Letter from the CEO

Benard Fick
CHIEF EXECUTIVE

Dear Prudential client,

In the last quarter of 2020 we saw that, even as a second wave of Covid-19 infections spread alarmingly, causing tighter lockdowns and many more deaths, global financial markets celebrated the rollout of vaccines in many of the larger economies by broadly pushing equity markets to record highs -- a stark dichotomy of sentiment. The worsening of health and socio-economic conditions on the ground was largely ignored as investors began to look ahead to better growth prospects in 2021 and beyond.

At Prudential we did not ignore the real-world impact of the pandemic, instead urging our staff and their families to take even more precautions and avoid becoming complacent, especially during the holidays. We hope this was the case for our clients as well, and that you all managed to enjoy a safe, healthy and happy year end.

Investment returns surprisingly positive for 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. This was due largely to November's vaccine-related developments, as well as the election of Democrat Joe Biden as US President. Other factors contributing to the strong risk-on sentiment were the US Congress' agreement of a fourth large stimulus package in December, and the UK and EU's last-minute conclusion of a Brexit deal.

We also saw some early evidence of investors beginning to realise the extraordinary value on offer in certain sectors of the South African equity market that were particularly beaten down in the March 2020 market correction. We experienced a strong rebound in the financial sector, and SA banks in particular, where our client portfolios held fairly significant positions. More broadly, the improved global sentiment helped both the local bourse and SA bonds to deliver positive returns for the year, and at levels that would not have been expected as recently as October. The FTSE/JSE All Share Index (ALSI) managed to record a 7.0% total return in rand terms over the 12 months, and the All Bond Index (ALBI) produced 8.7%.

The rand also staged a reasonable recovery in the latter months of 2020 from oversold levels, but still ended the year weaker, losing 4.6% against the US dollar, 9.0% versus the pound sterling and 14.4% against the euro. As such, local investors would have benefitted from their offshore returns being boosted by rand depreciation.

The table below shows the decent gains in 2020 across major asset classes, with the notable exceptions being global and local listed property stocks. Even global bonds delivered an unexpectedly robust 9.2% total return in US dollars, considering the high prices at which they started the year, as central banks and investors continued to buy up supply.

ASSET CLASS	TOTAL RETURN Q4 2020	TOTAL RETURN 2020
SA equity – FTSE/JSE All Share Index (in rand)	9.8%	7.0%
SA equity – FTSE/JSE Capped SWIX All Share (in rand)	11.5%	0.6%
SA listed property – FTSE/JSE SAPY (in rand)	23.6%	-37.5%
SA bonds – BEASSA All Bond Index (in rand)	6.7%	8.7%
SA inflation-linked bonds – JSE CILI Index (in rand)	5.4%	4.2%
SA cash - STeFI Composite Index (in rand)	11.0%	5.4%
Global equity – MSCI All Country World (Total) (in US$ net)	14.7%	16.3%
Global equity – MSCI World (Developed) (in US$ net)	14.0%	15.9%
Global equity – MSCI Emerging Markets (in US$ net)	19.7%	18.3%
Global bonds – Bloomberg Barclays Global Aggregate Bond Index (in US$)	3.3%	9.2%
Global property – FTSE EPRA/NAREIT Global Property REIT Index (in US$ net)	13.6%	-11.4%

Prudential fund performance

The past 18-month period was one of the most challenging in Prudential's more than 25-year history. We share our clients' disappointment in our portfolio performance over the period (which have also weighed on the medium-term performance, as reflected in the table). After all, Prudential staff's own retirement savings are invested alongside our clients in these funds.

Our investment teams spent considerable time and effort in 2020 to review all portfolio positions and the investment case for each, in significant detail. We further used the market correction to rotate some positions in order to exploit the opportunity to build positions in a handful of specific high-quality companies, at generational levels of cheap valuations.

