

# consider this

THE NEWSLETTER FOR THINKING INVESTORS  
3rd edition, June 2009



**Inflation:**  
The great debate

**Equities:**  
- In tough conditions we remain disciplined  
- Is there value in the market?

**Investing offshore:**  
- It can reduce risk  
- Introducing four M&G funds

**Introducing the Prudential Enhanced Income Fund:**  
An actively managed income solution

**New Pooled Life Portfolios are available**








All things considered.

**the  
analysis  
issue**



**PRUDENTIAL**  
PORTFOLIO MANAGERS

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# Forethought

## The search for value underpins all our investment decisions

If you have a better understanding of our investment philosophy and process, we hope that you will be less tempted by short-term news to chop and change your investment portfolio. We also hope that it gives you increased confidence that you have made the right decision to invest with Prudential.

The search for value underpins all our investment decisions. This means that we don't start with a 'top-down' view on inflation or other economic factors when we construct portfolios, or let these factors drive our decision-making.

In spite of this, we acknowledge the need to ensure that we are in a position to manage the risks that either an inflationary or deflationary environment might pose to your investment portfolios. In an article about this, Graham Mason uses the economic theory that underpins inflation and makes reference to the case study of Japan to explain his view on whether he believes the developed world is entering an inflationary period or not and how asset class returns may be affected either way.

## Some things stay the same at Prudential...

In two separate articles, Ross Biggs first explains our approach to investing and how we select shares using practical examples. We continue to do this in a rigorous and disciplined way, regardless of the market conditions.



John Kinsley  
MD Prudential  
Unit Trusts



Bernard Fick  
Head of  
Institutional Business

He then goes on to explain why we believe there is value in the market, and where we are finding opportunities.

When one thinks about investing offshore, it is often with a sense of trepidation because for most of us the markets are unknown and the investment managers and individual funds are unfamiliar. It just feels more risky. In an article about why we believe it is prudent to diversify your portfolio offshore, Michael Moyle explains that from a long-term strategic perspective, one of the biggest advantages of investing offshore is to diversify your portfolio and therefore reduce your risk.

## And some things change...

It has been a busy quarter at Prudential. We have a number of new things to tell you about...

### 1. Four new offshore funds are available

In a complementary article to Michael's one, Hamilton van Breda suggests ways to reduce the level of uncertainty that you feel about investing with unfamiliar managers by introducing a range of offshore funds being made available through Prudential South Africa from M&G. M&G is one of the largest and

oldest investment management companies in Europe and is part of the same group of companies as Prudential Portfolio Managers in South Africa.

### 2. Announcing the launch of the Prudential Enhanced Income Fund

Heidi Dreyer tells you all about our newly launched Prudential Enhanced Income Fund: what needs it aims to meet and who it may be appropriate for.

### 3. New pooled life portfolios are available to institutional investors

Bernard Fick announces the availability of a range of unitised, pooled life portfolios that aim to make our expertise more accessible to smaller institutional investors.

And lastly, but not least, we welcome a new member of staff, Rajay Ambekar to the investment team.

We hope you enjoy the read, and if you have any questions or feedback, we would be delighted to hear from you. Please contact us on 0860 105 775 or email us at [info@ppm-sa.com](mailto:info@ppm-sa.com).



Graham Mason  
CEO

At Prudential, we focus on value, but maintain a watchful eye on any risks that economic factors like inflation or deflation may have on your portfolios.

# Inflation: The great debate

## Will inflation or deflation be the order of the day

### Are we entering a global inflationary environment?

There is a lot of debate about whether the world is entering an inflationary period. Before we explain our view, it may be useful to recap the basic definitions of inflation.

#### Learn more

##### Inflation

Inflation is defined as the rate at which the general level of prices for goods and services is rising, and, therefore, purchasing power is falling.

##### Deflation

Deflation is a general decline in prices. This can be caused by a reduction in the supply of money or credit, or by a decrease in government, personal or investment spending. The opposite of inflation, deflation has the side effect of increased unemployment since there is a lower level of demand in the economy, which can lead to an economic depression.

##### Stagflation

Stagflation is a condition of slow economic growth and relatively high unemployment – a time of stagnation – accompanied by inflation.

### Inflation and deflation affects asset class pricing and values in different ways

Inflation has an obvious effect on all of us as individuals as it reduces the purchasing power of our money. From an investment perspective inflation and deflation affect asset classes (and their prices) in different ways. The table alongside provides a summary of the potential impact of inflationary and deflationary environments on different asset classes. This assumes equilibrium pricing at the start, in other words that investments are priced at normal long-run levels and are not extremely cheap or expensive. As you can see from the table, inflation and deflation can affect investments quite differently, which tells one about the significance of the current debate and what view one takes on this.

'The search for value underpins all our investment decisions...'



### Investing in inflationary and deflationary times – what's the difference?

	Inflationary times	Deflationary times
<b>Equities</b>	<b>Will outperform inflation</b> Earnings rise with inflation which leads equity to be 'inflation protected'. As an aside, in inflationary times earnings are often overstated because of insufficient depreciation, and ratings fall to compensate for this.	<b>Negative return</b> The top line earnings fall, margins decline, and lower earnings result.
<b>Property</b>	<b>Will outperform inflation</b> Property is affected in the same way as equities.	<b>Negative return</b> Property is affected in the same way as equities.
<b>Bonds</b>	<b>Will under perform inflation</b> Inflation will erode the real value of coupon payments and redemption value of a nominal bond. In addition, interest rates are likely to rise, leading to capital loss.	<b>Positive return</b> Declining interest rates lead to capital gains, and the real value of nominal bond coupons and redemption values increase with deflation.
<b>Inflation-linked bonds</b>	<b>Will outperform inflation</b> This is an asset that gives a guaranteed real return, which is determined as the real yield at which the bond is purchased.	<b>Low return</b> These may deliver a positive or zero return. The capital value may or may not decline depending on the contractual terms of the specific inflation-linked bond.
<b>Cash</b>	<b>In line with inflation</b> Proper monetary policy aims that cash gives a small real return	<b>Zero return</b> Cash yields close to zero in a deflationary environment

## Inflation: The great debate *(continued)*

### How central banks use monetary policy to achieve their economic objectives – some theory and a case study.

To inform a view on whether the future will be inflationary or deflationary, we refer to economic theory and any case studies that may be appropriate. How has the theory been deployed in the past to manage inflation and deflation?

#### 1. The theory behind monetary policy

A central bank's task is to supply enough reserves to support an adequate amount of money and credit, avoiding the excesses that result in inflation and the shortages that stifle economic growth. The goals of government therefore generally include:

- maximum employment
- stable prices
- moderate long-term interest rates
- promotion of sustainable economic growth

The process by which the government or central bank achieves these goals is through monetary policy to manage and control:

- the supply of money
- the availability of money
- the cost of money (interest rate)

Monetary policy can be expansionary (used to increase the total supply of money in the economy to combat unemployment in a recession by lowering interest rates) or contractionary (decreasing the supply of money by raising interest rates to combat inflation).

#### What is the economic theory that underpins this debate?

The equation or definition used by economists to explain the relationships that drive inflation is referred to as the quantity theory of money or equation of exchange:  $MV=PT$  (nominal GDP), where:

**M** is the amount of money in the economy

**V** is the speed or velocity of money in the system

**P** is the prices of goods and services

**T** is the quantity of goods and services

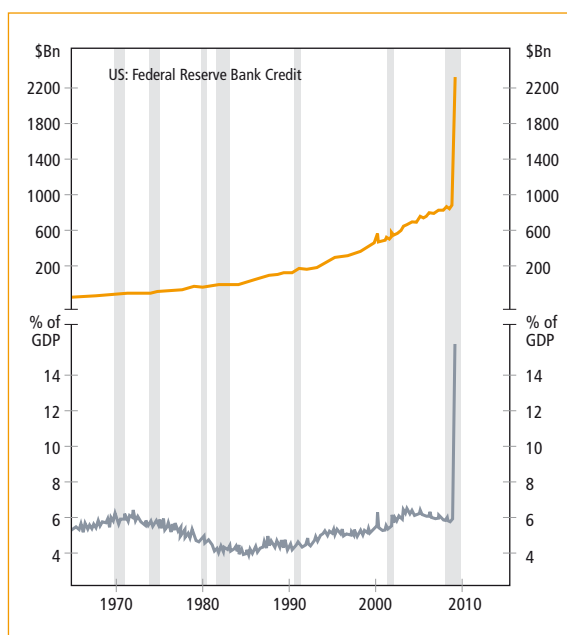
Based on this theory, in stylised terms, governments seek to achieve their economic objectives (such as GDP growth) with monetary policies that either change the price of money (the interest rate) or the amount of money in circulation. They usually change the price of money (increasing or decreasing interest rates), but if the interest rate is too low, they can increase the amount of money in circulation through other means. Directly increasing the amount of money (M in the equation above) is referred to as quantitative easing and has recently been witnessed with the Federal Reserve buying back corporate bonds and mortgage-backed securities held by banks or other financial institutions. This puts money back into the financial institutions and allows them to make loans and conduct normal business. In theory, creation of 'new money' will increase the overall money supply by encouraging institutions to lend more, reduce the cost of borrowing and thereby stimulate the economy. This is not without uncertainty due to the time lags inherent in economic responses to policy choices (and

even being able to measure the changes in aggregate demand and information on spending, production and prices). Policymakers therefore have to rely on statistical estimates and although the basis for the policy choices are sound economic models, history has shown that the actual overall size and timing of their impact is never certain. It is therefore easy to see how the prices and economy can react differently to a desired outcome for a period of time.

