PRUFUND:

REDEFINING WHAT IT MEANS TO BE MULTI-ASSET

A WHITEPAPER

verve

M&G

FOR UK ADVISERS ONLY

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Investments in PruFund carry risks, including potential loss of capital. Past performance is not a guide to future returns.

CONTENTS

About Verve.

We're the independent innovator changing the face of finance; on a mission to empower and enable financial advice firms with outsourced support services, expert guidance and innovative technology.

Our team helps advice firms solve their business challenges: from creating a robust business proposition, to paraplanning, file checking and compliance. In-house tech brings everything together in one place, available through flexible membership or on-demand, complementary support.

This whitepaper features insights from Grant Callaghan, Financial Planning Specialist, who addresses complex client technical queries at Verve. Working with M&G, he's put together this whitepaper taking a closer look at PruFund and its role in client portfolios.

About M&G.

M&G is a savings and investments company with assets under management of £346 billion, as at 16/12/25, and a depth of expertise in both public and private markets.

As a combined asset owner (Prudential Assurance Company, a subsidiary of M&G plc, owns the £130bn, as at 16/12/25, Prudential With Profits Fund) and asset manager (M&G Investment Management), M&G is able to offer highly differentiated investment solutions that draw on both their asset management and insurance expertise.

SECTION ONE

INTRODUCTION

Background.

The shift in adviser preferences.

Adviser preferences have evolved. Over time, we've seen a clear shift away from building portfolios towards single multi-asset solutions – typically aligned to risk profiling tools. More recently, some firms have taken a more active role in shaping portfolios, either bringing investment design back in-house or working closely with external partners.

Whatever the approach, multi-asset funds now play a central role in client portfolios. Historically, PruFund has often been viewed as a specialist option, used in specific scenarios rather than as part of the core investment mix. But is that perception fair?

Verve have been commissioned by M&G to explore this idea. We're an award-winning advice industry service provider working with advisers of all shapes and sizes.

Verve is well-placed to provide an independent deep-dive that goes under the bonnet of PruFund to investigate its broader use case as a diversifying multi-asset fund that can, for example, offer retail investors a route to invest in private markets, with reduced drawdown and market concentration risk.

We have entered an era of heightened geopolitical and policy uncertainty that makes portfolio resilience an increasingly vital consideration and the timing of this report particularly apposite.

Asset allocators have growing cause to reflect on whether what worked in the past will work in the future.

Are some favoured multi-asset approaches, by nature of their passive market weight construction, now unduly tilted to certain markets and stocks?

These are increasingly pertinent questions for advisers to consider when allocating client money to risk assets.

Why PruFund, why now?

PruFund is considered among the most recognised multi-asset solutions in the advised market.

Widely used across retirement, investment and insurance products, it's become a familiar part of many client portfolios. With recent availability on the M&G Wealth Platform – and coming access via FNZ-powered platforms – PruFund's reach is expanding fast.

As platform access widens, it's the right moment for advisers to take a fresh look at how PruFund fits into client portfolios.

Should it stand alone, or sit within a broader portfolio mix? What factors influence this decision and what potential benefits, beyond the smoothing feature, might clients gain from using PruFund?

This paper explores the options and offers practical insight to support confident, well-informed decisions.

Grant

Grant Callaghan
FINANCIAL PLANNING SPECIALIST AT VERVE

SECTION TWO: THE CHALLENGE

WHAT DOES MULTI-ASSET REALLY MEAN?

Multi-asset has become a catch-all term for the many funds in the marketplace that avoid investing in a single asset class. In practice, there can be significant differences between multi-asset funds.

How many **assets** does the fund invest in? ?

Is there meaningful, rather than nominal, **exposure** to the asset classes listed? ?

What is the **structure** of additional asset class exposure, and does it allow you to benefit from its unique investment characteristics? Physical real estate behaves differently to equities, while listed real estate equities generally behave like equities when you least want them to. ?

What **constraints** are there on the fund in terms of liquidity? ?

These questions mean not all multi-asset funds are equal, and some funds may be genuinely more 'multi-asset' than others.

Diversification across asset classes.

The biggest point of debate around multi-asset is what it takes to be truly multi-asset. Many multi-asset funds get this distinction from being a fund that holds equities and bonds. A fund that invests across a wider range of distinct asset classes, each offering different sources of risk premia, provides broader diversification and, due to the way economic and investment cycles typically unfold, may offer better risk-adjusted returns.

The Investment Association (IA) recognises five asset classes:

01 **Equity**

02 **Fixed Income**

03 **Property**

04 **Cash**

02 **Alternatives** (including private market and crypto assets)

Most of the commonly used multi-asset funds hold equity, fixed income, and cash, so a total of three assets. Some funds will also hold property; however, this is typically in the form of real estate investment trusts (REITS), albeit this has been a falling trend in recent years given the liquidity issues faced by funds around the time of the Covid-19 pandemic.

Key insight: Not all multi-asset funds offer the same level of diversification. Advisers should look beyond labels to understand what's inside.

Most funds with an 'alternatives' allocation hold a relatively small (<5%) allocation to this asset type. Even within a fund's 'alternative' asset holdings, the main alternative assets tend to be derivatives or public-listed assets which do not offer the same idiosyncratic risk/return benefits as genuinely private alternative assets, such as bricks and mortar commercial real estate, private equity and private credit.

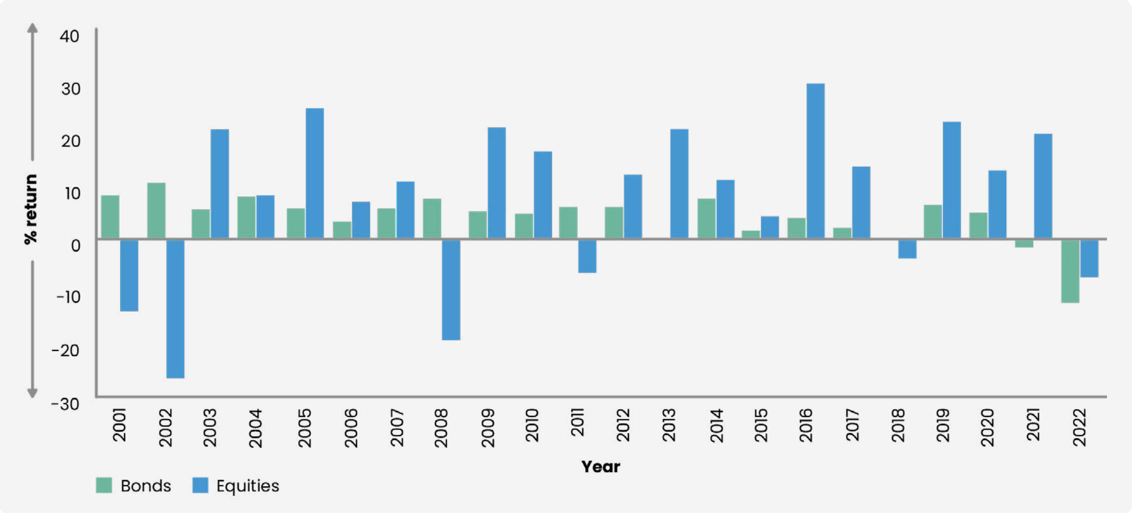
SECTION THREE: WHY THIS MATTERS

EQUITIES, BONDS & CORRELATION

Correlation risk is hard to calculate and hard to predict. It is measured on a scale of -1.0 to 1.0. An asset with a correlation figure of +1.0 is perfectly correlated, that means both assets will move in the same manner at the same time. A correlation figure of -1.0 means an asset will move entirely independent of the other.

