PRUDENTIAL

Your guide to

The Risk Managed Passive range

The best of both worlds

One of the keys to successful investing is to find the correct balance between potential risk and reward.

The Risk Managed Passive funds are a range of multi-asset, Open Ended Investment Company (OEIC) funds, designed to target different levels of risk, and combine active asset allocation with a passive fund management approach.

By combining these two approaches, you get the best of both worlds – you benefit from specialist investment expertise and cost-effective access to mainstream equity markets.

We'll manage your money to achieve the best return we can for the level of risk you are willing to take.

Link Fund Solutions Limited is the Authorised Corporate Director (ACD) of the LF Prudential Risk Managed Passive OEIC funds. The term ACD is used to describe the party responsible for operating the OEIC in accordance with the regulations.

Please remember, investment returns are not guaranteed. The value of an investment can go down as well as up and you may not get back the full amount of your original investment.

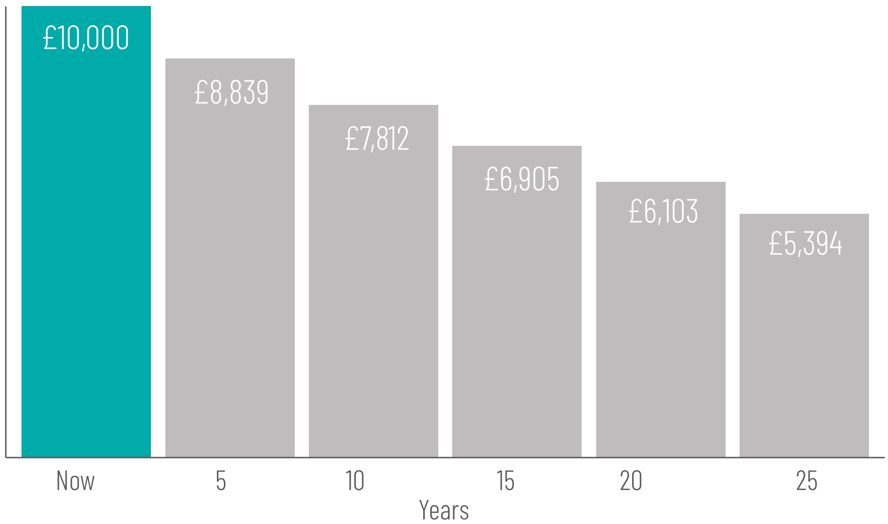
The value of investing

Saving and investing is about putting plans in place for your long-term goals while making sure you have enough money set aside to cover regular expenses and emergencies.

Investing puts your money to work, so that it's active on your behalf – but it does carry risks. And different types of investments have different levels of risk. Generally speaking, there's a link between the amount of risk you're prepared to take, and the potential rewards you're looking to gain.

Cash may be more secure in a lower-risk investment, but it has a lower growth potential. For example, the money left in a low interest cash account could be eroded by the effects of inflation, but you won't lose the money you put in.

The effect of inflation



Inflation could have a significant impact on the purchasing power of your money and it's important to consider this carefully when looking at investment options.

The graph shows that if we assume 2.5% inflation each year, the purchasing power of £10,000 today could be worth just £5,394 in 25 years' time.

This example also assumes that the sum has not grown over time as no interest has been added.

Investing in a higher-risk investment, over the medium to long-term (5-10 years or more) offers greater potential rewards but also a higher potential loss. And there are no certainties with investments, so taking a higher risk does not guarantee a higher return.

The value of your investment can go down as well as up so you might get back less than you put in.

Where to invest

There are four broad categories of investment, often described as 'asset classes'.

Shares – also known as equities or stocks, where you buy a 'share' in a company.

