Your guide to

The Risk Managed Active range

A diversified option

One of the keys to successful investing is to find the correct balance between potential risk and reward.

Our Risk Managed Active funds are a range of multi-asset, Open Ended Investment Company (OEIC) funds, invested across a broad range of asset classes and designed to provide for different levels of risk.

As actively managed funds, they are slightly more expensive than our passive funds – but you benefit from the fund manager's active involvement in selecting which company, or area to invest in or avoid.

We'll manage your money to achieve the best return we can for the level of risk you are willing to take.

Link Fund Solutions Limited is the Authorised Corporate Director (ACD) of the LF Prudential Risk Managed Active OEIC funds. The term ACD is used to describe the party responsible for operating the OEIC in accordance with the regulations.

The value of investing

Saving and investing is about putting plans in place for your long-term goals while making sure you have enough money set aside to cover regular expenses and emergencies.

Investing puts your money to work, so that it's active on your behalf – but it does carry risks. And different types of investments have different levels of risk. Generally speaking, there's a link between the amount of risk you're prepared to take, and the potential rewards you're looking to gain.

Cash may be more secure in a lower-risk investment, but it has a lower growth potential. For example, the money left in a low interest cash account could be eroded by the effects of inflation, but you won't lose the money you put in.

The effect of inflation

Inflation could have a significant impact on the purchasing power of your money and it's important to consider this carefully when looking at investment options.

The graph shows that if we assume 2.5% inflation each year, the purchasing power of £10,000 today could be worth just £5,394 in 25 years' time.

This example also assumes that the sum has not grown over time as no interest has been added.

Investing in a higher-risk investment, over the medium to long term (5-10 years or more) offers greater potential rewards but also a higher potential loss. And there are no certainties with investments, so taking a higher risk does not guarantee a higher return.

The value of your investment can go down as well as up so you might get back less than you put in.

Where to invest

There are four broad categories of investment, often described as 'asset classes'.

Shares – also known as equities or stocks, where you buy a 'share' in a company.

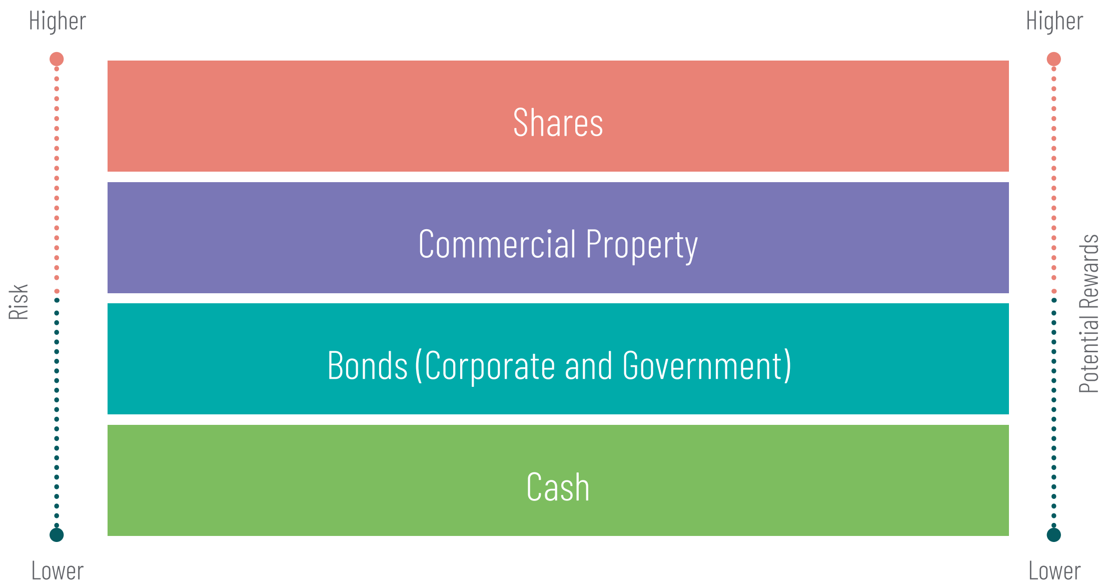
Commercial property – available in a variety of sectors including retail, office, and industrial.

