

# Asset class insight: Alternatives

An in-depth review of the Alternative investments held in PruFund. These reviews are updated every six months with the latest details available at the time of publishing.

This update from the M&G Treasury & Investment Office (T&IO) aims to provide an insight into the characteristics of the alternatives portfolio within the PruFund range of funds and the strength of various teams within M&G Investments who they work with to create, manage and monitor underlying investments.

This update covers the standard rather than Planet versions of PruFund.

We hope to highlight the key differentiators and strengths including;

- The resource and expertise of various teams within M&G Investments
- The global exposure to high quality companies and assets
- Using large scale institutional funds to best capture opportunities in private markets
- Ability to invest in development projects
- The ESG credentials of many alternative assets

The term alternatives covers a broad range of strategies and sub-strategies with different return drivers and characteristics. However within PruFund, we classify alternatives as; Private Equity, Infrastructure, Diversifying Strategies and Private High Yield.

The value of any investment (and any income taken from it) can go down as well as up so your customer might not get back the amount they put in.

## Characteristics of alternative portfolios within PruFunds

- **A vast opportunity set** – Teams look to capture opportunities wherever they arise, leveraging a network of contacts and expertise across the globe
- **Private markets** – Investments are typically in the private markets, which are less liquid than public markets, but often offer enhanced returns
- **Diversification** – The strategies are often less correlated to your more traditional asset classes such as listed equities and corporate bonds
- **Expertise** – M&G has over 20 years' experience of investing in alternative assets. The market is opaque and difficult to access so the quality of the investment team and their due diligence approach to finding and maintaining opportunities is critical to return generation and risk management
- **Environmental Social Governance (ESG)** – All new managers are ESG assessed pre-investment and continually monitored. Teams actively engage with managers to share feedback from their ESG assessment process to help their partners improve their processes
- **Performance** – Each opportunity is assessed in terms of risk and reward and would expect to pick up an illiquidity premium
- **Long-term** – Investments will often be held for many years making them ideal for the PruFund range of funds

## Portfolio breakdown of PruFund Growth and PruFund Cautious

### PruFund Growth\*

Asset	Fund Name	Investment Style	Internally or Externally managed
Private Equity	M&G Private Equity Mandate M&G Crossover Mandate	Active	Internal
Diversifying Strategies	M&G Diversifying Strategies Mandate	Active	Internal
Infrastructure	M&G Infrastructure Mandate Future of Foods Asia II (responsAbility) Sustainable Food LATAM I (responsAbility) Infracapital Capital Fund IV	Active	Internal
Private High Yield	M&G Catalyst – Capital Fund, Selection of M&G Private High Yield Funds, Asia Climate Fund I (responsAbility)	Active	Internal

\* Source: M&G Treasury and Investment Office as at 29.2.2024

### PruFund Cautious\*

Asset	Fund Name	Investment Style	Internally or Externally managed
Private Equity	M&G Private Equity Mandate M&G Crossover Mandate	Active	Internal
Diversifying Strategies	M&G Diversifying Strategies Mandate	Active	Internal
Infrastructure	M&G Infrastructure Mandate Future of Foods Asia II (responsAbility) Sustainable Food LATAM I (responsAbility) Infracapital Capital Fund IV	Active	Internal
Private High Yield	M&G Catalyst – Capital Fund Selection of M&G Private High Yield Funds, Asia Climate Fund I (responsAbility)	Active	Internal

\* Source: M&G Treasury and Investment Office as at 29.2.2024

# Private Equity

PruFund invests in primary funds, co-investments and secondaries, across buyout, growth equity and venture capital strategies globally. Buyout refers to buying a controlling stake in an established private company to help drive growth. Growth equity refers to acquiring a minority position in a high growth private company. Venture capital refers to funding in early-stage companies deemed to have high growth potential.

## Private equity within PruFund

- Invests predominantly in primary funds across buyout, growth equity and venture capital strategies globally with an emphasis on the mid-cap and large-cap segments of the market
- Direct investments/ co-investments alongside the primary funds allow the team to increase exposure to attractive companies alongside fund commitments which reduces weighted-average portfolio fees and improves net return, as these are frequently offered on a fee-free, or reduced-fee basis

## Case Studies

Some examples of the wide variety of investments held:



Co-investment alongside **BGH Capital** into **Virtus Health**, the 5th largest assisted reproductive services business provider globally with leading positions in Australia, Ireland, Denmark, Singapore and the UK.



