

# Asset class insight: Fixed Income

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

## Introduction

This update from the M&G Treasury & Investment Office (T&IO) provides an insight into the characteristics of the fixed income portfolios within the PruFund range of funds.

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

We hope to highlight the key differentiators and strengths including;

- The global exposure
- The ability to adapt modelling to include new asset classes in public and private markets
- Creating segregated pools of assets or internal funds to best capture opportunities
- Use of well-resourced and skilled asset managers to put money into markets

Detail is provided on exposure across different areas of fixed income markets and the building blocks that make up the overall allocations. Information is also provided on M&G Investments that T&IO work with to create, manage and monitor many of the underlying building blocks.

## Characteristics of Fixed Income portfolios within the PruFund range of funds

- Globally diversified with new asset classes added as markets have evolved and our strategists have been able to adjust modelling and create new sleeves within the strategic asset allocation process
  - increased exposure to developed market government bonds as yields rose over the course of 2023
  - exposure to developed market corporate bonds and the largest holding in % terms
  - exposure to higher yielding Asian and Emerging Market bonds has increased
  - exposure to Private Credit has increased leveraging the strength of specialist teams in M&G. Will continue to grow through new and future investments via M&G Catalyst, for example
- Underlying mandates and funds are actively managed by experienced teams in M&G Investments
- Fully hedged against movements in the major currencies
  - Sensible practice as currency movement can demonstrably affect risk adjusted returns

A large percentage of assets held in segregated mandates/ internal vehicles\* which has several benefits;

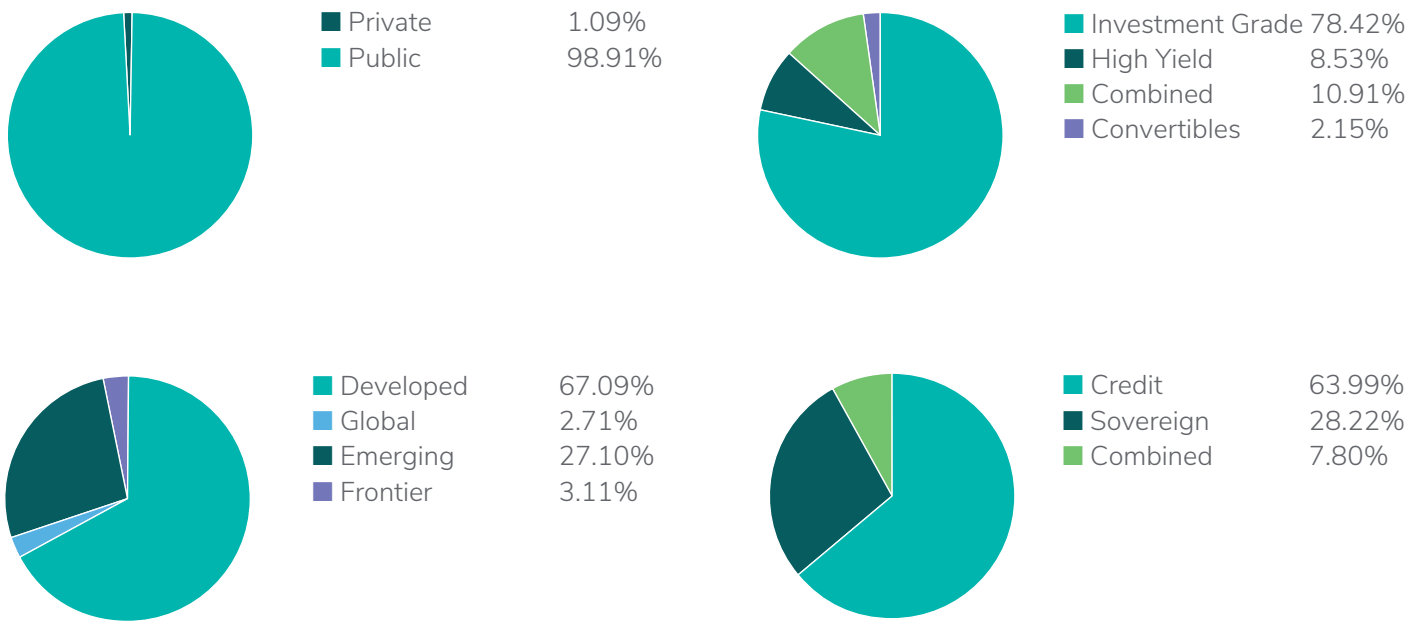
- Underlying fund managers work solely with T&IO as no other retail or institutional investors
- T&IO can work with the managers to set investment objectives and appropriate risk controls like stock and sector limits
- An underlying fund manager is unlikely to be a forced seller of assets
- Close and collaborative working relationships are formed with fund managers which provides market insights and new investment ideas
- The ability to create appropriate benchmarks and weights can help avoid a structural overweight to certain markets and help ensure money is allocated efficiently over time in less liquid markets
- Mandates can be adjusted as markets change and new ones evolve or if the broader macro environment changes such that overall portfolio duration can be adjusted, for example
- T&IO will seek to ensure that ongoing fund management costs are competitive

