INDEPENDENT AKG REVIEW

PRUFUND STRUCTURE, INVESTMENT MANAGEMENT AND GOVERNANCE PROCESSES

PREPARED FOR PRUDENTIAL ASSURANCE COMPANY LTD | 01 SEPT 2024

Analysis by AKG Financial Analytics Ltd
Accessible • Comparative • Independent

AKG

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1. Introduction

1.1 PROJECT BACKGROUND

The Prudential Assurance Company Ltd (PAC), the Client, has commissioned AKG Financial Analytics Ltd (AKG) to carry out an independent review of the investment and risk management approaches, and the associated governance structures and processes, which underpin the delivery of the PruFund range.

The link with Pru's With-Profits and the intrinsic role played by the M&G Treasury & Investment Office (T&IO) in the management and oversight of the assets underlying the PruFund range is also recognised and considered within this review.

1.2 AKG'S ASSIGNMENT

AKG's assignment can be broadly summarised as carrying out an independent assessment of the proposition considering and covering the following key themes and questions:

- An introduction to governance and some thematic market context
- Overview of Pru With-Profits Fund structure and some pertinent components
- Introduction to T&IO, including experience, resource, key team structure and processes
- Overview of T&IO's asset allocation philosophy and overarching fund management objectives
- PruFund controls and systems
- Pru's smoothing mechanics explained
- Appraising PruFund performance and governance in action

This AKG review concludes with a summary of the merits and positioning of the PruFund proposition against some of the key considerations included in our suggested checklist for advisers when considering outsourced multi-asset funds/portfolios.

1.3 AKG'S REVIEW PROCESS AND THE SCOPE OF ITS CONSIDERATIONS

AKG has a key focus on the assessment of UK Life Companies from a financial strength perspective. These entities, including Prudential, and others operating in similar life, pensions and investment spheres are assessed in AKG's Provider sector.

In addition to studying the core financial reporting of life companies, a further element of AKG's balanced scorecard approach to assessment is to appraise risk and governance frameworks. AKG has therefore been able to use its knowledge of these frameworks, and additionally its experience of reviewing governed investment solution, to inform this assessment and review.

AKG has been publishing a set of reports covering both open and closed UK Life Office With Profits Funds since 2006 and has been analysing with profits funds for over 25 years. This experience has seen AKG's UK Life Office With Profits Reports become industry recognised as the key annual reference point for all matters related to with profits funds in the UK and the output provides a valuable resource for financial advisers, product providers, research groups and other interested parties.

Pru is covered within AKG's With Profits output and AKG has therefore been able to use both this knowledge of the market and the Pru proposition to further inform this PruFund assessment and review.

Further information about AKG can be found at AKG Homepage.

1.4 INFORMATION SOURCES

AKG has been supplied with and has utilised a wide range of material as a resource pool for this project, including the following:

With Profits

2023 With-Profits Fund Stewardship Report for UK customers -

https://www.mandg.com/dam/pru/shared/documents/en/pruf100158005.pdf

PruFund

PruFund Cautious Fund Factsheet - https://www.pruadviser.co.uk/pdf/INVS11397.pdf

PruFund Growth Fund Factsheet - https://www.pruadviser.co.uk/pdf/INVS11256.pdf

PruFund Range Client Guide - https://www.mandg.com/dam/pru/shared/documents/en/pruf1098001.pdf

PruFund Strategic Asset Allocation Update: Investing at the end of the cycle, June 2024

https://www.mandg.com/wealth/adviser-services/investment-expertise/investment-insights/prufund-saa-review-twentytwentyfourAccess to regular PruFund updates, including monthly investment updates for PruFund Cautious and PruFund Growth Funds

https://www.mandg.com/pru/adviser/en-gb/funds/prufund-range

Smoothing

A step-by-step guide to the PruFund smoothing process - https://www.mandg.com/dam/pru/shared/documents/en/pruf1098101.pdf

Latest EGR announcement

The current rates are published at: https://www.pruadviser.co.uk/funds/prufund-egr/ (the rates effective from 27 August 2024 were shown at the time of publication of this report).

Access to key personnel

AKG has also had access to members of various Pru and T&IO teams in order to provide further context and practical examples of the investment approach, structure and processes.

Additional Pru material

Additional material from Pru has been considered in the compilation of this report and some of this material is referenced directly within the body of this report.

1.5 RELIANCES AND LIMITATIONS

Much of the information upon which AKG's review and comments are based has been supplied directly by the Client. AKG has made every effort to ensure the accuracy of the content of this review and to ensure that the information contained is as current as possible at the date of issue, but AKG (inclusive of its directors, officers, staff and shareholders and any affiliated third parties) cannot accept any liability to any party in respect of, or resulting from, errors or omissions. AKG personnel are available to expand upon the comments in this report, if required.

Whilst many aspects underlying AKG's comments are likely to change only slowly, the financial services industry is a competitive and dynamic marketplace, with new products/funds and developments being announced regularly. As a result, AKG cannot guarantee that any particular comment will remain appropriate at any future date. Future developments in the market could have significant impact upon the comments.

AKG information, comments and opinion, as expressed in the form of its analysis and ratings, do not establish or seek to establish suitability in any individual regard and AKG does not provide, explicitly or implicitly, through this review and its content, or any other assessment, rating or commentary, any form of investment advice or fiduciary service.

1.6 CONFIDENTIALITY

This review has been produced for the Client's consideration. AKG is happy for the Client to reproduce all or part of this review in any internal or external published material, subject to prior written agreement of the content, context, duration and volume of such reproduction and of any reference, explicit or implicit, to AKG's involvement in producing this review.

2. AKG Observations

- The PruFund range is intrinsically linked to the operation of the Pru With-Profits Fund. Ultimate responsibility for the performance and governance of Pru With-Profits Fund and the PruFund range resides with the PAC board.
- The Pru With-Profits Fund and the PruFund range are subject to an additional layer of scrutiny, review and process through the work of the independent With-Profits Committee and the required publication of a Principles and Practices of Financial Management (PPFM).
- The PAC Board delegates many operational and investment duties to T&IO, including responsibility for strategic asset allocation. It's vital therefore that advisers seek to gain an understanding of T&IO's important role, approach, processes, structure and teams.
- Given the nature and composition of the PruFund range, and its associated mechanisms, T&IO has a requirement for an industrial strength, multi-faceted investment management, risk and governance framework. AKG can see, through T&IO's structure, processes and the range of application of its teams, that this requirement is taken seriously and that appropriate measures are put in place to continue this governance underpin.
- In addition to investment management and process considerations, the smoothing framework and mechanics of the PruFund range, including EGRs and UPAs, need to be acknowledged and understood by advisers. And then advisers must ensure that clients have a decent understanding of how things work and how performance might play out based on these mechanics and parameters.
- Furthermore, it is important to reiterate to clients that their investment in PruFund can go down as well as up, regardless of smoothing.
- From an investment solution perspective, financial advisers are able to identify which parts of the investment process are being outsourced to T&IO through the use of PruFunds and hence which responsibilities remain with them (in consultation with the client). Adviser responsibilities revolve around gauging the suitability of the fund, tax wrapper and product features (such as smoothing), the assessment of an investor's risk appetite (attitude to risk and capacity for loss) and then contextual financial planning issues; with T&IO picking up the core investment tasks, including asset allocation, portfolio management and manager selection.
- Pru has been through a concerted period of business change and transition, including corporate structure, business integration and personnel. It is important that momentum is maintained in relation to the operation, management and delivery of the PruFund proposition, which clearly remains central to the future success of the business.
- Pru continues to target new business opportunities for PruFund variants across a range of life, pension and investment wrappers. Whilst the PruFund range is long-standing, it continues to evolve with recent developments including platform accessibility for the full PruFund range of funds (via M&G Wealth Platform) and ESG-themed investment proposition developments (via PruFund Planet).
- Given the wide range of PruFund types, it is important for advisers to keep abreast of the relevant type or series of PruFund within which their clients hold investments, particularly when it comes to investment performance review and pertinent announcements relating to EGRs and UPAs.
- AKG can see that interaction between the teams which form T&IO and the wider teams within Pru does take place and that they work together to achieve their collective goals and support advisers. They also show an understanding of how investors will be engaging with PruFund solutions in the market, including usage within pension, onshore/offshore bond and ISA wrappers, via the technical sales support functions and communications.
- The core PruFund Growth and PruFund Cautious Funds have both been operating in the market for a number of years now – indeed the Life variant of PruFund Growth is now celebrating its 20th anniversary - and each fund has generally displayed a consistent and strong track record in terms of performance against stated investment objectives and parameters.
- The performance presents a positive endorsement of the investment approach, risk management, product design and governance structure.
- The shape of the performance charts also underlines how Pru's smoothing process has successfully taken some of the investment bumps out of the equation for investors. It is important to reiterate to investors that their investment in PruFund can go down as well as up.

- Other key performance indicators for PruFund's investment approach, risk management procedures and governance structures (across Life, Pension and Investment product wrappers) are EGRs and UPAs. Advisers must keep a close eye on announcements made by Pru relating to EGRs and UPAs. These are typically done on a quarterly or monthly basis.
- EGRs are published and displayed on Pru's websites for financial advisers and customers on a quarterly basis. This provides another example of where Pru's approach to running PruFunds is open to public scrutiny.
- From an EGR perspective, advisers need to be aware of how their client's particular PruFund variant is forecast to grow, especially if these growth rates are being baked into the client's investment growth expectations. Advisers should also have an understanding of both current and historic EGRs so that they can have a sense of Pru's long-term growth rate outlook and performance.
- From a UPA activity perspective, advisers need to be aware of the number of occasions where Pru has had to employ a UPA to rebalance – positively or negatively – any misalignment in their long-term investment outlook and/or their asset allocation stance, or in response to shorter term markets movements.
- There is an ever-expanding range of PruFund variants and so advisers need to ensure they understand specific EGR and UPA announcements in relation to their client's product/investment holdings.
- Pru and T&IO continues to seek to address key investment issues, outlook and methodology with the adviser community via a range of communication channels.
- Pru will need to keep product governance considerations in mind as it continues with the evolution of the PruFund proposition, acting, where relevant, to establish commensurate processes and systems. This will include ongoing research to monitor the types of customer engaging with PruFund and associated suitability testing.

AKG comment on PAC

Company Financial Strength

"As one of the UK's largest and strongest life companies, PAC continues to show significant resilience in the wake of challenging economic, legislative and regulatory conditions. It has retained focus and increased its market share, whilst continuing to demonstrate its appetite for key segments of the UK market, specifically the Pre- and Post-Retirement space."

"PAC is one of a handful of companies that remain highly committed to with profits and it is dominant in this market in the UK. It has the largest with profits portfolio in the UK, and it continues to write new UK with profits business in volumes that dwarf all others in the market. The inherent strength of its with profits fund remains apparent. PAC's With-Profits Fund reported a Solvency II coverage ratio of 364% [2021: 302%]. "

Source: AKG 2023 UK Life Office With Profits Reports

3. Market Context

3.1 INTRODUCTION TO GOVERNANCE

There is no 'one-size-fits-all' definition of what constitutes good governance. AKG has therefore prepared the following overarching paragraph over time to set the scene, having reviewed various sources from a range of different spheres of business and governmental activity.

In general terms, governance can be regarded as the combination of competent processes and structures within an organisation that ensures it meets its objectives in a legal, ethical and honest way. Most importantly, governance must be transparent. An organisation is accountable for its governance and must be able to demonstrate the same.

This overarching definition then needs to be interpreted further in the context of financial services in general, the specific role that the governance function in question is seeking to play and the associated roles of key market participants, including advisers, providers, platforms, DFMs and asset managers.

In doing so, there are several key terms which then spring to mind when you consider what governance in financial services might stand for, including:

Key Terms Relating to the Concept of Governance		
Accountability	Responsibility	Duty of care
Inquisitive	Challenging	Assessment
Demonstrable	Effective	Adaptable
Structure	Framework	Process
Connectivity	Communication	Recordable
Responsive	Participatory	Effective
Transparent	Auditable	Independent
Ethical	Customer-centric	

Previously, but significantly underlined through the introduction of the Consumer Duty regulatory framework, there is an overarching requirement, via these governance concepts, for customers to be treated fairly and for good customer outcomes to be targeted. Hence, the primary guiding focus should be on the customer.

When assessing governance functions and structures the reviewer should therefore have these key terms in mind, specifically the end customer requirements, and seek to monitor and appraise financial services governance functions against these key competencies and objectives.

AKG's review of the governance approach and framework adopted within the PruFund proposition seeks to assess against some of these key competencies and objectives.

