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PruFund since Pension Freedoms began – how has it worked?

When pension freedoms were introduced over seven years ago the take up of drawdown increased significantly, with customers keen to take advantage of accessing their pension pots without constraint.

The purpose of this guide is to highlight how the PruFund range may be appropriate as a consideration for income drawdown. It is not designed to make specific recommendations but rather consider how PruFund growth has performed since the introduction of pension freedoms. It is not intended to be a definitive all-encompassing analysis of income drawdown, PruFund or all aspects of suitability processes. For the sake of simplicity this guide assumes an investment in PruFund in totality where it is used, whereas in practice it may be part of an ongoing strategy alongside other investments.

Of course, understanding the client's personal circumstances, assessing the client's attitude to risk and capacity for loss are a key part of an adviser's suitability process to ensure needs and objectives are met as fully as possible. However numerous other factors also need to be considered when a client reaches retirement. These include sequencing of return risk, income and expenditure requirements, estimating a client's life expectancy and possibly calculating what a sustainable withdrawal rate could be, so funds are not eroded prematurely. Income Drawdown is often a long-term commitment and will usually need regular reviews from an adviser to ensure the strategy remains appropriate. The adviser will also need to identify what is essential income, as well as what might be classed as 'lifestyle' or 'discretionary'.

All of this may form part of an advisers Centralised Retirement Proposition (CRP). For a more detailed run through of wider drawdown considerations the PFS provide an excellent document
thepfs.org/media/10120167/good-practice-guide-advised-pension-income-drawdown.pdf

The PruFund range has been a popular choice for many advisers to select, given the smoothed nature of the returns, the diversification its multi-asset nature brings and the predictability of the Expected Growth Rate (EGR).

EGRs reflect the long-term view of the funds growth and Unit Price Adjustments (UPA) allow any necessary adjustments to help keep the fund growth on track, in line with the EGR.

There may be occasions where the smoothing process is suspended for one or more PruFund funds for a period of consecutive days, to protect the With-Profits Fund and the clients invested in it.

The step by step guide to the PruFund smoothing process guide covers this in more detail:
pruadviser.co.uk/pdf/PRUF1098101.pdf

But how has it fared for customers? Here we look at the time period since the introduction of freedoms, using the Pension PruFund Growth fund (PPFG) as an example.

Let's have a look at some of the key aspects.

Meeting expectations

Many advisers will have used cashflow modelling to show a predicted level of return. While it's always sensible to 'stress test' any projected return, given the nature of PruFund's EGR some advisers have used this as a benchmark for projecting future returns.

The underlying EGR of PPFG can be demonstrated by looking at the PruFund Growth Account, which shows the performance of the holding account as a comparator, which is effectively the EGR less charges. Please note this fund is not available to invest in for any period longer than the normal holding account term, pending investment into PruFund itself. By charting this on the graph though we are able to demonstrate the ongoing EGR, and the level to which it has met its expectations.

How has PruFund performed?

The following chart models the performance of

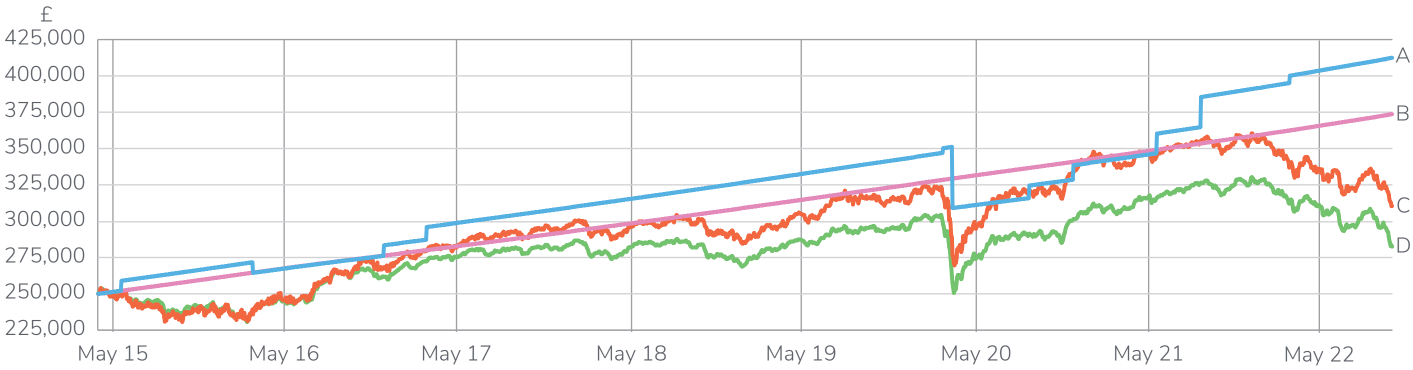
A) The Pension PruFund Growth Fund (PPFG)

B) The PruFund Growth Account – which shows the Expected Growth Rate of the Fund, including any changes during that time period as described above

C) The LF Prudential Risk Managed Passive 3

D) The ABI 20-60 sector

In order to fairly compare PPFG and the PruFund Growth Account against the other fund and sectors, the PruFund figures include a representative annual charge of 0.65% and any additional investment expenses, but not any product or advice charges to compare with both the other comparators where any annual management charge is already incorporated.



