

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



# Blended retirement solutions

Guaranteed income without sacrificing potential for growth

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# Introducing the Long-Term Investment Strategy Team

The **Long-Term Investment Strategy (LTIS)** team sits in the **Life Investment Office (LIO)** playing a central role in shaping the strategic direction of M&G's multi-asset and annuity portfolios, which collectively manage over £150 billion in assets. Key Responsibilities include:

- **Strategic Asset Allocation (SAA):** The team sets long-term asset allocation frameworks across public and private markets, ensuring portfolios are well-positioned for future economic conditions
- **Economic Scenario Modelling:** They develop and maintain M&G's proprietary stochastic economic scenario generator, Genesis, which supports business planning and regulatory capital modelling

- **Capital Market Insights:** The team provides forward-looking views on global capital markets, helping guide investment decisions and risk management
- **Portfolio Design & Oversight:** They collaborate with other teams to ensure mandates are aligned with long-term goals and manager capabilities

In this guide, LTIS give us their thoughts on how Prudential Guaranteed Income Plan and PruFund can work together when building a client's retirement income strategy.

# The evolving retirement and investment landscape

In its Retirement Income Advice Thematic Review, published in early 2024, the FCA identified two key areas requiring improvement: the sustainability of income withdrawals and the appropriateness of risk profiling. With the FCA maintaining a strong focus on retirement income advice and further supervisory activity expected, it's crucial that advisers are equipped with a diverse set of investment tools to help clients meet their spending needs in a sustainable and resilient manner.

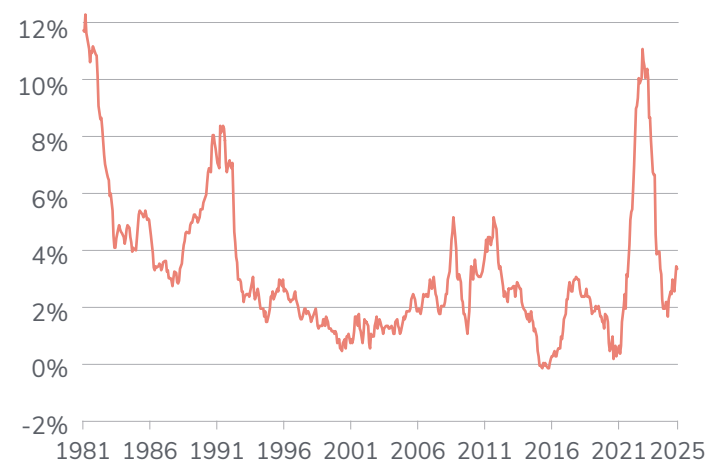
At the same time, from an investment standpoint, the global economic landscape has experienced profound structural shifts over recent decades. Long-standing trends – such as declining economic volatility, subdued inflation, and persistently low or falling policy rates – have either slowed markedly or begun to reverse.

These dynamics have notably accelerated in the post-pandemic era, reshaping the environment in which retirement strategies must now operate. Pre-pandemic, the low and declining inflation rate allowed central banks to increasingly focus their policies on stimulating economic growth. This led to longer, better defined and more globally synchronised business cycles. For example, there were 12 years from the Global Financial Crisis (GFC) in 2008 to the downturn triggered by the covid pandemic in 2020.

As the world slowly recovered from covid and came out of lockdowns, the combination of pent-up demand, supply-chain disruptions and soaring energy and food prices on the back of geopolitical conflicts have all applied upward pressure on inflation. In the UK, consumer price inflation reached 11.1% in October 2022. This was the highest since October 1981 when annual inflation reached 11.2%.

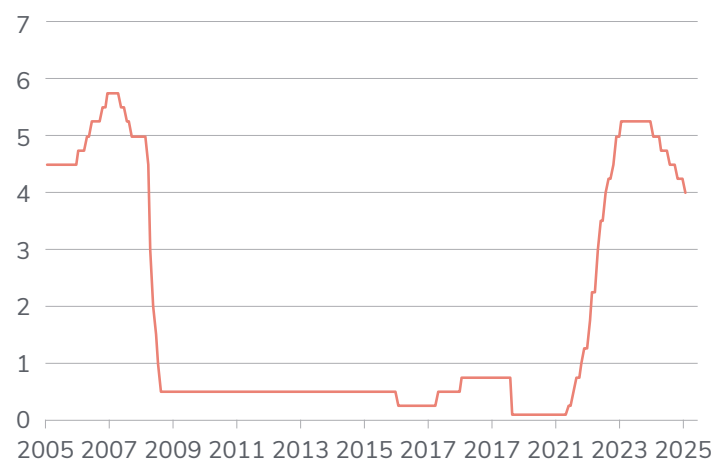
Central banks' battle against the recent inflation risk led to cash rates and bond yields reaching levels last seen over 15 years ago. The rise in interest rates, or the cost of borrowing and the higher level of inflation induced a 'cost of living' crisis. The Bank of England hiked policy rates at 14 consecutive meetings from 0.1% in December 2021 to 5.25% in August 2023. This had resulted in higher mortgage rates, feeding into higher rental prices as well.

