

## PruFund investment insights: a closer look at alternatives and other strategies

 a 10 minute read

Alternative investments are the investments that don't fall into the traditional categories of shares, bonds, real estate and cash, which investment funds like the PruFund range of funds invest in. Your financial adviser has given you this article to help explain this topic to you. Read on to learn more.



### Introducing alternative investments

As well as shares, bonds, real estate and cash, a balanced investment may also include alternative investments. The PruFund range of funds invests in four categories of alternative investment: private equity, private high yield, commodities and infrastructure.

We invest in these alternatives because many don't usually respond to economic developments in the same ways that shares, bonds and real estate do. That makes alternatives a valuable source of diversification (or variety) for PruFund funds.

Because alternatives represent a vast and growing set of global opportunities, PruFund funds' alternative investments aren't constrained by geography. Instead, PruFund is free to invest anywhere in the world and to seek out the best opportunities wherever they arise. This gives our alternatives portfolio the widest possible scope for diversification. Over the coming pages, we take a look at our investment strategy and the different types of alternative investments.

We recommend that you read this article about alternative investments and get in touch with your financial adviser if you have any questions. Your adviser is best placed to help you understand what investment options are right for you. **Please bear in mind that the value of your investments can rise as well as fall, and you may get less back than what you invest.**





## Private equity explained

When we invest in private equity for PruFund funds, teams within M&G investments are buying shares in companies that aren't listed on public stock exchanges or appoint experienced investment managers to do the same.

These shares aren't widely traded and can't be easily bought or sold. This means that holding these shares could be riskier than buying shares in a publicly listed company, because there is no guarantee that they can be sold quickly. But in return for taking on this higher risk, we're usually able to get higher investment returns.

Within PruFunds there are different ways to invest in private equity strategies. These are:

**Buyouts** involve buying a controlling stake in a private company and often borrowing money to do this.

**Venture capital** involves buying stakes in companies when they are still young and small. The aim here is to provide these companies with finance and expertise to help them grow.

**Special situations** involve buying holdings in companies that are experiencing difficulties or undergoing mergers or acquisitions. The aim is to acquire a stake at a cheaper rate and work to turn the companies fortunes around.

PruFund also has exposure to a strategy which involves investing in private companies that are looking to become public.





## Infrastructure explained

Investments in infrastructure can cover both economic infrastructure (such as airports, telecommunications and sources of renewable energy) and social infrastructure (such as hospitals, schools and prisons). As well as offering potential returns to investors, each of these types creates different benefits for society.

PruFund funds invest in infrastructure because it tends to offer strong income and a degree of protection from inflation.

For example, if inflation rises and central banks raise interest rates in response, returns from bonds, in particular, are likely to be lower. This means that investing in infrastructure provides a good source of diversification. And returns from infrastructure should prove steadier over the long term.

Investments in infrastructure tend to be long term in nature. There are many different ways to invest in this asset class. For example, the investment managers can buy and hold infrastructure assets that are already in operation. Or they can help to create infrastructure assets and hold an investment in them throughout their development.

Another strategy is operational improvement, whereby our investment managers seek to improve the operating and financial efficiency of an established asset, allowing it to be sold on at a profit.

PruFund also invests into what we call food infrastructure. This involves investing into the supply chains and distribution of companies targeting global food challenges. Two investment strategies in Asia and Latin America are designed to improve the production and availability of healthy food worldwide, as well as rural livelihoods.



Inflation is the general increase in the price of goods and services in an economy. Ask your adviser about the current climate of inflation and how interest rates may impact cash-based savings, if you want to know more.



## Commodities explained

Commodity investments provide access to raw materials and natural resources such as Energy (e.g. Natural Gas), Agriculture and Livestock (e.g. Corn, Coffee, Wheat), Industrial Metals (e.g. Copper, Lead, Nickel) and Precious Metals e.g. (Gold, Silver, Platinum).

In recent years we have added commodities to PruFunds due to:

- Inflation Linkage: Commodities often rise in value when inflation is high, which can help balance out other parts of the portfolio
- Moves differently from Stocks and Bonds: Commodities don't always follow the same trends as traditional investments, which can help reduce overall risk
- Adds Variety: This investment area is highly diverse and invests across a wide range of sectors (listed above)

PruFund doesn't invest directly in physical commodities or companies in these sectors. Instead it gains exposures through futures contracts – a way to benefit from commodity price movements without owning the actual assets.