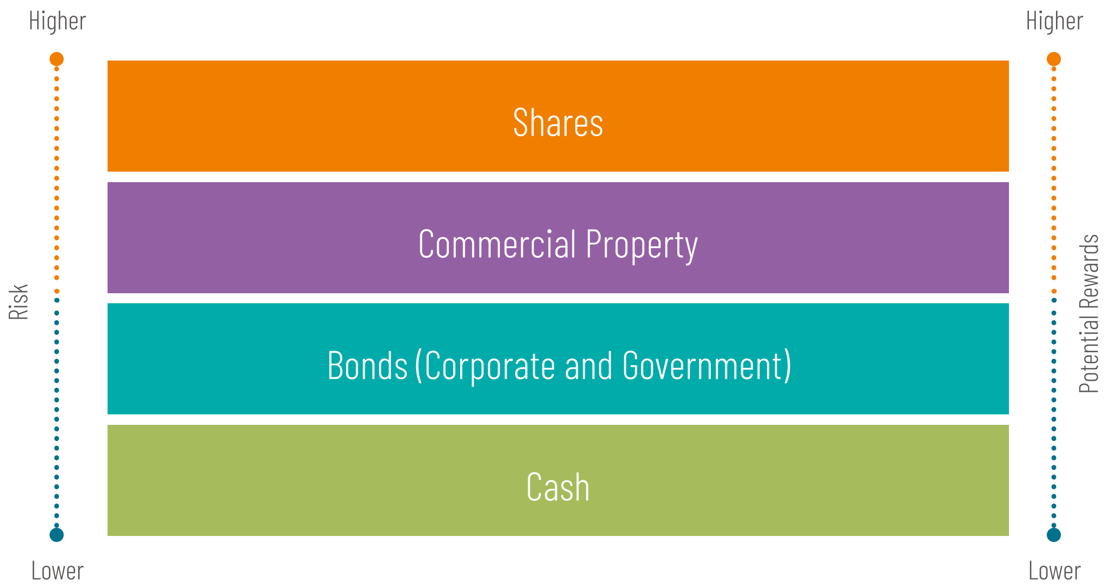
Commercial property – available in a variety of sectors including retail, office and industrial.

Bonds – also known as fixed-interest investments, can be purchased from corporate entities or governments. UK government bonds are referred to as Gilts.

Cash – includes currency, deposit accounts and negotiable investments, for example, money orders, cheques and bank drafts.

These asset classes offer different levels of risk and potential rewards so the most appropriate choice of assets for you would be those which are most in line with your attitude to risk and financial goals.

The risk and potential rewards of different asset classes



Please note this diagram is only intended to be a general indicator of the relationship between different asset classes in terms of risk and reward and may vary in certain circumstances. It's not intended to show examples of all types of asset classes.

The volatility factor

Finding the right balance between potential reward and risk is the key to successful investing.

To help decide what's the 'best fit' type of investment for you, it's important to consider the behaviour and volatility of asset classes, over time. For example, if an asset class rises and falls rapidly over the short-term, it's considered to be more volatile.

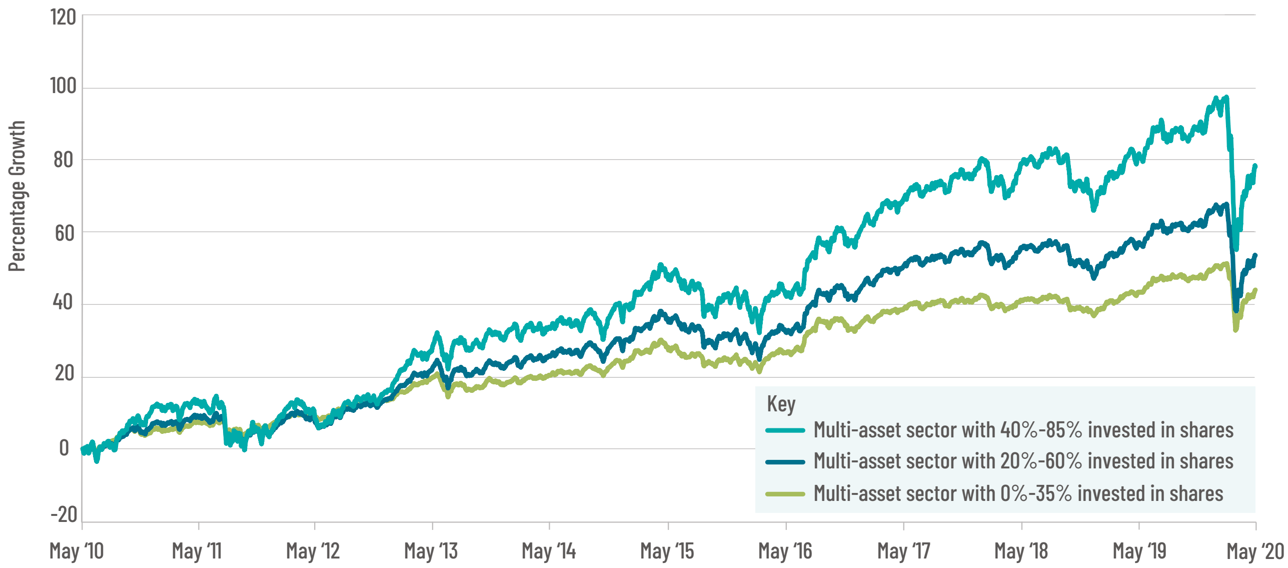
You may feel that the volatility which can result from investing in a single asset class is unacceptable. But at the same time, you're looking to achieve returns that offer the potential to outstrip inflation. So spreading your money over a variety of asset classes with the potential to gain some exposure to higher performing assets, without the risks that come from 'putting all your eggs in one basket', or in one asset class, could be an option for you.