UK Inflation since the 80s



Source: LSEG, ONS, as at 10th July 2025.

Bank of England: 515bps hikes in less than 2 years



Source: LSEG, ONS, as at 10th July 2025.

# Potential reward and risk

These series of economic challenges had shaken consumer & investor confidence in the UK. The investment landscape was made particularly difficult due to the momentous “mini budget” announcement in September 2022. This was evident as the steady increase in gilt yields were pushed up even higher on the day of the announcement, where the 10 year bond yield climbed to 4.5%.

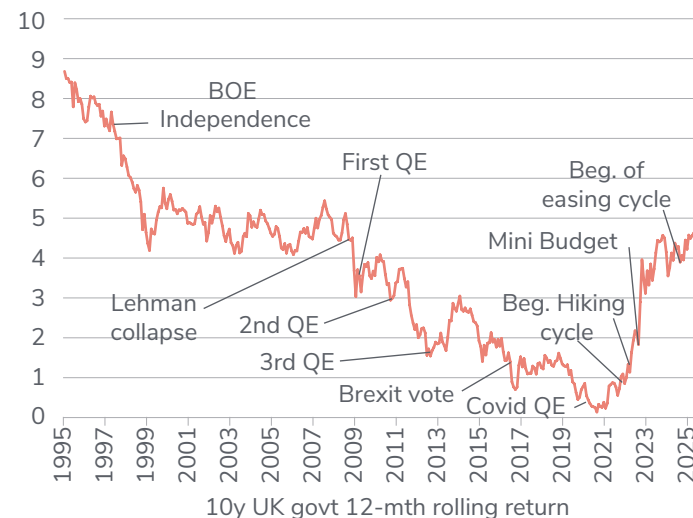
This resulted in one of the worst performance of a typical “60-40” stock-bond portfolio in modern history. Unintuitively, it was most pertinent for investors on the lower risk spectrum, as a number of low risk stock-bond portfolios are heavily invested in government bonds, which dropped in value along with equities. This had unmasked vulnerability of the low risk funds to macroeconomic events whereby variables like inflation can negatively impact both stocks and bonds at the same time, giving rise to a positive stock-bond correlation.

October 2022 marked the highest consumer price inflation in 40 years.

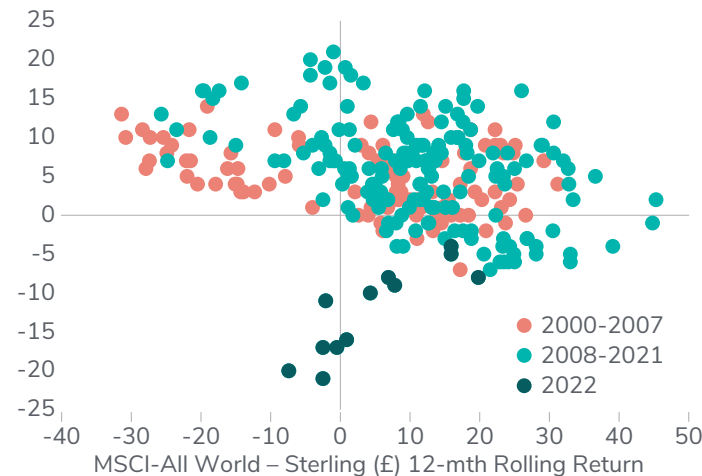
Whilst some of these are exogenous and “one-off” in nature, it can leave a lingering effect on investment performance and clients’ financial planning. These episodes can impact investors at all stages of their life cycle. However, clients who are close to retirement or have already retired are most vulnerable as they need to weigh up the challenges of needing greater income certainty as well as the desire to pass on a legacy.

Rising life expectancy and uncertain investment returns are pressuring retirees to find more adaptive income strategies. Traditional options – full annuitisation or pure drawdown – often present trade-offs between security and flexibility. A blended approach, with a well-diversified multi asset portfolio like PruFund, offers the best of both.

UK 10y gilt yield (%) – a 15 year round trip



Stock-bond return (%)



Source: LSEG, as 10th July 2024.