Two assets will move at the exact same rate, in opposite directions		Two assets will move at the exact same rate, in the same direction (up or down)
-1.0	**0**	**+1.0**

Historically, equity and bonds, the two main asset classes, were viewed as the ideal allocation for investors due to the inverse relationship they tended to have with each other. Put simply, bonds could be expected to perform well when equities entered into a downturn, and vice versa.



Source: Calculations in GBP, based on data from Refinitiv. Data between 1 January 2022 and 5 April 2023 (Vanguard, 2023). *Past performance is not a guide to future returns.*

As the world recovered from the Covid lockdowns, a combination of pent-up demand and supply-chain disruptions due to the invasion of Ukraine put upward pressure on inflation.

In the UK, consumer price inflation reached 11.1% in October 2022, the highest level since October 1981. Central banks responded by raising interest rates, which combined with stubborn inflation pressure to create 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 challenging economic and investment landscape was exacerbated by the Liz Truss 'mini budget' announcement in September 2022 when the 10-year bond yield climbed to 4.5%.

This resulted in one of the worst calendar year performances for a typical '60:40' stock-bond portfolio in modern history.

While equities and bonds have shown positive correlation over most of the last 20 years (due to the secular interest rate easing cycle), bonds have generally retained their negative correlation to equities in times of acute stress (as was the case in 2002 and 2008). That changed in 2022 however, when both equities and bonds fell at the same time as central banks hiked rates in the face of surging inflation (see above).

This meant most multi-asset funds, which are typically constructed as a variation on the 60:40 equity-bond construct, had a very challenging year. This caused a lot of debate in investment circles and precipitated greater interest in alternative assets and private markets.

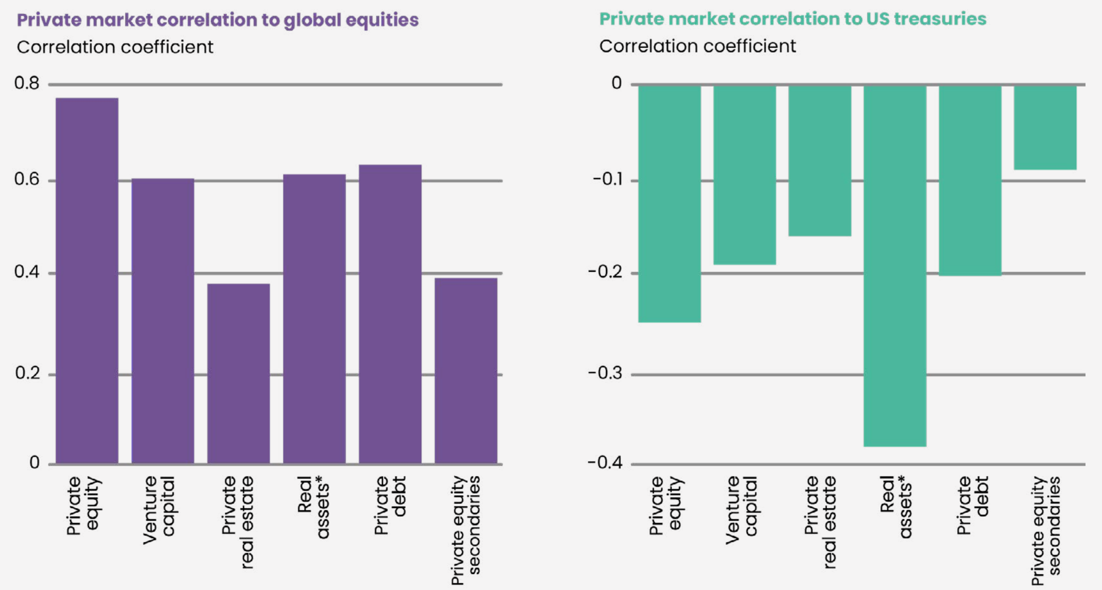
With the possibility of such an episode repeating in future, how can advisers provide more robust downside protection for their clients, and could greater asset diversity and the use of private markets be part of the solution going forward?

SECTION FOUR: ALTERNATIVE & PRIVATE ASSETS

A DIVERSIFICATION OPPORTUNITY

We have seen what can happen when the asset class behaviours we are accustomed to break down. How can introducing alternative and private asset exposure help to cushion standard multi-asset portfolios that are principally invested in equities and bonds?

A Morningstar study in 2024 looked at the **correlation** between **private markets** to **global equities** and then to **US treasuries**. Private markets here included everything from private equity to property and private debt.



*Real Assets includes Infrastructure, Metals & Mining, Timber & Agriculture, and Oil & Gas.

Source: Pitchbook (Morningstar, March 2024). *Past performance is not a guide to future returns.*

Verve view: Looking at correlation, there are clear diversification benefits to be had by using private assets.

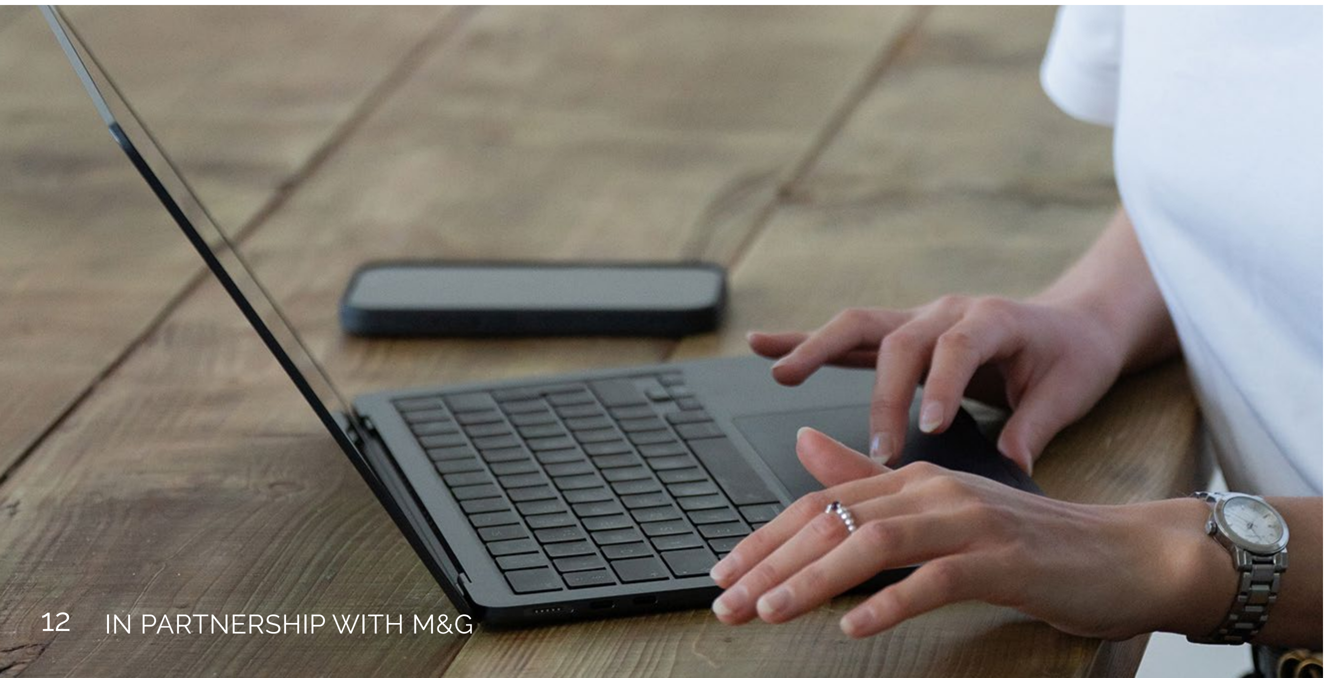
It very much feels that the move in the industry – first in the ultra-high-net worth wealth management space but increasingly in mainstream advice - is towards greater exposure to these assets, to augment the typical equity/bond portfolio in a way that makes it more resilient to inflationary risks.

