



# ‘PruFund Investment Update – 2022’

27 October 2022

For adviser use only - Not for use with retail customers

# Disclaimer



M&G Treasury & Investment Office (T&IO) includes the team formerly known as Prudential Portfolio Management Group (PPMG). This document has been prepared by T&IO for informational purposes only for the sole and exclusive use of the persons to whom it is addressed and may not be passed on to any other person, as further distribution might be restricted or illegal in certain jurisdictions. This document or report may not be copied, published, circulated, reproduced or distributed without the prior written consent of T&IO.

This document does not constitute or form part of any offer or invitation to sell, or any solicitation of any offer to purchase any security or other interests, nor shall this document or any part of it or the act of its distribution form the basis of, or be relied upon in connection with, any contract for the purchase of any such securities or other interests. This document does not constitute investment advice.

Information given in this document has been obtained from, or based upon, sources believed by T&IO to be reliable and accurate although T&IO does not accept liability for the accuracy of the contents. Any opinions expressed are our present opinions reflecting current market conditions, are subject to change without notice and involve a number of assumptions which may not prove valid. Past performance is no guarantee of future performance. The value of investments can fall as well as rise.

To the extent available, the industry, market and competitive position data contained in this document come from official or third party sources. Third party industry publications, studies and surveys generally state that the data contained therein have been obtained from sources believed to be reliable, but there is no guarantee of the accuracy or completeness of such data.

Where included, benchmark and index data included in this document are provided for illustrative purposes only. Every effort is made to ensure the accuracy of any information but no representation, warranty or other assurance, express or implied is made or given by T&IO or any of its shareholders, affiliates, directors, employees or any other person as to the accuracy, completeness or fairness of any information, forward-looking statements or opinions contained in this document and no responsibility or liability is accepted by any of them for any such information, forward looking statements or opinions in respect of any omission, and this document is distributed expressly on the basis that it shall not give rise to any liability or obligation if, for whatever reason, any of its contents are or become inaccurate, incomplete or misleading.

Neither T&IO nor any of its shareholders, affiliates, directors or employees undertake any obligation to provide the recipient with access to additional information or to correct any inaccuracies herein which may become apparent. By accepting the document, you agree to be bound by the foregoing limitations.

Prudential Portfolio Management Group Limited, is registered in England and Wales, registered number 2448335, with registered offices at 10 Fenchurch Avenue, London, EC3M 5AG

Prudential Portfolio Management Group Limited is not regulated or authorised by any regulator.

# PruFund Investment Update

- Agenda

1. Market update
2. A review of 2022
3. Positioning for 2022 – key factors to consider
4. Diversifying real assets – why hold property and alternatives?
5. Performance
6. Summary & Q&A

- Learning outcomes

**After this session, you'll be able to:**

- Provide an understanding of the performance from PruFund Growth in 2022.\*
- Explain the possible headwinds and tailwinds and how PruFund is positioned.
- Describe the benefits of investing in real assets

\*The value of any investment can go down, as well as up, so your client might not get back the amount they put in.

This session qualifies for 45 minutes Structured CPD (the performance review content does not qualify).



# Where are we YTD?



Equity	Current Level	WoW	YTD	YoY
MSCI DM	582	2.15%	-22.87%	-21.51%
MSCI EM	859	-0.65%	-30.24%	-33.01%
S&P500	3,807	1.45%	-20.12%	-16.35%
FTSE 100	7,009	0.56%	-5.09%	-3.37%
Eurostoxx	3,561	2.43%	-17.15%	-15.63%
US Value vs Growth	--	-0.22%	9.62%	13.40%
Government bond				
US 10 year Yield	3.97%	-24.4	246.3	243.2
US 2 / 10 Spread	-0.38%	-11.3	-115.1	-141.4
Germany 10 Year Yield	2.04%	-37.4	222.0	222.1
UK 10 Year Yield	3.45%	-60.2	248.1	246.6
Italy / Germany 10 Year Yield	2.05%	-27.6	70.4	93.2
Credit Spreads				
Barclays £ Corp TR Index	2.30%	-6.6	116.3	124.1
Eur High Yield Spread (XOVER)	5.55%	-47.5	313.1	300.2
US High Yield Spread (CDX HY)	5.33%	-9.3	239.8	231.3
EM \$ Spread (CDX EM)	2.85%	-28.7	98.2	103.3
Currency				
USD Index	111.03	-0.88%	16.05%	18.36%
GBPUSD	1.1518	1.90%	-14.88%	-16.20%
GBPEUR	1.16	1.15%	-2.55%	-2.14%
EM FX Spot (JPM Index)	48.72	0.01%	-7.32%	-11.61%
Other				
Crude (1st Future)	96.18	2.87%	23.66%	13.71%
Vix index	27.50	-2.2	10.3	10.5
Treasury Vol index (SMOVE)	139.23	-10.2	60.7	64.4

Source: Bloomberg as at 9:15am on 28/10/2022

Source: M&G Treasury & Investment Office MAPM weekly market update as at 09.15am 28/10/2022

