

# Fund Review

Prudential

Risk Managed Active 2

February 2023

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# Defaqto Fund Reviews

This document is designed to provide the reader with a quantitative overview of the fund reviewed. The review then goes on to examine information of a more qualitative nature, which has been obtained through an interview process with the fund manager/s.

The qualitative information covers specific areas including the fund manager’s philosophy, their people, and the processes they employ. Additional information is also provided on their research capability, the resources they have at their disposal and how they manage risk. All of this information goes towards creating this comprehensive Fund Review.

## Defaqto Ratings

### Ratings to help advisers and their clients make better informed decisions

The Defaqto experts have created a range of ratings to help advisers find the best product or proposition for their clients.



Show at a glance how a fund or fund family performs in comparison to the rest of the market.



Demonstrate the comprehensiveness of products across a range of areas, from pensions to DFMs.



An overall assessment of service – by advisers for advisers.

### Suitability ratings to support compliant advice

Defaqto have created a set of ten Risk Profiles, and four Income Risk Profiles with corresponding ratings to which funds are mapped using a robust process. This helps advisers to evidence suitability for their clients in both the accumulation and decumulation phase:



# Fund Review

Prudential  
Risk Managed Active 2  
Patrick Norwood, CFA

## Executive summary



We endeavour to confirm the accuracy of the qualitative content of this document annually. The qualitative content for this review was last confirmed as accurate by Prudential, August 2022

The Risk Managed Active fund range is part of Prudential's PruFolio Risk Managed fund range, which also consists of the Risk Managed Passive and Risk Managed PruFund ranges.

Each range contains five funds, with expected risk and return increasing through the range. The number at the end of the fund name indicates the relative risk position, with 5 offering the highest potential risk and return and 1 the lowest.

The funds have volatility ceilings, selection of the underlying funds held in the portfolios is fully in-house and internal managers are used to a large extent.

The portfolios in the Risk Managed Active range, as the name suggests, hold predominantly active funds.

Prudential believe the key differentiators for these funds to be:

- The fact that both their forward looking views on asset allocation and fund manager selection / oversight are done in-house
- The global network of fund managers available to the in-house Manager Oversight team through their work on PruFunds
- Access to a greater variety of asset classes than most competitors
- Prudential's scale, which they think leads to lower costs

## Investment objective

The fund aims to achieve long-term (in excess of five years) total return (the combination of income and growth of capital) by investing in a mix of assets from around the world and aims to limit volatility over rolling five-year periods to 9%. The fund aims to achieve its objective through investing at least 70% in actively managed collective investment schemes.

## About Pru

The M&G Treasury and Investment Office (T&IO) is the in-house investment strategist and 'manager of managers' for Prudential Assurance Company (PAC) in the UK. They are independent of the various underlying asset management businesses within the group. T&IO is responsible for approximately £175 billion AUM, as at 31 December 2021, across a range of multi-asset investment solutions and other PAC products.

M&G Investment Management Limited are the investment managers for the LF Prudential Risk Managed Active Funds. They make the relevant adjustments to the portfolios based on T&IO recommendations.

T&IO includes investment professionals with expertise in

capital market research, investment strategy design, liability management, derivatives and portfolio management.

T&IO are responsible for the strategic allocation of all Prudential multi-asset funds, in addition to selecting and overseeing all underlying fund managers. They are also responsible for ensuring that the risk characteristics of each portfolio meet given objectives over time. Stock selection is then carried out by internal and external fund managers chosen for their strengths in specific asset classes.

T&IO are overseen by David King, Head of Treasury & Investment Office.

Link Fund Solutions Limited are the authorised corporate director (ACD) for the OEIC versions of this range.



## Quantitative summary

The quantitative data that appears over the following pages has been generated by Defaqto using a combination of third-party and proprietary data sources and data provided by the asset manager. The information reflects the availability of data as at the dates highlighted.

All information reflects the investment solution specified in the information and classification table below.

