Pru
part of M&G plc

PruFund as an income engine

The purpose of this guide is to highlight how the PruFund range could be used for providing income to a client from different tax wrappers. It's not designed to make specific recommendations. The guide assumes an investment in PruFund in totality where it's used, whereas in practice it may be part of an ongoing strategy alongside other investments.

Understanding the client's personal circumstances, assessing their attitude to risk and capacity for loss are a key part of the suitability process. However, we realise numerous other factors are 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.

And in addition to everything we've already said above, you'll continue to identify what's essential income, alongside what might be classed as 'lifestyle' or 'discretionary'. All in all, income drawdown is often a long-term commitment and will usually need regular reviews with you and your client to ensure their strategy remains appropriate.

All of this may form part of your Centralised Retirement Proposition (CRP) or Centralised Investment Process (CIP). For a more detailed run through of wider income drawdown considerations the **PFS provide an excellent document**.

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).

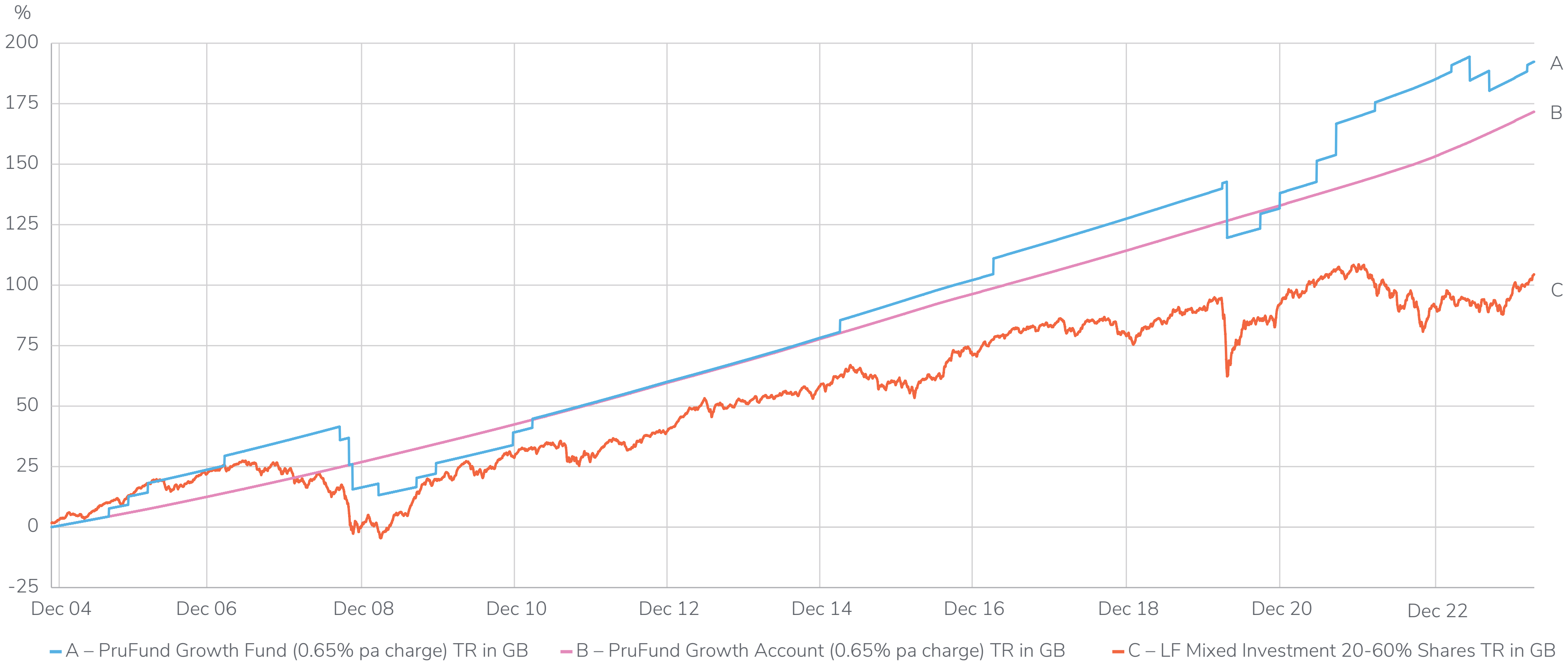
EGRs reflect the long-term view of the funds growth and Unit Price Adjustments (UPA) allow any necessary adjustments to help keep the fund growth on track, in line with the EGR.

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.

Meeting expectations

Many advisers will use 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 the PruFund Growth Fund can be demonstrated by looking at the PruFund Growth Account, which shows the performance of the holding account as a comparator. This is effectively the EGR less charges. It's important to remember this fund is not available to invest in for any period longer than the normal holding account term, pending investment into PruFund itself. However, by charting this on the graph, we can show how closely the ongoing EGR meets expectations.



Source: Data provided by FE fundinfo. Care has been taken to ensure that the information is correct but it neither warrants, represents nor guarantees the contents of the information, nor does it accept any responsibility for errors, inaccuracies, omissions or any inconsistencies herein.