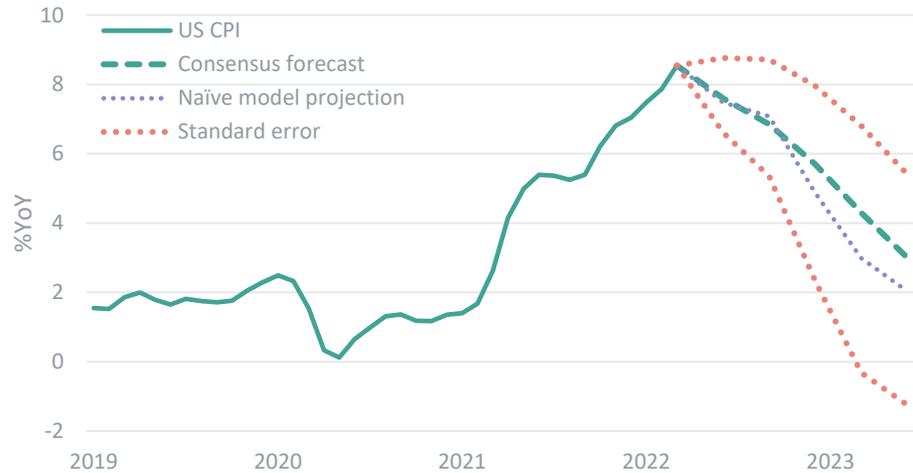
For adviser use only - not for use with retail customers

# Inflation Review: Near-term outlook

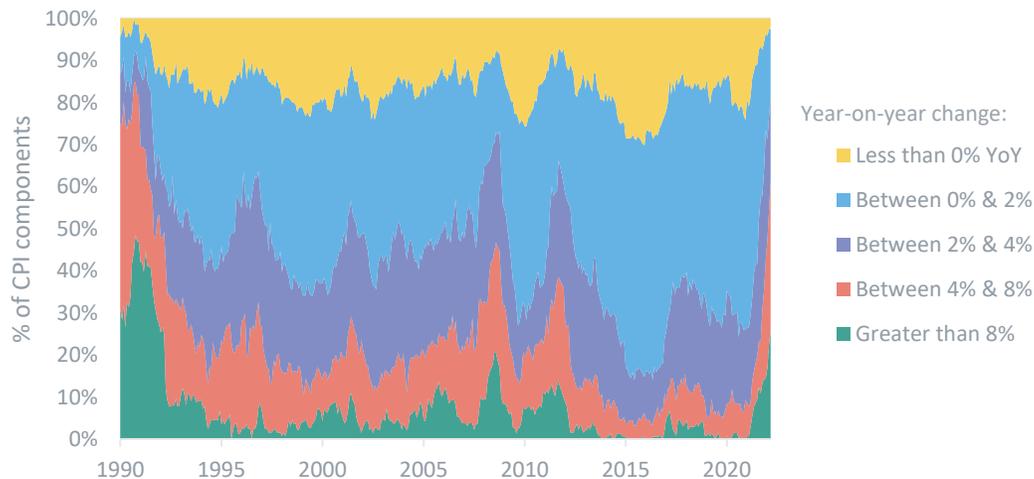
## Inflation remains high and broad-based



Consensus forecasts versus naïve projection based on seasonal norms



80% of CPI components rising more than 2% across Western Economies



- Inflation prints continue to come in very strong across major economies, accelerating since the turn of the year
- Underpinning this, producer prices across major economies are rising at double digit annual rates
- The acceleration in inflation last year began in specific areas disrupted by the pandemic, food and energy.
- However, looking at components, inflation has become increasingly broad-based and pervasive within CPI baskets
- Medium term, some of the factors that have been long term disinflationary have been changing
- Some of the key variables impacting inflation over the past year remain highly uncertain:
  - **Commodity prices**
  - **Supply chain issues**
  - **Labour markets**
  - **Housing costs (in the US)**

# Possible headwinds or tailwinds to consider?



## Inflation scenarios

- Inflation has risen significantly and become broad-based over the past year
- Our inflation scenarios consider three potential pathways over the coming 12-18 months:
  - A persistent inflation scenario, where central banks are forced to further accelerate tightening
  - A stagflation scenario, where inflation remains high, whilst economies tip into recession
  - A disinflation scenario, where supply chain pressures ease and inflation peaks

## Global growth scenarios

- The outlook for the world economy remains highly uncertain
- Our global economic scenarios consider upside and downside scenarios relative to the baseline of consensus expectations
- This year's update comes with baseline expectations for growth having been already adjusted lower, with valuations also not as stretched as they were last year

## China scenarios

- 2021's regulatory tightening across multiple sectors including real estate have unsettled the market, shaking investor confidence.
- China's 'zero covid' policy is also keeping a lid on consumption, leading to notable drop in credit demand and business activities. Recent data on industrial production and retail sales have also surprised on the downside.
- The balancing act between "common prosperity" and economic growth means China is facing a number of headwinds, potentially slowing growth.

## Trade & Globalisation scenarios

- Our trade & globalisation scenarios consider potential pathways for global trade over two horizons
- Potential impacts of renewed trade wars between major economies are considered via short-term scenario impacts on economies and asset classes
- Divergent paths for globalisation, split between ongoing integration, regionalisation or outright deglobalisation are considered via impacts to our long term capital market assumptions

## Geopolitical scenarios

- Our geo-political scenarios have centred on the ongoing conflict in Ukraine
- As illustrated in the following slide, we have considered 3 scenarios for how the conflict could evolve, covering a quick resolution (currently seemingly unlikely), a protracted conflict and an escalated conflict that spills into other countries
- In addition to this, work is ongoing to consider geopolitical risks elsewhere and their potential market impacts