## Fund information and classification

Launch date	15 November 2013
Fund Manager	Phil Butler
Domicile	GBR
Assets	Active
Approach	Risk Targeted
Type	OEIC

ISIN <sup>1</sup>	GB00BF232503
IA sector	Volatility Managed
Morningstar category <sup>2</sup>	GBP Allocation 40-60% Equity
Defaqto Diamond Rating Type	-
Diamond Rating	-

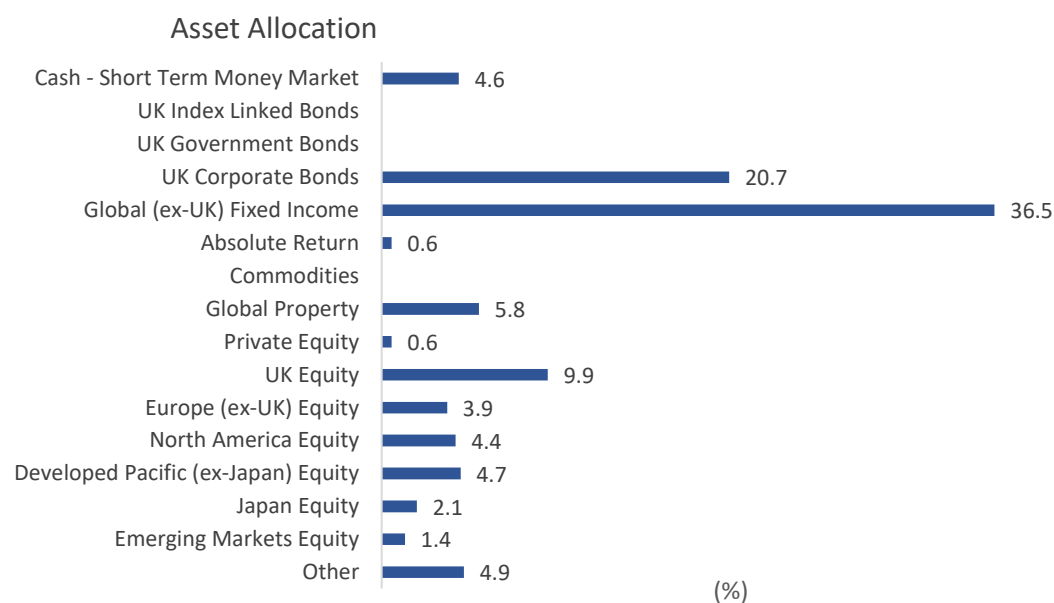
<sup>1</sup>This is the shareclass used for the quantitative data and analysis over the following pages

<sup>2</sup>The Morningstar Category is used in all comparative analysis, over the following pages.

## Fund size and fees

AUM	£289M
Date	31 January 2023
OCF Estimated	0.63%
OCF Actual	0.63%
Transaction Fee Actual	0.06%
Performance Fee (Yes/No)	No
Performance Fee Actual	n/a

## Asset allocation



Source: Morningstar, 31/01/2023

## Note

This asset allocation chart is drawn using the 16 asset classes (including 'other') that we use in Defaqto Engage.

This may differ slightly from the asset allocation described by the asset manager, due to various asset class roll-up and mapping variances.

