Gareth Bern (covering Prudential's fixed income portfolios) and Senior Equity Portfolio Manager Chris Wood (covering the Prudential Equity Fund). Our most recent session in July dealt with the Prudential Balanced Fund and featured Michael Moyle, Head of Multi-Asset, and Chris Wood answering the questions sent in by a wide range of clients. We hope the detailed information we have shared has proved valuable and shed some light on our thinking and actions during this time of high market volatility. Everyone can access recordings of these webinars on our website at *www.prudential.co.za/insights*.

Prudential's approach to portfolio management

For Prudential it has been a time to be cautious, but not timid, in managing our client portfolios. We have taken advantage of some extraordinarily cheap asset valuations that have presented themselves, and deployed capital into some high-quality assets at generationally-low prices. While the March correction was painful for investors with exposure to "risk assets", the wrong action would have been to sell those assets after the collapse and miss out on the subsequent rebound in performance.

Although we have no unique insights into the shape or timing of the economic recovery that lies ahead, clients should know that we are confident that our client portfolios are appropriately positioned to meet (and even exceed) their benchmarks from current valuation levels over the next three to five years. You can learn more about our portfolio positioning and outlook for returns from the Table Talk article by Pieter Hugo and the Michael Moyle webinar included in this edition of Consider this. Also of particular interest are our articles on Listed Property and the local Leisure sector by Portfolio Managers Yusuf Mowlana and Kaitlin Byrne, respectively.

I'd like to remind you that an important requirement for investment success is patience – we know there will be much volatility ahead in today's highly uncertain environment, and investors need to ride out the ups and downs of financial markets. The past quarter has been a perfect example of the necessity of patience, as we saw a strong recovery across most local (and global) asset classes. For example, over the April-June

Prudential Unit Trust (A Class)	3-Month Rand Return (April-June 2020) Net of fees	12 Month Rand Return to 30 June 2020 Net of fees
Prudential Balanced Fund	20.3%	-4.0%
Prudential Dividend Maximiser Fund	22.6%	-4.0%
Prudential Enhanced SA Property Tracker Fund	23.2%	-40.7%
Prudential Enhanced Income Fund	2.9%	2.6%
Prudential Equity Fund	26.4%	-6.4%
Prudential High Yield Bond Fund	12.9%	-1.0%
Prudential Income Fund	-0.4%	4.9%
Prudential Inflation Plus Fund	16.7%	-5.4%
Prudential Global Balanced Feeder Fund	12.8%	18.2%
Prudential Global Bond Feeder Fund	8.0%	26.9%
Prudential Global Equity Feeder Fund	15.7%	18.8%
Prudential Global Inflation Plus Feeder Fund	10.9%	21.4%

period the FTSE/JSE Capped SWIX Index returned 21.6% and the All Bond Index returned 9.9%, while the MSCI All Country World Index returned 19.2% in US$ and 16.0% in rand. So investors have already been rewarded for staying the course over the short term, in the face of distressing economic newsflow.

In the accompanying table you can see that Prudential's unit trust performance has reflected these rebounds since April, with our funds holding risk assets like equities and property showing the strongest gains.

Although our funds have not fully recovered to pre-crisis levels, we do take heart from the short-term rebound in returns. Our portfolios are, in our opinion, positioned to deliver to their performance objectives over the medium term, with the probability distribution of outcomes strongly in favour of patient long-term investors.

Adjusting your living annuity income

In a bid to provide some relief to those most impacted financially by the Coronavirus pandemic, during the quarter the government amended the existing regulations to allow living annuity investors the opportunity to adjust their drawdown rates. From 1 June to 30 September 2020, they will be able to either increase or decrease their annuity income rate to between 0.5% - 20% p.a. In addition, those who have a policy value of R125,000 or less will also be able to withdraw the full amount as a cash lump sum.

While we understand it may be necessary for some investors to increase their income drawdowns to compensate for the sharp fall in investment values, we would urge clients to avoid doing so if at all possible. Selling assets at this low-point will result in a permanent loss of capital in your portfolio, which is detrimental for its longevity and future returns. If possible, try to live with a lower income level temporarily. This holds true even for investors not holding living annuities but still depending on some form of income from their investments.

Helping those in need

To end on a positive note, I would like to say how heartening it has been to see how so many ordinary South Africans have rallied together to help those most in need amid all the distress and hardship of the past three months.

At Prudential, we feel immensely fortunate to have been in a position to help various organisations with their relief campaigns on both a company level and on the part of many of our staff. In this edition of Consider this our Head of Human Capital Israel Mqingwana shares a handful of the stories that have emerged during the pandemic so far. We know that many others in communities around the country are taking similar steps, and are encouraged that so much is being done in this spirit of nation-building to help limit the damage wrought by the Coronavirus.

As former Chairman and CEO of Starbucks Howard Schultz famously said: "In times of adversity and change, we really discover who we are and what we're made of."

As I mentioned in my last quarterly letter, in uncertain times like these we wish to engage with our clients even more than usual, so please reach out to us if you have any questions or require any assistance with respect to your investment portfolios.

Please remain safe and healthy.

Sincere regards,

Bernard

Bernard joined Prudential in 2008 as Head of Institutional Business and was appointed as Chief Executive Officer in 2010. With more than 27 years of industry experience, Bernard previously worked at Alexander Forbes in a range of leadership roles, including Managing Director of the Namibian business as well as Head of the Asset Consulting Division. Bernard holds a Bachelor of Commerce degree in Maths and Actuarial Science from Stellenbosch University and is a Fellow of the Institute and Faculty of Actuaries and the Actuarial Society of SA.