3.2 MIFID II PRODUCT GOVERNANCE

Reason for better governance

MiFID II introduced significant product governance requirements and hence, whether directly or indirectly affected, companies across the UK financial services sector now have cause to consider their approach and processes when designing, distributing and recommending products and funds.

Since its introduction providers have needed to demonstrate to distributors that they fully understand the products and its features, so that advisers can explain these adequately to the end investor. The overarching aim for this work, as ever, was to achieve best practice within these companies and to target positive outcomes for consumers in a transparent manner.

Range of considerations on governance

AKG has listed below various considerations for firms when it comes to MiFID II's governance requirements:

- Better acquisition and demonstration of knowledge and intelligence relating to a company's target customers and their requirements
- Carry out quantitative and qualitative market research on consumer objectives when designing and testing appetite for new products and funds
- Ensure solutions are going to the right customers through a detailed management information and reporting capability
- Investigate and report instances where funds are not being used by the right customer
- Enhance management information and reporting capability in relation to distributors. Improve the exchange and flow of data between companies, intermediaries and third parties to help each party meet their respective requirements
- Realise there will be a greater requirement for governance and associated reporting to follow the product cycle. Be prepared to continue to test the rationale relating to product/fund fit for consumers
- Senior management teams must ensure governance is embedded in internal processes, with relevant and appropriate levels of resource and expertise

PROD rules

FCA PROD rules are outlined at https://www.handbook.fca.org.uk/handbook/PROD/3/?view=chapter. Distributors and manufactures need to pay close heed to these. If advisers haven't digested and acknowledged these PROD rules they should do so.

Pru will also need to keep many of these product governance considerations in mind as it continues with the evolution of the PruFund proposition, acting, where relevant, to establish commensurate processes and systems. This will include ongoing research to monitor the types of customers engaging with PruFund and associated suitability testing.

3.3 DUE DILIGENCE REQUIREMENTS

In February 2016, the FCA published TR16/1: Assessing suitability: Research and due diligence of products and services, a report which set out the high-level findings of the FCA's thematic review of the research and due diligence processes carried out by advisory firms on the products and services recommended by them to retail customers.

The review included, for example, exploring how:

- Firms selected products, funds, platforms and discretionary investment management services
- Created panels and CIPs
- Considered options for individual clients

The general sentiment from the FCA in the paper was that due diligence processes need to be robust, repeatable and recordable. And crucially that the suitability of solutions should be gauged at both a customer level and at an adviser business level.

This certainly still carries relevance for advisers now.

3.4 CONSIDERING OUTSOURCED INVESTMENT SOLUTIONS

With a proliferation of outsourced investment solutions for advisers to select from there has been an increasing focus on how these solutions are operated. What is the management style? How do they select managers/stocks? What is their structure? What size are their teams? Who is responsible for what? What processes do they have in place to underpin the delivery of the multi-asset fund or portfolio?

Performance and cost will continue to present themselves as differentiators for outsourced investment solutions, although AKG believes that over time the ability of a fund or portfolio to meet its core, stated objectives and to operate within its stated parameters will be of ultimate importance to advisers and investors.

The quality of the underpinning governance structure and the risk management processes employed has also become a key differentiator.

3.5 OUTCOME ORIENTED FOCUS

Two of the most obvious and enduring requirements for many customers when considering retirement planning strategies remain:

- The delivery of a sustainable income for life in retirement, and/or
- The preservation of capital sums accumulated

There appears to be a greater, and welcome, focus on targeting goals and achieving outcomes for the customer when considering these retirement income planning needs. Plus, an evolving understanding of the requirement for robust appraisal of both the level of risk a customer is comfortable in taking in retirement and their capacity for loss. These key themes have been given added weight in light of the FCA's March 2024 Retirement income advice thematic review (TR24/1).

Better appraisal of risk, detailed budget/cashflow modelling and putting target percentages on the amount of income required and/or the growth required on a capital sum feel like logical steps for the adviser and the customer.

By way of example, advisers might wish to align their client framework with Pru's EGR structure when setting outcome-oriented planning strategies for customers.

3.6 TRANSPARENCY OF CHARGES/TERMS AND CUSTOMER OUTCOMES

There is a welcome and concerted focus in the industry on ensuring that customers receive suitable recommendations and achieve good outcomes. Within this, the clarity and transparency of terms and conditions for investment and pension propositions remain key watchwords. For example, items including the following continue to come under the microscope:

- Are the fund/portfolio objectives and parameters clearly explained for the investor?
- Is the company marketing the product, fund or portfolio solution doing enough to make the investment charges, methodology, terms and conditions clear and transparent?
- For example, is the total cost of investment made clear rather than just headline charges being displayed?
- What asset/fund types are being utilised within portfolios?

Asset managers continue to come under pressure in terms of making their objectives, terms, conditions and performance clearer to customers.

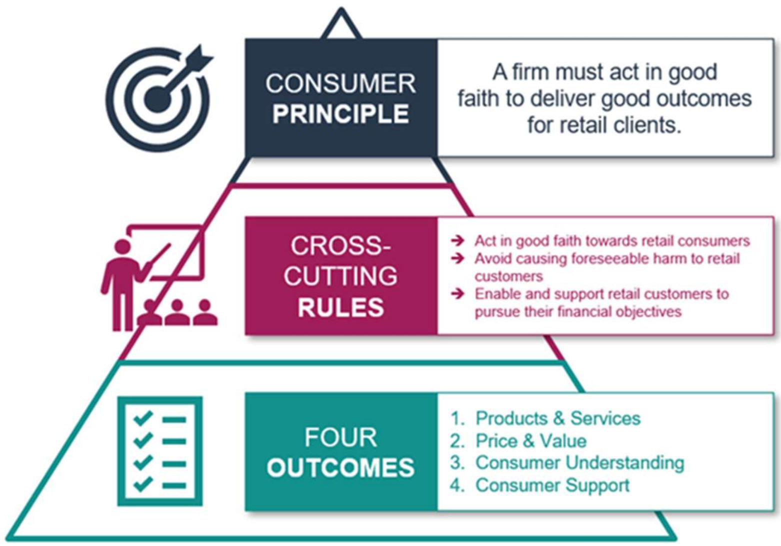
3.7 CONSUMER DUTY

Cementing much of the required change outlined previously, and perhaps adding teeth to some elements, the FCA has recently introduced its overarching Consumer Duty regulation.

https://www.fca.org.uk/news/press-releases/fca-consumer-duty-major-shift-financial-services

This regulation is designed to fundamentally improve how firms serve consumers and sets higher and clearer standards of consumer protection across financial services. It is designed to ensure firms act in the interests of customers through the full life cycle of the products or services they offer. and require firms to put their customers' needs first.

It is comprised of a Consumer Principle defining overall standards, three Cross-Cutting Rules defining an expected structure of behaviours, and Four Outcomes that all consumers should expect.



Regulated firms in the UK had the below key deadlines:

- Oct 2022: Firms had to have a plan for compliance compiled
- Jul 2023: Compliance vs new and existing products and services
- Jul 2024: Compliance vs closed book products and services

Following PROD and MiFID initiatives and associated requirements, manufacturers should already have been making further details and disclosure available to advisers, but the Consumer Duty significancy underlines such governance requirements, as part of its scope, and gives further 'teeth' to such requirements.

Therefore, whilst in some respects an additive stage in an already established direction of travel, the Duty should not be underestimated in its potential impact or indeed in some of the effort involved in its embedding.

For Pru products and funds, relevant details can be accessed at:

https://www.mandg.com/pru/adviser/en-gb/adviser-support/mifid-ii-disclosure

https://www.mandg.com/pru/adviser/en-gb/insights-events/news/customer-duty

Included within these pages are links to client facing information and videos around Pru's proposition, which are designed to assist advisers to help their clients understand Pru's products and funds.

It is important that advisers (re)familiarise themselves with these requirements and make sure that the target market they are serving tallies with the product manufacturer's target market. One aspect to look out for is execution only or insistent client business where the product may not be designed to cater for that market. Manufacturers should review how they collect information on product sales from advisers and how they make the data available to advisers to ensure they can demonstrate the product is being used appropriately.

Value for Money - Product providers already conduct regular value for money testing across their products. However, the new rules mean that they will need to provide advisers with the results of these value assessments to help them meet their own requirement. It's worth mentioning here that the FCA is not seeking to become a price regulator, but rather that the client is receiving value for the price they are paying.

Generic assistance - Given the breadth of the rules and guidance changes many advisers will be seeking further assistance in meeting their Consumer Duty requirements.

4. PruFund Key Facts

Customer facing – 'PruFund in a nutshell'

- *Spreads the risk of your investment over a number of different types of investments such as cash, bonds, property and shares*
- *Pools money from all investors – giving you greater buying power and also means you can access investments you couldn't as an individual*
- *Smooths some of the extreme short-term ups and downs of direct stock market investments*
- *Is invested in Pru's With-Profits fund, one of the largest With-Profits funds in the UK*
- *Avoiding harm to the planet. All of our funds aim to grow your money and deliver returns without harming the planet*

Source: Pru

4.1 PRUFUND IN NUMBERS

- The PruFund range of funds are invested in the Pru With-Profits Fund, one of the largest in the UK with £129.0bn under management as at 31 December 2023
- Over £63bn invested in the PruFund range of funds at the end of June 2024
- Currently invested in by c.450,000 customers
- Up to 35 different asset types can be held within PruFunds
- 13 underlying fund managers within the PruFund range of funds
- Over £13bn in the property portfolio within the PruFund range of funds

https://www.mandg.com/dam/pru/shared/documents/en/prus100270607.pdf

4.2 AVAILABILITY

The following table illustrates the PruFund range availability for Pru's key products, underlining Pru's focus on targeting business opportunities across a range of pension and investment wrappers, and now platform:

Product	Pru PruFund Growth Fund	Pru PruFund Cautious Fund	Pru Risk Managed PruFund Funds	Pru PruFund Planet Funds
Pru Retirement Account	✓	✓	✓	✓
International Portfolio Bond	✓	✓	✓	✓
Flexible Retirement Plan#	✓	✓	✓	
Pru ISA	✓	✓	✓	
Pru Investment Plan	✓	✓	✓	
Pru International Investment Bond*	✓	✓		
Trustee Investment Plan	✓	✓	✓	
M&G Wealth Platform ISA	✓	✓	✓	✓
M&G Wealth Platform SIPP	✓	✓	✓	✓

Source: Pru

**Available with currency options for PruFund Growth Fund and PruFund Cautious Fund (Sterling, Euro, US Dollar).*

 # The Flexible Retirement Plan (FRP) closed to new business on 17 September 2018. Existing FRP customers can still make changes to their plan.

4.3 TYPES AND SERIES

The PruFund range is long-standing but continues to evolve. It is important for advisers to keep abreast of the relevant type or series of PruFund within which their clients hold investments, particularly when it comes to investment performance reviews and announcements relating to EGRs and UPAs.

For example, there are now two series of PruFund within Pru's Retirement Account, which have different investment date cycles. Customers are invested in either series as follows:

- Series D: All investments made on or before 25 August 2017
- Series E: All investments made after 25 August 2017 (including fund switches and regular premium contributions)

4.4 CHARGING STRUCTURES

Using Pru's Retirement Account by way of example, charges are outlined within the Key Features Document – https://www.mandg.com/dam/pru/shared/documents/en/rack164801.pdf.

Product charge – This is an annual charge calculated as a percentage of the customer's total Retirement Account value and Pru deducts 1/12th of the yearly charge each month on the charge date. Pru applies a discount to the customer's product charge which varies according to the value of their Retirement Account.

Fund charge – Pru takes an Annual Management Charge (AMC) for looking after the customer's investment, from each of the funds they invest in. The charge is taken by the deduction of 1/365th of the applicable AMC from the fund each day. Any further costs shown are expenses which are borne by the fund.

Fund and Annual Management charges are covered in greater detail within this All Fund and Product Charges document:

https://www.mandg.com/dam/pru/shared/documents/en/genm975305.pdf.

Given the focus on costs and transparency it is important for Pru to make this information clearly and openly available to advisers and customers.

5. Notable Developments

This section provides some examples of key developments pertinent to the PruFund range over the past 12 to 18 months.

Advisers should keep abreast of such proposition evolution and development with their chosen investment partners.

5.1 PRUFUND ON PLATFORM

In May 2023, the full PruFund range of funds were made available as an investment choice on the M&G Wealth Platform, with the addition of the PruFund Growth and Cautious funds and Risk Managed PruFunds (1-5) to sit alongside the PruFund Planet range. Each of the funds are now available through ISA, JISA and SIPP tax wrappers.