Most private market assets have a correlation in the approximate range of 0.40 to 0.60 against global listed equities. All private market assets in this study have negative correlation to US treasuries.

We can illustrate these correlation benefits in real terms in the context of a full economic and investment cycle. Alternative and private assets have different growth and income return profiles than traditional assets, which means they can contribute positively to the portfolio at different times depending on the prevailing stage of the cycle.

Typical attributions by phase of investment cycle

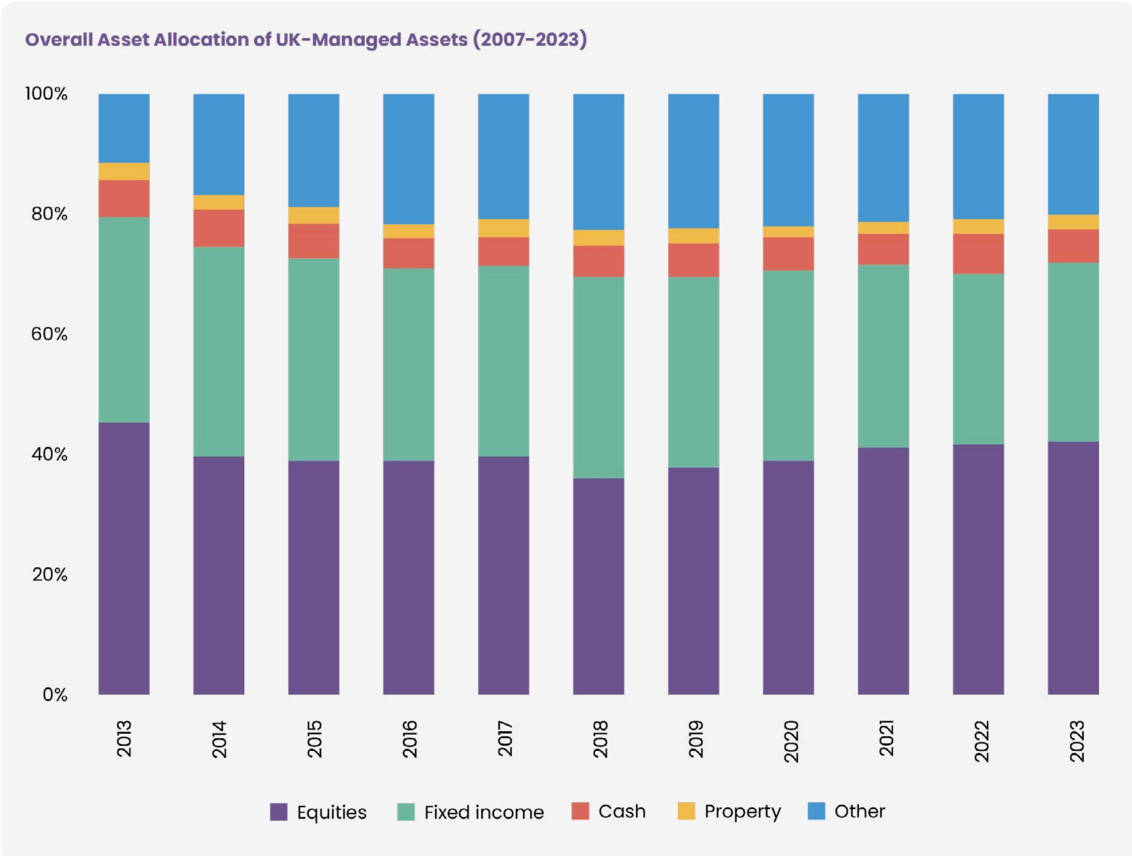
	Expansion	Peak	Contraction	Recovery
Equities	High growth	Volatile	Decline	Rebound
Bonds	Lower yields	Rate sensitive	Defensive	Duration gains
Phys. Real Estate	Rent growth	Rate pressure	Income stability	Revaluation
Infrastructure	Stable	Stable	Stable	Investment
Private Equity	Active deals	Exit risk	Illiquid	Opportunity
Private Credit	Yield capture	Credit risk	Structured	Lending demand
Real Assets	Inflation hedge	Volatility	Diversified	Real value
Commodities	Demand driven	Price spikes	Volatile	Supply rebalance



Is diversification evolving?

So, we have seen that there are portfolio benefits by bringing in alternative assets beyond the typical equity/bond options. Have asset allocators began to recognise these options and upweight them in funds?

In this analysis by the Investment Association, the allocation to assets other than equity and fixed income gradually increased from 2007 to 2015. The change since 2015 has been minimal.



Source: Investment Management Survey 2023/2024 (Investment Association, October 2024).
Past performance is not a guide to future returns.

It's clear that from 2015 the allocation to equity and fixed income has continued at a similar rate, around 80% in total, leaving no real room for 'other' alternative asset types, which include private market assets, to come in. The UK managed market is still therefore relatively limited when it comes to getting this exposure.

SECTION FIVE: THE REACTION

PRIVATE MARKETS BECOMING ACCESSIBLE TO THE PUBLIC

The UK Government is trying to encourage greater investment in private markets. The Mansion House Accord requires signed-up, defined-contribution pension providers to include a significant allocation to private markets in their default investment strategies.

Fund managers are also launching their own products or integrating private markets into existing offerings.

The twin challenges for retail investors have always been: the **scale** of assets needed for private market investing and **access** to the opportunities.

01

Scale: The capital requirement to invest in a private market asset is usually much greater compared to publicly traded instruments. This might manifest as a minimum investment size with a specific wealth or investment manager, or natural limitations when attempting to invest directly.

02

Access limits: The second factor, access, relates to the inability of retail investors in general to access private market investments, which have historically been gated opportunities reserved for institutional and ultra-high net worth (UHNW) investors.

Both factors are improving as the Government and the investment industry work together to democratise access to private markets.

Long-Term Asset Funds.

The introduction of Long-Term Asset Funds (LTAFs) represents the first big step by Government to help bring the public and private markets closer together. These funds, while a good step, do have certain limitations:

Ongoing costs are likely to exceed 1% per annum per fund. 01

They have a minimum 90-day **notice period** on redemptions which can be an issue for clients in decumulation. 02

Accessibility - some of the main funds may be institutional only in scope, or limited to certain group pensions if available to retail (LTAF is coming to Nest for example). 03

An LTAF would need to be used alongside a more 'traditional' investment strategy to ensure there is a suitable asset mix and sufficient investment diversification for the client.

How would you give clients access to private markets outside of the workplace pension defaults that are available or coming to the market? You would typically need to build this yourself.

This goes against the natural preference toward 'simplicity'. The more friction there is, the less likely it is that clients – and advisers – will engage with private market options.

Verve view: The government's embrace of private markets and the concurrent increase in investment options offering access to private markets means advisers need to give this sector greater attention from a research and due diligence perspective.