## Brexit scenarios

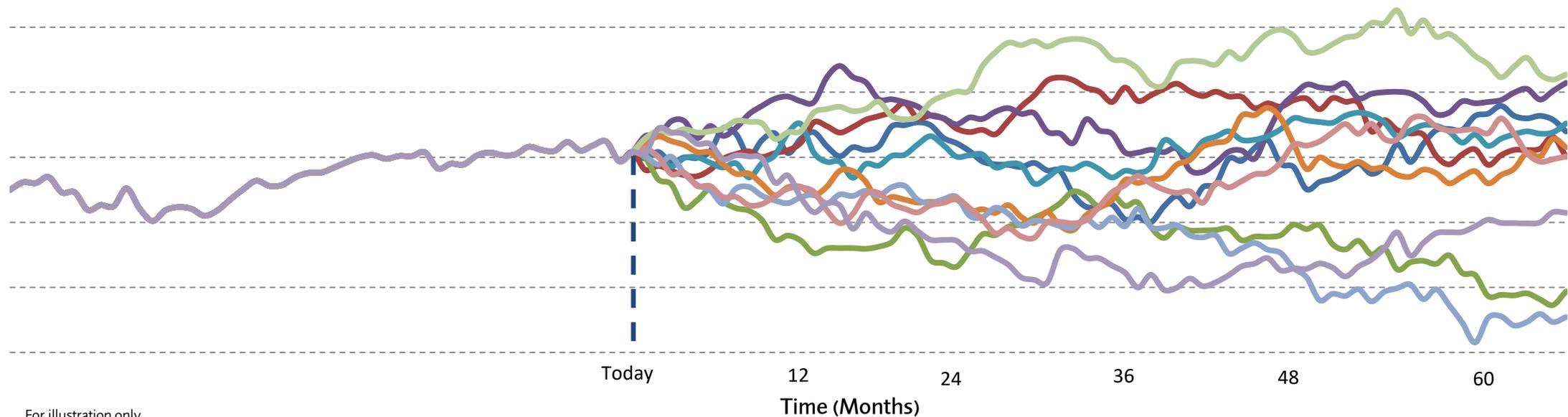
- Our Brexit scenarios originally outlined 5 different end states that the Brexit negotiations could ultimately settle on, resulting in differing degrees of ongoing integration between the UK and EU
- As Brexit has unfolded, the range of possible paths has narrowed
- With renewed uncertainty around the Northern Ireland protocol this year, downside scenarios remain on our radar should the current deal break down

# Investment Approach - Strategic Asset Allocation



- We don't look at a single return/forecast outcome to help set Strategic Asset Allocation
- Instead, we look at performance of a portfolio allocation across many different scenarios using an in-house Economic Scenario Generator– Genesis
- This allows us to optimise the asset allocation across a range of scenarios
- GeneSIS considers a range of asset classes and economic factors across different time periods and thousand of future scenarios

## One Past, Many Futures...



For illustration only

# 2022 PruFund Growth Strategic Asset Allocation changes

## Risk reduction and rotation

- **Risk reduction** early March, with onset of the Ukraine conflict
- **Fixed Income** – increase in areas offering better prospective yields – emerging market debt
- **Equities** – increase Indian equities for diversified growth
- **Inflation risks** - maintain allocation to real assets and look to add further in areas like food infrastructure

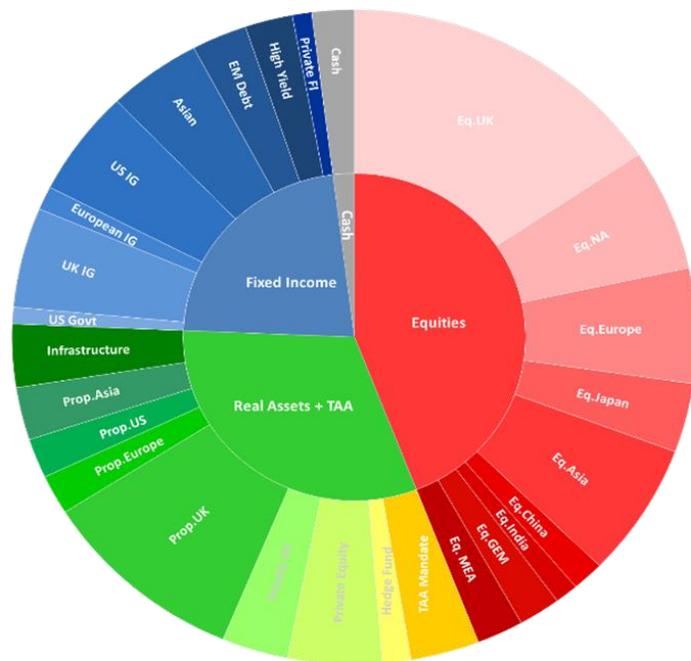


# PruFund Growth asset allocation against peers

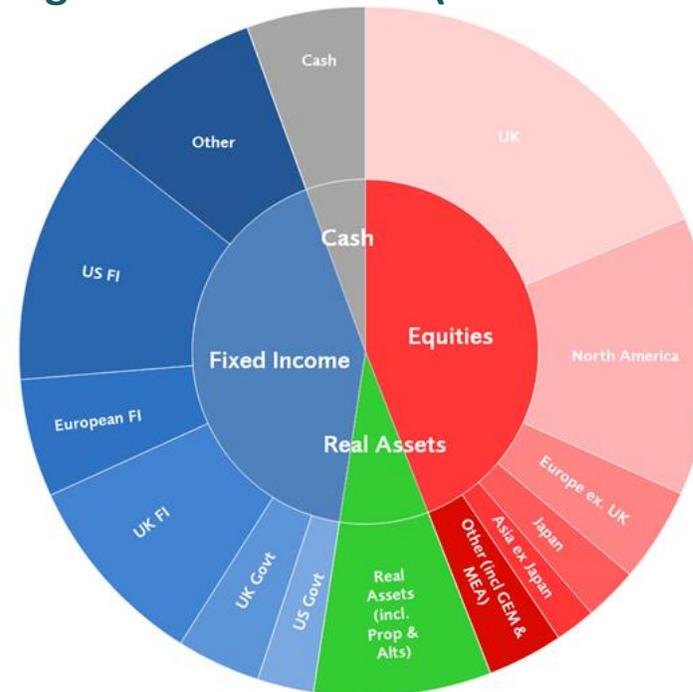
## Greater allocation to property & alternatives