Senior leadership quotes featuring in trade press during 2024 have also hinted at an intention to establish further and wider availability of PruFund in future, including potential distribution via third party investment platforms.

5.2 MANSION HOUSE COMPACT

In July 2023 M&G, on behalf of pension savers within the firm's £129 billion Prudential With Profits Fund, announced that it had signed the Mansion House Compact to pledge support for further private investments in the UK economy for long-term savers.

The Compact is a voluntary expression of intent by founding signatories, arranged by the UK Government and the City of London Corporation, to take action to secure better financial outcomes. This will be achieved by facilitating access to higher potential net returns that can arise from investment in unlisted equities as part of a diversified portfolio, acting consistently with the best interests of UK long-term savers.

https://www.mandg.com/news-and-media/press-releases/mandg-plc/2023/10-07-2023

5.3 NEAR COMPLETION OF 40 LEADENHALL

Private asset types being utilised within PruFund's asset allocation and investment framework include private equity, debt, real estate and infrastructure. A prominent recent example of real estate investment involves M&G's development of 40 Leadenhall in London's financial district which is set to be the largest office in the City of London in 2024. The property, designed to be green in use, not just in design, will be among the UK's first buildings to achieve the NABERS certification – an energy efficient standard that measures how a building is designed to operate as well as how it performs in use.

M&G states the scheme is currently 80% pre-let with tenants scheduled to move in from August 2024, indicating strong demand for Grade A office space.

5.4 PRUFUND STRATEGIC ASSET ALLOCATION REVIEWS

The 2023 PruFund Strategic Asset Allocation reviews saw a meaningful rebalance of fixed income levels relative to equities with an increase in the allocation to UK Gilts, US Treasuries and UK and US Investment Grade Bonds. As further interest rate hikes throughout 2023 meant that bond yields rose over the course of 2023 with real yields rising to 14-year highs.

Since then, credit spreads have tightened further and bond yields having initially priced in aggressive easing and declined, have since returned to broadly the same levels in 2023. As part of the June 2024 SAA review there has been a further rebalance into fixed income relative to equities, in order to bring portfolios back to similar allocation levels implemented in November 2023.

A weighted increase of UK and US Government Bonds compared to Corporate Bonds was also applied, due to a combination of spread tightness and attractive absolute levels of yields. They are also highly liquid assets should further attractive investment opportunities present themselves in the next 12 to 18 months.

PruFund maintains a diversified exposure to real assets like global property, infrastructure and private credit which are conducive to the current environment despite recent pressures on valuations.

2024 PruFund Strategic Asset Allocation review – Adviser resources

When major asset allocation reviews are conducted and changes made to the SAA framework, Pru ensures that changes and rationale are reported to advisers via associated communications material, including webinars.

https://www.mandg.com/wealth/adviser-services/investment-expertise/investment-insights/prufund-saa-review-twentytwentyfour

5.5 WITH-PROFITS ADDITIONAL SURPLUS

https://www.mandg.com/dam/pru/shared/documents/en/invb10911.pdf

In February 2024, Pru announced that due to the strength of the With-Profits Fund, it had increased the unit price by 1.25% (on 27 February) for some of its customers invested in the PruFund range of funds. Hence, as in previous years, additional money available from the With-Profits Sub Fund was shared with some PruFund and With-Profits customers, increasing the smoothed value of their plans by 1.25% and the unit price by 0.9% on 27 February 2024.

The increase applied to all onshore PruFund funds. Offshore bonds didn't share in the additional money.

In 2024 and beyond, M&G states it will continue to take decisions that allow them to manage the fund prudently with the aim of securing the highest total return for the Fund.

This unit price increase had no impact on the smoothing process.

5.6 STEWARDSHIP REPORT ISSUED

Pru has continued to develop the information provided externally on investment stewardship and sustainability, by updating the PAC Stewardship Report annually for the past 3 years. This presents the approach to responsible investment, policies, disclosures and commitments across PruFund Growth, PruFund Cautious and Risk Managed PruFund funds. It addresses feedback received from the Financial Reporting Council (FRC),

In June 2024, Pru issued its updated With-Profits Stewardship Report, aimed at giving advisers and their clients an insight into how Pru is looking after their money. In this report, Pru covers key topics including:

- Where clients' money is invested - geographically and by asset class
- How Pru manages money - its asset management approach and standards and principles practiced
- Who is managing the money - the strategies Pru implements for its investments
- Corporate sustainability goals and strategy - how Pru is working towards net zero and greater representation

2023 With-Profits Fund Stewardship Report for UK customers –

https://www.mandg.com/dam/pru/shared/documents/en/pruf100158005.pdf

6. Pru UK With-Profits Fund Structure

The PruFund range of funds are invested in the Pru With-Profits Fund. Hence, both the PruFund proposition and the work of T&IO are intrinsically linked with the running of the main Pru With-Profits Fund. It is therefore useful and important for financial advisers to understand how the Fund's risk and governance structure and investment process works.

6.1 AKG WITH PROFITS FUND/PROVIDER ASSESSMENT

AKG has carried out independent analysis and assessment of with profits funds and providers for a number of years and our work in this area culminates in the publication of our annual UK Life Office With Profits Reports. AKG's comprehensive 2023 UK Life Office With Profits Reports, contained analysis and assessment of with profits funds that were active in the UK market at the end of December 2023, including Pru.

Pru has licensed the distribution of an excerpt derived from AKG's 2023 With Profits Reports. A link to this document is provided here: https://www.mandg.com/dam/pru/shared/documents/en/genm11347.pdf. The excerpt covers the full set of assessment pages for Pru with a brief contextual introduction and AKG's comment on PAC.

6.2 WITH-PROFITS FUND (STERLING ORDINARY BRANCH BUSINESS) - OBJECTIVE

Pru states that the aim is to seek to secure the highest total return (allowing for the effect of taxation and investment expenses) whilst maintaining an acceptable overall risk level for the Fund and protecting the relative interests of all groups of policyholders.

The policy for its With-Profits business is to invest in a highly diversified portfolio of UK and overseas assets. All investment management approaches, governance structures and risk management processes stem from this overarching objective for the main Fund.

6.3 PRINCIPLES AND PRACTICES OF FINANCIAL MANAGEMENT

All firms that carry out with profits business are required to publish a Principles and Practices of Financial Management (PPFM) that applies to the management of with profits funds. Pru's PPFM (https://www.pru.co.uk/funds/ppfm/) explains how the With-Profits fund is managed, including the nature and extent of decisions taken to manage the fund. This document also explains how Pru applies discretion to achieve the fair treatment of customers and shareholders, acknowledging that this sometimes requires managing their sometimes competing and conflicting interests.

Pru now maintains two versions of its PPFM, a full version covering all with-profits business, and a PruFund specific version:

- The full PPFM covers all with-profits policies issued in the UK by companies in or acquired by the M&G plc Group (i.e. by PAC, Scottish Amicable Life plc (SAL) which were transferred to PAC with effect from 31 December 2002, Prudential (AN) Limited (PANL) which were transferred to PAC with effect from 31 October 2010, Prudential International Assurance plc (PIA)), and Scottish Amicable Life Assurance Society which were transferred to PAC with effect from 30 September 1997. It also covers the with-profits annuity policies transferred from the Equitable Life Assurance Society to PAC
- The PruFund specific PPFM is an abbreviated version of the full PPFM which covers all with-profits policies investing in PruFund issued in the UK by companies in M&G plc (i.e. by PAC and Prudential International Assurance plc (PIA))

The Principles define the overarching standards used in managing PAC's with-profits business and describe the approach used in responding to longer-term changes in the business and economic environment. The Practices describe the approach used in responding to changes in the business and economic environment in the shorter-term, and as a result, they will change more frequently than Principles.

The requirement to produce and publish a PPFM brings with it an additional layer of public scrutiny and imposed transparency to the Pru With-Profits Fund, and the PruFund range.

Pru has also created some other relevant documents for advisers and customers that contain additional useful information about their With-Profits business.

Pru's compliance with the PPFM and With Profits Actuary's Report

This document confirms how Pru complies with the Principles and Practices of Financial Management. This contains the current version of the With-Profits Actuary's Report, covering compliance during 2023.

https://www.pru.co.uk/pdf/WPGB10005.pdf

Pru's PPFM – Summary of changes

This document outlines the notable changes made to Pru's PPFM since it was first published.

https://www.pru.co.uk/pdf/WPGG10116.pdf

6.4 WITH-PROFITS COMMITTEE – TERMS OF REFERENCE

In addition to internal committees, the With-Profits Committee provides an independent assessment of the way in which Pru manages its With-Profits business, how it balances the rights and interests of policyholders and shareholders, and whether Pru complies with the PPFM.

Advisers can access the Terms of Reference for Pru's With-Profits Committee online via this link:

https://www.pru.co.uk/pdf/PRUAG01216.pdf

This document outlines the current terms of reference of Pru's With-Profits Committee.

6.5 PRU WITH-PROFITS COMMITTEE – GOVERNANCE ARRANGEMENTS

The With Profits Committee acts in an advisory capacity to inform the decision-making of the PAC Board and each of its relevant subsidiaries, to ensure that the interests of with profits policyholders are appropriately considered within PAC's governance structures and to consider issues affecting with profits policyholders as a whole or as separately identifiable groups of policyholders.

The Committee is appointed by the PAC Board and will have at least three members, all independent and external to PAC.

Membership is currently six, all independent.

With Profits Actuary: Jeremy Gillman (Employee)

With Profits Committee Name: With Profits Committee

Members of With Profits Committee:

Name	Position
Robert Talbut	Chair and Former CIO, Royal London Asset Management
Katie Blacklock	Non-Executive Director, Edmond de Rothschild
Stephen Wilson	Former WPA, Royal London
Louise Fowler	Former CMO, First Direct & Coop
Nicholas Rowley	Former WPA, Aviva

With Profits Committee meetings are usually attended by PAC's CEO and CRO, the Chief Actuary, the With Profits Actuary and the General Counsel, though the Chairman may choose to hold meetings, or parts of meetings, restricted to committee members only.

The PPFM requires that the WPC considers the costs incurred in operating the With Profits fund (including an annual review of the cost apportionment methodology and results) and any other costs associated with current or future operational, transformational or investment project supported by the assets of the fund.

6.6 PRU'S INHERITED ESTATE

The Inherited Estate is the surplus money that has built up within the With-Profits Fund over time and essentially provides the 'buffer' to support the with profits smoothing component. Here are some key pieces of information:

PAC now only has one inherited estate in the WPSF, which represents the major part of the working capital of PAC's With-Profits Fund. It is available to support both current and future new business in PAC's with-profits funds, both in the UK and overseas, and is used to provide solvency support, to allow investment freedom for policyholders' asset shares, and to provide the smoothing and guarantees associated with with-profits business. There is no specific target for its size and it has arisen over many years from a number of sources.

PAC believes that no group of in-force policyholders has made any contribution to it. The inherited estate, like the whole of PAC's with-profits funds, belongs to PAC, which decides how it is used to support the with-profits business. Whilst the WPSF remains open and the inherited estate remains fully utilised in supporting current and expected future new business, PAC does not consider that policyholders have any expectation of a distribution of the inherited estate, other than through the normal process of smoothing and meeting guarantees in adverse investment conditions.

Accordingly, PAC is not constrained in its use of the inherited estate to support new business by a requirement to take into account the prospect that existing policyholders might otherwise have of receiving a distribution from the inherited estate.

In setting risk appetite and in its approach to the cost of guarantees, PAC is similarly not required to take into account the prospect of existing policyholders receiving a distribution out of the inherited estate. This was confirmed in guidance from the FSA in 2012 clarifying two questions raised by PAC in relation to FSA policy statement PS 12/4.

If, in the opinion of PAC, the inherited estate was no longer fully utilised in supporting current and expected future new business, then an "excess surplus" would exist in the WPSF and PAC would comply with the insurance company regulations regarding the treatment of excess surplus that were in force at the time the excess surplus arose.

The WPSF inherited estate also supports business in the DCPSF (including the ex-Equitable Life with profits annuity portfolio), for which it receives a charge. As a result of the level of accumulated smoothing losses incurred on recently written PruFund business the methodology for determining smoothing charges was revised in 2018.

