PRUDENTIAL **INSIGHTS**

PRUDENTIAL
INVESTMENT MANAGERS

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Active management post the Coronavirus sell-off

During the weeks (and months) following the sharp equity market sell-off prompted by the Coronavirus crisis, we were spoiled for investment choices given the plethora of deeply undervalued, quality companies. Now that the market has recovered, active management and stock picking are even more important when it comes to adding value to our client portfolios.

Some recent active investment choices we made included adjusting our exposure to Naspers/Prosus. The **Prudential Equity Fund** continues to hold a combination of both Naspers and Prosus, but early in the quarter we elected to reflect a stronger preference for Naspers due to the persistently wide discount at which it trades versus its 72% stake in Prosus. We therefore switched a portion of our holding in Prosus into Naspers, such that the net exposure to the combined companies was maintained, while increasing the active position at a Naspers level. We are optimistic that this gap will close, and that Naspers will therefore outperform Prosus in the future, as Naspers' management has been working on what it has described as a "substantive transaction" that aims to unlock value from the discount, and the additional discount between Prosus and its underlying internet investments (of which Tencent is by far the largest).

At the same time, we decided to re-allocate some capital out of the **Equity Fund's** exposure to mining shares and into some SA economy-focused companies. This is because the fund does have substantial exposure to the local mining sector, and many commodity companies have already experienced a substantial upgrade in their revenue and earnings and resultant share price gains. In our view, the prices of platinum group metals and iron ore have risen to unsustainably high levels, making mining companies' very high-profit margins unstainable as well. Because these strong commodity prices are also broadly helpful to the South African economy, we have opted to add cheaper shares more exposed to the SA economy.

Looking ahead, we remain optimistic regarding SA equity market returns over the medium term due to the prevailing excessive levels of pessimism reflected in share prices and valuations. The JSE's price-to-book value remains close to 1.5X at the end of March 2021, compared to its longer-term fair value of around 2.1X. We think that earnings and dividends should show a strong return to growth over the medium term. This growth is based mainly on a return to more normal (lower) profit margins among the mining companies and related industries (which we are already witnessing), combined with a resumption of dividends from banks and SA industrial companies.

For the 12 months to 31 March, the **Prudential Equity Fund** returned 62.6% (net of fees), outperforming its benchmark (the median of the ASISA SA equity category) by 14.1%.

For more information about the **Prudential Equity Fund** or the rest of our fund range, please visit the Our Funds section of our website. Alternative, feel free to contact our Client Services Team on 0860 105 775 or email us at query@prudential.co.za.