**PruFund Growth (PFG) (2022 SAA)**



**Average Peer allocation\* (at 31 March 2022)**



- Equities - similar weight to peers. Less in US more in Asia
- Fixed income – less than peer group, favour corporate bonds, growing Asia and EM exposure
- Real/private assets – diversified exposure across real estate and alternatives

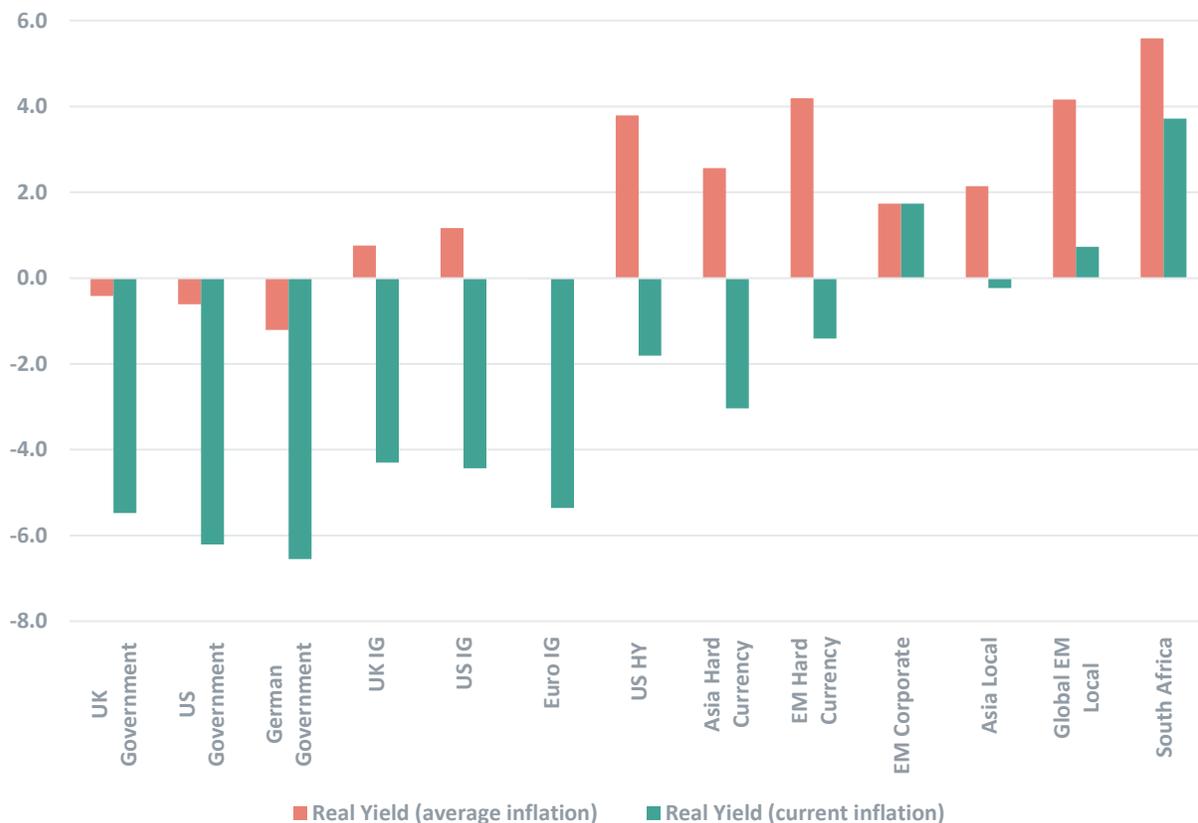
\* Peer Asset allocation data from Financial Express (top 20 funds by AUM from IA Mixed 20-60% shares sector at 31<sup>st</sup> March 2022). Data not available for 2 of the peers (out of the 20 peers). Two peers only had data to end Feb 2022 at the point of analysis. Source: Long Term Investment Strategy team, TIO calculations