The inherited estate has been increasing in size recently and PAC concluded in early 2020 that this exceeded the amount of working capital required to support current and future business and that it would be fair to share some of it with planholders. PruFund unit prices were therefore increased by 0.9% on 26 February 2020 while for other plans the excess will be paid through final bonuses from 1 April 2020 with the unsmoothed value of plans increased by 1.25% (where customers invested before the end of 2019 and were still invested in the WPSF at 1 April 2020). This increase could be removed in the future to protect the fund's financial strength, and this is the reason for the differential in amounts, as the PruFund increase cannot be recovered. At the end of 2020 the Board concluded that there should not be an additional distribution at the February 2021 declaration but this position is reviewed annually and at the end of both 2021 and 2022 additional distributions were made of 0.9% and 1.2% respectively for 2022 [2021: 1.25% and 1.75%] distributing an additional £1.5bn in respect of 2021 and £1bn in respect of 2022. While former SALAS policyholders are now invested in the fund they are not eligible for any distributions from the inherited estate.

The inherited estate may also be used for other purposes as determined by the Directors. Currently, this includes additional tax payable by the long-term fund as a result of shareholders' distribution from the WPSF (this use is expected to continue), expenses written off between 1997 and the end of 2011 and any cost of shareholder transfers in respect of business issued by SAL in excess of the difference between charges deducted and expenses incurred. This may also include inter-fund transactions with the DCPSF which are appropriately priced. The inherited estate also meets any difference between the actual tax payable by the fund and the assumed tax charged to asset shares (where applicable) or to the PruFund net asset value through the net investment return. Note that, since 2012, new business in the WPSF has been priced such that it is expected to be financially self-supporting over the lifetime of the business at the point the pricing assumptions are set. Where the business is not expected to be financially self-supporting at the point the pricing assumptions are set, shareholders will make an appropriate contribution to the WPSF, as happened for 2014 and 2018. In this respect a risk mitigation agreement has been implemented between the shareholder fund and the inherited estate in respect of new business written from 2018. In return for a premium and some reduced WPSF loss exposure the shareholder is protected from some losses when investment returns are very low.

Source: AKG 2023 UK Life Office With Profits Reports

Update – With-Profits Additional Distribution

https://www.mandg.com/dam/pru/shared/documents/en/invb10911.pdf

In February 2024, Pru announced that due to the strength of the With-Profits Fund, it had increased the unit price by 1.25% (on 27 February) for some of its customers invested in the PruFund range of funds.

This unit price increase had no impact on the smoothing process. Customers invested in the International Portfolio Bond, Pru International Investment Bond and International Prudence Bond did not share in the additional surplus.

7. Introducing T&IO

7.1 KEY FACTS AND STRUCTURE

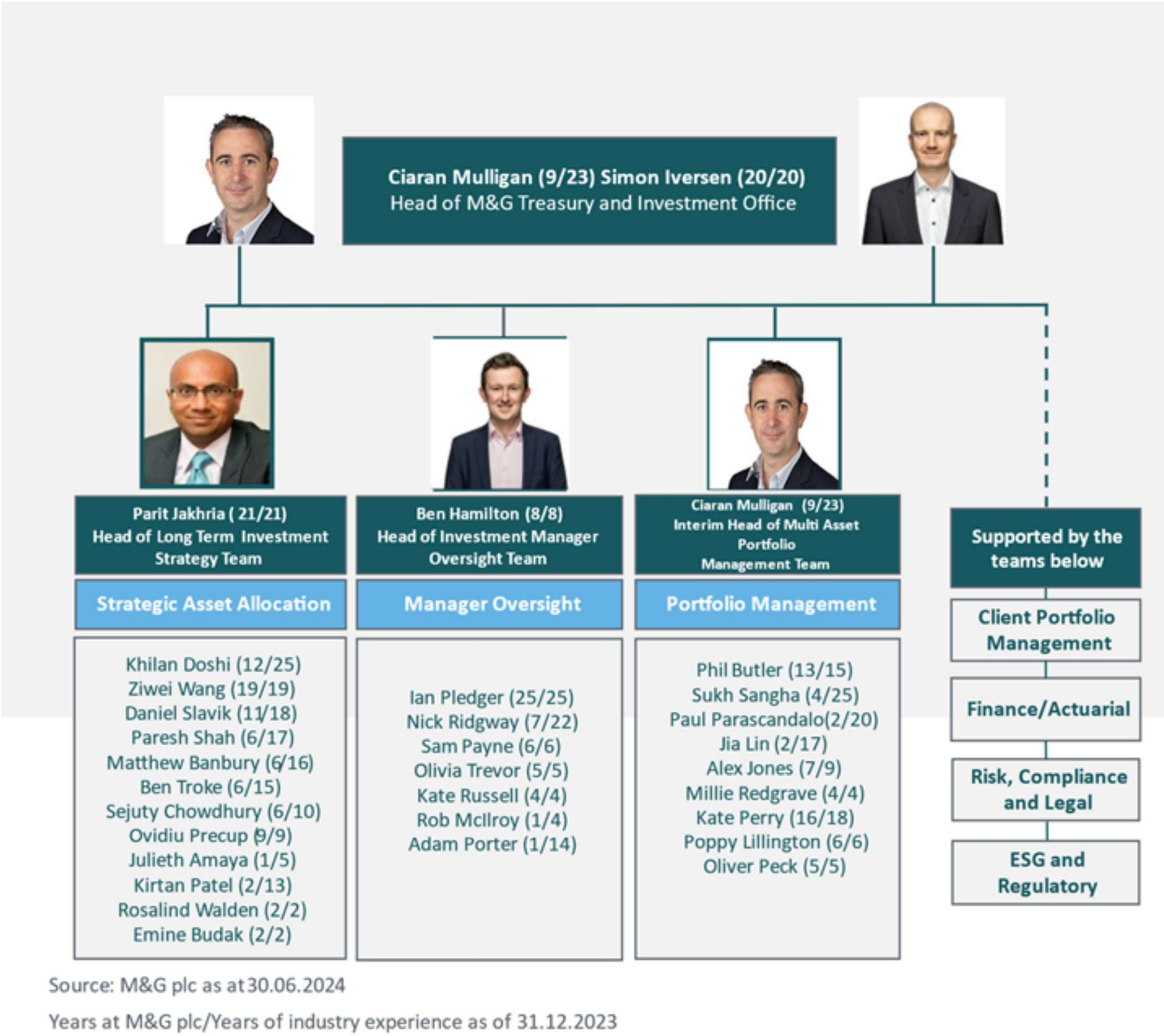
T&IO is the team of in-house investment strategists and 'manager of managers' for PAC in the UK. They are independent of the various underlying asset management businesses within M&G plc and responsible for approximately £151bn as at 30/06/24, across a range of multi-asset investment solutions and other Pru products.

Several teams operate within T&IO and feed into the investment process at each stage. They carry out clearly defined roles whilst also working very closely together to ensure the smooth running of the portfolios.

The team is split into the following investment teams:

- Long Term Investment Strategy (LTIS) team
- Multi Asset Portfolio Management (MAPM) team
- Manager Oversight team

The structure chart on the following page outlines the main teams and roles within T&IO.



Source: M&G plc as at 30.06.2024

More details to help advisers understand the roles of each team within T&IO are shown in the following sections.

7.2 LONG TERM INVESTMENT STRATEGY TEAM

The LTIS sub-team recommends the SAA for each portfolio. As part of this they develop their own capital market assumptions for the expected returns, volatilities and correlations of the various asset classes covered. They then use an in-house economic scenario generator, 'GeneSIS', to carry out stochastic modelling based on these assumptions, which involves mapping out a full range of possible future asset allocations.

The SAAs are determined from these potential portfolios using the following principles:

- Customer outcomes – ensuring that expected client outcomes are mapped to the fund's objectives
- Tailored risk appetite – that all portfolios have a bespoke SAA that is designed for their specific needs, with any particular constraints being taken into account
- Efficient risks and returns – for a given risk appetite, the T&IO chooses an asset allocation that generates the highest return
- Consistency across fund ranges – within the stated fund objectives and risk appetite, ensuring a consistent SAA across funds with a similar risk appetite and other similar funds
- Other constraints – reviewing any other constraints, such as cost and liquidity

The capital market assumptions underlying the SAA allow for each of the environmental, social and governance factors in the country risk categorisation system, and as such is allowed for in the risk/return budgeting. Equally, if not more important, there is an overall policy around exclusions as well as ESG factors used within bottom-up stock selection by the delegated managers.

7.3 MULTI ASSET PORTFOLIO MANAGEMENT TEAM

The portfolio management responsibilities of the MAPM team can be split into the following areas:

- Keeping the funds in shape – ensuring the portfolios are managed in line with target exposures and limits while minimising cost and risk, and managing cash flows and other fund dynamics
- Implementation – ensuring changes in the SAA are implemented effectively and efficiently
- Operational management – preparing and reviewing trade instructions to minimise operational errors
- Portfolio monitoring – reviewing on an ongoing basis exposures, risks and performance in conjunction with the T&IO Risk and Manager Oversight sub-teams
- Liquidity – managing and reporting on liquidity to ensure that outflows can be covered in stressed scenarios

7.4 MANAGER OVERSIGHT TEAM

Fund selection is carried out across the PruFunds by the Manager Oversight team within the T&IO. The team also ensures the continued suitability of the underlying managers and assesses whether the mandates and funds held in Pru's multi-asset portfolios are performing in line with expectations.

The due diligence process combines quantitative factors, including measures of performance and holdings analysis, with qualitative analysis focused on the business, people, philosophy, process and operational infrastructure associated with the fund.

The process operates at various different levels:

- Monthly monitoring – where the underlying managers' key holdings and exposures are reviewed and a performance and attribution analysis is generated
- Quarterly strategy and performance review – the managers are met in person or by video, with each submitting a Data Request Book prior to this quarterly meeting that provides the manager's own performance data, risk metrics, market outlook and attribution
- Annual investment due diligence – the Manager Oversight team conducts onsite meetings with all of the underlying managers, covering: investment activity and performance; interaction within and between the various investment teams; and other functions such as risk and operation

Their initial and ongoing due diligence processes now incorporate assessment and challenge of each manager's ESG and sustainability policies, intentions and how this informs the investment decisions. In this way, the team ensures the underlying managers are aligned with Pru's own values and ambitions in terms of their ESG philosophy and processes.

7.5 REGULAR COMMUNICATIONS

Pru issues a range of regular communications to keep advisers abreast of investment activities and developments with the PruFund range of funds.

Key investment activity and asset allocation positioning is also covered in these updates for advisers. These are published on a monthly basis for PruFund Growth and PruFund Cautious Funds.

PruFund Growth & Cautious Investment Updates, August 2024

At the time of writing, the latest reports cover:

- A market update from the T&IO
- Review of recent fund performance
- Underlying asset classes
- Top ten holdings data
- The funds long-term investment strategy

PruFund Growth Update - https://www.mandg.com/dam/pru/shared/documents/en/pruf100222103.pdf

PruFund Cautious Update - https://www.mandg.com/dam/pru/shared/documents/en/pruf100320400.pdf

PruFund Strategic Asset Allocation Update: June 2024

https://www.mandg.com/wealth/adviser-services/investment-expertise/investment-insights/prufund-saa-review-twentytwentyfour

Other communications in the range available to advisers include:

Insight pieces (insights into equities, fixed income, alternatives and property) https://www.mandg.com/pru/adviser/en-gb/funds/prufund-range#how-is-prufund-invested?

Weekly market updates from the portfolio management team T&IO Weekly Market Updates https://www.mandg.com/wealth/adviser-services/investment-expertise/investment-insights/tio-market-updates

Risk Managed PruFunds Quarterly Update - https://www.mandg.com/dam/pru/shared/documents/en/pruf100828100.pdf

8. T&IO Philosophy and Process

8.1 PHILOSOPHY AND APPROACH

T&IO's high level investment philosophy and approach is illustrated here.