Bonds – also known as fixed-interest investments, can be purchased from corporate entities or governments. UK government bonds are referred to as Gilts.

Cash – includes currency, deposit accounts and negotiable investments, for example, money orders, cheques and bank drafts

These asset classes offer different levels of risk and potential rewards so the most appropriate choice of assets for you would be those which are most in line with your attitude to risk and financial goals.

The risk and potential rewards of different asset classes



Please note this diagram is only intended to be a general indicator of the relationship between different asset classes in terms of risk and reward and may vary in certain circumstances. It's not intended to show examples of all types of asset classes.

The volatility factor

Finding the right balance between potential reward and risk is the key to successful investing.

To help decide what's the 'best fit' type of investment for you, it's important to consider the behaviour and volatility of asset classes, over time. For example, if an asset class rises and falls rapidly over the short-term, it's considered to be more volatile.

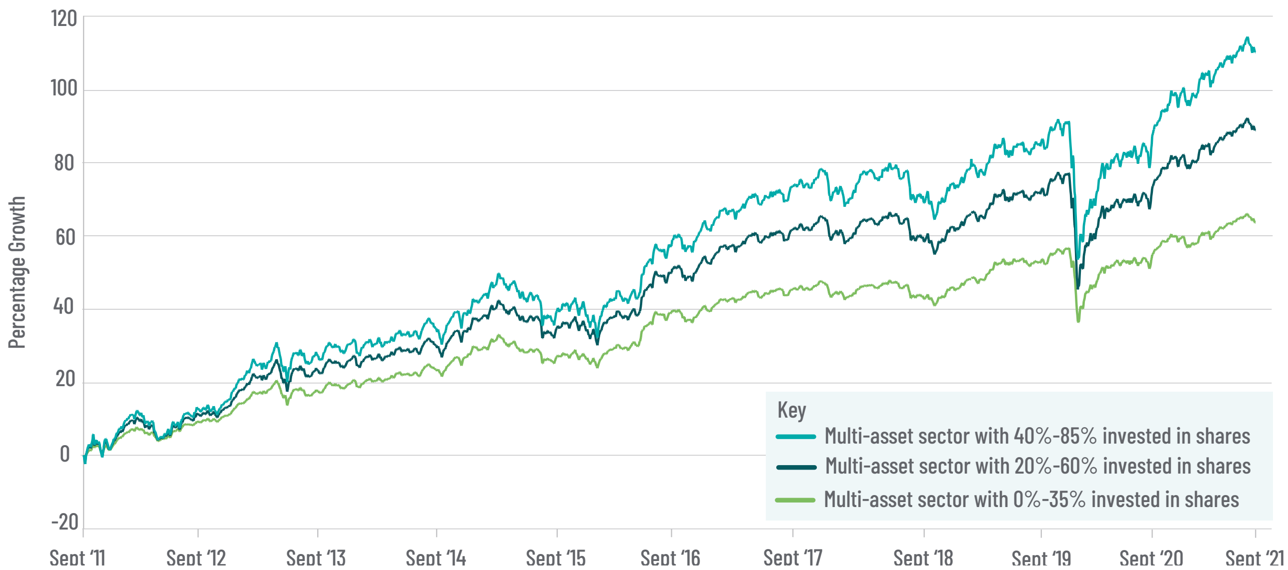
You may feel that the volatility which can result from investing in a single asset class is unacceptable. But at the same time, you're looking to achieve returns that offer the potential to outstrip inflation. So spreading your money over a variety of asset classes with the potential to gain some exposure to higher performing assets, without the risks that come from 'putting all your eggs in one basket', or in one asset class, could be an option for you.

Assuming you're willing to accept some degree of risk for your investments and are prepared to invest over the medium to long term (5-10 years or more), we have a range of multi-asset funds that may suit your needs.

Some examples of multi-asset funds over a 10-year period

The graph below shows examples of how some multi-asset funds have behaved over a 10-year period. All the sectors shown invest in a mix of asset classes, with each having a different level of investment in shares.