SECTION SIX: THE SOLUTION

PRUFUND ACCESS TO DIVERSIFYING ASSET CLASSES

The PruFund range, particularly the main Growth and Cautious funds, have provided retail investors with significant exposure to diversifying asset classes within the structure of an actively managed and highly diversified multi-asset fund.

The composition of the two main PruFunds shows this exposure to alternative and private assets (as at October 2025):

PruFund Growth

	Equity	(41.80%)
1	UK Equity	11.90%
2	Europe ex. UK Equity	5.30%
3	North America Equity	7.30%
4	Emerging Equity	2.00%
5	Asia ex. Japan Equity	5.30%
6	China Equity	3.10%
7	Japan Equity	3.00%
8	Middle East and Africa Equity	2.40%
9	India Equity	1.50%
	Real Estate	**(13.00%)**
10	UK Real Estate	8.20%
11	US Real Estate	1.40%
12	Europe ex. UK Real Estate	1.60%
13	Asia Real Estate	1.80%
	Real Assets & Alternatives	**(13.90%)**
14	Private Equity	5.30%
15	Infrastructure	3.00%
16	Private High Yield	3.50%
17	Commodities	1.10%
18	Other Factors	1.00%
	Fixed Income	**(26.50%)**
19	UK (Investment Grade)	4.90%
20	Europe (Investment Grade)	2.00%
21	UK & Euro (High Yield)	2.30%
22	US High Yield	0.40%
23	US Treasury	1.70%
24	US (Investment Grade & High Yield)	4.70%
25	Asian Bonds	5.50%
26	Convertibles	0.90%
27	Private Credit	0.80%
28	African Debt	1.10%
29	Emerging Market Debt	2.20%
	Cash	**(1.70%)**
30	Cash	1.70%
	TAA Mandate	**(3.10%)**
31	TAA Mandate	3.10%

PruFund Cautious

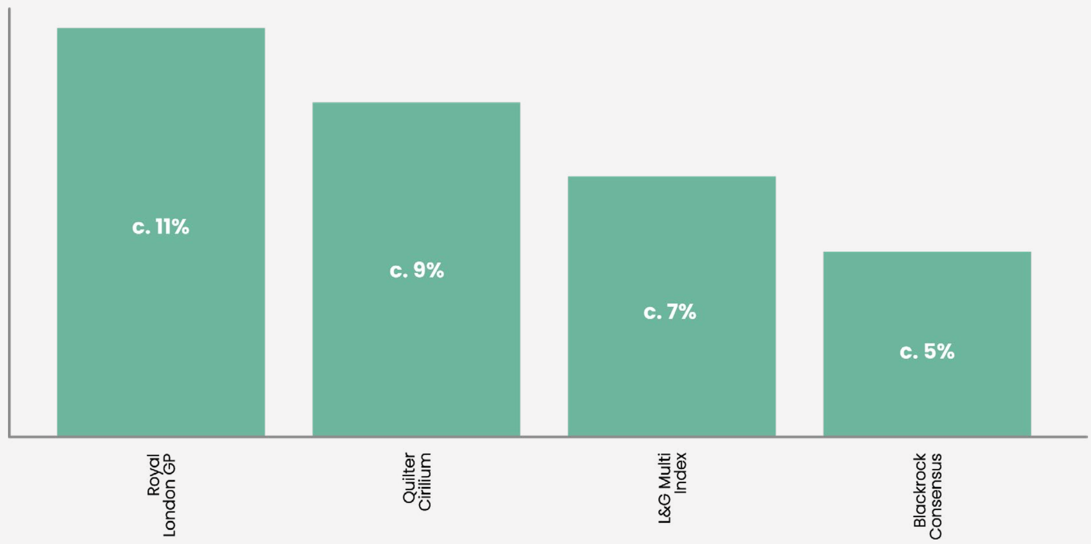
	Equity	(21.90%)
1	UK Equity	6.40%
2	Europe ex. UK Equity	2.90%
3	North America Equity	3.80%
4	Emerging Equity	1.10%
5	Asia ex. Japan Equity	2.60%
6	China Equity	1.60%
7	Japan Equity	1.50%
8	Middle East and Africa Equity	1.20%
9	India Equity	0.80%
	Real Estate	**(10.10%)**
10	UK Real Estate	5.90%
11	US Real Estate	1.30%
12	Europe ex. UK Real Estate	1.10%
13	Asia Real Estate	1.80%
	Real Assets & Alternatives	**(14.00%)**
14	Private Equity	3.80%
15	Infrastructure	2.90%
16	Private High Yield	5.20%
17	Commodities	1.20%
18	Other Factors	0.90%
	Fixed Income	**(49.50%)**
19	UK (Investment Grade)	9.10%
20	Europe (Investment Grade)	3.80%
21	UK & Euro (High Yield)	4.30%
22	US High Yield	0.70%
23	US Treasury	2.60%
24	US (Investment Grade & High Yield)	9.40%
25	Asian Bonds	10.10%
26	Convertibles	1.70%
27	Private Credit	2.10%
28	African Debt	1.40%
29	Emerging Market Debt	4.30%
	Cash	**(1.70%)**
30	Cash	1.70%
	TAA Mandate	**(2.80%)**
31	TAA Mandate	2.80%

Source: PruFund Global Diversification (M&G, October 2025). *Before reviewing performance, please note: the value of investments can go down as well as up, and clients may not get back the amount they put in.*

The PruFund range provides significant exposure to alternative asset classes – quite distinct from the token exposures we tend to see with other funds. The allocation to alternative assets is itself well diversified and a meaningful portion of the fund's assets that is designed to offer resilience to market cycles and attractive risk-adjusted returns. This high level of asset diversification, with different assets providing returns at different points of the cycle, supports the operation of PruFund's smoothing mechanism.

Looking at some of the other popular fund ranges, we see a much smaller proportion:

Stated allocation to alternative asset types, including private markets



Source: The range of percentage is based on the spread across risk profiles within each fund group. The midpoint of each range is typically representative of the most 'balanced/medium' option from each group (Fund Factsheets: Blackrock Consensus 60 Class A, L&G Multi-Index 5, Quilter Cirilium Balanced, Royal London Governed Portfolio 4, October/November 2025)

It is worth noting that excluded from this comparison are funds and portfolios which are driven entirely by an allocation to equity, bonds and cash.

Popular examples of this include Dimensional World Allocation, Fidelity Multi-Asset Allocator, Vanguard LifeStrategy, EBI portfolios and Timeline portfolios.

When it comes to alternative and private assets, it is not simply a case of whether a provider or a fund wants to provide exposure to certain illiquid assets, it is a case of can it do so?

Verve view: There is more to asset allocation than just total exposure to equity versus exposure to 'lower risk' asset types. We have transitioned from a secular interest rate easing cycle into a new era characterised by greater geopolitical and policy uncertainty with higher potential for inflationary shocks.