Source: M&G/Pru

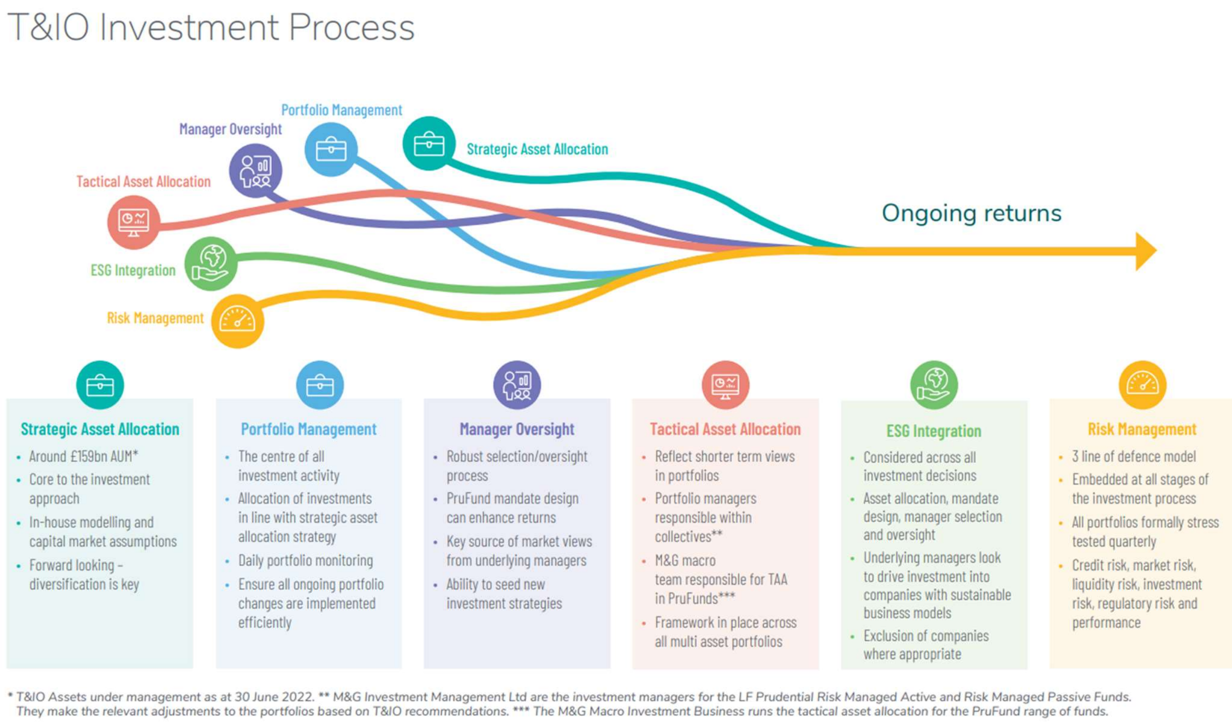
T&IO states that this investment philosophy is the cornerstone of all its multi-asset portfolios although underlying portfolios and exposures will vary by fund structure, regulatory regime and region.

- Long-term - T&IO fundamentally sees itself as a 'buy and hold' investor, so new investments and asset classes will likely feature in portfolios for many years once added, albeit the amount of exposure may vary over time
- Risk appetite – T&IO states that all portfolios are constructed using Capital Market Assumptions and an optimisation process that seeks to ensure that each portfolio has an appropriate risk/return profile
- Diversification – T&IO believes its portfolios are generally differentiated from peers, have demonstrably evolved over time and will continue to do so as new markets and opportunities develop. Where possible the portfolio managers will also look to allocate across private markets as well as public markets
- Active management – T&IO states that active management has been core to PruFund success across many asset classes. It has a well-resourced Manager Oversight Team to select and monitor underlying managers and feels that the shape of portfolios and different asset class exposures would be difficult to replicate with passive vehicles
- Valuation – T&IO says that it will always look to adjust asset class holdings based on a forward-looking view of what assets represent the best value. This is another area that it feels often differentiates Pru's portfolios – for example PruFunds have a higher allocation to Asia, credit and property than many peers
- ESG – An important aspect of how T&IO manages PruFunds is the integration of Environmental, Social and Governance factors (ESG) into investment decisions, which it believes can help better manage risks and generate sustainable, long-term returns for customers:
    - Asset Owner – PAC aims to achieve net zero carbon emissions across AUMA by 2050, of which the PruFund range is a material part, in line with the Net Zero Asset Owners Alliance. T&IO is also evolving its asset owner policies to reflect the importance of ESG factors in mandate design, manager selection and oversight – functions performed by the Investment Manager Oversight Team. It is felt that the breadth and scale of PruFund creates a distinct advantage as the team can use segregated mandates to apply a variety of implementation techniques for its ESG views, up to and including exclusion of certain stocks or sectors from portfolios

- Currently their policy excludes investment in certain controversial weapons companies, namely cluster munitions and anti-personnel mines. This could be broadened to other sectors or companies based on evolving ESG views or may include the setting of specific targets to manage certain exposures
- Asset Managers – T&IO looks to the asset managers it selects to engage with companies as active owners that help foster a more sustainable economy, participate in voting on key issues such as Climate and ensure that ESG is integrated into their investment processes. The majority of PruFund assets are managed by M&G whose Responsible Investment Team provides issuer and sector specific ESG risk and opportunity analysis and education on sustainability themes to portfolio managers and analysts. It also leads on company engagement on a cross-asset class basis

8.2 INVESTMENT PROCESS - OVERVIEW

T&IO's investment process is shaped by six key activities as illustrated below.



Source: M&G/Pru

8.3 STRATEGIC ASSET ALLOCATION

The selection of the optimal SAA for funds has a critical impact on investment outcomes. This area:

- Is core to the investment approach
- Carries out the in-house modelling and capital market assumptions through a bespoke proprietary model GeneSIS - developed and maintained in house, giving the flexibility to tailor it to wider business needs
- Is forward looking – diversification is key
- Has over £151bn AUM as at 30/06/24

8.4 PORTFOLIO MANAGEMENT

T&IO believes daily monitoring is essential in ensuring a portfolio is managed and adjusted efficiently in line with target exposures, while simultaneously minimising cost and risk. And further that such monitoring should be at the centre of all investment activity.

The T&IO Portfolio Management team:

- Allocates investments in line with strategic asset allocation strategy
- Carries out daily portfolio monitoring
- Ensures all ongoing portfolio changes are implemented efficiently

8.5 MANAGER OVERSIGHT

The specialist T&IO Manager Oversight team aims to complement the skills of the fund managers, providing them with direction and insight into their fund's underlying assets. This area incorporates:

- Robust selection/oversight process
- PruFund mandate design that can enhance returns
- Key source of market views from underlying managers
- Ability to seed new investment strategies

8.6 TACTICAL ASSET ALLOCATION

TAA reflects shorter term views in portfolios. Run in parallel with SAA, it ensures PruFunds are able to respond accurately to short-term market movements and take advantage of mispricing opportunities. This area has:

- Portfolio managers responsible within collectives
- Responsibility for TAA in the PruFund range of funds held by the M&G Macro Investment Business (MIB)
- A framework in place across all multi asset portfolios

8.7 ESG INTEGRATION

T&IO ESG integration overview as follows:

- Considered across all investment decisions
- Integrated within processes, including asset allocation, mandate design, manager selection and oversight
- Underlying managers look to drive investment into companies with sustainable business models
- Exclusion of companies where appropriate

8.8 RISK MANAGEMENT

T&IO risk management procedure overview as follows:

- Three lines of defence model
- Embedded at all stages of the investment process
- All portfolios formally stress tested quarterly
- Credit risk, market risk, liquidity risk, investment risk, regulatory risk and performance risk

9. PruFund Controls and Systems

It is important for investment solution providers to be able to illustrate their controls and systems when it comes to governance and ongoing monitoring.

9.1 GOVERNANCE STRUCTURE

Given the nature and composition of the PruFund range, T&IO has a requirement for an industrial strength, multi-faceted investment management, risk and governance framework.

Whilst it is able to make use of the global investment insight provided by asset management companies within the Group to inform investment views, T&IO also has the role of monitoring and managing these experts.

In this respect T&IO undertakes the "manager of managers" role and has created a thorough governance framework to support their work.

T&IO has governance responsibility for each of these M&G Group fund management companies, and they in turn manage the stock selection for underlying internal funds and mandates used.

9.2 CONTROLS

The Manager Oversight Team regularly monitors internal and external managers against their benchmarks and mandate and will report any material issues. Investment Management Agreements (IMAs) govern how a strategy/mandate should be implemented by each of the fund managers. Managers will be given different mandates across asset classes and the degree of flexibility permitted may vary.

The Manager Oversight Team is responsible for the investment due diligence and ongoing monitoring of internal and external managers. This entails very close interaction through:

1. Best practice monitoring (monthly) – In addition to monitoring whether daily limits are being breached or not, the team looks at key exposures in funds, monthly, to see if anything untoward is taking place
2. Strategy and performance review (quarterly) – T&IO has regular meetings with the managers, either in person for those based in London and by video conference for the managers located overseas. Each manager submits a Data Request Book prior to the meeting, which provides performance data, risk metrics, attribution for the quarter and ESG considerations. The Data Request Book forms the basis of the meeting, enabling T&IO to pinpoint areas that require further discussion
3. Investment due diligence (ongoing) – Ongoing Investment Due Diligence often onsite is conducted to assess each fund manager on its suitability and alignment with the strategy. Investment due diligence covers both quantitative and qualitative factors. Quantitative factors include measures of performance and holdings analysis. Qualitative analysis incorporates People, Process, Philosophy and Infrastructure
4. IMA review (at least annually) – Manager IMAs are reviewed as part of the annual investment due diligence process to ensure that the mandate and guidelines remain fit for purpose

9.3 HOW DOES T&IO ASSESS UNDERLYING MANAGER PERFORMANCE?

T&IO states that its primary concern is that managers perform to mandate – which may from time-to-time lead to positive or negative relative return at the fund total level when compared to either peer group or benchmarks.

T&IO's governance and control framework helps to support this monitoring and assessment. In addition, the standard measures of fund/mandate versus benchmark and fund/mandate versus peer group are also monitored.

9.4 HOW DOES T&IO ENSURE MANAGERS ACHIEVE EXPLICIT PERFORMANCE OBJECTIVES?

By having in place a process of clearly articulating a mandate at outset, and measuring the performance relative to that mandate on an ongoing basis, T&IO states that it can work towards ensuring that the portfolios remain fit for purpose and possess the appropriate structure to achieve the objectives.

Adherence to the mandate is therefore the key here, and these are formally reviewed and re-agreed with the M&G Life Executive Investment Committee (EIC) on an annual basis.

9.5 WHO IS RESPONSIBLE FOR PERFORMANCE REVIEW OF PORTFOLIOS UNDERPINNING PRUFUND?

While financial advisers would expect that this is a given, they should also find out more about an asset manager's internal approach to performance controls.

The ultimate responsibility for the performance of the PruFund range rests with the PAC Board, which has created an investment subcommittee to formally discharge this duty, the EIC.

The M&G Life EIC is supported in its duties by T&IO, which produces investment reporting for the funds, and will draw to the attention of the board any matters of immediate concern. Performance of these funds relative to peer group is highly visible, and there is a high degree of scrutiny applied to performance data in many areas of the business throughout the year.

9.6 T&IO RISK AND COMPLIANCE – THREE LINES OF DEFENCE MODEL

https://www.mandg.com/wealth/adviser-services/investment-expertise

M&G T&IO states that its risk and compliance model has been designed to anticipate and minimise risk within the investment process while providing informed, pro-active guidance that supports the delivery of clients' long-term investment needs. Described as a 'three lines of defence' model:

First line of defence (Portfolio and Risk Management)

- Identifies risks that could threaten the achievement of business objectives
- Assesses and manages these risks in accordance with its policies, standards and risk appetite
- Ensures the effective design and maintenance of processes together with the implementation of appropriate controls over these processes
- Identifies and promptly escalates significant emerging risk issues
- Reports operational incidents in line with the operational risk standards

Second line of defence (Risk and Compliance Oversight and Challenge)

- Assists the Board with the formulation and subsequent communication of Pru's appetite for risk, risk management plans, risk policies and limits
- Oversees and objectively challenges the identification, measurement, management, monitoring and reporting of risks
- Analyses risk information and producing risk reports for relevant risk committees
- Develops and supports the implementation of risk policies, standards and risk appetite
- Provides guidance and advice on regulatory laws, rules and industry standards
- Advises on policies, procedures, systems & controls to promote compliance within the business

Third line of defence (Audit and Independent Assurance)

- Provides independent assurance on the design, effectiveness and implementation of the overall system of internal control, including risk management

10. Asset Allocation, Diversification and Objectives

Advisers should understand and be comfortable with the asset allocation approach followed by their outsourced investment partners and the associated fund management objectives.

T&IO invests globally in a range of assets including equities, property, fixed interest and where applicable alternative assets. By pooling together a large number of investors they feel they put themselves in a strong position to be able to achieve this diversification.