Assuming you're willing to accept some degree of risk for your investments and are prepared to invest over the medium to long-term (5-10 years or more), we have a range of multi-asset funds that may suit your needs.

Some examples of multi-asset funds over a 10-year period

The graph below shows examples of how some multi-asset funds have behaved over a 10-year period. All the sectors shown invest in a mix of asset classes, with each having a different level of investment in shares.

This graph demonstrates that while multi-asset funds can experience some volatility, the diversification can help avoid some of the highs and lows experienced by single asset classes.



In the graph above we have used Investment Association sectors, which group together funds with similar investment strategies. Please remember that past performance should not be considered a reliable indicator of future performance. Source: FE fund info. The graph shows gross returns from 21 May 2010 to 22 May 2020 from the Investment Association (IA) sectors, and are rebased in Pounds Sterling.

Multi-Asset explained

A multi-asset fund typically invests in many different types of investments, including UK and international shares (equities), cash, property and fixed-interest securities, such as corporate bonds.

Each type of investment (asset class) has its own level of risk and return and by spreading your investment across different asset classes, it can help to reduce the extreme ups and downs that you get when investing in a single asset class. This is known as 'asset allocation'.

Introducing our Risk Managed Passive range

Our Risk Managed Passive funds are multi-asset, Open-Ended Investment Company (OEIC) funds, invested across a broad range of asset classes, and designed for medium to long-term investment (5-10 years or more).

Balancing risk and reward

Asset allocation is an investment approach that aims to balance risk and create diversification, by dividing investments across a range of asset classes, like those described above, and other alternative investments.

Each asset class has different levels of return and risk so will behave differently over time. For example, a diversified portfolio that includes higher-risk investments such as equities as well as lower-risk investments such as bonds, will help to manage and lower your risk. If equities have dramatically decreased in value, the fixed interest from your bonds should still help to provide some balance and stability.

Our investment approach

In addition to targeting different levels of risk, our Risk Managed Passive range combines asset allocation with a passive fund management approach, which means you benefit from a fund manager's expertise, experience, skill and judgement to make decisions on where, when and how much to invest, on an ongoing basis.

This active asset allocation and passive fund management approach offers the potential for growth as well as spreading the risk across a wider range of assets.

Each Risk Managed Passive fund is a 'fund of funds' which means they each invest in a range of underlying funds. This offers a simple solution to the challenge of selecting funds – within each sector there can potentially be hundreds of funds to choose from – and diversifying across different asset types.

Within a fund of funds, as part of an OEIC investment, underlying funds can be switched and replaced as often as is necessary, without having to pay any Capital Gains Tax (CGT). Fund of funds are often called 'multi-manager funds'.

! OEICs explained

An Open-Ended Investment Company (OEIC) is a collective investment scheme, or managed fund, in which the money of many investors is pooled together and managed by a professional fund manager. Instead of buying individual investments, this can be an easier and more cost-effective way to invest in the markets across different asset classes. It can help to reduce the extreme ups and downs that you get when investing in a single asset class.