Co-investment alongside **Next Capital** into **Country Care**, Australia's largest importer/wholesaler and retailer of products to the assisted living and aged care sector. Produces its own brand (KCare) products as well as selling third party brands.



Primary investment into **Lightrock Climate Impact Fund**, focused on energy transition, decarbonisation and sustainable food and agriculture in the early and growth stage of investment.



## M&G Crossover Fund

In 2022, T&IO committed an initial £500m to a new private equity strategy launched by M&G Investments called the M&G Crossover Fund, of which PruFund is the majority investor. The fund is a global mandate and provides funding for funds looking to 'crossover' from the private to the public world.

This was a great example of where T&IO were able to work with the internal manager M&G Investments to create a solution for what was seen to be an opportunity in the market. The lead fund manager, Carl Vine, already runs PruFund's Japanese equity allocation, and it is through the generation of private asset investment ideas within this mandate that Vine analysed the global opportunity set and wanted to create a strategy that provides funding to high quality private companies, enabling their transition to public.

# Infrastructure

Infrastructure investing includes areas like utilities, transport and power, as well as agriculture and natural capital. Investments often have strong cash-flows with a degree of inflation linkage.

The team prioritise defensive assets with natural or contractual protection, whilst also looking to take advantage of structural growth driven by factors like population and our changing energy and food systems.

## Examples of Infrastructure investing within PruFund:

- Investments can be made at different points in an assets life cycle and typically have long hold periods, varying from 5 to 40 years
- Within agriculture and natural capital, investments are focused on sustainable farming systems and natural assets which can capture carbon and enhance biodiversity

Some examples of the wide variety of investments held;

- **M&G Real Assets Impact Fund (RAIF)**

The RAIF is a global portfolio of specialist, private, real asset investments in Infrastructure targeting; Energy transition, responsible consumption, and inclusion. Agriculture and Natural Capital managed by M&G Impact and Private Equity Team. A team with a 10+ year track-record in Real Assets investing.\*

\* *Track record reflects unhedged, GBP returns of largest and most mature mandate*

The RAIF currently has a portfolio of assets across a broad range of strategies and markets, including the below:

- **Emerging Market Power Funds:** Solar, wind and gas projects across Latin America and South Asia
- **Developed Market Power Fund:** Building out new large scale renewable projects including offshore and onshore wind, solar, grid flexibility and associated infrastructure
- **Energy Efficient Co-investment:** RAIF has invested in a market leading battery platform which develops grid connected battery projects and works with transportation companies to electrify buses

- **European Greenfield Funds:** Assets include fibre, energy efficiency, electrical vehicle charging, electric buses and renewable power

- **Future of Food Asia II (Fund managed by responsAbility)**

A fund investing in fast growing companies in agriculture value chains, promoting sustainable practices and healthy food in Asia to deliver attractive financial returns and high Impact. The fund will make direct investments to support the capital expenditure of scalable businesses to improve their profitability, ESG standards and impact performance of their operations.

Within Asia, there is a significant expected increase in spending on food, driven by a growing population in the middle-class income category, as well as consumer shifts towards healthier diets. However, the supply chains of these regions remain relatively unsophisticated and low yielding, due to poor infrastructure, market fragmentation and low access to credit for smallholder farmers. This presents a wide opportunity for transformative companies to address. The fund will focus on India, Indonesia, Vietnam and the Philippines, as these markets have been identified as likely to experience the most robust growth.

- **Sustainable Food LATAM I (Fund managed by responsAbility)**

The Sustainable Food LATAM I strategy will provide Mezzanine financing to medium-sized companies operating in the value chains of fresh fruits and vegetables within Latin America. The strategy's focus is on upstream producers of fruits and vegetables in Mexico, Peru and Colombia.

In Latin America the agriculture value chain is undergoing transformation; many producers have become far more sophisticated by introducing new technologies and vertical integration across their operations.

However, access to commercial financing remains challenging, even for well-established players in the market. The strategy will provide financing to companies with proven earnings and attractive business models that can also be leaders from a sustainability perspective.

- **Aurora Sustainable Lands (ASL)**

One of the largest private conservation-focused forest investments in U.S. history. ASL acquires existing commercial, hardwood forests and shifts their purpose towards generating high quality and verified carbon credits; in turn delivering a measurable environmental benefit. The existing forest portfolio is significant in terms of scale and diversity, with 1.7 million acres across over 50 forest sites.