# Investing in Emerging Market Debt

## Further allocation in 2022



Real Yield (Developed vs EM Bonds) as of 26th April 2022



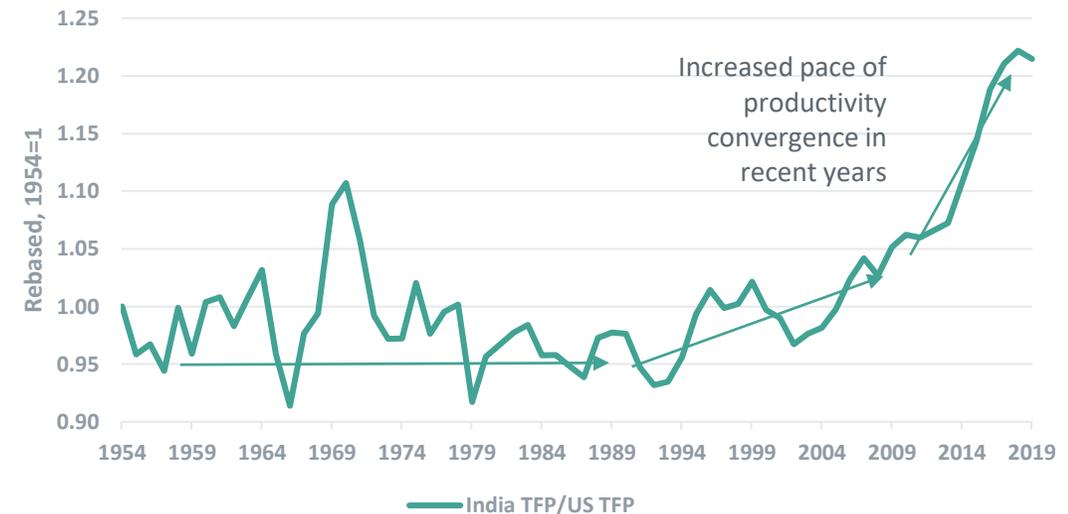
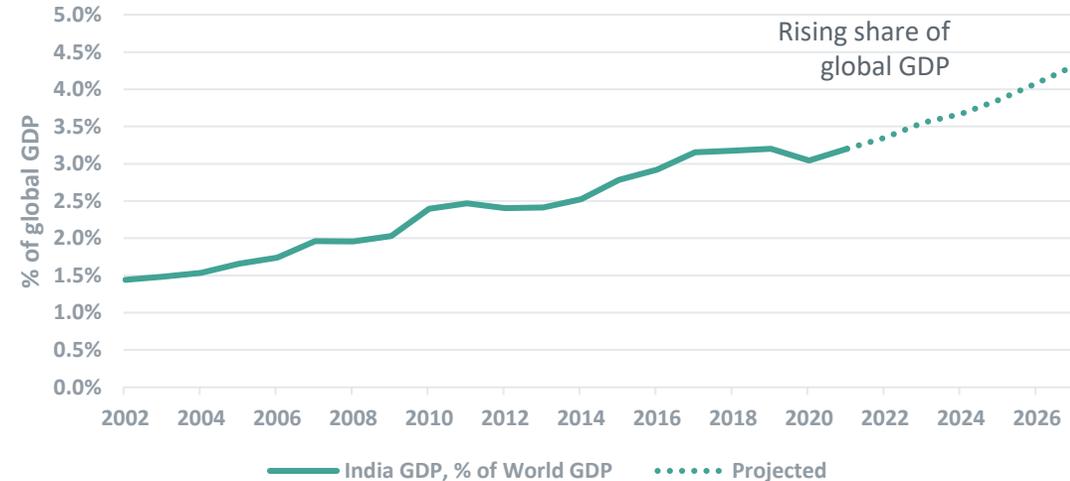
- Size of the market steadily increasing
- Higher economic growth rates
- Continue to offer positive real yields
- Some central banks well progressed hiking cycle - China actively easing
- Mix of corporate, sovereign, local and hard currency debt
- Not without risks but we believe returns compensate

# Investing in Indian equities

## India offers robust growth potential



- Attractive on a forward-looking basis:
  - **Economic reforms**
  - Shift to a **digitalised economy** and **financial reforms**
  - Outsourcing of IT services and **globalisation of services**
  - Transition to renewable energy sources
- Productivity levels converging with developed markets
- Domestically driven - only 30% of GDP depending on exports
- Low correlation with other equity and Asian markets



# Diversifying sustainable investments

## responsAbility



- Founded in 2003 and acquired by M&G in 2021
- Very experienced team with expertise across Asia/Emerging Markets
- Complements groups existing capabilities
- Likely investment of \$200-300m in two strategies
  - Future of Food Asia II
  - Sustainable Food LATAM I