- A – PruFund Growth Fund Pn Ser A (0.65% pa charge) GTR in GB,
- B – PruFund Growth Account Pn Ser A (0.65% pa charge) GTR in GB,
- C – LF - Prudential Risk Managed Passive 3 P Acc in GB,
- D – ABI Mixed Investment 20-60% Shares GTR in GB

Source: FE fund info. The graph shows the total returns from 07.04.2015 to 30.09.2022 for the Prudential PruFund Growth Fund, Growth Account and Risk Managed Passive 3 Fund vs. the Association of British Insurers (ABI) 20-60 sector.

What conclusions can we draw from this?

1) The in-house PruFund investment Manager Treasury and Investment Office (T&IO) continue to provide competitive longer terms returns when compared against sector average – this is demonstrated by both the PPFG and Passive Risk Managed 3, a smoothed fund and unsmoothed fund respectively.

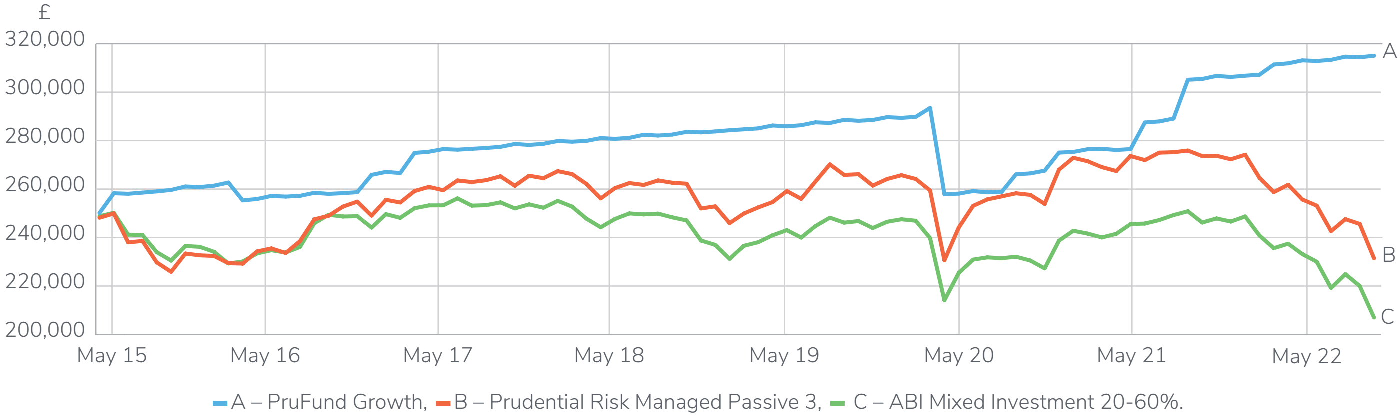
2) For most of this time period it demonstrates that the PPFG has met, or exceeded the EGR, giving advisers some predictability of return. This can be used as a consideration in cashflow modelling, suitably stress tested as indicated above.

3) The smoothing mechanism can help to iron out day to day fluctuations in the underlying values but will incur downward Unit Price Adjustments (UPAs) when there is a significant correction in underlying values. However, as markets return the values, will also benefit from upward UPAs assuming the underlying values trigger the mechanism to do so.

Please remember that past performance should not be considered a reliable indicator of future performance. 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.

PruFund in drawdown – how does it compare?

The following chart shows an investment within PruFund, The LF Prudential Risk Managed Passive 3 and the ABI 20-60 sector from the start of pension freedoms, with income taken at a level of 4%, payable monthly. Clearly this could be higher or lower based upon the client's individual circumstances, but this gives an illustrative view of income that could have been taken. The same assumptions have been made on charges.