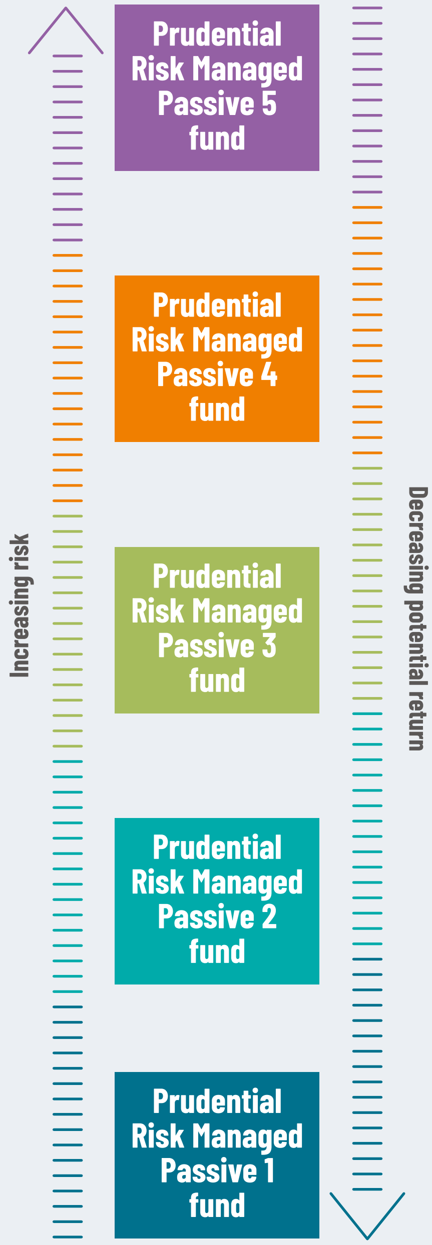
! Passive management explained

Passive management (also called passive investing) is an investing strategy that tracks a market-weighted index or portfolio. Passive management is most common on the equity market, where index funds track a stock market index, but it's becoming more common in other investment types, including bonds, commodities and hedge funds.

Our risk profiles

Our Risk Managed Passive range offers a choice of five-risk managed multi-asset collective funds, each with its own risk profile investing at least 70% in passive collective investments) and investment objective.

The numbering of the funds i.e. Prudential Risk Managed Passive 1 fund, up to Prudential Risk Managed Passive 5 fund, indicates the increasing level of investment risk – with 1 low and 5 high – and the higher level of investment risk, the greater the potential reward.



Investment objectives

Prudential Risk Managed Passive 5 fund – The fund aims to achieve long-term (in excess of 5 years) total return (the combination of income and growth of capital) by investing in a mix of assets from around the world and aims to limit the average volatility per annum over rolling 5 year periods to17%. There is no guarantee the objective will be achieved over any time period and the actual volatility, at any time, may be higher or lower than 17%. Capital invested is at risk.

Prudential Risk Managed Passive 4 fund – The fund aims to achieve long-term (in excess of 5 years) total return (the combination of income and growth of capital) by investing in a mix of assets from around the world and aims to limit the average volatility per annum over rolling 5 year periods to 14.5%. There is no guarantee the objective will be achieved over any time period and the actual volatility, at any time, may be higher or lower than 14.5%. Capital invested is at risk.

Prudential Risk Managed Passive 3 fund – The fund aims to achieve long-term (in excess of 5 years) total return (the combination of income and growth of capital) by investing in a mix of assets from around the world and aims to limit the average volatility per annum over rolling 5 year periods to 12%. There is no guarantee the objective will be achieved over any time period and the actual volatility, at any time, may be higher or lower than 12%. Capital invested is at risk.

Prudential Risk Managed Passive 2 fund – The fund aims to achieve long-term (in excess of 5 years) total return (the combination of income and growth of capital) by investing in a mix of assets from around the world and aims to limit the average volatility per annum over rolling 5 year periods to 10%. There is no guarantee the objective will be achieved over any time period and the actual volatility, at any time, may be higher or lower than 10%. Capital invested is at risk.

Prudential Risk Managed Passive 1 fund – The fund aims to achieve long-term (in excess of 5 years) total return (the combination of income and growth of capital) by investing in a mix of assets from around the world and aims to limit the average volatility per annum over rolling 5 year periods to 9%. There is no guarantee the objective will be achieved over any time period and the actual volatility, at any time, may be higher or lower than 9%. Capital invested is at risk.

Please note: The numbers used within the fund names reflect the relative risk against the other funds in the fund range. They don't reflect the actual level of risk and aren't intended to match the risk and reward profile in the Key Investor Information Document. Other companies and risk rating agencies may rate risk differently.

