

PruFund investment insights: a closer look at alternatives and other strategies

 a 10 minute read

Alternative investments are the investments that don't fall into the traditional categories of shares, bonds, real estate and cash, which investment funds like the PruFund range of funds invest in. Your financial adviser has given you this article to help explain this topic to you. Read on to learn more.



Introducing alternative and other strategy investments

As well as shares, bonds, real estate and cash, a balanced investment may also include alternative investments. The PruFund range of funds invests in four categories of alternative investment: private equity, private high yield, commodities and infrastructure.

We invest in these alternatives because many don't usually respond to economic developments in the same that shares and bonds, in particular, do. That makes alternatives a valuable source of diversification (or variety) for PruFund funds.

It is usually the case that most alternative asset classes are only available to larger investors. However, due to the size of PruFund and the expert management that sits behind it, PruFund can give you access to investments that you would not be able to access outside the fund.

Because alternatives represent a vast and growing set of global opportunities, PruFund funds' alternative investments aren't constrained by geography. Instead, PruFund is free to invest anywhere in the world and to seek out the best opportunities wherever they arise. This gives our alternatives portfolio the widest possible scope for diversification.

We recommend that you read this article about alternative investments and get in touch with your financial adviser if you have any questions. Your adviser is best placed to help you understand what investment options are right for you. **Please bear in mind that the value of your investments can rise as well as fall, and you may get less back than what you invest.**



Private Equity explained

When we invest in private equity for PruFund funds, teams within M&G Investments are buying shares in companies that aren't listed on public stock exchanges or appoint specialist investment managers to do the same.

These shares aren't widely traded and can't be easily bought or sold. This means that holding these shares could be riskier than buying shares in a publicly listed company, because there is no guarantee that they can be sold quickly. But in return for taking on this higher risk, we're usually able to get higher investment returns.

Within PruFund there are different ways to invest in private equity strategies. These are:

Buyouts involve buying a controlling stake in a private company and often borrowing money to do this.

Venture capital involves buying stakes in companies when they are still young and small. The aim here is to provide these companies with finance and expertise to help them grow.

Special situations involve buying holdings in companies that are experiencing difficulties or undergoing mergers or acquisitions. The aim is to acquire a stake at a cheaper rate and work to turn the company's fortunes around.

PruFund also has exposure to a strategy which involves investing in private companies that are looking to become public.





Infrastructure explained

Investments in infrastructure can cover both economic infrastructure (such as airports, telecommunications and sources of renewable energy) and social infrastructure (such as hospitals, schools and prisons). As well as offering potential returns to investors, each of these types creates different benefits for society.

PruFund funds invest in infrastructure because it tends to offer strong income and a degree of protection from inflation.

For example, if inflation rises and central banks raise interest rates in response, returns from bonds, in particular, are likely to be lower. Infrastructure, however, provides a good source of diversification and potential for steadier returns over the longer term.

Investments in infrastructure tend to be long-term in nature. There are many different ways to invest in this asset class. For example, the investment managers can buy and hold infrastructure assets that are already in operation. Or they can help to create infrastructure assets and hold an investment in them throughout their development.

Another strategy is operational improvement, whereby our investment managers seek to improve the operating and financial efficiency of an established asset, allowing it to be sold on at a profit.

PruFund also invests into what we call food infrastructure. This involves investing into the supply chains and distribution of companies targeting global food challenges. Two investment strategies in Asia and Latin America are designed to improve the production and availability of healthy food worldwide, as well as rural livelihoods.



Inflation is the general increase in the price of goods and services in an economy. Ask your adviser about the current climate of inflation and how interest rates may impact cash-based savings, if you want to know more.



Commodities explained

Commodity investments provide access to raw materials and natural resources such as Energy (eg Natural Gas), Agriculture and Livestock (eg Corn, Coffee, Wheat), Industrial Metals (eg Copper, Lead, Nickel) and Precious Metals (eg Gold, Silver, Platinum).

In 2024 we added commodities to PruFund due to:

- **Inflation Linkage:** Commodities often rise in value when inflation is high, which can help balance out other parts of the portfolio
- **Moves differently from Stocks and Bonds:** Commodities don't always follow the same trends as traditional investments, which can help reduce overall risk
- **Adds Variety:** This investment area is highly diverse and invests across a wide range of sectors (listed above)

PruFund doesn't invest directly in physical commodities or companies in these sectors. Instead it gains exposures through futures contracts – a way to benefit from commodity price movements without owning the actual assets.