# PruFund Growth

## Constantly evolving & more globally diversified



**UK Equities**  
Significant move from UK to global regions (2012)

**Asian FI**  
Material increase (2015)

**Private Credit**  
Key increase, using internal expertise (2016-2018)

**Risk Reduction**  
Stretched valuations (2018)

**Risk Increase**  
Attractive valuations (Jan 2019)

**Risk Reduction**  
Based on stage of economic cycle (June 2019)

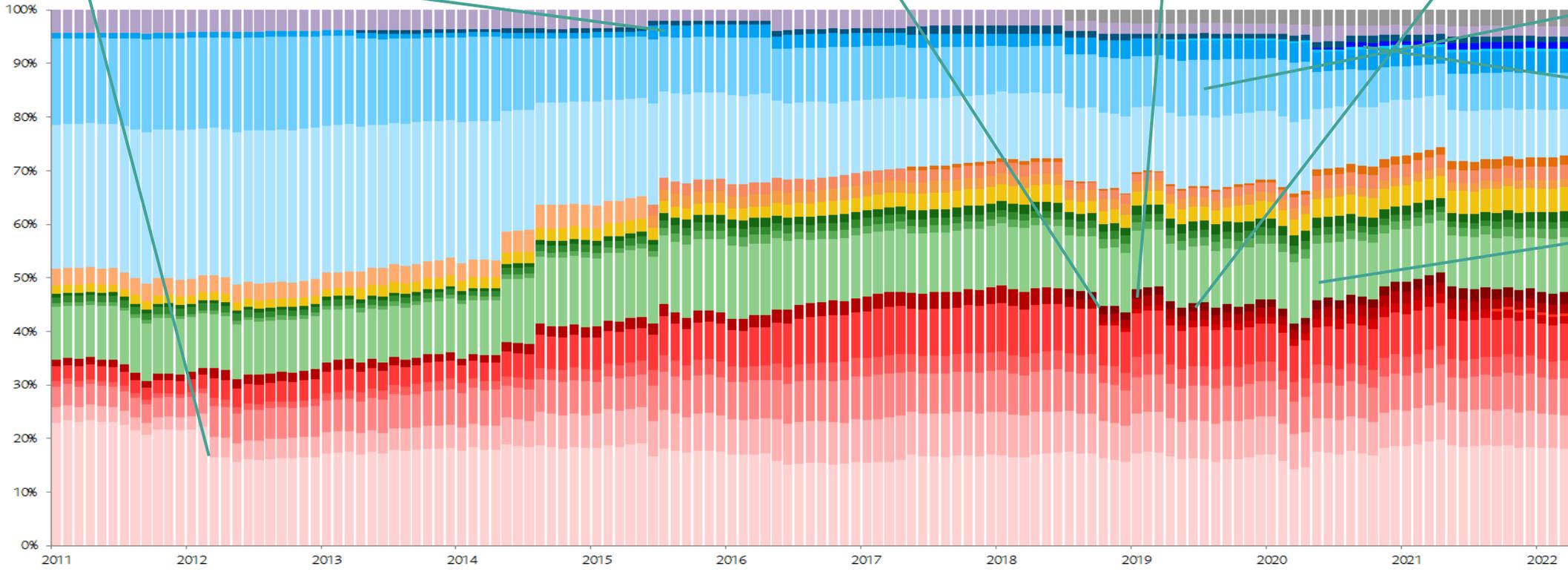
**US Treasuries**  
Added as defensive holding (June 2019)

**EM Debt**  
Material increase building on Asian & African debt (2020)

**COVID-19 SAA**  
Increase in risk overall due to valuations (March 2020)

**Inflation**  
Material increase in Real Assets (June 2021)

**Risk Reduction**  
(March 2022)

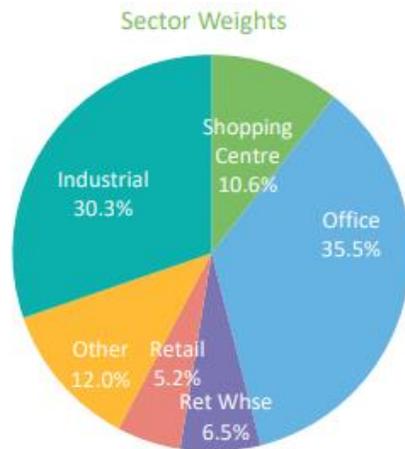


1. Tactical Asset Allocation mandate; 2. Includes: Convertibles, Bridge Loans, Global High-Yield  
Source: Allocation as of 31<sup>st</sup> March 2022 for OBMG (PruFund Growth fund).

# Property – Global Structure

## Increasing exposure to alternative sector / residential & student housing

- Positive global performance over Q2 with the UK being the strongest performer on an absolute basis
- UK fund strategy remains focused on divesting selectively out of non-strategic retail & office assets
- In North America the fund completed the acquisition of a 21 building mainly industrial portfolio in Mississauga (neighbouring city to Toronto) in a joint venture with a Canadian asset manager at a purchase price of CAD\$294m.
- 94% rent collection rate in Q2 2022



# Q2 2022 - UK Commercial Property Mandate

## Divesting selectively from non-core retail assets



- **Rental collections** circa **94%** (Q2). Higher across offices and industrials.
- **Sale of an office in Reading** completed in Q2 22
- Acquisition of an additional stake in Bluewater shopping centre for £42m
  
- **151** assets (average lot size: £61m)
- Vacancy % of estimated rental value (ERV) is **8.0%**
- Weighted Average Unexpired Lease Term (WAULT) (including breaks) is **8.5 years**
- Net Equivalent Yield: **5.1%** (Net initial: 3.5%)
- **18.4%** retail, **34.0%** office, **33.9%** industrial, **13.6%** residential and alternatives



Three Snowhill, Birmingham



40 Leadenhall Street, London



Avon House, Oxford St. London



Haymarket, Edinburgh

Source: M&G Real Estate, 30.06.2022

# Diversifying real assets – Vista Ridge Water Supply Project

Essential water pipeline for the city of San Antonio

<b>Investment</b>	USD 110m committed 2018
<b>Sector/industry</b>	Water
<b>Expected term</b>	5 years +
<b>Expected return</b>	12% per annum
<b>Country</b>	USA

- Expected to provide 20% of San Antonio’s water needs
- San Antonio is one of the fastest growing cities in the US and sits in a drought zone; hasn’t built new water resources in >30 years.
- “Greenfield” infrastructure investment
- 30 year contract with no volume risk. AA+ rated counterparty
- Best-in-class construction counterparty
- Highly attractive to a long-term investor on exit