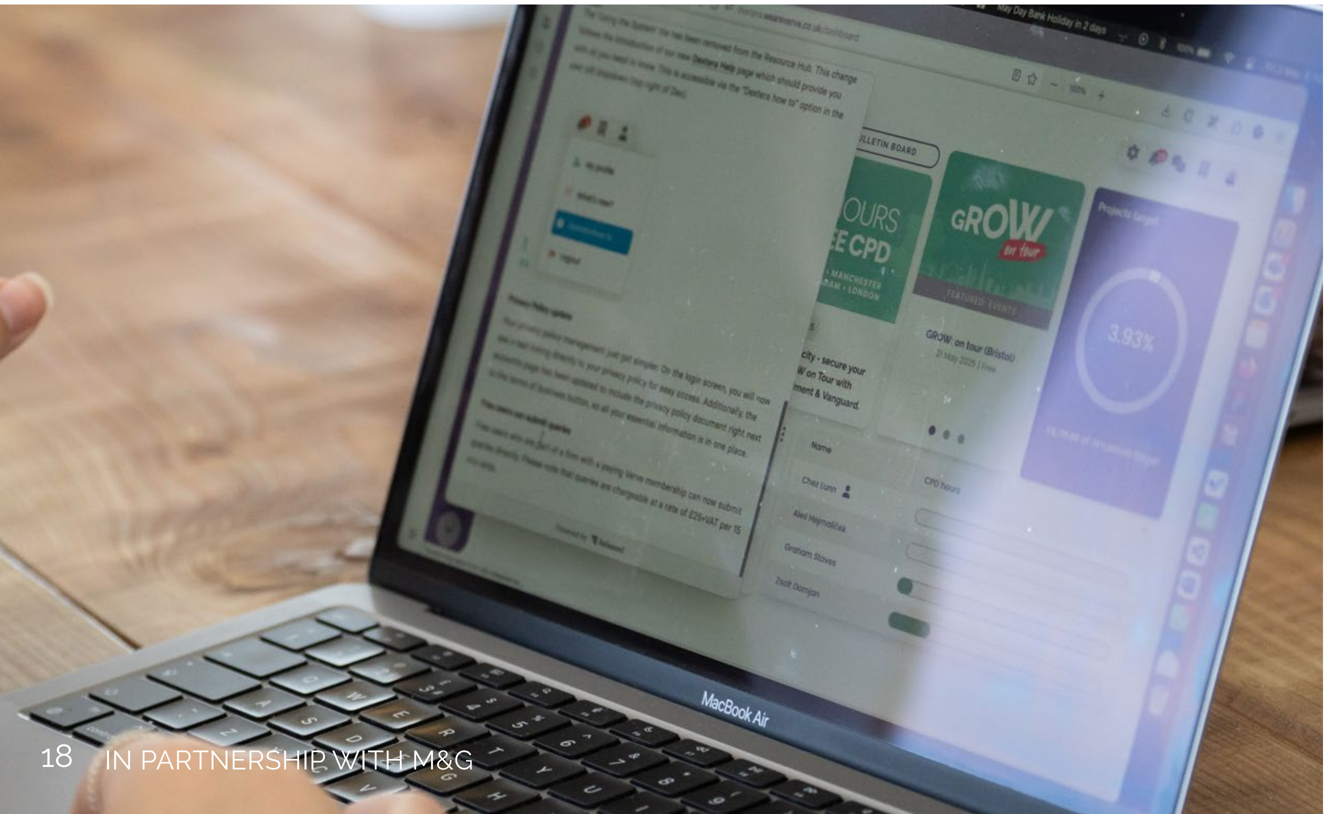
This demands a reappraisal of portfolio exposures that includes, for example, the consideration of alternative and private assets for their ability to deliver real returns that better protect portfolios from inflation.

Is your centralised research process and due diligence taking this forward-looking approach to asset allocation into account? How did favoured multi-asset approaches perform in the 2022 market correction and are they sufficiently diversified to weather a wide range of possible outcomes?

A fund with £1bn of assets which wanted to allocate 3% to UK infrastructure would only have £30m to use. This would naturally limit the reach of available and attractive opportunities for the fund manager. On the other hand, a fund with £65bn in assets would have just under £2bn for this purpose. Size and scale are just as important as intended investment aims and objectives.

There is another aspect to asset allocation that should be considered, and that is regional concentration risk. At the time of writing, the relative size of the US market continues to increase making typical market cap weighted portfolios far more exposed to the US market than was historically the case.

We'll look at this aspect in the next section and look at what this all means for performance and the relationship between risk and return.



SECTION SEVEN: BRINGING IT ALL TOGETHER

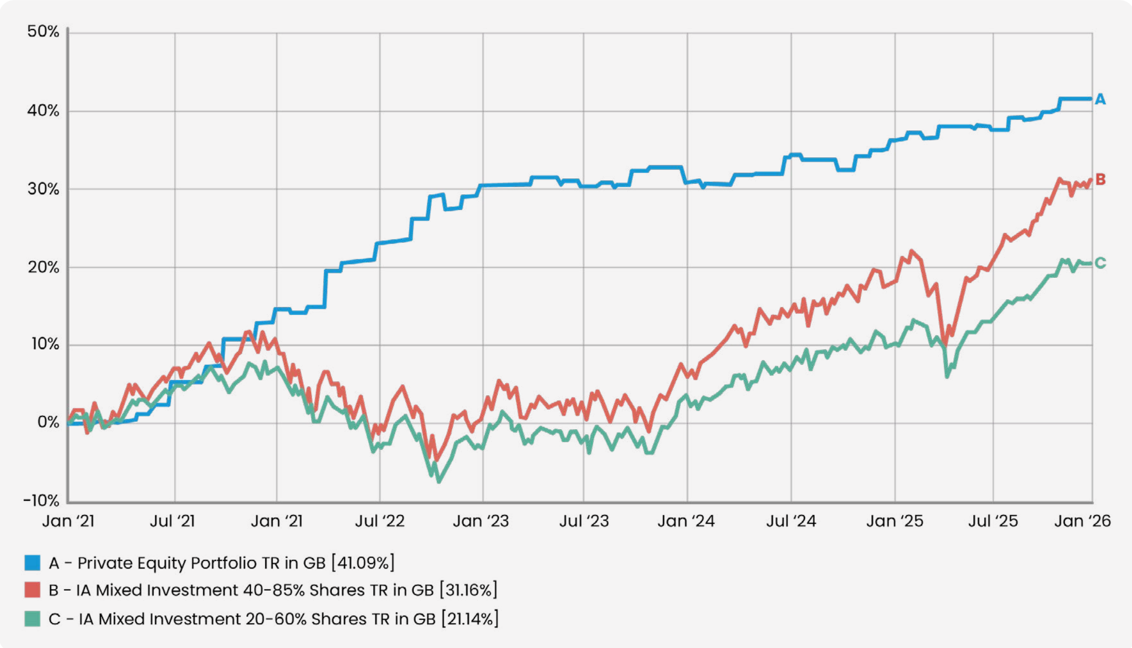
STRUCTURE, ALLOCATION AND RETURNS

While greater asset diversification makes intuitive sense, it should only be pursued to the extent it improves the risk-adjusted return over a meaningful period. There is of course a price premium involved in accessing investments with broader scope, compared to a simple passive investment in equities and bonds. We'll now turn to volatility and concentration risk in looking at how increased diversification can help.

Understanding volatility and concentration risk.

Allocation to private equity can not only help drive long-term returns, but it can also bring about reduced volatility within a diversified portfolio.

The following chart illustrates the behaviour of a portfolio constructed from solely private equity collective funds against the Investment Association Mixed Investment 40-85% Shares and 20-60% Shares sectors.



Source: Data from 31/12/2020 - 31/12/2025 (FE fundinfo, 2026).
Past performance is not a guide to future performance..

The IA Mixed Investment sectors feature allocations to listed equities and bonds in the main, which are priced daily. It is daily volatility and large / extended drawdowns that concern clients the most when reviewing their portfolios. Private equity on the other hand is not valued as frequently, resulting in a naturally less volatile asset, but one that still has the potential to significantly outperform over the long-term.