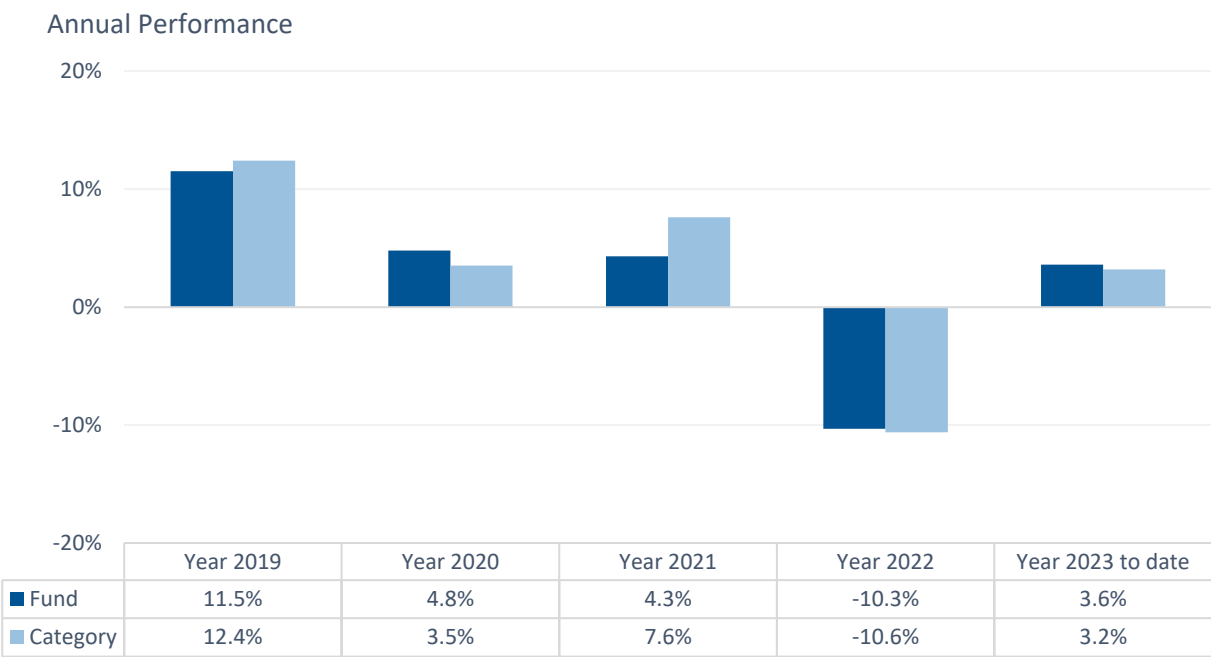
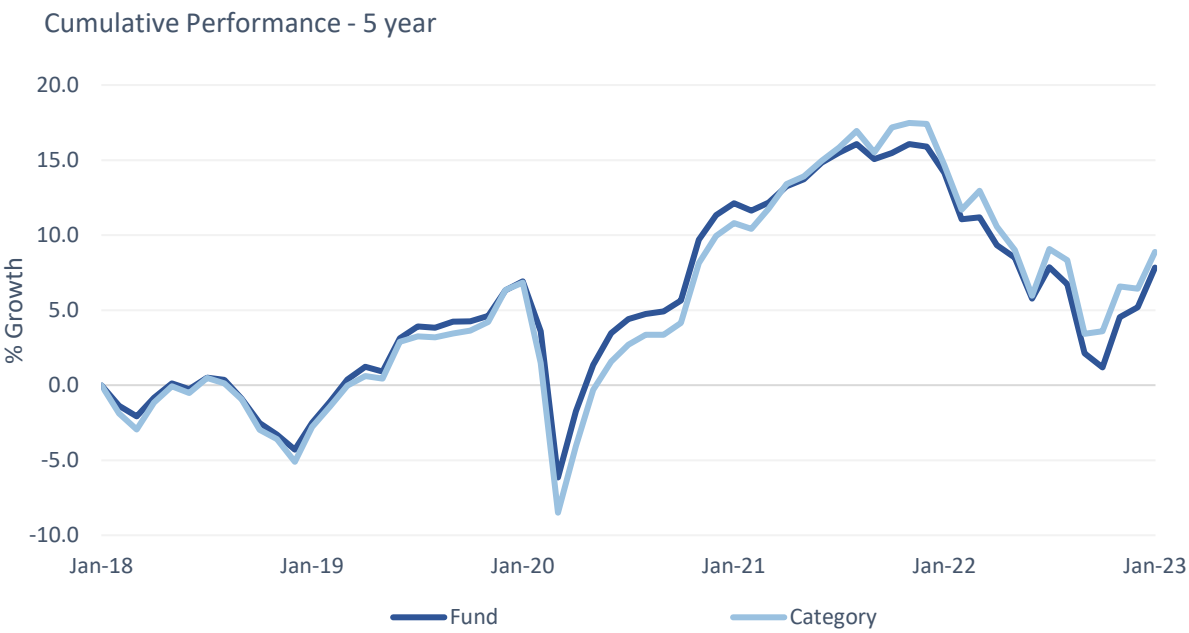
## Top 10 holdings

Total Number of Equity Holdings	-
Total Number of Bond Holdings	2
Assets in Top 10 Holdings (%)	61%

