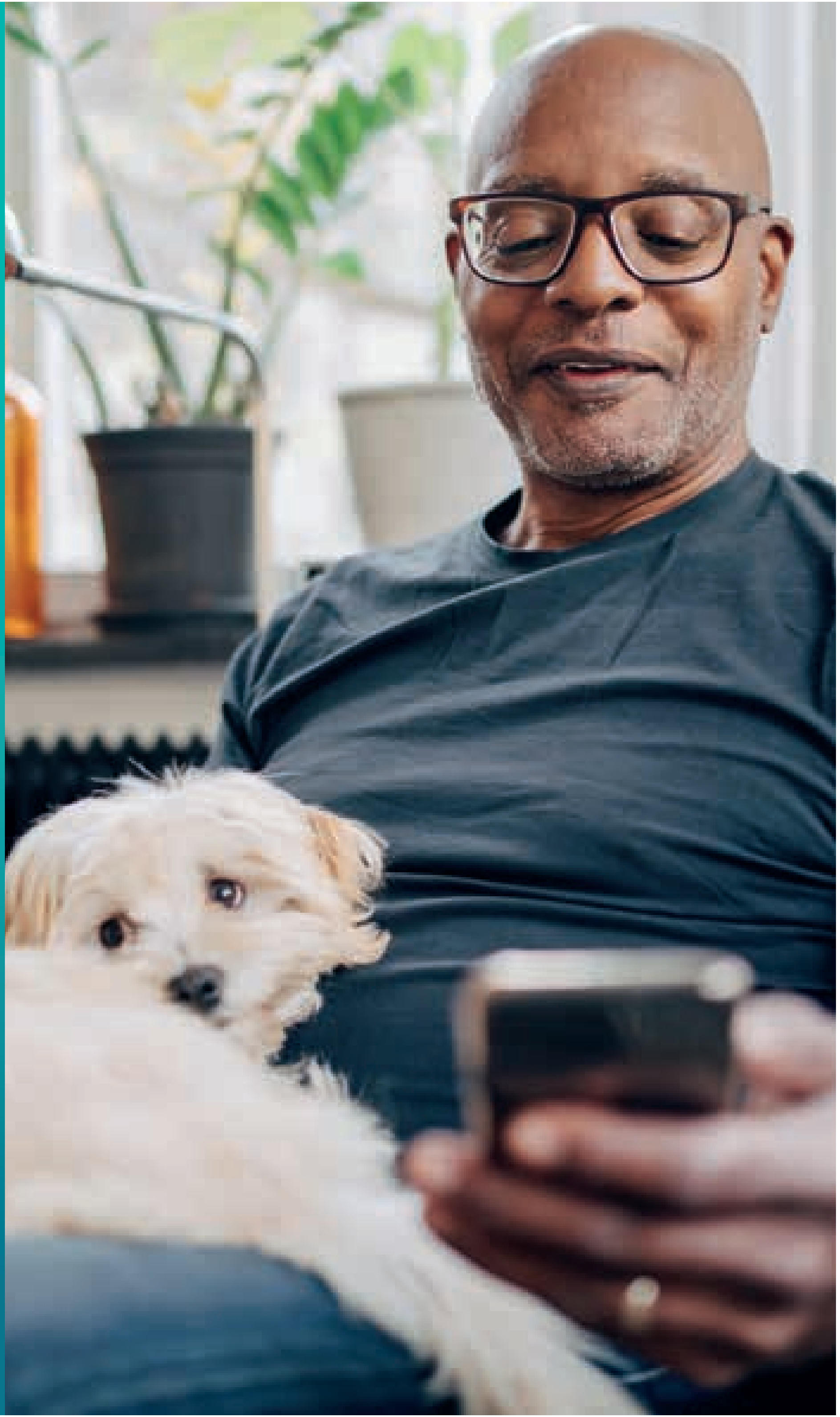

PRUDENTIAL

A closer look at PruFund: your market overview

It's always a good idea to know where your money is invested. So, if you've wanted to know more about PruFund, or if recent market activity has made you more interested in PruFund, this market overview is for you.

Let's get started

As your adviser will have explained when you first invested, PruFund contains different types of assets such as shares, bonds, property and alternatives. Along with cash, these are the building blocks of PruFund.