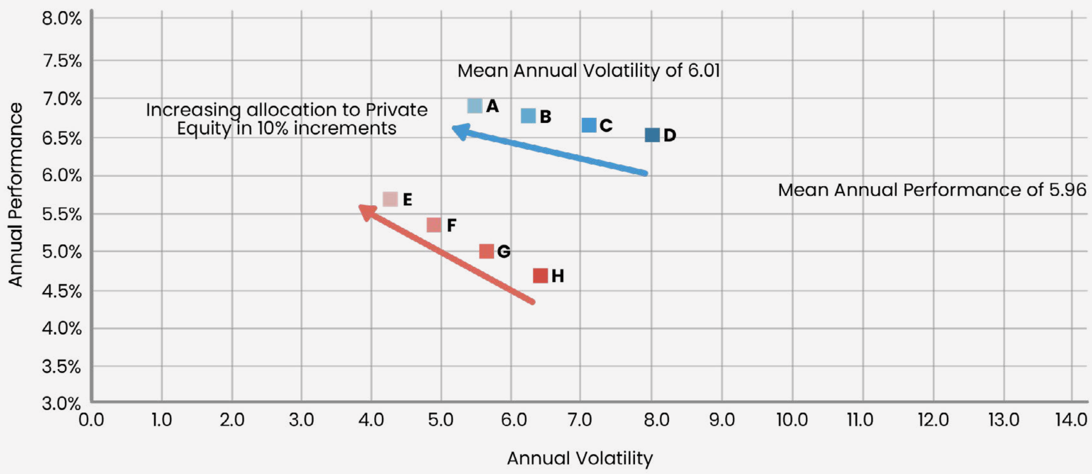
This is reflected on the chart with the private equity portfolio displaying less frequent and less pronounced changes in value whilst still delivering the highest returns over a 5-year timeframe.
In addition, as evidenced by the correlation table below, there is a very low correlation between private equity and listed equities and bonds.

Name	IA Mixed Investment 20-60% Shares TR in GB	IA Mixed Investment 40-85% Shares TR in GB	Private Equity Portfolio TR in GB
IA Mixed Investment 20-60% Shares TR in GB		0.98	-0.09
IA Mixed Investment 40-85% Shares TR in GB	0.98		-0.01
Private Equity Portfolio TR in GB	-0.09	-0.01	

Period: 5 Years **Currency:** Pound Sterling Positive Correlation Low Correlation

Source: Data sourced 28/10/2025 (FE fundinfo, 2025)

By building a blended portfolio of the Investment Association sectors and private equity, we can begin to reduce volatility whilst increasing the risk-adjusted return by increasing the allocation to private equity.



Key	Name	Annualised Performance	Annualised Volatility
A	Mixed Asset 40-85% plus Diversifiers (70:30) TR in GB	6.91	5.48
B	Mixed Asset 40-85% plus Diversifiers (80:20) TR in GB	6.78	6.25
C	Mixed Asset 40-85% plus Diversifiers (90:10) TR in GB	6.65	7.10
D	IA Mixed Investment 40-85% Shares TR in GB	6.52	8.01
E	Mixed Investment 20-60% plus Private Eq (70:30) TR in GB	5.67	4.28
F	Mixed Investment 20-60% plus Private Eq (80:20) TR in GB	5.35	4.90
G	Mixed Investment 20-60% plus Private Eq (90:10) TR in GB	5.01	5.63
H	IA Mixed Investment 20-60% Shares TR in GB	4.67	6.43

Source: Data from 30/09/2020 - 30/09/2025 (FE fundinfo, 2025).
Past performance is not a guide to future performance..

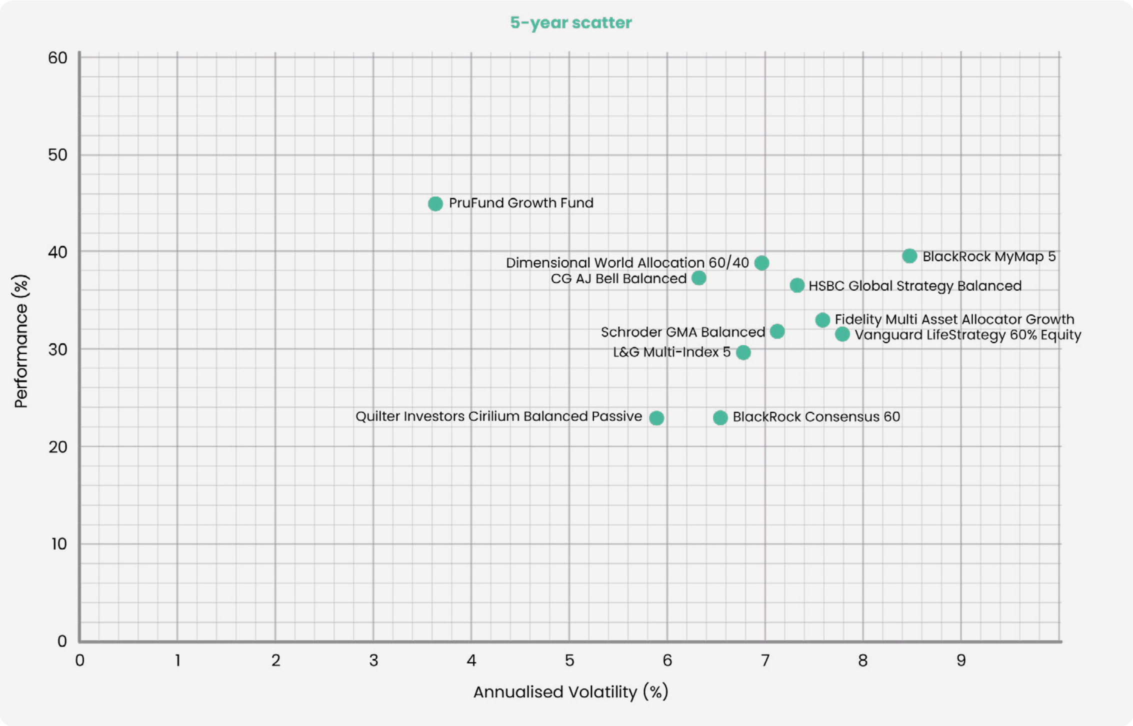
In the chart, we have started with the IA Sectors represented with no blending. As we increase the exposure to private equity markets, 10% at a time, the volatility reduces. At the same time, we see 5-year returns increase.

What does this mean in practice? Let's look at some popular passive multi-asset fund ranges largely allocating to listed equities and bonds and draw some comparisons to the actively managed PruFund Growth which, as covered previously in this paper, features significant allocations to alternative and private assets.

Presented below is a scatter chart which includes:

- PruFund Growth, as it is part of the largest multi-asset strategy by AUA (M&G, 2025)
- Ten popular passive multi-asset funds of an equivalent risk level (DT5)

All strategies are mapped by Distribution Technology, the most popular risk profiler (Professional Adviser, 2024), as a Risk 5 (DT5).



Source: Data ran until 31/12/2025.

As you can see, when held as a standalone multi-asset strategy, the long-term returns of the standard passive multi-asset funds are all broadly similar and fall within 30% and 40% cumulative returns over the last 5 years.

However, when considered alongside the levels of volatility displayed by the passive multi-asset strategies, the returns begin to look less attractive, particularly when you take account of the investment experience or journey in getting to an outcome. Higher volatility can increase the risk of some clients with lower levels of market composure being more inclined to react emotionally to market downturns.