\* Some pooled vehicles are used – M&G Emerging Market Debt for example

- Geographic diversification and alternative sources of credit premium, different risk/return profiles and duration includes areas like;
  - **Asian bonds** – access to investment grade and sovereign debt with a higher potential yield
  - **Bridge loans** – generally investment grade, short duration bonds sourced in private markets that offer a higher return than an equivalent publicly traded bond
  - **Private credit** – now with a greater focus on driving 'Impact and positive change in the global economy through investment innovation' through 'M&G Catalyst'
  - **High yield bonds** – positive credit spreads and often shorter duration
  - **Emerging markets debt** – higher yields and exposure to a diversified set of monetary and fiscal regimes

These more specialist asset classes now make up a meaningful part of PruFund portfolios as shown on the next page;

Portfolio breakdown of PruFund Growth (source: T&IO, 31 December 2023)



\* Please note that these weightings are based on the predominate exposures of each underlying fund. The actual allocations can differ slightly from what is shown above due to the underlying managers having some mandate flexibility

## Underlying building blocks of the PruFund Growth Fixed Income portfolio\*

To provide greater insight into PruFund portfolios the table below provides a breakdown of each sub asset class, the underlying vehicles and the asset manager.

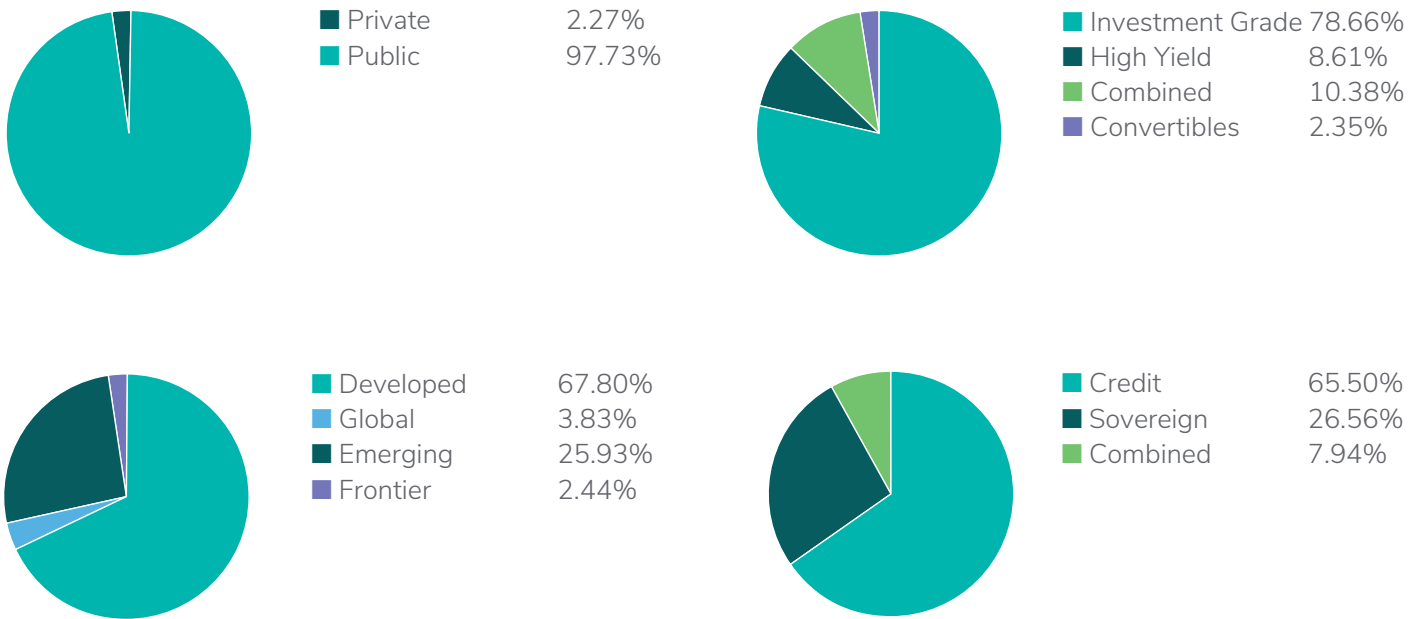
Asset class	Fund Name	Investment Style	Internally or Externally managed
UK (Investment Grade)	M&G UK Investment Grade Mandate M&G European Investment Grade Mandate M&G Collateral Fixed Income Mandate M&G European/UK High Yield Mandate	Active	Internal
Europe (Investment Grade)			
UK & Euro (High Yield)			
UK Government**	M&G Gilt Mandate	Active	Internal
US (IG & HY)	M&G US Total Return Fixed Income Mandate M&G US Short Dated Fixed Income Mandate M&G US Treasuries Mandate	Active	Internal
US Treasury			
Asian Fixed Income	M&G (Lux) Asian Corporate Bond Fund M&G (Lux) Asian Local Bond Fund Manulife China Bond Fund	Active	Internal Internal External
Convertibles	M&G Global Convertibles Fund	Active	Internal
Lower Risk Private Credit	M&G Catalyst – Credit Fund Selection of M&G Private Credit Funds Global Micro and SME Finance Fund (responsAbility)	Active	Internal
Global High Yield	M&G Global High Yield Fund	Active	Internal
African Debt	M&G Pan-African Bond Fund	Active	Internal
Emerging Market Debt	M&G Emerging Market Debt Fund	Active	Internal