This graph demonstrates that while multi-asset funds can experience some volatility, the diversification can help avoid some of the highs and lows experienced by single asset classes.



In the graph above we have used Association of British Industry sectors, which group together funds with similar investment strategies. Please remember that past performance should not be considered a reliable indicator of future performance.

Source: FE fund info. The graph shows gross returns from 30 September 2011 to 30 September 2021 from the Insurance Association (IA) sectors, and are rebased in Pounds Sterling. The graph shows IA sectors.

Multi-Asset explained

A multi-asset fund typically invests in many different types of investments, including UK and international shares (equities), cash, property and fixed-interest securities, such as corporate bonds.

Each type of investment (asset class) has its own level of risk and return and by spreading your investment across different asset classes, it can help to reduce the extreme ups and downs that you get when investing in a single asset class. This is known as 'asset allocation'.

Introducing our Risk Managed Active range

Our Risk Managed Active funds are multi-asset, Open-Ended Investment Company (OEIC) funds, invested across a broad range of asset classes, and designed for medium to long-term investment (5-10 years or more).

Balancing risk and reward

Asset allocation is an investment approach that aims to balance risk and create diversification, by dividing investments across a range of asset classes, like those described above, and other alternative investments.

Each asset class has different levels of return and risk so will behave differently over time. For example, a diversified portfolio that includes higher-risk investments such as equities as well as lower-risk investments such as bonds, will help to manage and lower your risk. If equities have dramatically decreased in value, the fixed interest from your bonds should still help to provide some balance and stability.

Our investment approach

In addition to targeting different levels of risk, our Risk Managed Active range combines asset allocation with an active fund management approach, which means you benefit from a fund manager's expertise, experience, skill and judgement to make decisions on where, when and how much to invest, on an ongoing basis.

This active asset allocation and fund management approach offers the potential for growth as well as spreading the risk across a wider range of assets.

Each Risk Managed Active fund is a 'fund of funds' which means they each invest in a range of underlying funds. This offers a simple solution to the challenge of selecting funds – within each sector there can potentially be hundreds of funds to choose from – and diversifying across different asset types.

Within a fund of funds, as part of an OEIC investment, underlying funds can be switched and replaced as often as is necessary, without having to pay any Capital Gains Tax (CGT). Fund of funds are often called 'multi-manager funds'.

Active management explained

The traditional investment approach where fund managers actively build and change a portfolio of assets (e.g. stocks and shares) in order to take advantage of what they believe are the best opportunities.

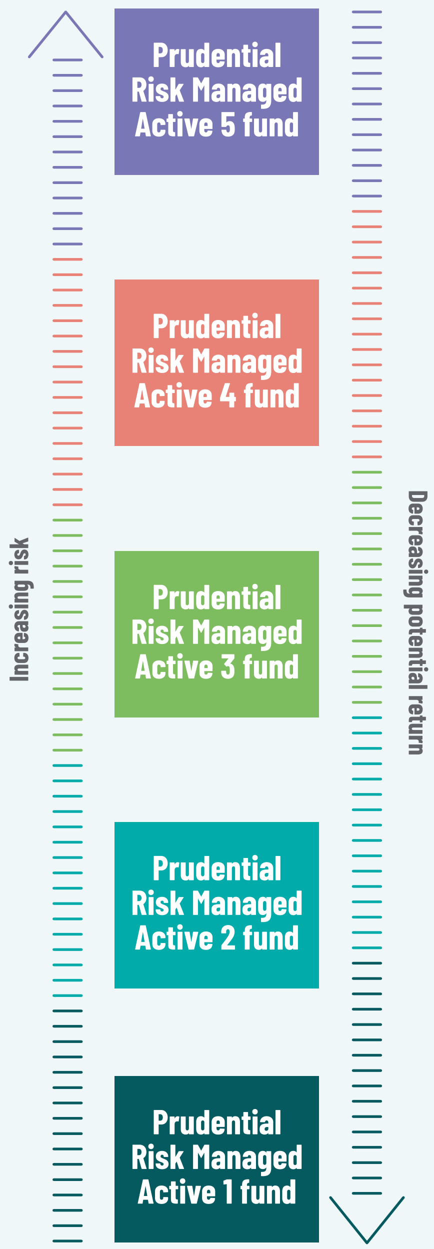
OEICs explained

An Open-Ended Investment Company (OEIC) is a collective investment scheme, or managed fund, in which the money of many investors is pooled together and managed by a professional fund manager. Instead of buying individual investments, this can be an easier and more cost-effective way to invest in the markets across different asset classes, it can help to reduce the extreme ups and downs that you get when investing in a single asset class.