Key insight: Passive multi-asset funds may deliver similar long-term returns, but their higher volatility can trigger negative client reactions during market downturns.

The key outlier here is the PruFund Growth fund, demonstrating returns in excess of the highest-returning standard multi-asset fund, while showing the lowest levels of volatility (as measured by standard deviation).

Lessons from the pandemic.

The pandemic was an example of how markets can behave in extreme conditions.

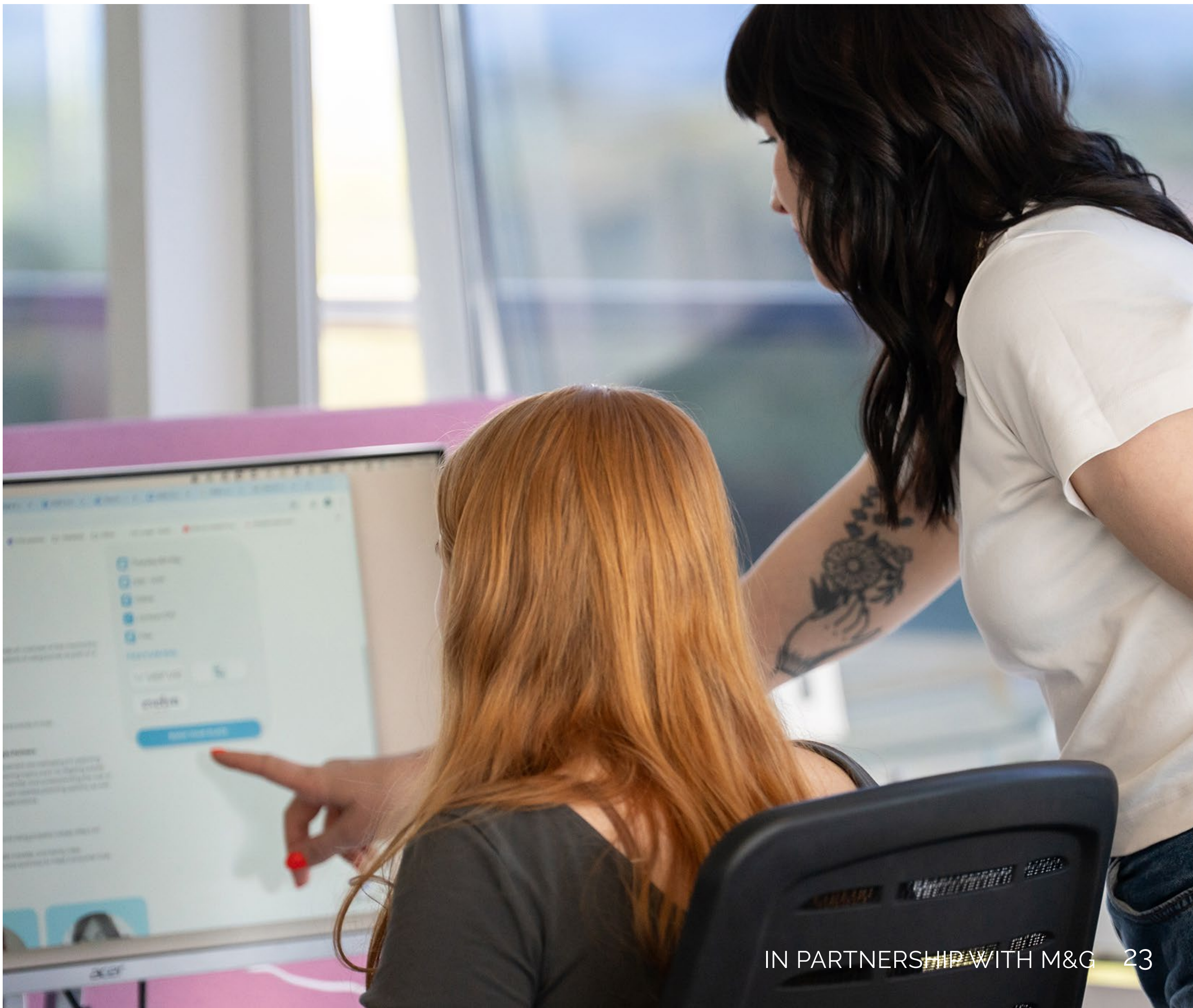
At first, markets dropped sharply as countries locked down and borders closed. In the initial decline, virtually all assets, including gold, performed poorly as asset correlations briefly moved converged towards 1.

When central banks (spearheaded by the Federal Reserve) took action to increase market liquidity, the recovery was fast and driven by a small group of companies that either weren't affected or directly benefited from the new remote ways of working.

These companies included:

- Technology firms
- Payment processors
- Home fitness brands
- Companies enabling remote work

Most of these were based in the US, where tech stocks make up a large share of the market. This led to a strong rebound but also highlighted how concentrated global markets have become, especially passive strategies that track market capitalisation have now become the dominant form of capital allocation.



The impact of US market concentration.

The concentration risk present in many multi-asset strategies that passively allocate to equity markets based on market capitalisation weights is starting to unnerve some asset allocators.

01 Global market cap is currently heavily concentrated to the USA (c. 70% of the MSCI World Index, according to JP Morgan, 2025), which faces the issue of its own market indices being heavily skewed to just a handful of companies.

02 In fact, the top 10 companies in the S&P500 Index form 37.3% of the total market cap of all 500 constituents as of July 2025 (Reuters, 2025).

We have been here before. In the late 1980's, the Japanese stock market surged to a 45% share of global stock markets. Investors that bought into global equity market allocations at this time suffered significant losses in the following years.

Volatility in passive vs. actively managed funds.

The significant outperformance of the US, and especially, the largest US stocks, particularly over the last 5 years, means that global markets are particularly sensitive to matters in the USA. In turn, multi-asset funds with passive allocations have become disproportionately tilted not only to the US market, but to a handful of large names that lead that market, known as the Magnificent Seven – comprising of Nvidia, Apple, Microsoft, Alphabet, Amazon, Meta and Tesla.

PruFund is actively managed, and its equity positions include the use of regional and single country allocations to Africa equity, China equity and India equity to capture future growth trends rather than reflect current market capitalisation weights. This is also why PruFund allocates to US equities via a combination of active large and small cap managers, along with bespoke passive exposures, heavily weighted by fundamentals.

Our analysis shows...

- All DT5-rated passive multi-asset funds analysed show significant volatility over a 5-year timeframe with the 20-60% Shares sector displaying similar levels.
- The DT5-rated PruFund Growth shows higher 5-year returns and significantly lower ongoing volatility.

The behavioural finance perspective.

Research in behavioural finance suggests that many investors monitor their portfolios more frequently during periods of heightened market volatility or when negative headlines dominate the news cycle. Even when advised to take a long-term view, it's common for clients to check performance regularly, driven by natural concerns about security and control. Even for those who do not check regularly, turbulent markets can give rise to great anxiety amongst investors (Morningstar, 2021).

Investors can become overconfident in good market periods, which may encourage them to take on too much risk and invest more speculatively, by overly concentrating on certain asset classes and sectors and by attempting to time the market.