How our Risk Managed Passive funds are managed

Our Risk Managed Passive funds are managed by M&G Investment Management Limited, part of M&G plc. As investment manager of the funds, they make the fund selections and relevant adjustments to the portfolio based on recommendations from the M&G Treasury & Investment Office (T&IO).

T&IO recommends the asset allocation for each Prudential Risk Managed Passive fund

M&G Investment Management Ltd, part of the M&G Group, execute the trades in order to conform to the asset allocation model set by T&IO

Link Fund Solutions Limited the Authorised Corporate Director for the LF Prudential Risk Managed Passive OEIC funds, ensures that T&IO recommendations are in line with the funds' objectives

Who is T&IO?

M&G's multi-asset team, Treasury & Investment Office (T&IO) is one of the largest and most well-resourced in the UK. T&IO manages over **£178 billion** across a growing range of highly competitive multi-asset investment solutions and annuities, on behalf of Prudential UK and Europe.

T&IO has great strength in depth with access to a team that includes investment professionals with expertise in capital market research, investment strategy design, liability management, derivatives and portfolio management.

Source: T&IO, 31 December 2019

! Alternatives explained

Not one of the conventional investment types such as stocks and bonds, alternative investments could include infrastructure, private equity, alternative credit and hedge fund type assets.

! Collectives explained

Collective investments pool money from different investors into one fund, such as a unit trust, open ended investment company (OEIC) or investment trust.

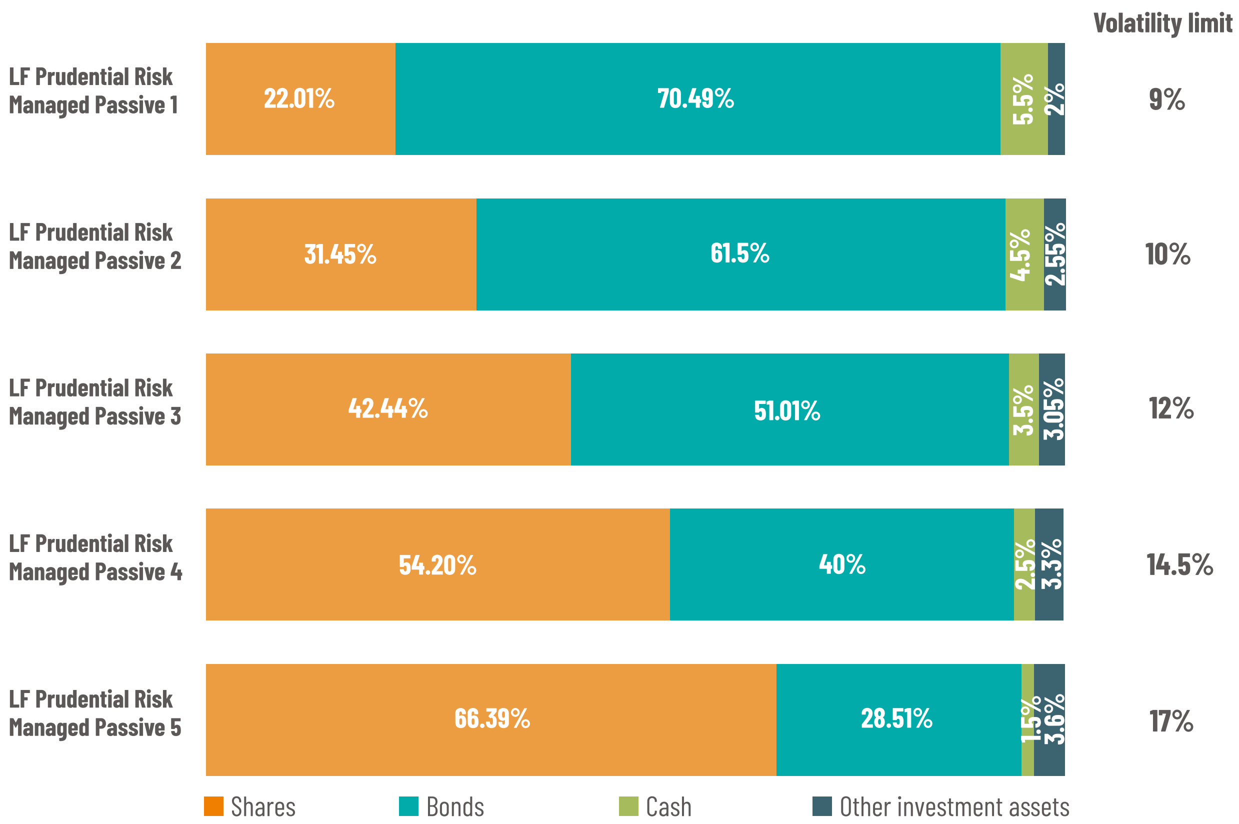
What our Risk Managed Passive funds invest in