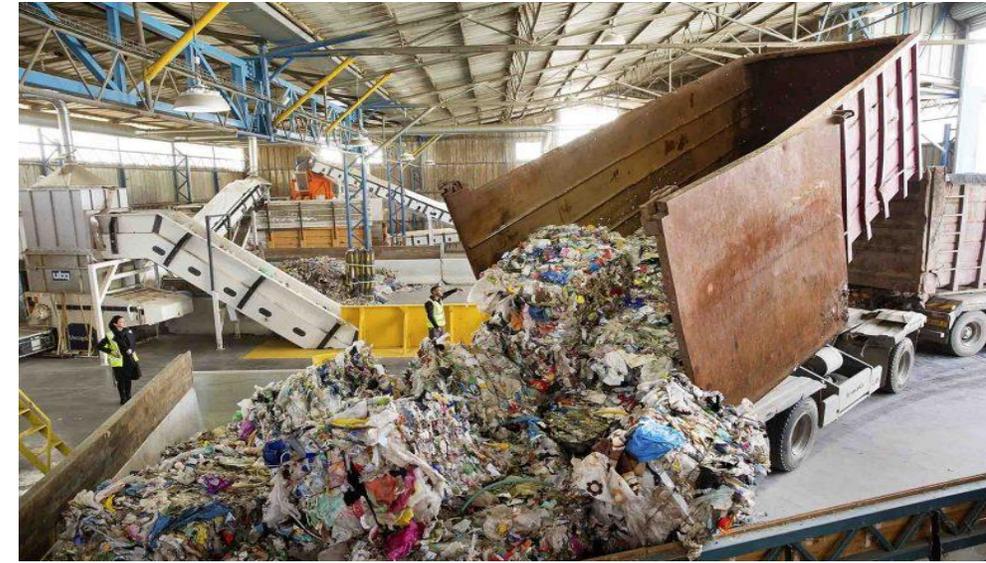


# Catalyst investment - UBQ Materials

Equity in transforming landfill waste to plastic

<b>Investment</b>	Private corporate equity
<b>Sector/industry</b>	Waste recycling/plastic manufacturing
<b>Expected term</b>	3-5 years
<b>Expected return</b>	>30%
<b>Country</b>	Israel, operations in the Netherlands

- December 2021, \$170m invested in the leading developer of climate-positive thermoplastic
- Diverts unsorted household waste from landfill, turning this into low carbon recyclable thermoplastic
- Detailed due diligence process, external providers and M&G equity analyst specialising in the sector who gave insights and comparison to other Cleantech offerings
- Catalyst believe they successfully address the massive, highly complex problem of landfill waste



# Catalyst investment - Greencore Construction

Majority investment in the UK's most sustainable housebuilder

<b>Investment</b>	Private corporate equity
<b>Sector/industry</b>	Sustainable housebuilding
<b>Expected term</b>	5+ years
<b>Expected return</b>	c. 20%
<b>Country</b>	UK

- Acquired a majority stake in company whose energy efficient homes lock up more carbon than is emitted over their lifetime, including during construction
- Innovative bio-based panel technology which is extremely thermally efficient
- Impact investment, helps to address the climate footprint of UK housebuilding, with the potential to transform sustainability standards across the country
- M&G Real Estate Residential team helped assess the credibility of Greencore's offering
- Sustainability credentials are market leading - plan to invest £500m in sustainable new developments, in partnership





# PruFund Growth and PruFund Cautious Series 2

## Since launch vs IA sector vs expectation

### PruFund Growth Series 2



### PruFund Cautious Series 2



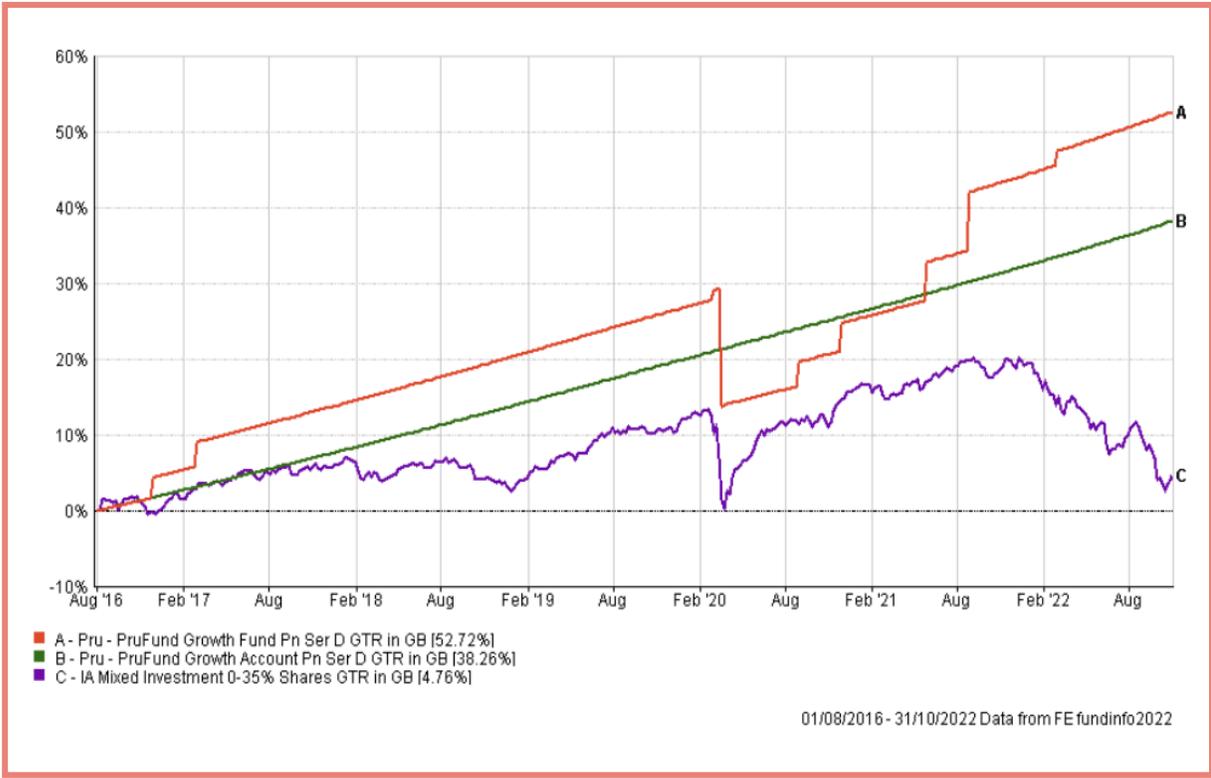
The charts show growth of the Funds versus peers that have a similar equity weighting. The figures are net of any additional expenses, but not annual management charge, product or advice charges. Therefore, the amount an investor would get back would be less than shown here. The value of an investor's finances can fall as well as rise. Past performance is not a reliable indicator of future performance. **The value of an investment can go down as well as up. Your clients may get back less than they have paid in.** Source: FE Analytics as at 31.10.2022.