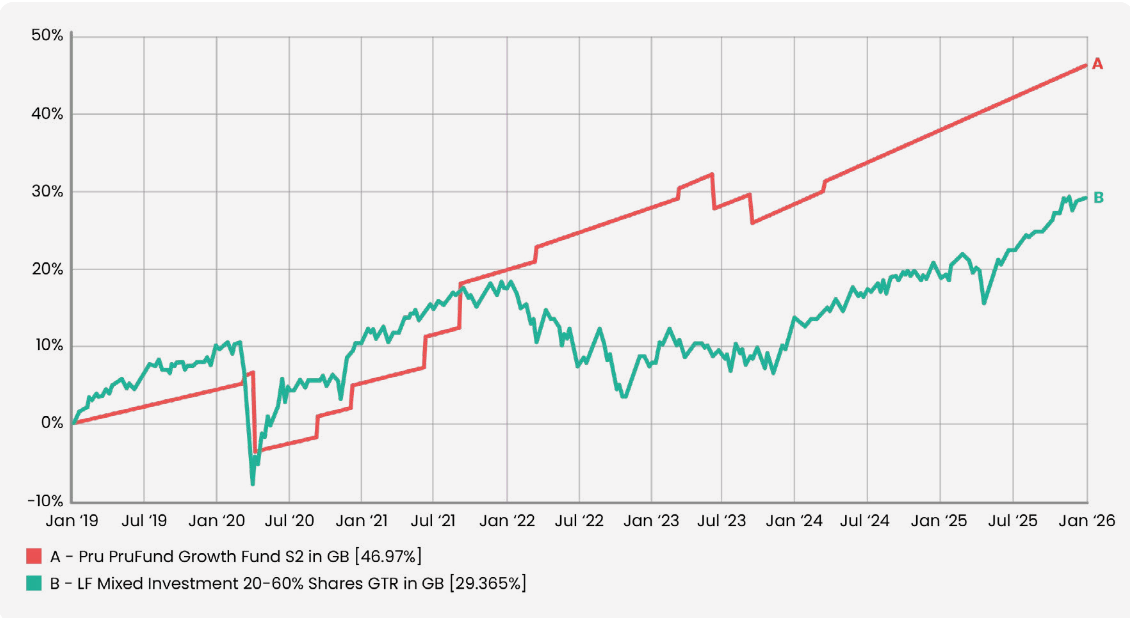
Investors can often become more risk-averse during periods of market volatility. Historical events such as the 2008 financial crisis and the early stages of the Covid pandemic illustrate how selling investments during sharp market declines can significantly impact long-term outcomes.

While this kind of behaviour may limit further short-term losses, it typically means investors miss out on the relatively rapid recoveries when they do happen often before the economic news improves (Vanguard, 2025).

Smoothed funds are designed to mitigate short term shocks to client portfolios to limit this kind of emotionally driven behaviour that can be detrimental to long-term outcomes. It could also be seen as a prevention of foreseeable harm for clients identified as being particularly nervous or low on market composure during fact finding discussions and risk profiling.

SECTION EIGHT: PANDEMIC PERFORMANCE

SMOOTHED FUND VS ABI MIXED INVESTMENT (20-60% SHARES)



Source: Data from 31/12/2018 - 31/12/2025 (FE fundinfo, 2026)

As the chart shows (displayed over a 7-year timeframe to capture the Covid period), PruFund's smoothing process has successfully ridden out short-term market shocks. While the fund is not immune from having to make downward adjustments to its unit price – it cannot defy market gravity - these adjustments have been much less frequent than a non-smoothed equivalent. This is evident in an analysis of its negative months over the past 7 years:

Name	7-Year Negative Months	7-Year Positive Months
Mixed Investment 20-60% Shares	35	49
PruFund Growth Fund	3	81

Source: FE Analytics, data run from end of September 2018 to end of September 2025.

This means that if a client was invested in a strategy with similar performance to the wider sector in a non-smoothed mixed asset strategy, they would have finished 35 of the 84 months showing negative growth. This contrasts sharply with the investor experience in PruFund Growth, where the client would have had to deal with just three negative months over the same timeframe.

In the context of investor psychology, negative periods can have a profound effect on some clients that can lead to negative sentiment about investing overall. Clients who are particularly averse to losses may feel reassured by strategies that seek to limit short-term perturbations, which can help support their financial wellbeing and long-term outcomes. By investing in a strategy which seeks to limit short-term perturbations, this can help to avoid the risk of poor, emotionally driven investment decisions.

Key insight: PruFund can deliver a different investment experience with far fewer negative periods than comparable passive strategies.

A study by Vanguard indicates that behavioural coaching of clients can add average returns of 1.50% per annum, by avoiding the selling of investments in times of market turbulence. Using a smoothed fund like PruFund can deliver similar benefits by providing reassurance to clients that their investment values have not followed the market sharply downwards to the same extent.

SECTION NINE: FORWARD THINKING

FIVE PROMPTS TO REVIEW YOUR CLIENT PORTFOLIO

Even well-constructed portfolios that have performed well can benefit from thoughtful and forward-looking review, especially in a market that is being shaped by high and growing concentration risk, recurrent volatility, and shifting client expectations.

These five prompts can help you to assess whether your current investment mix is as resilient to an uncertain future as it could be for your clients.

01

Portfolio weighting

Are our passive portfolios heavily weighted towards US equities or large-cap tech?

02

Missing exposure

Are clients missing exposure to alternative assets like infrastructure, commodities, or property? Are we missing private market exposure? Are our portfolios set up to generate real returns in the face of inflation?

Client reaction

03

Have clients shown concern or reacted emotionally during recent market volatility?

Limited diversification

04

Does our current suite of funds have similar concentration risks that would make them behave similarly, limiting real diversification?

Blending opportunities

05

Could blending in a smoothed, actively managed fund like PruFund help reduce downside risk, improve client composure and experience, and offer the potential for an attractive risk-adjusted returns in a range of uncertain futures?

SECTION TEN

CONCLUSION

In the first part of this paper, we covered how the introduction of alternative and private assets can bring distinctive asset class and correlation benefits to a portfolio with the second half of the paper demonstrating where that can improve the outcome for the end client in terms of both the potential for higher long-term returns and less day-to-day volatility.

Volatility, in particular, plays a significant role in determining a client's appetite for investment risk as short, sharp falls in investment values can lead to panic-selling. With exposure to private markets naturally providing some mitigation against this whilst still delivering strong potential returns, the outcomes for advised clients can be further enhanced.

Private market exposure has historically been outside the reach of most retail investors, and by extension, most advised clients. A look at some of the most popular fund ranges showed there are significant gaps in who is providing meaningful exposure to alternative assets. PruFund may offer a differentiated approach compared to some peers in this regard. As with all investments, the value can go down as well as up, and clients may not get back the amount they put in.

The introduction of PruFund to the wider platform market creates an opportunity for advisers to bring in a different investment approach to their centralised investment and retirement propositions and create, as highlighted in section two, real value for clients in the relationship between the risk they are taking and the reward they can expect. Critically, PruFund has both the size and scale to provide meaningful exposure to these private assets.

Larry Fink, Chairman of Blackrock, recently suggested that the "future standard portfolio may look more like 50/30/20 - stocks, bonds, and private assets like real estate, infrastructure, and private credit". In that sense, PruFund is fully deserving of a re-evaluation as a future standard of multi-asset investing.

For those considering PruFund as part of their centralised investment or retirement propositions, **speak to the experts at M&G** for support on introducing a different investment approach.

We support advisers and firms as they build, review and evolve their business DNA – centralising a strong foundation for business efficiency, compliance and growth. Just **book a chat** with the Verve team to find out more about how they can support your firm.

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