Name	Country	% of assets
M&G Funds(1) Stlg IG Corp Bd GBPZ2A Acc	United Kingdom	19.3
Eastspring Inv US Corp Bd EG (hdg)	Luxembourg	10.7
Eastspring Inv Asian Local Bd E	Luxembourg	7.8
M&G Funds(1) APAC (ex Jpn) Eq GBPZ2A Acc	United Kingdom	4.4
M&G Global High Yield Bond GBP A Acc	United Kingdom	4.0
M&G Emerging Markets Bond GBP PP Acc	United Kingdom	3.8
M&G (ACS) BlackRock UK 200 Eq GBPZ4A Acc	United Kingdom	3.3
M&G European Credit Investment E GBPHAcc	Luxembourg	3.0
L&G UK Property C Acc	United Kingdom	2.7
Eastspring Inv Asian Bond EG (hdg)	Luxembourg	2.6

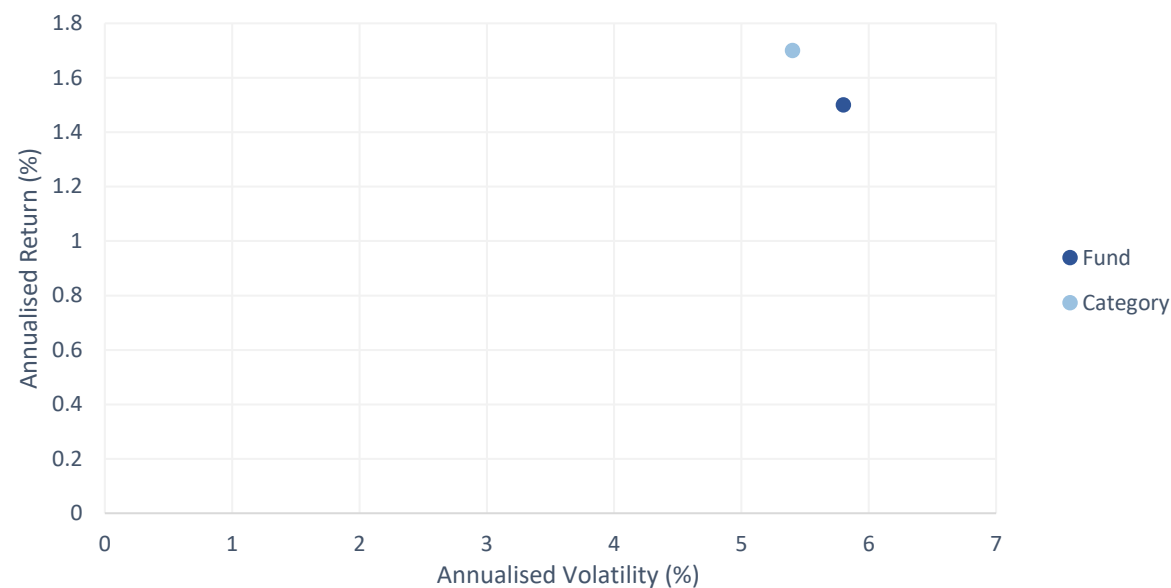
Source: Morningstar, 15/02/2023

# Performance



## Risk

Risk vs Return- 5 year



Source: Morningstar, 31/01/2023

## Drawdown

Last 60 Months	
Max Drawdown	-16.0%
Positive Months	35
Negative Months	25
Worst Month	-10.5%

Source: Morningstar, 31/01/2023

## Liquidity

Days to liquidate holdings	% of portfolio
1 - 7 days	-
8 - 30 days	-
31 - 180 days	-
181 - 365 days	-
365+ days	-

The team use a measure referred to as the Liquidity Coverage Ratio (LCR) to actively monitor liquidity. The ratio is a stress test that aims to anticipate market-wide shocks and ensure the fund has the assets to be able to cope with large short-term redemptions.

Furthermore, due to the size of the underlying funds in this range, we see no reason to have concerns about the liquidity.