# PruFund – the strength of smoothing and diversification

## What is PruFund?

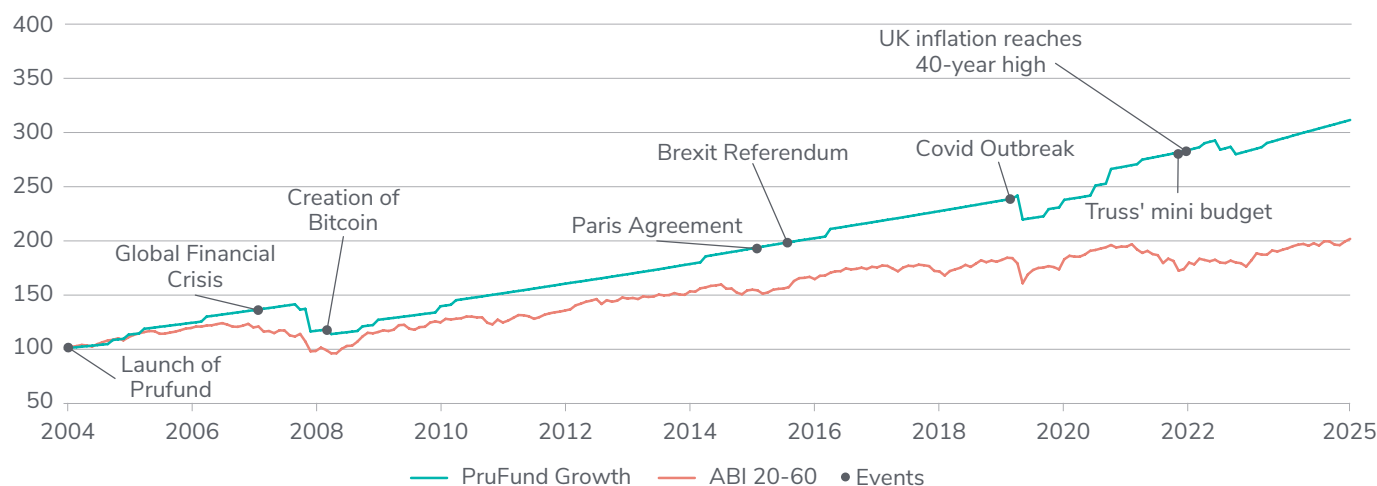
PruFund is a financial product that offers investors access to a **well-diversified, multi-asset** fund that also provides a **smooth** investment journey.

The large size of PruFund (£65 billion AUM, as at 30.6.25) is also an advantage as it offers more opportunity to gain exposure to asset classes outside of the traditional stocks and bonds investments, such as real assets which includes property. Whilst PruFund is well known to many within the adviser community, in particular for its returns over long time periods, the power of diversification and subsequently smoother customer journeys is sometimes under appreciated.

## The PruFund journey

Firstly let's look at the journey, as shown opposite, of returns vs peers. PruFund total returns when compared to the index of Association of British Insurers with 20-60% of portfolio invested in shares has experienced attractive returns averaging 2.2% per annum above the ABI 20-60 (Life) sector over the last two decades since its inception in 2004. Please remember we can't predict the future and past performance isn't a guide to future performance.

The PruFund journey

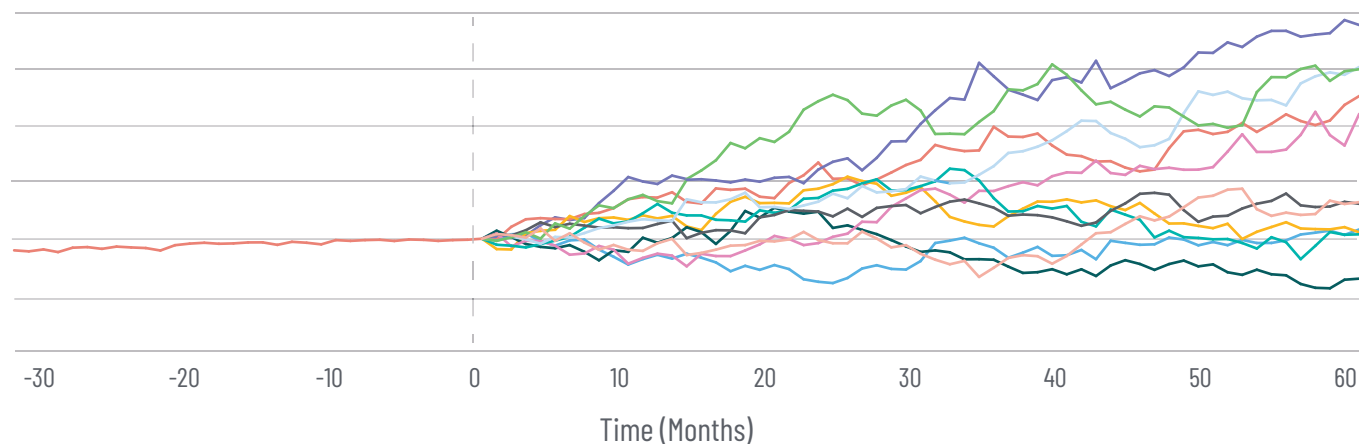


Source: PruFund Growth, ABI Mixed Investment 20-60% Shares (Data range 30/11/2004-30/06/2025)