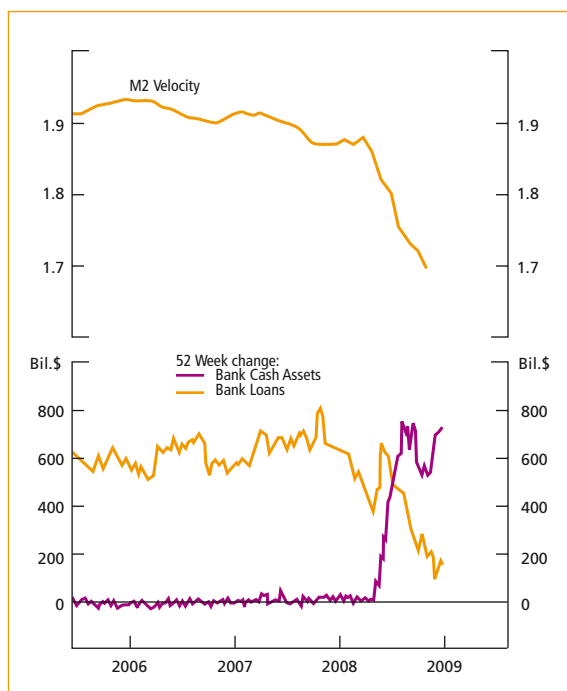
## 2. Applying the theory to a case study and the current context

An example where quantitative easing has been attempted in the past is Japan during the late 1990's and early 2000's, and currently in the US and UK during the ongoing global financial crisis. As shown in the chart alongside, and with reference to the equation above, the US government through the Federal Reserve has increased the supply of money in the economy (M), but because there has been a greater decrease in the velocity (V) of money than there has been an increase in M, MV remains constant or negative. The real money supply circulating in the economy (defined as M2) is not increasing because banks are not lending money, and there is little demand for new debt as US consumers and companies try to pay off existing loans and increase their savings.

The US Federal Reserve raises the money supply (M increases), the velocity of money (V) in the economy decreases faster than the increase in the real money supply.



Source: Federal Reserve H4.1 release, BCA Research  
Note: Shading denotes NBER-designated recessions



Source: BCA Research

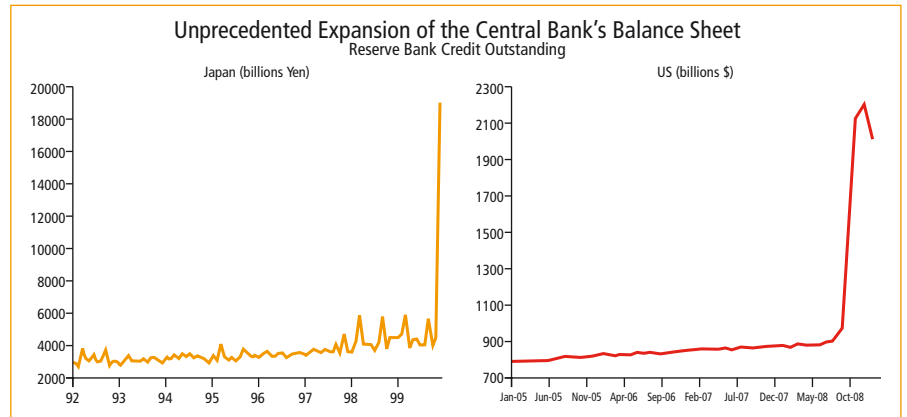
## Inflation: The great debate *(continued)*

There is an example of this in history where the declining velocity of money more than offset the increase in money supply.

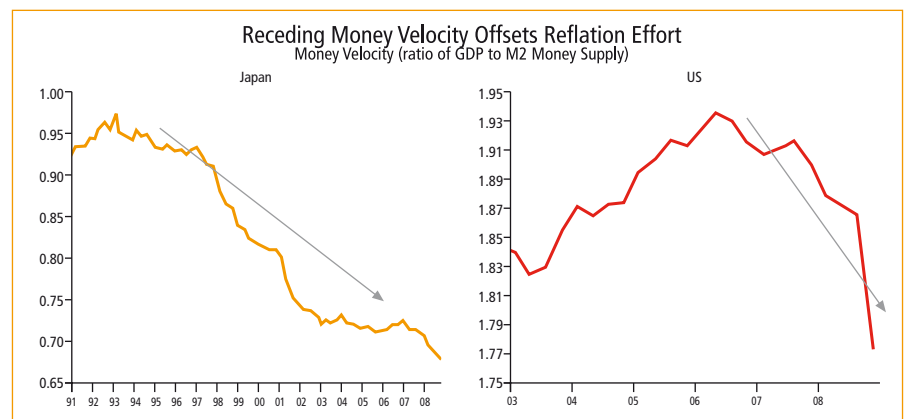
If you compare this to Japan's experience in the late nineties, the picture is very similar. Japan's recession, which started in the early 1990s, continued into the 2000s, with deflation being the main problem. Deflation began plaguing Japan in 1999, and the Bank of Japan attempted to cultivate inflation with high liquidity, with even more quantitative easing than currently seen in the US, and a nominal 0% interest rate on loans. Their receding velocity, or speed of money in circulation, however more than offset the increase in money supply, and a protracted recession continued in Japan.

The case for inflation: increased velocity of money and inadequate policy responses.

This case study of Japan and the theory underlying it, teaches us that to make the case for inflation, one must make the case that the velocity of money (through bank lending and borrowing) will increase, and that the authorities will act too little too late with policy changes. It is overly simplistic to say that simply because the money supply increases, inflation will rise. This did not happen in Japan, and will only happen if 'V' remains constant – i.e. you have more money in the system and the money is circulating at a higher rate. There is not yet evidence that this is happening in the US and Europe.



Source: Bank of Japan, Federal Reserve Bank, Bank of America Securities-Merrill Lynch



Source: Haver Analytics, Bank of America Securities-Merrill Lynch





If one can be successful in increasing the speed of money circulating in the economy, then it will increase GDP growth and one can then reduce the money supply. There are no case studies over the last 100 years to show that after an increase in money supply, and increase in velocity, the central bank did not act to manage the price of money and supply of money.

Our view therefore is that global inflation is not an immediate problem, and is probably not a problem at all.

#### The case for deflation: the gap between potential GDP and real GDP, excess capacity and firms indicating they have low pricing power.

We think that the risk of deflation arising from excess productive capacity (particularly from China and India) is a bigger threat, but with the most likely outcome being very low core inflation. The reason we believe this is that inflation arises when there is a lack of production capacity and high demand, giving

firms pricing power. Currently, indicators show that businesses have no production capacity constraints. Due to reduced demand for goods, firms also don't believe that they are able to raise prices, giving them low pricing power. This is resulting in an increasing gap between real GDP and potential GDP – the so-called 'output gap'.

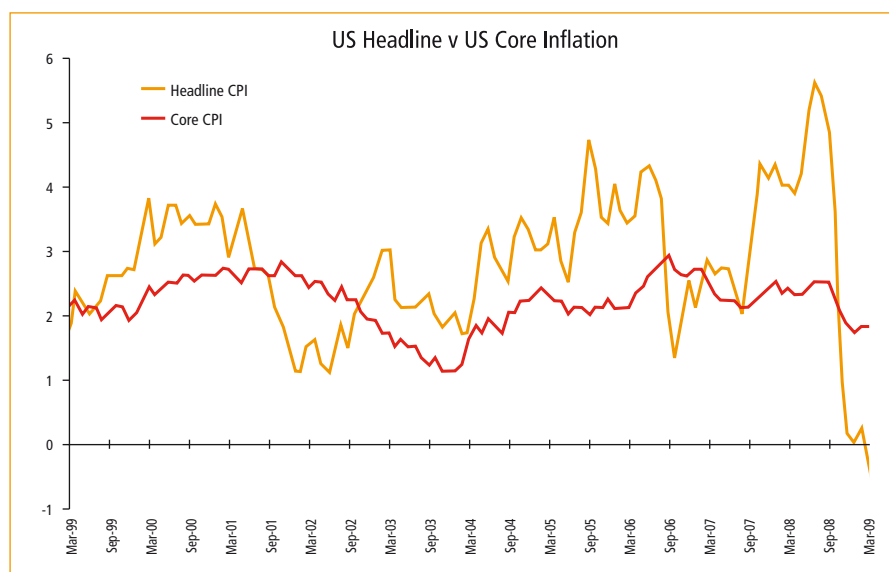
This excess capacity indicates that there should be very low core inflation. Core inflation is a measure of inflation that excludes certain items such as food products and energy that are included in headline inflation, because they are subject to volatile short-term price movements. Headline inflation tends to change more on a month-to-month basis than core inflation.

#### Core inflation is a better indicator and predictor of underlying long-term inflation.

#### We believe that low core inflation will continue

Deflation is much harder to manage than inflation as demonstrated by the case study of Japan. The delayed response by the Japan Central Bank with quantitative easing to grow the money supply (arguably ten years too late, but subject to the constraints and challenges of policy responses and their concerns about land prices being too high) had little impact because the velocity of money declined sharply.

We believe that there is a fine balance between falling goods prices and increasing service prices, but based on the arguments, we think overall low core inflation in the leading Western economies will continue. There will be pockets of deflation, which we believe hold a greater long-term risk than inflation. We continue to focus on our search for value but will remain abreast of this important debate so that we are well-positioned to manage any risks to your portfolios accordingly.



Source: Bloomberg

# Equities:

## In tough market conditions we remain disciplined



Ross Biggs  
Portfolio Manager

"At a time like this, we don't do anything different."

In tough market conditions it is important to ensure that you remain disciplined and stick to your framework for making investment decisions. The temptation to react to individual data releases and the fear of 'losing out' on short-term market rallies can result in permanent losses.

At a time like this, we don't do anything different. We remain focused on our investment philosophy and process. This is why we thought it may be useful to explain our investment philosophy and process and provide some practical examples to demonstrate how we implement this philosophy.

### Our investment philosophy and process

#### 1. We focus on valuations

An initial screening process looks at the value of the company using various metrics and ratios to discover whether a share price represents fair value or not. These ratios include price to book ratios, dividend yields and price to earnings (PE) ratios. We then perform an in-depth analysis of how the company has performed in the past and the industry in which it operates to confirm value. This analysis would focus on the returns the company has generated in the past and what we would consider to be its normal earnings power.