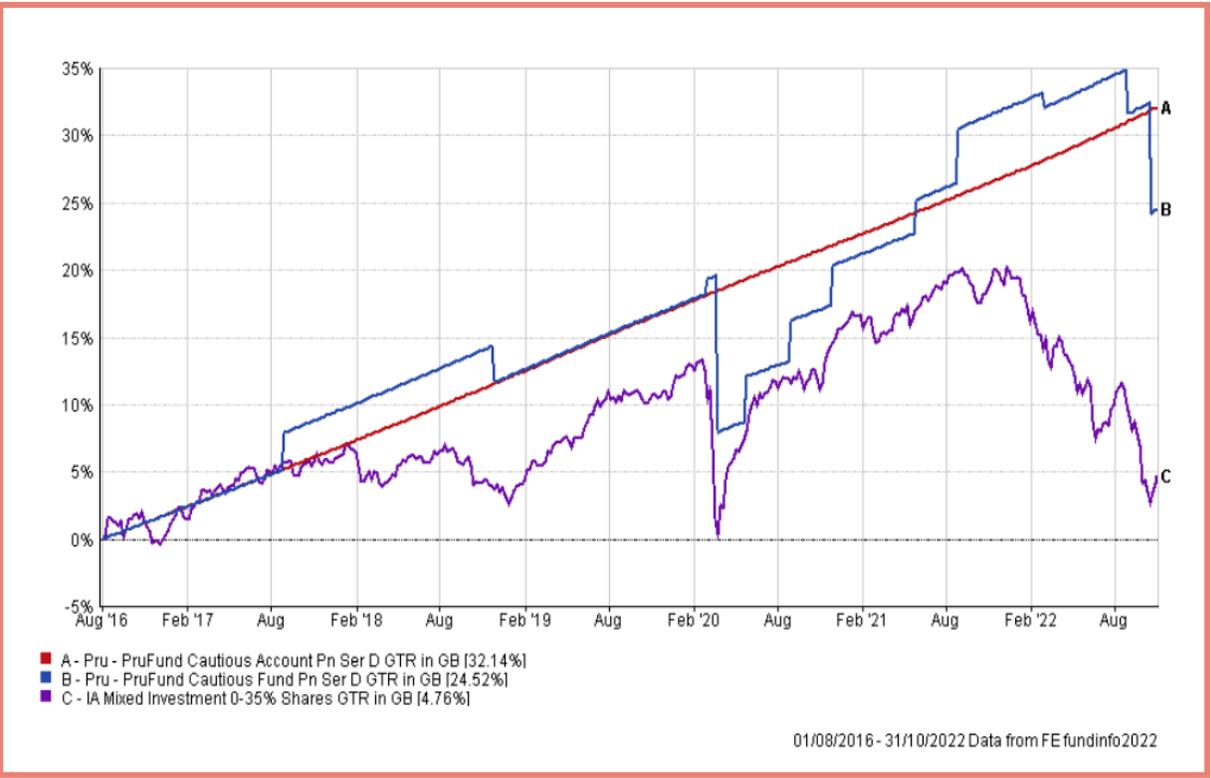
# PruFund Growth and PruFund Cautious Series D

## Since launch vs IA sector vs expectation

### PruFund Growth Series D



### PruFund Cautious Series D



The charts show growth of the Funds versus peers that have a similar equity weighting. The figures are net of any additional expenses, but not annual management charge, product or advice charges. Therefore, the amount an investor would get back would be less than shown here. The value of an investor's finances can fall as well as rise. Past performance is not a reliable indicator of future performance. **The value of an investment can go down as well as up. Your clients may get back less than they have paid in.** Source: FE Analytics as at 31.10.2022.

# PruFund Investment Update

- Learning outcomes

**After this session, you'll be able to:**

- Provide an understanding of the performance from PruFund Growth in 2022.\*
- Explain the possible headwinds and tailwinds and how PruFund is positioned.
- Describe the benefits of investing in real assets

\*The value of any investment can go down, as well as up, so your client might not get back the amount they put in.

This session qualifies for 45 minutes Structured CPD (the performance review content does not qualify).



CPD Certificates will be sent by email by COP Monday. Please contact [prudentialevents@mandg.com](mailto:prudentialevents@mandg.com) if you don't receive it



# Thank you for listening

27 October 2022

For adviser use only - Not for use with retail customers