The types of funds used and the asset allocation split of each Risk Managed Passive fund will depend on the funds' objectives. Each Risk Managed Passive fund has a different volatility objective which means your adviser can recommend a fund that's appropriate to your attitude to risk and reward.

Each fund has a different range of investment in shares, with the rest being invested in various amounts in bonds and cash, as you can see in the graph below. The LF Prudential Risk Managed Passive funds are numbered one to five, based on how volatile we expect each fund to be, for example:

- LF Prudential Risk Managed Passive 1 has the lowest volatility limit of 9% and therefore, the lowest amount invested in assets that may be more volatile (currently just over 22% in shares)
- LF Prudential Risk Managed Passive 5 on the other hand, has the highest volatility limit of 17% and the highest amount invested in assets more likely to be volatile (currently just over 66% in shares).

LF Prudential Risk Managed Passive Funds



The asset mixes for the passive funds shown above (example only), are valid from 1 September 2019. The asset allocations are regularly reviewed and may vary from time to time, but will always be consistent with the fund objective.

Asset types

The types of assets that T&IO can propose, for the Risk Managed Passive funds, are:

Cash – This can include cash deposits and other money market investments. Money market investments usually offer the lowest risk of all asset types but also the lowest potential returns. These may be held to target security more than substantial growth. Or to have just enough in cash deposits to make sure money is available for customer withdrawals.

Fixed Interest – A choice of passively managed funds that invest in assets such as corporate bonds or government bonds, from here in the UK and around the world.

Alternatives – Alternative assets may include assets such as private equity, infrastructure and hedge funds. They can offer a higher potential return than other types of assets and can help the overall diversification of a portfolio. The alternative asset funds are managed by selected specialists depending on the area of investment.

Equities – A choice of funds that invest in company shares, or equities, and "track" a range of different stock markets around the globe. These index-tracker funds will be internally selected by T&IO. One aim of index-tracker funds is to provide a lower-cost way to invest than funds that are actively managed.

Investing in Collectives

At least 70% of the Risk Managed Passive funds will be invested in passive collective investments. T&IO will select collective investment schemes to invest in from a focused range of funds and fund management groups (which may include other funds managed by Link Asset Services (the ACD), M&G plc and their associates). The funds currently invest in the following collective investment schemes.

Asset Class	Collective Investment Schemes
UK Equity	iShares UK Equity Index
Europe ex UK Equity	L&G European Index Trust
US Equity	iShares US Equity Index
Japan Equity	iShares Japan Equity Index
Asia Pac Equity	iShares Pacific ex Japan Equity Index
GEM Equity	iShares Emerging Markets Equity Index
Property	Tactical investments
Alternative Assets	Various
UK Fixed Income	M&G Strategic Corporate Bond
	iShares Corporate Bond Index
European Fixed Income	M&G European Corporate Bond
	iShares Euro IG Corporate Bond Index
US Fixed Income	iShares US Corporate Bond
Global High Yield	M&G Global High Yield Bond
Cash	iShares Cash Fund

T&IO will regularly review the performance of these schemes, and may propose changes in the future.

Risk Managed Passive range – in summary:

- Each Risk Managed Passive fund is a 'fund of funds', which means that each invests in a range of underlying funds
- The underlying funds will be selected by T&IO.
- T&IO recommend the allocations between asset types within each Risk Managed Passive fund
- The Risk Managed Passive range combines active asset allocation and passive fund management
- M&G Investment Management Ltd actively manage some of the underlying active funds
- The funds are available as OEIC investments
- Unit-Linked versions of the OEIC funds are available for investment in selected Prudential and Prudential International's products.