We have found that investors systematically overpay for growth – it is a lot more difficult to find the next growth story like Microsoft than investors would like to believe. The lure of the big lottery pay-off continues to entice speculative investors with a short-term horizon to the stock market. Investors also tend to underestimate poorly performing companies and over-estimate successful companies.

#### 2. We manage risk relative to the applicable benchmark of the fund

We aim to provide investors with more consistent returns and less risk per unit of return relative to a benchmark. Although as active managers, we take active positions (i.e. hold a higher or lower weighting than the benchmark), we don't wish to expose our investors to more risk than is necessary relative what you are judging us against (in the form of the applicable benchmark).

Our assessment of the over or under-valuation of the company will therefore dictate how much of the company we put into the portfolio and will help us to mitigate the risk of loss. This means that we manage risk relative to the benchmark of the fund.

### 3. The value of a company is largely based on future cash flows in the form of dividends

When you value a company, you are actually asking about how much cash you will get from your investment in the future. These cash flows (essentially in the form of dividends) are generated from the skills of the people working at the company as well as the physical assets and goodwill in the company. Dividends tend to increase over the medium term as a result of inflation and the re-investment of cash flows in a company every year.

## Putting the philosophy to work

In order to explain how we apply this philosophy and our process we have used three examples below.

### 1. Pick 'n Pay: A strong history of paying its shareholders growing dividends

Pick 'n Pay is a 'classic defensive' share in that its earnings and dividends grow strongly, even during periods where most companies are struggling to maintain dividends. Currently we are able to buy Pick 'n Pay on a dividend yield of 6% which we believe is very attractive, both in absolute terms and relative to Pick 'n Pay's history where you have seldom been able to buy the company on such an attractive dividend yield.

## Learn more

### Price to book value

The price-book value ratio, often expressed simply as 'price to book', provides investors a way to compare the market value, or what they are paying for each share, to a conservative measure of the value of the firm.

Expressed as a multiple, (i.e. how many times a company's shares are trading per share compared to the company's book value per share) it is an indication of how much shareholders are paying for the net assets of a company.

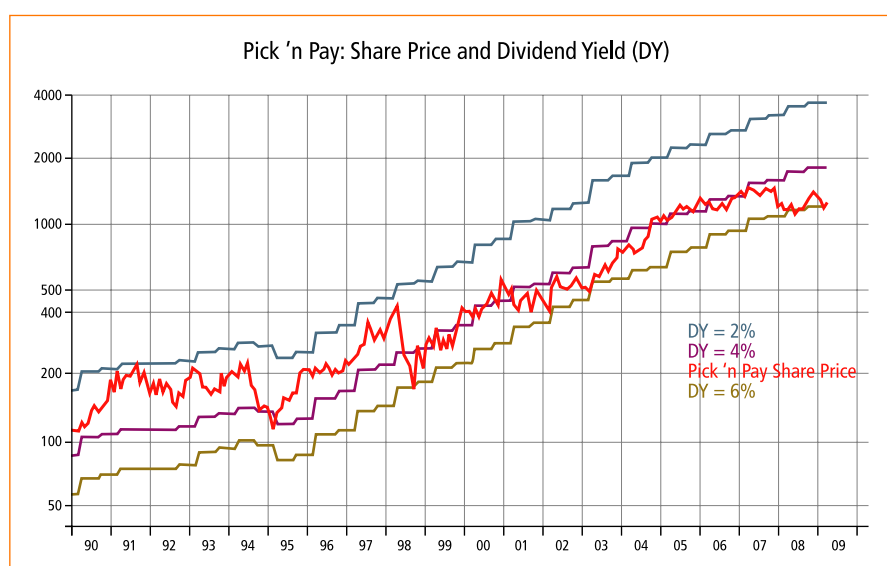
The net assets of a company are the difference between the balance sheet assets and balance sheet liabilities and are an estimate of the value of the company if it were to be liquidated. This is often a conservative valuation as it does not include goodwill and other intellectual capital that is not included on the balance sheet of a company.

### Dividend yield

This is a measure of how much a company pays out in dividends relative to its share price. In other words how much money a shareholder will earn in dividends from holding a share.

### Price to earnings ratio (PE)

This is a valuation measure of a company's current share price compared to its per-share earnings. It shows how much investors are willing to pay per share. Often investors will view this as a simple payback measure – in other words, how many years does it take before they get back or earn the equivalent of their investment. A challenge to be aware of is that PE's are only as good as the quality of the earnings – an accounting measure that can be manipulated.



Source: I-Net Bridge

## Equities: In tough market conditions we remain disciplined *(continued)*

### 2. Is there value in steel?

If you focus on one measure or ratio in isolation of others, it can be misleading. For example, in the case of the price to earnings ratio (PE) of European steel companies (as shown in the chart alongside), you may have concluded that steel companies were cheap in mid 2008. The challenge is that earnings can appear misleading and may be misrepresented, especially if you do not factor in how high or low the margins of the steel companies are at any point in the economic cycle. We therefore focus on the normal earnings power of the company during a normal point in its economic cycle.

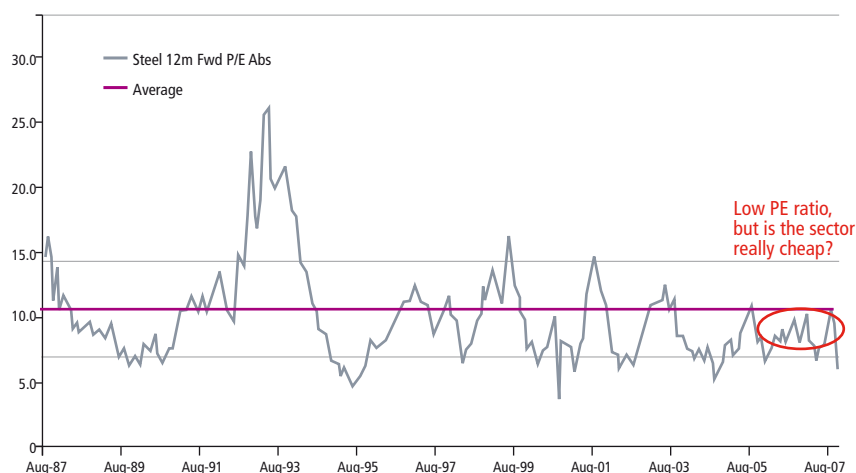
On closer and different analysis therefore, the price to book ratio, which is another way to look at 'normalised' earnings power, (as shown in chart alongside) revealed that the steel sector was not as cheap as the PE's indicated. At the same time as the price earnings ratio was showing how cheap the steel sector was, a more normalised and therefore 'correct' valuation measure was showing how expensive the sector was. It is often these types of graphs that give rise to conflicting views in the market and which serve to confuse investors who do not have strong valuation anchors.

### 3. Putting the metrics together: why we see value in the Woolworths Group

- **From the income statement:**  
**Woolworths is currently attractively priced relative to its history**

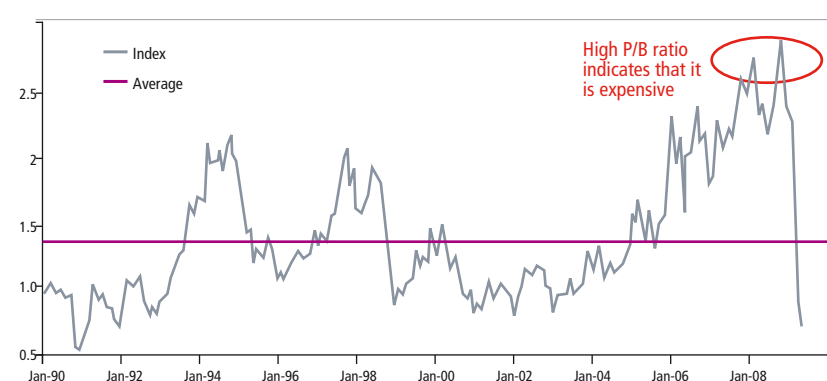
The gold bars alongside depict how the profit before tax margin from Woolworths has declined from 8% to less than 6% over the last 2 years. Our investment case does not depend on margins growing and takes a fairly conservative view that margins will stay around 6% going forward. Even on this basis, the price to earnings multiple looks attractive on 10 times.

European Steel Sector: Forward PE Ratio



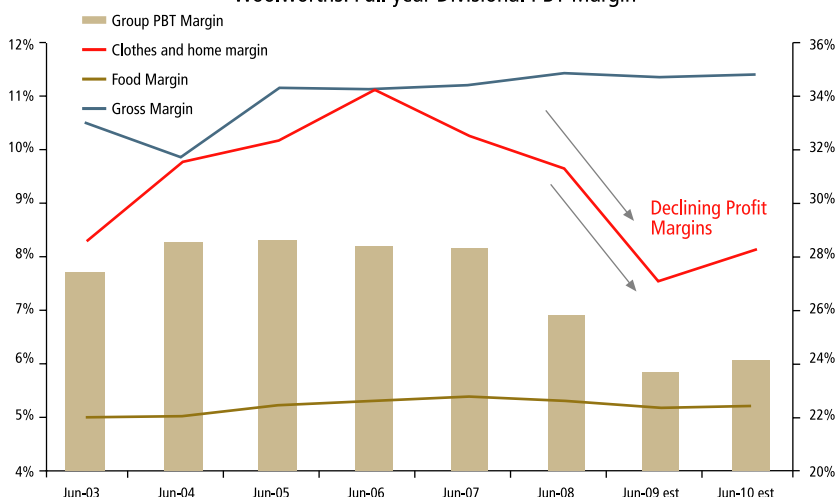
Source: © Thompson Financial Datastream, all rights reserved. Credit Suisse Research.

European Steel Sector: Price to book ratio (P/B)



Source: © Thompson Financial Datastream, all rights reserved. Credit Suisse Research.