# One past, many futures

Baked into the investment philosophy of PruFund is a belief that whilst there has been one realised past, there are many potential futures. The potential future scenarios could include, for example, inflationary scenarios, geopolitical scenarios, trade protectionism, emerging market sovereign vulnerability, AI disruption, or, but not limited to a combination of any of the above. This core belief feeds into the PruFund asset allocation which is more notably diversified than peers. This can be seen in the asset allocation charts on the next page which show the investable universe extends beyond bonds and stocks, with PruFund being a better representative of this than peers on average. The asset allocation charts on the next page being notably diversified. As we covered in the section above, the regime under which fixed income and equities provided sufficient diversification due to a historic negative correlation no longer stands to be the case.

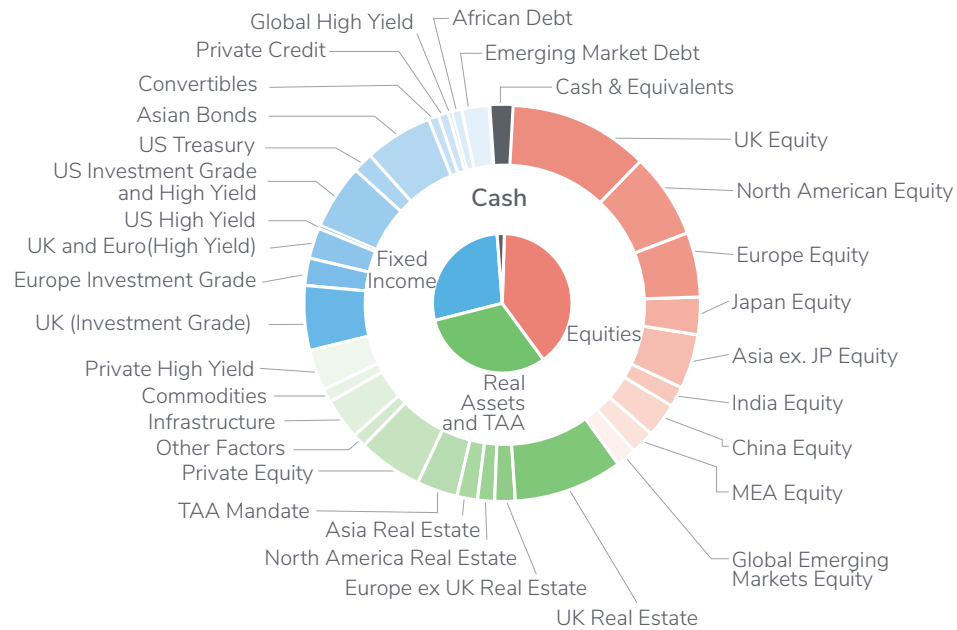
## Stylised example of one past, many futures



This isn't a real life example or a recommendation.

## PruFund Asset Allocation vs Peers

PruFund Growth SAA as of end June 2025

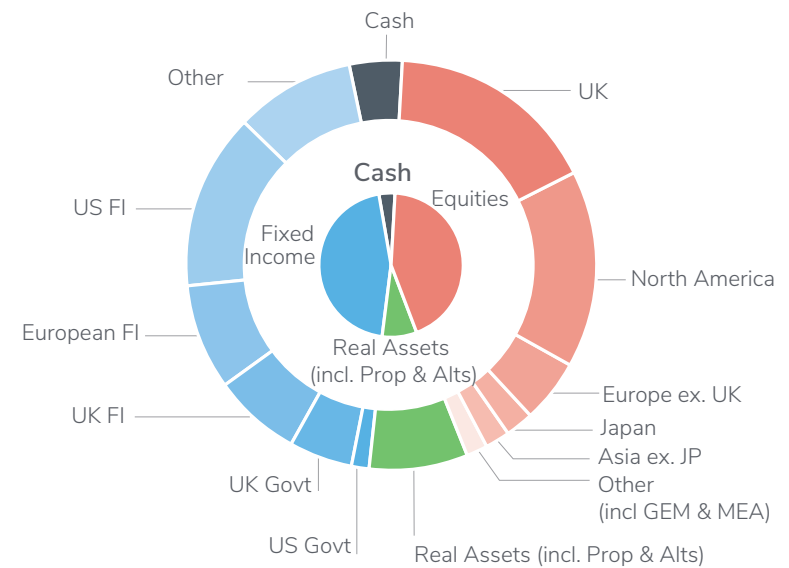


Source: Prudential Actuarial.