Further information

For more information on Risk Managed Passive funds or Prudential's range of investment funds and products, please contact your Financial Adviser. Please remember, investment returns are not guaranteed. The value of an investment can go down as well as up and you may not get back the full amount of your original investment.

The Treasury & Investment Office (T&IO) – experts in diversified investment

We believe a well-diversified fund is more likely to achieve consistent returns and that value can be added through a sound and well-structured investment process. This is why we use M&G's expert investment strategists at T&IO to make our strategic investment decisions.

As our in-house team, and 'manager of managers' for Prudential in the UK, M&G's Treasury and Investment Office are independent of the various underlying asset management businesses within M&G plc and are responsible for approximately £178bn* assets under management across a range of multi-asset investment solutions and other Prudential products.

M&G's investment strategist

T&IO's main objective is to ensure that they optimise the asset allocation of funds. This is core to their investment approach. T&IO uses their access to global investment expertise to determine the appropriate investment spread aiming to meet the investment objectives. Importantly, they regularly keep the asset allocation under control. To achieve the right mix of assets at any given time, they have a regular process of monitoring and adjusting the mix for any market or fund changes.

The T&IO approach to asset allocation

To help inform their asset allocation decisions, T&IO analyses the information available to them on the performance of assets over both the long and the short term. They look backward at historical information and they also look forward to consider how each asset is likely to perform. And at the core of any long-term asset allocation decision is a process that has been in place – and successful – for nearly two decades.

Access to a global range of funds

T&IO has access to the expertise of other M&G plc investment companies, such as M&G Investments and M&G Real Estate, and a global network of contacts at high quality external investment companies. This gives clients access to a range of investment funds both internal and external, managed by experts in their field.

Team-based approach

T&IO use a team-based approach to reach a consensus house view. As part of the M&G group, T&IO draws upon the experience of hundreds of investment professionals both in the UK and around the world. These investment teams are supported by experienced information and risk monitoring teams.

Governance framework

Governance and controls are particularly important for T&IO, and as such they work within a thorough and effective governance framework, so that each part of the investment process is reviewed and controlled at all times.

Fund selection and manager oversight

The T&IO Manager Oversight team has created a rigorous set of procedures to underpin the selection, ongoing monitoring and management of the various underlying investments.

Funds throughout the portfolios have been selected on the basis of a robust due diligence process that combines quantitative factors, including measures of performance and holdings analysis, with qualitative analysis focused on the business, people, process, philosophy and infrastructure.

The team also monitors the suitability of all underlying fund managers through a robust process of formal regular reviews, and our analysis of key risks within each underlying fund – single stock, sector and country exposures – helps us understand drivers and detractors of performance at any given time.

** as at 31 December 2019.*

Some terms explained

Bond

Lower to medium-risk loans to the government or companies that pay you a fixed rate of interest.

Capital growth

Any money you receive in addition to the capital you've invested when you cash in your investment.

Corporate Bond

A loan to a company that earns you income in the form of interest. (See also Bond).

Fund Manager

An individual who is employed by a company to manage money. It is a fund manager's aim to buy shares or other assets such as property or bonds that they believe will increase in value or provide a level of income.

High Yield Bond

This is a bond that generally has a low (or "non-investment grade") credit rating and which offers higher interest payments than a bond with a higher credit rating due to the increased risk of default by the company issuing the bond. It can also be known as a "junk" bond.

Money Market Instruments

Defined as cash and near cash such as bank deposits, certificates of deposits, fixed interest securities or floating rate notes, with, where applicable, a maturity date of under a year.

Pension Fund

General term used to describe the investment fund built up in a pension plan which could be used at retirement to provide a continuing income.

Property

In the context of 'Property' as a type of asset, investment is usually in commercial property such as offices, shops and industrial premises.

Stock market

A place where shares or other securities are bought and sold, for instance the London Stock Exchange.

Unit-Linked

These funds operate like an OEIC but can only be accessed or held in a life, pension or international insurance product and can be distinguished from their OEIC fund equivalent by the omission of the prefix 'LF' in the fund's name. They are invested almost entirely in the OEIC fund equivalent and have the same 'Investment Objective' but differ in that they hold a slightly larger proportion of their holdings in cash and may be subject to different charging and taxation costs. Consequently their investment performance will be different to their equivalent OEIC fund.

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