Our risk profiles

Our Risk Managed Active range offers a choice of five risk-managed multi-asset collective funds, each with its own risk profile (investing at least 70% in active collective investments) and investment objective.

The numbering of the funds. i.e. Prudential Risk Managed Active 1 fund, up to Prudential Risk Managed Active 5 fund, indicates the increasing level of investment risk – with 1 low and 5 high – and the higher level of investment risk, the greater the potential reward.



Investment objectives

Prudential Risk Managed Active 5 fund – The fund aims to achieve long-term (in excess of 5 years) total return (the combination of income and growth of capital) by investing in a mix of assets from around the world and aims to limit the average volatility per annum over rolling 5 year periods to17%. There is no guarantee the objective will be achieved over any time period and the actual volatility, at any time, may be higher or lower than 17%. Capital invested is at risk.

Prudential Risk Managed Active 4 fund – The fund aims to achieve long-term (in excess of 5 years) total return (the combination of income and growth of capital) by investing in a mix of assets from around the world and aims to limit the average volatility per annum over rolling 5 year periods to 14.5%. There is no guarantee the objective will be achieved over any time period and the actual volatility, at any time, may be higher or lower than 14.5%. Capital invested is at risk.

Prudential Risk Managed Active 3 fund – The fund aims to achieve long-term (in excess of 5 years) total return (the combination of income and growth of capital) by investing in a mix of assets from around the world and aims to limit the average volatility per annum over rolling 5 year periods to 12%. There is no guarantee the objective will be achieved over any time period and the actual volatility, at any time, may be higher or lower than 12%. Capital invested is at risk.

Prudential Risk Managed Active 2 fund – The fund aims to achieve long-term (in excess of 5 years) total return (the combination of income and growth of capital) by investing in a mix of assets from around the world and aims to limit the average volatility per annum over rolling 5 year periods to 10%. There is no guarantee the objective will be achieved over any time period and the actual volatility, at any time, may be higher or lower than 10%. Capital invested is at risk.

Prudential Risk Managed Active 1 fund – The fund aims to achieve long-term (in excess of 5 years) total return (the combination of income and growth of capital) by investing in a mix of assets from around the world and aims to limit the average volatility per annum over rolling 5 year periods to 9%. There is no guarantee the objective will be achieved over any time period and the actual volatility, at any time, may be higher or lower than 9%. Capital invested is at risk.

Please note: The numbers used within the fund names reflect the relative risk against the other funds in the fund range. They don't reflect the actual level of risk and aren't intended to match the risk and reward profile in the Key Investor Information Document. Other companies and risk rating agencies may rate risk differently.

How our Risk Managed Active funds are managed

Our Risk Managed Active funds are managed by M&G Investment Management Limited (MAGIM), part of M&G plc. As investment manager of the funds, they make the relevant adjustments to the portfolio based on recommendations from the M&G Treasury & Investment Office (T&IO).

T&IO recommends the asset allocation for each Risk Managed Active fund.

Link Fund Solutions Limited the Authorised Corporate Director for the LF Prudential Risk Managed Active OEIC funds, ensures that T&IO recommendations are in line with the funds' objectives

M&G Investment Management Ltd, part of the M&G Group, execute the trades in order to conform to the asset allocation model set by T&IO

The Risk Managed Active funds use the combined expertise of T&IO, the same team that manages our PruFund funds.

- T&IO recommends the asset allocation for each Risk Managed Active fund
- T&IO selects the funds which they believe best meet the portfolio asset mix requirements.