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 has PruFund performed?

The chart on page 2 models the performance of:

A) The first PruFund to be launched – the PruFund Growth Life fund.

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) LF Mixed Investment 20-60% Shares.

In order to fairly compare the PruFund Growth Fund 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.

What conclusions can we draw from this?

1) PruFund continues to provide competitive longer term returns when compared against sector average.

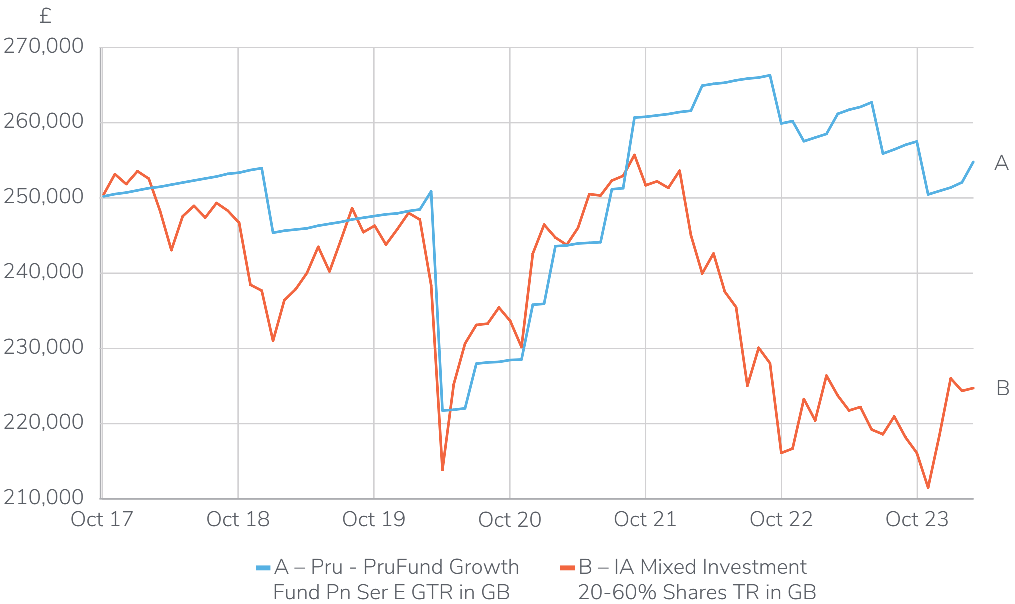
2) For most of this time period – almost 20 years – the PruFund Growth Fund has met, or exceeded the EGR, giving advisers some predictability of return. As mentioned earlier, this could be a useful consideration in cashflow modelling suitably stress testing.

3) The smoothing mechanism can help to iron out day to day fluctuations in the underlying values, but downward Unit Price Adjustments (UPAs) will apply when there is a significant correction in underlying values. However, upward UPA will apply where the underlying values trigger the mechanism to do so.

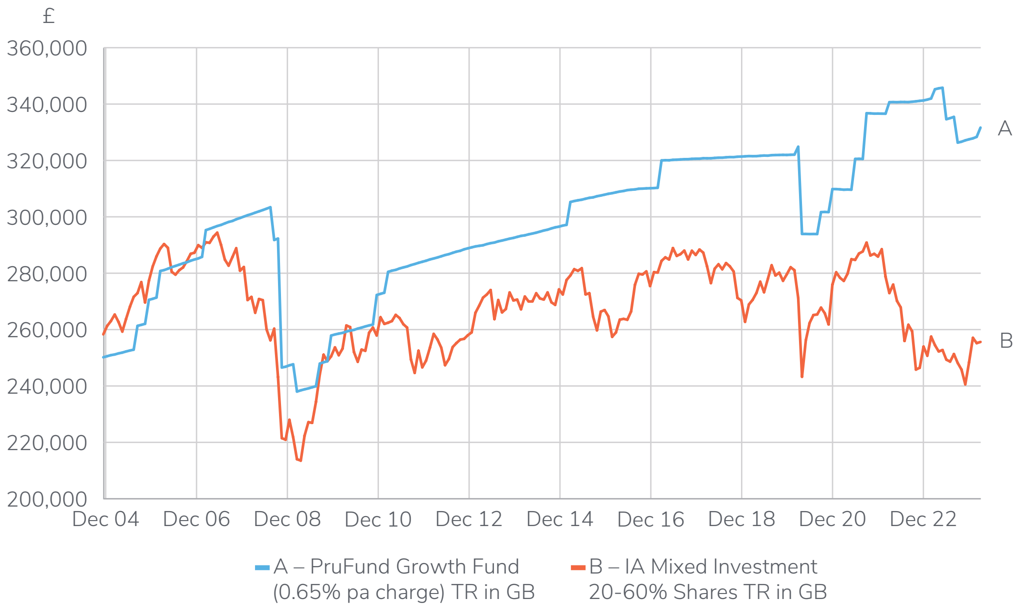
PruFund in different tax wrappers – how have they worked?