It is therefore pleasing to observe the strong recoveries posted by nearly all our funds over the last three to four months of the year, as highlighted in the fourth quarter returns in the table, which shows the annualised returns of

PRUDENTIAL FUND PERFORMANCE to 31 DECEMBER 2020

Prudential Unit Trust Fund	Q4 2020 RETURN %	1-YEAR RETURN %	3-YEAR RETURN P.A.%	5-YEAR RETURN P.A.%	10-YEAR RETURN P.A.%
Equity Fund	12.6	9.2	2.3	5.4	9.7
Benchmark	9.6	1.9	0.5	3.1	6.9
Dividend Maximiser Fund	10.0	4.0	1.8	4.2	9.0
Benchmark	9.6	1.9	0.5	3.1	6.9
SA Equity Fund*	12.0	-4.2	-3.1	3.0*	8.8*
Benchmark	11.5	0.6	-1.5	3.1	7.9
Enhanced SA Property Tracker Fund	21.4	-35.6	-21.6	-9.5	3.0
Benchmark	22.2	-34.5	-20.7	-8.4	3.5
Balanced Fund	7.0	2.3	2.5	4.6	9.2
Benchmark	5.9	5.2	3.6	4.4	7.7
Inflation Plus Fund	5.3	-0.7	0.1	2.8	7.9
Benchmark	1.6	8.2	9.0	9.6	10.1
Enhanced Income Fund	2.8	4.2	5.5	6.9	7.3
Benchmark	1.0	5.4	6.6	7.0	6.9
Income Fund	1.2	5.1	7.5	N/A	N/A
Benchmark	1.0	5.4	6.6	6.9	N/A
Global Equity Feeder Fund	1.5	15.9	11.7	8.1	15.2
Benchmark	0.6	21.6	16.6	11.0	18.1
Global Balanced Feeder Fund	-1.1	10.5	N/A	N/A	N/A
Benchmark	-2.7	18.3	N/A	N/A	N/A
Global Inflation Plus Feeder Fund	-4.0	11.4	9.9	4.1	11.0
Benchmark	-12.4	5.2	5.0	0.5	9.3
Global Bond Feeder Fund	-7.3	14.2	10.4	3.5	11.6
Benchmark	-9.4	14.2	11.1	3/6	11.3

SOURCE: Morningstar
*SA Equity Fund 5- and 10-year returns reflect zero-fee B Class returns.
All other funds are A class returns (returns after all fund management fees and other charges).

our Prudential Unit Trust funds for different periods up to 10 years. While fund performances have not fully returned to their long-term benchmark-beating levels, we are confident that portfolios are positioned appropriately under the circumstances, and we anticipate much more pleasing outcomes over the next three to five years.

What has 2020 taught us?

Amid a global pandemic that has lasted for a year, and widespread lockdowns that have caused the South African economy to shrink by an estimated 8.0% for the year, who would have predicted that the SA equity market would still manage to deliver a 7% return for the year? Against most expectations, hindsight showed us that investors who maintained their equity exposure for the duration of the year, probably came out in better financial health than would have been expected.

Just as surprisingly, South African bonds were able to deliver an impressive 8.7% return for investors in 2020. This, in a year during which the government's credit rating was downgraded further into junk status and the budget suffered severe revenue shortfalls and funding challenges. Given the extra bond supply required, investors could have reasonably expected a weaker local bond market for the year, but in the last three months,

both local and global investors snapped up SA government bonds due to their attractive yields in relation to global alternatives. This resulted in unexpectedly good gains for bondholders in a year of very bad news for the bond market, and supported our previous viewpoint that investors had materially priced-in a ratings downgrade well before it actually occurred.

So 2020 has (once again) reminded us that anyone's ability to make money from forecasting is limited at best, and that it makes sense to stay true to your investment strategy even in the midst of extreme short-term uncertainty and volatility. Investors who panicked amid the March 2020 correction, and sold out of growth assets such as equities to park their funds in "safe" money market funds, only managed to lock-in their capital losses and would probably not have experienced the subsequent recovery as equity markets recovered.

For Prudential's part, we promise to remain patient, keep a long-term outlook and follow our consistent investment process to deliver competitive, inflation-beating returns for all our clients. We are hopeful that asset prices will continue to recover in the months ahead, as the global vaccine rollouts progress and start to contain the pandemic, gradually improving the physical, mental and financial health of everyone. In South Africa, however, there is additional work to do since the economy and government's fiscal position present some very significant challenges that will take a concerted effort from all sides to resolve. At Prudential we are committed to playing our part in this effort.

We hope you enjoy this Q1 2021 edition of Consider this, and as always welcome any feedback you may have.

Sincerely,

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.