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Equity diversification is a key to outperformance

Over the past year to end-September, the [Prudential Equity](#) and [Balanced Funds](#) are among several of our unit trusts that have strongly outperformed over 75% of their ASISA category peers. An analysis of their returns shows that this can partly be attributed to the broad mix of South African equity sectors and companies held in the funds – this diversification is one vital characteristic every investor’s portfolio needs to be able to weather the ups and downs of equity markets.

For example, within the total 14.7% outperformance of the Prudential Equity Fund over the 12 months to 30 September 2021, no sector or company has contributed more than 3.5% of that overall outperformance. This might be somewhat contrary to what some investors may have thought, given the dominance of Resources stocks across our local equity market (on the back of the strong run-up in commodity prices) over the period.

Within the JSE’s different sectors, the Industrial Goods and Services sector has been one of the top contributors to the Equity Fund’s outperformance, adding 3.5% of the total, followed by Banks with 3.4%.

Within these sectors, we have seen global shipping container group Textainer, and paper and plastics manufacturing and recycling company Mpact, adding excellent value, as well as banks -- Investec and Absa in particular. It's important to note that both Textainer and Mpact are mid- to smaller-cap companies, which is another diversifying factor for the fund.

Communications group MTN has been another stand-out contributor that we were able to increase our exposure to during the sharp market sell-off in March-April 2020. The counter has added some 2.4% to the Equity Fund's outperformance in the last 12 months. On top of this, our positioning in Basic Resources counters, comprising our exposure to Impala Platinum and underweight in AngloGold Ashanti, have added 1.0% and 1.8%, respectively.

Finally, another three sectors -- Chemicals, Technology and Energy -- are represented by our holdings in Sasol, Altron and Exxaro. Each of these companies has contributed 1.6%, 1.2% and 1.0%, respectively, of the Equity Fund's outperformance.

There's no doubt that the 14.7% outperformance delivered by the Prudential Equity Fund over the past year is exceptionally high. It took place during a period of extraordinary opportunities in the SA equity market, where shares were available at very cheap valuations, and we were able to capitalise by buying up companies with excellent assets and growth prospects at large discounts. Although valuations were a significant driver of absolute fund returns, based on the above, we can see that diversification was also key to relative outperformance -- no sector or handful of shares have been dominant. We have positioned our funds to be flexible and diversified enough to deliver value in different market conditions, incorporating many different ideas into the portfolio and taking risk into consideration by limiting our exposure to sectors and individual shares.

For more information on the fund or to invest directly, contact our Client Services Team on 0860 105 775 or email us at query@prudential.co.za.