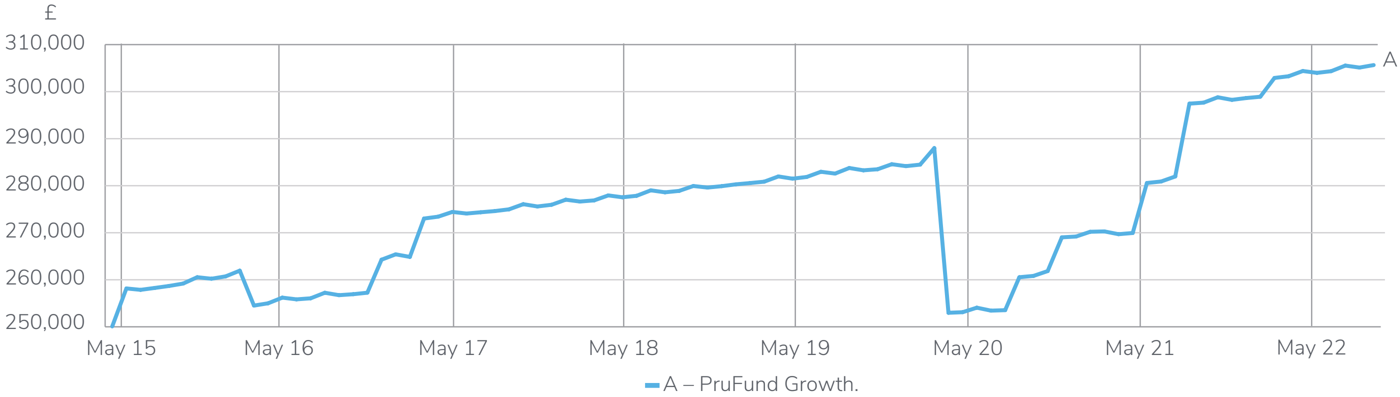
Source: FE fund info. The graph shows the total returns from 30.04.2015 to 30.09.2022 for the Prudential PruFund Growth Fund and Risk Managed Passive 3 Fund vs. the Association of British Insurers (ABI) 20-60 sector.

As with the first chart the graph demonstrates that allowing for withdrawals PruFund continues to perform above the average for the 20-60 sector.

PruFund in Retirement Account – how has it worked?

The following chart looks at just PPFG, but modelled on an investment into Retirement Account incorporating both an allowance for the AMC and the wrapper charge (giving a total additional charge of 1% p.a.), assuming an initial investment of £250,000, with income taken at a level of 4% payable monthly. As with above, no allowance is made for any adviser charging.

The chart is hypothesised as Retirement Account didn't launch until 2016, but calculations are based on current charges and actual performance of PruFund Growth Fund.



Source: FE fund info. The graph shows the total returns from 30.04.2015 to 30.09.2022 for the Prudential PruFund Growth Fund.

What conclusions can we draw from this?

1) PruFund can demonstrate a sustainability of income. The graph highlights that even allowing for 4% income to be taken from outset, the fund has grown by over 22% to in excess of £305,000 over the time period since pension freedoms commenced, with total income of £75,000 also having been paid of over the time period
2) Though there are other mechanisms (see here for further information **pruadviser.co.uk/knowledge-literature/knowledge-library/sequencing-of-risk-return/**) that can help control sequencing of return risk, using a smoothed fund provides advisers with a viable option to consider
3) Though past performance is no guide to the future, advisers can use different strategies within their CRP to help ensure client objectives are met. Evidencing the outcome of different strategies to internally sense check the CRP methodology should form part of regular reviews of a CRP

Please remember that past performance should not be considered a reliable indicator of future performance. 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.

How the PruFund range can help your clients

- Although not guaranteed, the Expected Growth Rate gives you some expectation of future growth. This can be used as an aid for cashflow modelling for example.
- Smoothing helps to iron out day to day fluctuations in underlying value movements, giving peace of mind and helping to manage sequencing of return risk.
- By investing in a range of different assets the fund range is less susceptible to market movements than investing in a single asset class, helping to reduce the impact of dramatic falls – because it's a multi-asset fund. The risk is that if invested in one asset class and it has a dramatic fall it will impact the investment value.
- It can access to a wide range of underlying investments – including some which individual investors may not be able to access directly.
- Actively managed by skilled experts in asset allocation – the M&G Treasury and Investment Office (T&IO).
- There's a choice of PruFund funds to help suit different attitudes for risk.

In relation to the PruFund range it's also important to note:

1) As with any investment the value can go down as well as up and your clients may get back less than they've paid in.
2) PruFund is a longer-term investment, designed for a minimum term of 5 years. It is possible or even probable that there will be some downwards UPAs during the term of investment.
3) The Expected Growth Rate gives you some long-term expectation of future growth, they are not a guarantee of future performance.

For more information on PruFund and how the smoothing operates please see our website: **pruadviser.co.uk/funds/prufund/**

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