Woolworths: Full year Divisional PBT Margin



Source: Prudential Portfolio Managers

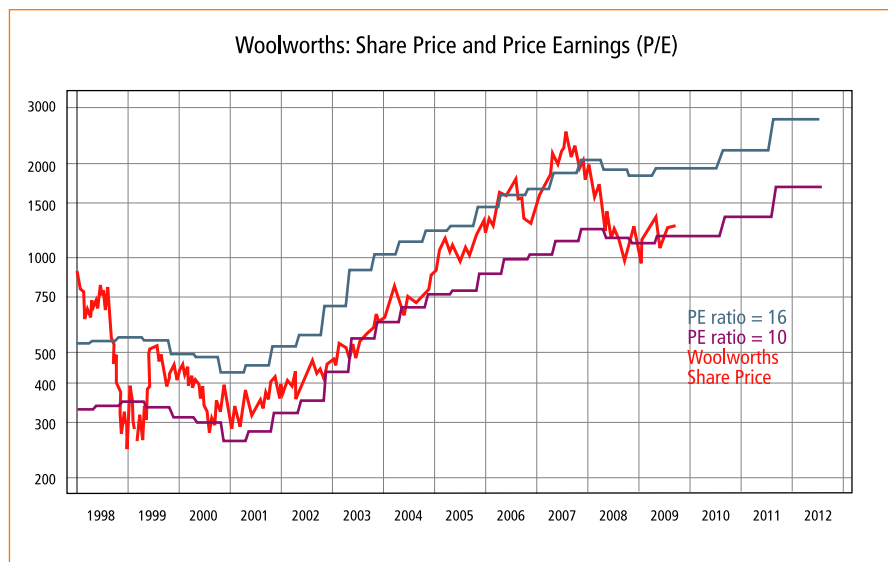
The chart alongside shows the different PE bands, the purple line indicates a PE of 10, the blue line indicates a PE of 16, and the red line is the share price. In 2006 and 2007, the price was trading at a high premium. Investors were attracted to Woolworths based on its strong store roll-out, particularly in the convenience food market. Investors are now not so sure how this strategy will fare in a recession when customers are spending less, especially on convenience foods and have de-rated the company to a price we think is very attractive.

- **From the cash flow statement: the sale of the financial services business within the group has changed the cash flow significantly**

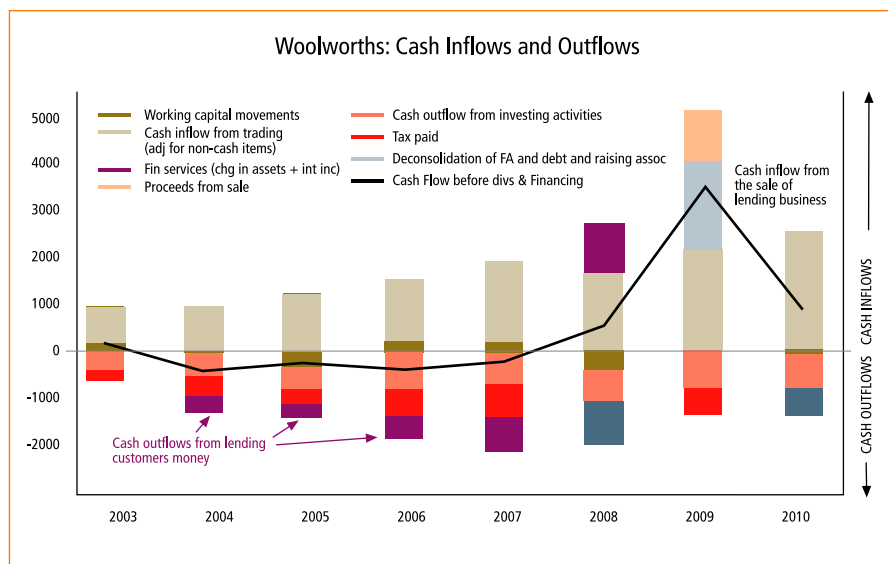
The Woolworths financial services business consumed a lot of cash. Instead of clients paying in cash at the till, Woolworths used its own capital to fund their clients' purchases. This cash outflow can be seen by the purple shaded section of the bars. Woolworths decided to sell their share of this financing business and as a result received a large cash injection as depicted by the grey shaded block. Going forward, there will no longer be any need to finance customers using Woolworth's capital, and this will result in stronger cash flows and an increased ability to pay dividends.

## Having the right framework and sticking to it will uncover value and reap rewards with time

Having explained how we uncover value in the market, we hope that you also approach the market rallies and price volatility rationally.



Source: I-Net Bridge



Source: Prudential Portfolio Managers

The knee-jerk responses of the market to single data releases are indicative of the markets increased short-sightedness due to the uncertain and cloudy future that world economies are now facing.

If you have the right investment framework, and provided that you stick to this, you can make very profitable investments that will generate above-average returns over the long-run.

# Equities: Is there value in the market?



Ross Biggs  
Portfolio Manager

## Is there value in the market?

To establish whether there is value in the market, we need to first assess how expensive we think the market is overall

In the chart alongside, which shows a history of South African Equity Market dividends (black, purple and blue lines) and the market price (in red) it is clear that the general trend in dividends over the long-term is upwards. It is only in exceptionally tough economic times, similar to the current recessionary environment, where we have witnessed slight decreases in dividends. Given the very smooth upward trend in dividends, you would expect investors to also change their valuations and the price that they were willing to pay for the market in a slow, smooth manner. As can be seen from the red price line however, this is definitely not the case. The market tends to over-discount and over-react to short term news instead of putting this in the context of a much longer and broader upward trend.

### 1. We believe the market is undervalued relative to our assessment of fair value and to where it has traded historically

The FTSE JSE All Share price, currently trading slightly below the black line (where the dividend yield is 4.5%) tells us that the market looks undervalued relative to our assessment of fair value which would be closer to the pink line (or a dividend yield of 3%) and to where it has traded relative to history. It was last trading below a dividend yield of 4.5% in 1982 and briefly in 1987.

### 2. We believe we are witnessing under-utilised capacity rather than a permanent reduction in the earning power of our economy

The big question that everyone is currently asking is: By how much could the dividends fall due to the credit crunch? While we don't make forecasts, we can make an educated guess. By looking at history, you can see that dividends have rarely declined by more than 10% over a two to three year period. What should the market price change by as a result? Well, even if we take the most pessimistic view and assume that dividends fall by 10% into perpetuity, then the market should fall by a maximum of 10% from fair value. It must be remembered that recessions and credit crunches are defined by a reduction in demand for goods and services. It does not mean that the machines and the skills of the people making the goods and services have diminished – we are just producing at less than capacity. This is often a temporary fall in demand and eventually demand and growth will fill the empty machines and shops. This is a very important point, as we have not seen the dividend earning power of our economy reduced; rather it is temporarily not being used to full capacity.



### 3. The market could go lower, but this is unlikely and doesn't detract from our view on how attractive equities are over the medium term

Based on this, and taking into account the graph alongside, we could say that the valuations that we are now seeing are very attractive given the 4.5% dividend yield. That is not to say that the market price cannot go even lower. If you look to the early 1970's, where the recession was compounded by an oil spike, inflationary pressures and rising interest rates, you could expect that the market could still go substantially lower. While we are highlighting this possibility, it is a low-probability event and does not detract from the investment case of buying equities at the current attractive prices.





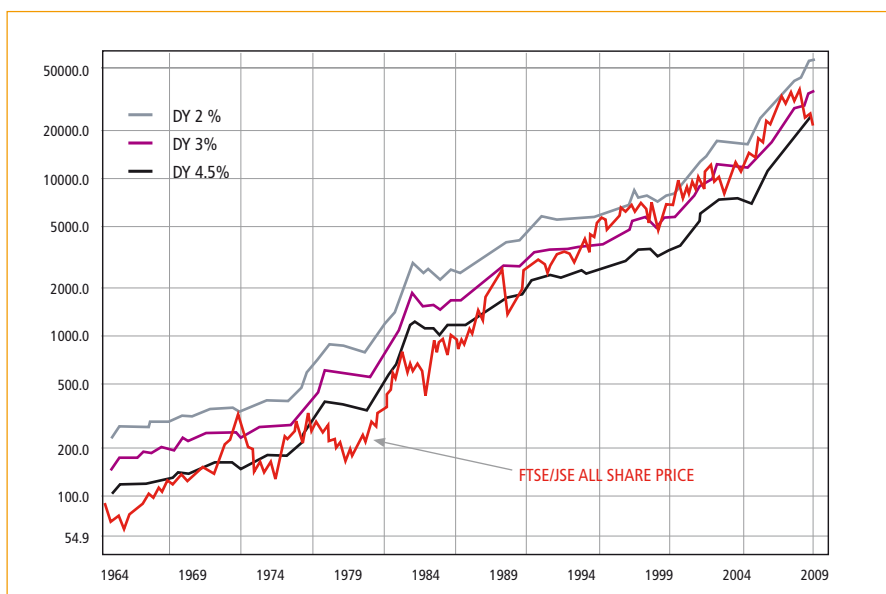
## We are gradually building an overweight position in our multi-asset class portfolios

While share prices may fall further in the short term despite equity's attractive valuations, we maintain that the equity market is priced to deliver above average returns over the medium term. Since we do not believe it is possible to consistently time the market successfully, we are gradually building an overweight equity position in our multi-asset class funds, with the ability to further increase that overweight position should further opportunities present themselves.

## Where do we currently see value?

Quality defensive companies, such as those in the food and beverage and health care sectors, remain a large portion of our portfolios. We continue to avoid low-quality companies that have generated poor returns on capital and which are highly-leveraged. We feel that they are not attractively priced enough for the potential operational and financial risks. Given the very tough environment that companies are now facing, you need to be aware that certain companies with poor over-leveraged business models may be forced into a position of permanent capital loss. This may force them into selling off income-generating assets at far below their fair value and will permanently impair their ability to pay their shareholders increasing dividends in the future.

A long-term upward trend in SA Equity Market Dividends and Price



Source: I-Net Bridge



Michael Moyle  
Head of Real Return

“Being clear about why you are investing offshore will help you remain disciplined ...”