Date: at end June 2025

Note: Peer data is average allocation for top 20 funds by AUM from IA Mixed 20-60% shares sector.

Average peer allocation as of end June 2025



Source: M&G Life Investment Office.

Date: at end June 2025



The quilt chart below illustrates the distribution of assets over a 20-year period, highlighting the significant role real assets have played in driving growth. As demonstrated in the chart on page 6, exposure to real assets was a key factor in sustaining growth during both 2021 and 2022.

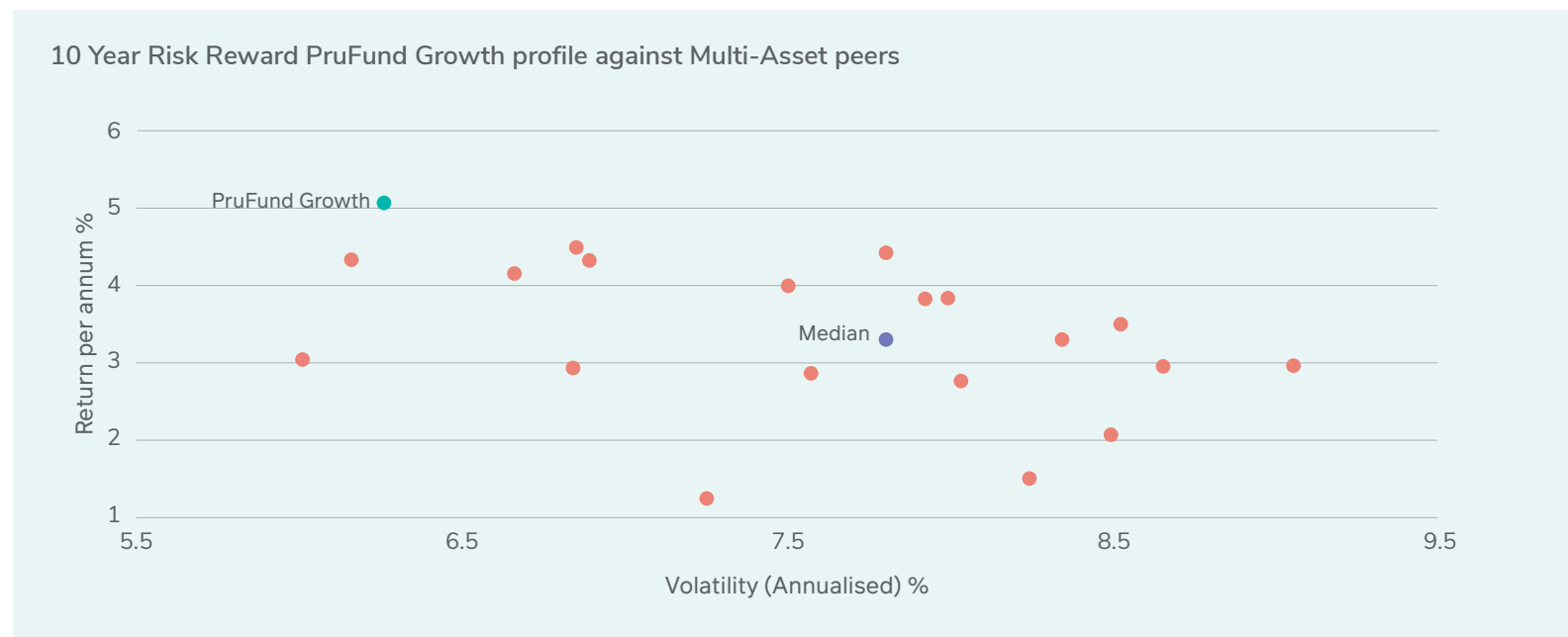
2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
TAA	Eq – Asia ex Jpn	FI – Asia	Eq – Asia ex Jpn	FI – Asia	Eq – Asia ex Jpn	Eq – Asia ex Jpn	RE – NA	Eq – EU ex UK	Eq – NA	RE – NA
FI – US	Eq – Japan	Eq – Asia ex Jpn	TAA	RE – NA	FI – US	Eq – NA	RE – Asia	Eq – Asia ex Jpn	Eq – EU ex UK	Eq – NA
RE – UK	TAA	Eq – EU ex UK	Eq – EU ex UK	RE – EU ex UK	Eq – UK	Eq – Japan	FI – US	FI – US	Eq – Japan	RE – UK
Eq – EU ex UK	Eq – EU ex UK	FI – US	FI – Conv.	RE – Asia	Eq – NA	RE – NA	RE – UK	Eq – UK	Eq – UK	TAA
Eq – Asia ex Jpn	Eq – UK	RE – UK	Alts – PE	Cash	TAA	FI – Asia	FI – EU inc. UK	FI – EU inc. UK	FI – Conv.	FI – Asia
Eq – UK	RE – UK	Eq – UK	Cash	Alts – PE	FI – Conv.	RE – UK	FI – Asia	Eq – NA	RE – UK	FI – EU inc. UK