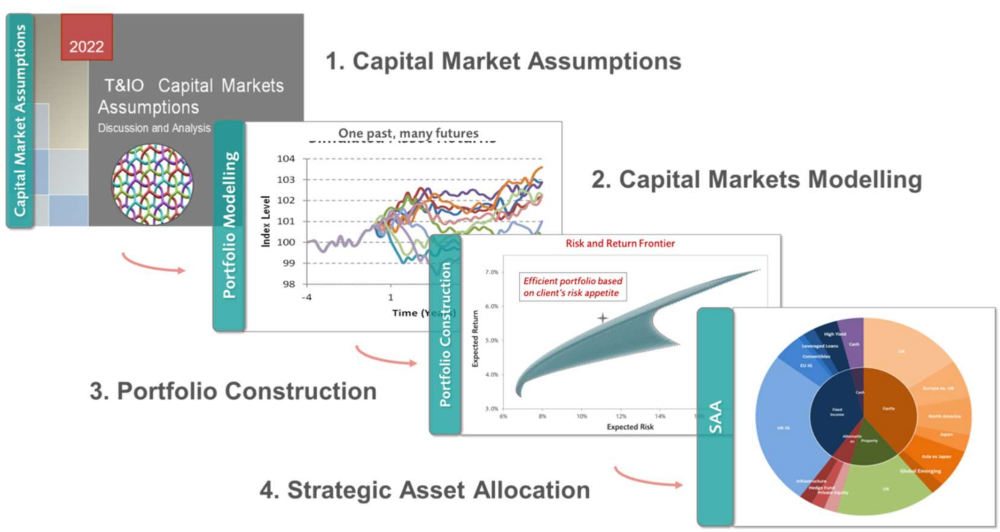
10.1 STRATEGIC ASSET ALLOCATION REVIEW

Advisers should also seek to understand the asset allocation review processes undertaken by their outsourced investment partners and how any associated changes are made.

An annual review of the SAA within multi-asset portfolios is carried out formally by the T&IO Long Term Investment Strategy (LTIS) team and approved by the PAC Board.

The analysis and modelling required is complex. The LTIS team factors in capital constraints and hedging requirements as well as metrics like volatility, economic growth and asset class correlation, whilst also estimating the long-term equilibrium returns and risks that are the foundation of portfolio construction.

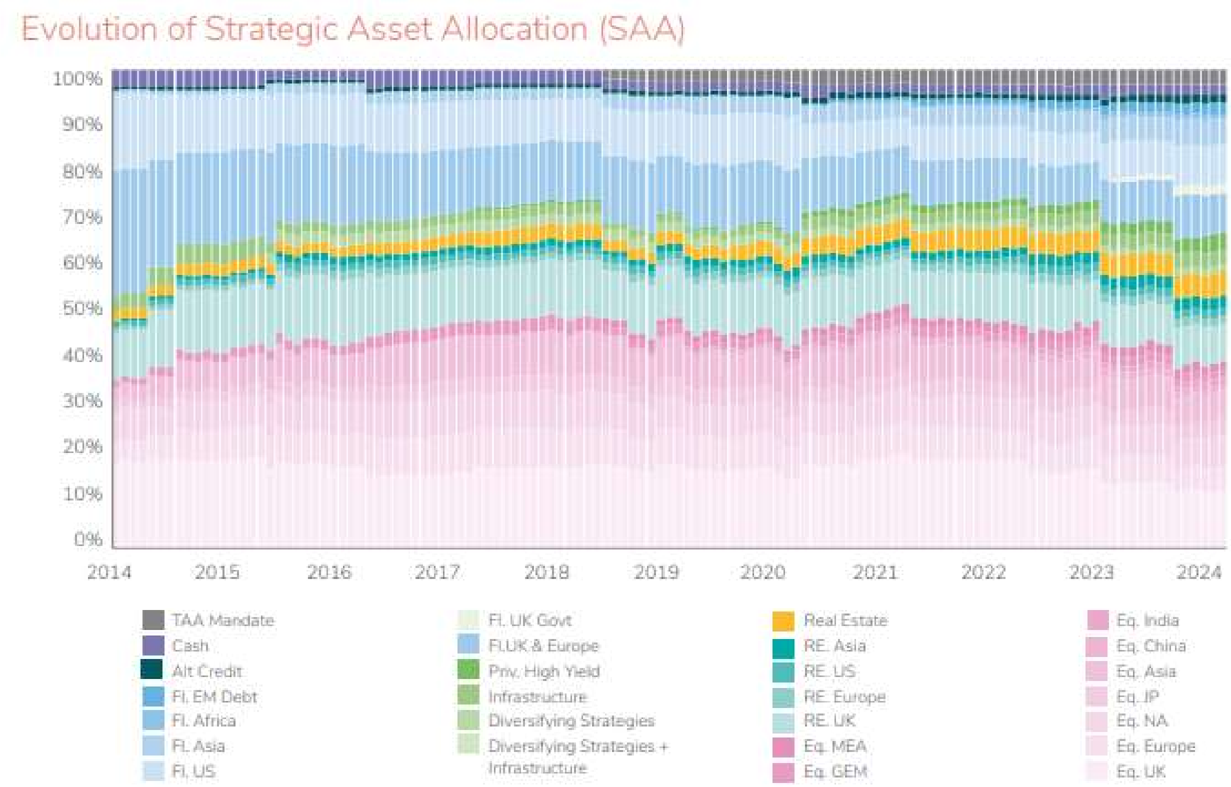
The diagram below provides a high-level overview of the SAA process.



The medium and long-term capital market assumptions are based on structural factors like demographics, economic growth, monetary and fiscal policy, debt levels and political risks. These are then combined with the short-term outlook based on valuations to give the full picture of asset class returns. These returns and risk assumptions are input into a proprietary economic scenario generator, GeneSiS, to give the full range of possible outcomes for individual asset classes as well as overall portfolios. This complete range of assumptions and possible outcomes are tested for thousands of portfolios to give an optimal portfolio in terms of risk and return.

10.2 LONG TERM INVESTMENT STRATEGY

The chart below shows how strategic asset allocation has evolved over time for the Pru With-Profits Fund. PruFund Growth sits within this pool of assets and will have subtle asset allocation nuances and though not exactly the same, the chart provides a close representation for illustrative purposes.



Source: M&G Treasury and Investment Office.

Portfolio positions are reviewed at least annually and can evolve as views on capital markets do. Positions are generally adjusted incrementally. As long-term investors T&IO states that its views will rarely deviate too dramatically, so advisers will see the gradual shift in individual asset class positions. T&IO sees this as a strength of its philosophy, clearly if too many poor investment decisions were made, too many adjustments may have been required.

The chart also illustrates the level of diversification, as evidenced by the number of asset classes in portfolios. T&IO has a long track record of adding new asset classes to multi asset portfolios, although individual allocations are sometimes fairly modest. In totality, the exposure to areas like property, alternatives and specialist areas of the fixed income markets (e.g, Asian bonds, Private High Yield, African bonds) are meaningful and differentiate PruFund portfolios.

Finally, it is important to remember that any new asset classes are added for specific reasons. The strategists will have worked with teams across M&G plc, to understand the drivers of the returns, the diversification benefits and the relevant risk/credit premia. New investments are there to enhance portfolios not just add another line to the SAA tables.

10.3 PRUFUND GLOBAL DIVERSIFICATION

The PruFunds each have different asset allocations and fund aims. Within each high-level asset type (for example international equities or fixed interest) the amount held in different types of that asset is driven by the proportion held in the main Pru With-Profits Fund, which could change on a daily basis.

The document at the link below illustrates asset allocations to the end of June 2024 for PruFund Growth and PruFund Cautious.

https://www.mandg.com/dam/pru/shared/documents/en/tio271201.pdf

PruFund Growth Fund – Fund objective

A reminder of the overarching aims for PruFund Growth Fund.

Fund aim

Objective: The fund aims to maximise growth over the medium to long term by investing in shares, property, fixed interest and other investments. The fund currently invests in UK and international equities, property, fixed interest securities, index-linked securities and other specialist investments.

PruFund Growth Fund – Diversification of assets

An illustration of how allocation and diversification is employed to help achieve objective.

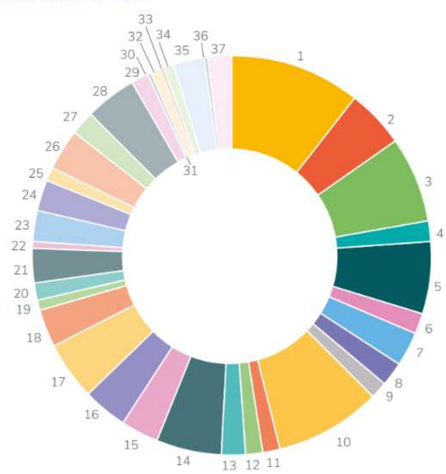
This is just for UK advisers – it's not for use with clients.

Pru
part of M&G plc

PruFund Global Diversification

Asset allocations to the end of June 2024

PruFund Growth Fund



This chart gives an indication of the spread of investments as at 30 June 2024. Asset allocations are regularly reviewed by the M&G Treasury and Investment Office (T&IO) and may vary from time to time, but will always be consistent with the fund's objective. Source: T&IO, June 2024.

Equity		**(37.72%)**
1	UK Equity	10.61%
2	Europe Ex UK Equity	4.82%
3	North America Equity	6.90%
4	Emerging Equity	1.60%
5	Asia Ex Japan	6.05%
6	China Equity	1.46%
7	Japan Equity	3.00%
8	Middle East and Africa Equity	1.94%
9	India Equity	1.34%
Property		**(13.18%)**
10	UK Property	8.56%
11	US Property	1.41%
12	Europe Ex UK Property	1.41%
13	Asia Property	1.80%
Alternative Assets		**(16.75%)**
14	Private Equity	5.35%
15	Infrastructure	3.08%
16	Private High Yield	3.72%
17	TAA Mandate	4.60%
Credit		**(30.58%)**
18	Pan European Industrial Corporate Bonds	3.04%
19	Pan European Utilities Corporate Bonds	0.94%
20	Pan European Government & Sovereign Bonds	1.37%
21	Pan European Financial & Covered Corporate Bonds	2.75%
22	Pan European Securitised & Private Corporate Bonds	0.52%
23	UK Government Bonds	2.43%
24	US Industrials Corporate Bonds	2.48%
25	US Utilities Corporate Bonds	1.28%
26	US Government & Sovereign Bonds	3.10%
27	US Financials & Covered Corporate Bonds	2.00%
28	Asia Local Currency Bonds	4.18%
29	Asia Dollar Currency Bonds	1.39%
30	Asia High Yield Bonds	0.06%
31	China Bonds	0.29%
32	Convertible Bonds	0.82%
33	Bridge Loans	0.32%
34	FI Africa	0.91%
35	Emerging Market Debt	2.32%
36	Global High Yield	0.38%
Cash & Receivables		**(1.77%)**
37	Cash & Receivables	1.77%

PruFund Cautious Fund – Fund objective

A reminder of the overarching aims for PruFund Cautious Fund.

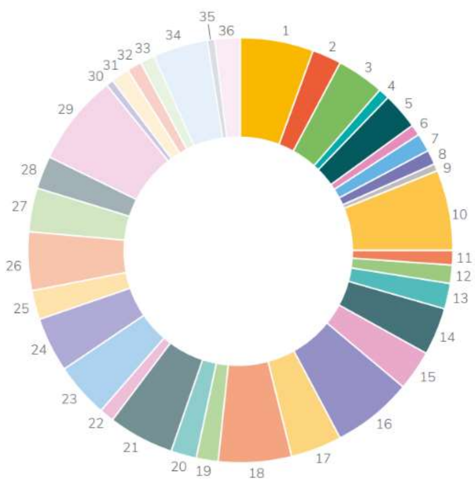
Fund aim

Objective: The fund aims for steady and consistent growth over the medium to long term (5 to 10 years or more) through a cautious approach to investing. The fund invests in UK and international equities, property, fixed interest securities, index-linked securities, cash and other specialist investments. The fund will aim to invest 50-75% in fixed interest securities, index-linked securities and cash, although we may occasionally move outside this range to meet the fund objectives.

PruFund Cautious Fund – diversification of assets

An illustration of how allocation and diversification is employed to help achieve objective.

PruFund Cautious Fund



This chart gives an indication of the spread of investments as at 30 June 2024. Asset allocations are regularly reviewed by the M&G Treasury and Investment Office (T&IO) and may vary from time to time, but will always be consistent with the fund's objective. Source: T&IO, June 2024.