# Investing offshore: It can reduce risk

## Investors make mistakes as a result of behavioural biases and emotions

Investors are prone to common mistakes as a result of human behavioural biases. These are informed by emotions of fear and greed. They don't want to miss out on great returns and become greedy as market valuations rise – leading to buying at the top of the market. Similarly, when they are fearful of losses they tend to crystallize these by selling at the bottom of the market, precisely when they should be buying. Investors also tend to extrapolate current circumstances into the future and respond more than they should to recent events.

## Investors tend to make the same mistakes when investing offshore

For example, South African investors tend to buy and sell foreign assets based on moves in the rand exchange rate. In 2000 and 2001, foreign unit trusts experienced net inflows as the rand weakened 95% against the US dollar. In 2002 – 2004, these funds experienced net outflows as the rand returned to pre-2000 levels. In hindsight, this had the net effect of destroying value and many investors lost money and crystallized these losses. Many investors still tend to base offshore investing decisions on the exchange rate for the rand.

## Having clear objectives and a framework for your offshore investment decisions will help you stay disciplined

Being clear about why you are investing offshore will help you remain disciplined when faced with short-term market and exchange rate movements. No matter how tempting it is, the fastest way to erode your wealth is to chop and change your investments in response to short-term news. In contrast, if you are disciplined about your investment decisions, you are more likely to grow your wealth. This is where a robust and objective framework can play a valuable role in helping you optimise your offshore investment decision-making.

## How do we approach offshore investing at Prudential? Why do we invest offshore?

### 1. Over the long-term we aim to reduce risk

From a longer-term strategic perspective, we invest offshore to diversify our portfolios and reduce risk (or put differently, increase the unit of return per unit of risk). This longer-term outlook and rationale for investing offshore forms the basis of our strategic decision-making framework.



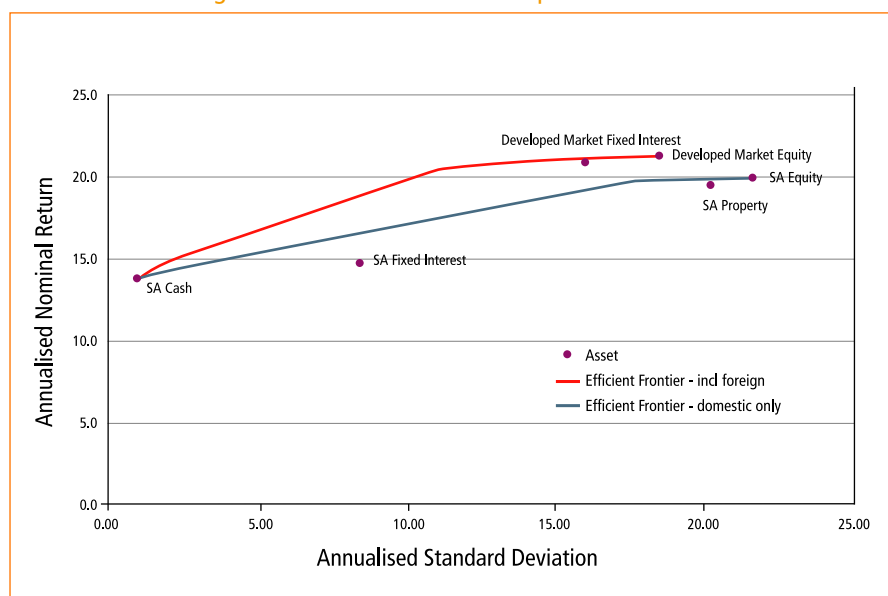
## 2. Over the short-term, with active management we aim to take advantage of good relative valuations – and use tactical opportunities to increase returns

From a shorter-term perspective, our active management decisions are informed by discrepancies in valuations and tactical opportunities that offer potential to increase returns.

## By combining both local and offshore asset classes one can reduce the overall volatility of a portfolio

The key to the risk-reducing properties of offshore assets lies in their low or negative correlations with South African assets. Even if the foreign asset is as volatile as the corresponding local asset, its lack of positive correlation with the South African asset means that a portfolio holding both of the assets will have a lower volatility than one holding the local asset only. Put differently, domestic and foreign assets respond differently and to different degrees to the same change. This means that by combining different asset classes (local and offshore), one is able to reduce the overall volatility of a portfolio.

Adding offshore assets to a domestic portfolio reduces risk.



Source: Prudential Portfolio Managers

## Learn more about the efficient frontier

The efficient frontier was first developed in 1952 by Harry Markowitz in a paper that established modern portfolio theory. This is a theory on how risk-averse investors can construct portfolios to optimise or maximise expected return based on a given level of market risk. The efficient frontier is the line that joins all the points at which there are optimal portfolios (i.e. portfolios that have the greatest return for the lowest risk or volatility or the least risk for the desired level of return).

## Investing offshore: It can reduce risk *(continued)*

### 1. Demonstrating this principle with the efficient frontier – what happens when you add offshore assets?

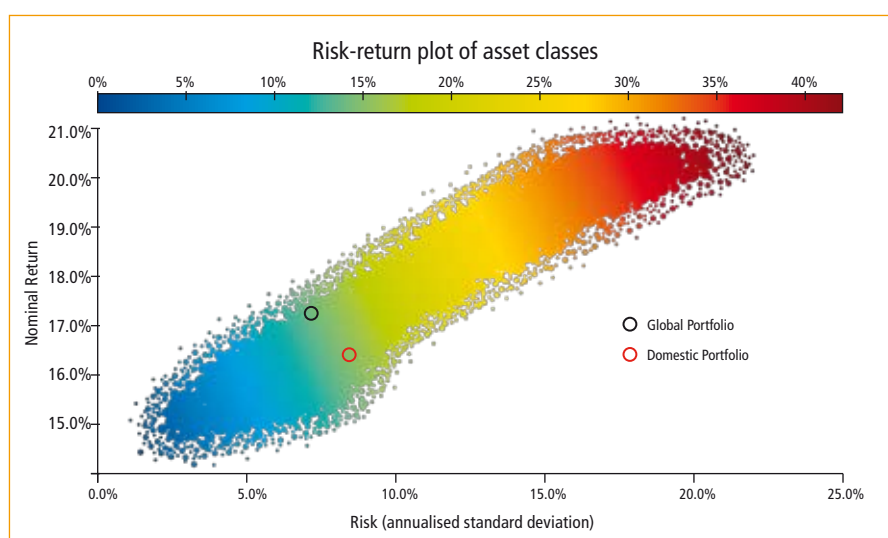
The risk-return plot shown on the previous page demonstrates the advantage of adding foreign assets to a domestic portfolio.

Annualised returns and annualised standard deviations of monthly returns of the asset classes shown were calculated using data from 1 January 1981 to 31 December 2008.

Two efficient frontiers are shown in the figure. The domestic efficient frontier is constructed using local assets only. All foreign and domestic assets are available to be included in portfolios on the global efficient frontier. It is immediately apparent that the addition of foreign assets shifts the efficient frontier up and to the left, increasing the return for a given level of risk. Note that it so happens that over this period foreign assets outperformed local assets. **Even if this were not the case, the efficient frontier or risk return curve would shift to the left, indicating a reduction of risk.**

### 2. Plotting all possible portfolios on a risk return chart with two measures of risk

The chart above shows all possible portfolios generated using the same return series as in the chart on the previous page, namely for the period 1 January 2001 to 31 December 2009. The positions of the dots on the horizontal axis indicate the portfolios' volatility. The colours of the dots indicate another measure of risk: maximum drawdown. Maximum drawdown refers to the maximum cumulative loss from the highpoint of a peak to the bottom of a trough over the period. You can read the maximum drawdown off the colour chart at the top of the chart. The black circle indicates where a conservative low equity portfolio of



Source: Prudential Portfolio Managers

domestic and foreign asset (asset allocation as indicated in the table on page A) would lie. This portfolio had an annualised return of 17.3% and volatility of 7.4%. The colour of the shading in the circle indicates that its maximum drawdown over the period was 11.5%. Furthermore, although this is not apparent from the chart, its worst monthly return was -11.5%.

Contrast this with the statistics of a comparable domestic-only portfolio also shown on the chart by a red circle. In this portfolio, the South African assets are held in the same weights relative to each other as in the global portfolio.

"By combining local and offshore assets, one is able to reduce the overall volatility of a portfolio."



The table below compares the statistics for the two portfolios and their asset allocation. These statistics show that if you compare a domestic portfolio with a global portfolio (that includes domestic and foreign assets), the annualised returns are higher for the global portfolio (17.3%) relative to the domestic portfolio (16.3%) and standard deviation is lower (7.4% versus 8.3%) for the two portfolios respectively. When you look at a measure called efficiency (it is an indicator of unit of return achieved per unit of risk), it reinforces the fact that the global portfolio has a higher efficiency measure (2.35%) than the domestic portfolio (1.96%).

While a global portfolio may not necessarily always have the higher return, it should have lower risk.

## Putting theory into practice over the last year

In spite of this being a short-term period, during the second half of last year, global market equities experienced a sell-off, but the rand acted as a 'shock-absorber'. A South African investor with offshore exposure, measuring performance in rand terms, would have been afforded some protection. Similarly, developed market government bond exposure would have been particularly beneficial as there was a 'flight to safety' and these bonds performed very well over the same period.

In conclusion, we invest offshore with an objective of lowering risk. This objective is measurable, the theory and the evidence prove it over the long-term. Shouldn't you also consider basing your offshore decisions on fact, not sentiment?

"...we invest offshore with an objective of lowering risk. This objective is measurable..."