## Philosophy

T&IO believe in:

- A long-term approach
- Diversification
- Active management
- The importance of valuation

For this range of funds, they believe they can add value through:

- Strategic asset allocation (SAA). The key driver of returns is the SAA. In Prudential's case this is derived from their own capital market assumptions and model rather than those of an outside provider.
- Tactical asset allocation (TAA), as markets are irrational in the team's view. The team's TAA investment philosophy is not to take a position unless they believe the mispricing to be significant or the opportunity has a high likelihood of being rewarded. As a result, Prudential believe they probably tend to take fewer TAA decisions than average.

- Underlying manager alpha. Internal managers are now used to a greater extent and Prudential believes this gives: greater transparency; better accessibility and information flow; and more value for money.
- Efficient implementation, for example ensuring the portfolio is managed in line with target exposures and limits while minimising cost and risk.

## People

There are 4 Portfolio Managers and 4 Portfolio Controllers / Analysts behind the 75 multi-asset portfolios and fund of funds overseen by the T&IO at the time of review.

Phil Butler\* is the primary portfolio manager for this range. Each primary portfolio manager has control of the positions and trades for their portfolio, although these won't differ massively from the house / team view. The deputy portfolio manager for the range is Paul Parascandalo.

The portfolio managers do not specialise in terms of asset class, but have a stronger awareness of equities, as these are the main drivers of the portfolios.

The other key teams in relation to this range are: the Long Term Investment Strategy team, consisting of 11 people with economic and/or quantitative backgrounds and the Investment Manager Oversight team, comprising 7 individuals.

\* Phil and Paul are governed by M&G Investment Management under the FCA's Senior Managers & Certification Regime.

## Portfolio managers



**Phil Butler, CFA, Portfolio Manager.** Phil is part of the M&G Treasury and Investment Office (T&IO), the team responsible for the management and oversight of Prudential Assurance Company (PAC) in the UK. Phil is the lead portfolio manager of the LF Prudential Risk Managed Active and Passive fund ranges as well as Prudential UK's Unit Linked business; managing over £7bn in assets. Phil provides cover on a wider £100bn of multi-asset funds, including PruFund and PruFund Planet.

Phil joined the Investment Office in late 2011 to become a member of the Multi-Asset Portfolio Management Team and specialises in the management of the unitised multi-asset funds. Prior to this, Phil was part of M&G's Investment graduate scheme rotating through various specialist investment teams in different asset classes across the company. Before M&G, he spent 13 months at the Bank of England as a research assistant whilst completing his Banking and International Finance BSc at Cass Business School. Phil is governed by M&G Investment Management under the FCA's Senior Managers & Certification Regime and is a CFA Charterholder.

**Paul Parascandalo, CFA, Portfolio Manager.** Paul is part of the M&G Treasury and Investment Office (T&IO). Paul is the lead portfolio manager of the Offshore Multi-Asset funds and provides cover on a wider £100bn+ of multi asset funds, including the PruFund range of funds. He is also the deputy portfolio manager of the LF Prudential Risk Managed Active and Passive ranges. Paul joined T&IO in October 2021 after 11 years at Aviva Investors, where he managed a variety of flagship retail and institutional multi-asset funds. Other experience includes portfolio management and private banking positions at HSBC. Paul holds a Masters in Theoretical Physics from University College London and a Bachelors in Financial Services from The London Institute of Banking & Finance. Paul is governed by M&G Investment Management under the FCA's Certification Regime and is a CFA Charterholder.

## Process

In line with the investment philosophy, the process can be broken down into:

- Strategic asset allocation (SAA)
- Tactical asset allocation (TAA)
- Fund selection and manager oversight
- Portfolio management

The **Long Term Investment Strategy (LTIS) team** derives the SAA for the fund. As part of this they have developed their own capital market assumptions for the expected returns, volatilities and correlations of the various asset classes covered, based on over 100 years of data for some asset classes. 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. This results in an efficient frontier. Various constraints, such as costs and asset class limits, are then applied, which gives the target portfolio.

TAA is where shorter-term house views around the SAAs can be reflected. These look 1-18 months ahead and are designed to focus on three types of mispricing opportunities:

Macro - relating to economic and market fundamentals

Valuation - based on views of appropriate valuation parameters for the various asset classes and sub-asset classes they cover

Behavioural - resulting from short-term mispricing due to excess pessimism or optimism (leading to opportunity for 'reversal' trades) or a clear trend that is likely to be sustained (leading to opportunity for 'momentum' trades)

Decisions can be based on a combination of more than one of the above.