Source: T&IO as at 29.02.2024

\* The same building blocks are used across the entire PruFund range

\*\* For the 2023 PruFund Strategic Asset Allocation review, UK Government Bonds were added as allocations with PruFund Growth

Portfolio breakdown of PruFund Cautious (source: T&IO, 31 December 2023)



\* Please note that these weightings are based on the predominate exposures of each underlying fund. The actual allocations can differ slightly from what is shown above due to the underlying managers having some mandate flexibility.

## Underlying building blocks of the PruFund Cautious Fixed Income portfolio\*

To provide greater insight into PruFund portfolios the table below provides a breakdown of each sub asset class, the underlying vehicles and the asset manager.

Asset class	Fund Name	Investment Style	Internally or Externally managed
UK (Investment Grade)	M&G UK Investment Grade Mandate M&G European Investment Grade Mandate M&G Collateral Fixed Income Mandate M&G European/UK High Yield Mandate	Active	Internal
Europe (Investment Grade)			
UK & Euro (High Yield)			
European Leveraged Loans			
UK Government**	M&G Gilt Mandate	Active	Internal
US (IG & HY)	M&G US Total Return Fixed Income Mandate M&G US Short Dated Fixed Income Mandate M&G US Treasuries Mandate	Active	Internal
US Treasury			
Asian Fixed Income	M&G (Lux) Asian Corporate Bond Fund M&G (Lux) Asian Local Bond Fund Manulife China Bond Fund	Active	Internal Internal External
Convertibles	M&G Global Convertibles Fund	Active	Internal
Lower Risk Private Credit	M&G Catalyst – Lower Risk Selection of M&G Private Credit Funds Global Micro and SME Finance Fund (reponsAbility)	Active	Internal
Global High Yield	M&G Global High Yield Fund	Active	Internal
African Debt	M&G South Africa Pan-African Bond Fund	Active	Internal
Emerging Market Debt	M&G Emerging Market Debt Fund	Active	Internal

\* Source: T&IO as at 29.02.2024

\*\* For the 2023 PruFund Strategic Asset Allocation review, UK Government Bonds were added as allocations with PruFund Cautious

## Underlying Fixed Income managers for PruFund

T&IO is responsible for the strategic asset allocation of the PruFund range of funds as well as the selection and ongoing monitoring of the various investment managers. The underlying stock selection decisions are carried out by these investment managers who are selected by T&IO following a thorough due diligence process.

### M&G Investments

T&IO work very closely with M&G Investments who run most of the fixed income assets for PruFunds.

They are one of Europe's largest fixed income investors and have a large established team of investment professionals that aim to deliver performance over the long-term across global government bonds, investment grade and high yield corporate debt.

As well as huge experience in public markets the institutional team also has a long heritage in private markets.

If you want to read more on M&G's thought leadership from their own fixed income investment specialists, visit their '**Bond Vigilantes**' page.

## Spotlight on Catalyst – Investment Example

Catalyst is a mandate within Private Credit, providing long-term flexible capital to companies with positive purposes at their core and delivering impact at scale.

### Pragmatic semiconductors

PruFund has added exposure to the tech and semiconductor sector via private senior secured debt investment by the Catalyst Mandate. Pragmatic semiconductors has revolutionised and fully automated the semiconductor manufacturing process. Suitable for Radio Frequency Identification (RFID), unique IDs can be assigned to items of clothing and other products. Our funding will enable Pragmatic to scale its business model and build its third and fourth production lines. This will produce billions of chips destined for fast-growing applications across multiple sectors.

Pragmatic is aiming for at least eight manufacturing lines in the UK, creating more than 500 highly skilled jobs in the North East and Cambridge.

## Summary

Within the fixed income exposure of the PruFund range of funds, developed market corporate bonds remain the largest holdings and T&IO have increased their exposures to them in Q4 2023 reflecting the attractive entry point that they believe will benefit portfolios in future;

- Have a globally diversified portfolio that offers multiple asset types with different characteristics, duration and risk/return profiles
- By investing in more emerging market debt with higher yields and exposure to a diversified set of monetary and fiscal regimes, with more room to stimulate their economies,
- Accessing the credit and illiquidity premia available within private credit
- Utilise well-resourced and skilled active fixed income managers
- Source new and differentiated sub-asset classes
- Take a long-term view and see market downturns as an opportunity to acquire assets at compelling valuations

T&IO continue to believe the fixed income allocations within PruFunds are well-diversified and are continually evolving. They also feel that the fundamental, valuation and technical analysis carried out across the whole of M&G from both a top-down perspective and bottom-up stock level will continue to help capture market opportunities across a long-term investment horizon.

- As part of the 2023 PruFund Strategic Asset Allocation Review, UK Government Bonds were added within fixed income, due to much improved yields compared to any period in the last decade.

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