	Domestic Portfolio	Global Portfolio
Domestic	100%	80%
Foreign		20%
Return (annualised)	16.3%	17.3%
Standard Deviation (annualised)	8.3%	7.4%
Efficiency	1.96	2.35
Worst Month	-11.9%	-9.0%
Worst Drawdown	-17.2%	-11.5%
<b>Asset Allocation</b>		
SA Equity	30%	24%
Developed Market Equity	0%	6%
SA Property	10%	8%
SA Bonds	20%	16%
Developed Market Fixed Interest	0%	14%
SA Cash	40%	32%
Total	100%	100%

Source: Prudential Portfolio Managers

# Investing Offshore: Introducing four M&G funds.



Hamilton van Breda  
Head of Retail Sales

**A well-established international investment manager can help you reduce the risk of investing offshore.**

Investors usually have different objectives for investing offshore, but the common reasons include:

- diversifying one's portfolio to reduce risk
- access to opportunities, markets and companies not available locally
- as a hedge against currency and country risk

As pointed out by Michael Moyle in his article **(refer to page 14)**, many South African investors have tended to invest offshore on a very emotive basis. This is unfortunate because short-term emotional responses simply increase investor's exposure to risk.

In an effort to provide practical ways to reduce these risks, Hamilton Van Breda explains the main risks offshore investors face and suggests possible solutions. He also introduces four M&G offshore funds that Prudential South Africa are making available. M&G is an investment company in the same Prudential Group as Prudential South Africa.

## About M&G

M&G is one of the largest and oldest investment managers in Europe, and has a long and illustrious history. Two interesting facts about their history demonstrate their experience, expertise and significant contribution to developing accessible solutions for investors are:

1. Municipal & General Securities Company Limited was a subsidiary of the company responsible for bringing the concept of unit trusts, originating in the US, to the attention of the Bank of England in the 1930s. It is fair to say that M&G was one of the main contributors to the unit trust movement in this period as not only did M&G launch the first unit trust in the UK, but it was also largely responsible for drafting the principles which went into the Unit Trust Act.
2. Throughout the latter half of the twentieth century, M&G pioneered many unit trusts and different types of investment, including charity funds in the 1960s and overseas unit trusts in the 1970s.

Type of risk	Ways to reduce this risk by investing offshore with M&G
<b>Market risk</b> Political and economic factors in the market in which you invest could pose a risk to the performance you aim to achieve.	If you consider your portfolio holistically, we would argue that by prudently diversifying your investments offshore, you can reduce your overall exposure to this risk. Investing with an investment manager that has expertise in the markets around the world can reduce this risk.
<b>Currency risk</b> If you invest in a foreign market, the first determinant of your return will be the increase or decrease in the share prices in that market. For example if you invested on the New York Stock Exchange, your return would be influenced by how much the share prices move up or down in US dollars. Secondly, as a South African investor for example, you need to convert the US dollar value back into rands to work out your return. This means that you will find that your return in rands (based on an increase in the US dollar value of the shares) would not only be a function of the portfolio but would also be increased or decreased by the depreciation or appreciation of the rand against the US dollar. Given the rand's current volatility this could have a significant and unintended impact on your offshore portfolio's value as measured in South African rands.	Investing with a professional global team that has proven experience and skill in making active currency calls (as evidenced by their experience managing a range of funds denominated in various global currencies) helps mitigate this risk. In addition, if you invest for the long-term, the short-term currency fluctuations pose less of a threat to your returns. Please refer to the comments about the M&G's International Sovereign Bond Fund out-performance over the page. This outperformance is attributed largely to currency decisions.
<b>Investment risk</b> Without having the right expertise, research capability or a rigorous process, you may choose the right market and sector, but the wrong shares within that market.	Investment in people and technology worldwide gives M&G investment professionals access to significant resources when making investment decisions. These resources are dedicated to analysis in every market in which M&G operate, allowing their investment managers to make extremely well-informed decisions.  Their scale also gives them good access to liquidity and the ability to execute investment transactions on the best possible terms for clients.
<b>Manager risk</b> The risk exists that the individual fund or investment manager may not perform well.	Across equities, fixed income and commercial property, M&G draws on over 75 years of experience in investment management and generating sound returns for their clients. They have grown to become one of Europe's largest active investors, a testament to their skill and capabilities. In addition to the resources and scale of operations, they have a tried and tested investment process that has been refined over the greater part of the last century.

## Investing Offshore: Introducing four M&G funds. *(continued)*

### About M&G's parent company, the Prudential Group

#### 1. An early start in life assurance

Prudential began in 1848 as the Prudential Investment, Loan and Assurance Association.

By the 1860s, the company had firmly established itself, particularly as a provider of insurance policies for Victorian workers.

In 1866, the name was changed to The Prudential Assurance Company and in the 1920s Prudential expanded its operations into Europe, India, Canada, New Zealand and Australia. Over the next 50 years, Prudential continued to grow and in 1978, Prudential Corporation became a holding company.

#### 2. Focussing on investment expertise

In 1982, Prudential Portfolio Managers was established as a separate company out of Prudential's investment department. At the same time Prudential Property Investment Managers (PRUPIM) was established to continue the management of property.

#### 3. A global presence

In 1982, investment management was widened into overseas markets, and in 1986, Prudential purchased an American insurance company, Jackson National Life. In 1994, building on existing businesses in Hong Kong, Singapore and Malaysia,

Prudential Corporation Asia was established to spearhead its expansion into other dynamic Asian markets.

#### 4. M&G and Prudential Portfolio Managers merge their investment capabilities under the M&G brand

Following the acquisition of M&G by Prudential in 1999, the two asset management businesses of M&G and PPM (Prudential Portfolio Managers) were merged into a single unit in 2000, with M&G becoming the investment arm of Prudential plc across Europe.

### Introducing the newly available M&G funds.

[Please refer to the more detailed fund fact sheets available via our website for more information.]

	What need does it meet?	Commentary
<b>M&amp;G International Sovereign Bond Fund</b>	<p>As a specialist fund that invests in investment grade debt from world markets, it may be most appropriate as a specialist building block in a portfolio.</p> <p><b>Objective</b> The objective of the M&amp;G International Sovereign Bond Fund is to maximise total return (the combination of income and growth of capital) through investment in a portfolio of investment grade debt instruments from all world markets.</p> <p><b>How the fund manager achieves this objective</b> The policy for achieving this objective is to invest in primarily investment grade sovereign debt securities denominated in the currencies of the major industrialised nations, with the exception of the UK. The Fund's exposure to sovereign debt may be gained through the use of derivatives. While the investment manager has power to hedge the currency risk for UK investors, the Fund will normally be managed so as to give exposure to non-sterling currencies.</p> <p>The Fund may also invest in other assets including government and public securities, collective investment schemes, other transferable securities, other debt instruments, cash and near cash, deposits, warrants, money market instruments and other derivative instruments.</p>	<p>Currency has had a major impact on Global Fixed Income over the past year, and making the right currency calls has led to stronger than average returns in 2008. The manager believes it unlikely that currency will drive returns to quite the same extent over the next few years. Rather, we believe it will be a combination of duration and currency that will drive future returns.</p>



	What need does it meet?	Commentary
<b>M&amp;G Global Basics Fund</b>	<p>As it is a global thematic fund, long-term investors wishing to take advantage of new trends and global themes may wish to consider this fund.</p> <p><b>Objective</b> The manager of the M&amp;G Global Basics Fund seeks to identify fundamental trends that can have a large and long-term impact on the fortunes of economies and industries, and in turn identify those companies with the assets best placed to benefit from these changes. Such investment themes, if anticipated correctly, can offer major opportunities for the fund when pursued over the long-term.</p> <p><b>How the fund manager achieves this objective</b> With a unique investment approach, he tries to identify major themes across the globe that offer the potential for significant upside over the long-term. To explain what 'basic' means: the focus is on what could also be referred to as the 'building blocks' of the global economy. The investment universe therefore includes breadth and diversity (mining to branded goods) and includes primary industries and secondary industries. He uses a bottom-up approach to identify well-financed companies with strong cash generation, identifiable and comprehensible business models with external support from long-term thematic trends.</p>	<p>The M&amp;G Global Basics Fund invests in physical assets that can benefit from shifts in economies and consumer behaviour. The fund's ongoing diversification across selected companies from a number of 'basic' areas reflects our belief in the range of compelling opportunities in global equities.</p>

	What need does it meet?	Commentary
<b>The M&amp;G Global Leaders Fund</b>	<p>This is a global equity fund that may be suitable for investors who wish to be exposed to companies that are demonstrating their ability to:</p> <ul style="list-style-type: none"> <li>• Create value and;</li> <li>• Adapt and make the changes necessary to restructure assets and possibly undergo cultural change to unlock value.</li> </ul> <p><b>Objective</b> As a global equity fund, it aims to beat the FTSE World Index by investing in companies that are undertaking positive internal changes that the wider market have not recognised.</p> <p><b>How the fund manager achieves this objective</b> The fund manager follows a clearly defined active investment approach, consisting of systematic bespoke screening of the global equities universe followed by rigorous company specific fundamental analysis. He avoids imposing top down views on sector, country or currency selections, but will take into account macro-economic factors where they impact on a particular stock. A valuation-focused approach delivers performance through the cycle.</p>	<p>This fund differs from the Global Basics Fund in that it seeks to exploit companies undergoing internal change, as opposed to the Global Basics Fund which leverages external themes. Global Leaders Fund therefore focuses on change that is generally internal to companies - for example restructuring measures or the allocation of capital to new, high-returning projects - rather than depending on changes in the external environment. Consequently, change is usually in the hands of the company's management. This makes assessing the management - and its ability to deliver the appropriate capital allocation strategy – a key consideration for the fund manager.</p>

## Investing Offshore: Introducing four M&G funds. *(continued)*

	What need does it meet?	Commentary
<b>The M&amp;G Recovery Fund</b>	<p>This is a core UK equity fund for investors with a long time horizon.</p> <p><b>Objective</b> The Fund's sole aim is capital growth by investing predominantly in a diversified range of securities issued by companies which are out of favour, in difficulty or whose future prospects are not fully recognized by the market.</p> <p><b>How the fund manager achieves this objective</b> Although the fund can invest outside the UK (up to 10% of the fund), the majority of companies held in the portfolio are British. This underlines the fund manager's commitment to one of the main principles of the fund, that the fund manager should know every company in the portfolio thoroughly and maintain regular contact with its management. This will include holding constructive dialogue on key shareholder issues. He can apply this principle best with companies based in the UK or other English-speaking countries such as Ireland and Australia. He does not, however, invest in the US given the complexity and breadth of that market. The fund manager values the generally high standards of corporate governance in the UK because they allow shareholders the access and influence necessary for the investment strategy of the fund to succeed.</p>	<p>Investors generally pay little attention to these companies since in-depth analysis and close contact with company management are required in order to identify (and maximise) their potential. This is where the M&amp;G Recovery Fund excels. The focus on struggling companies with the potential to restore them to health has been a core strategy of the fund throughout its 40-year history and is applied consistently to the benefit of investors. Fund manager Tom Dobell applies his extensive experience of companies in troubled situations – often knowing management personally – to understand fully those that are potential holdings for the fund.</p>

“It is more risky not to invest offshore, than to keep all your assets in one place.”