Underlying fund selection is carried out by the **Manager Oversight team**. The team also ensures the continued suitability of the underlying managers and assesses whether the mandates and funds held in the portfolio 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 infrastructure associated with the fund.

The process operates at various different levels: monthly monitoring; quarterly strategy and performance review; and annual investment due diligence.

Funds may be chosen from elsewhere within M&G plc, including M&G Investments and M&G Real Estate, or selected external active managers.

Portfolio management responsibilities can be split into the following areas (**M&G are the portfolio managers**):

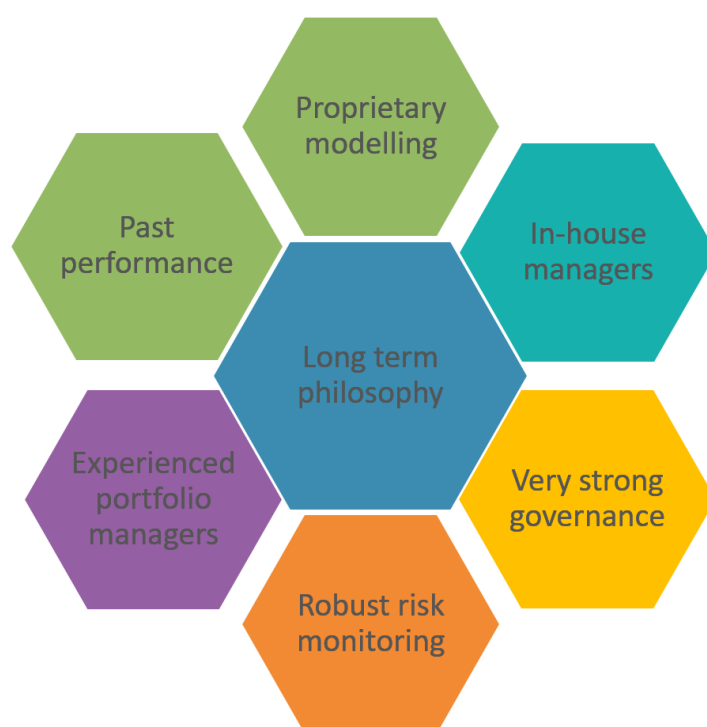
Keeping the fund in shape - ensuring the portfolio is managed in line with target exposures and limits while minimising cost and risk, adhering to agreed target TAA positions and managing cash flows

TAA - reviewing tactical opportunities with teams across M&G, determining changes in TAA positioning and implementing and monitoring these

Implementation - ensuring changes in SAA and TAA are implemented effectively and efficiently

Portfolio monitoring - ongoing review of exposures, risks and performance in conjunction with other teams

Liquidity - managing and reporting on liquidity to ensure that outflows can be covered in stressed scenarios



## Risk management

The LF Prudential Risk Managed Active Fund range have risk ceilings, based on 5 year rolling volatility ie they are backward-looking. In the case of Risk Managed Active 1 the ceiling is 9%.

The team use BlackRock's Aladdin for portfolio management and analysis of risk.