Who is T&IO?

The M&G Treasury and Investment Office (T&IO) has great strength in depth with a team that includes investment professionals with expertise in capital market research, investment strategy design, liability management, derivatives and portfolio management. They are the team behind the UK's largest With-Profits Fund – and many other Prudential funds.

Source: T&IO, as at 30 June 2021

Alternatives explained

Not one of the conventional investment types such as stocks and bonds, alternative investments could include infrastructure, private equity, alternative credit and hedge funds.

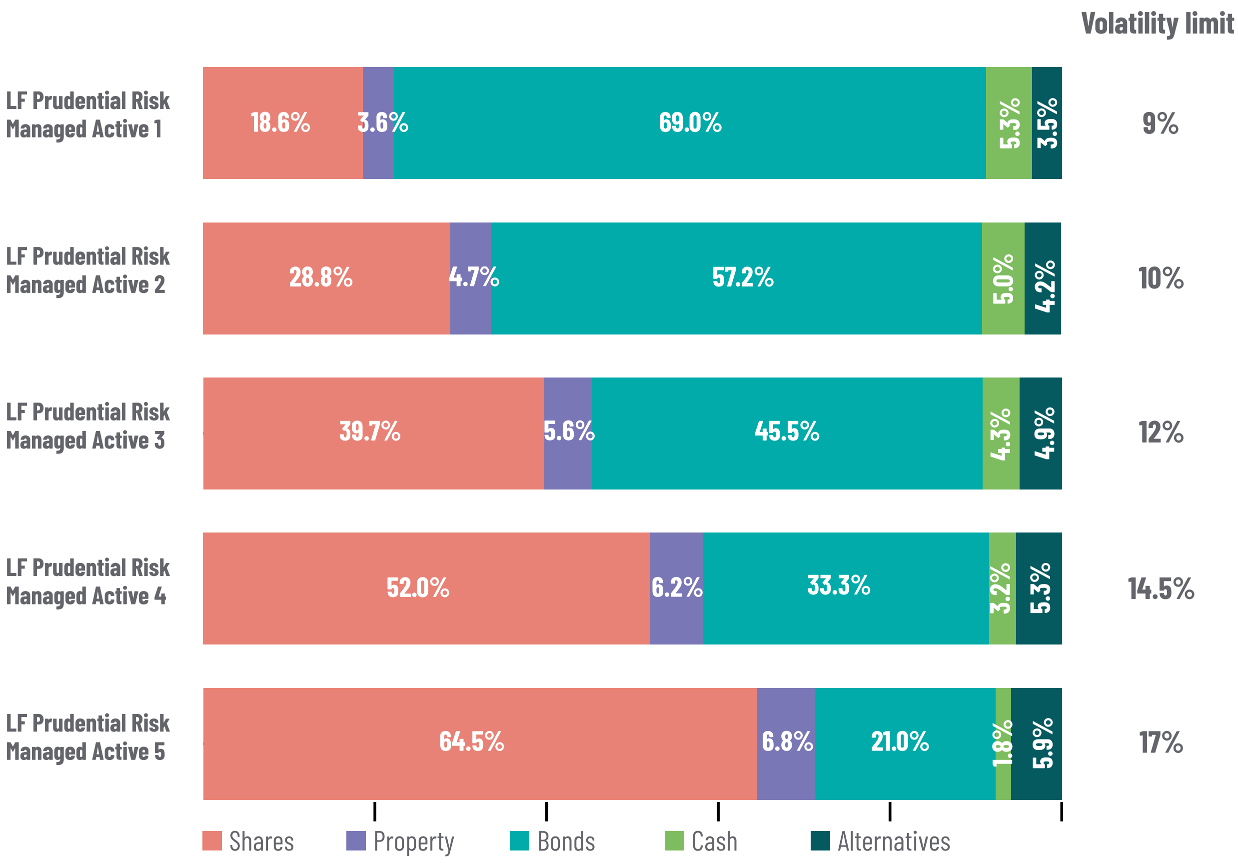
What our Risk Managed Active funds invest in

The types of funds used and the asset allocation split of each Risk Managed Active fund will depend on the funds' objectives. Each Risk Managed Active fund has a different volatility ceiling which means your adviser can recommend a fund that's appropriate to your attitude to risk and reward.