Equity		**(19.09%)**
1	UK Equity	5.61%
2	Europe Ex UK Equity	2.38%
3	North America Equity	3.45%
4	Emerging Equity	0.85%
5	Asia Ex Japan	2.75%
6	China Equity	0.80%
7	Japan Equity	1.54%
8	Middle East and Africa Equity	1.01%
9	India Equity	0.70%
Property		**(10.58%)**
10	UK Property	6.03%
11	US Property	1.24%
12	Europe Ex UK Property	1.26%
13	Asia Property	2.05%
Alternative Assets		**(16.67%)**
14	Private Equity	3.53%
15	Infrastructure	2.94%
16	Private High Yield	6.31%
17	TAA Mandate	3.89%
Credit		**(51.98%)**
18	Pan European Industrial Corporate Bonds	5.44%
19	Pan European Utilities Corporate Bonds	1.76%
20	Pan European Government & Sovereign Bonds	1.90%
21	Pan European Financial & Covered Corporate Bonds	5.04%
22	Pan European Securitised & Private Corporate Bonds	1.03%
23	UK Government Bonds	4.16%
24	US Industrials Corporate Bonds	4.23%
25	US Utilities Corporate Bonds	2.20%
26	US Government & Sovereign Bonds	4.42%
27	US Financials & Covered Corporate Bonds	3.36%
28	Asia Local Currency Bonds	2.35%
29	Asia Dollar Currency Bonds	7.03%
30	China Bonds	0.48%
31	Convertible Bonds	1.46%
32	Bridge Loans	1.23%
33	FI Africa	1.13%
34	Emerging Market Debt	4.11%
35	Global High Yield	0.65%
Cash & Receivables		**(1.68%)**
36	Cash & Receivables	1.68%

11. Pru's Smoothing Mechanics

11.1 FEATURES OF THE SMOOTHING PROCESS

Pru states that the overarching aim of the PruFund funds is to grow the customer's money over the medium to long term (defined as 5 to 10 years or more).

In order to achieve this objective Pru outlines that the funds use an established 'smoothing process' which aims to protect customers from extreme short-term ups and downs which might be experienced with direct stock market investment. In other words, it is aiming to provide customers with a more stable rate of growth than they might get if they were directly exposed to the daily changes in the fund's underlying investment performance.

Further Pru confirms that while customers won't benefit from the full upside of any potential stock market rises, PruFund works to ensure they won't suffer from the full effects of any downsides either.

To achieve this 'smoothing' the PruFund range of funds uses Expected Growth Rates (EGRs) and, where required, Unit Price Adjustments (UPAs), to deliver a smoothed investment journey.

It is vital that advisers ensure they have a strong understanding of these key PruFund objectives, mechanics and likely behaviours, and that they are subsequently able to educate clients on the same.


Expected Growth Rates (EGRs)

Prudential set Expected Growth Rates (EGRs) – annualised rates your investment would normally grow at.

The EGRs reflect our view of how we think each PruFund fund will perform over the long term (up to 15 years).

Each PruFund fund has its own EGR and your investments in a PruFund will normally grow daily by the relevant EGR. EGRs are reviewed every 3 months, and may be higher, the same, or lower than they were at the start of your investment.

Unit Price Adjustments (UPAs)

Although we use a long term view of performance to set EGRs, we also have to take into account shorter-term performance. On a daily basis, if the shorter-term performance differs too much from our current Expected Growth Rate, we'd have to amend the value of your fund up or down to ensure we are not returning too much or too little. We call these Unit Price Adjustments.

Your financial adviser will be able to give you more information on our smoothing process, EGRs and Unit Price Adjustments for our PruFund funds.

EGRs reflect Pru's long-term view of the fund growth and UPAs allow Pru to make any necessary adjustments to help keep the fund growth on track, in line with the EGR. EGRs and UPAs are part of the smoothing process.

11.2 FOUR STEPS TO SMOOTHING

There are four key steps to smoothing which need to be understood by advisers (and to a degree by their clients) and they are:

- Step 1: PruFund Account (Holding Account)
- Step 2: Expected Growth Rates (EGRs)
- Step 3: Daily monitoring/Unit Price Adjustments (UPAs)
- Step 4: Monthly/quarterly monitoring/Unit Price Adjustments (UPAs)

Vital reading for advisers in this regard is Pru's step-by-step guide to the PruFund smoothing process:

https://www.mandg.com/dam/pru/shared/documents/en/pruf1098101.pdf

11.3 WHAT IS THE EGR?

The EGR is the rate that is normally used by Pru to increase the value of the policyholder's unit price each day. EGRs for each fund are set quarterly by the PAC Board, with input from T&IO, having regard to the expected long-term returns of asset classes.

Pru tries to make sure that the policyholder's investment grows as smoothly as possible and due to the long-term nature of these rates, they often remain unchanged at the quarterly review.

The EGR provides the policyholder with a long-term indication of how the fund may perform. EGRs for each fund are published and displayed on Pru's websites for financial advisers and consumers on a quarterly basis. This provides another example of where Pru's approach to running PruFunds is open to public scrutiny.

Current EGRs

The tables at the link below show the current EGRs, gross of all product charges (including Annual Management Charges) unless indicated otherwise. At the time of writing the rates are correct as at 27 August 2024.

PruFund EGR & UPA | PruAdviser (mandg.com)

Important Information about the EGRs

Past performance is not an indicator of future performance. Advisers should remember that the value of an investment can go down as well as up, and hence their client may not get back what they paid in.

The EGRs set at each quarter date may be higher, the same or lower than those applying at the start of the investment.

In addition, there may be times where the unit price may be adjusted which will impact any growth that clients may receive. The overall return achieved on any plan is affected by the amount of the investment, investment performance, the period over which the plan has been invested and the charges applicable to the plan.

Pru states that it may decide to reset the smoothed price of a PruFund fund on a particular day, to protect the With-Profits Fund.

If Pru decides to reset, the smoothed price of the affected fund would be adjusted to be the same value as the unsmoothed price on that working day. That adjusted smoothed price will then continue to grow in line with the EGR from the working day after this reset of the smoothed price. This is referred to as a Unit Price Reset in Pru's literature.

Pru also states that there may be occasions where it has to suspend the smoothing process for one or more PruFund funds for a period of consecutive days, to protect the With-Profits Fund. When this happens the smoothed price for the affected fund(s) is set to the unsmoothed price for each day until Pru reinstates the smoothing process.

11.4 HOW DOES THE EGR AFFECT THE INVESTMENT?

When policyholders invest in PruFund, their investment will purchase a number of units dependent upon the unit price on the day that they invest and upon the amount that they invest. The investment in PruFund will usually increase at the current EGR applicable to that fund. This increase will be reflected by increasing the unit prices daily.

11.5 HOW CAN UNIT PRICE ADJUSTMENTS AFFECT THE VALUE OF THE INVESTMENT?

The aim is that the value of the investment grows steadily over the medium to long term at the rate of the EGR.

However, when market conditions are volatile, an adjustment to the unit price may occur. A UPA – positive or negative – will be applied when the performance of the fund moves the value of the underlying assets too far away from the EGR.

The smoothing process used by Pru is designed to ensure that the value of the investment increases as smoothly as possible but is never more than 10% away from the daily valuation of the underlying fund, as calculated on that day alone and over the latest five-day day period.

The table below illustrates the effect of a 5% UPA.

% Change in UPA	Number of Units	Unit Price	Value	Unit Price after Adjustment	Value after UPA
5% increase	50,000	100p	£50,000	105p	£52,500
5% decrease	50,000	100p	£50,000	95p	£47,500

There is no doubt that the adviser will need to explain EGRs and UPAs, and their interaction, to investors in order to ensure that they can grasp the smoothing concept, but they can at least access the information required to do so.

12. Appraising PruFund Performance and Governance in Action

12.1 HISTORICAL PRUFUND EGRS AND UPAS

Key performance indicators for PruFund's investment approach, risk management procedures and governance structures (across Life, Pension and Investment product wrappers) are delivery of EGRs and application of UPAs (the mechanics to both are explained in Section 11).

Advisers must keep a close eye on announcements made by Pru relating to EGRs and UPAs. These are typically done on a quarterly or monthly basis, although there may be situations where announcements are made at other times.

The go-to resource for advisers to acquaint themselves with and stay abreast of EGR and UPA related developments and announcements is:

https://www.mandg.com/pru/adviser/en-gb/funds/prufund-range/egr-and-upa

Current and historical EGRs are accessed via this resource, as well as historical UPAs.

From an EGR perspective, advisers need to be aware of how a client's particular PruFund variant is forecast to grow, especially if these growth rates are being baked into the client's investment growth expectations. Advisers should also have an understanding of both current and historic EGRs so that they can have a sense of Pru's long-term growth rate outlook and performance.

From a UPA activity perspective, advisers need to be aware of the number of occasions where Pru has had to employ a UPA to rebalance – positively or negatively – any misalignment in their long-term investment outlook and/or asset allocation stance.

There is an ever-expanding range of PruFund variants and so advisers need to ensure they understand specific EGR and UPA announcements in relation to their client's product/investment holdings.

12.2 PRUFUND CAUTIOUS PENSION FUND PERFORMANCE

Pru states that the fund aims for steady and consistent growth through a cautious approach to investing.

In reviewing performance, the key consideration should be: Do the adviser and the investor feel that the fund has delivered against this objective while taking the relevant risk/reward balance into consideration? Relevant timescale on investment should also be considered.

This chart plots the performance of the PruFund Cautious Pension Fund since its launch against the most pertinent ABI sector for comparison purposes – ABI Mixed Investment 0% to 35% Shares – and also against a MoneyFacts 90 days notice index over the same period for further context.

The figures are intended only to demonstrate performance history of the fund over the time period shown and include a representative fund charge of 0.65% per annum. They take no account of product or advice charges. The application of charges will impact the overall performance. Performance is shown on a bid to bid price basis.

PruFund Cautious Pension Fund (Series A) Performance since launch to end August 2024

Source: Financial Express, September 2024

12.3 PRUFUND GROWTH PENSION FUND PERFORMANCE

Pru states that the fund aims to maximise growth over the medium to long term by investing in shares, property, fixed interest and other investments.

In reviewing performance, the key consideration should be: Do the adviser and the investor feel that the fund has delivered against this objective while taking the relevant risk/reward balance into consideration? Relevant timescale on investment should also be considered.

This chart plots the performance of the PruFund Growth Pension Fund since its launch against the most pertinent ABI fund sector for comparison purposes – ABI Mixed Investment 20% to 60% Shares – and also against the FTSE All Share Tracker index over the same period for further context.

The figures are intended only to demonstrate performance history of the fund over the time period shown and include a representative fund charge of 0.65% per annum. They take no account of product or advice charges. The application of charges will impact the overall performance. Performance is shown on a bid to bid price basis.

PruFund Growth Pension Fund (Series A) Performance since launch to end August 2024

Source: Financial Express, September 2024

12.4 PRUFUND CAUTIOUS LIFE FUND PERFORMANCE

Pru states the fund aims for steady and consistent growth through a cautious approach to investing.

In reviewing performance, the key consideration should be: Do the adviser and the investor feel that the fund has delivered against this objective while taking the relevant risk/reward balance into consideration? Relevant timescale on investment should also be considered.

This chart plots the performance of the PruFund Cautious Life Fund since its launch against the most pertinent ABI fund sector for comparison purposes – ABI Mixed Investment 0% to 35% Shares – and also against a MoneyFacts 90 days notice index over the same time period for further context.

The figures are intended only to demonstrate performance history of the fund over the time period shown and include a representative fund charge of 0.65% per annum. They take no account of product or advice charges. The application of charges will impact the overall performance. Performance is shown on a bid to bid price basis.