We believe many of the investments into Infrastructure have contributed positively through;

- **Developing, constructing and operating offshore wind and solar projects across the world**
- **Aiding the renewables transition through investing in grid infrastructure, including battery storage**
- **Supporting businesses through efficient, local power and heat generation solutions**
- **Roll-out of fibre networks across Europe, the US and Asia, including across rural communities**
- **Enabling 5G networks and the Internet of Things through small-cell towers**
- **Electric Vehicle (EV) charging networks and EV fleets (e.g. buses)**
- **Promoting sustainable food production, and protecting ecosystems that deliver climate and biodiversity benefits**

# Diversifying Strategies

Teams within M&G Investments invests in a broad range of strategies, primarily hedge funds, with the aim to construct a diversified high quality portfolio that provides uncorrelated returns.

Asset class fundamentals include absolute returns, lower volatility, capital preservation and inflation protection, allocating to experts and difficult to access managers. The team invests in funds, co-investments and can opportunistically seed new managers.

## Hedge Funds

Hedge Funds are pooled investment vehicles aiming to generate absolute returns. There are many different investment strategies run by hedge funds, including relative value, event-driven and equity-related. Depending on their strategy, hedge funds may utilise short-selling, derivatives trading, and leverage to enhance returns.

Example hedge funds held within the portfolio include

- **Primary investment into FitzWalter Capital Partners Fund I**, strategy focused on distressed and special situations investments across North America and Europe.
- **Co-investment into Onyx alongside FitzWalter Capital Partners**, a payments and reconciliation platform in the hospitality industry.

## Distressed / Special Situations

Asset class focused on distressed, dislocations or special situations (e.g. asset sales or capital raises) via equity debt or equity. The COVID-19 pandemic has created an attractive global opportunity set given the stress experienced across many sectors and regions.

The team expect to see opportunities for deployment within sectors like travel, hospitality, aircraft leasing and retail.

# Private High Yield

The Private High Yield allocation within PruFund is managed by various teams within M&G Investments. Part of the M&G Catalyst strategy contributes to this allocation, whilst also focusing on sustainable and impact businesses.

## Spotlight on M&G Catalyst

### The strategy

The Catalyst strategy has two objectives: to achieve an attractive financial return and make an overall positive difference to society and the environment.

It aims to do this by investing flexible patient capital at scale into privately owned businesses with innovative solutions to tackling the world's biggest environmental and social challenges.

Catalyst invests with a focus on:

- climate and the environment
- better health
- tackling inequality

### The team

- A global private assets team of 40+\* based in London, New York, Singapore and Mumbai
- Since the launch of Catalyst in 2021, they have deployed £1.8bn\* with a further £900m committed, in around 60 investments across six continents to several ESG, Sustainable and Impact Investment opportunities
- The team draw upon M&G's extensive resources in: Fixed Income, Equities, Infrastructure, Private Assets and Real Estate

\* As at 30.09.23

## Example investments

**Greencore Homes:** Majority stake acquired in the UK sustainable housebuilder, whose energy efficient homes lock up more carbon than is emitted over their lifetime, including during construction.

**Pragmatic:** A UK based company that has revolutionised and fully automated the semiconductor manufacturing process. Our funding enables Pragmatic to scale its facilities that will produce billions of chips destined for fast-growing applications across multiple sectors.

**Nuclera:** a Cambridge-based company which speeds up and reduces the cost of finding new drugs to treat and cure disease, with its innovative way of creating proteins for research.

# Summary

We continue to see interest in alternatives assets grow and are seeing increased demand for capital across all strategies allowing the team to deploy into exciting opportunities. The institutional approach, brand and scale of PruFund as well as the long-term approach makes it an ideal investor for alternatives allowing investors to gain access to an array of alternative income streams.

The flexibility, scale and willingness to look at new and innovative opportunities has allowed M&G teams to be early adopters of emerging trends which has been beneficial to portfolios for many years and they continue to research new opportunities to introduce into PruFunds.

This content has been prepared by M&G Treasury and Investment Office (T&IO) and is prepared for information purposes only and does not contain or constitute investment advice. Information provided herein has been obtained from sources that T&IO believes to be reliable and accurate at the time of issue but no representation or warranty is made as to its fairness, accuracy or completeness. The views expressed herein are subject to change without notice neither T&IO, nor any of its associates, nor any director, or employee accepts any liability for any loss arising directly or indirectly from any use of this document. The value of investments and any income from them may go down as well as up and are not guaranteed. Investors may get back less than the original amount invested and past performance information is not a guide to future performance.

'M&G Treasury and Investment Office (T&IO)' includes the team formally known as Prudential Portfolio Management Group (PPMG). Prudential Portfolio Management Group Limited, is registered in England and Wales, registered number 2448335.