Each fund has a different range of investment in shares, with the rest being invested in various amounts in bonds, property, cash and alternatives, as you can see in the graph below. The LF Prudential Risk Managed Active funds are numbered one to five, based on how volatile we expect each fund to be, for example:

- LF Prudential Risk Managed Active 1 has the lowest volatility limit of 9% and therefore, the lowest amount invested in assets that may be more volatile currently just under 19% in shares
- LF Prudential Risk Managed Active 5 in contrast, has the highest volatility limit of 17% and the highest amount in assets that may be more volatile currently just under 65% in shares).

LF Prudential Risk Managed Active Funds



The asset mixes for the active funds shown above (example only), are valid from 30 September 2021. The asset allocations are regularly reviewed and may vary from time to time, but will always be consistent with the fund objective.

Asset types

The types of assets that T&IO can propose, for the Risk Managed Active funds, are:

Cash – This can include cash deposits and other money market investments. Money market investments usually offer the lowest risk of all asset types but also the lowest potential returns. These may be held to target security more than substantial growth. Or to have just enough in cash deposits to make sure money is available for customer withdrawals.

Fixed Interest – A choice of actively managed funds that invest in assets such as corporate bonds or government bonds, from here in the UK and around the world.

Alternatives – Alternative assets may include assets such as private equity, infrastructure and hedge funds. They can offer a higher potential return than other types of assets and can help the overall diversification of a portfolio. The alternative asset funds are managed by selected specialists depending on the area of investment.

Equities – A choice of funds that invest in shares in a company or companies from a range of stockmarkets around the globe.

Property – A choice of actively managed funds that invest in assets across retail, office and industrial sectors.

Investing in Collectives

At least 70% of the Risk Managed Active funds will be invested in active collective investments. T&IO will select collective investment schemes to invest in from a focused range of funds and fund management groups (which may include other funds managed by Link Asset Services (the ACD), M&G plc and their associates). The funds currently* invest in the following collective investment schemes.

Asset Class	Collective Investment Schemes
UK Equity	FTSE 100 Index
	M&G (ACS) UK 200 Index Fund
	M&G (ACS) UK All Share Index Fund
	M&G (ACS) UK Listed Equity Fund
	M&G (ACS) UK Listed Mid Cap Equity Fund
European excluding UK Equity	M&G Recovery Fund
	Euro Stoxx 50
	M&G (Lux) European Active Fund
	M&G (Lux) European Passive Fund
	M&G European Select
US Equity	M&G (ACS) BlackRock US Equity Fund
	M&G North American Val
	E-Mini S&P 500
China Equity	FTSE China A50
	M&G (ACS) China Equity Fund
	M&G (ACS) Value Partners China Equity Fund
Asia excluding Japan Equity	Eastspring Dev. & Emerging Market Asia Fund
	M&G Fund Asia Pacific excluding Japan Equity Fund
Global Emerging Markets Equity	Eastspring Global Emerging Markets Fund
	M&G (GSAM) Global Emerging Markets Fund
	M&G (MFS) Global Emerging Markets Fund

Asset Class	Collective Investment Schemes
Japan Equity	M&G (ACS) Japan Equity Fund
	TOPIX Index
South Africa Equity	FTSE/JSE TOP 40
UK Property	iShares UK Property Fund
	L&G UK Property Fund
	M&G Property Portfolio
Alternatives	Various
US fixed income	US 10 Year Note
	Eastspring US Corporate Bond Fund
Europe Investment Grade	M&G European Credit Investment Fund
UK Investment Grade	M&G Credit Income Investment Trust
	M&G Strategic Corporate Bond Fund
	Royal London Corporate Bond Fund
Asia Fixed Income	Eastspring Asia Dollar Bond Fund
	Eastspring Asia Local Currency Bond Fund
Convertible Bonds	M&G Global Convertibles
Emerging Market Debt	M&G Emerging Market Bond Fund
Global High Yield	M&G Global High Yield Bond Fund
Cash	Various

T&IO will regularly review the performance of these schemes, and may propose changes in the future.