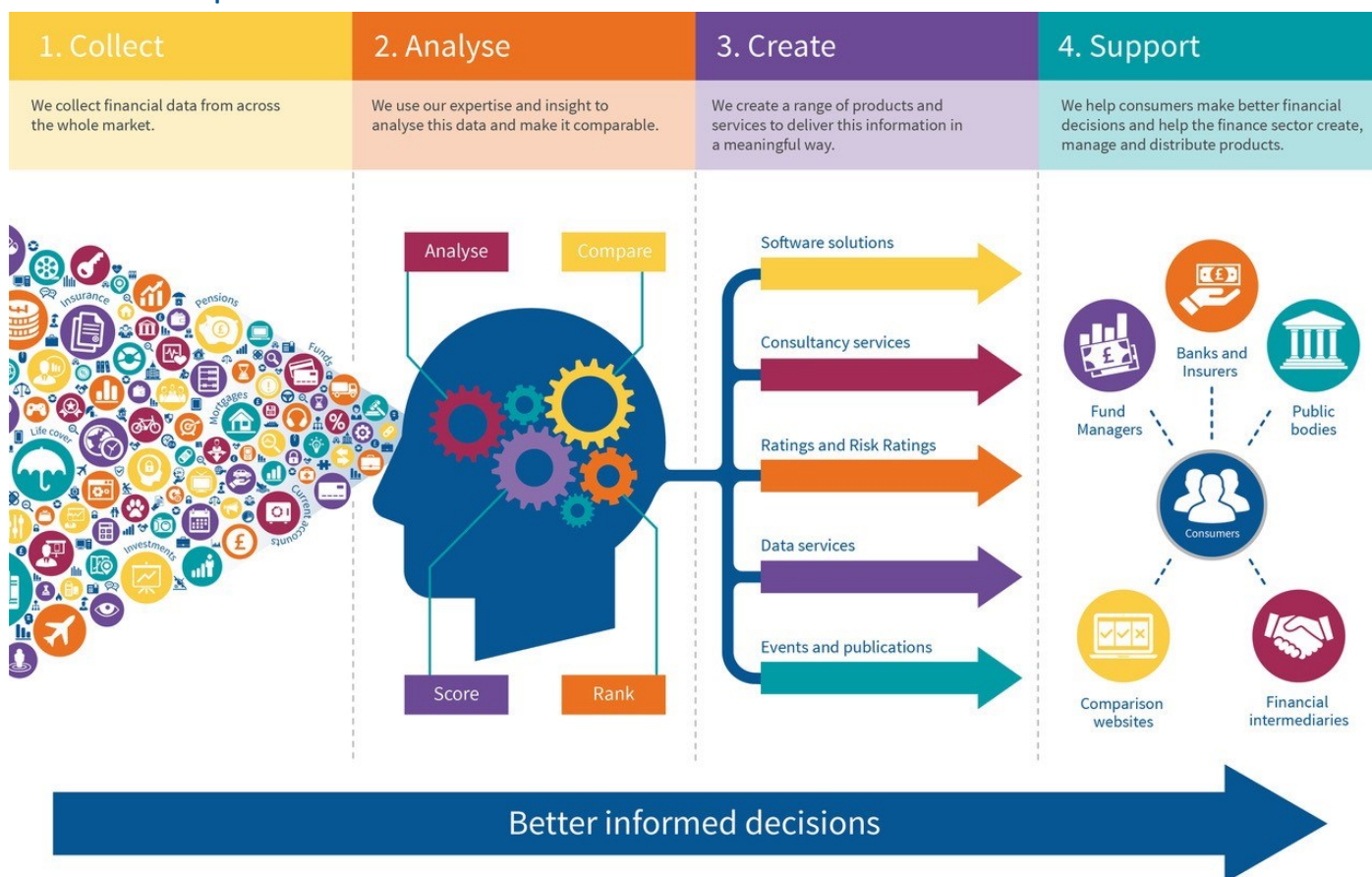
This and the other systems they use allow them to conduct: analysis of their portfolios versus benchmarks; systematic preparation and review of trade instructions to minimise operational errors; start of day and pre-trade compliance versus coded restrictions; and portfolio analytics, including 'look-through' into M&G funds.

There is a risk committee that includes Phil Butler and meets monthly. They look at various metrics in relation to the funds, such as Value at Risk.

Phil Butler also meets quarterly with the M&G risk team and every 6 months with Link Fund Solutions, the ACD.

There is also an independent risk team that will warn via the manager or, in more extreme situations, via the CIO, if they see anything untoward with any of the funds.

## About Defaqto



Defaqto is a leading financial information, ratings and fintech business. Its unbiased fund and product information provided as expert Ratings, coupled with its market-leading software solutions helps consumers, financial institutions and financial advisers make better informed financial decisions.

Defaqto has been operating for over 25 years and works independently. Defaqto employs over 60 analysts spending 400 hours a day monitoring the market and analysing more than 43,000 financial products and funds in the UK, ensuring that the information provided is accurate and up to date.

If you would like more information, please contact [sales@defaqto.com](mailto:sales@defaqto.com) or call us on 0808 1000 804.

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