It is more risky not to invest offshore than to keep all your assets in one place. We believe including foreign investments in one's portfolio is a prudent move. But, in order to mitigate the uncertainty of investing offshore, you need to be aware of the risks in order to limit them as much as possible.

In conclusion:

1. Regardless of your investment needs, and unless you are confident that you have the time and ability to select a manager and the funds to meet your needs, it pays to get good independent financial advice. An adviser can help you make the right decisions about which fund to choose and how to combine different funds in your portfolio. They also can help protect your assets with estate planning.
2. Choose an offshore investment manager that is established and financially strong, with the necessary track record and expertise in investment management.
3. Avoid making emotive short-term decisions.



# Introducing the Prudential Enhanced Income Fund: An Actively Managed Income Solution



Heidi Dreyer  
Head of Corporate Sales

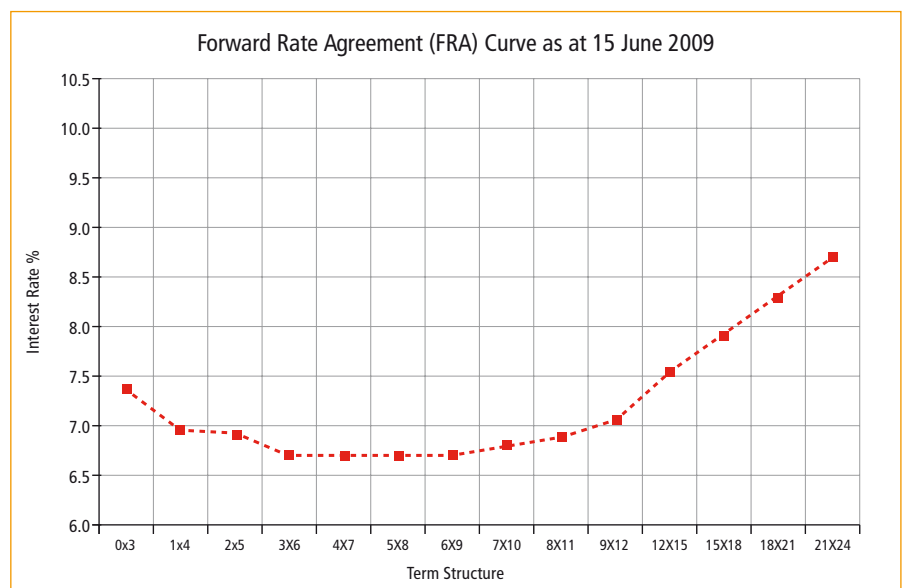
## Money market investments have generated good nominal returns over the past year

Investors focused on generating an income from their investments have been well rewarded by money market funds and bank fixed deposit accounts over the past year. Retired, as well as more risk-averse investors have enjoyed the high rates of return that these bank accounts and money market funds have been yielding. The average nominal return of domestic money market funds was in the order of 12% per annum over 2008.

## Falling interest rates don't bode well for income going forward

However the current falling interest rate environment means that investors will see their money market and bank deposit returns falling going forward. Domestic interest rates have fallen by 450 basis points since December last year. Based on the current economics, there could be a further 50 to 100 basis point reduction over the next 12 months. The Forward Rate Agreement (FRA) Curve shown below is still pricing in a further 50 basis point cut for 2009. Currently, money market funds are still yielding around 8.5% pa. But the aggressive interest rate cuts could mean that income earned on cash investments is likely to fall by more than 30% from its high by the end of 2009.

"...an actively managed income solution suitable for investors seeking higher income returns..."



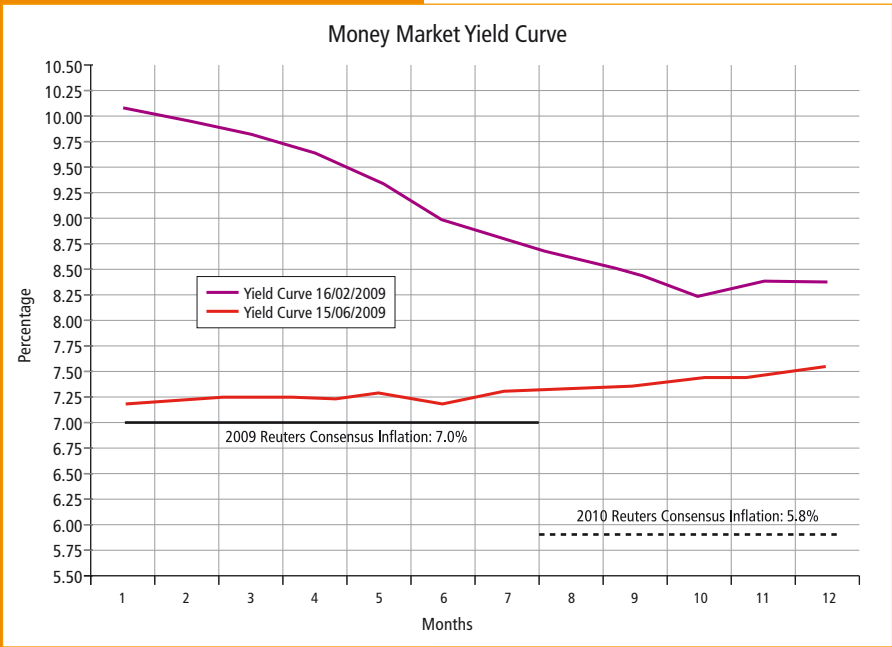
Source: Reuters, Prudential Portfolio Managers

# Introducing the Prudential Enhanced Income Fund: An Actively Managed Income Solution *(continued)*

## The impact of reduced rates may lead to negative real returns

Money market fund managers invest in a combination of underlying investments that offer investors higher returns than those obtainable on bank call and fixed deposits. At the start of 2008, 12 month cash rates were almost 12% and they remained at or above that level for almost the whole year. Compared to inflation this produced a handsome real return of almost 3% p.a. By 1<sup>st</sup> January this year, 12 month rates had dropped to around 9.75% and they currently stand at 7.8%.

If we listen to market forecasts, further falls in interest rates are in the pipeline, with the result that the average interest rate on cash through the remainder of this year is expected to be below 7.5%. Compare this to expected inflation over the same period of around 6.2% and add in the effect of tax and investors are left, if market expectations are realised, with a negative real return. That is to say a return below inflation.



Source: Reuters (May 2009), Prudential Portfolio Managers

Impact of Tax and Inflation on Money Market Fund Returns (an illustrative example)	
Money Market Fund Return	7.50% p.a.
Less: Income Tax at 40% Marginal Rates	3.00% p.a.
After Tax Return	4.50% p.a.
Less: Reuters Consensus Inflation 2009	6.20% p.a.
Real Return	-1.70% p.a.

Declines in the real value of investments are equivalent to a fall in investor's standard of living – they can buy fewer goods at the end of the period that they could have done at the start. Against this backdrop, investors with a medium to longer-term view will thus need to look for alternative means to generate a higher income in excess of inflation over time.

## Introducing the Prudential Enhanced Income Fund

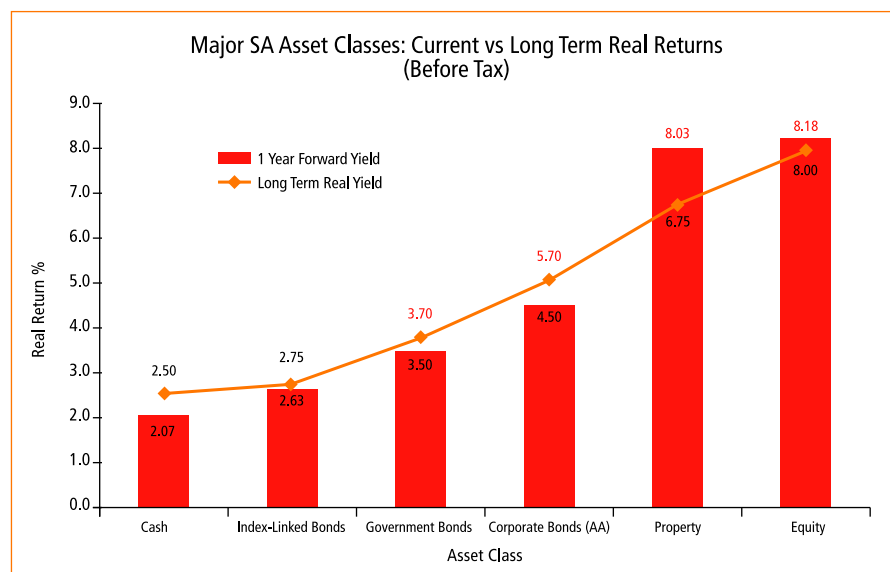
Investors looking to grow their incomes over time may benefit by moving into a higher yielding income fund such as our newly launched Prudential Enhanced Income Fund. This is an actively managed 'income solution' suitable for those investors seeking higher income returns while at the same time enjoying moderate capital growth within a fund that looks to protect the investor's capital and reduce volatility over the medium to long-term.

## Flexibility to access a wider range of underlying instruments

The fund has access to a broader set of financial securities than those used in a typical money market or income fund. These include:

- government and corporate bonds
- inflation-linked bonds
- preference shares
- listed property and
- other high-yield income securities

The fund manager has the flexibility to use these additional types of income-generating



Source: Prudential Portfolio Managers

assets that have the potential to yield higher total returns than that of a traditional bank deposit or money market fund.