*as at 31 August 2021

- Each Risk Managed Active fund is a 'fund of funds', which means that each invests in a range of underlying funds
- T&IO recommend the allocations between asset types within each Risk Managed Active fund
- T&IO select the funds to use for each Risk Managed Active fund
- M&G Investment Management Ltd invests the money in accordance with the fund recommendations and asset allocation instructions of T&IO
- The funds are available as OEIC investments
- Unit-Linked versions of the OEIC funds are available for investment in a number of Prudential and Prudential International's products.

Collectives explained

Collective investments pool money from different investors into one fund, such as a unit trust, open ended investment company (OEIC) or investment trust.

Further information

For more information on the Risk Managed Active range or Prudential's range of investment funds and products, please contact your Financial Adviser. Please remember that the value of an investment may go down as well as up and is therefore not guaranteed. You may not get back the full amount of your investment.

The Treasury & Investment Office (T&IO) – experts in diversified investment

We believe a well-diversified fund is more likely to achieve consistent returns and that value can be added through a sound and well-structured investment process. This is why we use M&G's expert investment strategists at T&IO to make our strategic investment decisions.

As our in-house team, and 'manager of managers' for Prudential in the UK, M&G's Treasury and Investment Office are independent of the various underlying asset management businesses within M&G plc and are responsible for approximately £176bn* assets under management across a range of multi-asset investment solutions and other Prudential products.

M&G's investment strategist

T&IO's main objective is to ensure that they optimise the asset allocation of funds. This is core to their investment approach. T&IO uses their access to global investment expertise to determine the appropriate investment spread aiming to meet the investment objectives. Importantly, they regularly keep the asset allocation under control. To achieve the right mix of assets at any given time, they have a regular process of monitoring and adjusting the mix for any market or fund changes.

The T&IO approach to asset allocation

To help inform their asset allocation decisions, T&IO analyses the information available to them on the performance of assets over both the long and the short term. They look backward at historical information and they also look forward to consider how each asset is likely to perform. And at the core of any long-term asset allocation decision is a process that has been in place – and successful – for nearly two decades.

The capital market assumptions underlying the strategic asset allocation (SAA) allow for each of the environmental, social and governance factors in the country risk categorisation system, and as such is allowed for in the risk-return budgeting. Equally, if not more important, there is an overall policy around exclusions as well as Ethical, Social and Governance (ESG) factors used within bottom up stock selection by the delegated managers.

For the LF Prudential Risk Managed Active Funds T&IO apply the T&IO ESG investment principles for the internally managed Funds within these ranges focusing on the corporate priorities of climate change and diversity and inclusion. T&IO incorporate considerations of these priorities via a combination of focused engagement strategies and some exclusions.

For Funds run by external managers, T&IO look to identify suitable investment managers which are able to manage mandates/funds in line with the T&IO ESG investment principles. For all existing managers we look to monitor their alignment to the T&IO ESG investment principles on an ongoing basis; where there are divergences, the T&IO Investment Management Oversight team looks to either engage with managers to encourage alignment with the ESG investment principles over time, or to migrate the assets to a fund that aligns.

Within the M&G Treasury & Investment Office we are always looking for ways to further achieve our ESG ambitions, and so continue to evolve both actively and passively managed solutions towards those with greater awareness of ESG criteria for example through mandate design and the consideration of additional ESG and Impact targeted building blocks within the ranges.

Access to a global range of funds

T&IO has access to the expertise of other M&G plc investment companies, such as M&G Investments and M&G Real Estate, and a global network of contacts at high quality external investment companies. This gives clients access to a range of investment funds both internal and external, managed by experts in their field.

Governance framework

Governance and controls are particularly important for T&IO, and as such they work within a thorough and effective governance framework, so that each part of the investment process is reviewed and controlled at all times.