PruFund Cautious Life Fund (Series 2) Performance since launch to end August 2024

Source: Financial Express, September 2024

12.5 PRUFUND GROWTH LIFE FUND PERFORMANCE

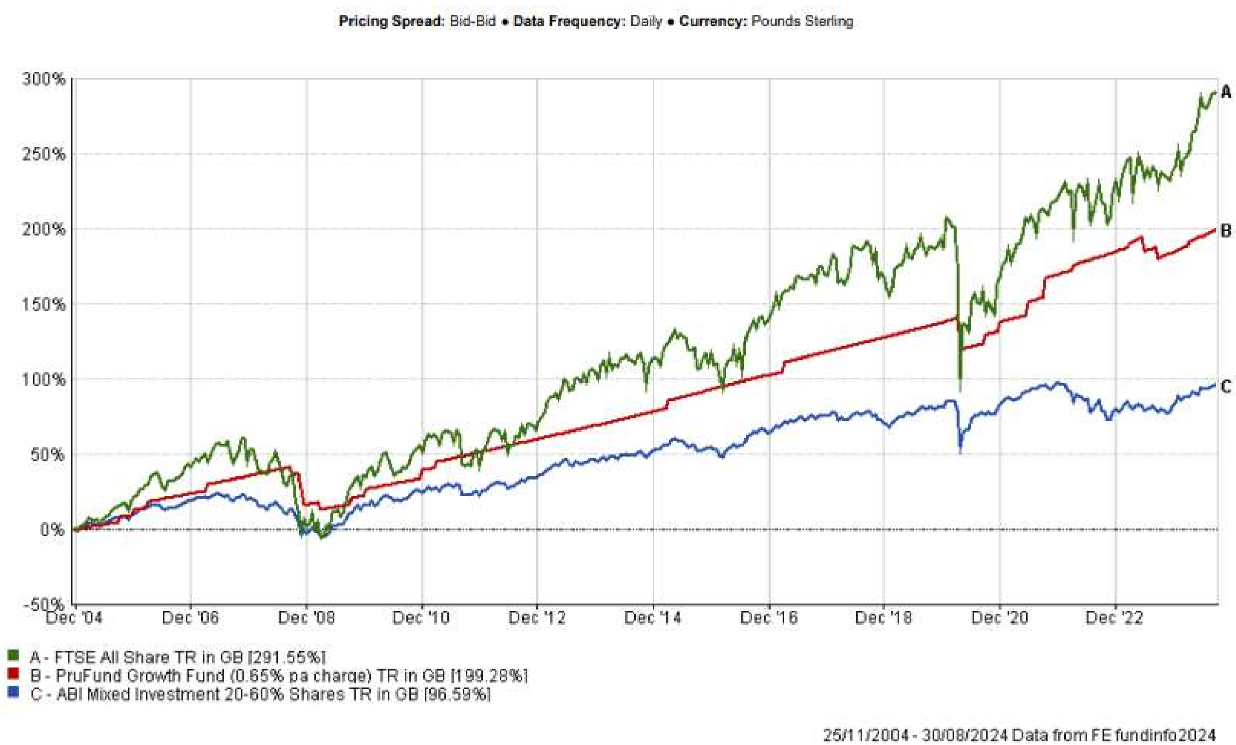
Pru states that the fund aims to maximise growth over the medium to long term by investing in shares, property, fixed interest and other investments.

In reviewing performance, the key consideration should be: Do the adviser and the investor feel that the fund has delivered against this objective while taking the relevant risk/reward balance into consideration? Relevant timescale on investment should also be considered.

This chart plots the performance of the PruFund Growth Life Fund since its launch against the most pertinent ABI fund sector for comparison purposes – ABI Mixed Investment 20% to 60% Shares – and also against the FTSE All Share Tracker index over the same time period for further context.

The figures are intended only to demonstrate performance history of the fund over the time period shown and include a representative fund charge of 0.65% per annum. They take no account of product or advice charges. The application of charges will impact the overall performance. Performance is shown on a bid to bid price basis.

PruFund Growth Life Fund Performance since launch to end August 2024



Source: Financial Express, September 2024

13. Key Considerations for Advisers

AKG has put together a checklist of key themes and issues that advisers should consider when appraising the management approach, governance framework and risk control procedures underpinning managed fund/portfolio solutions.

More and more money continues to find its way into these and this generic term could easily apply to a wide range of solutions including for example with profits funds, multi-manager funds, multi-asset funds, managed funds/portfolios or default funds (from a workplace perspective).

When approaching potential investment partners, financial advisers will of course be told categorically that comprehensive investment management and risk management processes and appropriate governance structures are in place. However, AKG believes that in establishing these relationships, and then monitoring their performance against objectives on an ongoing basis, financial advisers and the investor should be the judge of just how comprehensive and effective these processes and structures turn out to be.

- Be clear about exactly what activities and responsibilities are being assumed by the company behind the managed fund/portfolio solution. This may well appear to be the most obvious of the points on the checklist, but it is clearly one of the most critical in terms of advisers' engagement with any form of outsourced investment solution
- If the solution uses underlying funds or mandates, what are the associated manager research and interview processes and resources behind the proposition?
- How are investment mandates issued to managers and how are they monitored?
- What is the manager's approach to asset allocation - strategic and tactical - and what are the processes behind their construction and ongoing monitoring of the asset allocation framework?
- How is the manager seeking to achieve diversity – e.g. geographical spread, asset types and public/private markets - within the fund/portfolio?
- What internal performance measuring processes are in place? How is the performance of the underlying managers gauged? What controls are in place to identify breaches of mandate or performance that is below par or out of kilter with the mandate?
- While advisers should correctly place importance on the performance of funds against their most pertinent peer groups, and contextually against relevant external indices, the adviser should ensure that the performance is in keeping with the stated fund objectives and risk parameters
- Identify the teams that are in place within the asset management company to support the delivery of the fund management, risk and governance disciplines. Understand the make-up of each team, the knowledge and experience of the team members and their roles within the team structure
- Understand how the teams interact in the delivery of fund management and governance duties. Ask for examples of where interaction between the teams has brought about positive activity or change related to the day-to-day running of the fund, e.g. responses to change/challenge, opportunities taken, threats avoided
- What oversight committees are in place to discuss best practice in the running of the fund and to make decisions on any anomalies or queries that have arisen from fund monitoring process checks? Are these committees formed of internal staff or external members?
- Understand the environment within which the funds are being used by investors. Beyond the overarching objective for the fund, asset managers need to have a greater awareness of how their funds are being employed by advisers and investors
- How regular and strong are adviser/customer communications? Is a stream of transparent and informative resources available to support advice firm understanding of ongoing operation and performance of solution?

Ultimately the successful deployment of management, risk and governance functions within the fund structure should make it far more likely that the fund will achieve its core objectives.

14. Adviser Checklist – PruFund & T&IO

Here AKG studies and summarises the merits and positioning of the PruFund/T&IO proposition against some of the key considerations included in our suggested checklist for advisers.

Investment Considerations for Advisers	T&IO Approach, Process, Structure and How These Might Support Advisers
What investment activities and responsibilities are being assumed by the company behind the managed fund/portfolio solution?	• T&IO are the investment strategists and manager of managers for PAC. They are responsible for running the assets that underpin Pru's insured multi-asset fund ranges. They set and monitor the asset allocation framework for these funds • The adviser is effectively outsourcing asset allocation responsibilities to T&IO and investment management responsibilities to T&IO and M&G Group and various external managers • The adviser remains responsible for testing the suitability of the investment solution and for gauging the investor's attitude to risk and capacity for loss. Both of these important duties should be revisited and retested on an ongoing basis
If the solution employs underlying funds, what are the associated manager research and interview processes and resources behind the proposition?	• T&IO has strength in depth with a team of around 70 , including experienced investment professionals with specialist expertise in capital market research, investment strategy design, liability management and portfolio management • For the underlying fund managers, T&IO has an in-depth process to review the fund manager's approach to running money on an annual basis • Annual site visits are conducted to assess each fund manager on their suitability and alignment with strategy. Investment due diligence covers both quantitative and qualitative factors. Quantitative factors include measures of performance and holdings analysis. Qualitative analysis incorporates People, Process, Philosophy and Infrastructure
How are manager mandates issued and monitored?	• T&IO builds bespoke mandates with managers where possible and then as part of its ongoing governance has processes in place to monitor these mandates for breaches in prescribed parameters • T&IO monitors the performance of the manager against the prescribed objectives and timeframe for each mandate
What is the manager's approach to asset allocation and the processes behind their construction and ongoing monitoring of an asset allocation framework?	• PAC is responsible for setting the overarching strategic asset allocation framework for the PruFund range, based on analysis and recommendations from T&IO. T&IO manages asset allocation on an ongoing basis • The LTIS Team is responsible for producing the Capital Market Assumptions and economic scenarios which are used to inform SAA decisions • T&IO has a long-term conviction in its approach to asset allocation • The asset allocation models for other multi-asset funds in the range are intrinsically linked to its With-Profits Fund
If the solution is multi-asset, how is the manager seeking to achieve diversity within the fund?	• T&IO seeks to achieve regional diversification through its use of managers operating within the Group globally and external specialists for alternatives and other asset classes • T&IO invests in a range of assets including equities, property and fixed interest and where applicable alternative assets

Investment Considerations for Advisers	T&IO Approach, Process, Structure and How These Might Support Advisers
Responsibility for fund performance monitoring and reporting	• Ultimate responsibility for the performance of the PruFund range rests with the PAC Board, which has created the M&G Life EIC to formally discharge this duty • The M&G Life EIC is supported in carrying out this duty by T&IO, which produces investment reporting for the funds, and will draw to the attention of the board any matters of immediate concern • Performance of these funds relative to peer group is highly visible, and T&IO ensures that there is a high degree of scrutiny applied to performance data in many areas of the business throughout the year
Approach to performance monitoring of underlying managers	• T&IO's primary concern is that underlying managers perform to a set mandate - which may from time-to-time lead to positive or negative relative return at the fund total level when compared to either peer group or benchmarks • T&IO's governance and control framework helps to support this monitoring and assessment • In addition, the standard measures of fund versus benchmark and fund versus peer group are also monitored
Is a governance committee in place and what is their remit?	• T&IO monitors and manages the M&G Group fund managers responsible for the majority of underlying funds and mandates • T&IO was set up specifically to manage the asset allocation, safeguard the investment philosophy, and manage the managers, on behalf of the policyholders • The With-Profits Committee provides an independent assessment of the way in which Pru manages its With-Profits business, how Pru balances the rights and interests of policyholders and shareholders in relation to its With-Profits Funds, and whether Pru complies with the PPFM
Are these committees formed of internal staff or external members?	• T&IO's teams and committees are made up of internal staff • Pru's With-Profits Committee includes external representatives
Identify the teams that are in place within the asset management company to support the delivery of the fund management, risk and governance disciplines.	• There are three core investment teams operating within T&IO - LTIS, MAPM and Manager Oversight - with support provided by other teams such as Risk, Compliance, ESGR and the Client Portfolio Management team • Each of these teams has clear duties and contributions to make to managing the assets of, and supporting, the PruFund range
Understand the make-up of each team, the knowledge and experience of the team members and their roles within the team structure.	• Further details about the core T&IO teams are included within Section 7
Beyond the overarching objective for the fund, asset managers should be able to illustrate greater awareness of how their funds are being employed by advisers and investors, i.e. within which product strategy.	• The wider Pru team has a strong knowledge of the ISA, pension, retirement income, onshore and offshore bond markets and shows an understanding of how the PruFund might be best applied to meet investor requirements within each of these product/tax frameworks • The T&IO Client Portfolio Management team supports the ongoing delivery of the PruFund proposition to financial advisers

App. A PruFund Risk Managed Objectives

Source: Pru

App. A 1.1 PruFund Risk Managed 1 Fund

The Prudential PruFund Risk Managed 1 Fund aims to achieve long-term total return (the combination of income and growth of capital). The fund is actively managed and aims to limit the fluctuations ('volatility') your investment experiences, after allowing for smoothing, to 9% over the medium to long term. There is no guarantee that the Fund will achieve its objective of managing the volatility to the target level.

App. A 1.2 PruFund Risk Managed 2 Fund

The Prudential PruFund Risk Managed 2 Fund aims to achieve long-term total return (the combination of income and growth of capital). The fund is actively managed and aims to limit the fluctuations ('volatility') your investment experiences, after allowing for smoothing, to 10% over the medium to long term. There is no guarantee that the Fund will achieve its objective of managing the volatility to the target level.

App. A 1.3 PruFund Risk Managed 3 Fund

The Prudential PruFund Risk Managed 3 Fund aims to achieve long-term total return (the combination of income and growth of capital). The fund is actively managed and aims to limit the fluctuations ('volatility') your investment experiences, after allowing for smoothing, to 12% over the medium to long term. There is no guarantee that the Fund will achieve its objective of managing the volatility to the target level.

App. A 1.4 PruFund Risk Managed 4 Fund

The Prudential PruFund Risk Managed 4 Fund aims to achieve long-term total return (the combination of income and growth of capital). The fund is actively managed and aims to limit the fluctuations ('volatility') your investment experiences, after allowing for smoothing, to 14.5% over the medium to long term. There is no guarantee that the Fund will achieve its objective of managing the volatility to the target level.

App. A 1.5 PruFund Risk Managed 5 Fund

The Prudential PruFund Risk Managed 5 Fund aims to achieve long-term total return (the combination of income and growth of capital). The fund is actively managed and aims to limit the fluctuations ('volatility') your investment experiences, after allowing for smoothing, to 17% over the medium to long term. There is no guarantee that the Fund will achieve its objective of managing the volatility to the target level.

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