In this market overview, you'll learn about these different types of assets. You'll also receive a general summary of how each type of asset has performed up to the end of December 2020.

> For more information about your investments or about PruFund, please speak to your adviser. They will be familiar with your situation and be able to discuss your investments in detail.

Taking a closer look at shares

Get to know: shares

When PruFund buys shares, it's as if we're buying pieces of the companies that we invest in. Presently, PruFund owns shares in more than 2,000 different companies from around the world, including the UK, Europe, the United States and Asia.

We buy shares across many different types of business to spread risk and provide more potential opportunities. By investing across a large number of companies, only a small part of PruFund is in any one company. This means if the share price of an individual company falls, the overall impact on PruFund is generally small.

Market overview: shares

In the final months of 2020, COVID-19 continued to spread and more aggressive lockdowns were put in place to cope with rising infection and death rates. To support businesses and workers whose income was affected, the Bank of England voted to extend the 80% furlough scheme to the end of March 2021.

A glimmer of hope came in November, when Pfizer/BioNTech reported their vaccine, then in final-stage clinical trials, was effective against COVID-19. Early in December, the UK approved this vaccine and became the first country to begin a mass vaccination programme. Later in the month, a second vaccine, the Oxford/AstraZeneca COVID-19 vaccine, was also approved.

However, a new and potentially more contagious strain of COVID-19 was also identified. The UK government had hoped to loosen some lockdown restrictions to allow families to spend Christmas together but had to abandon this plan because this new strain was spreading so quickly. By the end of the month, cases were surging.

Despite the negativity and the increase in cases, stock markets around the world rose in the fourth quarter. The successful COVID-19 vaccine trials in early November were the key reason. Investors could finally see 'light at the end of the tunnel' so, despite fresh lockdown restrictions being imposed in many countries towards the end of the year, share prices rose globally

Also, during this quarter, the United States presidential election was held. Even with the pandemic raging, voter turnout on Election Day, 3 November, was higher than usual. However, in response to the pandemic, many Americans opted to vote by mail instead of in person, which delayed the counting of ballots. Joe Biden was eventually declared the winner, but Republicans accused the Democrats of stealing the election. President Trump did not concede the election to President Elect Biden and Trump unsuccessfully sought to overturn the results. However, the results of this election and a fresh stimulus package were seen as positive developments, which seemed to elevate investor sentiment further.

In December, optimism was growing about a EU/UK post-Brexit trade agreement. Brexit talks were intensifying towards the end of the year, as the deadline approached. Then, on 24 December – Christmas Eve – after years of negotiation and with the deadline imminent, a deal was struck. On 26 December, a 1,246-page document describing the deal was released and on 30 December, just 48 hours before the end of the transition period, the deal was ratified in the House of Commons.

All of this good news was beneficial to PruFund portfolios and we are cautiously optimistic on the prospect for economic growth in 2021. But please remember, as with any investment, the value of your investment can go down as well as up, and there's always the potential for loss.

Taking a closer look at corporate bonds

Get to know: corporate bonds

A bond asset is different to an Investment Bond you might invest in, and is a loan, usually to a company or a government. The majority of bonds that PruFund invests in are corporate bonds – to companies.

Corporate bonds can help companies raise money to finance new business opportunities. Companies repay bonds at a fixed interest rate over a given time period, so bonds are sometimes called 'fixed-interest' investments. It's not so different to borrowing money for a car or a mortgage, and repaying it on a schedule.

The benefit of investing in bonds is that they have the potential to provide a steady income. They're generally less likely than shares to rise and fall in value rapidly over a short period of time.

PruFund invests in corporate bonds in over 40 different countries through Europe, North America, South America, Asia and Africa. By investing in bonds from companies in many different countries, we're aiming to achieve good returns by spreading investments. But there's no certainty and there's still the potential to lose money.

Market overview: corporate bonds

Because our investment in bonds is so large and spread out across many countries, whatever is happening in the world will be felt in our bond investments, whether good or bad. However, despite COVID-19 and the challenges it has caused, corporate bonds performed quite well in this quarter up to December 2020. The performance of corporate bonds was boosted by government bond-buying programmes, which was positive.

There are different types of bonds within corporate bonds, and each of these different bond types offer varying levels of risk. Within corporate bonds, during this quarter, riskier high yield corporate bonds performed better than investment grade bonds, as investors looked at different areas for future returns.