* as at 30 June 2021

Fund selection and manager oversight

The T&IO Manager Oversight team has created a rigorous set of procedures to underpin the selection, ongoing monitoring and management of the various underlying investments.

Funds throughout the portfolios have been selected on the basis of a robust due diligence process that combines quantitative factors, including measures of performance and holdings analysis, with qualitative analysis focused on the business, people, process, philosophy and infrastructure.

The team also monitors the suitability of all underlying fund managers through a robust process of formal regular reviews, and our analysis of key risks within each underlying fund – single stock, sector and country exposures – helps us understand drivers and detractors of performance at any given time.

Their initial and ongoing due diligence processes now incorporate assessment and challenge of each manager's ESG and sustainability policies, intentions and how this informs the investment decisions. In this way, the team ensure the underlying managers are aligned with our own values and ambitions in terms of their ESG philosophy and processes.

Some terms explained

Alternative Assets

An alternative asset is an investment that is not one of the conventional investment types, such as stocks, bonds and cash. The main categories of alternative investments we use include infrastructure, private equity, alternative credit and hedge funds but other alternative investment strategies could also be used to diversify the funds.

Assets

Items that are owned by an individual such as property and investments. Money in a bank or building society account is known as a liquid asset. Assets may also be held in a fund.

Bond

Lower to medium-risk loans to the government or companies that pay you a fixed rate of interest.

Capital growth

Any money you receive in addition to the capital you've invested when you cash in your investment.

Corporate Bond

A loan to a company that earns you income in the form of interest. (See also Bond.)

Diversification

Spreading your investments to help reduce the risk within your portfolio.

Equities

Another name for shares held in a company or companies.

Fixed Interest Securities

More commonly known as "bonds" these are loans issued by companies or by governments in order to raise money. Bonds issued by companies are called corporate bonds, those issued by the UK government are called gilts and those issued by the US government are called treasury bonds. In effect all bonds are IOUs that promise to pay a sum on a specified date and pay a fixed rate of interest along the way.

Fund Manager

An individual who is employed by a company to manage money. It is a fund manager's aim to buy shares or other assets such as property or bonds that they believe will increase in value or provide a level of income.

High Yield Bond

This is a bond that generally has a low (or "non-investment grade") credit rating and which offers higher interest payments than a bond with a higher credit rating due to the increased risk of default by the company issuing the bond. It can also be known as a "junk" bond.

Index Fund

A fund that is managed so as to generate the same returns as a specified Index (also known as "Passive" or "Tracker" funds).

Money Market Instruments

Defined as cash and near cash such as bank deposits, certificates of deposits, fixed interest securities or floating rate notes, with, where applicable, a maturity date of under a year.

Open-Ended Investment Companies (OEICs)

Instead of the buying and selling individual investments, this can be an easier and more cost-effective way to invest in the markets.

An OEIC is a collective investment scheme, or managed fund, in which the money of many investors is pooled together and managed by a professional fund manager. This generally allows for greater access to a wider range of asset types and investments in the financial markets that are managed in accordance with the investment policy of the fund.

Pension Fund

General term used to describe the investment fund built up in a pension plan which could be used at retirement to provide a continuing income.

Pooled Investment

Investments such as unit trusts, where a number of people put their money together to enable them to buy a wider range of investments, thereby spreading the risk.

Property

In the context of 'Property' as a type of asset, investment is usually in commercial property such as offices, shops and industrial premises.

Return

A measure of performance. It is the total of the increase in value and any income received over a given period, expressed as a percentage.

Shares

See Equities.

Stock market

A place where shares or other securities are bought and sold, for instance the London Stock Exchange.

Unit-Linked

These funds operate like an OEIC but can only be accessed or held in a life, pension or international insurance product and can be distinguished from their OEIC fund equivalent by the omission of the prefix 'LF' in the fund's name. They are invested almost entirely in the OEIC fund equivalent and have the same 'Investment Objective' but differ in that they hold a slightly larger proportion of their holdings in cash and may be subject to different charging and taxation costs. Consequently their investment performance will be different to their equivalent OEIC fund.

Volatility

A measure of how much an investment's price is likely to fluctuate during a set period of time.

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