## Private High Yield explained

Private High Yield gives us access to investments that can behave in very different ways to other asset classes. It allows us to provide funding to privately owned businesses at scale, either via the debt or the equity of a company. We refer to this asset class as Private High Yield as the companies, or assets, that the funds invest in are often smaller, early-stage companies and therefore investors are compensated with a higher yield for any additional risk associated with them.

Our private high yield exposure includes investment into businesses with innovative solutions tackling some of the world's environmental and social challenges.

Here are some examples of private high yield investments, which PruFund currently invests in:

**Black Seed Ventures** – an early-stage investment business, with a mission to support black and minority founders in the UK.

**Fjord1 AS** – the largest and greenest ferry operator in Norway, transporting 16 million passengers each year, Fjord1 has significantly increased investment into new electric ferries, while also retrofitting older ferries.

**Plastic Energy** – a company that has developed new patented and proven chemical recycling technology.



## Our investment managers use various other strategies

Other strategies aim to target investments in different areas within this category of investments. We're going to take a closer look at hedge funds here.

### Other Factors

Currently includes a general allocation to hedge funds, but is intended to evolve over time to gain to exposure to additional factors that provide diversification to the wider portfolio.

**Hedge funds** are investment funds whose investment managers use a wide range of strategies that aim to produce positive returns in all market conditions. Their managers use different strategies in pursuit of this aim.

One strategy that many hedge funds use is **short selling**. This involves borrowing shares in a company and then selling them. If the price falls, the hedge fund can buy the shares back more cheaply before returning them – and make a profit from the fall in price. Short selling is risky because if the borrowed shares rise instead of fall, the hedge fund makes a loss. But it does offer the potential for hedge funds to make money in the stock markets when they are falling.

Hedge funds can also use **leverage** to enhance their returns. This involves borrowing money to magnify the effects of a particular investment decision. Of course, if it goes wrong, it can magnify losses.

### Tactical Asset Allocation

Tactical Asset Allocation is a small segment within the funds that consists of actively allocating money to take advantage of shorter term market trends or economic conditions that might produce a higher return.



## Our investment strategy in practice

Here we take a look at some case studies within the PruFund range of funds' alternative investments.



### Introducing M&G Private Markets

M&G Private Markets is the alternatives investment division of M&G. This team of investment professionals is part of M&G's Private Assets business and is supported by the wider M&G infrastructure, including its key functions like compliance, legal, accounting and tax. They manage alternative investments and oversee any other external managers who manage alternative investments for the PruFund range of funds.



### Taking into account the wider impact on society

Environmental, social and governance concerns are important to many of our investors who want to make the world a better place. So these factors are considered when the team is deciding where PruFund funds should invest. We believe that alternative assets can help in meeting global sustainability targets. In fact, our alternatives team has been investing in renewable energy for close to a decade. A proportion of our other alternatives investments have a focus on sustainability or the environment.



### A look at some alternative investments

In private equity, M&G Private Markets has invested in Kimbrer Computer, an international supplier of IT hardware that reduces e-waste through promoting the reuse of equipment. M&G Private Markets also invest in Biobest, a global leader in pollination and biological pest and disease control. Their mission is to promote sustainable production of high-value crops through crop protection and pollination.



### A look at some infrastructure investments

PruFund funds' infrastructure investments include Zenobe Energy, which is a leading owner and operator of battery storage in the UK. Zenobe provides battery storage plants for the electricity grid and for infrastructure solutions to bus fleets and industrial customers. Another of our infrastructure investments is Ridgewood Water. This is a new water treatment facility in Florida an area that suffers from sewage spills during storms and general underinvestment in infrastructure. Once built, investors benefit from a 30-year contract with the local government.



It's always a good idea to know where your money is invested. If reading this article has made you want to know more about the PruFund range of funds, you might also be interested in reading our other articles about **bonds**, **shares** and **real estate**.

## If you have any questions after reading this

We hope that you've found this insight into alternative investments interesting and helpful. If you have any questions, it's always best to speak to your adviser. Only your adviser will have a complete view of your situation and be able to answer questions with your financial goals in mind.