Private High Yield explained

Private High Yield is a form of private credit that offers the potential for higher returns than traditional private credit, but with higher risk. It typically sits between traditional private credit and private equity on the risk and return spectrum – carrying more risk than higher-quality lending, but with less risk (and lower potential returns) than taking ownership stakes in private companies.

Private Credit involves lending money directly to companies or assets outside public bond markets. Investors earn returns mainly through interest payments, rather than by owning a portion of a business.

Private High Yield focuses on lending where borrowers may be less established, have lower credit ratings, or be undergoing change. Investors are paid a higher return to reflect this additional level of risk.

PruFund's private high yield exposure includes four specialist areas:

1) Corporate lending

This involves lending to companies through higher risk-debt structures than the senior secured loans typically used in traditional private credit, with higher interest payments reflecting the additional risk.

2) Specialty finance

This area focuses on more bespoke lending opportunities. These are typically more complex than traditional loans and offer higher returns to reflect the additional risk.

3) Credit opportunities/restructuring

Lending to companies that may be going through a period of change, restructuring, or recovery. Investors are paid for supporting a turnaround, with the potential for higher returns if the recovery is successful.

4) Asset-based lending

Loans that are backed by identifiable assets rather than relying solely on company earnings, such as:



Aircraft or equipment leasing



Real estate backed lending



Infrastructure or long-life assets



Specialist areas such as farmland



Other strategies explained

Other strategies aim to target investments in different areas within this category of investments. We're going to take a closer look at hedge funds here.

Other Factors

This part of the fund invests in strategies that behave differently from traditional asset classes such as equities or bonds. These strategies are not focused on whether markets rise or fall, but on how markets behave.

Volatility strategies

Volatility refers to how much and how frequently market prices move up and down. Rather than trying to predict the direction of markets, a volatility strategy focuses on the size of those movements. Depending on how the strategy is positioned, it can seek to benefit when markets are very unsettled and prices move sharply, or when markets are relatively calm and stable.

Momentum strategies

Momentum strategies are based on the idea that market trends often persist for a period of time rather than reversing suddenly. If the price of an investment is rising, a momentum strategy may invest on the expectation that the trend continues. If prices are falling, it may reduce exposure. In simple terms, this approach aims to "go with the flow" of market trends, while adjusting positions before the tide turns.

Tactical Asset Allocation

Tactical Asset Allocation (TAA) allows part of the funds to profit from shorter term market moves. Investments are based partly upon the idea that people often react emotionally to news, which could push markets too far up or down in the short-term. Investments are mainly made through broad investments across shares, bonds or currencies.



Our investment strategy in practice

Here we take a look at some case studies within the PruFund range of funds' alternative investments.



Introducing M&G Private Markets

M&G Private Markets is the alternatives investment division of M&G with £81bn of assets under management*. This team of investment professionals is part of M&G's Private Assets business and is supported by the wider M&G infrastructure, including its key functions like compliance, legal, accounting and tax. They manage alternative investments and oversee any other external managers who manage alternative investments for the PruFund range of funds.



Taking into account the wider impact on society

Environmental, social and governance concerns are important to many of our investors who want to make the world a better place. So these factors are considered when the team is deciding where PruFund funds should invest. We believe that alternative assets can help in meeting global sustainability targets. In fact, our alternatives team has been investing in renewable energy for a number of years. A proportion of our other alternatives investments have a focus on sustainability or the environment.



A look at some alternative investments

In private equity, M&G Private Markets has invested in Greencore Homes, who are redefining what sustainable housing can look like using a pioneering construction system using natural materials to ensure properties lock away more carbon than they emit. M&G Private Markets also invest in 'BioFirst' – a global leader in pollination and biological pest and disease control. Their mission is to promote sustainable production of high-value crops through crop protection and pollination.



A look at some infrastructure investments

PruFund funds' infrastructure investments include Zenobe Energy, which is a leading owner and operator of battery storage in the UK. Zenobe provides battery storage plants for the electricity grid and for infrastructure solutions to bus fleets and industrial customers. Another of our infrastructure investments is Workdry. They are a market leading provider of water pumps to both utility and construction companies for the handling and treatment of water and wastewater across 22 sites in the UK.



It's always a good idea to know where your money is invested. If reading this article has made you want to know more about the PruFund range of funds, you might also be interested in reading our other articles about **bonds**, **shares** and **real estate**.

* as at 31 December 2025

If you have any questions after reading this

We hope that you've found this insight into alternative investments interesting and helpful. If you have any questions, it's always best to speak to your adviser. Only your adviser will have a complete view of your situation and be able to answer questions with your financial goals in mind.