The following charts look at just PruFund Growth Fund but modelled on an investment into different tax wrappers, going back to the launch on the tax wrapper of the relevant series, assuming an initial investment of £250,000, with income taken at a level of 4% payable monthly. The graphs show the performance of the fund based upon the launch date of the relevant series of PruFund Growth that is relevant to the product wrappers.

Income Drawdown

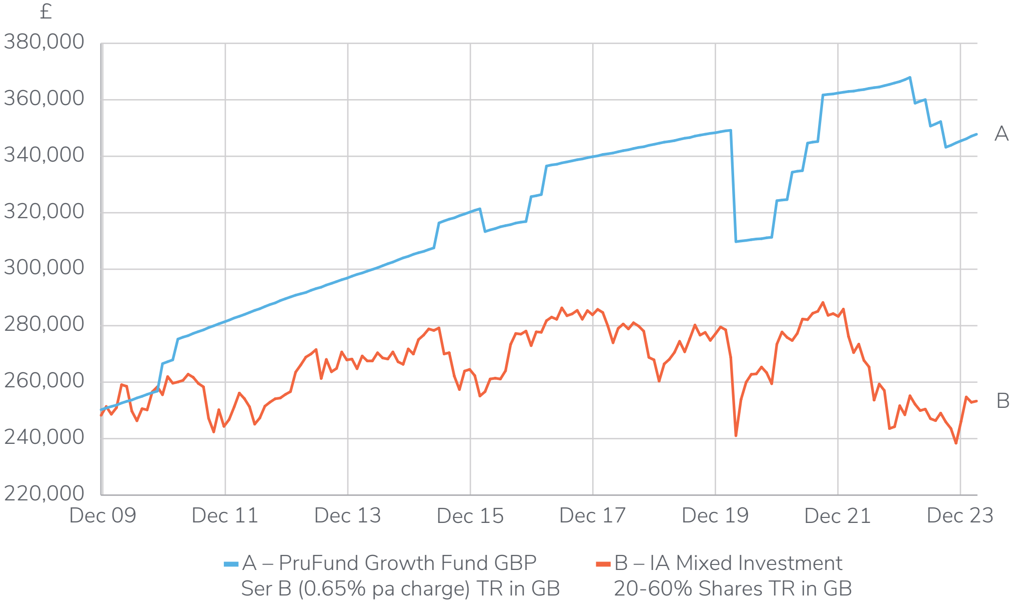


Onshore Bond

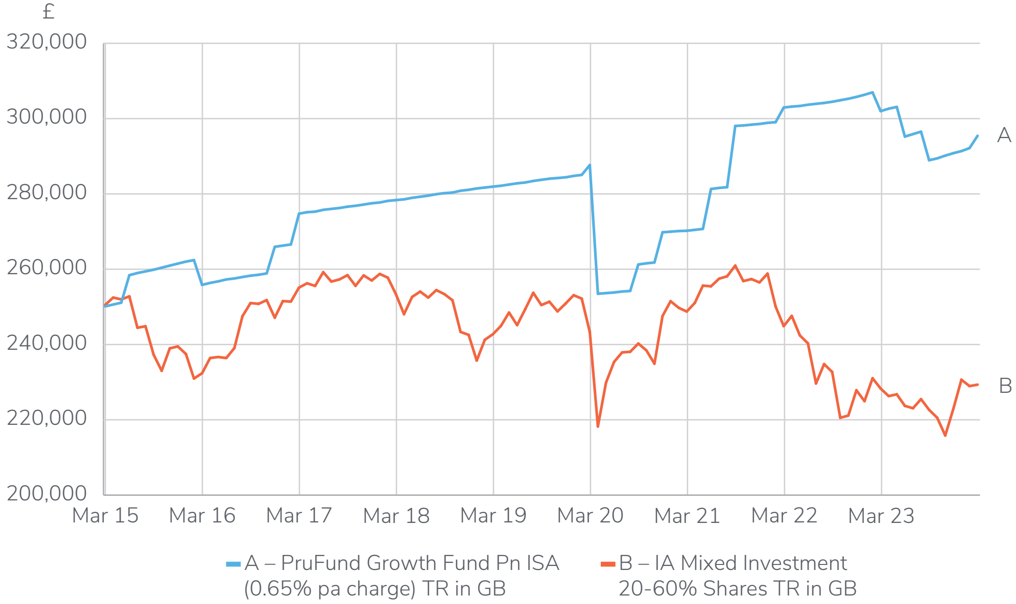


Please remember that past performance should not be considered a reliable indicator of future performance. The value of any investment, and any income taken from it, can go down as well as up so your customer might not get back the amount they put in.

Offshore Bond



ISA



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.

What conclusions can we draw from this?

1) PruFund can demonstrate a sustainability of income. The graphs highlight that even allowing for 4% income to be taken from outset, the funds have grown significantly over the various time periods.
2) There are other mechanisms (**see here for further information**) 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 Centralised Retirement Proposition to help ensure client objectives are met. Evidencing the outcome of different strategies can be used by advisers to demonstrate how their strategies help clients avoid foreseeable harm.

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's 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/**

PRUF100764900 05/2024_WEB