FI – Conv.	FI – Asia	TAA	FI – US	Alts – Infra.	FI – EU inc. UK	Eq – UK	Alts – PE	FI – Conv.	TAA	Eq – Asia ex Jpn
FI – EU inc. UK	Eq – NA	Alts – PE	Alts – Infra.	HF	Eq – EU ex UK	TAA	RE – EU ex UK	RE – NA	RE – NA	FI – US
Eq – Japan	FI – EU inc. UK	Cash	Eq – UK	Eq – Japan	FI – Asia	RE – Asia	Alts – Infra.	FI – Asia	Alts – PE	RE – Asia
Alts – PE	FI – Conv.	FI – EU inc. UK	FI – Asia	FI – Conv.	RE – UK	FI – EU inc. UK	TAA	Eq – Japan	Alts – Infra.	Alts – PE
Eq – NA	Alts – PE	Eq – NA	HF	FI – EU inc. UK	Cash	FI – Conv.	HF	Alts – PE	FI – EU inc. UK	FI – Conv.
Cash	Cash	Alts – Infra.	FI – EU inc. UK	Eq – EU ex UK	HF	Alts – PE	Cash	RE – UK	HF	Alts – Infra.
Alts – Infra.	Alts – Infra.	HF	Eq – NA	Eq – NA	Alts – Infra.	Alts – Infra.	Eq – UK	Alts – Infra.	RE – EU ex UK	Eq – UK
HF	HF	FI – Asia	RE – UK	RE – UK	Alts – PE	FI – US	Eq – NA	RE – Asia	FI – US	Eq – Japan
FI – Asia	FI – US	Eq – Japan	Eq – Japan	TAA	Eq – Japan	Eq – EU ex UK	FI – Conv.	HF	Cash	Eq – EU ex UK
				Eq – UK	RE – Asia	HF	RE – EU ex UK	Cash	RE – Asia	HF
				Eq – Asia ex Jpn	RE – EU ex UK	Cash	Eq – Asia ex Jpn	TAA	Eq – Asia ex Jpn	Cash
				FI – US	RE – NA	RE – EU ex UK	Eq – Japan	RE – EU ex UK	FI – Asia	RE – EU ex UK
										Eq – GEM