Bonds in emerging markets (markets in countries whose economies are still developing such as China, India, South Africa, and Brazil) also did well. Since PruFunds have significant investments in corporate bonds across the world in both developed and emerging markets, these positive returns were good news for PruFund portfolios.

Looking ahead, PruFunds will continue to hold mainly corporate bonds as we believe they offer the potential for better returns in the future. Of course, as with any investments, there's still the potential to lose money and for the value of your investment to go down as well as up.

Taking a closer look at property

Get to know: property

PruFund invests in a large number of commercial properties across the UK, United States, Europe and Asia. Among these properties are offices, shops, retail parks, warehouses and industrial units. We invest primarily in commercial properties because they offer an attractive and generally steady income and the potential for some growth in the value of each property.

Market overview: property

As with other investments, the performance of PruFund's property investments have been impacted by the COVID-19 pandemic. In general, this has been a challenging time for the commercial property market. Nevertheless, commercial property delivered positive returns in the fourth quarter, thanks largely to the rental income received.

Due to the pandemic, there've been many changes to how we live and work which have affected our investments in property. For instance, during this quarter, many people continued to work from home to reduce transmission of COVID-19 which led to a fall in the demand for office space in some places. Good-quality, centrally located offices in London and core regional markets remained desirable, but there was less demand for properties that weren't in prime locations.

With an increased use of online shopping, the demand for retail space and retail parks also decreased. Since fewer people visited retail shops in person, retail businesses continued to struggle. But the increased use of online shopping benefitted properties in the Industrials sector, which include those that serve as distribution centres and warehouses for online retailers.

Whilst PruFund portfolios hold a good proportion of retail property, which will have been a drag on returns, PruFunds also hold Industrials such as distribution centres for online retail, which was good news. PruFund investments in these types of properties have done very well. PruFund continues to believe that property offers the potential for steady long-term returns. But please remember that with property, as with any investment, the value of your investment can fall as well as rise, and there's always the potential to lose money.

Taking a closer look at alternatives

Get to know: alternatives

As the name ‘alternatives’ suggests, these aren’t your ‘run of the mill’ shares or bonds. Although only a relatively small portion of PruFund is invested in alternatives, alternatives are some of the most interesting investments in the PruFund portfolio.

PruFund invests hundreds of millions of pounds in alternatives on your behalf. Because investments in alternatives can perform differently to what’s happening in the wider economy, they offer another way to help spread out the risk of investing.

Alternatives can be very complex, but for PruFund there are three main types:

Private Equity investments: These are investments composed of shares in companies that are not publicly traded on financial markets.

Real Assets and Infrastructure investments: These are investments into physical assets that provide services to businesses, regions, or countries. Some of our investments in real assets are in transportation and agriculture, whilst some investments in infrastructure are in communication networks, energy and water.

Diversifying Strategies and Hedge Funds: These are investments that can behave in very different ways to the other asset classes and offer diversification benefits to our investors. Music royalties and pharmaceutical royalties are examples of our Diversifying Strategies investments, whilst hedge funds are specialist investment partnerships that can make money in positive and negative markets.

Market overview: alternatives

The Alternatives portfolio has performed well in 2020, despite the COVID-19 pandemic. One bright spot has been our investments in telecommunications and technology businesses that provide internet connectivity. This can be traced to the widespread increase in internet use during the last year, when so many people working from home have needed good online access to do their jobs.

Our assets in renewable energy, which we often refer to simply as ‘renewables’, have also performed well. This is helped by the global movement towards building a greener, more environmentally friendly world, and reducing carbon emissions. These returns were complemented with strong returns from our globally focussed hedge fund investments that were able to tactically trade throughout the market volatility.

We’ve also made additions to our portfolio this quarter. For example, we’re providing capital to good businesses that have fallen into financial difficulty due to the pandemic, but which have potential to rebound over time and deliver a positive return. We’ve also invested further into renewables in emerging markets. But please remember, as with any investment, the value of your investment can go down as well as up, and there’s always the potential for loss.

If you'd like to learn more about PruFund

We hope that you've found this market overview interesting and helpful. Please remember, if you have further questions, it's always best to speak to your adviser. Only your adviser will have a complete view of your situation and be able to answer questions with your financial goals in mind.

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