The above graph compares the long term real returns (returns in excess of inflation) achieved by the major South African asset classes against the real returns currently being offered by these asset classes. As can be seen both cash and government bonds have historically delivered relatively low real returns and that is without taking into account the impact of any tax payable on the income earned. This may well have resulted in a negative real return over certain periods from these asset classes.

As the graph indicates, the real returns currently available from corporate bonds and property are at historically high levels. This reflects in part the international economic environment where stresses in the banking system have led to a scarcity of loans for companies, driving up the yield such companies must offer to entice investors to invest. It is also a function of the domestic

situation in South Africa, where weakening demand has led to rising unemployment, increased levels of non-performing loans for local banks and rising commercial property vacancy rates.

Our analysis indicates that these episodes of rapid re-pricing of assets tend to comprise two parts: a response to a deteriorating fundamental environment but also a change in investor's appetite for risk. This change in risk preference, to seek the comfort of cash or government bonds for example, tends to be an emotional rather than rational response to market conditions. At Prudential, we aim to exploit such non-rational behaviour and our investment process is well suited to identifying these opportunities. Thus by identifying and investing in such higher-yielding assets, the Enhanced Income Fund aims to achieve higher returns in excess of inflation – even in a falling interest rate environment.

## Introducing the Prudential Enhanced Income Fund: An Actively Managed Income Solution *(continued)*

### Active management that leverages off our international and locally proven process

The fund will draw on Prudential's highly successful Tactical Asset Allocation (TAA) capability to actively manage the asset allocation and diversification between the various high yielding asset classes. TAA is the process whereby the mispricing of assets relative to their fundamental value is reflected in multi-asset class portfolios by asset allocating away from those 'fashionable' assets (for example cash currently) to less fashionable but better value assets (like corporate bonds).

Since the establishment of our Portfolio Management Group in London in 1986, TAA has played a key role in the development of our investment capability. We have over time, continued to place a special emphasis on this area, refining and developing our techniques to keep us at the global forefront of new developments in this field. Consequently, Prudential now has one of the most experienced asset allocation teams within the industry world-wide and in South Africa. Our South African office is the premier TAA manager in South Africa and it works closely with our London colleagues and this skill and expertise will be brought into the management of the Prudential Enhanced Income Fund.

### Applying the Prudential valuation driven process to identify opportunities and control risk

Underpinning the fund's security selection is the depth and breadth of Prudential's fixed interest team. In fixed interest management, along with our colleagues in London and Chicago, we interpret value to apply to exploitable opportunities in credit and liquidity mis-pricing, in addition to trying to exploit duration opportunities. Given the depth of our credit analysis both locally and abroad (we have some 70 credit analysts between the South African, Chicago and London offices) we believe that the Enhanced Income Fund is extremely well-placed to deliver on its objective.

The fund will seek to identify potential investment opportunities at the asset class level, down to individual stock and sector selection, ensuring we maximize the upside potential while controlling the downside risk. Risk control will be an important consideration in the management of the fund and as such the fund is suitable for investors close to or in their retirement years. Interest rate risk, risk due to yield curve shape changes, liquidity and credit risk are all actively managed, controlled and monitored on an ongoing basis.

"Investors should also note that the All Bond Index returned 17% over 2008, compared to the 12% achieved by Money Market investments. This demonstrates that even in an environment where monetary policy is being tightened and short term interest rates are rising, investors should not assume that money market funds will always be the best performer. There is a need to consider the outlook for all income producing assets and allocate accordingly as recent market behaviour demonstrates that historical rules of thumb may not apply."

David Knee



David Knee  
Head of Fixed Income

## Benefits for investors:

### 1. Potential to enhance income levels

Investors seeking income are able to access a relatively high, sustainable level of income in excess of that provided by money market funds thus avoiding some of the downside of a falling interest rate environment.

### 2. Ability to maximise total returns

Investors will benefit from the funds exposure to growth assets such as bonds and listed properties which provide potential for moderate capital growth.

### 3. Outsource the complex 'asset allocation' decision to the experts

Many investors appear comfortable making the broad asset allocation calls between equities, and fixed income but are less so when deciding between cash, corporate bonds, sovereign bonds, preference shares, listed property and other interest-bearing asset classes. The Prudential Enhanced Income Fund allows the investor to outsource this complex decision making to the fund manager.

### 4. Low tolerance for capital losses

The focus of the fund is on reducing volatility and preserving capital through active management. Investments into higher yielding securities such as listed

property will be made taking cognisance of the need to protect investor's capital. As such the fund carries a low-medium risk profile making it significantly less volatile than a typical balanced asset allocation fund or a general equity fund.

### 5. Provides for a core 'income solution' building block

The fund represents an 'income solution' and can be used as a building block fund within an asset allocation fund of fund or wrap fund.

### 6. Ideal vehicle for retirement fund savings

The fund conforms to the legislation governing retirement funds and is thus a suitable investment vehicle for individual and institutional retirement savings.

### 7. Access to the investment skills of a Global Investment Company

The combination of strength through Prudential's long history of successfully managing Tactical Asset Allocation mandates, combined with the depth of credit resource available, creates a unique offering amongst the universe of enhanced or flexible income funds available to investors...one which we believe will offer a superior risk/reward trade-off.

## Introducing the Fund Manager

David joined Prudential Portfolio Managers SA, as Head of Fixed Income in January 2009. Prior to Prudential, he was the senior fixed interest portfolio manager in the London office of M&G Investments and had been Head of Institutional Portfolio Management, responsible for over £12 billion (R150 bn) of fixed income assets. David worked at Prudential in South Africa in 1999 and 2000, and was responsible alongside Graham Mason for establishing our current fixed interest process.

Before joining M&G, David worked for Hill Samuel Asset Management as a fixed income fund manager, managing both life and pension funds for a variety of clients and prior to that for a London based investment bank as a bond economist.

David graduated from the London School of Economics with a BSc in Economics and from Birkbeck College with an MSc in Economics. He is an Associate of the UK Society of Investment Professionals.



Bernard Fick  
Head of  
Institutional Business

# New Pooled Life Portfolios are available

Prudential makes its expertise more accessible to smaller institutional investors

On the 1<sup>st</sup> of June 2009, Prudential Portfolio Managers launched a range of pooled investment portfolios.

These portfolios are appropriate for institutional investors who wish to access Prudential Portfolio Managers investment skills via unitised pooled portfolios. The minimum investment for the Prudential Life Portfolios is R10 million, significantly less than the minimum investment required for individual segregated portfolios. The portfolios will comply with Regulation 28 of the Pension Fund's Act or Regulation 29 of the Medical Scheme's Act, insofar as the medical aid portfolios are concerned.

The portfolios are unit-linked, investment portfolios pooled on the Prudential Life balance sheet

Prudential Life is a unit-linked investment-only life company, wholly-owned by Prudential Portfolio Managers. Prudential Life administers the portfolios and will not engage in any insurance business or risk-underwriting.

"The Prudential Portfolios are being offered for the first time by a pooled investment vehicle."







## The initial range of portfolios that are available are:

Multi-Asset Class	Single Asset Class
Prudential Life Global Balanced Fund	Prudential Life Core Equity SWIX Fund
Prudential Life Domestic Balanced Fund	Prudential Life Core Equity ALSI Fund
Prudential Life Inflation Plus 6% Fund (Domestic and Global)	Prudential Life Deep Value Equity Fund
Prudential Life Inflation Plus 7% Fund (Domestic and Global)	Prudential Life Yield Enhanced Bond Fund
Prudential Life Conservative Balanced Fund (Domestic and Global)	Prudential Life Money Market Fund
Prudential Life Tactical Asset Allocation Fund	Prudential Life Credit Bond Fund
Prudential Life Medical Aid Fund	Prudential Life Property Fund
Prudential Life International Balanced Fund	Prudential Life International Equity Fund
	Prudential Life International Bond Fund
	Prudential Life Episode Fund (International Tactical Asset Allocation)

## Useful administrative details:

1. All Prudential Life funds are priced daily and will be included in the relevant GIPS audited performance composites that we submit to industry surveys.
2. Clients invested in Prudential Life portfolios will receive high levels of portfolio reporting, including monthly investment holdings statements and quarterly reports with investment commentary.
3. The Custodian for all assets held in the name of Prudential Life is Standard Bank.
4. The termination period for all portfolios is one calendar month's notice.

For further information about the pooled life portfolios and the fees that apply, please contact Bernard Fick on (021) 670 5090 or email: [Bernard.fick@PPM-SA.com](mailto:Bernard.fick@PPM-SA.com)



# Meet the Team:

## Rajay Ambekar

Rajay grew up in the Eastern Cape, studied at UCT and completed his articles at Andersen. He qualified as a CA(SA) in 1998 and is also a CFA charterholder.

Prior to joining African Harvest (now Cadiz) as an equity analyst in April 2003, Rajay was a Senior Audit Manager at KPMG. In June of this year, Rajay joined us as a portfolio manager, using his expertise to analyse equities - although his initial focus will be on the transport sector.

Rajay spends most of his spare time with his wife and two young daughters, and enjoys playing squash, golf and tennis.

We would like to welcome Rajay to the team - and wish him a long and happy stay with Prudential.



Rajay Ambekar  
Portfolio Manager  
& Equity Analyst



Cape Town:  
7th Floor, Protea Place, 40 Dreyer  
Street, Claremont, 7708  
P O Box 44813, Claremont, 7735  
Tel: (021) 670 5100  
Fax: (021) 670 5110

Johannesburg:  
Rosebank Office Park,  
181 Jan Smuts Avenue,  
Rosebank, 2196  
P O Box 963, Saxonwold, 2132  
Tel: (011) 530 8600  
Fax: (011) 447 0186

e-mail: [info@ppm-sa.com](mailto:info@ppm-sa.com)

website: [www.prudential.co.za](http://www.prudential.co.za)