- Equities (Eq)
- Fixed Income (FI)
- Real Estate – (RE)
- Alternatives – (Alts)
- Tactical Asset Allocation (TAA)
- Cash
- Hedge Fund – (HF)

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Eq – Japan	Eq – GEM	Eq – Asia ex Jpn	Alts – PE	Eq – UK	FI – Conv.	Alts – PE	TAA	Eq – NA	Eq – China
RE – NA	Eq – NA	Eq – GEM	RE – NA	Eq – NA	Eq – NA	Eq – NA	Alts – Infra.	Eq – Japan	Eq – NA
Alts – PE	RE – Asia	Eq – EU ex UK	RE – Asia	Eq – China	Eq – China	Eq – MEA	RE – NA	Eq – EU ex UK	Eq – India
RE – UK	Alts – PE	Eq – UK	Alts – Infra.	Eq – EU ex UK	RE – EU ex UK	Eq – UK	RE – Asia	Eq – India	Eq – GEM
Alts – Infra.	Eq – Asia ex Jpn	Eq – Japan	RE – EU ex UK	TAA	Alts – PE	RE – EU ex UK	HF	Eq – UK	FI – Africa
Eq – EU ex UK	Eq – Japan	RE – EU ex UK	Alts – PE	FI – US	FI – US	Alts – Infra.	Alts – PHY	FI – GHY	FI – Priv Cred
RE – EU ex UK	FI – Asia	Eq – NA	RE – UK	Eq – Japan	Eq – Asia ex Jpn	RE – Asia	Eq – MEA	FI – EMD	Eq – Asia ex Jpn
RE – Asia	RE – NA	RE – UK	HF	Eq – Asia ex Jpn	TAA	RE – UK	RE – EU ex UK	FI – EU inc. UK	Eq – Japan
HF	RE – EU ex UK	TAA	FI – Asia	Eq – GEM	RE – Asia	Alts – PHY	Alts – PE	TAA	FI – GHY
TAA	Alts – Infra.	Alts – Infra.	FI – Priv Cred	Alts – Infra.	Eq – GEM	Eq – Japan	Cash	FI – US	HF
FI – Asia	Eq – EU ex UK	Alts – PE	Cash	FI – EU inc. UK	FI – Priv Cred	Eq – Asia ex Jpn	FI – Africa	Eq – GEM	FI – Conv.
FI – Conv.	HF	FI – US	FI – EU inc. UK	FI – Conv.	FI – EU inc. UK	Eq – GEM	Eq – India	FI – Priv Cred	Eq – MEA
Eq – UK	Eq – UK	FI – EU inc. UK	Eq – NA	RE – NA	Eq – EU ex UK	FI – Africa	Eq – Asia ex Jpn	Cash	RE – UK
Eq – NA	TAA	FI – Conv.	FI – US	FI – Asia	HF	RE – EU ex UK	FI – Priv Cred	FI – Conv.	Eq – UK
RE – EU ex UK	FI – Conv.	FI – Asia	FI – Conv.	RE – Asia	Alts – Infra.	FI – GHY	Eq – EU ex UK	Eq – Asia ex Jpn	Alts – PE
Cash	FI – EU inc. UK	FI – Priv Cred	TAA	Eq – MEA	RE – Asia	HF	Eq – Japan	FI – Asia	Eq – EU ex UK
FI – US	FI – US	Cash	Eq – GEM	Alts – PE	Cash	RE – NA	FI – Asia	HF	Cash
Eq – Asia ex Jpn	RE – UK	FI – Asia	Eq – Asia ex Jpn	Cash	FI – Africa	FI – US	RE – UK	Alts – Infra.	FI – Asia
Eq – GEM	Cash	HF	Eq – Japan	FI – Priv Cred	Eq – Japan	FI – EU inc. UK	Eq – UK	RE – Asia	FI – EMD
		RE – NA	Eq – EU ex UK	RE – UK	Alts – PHY	Cash	Eq – NA	Alts – PHY	FI – EU inc. UK
			Eq – UK	RE – EU ex UK	Eq – UK	FI – Conv.	FI – EMD	FI – Africa	TAA
				HF	RE – UK	FI – Priv Cred	FI – GHY	Eq – MEA	Alts – Infra.
				Alts – PHY	RE – NA	TAA	FI – Conv.	Alts – PE	Alts – PHY
					Eq – MEA	FI – EMD	FI – EU inc. UK	RE – EU ex UK	FI – US
						FI – Asia	Eq – GEM	RE – UK	RE – Asia
						Eq – China	FI – US	Eq – China	RE – NA
							Eq – China	RE – NA	RE – EU ex UK
									FI – UK Govt

## Outcomes

PruFund aims to deliver on long-term objectives, but with an eye on a smooth journey as well.



Source: Data for 10 years to 31/5/2025, sourced from M&G Performance and Financial Express.

Note: The peers represents top 20 funds by AUM from IA Mixed 20-60% shares sector. PruFund Growth sits in the Main With-Profit and includes PruFund Cautious and PruFund Growth.

The following table illustrates the performance of PruFund Growth over the past 10 years, compared to the Expected Growth Rate (EGR) set at the outset of the investment period. As shown, performance has remained closely aligned with the original EGR, demonstrating consistency throughout the investment journey. In contrast, the peer comparison – represented by the ABI Mixed Investment 20–60% Shares sector – highlights the more volatile experience of a less diversified and unsmoothed approach. This consistency is particularly noteworthy given the backdrop of significant global events, including the Global Financial Crisis, Brexit, the Eurozone debt crisis, the COVID-19 pandemic, and more recently, escalating trade tensions and geopolitical uncertainty.

Investment Date	PruFund Growth EGR at outset	PruFund Return after 10 years	ABI Mixed 20-60% Shares return after 10 years
25.11.2004	5.95%	6.64%	4.33%
25.11.2005	5.95%	6.21%	3.36%
25.11.2006	6.20%	5.74%	3.26%
25.11.2007	6.20%	5.56%	4.00%
25.11.2008	6.20%	7.64%	5.85%
25.11.2009	5.95%	7.20%	4.58%
25.11.2010	5.95%	6.21%	3.92%
25.11.2011	5.95%	6.64%	4.82%
25.11.2012	5.55%	6.61%	2.96%
25.11.2013	5.55%	6.03%	2.17%
25.11.2014	5.35%	6.13%	2.58%

Source: Prudential and FE Analytics.

Figures are for PruFund Growth Fund held within PruFund Investment Plan. The PruFund figures include any additional investment expenses, but not any fund management, product or advice charges, so the amount an investor would get back would be less than shown here. Some, if not all, of the funds comprising the ABI sector average are net of fund charges. Past performance is not a reliable indicator of future performance. The value of an investment can go down as well as up.

# Enhancing the PruFund experience with Guaranteed Income

## Prudential Guaranteed Income Plan adds flexibility and peace of mind

The Guaranteed Income Plan is a retirement income product designed to provide clients with a guaranteed income over a fixed term, often alongside a guaranteed lump sum at the end of that term. By nature, it's a type of Fixed Term Annuity (FTA). Traditionally, an annuity often refers to a Lifetime Annuity (LTA), which converts a client's savings to an annual guaranteed income for life. By doing so, a client in retirement effectively hands over their pension pot for this guaranteed return, unable to leave behind a legacy for their loved ones.

Whilst LTAs provide customers with the certainty of stable income without having to worry about running out of income, they come with their own set of disadvantages. Once clients convert their savings into LTAs, they are unable to change their mind. This makes them less flexible to changing life events and unforeseen circumstances. Nevertheless, annuities are rarely selected with inflation protection, which suggests that in a higher and volatile inflationary environment, as witnessed over the past few years, the nominal value of income may not cover the total increase in expenses.

By contrast, FTA's can offer the best of both worlds between drawdown and lifetime guaranteed income. Unlike LTAs, FTA's typically offer guaranteed income over an agreed timeframe such as the 5 to 15 years offered by the Guaranteed Income Plan. These are also flexible as customers are able to choose a suitable term and the level of income they require. Limited terms can work well for clients choosing to phase into retirement or wishing to actively enjoy early years of retirement with an enhanced income level. Clients choosing a lower income level for a return of their lump sum also keep their inheritance option open, or it could be useful where clients are phasing into retirement so don't need all their funds over a short term.

There are 3 options available through Prudential Guaranteed Income Plan. These are:

	Guaranteed Income only	Guaranteed income with some lump sum	Guaranteed lump sum only
<b>Characteristics</b>	Client savings will be converted to a guaranteed income for a fixed period. Offers the highest level of income but no legacy.	Client receives a guaranteed income for a fixed period, with the promise of also receiving all (or a portion) of their initial investment back at the end.	Client only receives a guaranteed lump-sum at the end of the agreed fixed term.
<b>Use case</b>	Suitable for clients requiring higher income to improve their current lifestyle.	Could be suitable for clients who want to top up their income as they move from full-time to part-time work or want additional income before their State Pension starts.	Could be suitable for clients looking for a guaranteed rate of return so they know they'll have a set amount in the future to use to generate income needs at that time.

## Blending PGIP with PruFund can reduce sequencing risk

Whilst most investment accounts are vulnerable to market volatility, retirement funds are especially so in the years immediately preceding or following retirement. This is known as sequence of return risk. Blending Prudential Guaranteed Income Plan with PruFund could help mitigate sequence of returns risk by:

- Providing stable guaranteed income during early, risky years,
- Allowing the investment portfolio time to recover,

- Avoiding forced withdrawals during market downturns.

Consider the following scenarios for a customer choosing to retire in a year's time with a pension pot of £100,000 and a drawdown income of £4,000 per year, adjusted for inflation in later years, assumed at 2.5%. Also assume 30 years planning horizon. This is just a hypothetical example and shouldn't be taken as advice.

	Scenario	Impact
A	Client's retirement fund earns a steady return of 5% per year.	Smooth drawdown journey with minimal decline in the total value of the retirement pot.
B	Client's retirement fund drops by 15% just before drawdown, and then follows a stable 5% return.	The one-off shock reduces the base value of savings, also reducing the maximum level of withdrawal value that is sustainable over the retirement horizon.
C	Client's retirement fund drops by 15% on their 5th year of drawdown, and then follows a stable 5% return.	Client may have to reduce their withdrawal amount if they choose to preserve the value of their pension pot, otherwise it will face a faster depletion.
D	Client's retirement fund has poor performance for the first 15 years (2%), but then ends the remaining 15 years with a better than expected return (7%).	The end value of the client's retirement portfolio is likely to suffer the most in this scenario, potentially leading to a funding gap, as investment performance cannot keep up with the level of income withdrawn.
E	Client's retirement fund has a better starting performance for the first 15 years (7%), but then ends with a lower return over the next 15 years (2%).	Under this scenario the client's retirement fund is likely to see the highest preservation value over the 30 years of planning horizon as growth notably outperforms the inflation adjusted withdrawals for better compounding in the early years.

Under scenario B, C and D – blending the client's retirement account with a FTA designed to generate income as well as lump sum can help preserve the ending portfolio value while also minimising the risk of having to forego a portion of their required income (scenario B & C).

Hypothetical scenarios are for illustrative purposes only.

